


WHAT IS ESG?
HOW TO THINK ABOUT IT



- "Peek under the hood" of companies
- Comparable to a credit rating, but instead a sustainability rating
- Resilient and Competitive Advantage = Alpha Returns

ESG END GOAL
PRICING RISKS AND CAPITAL ALLOCATION



- Company discloses ESG data**
 - Regulatory/legislatively-required or voluntary
 - Standardized data/format
 - Financially material (according to accounting principles)
- Investment Strategy**
 - Compare company data in decisions on lending, underwriting, and investing
- Good ESG-aligned Companies**
 - Capital allocated to sustainable economic activity

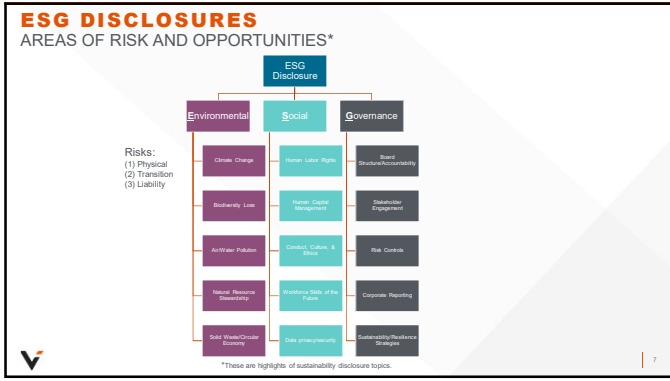
ESG DISCLOSURE
JURISDICTIONAL DIFFERENCES RELATING TO FINANCIAL MATERIALITY

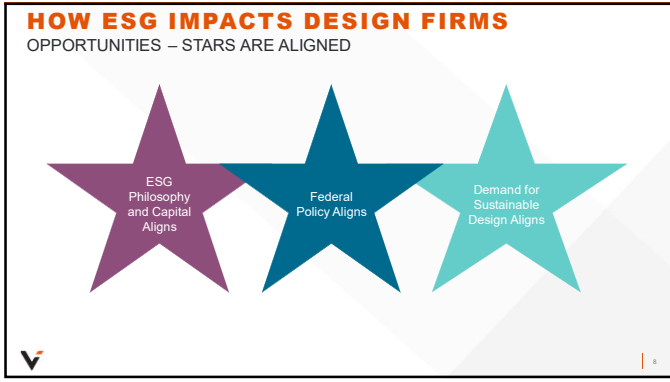
U.S.
(Single Financial Materiality)

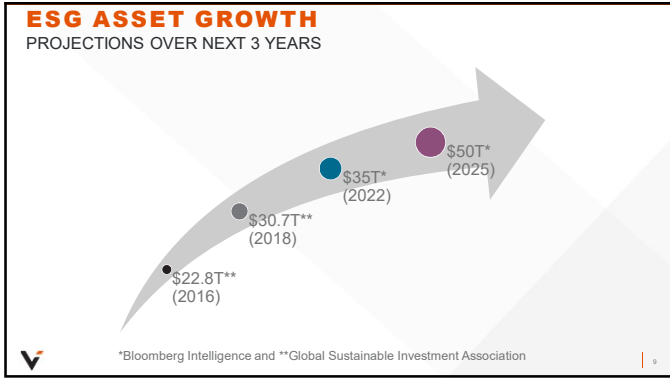
How does the environment and society impact my business?

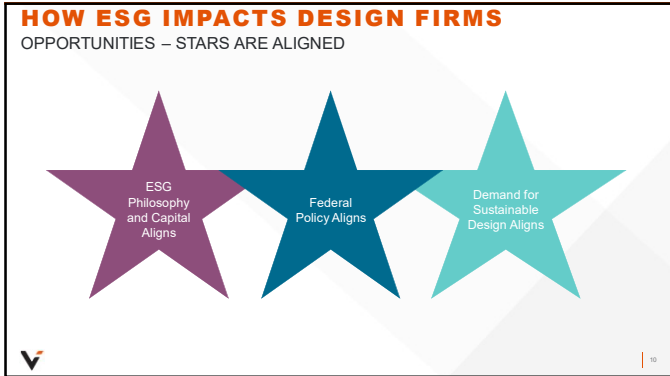
Europe
(Double Financial Materiality)

US approach + *How does my business impact the environment and society?*



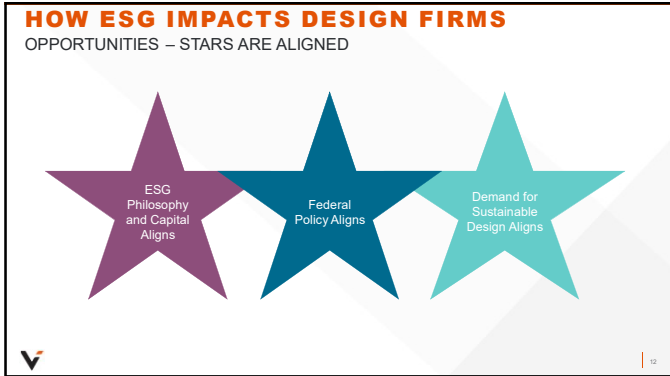






US FEDERAL POLICY ALIGNMENT – CLIMATE, ESG, FINANCIAL RISKS*		
LEGISLATIVE ACTIONS	REGULATORY ACTIONS	EXECUTIVE ACTIONS
American Rescue Plan Act (\$382 billion) (Themes of funding – equity, climate, technology, PAs, forward-looking investments)	Securities and Exchange Commission (March '21) – Proposed climate disclosure rules	Ex Or 14072 (April '22) – Strengthening the Nation's Forest, Communities, and Local Economies
Infrastructure Investment & Jobs Act (\$550 billion in "new" investments but \$1.2 Trillion total) Same themes as above.	Financial Stability Oversight Council – Dedicated Committee – Climate-related Financial Risk Committee. "CFRC" work and all FSOC members have dedicated climate risk staff	Ex Or 14027 (Dec '21) Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability (Buy Clean Initiative for Federal Procurement)
Inflation Reduction Act (\$369 billion) focused on lowering energy costs, building a clean energy economy, and reducing pollution	Department of Labor proposed rule on ESG factors in managing retirement plans (Oct '21)	Ex Or 14030 (May '21) Climate-Related Financial Risk (Oct '21)
	Federal Insurance Office (looking at gaps in Climate-Related Disclosures and reported by end of 2022)	Ex Or 14027 (May '21) Establishment of the Climate Change Support Office
	Federal Reserve System (conducting a pilot climate scenario analysis exercise of all Fed Reserve banks in early 2022)	Ex Or 14017 (Feb '21) America's Supply Chains
	Commodity Futures Trading Commission (CFTC) on climate related financial risks June 2022. In September announced "it is no longer a choice, but an imperative" for the agency to "enhance its ability to identify and monitor climate-related risk that impacts our markets and market participants."	Ex Or 14013 (Feb '21) Rebuilding and Enhancing Programs to Resettle Refugees and Planning for the Impact of Climate Change
	Office of the Comptroller of the Currency (OCC) and FDIC – climate risk management guidance for large banks. Fed-aver Chief Climate Risk Officer announced September 12th.	Ex Or 13960 (Jan '21) Protecting Public health and the Environment and Restoring Science to tackle the Climate Crisis
	Federal Housing Financial Agency (FHFA) – 2022 Scorecard for Fannie Mae and Freddie Mac will account for climate risk	
	North America Securities Administrators Association (NASAA) – examining climate related risk and disclosure guidance	

*Sampling of federal activity and not intended to be a fully comprehensive list of federal government actions



ESG RISKS
BUSINESS RISKS

Market share loss

- Lack capacity to take advantage of the business opportunity/growth
- Procurement/vendor preferences
- Poor ESG performance (according to sustainability accounting standards)

Contractual exposures

- Supplier codes of conduct
- Specific ESG-related contract provisions

Project financial risks

- Lender/equity concerns on long-term payback




WHAT DESIGN FIRMS CAN DO TO PREPARE
MAP STANDARDS AGAINST SUSTAINABILITY STRATEGY/PLAN



- Summary of sustainability opportunities and challenges
- Document goals and KPIs
- List of prioritized initiatives
- Implementation plan

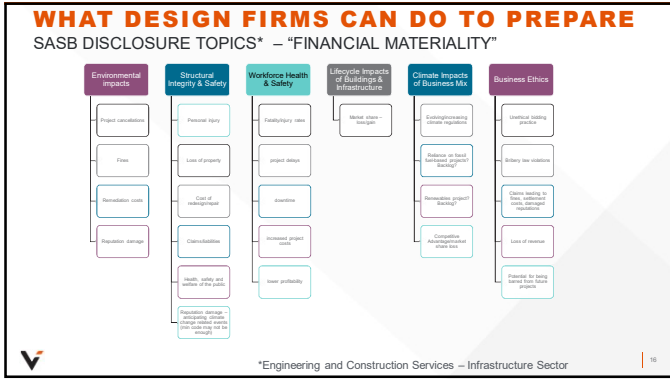



WHAT DESIGN FIRMS CAN DO TO PREPARE
ASSESS CORPORATE SUSTAINABILITY REPORTING STANDARDS/Frameworks*

- Sustainability Accounting Standards Board (SASB)
- Global Reporting Initiative Standard (GRI)
- Task Force on Climate-Related Disclosures (TCFD) (framework)

*There are many other standards, frameworks, international goals (UN SDGs), Disclosure-based Sustainability scores – DJSI and CDP and ratings agencies – S&P MSCI, and Sustainalytics.



WHAT DESIGN FIRMS CAN DO TO PREPARE SUSTAINABILITY STRATEGY/PLAN - AVOID OVERSTATING OR GREENWASHING

- Be transparent, reasonable, authentic
- Prioritize goals/objectives and an action plan – no one expects a company to be ESG compliant immediately
- Anticipate that you'll report/disclose publicly (website, annual reports, etc) on regular basis

VICTOR ESG RISK RATING TOOL

Facing the future of risk, together.

Introducing Victor's ESG Risk Rating self-assessment tool.

