

ENVIRONMENTAL

SOCIAL &

GOVERNANCE

ESG

Environmental



Social



Governance

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ESG

- ▶ “Every company must not only deliver financial performance, but also show how it makes a **positive contribution to society**”

ESG

- ▶ Where shall I invest my money?
- ▶ ESG criteria are a set of standards for a company's operations that **socially conscious investors use** to screen potential investments.

Other Names for SRI

Sustainable
Responsible
Investing



ESG measures how companies make money...

...rather than just how much money they make \$

Inputs

Outcomes



(A)

Long term drivers

(B)

Market's focus

ESG

- ▶ **1. Environmental criteria** considers how a company performs as a steward of nature.
- ▶ **2. Social criteria** examine how it manages relationships with employees, suppliers, customers, and the communities (stakeholders) where it operates.
- ▶ **3. Governance criteria** deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights and Ethical Governance.

Common ESG Issues

Environmental:

- Climate, energy efficiency, pollution and water

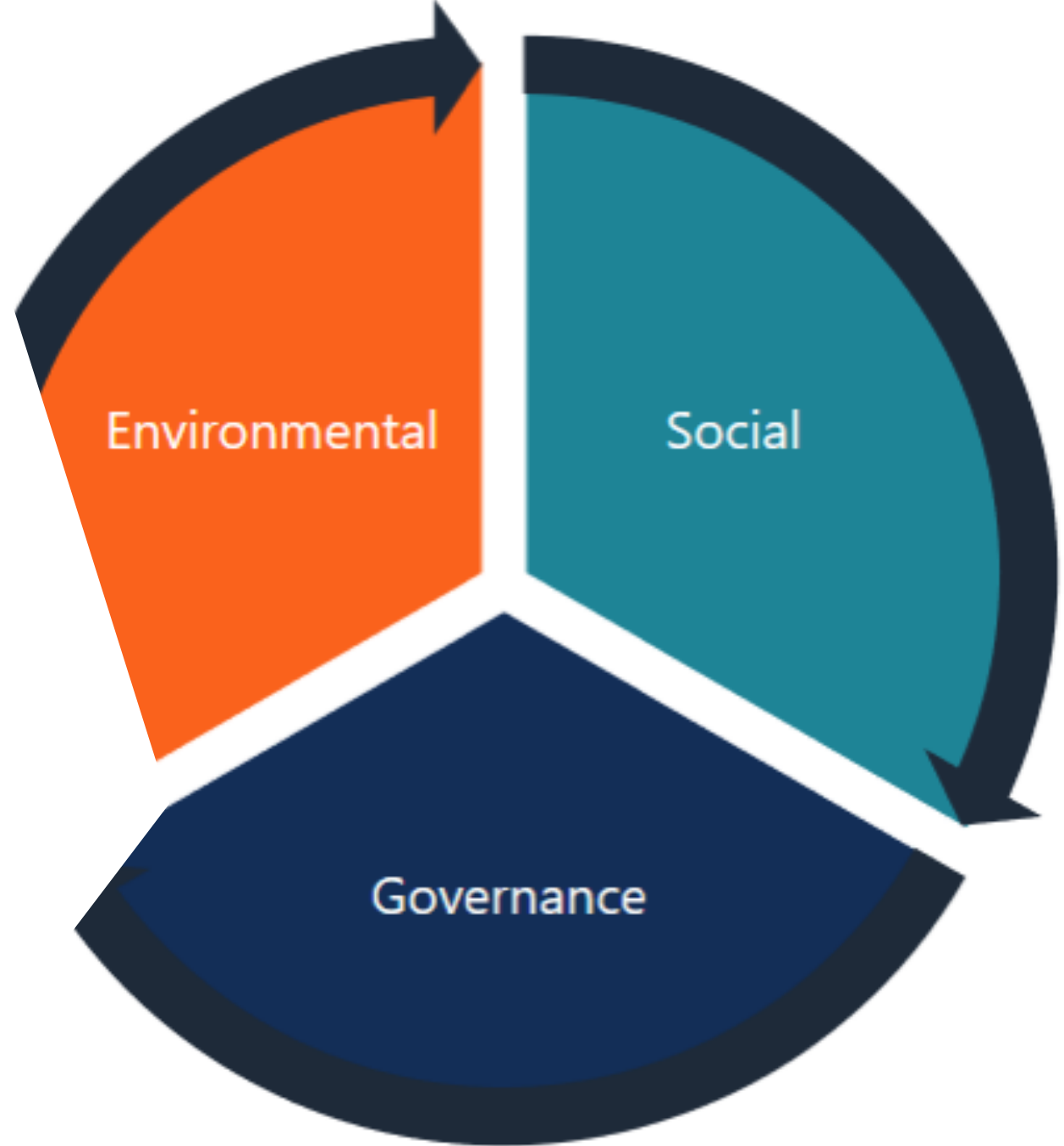
Social:

- Workplace safety, labor relations, workplace benefits, diversity, community relations and human rights

Corporate governance:

- Political contributions, executive compensation, board diversity, transparency and board independence and Business Ethics

ESG



ESG (WEN TAP)

- ▶ **E**nvironmental criteria may include a company's
- ▶ **W**aste,
- ▶ **E**nergy use,
- ▶ **N**atural resource conservation,
- ▶ **T**reatment of **A**nimals,
- ▶ **P**ollution,

ESG **Environmental** criteria

- ▶ The **Environmental criteria** can also be used in evaluating any **environmental risks** a company might face and how the company is managing those risks.
- ▶ For example, are there issues related to:
 - ▶ its ownership of **contaminated land**,
 - ▶ its disposal of **hazardous waste**,
 - ▶ its management of **toxic emissions**, or
 - ▶ its **compliance with government environmental regulations**?

ESG **Social** criteria

- ▶ **Social criteria** look at the company's business relationships.
- ▶ Does it work with **suppliers** that hold the same values as it claims to hold?
- ▶ Does the company **donate** a percentage of its profits to the local community or encourage employees to perform volunteer work there? (Turkey max 5% of profit is tax allowable)
- ▶ Do the company's **working conditions** show a *high regard for its employees' health and safety*?
- ▶ Are other **stakeholders' interests** taken into account?

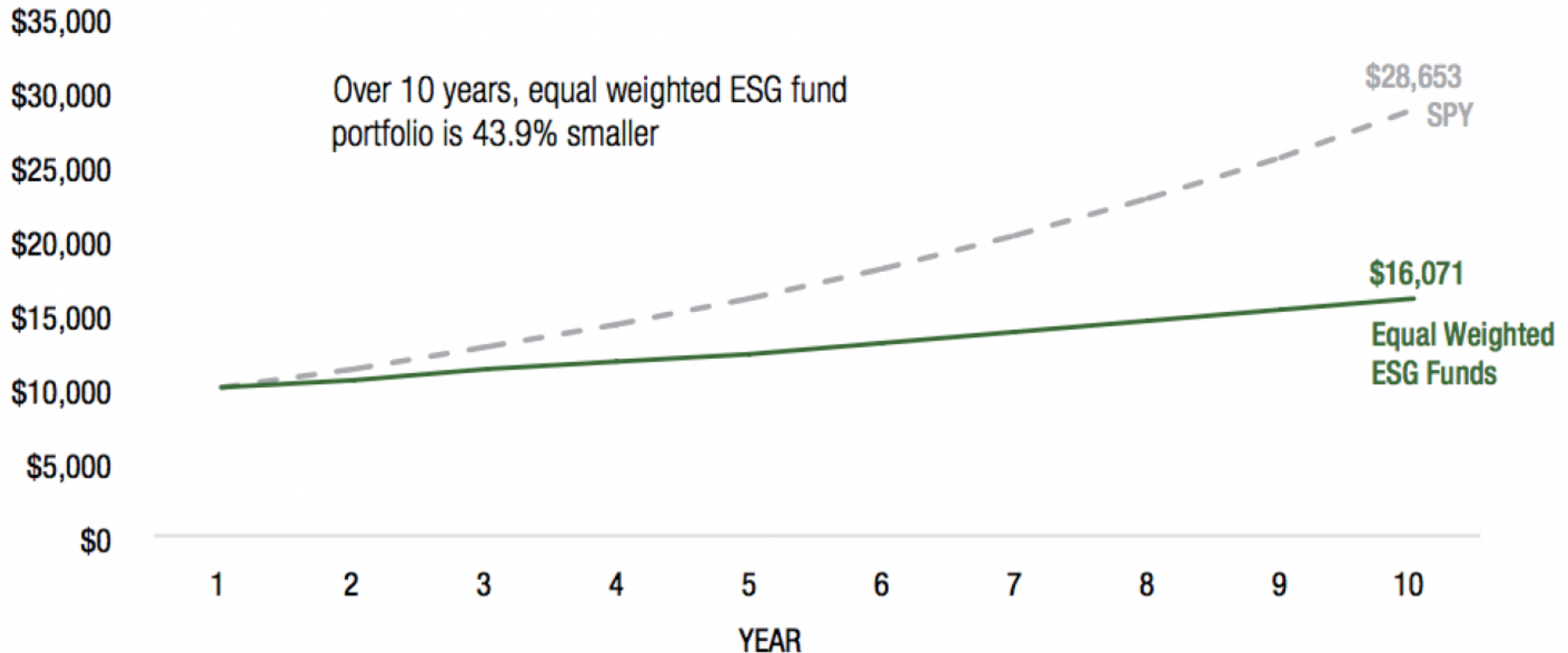
ESG Governance criteria

- ▶ **Governance criteria**, investors may want to know that a company uses **accurate and transparent accounting methods**, and
- ▶ that **stockholders** are given an opportunity to **vote on important issues**.
- ▶ They may also want assurances that companies avoid conflicts of interest in their choice of **board members**,
- ▶ don't use **political contributions** to obtain unduly favorable treatment and, of course,
- ▶ don't engage in **illegal practices**.
- ▶ Has an «**Ethics Code of Conduct**» and acts ethically

ESG Criteria to Invest

- ▶ (ESG) criteria are an increasingly popular way for investors to **evaluate companies** in which they might want to invest.
- ▶ Many mutual funds, brokerage firms, and advisors now **offer products that employ ESG criteria.**
- ▶ ESG criteria can also help investors **avoid companies** that might have a **greater financial risk** due to their environmental, social or governance practices.

Historical Performance: SPY Compared to Equal Weighted ESG Fund Portfolio Management Expenses



Environmental, Social, and Governance Investing (ESG) objectives threatens investor returns. ESG 43.9 percent smaller after 10-years compared to a \$10,000 investment into an S&P 500 index fund.

Assets Under Professional Management

- ▶ The amount of professional money managed using all three ESG criteria **rose sharply**, according to a group that measures this type of investment,

- ▶ and now **represents 33%** of the

\$51.4 trillion in total U.S. assets under professional management.

Total ESG Assets

- ▶ US SIF Foundation's 2020 biennial ["Report on US Sustainable and Impact Investing Trends,"](#)
- ▶ shows that **ESG sustainable investing assets total now**
- ▶ **\$17.1 trillion**, in U.S
- ▶ **42%** increase over 2018.

ESG matters to investors

Global Investor Study highlights importance of sustainability

22,000 investors, in **30** countries with at least **€10,000** in investable assets

The standout results were...

78% of investors felt sustainable investing was **more important** than **5 years ago**



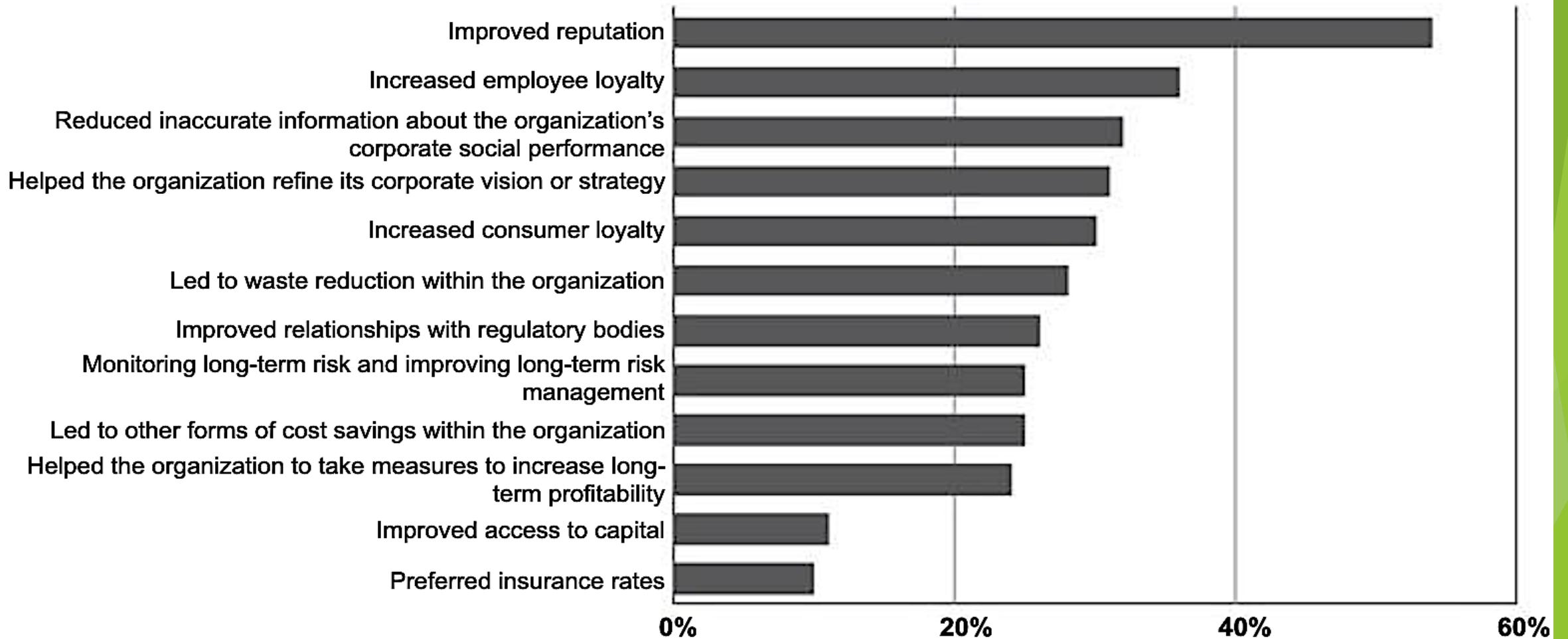
64% have **increased** their sustainable **investments** over the past **5 years**



75% of millennials have **increased their sustainable** investments over the past **5 years**



Ways that sustainability reporting provided major value



Source: Boston College Center for Corporate Citizenship and Ernst & Young 2013 survey

PRI Principles for Responsible Investing

SSE

Sustainable

Stock

Exchange

The PRI were adopted by the New York Stock Exchange as the Sustainable Stock Exchanges Initiative (SSE) and exist to promote responsible investing and to guide businesses toward better environmental, social and governance responsibility:

- 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.

New York
Stock
Exchange

ESG

- ▶ **BP's 2010 oil spill and**
- ▶ **Volkswagen's emissions scandal,**
- ▶ **both of which rocked the companies' stock prices and resulted in billions of dollars in associated losses.**
- ▶ **Financial services companies such as JPMorgan Chase, Wells Fargo, and Goldman Sachs have extensively reviewed their published annual reports ESG approaches and the bottom-line results.**

ESG Related Concepts

▶ Carbon Disclosure Rating

▶ A carbon disclosure rating is a numerical score that shows the level of reporting of a company's **climate-change initiatives**.

▶ Green Fund

▶ Green funds invest only in **sustainable** or **socially conscious** companies while avoiding those deemed detrimental to society or the environment.

▶ Green Marketing

▶ Green marketing consists of **marketing products** and services based on **environmental factors** or awareness.

ESG

▶ Green Tech

▶ Green tech is technology that is considered **environmentally friendly** based on its production process or supply chain.

▶ FTSE4Good Index Series

▶ FTSE4 Good Index Series is a set of indexes that measure the performance of companies that meet **globally-recognized corporate responsibility standards**.

Environmental



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