

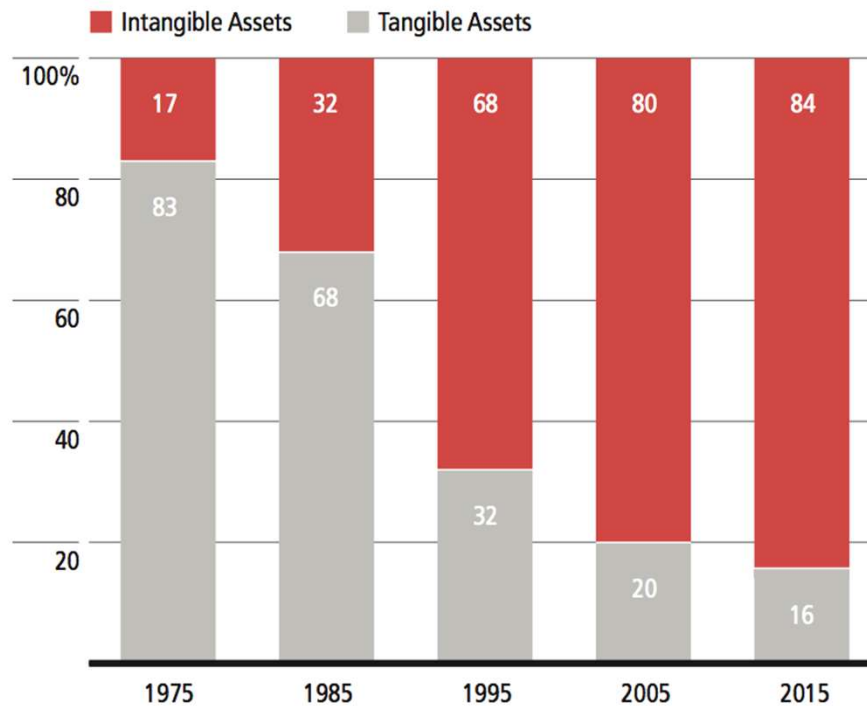


Sustainability Accounting Standards Board

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ESG Factors Can Influence Long-Term Risk and Returns

Changing nature of valuations requires broader information set to understand risk



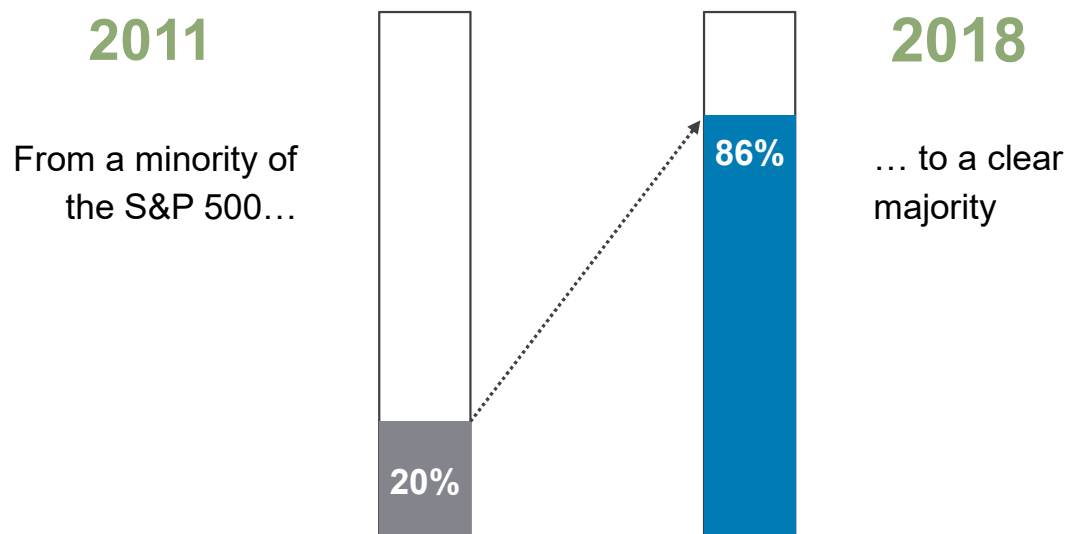
Intangibles, such as intellectual capital, brand value, customer loyalty are increasing components of corporate valuations

Investors are exposed to risks from relatively infrequent, but high impact ESG-related events (e.g. safety incidents, ethics scandals, natural resource shortages)

ESG factors can give forward looking insight into performance and risk

Source: Ocean Tomo, *Ocean Tomo's Intangible Asset Market Value Study*, September 2017.

The Rapid Rise in Sustainability/Responsibility Reporting...



...Gave Researchers New Data Sets to Study

Pain Points for Investors

Investors are dissatisfied with the quality of ESG disclosure

Company Reporting

Company confidence in the quality of ESG information reported



Source: PwC, *ESG Pulse*, 2016.

vs.

Investor Needs

Investor confidence in the quality of ESG information received from companies



Why?

It could be because sustainability reporting tends to look like this...

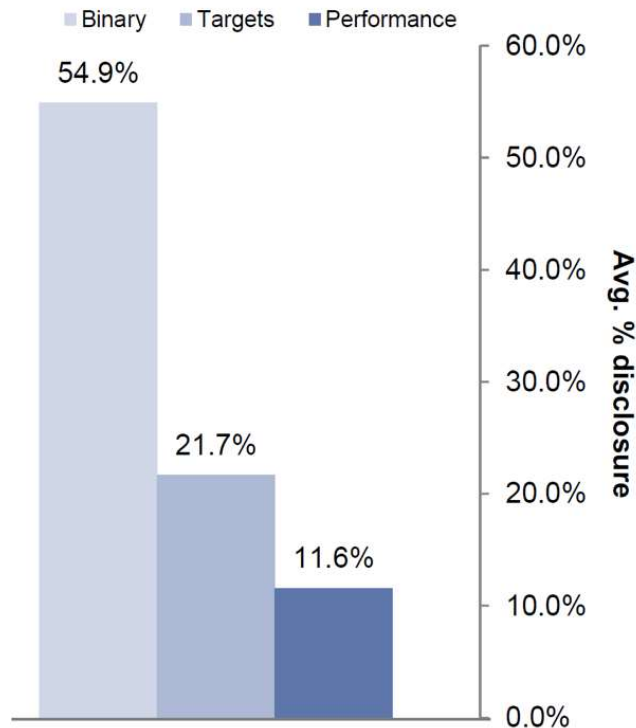


...but most investors consume information like this...



Most ESG Reporting Provides Information on Policies and Targets, Not Performance

Goldman Sachs found only **11.6%** of E&S metrics were performance data



And **only 1** of the top 25 disclosed metrics was numeric (and was **the 25th most disclosed** metric).

Source: Goldman Sachs Global Investment Research, *The PM's Guide to the ESG Revolution*, April 18, 2017.

Even When Data is Numeric, It Isn't Always Comparable

Good-faith numeric disclosures don't result in comparability across companies

*Example "Percentage suppliers audited to a code of conduct" metrics reported on the topic **Labor Conditions in the Supply Chain** from Apparel companies*

- Number of environmental supplier assessments
- Number of business partners adhering to our code of conduct
- Percentage of level 1, 2, 3 suppliers audited
- Percentage of tier 1, 2, 3 that have completed supplier assessments 94% of suppliers
- 166 audits; 573 facilities; 2,768 social audits
- 100% screened using labor practice criteria
- Number of environmental audits performed
- Number of social audits performed
- Percentage of supplier visits that resulted in positive audits
- Number of positive supplier audits
- Total number of audits conducted



**Uncomparable
metrics**

**Unclear
methodologies**

**Different units of
measurement**

Limited usefulness

Source: Metrics identified from SASB review of 2016 Apparel, Accessories & Footwear Industry CSR reports.

SASB – Sustainability Accounting Standards Board

Independent, non-profit standards-setting organization for ESG information



**SASB connects businesses
and investors on the financial
impacts of sustainability**

**77 industry-specific
disclosure standards**

**Used by companies
and investors globally**



The SASB Difference

SASB standards are created for the market, by the market



Evaluation of Financial Materiality of Sustainability Issues in Each Industry

SASB's research process starts with a broad universe of sustainability issues

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

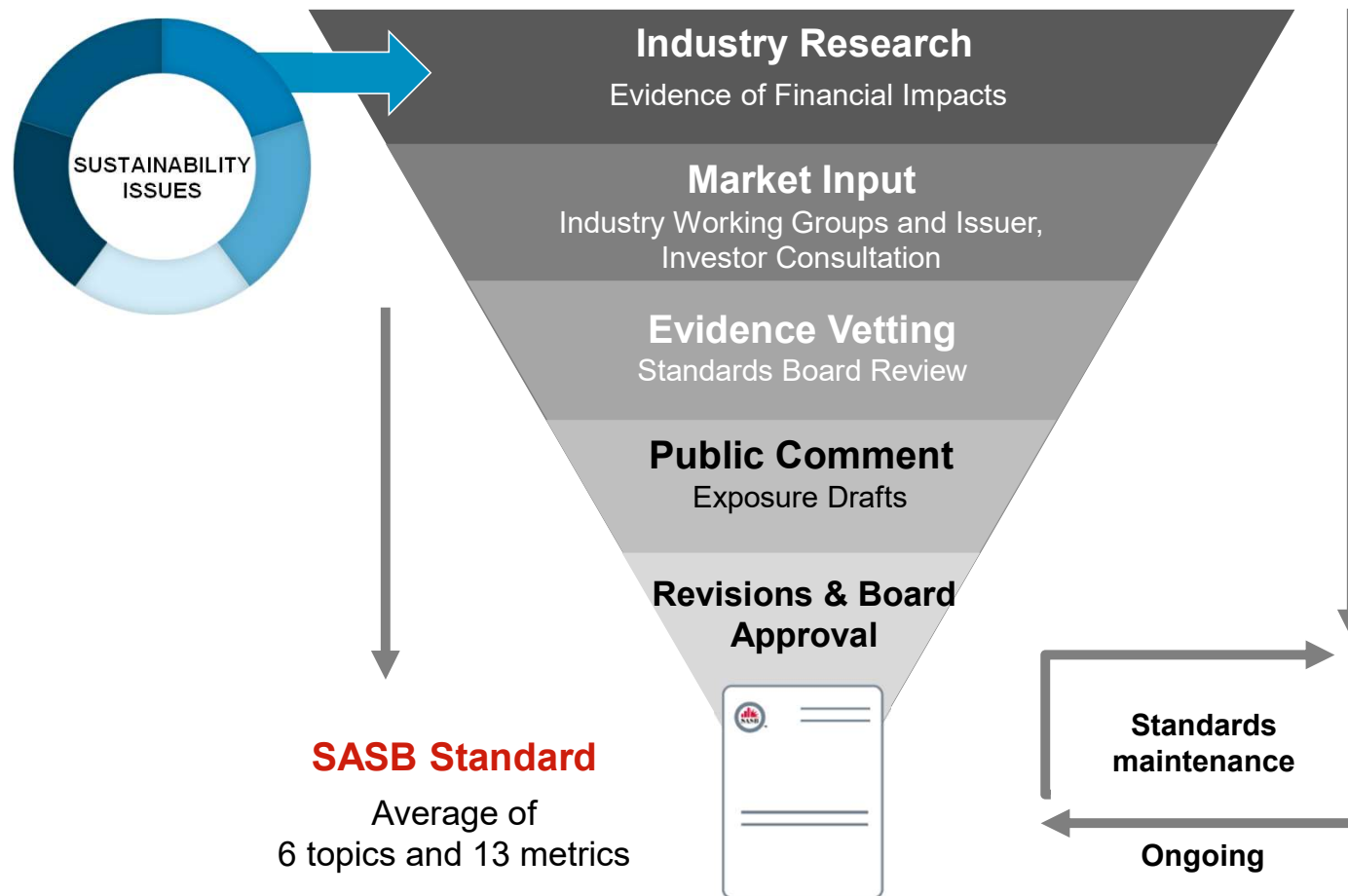
- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Rigorous Process Drives SASB Standards

Standards for each industry are rooted in evidence and shaped by market input



Efficient and Cost-Effective Disclosures

SASB provides a cost-effective way to report on material sustainability topics to investors

SASB standards average 6 topics and 13 metrics (74 percent quantitative) per industry.

SASB metrics are aligned with over 200 existing frameworks, regulations, and certifications.

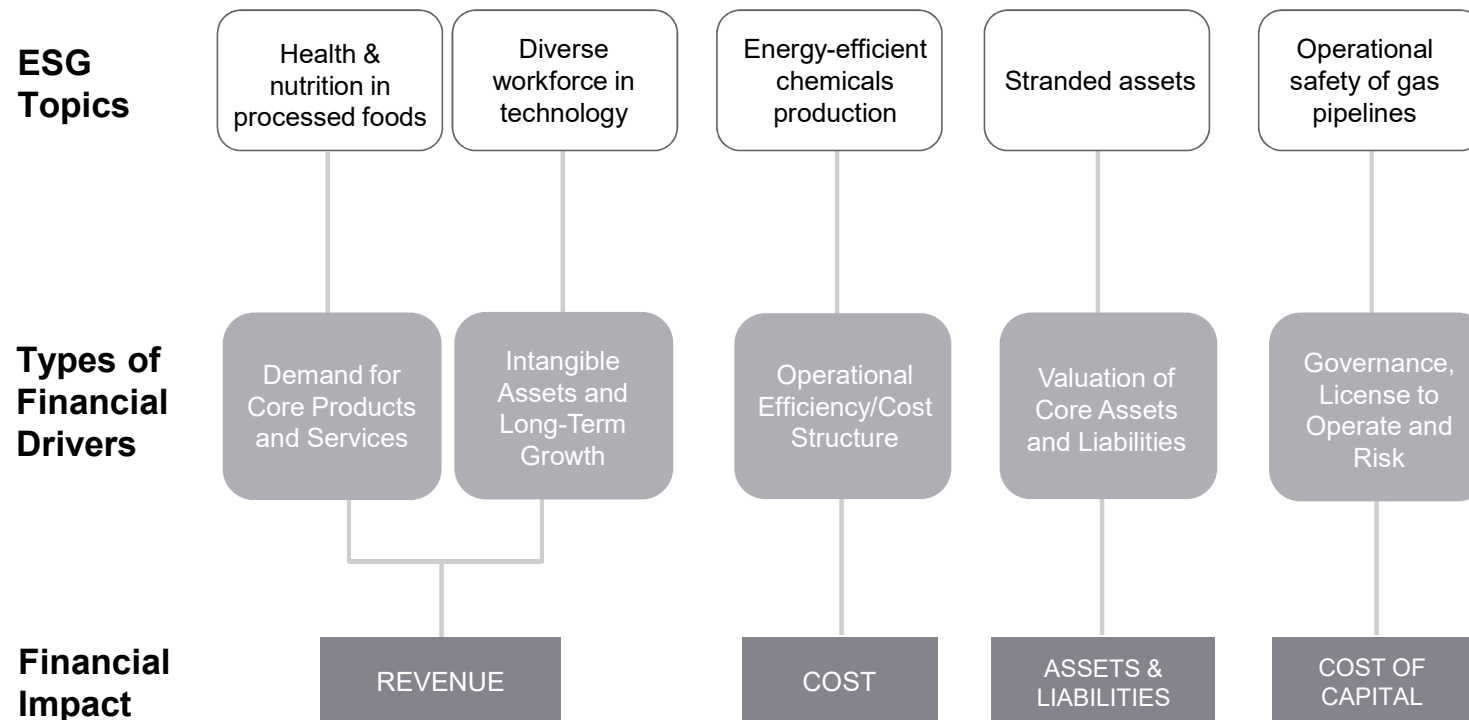
Example: Biotechnology & Pharmaceuticals Industry

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Safety of Clinical Trial Participants	Discussion, by world region, of management process for ensuring quality and patient safety during clinical trials	Discussion and Analysis	n/a	HC-BP-210a.1
	Number of FDA Sponsor Inspections related to clinical trial management and pharmacovigilance that resulted in: (1) Voluntary Action Indicated (VAI) and (2) Official Action Indicated (OAI)	Quantitative	Number	HC-BP-210a.2
	Total amount of monetary losses as a result of legal proceedings associated with clinical trials in developing countries ²	Quantitative	Reporting currency	HC-BP-210a.3
Access to Medicines	Description of actions and initiatives to promote access to health care products for priority diseases and in priority countries as defined by the Access to Medicine Index	Discussion and Analysis	n/a	HC-BP-240a.1
	List of products on the WHO List of Prequalified Medicinal Products as part of its Prequalification of Medicines Programme (PQP)	Discussion and Analysis	n/a	HC-BP-240a.2
Affordability & Pricing	Number of settlements of Abbreviated New Drug Application (ANDA) litigation that involved payments and/or provisions to delay bringing an authorized generic product to market for a defined time period	Quantitative	Number	HC-BP-240b.1
	Percentage change in: (1) average list price and (2) average net price across U.S. product portfolio compared to previous year	Quantitative	Percentage (%)	HC-BP-240b.2

Disciplined Focus on Direct Financial Impacts

SASB identifies disclosure topics with evidence of impact on financial condition, operating performance or risk



SASB's Materiality Map®

A first view of exposure to material sustainability risks across a diversified portfolio



SASB Materiality Map®

SASB's Materiality Map® identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. In the left-hand column, SASB identifies 26 sustainability-related business issues, or General Issue Categories, which encompass a range of Disclosure Topics and their associated Accounting Metrics that vary by industry. For example, the General Issue Category of Customer Welfare encompasses both the Health and Nutrition topic in the Processed Foods industry and the Counterfeit Drugs topic in the Health Care Distributors industry. For commercial use terms of the Materiality Map, [please contact us](#).

Sector Level Map

- 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

Industry Level Map

- Not likely a material issue for companies in the industry
- Likely a material issue for companies in the industry



		Consumer Goods	Extractives & Minerals Processing								Financial
Dimension	General Issue Category ¹⁰	Click to expand	Coal Operations	Construction Materials	Iron & Steel Producers	Metals & Mining	Oil & Gas - Exploration & Production	Oil & Gas - Midstream	Oil & Gas - Refining & Marketing	Oil & Gas - Services	Click to e
Environment	GHG Emissions										
	Air Quality										
	Energy Management										
	Water & Wastewater Management										
	Waste & Hazardous Materials Management										
Social Capital	Ecological Impacts										
	Human Rights & Community Relations										
	Customer Privacy										
	Data Security										
	Access & Affordability										
Human Capital	Product Quality & Safety										
	Customer Welfare										
	Selling Practices & Product Labeling										
	Labor Practices										
	Employee Health & Safety										
Business Model & Innovation	Employee Engagement, Diversity & Inclusion										
	Product Design & Lifecycle Management										
	Business Model Resilience										
	Supply Chain Management										
	Materials Sourcing & Efficiency										
	Physical Impacts of Climate Change										



Even Without SASB Disclosures, Investors Are Evaluating with SASB

Research studies point to the value of SASB's materiality framework

Harvard Business School and Russell Investments find that performance on material ESG issues identified by SASB is a better predictor of return than traditional ESG issues

		Differences in four-factor alphas (High – Low Quintile Performance)		
		SASB-based ESG issues	Immaterial ESG issues	Total ESG issues
 HARVARD BUSINESS SCHOOL “Corporate Sustainability: First Evidence on Materiality” ¹	MSCI KLD Data (1991-2013)	4.18%	3.37%	2.93%
	 Russell Investments “Materiality Matters” ²	1.19%	0.30%	0.97%

Sources:

1. Mozaffar Khan, George Serafeim, and Aaron Yoon, The Accounting Review, Vol. 91, No. 6, Nov. 9, 2016. Results for value-weighted portfolios of firms scoring at the bottom and top quintiles of the total, material, and immaterial sustainability indexes.
2. Emily Steinbarth, Scott Bennett, Russell Investment Management Ltd., Feb. 2018. Differences in the four-factor alphas of high and low portfolios formed on the basis of Material and Immaterial Sustainability Issues.



Insight Across Multiple Asset Classes

SASB standards enable ESG integration across multiple asset classes

PUBLIC EQUITIES

- Data-driven corporate engagement
- Input to fundamental equity analysis
- Construct alternative indices

CORPORATE FIXED INCOME

- Input to credit analysis and internal credit rating assignment
- Assess quality of disclosure for insight into risk

PRIVATE EQUITY


- Identify focus areas for fund and portfolio company due diligence
- Report to GPs and LPs on performance on material ESG topics


REAL ASSETS


- Use SASB's Infrastructure sector standards to guide risk assessment and performance reporting for real assets


SASB Standards Offer Multiple Benefits To Companies


SASB Standards are a useful tool to guide communication to investors

 **Own the data** investors increasingly use to evaluate companies

 **Cost-effectively** disclose progress, strategy, and data using industry standard metrics

 **Benchmark performance** with peers

 **More effectively meet investor requests** for disclosure of financially material sustainability information

 Focus conversations with investors on **drivers of long-term risk and return**

Role of the Capital Markets in Addressing the SDGs



- **Capital markets can play a significant role in achieving the SDGs.**
- **Given the scale and urgency of many of the challenges embedded in the goals, private-sector capital will be essential to transform global ambition into global action.**

Theory of Change

Mobilizing capital at this scale requires alignment of business and investor interests



COMPANIES

Allocate capital and resources to SDG's that are aligned with business strategy and financial goals



INSTITUTIONAL INVESTORS

Finance SDG-related activities that are aligned with investment strategy and return targets

SASB standards - an industry specific, financially relevant lens on the SDGs

Offer companies and investors a tool for decision-making on the SDGs

Investors

- Identify **financially relevant** SDG targets by industry
- Inform **engagements** with companies regarding the links between specific SDGs and financial performance
- Inform **allocation of capital** to industries based on potential to impact specific SDG targets

Companies

- Identify **financially relevant** SDG targets by industry
- Prioritize activities to address the SDGs that are aligned with **industry-specific** drivers of value
- Gather **decision-useful** performance information on company-specific activities related to key SDGs



Existing Efforts to Link SASB with the SDGs

Research and Guides to help Investors understand the link between SASB & SDGs



In [*The Relationship Between Investor Materiality and the Sustainable Development Goals*](#), academic researchers found SASB's approach enables investors to contribute to the SDGs **without harming their financial returns**



In [*Investing with the Sustainable Development Goals*](#), TruValue Labs demonstrates how SASB standards can be applied to track progress on the SDGs



Asset manager [Calvert](#) explained how its own analysis found 71% of SASB's performance metrics map to the SDGs and their related targets

SASB Enables Robust TCFD Implementation

Industry-specific metrics and targets provide actionable information on climate risk

