



Partnership at Work®

Struggling to Make Sense of ESG? Here's Help.

June 2nd, 2023

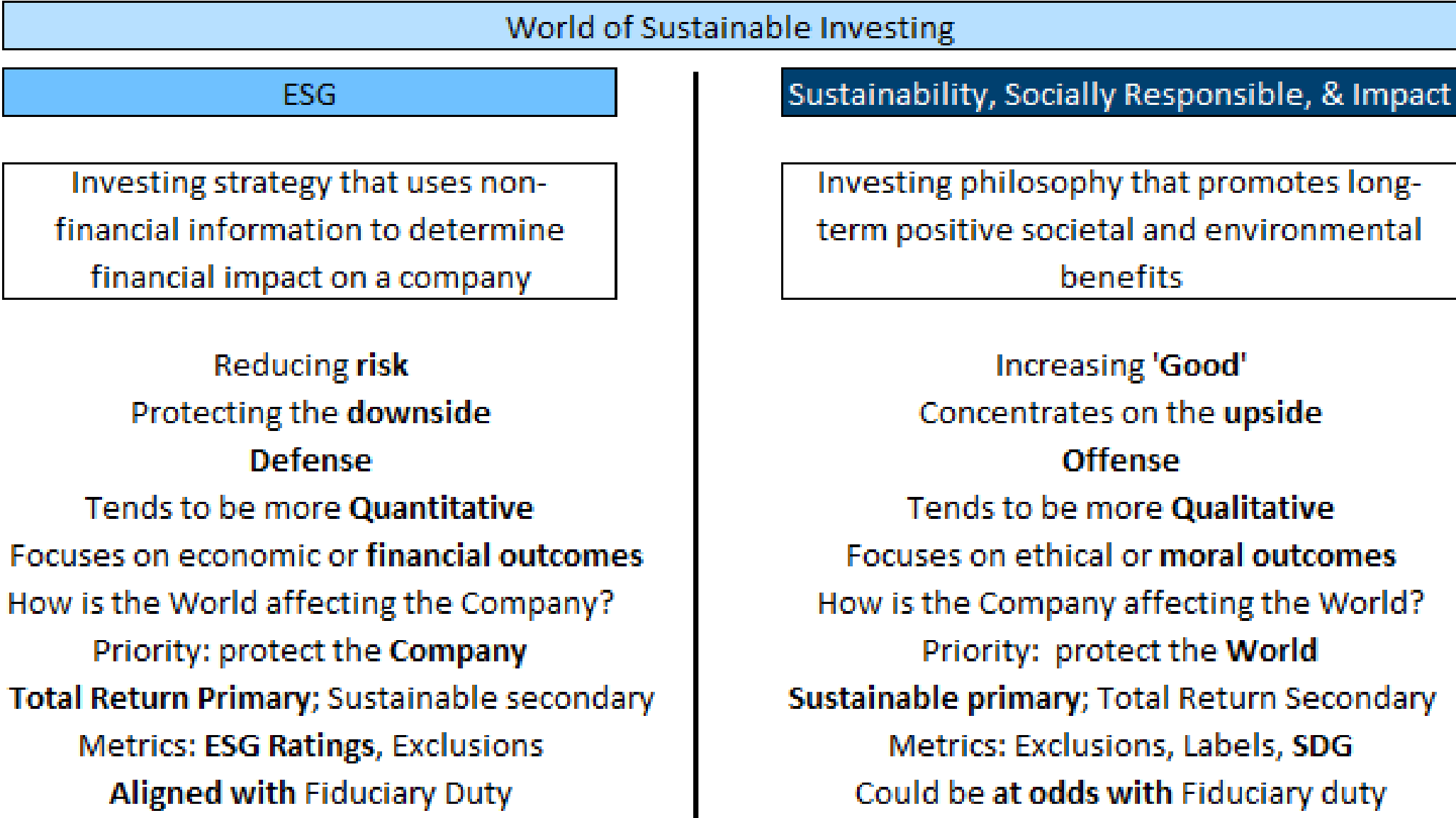
The World of ESG







How ESG differs from Sustainability



The Different “Lens” of Sustainable Investing

- **Exclusions**

- No Tobacco
- No Coal

- **Labels**

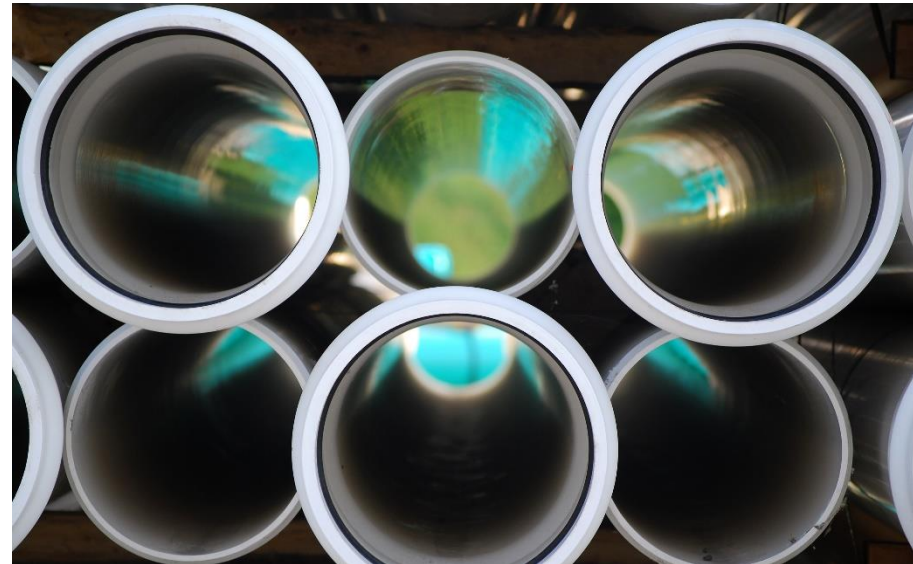
- i.e. Green Bonds

- **Ratings**

- Scoring of different entities

- **Alignments**

- Paris Agreement
- Sustainable Development Goals - SDG



- A rule which bans a company's security from being included in a portfolio due to that company's involvement in some business activity that is viewed as unethical, detrimental to society, or violating some cultural norm.

Exclusions: Examples

1. Legacy Sin Stocks

- Tobacco, Weapons, Alcohol, Gambling -- 4.3% of the US Corp Index



2. Fossil Fuels

- Oil & Gas , Coal, Arctic Drilling, Oil Sands, Shale -- 18% of the US Corp Index



3. Interesting but Not Impactful

- Inhumane Weapons, Whale Meat, Dam Height Restrictions -- 0% of the US Corp Index

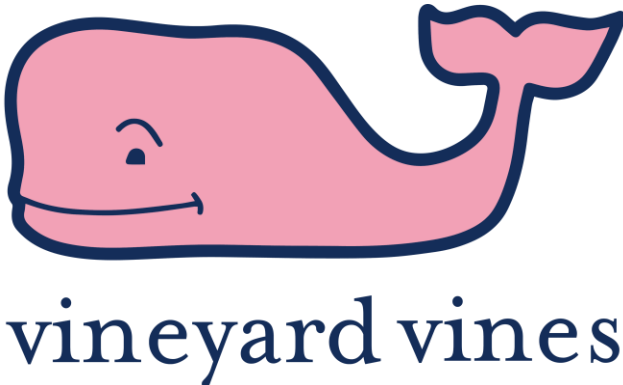


Which Utility Company is more environmentally friendly?

- A. Company A: 50% of revenues from coal but plans to reduce it to 0% in the next 10 years
- B. Company B: 25% of revenues from coal but no plans to get rid of it anytime soon



Labels

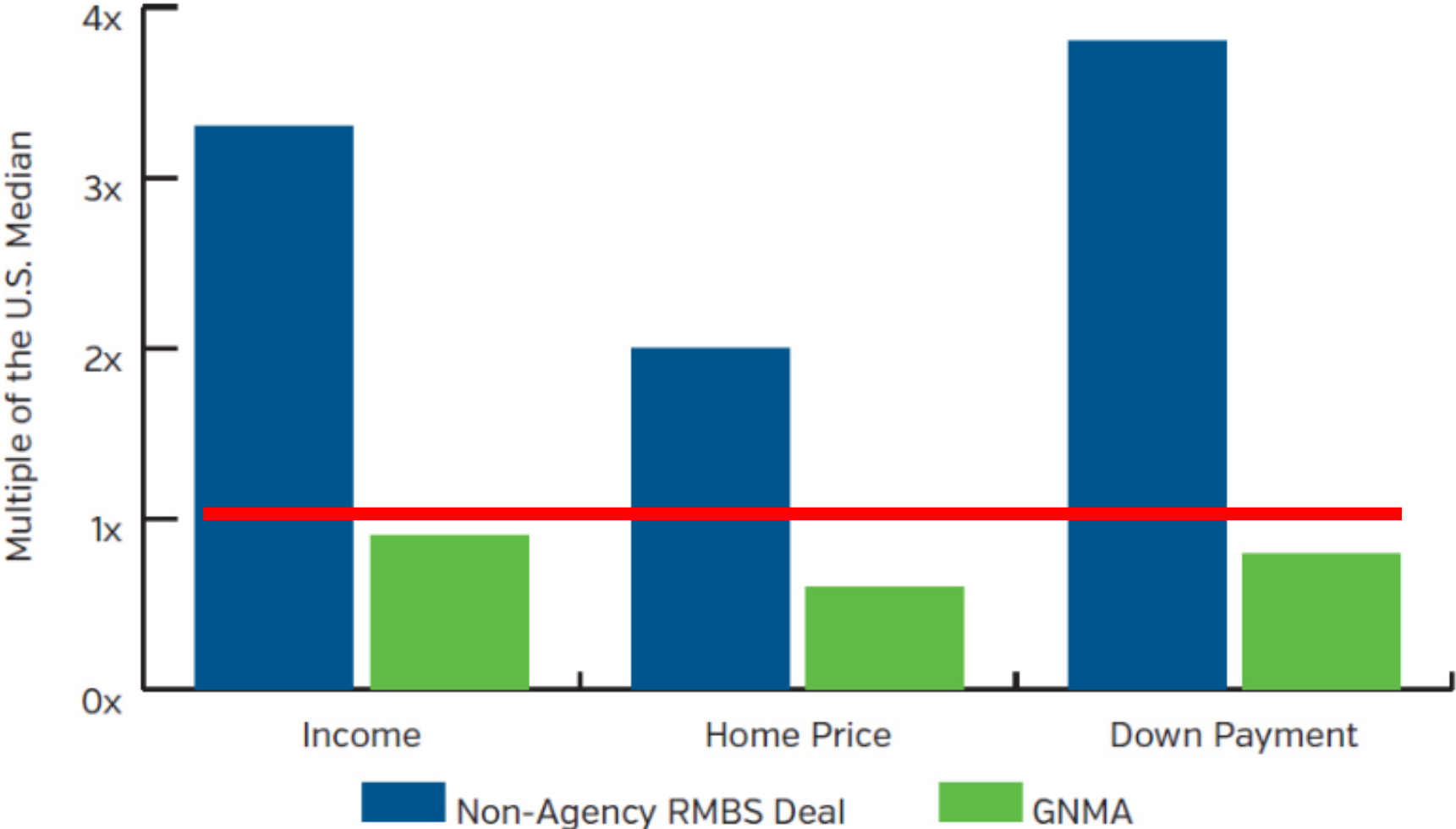


Which Company's bond do you think is more deserving of a 'Social' label?



Angel Oak
HOME LOANS

Chart 1. Average Borrower Comparison

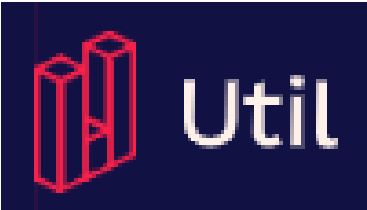


Source: Bloomberg

ESG Ratings

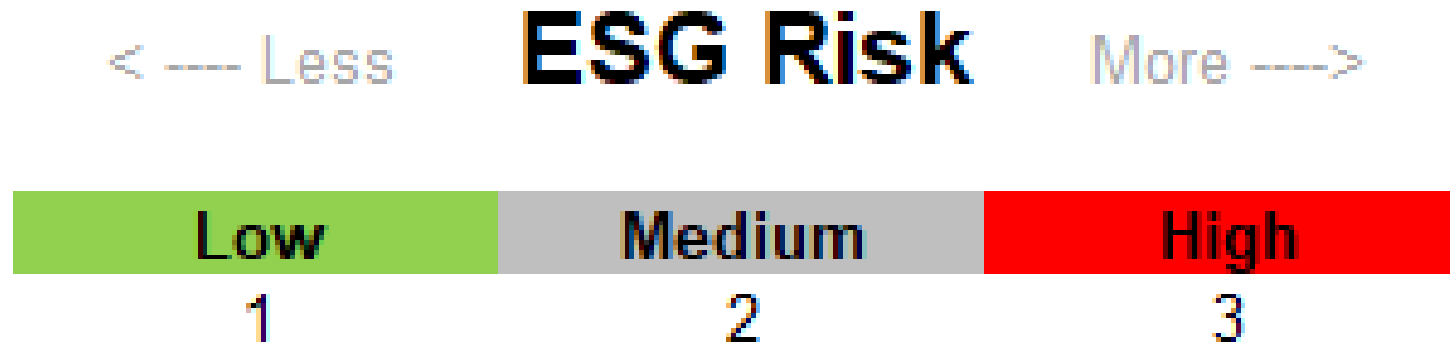


S&P Dow Jones Indices
ESG Analysis



Ratings: Game Directions

- 3 Rounds with 3 Companies and 3 ESG Risk buckets
- Rank the 3 Companies in order from least ESG risk to most ESG risk as defined by Sustainalytics



- Self-Scoring Point System
 - One point for each box correct
 - 9 total points possible



PHILIP MORRIS

Round #1: Answers & Explanations

Risk	Company	Industry
Low	Simon Property	Mall REIT
Medium	Philip Morris	Tobacco
High	Jinko Solar	Solar Panel Manufacturer

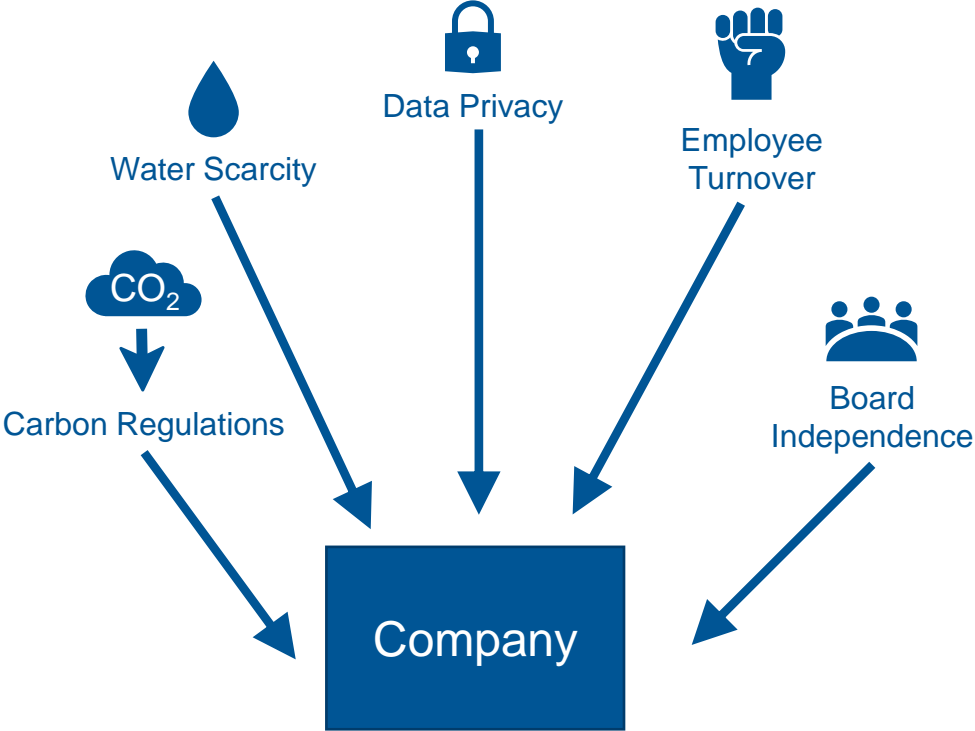
1. ESG Ratings are **not** judgements about the ‘*goodness*’ of a company.....

...but rather indicators of how sensitive a company’s value is to material ESG factors

What ESG Risk Ratings Measure?

YES

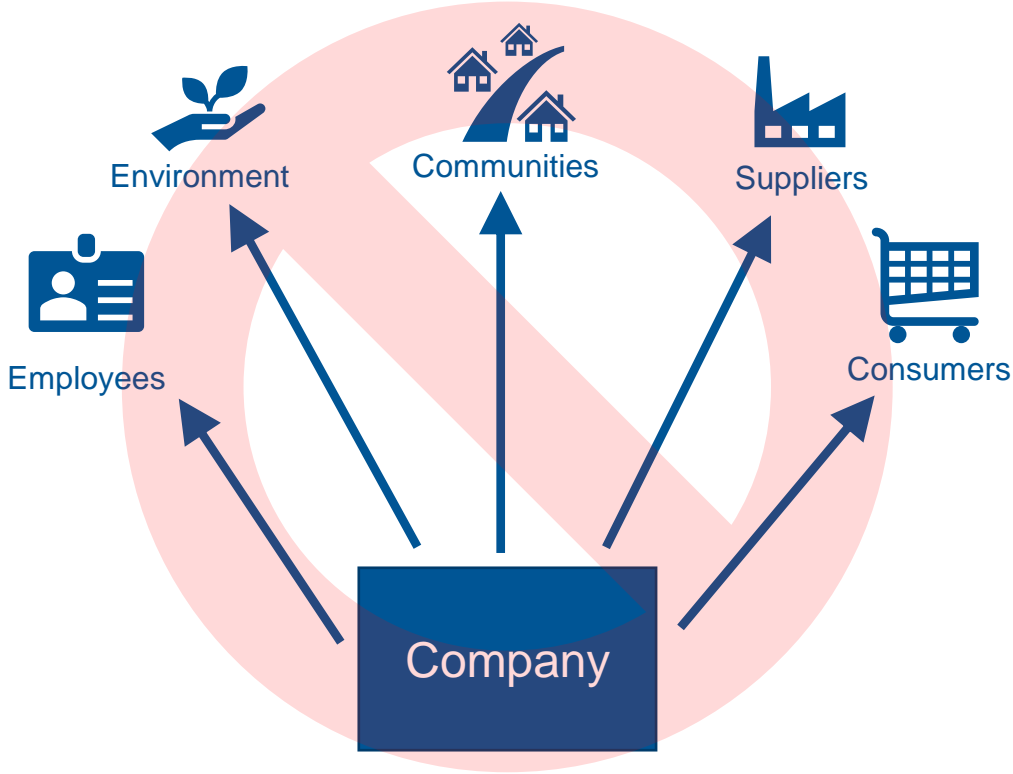
ESG Factors



How ESG Factors affect the MV\$ of the company

NO

Externalities



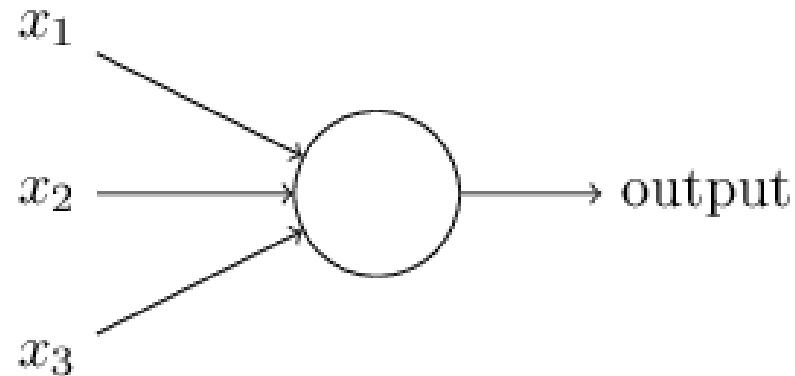
Does not *really* take into consideration how company actions affect stakeholders



Round #2: Answers & Explanations

Risk	Company	Industry
Low	O'Reilly	Automotive Parts Retailer
Medium	Tesla	Leading EV Manufacturer
High	Viatrix	Pharmaceuticals

2. ESG Ratings are made up of numerous and varied pieces of information distilled into one metric



ESG Risk Factors



Environmental		Social		Governance
Environmental Policy	Renewable Energy Use	Freedom of Association Policy	Noise Management	Bribery & Corruption Policy
Environmental Management System	Green Procurement Policy	Working Hours Policy	Systemic Risk Management	Bribery & Corruption Programmes
Biodiversity Programmes	Supplier Environmental Programmes	Discrimination Policy	Systemic Risk Reporting	Whistleblower Programmes
Site Closure & Rehabilitation	Supplier Environmental Certifications	Diversity Programmes	Tier Capital Buffer	Business Ethics Programme
Oil Spill Disclosure & Performance	Sustainable Agriculture Programmes	Gender Pay Equality Programme	Leverage Ratio	Global Compact Signatory
Cyanide Management	Food & Beverage Sustainability Initiatives	Gender Pay Disclosure	Asset Quality	PRI Signatory
Solid Waste Management	Green Outsourced Logistics Programmes	Collective Bargaining Agreements	Electromagnetic Safety Programmes	Responsible Investment Policy
Mineral Waste Management	Recycled Material Use	Employee Turnover Rate	Editorial Guidelines	UNEPFI Signatory
Effluent Management	FSC Certified Sourcing	Percentage of Temporary Workers	Media Ethics Programme	Green Building Memberships
Offshore Well Management	Sustainable Food Programmes	Human Capital Development	Service Delays	Equator Principles Signatory
Radioactive Waste Management	Shipbreaking Programme	Employee Training	Product Health Statement	Responsible Investment Programme
Water Intensity	Sustainable Products & Services	Health and Safety Management System	Product and Service Safety Programme	Corporate Finance - ESG Integration
Water Risk Management	Fleet Emissions	HIV/Aids Programmes	Occupier Satisfaction Surveys	Responsible Product Offering
Water Intensity Trend	Fleet Emissions Trend	Health & Safety Certifications	Customer Eco-Efficiency Programmes	Underwriting Standards
Fresh Water Intensity for Generators	Sustainable Mobility Products	LTIR Trend	Drug Promotion Standards	Tax Disclosure
Forest Certifications	Eco-Design	Employee Fatality Rate	Ethical Marketing Promotion	Money Laundering Policy
Deforestation Policy	Product Stewardship Programmes	Scope of Social Supplier Standards	Responsible Gaming Programme	Compliance Programme
Deforestation Programme	Organic Products	Signatory to Responsible Business Alliance	Value-Based Health Care Programme	Animal Testing Policy
EMS Certification	GMO Policy	Conflict Minerals Policy	Nutrition and Health Programme	Animal Testing Programme
Emergency Response Programme	Credit & Loan Standards	Conflict Minerals Programmes	Asset Integrity Management	Animal Welfare Policy
Hazardous Waste Management	Responsible Asset Management	Supply Chain Management	QMS Certifications	Animal Welfare Programme
Non-GHG Air Emissions Programmes	Real Estate LCA	Social Supplier Certification	Trial Data Transparency	Policy on Emerging Technologies
Water Management Programmes	Green Buildings Investments	Fair Trade Products	US Drug Price Transparency	Clinical Trial Standards
Tailings Management and Standards	Share of Green Buildings	Contractor Safety Programme	Human Rights Policy	Clinical Trial Programme
Scope of GHG Reporting	Sustainable Financial Initiatives	Contractor Fatalities	Human Rights Programme	ESG Reporting Standards
GHG Risk Management	Hazardous Products	Responsible Marketing Policy	Community Involvement Programmes	Verification of ESG Reporting
Physical Climate Risk Management	Carbon Intensity of Generation	Advertising Ethics Policy	Financial Inclusion	ESG Governance
GHG Reduction Programme	Transmission Loss Rate	Data Privacy & Security Policy	Access to Medicine Programme	ESG Performance Targets
Green Logistics Programmes	Hazardous Substances Management	Data Privacy Programme	Neglected Diseases R&D	Board Diversity
Renewable Energy Programmes	Fleet Age	Data Request Management	Equitable Pricing and Availability	Board Independence
Carbon Intensity		Cybersecurity Programme	Intellectual Property Access	Political Involvement Policy
Carbon Intensity Trend		Access to Basic Services	Access to Health Care	Lobbying and Political Expenses
Carbon Intensity Trend of Generation		Community Development Programmes	Indigenous Rights Policy	Transparency on Government Payments

• Source: Sustainalytics

Sampling of ESG Risk Factors

Environment

- Green House Gas Emissions
- Hazardous Waste Management
- *Fleet Age~*

Social

- Human Rights in the Supply Chain
- Data Privacy Controversies
- *Employee Fatalities~*

Governance

- Independence of the Board
- Tax Disclosures
- *Clinical Trial Standards~*

ESG Risk Ratings: Sector Ranking



INDEX	SA ESG RiskScore
Class 3	
Real Estate	13.1
Technology & Electronics	16.1
Media	19.8
Insurance	20.7
Telecommunications	20.8
Retail	21.0
Transportation	21.0
Healthcare	21.5
Financial Services	22.0
Automotive	24.0
Banking	24.3
Consumer Goods	25.2
Capital Goods	28.3
Basic Industry	29.3
Utility	32.0
Energy	35.3
Grand Total	24.4

Low - Medium

Medium - High



Source: Sustainalytics; ICE

ESG Risk Ratings: Factor Attribution

INDEX	SA ESG	Attribution		
Class 3	RiskScore	E	S	G
Real Estate	13.1	29%	29%	42%
Technology & Electronics	16.1	16%	42%	42%
Media	19.8	9%	51%	39%
Insurance	20.7	7%	43%	50%
Telecommunications	20.8	16%	52%	31%
Retail	21.0	20%	49%	30%
Transportation	21.0	32%	45%	23%
Healthcare	21.5	6%	58%	35%
Financial Services	22.0	6%	47%	47%
Automotive	24.0	18%	45%	37%
Banking	24.3	6%	50%	44%
Consumer Goods	25.2	31%	42%	27%
Capital Goods	28.3	32%	42%	26%
Basic Industry	29.3	48%	27%	25%
Utility	32.0	43%	37%	20%
Energy	35.3	50%	29%	21%
Grand Total	24.4	21%	44%	35%

Source: Sustainalytics; ICE

ESG Risk Ratings: Factor Attribution

INDEX	SA ESG RiskScore	Attribution		
		E	S	G
Class 3				
Real Estate	13.1	29%	29%	42%
Technology & Electronics	16.1	16%	42%	42%
Media	19.8	9%	51%	39%
Insurance	20.7	7%	43%	50%
Telecommunications	20.8	16%	52%	31%
Retail	21.0	20%	49%	30%
Transportation	21.0	32%	45%	23%
Healthcare	21.5	6%	58%	35%
Financial Services	22.0	6%	47%	47%
Automotive	24.0	18%	45%	37%
Banking	24.3	6%	50%	44%
Consumer Goods	25.2	31%	42%	27%
Capital Goods	28.3	32%	42%	26%
Basic Industry	29.3	48%	27%	25%
Utility	32.0	43%	37%	20%
Energy	35.3	50%	29%	21%
Grand Total	24.4	21%	44%	35%

Source: Sustainalytics; ICE

ESG Risk Ratings: Factor Attribution

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Transportation	21.0	32%	45%	23%
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Financial Services	22.0	6%	47%	47%
Automotive	24.0	18%	45%	37%
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Consumer Goods	25.2	31%	42%	27%
Capital Goods	28.3	32%	42%	26%
Basic Industry	29.3	48%	27%	25%
Utility	32.0	43%	37%	20%
Energy	35.3	50%	29%	21%
Grand Total	24.4	21%	44%	35%

Source: Sustainalytics; ICE

Tesla: Good on the 'E' Pillar



Tesla: Not as good with the 'S' Pillar



Tesla: ...or the 'G' Pillar



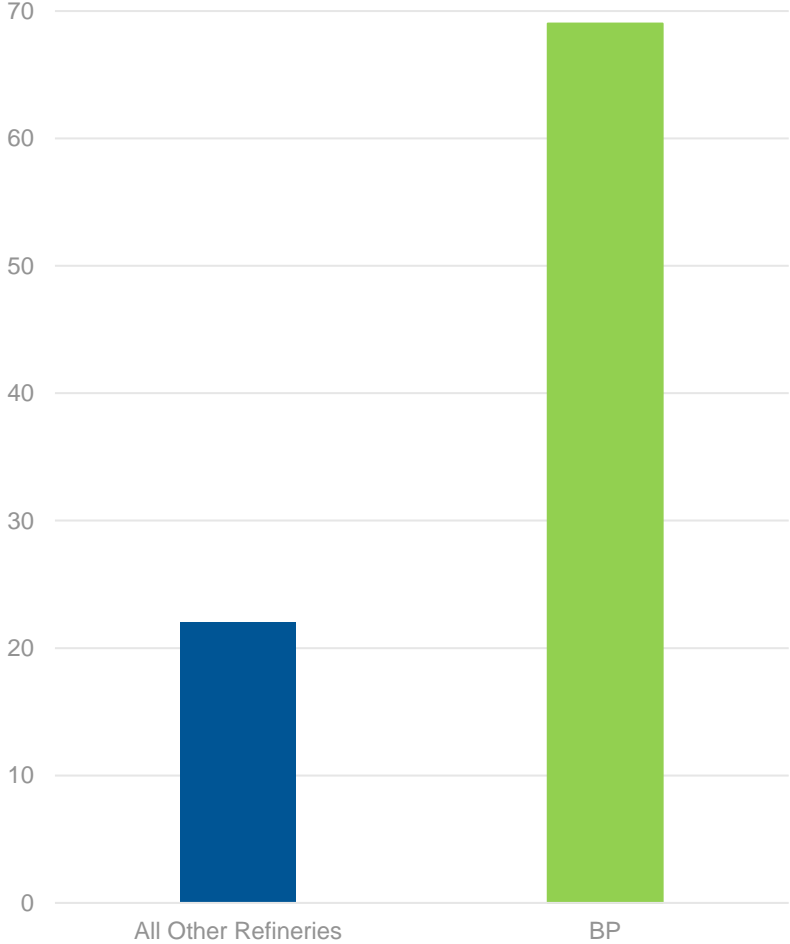
Case Study: BP – Deepwater Horizon Oil Spill



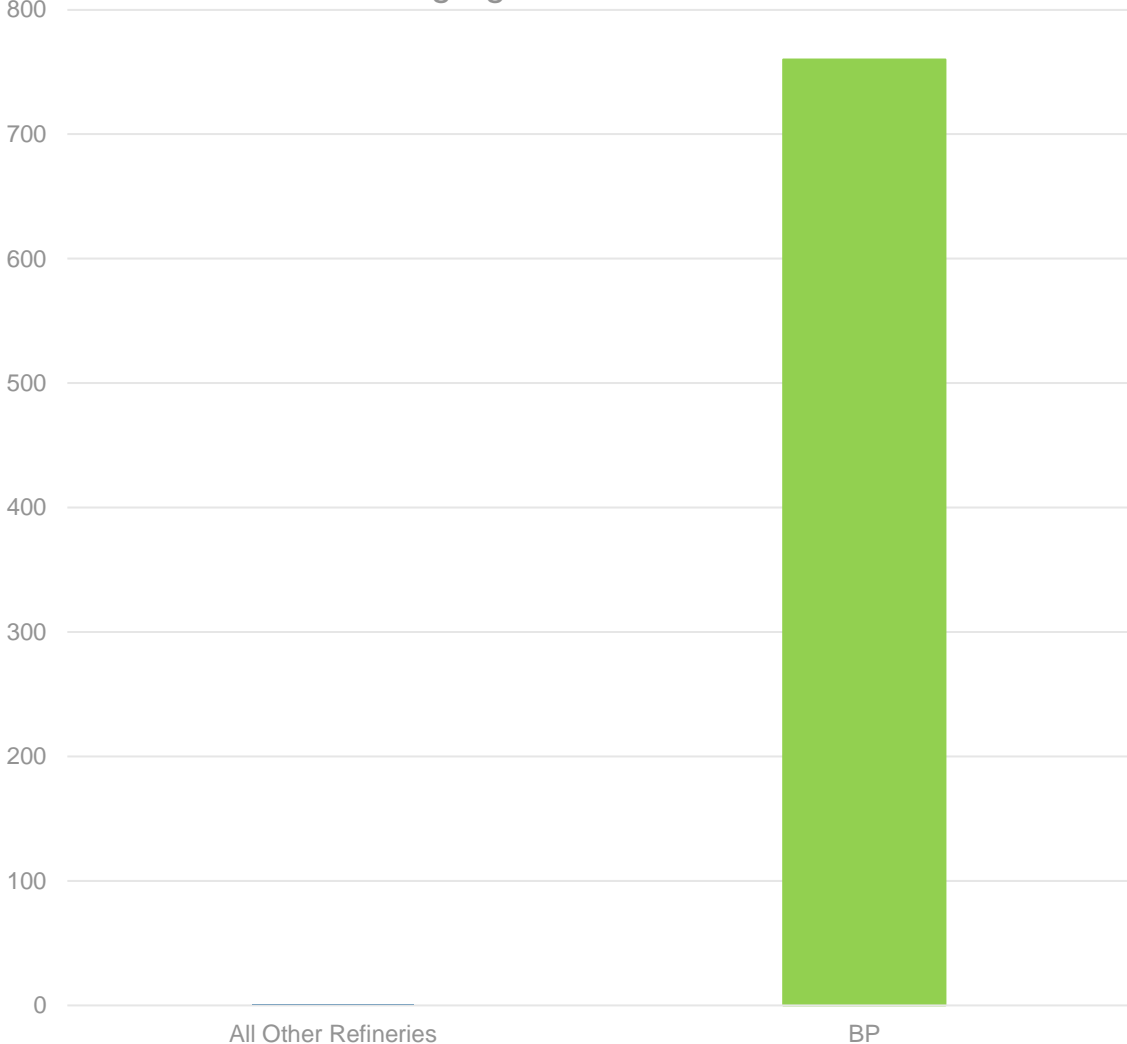
OSHA Citations from Jun 2007 to Feb 2010



Willful Citations



Egregious Willful Citations



• Source: PRI Academy

Round #3



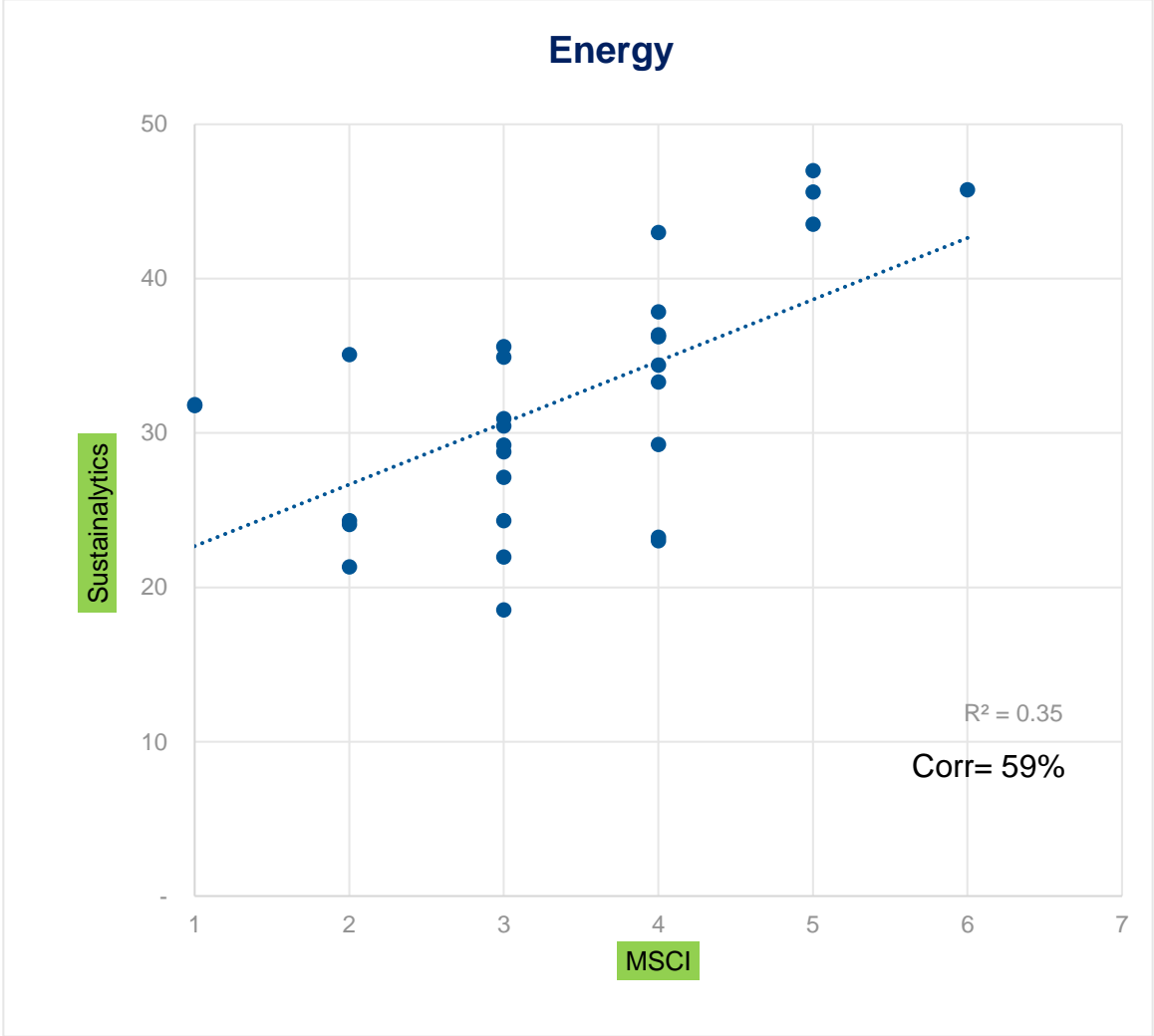
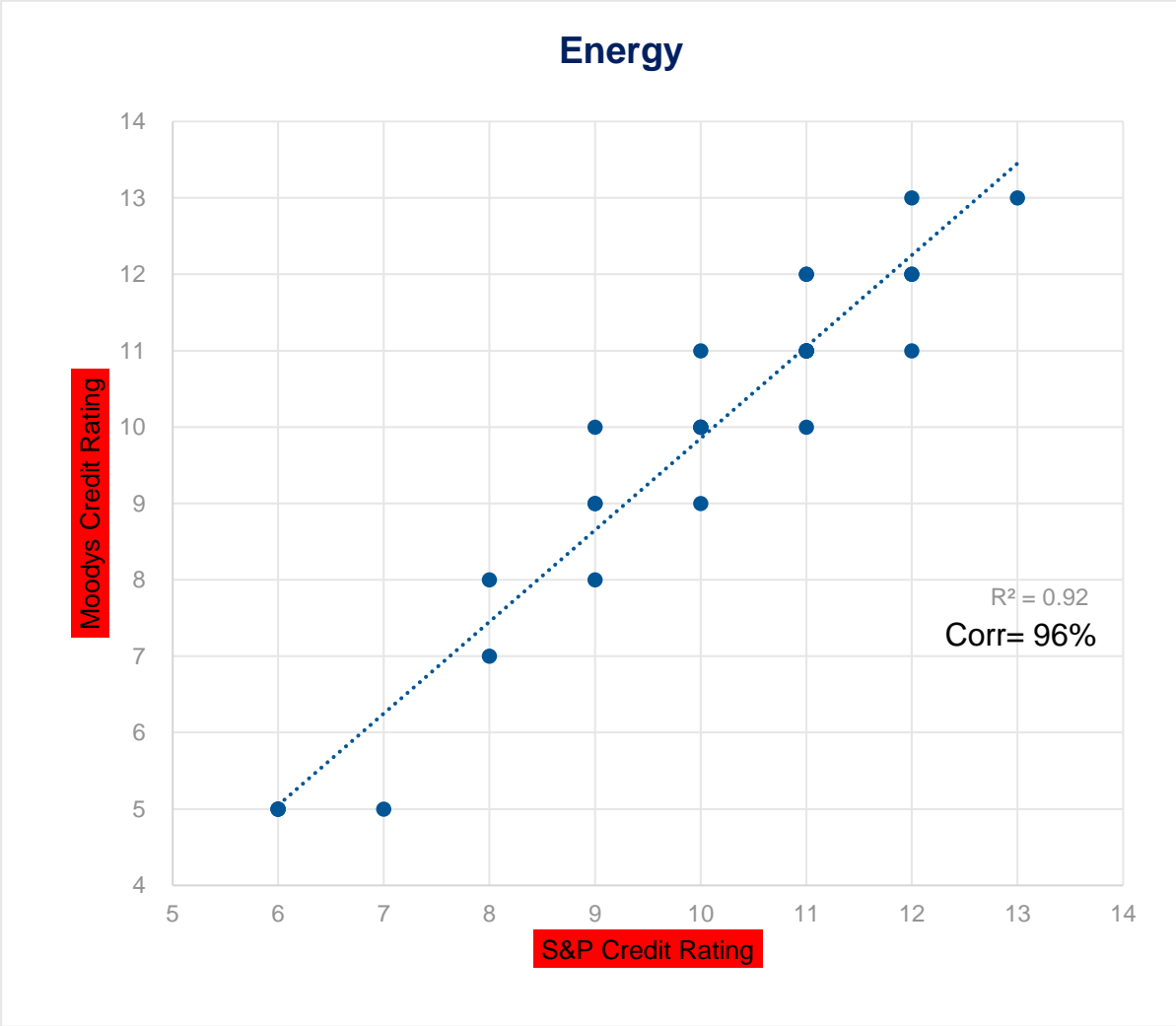
Round #3: Answers & Explanations



Risk	Company	Industry
Low	WasteManagement	Solid Waste Services & Landfills
Medium	NorthrupGrumman	Defense Contractor
High	China Three Gorges	HydroElectric Power

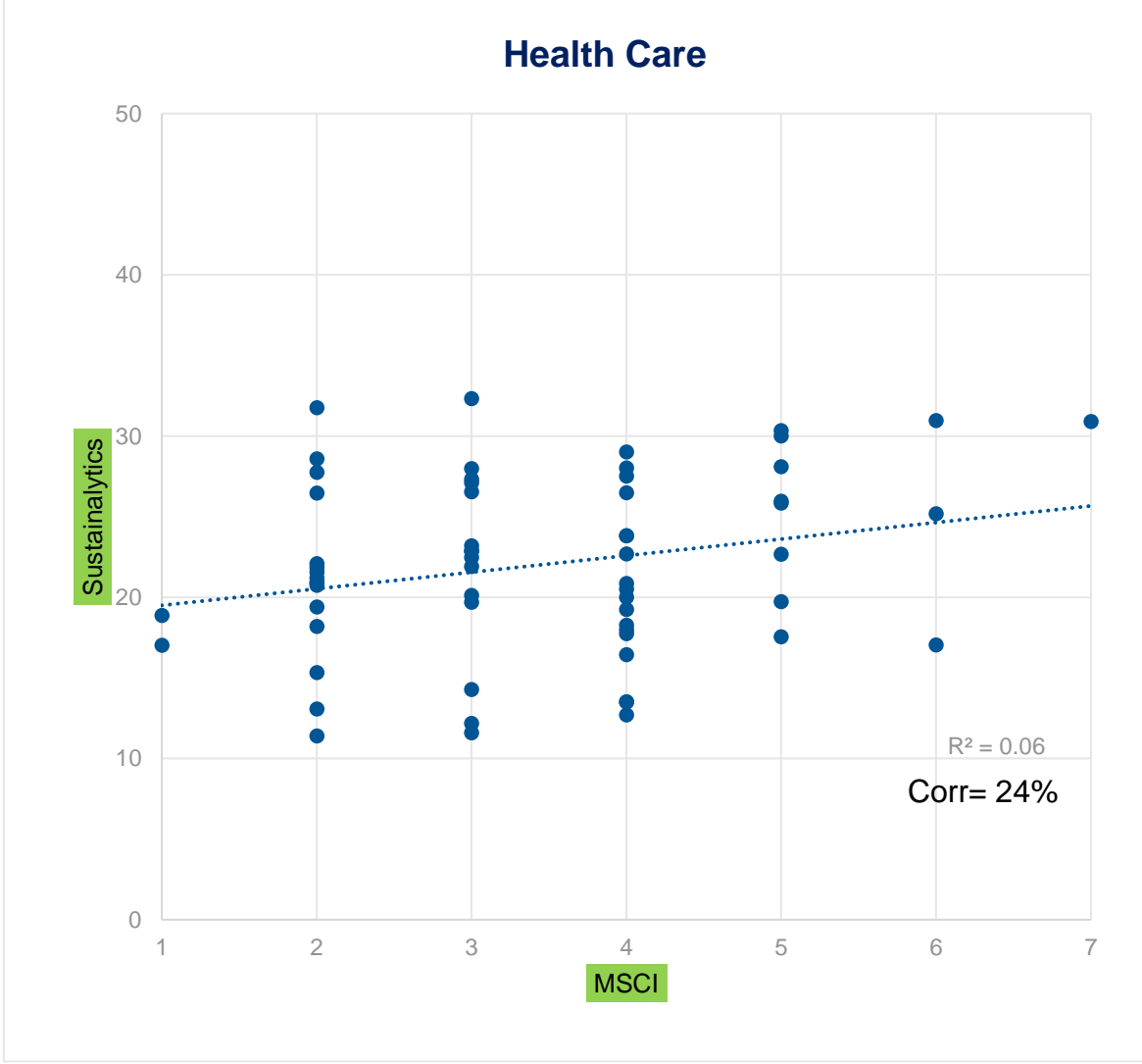
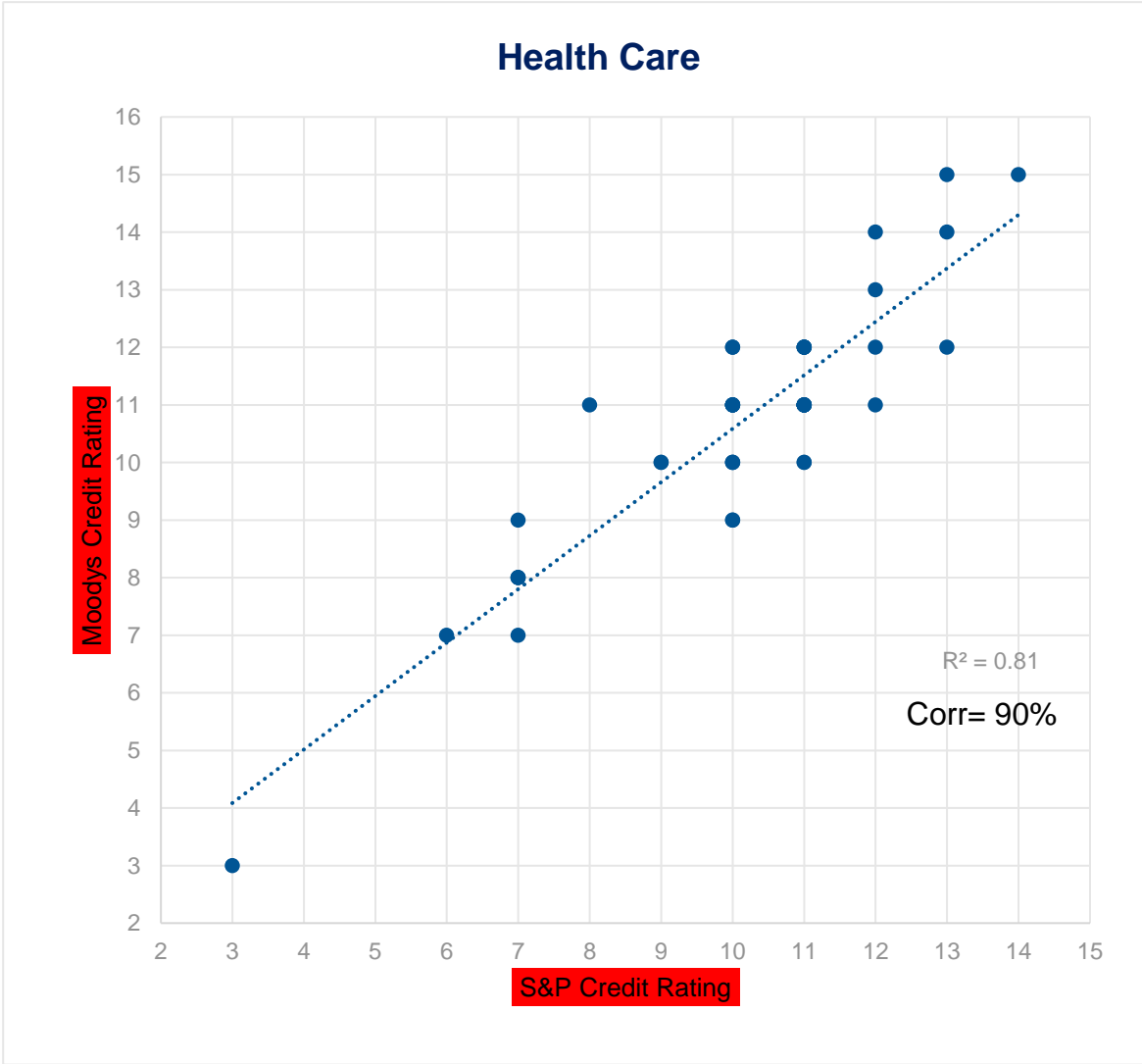
3. ESG Ratings are subjective

ESG Risk Ratings: Energy Example



• Source: NEAM, Sustainalytics, MSCI, Moody's, S&P

ESG Risk Ratings: Healthcare Example



• Source: NEAM, Sustainalytics, MSCI, Moodys, S&P

- **Paris Agreement**

- 2015 international treaty on climate change to keep the rise in mean global temperature below 2° C pre-industrial levels

- **Sustainable Development Goals (SDG)**

- An interconnected set of objectives promoting the peace and prosperity of people and planet.

Alignments



• Source: UN

How ESG differs from Sustainability



World of Sustainable Investing

ESG

Sustainability, Socially Responsible, & Impact

Investing strategy that uses non-financial information to determine financial impact on a company

Investing philosophy that promotes long-term positive societal and environmental benefits

Reducing risk
Protecting the downside
Defense
Tends to be more **Quantitative**
Focuses on economic or **financial outcomes**
How is the World affecting the Company?
Priority: protect the **Company**
Total Return Primary; Sustainable secondary
Metrics: **ESG Ratings**, Exclusions
Aligned with Fiduciary Duty

Increasing 'Good'
Concentrates on the upside
Offense
Tends to be more **Qualitative**
Focuses on ethical or **moral outcomes**
How is the Company affecting the World?
Priority: protect the **World**
Sustainable primary; Total Return Secondary
Metrics: Exclusions, Labels, **SDG**
Could be at odds with Fiduciary duty

Alignments

ESG Risk	Company	Industry	SDG
Low	Simon Property	Mall REIT	Average
Medium	Philip Morris	Tobacco	Poor
High	Jinko Solar	Solar Panel Manufacturer	Good

Alignments

ESG Risk	Company	Industry	SDG
Low	Simon Property	Mall REIT	Average
Medium	Philip Morris	Tobacco	Poor
High	Jinko Solar	Solar Panel Manufacturer	Good

ESG Risk	Company	Industry	SDG
Low	O'Reilly	Automotive Parts Retailer	Poor
Medium	Tesla	Leading EV Manufacturer	Good
High	Viatrix	Pharmaceuticals	Good

Alignments

ESG Risk	Company	Industry	SDG
Low	Simon Property	Mall REIT	Average
Medium	Philip Morris	Tobacco	Poor
High	Jinko Solar	Solar Panel Manufacturer	Good

ESG Risk	Company	Industry	SDG
Low	O'Reilly	Automotive Parts Retailer	Poor
Medium	Tesla	Leading EV Manufacturer	Good
High	Viatrix	Pharmaceuticals	Good

ESG Risk	Company	Industry	SDG
Low	WasteManagement	Solid Waste Services & Landfills	Good
Medium	NorthrupGrumman	Defense Contractor	Poor
High	China Three Gorges	HydroElectric Power	Average

1. ESG <> Sustainability
2. Exclusions are blunt instruments
3. Look beyond the Label
4. Ratings – Data intensive, subjective and not a measure of ‘goodness’ but risk
5. Maybe your idea of ESG is really SDG?

Trophy Ceremony



US Corporate Index Breakdown



INDEX	Credit			SA ESG		ESG Risk Category						Attribution			ESG Labeled		Carbon Intensity	
	Class 3	MV%	OAS	Dur	Rating	RiskScore	Neg	Low	Med	High	Sev	NR	E	S	G	Total	per Label	Scope 1,2
Real Estate	3.4%	168	5.6	8.4	13.1	15%	83%	2%	0%	0%	0%	29%	29%	42%	0.3%	9.5%	71	274
Services	1.2%	129	9.0	6.5	14.1	11%	58%	15%	2%	0%	13%	32%	37%	31%	0.0%	0.6%	483	763
Technology & Electr	6.5%	114	7.6	6.3	16.1	1%	84%	13%	2%	0%	0%	16%	42%	42%	0.2%	5.3%	28	179
Media	3.9%	170	8.3	8.0	19.8	0%	46%	50%	3%	0%	0%	9%	51%	39%	0.1%	2.3%	20	45
Insurance	4.4%	155	7.1	6.5	20.7	0%	37%	50%	7%	0%	6%	7%	43%	50%	0.1%	3.1%	2	6
Telecommunications	3.8%	149	8.8	8.6	20.8	0%	47%	53%	0%	0%	0%	16%	52%	31%	0.1%	2.8%	32	110
Retail	3.8%	99	7.9	6.3	21.0	0%	46%	32%	23%	0%	0%	20%	49%	30%	0.1%	1.8%	27	380
Transportation	2.3%	136	8.9	7.9	21.0	5%	22%	69%	3%	0%	1%	32%	45%	23%	0.0%	0.5%	360	610
Healthcare	9.1%	111	8.4	7.1	21.5	0%	25%	65%	5%	0%	5%	6%	58%	35%	0.1%	2.5%	13	112
Financial Services	9.6%	155	5.1	7.2	22.0	0%	25%	70%	3%	0%	1%	6%	47%	47%	0.1%	3.8%	12	221
Leisure	0.4%	193	4.4	9.3	22.8	0%	25%	66%	9%	0%	0%	23%	45%	32%	0.0%	0.0%	207	367
Automotive	2.2%	129	3.9	7.8	24.0	0%	33%	63%	4%	0%	0%	18%	45%	37%	0.1%	4.7%	24	1,509
Banking	18.6%	139	4.5	6.5	24.3	1%	21%	67%	12%	0%	0%	6%	50%	44%	0.6%	21.7%	6	25
Consumer Goods	5.6%	123	7.6	7.5	25.2	1%	15%	60%	23%	2%	0%	31%	42%	27%	0.1%	2.6%	60	705
Capital Goods	4.5%	112	6.9	7.7	28.3	0%	21%	31%	45%	2%	0%	32%	42%	26%	0.1%	2.4%	56	2,729
Basic Industry	3.7%	162	7.3	8.6	29.3	1%	10%	49%	29%	11%	0%	48%	27%	25%	0.2%	5.5%	567	1,992
Utility	8.7%	144	8.4	7.3	32.0	0%	4%	41%	36%	19%	0%	43%	37%	20%	0.9%	29.9%	2,228	4,217
Energy	8.4%	152	7.5	7.4	35.3	0%	3%	26%	43%	28%	0%	50%	29%	21%	0.0%	1.1%	794	4,913
Grand Total	100%	138	6.8	7.2	24.4	1%	29%	49%	16%	5%	1%	21%	44%	35%	3.0%	100.0%	315	1,131

Source: ICE, Sustainalytics, Bloomberg, NEAM Analytics as of 3/31/23