Trucost
ESG Analysis
S&P Global

GreenBiz

GreenFin Summit
February 26, 2019

Summary Report

GreenFin Agenda Overview

On February 26, 2019, roughly 100 professionals, representing a mix of corporate sustainability executives and institutional investors, convened for a **half-day, invitation-only summit** to explore the challenges and opportunities in better aligning corporate ESG reporting with investor needs.

The event was convened by **GreenBiz Group** and **S&P Global**. It was conducted under the Chatham House Rule, meaning that individuals and organizations cannot be identified.

The following pages summarize the event and some of the key takeaways.

Capstone Sponsors

Trucost ESG Analysis S&P Global
WELLS FARGO
EY Building a better working world
JPMORGAN CHASE & CO.

Cornerstone Sponsor

Deloitte.

Financial Institutions and Corporate Attendees

~100 Companies in Attendance

24 Companies from the S&P 500
27 Companies from Fortune's 2019 'The World's Most Admired Companies' list

Asset Managers – Approximately $9.5 trillion Assets under management
Asset Owners – Approximately $731.5 billion Assets in ownership

Executive Overview

With better dialogue comes better outcomes

The conversation between companies and mainstream investors about Environmental, Social and Governance (ESG) metrics hasn't been working well. One big problem is that the kinds of data provided by sustainability and investor relations departments don't align with the metrics investors need to assess company performance and make asset-allocation decisions.

The reality is, despite the increased calls for companies to disclose their ESG performance, much of their disclosure isn't yet very useful. This needn't be the case. The alignment between companies and investors is well within reach.

Both parties contribute to the misalignment: Investors complain that companies don't disclose the kinds of information they need to manage ESG risks and to seize opportunities in investment decision-making; and companies complain that investors don't really care about ESG data and rarely ask companies about it, including during earnings calls.

Foundational Panel

Bringing together different perspectives to help accelerate low-carbon sustainable investments

- **Large public pension plan** that actively pursues sustainability practices that promote long-term value creation and responsible investment strategies
    - Ingraining sustainability comes from the top; instituting a culture that allows for individuals to bring in different risk management structures is key
    - There are implicit vs. explicit processes for managing sustainability and we need to be able to understand how ESG is incorporated into discounted cash flow analysis (i.e., its effects on cost of goods sold or selling, general and administrative expenses)
    - Not only should investors have perspectives on ESGs, but companies should as well; we need to discuss these different perspectives in order to close the gap

- **Large US custodian and asset manager**
    - If portfolio managers ignore non-traditional financial metrics, this is putting a firm's investments at risk. Lack of ESG development is correlated to stock devaluation and public outrage and scandal
    - We need to quantify ESG returns more precisely and transparently to prove profitable returns to investor world

- **Large U.S. bank & asset manager,** investment banking & financial services
    - We do not have a shortage of capital, but shortage of good business opportunities that make business sense
    - With a lack of global policy solutions, we need to look at policy at different levels and pay attention to customer demands

- **Large Dutch bank** supporting sustainable financing
    - We offer discounts across the lending space in order to have active efforts towards sustainability with clients
    - The challenge is to obtain data and be able to judge improvements as well as compare between companies

- **Large technology company** making great strides in sustainability
    - Companies should focus on better integration of sustainability communications internally
    - Sustainability teams need to actively report to other teams rather than waiting to be asked

Opening questions

1. **If companies and investors were to align perfectly on ESG data, what would happen as a result?**

- Streamlining on disclosure, doing less but more focused
- Rationalizing intention – short term vs. long term
- Money would money to high-performing ESG companies, pushing low-performing ESG companies
- All the raters and rankers might fade away
- Greater efficiency and transparency in supply chains
- Culture shift in terms of language and nature of sustainability

2. **What are the biggest obstacles to this happening?**

- Limited resources in companies — ends up checking the box and losing sight of why we're actually doing this
- Actual vs. estimated data sources
- For global companies, global consistency in metrics
- Time lag: takes time for data to get to financial community
- Need to translate sustainability into financial terms
- ESG teams and asset class teams don't speak the same language
- Data doesn't allow for longitudinal backtesting
- Need proof of outperformance among ESG leaders

Breakouts

1. What are the top things investors need right now to fully understand companies' climate risks?

- TCFD reporting framework
- Correlations between climate impact and other costs (e.g., healthcare or real estate)
- Understanding the value-add for investors
- Importance of governance at board level and in terms of implementation
- Incorporating ESG in discounted cashflow models

2. What are the top things companies need right now to have "better" ESG data (more robust and insightful), instead of just "more" ESG data?

- "Better" = trustworthy, comparable (over time) and material data
- Integrity, relevance, and impact of data
- Need industry relevant data that is comparable
- Data integrity requires board responsibility and assurance
- Data impact needs to be measured in terms of positive global impact: how do we reward that, as opposed to companies reporting for the sake of profit?

3. What are the top things market participants should do to make sure their ESG/sustainability message is communicated in a decision-useful way?

- Need to clearly articulate their processes in implementing these strategies
- Develop and deliver a clear message to acknowledge investor perspective and risk management, and how that will be implemented into innovation and growth strategy
- Put data in a strategic context: Why are certain metrics used? Who is accountable for measuring and creating improvement?
- Socialize the business case for sustainability to educate the board and create an authentic culture within the company
- Think through why this information is important; why do we care?

4. What would it take to align business models and investment strategies with the SDGs in two years? What is the one thing companies need? What is the one thing investors need?

- Quantify and communicate SDG goals
- Quality and comparability of data is necessary to compare across countries and industries

5. If you think about a goal of standardized ESG/sustainability metrics, what does success look like in three years?

- Private sector is represented enough in determining what this process should be
- Paris Agreement has aligned companies on scientifically based metrics
- Metrics are incorporated into a narrative in order to understand vision of improvement
- Needs to achieve:
  - ✓ Help predict future
  - ✓ Common denominator (sector lens, carbon lens)
  - ✓ Can't forget S and G!

Key Takeaways

- The ESG disclosure landscape is changing fast. Companies and investors should advocate that ESG standard setting organizations speed up their work to get better alignment on globally harmonized ESG disclosure standards and metrics. The benefit will be reduced costs of corporate disclosure and better decision-making as transparency on ESG issues improves in the capital markets.

- Companies need to understand how their investors are accounting for these issues, and proactively address how they are managing material ESG risks.

- Investors should communicate how they are using ESG data to inform their investment strategies and engagement programs. By publicly disclosing which ESG issues are most important to their performance, companies will be able to ensure stakeholder expectations are met.

- There is a need for companies and investors to manage risk and value around ESG. Reporting, both internally and externally, is important.

Save the date
GreenFin Summit 2020

February 4, 2020
J.W. Marriott Camelback Resort
Scottsdale, Arizona

Trucost ESG Analysis
S&P Global

GreenBiz

Copyright © 2019 S&P Trucost Limited ("Trucost"), an affiliate of S&P Market Intelligence. All rights reserved. Trucost and EBoard are trademarks of Trucost. Redistribution or reproduction in whole or in part is prohibited without written permission. This document does not constitute an offer of services in jurisdictions where Trucost and its affiliates do not have the necessary licenses. All information provided by Trucost is impersonal and not tailored to the needs of any person, entity or group of persons.