

Climate Change Strategies & ESG Disclosures

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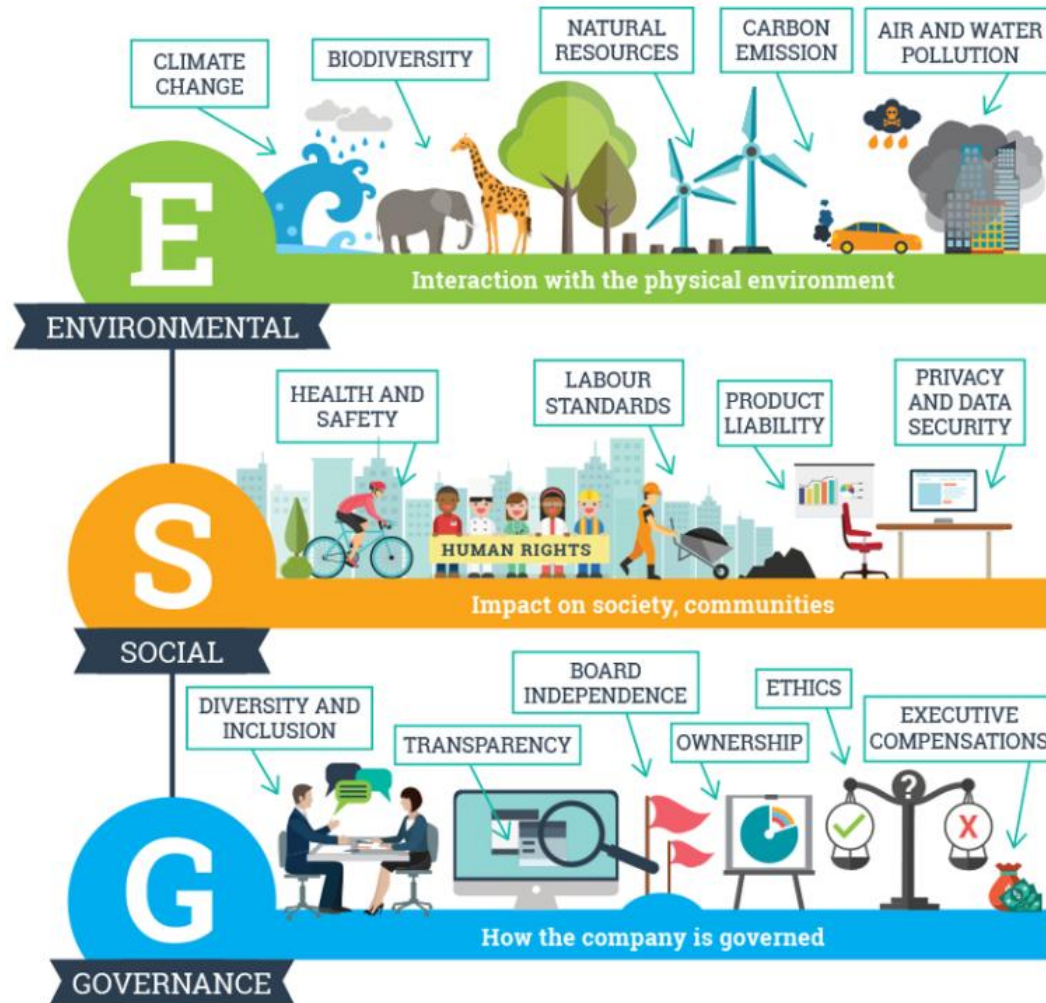


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Agenda

- ▶ **What is ESG?**
- ▶ **Why is choosing an ESG Framework for your company important now?**
- ▶ **What EHS managers should know about developing a Climate Strategy and ESG Disclosures**

What is Environmental Social Governance (ESG)?

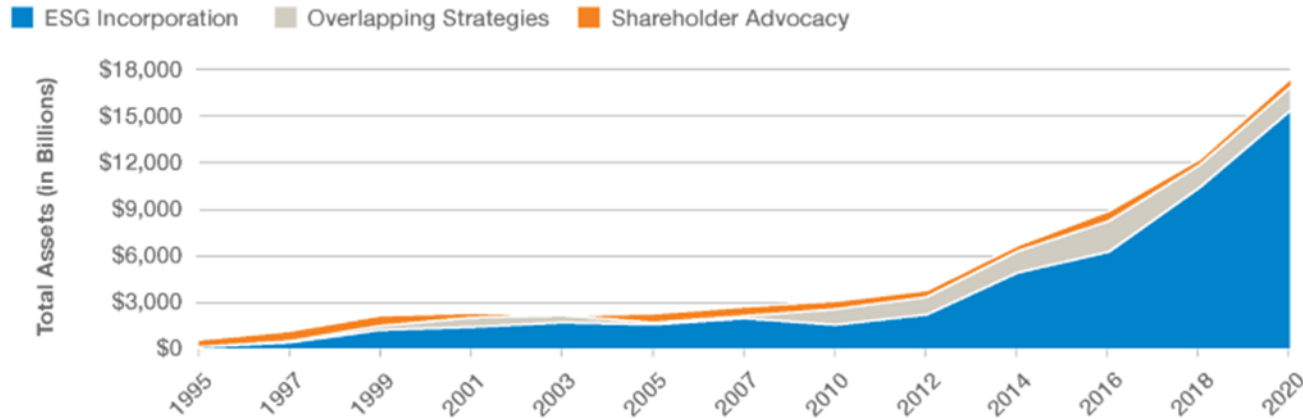


What kind of impact is your company having on the environment?

What kind of relationships does your company have with the people in its ecosystem?

How does the board of directors run the company?

ESG Drivers



Sustainable Investing in the United States 1995-2020

ESG index funds hit \$250 billion as pandemic accelerates impact investing boom

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KEY POINTS

- Index funds investing in companies that rate highly on environmental, social and governance (ESG) factors have received a boost during Covid-19, with increased interest in stakeholder capitalism.
- Sustainability funds were experiencing big growth before coronavirus: assets doubled over the past three years, according to a new Morningstar report.
- Impact investing index funds have topped \$250 billion, and the U.S. market is now 20% of the total.

CHASE



2021 Busi
Outlook

ESG Drivers

One of the first moves of ESG into the mainstream conversation with shareholders was when Larry Fink, CEO of BlackRock, stated in 2018 that: “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.” Further, in May, the Blackstone Group asked for the first time that management in companies controlled by Blackstone’s private equity arm **regularly report on ESG matters to their boards.**

ESG Drivers

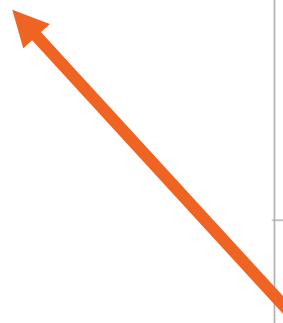
ESG oriented business strategies are very important and communicating them well to stakeholders is critical. Now the general public is paying more attention to statements companies issue about social responsibility.

Although SEC regulation does not currently call for public companies to provide specific ESG information, the topic is under examination among SEC commissioners and committees. There is momentum building for the SEC to follow the lead of the European Union in requiring additional ESG information in filings, beyond what may be covered in the current obligation for disclosure of material risk.

ESG Frameworks and Developing your Climate Strategy

ESG Ratings, Frameworks, and More

Frameworks
GRI
CDP
SASB
TCFD
WDI
Climate Disclosure Standards Board (CDSB)
UN Principles for Responsible Investment (PRI)
UN Sustainable Development Goals (SDG)



ESG rating	A scored or graded evaluation of a company based on an assessment of its performance on ESG issues.
ESG index	A group of stocks tracked by ESG performance, used to research investments and create ETFs and other investment products.
ESG benchmark	An assessment of an organisation's ESG performance as compared to its peers and/or competitors, usually accompanied by recommendations for improving performance.
ESG ranking	A list of companies ordered or grouped based on relative ESG performance according to specified ESG metrics.
ESG framework	Standards used to guide the reporting and disclosure of ESG metrics by an organisation. Frameworks are created and maintained by various nonprofits, NGOs, and industry groups.

ESG Ratings - Morgan Stanley Capital International (MSCI)

CASE STUDY:

Oil & Gas Company

Harnessing AI, an ESG analyst looks at a petroleum company to assess its impact on sustainability through a top-down approach.

They focus on the most relevant issues including:



① Environment



Climate change
Tons of CO2 emitted/
\$ million annual sales



Pollution & waste
Tons of CO2 emitted/
\$ million annual sales

② Social



Community relations
Indigenous Rights Policy



Supply-chain labor standards
Partnering with a diverse set of suppliers on sustainability issues

③ Governance



Pay
Executive compensation structure.
E.g. How much pay depends on share price increases?



Business ethics
Spills, notice of violations, compliance fines

Critical to identify ESG materiality for your organization.

This shows just a fraction of an ESG ratings process—
with MSCI ESG Research doing the heavy-lifting for investors.

SASB Materiality Map

		Consumer Goods	Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure
Dimension	General Issue Category ^①	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment	GHG Emissions						
	Air Quality						
	Energy Management						
	Water & Wastewater Management						
	Waste & Hazardous Materials Management						
	Ecological Impacts						
Social Capital	Human Rights & Community Relations						
	Customer Privacy						
	Data Security						
	Access & Affordability						
	Product Quality & Safety						
	Customer Welfare						
	Selling Practices & Product Labeling						

- Issue is likely to be material for more than 50% of industries in sector
- Issue is likely to be material for fewer than 50% of industries in sector
- Issue is not likely to be material for any of the industries in sector

SASB Materiality Map

		Consumer Goods	Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure
Dimension	General Issue Category ^①	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Human Capital	Labor Practices						
	Employee Health & Safety						
	Employee Engagement, Diversity & Inclusion						
Business Model & Innovation	Product Design & Lifecycle Management						
	Business Model Resilience						
	Supply Chain Management						
	Materials Sourcing & Efficiency						
	Physical Impacts of Climate Change						
Leadership & Governance	Business Ethics						
	Competitive Behavior						
	Management of the Legal & Regulatory Environment						
	Critical Incident Risk Management						
	Systemic Risk Management						

- Issue is likely to be material for more than 50% of industries in sector
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Example Materiality Assessment

1. Environmental –

- GHG emissions and hazardous/toxic air pollutant emissions from various sources
- GHG emissions from large vehicle fleet (> 250 vehicles)
- GHG emissions from large walk-in coolers and other refrigerant-containing appliances with high GWP refrigerants
- Energy management
- Groundwater/land use impacts
- Biodiversity impacts

2. Social –

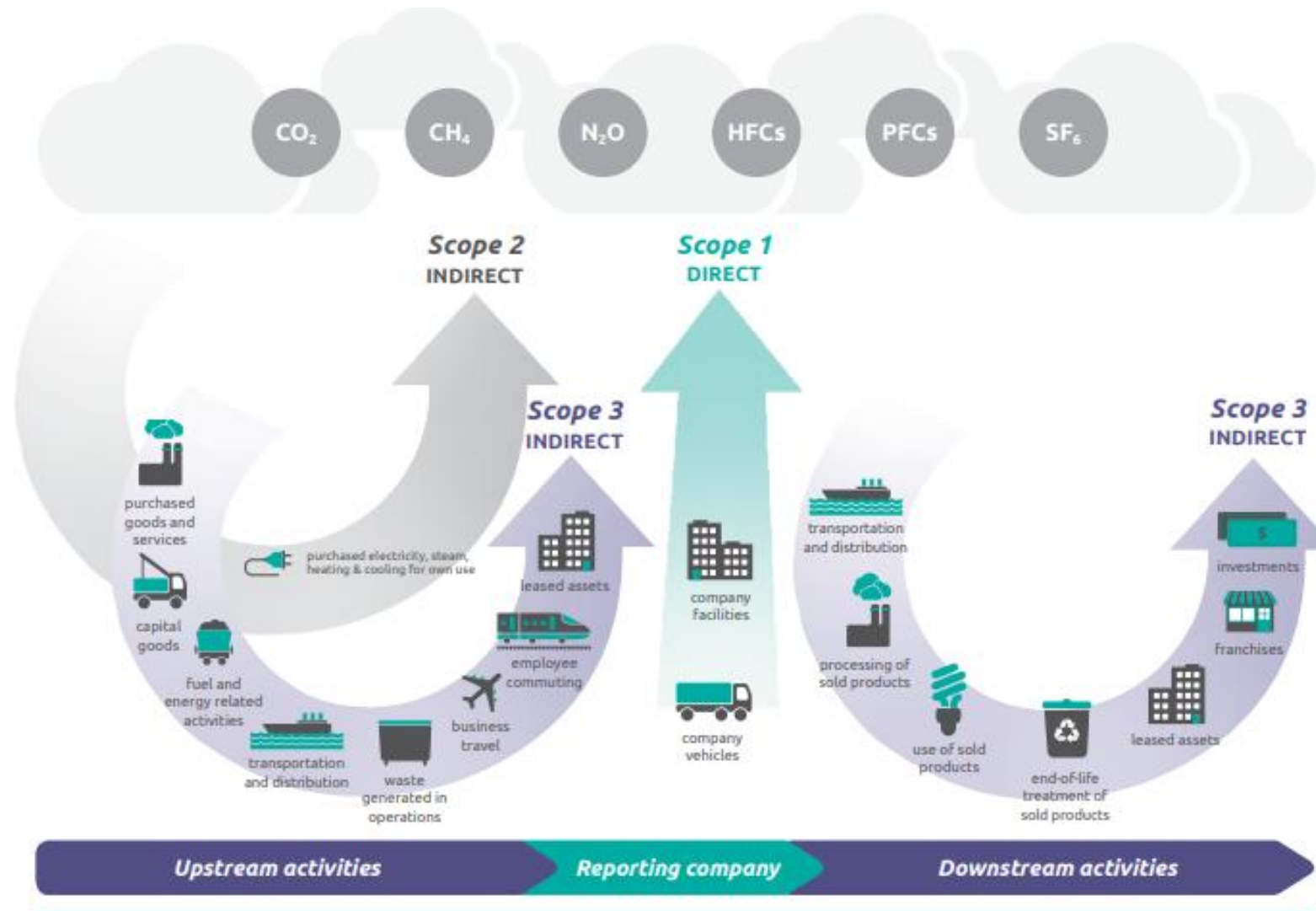
- Local community relations
- Location of plants/sites relating to disadvantaged communities
- Health and safety
- Diversity and inclusion

3. Governance –

- Executive pay tied to ESG targets

Net Zero Transformation

GHG Protocol Scopes & Emissions Across the Value Chain



Defining Inventory Objectives – Business Goals

- ▶ Managing GHG Risks
- ▶ Identifying GHG Reduction Opportunities
- ▶ Informing Public ESG Reporting
- ▶ Developing Voluntary GHG Disclosure Data
- ▶ Supporting Mandatory GHG Reporting
- ▶ Participating in GHG Markets
- ▶ Seeking Recognition for Voluntary Measures

Often want to serve multiple goals, so design the process to provide as much value to as many business objectives (current and future) as possible.

Why Set GHG Reduction Targets?

- ▶ Assess and manage relevant climate-related risks & opportunities
- ▶ Stimulate innovation and navigate costs associated with transition to low-carbon economy
- ▶ Prepare for future regulations and policy shifts
- ▶ Demonstrate leadership and corporate responsibility
- ▶ Participate in voluntary reporting programs



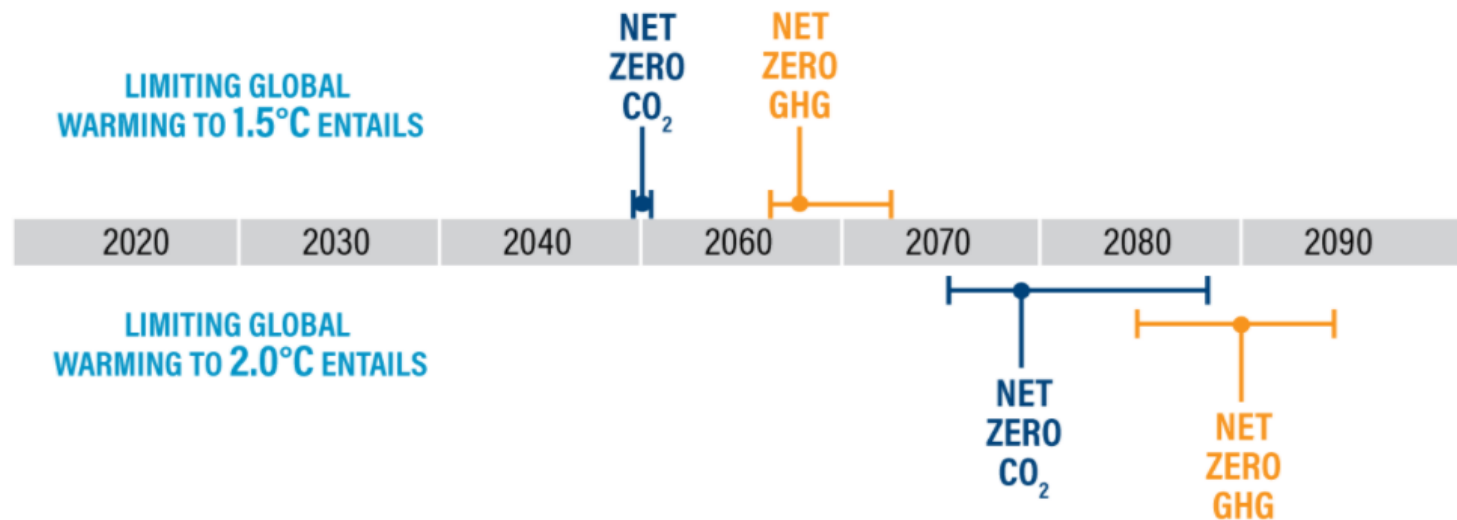
The number of companies making climate-neutral or net zero pledges has doubled during the COVID-19 pandemic.

Global GHG Reduction Targets

► Paris Agreement Temperature Goal:

- Limit warming to below 2°C, ideally below 1.5°C
- Timeline to achieve:

Global timeline to reach net-zero emissions



Source: IPCC Special Report on Global Warming of 1.5°C

Technical Approach to ESG/GHG Support Tasks

Step 1: Establish a Baseline

Develop comprehensive GHG Inventory

Determine what sources and GHG are material

Use to inform target boundaries



Step 2: Assess Impacts of Low Carbon Economy

Obtain Management/Internal Stakeholder Input

Benchmark Peers

Assess impacts of evolving climate policies and regulations

Research avenues to decarbonization



Step 3: Assess Mitigation Strategies

Determine technical feasibility, % reduction

Estimate costs & rank alternative strategies based on \$/MT CO₂e

Assess Timeframe for implementation – available now vs. emerging technologies



Step 4: GHG Target Setting and Planning

Informed by Step 1, Step 2, & Step 3



5. ESG Reporting & Disclosure

Informed by Steps 1-4



GHG Target Setting

► Calculate intermediate targets based on mitigation strategy review

- ◆ What emission sources are material to your carbon footprint?
- ◆ What % reduction can be achieved with abatement measures identified for these sources?
- ◆ Should any abatement measures be eliminated based on cost?
- ◆ What are the limits of existing technology? (i.e., new emissions levels once existing abatement measures implemented)
- ◆ How can the remaining emissions be compensated/offset or neutralized/eliminated?

► Set long-term goal

- ◆ Requires forecasting of emerging technology advancement
- ◆ Requires insight from management and internal stakeholders on market projections/business model in low carbon economy

► Set up tools to track progress towards goals and periodically revisit/revise mitigation strategies as technology, policy, business priorities evolve

ESG and Net Zero Transformation – Key Points

- ▶ Maintain relevant, complete, consistent, transparent, and accurate disclosure and reporting
- ▶ Engage continuously with stakeholders including investors, customers, and supply chain
- ▶ Align ESG disclosures and environmental reporting obligations
- ▶ Reassess materiality on given frequency
- ▶ Benchmark versus competitors
- ▶ Track GHG federal and state regulation and determine risks and impacts
- ▶ Revisit GHG mitigation strategy on given frequency – abatement, neutralization, and compensation
- ▶ Stay abreast of latest technologies in your sector

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Questions

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