Sustainability Accounting Standards Board
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

The Rapid Rise in Sustainability/Responsibility Reporting…

2011
From a minority of the S&P 500…

2018
86%
… to a clear majority

…Gave Researchers New Data Sets to Study

Source: Governance & Accountability Institute
Pain Points for Investors
Investors are dissatisfied with the quality of ESG disclosure

Company Reporting vs. Investor Needs

Company confidence in the quality of ESG information reported

Investor confidence in the quality of ESG information received from companies

100% vs. 29%


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).

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

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

- Financially Material
- Decision-Useful
- Cost-Effective
- Industry-Specific
- Evidence-Based
- Market-Informed
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

**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

**Business Model & Innovation**
- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change
Rigorous Process Drives SASB Standards
Standards for each industry are rooted in evidence and shaped by market input

- Industry Research: Evidence of Financial Impacts
- Market Input: Industry Working Groups and Issuer, Investor Consultation
- Evidence Vetting: Standards Board Review
- Public Comment: Exposure Drafts
- Revisions & Board Approval
- SASB Standard: Average of 6 topics and 13 metrics

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

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

Efficient and Cost-Effective Disclosures
SASB provides a cost-effective way to report on material sustainability topics to investors

Example: Biotechnology & Pharmaceuticals Industry

Table 1. Sustainability Disclosure Topics & Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety of Clinical Trial Participants</td>
<td>Discussion, by world region, of management process for ensuring quality and patient safety during clinical trials</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>H-C-BF-210a.1</td>
</tr>
<tr>
<td></td>
<td>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)</td>
<td>Quantitative</td>
<td>Number</td>
<td>H-C-BF-210a.2</td>
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<tr>
<td></td>
<td>Total amount of monetary losses as a result of legal proceedings associated with clinical trials in developing countries</td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td>H-C-BF-210a.3</td>
</tr>
<tr>
<td>Access to Medicines</td>
<td>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</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>H-C-BF-240a.1</td>
</tr>
<tr>
<td></td>
<td>List of products on the WHO List of Prequalified Medicinal Products as part of its Requalification of Medicines Programme (PQP)</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>H-C-BF-240a.2</td>
</tr>
<tr>
<td>Affordability &amp; Pricing</td>
<td>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</td>
<td>Quantitative</td>
<td>Number</td>
<td>H-C-BF-240b.1</td>
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<td></td>
<td>Percentage change in: (1) average list price and (2) average net price across U.S. product portfolio compared to previous year</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>H-C-BF-240b.2</td>
</tr>
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</table>
Disciplined Focus on Direct Financial Impacts
SASB identifies disclosure topics with evidence of impact on financial condition, operating performance or risk

ESG Topics
- Health & nutrition in processed foods
- Diverse workforce in technology
- Energy-efficient chemicals production
- Stranded assets
- Operational safety of gas pipelines

Types of Financial Drivers
- Demand for Core Products and Services
- Intangible Assets and Long-Term Growth
- Operational Efficiency/Cost Structure
- Valuation of Core Assets and Liabilities
- Governance, License to Operate and Risk

Financial Impact
- REVENUE
- COST
- ASSETS & LIABILITIES
- COST OF CAPITAL
SASB’s Materiality Map®
A first view of exposure to material sustainability risks across a diversified portfolio

### SASB Materiality Map®

SASB 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 Healthcare 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**

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<table>
<thead>
<tr>
<th>Dimension</th>
<th>General Issue Category</th>
<th>Consumer Goods</th>
<th>Extractives &amp; Minerals Processing</th>
<th>Finance</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>Environment</td>
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<td>Social Capital</td>
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<td>Human Capital</td>
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<tr>
<td>Business Model &amp; Innovation</td>
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</tbody>
</table>
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*

<table>
<thead>
<tr>
<th>Differences in four-factor alphas (High – Low Quintile Performance)</th>
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<tbody>
<tr>
<td>SASB-based ESG issues</td>
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<tr>
<td>------------------------</td>
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<tr>
<td>MSCI KLD Data (1991-2013)</td>
</tr>
<tr>
<td>Sustainalytics Data (2012-2017)</td>
</tr>
</tbody>
</table>

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

“When capital market signals align with public policy goals on sustainable development, gains for one can catalyze gains for all.”

Mary Schapiro, Former SEC Chair, 2018

- 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

SASB metrics are among the frequently referenced tools cited by TCFD for implementing TCFD Recommendations.

Metrics and targets are critical to more effective governance, strategy, and risk management – the “outer layers” of the TCFD “onion”.

Governance
Strategy
Risk Management
Metrics & Targets