

Strictly confidential

BÉT

ESG Fórum

Budapest, 16 July 2020

EgonZehnder

E(nvironmental) S(ocial) G(overnance) – ESG

The environmental, social, and governance practices of an investment that have a material impact on performance. The integration of ESG factors identify potential risks and opportunities beyond technical valuations.

While there is an overlay of social consciousness, the main objective of ESG valuation remains financial performance. Investments with good ESG scores have the potential to drive returns, while those with poor ESG scores may inhibit returns.



Environmental

- Energy consumption
- Pollution
- Climate change
- Waste production
- Natural resource preservation
- Animal welfare



Social

- Human rights
- Child and forced labour
- Community engagement
- Health and safety
- Stakeholder relations
- Employee relations



Governance

- Quality of management
- Board independence
- Conflicts of interest
- Executive compensation
- Transparency & disclosure
- Shareholder rights

Why we at Egon Zehnder have something to say about sustainability

Introduction



Spanning four continents, the Sustainability Practice Group comprises over 20 consultants with diverse and global industry experiences. In recent year sustainability has become a major topic across sectors. Following this trend, and to best serve our clients, we work closely with our colleagues across practices to support organizations in their journey towards a more sustainable future.

Experience



We have successfully completed over 90 sustainability executive searches, from placing the inaugural Executive Director of a multi-stakeholder organization focused on improving the sustainability of the supply chain, to identifying the next Chief Sustainability Officer for a multi-billion dollar commodities company. In addition to executive search, our consultants work with organizations to check the pulse of their sustainability initiatives, resulting in actions that promote alignment and accelerate progress.

Position in Industry



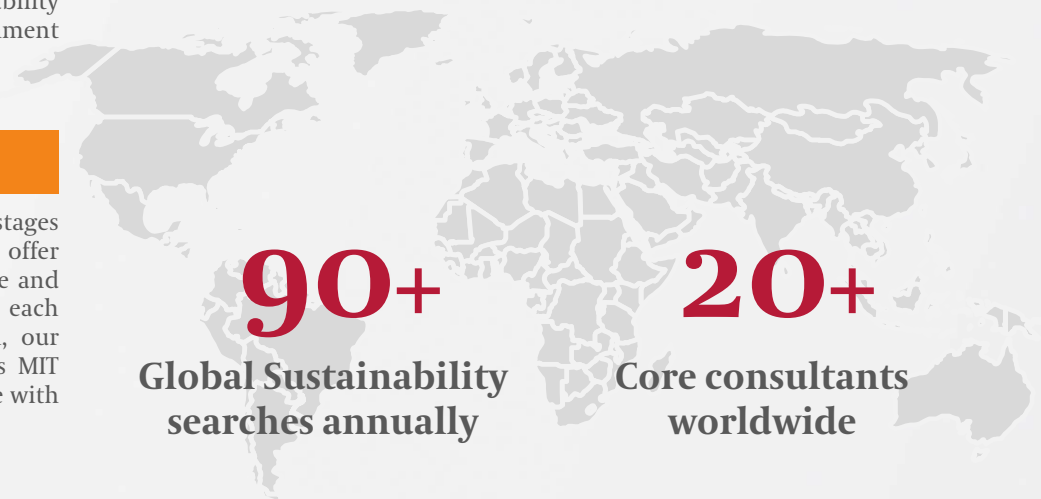
Having partnered with organizations at different stages of the sustainability journey, our consultants offer solutions based on their direct industry knowledge and understanding of the competencies needed for each phase of organizational capability. In addition, our consultants publish in business journals, such as MIT Sloan Management Review, and engage in dialogue with sustainability thought leaders.

Trends in Sustainability

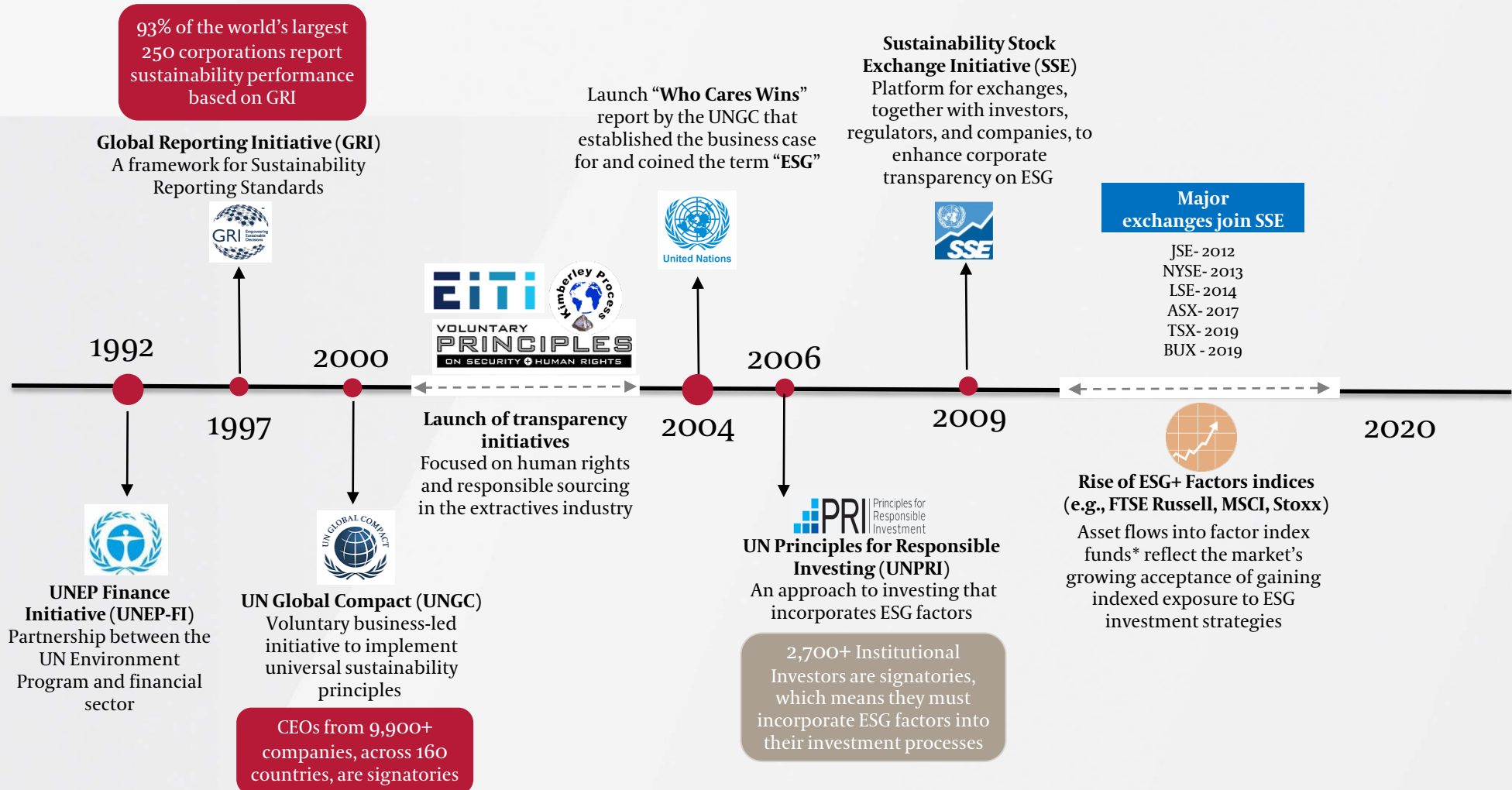
Talent



Sustainability leadership, from an organizational perspective, demands a multi-faceted executive profile with demonstrated competencies in Change Leadership, Collaboration and Influencing, Commercial Orientation, Results Orientation, Strategic Orientation, and Team Leadership. While all of these competences are relevant, they vary in relative importance as sustainability evolves as a strategic topic within an organization. Our consultants partner with clients to determine the core strengths and executive profile best suited to tackling their present and future sustainability challenges and opportunities.

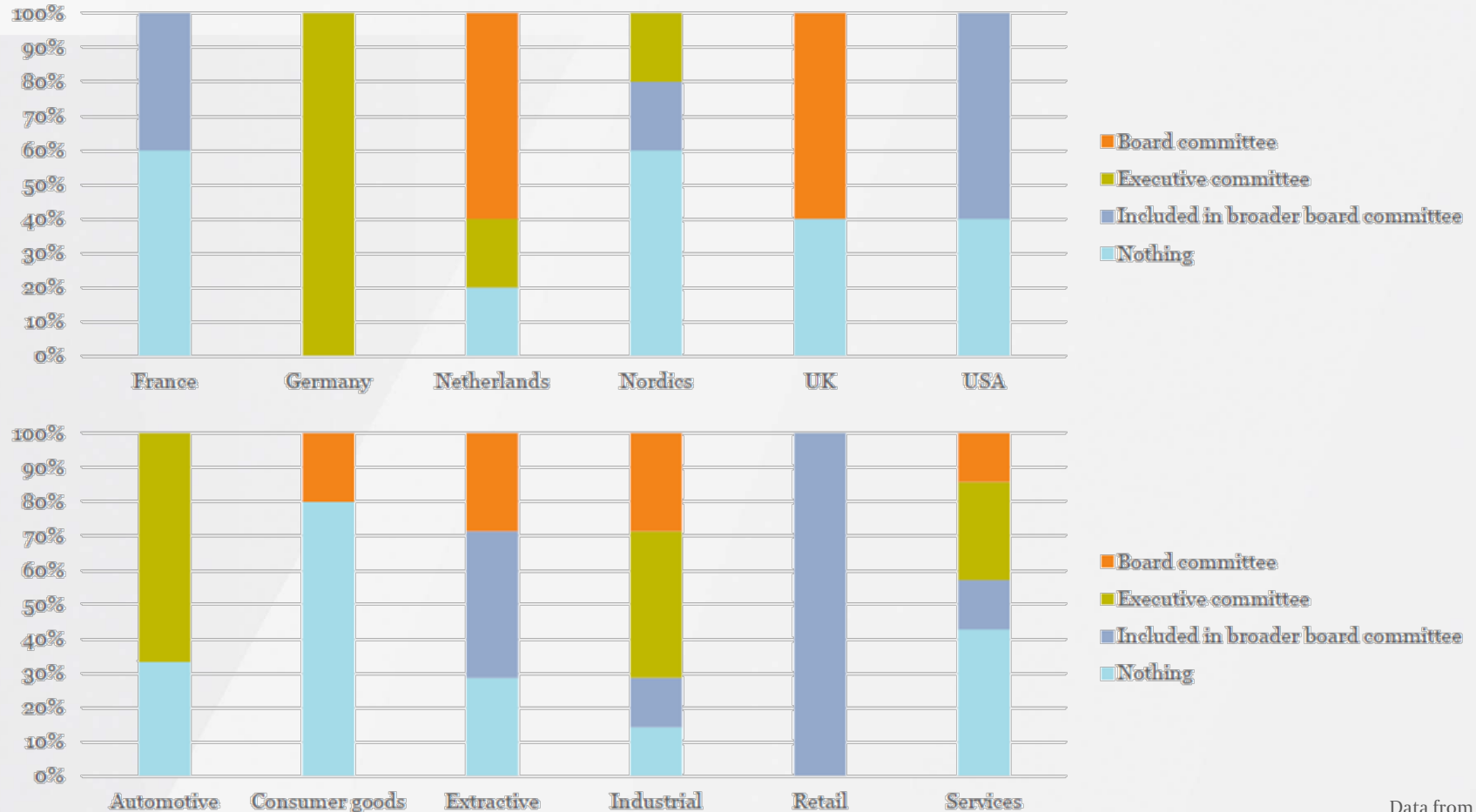


Rise of ESG investing and the push for greater transparency driven by market forces



Existence of a Sustainability Committee in the Board of Directors or Executive Management

By country & industry



Data from 2017

Yet, ESG is gaining importance

“Evidence is mounting that company performance regarding environmental, social, and governance (ESG) factors contributes to business success, and the speed at which those factors become material to any given business is increasing. Consider, for example, how quickly the COVID-19 crisis translated from a health crisis into one of the worst economic crises in recent history.”

BCG

“It’s up to corporate decision makers to take charge of their environmental risks because we are seeing change in consumer behavior and investor attitudes.”

Morgan Stanley

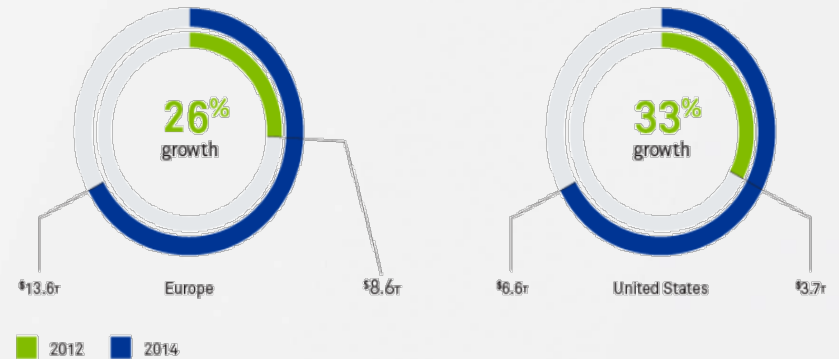
“Investing for ESG requires the same rigor and discipline as “traditional” investing, and the distinction between the two is growing increasingly irrelevant.”

Goldman Sachs

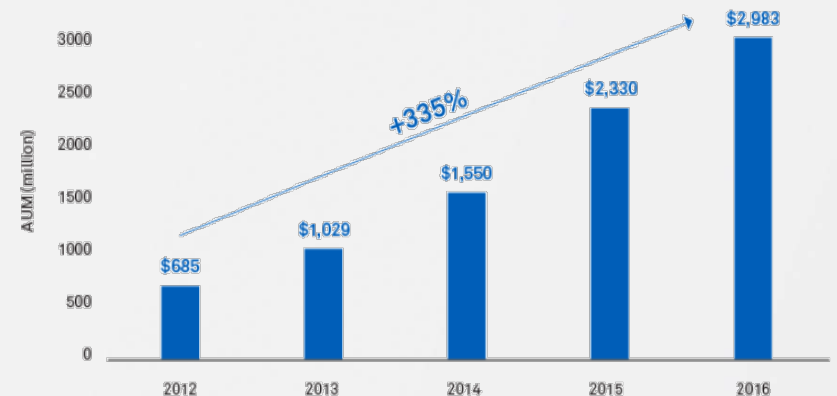
“Resilient and well-constructed portfolios are essential to achieving long-term investment goals. Our investment conviction is that sustainability-integrated portfolios can provide better risk-adjusted returns to investors.”

BlackRock

GROWTH IN SUSTAINABLE ASSETS¹



EVOLUTION OF ESG ETF ASSETS UNDER MANAGEMENT²



Source: www.blackrock.com



Companies that incorporate ESG issues into their core business strategy will enjoy a competitive advantage

Risks

- The SDGs and various other UN initiatives have helped coin the term ‘ESG’, as well as develop and promote ESG standards for responsible businesses. However, the scope of ESG matters today remains highly subjective.
- Slow but standardized progress on the regulatory side around ESG. Meanwhile, scrutiny on ESG matters is rapidly rising in the private sector – yielding highly detailed but largely divergent views on company performance from 3rd party rating agencies – and this is informing/influencing investor decisions.
- The rise of an ESG-centric ecosystem poses significant downside risks, including to the cost of capital, for companies that are ill-equipped to manage related complexities (technical subject matter; issues that encompass the entire value chain and company life cycle; greater scrutiny from regulators and investors)

Opportunities

- Many studies have found a positive relationship between ESG and company performance. These companies enjoy increased efficiency and a competitive advantage.
- The right ESG leadership and strategy can greatly improve the social image of a company
 - Company values embedded in sustainability, together with a sense of purpose to be a force for good, can help drive higher employee engagement and retention.
 - A sustainability-led strategy focused on creating positive outcomes, with measurable impact on economic development and the well-being of local communities, can go a long way in helping mitigate resistance to a company’s social license to operate.
- A business with “purpose” unifies management, employees and communities, guides organizational culture and decision making, and this ultimately, helps sustain long-term financial returns for company shareholders.

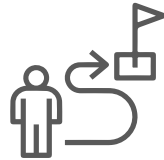
8 Trends in Sustainability

CSR programmes are giving way to more integrated strategies across business functions. We identify 8 trends for embedding sustainability issues into company practices



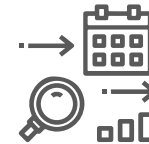
Re-evaluation of the traditional market economy

To do things differently within the globalized economy; eg. One-for-One business model



Re-examination of company purpose

To inspire by defining a philosophical heartbeat



Call for long term perspective & strategy

To include all stakeholders, not just shareholders



Strengthening of compliance and risk-management

To eliminate all wrongdoing in an organization



Measuring of performance & rise of commitment to international standards

To support greater transparency and deliver upon the UNSDG's



"Going green"

To limit emissions and boost innovation



Virtuous business leadership & reputation management

To build trust and integrity



The forging of (issue specific) collaboration

To maximize impact

How boards are handling ESG

Your acronym of choice matters

- **CSR** is internally driven with a focus on an organization's commitment to give back to local communities in which they operate (e.g., volunteer hours, sponsorship of community events, etc.).
- **ESG** is broader, drilling down on material issues companies must confront to be able to identify and mitigate risks, and the road map for handling these risks comes from the CEO and board.

Boards don't need to tackle every ESG-related issue

But they do need to be clear on which issues to prioritize based on their impact to the company. Companies need to be clear on which risks (or opportunities) would have the biggest impact on them, how the issues will be addressed and in what timeframe.

What do you measure and how do you measure it?

There is a lack of consistency in metrics used by proxy advisors and institutional investors on ESG. Once companies are clear on priority ESG issues, those are the ones they must assign metrics to. Reporting should be individualized and give the full context of the industry and organization.

Companies must tell their ESG story

Communicate your ESG metrics. Getting external recognition on ESG matters helps a company position itself well for proxy advisor ratings and also for institutional investors who measure these factors.

Define the role of the board (and management)

Some companies have added specific board committees dedicated to ESG and sustainability, and others allow the management team to take the lead and bring matters to the board for review. There were differing views from the nominating chairs in attendance.

Sustainability agenda: More important than ever

How the COVID-19 crisis may actually build support for ESG

A new, broader definition of ESG

As companies now focus on keeping their employees safe, and to the extent possible, employed, the social contract between employer and employees is being rewritten.

“Customers are going to ask, ‘what did you do during the COVID-19 Crisis?’”

More collaboration and innovation

Tackling challenges, for which there is no precedent or blueprint, is already leading to more partnerships between competitors and suppliers.

“The more companies partner with each other, the more comfortable they will become with sharing information and resources to decrease cost and improve efficiency.”

Increased focus on Supply Chain

In a post-COVID world, the Supply Chain function will be critical in helping companies become more agile and adaptable. As supply chains are redesigned, companies should view this an opportunity to include an environmental review.

“Resilience design in the supply chain is critical.”

Investors are further prioritizing ESG

Contrary to expectations, ESG funds have continued to outperform their traditional counterparts.

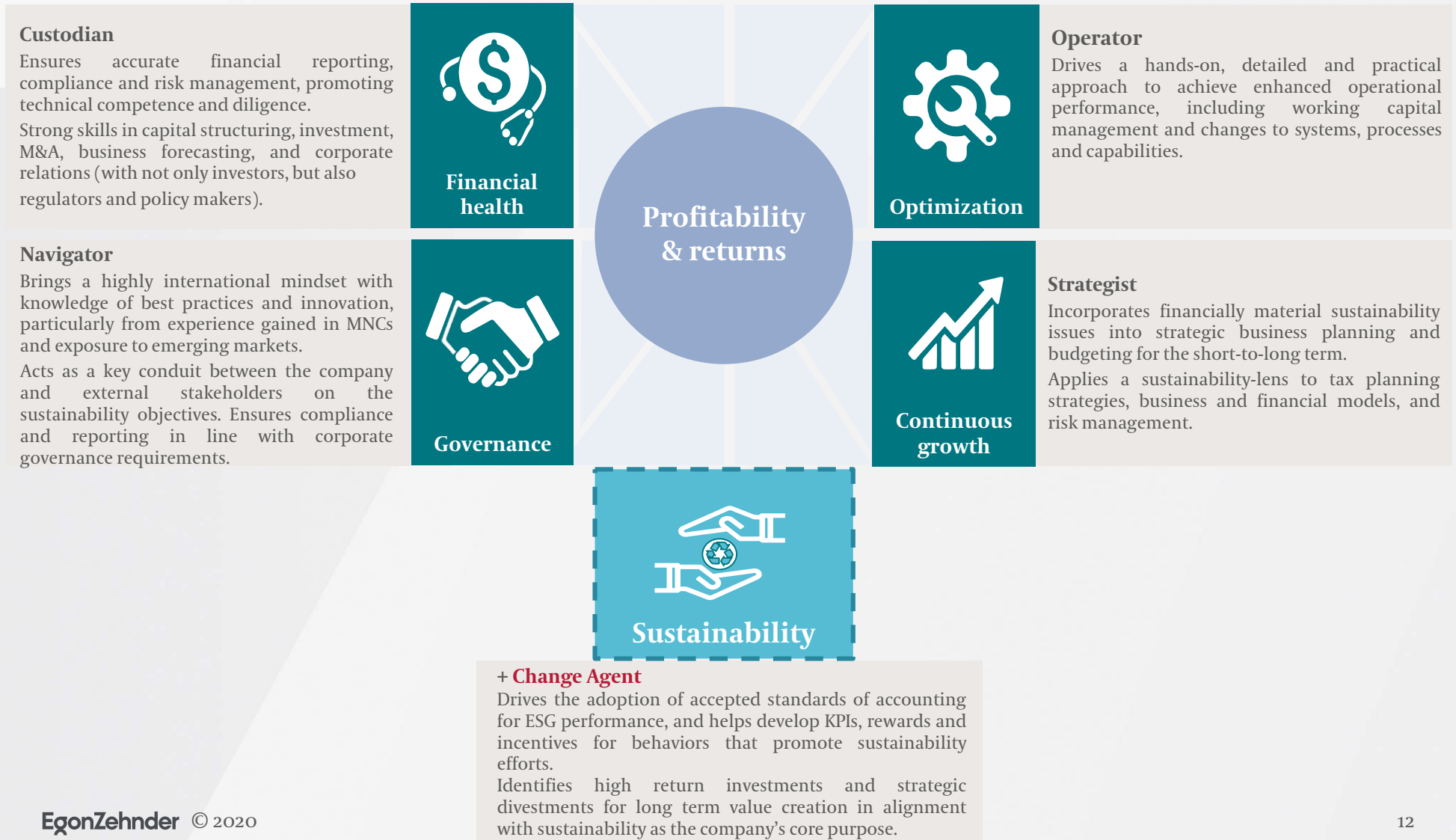
“Investors are clear that the full ESG agenda is still important to them.”

The C-Suite carries particular importance: example of the CFO role evolved over the years to manage growing complexities...



...and now must transform finance for sustainable value creation

The CFO role has evolved over the years, and within the future business ecosystem, it will combine:



In terms of leadership traits, top C(hief) S(ustainability) O(fficer)s are exemplified by...



Curiosity

- drives and challenges, does not just administrate
- strives to understand complex issues that are material to the business, thinks out of the box'
- is an agile learner towards new ways of doing things- starting with self development



Courage

- leads with purpose
- shows willingness to do what is right, not what is convenient
- assesses and balances risks
- engages and communicates clearly and in a compelling fashion



Engagement

- leads effectively across hierarchies, geographies and businesses
- creates alliances, partnerships and momentum across the organization
- Engages people with the heart not just the head

There are five archetypes commonly found in Sustainability Leaders

Creates strategies to respond to climate change, as a means towards advancing sustainable development goals

Leaders with expertise in:

- Environmental Science
- Technical expertise

Drives a cultural transformation within the business to improve well-being across stakeholder groups

Leaders with expertise in:

- Diversity, Equity and Inclusion
- Human Resources
- Benefits
- Supplier and Community Relationships

Advocates for fundamental changes to the core business, affecting products, materials, employees, communities and consumers

Leaders with expertise in:

- Engineering
- Manufacturing
- Circular Economy
- Supply Chain and Sourcing
- New Product Development
- Environmental Health and Safety (EH&S)

Understands changing regulatory environments and material risks to the business; is credible with external policy-makers, regulators and the Board

Leaders with expertise in:

- Government Affairs
- FDA/Regulatory
- Risk Management
- Public Affairs and Advocacy



Shapes and tells the sustainability story for the organization; ensures external recognition for progress on key metrics

Leaders with expertise in:

- Corporate Communications
- Branding/Marketing
- Metrics and Reporting

***Thank
You!***