

An abstract, low-angle photograph of a modern building's interior, featuring a complex network of green-tinted structural beams and glass panels that create a sense of depth and architectural complexity.

Growing demand for ESG disclosures

ERM PESA ESG Seminar

Presented by: Brad Nemeth

October 31, 2019

© Copyright 2019 by ERM Worldwide Group Limited and/or its affiliates ('ERM'). All Rights Reserved.
No part of this work may be reproduced or transmitted in any form or by any means, without prior written permission of ERM.

The business of sustainability



A Glimpse of the Current ESG Ecosystem

Based on sustainability reporting standards and frameworks, there are 100+ organizations producing lists, rankings, ratings and scorecards of the “top companies” and “most sustainable” companies.

Some organizations simply provide **frameworks** for disclosure and do not evaluate companies.



Some **actively** request information, aggregate data, and add ratings.



Some **passively** pull information from sustainability reports, aggregate data, and add ratings.



Some **purchase** data and ratings from other raters and add rankings.



Investor Confusion Among ESG Raters & Rankers

THE WALL STREET JOURNAL. [Subscribe Now](#) | [Sign In](#)
50% OFF

U.S. Edition | September 18, 2018 | Today's Paper | Video

[Home](#) [World](#) [U.S.](#) [Politics](#) [Economy](#) [Business](#) [Tech](#) **[Markets](#)** [Opinion](#) [Life & Arts](#) [Real Estate](#) [WSJ. Magazine](#) [Q](#)

[MARKETS](#) No Lehman Repeat, but a Great Opportunity to Lose Money Is ...

[WORLD NEWS](#) Russia Blames Israel for Loss of Plane Shot Down by Syria Air Defenses

[MARKETS](#) A Czar of Overseas Day Trading Is Banned From U.S. Brokerage Industry

[MARKETS | STREETWISE](#)

Is Tesla or Exxon More Sustainable? It Depends Whom You Ask

As investors back more companies based on social factors, questions arise about how to grade them

By James Mackintosh
Sept. 17, 2018 11:58 a.m. ET



Is Elon Musk's electric-car maker Tesla the best, the worst or a merely middling performer on environmental issues? Is Warren Buffett's [Berkshire Hathaway](#) [\\$BKS 0.96%](#) one of the worst-governed big U.S. companies? Is [General Motors](#) [\\$GM 0.26%](#) one of the most socially aware businesses, or one of the least?

Investors picking a scoring system for ESG – environmental, social and governance – issues facing companies can have any of those outcomes.

The differences are easy enough to understand if you dig into the details. Yet, they show just how difficult it is to take a simple approach to ESG investing, a style that is becoming ever-more popular. In addition to the billions of dollars of exchange-traded funds based on ESG indexes, increasingly fund managers are being pushed to produce portfolios with better ESG ratings, encouraged by public mutual-fund ESG scores.

The problem here isn't the ESG ratings, but that they are used as though they were some sort of objective truth. In reality they are no more than a series of judgments by the scoring companies about what matters – and investors who blindly follow their scores are buying into those opinions, mostly without even knowing what they are.

Do-Gooders Lag in U.S.
Stocks with better MSCI environmental, social and governance scores lagged in the U.S., while they outperformed elsewhere.

Cumulative total return

To illustrate these differences, we can dig into the scores given to five big companies by FTSE Russell, [MSCI](#) [MSCI 0.16%](#) and Sustainalytics, all used for ESG indexes and by institutional investors. The companies are Tesla, Berkshire, oil major [Exxon Mobil](#), [XOM 0.28%](#) and Google-owner Alphabet and carmaker General Motors.

Electric-car maker Tesla is ranked at the top of its industry by one firm that grades environmental, social and governance practices. But another grades out Tesla at the bottom. PHOTO: ANDREW RUGG/GETTY IMAGES

- **The Problem:** ESG rating firms take multiple assessment approaches, emphasizing subjectivity in analyzing and scoring environmental, social and governance issues:

- MSCI ranks Tesla as industry leader;
- FTSE rates the company as a laggard;
- Sustainalytics ranks it in the middle of the pack

- **Bottom Line:** Investors should not treat ESG scores as objective truth, but as analyses that need to be understood before acted on.

Increasing Focus on Responsible Investment

Investors are increasingly incorporating environmental, social and governance factors (ESG) into investment decisions and corporate engagement.

Principles for Responsible Investment

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

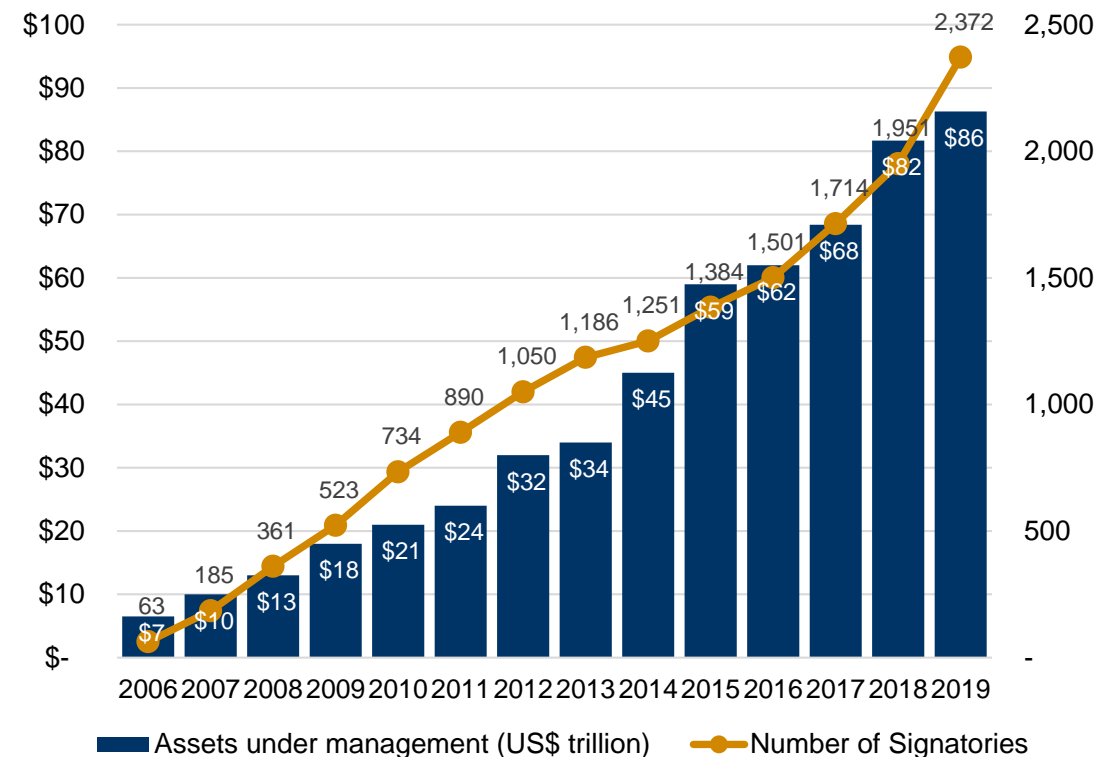
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

PRI Growth Over Time



PRI Signatories

(Sample)



STATE STREET



Pension Fund
of the Christian Church
strong. smart. secure.



Illinois State
Board of
Investment



Vanguard



BLACKROCK



ALLIANCEBERNSTEIN



BNY MELLON

L/CERA



Morgan Stanley



LEGG MASON
GLOBAL ASSET MANAGEMENT

Bloomberg & ESG Disclosure

The number of users of ESG data on Bloomberg has **increased over 300%** in the last seven years. The platform contains over 900 data points for nearly 11,500 companies in 83 countries.

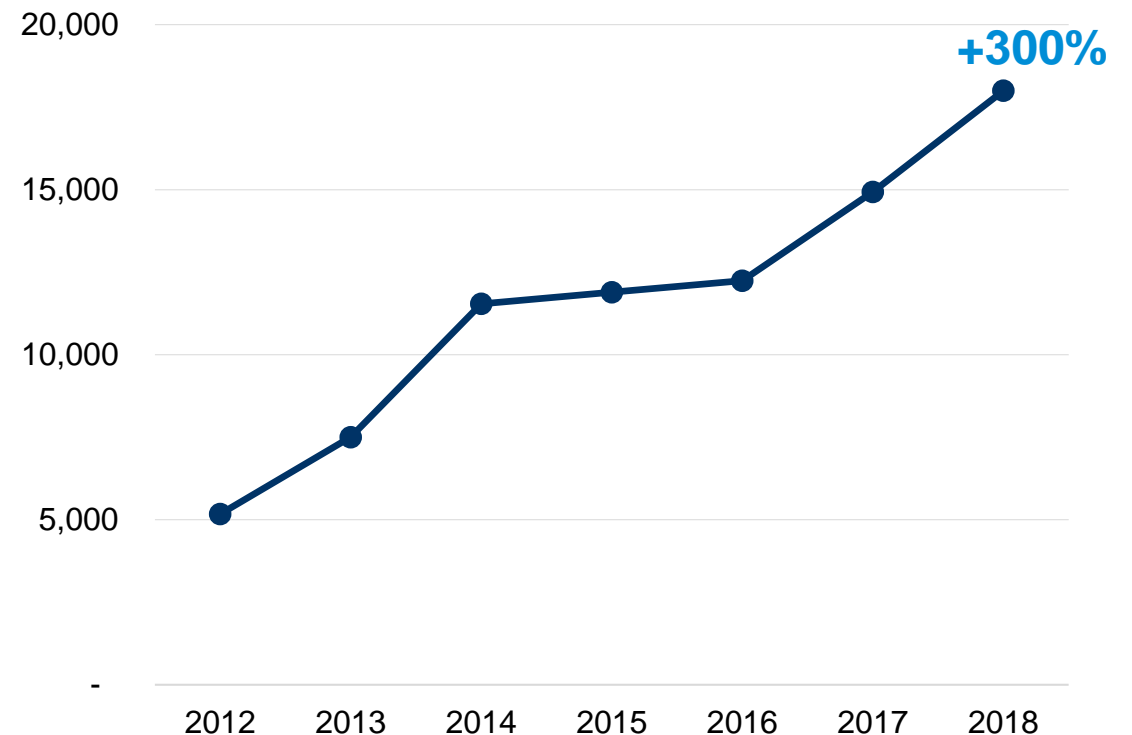
Bloomberg ESG Data

- Bloomberg collects, scrubs, verifies and continually updates ESG data from publicly available company disclosures, and makes the data available to all Bloomberg Terminal subscribers.
- There are currently over 900 ESG data points in Bloomberg.
- Additionally, the Bloomberg Terminal includes scores from common third-party ESG research firms, such as Sustainalytics, CDP, ISS and RobecoSAM.

Source: Bloomberg.com. June 2019.

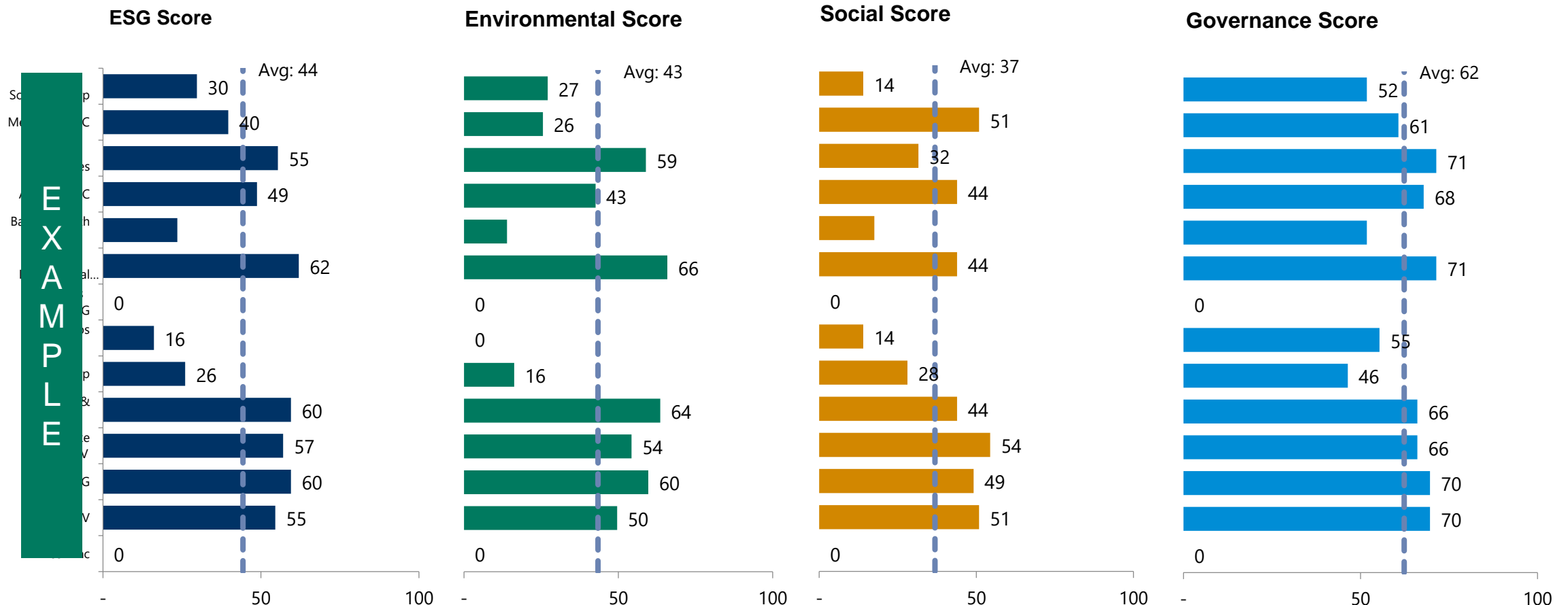
Retrieved from <https://www.bloomberg.com/impact/products/esg-data/>

Nearly 18,000 Customers Use ESG Data



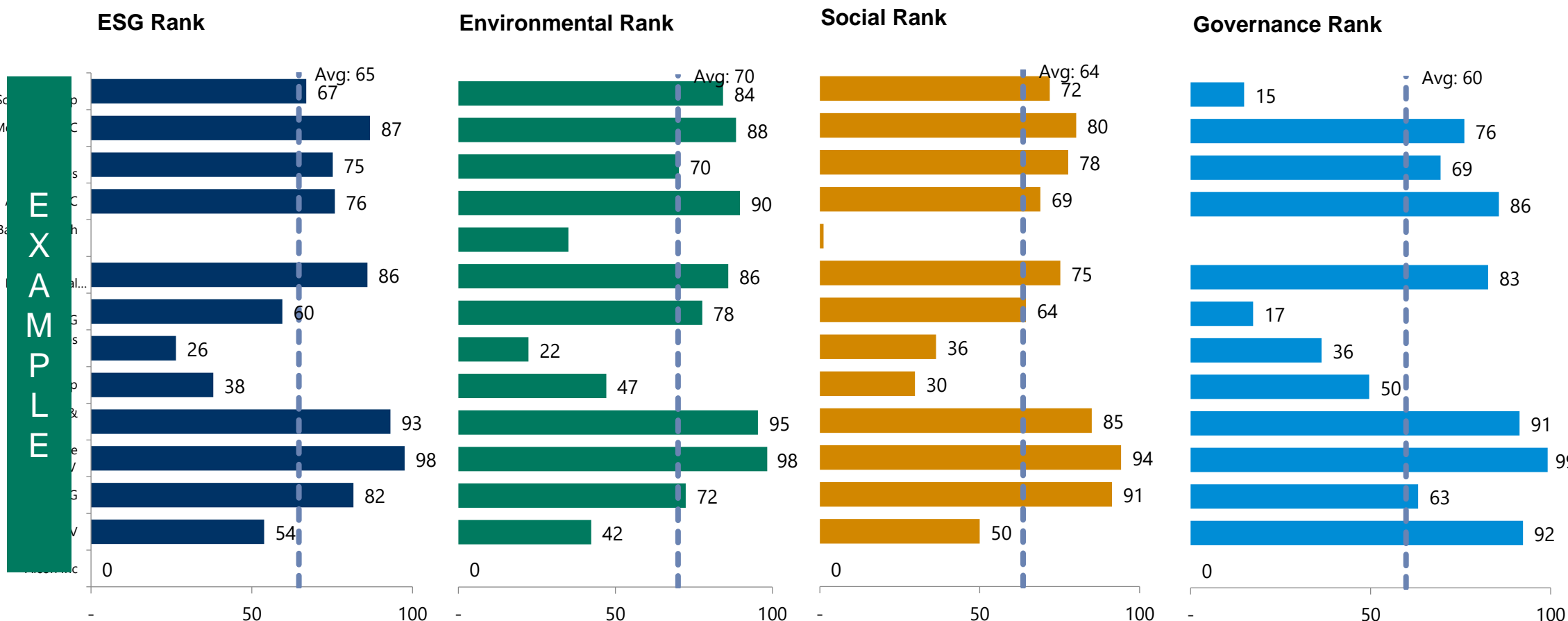
Bloomberg Disclosure Scores

We typically benchmark Bloomberg ESG Disclosure scores for our clients against its peer set. *Bloomberg ESG Disclosure* scores above 40 demonstrate good transparency; scores between 50–70 demonstrate excellent transparency.



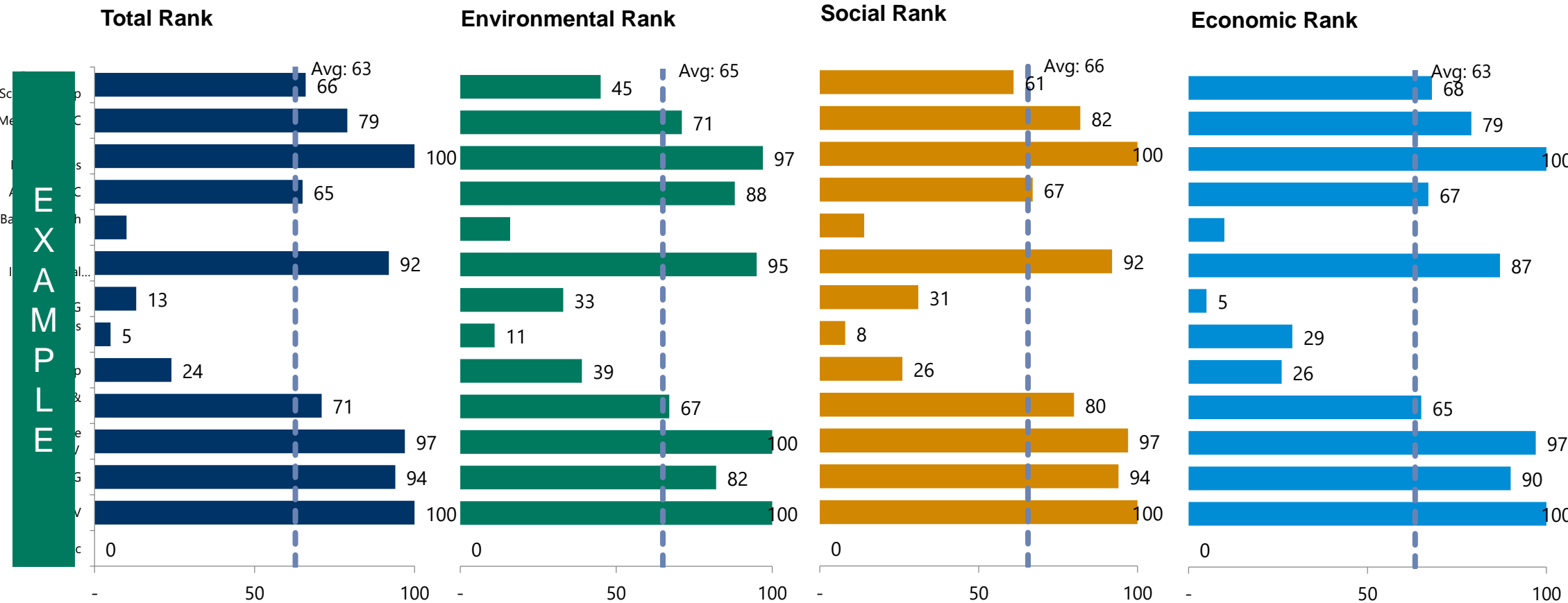
Sustainalytics Scores

Sustainalytics ESG Rank encompasses a company’s level of preparedness, disclosure and controversy involvement across all three ESG themes—environmental, social, and corporate governance—and shows performance percentile relative to industry peers.



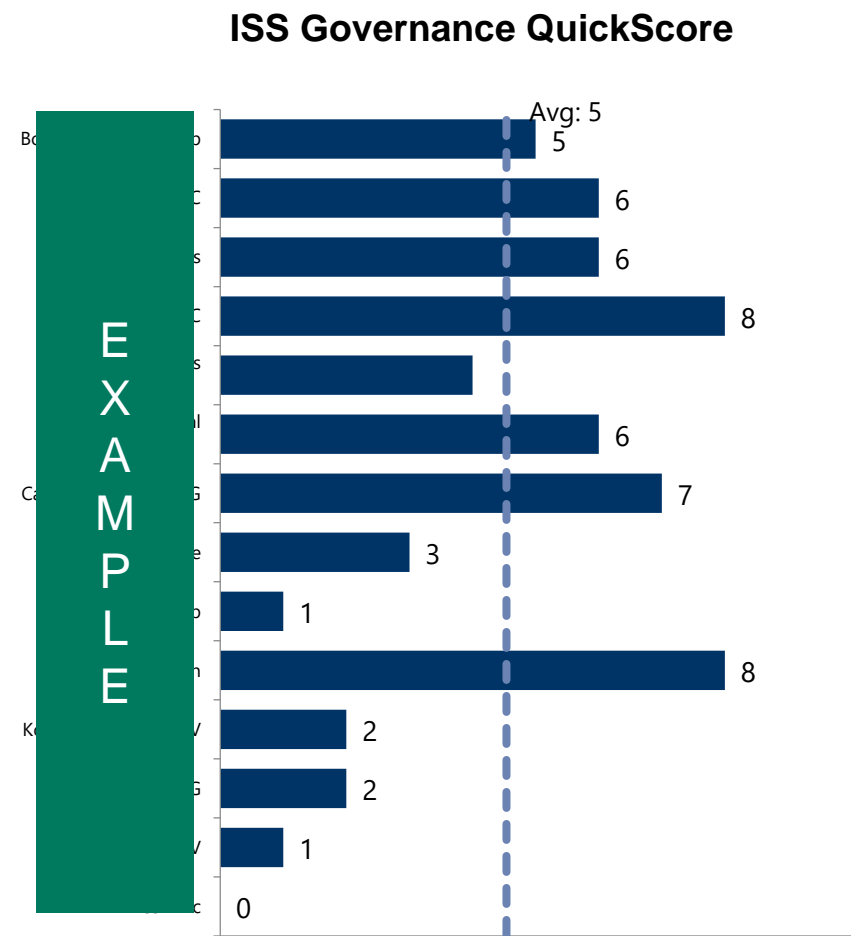
RobecoSAM (DJSI) Scores

RobecoSAM Sustainability Rank shows companies' relative performance on the Corporate Sustainability Assessment (Dow Jones Sustainability Index questionnaire).



ISS Governance QuickScore

ISS Governance QuickScore is an overall score assigned by Institutional Shareholder Services (ISS) to a company's governance practices. The score ranges from 1 (best) to 10 (worst).



Key Take away

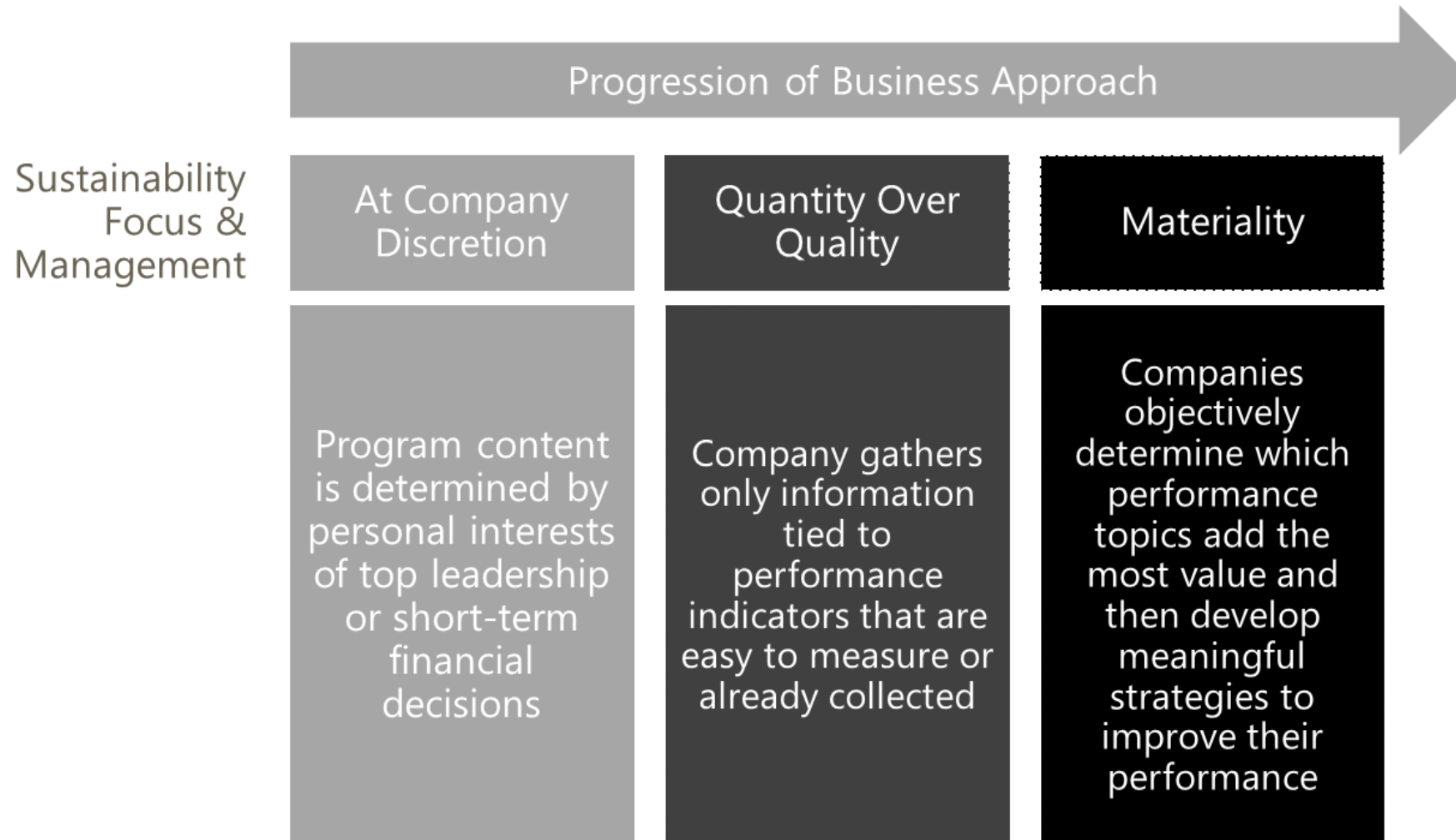
Publicly traded companies are evaluated, whether or not they engage with ESG research and rating firms.

- Disclose requested information publicly for firms to find:
 - SEC filing (10-K, proxy statement, etc.)
 - Investor Relations or Sustainability/Corporate Responsibility section of corporate website
 - Corporate sustainability report
 - GRI content index, ESG investor data download, etc.

Ways Companies Engage

Approach	Company Action	Level of Effort
Own your narrative	<ul style="list-style-type: none">• Materiality assessment• Reporting and transparency• Proactive engagement	High
Verify data (Sustainalytics, MSCI, Vigeo Eiris, etc.)	<ul style="list-style-type: none">• Correct data• Provide links to public information• Share company's response to "controversies"	Medium
Respond to surveys (CDP, RobecoSAM, etc.)	<ul style="list-style-type: none">• Answer extensive list of survey questions• Provide supporting documentation/ evidence – often in public domain	High

Evolution of Corporate Sustainability: Strengthening Focus & Performance



Materiality in Leading Corporate Sustainability Frameworks



Please describe how your risk and opportunity identification processes are applied. How do you **prioritize the risks and opportunities** identified?



Disclosure of **material sustainability issues** is important to investors, companies, regulators and the public.



Is your company publicly reporting the processes and tools used to identify and **prioritize critical issues** within the sustainability strategy, including a consideration of impact on the company's business performance (i.e., materiality analysis/matrix)?



The information in a report should cover [topics] that reflect the organization's **significant economic, environmental and social impacts** or substantively influence the assessments and decisions of stakeholders.

Traditional Universe of Sustainability Topics

Environmental

- Materials
- Energy
- Water
- Biodiversity
- Emissions
- Effluents and Waste
- Products and Services
- Environmental Compliance
- Transport
- Supplier Environmental Assessment
- Environmental Grievance Mechanisms

Human Rights

- Non-discrimination
- Freedom of Association & Collective Bargaining
- Child Labor
- Forced /Compulsory Labor
- Security Practices
- Indigenous Rights
- Supplier Human Rights Assessment
- Human Rights Grievance Mechanisms

Labor Practices & Decent Work

- Training and Education
- Employment
- Labor/Management Relations
- Occupational Health & Safety
- Diversity & Equal Opportunity
- Equal Remuneration for Men and Women
- Supplier Assessment for Labor Practices
- Labor Practices Grievance Mechanisms

Economic

- Economic Performance
- Philanthropy
- Market Presence
- Indirect Economic Impacts
- Economic Inclusion
- Procurement Practices

Society

- Anti-Corruption
- Public Policy
- Anti-competitive Behavior
- Local Communities
- Supplier Assessment for Impacts on Society
- Grievance Mechanisms for Impacts on Society

Product Responsibility

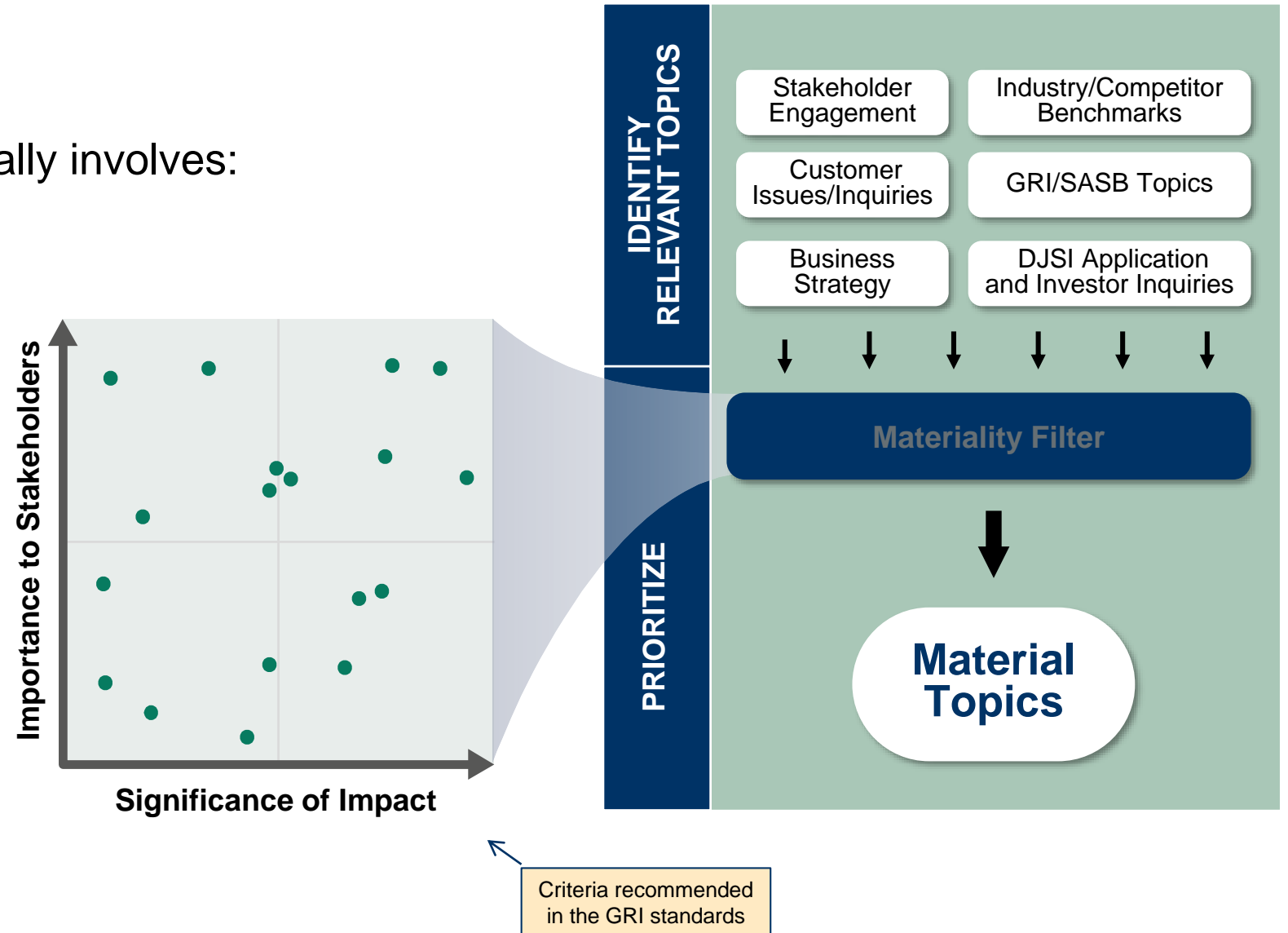
- Customer Health & Safety
- Product & Service Labeling
- Marketing Communications
- Customer Privacy
- Product Compliance

Materiality Assessment Concept Overview

The assessment process typically involves:

- identifying a broad list of relevant topics and then
- screening them against a set of criteria to determine which are most important.

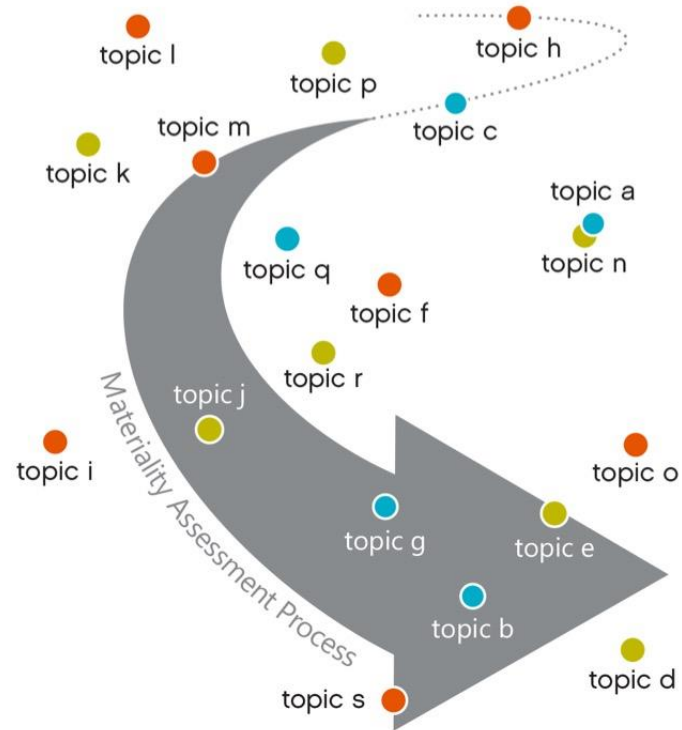
It is informed by benchmarking, stakeholder engagement and an understanding of the investor ESG landscape



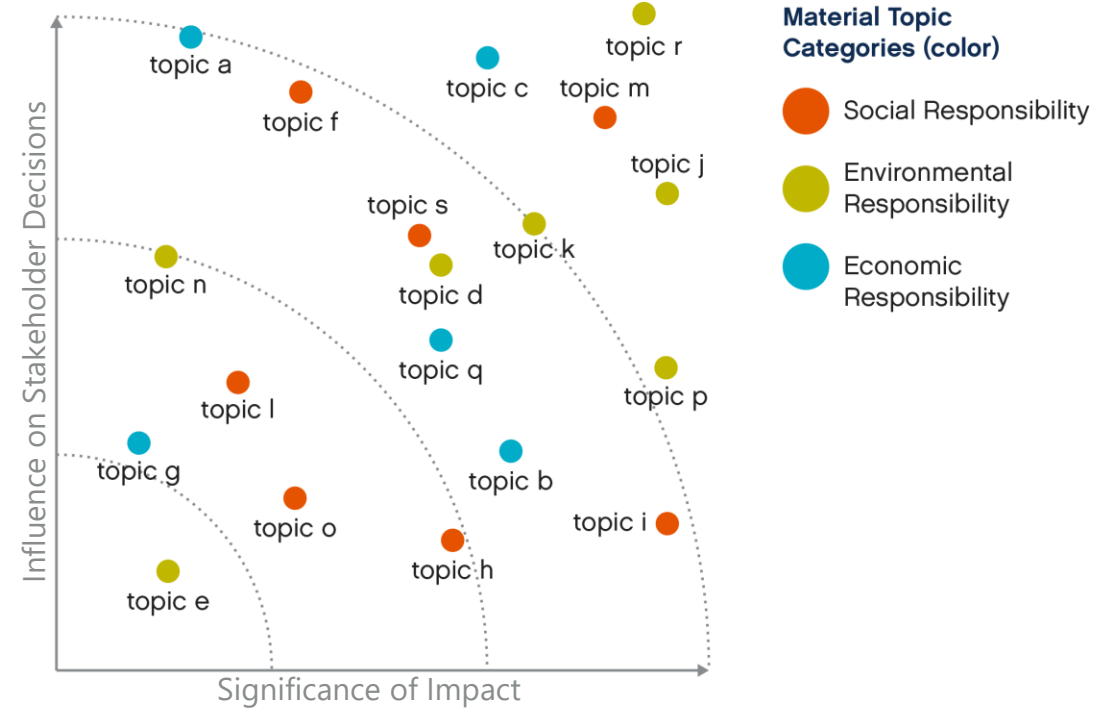
ESG Materiality

Laying a Foundation for Corporate Sustainability

Current & Potential Focus Areas



Prioritized Focus Areas

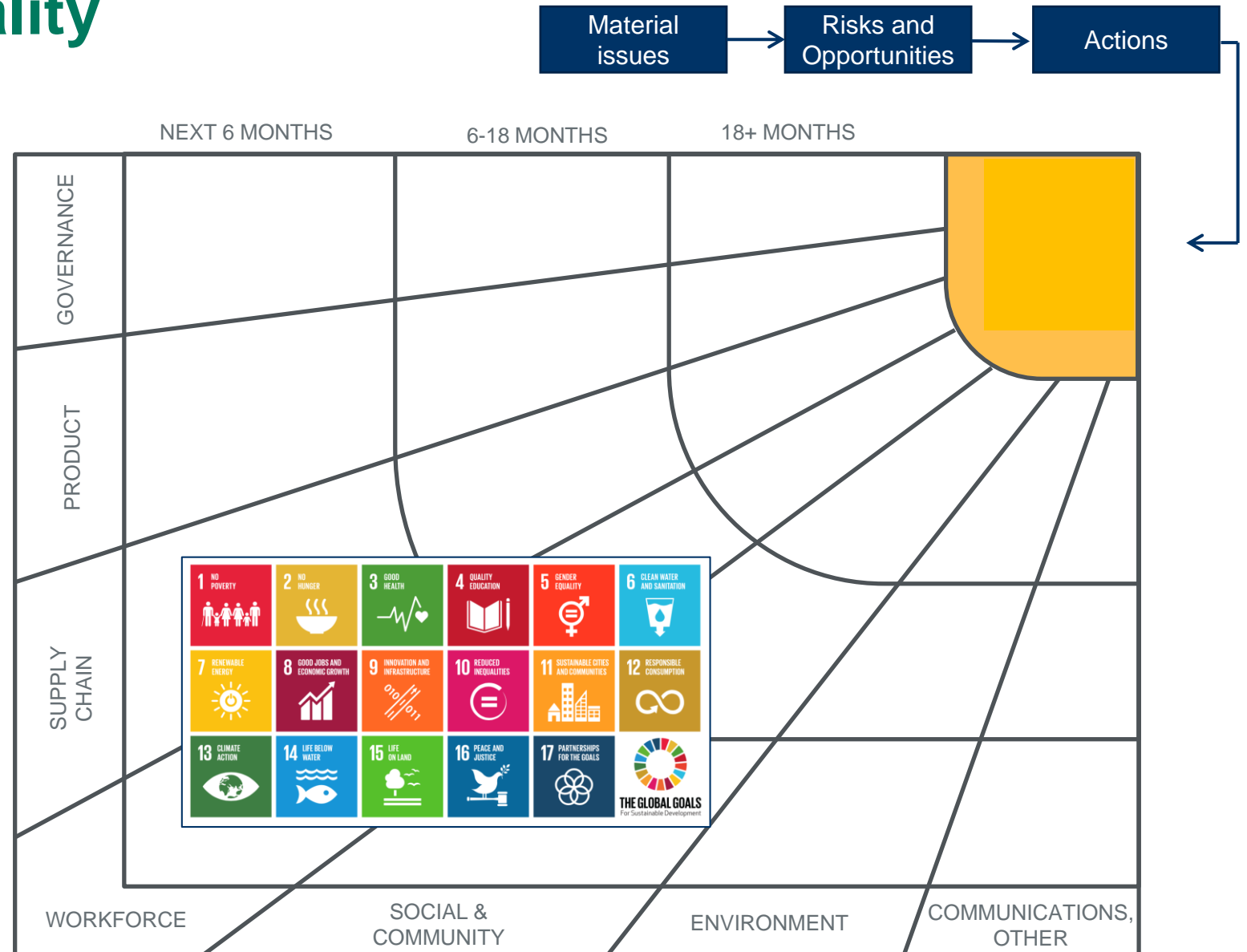


Going from Materiality to Strategy

Once the material issues are identified:

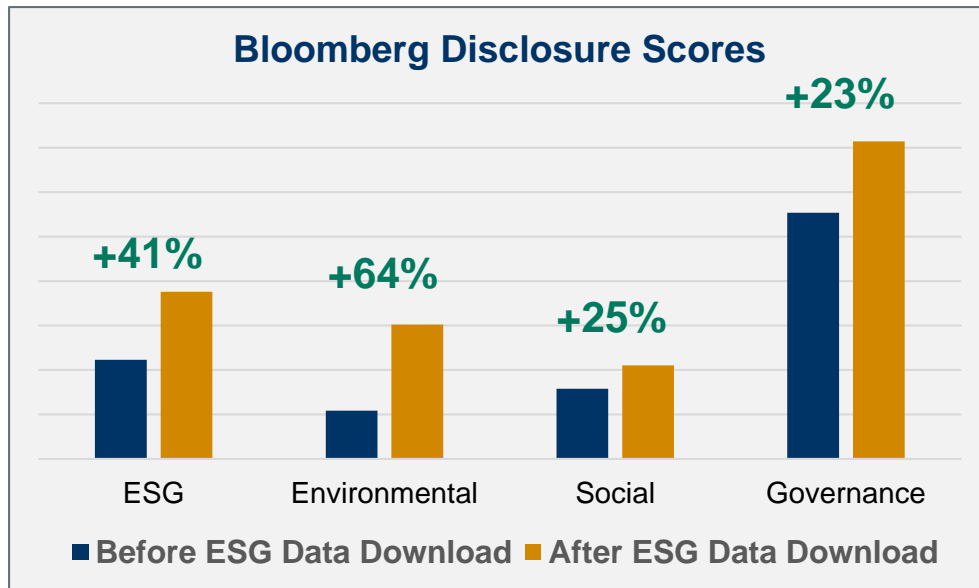
- Management effectiveness should be assessed;
- Risks and opportunities identified (with consideration of the UN Sustainable Development Goals); and
- A strategy map and action plan developed.

A strategy map can then be built out, with the engagement of key subject matter experts and functional leaders.



Case Study: Impact of ESG Data Download

ESG data disclosures organized in an easily accessible way for ratings and rankings analysts and investors may lead to ESG performance and disclosure score improvements.



Environmental Indicators

[2017 Assurance Statement related to GHG emissions, energy consumption, water consumption, and waste generation.](#)

Greenhouse Gas Emissions (tonnes CO₂e)

Direct GHG emissions (Scope 1)	77,206
Energy indirect GHG emissions – Location Based (Scope 2)	50,623
Energy indirect GHG Emissions – Market-based (Scope 2)	50,623
<i>Goal: By 2021, reduce greenhouse gas emissions by 25% of our 2011 levels.</i>	98% achieved

Energy Consumption (MWh)

Energy Consumption – Electricity	201,207
Energy Consumption – Natural Gas, Fuel Oil, and Propane	427,611
Energy Consumption – Total	628,818
Renewable Energy* Consumption	4,813
Renewable Energy* (% Total Energy Consumption)	0.76%
<i>Goal: By 2021, reduce energy consumption by 15% of our 2011 levels.</i>	89% achieved
<i>*This only represents on-site generation and does not include consumption of 3rd party-generated renewable energy</i>	

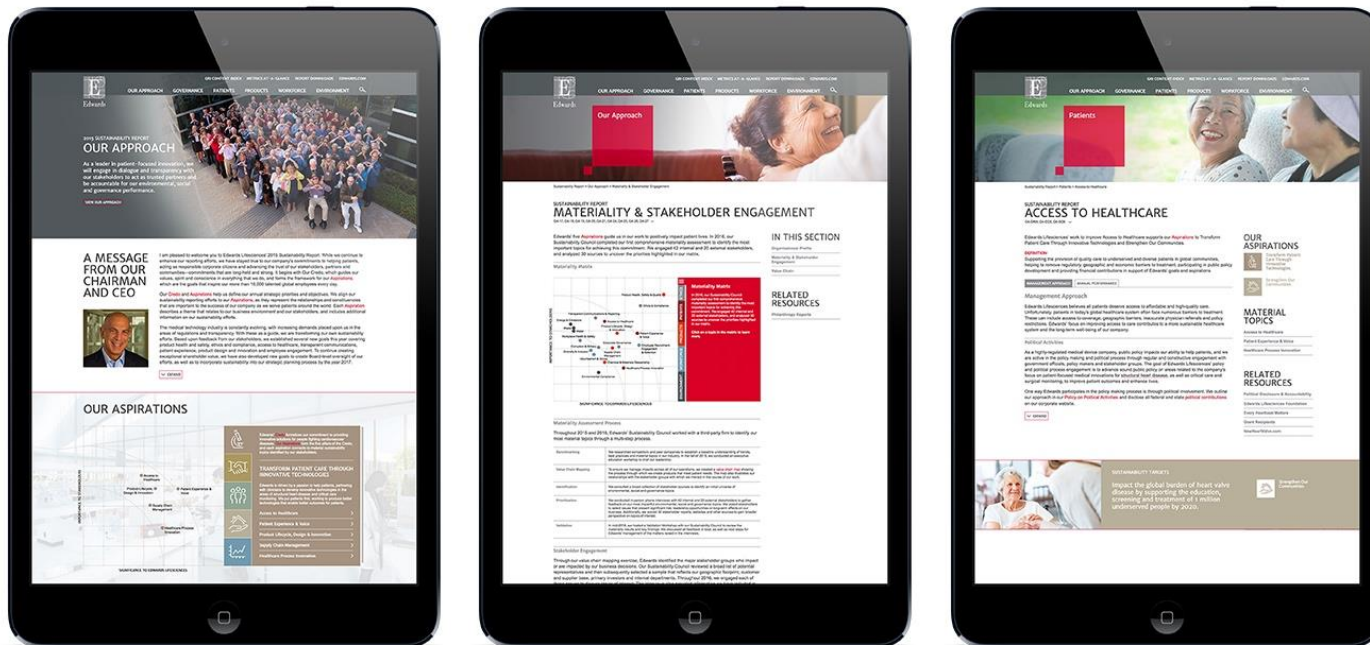
Water Consumption (m³)

Water Consumption	12,624,836
<i>Goal: By 2021, reduce water consumption by 10% of our 2011 levels.</i>	52% achieved

Waste (metric tonnes)

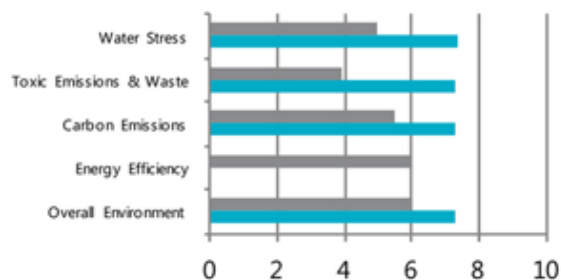
Waste Disposal – Landfill	38,966
Waste Diverted – Recycling	7,409

Edwards Lifesciences



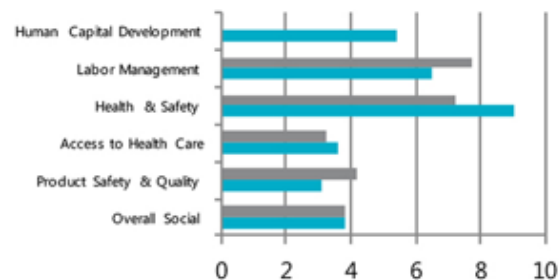
MSCI Scores

Environment



■ 2015 SCORE ■ 2016 SCORE

Social



Edwards Lifesciences Our Sustainability Metrics At a Glance

Topic	Metric	2018	2017	2016	2015
Social					
Products	Number of regulatory approvals for new devices	3	3	3	2
	Number of global patient safety-related class 1 product removals	1	1	0	0
	List of products in the FDA's MedWatch Safety Alerts for Human Medical Products (Medical Devices) database	–	Certitude Delivery System	–	–
Ethics, Corruption & Bribery	Applicable employees certified to ethics code of conduct (%)	99	96	97	98
	Code of ethics governing promotion of off-label use: See page 20 of our Titanium Book				
	Code of ethics governing interactions with health care professionals: See pages 21-23 of our Titanium Book				
Access to Healthcare	See Corporate Responsibility site and Sustainability Report				
	Number of underserved patients impacted through our philanthropic partners who provide education, screening and treatment	1,000,000+	900,000	400,000	200,000
	Community Spending (Foundation, Corporate Grants and Product Donations)	\$8.7 M	\$7.0 M	\$6.6 M	\$8.2 M
	Every Heartbeat Matters grants awarded	\$4.5 M	\$4.5 M	\$4.4 M	\$3.9 M

<http://ir.edwards.com/investor-relations>

ESG Opportunities

- Stay on top of the evolving ESG landscape
- Take control of the ESG narrative
- Strengthen sustainability efforts by identifying management and data gaps
- Understand key stakeholder expectations and improve relationships (i.e., investors, suppliers, customers)
- Seize potential opportunities to “stand out” among peers/competitors



Thank you

Brad Nemeth
Consultant Director
Brad.nemeth@erm.com
+1 214-395-3687
Dallas Texas