
ESG OVERVIEW
NACCTFO 2023
FRESH
COAST
Climate Solutions

WELCOME!

AGENDA FOR THE SESSION

1. **INTROS AND WHAT IS ESG**
   45 minutes
2. **CONSIDERATIONS**
   30 minutes
3. **LEGAL AND REGULATORY DRIVERS**
   30 minutes
4. **STATE OF THE MARKET**
   15 minutes
5. **ESG BUSINESS FORCES**
   30 minutes
6. **WRAP UP**
   10 minutes

WHAT IS ESG?

slido

What is ESG?

ⓘ Start presenting to display the poll results on this slide.

CURRENT STATE OF ESG

INDUSTRY UPDATES
BlackRock, State Street CEOs highlight ESG backlash at Davos

The continued rise of ESG investor demands in the sector

NEWSLETTERS · CEO DAILY
The political pushback against ESG is resonating with Fortune 500 CEOs

has declared war against 'woke' ESG What is ESG and why do some hate it so much?

POLICY & ECONOMICS
ESG Investing in 2023: Amid Greenwashing C
BY APHRA MURRAY | GLOBAL COMMONS | MAY 17TH 2023

Apr 20, 2023 - Economy & Business
Companies are la backlash intensif

2022: A Tumultuous Year in ESG and Sustainability
by Andrew Winston

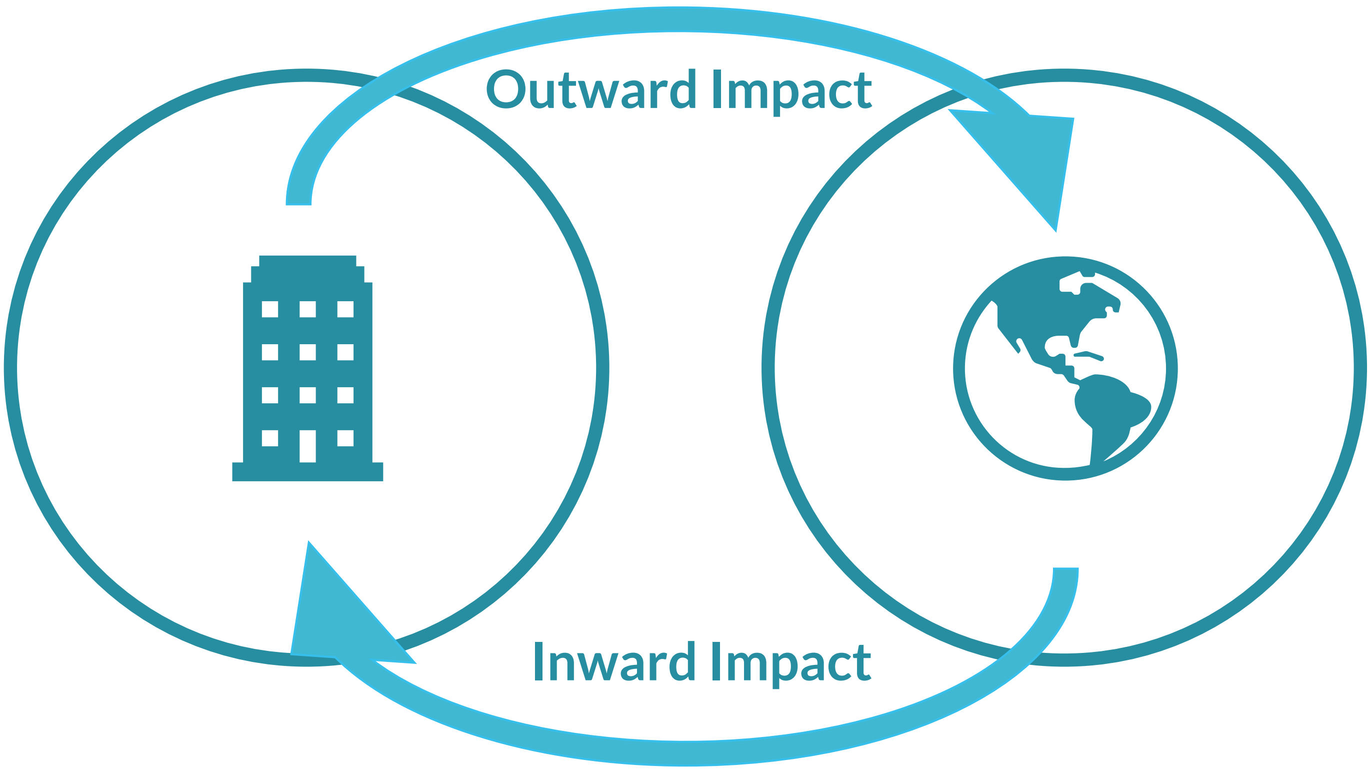
FUNDAMENTALS

SUSTAINABILITY DEFINITION

> Sustainability as defined by 1987's Brundtland Commission: "meeting the needs of the present without compromising the ability of future generations to meet their own needs."

THE FUNDAMENTALS

DOUBLE MATERIALITY



ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

E ENVIRONMENTAL	S SOCIAL	G GOVERNANCE
How your organization impacts and interacts with the environment.	How your company prioritizes community, employee, and business relationships.	How your organization is governed, operated and managed.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

E ENVIRONMENTAL

Greenhouse gas emissions (GHG), energy use, materials, waste, hazardous waste, pollution and toxicity, biodiversity, etc.

S SOCIAL

Human rights, worker health and safety, employee and supplier diversity, community investment, etc.

G GOVERNANCE

Board structure, executive pay structure, diversity in leadership positions, business ethics, transparency with employees or shareholders, etc.

WHAT IS AN ESG PROGRAM?

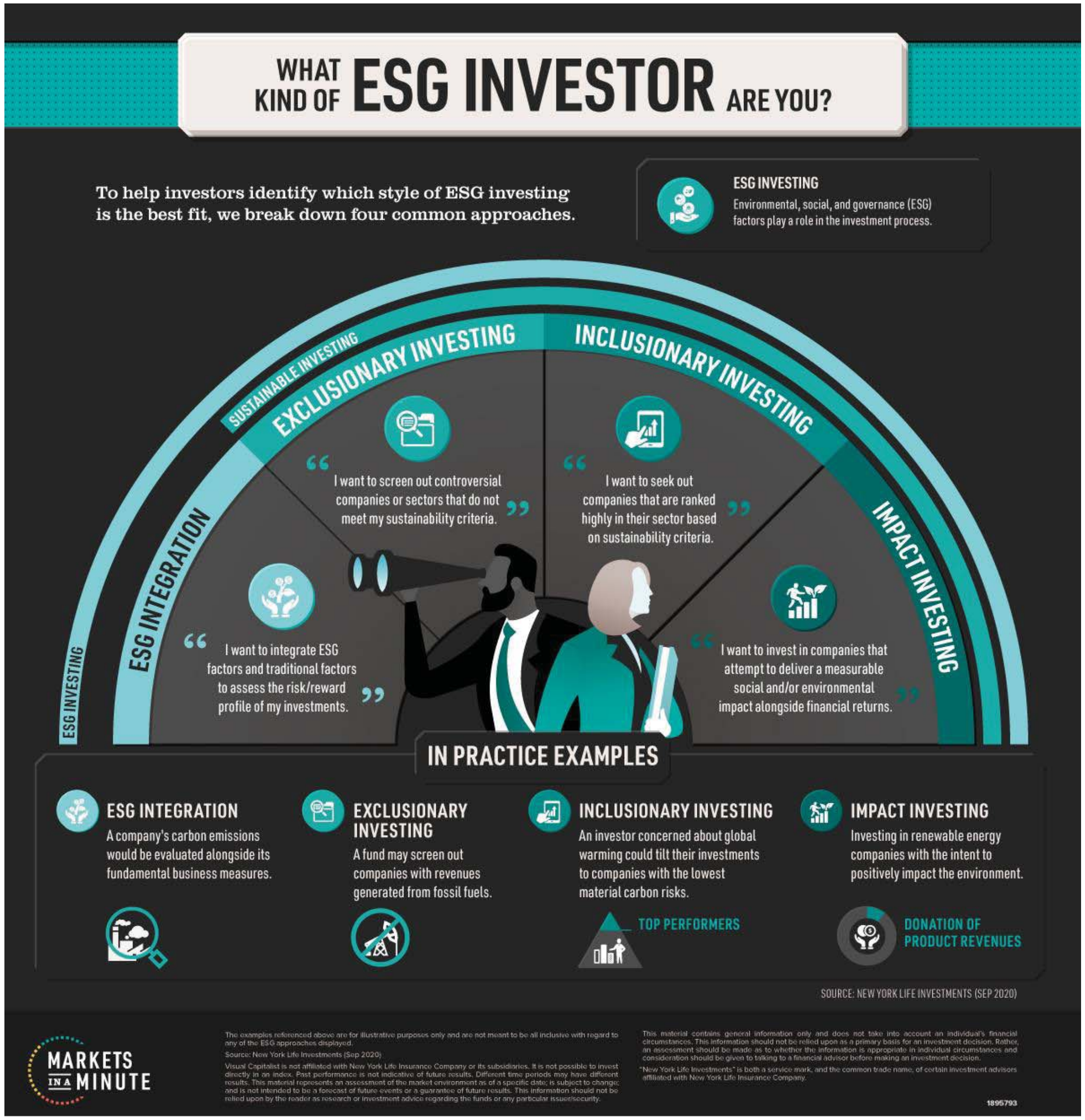
1 CORPORATE OR MUNI

2 RATINGS

3 INVESTING

4 PRODUCTS

- BONDS
- CDS
- MUTUAL FUNDS
- VENTURE CAPITAL
- PRIVATE EQUITY



NEW YORK LIFE INVESTMENTS VISUAL CAPITALIST

WHAT IS ESG?

ORGANIZATIONS ENGAGE IN A CONTINUOUS PROCESS

REPORTING FRAMEWORKS

Name	Description	Audience	Scoring
TCFD	Recommendations on the types of information that companies should disclose to appropriately assess risks related to climate change	Investors	No
Dow Jones Sustainability Indexes	Comprises global sustainability leaders as identified by S&P Global through the Corporate Sustainability Assessment (CSA)	Investors	Yes
INTEGRATED REPORTING ⟨IR⟩	Framework for corporate sustainability reporting in which financial disclosure and sustainability information are combined in one report	Investors	No
SASB	Enable organizations to identify the sustainability-related issues most relevant to investor decision-making in 77 industries and provide industry-based disclosures about sustainability-related risks and opportunities	Investors	No
CDP	Takes the information supplied in its annual reporting process and scores companies and cities based on their journey through disclosure and towards environmental leadership	All stakeholders	Yes
ISSB	ISSB will develop a global baseline of disclosure requirements designed to give investors high quality, globally comparable sustainability information that can be used by jurisdictions on a standalone basis or incorporated into requirements to meet broader, multi-stakeholder or public policy needs	Investors	No
GRI	World's most widely used sustainability reporting standards, providing common language for corporate transparency and impact reporting for companies and investors	All stakeholders	No
GRESB	Provides validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and regulatory reporting solutions	Investors and managers	Yes

WHAT IS ESG?

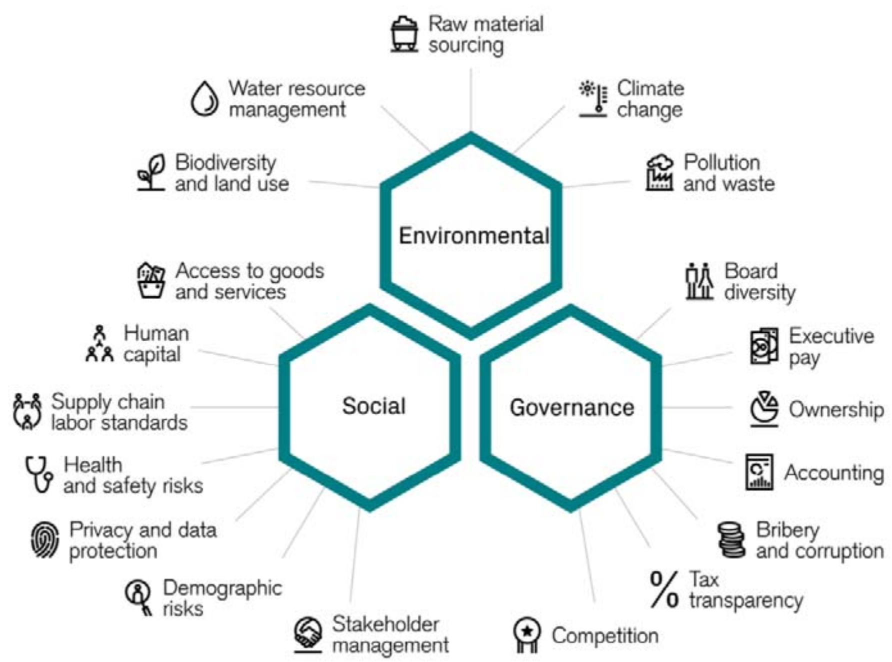
FINANCIAL-SIDE

Investors are applying **non-financial factors** as part of their analysis to identify material **risks** and growth **opportunities**

ESG investing refers to a set of standards used by investors to **screen potential investments**

- sometimes referred to as *sustainable investing*, *responsible investing*, *impact investing*, or *socially responsible investing* (SRI)
- relies on **independent ratings** determined by third-party, independent companies and research groups that help investors assess a company's behavior and policies when it comes to ESG performance

By considering ESG factors, investors get a more **holistic** view of the companies they back



FINANCIAL PRODUCTS

Top 10 Largest ESG Equity Funds by AUM

#	Name	Assets USD Billion
1	Parnassus Core Equity Fund	22.94
2	iShares ESG Aware MSCI USA ETF	13.03
3	Vanguard FTSE Social Index Fund	10.87
4	Stewart Investors Asia Pacific Leaders Sustainability Fund	9.87
5	Vontobel Fund - mtx Sustainable Emerging Markets Leaders	9.58
6	Northern Trust World Custom ESG Equity Index	8.69
7	Pictet - Global Environmental Opportunities	8.31
8	Pictet - Water	8.02
9	KLP AksjeGlobal Indeks I	7.69
10	Nordea 1 - Global Climate and Environment	7.37

Source: MSCI ESG Research LLC and Broadridge as of Dec. 31, 2020

TOP 10 US BANKS

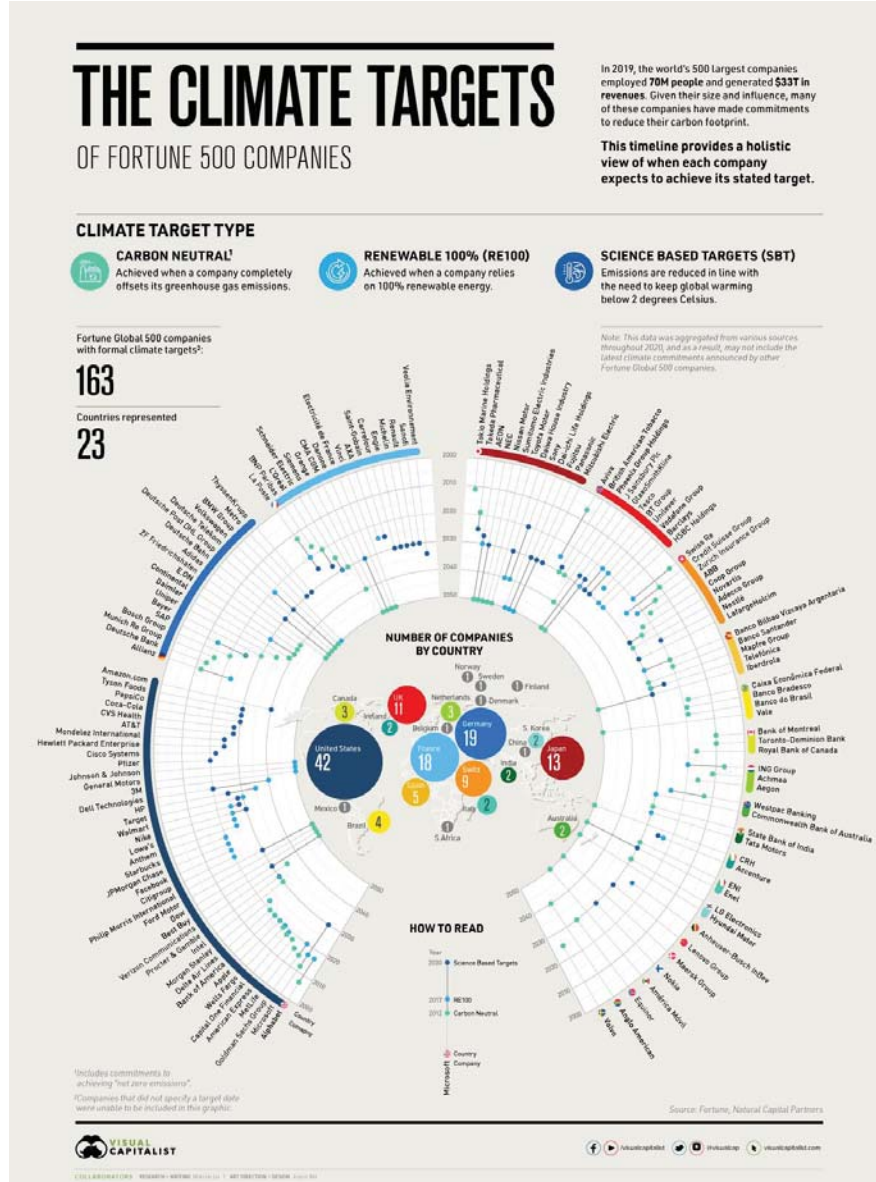
ESG OR NOT?

Bank	CDP	Sustainalytics
JP Morgan Chase	N/A	N/A
Bank of America	A-	28.3
Citigroup	A-	27.8
Wells Fargo	A-	31.8
US Bank	A-	30.3
Truist Bank	B	18.8
PNC	B	25.2
Goldman Saks	A-	24.3
Capital One	B-	20.8
TD Bank	B	20.9

WHAT IS AN ESG PROGRAM?

FORTUNE 500

CLIMATE PROGRAMS



CORE COMPONENTS OF AN ESG PROGRAM

ESG programs are not one-size-fits-all and can vary depending on the organization's size, type, industry, geographical location, and stakeholder expectations

- STAKEHOLDER ENGAGEMENT
- REPORTING AND TRANSPARENCY
- INTEGRATION INTO BUSINESS STRATEGY
- PERFORMANCE MONITORING AND IMPROVEMENT

WHAT IS AN ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) PROGRAM?

An ESG Program establishes and reports progress across a defined set of sustainability priorities that are important to the business and stakeholders

- The first step to develop an ESG Program and relevant reporting is to establish an **ESG Framework**, which identifies key focus areas that are priorities for the business and stakeholders, plus tactics and an implementation plan that are feasible to achieve.
- This ESG Framework is a starting point to define quantitative and qualitative metrics, set sustainability goals, and track and communicate your company's sustainability progress to your employees, customers, and investors.
- The ESG Framework will help you to advance your businesses' sustainability and economic competitiveness.

ESG FRAMEWORK FOCUS AREAS

KEY FOCUS AREAS FOR PROGRAM DEVELOPMENT AND REPORTING

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Environmental Pillar

Climate change
- Carbon emissions
- Product carbon footprint
- Financing environmental impact
- Climate change vulnerability

Natural resources
- Water stress
- Biodiversity & land-use
- Raw material sourcing

Pollution & waste
- Toxic emissions & waste
- Packaging material & waste
- Electronic waste

Environmental opportunities
- Cleantech
- Green buildings
- Renewable energy & management

Social Pillar

Human capital
- Labor management
- Health & safety
- Human capital development
- Climate change vulnerability

Product liability
- Product safety & quality
- Chemical safety
- Consumer financial protection
- Privacy & data security
- Responsible investment

Stakeholder opposition
- Controversial sourcing
- Community relations

Social opportunity
- Communication access
- Access to finance
- Access to healthcare
- Nutrition & health

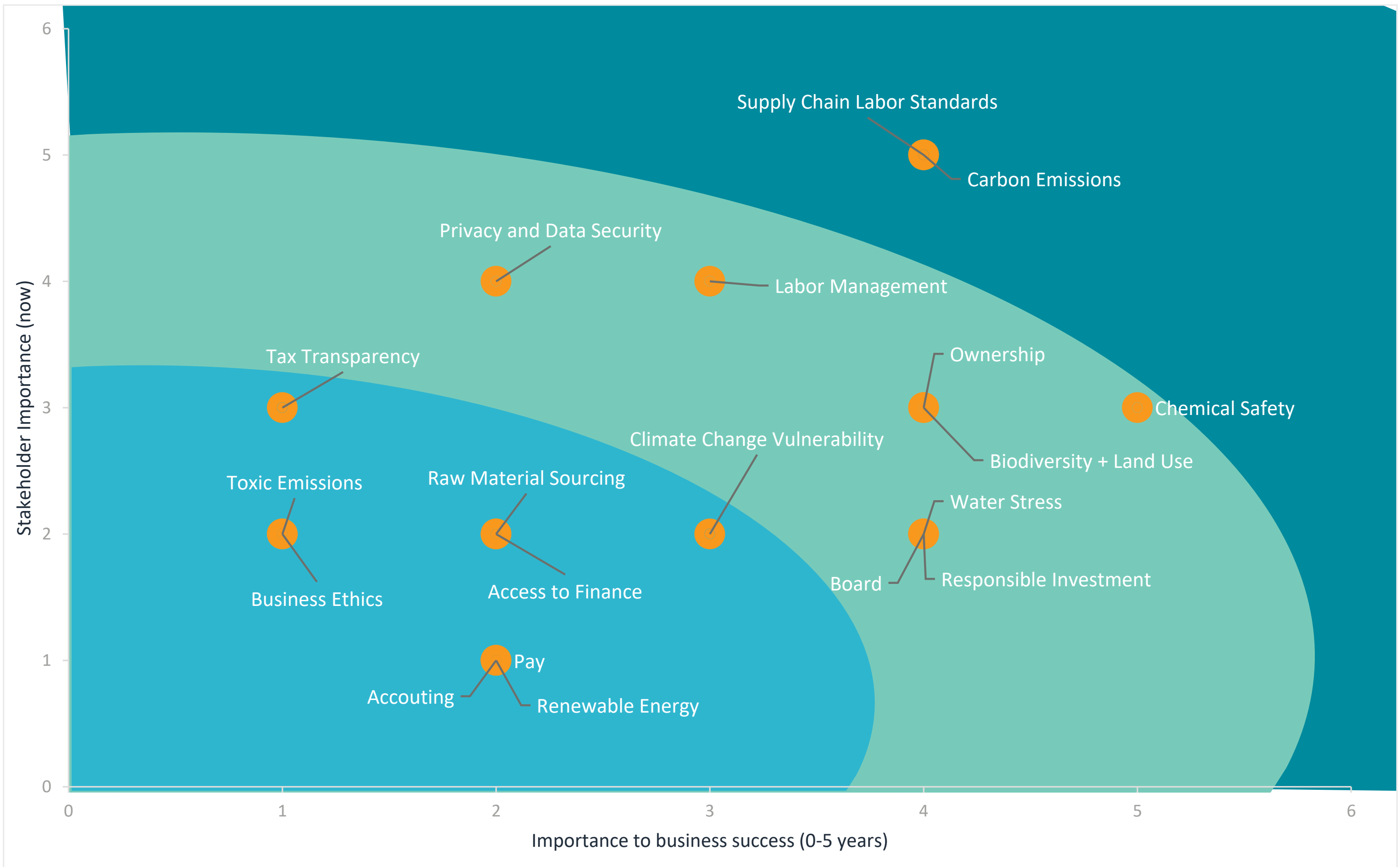
Governance Pillar

Corporate governance
- Board diversity
- Executive pay
- Ownership & control
- Accounting

Corporate behavior
- Business ethics
- Corruption & instability
- Tax transparency

ESG MATERIALITY MATRIX

MAPPING OF ESG PRIORITIES BASED ON IMPORTANCE TO THE BUSINESS AND TO STAKEHOLDERS



ESG PRIORITY AREAS

IDENTIFICATION OF ESG PRIORITIES BASED ON A MATERIALITY SURVEY

Carbon Emissions

Reduced emissions, net-zero and other strategies

Biodiversity + Land Use

Increase biodiversity and lessen impacts on land use

Water Stewardship

Reduce impacts on the watershed

Board

Build diversity and ESG oversight into board

Supply Chain Labor Standards

Ensure that labor practices exist throughout the supply chain

Responsible Investment

Focus on where money is invested

Chemical Safety

Reduce negative impacts of chemicals

Ownership

Build equity into ownership structure

UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

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Climate Solutions

WHY HAVE AN ESG PROGRAM?

"Climate risk is investment risk…Every government, company, and shareholder must confront climate change."
-Larry Fink, Blackrock

"ESG is here to stay and a strong ESG proposition links to value creation in five essential ways – top line growth, cost reduction, regulatory intervention, productivity uplift, and investment and asset optimization."

-McKinsey and Company

Investor and Consumer Demand

- ESG assets are on track to represent 50% of all professionally managed assets globally by 2024 - Deloite
- Over 60% of consumers choose, switch, or boycott brands based on their stance on societal issues – *Edleman*
- Individual and institutional investors are demanding changes in portfolios – *JP Morgan*

Risk Reduction

- Strong ESG performers have a lower incidence of revenue shortfalls, customer attrition, fraud, and litigation – *Wharton*
- Financial decisions and divestment are being based on climate-linked risks to portfolios – PWC

Topline Growth

- ESG programs are linked to better top-line growth and stronger returns – *McKinsey*
- 25 out of 26 ESG index funds outperformed their non-ESG funds – *Morningstar*
- Companies with ESG programs outperform their competitors – *HBR*

Cost Reductions

- Executing ESG effectively can help combat rising operating expenses, which can affect operating profits by as much as 60% – McKinsey
- The pressure from financial institutions will touch everything from a company's credit rating, valuation, cost of capital, borrowing capability and insurance. – PWC

Talent Attraction and Retention

- Companies with ESG programs attract and retain better talent – *NASDAQ*
- Strong ESG programs can enhance employee satisfaction, , which is positively correlated to shareholder returns – McKinsey
- Millennial and Gen Z generations will expect more from employers on these issues – Marsh McLennan

CONSIDERATIONS

ESG IS ONE CONSIDERATION

Organization Activity

NET ZERO — Companies are committing to Scope 1, 2, and 3 emissions reductions

SCIENCE BASED TARGETS — Companies committed to climate goals that are aligned with climate needs

ESG — Global ESG activity, regulatory drivers in the EU

DEI — Diversity, equity and inclusion impacts talent attraction and retention

SUPPLY CHAIN — Global regulations are driving sustainable supply chain activity

90% of the global economy falls under a net-zero pledge, up from 16% in 2019 (PWC)

ESG BACKLASH

Backlash at state-level

- Republican bill to restrict pension managers from considering ESG passed both houses of Congress, vetoed by President Biden.
- At least **seven states have enacted anti-ESG laws** in the past two years that seek to prohibit or discourage public entities from considering ESG factors when investing state resources.
- In December 2022, Florida **pulled $2 billion from BlackRock**, the world's largest asset manager, citing firm's support for ESG investing.
- Florida public or state-controlled funds can no longer invest their money based on ESG factors under a bill signed by Gov. DeSantis in May 2023.

ESG BACKLASH

The political risks remain high

- In August 2022, Texas banned 10 large banks and 348 investment funds for allegedly boycotting fossil fuel-based energy companies.
- World's biggest mutual fund manager Vanguard pulled out of the Net Zero Asset Managers (NZAM) initiative citing a need to demonstrate its independence.
- “Greenhushing”: A recent global study found 1 in 4 businesses do not plan to talk about their science-aligned climate targets.

Fiduciary Responsibility

- Failing to meet fiduciary responsibilities: ESG investments allocate money based on political agendas at the expense of best returns for shareholders and retirement accounts.

IS PERFORMANCE BETTER?

ESG fund performance not statistically different

- University of Chicago researchers analyzed the Morningstar sustainability ratings of more than 20,000 mutual funds representing over $8 trillion of investor savings. Although the highest rated funds in terms of sustainability certainly attracted more capital than the lowest rated funds, **none of the high sustainability funds outperformed any of the lowest rated funds.**
- Another study on the returns of 80 European and 64 US funds found **no statistically significant difference** between ESG and non-ESG funds, although the former have slightly higher returns than the latter.

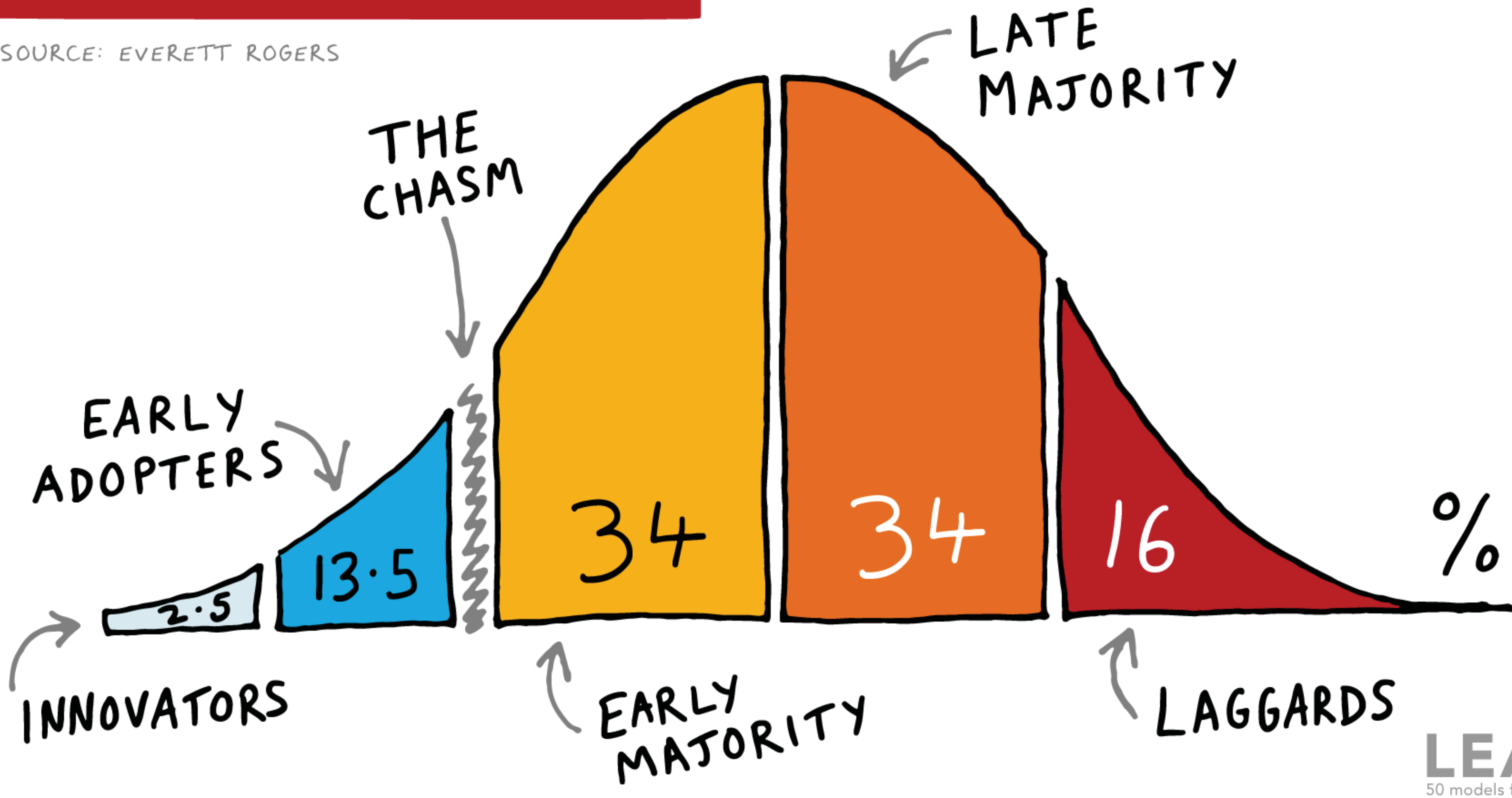
ESG funds don't seem to deliver better ESG performance either.

- Researchers at Columbia University and London School of Economics compared the ESG record of U.S. companies in 147 ESG fund portfolios and that of U.S. companies in 2,428 non-ESG portfolios. They found that the companies in the **ESG portfolios had worse compliance record for both labor and environmental rules.** They also found that companies added to ESG portfolios did *not* subsequently improve compliance with labor or environmental regulations.

ESG "is likely to follow the same trajectory as digital and technology adoption which is now an expected component of the overall experience." *– Rishi Bhattacharya, Impact + Influence*

DIFFUSION OF INNOVATION

SOURCE: EVERETT ROGERS



LEAD
50 models for success

PUSH BACK ON THE PUSH BACK

- In Texas, insurance lobbyists went public with their opposition to the restrictions in Senate Bill 833.
- State treasurers and attorneys general have sought to blacklist banks that factor ESG into their investment decisions.
  - The North Dakota House of Representatives voted 90-3 against a bill that would have created a list of restricted financial institutions "boycotting" energy companies.
  - State banking associations in parts of the country have pushed back on anti-ESG legislation targeting banks.
  - The Kentucky Bankers Association sued the state's attorney general for allegedly exceeding his legal authority by asking the nation's six largest banks to produce documents and other information pertaining to their ESG lending practices.
  - Public criticism of gov't overreach and free market interference.
- On March 24, 2023, over 200 companies convened by Ceres released a letter calling for policymakers to respect the "freedom to invest responsibly".

DOES ANTI-ESG PRODUCE HIGHER COSTS?

- Texas legislation that came into effect in September 2021, which banned cities from having their funds managed by companies whose policies restricted investment in fossil fuels and weapons.
  - Analysis of the first eight months of the law's implementation estimated that **Texas cities will pay an additional $303 million to $532 million in interest on $32 billion in bonds.** *University of Pennsylvania*
- New study estimates six other states could face **up to $708 million in higher borrowing costs** if they, like Texas, extended their ESG boycotts to municipalities, as a result of less competition between finance firms for municipal bonds.
- Missouri pulled $500 million in assets from BlackRock in October 2022.
  - NISA Investment Advisors LLC charged the Missouri employee retirement system **$5.4 million in fees compared with BlackRock's $1.2 million in fees.**
- In Indiana, a bill requiring that the state public pension system divest from firms engaged in ESG investing was estimated to **cost $6.7 billion over the next decade — lowering returns from 6.25 to 5.05 % annually.**

> Climate risk pervades every level of a financial services firm, operations conducted within its own four walls to the entirety of its supply chain and includes investments and loans. – *Monticello Consulting*

GREENWASHING

Need for mandatory, robust, and universal methodologies

- There is no single, unified standard or methodology behind ESG ratings.
- Voluntary ESG reporting varies across businesses, sectors, and countries.

US and EU are Cracking down on ESG Claims

- In May 2022, SEC proposed to **enhance disclosures by certain investment advisers and investment companies about ESG investment practices**.
- EU has created ESG reporting and greenwashing requirements

Greenwashing poses reputation and legal risks for companies

- Anticipated increase in litigation based on greenwashing claims.
- Increased scrutiny as demand for ESG investments and sustainable products continues to rise.

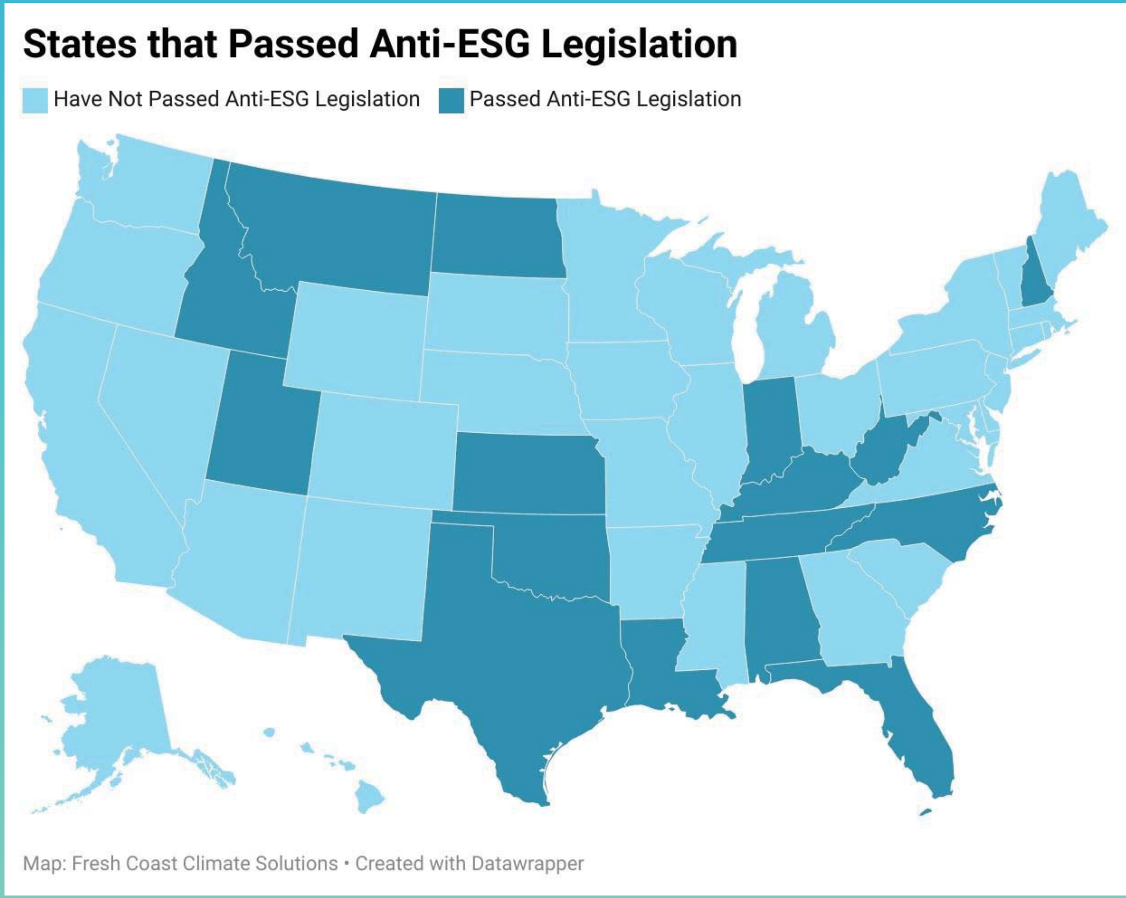
BREAK

LEGAL & REGULATORY DRIVERS

ESG LEGISLATION IN THE U.S.

Types of anti-ESG regulations:

- **No-ESG-investment regulations**: State is prohibited from investing in strategies that consider ESG factors for any purpose other than maximizing investment returns — investment decisions should be based solely on “pecuniary factors”, and be free of “social, political or ideological interests”.
- **Boycott regulations**: Target financial institutions that are understood to boycott or discriminate against companies in certain industries. They prohibit the state from doing business with such institutions and/or from investing the state's assets, including pension plan assets, through such institutions.



WHAT IS THE DISCUSSION IN YOUR COUNTY?

DISCUSSION

GLOBAL REGULATORY DRIVERS

Rising mandatory climate disclosure laws and regulations (BDO)

- Since the beginning of 2022, climate reporting rules have gone into effect in Singapore, China, the UK, and New Zealand, etc.
- The EU adopted the Corporate Sustainability Reporting Directive (CSRD).
- The Swiss Federal Council adopted climate reporting rules that will go into effect in 2024.
- In 2022, the U.S. SEC proposed climate reporting requirements.

Supply chain due diligence laws and regulations are also on the rise (BDO)

- The EU's proposed Directive on Corporate Sustainability Due Diligence (CSDD) would require organizations to identify, prevent and end adverse human rights and environmental impacts in their operations and value chains.

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CLIMATE LAWS ARE TRANSFORMING SUPPLY CHAINS

Whether it is climate, sustainability, or ESG, a variety of regulatory and legislative mechanisms are either in place or are slated to become active in the few years. These will transform supply chains, requiring more transparency, traceability, human rights, and progress toward climate goals.

Earlier

- UK Modern Slavery Act (2015)
- UK Streamlined Energy & Carbon Reporting (2019)
- EU Climate Law (2021)
- Bipartisan Infrastructure Law (2021)

2022

- Uyghur Forced Labor Prevention Act (UFLPA)
- China's Measures
- UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022
- EU Empowering consumers for the green transition (proposed)
- EU Corporate Sustainability Due Diligence (proposed)
- EU Forced Labor Regulation (proposed)
- US SEC Climate Disclosure (proposed)

2023

- EU Regulation on Deforestation
- German Supply Chain Due Diligence Act
- EU Corporate Sustainability Reporting Directive
- US Inflation Reduction Act

2024

- Canada Forced Labor In Supply Chains Act
- Switzerland's Ordinance on Climate Disclosure

ESG REGULATION IN THE EU

Corporate Sustainability Reporting Directive (CSRD)

- Requires companies to disclose information relating to **ESG** – the statement must be audited and assured by an **independent third-party** and included in the **company's annual financial report**.
- Entered into force on January 5, 2023, start reporting by 2025 or 2026, at the latest.
- Broadens and amends the Non-Financial Reporting Directive (NFRD), which only covered the disclosure requirements for ~11,000 EU companies.
- Will require nearly 50,000 companies to enhance their reporting around sustainability, also applying to non-EU companies listed on EU-regulated markets.

Sustainable Finance Disclosure Regulation (SFDR)

- Applicable since March 2021, became mandatory on January 1st, 2023.
- Imposes mandatory sustainability disclosure requirements covering a broad range of ESG metrics at both entity- and product- level for financial markets participants (FMPs).
- Aims to improve transparency relating to sustainable investment products, prevent greenwashing, increase investor comfort regarding sustainability claims made by FMPs, and increase the flow of investment into sustainable products to accelerate the transition to a low-carbon economy.

EU Taxonomy

- While in effect since 2020, large companies have not been obliged to report on their alignment until January 1st, 2023.
- Establishes an EU-wide classification system that defines what economic activities can be considered environmentally sustainable.
- Provides a common language and set of criteria for assessing the sustainability of investments under the SFDR.
- Combats greenwashing and helps direct investments to the economic activities most needed for a green transition.

ESG REGULATION IN THE U.S.

- In May 2022, SEC proposed to **enhance disclosures by certain investment advisers and investment companies about ESG investment practices**.
- In March 2022, SEC proposed rules to **enhance and standardize climate-related disclosures for investors,** most likely requiring Scope 1 and 2 disclosures.
- SEC launched the **Climate and ESG Task Force** to identify ESG-related misconduct consistent with increased investor reliance on climate and ESG-related disclosure and investment.
- State-level pro-ESG regulation
  - The **California Climate Corporate Data Accountability Act (SB 253)** and the **Climate-Related Financial Risk Act (SB 261)** passed the state Senate on May 30th, 2023.
  - SB 253 would mandate all companies earning at least $1 billion in annual revenue and doing business in California to disclose Scope 1, 2, and 3 GHG emissions.
  - SB 261 would require large corporations to prepare and submit an annual climate-related financial risk report.

CONTRASTING ESG REGULATION

U.S. versus EU

United States	European Union
Mainly driven by voluntary, market-led responses	Mainly driven by regulation
Fragmented policy environment, both at state and federal level	Unified, complex ESG regulation system
Anti-ESG movements	

The impact of Europe's sustainability regulations will stretch **beyond Europe**.

- CSRD applies to non-EU companies listed on EU-regulated markets.
- Non-EU companies can also voluntarily make use of the EU Green Bond Standard if they want to access EU investors.

REGULATION SUMMARY

Rapid acceleration of ESG-related legal obligations across the globe.

To date, trends in ESG reporting and due diligence have largely been **steered by developments in the EU and U.K.**

Companies will need to **monitor regulations**—those in force, impending and under consideration—closely to ensure that they are prepared for a **new compliance regime.**

The new slew of regulations underscores investors' **need for comprehensive, comparable and reliable data** related to ESG.

STATE OF THE MARKET

ESG ASSETS UNDER MANAGEMENT ON THE RISE

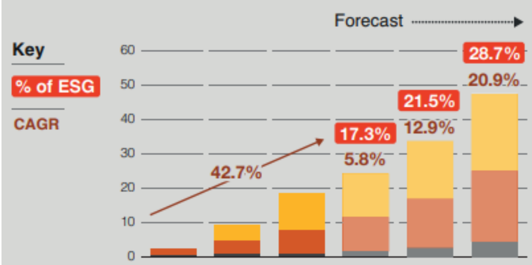
ESG-orientated AuM are set to grow much faster than the AUM market as a whole

- ESG AuM in the US would more than double, from US$4.5 trillion in 2021 to US$10.5 trillion in 2026 (PWC)
- The share of ESG assets over total AuM would increase from 14.4% in 2021 to 21.5% in 2026, comprising more than one-fifth of all assets (PWC)

Growth in ESG investments will outpace the industry as a whole

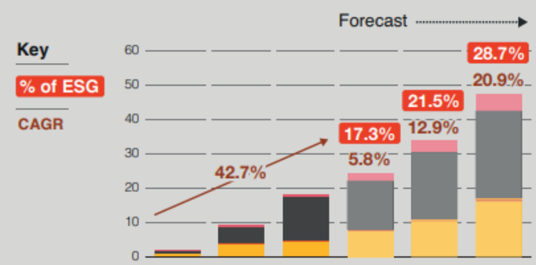
Global ESG AuM (US$tn)

	2015	2020	2021	2026 Low	2026 Base	2026 Best
Mandates	0.0	4.8	10.4	12.8	16.9	22.4
Mutual funds	1.6	3.6	6.9	10.1	14.3	20.7
Private markets	0.6	1.0	1.1	1.6	2.7	4.5
Total	2.2	9.4	18.4	24.4	33.9	47.6



Global ESG AuM by region (US$tn)

	2015	2020	2021	2026 Low	2026 Base	2026 Best
Asia-Pacific	0.2	0.7	1.0	2.1	3.3	5.0
Europe	1.1	4.7	12.8	14.3	19.6	25.7
Latin America	0.0	0.0	0.0	0.1	0.2	0.3
Middle East & Africa	0.0	0.1	0.1	0.2	0.3	0.4
North America	0.8	3.8	4.5	7.7	10.5	16.3
Total	2.2	9.4	18.4	24.4	33.9	47.6



Source: PwC Global ESG and AWM Market Research Centre analysis, Lipper, Preqin, ESG Global

INFLOWS + RATE OF GROWTH

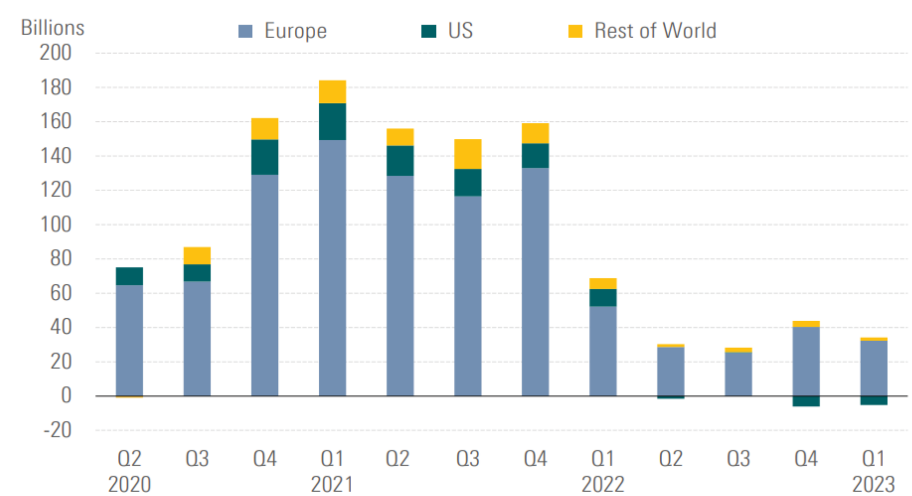
- Q1 2023 global total inflow was lower than the USD 37.7 billion of the last quarter of 2022, amid continued macroeconomic pressures, including rising interest rates, inflation, and a looming recession (Morningstar)
- Decelerated growth in sustainable funds was felt across all regions

Exhibit 1 Global Sustainable Fund Statistics

Q1 2023	Flows	Assets		Funds	
Region	USD Billion	Billion	% Total	#	% Total
Europe	32.3	2,296	84	5,410	77
United States	-5.2	299	11	638	9
Asia ex-Japan	1.7	63	2	515	7
Australia/New Zealand	0.1	31	1	201	3
Japan	-1.0	26	1	60	1
Canada	1.0	30	1	206	3
Total	**29.0**	**2,745**		**7,030**	

Source: Morningstar Direct, Manager Research. Data as of March 2023.

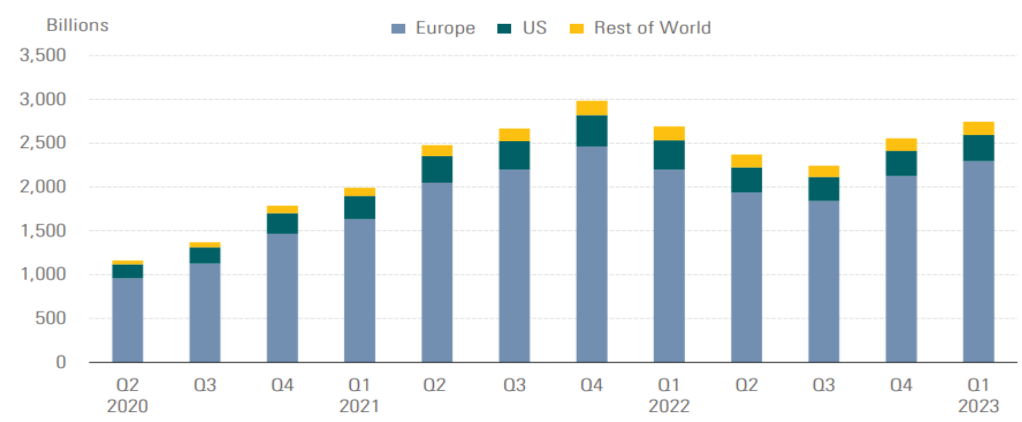
Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of March 2023.

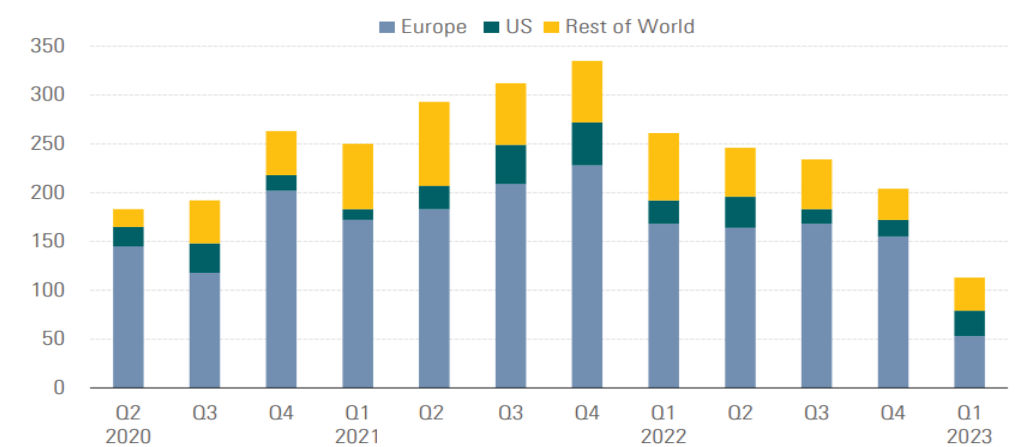
GLOBAL SUSTAINABLE FUNDS

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of March 2023.

Exhibit 4 Global Sustainable Fund Launches per Quarter



Source: Morningstar Direct, Manager Research. Data as of March 2023.

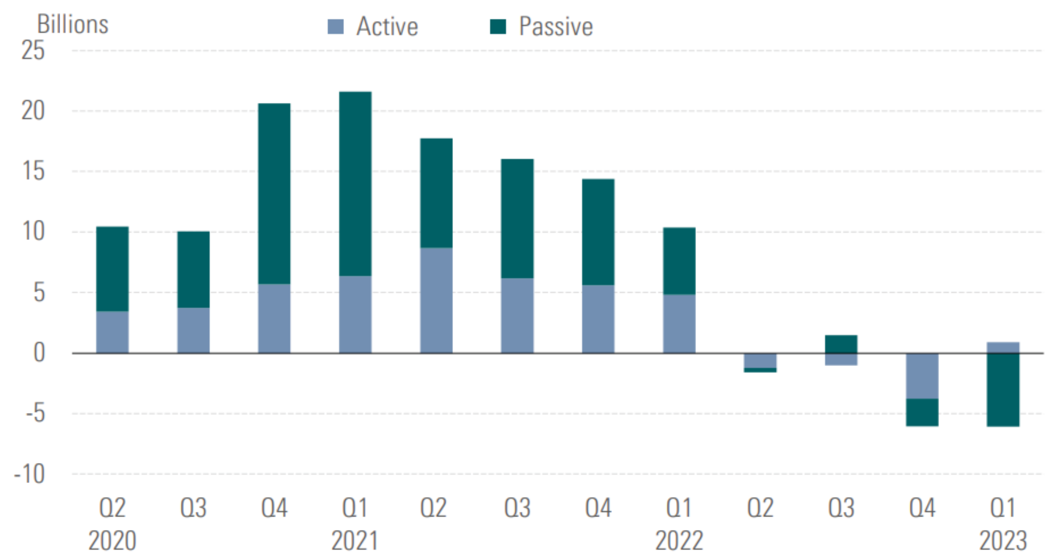
STATE OF THE MARKET

UNITED STATES

- In total, investors have withdrawn USD 12.4 billion from these funds over the past year (Morningstar)
- Contributing factors: Market volatility and global macroeconomic pressures, including an ongoing energy crisis, hiking interest rates, and rising fears of recession

- Another possible factor damping investor demand for ESG products is the **growing political backlash against sustainable investing**
- Republican governors from at least 19 U.S. states have pledged to resist ESG investing over antitrust, consumer protection, and discrimination concerns

Exhibit 12 U.S. Sustainable Fund Flows



Source: Morningstar Direct, Manager Research. Data as of March 2023.

SUSTAINABLE FUNDS

UNITED STATES

Exhibit 15 U.S. Sustainable Fund Assets

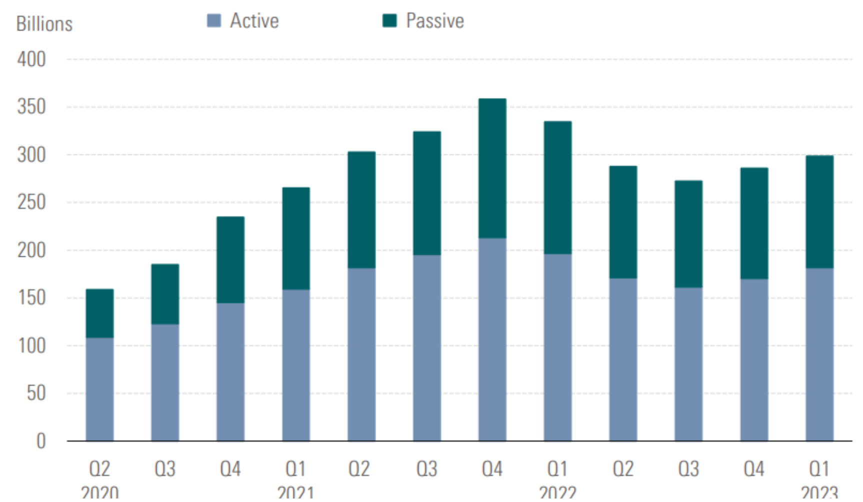
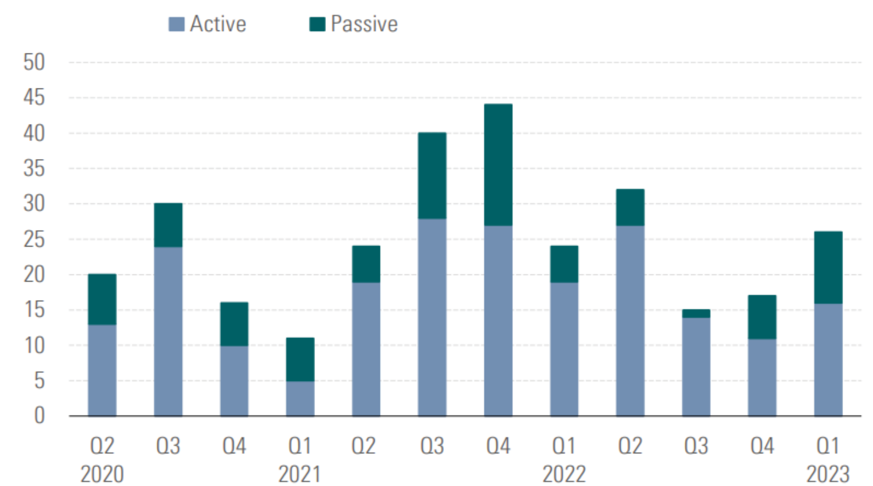


Exhibit 16a U.S. Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of March 2023.

ESG DRIVING FORCES

FRESH COAST
Climate Solutions

WHY ESG?

"Climate risk is investment risk…Every government, company, and shareholder must confront climate change."
-Larry Fink, Blackrock

"ESG is here to stay and a strong ESG proposition links to value creation in five essential ways – top line growth, cost reduction, regulatory intervention, productivity uplift, and investment and asset optimization."

-McKinsey and Company

Investor Demand

- ESG assets are on track to represent 50% of all professionally managed assets globally by 2024 - Deloitte
- Over 60% of consumers choose, switch, or boycott brands based on their stance on societal issues – *Edleman*
- Individual and institutional investors are demanding changes in portfolios – *JP Morgan*

Risk Reduction

- Strong ESG performers have a lower incidence of revenue shortfalls, customer attrition, fraud, and litigation – *Wharton*
- Financial decisions and divestment are being based on climate-linked risks to portfolios – PWC

Topline Growth

- ESG programs are linked to better top-line growth and stronger returns – *McKinsey*
- In 2020, 25 out of 26 ESG index funds outperformed their non-ESG funds – *Morningstar*
- Companies with ESG programs outperform their competitors – *HBR*

Cost Reductions

- Executing ESG effectively can help combat rising operating expenses, which can affect operating profits by as much as 60% – McKinsey
- The pressure from financial institutions will touch everything from a company's credit rating, valuation, cost of capital, borrowing capability and insurance. – PWC

Talent Attraction and Retention

- Companies with ESG programs attract and retain better talent – *NASDAQ*
- Strong ESG programs can enhance employee satisfaction, , which is positively correlated to shareholder returns – McKinsey
- Millennial and Gen Z generations will expect more from employers on these issues – Marsh McLennan

INVESTOR DEMAND DRIVING ESG GROWTH

- Individual and institutional investors are demanding changes in portfolios (JP Morgan)
- Members of the Glasgow Financial Alliance for Net Zero already represent **$130 trillion**, or **40%** of world financial assets (PWC)
- ESG assets are on track to represent **50%** of all professionally managed assets globally by 2024 (Deloitte)
- ESG-oriented AuM in the U.S. is set to more than double from **US$4.5tn** in 2021 to **US$10.5tn** in 2026 (PWC)

FIGURE 1

ESG-mandated assets are projected to make up half of all professionally managed assets globally by 2024

Global assets under professional management ($T)

Note: All amounts are in US dollars.

Source: Proportion of ESG-mandated data through 2020 from Global Sustainable Investment Alliance; DCFS analysis through 2025.

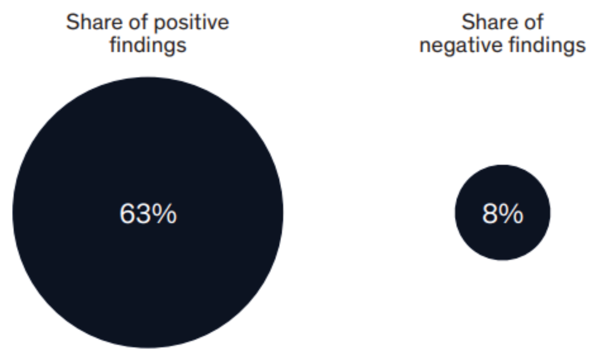
Deloitte Insights | deloitte.com/insights

ESG IS PRODUCING TOPLINE GROWTH

- 60% of institutional investors surveyed reported that **ESG investing** has resulted in **higher performance yields** (PWC)
- Companies with ESG programs outperform their competitors (HBR)
- New research by Moore Global, which included 1,262 large companies from 8 major economies, found that those focusing on **ESG over the last 3 years are growing sales at 2x the rate of those that are not as committed, with revenues increasing almost 10% in that time**

Paying attention to environmental, social, and governance (ESG) concerns does not compromise returns—rather, the opposite.

Results of >2,000 studies on the impact of ESG propositions on equity returns



Source: Gunnar Friede et al., "ESG and financial performance: Aggregated evidence from more than 2000 empirical studies," *Journal of Sustainable Finance & Investment*, October 2015, Volume 5, Number 4, pp. 210–33; Deutsche Asset & Wealth Management Investment; McKinsey analysis

ESG IS PRODUCING TOPLINE GROWTH

Products that make environmental, social, and governance-related claims have achieved disproportionate growth.

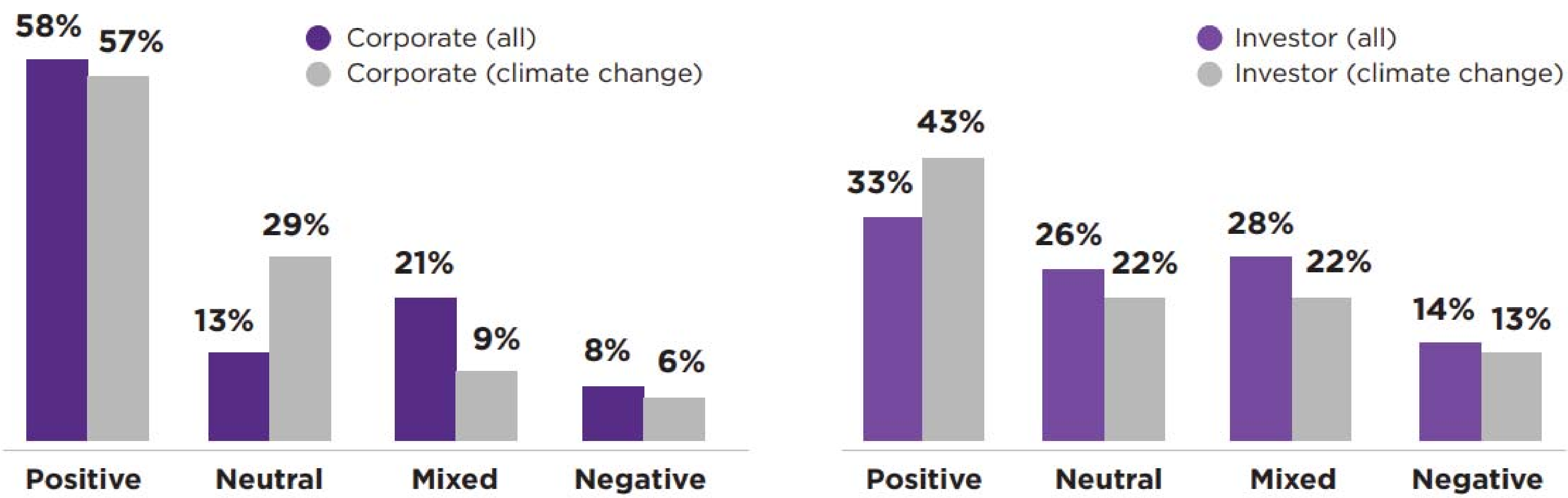
Retail sales growth, US, CAGR 2018–22, %

[1]Environmental, social, and governance.
Source: NielsenIQ

McKinsey & Company

LARGELY POSITIVE RELATIONSHIP BETWEEN SUSTAINABILITY AND FINANCIAL PERFORMANCE

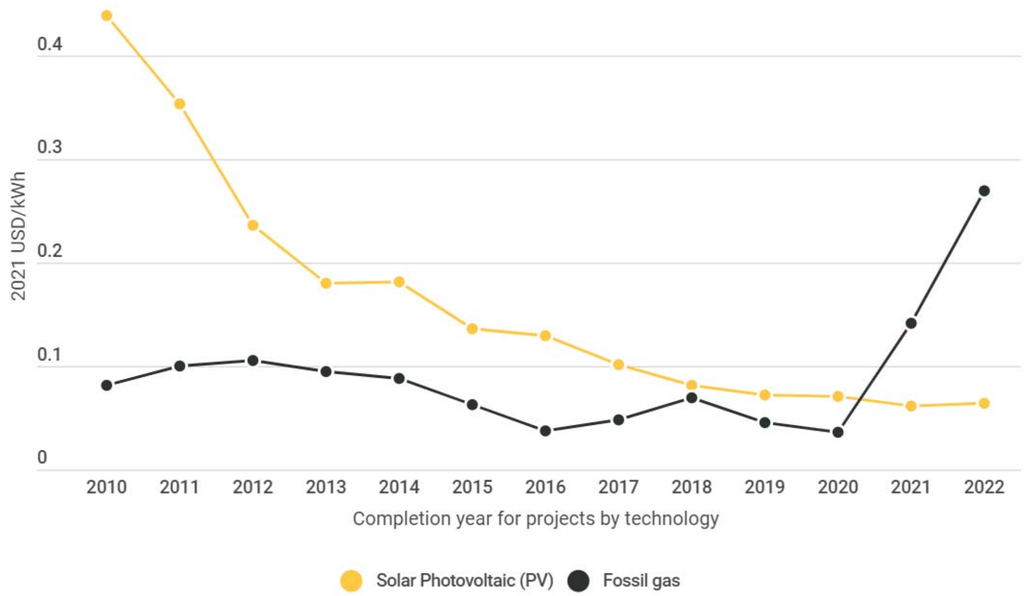
Figure 1. Positive and/or neutral results for investing in sustainability dominate. Very few studies found a negative correlation between ESG and financial performance (based on 245 studies published between 2016 and 2020) .



NYU | STERN
Center for Sustainable Business

ESG DRIVES COST REDUCTION

- Executing ESG effectively can help combat rising operating expenses (such as raw-material costs and the true cost of water or carbon), which can affect operating profits by as much as **60%** (McKinsey)
- Significant **correlation between resource efficiency and financial performance** (McKinsey)
- ~2/3 or 163 gigawatts (GW) of newly installed renewable power in 2021 had **lower costs than the world's cheapest coal-fired option** in the G20 (IRENA)
- In non-OECD countries, the 109 GW of renewable energy additions in 2021 that cost less than the cheapest new fossil fuel-fired option will **reduce costs by at least USD 5.7 billion annually for the next 25-30 years** (IRENA)

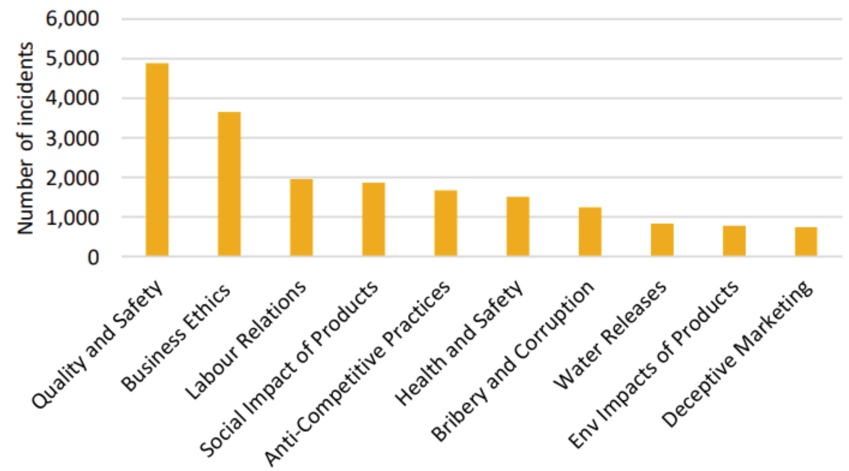


Utility scale solar PV becomes starkly competitive over fuel and CO_2 cost in Europe

RISK REDUCTION IS A STRONG FOCUS

- Financial decisions and divestment are being based on **climate-linked risks to portfolios** (PWC)
- The pressure from financial institutions will touch everything from a company's credit rating, valuation, cost of capital, borrowing capability and insurance (PWC)
- Strong ESG performers have a lower incidence of revenue shortfalls, customer attrition, fraud, and litigation (Wharton)
- ESG helps reduce companies' risk of adverse government action and can engender government support (McKinsey)
- **ESG risk management is regular risk management** (Sustainalytics)

Figure 7: The ten most common incident tags



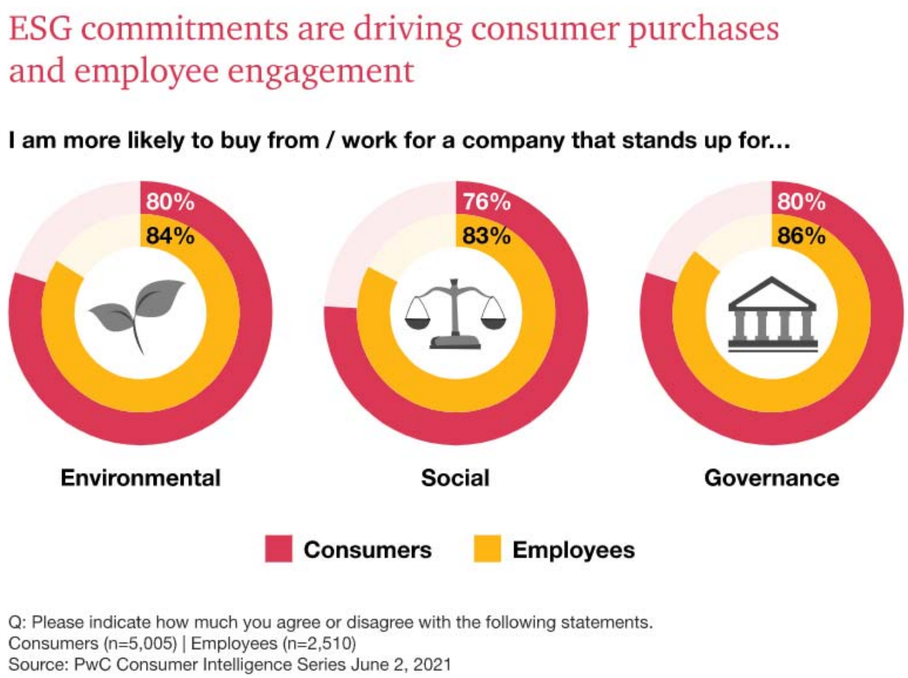
Source: Sustainalytics

Impact level	Mean percent change in market cap	Percent of companies with market cap decline	Number of incidents
High-Severe	-6%	69%	55
Significant	-1%	54%	795
Low-Moderate	0%	50%	13,714

Source: Sustainalytics

ESG IS ATTRACTING AND RETAINING TALENT

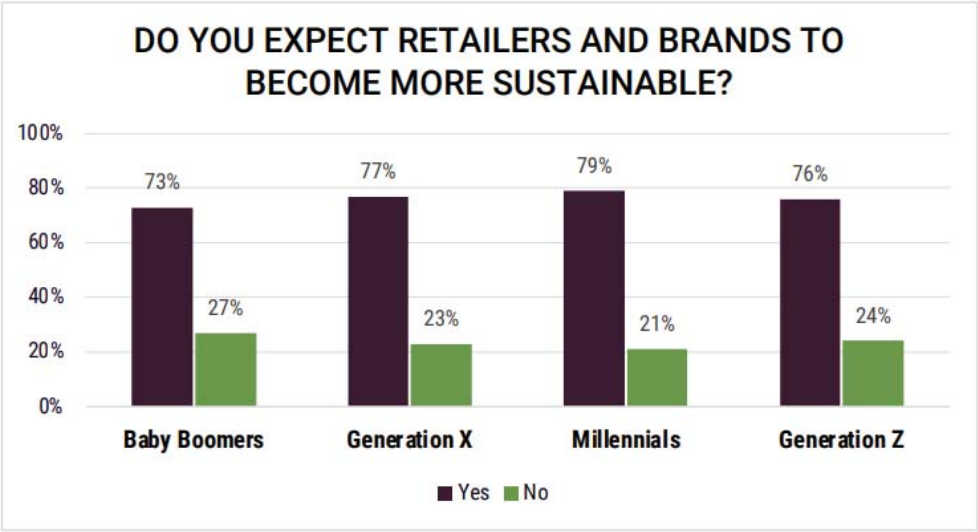
- ESG performance will become increasingly important to attracting and retaining talent as **Millennials and Gen Z** come to make up most of the global workforce (Marsh McLennan)
  - By 2029, the Millennial and Gen Z generations will make up **72% of the world's workforce**
  - These generations place **greater importance on environmental and social concerns** than their predecessors do – and will expect more from employers on these issues
- A strong ESG proposition can help companies attract and retain quality employees, enhance **employee motivation** by instilling **a sense of purpose**, and increase **productivity** overall (McKinsey)
- **Employee satisfaction is positively correlated with shareholder returns** (McKinsey)

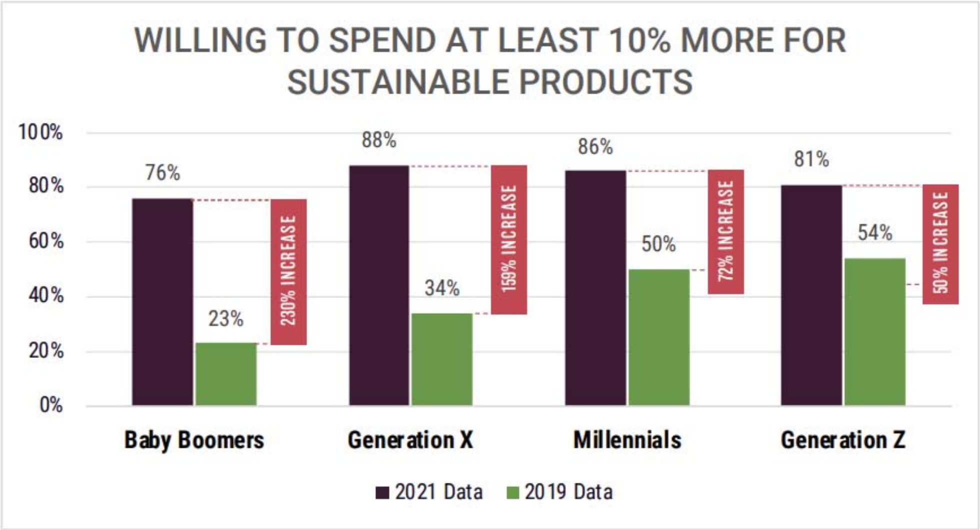


CONSUMER DEMAND

DRIVING SUSTAINABILITY ACTIVITY

- Customers are willing to pay to “go green”
- >70% of consumers surveyed on purchases in multiple industries said they would pay an additional 5% for a green product if it met the same performance standards as a nongreen alternative (McKinsey)
- Products making ESG-related claims averaged 28% cumulative growth over the past five-year period, versus 20% for products that made no such claims. (McKinsey)





WRAP UP

FUTURE TRENDS AND CONSIDERATIONS

Market Maturity

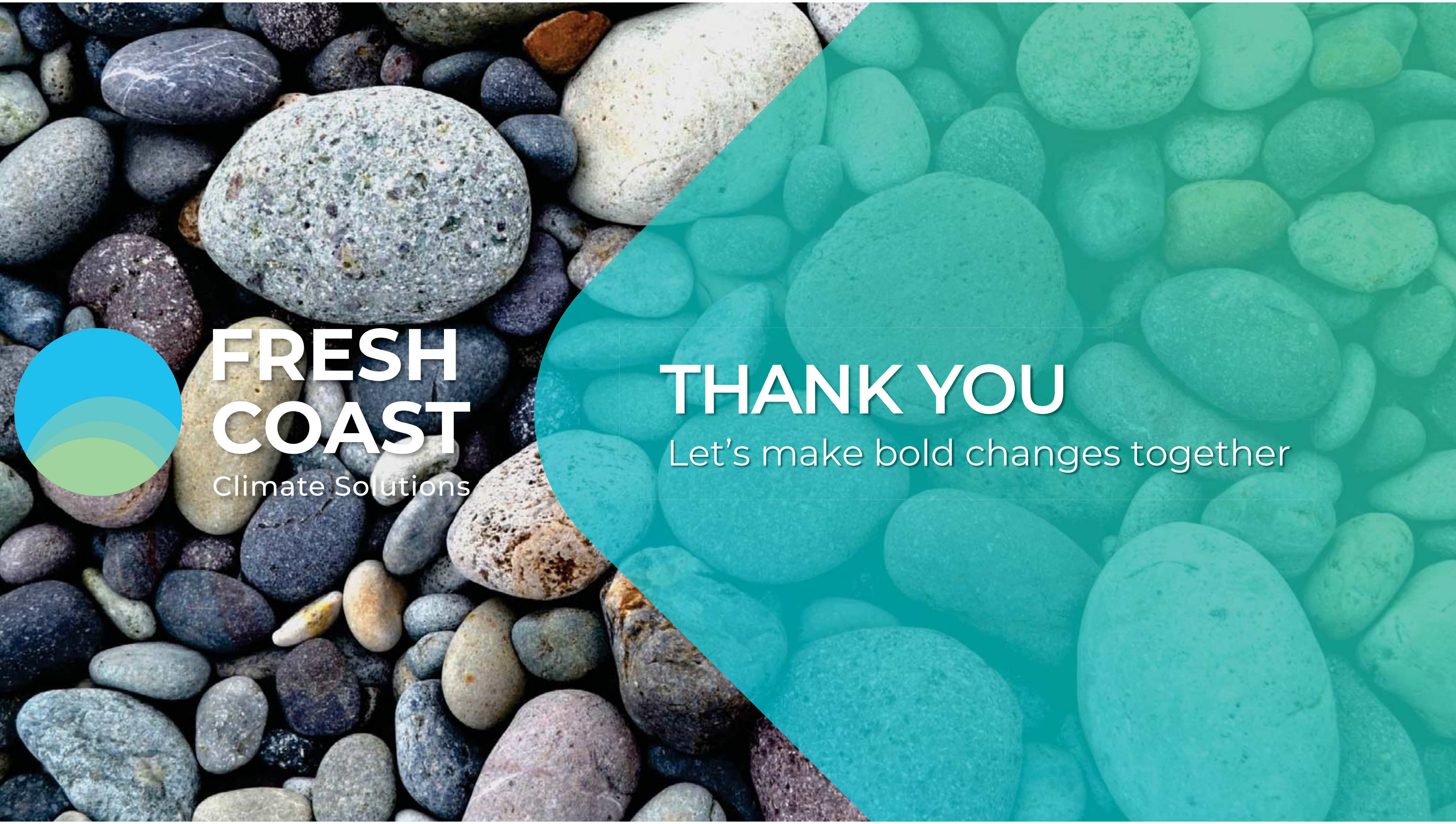
- Will ESG become business as usual in the future?
- Consolidation in the ratings market
- ESG assets will more than double by 2026, increasing to 1/5 of all assets

Performance

- Costs and performance
- Increasingly smaller pool of non-ESG investment options

Regulation

- Global regulatory drivers
- Where are the boundaries of fiduciary duty and free market interference?


FRESH
COAST
Climate Solutions
THANK YOU
Let’s make bold changes together

CLIMATE CHANGE

ENVIRONMENTAL FOCUS AREA

Issues	Descriptors	Example strategies
Carbon emissions	Measurement of greenhouse gas (GHG) emissions (carbon dioxide equivalents - CO_2e) from all business operations. Full evaluation includes Scope 1 (direct), Scope 2 (purchased energy), and Scope 3 (all other indirect emissions upstream and downstream related to your business).	GHG reduction Energy use efficiency
Product carbon footprint	Measurement of GHGs (CO_2e) associated with a product. Full evaluation is based on the product's "life cycle" - from raw materials to end-of-life/reuse/recycling of product.	LCIA 100% renewable energy in supply chain
Financing environmental impact	Assessment of environmental impacts and risks related to your business's financing through banks and/or other financial institutions, including their lending, underwriting activities, and opportunities for sustainable investment.	Net-Zero by 2050
Climate change vulnerability	Assessment of climate change exposure (risks and disruptions), sensitivity, and adaptability related to your business's operations and products.	Employ low-carbon product design Supply chain risk modeling

NATURAL RESOURCES

ENVIRONMENTAL FOCUS AREA

Issues	Descriptors	Example strategies
Water stress	Evaluation of water use from business operations, compared to water availability and needs in all your business locations.	Identify regional water risk Implement water stewardship programs
Biodiversity & land-use	Evaluation of your business's impacts and management practices related to biodiversity and use of land.	Set Sciencebased Targets for corporate Nature Positive goal Achieve 100% sourcing of sustainable agricultural crops
Raw material sourcing	Assessment of environmental impacts related to sourcing of raw materials used in your products.	Implement a restricted substances list Source materials from sustainable suppliers

POLLUTION & WASTE

ENVIRONMENTAL FOCUS AREA

Issues	Descriptors	Example strategies
Toxic emissions & waste	Measurement of toxic or carcinogenic emissions and wastes in airborne, solid, or other forms related to your business operations, and evaluation of environmental management systems.	Reduce hazardous chemical use Comprehensive chemical use in supply chains
Packaging material & waste	Evaluation of use and environmental impact of packaging materials and related waste management (e.g., collection, recycling, reuse).	Zero waste in supply chains Supply chain waste reduction and recycling
Electronic waste	Evaluation of production and environmental impacts of electronic waste-related waste management (e.g., collection, recycling, reuse).	Closed loop waste systems Conduct waste audits

ENVIRONMENTAL OPPORTUNITIES

ENVIRONMENTAL FOCUS AREA

Issues	Descriptors	Example strategies
Clean tech	Assessment of opportunities to use technologies and processes to lessen the environmental impact of a business's operations (e.g., electrification of equipment and vehicles, alternative manufacturing equipment or inputs to reduce GHG emissions and reduce wastes)	Carbon sequestration strategies Carbon sequestration through natural system
Green buildings	Analysis of opportunities to reduce the impact of buildings on the environment through more efficient use of energy and water during operations and materials during construction/renovation.	Use certified sustainable/ethical materials Create a circular ecosystem
Renewable energy & manage.	Evaluation of opportunities to reduce GHG emissions and dependence on fossil fuel energy via on-site production or purchases of renewable energy (e.g., solar, wind, geothermal, renewable natural gas, etc.). Smart energy management with on-site storage (i.e., batteries) can also lower GHG emissions.	100% renewable energy integration by 2030 Set Science-based Targets for Net-Zero goal

CORPORATE GOVERNANCE

Governance FOCUS AREA

Issues	Descriptors	Example strategies
Board diversity	Evaluation of the board's diversity, including any/all of the following: % of women, minorities, historically disadvantaged people on the board, and other categories of diversity as determined by the company, employees, and communities in which you operate.	Begin the discussion on diversity in the workplace Set respectful goals towards appropriate inclusivity
Executive pay	Evaluation of CEO and other executives' compensation and design, relative to industry peers and to employees within the company.	Pay transparency Open lines of communication and query
Ownership & control	Evaluation of the company's ownership structure, control, decision making and accountability by investors, leadership, employees, and any other relevant company stakeholders.	Employee Ownerships Trusts Equitable paths of communication
Accounting	Evaluation based on use of an independent, third-party audit firm, results from audit and other accounting reports, and potential risks.	Transparency in reporting Third party accounting

CORPORATE BEHAVIOR

Governance FOCUS AREA

Issues	Descriptors	Example strategies
Business ethics	Evaluation of policies and management of business ethics issues (e.g., fraud, misconduct, corrupt practices, money laundering, antitrust violations).	
Corruption & instability	Evaluation of the degree to which the businesses' practices take advantage of, influence or otherwise support corruption and social-political instability where the business operates, at local, regional, national, or international levels.	
Tax transparency	Evaluation of the company's tax structure and transparency related to peers, tax regulations, and relevant public and stakeholder awareness and concern.	