



ESG History & Status

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Introduction

As a public company director who served on over 34 boards and a private company director having served on more than 50 boards, I believe it is really compelling and critical that directors of both private and public companies have a good understanding of environmental, social governance (ESG) and stakeholder capitalism. These are buzz words to most people, so I thought it would be helpful to actually put fact-driven data and information into a framework for everyone to look, learn and absorb.

The public and private company director group is a very large community. There are 632,000 public companies. The average company size has 10 directors. That's almost 6 and a half million global directors of public corporations. There's probably, I would estimate, five times as many private companies with some amount of directors. If we think about the director community alone, it is well over 10 million.

Stakeholder capitalism informs us now that it is more than only our shareholders/investors who care about our corporations and our corporate oversight. Certainly our employees, our customers and community along with our shareholders are very interested and make up stakeholder capitalism and ESG.

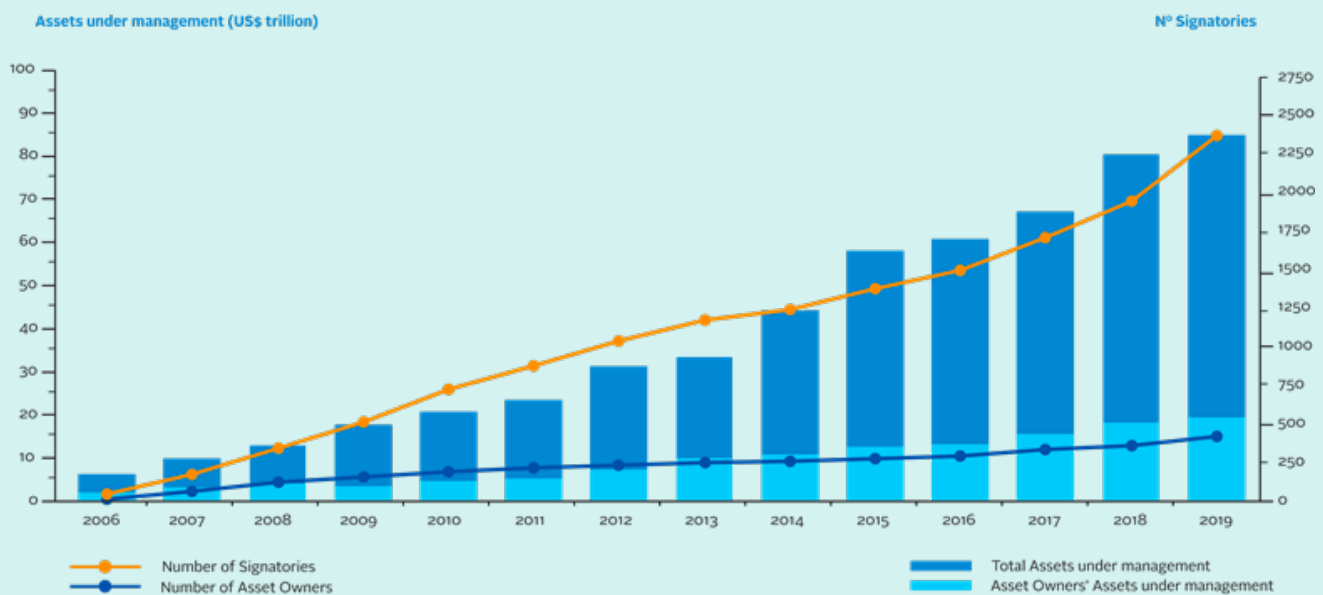
When you think about private companies, the way to evaluate them is to look at who are their investors. Venture capital and Private Equity companies invest in these companies. But who invests in those investors? When you go backwards in the chain, you will see that it is universities, their endowments, and pension funds who are often the "big limiteds" that are investing in Venture-Capital company and Private Equity companies. These limiteds, for example the Harvard, Yale, Princeton, Stanford endowments, the pension funds for the teachers union, carpenters union, etc., have great passion, energy, conviction and commitment to the principles of stakeholder capitalism, and as a consequence of stakeholder capitalism we see the emergence of environmental social governance frameworks in order to evaluate how these companies are performing.

Let's dive in!

Chapter 1 - Background

Environmental, social and governance issues are a fairly new concept to companies and investors today. The concept originated in 2001 after the launch of the FTSE4Good Index Series with the objective for UK pension funds to take account of social, ethical or environmental (SSE) issues. They soon implemented environmental management criteria in 2002, human rights criteria in 2003, and supply chain labor standards in 2005. The FTSE4Good then introduced the United Nation's Principles for Responsible Investment (PRI) in 2006 as a founding signatory.²

ESG issues were first mentioned in the 2006 United Nation's PRI report consisting of the Freshfield Report and "Who Cares Wins." ESG criteria was, for the first time, required to be incorporated in the financial evaluations of companies. This effort was focused on further developing sustainable investments. At the time, 63 investment companies composed of asset owners, asset managers and service providers signed with \$6.5 trillion in assets under management (AUM) incorporating ESG issues. As of June 2019, there are 2450 signatories representing over \$80 trillion in AUM.³



Source: *About the PRI*. Assets under Management & Number of Signatures⁴

The emphasis on ESG is increasingly growing today as major institutional investors are making it clear they expect the companies they hold to commit strongly to ESG criteria.

During the 2017 proxy season, State Street Global Advisors (SSGA) voted against the re-election of directors at 400 companies that SSGA said failed to make any significant effort to appoint women to their all-male boards. This came after the results of a global survey of 475 institutions that included private and public pension funds, endowments, foundations and official institutions. The survey found that 68 percent of respondents said that implementation of ESG criteria aided in improved returns, along with 77 percent of respondents that said they invested in ESG strategies due to its impact on a public company's financial performance.⁵

Another example of this trend was the defiance of ExxonMobiles' shareholders to the company in response to climate change. In May 2017, 62% of ExxonMobile shareholders went against management's recommendations by voting to require the worlds largest oil and gas company to report on the impacts of climate change to its business (an increase of 38% over the previous year). This response followed the Paris Climate agreement to prevent global temperatures from rising more than two degree Celsius.⁶

KEY TAKE-AWAYS

- **We are amidst a macro trend shifting towards stakeholder capitalism led by ESG becoming mainstream**
- **Directors and boards need to begin applying ESG criteria or shareholders will begin holding them accountable**

"For the majority, the question is no longer, 'should we consider ESG as part of our mandate,' the question is 'how are we actively pursuing opportunities with our investments that help us reach our financial goals, while encouraging change in the process?'"

– Chris McKnett, head of global ESG business at SSGA

"Climate change is one of the greatest long-term risks we face in our portfolio and has direct impact on the core business of ExxonMobil. The burden is now on ExxonMobil to respond swiftly and demonstrate that it takes shareholder concerns about climate risk seriously."

– Thomas DiNapoli, New York State Comptroller⁶

Chapter 2 - Davos 2020

The World Economic Forum (WEF), known at the time as the European Management Forum was established in 1971 by Klaus Schwab due to his concern about the business world in Europe. The original intention of the forum was to discuss how European firms could catch up and learn from US business and management strategies. In 1973 the forum's annual meetings began shifting their focus onto economic and social issues. Three years later the forum created a membership system of the 1,000 leading companies in the world.⁷

The WEF and the International Business Council (IBC), under the Chairmanship of Brian Moynihan (CEO of Bank of America), alongside the Big Four accounting firms (Deloitte, PwC, KPMG, and Ernst & Young) are accelerating the ESG transformation through the establishment of a consensus set of standardized measurements of approximately 22 specific metrics to an organized framework for companies to report their results in a new "stakeholder capitalism" approach. These ~22 metrics are not new, they are based on the other existing frameworks (). The 120 large multinational firms in the IBC expressed a commitment to demonstrate to stakeholders their forward looking approach in establishing long-term value by targeting to voluntarily sign their adoption to these consensus metrics in the WEF January 2021 meeting.⁸

The difficulty for ESG criteria is establishing a form of consistent and transparent reporting for financial and non-financial metrics that would be consistent within each different industry sector for comparison purposes. The Big Four accounting firms are driving and agreed consensus of metrics seeking to create a systematic, "market-driven" set of metrics. The IBC will lead the way voluntarily adopting these metrics currently being finalized by the Big Four.

The Four Pillars



Principles of Governance

The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the centre of their business. But the principles of agency, accountability and stewardship continue to be vital for truly "good governance".



Planet

An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.



People

An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.



Prosperity

An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

The results of this challenge is the *Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution*. This is an outgrowth of the Business Roundtable published on August 19, 2019. The Davos 2020 Manifesto highlights a set of 22 quantitative core metrics consisting of information that is already being reported on in exciting frameworks or information that can be easily obtained. These 22 metrics from the Davos 2020 focus on objectives that are within a company's own capabilities. Additionally, there is another expanded and more advanced phase two aspirational future set of 34 metrics. These expanded phase two metrics are less established and revolve around a wider value chain. Both the core 22 and expanded 34 metrics are structured to align with the UN's 2030 Agenda for sustainable development. The metrics are centered around four key areas: principals of governance (led by Deloitte), planet (led by PwC), people (led by KPMG) and prosperity (led by Ernst & Young).⁸ The 22 metrics have been divided by category and each of the Big Four accounting firms have lead on refining the metrics in their categories.

The inclusion of sustainable development goals (SDG) focused metrics is newly emerging as a consensus around building societal impact metrics. The four key pillars (principals of government, planet, people and prosperity) are based on, and coincide with many elements of the SDGs. For instance, the metrics involving principles of governance is highlighted in responsible consumption and production (SDG #12), peace, justice and strong institutions (SDG #16), and partnerships for the goals (SDG #17).

The Big Four are actively working on the proposed 22 metrics with the intent to have a draft to WEF and IBC as a preview before the August IBC meeting. Boards and directors can expect a subset of the 22 core metrics to be emerging this calendar year.



Source: Sustainable Development Goals. UN 2030 17 SDGs¹⁰

After studying the WEF report and distilling it down based on the 45-page document (www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf), I have created a preliminary dashboard subset from the 22 metrics in similar framework to the NIST scorecard. As boards think about how to operationalize ESG, perhaps this scorecard will be a useful starting point for board discussion at a future upcoming meeting. The Big Four's final version is targeted by the end of 2020.

Theme	Core Metric
Principals of Governance	Setting Purpose: Company has stated a purpose linked to societal benefit/core benefit
	Board Composition: Tenure, positions and commitments, gender, membership of under-represented social groups; stakeholder representation
	Impact of Material Issues on Stakeholders: List material topics and how they impact stakeholders
	Anti-Corruption, Anti-Money Laundering, Anti-Harassment: Percentage have received training on all policies and procedures. Number of confirmed incidents
	Protected ethics advice & reporting Mechanisms: Advice, ethical and lawful behavior, integrity
	Integrating Risk & Opportunity into Business Process: Risk factor disclosures as opposed to generic sector risks. Board oversight of these risks overtime: data security, the number of data breaches
Environmental	Greenhouse Gas (GHG) Emissions: Estimate and report upstream and downstream emissions where material
	TCFD-Aligned Reporting on Material Climate Risks & Opportunities: If climate change is material, disclose strategy, metrics/targets, and company committed targets
	Land use & ecological sensitivity: Report on land use, affected annual change in area, Red List species present
	Fresh Water Consumption in Water Stressed Areas: Estimate and report for upstream and downstream supply on mega-liters of
Human Capital	Gender Pay Equality: Ratio of salary and remuneration of women to men
	Diversity & Inclusion: Percentage of employees by category – age, gender, etc.
	Wage Level: Ratio of entry level wage compared to local minimum
	Health & Safety: Injury Rate / Absentee Rate
	Training Provided: Number of trainings provided divided by the number of employees
Prosperity	Net Number of Jobs Created: Total number of new employee hires by age, gender, and region. Rate of employee turnover
	Net Economic Contribution: Financial assistance received from tax breaks, subsidies, investment grants, etc.
	Innovation in better products & services: R&D spend ratio
	Community Investment: Charitable gifts and community partnerships; time contribution.

KEY TAKE-AWAYS

- **The WEF, IBC, and the Big Four have established their own set of metrics that align with the UN’s 2030 SDGs**
- **The metrics are centered around four key pillars: principles of governance, planet, people and prosperity**

Chapter 3 - Frameworks

“While it may feel confusing and overwhelming, it is actually a logical progression of our field’s evolution and thinking. New issues emerge, the breadth and depth of our impacts are better understood, and we all want to know a little bit more.”

– Mike Wallace, a partner of Environmental Resources Management¹¹

Varying frameworks for addressing ESG have emerged in recent years as ESG is now mainstream. Mike Wallace, a partner of the Environmental Resources Management noted that, “While it may feel confusing and overwhelming, it is actually a logical progression of our field’s evolution and thinking. New issues emerge, the breadth and depth of our impacts are better understood, and we all want to know a little bit more.” Amongst the many frameworks, GRI, CDP, SASB, TCFD, and WDI are the most widely used today.

The Global Reporting Initiative (GRI) was established in 1997 to create an accountability framework for companies to display to their stakeholders their responsible environmental business practices. GRI began implementing the term ESG and the focus on these issues in 2009, a few years after the term ESG began to surface. Many investors, businesses, and governments use GRI’s ESG framework today in expressing impacts such as climate change, human rights, governance and social well-being.¹¹

The Carbon Disclosure Project (CDP) began in 2000 aimed to create a global economic system that protects against climate change. The motivation of the CDP framework to transform capital markets by shifting businesses to prioritize environmental reporting and risk management. In 2002, CDP established its environmental disclosure program, and has since grown to be the platform for over 8,400 companies in 800 cities and 120 states and regions.

The Sustainability Accounting Standards Board (SASB) began in 2011 to develop standards that display both sustainability and financial fundamentals. The creator of the framework, Jean Rogers, stated the goal for the framework was so “investors could compare performance on critical social and environmental issues, and capital could be directed to the most sustainable outcomes.” As of today, SASB focuses on financially material information that is more specifically defined per industry. This aspect of SASB sets it apart from the other frameworks.

The Taskforce on Climate-related Financial Disclosures (TCFD) came about in December of 2015 with Michael Bloomberg as its chair in an effort to further consider climate in the global financial system. The TCFD allows companies a way to report their climate-related financial risks, consisting of physical, liability and transition risks, to stakeholders. As of February 2020, over 1,000 public and private companies consisting of \$138.8 trillion AUM have demonstrated their support.

Lastly, the Workforce Disclosure Initiative (WDI) was created in 2016 by the “responsible investment” nonprofit ShareAction in the UK. The framework, modeled after the CDP, collects data on the management of both direct employees and supply chain workers in an effort to provide institution investors with meaningful information. As of 2019, the WDI had 137 investor signatures and 118 companies using the framework.¹¹

KEY TAKE-AWAYS

- **ESG Frameworks are continually developing as ESG becomes mainstream and we better understand it**
- **With the many frameworks, companies should evaluate the areas to focus on regarding ESG and use a framework that aligns with their industry**

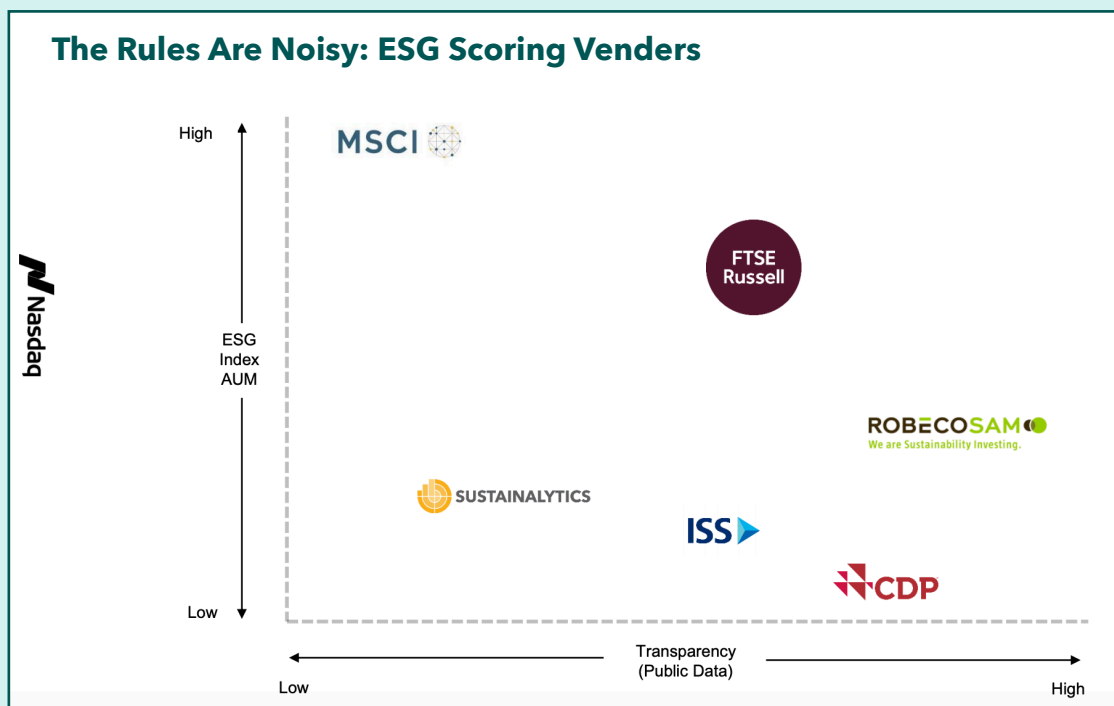
Chapter 4 - Rating Agencies

To serve the growing pool of ESG investors and the increasing demand for data, index providing rating agencies have created their own ratings to evaluate ESG factors. The four major rating agencies for ESG that dominate the current market included MSCI, Sustainalytics, RepRisk, and newly emerging ISS. There is a lot of confusion and noise surrounding ESG rating agencies.

MSCI began in 2010 and is one of the largest independent providers of ESG ratings in the world today. Their rating scale ranges from AAA to CCC with AAA being the best. MSCI is the ESG provider for over 6,000 global companies and over 400,000 equity and fixed-income securities. MSCI has the most ESG index AUM of the rating agencies, but also provides low transparency.

Sustainalytics, created in 2008, is the fusion of DSR from the Netherlands, Scores from Germany, and AIS from Spain. Their ratings are a 0-100 scale that incorporates sector and industry based comparisons. Over 7,000 companies across 42 sectors and is steadily emerging at an international level. Morningstar, as of July 2017, owns 40% ownership in the agency. They have both below average ESG index AUM and transparency.

RepRisk, started in 1998, provides reporting for 84,000 private and public companies ranging internationally spanning 34 sectors. Similar to MSCI, RepRisk's rating scale ranges from AAA to D.¹²



Source: NASDAQ¹³

The last major rating agency, Institutional Shareholder Services (ISS) Environmental and Social QualityScore, is the newest of the four having launched in February of 2018. Their rating scale measures companies' overall environment and social impacts along with further sub-issues and ranges from 0-10 with 10 being the highest possible score. As of 2018, the agency provides ratings for over 5,000 companies across 18 sectors. ISS provides average public data, but still has low ESG Index AUM¹²

I have added a table to display just a few of the many ESG frameworks and rating agencies available today:

Frameworks	Rating Agencies
SASB	MSCI
GRI	Sustainalytics
CDP	ISS Environmental and Social QualityScore
TCFD	RepRisk
WDI	Dow Jones Sustainable Indices (DJSI)
Climate Disclosure Standards Board (CDSB)	Bloomberg Professional Services
UN Principles for Responsible Investment (PRI)	FTSE Russell
UN Sustainable Development Goals (SDG)	Vigeo Eiris

KEY TAKE-AWAYS

- **The four major rating agencies for ESG that dominate the current market included MSCI, Sustainalytics, RepRisk, and newly emerging ISS**
- **There is a great deal of confusion that surrounds the different ESG rating agencies**

Chapter 5 - New Generation of Workers/Investors

ESG is continually becoming a greater factor in a company's success in attracting, engaging and retaining employees correlating to the demographics of the current workforce. Millennials are now the major demographic representing 34% of today's workforce, while generation Z consists of 21%. These demographic groups especially value the issues addressed by ESG.

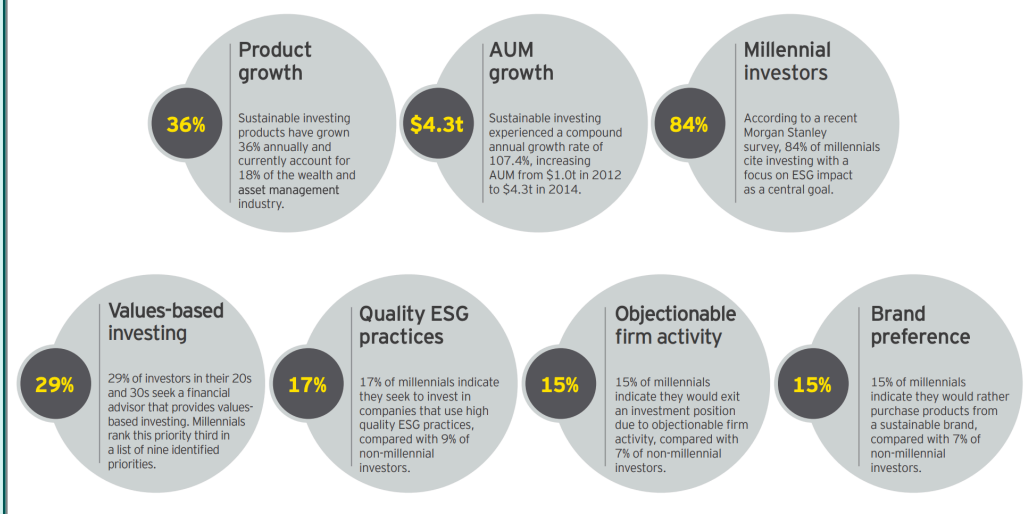
Millennials are expected to make up over three-quarters of the workforce in America by 2025. Furthermore, as the baby boomer generation retires and pass on their resources, millennials are in the process of taking over trillions of dollars of wealth and power in their respective industries.

In a 2019 study by Fast Company that surveyed 1,000 employees at large U.S. companies, over 70% of respondents expressed that they would prefer to work at a company that embraces ESG criteria. Of the millennial respondents, close to 40% claimed they have chosen a job due to the company's sustainability performance compared to less than 25% of generation X and 17% of baby bloomers. Nearly 70% of the employees interviewed also stated that they would be more likely to remain at a company long term if the company had a strong sustainability plan. Over 33% answered that they work harder and put in more time when they work for sustainable companies, and 30% noted that they have left a job because of the lack of attention to ESG issues. Moreover, over 10% of works stated they would accept a smaller salary, as much as a \$5,000 to \$10,000 pay cut, to work for an environmentally responsible company.¹⁵ Therefore, placing a great emphasis on ESG criteria will help a company's ability to both hire the new generation of workers and retain them over the long run.

"We're in the middle of a \$30 trillion intergenerational wealth transfer from baby boomers to their children, and those kids—not really millennials only, but people from 25 to 40 years old - simply think about their investment decisions differently."

– Dave Nadig, Chief Investment Officer and Director of Research at ETF Trends¹⁴

Why sustainable investing matters now



Source: EY, *Sustainable investing: the millennial investor*¹⁶

“Demand for sustainable investments is being driven, in part, by millennials who prefer to invest in alignment with personal values. Consequently, the wealth and asset managers who supply millennials [with] ESG investment options will be strongly positioned to attract new assets to the firm as well as retain beneficiary millennial clients.”

– Julian Seelan,
Sustainable Investing
Lead for Wealth and
Asset Management
Clients at Ernst &
Young¹⁴

industry is moving from a passive investor population, which I dependent on the income from defined benefit pension plans to a population that is self-funding via their defined contribution plans. These millennials will demand more active involvement in their own investment as they wish to be actively involved in controlling their own destiny.” In 2018, the Allianz ESG Investor Sentiment Study Report announced that 57% of millennial investors “turned down an investment opportunity because the company harmed consumers’ health or well-being.”¹⁵ Just as millennials want to work at companies that align with their values and beliefs, they look for investment opportunities with these same values. Investment firms and companies will need to reshape their strategies to account for this new trend. This trend is expected to continue as millennials continue to grow their savings.

KEY TAKE-AWAYS

- **Millennials are now the major demographic representing 34% of today’s workforce**
- **They want to work for companies that align with their ESG concerns**
- **Millennials investors are looking for investment opportunities in companies addressing ESG**

Investing strategies involving ESG are also shifting with millennials at the forefront. Millennials show to be more “hands-on” and active in their investment strategies than the generations before them. In a 2017 report by Ernest & Young, Greg Cobb, the director of Fixed Income for Boyd Watterson Asset Management stated, “The

Chapter 6 - ESG Investing

BlackRock, a visible and loud voice in the index fund space, is placing a greater emphasis on sustainable investing. CEO, Larry Fink, expressed that his investment firm is increasingly integrating ESG issues into the investment decisions. He stated, “A company’s ability to manage environmental, social and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth.” From a global perspective, their goal as of January is for the firm to increase the number of ESG exchange-traded funds and ESG index funds to 150.

As reported by Morningstar, Fink has also announced that BlackRock will begin reporting proxy votes each quarter. Additionally, they said they will immediately disclose their votes and an explanation for certain high-profile votes.¹⁶ This is a step by BlackRock to try to place their fund into a leadership position concerning proxy voting disclosure. The fund’s position is that they are not hesitant about voting against managements that they view as not having made enough or any progress on sustainability issues.¹⁶

“A company’s ability to manage environmental, social and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth.”

– Larry Fink, CEO of BlackRock¹⁶

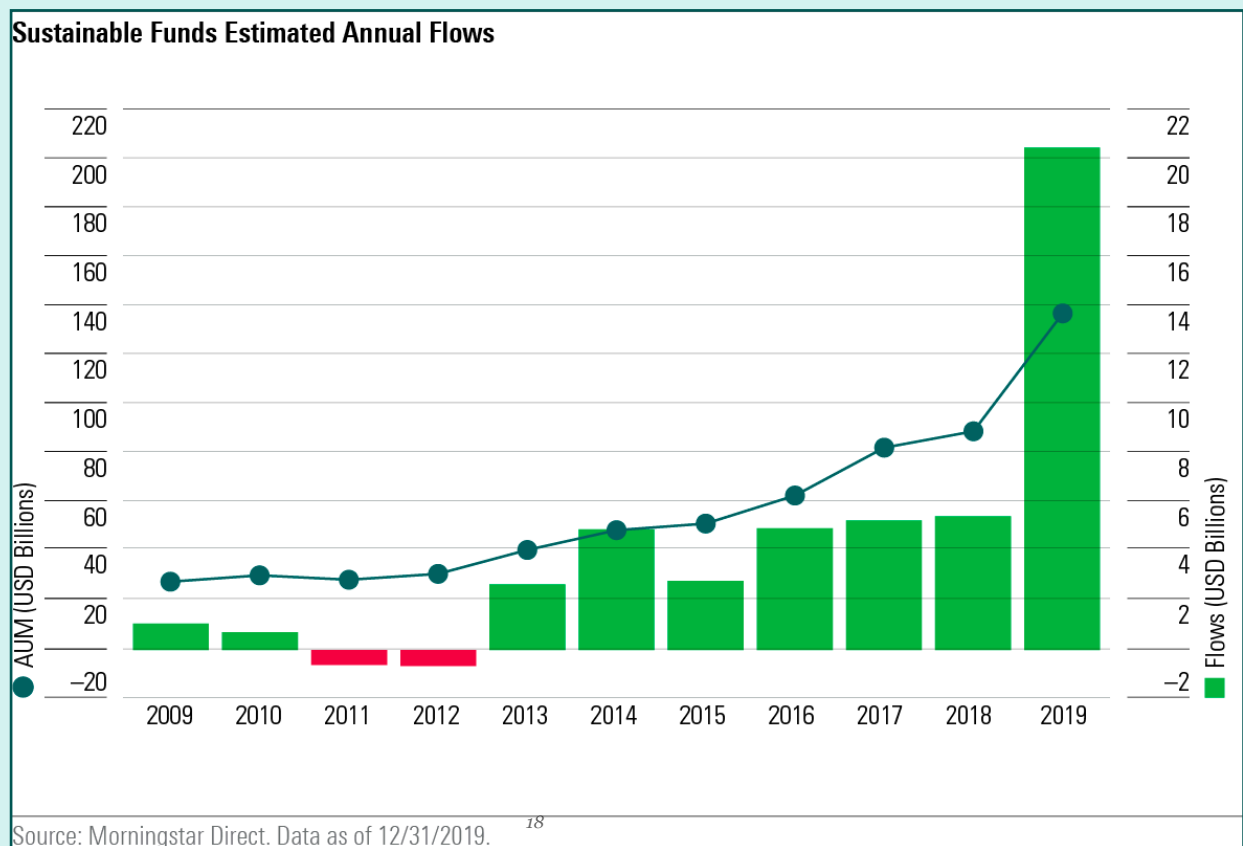
KEY TAKE-AWAY

Major investors such as BlackRock are holding companies accountable for their lack of implantation and attention to ESG issues.

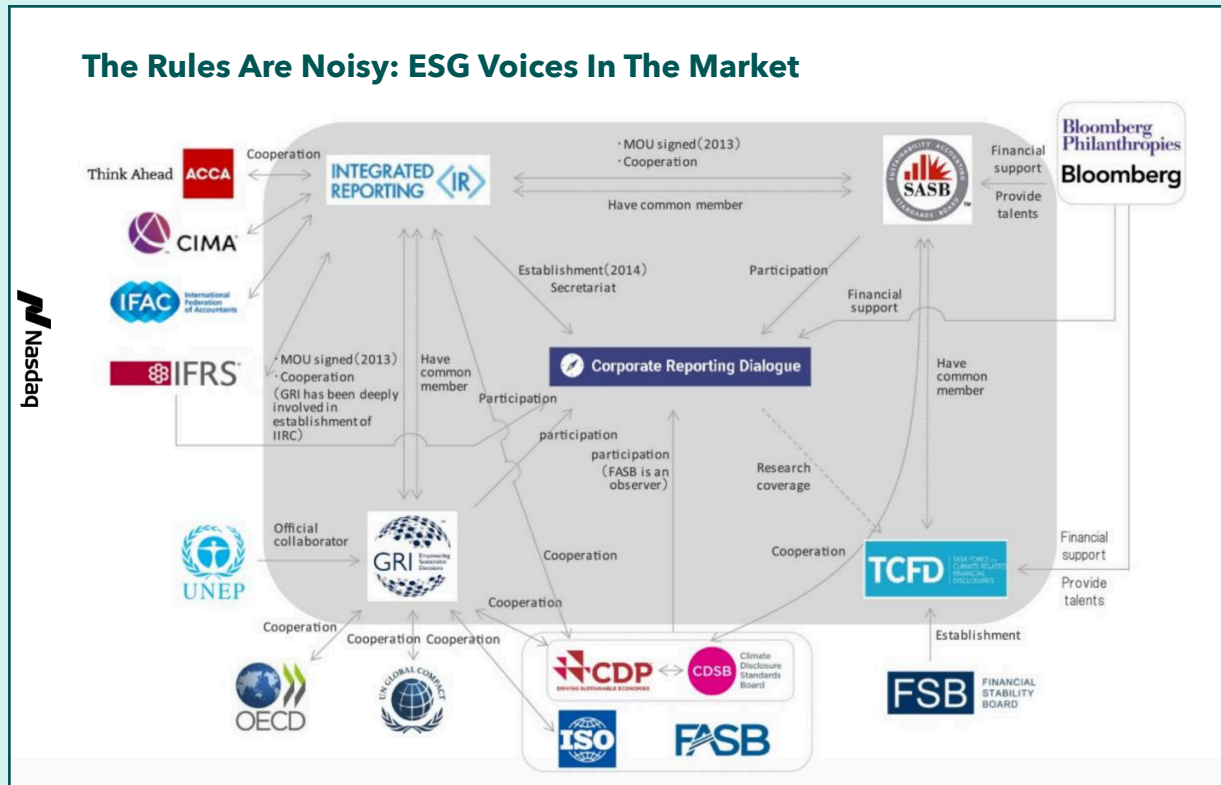
Chapter 7 - Current Status

On May 22, 2020, the US Securities and Exchange Commission (SEC)'s investment committee decided to create an ESG disclosure framework for consistent and comparable information without the use of a third party rating agency. The chair of the investment committee, Anne Sheehan, noted "the SEC is best-placed to set the framework for issuers to disclose material information upon which investors can rely to make investment and voting decisions."

The ambiguity that surrounds ESG ratings was the main motivator for the committee's decision. Despite the large increase in sustainable exchange-traded funds (ETFs) from \$5.5 billion in new fundings in 2018 to \$20.6 billion in 2019, the importance of ESG ratings will vary respectively without a standard structure. According to MIT research's in their Aggregate Confusion Project, "It is likely (about 5 to 10% of firms) that the firm that is in the top 5% for one rating agency belongs to the bottom 20% for the other."¹⁷



This inconsistency amongst ratings has influenced the SEC to begin proposing the creation of a standard framework. The noise and uncertainty in the sustainability market is harming the progress of resolving ESG issues. The SEC believes a standard framework will benefit both companies looking to acquire capital, and investors effectively allocating capital and exercising votes. The SEC's efforts are at an early stage.



Source: NASDAQ¹³

KEY TAKE-AWAY

The ambiguity surrounding ESG rating agencies has motivated the SEC to begin creating a standard framework as well that would benefit both companies and investors.

Chapter 8 - Market Trends

NASDAQ reviewed the 2019 MSCI ESG rankings for the S&P 500 that consisted of 493 of the 505 companies who received rankings. They calculated a variety of performance metrics valuation including price performance and volatility measures over the last five years evaluated as of the end of 2019. Using the seven potential MSCI ratings ranging from AAA to CCC, NASDAQ established their own categories for analysis. The established “leaders” to be graded AAA or AA, “average” as A, BBB, or BB, and “laggards” as B or CCC. Additionally, NASDAQ compared these three categories’ performances with that of the market.

Their results found that over the last five years, companies considered as sustainability leaders under the MSCI framework exhibited both higher returns and less risk. Additionally, companies considered as sustainability laggards showed the opposite results. The median daily price return compared to the market for leaders was 6.3%, for average was 1.3%, and for laggards was -22.7%. These trends were also displayed through their overall risks measured by daily five year price variance compared to the market. Leaders exhibited 6.4% less risk, average companies showed 0.8% less risk, and laggards displayed 10.2% greater risk. The laggards also had a median daily price return of 4.8 bps which is almost 23% less than the S&P 500. The leaders showed far less volatility than the market having 152 bps daily volatility. The leaders were also the only group with positive return and a greater probability of having positive returns (skewness).¹⁹ This suggests there to be less occurrences of negative outlier events to companies graded AAA or AA by MSCI. As ESG criteria is becoming more mainstream, investors are not only looking at companies incorporating it as valuable investments, but also companies lacking ESG as disadvantageous and far riskier investments.

Companies ignoring ESG ratings may be harmed like Equifax’s mishandling of its cyber breach in September of 2017. In fact, MSCI’s scrutiny of Equifax’s governance practices raised a red flag about their cyber vulnerability, well before the breach occurred and the company botched their response. If Equifax had placed a greater focus on their MSCI rating, they could have possibly been able to handle, and potentially prevent the cyber breach.

In Japan, there is the JPX-Nikkei 400 index, known as the “shame index” that identifies companies that don’t comply with international disclosure and governance standards.

NASDAQ further analyzed the connection between a company’s MSCI rank and their over- and under-performance. Leaders showed better performances with higher profits and lower interest rates, while laggards displayed under-performance in these aspects. They found that the 85 MSCI leaders in the S&P 500 showed 11% higher FY1 P/E relative to the market, opposed to 1.4% lower for average companies and 0.8% lower for laggards. On top of that, the leaders exhibited greater profit than the market (10.6%) relative to their earnings before interest and taxes (EBIT) compared to average companies (1.2%) and Laggards (-16.0%). By observing the companies returns on invested capital (ROIC), leaders displayed 22.3% greater capital efficiency while average companies and Laggards showed less (-5.5% and -12.8% respectively). Leaders also faced far lesser interest rates (-11.1%) than average companies (-1.3%) and laggards (4.3%). Leaders had 16.5% greater access to capital as well compared to -0.1% for average companies and -4.1% for Laggards. This coincides with previously stated data reflecting that ESG leaders are less risky investments. The dividend yield for Leaders was 10.3%, -0.7% for average companies, and -39.6% for Laggards. Lastly, Leaders showed much higher market cap (\$31 billion) in comparison to the market (\$24 billion) and Laggards (\$22 billion).¹⁹ As shown through the MSCI data, companies labeled leaders by MSCI exhibited far greater returns with lesser interest rates, while laggards faced greater interest rates.

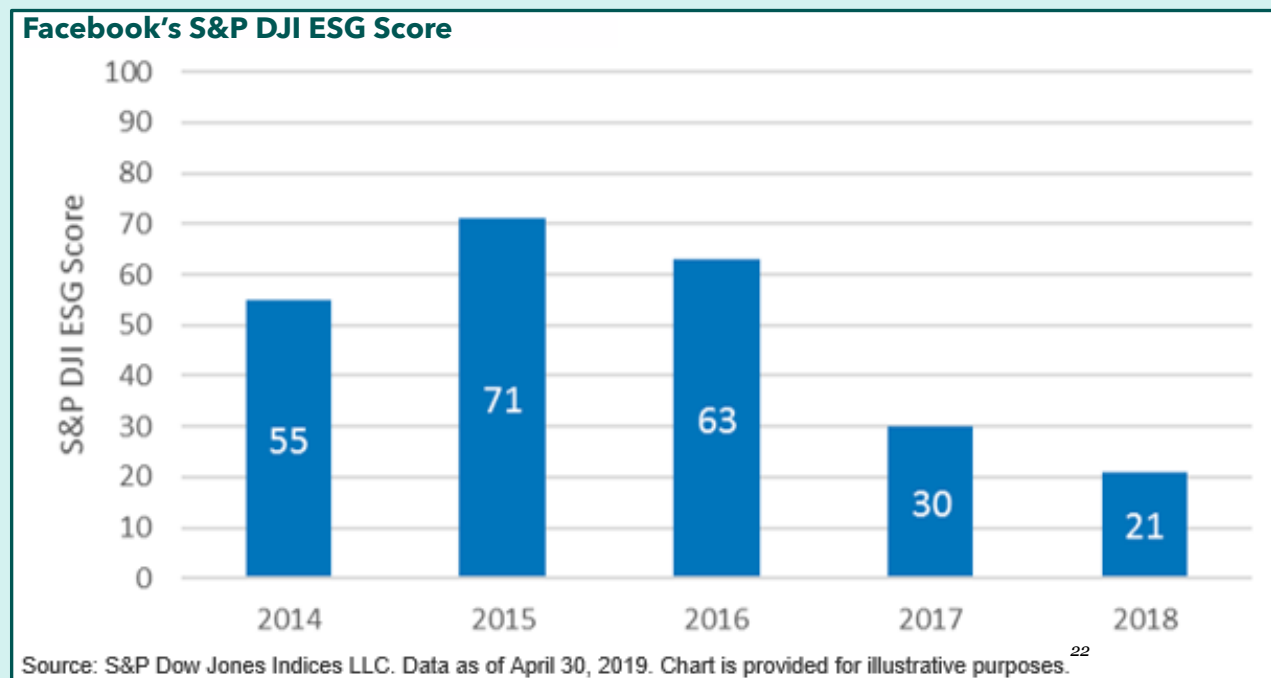
KEY TAKE-AWAY

The implementation of ESG is not only helping those companies through their profits and attractiveness to investors, but is also now hurting companies lacking the attention to ESG criteria.

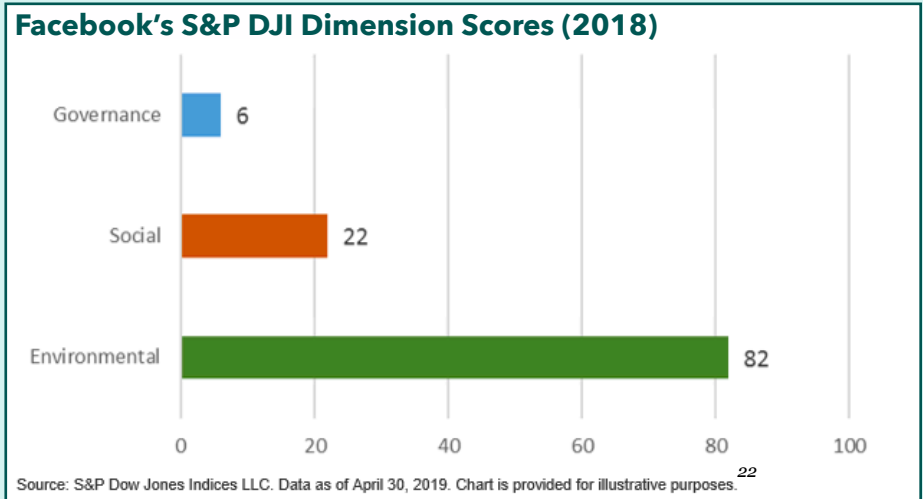
Chapter 9 - Big Tech

In 2019, investment companies such as Aviva, HSBC, Legal & General, and Nomura and Northern Trust all agreed to advocate for better content management against Silicon Valley's biggest social media companies. The trend began following the March 15th Christchurch mosque shooting in New Zealand where a terrorist used Facebook to live stream the massacre of 50 muslims. Additionally, images of the massacre remained circulating throughout social media platforms. The \$41 billion sovereign wealth fund, the "NZ Super Fund," responded to the crisis by starting the first global investor coalition with the objective of campaigning social media issues. As of December of 2019, nearly 100 asset managers controlling \$13 trillion in assets have signed the coalition.²⁰ Social media platforms Facebook, Twitter and Alphabet have stated a desire and plan to address the complaints.

Facebook is no stranger to ESG criticism from investors. On June 11 2019, the S&P 500 ESG Index announced that Facebook has been removed due to privacy concerns. S&P's global head of ESG, Reid Steadman, addressed the decision by stating, "The specific issues resulting in these scores had to do with various privacy concerns, including a lack of transparency as to why Facebook collects and shares certain user information." This backlash came as a result of the misuse of personal information by Cambridge Analytica and the hacking of almost 50 million accounts.²¹



The S&P 500 uses companies' S&P DJI ESG scores to rank companies within their S&P 500 GICS® industry groups. Facebook received a score of 21 out of a range of 0 to 100, a low enough score to be removed from the 75% of the Media & Entertainment industry group's market capitalization within the S&P 500 ESG Index.



Facebook received a strong environmental score of 82, but this only accounts for 21% weight of the company's ESG score due to the lesser materiality of environmental issues for the technology industry. On the other hand, Facebook received a score of 22 for social which carries a 27% weight, and a score of 6 for governance which carries 52% weight.²²

Amazon has experienced similar backlash from its investors as well. Despite being one of the most valuable public companies in the world, investors are putting their foot down on ESG criteria. In November of 2019, a joint investor letter backed expressed their concerns and risks associated with human and civil rights abuses that stemmed from Amazon's gender pay disparities, facial recognition software sales, and large carbon footprint. This letter was supported by 114 institutional investors who represent over \$2.6 trillion in AUM.²³ The Shareholders filed 15 proposals and twelve went to a vote on May 22nd at the company's annual meeting.

*"Rather than attempting to silence shareholder voices, the proposals should be seen by Amazon management as an opportunity to receive constructive, solutions-oriented feedback from stakeholders concerned about the long-term sustainability of the company."*²²

– Interfaith Center on Corporate Responsibility (ICCR)²⁴

KEY TAKE-AWAY

ESG activists are growing awareness and concerns about Big Tech conduct regarding their ESG awareness. Despite the size of these companies, shareholders are paying more attention to these issues, and using their power to hold the companies accountable.

Chapter 10 - Moving Forward

The global COVID-19 pandemic has reinforced the focus for ESG criteria. For the first quarter of 2020, Morningstar reported that 70% of sustainable equity funds ranked in the top halves of their respective categories based on returns, and 44% of those funds scored in the top quartile. HSBC also observed that the stocks of companies displaying high attention to ESG issues outperformed their competitors by 5.7%. Sustainable funds were still hurt by the economic downturn caused by COVID-19, but the losses were lower than other funds.

Jon Hale, the head of sustainability research for Morningstar, commented, “It’s very simple, really — companies truly focused on the well-being of their workers and customers are able to make the right decisions more quickly in a major crisis like this one.”²⁵ The pandemic is emphasizing how companies are responding and how they are supporting their employees in time of distress. It is bringing further attention to the notion that companies with high ESG scores have well-run executive teams. These businesses should be better prepared and equipped to handle a downturn and recover better and faster. For executives, the COVID-19 outbreak is a learning experience to grow and develop your company to new heights revolving around issues of ESG.

“From a moral and societal perspective, the coronavirus pandemic has highlighted to many people how we are all in this together. How companies are built to respond to the crisis and support customers, employees and communities at large is very front and center right now.”

– Samantha Azzarello, global market strategist at J.P. Morgan Asset Management²⁵

KEY TAKE-AWAY

- **The coronavirus pandemic is highlighting the focus on ESG implementation for the companies**
- **Companies implementing ESG may respond quicker and better in face of adversity**

Conclusion

My goal in sharing this information is to help everyone gain a deeper understanding of the history of how stakeholder capitalism was invented and where it is today. ESG is the operationalization of stakeholder capitalism. There are many organizations that contribute to stakeholder capitalism and ESG, but the key pioneers have been the World Economic Forum created and led by Professor Klaus Schwab. A subgroup of the World Economic Forum is the International Business Council which comprises the top 120 largest global companies. They are leading the way to create a consensus market led view of how to implement ESG. Additionally, the Big Four accounting firms have the mandate from the WEF and IBC to create a consensus view of the core metrics for an ESG reporting system that can be embraced and implemented across the market on a voluntary basis, hopefully creating a de facto standard (much like the National Institute of Standards Board created the NIST dashboard for looking at cyber oversight and compliance).

With all of this background and the fact that our stakeholders truly are looking for their boards to understand and take leadership on ESG, hopefully this gives some clarity to the history that has led us to the current state of affairs with the multiple frameworks and rating agencies. The noise and confusion around this topic should not be a reason to wait however. All companies can and should begin reporting on ESG. For example, most corporation today have excellent human resource organizations and policies. Your existing policies on diversity inclusion, anti-harassment, wellness safety, etc. are part of an ESG framework. Of course your company has internal policies on anti-child slavery labor, anti-corruption anti-bribery anti-money laundering. All well run companies look to protect their critical information; with cyber oversight programs such as the NIST dashboard that are regularly reviewed as part of an enterprise risk management framework that audit committees typically use. Most companies have policies on safety, wellness, data privacy, and so on. This long list of things already exist in your companies.

As a director the opportunity is here for you to start to collect, capture and communicate in one of the many frameworks, to one of the many rating agency so you can get credit for the many good things your corporation is already doing. By beginning the process of incremental reporting and beginning to find the quantitative metrics that you can measure and report out on as the beginnings of an overall ESG program, you are making forward progress that will be recognizing by your many stakeholders

My call to action at the end of this comprehensive paper that you've spent the time to read is to begin this process. Start your reporting. You will still get credit, even partially. The ESG frameworks are evolving but we are making great progress towards a consensus core set of metrics. Your companies will be appreciated and rewarded for the work you do by beginning to report out on ESG. Put it on your next board agenda!

About Betsy Atkins

CEO and Founder of Baja Corporation

Betsy is a 3-time CEO and serial entrepreneur & founder of Baja Corporation. She has co-founded enterprise software companies in multiple industries including energy, healthcare and networking. She is an expert at scaling companies through hyper growth and leading them to successful IPO and acquisitions. Her more notable IPOs and sales include the acquisition of Clear Standards by SAP and Ascend Communications (\$5.4B in revenue) which was then acquired by Lucent for \$23B. At Baja Corporation, Betsy has built 3 early stage funds investing in enterprise, software, healthcare, and energy.



Betsy is a corporate governance expert with an eye for making boards a competitive asset. Her corporate Board experience is vast and covers multiple industries including: Technology, Retail, Healthcare, Hospitality, Auto, CPG, Manufacturing, and Logistics. As a Corporate Director, she brings an operational perspective which focuses on taking friction out of the consumer experience. She leverages broad contemporary knowledge of digital technology to reduce costs, drive efficiency and productivity using AI machine learning analytics to streamline processes.

Previously, Betsy was the CEO of NCI, a food manufacturer creating Nutraceutical and Functional Food products. NCI created the PowerBar and healthy snacks for Kraft, Nabisco, etc. Betsy was also the CEO of Clear Standards, which developed enterprise level software for monitoring carbon emissions.

A published author, Betsy's work on Corporate Governance includes her third book *Be Board Ready*, the Wall Street Journal, Financial Times, NACD, Business Insider, and Forbes.

She currently serves on two public company boards: Wynn Resorts and SL Green Realty. She is also a member on the board of Volvo Cars (private). She is a proud graduate of University of Massachusetts, Amherst.

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