Growing demand for ESG disclosures

ERM PESA ESG Seminar

Presented by: Brad Nemeth

October 31, 2019
A Glimpse of the Current ESG Ecosystem

Based on sustainability reporting standards and frameworks, there are 100+ organizations producing lists, rankings, ratings and scorecards of the “top companies” and “most sustainable” companies.

Some organizations simply provide frameworks for disclosure and do not evaluate companies.

Some passively pull information from sustainability reports, aggregate data, and add ratings.

Some actively request information, aggregate data, and add ratings.

Some purchase data and ratings from other raters and add rankings.
The Problem: ESG rating firms take multiple assessment approaches, emphasizing subjectivity in analyzing and scoring environmental, social and governance issues:

- MSCI ranks Tesla as industry leader;
- FTSE rates the company as a laggard;
- Sustainalytics ranks it in the middle of the pack

Bottom Line: Investors should not treat ESG scores as objective truth, but as analyses that need to be understood before acted on.
Investors are increasingly incorporating environmental, social and governance factors (ESG) into investment decisions and corporate engagement.

**Principles for Responsible Investment**

**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.
The number of users of ESG data on Bloomberg has increased over 300% in the last seven years. The platform contains over 900 data points for nearly 11,500 companies in 83 countries.

**Bloomberg ESG Data**

- Bloomberg collects, scrubs, verifies and continually updates ESG data from publicly available company disclosures, and makes the data available to all Bloomberg Terminal subscribers.
- There are currently over 900 ESG data points in Bloomberg.
- Additionally, the Bloomberg Terminal includes scores from common third-party ESG research firms, such as Sustainalytics, CDP, ISS and RobecoSAM.

Bloomberg Disclosure Scores

We typically benchmark Bloomberg ESG Disclosure scores for our clients against its peer set. **Bloomberg ESG Disclosure** scores above 40 demonstrate good transparency; scores between 50–70 demonstrate excellent transparency.
Sustainalytics Scores

*Sustainalytics ESG Rank* encompasses a company’s level of preparedness, disclosure and controversy involvement across all three ESG themes—environmental, social, and corporate governance—and shows performance percentile relative to industry peers.
RobecoSAM (DJSI) Scores

RobecoSAM Sustainability Rank shows companies’ relative performance on the Corporate Sustainability Assessment (Dow Jones Sustainability Index questionnaire).
ISS Governance QuickScore

*ISS Governance QuickScore* is an overall score assigned by Institutional Shareholder Services (ISS) to a company's governance practices. The score ranges from 1 (best) to 10 (worst).

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**ISS Governance QuickScore**

- **Alcon Inc**
- **Unilever NV**
- **Novartis AG**
- **Koninklijke Philips NV**
- **Johnson & Johnson**
- **Hoya Corp**
- **Cooper Cos Inc/The**
- **Carl Zeiss Meditec AG**
- **Baxter International Inc**
- **Bausch Health Cos Inc**
- **Allergan PLC**
- **Abbott Laboratories**
- **Medtronic PLC**
- **Boston Scientific Corp**

*Avg: 5*
Publicly traded companies are evaluated, whether or not they engage with ESG research and rating firms.

- Disclose requested information publicly for firms to find:
  - SEC filing (10-K, proxy statement, etc.)
  - Investor Relations or Sustainability/Corporate Responsibility section of corporate website
  - Corporate sustainability report
  - GRI content index, ESG investor data download, etc.
## Ways Companies Engage

<table>
<thead>
<tr>
<th>Approach</th>
<th>Company Action</th>
<th>Level of Effort</th>
</tr>
</thead>
</table>
| Own your narrative             | • Materiality assessment  
                                   • Reporting and transparency  
                                   • Proactive engagement       | High            |
| Verify data (Sustainalytics, MSCI, Vigeo Eiris, etc.) | • Correct data  
                                   • Provide links to public information  
                                   • Share company’s response to “controversies” | Medium          |
| Respond to surveys (CDP, RobecoSAM, etc.) | • Answer extensive list of survey questions  
                                   • Provide supporting documentation/ evidence  
                                   – often in public domain | High            |
## Evolution of Corporate Sustainability: Strengthening Focus & Performance

<table>
<thead>
<tr>
<th>Sustainability Focus &amp; Management</th>
<th>Progression of Business Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Company Discretion</td>
<td>Materiality</td>
</tr>
<tr>
<td>Program content is determined by personal interests of top leadership or short-term financial decisions</td>
<td>Companies objectively determine which performance topics add the most value and then develop meaningful strategies to improve their performance</td>
</tr>
<tr>
<td>Quantity Over Quality</td>
<td></td>
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<tr>
<td>Company gathers only information tied to performance indicators that are easy to measure or already collected</td>
<td></td>
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</tbody>
</table>

Materiality to Goals to Disclosure
Please describe how your risk and opportunity identification processes are applied. How do you prioritize the risks and opportunities identified?

Disclosure of material sustainability issues is important to investors, companies, regulators and the public.

Is your company publicly reporting the processes and tools used to identify and prioritize critical issues within the sustainability strategy, including a consideration of impact on the company’s business performance (i.e., materiality analysis/matrix)?

The information in a report should cover [topics] that reflect the organization’s significant economic, environmental and social impacts or substantively influence the assessments and decisions of stakeholders.
Traditional Universe of Sustainability Topics

Environmental
- Materials
- Energy
- Water
- Biodiversity
- Emissions
- Effluents and Waste
- Products and Services
- Environmental Compliance
- Transport
- Supplier Environmental Assessment
- Environmental Grievance Mechanisms

Human Rights
- Non-discrimination
- Freedom of Association & Collective Bargaining
- Child Labor
- Forced / Compulsory Labor
- Security Practices
- Indigenous Rights
- Supplier Human Rights Assessment
- Human Rights Grievance Mechanisms

Labor Practices & Decent Work
- Training and Education
- Employment
- Labor/Management Relations
- Occupational Health & Safety
- Diversity & Equal Opportunity
- Equal Remuneration for Men and Women
- Supplier Assessment for Labor Practices
- Labor Practices Grievance Mechanisms

Economic
- Economic Performance
- Philanthropy
- Market Presence
- Indirect Economic Impacts
- Economic Inclusion
- Procurement Practices

Society
- Anti-Corruption
- Public Policy
- Anti-competitive Behavior
- Local Communities
- Supplier Assessment for Impacts on Society
- Grievance Mechanisms for Impacts on Society

Product Responsibility
- Customer Health & Safety
- Product & Service Labeling
- Marketing Communications
- Customer Privacy
- Product Compliance
Materiality Assessment Concept Overview

The assessment process typically involves:

- identifying a broad list of relevant topics and then
- screening them against a set of criteria to determine which are most important.

It is informed by benchmarking, stakeholder engagement and an understanding of the investor ESG landscape.
ESG Materiality
Laying a Foundation for Corporate Sustainability

Current & Potential Focus Areas

Prioritized Focus Areas

Material Topic Categories (color)
- Social Responsibility
- Environmental Responsibility
- Economic Responsibility
Going from Materiality to Strategy

Once the material issues are identified:

- Management effectiveness should be assessed;
- Risks and opportunities identified (with consideration of the UN Sustainable Development Goals); and
- A strategy map and action plan developed.

A strategy map can then be built out, with the engagement of key subject matter experts and functional leaders.
Case Study: Impact of ESG Data Download

ESG data disclosures organized in an easily accessible way for ratings and rankings analysts and investors may lead to ESG performance and disclosure score improvements.

Environmental Indicators

<table>
<thead>
<tr>
<th>2017 Assurance Statement related to GHG emissions, energy consumption, water consumption, and waste generation.</th>
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<tbody>
<tr>
<td>Direct GHG emissions (Scope 1)</td>
</tr>
<tr>
<td>Energy indirect GHG emissions – Location Based (Scope 2)</td>
</tr>
<tr>
<td>Energy indirect GHG Emissions – Market-based (Scope 2)</td>
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</tbody>
</table>

**Goal:** By 2021, reduce greenhouse gas emissions by 25% of our 2011 levels. **98% achieved**

<table>
<thead>
<tr>
<th>Energy Consumption (MWh)</th>
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<tbody>
<tr>
<td>Energy Consumption – Electricity</td>
</tr>
<tr>
<td>Energy Consumption – Natural Gas, Fuel Oil, and Propane</td>
</tr>
<tr>
<td>Energy Consumption – Total</td>
</tr>
<tr>
<td>Renewable Energy* Consumption</td>
</tr>
<tr>
<td>Renewable Energy* (% Total Energy Consumption)</td>
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</table>

**Goal:** By 2021, reduce energy consumption by 15% of our 2011 levels. **89% achieved**

*This only represents on-site generation and does not include consumption of 3rd party-generated renewable energy.

<table>
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<th>Water Consumption (m³)</th>
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<tr>
<td>Water Consumption</td>
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</table>

**Goal:** By 2021, reduce water consumption by 10% of our 2011 levels. **52% achieved**

<table>
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<tr>
<th>Waste (metric tonnes)</th>
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<tbody>
<tr>
<td>Waste Disposal – Landfill</td>
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<td>Waste Diverted – Recycling</td>
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MSCI Scores

Environment
- Water Stress
- Toxic Emissions & Waste
- Carbon Emissions
- Energy Efficiency
- Overall Environment

Social
- Human Capital Development
- Labor Management
- Health & Safety
- Access to Healthcare
- Product Safety & Quality
- Overall Social

Edwards Lifesciences
Our Sustainability Metrics At a Glance

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<tbody>
<tr>
<td>Products</td>
<td>Number of regulatory approvals for new devices</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Number of global patient safety-related class I product removals</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>List of products in the FDA’s MedWatch Safety Alerts for Human Medical Products (Medical Devices) database</td>
<td>–</td>
<td>–</td>
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<td></td>
<td>Certificate Delivery System</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethics, Corruption &amp; Bribery</td>
<td>Applicable employees certified to ethics code of conduct (%)</td>
<td>99</td>
<td>96</td>
<td>97</td>
<td>98</td>
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<td></td>
<td>Code of ethics governing promotion of off-label use: See page 20 of our Titaniumbook</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>Code of ethics governing interactions with healthcare professionals: See pages 21-23 of our Titaniumbook</td>
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</tr>
<tr>
<td>Access to Healthcare</td>
<td>Number of underserved patients impacted through our philanthropic partners who provide education, screening and treatment</td>
<td>1,000,000</td>
<td>900,000</td>
<td>400,000</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td>Community Spending (Foundation, Corporate Grants and Product Donations)</td>
<td>$8.7 M</td>
<td>$7.0 M</td>
<td>$6.6 M</td>
<td>$8.2 M</td>
</tr>
<tr>
<td></td>
<td>Every Heartbeat Matters grants awarded</td>
<td>$4.5 M</td>
<td>$4.5 M</td>
<td>$4.4 M</td>
<td>$3.9 M</td>
</tr>
</tbody>
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http://ir.edwards.com/investor-relations
ESG Opportunities

- Stay on top of the evolving ESG landscape
- Take control of the ESG narrative
- Strengthen sustainability efforts by identifying management and data gaps
- Understand key stakeholder expectations and improve relationships (i.e., investors, suppliers, customers)
- Seize potential opportunities to “stand out” among peers/competitors
Thank you

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