

'FROM VISION TO ACTION—SUSTAINABILITY IN BUSINESS'

Does ESG really make companies better?

Temple University, Japan Campus (TUJ)
International Business Studies Program
Discussion Group with Read the Air



‘Vision to Action’ Agenda

1.0

Introduction

ESG – The Current State of Play

20 MINUTES

2.0

Fireside Chat

Investor Engagement and Company Performance

20 MINUTES

3.0

Breakout sessions

Investors v. Companies

20-25 MINUTES

4.0

Debrief

20-25 MINUTES

5.0

Closing

Next steps?

5 MINUTES

6.0

Networking

Snacks and beverages

2004

‘Who Cares, Wins’

“The explicit aim of this initiative was to develop guidelines and recommendations on how to integrate environmental, social and corporate governance (ESG) issues in asset management, securities brokerage services and associated research functions, and to suggest ways in which various financial sectors, such as stock exchanges and pension funds, consider ESG issues.”

2005 report on the launch of the Global Compact's financial sector initiative, spearheaded by Kofi Annan



TEMPLE
UNIVERSITY
Japan Campus



ESG means incorporating 3 major factors into investing decisions



ENVIRONMENT

- Climate change plans and disclosures
- GHG emissions goals and transparency
- Carbon footprint and carbon intensity
- Water-related issues and goals
- Usage of renewable energy
- Recycling and safe disposal practices
- Green products and technologies
- Environmental benefits for employees Relationship with environmental regulatory bodies

SOCIAL

- Employee treatment, pay, benefits, and perks.
- Employee engagement and staff turnover
- Employee training and development.
- Employee safety policies
- Diversity/inclusion in hiring & advancement Ethical supply chain sourcing
- Mission or higher purpose
- Consumer friendliness, service responsiveness, and protection
- Public stance on social justice issues and lobbying efforts.

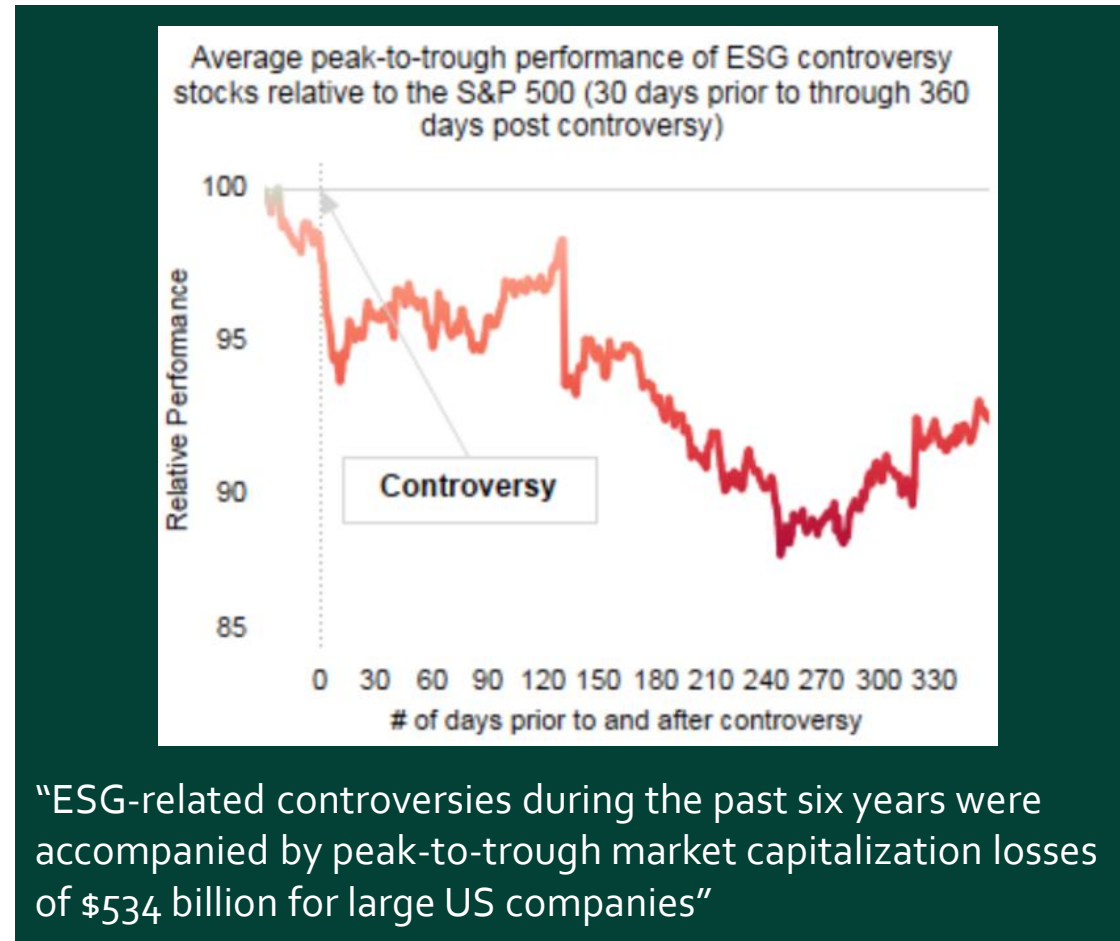
GOVERNANCE

- Executive compensation, bonuses, and perks
- Compensation for long-term business value, not short-term
- Diversity of board/management
- independence in board composition
- Proxy access
- Separate chairman/CEO roles
- Majority vs. plurality voting
- Dual/multiple stock structures
- Transparency with shareholders
- Relationship with regulatory bodies

ESG-related scandals = huge losses for companies & investors

“90 percent of bankruptcies in the S&P 500 between 2005 and 2015 were of companies with poor [E&S] scores five years prior to the bankruptcies ... Loss avoidance is key for portfolio returns over time.”

Bank of America Merrill Lynch



ESG investment strategies

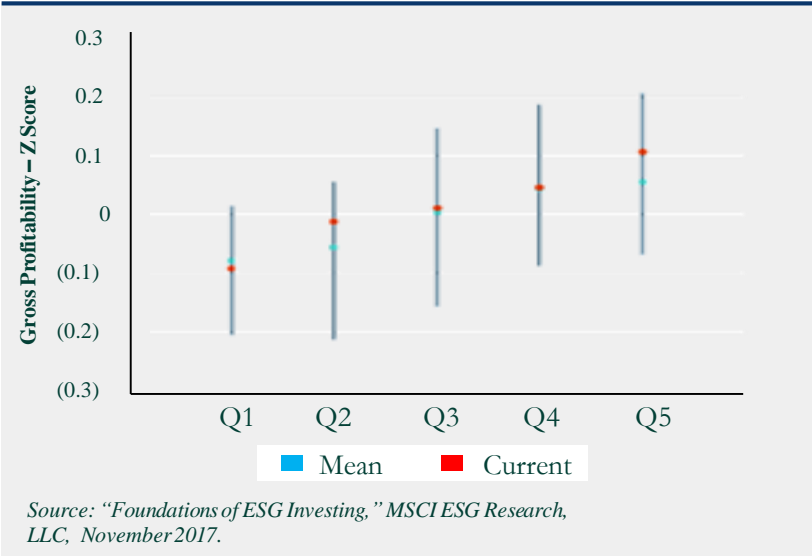


Classification	ESG Investment Strategies		Nature of information primarily required ^(Note)	Major example of relevant framework/standard
Judgmental	Fundamental analysis approach	ESG related engagement in traditional active investment	✓ Specifically tailored ESG Information useful for Fundamental analysis /corporate valuation	International <IR> Framework
		Adjustment of revenue forecasts based on ESG analysis Adjustment of operating margin and/or cost forecasts based on ESG analysis Adjustment of book value and/or depreciation forecasts on ESG analysis Adjustment of capital expenditure forecasts based on ESG analysis Adjustment of terminal value of valuation model based on ESG Analysis Adjustment of beta/discount rates of valuation model based on ESG Analysis		
Systematic		Adjustment of portfolio weight based on ESG analysis	✓ Normalized, easy to quantify and compare ESG information relevant for companies' financial performance	SASB Standards
Passive		Smart beta/quantitative strategies utilizing ESG factors		
		ESG Indices		
Others		ESG related engagement in traditional passive investment		GRI Standards
		Impact Investment (※ Consideration of impact besides/instead of risk/return) Socially Responsible Investment/Ethical Investment (※ Utilization of ethical/faith-based lenses)		

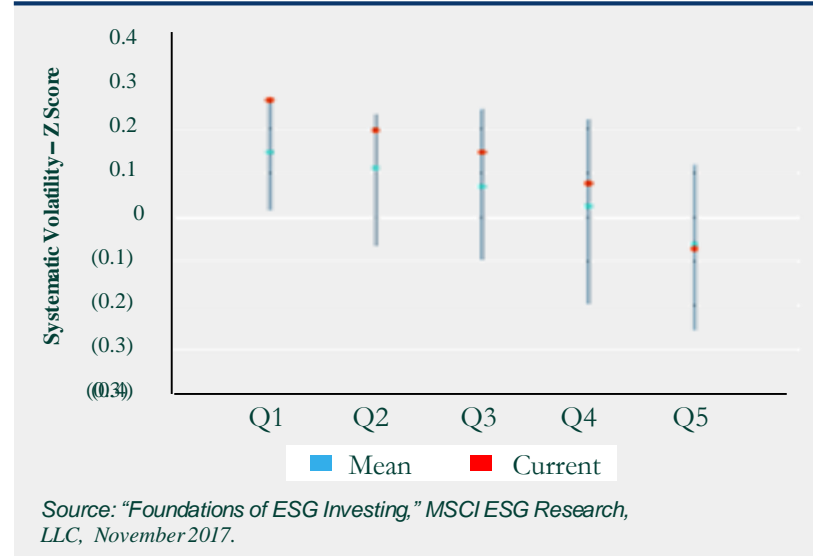
AVENUE CAPITAL GROUP

Why ESG Matters

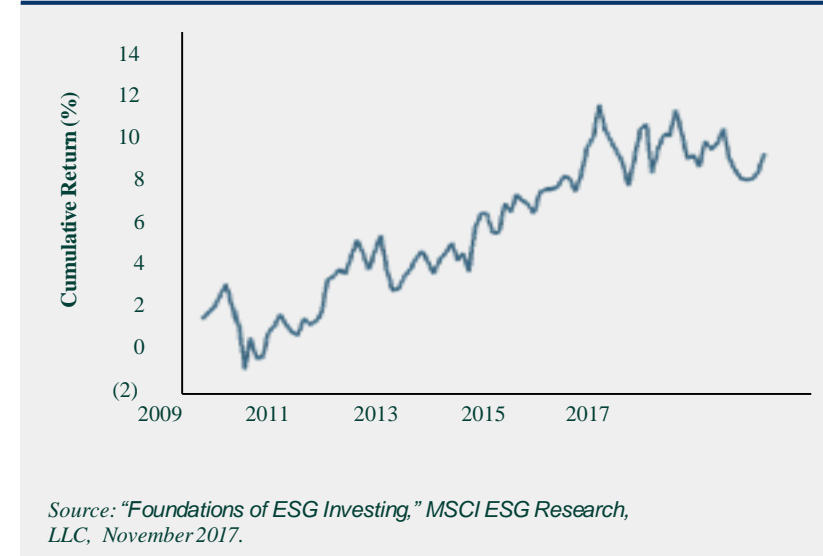
Gross Profitability of ESG Quintiles



Systematic Volatility of ESG Quintiles



Financial Performance of Top vs. Bottom ESG Momentum Quintiles



◆ ESG integration: key objective is to improve the risk-return characteristics of a portfolio(n)


◆ High ESG-rated companies (Q5) are more profitable and pay higher dividends, especially when compared to bottom quintile

◆ Higher ESG ratings have shown less volatile earnings and less systematic volatility, and thus, lower systematic risk exposure(n)

◆ Top ESG quintile has significantly outperformed the bottom quintile, illustrating that strong ESG ratings have led to increasing valuations over time(n)

Introducing: From Vision to Action

Goals and Outputs

- ✓ Explore the practical implications of sustainability in the business context
 - ✓ Develop initial insights and conclusions on new definitions of value
 - ✓ Uncover practical methods for moving from sustainability as a concept to practical execution strategies
- 
- ✓ Summary report on conclusions from our sessions
 - ✓ Enhanced network for professionals working on this pertinent topic
 - ✓ Clarity around how Temple can support businesses in this transition

Ground Rules

- ✓ Chatham House Rules apply
- ✓ Everyone's contribution is important
- ✓ Feel free to invite others—pass their names/details to us in advance
- ✓ Feel free to share articles or other insights with us between sessions

An academic perspective on ESG



Dr Kim SCHUMACHER

Chartered Environmentalist (CEnv)

- Lecturer in Sustainable Finance and ESG | School of Environment and Society | Tokyo Institute of Technology
- ESG Research Consultant | Ministry of the Environment, Climate and Sustainable Development, Luxembourg
- Honorary Research Associate | Environmental Interactions & Economy and Society Research Clusters
School of Geography and the Environment | University of Oxford

AN EXPLORATION OF ESG

- Exactly what elements are causing improved performance in ESG-aligned companies and indices?
- And why is a sectoral approach just as important as competent measurement, reporting, verification (MRV) along the entire supply and value chains?

FIRESIDE CHAT

Investor and corporate perspectives



SHIZUKO OHMI



Vice President, Head of ESG Department,
Fundamental Investment Group, Investment
Management Division

JONGHUN HAN



Responsible ESG Reporting, Corporate
Responsibility Department

Amundi's ESG analysis & engagement criteria (Generic Criteria)



Environment

- Power consumption and greenhouse gas emissions
- Water
- Biodiversity, pollution, and waste

Social

- Labor conditions and non-discrimination
- Health & safety
- Social relations
- Client/supplier relations
- Product responsibility
- Local communities and human rights

Governance

- Independence of the executive board
- Compliance and control
- Remuneration
- Rights of shareholders



Breakout session

Subgroup Preparation—Review materials for **20 mins** and ask yourselves:

For Investors

- Would you engage with this company – Yes or No? Why or why not?
- Assuming that you will engage:
 - What are up to three Generic Criteria that you would look to engage with the company on?
- Do you find the priorities they've noted are
 - **R**elevant ▪ **C**omprehensive ▪ **S**pecific ▪ **M**easurable

For Companies

- What are your impressions of your ESG approach? Gaps? Strong points?
- Are your priorities
 - **R**elevant ▪ **C**omprehensive ▪ **S**pecific ▪ **M**easurable
- Where do you think you need to improve? What would you need to improve on those points?



Breakout session

Investor engagement with company—10 mins

- Engage in a investor - company discussion where:
 - Investors share their impressions of the company's ESG / sustainability approach & priority criteria where they need to improve
 - Companies reply with their agreement areas they plan to improve and what they'll need as an organization to improve (internally or externally)

Points to keep in mind

1. Normally you would have MUCH more information to assess a company and as a listed company would provide more information
2. These examples are for training purposes only
3. There are no right or wrong answers
4. Please feel free to be creative!

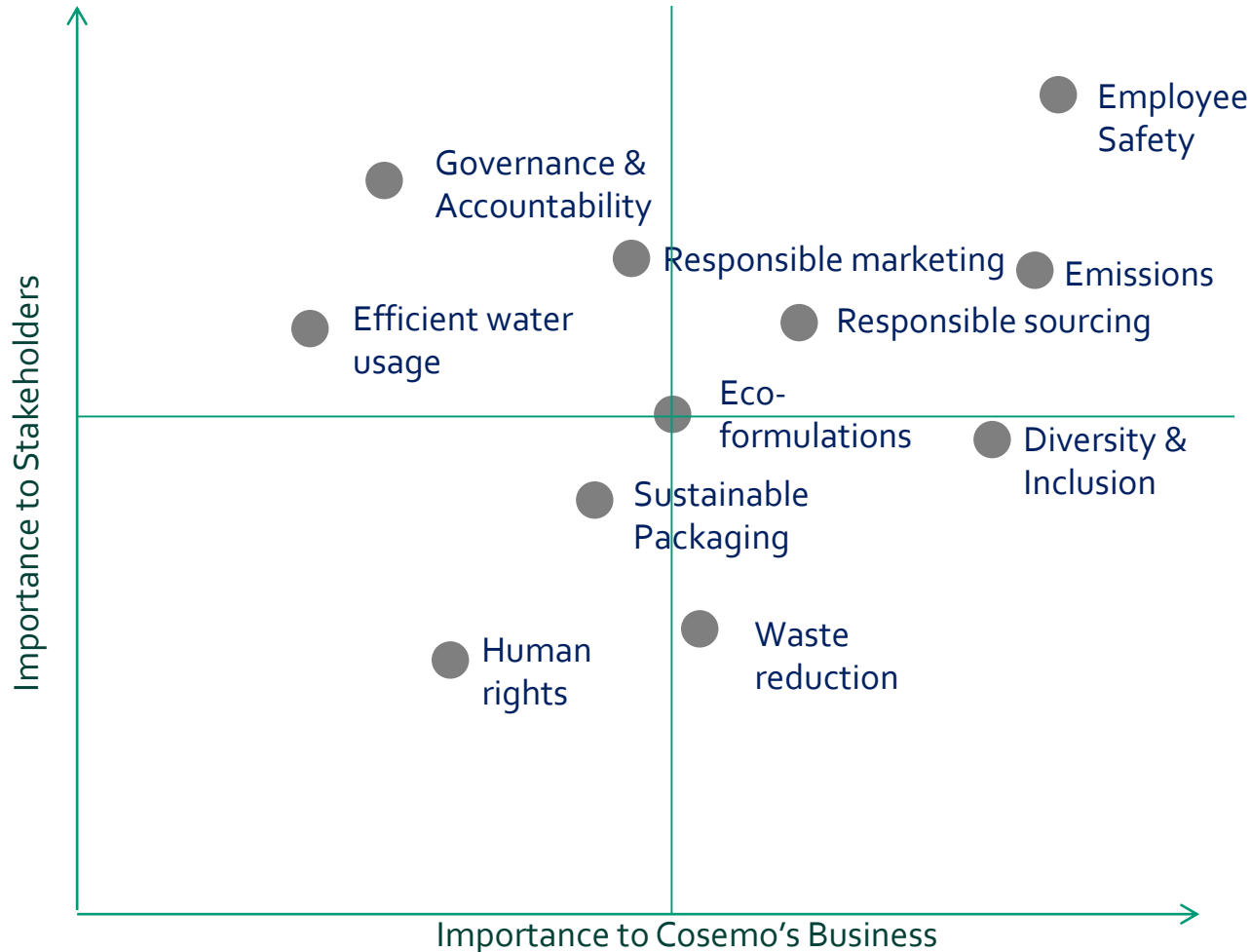
Cosmetic Industry Sustainability Challenges



- **Transparency and traceability** in ingredient supply chains.
- **Green formulations** There is a need to switch to renewable sources for raw materials, and use more green ingredients.
- **Sustainable packaging** Packaging waste is a major sustainability concern for the industry, however few companies are taking steps to reduce their packaging impacts.
- **Climate change** There is pressure on the industry to reduce greenhouses gases, however very few companies are measuring carbon emissions, let alone taking steps to reduce or offset set them.
- **Water management** The cosmetics industry is a large user of water, in terms of production, processes, as well as finished products. However, few companies are addressing this important topic
- **Social impacts** Most cosmetic & personal care companies are focusing on environmental impacts, however few are looking at their social impacts..

Source: [Cosmetics-design-europe.com](https://www.cosmetics-design-europe.com/), 2019

Cosemo's Materiality & Sustainability Priorities



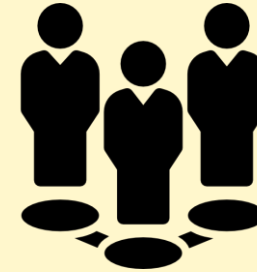
Cosemo's priorities

- Emissions**
 By 2022, we will set a science-based target covering Scopes 1, 2, and 3.
- Packaging**
 By 2023, 60% of our packaging will be recyclable, refillable, or reusable
 Our ambition is to use responsibly-sourced paper products whenever possible.
- Ingredients**
 We will develop a glossary of key ingredients that includes descriptions of the ingredients' purposes
- Employee Safety**
 We will drive safety to continue decreasing the total accident rate, with a goal of reaching a rate of 1% by 2022 (current rate is 1.5%, industry standard .8%)

Staffing Industry Sustainability Challenges

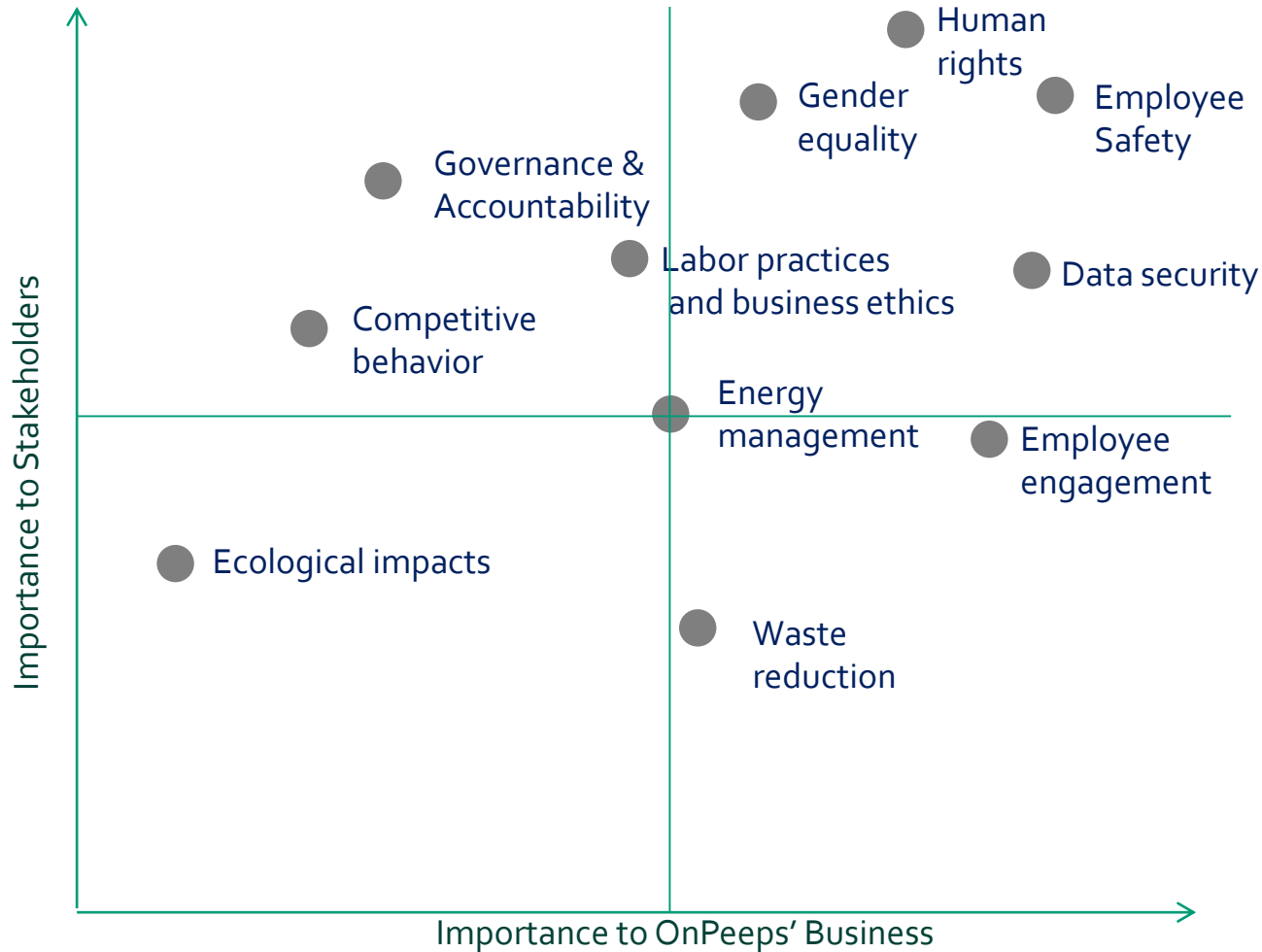


- **Human rights, labor rights and diversity** Must ensure respect for basic human rights, fair treatment and enforcement of diversity policies.
- **Compensation and benefits** Renewed pressure has forced companies to face up to guaranteeing a living wage and improving worker development.
- **Employee health and safety** Increased attention on and responsibility for reducing accident and increasing safety performance, including supporting employee moral and health, and productivity.
- **Staff-management relations** Management needs to become transparent to all stakeholders – but how can temporary employees be appropriately aligned with management?
- **Climate change** While the carbon emission footprint of the core business is low (mostly offices and IT), it is difficult to account for the impact of all outside staff put on placement with clients.
- **Geopolitical, economic and physical uncertainty** Disruptions from political instability, market disruptions, and natural disasters have immediate impact access to work and available workforces.



Source: *Cosmetics-design-europe.com*, 2019

OnPeeps' Materiality & Sustainability Priorities



OnPeeps' priorities

Access to work and workers

By 2030, establish full time training program that is able to increase the relevant skills, including technical and vocational skills, of up to 10,000 individuals per year.

Gender equality

By 2025, achieve gender diversity goal of 35% to 45% of senior managers, executives and board members being women.

Safe work environments

Create reporting platforms and offer training to clients on environmental and physical safety standards.

Community outreach

Work with local stakeholders to understand community goals and establish collaborative initiatives around social issues in the locales where we work.



‘From Vision to Action: Sustainability in Business’

DEBRIEF

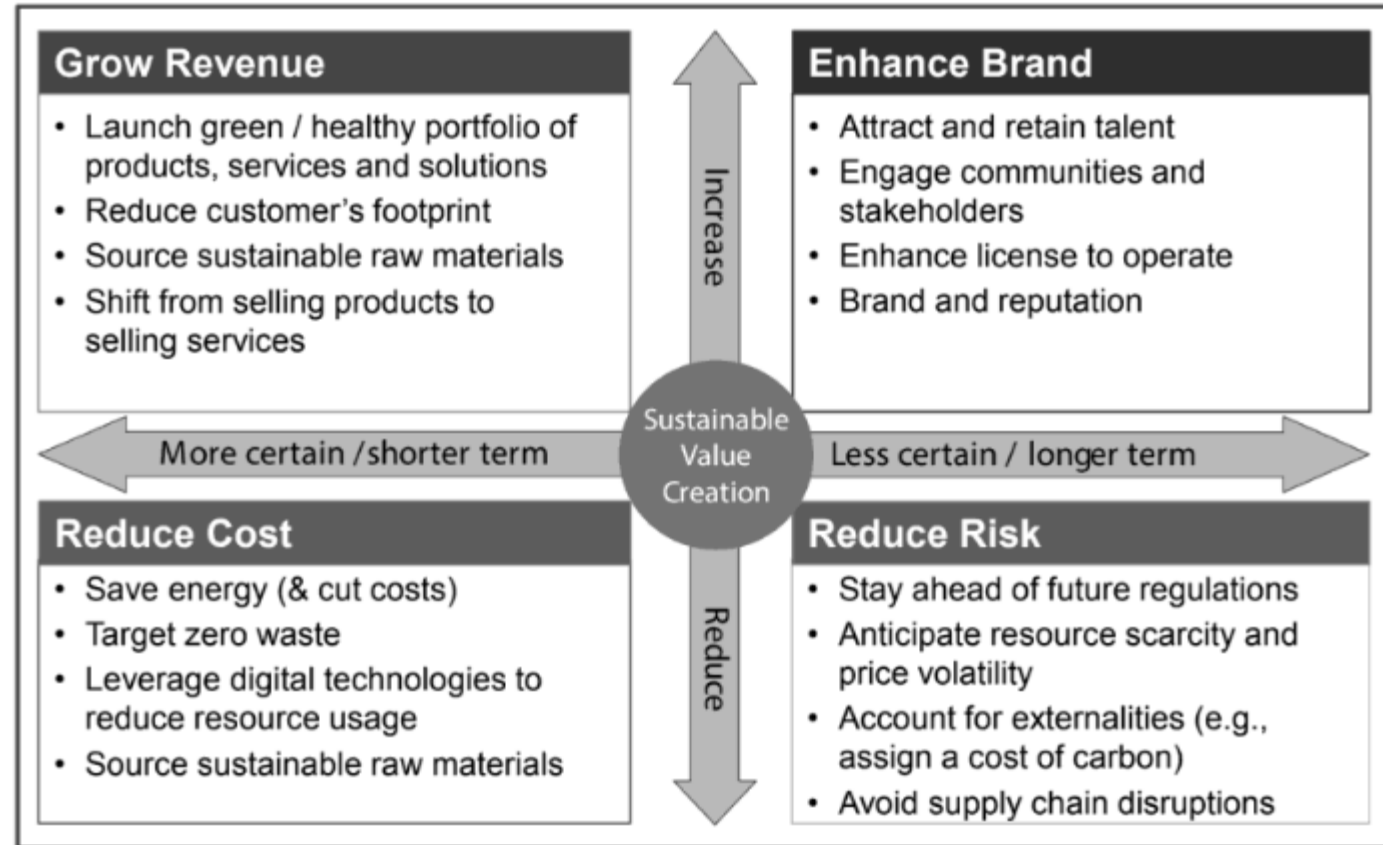


How to improve your ESG approach

From Sustainability: What It Is and How to Measure by Gilbert S. Hedstrom

Every company should do the following:

- ✓ List all your current sustainability/ESG initiatives
- ✓ Map each to one of these four 'buckets'
- ✓ Quantify the benefits of each initiative
- ✓ If an activity doesn't fall into one of the buckets, think about whether you should be doing it



The Takeaway

“ESG is not only about the environment and governance. **We should not forget the social ‘S’.** In the current political climate, we need to create an economic and financial model that is more socially inclusive. A rising share of the population has been left behind, with worsening inequality risking fracturing societies, undermining economic and business growth, and slowing the transition.”

Frédéric Janbon , CEO BNP Paribas Asset Management
PRI Sustainable Finance Policy Conference in September

“**Make sure your board understands the importance of ESG.** Strengthening knowledge and understanding around risks and opportunities related to ESG on board-level. This could be done through training, guidance and incentives and would also support boards in fulfilling their fiduciary duty.

Johanna Tahtinen
World Business Council for Sustainable Development





Follow-up

- Session report available within the week at [Readtheair.jp/blog](https://readtheair.jp/blog)
- We will send out an email with:
 - Possible featured speakers for following sessions
 - Thought questions for the next session
 - Optional pre-reading on the carbon emissions and the business world
- *And you can explore more on what you can do in your business:*

From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance



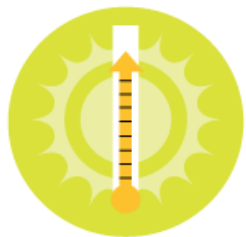
Next sessions

SESSION 4

What are the action items for companies following Cop25?

Monday, January 27, 7 pm

What are the implications for companies coming out of Cop25? What actions should be on the top of their agendas?



SESSION 5

Innovation as a sustainable business driver

Monday, February 17, 7 pm

How can innovation enable sustainable business? In which industries will we see the most transformative sustainable innovation?

