Upswing's Five Minute Insights

Evolving Investor Expectations

How elevating Environmental, Social and Governance (ESG) disclosures can increase the value of your business

Environmental, Social and Governance (ESG) investing has experienced a sharp uptake over the past few years, with sustainable funds in the United States experiencing a **nearly tenfold increase from 2018 to 2020**. ESG investing represents an **estimated $40 trillion industry, $3.2 trillion** of which were Canadian ESG assets as of December 31st, 2019.

As awareness of global sustainability challenges continues to grow, how investors evaluate risk and value companies is changing. They're looking for boards to move beyond fiduciary duty to disclose and address environmental and social risks.

The push to measure a company's performance beyond their bottom line has resulted in an increase in transparency and accountability, with sustainability reporting soaring **a hundredfold over the past two decades.**

Smart ESG disclosure can not only help your business attract investors and address government and consumer concerns, it represents an opportunity to **increase your company's value, manage risk and strengthen your brand.** Let's find out how.

Mark Carney, former Governor of the Bank of England, has been sounding the financial alarm bell about climate change since 2015 and his message is stark:

"Companies that don't adapt will go bankrupt without question. There will be industries, sectors and firms that do very well during this process because they will be part of the solution, but there will also be ones that lag behind and they will be punished."

— Mark Carney, Vice Chairman and Head of Impact Investing at Brookfield Asset Management

What is ESG?

The term ESG was coined in a landmark 2004 study **"Who Cares Wins—Connecting Financial Markets to a Changing World"**, which argued that the proper management of environmental, social and corporate governance issues were vital to successful market performance and to advancing sustainable development.

ESG data is used **alongside traditional financial metrics** to assess the risks and opportunities associated with a company's environmental, social and governance performance.

ESG-related terminology evolved initially from socially responsible investing (SRI) in the 1920s, to responsible investing (RI) in the 1930s, to sustainable investing (SI) in the 1990s.

COVID-19 presented the first time ESG investments have been put to the test in a bear market, and with most ESG assets outperforming their conventional peers, they've passed with flying colours.

Relevant environmental, social and governance metrics can differ between companies, but the Canadian Responsible Investment Association identified the top ESG issues in 2019 as:

Environmental

- Climate change mitigation
- Energy efficiency
- Climate change adaptation

Social

- Labour practices
- Human rights
- Health and safety

Governance

- Board diversity and inclusion
- Executive pay
- Independent directors

ESG is good for business

Here are four ways that disclosing ESG issues can help your business:

Improve resiliency:

A recent meta-analysis conducted by the Rockefeller Asset Management and the NYU Stern Center for Sustainable Business showed that **ESG investing is more resilient**, especially during economic and social crises, and demonstrates improved financial performance over the long term.

Attract capital:

Investors are increasingly looking to invest in companies that are ESG-aligned. This alignment helps investors allocate capital in a way that mitigates risk, improves financial returns, meets fiduciary duty and can go even further to align with their mission, purpose or values.

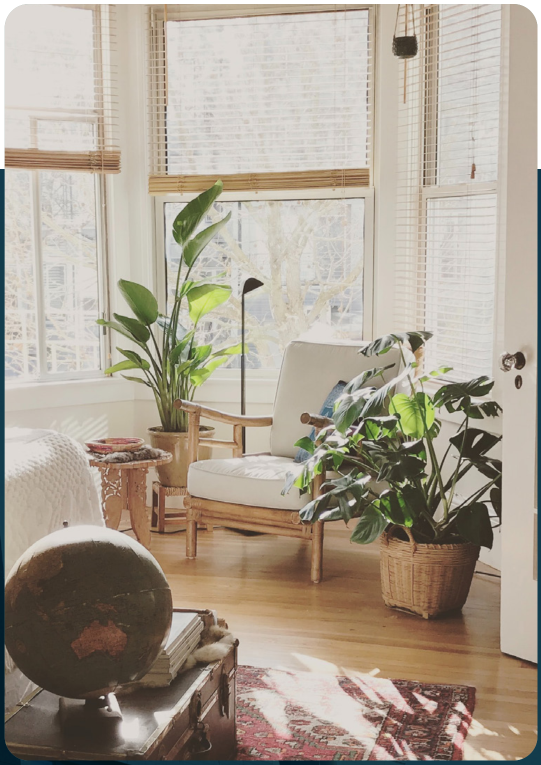
Strengthen your brand:

Trust is key to brand strength, and trust is built and maintained through transparency and accountability. A commitment to annual ESG reporting can help relevant stakeholders know where you stand, where you're going, and how you plan to get there.

Prepare for regulatory changes:

Investors are advocating for a consistent approach to more accurately evaluate and compare the performance of companies. The federal government has penciled the **Task Force on Climate-related Financial Disclosures (TFCD)** as its framework of choice, with plans to engage the provinces and territories on disclosure in addition to mandating disclosure for Crown corporations.

By understanding the environmental, social and governance dimensions of their business, executives gain a more holistic understanding of operations in relation to ongoing sustainability challenges, which can help to proactively mitigate risk and even improve innovation. But there's one catch: To **drive financial performance**, **companies must go beyond disclosure and take steps to integrate ESG into their business strategy.**



Case Study

Translating ESG reporting into policy

Killam Apartment REIT is the first publicly traded Canadian multi-family real estate investment trust (REIT) to apply the Global Real Estate Sustainability Benchmark (GRESB) and issue a stand-alone ESG report. The company is one of Canada's largest residential landlords, and has their head office in Halifax, NS.

Going beyond reporting, Killam shows their commitment to ESG through a dedicated sustainability policy that applies to all employees. The policy includes commitments such as waste, energy and water use reductions, supporting community initiatives related to affordable housing, and investing in employee training and development.

Four ways to get started with ESG

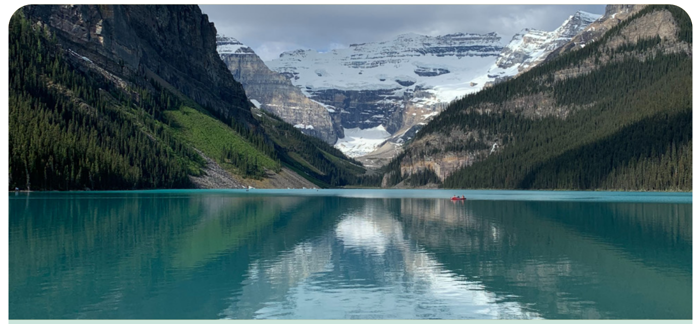
Whether you are just getting started or are an emerging leader, these tips can help strengthen your disclosure and encourage the integration of ESG into your business strategy.

Craft a sustainability strategy with your C-Suite team. Successful integration of ESG requires clear strategic direction from your leadership team. Discuss how an ESG lens becomes part of executive decision-making and operations, and adds the potential to access new market opportunities.

Engage with your stakeholders to ensure alignment with the most important ESG issues you've identified for your business. Consult your employees, community, suppliers, customers and shareholders to align your actions and inform strategy. This engagement can help to ensure that you're providing transparency and accountability on the issues that matter most.

Understand your position of influence along the supply chain. Depending on the size of your business, some of the material ESG issues that you identify may not be within your power to address. Start with what you can directly control, and team up with industry partners or existing coalitions to encourage positive change on the harder to address challenges.

Seek high-quality information to sharpen decision-making. Collecting ESG performance data and evaluating progress should supply valuable insights that make you more adept at managing risk. As well, having detailed records on hand can prepare you for regulatory changes on the horizon, **as recently seen in New Zealand** with the introduction of the world's first climate change law for the financial sector. Think about building data collection capacity directly into your team, or hire an independent third party to assist you.



Case Study

Including Indigenous perspectives in ESG frameworks

For Canadian investors, the inclusion of Indigenous rights is crucial but often overlooked, with many investors following global frameworks that don't include these place-based considerations.

The First Nations Major Project Coalition (FNMPC), which includes over 50 Indigenous groups across Canada, is looking to change that. It's released the **Major Project Assessment Standard**, the only auditable standard for major project assessment that's developed from an Indigenous perspective and explicitly adopts Indigenous worldviews.

Principles for Responsible Investment (PRI)

PRI is a UN-supported investor-led initiative that **launched in 2006**. It aims to understand the investment implications of ESG, engage with policy-makers to create sustainable markets, and support its international network of signatories in their work. Signatories to PRI commit to integrating ESG considerations into their ownership and investment decision-making.

The six principles are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the principles.

Principle 6: We will each report on our activities and progress towards implementing the principles.

How to choose the right ESG reporting framework

One of the biggest challenges companies face when collecting and disclosing ESG data is knowing which of the many ESG reporting frameworks to choose from. Unlike financial reporting, ESG disclosure has yet to be standardized and regulated, although this is likely on the horizon as governments head toward a more regulated approach.

A **survey from the Canadian Responsible Investment Association** revealed the top frameworks used by investors in 2020:

Rank	Framework*	Why you would choose it	Sector applicability
#1	**Task Force on Climate-related Financial Disclosures (TFCD)**	To more effectively disclose climate-related risks and opportunities.	Provides supplementary guidance to four financial sector groups and four non-financial sectors.
#2	**United Nations Sustainable Development Goals (UN SGDs)**	To report on activity that aligns with the 17 goals of the 2030 Agenda for Sustainable Development.	Applicable to all sectors. The **SDG Compass** links the UN SDGs to sector-specific GRI standards.
#3	**Sustainability Accounting Standards Board (SASB)**	To analyze how ESG issues may impact your financial performance.	Applicable to most sectors. Provides ESG standards for 77 industries.
#4	**CDP (formerly the Carbon Disclosure Project)**	To provide detailed disclosure on climate change, forests and water security.	Provides specific disclosures for at least 19 industries.
#5	**Global Real Estate Sustainability Benchmark (GRESB)**	To provide disclosure across relevant ESG factors in real estate.	Only relevant for the real estate sector.
#6	**Global Reporting Initiative (GRI)**	To provide standardized reporting and holistic disclosure across ESG issues.	Applicable to all sectors. Provides sector-specific guidance.

*For simplicity, we've chosen to use frameworks to encompass reporting standards and frameworks. To understand the nuance, read more.

Another option is integrated reporting, which succinctly presents your ESG disclosure alongside traditional financial reporting.

Big institutional investors, including Blackrock and Aviva Investors, are looking to the 26th UN Climate Change Conference of the Parties (COP26) as an opportunity to realize standardization, with Aviva's chief responsible investment officer suggesting that COP26 could help **chart the roadmap to a carbon-neutral future.**

Work with Upswing Solutions

Upswing Solutions is a Halifax-based consultancy delivering commercial strategies that build resilient, sustainable and inclusive businesses. We offer strategic guidance on integrating sustainability into your business, how to identify the ESG issues that are most material for your business and can work alongside you to measure, analyse and report on sustainability performance. We also offer training services if you're looking to build sustainability capacity directly into your team. Get in touch with us today to learn more!

Contact us:

902-240-0482 | **contactus@upswingsolutions.net** | **www.upswingsolutions.net**