# ESG Investing And Why It Matters

Global Law and Business Seminar

COLUMBIA LAW SCHOOL

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# FOUR TOPICS:

1. What is ESG
2. Measuring ESG Compliance
3. Key Trends
4. The "E" in ESG

INTERVIEW: Mario Fernandez (Catalyst, Breakthrough Energy)

**TOPIC ONE**

1. WHAT IS ESG?:
    1. Overview
    2. How did modern ESG come to be?
    3. What is at stake?

# What is ESG?

# WHAT IS ESG?: CORPORATE GOVERNANCE AND INVESTMENT FRAMEWORK DRIVEN BY CORPORATE STOCKHOLDERS THAT REQUIRE COMPANIES TO OPERATE IN A MANNER THAT IS PURPOSE-DRIVEN WITHIN A SUSTAINABLE FRAMEWORK

- ESG stands for Environmental, Social and Governance
- Describes a set of factors used to measure the non-financial impacts of investments and companies in their environment and society at large
- ESG investing grew to more than 30 trillion in 2018, boomed in 2020, and could reach 50 trillion over the next two decades
- The Investment Logic for Sustainability (Chris McKnett) – 2014 (Head of Sustainability Strategy, Stewardship and Implementation, Allspring Global Investments)

## WHAT IS ESG?

- What is Sustainability?
  - “meeting the needs of the present without compromising the ability of future generations to meet their needs” (Brundtland Commission Report, Our Common Future, 1987)
  - The United Nation’s Sustainable Development Goals (2015) are recognized as the international standard for sustainable development (Video). These goals are not binding. However, countries are expected to diligently work to establish frameworks to achieve them. The goals aim to combat climate change, poverty and inequality, and gender discrimination among other matters

# WHAT IS ESG?  -- TOP TOPIC FOR BOARD OF DIRECTORS

- "E" measures a company's impact on the environment – it covers energy efficiencies, carbon emissions, deforestation, climate change and waste
  - Board question:  How are we managing our impact on the environment? – how are we handling our waste and emissions, and our use of energy and water?  [WestRock]
  - Board question:  Are we addressing the expectations of our customers on our impact on the environment? – most stakeholders now expect companies to play a role in decarbonizing the global economy  [Science Based Target Network]
- S" measures a company's impact on society.  Covers issues affecting employees, customers, consumers, suppliers, and the local community.  For example:  pay equity, workplace and board diversity, privacy and data protection
  - Board question:  Are we working to create a diverse workforce?
  - Board question:  What are we doing to support the mental health of our employees?
  - Board question:  What role do we play in our community?

# WHAT IS ESG?

- "G" covers the governing (particularly the decision-making process) of the "E" and "S" categories. For example: corporate board composition and structure, strategic sustainability oversight, executive compensation and corruption
  - Board question: Have we identified our material ESG parameters?
  - Board question: How can we integrate our ESG parameters into our vision, goals and metrics in a consistent manner?
  - Board question: How are we communicating our ESG goals to the public? Are we being consistent throughout all our platforms?

# WHAT IS ESG?

- Click [here](here):  (16:12 – 21:27)  - Regarding the S & G factors

# WHAT IS ESG? -- SUMMARY

## ENVIRONMENTAL

- Climate change
- Net zero economy
- Water scarcity
- Waste management
- Pollution mitigation

## SOCIAL

- Diversity and inclusion
- Workplace health and safety
- Labor standards
- Supply chain management
- Product safety
- Community impact

## GOVERNANCE

- Board composition
- Executive compensation
- Political contributions
- Shareholder rights
- Accounting & reporting

# IS ESG GOOD FOR BUSINESS? “WHO CARES WINS” *

- Is a focus on sustainability good for business?:
  - **Profitability**: sustainability drives profitability, however being sustainable is hard (and costly). Several studies – starting with “From the stockholder to the stakeholder” by Oxford University and Arabesque Partners in 2015 - have confirmed that there is a conclusive correlation between good business practices in sustainability and economic profitability
  - **Innovation**: sustainability requires innovative thinking and investment *[Pepsi, Nestle and L’Oreal are funding research for industrial-scale recycling; Coca-Cola backing technology to turn hard to recycle plastic into bottles that meet food standards]*
  - **Resilience**: ESG companies have done comparatively better during the pandemic: companies with strong sustainability practices have more predictable and resilient income streams
  - **Lower Regulatory Risk**: ESG compliant companies keep ahead of the regulatory change curve
  - **Attractive to Investors/Reputation**: Today, over a quarter of all professionally managed assets are identified as ESG assets

* The term ESG was coined in a landmark conference report entitled “Who Cares Wins” hosted by the UN Global Compact Office in 2005

# How Did Modern ESG Come to Be?

# THE EVOLUTION OF ESG INVESTING

- As with the overarching concept of corporate social responsibility, the practice of investing in a socially responsible manner and its transformation into the ESG movement can be traced back to several events, rather than to a single moment in time:
  - **1990**: The **Domini 400 Social Index** was created, known today as the MSCI KLD 400 Social Index. This index was the first to track sustainable investment through a consistent methodology – by 1994, investors had access to 26 sustainable funds
  - **1992**: United Nations Framework Convention on Climate Change, also known as the **Earth Summit** convenes in Rio de Janeiro and 154 countries sign an international environmental treaty aimed to curbing environmental impacts across the globe
  - **1997**: The work done in the Earth Summit crystallizes on the **Kyoto Protocol** with 192 countries pledging to "committing industrialized countries and economies in transition to limit and reduce greenhouse gases (GHG) emissions in accordance with agreed individual targets." The protocol went into effect in 2005

*Read this Article

# THE EVOLUTION OF ESG INVESTING

- **2000**:  The United National Global Compact is launched.  This pact is “a call to **companies** to align strategies and operations with universal principles on human rights, labor, environment, and anti-corruption, and take actions to advance those goals.”

- **2005**:  the term ESG is coined in a landmark conference report entitled “Who Cares Wins” hosted by the UN Global Compact Office

- **2011**:  The **Sustainability Accounting Standards Board** (SASB) is launched to **standardize** sustainability and measurements across 77 industries

- **2015**:  At the UN Framework Convention, the Paris Agreement is brought to life, and at the UN General Assembly the Sustainable Development Goals were created [video]

- **2018**:  BlackRock Chairman and CEO Larry Fink wrote in his Annual Letter that:

  - “[] society is demanding that companies, both public and private, serve a social purpose.  To prosper over time, every company must not only deliver financial performance, *but also show how it makes a positive contribution to society*.  Companies must benefit all of their stakeholders, including shareholders, employees, customers *and the communities* in which they operate.” (italics are mine)

# THE EVOLUTION OF ESG INVESTING

- **2019**:  Larry Fink's view of "Companies as "Good Actors"" is embraced by the Business Roundtable, which includes close to 200 CEOs of leading U.S. companies
- **2020**:  The COVID-19 pandemic brought economic disparities to the forefront and highlighted gaps in health, access and education across the world.  **Investors and consumers** demanded companies to take a stand and look internally and focus on how they approach climate, social and governance risk, including human capital management and supply chain working conditions
  - In the U.S., BlackRock announced that all of its assets would be governed by ESG considerations
  - The Net Zero Assets Managers Initiative was launched with 30 of the world's biggest asset managers setting the goal of achieving net zero carbon emissions across their portfolios by 2050 with interim 2030 targets
  - Policy makers in Europe increased ESG-related reporting, and in the U.S. the Biden Administration signaled future action   Forbes:  ESG Investing Came of Age in 2020

# THE EVOLUTION OF ESG INVESTING

- **2021**:
  - The “S” moved to the forefront.
  - The need for transparency became more urgent as ESG investing skyrocketed. $649 billion poured into ESG-focused funds worldwide through Nov. 30, 2021, up from $542 billion and $285 billion in 2020 and 2019, respectively (Refinitv Lipper)
  - ESG goes mainstream
- **2022**:
  - In his letter to CEO’S, Larry Fink writes “We focus on sustainability not because we’re environmentalist, but because we are capitalists and fiduciaries to our clients.” Read here
  - Increased detailed disclosure requirements around the globe in connection with ESG factors
  - Increased litigation and backlash on ESG greenwashing

# THE EVOLUTION OF ESG INVESTING

- **2023**:
  - **Increased Regulation**: Synthesizing and harmonizing comprehensive global solutions is becoming a challenge
  - **Greater Integration**:
    - Investors are adopting ESG across their overall business strategy; ESG-related data becomes more reliable
    - Rise on ESG committees in Boards
    - Ubiquity of Sustainability Officers
  - **Greater engagement**: Asset managers work closely with shareholders and corporate leaders to accelerate action.
  - **More divestment**: Particularly in nuclear weapons, tobacco and coal.
  - **ESG Backlash**:
    - Greenhushing is born (U.S.)
    - Oil companies and COP28UAE: energy crisis in Europe resulting from Ukraine war sends governments scrambling to secure energy supplies – demand for fossil fuels remains high (84% of global energy mix is still dominated by coal, oil and gas)

# What’s at Stake?

# WHAT'S AT STAKE?: "WILL YOU LEAD, OR WILL YOU BE LED?"

INVESTORS ARE NO LONGER SATISFIED WITH COMPANIES DELIVERING SHAREHOLDER RETURNS WITHOUT DOING MORE FOR THE ENVIRONMENT AND SOCIETY

## Capital and Funding

- Positive correlations have been found between ESG performance and improved returns – resilience, long term strategies
- Investors and financing sources are increasingly focused on ESG issues and evaluating companies' ESG ratings – Impact on M&A

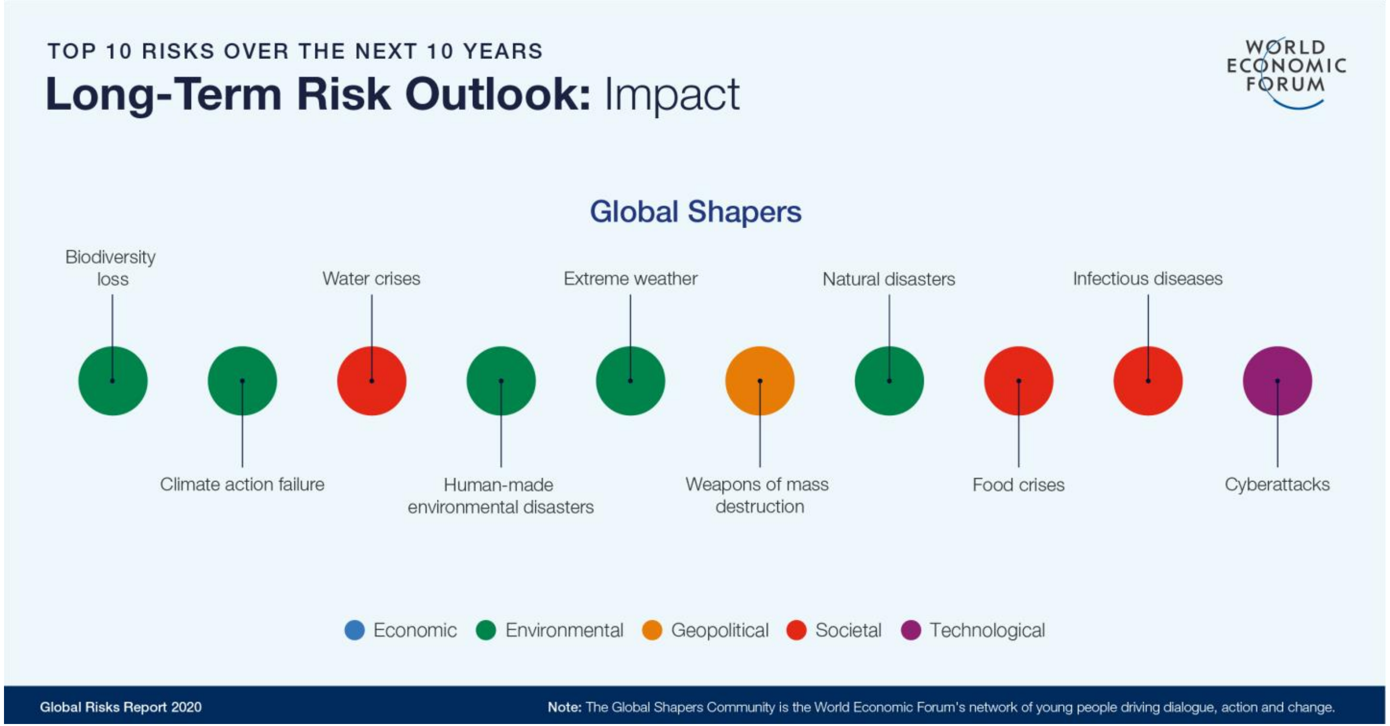
## Director Accountability

- Boards have ultimate oversight responsibility
- Inconsistent disclosures can increase litigation risk
- Institutional investors and proxy advisors are targeting directors who fail to confront climate change / sustainability issues

## Shareholder Activism

- Shareholders are seeking action and disclosure on ESG issues, but different stakeholders want different information

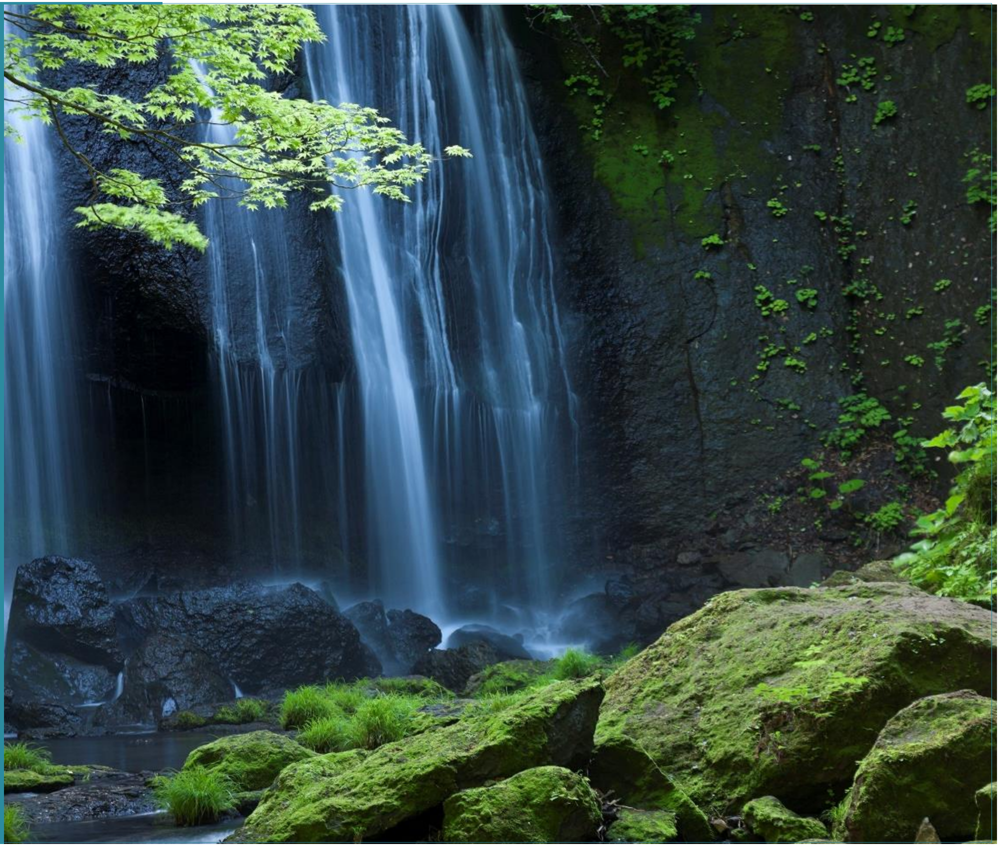
# 2020 DAVOS: WEF GLOBAL RISK REPORT




**Source:** http://reports.weforum.org/global-risks-report-2020/shareable-infographics/ -- 8/10 are E linked (ESG)

TOPIC TWO:

1. MEASURING ESG COMPLIANCE:
    1. Disclosure/Investment Parameters
    2. Greenwashing and Increased Skepticism Regarding ESG



# Disclosure Parameters

# DISCLOSURE PARAMETERS:  NO INTERNATIONAL CONSENSUS

- ESG disclosures require reporting on quantitative and qualitative information - whether or not it is financially material - with the objective of providing more consistent, comparable and reliable information to investors

- In the absence of international consensus regarding ESG disclosures, a number of international frameworks have emerged to guide companies and inform investors

- There are significant variations in methodologies for scoring and ranking companies

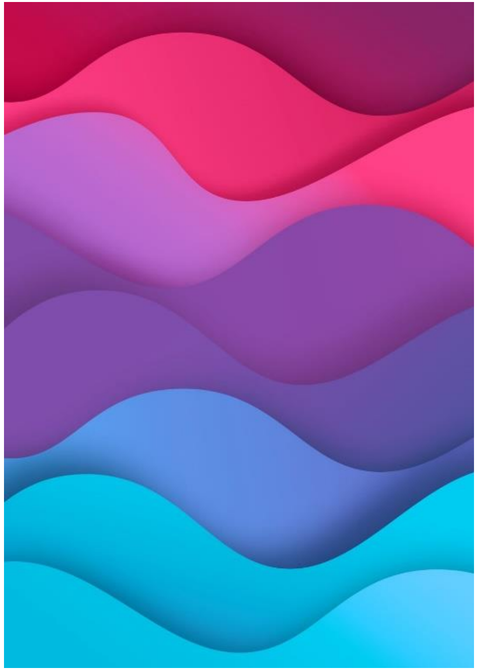
- Three patterns:  Size, industry and country related

ESG Disclosure – ESG rating firms → No International Consensus → Significant discrepancies in the scoring and ranking of companies → Increase cost of developing internal procedures for disclosure → ESG-Related Litigation Is On The Rise

# DISCLOSURE PARAMETERS: INTERNATIONAL FRAMEWORKS

- Among the leading international frameworks are the following:
  - Global Reporting Initiative Standards
  - The Sustainability Accounting Standards Board standards
  - The United Nations Principles for Responsible Investment
  - United Nations Sustainable Development Goals
  - The Integrity Matters Report issued at the UN Conference of Parties 27 (COP27) – which includes recommendations towards reliable reporting standards

# RATINGS FIRMS AND ESG - OVERVIEW



Ratings firms generally provide ESG data and ratings about public companies to institutional investors, which use them to make voting and investment decisions

No universal standards exist, and rating firms generally have little regulatory oversight

Discrepancies between methodologies can produce disparate results company-by-company

Prominent ratings firms include MSCI, ISS ESG, Sustainalytics, Refinitiv and FTSE Russell, but more than 100 organizations provide ESG-related ratings on public companies (2022)

- MSCI provided its ESG ratings to 46 of the top 50 global asset managers
- ISS included its ESG QualityScores in its voting recommendations
- Glass Lewis included Sustainalytics’ ESG ratings in its voting recommendations
- All three major credit rating agencies (Moody's, Standard & Poor's, and Fitch) have implemented initiatives to add an ESG score to their traditional assessments of creditworthiness

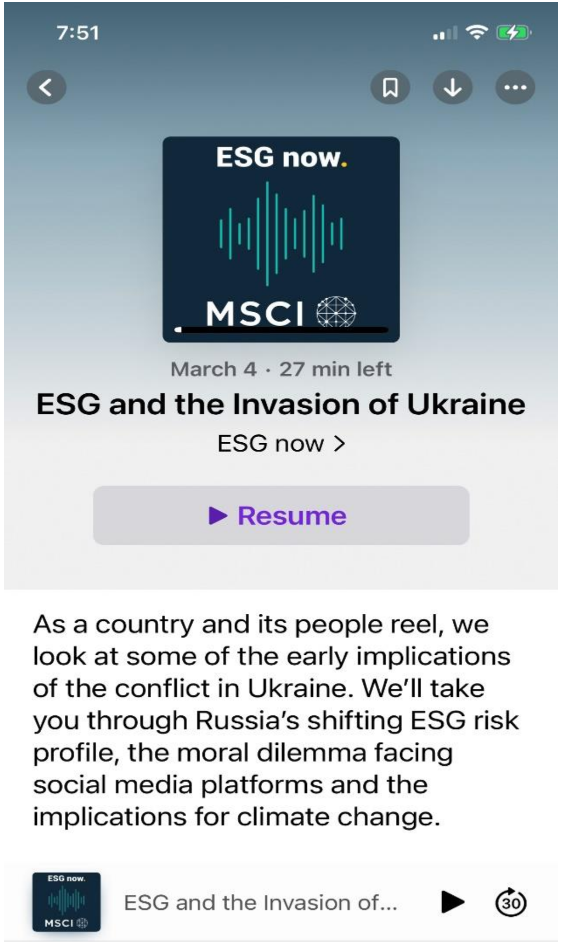
# PRACTICAL TIPS TO IMPROVE YOUR RATINGS

| | | | |
|---|---|---|---|
| 1 | Engage with agencies regarding mistakes and omissions in their reports | 6 | Consider raters' sources; some raters will only consider publicly available information (e.g., MSCI), while others will consider private communications (e.g., ISS) |
| 2 | Notify ESG raters when you publish or update ESG/sustainability reports | 7 | Provide support; raters often subtract points based on "lack of evidence" about a specific policy or practice |
| 3 | Consider using the buzzwords and structure of ratings agencies when drafting ESG/sustainability reports | 8 | Craft ESG disclosures with an eye toward litigation; be wary about assertions that plaintiffs may claim were lies or broken promises |
| 4 | Take time to understand rater methodology. Although opaque, some information can be garnered from rater websites and the reports themselves | 9 | Where raters fail to correct mistakes after company has provided corrections, consider escalating to rater's legal department |
| 5 | Evaluate how the raters' "industry leaders" present their policies/practices for insight into what is guiding their higher rankings | 10 | Be mindful that communications with raters are not privileged |

*** Jones Day (2022)**

# ESG RATING FOR COUNTRIES

- The Russian invasion brought home that the ESG lens is transnational.  Shortly after the Russian invasion, there were **boycotts** against companies that had ties to Russia highlighting that European and U.S. consumers and investors want to transact with companies that align with their values.  If your organization is seen as supporting autocratic regimes, or selling goods that are made by slave labor, a very large swath of consumers and investors will not want to do business with you.  This is the sort of risk that eats directly into sales, revenue and success, and is too big not to integrate into your overall business strategy
- In the link below, in the context of the conflict in Ukraine, MSCI discuses how they rate countries from an ESG perspective
  - Click here:  (2:28 - 10)
- Food for Thought: For some, the ESG mandate is not company-centric, nor industry-centric, and not even country-centric.  It's global, which makes it particularly vulnerable to attack from critics



# Greenwashing

## GREENWASHING

- What does it mean?
  - Disinformation disseminated by an organization in order to present an environmentally responsible public image.  For example, when companies claim to be protecting the environment while continuing to harm it
- What have regulators done?
  - Increased scrutiny of ESG funds / Backlash – Why the Sustainable Market Is Flawed, By James Mackintosh, The Wall Street Journal

# ESG-RELATED STATEMENTS AND DISCLOSURE RELATED CLAIMS

"In early 2021, [the bank] announced an ambitious goal – to align our business activities with the goals of the Paris Climate Agreement and achieve net-zero greenhouse emissions by 2050, including our financed emissions."

"We work to consistently uphold the human rights of our employees, customers, suppliers' employees and those affected by the projects we finance. Our rigorous policies, standards and due diligence practices guide our business and lending decisions."

"Our Environmental Business Initiative will direct at least $445 billion to low-carbon, sustainable business activities by 2030."

"Given our levers of action and characteristics, we are determined to play a particularly significant role in fighting climate change."



*Sampling of ESG statements.

# SCRUTINY BY REGULATORS: DWS INVESTIGATION

THE WALL STREET JOURNAL.

WSJ NEWS EXCLUSIVE | MARKETS

## Fired Executive Says Deutsche Bank's DWS Overstated Sustainable-Investing Efforts

Asset management arm painted a rosier-than-reality picture to investors on ESG, according to Desiree Fixler and documents. DWS says her office didn't gain expected traction.

*By Patricia Kowsmann and Ken Brown*
Aug. 1, 2021 5:33 am ET

SAVE PRINT TEXT 60

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Deutsche Bank AG's DB +1.04% ▲ asset management arm, DWS Group, DWS -0.94% ▼ tells investors that environmental, social and governance concerns are at the heart of everything it does and that its ESG standards are above the industry average.

But behind closed doors, it has struggled to define and implement an ESG strategy, at times painting a rosier-than-reality picture to investors, according to its former sustainability chief and internal emails and presentations seen by The Wall Street Journal.

THE WALL STREET JOURNAL.

WSJ NEWS EXCLUSIVE | FINANCE

## U.S. Authorities Probing Deutsche Bank's DWS Over Sustainability Claims

Investigation by Justice Department, SEC follow allegations from ex-sustainability chief that firm overstated efforts on environment, other issues

*By Patricia Kowsmann, Corinne Ramey and Dave Michaels*
Aug. 25, 2021 4:23 pm ET

SAVE PRINT TEXT

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U.S. authorities are investigating Deutsche Bank AG's DB +1.04% ▲ asset-management arm, DWS Group, after the firm's former head of sustainability said it overstated how much it used sustainable investing criteria to manage its assets, according to people familiar with the matter.

The probes, by the Securities and Exchange Commission and federal prosecutors, are in early stages, the people said. Authorities' examination of DWS comes after The Wall Street Journal reported that the $1 trillion asset manager overstated its sustainable-investing efforts. The Journal, citing documents and the firm's former sustainability chief, said the firm struggled with its strategy on environmental, social and governance investing and at times painted a rosier-than-reality picture to investors.

# SCRUTINY BY REGULATORS

THE WALL STREET JOURNAL.

MARKETS + Follow

## SEC Fines BNY Mellon Over ESG Claims

Regulator is boosting its scrutiny of funds as market grows


Bank of New York Mellon said it has updated its investor communication materials to be more precise and complete.
GABRIELA BHASKAR/BLOOMBERG NEWS

*By Dean Seal* + Follow *and Amrith Ramkumar* + Follow

May 23, 2022 12:39 p.m. EDT

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3 minutes

THE NATIONAL LAW REVIEW

## Vale's ESG Disclosures Lead to Regulatory and Shareholder Litigation

By Melissa J. Tea and Molly K. McGinley of K< Gates

*May 19, 2022*

On 28 April 2022, the Securities and Exchange Commission (SEC) filed suit against Vale S.A. (Vale), a publicly traded Brazilian mining company and one of the world's largest iron ore producers, alleging that Vale had made false and misleading claims about the safety of its dams prior to the January 2019 collapse of its Brumadinho dam.[1] The collapse killed 270 people, caused immeasurable environmental and social harm, and resulted in losses of more than US$4 billion in Vale's market capitalization.

The SEC alleges that between 2016 and 2019, Vale manipulated safety audits, obtained fraudulent stability certificates, and misled local governments, communities, and investors about the safety of the Brumadinho dam through its environmental, social, and governance (ESG) disclosures. Specifically, the

# GREENWASHING

- On May 25, 2022, the SEC issued two new sets for **proposed rules** to combat "greenwashing":
  - Only funds with an ESG purpose would be permitted to label themselves accordingly
  - New set of mandatory disclosures for ESG-focused funds would enable outside parties to confirm whether any such fund is in compliance with its stated investment purpose
  - Similar to efforts being undertaken in Europe and the UK
  - <u>Goal</u>:  to promote consistent, comparable and reliable information for investors concerning funds' and advisers' incorporation of ESG factors

# HOW TO MITIGATE GREENWASHING RISK?

## Measure intended commitments

Use reliable third-party certifications for projects

Verify the facts and ensure the accuracy of the statements

Use appropriate and aspirational vocabulary; disclaimers when appropriate

## How to mitigate risk

Conduct legal review of compliance and *greenwashing*

Prefer forward-looking statements that set out estimated objectives

Inventory existing disclosures, test for relevance, programmed obsolescence

*** Jones Day (2022)**

# TOPIC THREE:

1. GLOBAL ESG TRENDS
2. U.S. ESG TRENDS

# KEY GLOBALTRENDS

- **Increased regulation**: Reporting and compliance regulatory requirements related to ESG have increased globally: Synthesizing and harmonizing comprehensive global solutions is becoming a challenge [E.g., EU new sustainability reporting requirements apply to U.S. based companies with substantial EU operations]

- **Greater integration**: Investors are adopting ESG across their overall business strategy, including their portfolios, from ESG-focused funds to products, such as green bonds and impact investing. Rise on ESG committees in Boards, and the ubiquity of Sustainability Officers

- **Greater engagement**: Asset managers work more closely with shareholders and corporate leaders to accelerate action. In the U.S., for example, investor support for ESG-themed shareholder proposals has significantly increased in the past 5 years, and investors have also lobbied governments and regulators requesting that they impose further requirements on companies to expand their ESG disclosures

- **More divestment**: Particularly in nuclear weapons, tobacco and coal

# KEY U.S. TRENDS IN 2023:  ESG IS EVERYWHERE

- **ANTICIPATED REGULATORY OVERHAUL**:
  - In the US, the SEC has proposed new rules and reporting forms that would require companies and their advisers to disclose more information on how they consider ESG factors in their activities, including greenhouse gas emissions and climate risk
  - In 2022, the Inflation Reduction Act included approximately $385 billion of climate and energy spending and tax breaks that would be provided in the next 5 to 10 years
- **ESG DATA BECOMES MORE RELIABLE**:
  - ESG information is more reliable and transparent – there are better tools available to originate sustainability reports and monitor compliance, and as a result of the surge on regulation, increased rigor in self-evaluating ESG reporting by companies

# KEY U.S. TRENDS IN 2023:  ESG IS EVERYWHERE

- **LITIGATION GROWS, AS DOES BOARD OVERSIGHT**:
  - Some major financial institutions reached settlements with the SEC in 2022 over greenwashing.  Although environmental and climate litigation has historically accounted for the majority of ESG litigation, in 2023 claims targeting social issues are mounting (e.g., sexual harassment, discrimination, abuse of labor rights)
  - ESG is shaping to become a major board oversight risk.  ESG practices need to be funneled through compliance or audit functions, and the companies' BOD need full, complete oversight on ESG activity
  - Liability under federal and state securities laws, consumer protection and anti-fraud statutes and regulations; breach of fiduciary duty claims for failure of oversight responsibility

# KEY U.S. TRENDS IN 2023: ESG IS EVERYWHERE

- **ANTI-ESG SENTIMENT RAMPS UP – ESG BECOMES A POLITICAL BATTLEGROUND**:
  - By March 2023, 18 U.S. states had passed legislation to limit ESG investing or prohibiting state governments from doing business with financial institutions that adopt certain ESG policies
    - What are they saying?: “The environmental, social and corporate governance (ESG) movement has produced an opaque and perverse system in which some financial companies no longer make decisions in the best interest of their shareholders or their clients, but instead use their financial clout to push a social and political agenda shrouded in secrecy” – Texas Comptroller Glenn Hegar, August 24, 2022

# KEY TRENDS IN 2023: ESG IS EVERYWHERE

- **ANTI-ESG SENTIMENT RAMPS UP:**
  - In August 2022, Texas released a list of 10 companies and 348 investment funds that will be barred from doing business with the state because they “boycott energy companies” – BlackRock, Credit Suisse and UBS
  - In December 2022, Florida announced that it would pull $2 billion worth of state assets managed by BlackRock over BlackRock applying ESG investing strategies with respect to the funds
  - On May 2, 2023, Florida’s Governor Ron DeSantis signed into law a bill designed to block the consideration of ESG factors in investment decisions. The bill requires that investment decisions (and proxy voting decisions) for state pension assets be made on “pecuniary factors” only – Florida has the fourth largest sate retirement system in the U.S. The bill limits investment decisions for local governmental, trust funds, and the state’s CFO. It prohibits the issuance of ESG bonds in the state, limits state contracting and imposes new external communications disclaimer requirements

# KEY U.S. TRENDS IN 2023: ESG IS EVERYWHERE

- **ANTI-ESG SENTIMENT RAMPS UP:**
  - Companies land in culture-war crosshairs over "wokeness": [Video: America Conservative Values ETF seeks to boycott companies that are hostile to conservative values – about $7M as of January 2023]
    - "Don't Say Gay Law": The public criticism by Disney of a Florida's law which bars schools from discussing gender and sexual orientation through grade 12 has grown into a fight – now headed to court - that began over education law and grew into a feud about oversight of land that includes the amusement park (The New York Times, May 19, 2023)
    - Gender Transition: The parent company of Bud Light placed two of its marketing executives on leave after public outcry from conservative corners over the beer's partnership with a transgender influencer (Los Angeles Times, April 25, 2023). Brand loses best-selling beer in America crown to Modelo Especial beer after a 23% drop in May
    - Pride Month: Target halts its sale of some Gay Pride items in response to criticism that it gave in to anti-LGTB pressure (The Wall Street Journal, May 25, 2023)
    - Meta [gender diversity], Blackrock, Nike [Colin Kaepernick as spokesperson - police brutality], Starbucks, Alphabet (parent company of Google) are sometimes branded as "woke" by conservatives which perceive their public commitment to promote social justice and diversity as corporate hypocrisy

# KEY U.S. TRENDS IN 2023:  ESG IS EVERYWHERE

– **GREENHUSHING IS BORN**

  – In response to the anti-ESG sentiment, some companies are starting to downplay their ESG related commitments to avoid negative attention

  – Key take-away:

    – ESG communication is a minefield in the US:  companies are advised to maintain open lines of communication with stakeholders, and where a company decides to adopt an external position, ensure that communications are aligned with corporate purpose and that any statements are reviewed with the same rigor as any other statements upon which investments decisions are made

# KEY U.S. TRENDS IN 2023: ESG IS EVERYWHERE

- **SHAREHOLDER PROPOSALS ON SOCIAL ISSUES TRACK POLITICAL CLIMATE**:
  - Climate proposals for the most part set targets for reducing greenhouse emissions and implementing governance structures and reporting processes that allow investors to evaluate climate-related risks and opportunities
    - On May 2023, the shareholders of Exxon and Chevron (the two largest U.S. oil producers) rejected calls for stronger measures to mitigate climate change, including to accept tougher emissions reduction goals. Exxon is the only one of the top 5 Western oil majors with no 2030 target for reducing customers' carbon emissions from its products – impact of worries over supply and prices following Russia's invasion of Ukraine
  - Climate proposals are followed by shareholder proposals related to social issues. Most social related proposals seek increased disclosure regarding workforce diversity and equity
  - Two other shareholder proposal themes are sexual and reproductive health and the impact of virgin plastic manufacture on financial positions. The first theme relates to proposals that aim to make companies publicly delineate the risks and costs derived to their employees from federal and state reproductive policies on the wake of the 2022 Supreme Court decision overturning Roe v. Wade

# TOPIC FOUR

## THE “E” IN ESG:

1. The “Net Zero Economy”
2. The U.S. Climate Bill
3. Energy Transition

# NET ZERO ECONOMY

- There is an increased focus on – and commitment to – the transition to a net zero economy (net zero greenhouse gas emissions by 2050) in line with the goals set forth in the 2016 Paris Climate Agreement – “net zero” means removing an equal amount of $CO_2$ from the energy as we release into it (i.e., by offsetting emissions with actions like planting trees or using technology to capture and store carbon)
- The number of countries pledging to achieve net-zero emissions over the coming decades continues to grow, although the targets vary significantly by country
- Larry Fink’s 2022 letter to CEOs stated that Blackrock expects companies to play a role in decarbonizing the global economy
  - Companies are asked to disclose how their plans to achieve net-zero emissions are incorporated into their long-term strategy and how they are reviewed by their Boards

*** Jones Day (2022)**

# FOCUS ON "E" CONTINUES

- Climate activists received significant wins against Big Oil in 2021:
  - Dutch court order required Royal Dutch Shell to cut carbon emissions by 45% by 2030, as compared to 2019 levels
  - Chevron shareholders voted to cut down Scope 3 emissions
  - Activist Engine No.1 won three seats in Exxon's board
- Climate change remained the top environmental proposal topic in 2022 and 2023
- Investors are expected to continue to tilt investment toward ESG-focused companies in light of the success of many ESG funds

# UNDER STAKEHOLDER PRESSURE, COMPANIES ARE ADAPTING*

- **Footprint analysis to prioritize efforts**: Ikea studied its footprint and found that 52% came from the materials in its products, 14% from people using its products at home and 8% from production. Further analysis found that fossil-based glue was responsible for about 5% of its carbon print. It is now switching to a biobased glue

- **Industry collaboration to promote low-emission alternatives**: The First Mover Coalition is a group of more than 60 companies committed to helping low-carbon product suppliers develop their offerings and scale-up by committing to buy their products (Google, Ford Motor, Microsoft)

- **Partnerships with suppliers**: Drugmakers, including Pfizer, Biogen and Bristol-Myers, have funded the Energize program that educates their suppliers and connects them with opportunities to access renewable clean-power supply agreements

- **Targets for lower emission alternatives**: Nestle is paying a premium to farmers in its supply chain that cuts emissions by following regenerative farming practices



**WSJ Article (April 25 2023)**

# A CLEAN NEW GLOBAL ENERGY ECONOMY IS EMERGING

**International Energy Agency, annual World Energy Investment Report, 2023**:

- Investments in solar power are on course to overtake spending in oil production for the first time
- For every $1 spent on fossil-fuel energy in 2023, $1.70 will be invested into clean-energy technologies compared with five years ago when the spending between the two was broadly equal
- 90% of growth in clean-energy spending has been in the developed world and China. Developing nations are challenged by the high upfront price tag of emerging technologies and a shortage of affordable financing
- Impact of the Ukraine War: renewable energy comparatively more affordable than oil and gas, and heightened attention on energy security

*** WSJ Article (2023)**

# U.S. CLIMATE BILL: INSIDE THE "INFLATION REDUCTION ACT" OF 2022 (IRA)

- The Committee for a Responsible Federal Budget estimates that the legislation includes approximately $385 billion of climate and energy spending and tax breaks to be provided over the next five to ten years

- It is the largest and most significant set of energy and climate programs ever enacted in the U.S.

- A goal of the bill is to reduce greenhouse emissions by 40% by 2030

- Private investment in renewables in the U.S. reached a record high of $10 billion in 2022, investment levels which are forecasted to continue into 2024 as investors are attracted by technologies backed by the IRA's 10-year tax credits

# Energy Transition

# CLIMATE CHANGE AND ENERGY TRANSITION:  SIMPLE GOAL BUT COMPLEX SOLUTIONS

Climate change and energy transition are inextricably linked: The practice of burning fossil fuels to produce energy is the number 1 overwhelming contributor to carbon emissions

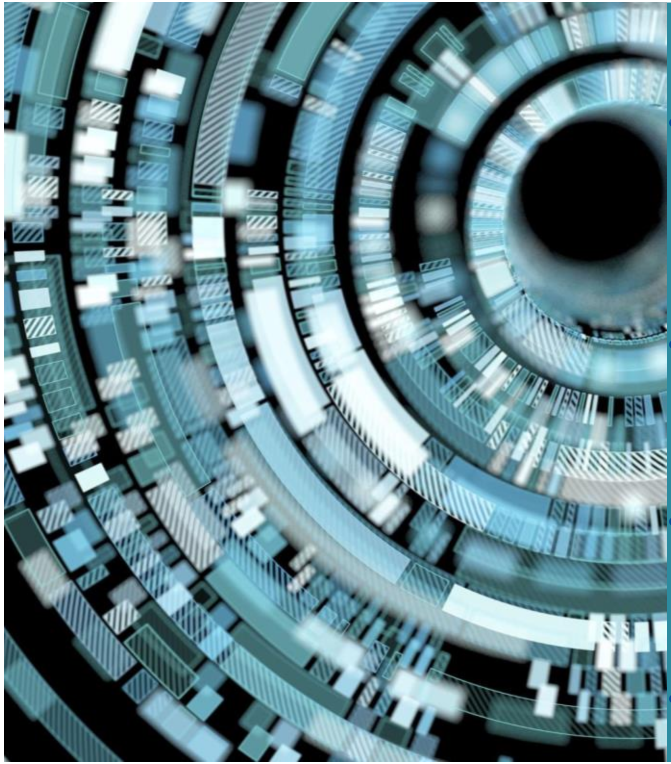
Energy transition:  transitioning from oil, gas and coal (account for 2/3 of the world's energy consumption) to renewable energy sources

On ESG, mining is caught between two competing themes:

(i)  adverse impact in the environment (Brazil, Australia)

(ii) need to mine the materials that will enable the green transition: copper, lithium (crucial for electric vehicle batteries) and Uranium (nuclear energy)  ---- crucial opportunity (M&A).  There were 395 M&A deals announced in Q1 2023 worth $31.5 bn.  Largest was the acquisition of Thomson Resources by Coolabah Metals (copper-gold project)

# CLIMATE CHANGE AND ENERGY TRANSITION: SIMPLE GOAL BUT COMPLEX SOLUTIONS



MINING COMPANIES' RESPONSE IN 2022:

- **Accelerated Energy Transition**: Anglo American exited thermal coal altogether, while BHP and Vale announced exit goals. At the same time, the biggest miners have launched projects in potash, copper, nickel, lithium, and other forward-facing commodities
- **Showcased Green Credentials**: BHP/Tesla (nickel supply agreement), Rio Tinto/Apple (carbon-free aluminum), Glencore/Tesla (cobalt supply deal)
- **Bumped-up Recycling**: For example, BHP and Freeport have invested in Jetti Resources, a US startup that is working on processing copper from existing waste dumps
- **Increased M&A activity**: Reducing fossil fuel exposure


# 30 MINUTES WITH MARIO FERNANDEZ (Head of Catalyst)

# READING MATERIALS FOR JUNE 29

- Bio of Carin-Isabel Knoop (Executive Director of the Harvard Business School Case Research & Writing Group and co-author of “Compassionate Management of Mental Health in the Modern Workplace)
- Bio of Paloma Valor (Jones Day, Of Counsel, prior Chief Trust and Global Compliance Officer at IBM)
- Mind the Workplace 2022 Report, Mental Health America (2023)
- Mental Health in the Workplace:  Predicted Trends For 2023, Jess Cording, Forbes (2023)
- The 8 Responsibilities of Chief Sustainability Officers, E. Farri, P. Cervini, and G. Rosani, Harvard Business Review (2023)
- Putting the H(uman) in ESG, by Carin-Isabel Knoop, Medium (2022)

Optional Reading:

- Lessons from COVID to manage stress at work:  Learn. Monitor. Distance. Protect. Connect by Carin-Isabel Knoop, Medium

# READING MATERIALS FOR JUNE 29

Optional Reading/Listening:

- Compassionate Management of Mental Health in the Modern Workplace, by Carin-Isabel Knoop and Johan A. Quelch, Springer
- ESG Foundation Podcast
- ESG Now Podcast (MSCI)
- ESG Insights (Deutsche Bank)
- ESG Insider (S&P Global)

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