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A Growing Imperative:

Insights into the Evolving ESG Landscape

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Executive Summary

Now that sustainability is a marketplace imperative, companies are rethinking their approach to ESG. The stakes are higher than ever, with $1.7 trillion of global ESG fund assets looking to support companies that are committed to making a positive impact, and with more than $53 trillion estimated in global ESG fund assets by 2025. But, with much of the conversation around ESG focused on measurement, companies taking a check-the-box approach may miss a once-in-a-generation opportunity to make ESG a strategic and cultural advantage.

This Corbin Advisors whitepaper discusses the current ESG landscape, including continued record-setting assets flowing into ESG funds, key drivers for the growing importance placed on ESG, a spotlight on the rise of the Social element following the COVID-19 pandemic and focus on systemic racism, as well as a deep dive into climate change and the road to net zero.

This whitepaper offers insights into current investor and corporate perceptions of ESG, as well as actionable steps for companies to articulate an authentic and customized ESG strategy that considers the interests of their organization's key stakeholders, including customers, suppliers, partners, employees, and investors.

Following topics and course of action are covered in this report:

- The current ESG landscape
- Sustainable investing and record-setting fund levels
- Small-, mid- and large-cap trends
- Drivers of the importance of ESG
- The rise of the Social Element in the age of COVID and social unrest
- Climate change and the Road to Net Zero
- Strategies to incorporate ESG into company culture
- Communicating progress and momentum on the ESG journey

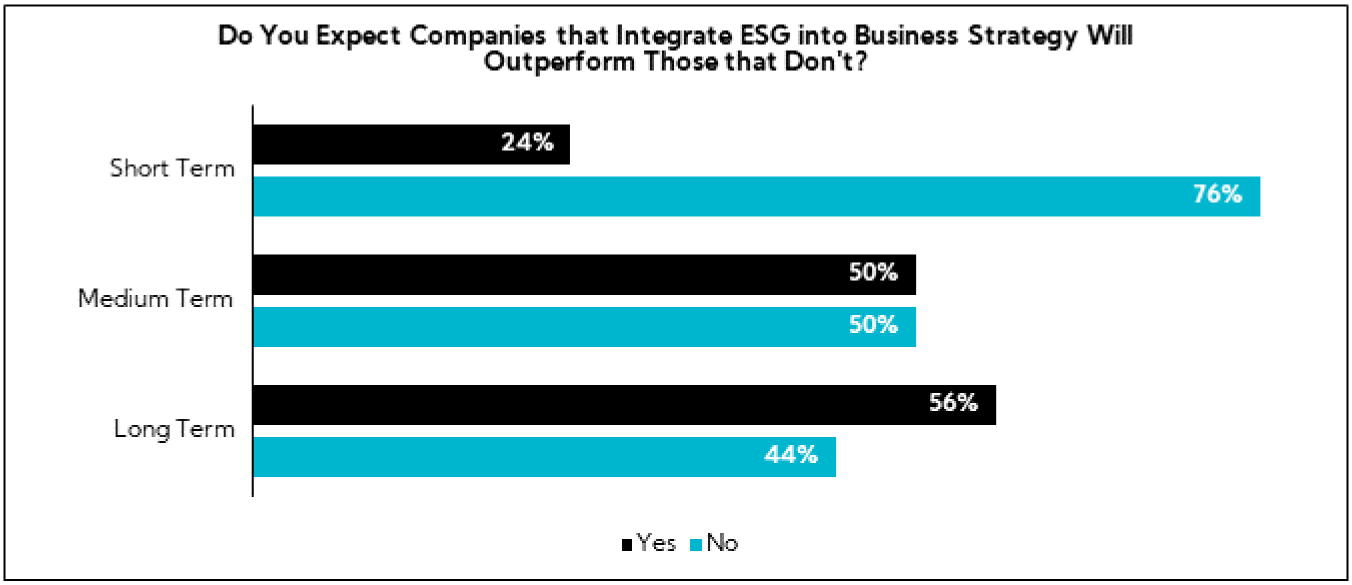
The basis of this whitepaper are surveys conducted with institutional investors and corporates.

The Current ESG Landscape

Still an evolving target, companies today are evaluating what is material to their sector and company as they think about developing an authentic and strategic approach to ESG. Here's a look at the ESG landscape, how ESG is affecting the investor decision-making process and tactics for implementing and advancing ESG strategy.

Based on tracking buy side views for over a decade, Corbin Advisors has seen investors increasingly incorporate ESG into their investment decisions. According to our proprietary research, **9 out of every 10 investors globally incorporates ESG** into their investment decisions to some extent, including more than **4 out of every 10 noting that ESG is "very important" or "critical."**

According to Corbin's proprietary data, **56% of investors believe that companies that integrate ESG into their business strategy will outperform over the long term.** Now that sustainability is a marketplace imperative, companies are recognizing ESG as an important business driver that can add fundamental value to the business.



Sustainable Fund Flows – Continuing to Set Records

Net flows to ESG funds in the U.S. reached $51.1 billion, with $20.5 billion of that coming in Q4 alone. There were $1.7 trillion in global ESG fund assets in 2020. In the first half of 2021, the U.S. sustainable fund landscape saw nearly $39 billion in net inflows, suggesting 2021 is shaping up to be yet another record-breaking year for sustainable investing globally and in the U.S.

There's a lot of capital looking to support companies committed to ESG and making a positive impact. With much of the conversation around ESG focused on measurement, companies taking a check-the-box approach may miss a once-in-a-generation opportunity to make ESG a strategic advantage.

"Sustainability needs to be a pillar of corporate strategy, it's that important," said Corbin Advisors CEO & Founder Rebecca Corbin. "ESG is getting embedded into business decisions. The good news is that organizations are embracing this."

The ESG View By Market Cap

While large-cap companies were earlier to prioritize ESG elements within their organizations, our research shows increasing interest among mid-cap companies, with **78% of mid-caps saying that ESG has become a greater priority at their company over the past 12 months**, and only **22% saying it was already a high priority, compared to 46% of large-cap companies** who said ESG was already a high priority.

ESG is also taking on increased importance at **small-cap companies, with 50% saying it has become a greater priority over the past 12 months,** and **25% saying it was already a high priority**.

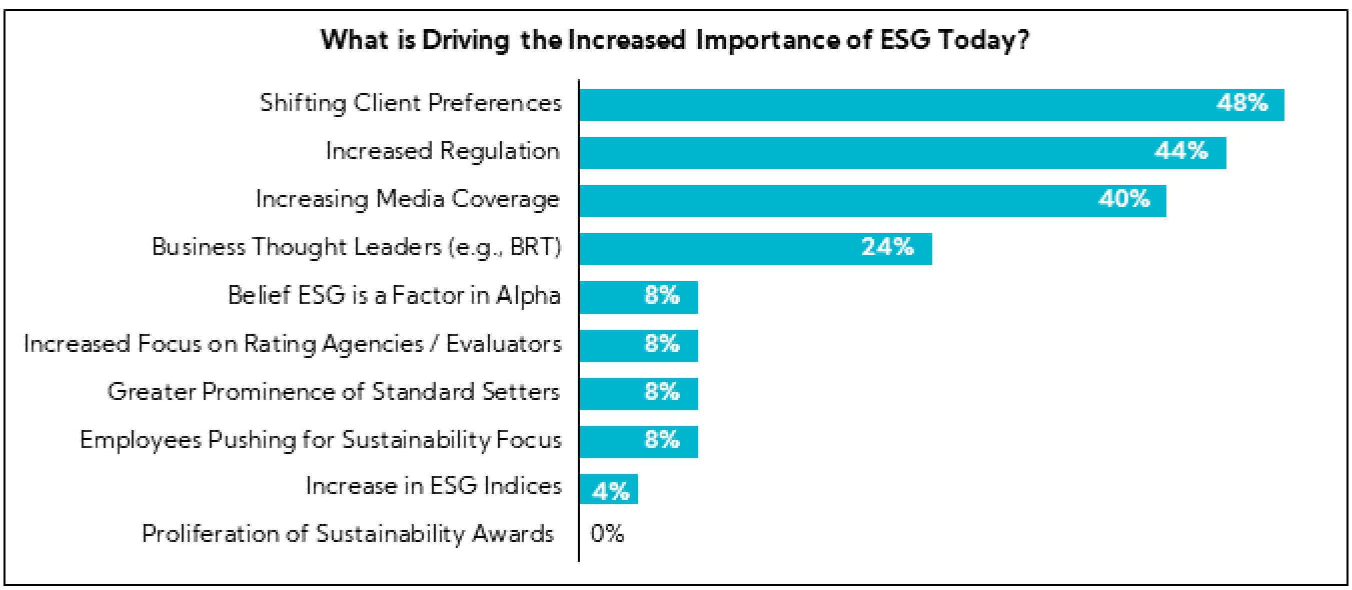
Not surprisingly, **the annual ESG budget for more than half (52%) of mid-cap companies was $50,000 or less,** compared to **60% of large-cap companies who reported an annual budget of $150,000 or higher.** Focusing on communicating the ESG message was a focus for mid-cap companies, as one IRO shared: "We have a great story and this is a top priority activity for us."

Still, mid-cap companies were less likely to have published multiple corporate sustainability reports **(55% compared to 83% of large-cap companies),** an important milestone that several mid-cap IROs cited. "It has always been a priority, but with the publication of our first CSR report this year we want to further ingrain and develop ways to better report on our progress," said one mid-cap IRO, while another said interest in ESG "has gone from 0 to 60 overnight."

Client Preference Driving ESG Importance

"When we asked investors what's driving that shift, the number one answer is client preference and demand," said Rebecca Corbin. "Investors are being pushed by their clients, who want to invest in sustainable investments."

Other top drivers of the importance of ESG include increasing regulation, and media coverage.



In a recent report, Deloitte noted ESG-mandated assets in the U.S. could grow almost three times as fast as non-ESG-mandated assets and comprise half of all professionally managed investments by 2025. This is driven by **72% of the U.S. population expressing at least moderate interest in sustainable investing,** with one-third of millennials often or exclusively using investments that take ESG factors into account, compared with 19% of Gen Z, 16% of Gen X and 2% of Baby Boomers. This is critical given the upcoming $24T wealth transfer from Baby Boomers to Millennials.

Here are two trends worth special consideration.

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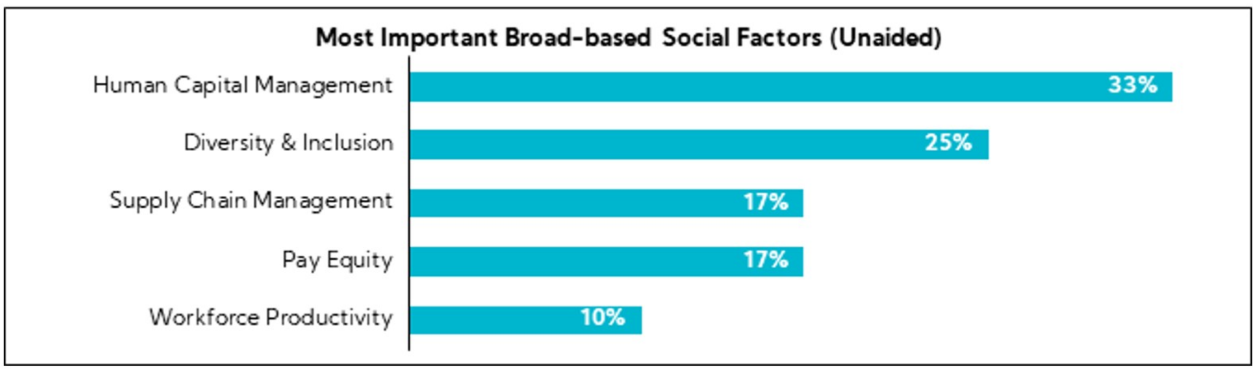
Spotlight on Social

Coming out of COVID, with a focus on human capital management and with executives addressing systemic racism for the first time, not only in the U.S. but globally, was an important period for the Social element in ESG. "According to our proprietary research, the 'S' is gaining a tremendous amount of traction," Rebecca Corbin said. **Forty-five percent of investors, up from just over a quarter in 2018, say the 'S' is "very important to critical"** to their investment thesis.

Following the SEC's amendments to "modernize" disclosures of business, legal proceedings and risk factors under Regulation S-K, our September 2020 Earnings Primer® survey found – for the first time ever – investors identifying **talent management among the top five topics of interest on earnings calls**, followed by one-third noting HCM as the top focus area for Social heading into 2021 as published in our January 2021 Earnings Primer®.

As the construct of HCM evolves, with trailblazing public companies proactively and transparently communicating facts and figures about what they are doing to keep their employees safe, engaged, innovative, and happy, investors focused on ESG – a rapidly growing number – will seek increased disclosure across their portfolio, as they have done with the 'E' and 'G' sub-factors.



A trend we're following is an expansion of what is included within 'D&I.' What started as 'Diversity & Inclusion' has since grown to include 'Equity' and more recently, 'Belonging.' This expanded definition suggests it is more than just about hitting quotas but instead, an increased focus on making workers feel like a part of a cohesive community. Engaged employees contribute to a positive corporate culture, which is an important component of operational excellence. In an analysis of 32 companies with codified operating models, we found a growing number, **22%, now tie operational excellence to Purpose.** Prior, it was just 6%.

If your company has not yet strategized on how to best manage, measure, and disclose information related to HCM, now is the time to develop a formal approach, as the stakes are higher than ever and disclosure requirements will likely become more uniform over time.

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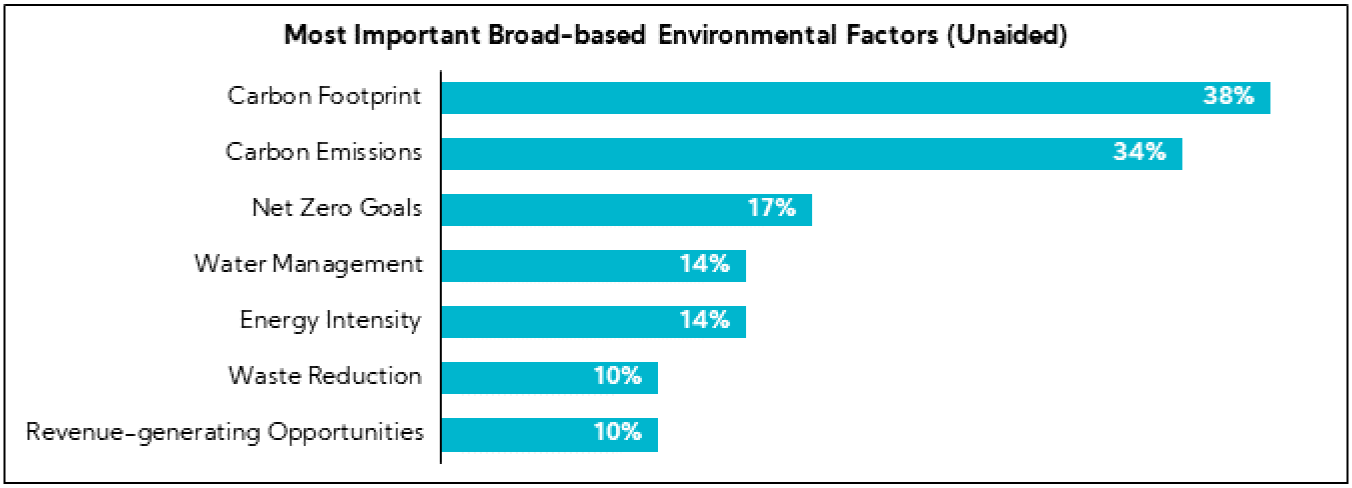
Spotlight on Climate Change and the Road to Net Zero

According to our research, the environmental aspect of ESG is also becoming increasingly more important to investors, with **44% saying 'E' is very important/critical to their investment thesis,** up from 35% In 2018. Top three broad-based environmental factors include **carbon footprint (48%), carbon emissions (34%) and net zero goals (17%).**



Increasingly, more companies are committing to net zero carbon emission goals to curb climate change and slow the warming of Earth. Net zero includes commitments to:

1) Not add new GHG emissions to the atmosphere

2) Reduce emissions or balance them out through carbon offsets (where GHG emissions are removed from the atmosphere through forests and oceans that absorb carbon); carbon capture and storage (CCS, where CO_2 is removed from factory chimneys and pumped underground or stored in a solid form); and/or carbon capture that collects CO_2 directly from the air (requires less land than CCS but is still energy-intensive).

Another issue of growing importance related to climate change is the measurement and individual disclosure of Scopes 1, 2 and 3 carbon emissions. As this is an increasingly important area of disclosure, we want to explain the intricacies:

- **Scope 1 and 2 Emissions**: Refer to a company's emissions from direct operations and purchased electricity and power; these can often constitute a very small portion of total emissions

- **Scope 3 Emissions**: Come from indirect sources and can often be the largest GHG contributor, as they represent the emissions up and down the value chain

We expect to see more and more companies measuring, disclosing, and setting goals related to Scope 1 and 2. Scope 3 disclosure requires more detailed intelligence of emissions along the value chain, making it significantly more challenging to effectively disclose. And while there are questions about the comparability and verifiability of these emissions – for instance, Apple's Scope 3 disclosure includes emissions from employee commutes while Amazon's only includes employee commutes that use the company's shuttle – companies must advance on this journey to **help achieve emission reductions goals collectively.**

As ESG-related environmental metrics are only becoming more complex and disclosure more robust, many companies are proactively engaging in discussions with suppliers, vendors, and customers to **obtain a holistic picture of their GHG emissions** and we encourage our clients to get ahead of this trend as it's not a fad.

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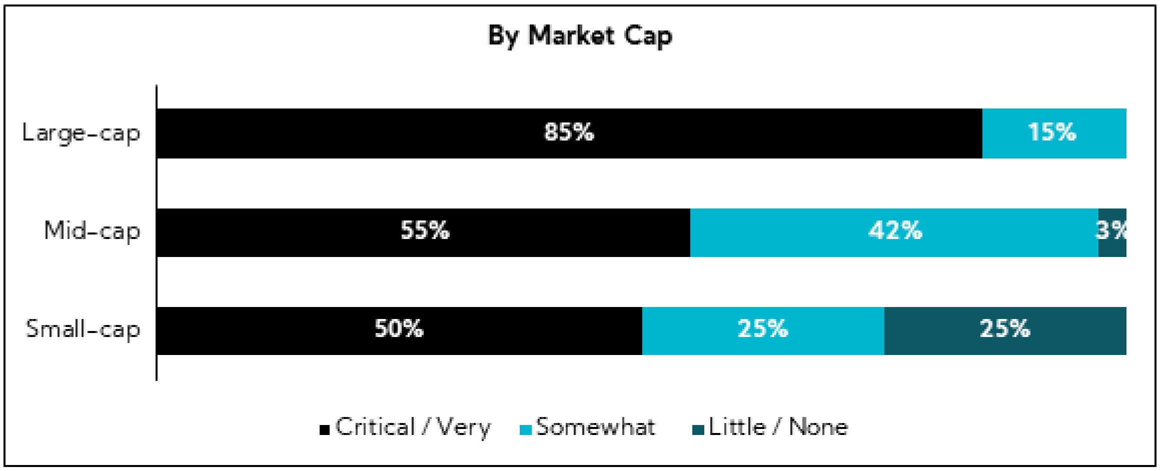
Near-Universal Agreement on Importance of ESG, So Now What?

In our recent survey of 67 corporates globally across market caps and sectors, **97% of IROs note ESG has become a greater priority at their organization over the last 12 months or was already a high priority**, up from just 70% in 2019, while none assert it is not a priority. Even more, **95% of IROs believe their management team places at least *Some* importance on ESG as a factor in the company's long-term success**.

Importantly, **63% assert it is *Very Important* or *Critical*,** up from 36% in 2019. Though large-caps are placing higher levels of importance, small- and mid-caps continue to place greater emphasis on ESG, as many are customers, suppliers, partners, and distributors for the large-caps that are investing in significant resources and defining long-term goals. To that end, **50% of small-caps note ESG is *Very Important* or *Critical*,** up from 23% in 2019, while 55% of mid-caps are doing the same, up from 24% in 2019.



Making ESG a Strategic and Cultural Advantage

With much of the conversation around ESG focused on measurement, companies taking a check-the-box approach may miss a once-in-a-generation opportunity to make ESG a strategic and cultural advantage.

Here are six key tactics to developing your ESG strategy.

1. Recognize that Authenticity is the Only Way

An ESG strategy that flows naturally from and is integrated into a company's overall mission and business objectives is a powerful leadership tool. "Your ESG strategy, associated metrics, and disclosure should be uniquely authentic to your sector, industry, purpose, and, most importantly, where you are on your journey today and where you aspire to be tomorrow," said Rebecca Corbin.

The most compelling and authentic ESG roadmap is one that is both ambitious and realistic while also being inextricably linked to the larger business strategy. According to Katherine Collins, Head of Sustainable Investing at Putnam Investments, companies should focus on relevant material issues, transparency, specific goals, and plans that are measurable over time. "Look at effectiveness, as in, 'Is the plan successful and does the success actually matter?'"

"It starts with a very simple investment premise, which is that relevant sustainability issues are the ones where we want to spend our time," according to Collins. "The idea that there is a cookie cutter report card that applies across the board is inherently flawed."

2. Consider All Stakeholders in Building Long-term Franchise Value

The most forward-thinking global business leaders understand that a comprehensive stakeholder management strategy, inclusive of ESG, well-integrated into a broader business strategy, does not represent a "trade-off" with goals of profitability or franchise value. It is just smart business.

With U.S. corporate balance sheets increasingly comprised of intangible assets, placing a value on those pieces of intellectual property and corporate culture inherently involves assessing the stakeholder relationships that are supported by authentic ESG delivery.

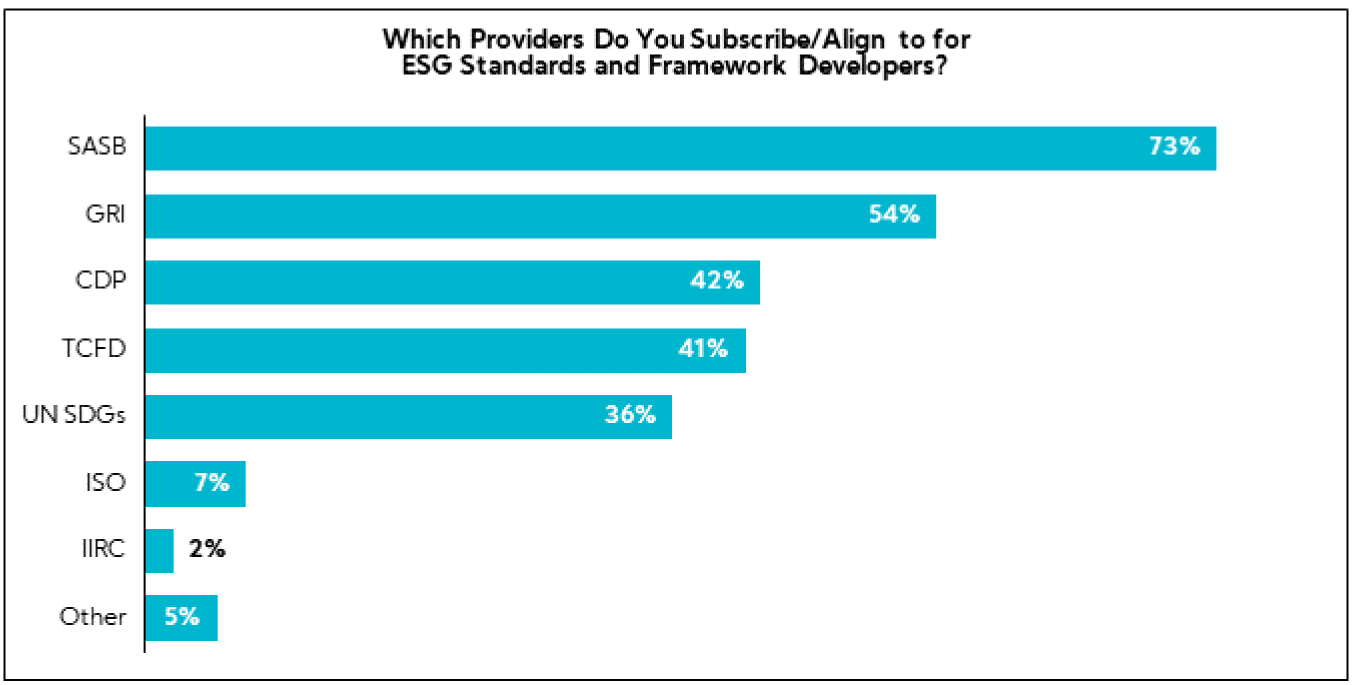
Consider all stakeholders, including:

- Current and prospective customers, both direct and downstream,
- Current and prospective employees,
- Regulators and political leadership, and
- All investors, as individual shareholders are becoming savvier in their investment strategies.

3. Make the Best of the Box, then Move Beyond

Despite frequently reported industry discussions on a unified set of ESG reporting standards (and, in fairness, some real progress from groups like SASB), we suspect that the ESG reporting regime, particularly for global companies, will remain complex. As leaders, however, you can use it to your advantage by embracing its necessity and leveraging the process as an opportunity to determine the metrics that are most meaningful to your company. The sometimes-arduous details of disclosure carry far more weight when framed in a broader corporate purpose.

A checklist is outcome-oriented and helps to organize your everyday efforts around a larger purpose: that is, following the necessary steps to achieve the desired outcome. Ensuring alignment with various standard setters and framework developers is a good opportunity to methodically and successfully move through the process of data disclosure. For example, do we currently collect the necessary data – based on the SASB Sustainable Industry Classification System (SICs) – to be able to align with SASB?



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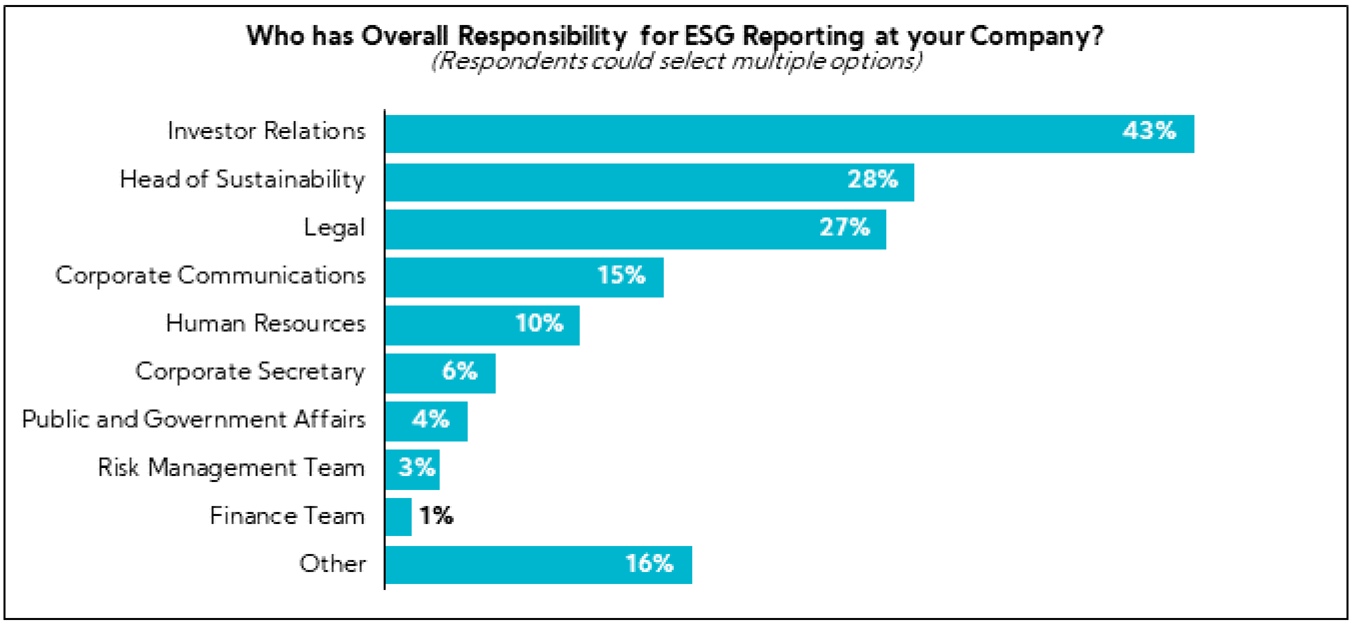
4. Acknowledge the Growing Importance of ESG with a Dedicated Sustainability Role

"While IROs have an important role to play in integrating ESG into their company's overall strategy, creating a distinct sustainability role demonstrates the importance that a company places on it as a strategic pillar," Corbin said. "It's a best practice and a sign to investors that you mean business."

According to Corbin's proprietary data from June 2021, IROs are still most commonly being tasked with leading ESG efforts, which found that **43% of companies place overall responsibility for ESG reporting with investor relations,** thought this is down from 54% in 2019. **Just over a quarter of companies (28%) have a Head of Sustainability** in charge of ESG reporting, a figure that rises to 35% for large-cap companies.

"It's not just about disclosure or risk mitigation as more ESG-aware investors seek a complete, well-integrated story," Corbin said. "It's a demanding job but also a rewarding one." Being connected to the entire C-suite but also to employees across the organization can help equip IROs with the insights and the visibility they need to do the job well to create value for all.

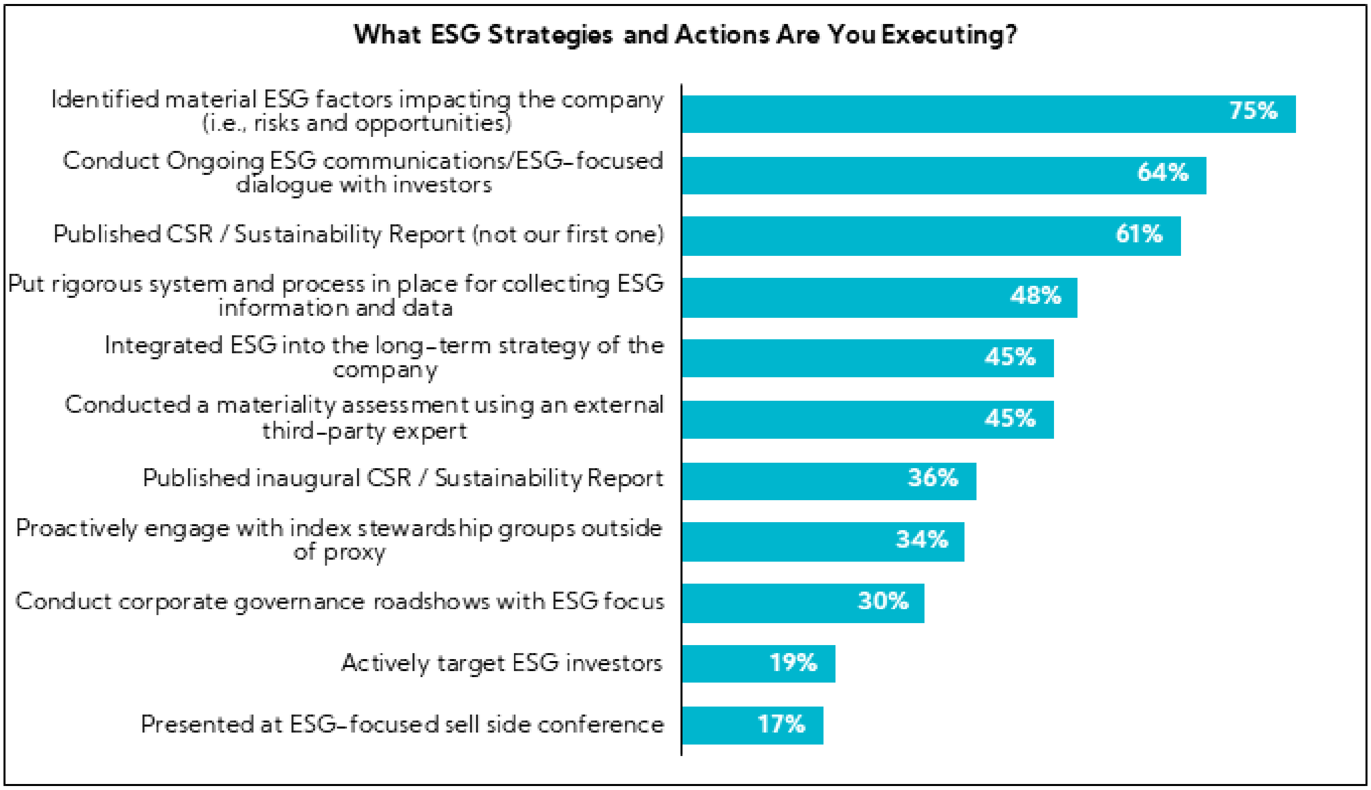


5. Identify and Capitalize on Creative Opportunities to Tell Your ESG Story

With **three-quarters of companies having identified material ESG factors** impacting their company and **nearly two-thirds conducting ongoing ESG communication with investors**, cutting-edge companies are identifying new ways to differentiate themselves.

Representing a significant opportunity, **nearly 20% actively target ESG investors** and a similar percentage have presented at ESG-focused sell side conferences. Corbin has partnered with clients to target ESG investors based on our proprietary research identifying firms that consistently rate ESG as important to their investment thesis.

Companies have an opportunity to make the shift from backward-looking reporting that shows a static moment in time to telling a story that charts momentum and progress along the ESG journey. Clear and thoughtful corporate communication can aid investors in making more confident predictions rather than reporting on results.



While no companies report always receiving questions on ESG from investors, **more than 60% note they are discussing ESG *Sometimes* or *Often*.** This was a marked change from 2019, where one of the most oft-reported reasons for not placing importance on ESG was that "investors were not asking about ESG." Even more, **90% note they are receiving more questions from investors in meetings over the last year.**

6. Create External Trust and Internal Discipline with Robust Governance Checks on ESG Performance

When companies begin to place sustainability as a core pillar of their business strategy, it becomes natural to think about how their own governance structures keep track of their progress. While some ESG leaders have created standalone sustainability committees within their Boards, our research suggests that this is still a progressive approach, especially for smaller and mid-cap companies. However, even in the absence of standalone sustainability committees, it is worth having a clear process for how non-dedicated Board committees and other oversight structures incorporate ESG into their work. Examples include questioning whether an audit committee oversees ESG disclosures as well as financial statements and whether a compensation committee considers ESG metrics as an input to performance measurement for executive compensation. If ESG is truly a corporate priority, savvy observers will expect that there are well-informed oversight professionals keeping score and utilizing both carrot- and stick-based outcomes.

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In Closing: Progress, Not Perfection – ESG Requires a Continuous Improvement Mindset

Communicating progress on an iterative process, such as ESG, is a journey with no finite finish line. Part of crafting an effective strategy is naturally setting a sustainable path that is not unnecessarily disruptive to the business. With that in mind, we would emphasize that it is completely acceptable (even expected) for corporate sustainability leaders to admit areas where there is room for improvement.

In addition, as part of goal setting, it is good practice to set ambitious long-term goals as well as shorter-term interim goals and measure progress along the way. Future aspirational goals are more powerful and believable when they are accompanied by interval milestones or what we like to call "breadcrumbs". Providing updates supported by clear execution proof points along the journey to 2030 or 2050 or any period five years from now, including verification by credible 3rd party sources where possible, is best practice.

Continuing, an intentional, well-constructed, executed and communicated ESG strategy can lead to successful recruitment and retention efforts, as well as opportunities to build more meaningful relationships with your customers/clients as many of them are in the same boat. These strengthened stakeholder relations can reduce business volatility and deepen advantage, both of which are franchise valuation enhancing.

While the stakes are higher than ever, so are the opportunities. According to Rebecca Corbin, "Companies that are truly creating a place, a culture, an environment where people feel accepted and welcomed and equal and see opportunities in front of them, based on research, will prosper."

About Corbin

Corbin was founded on the idea that insights-driven advice is a powerful catalyst for unlocking value.

Leveraging proprietary research and analytics, a best-practice mindset, executional excellence, and a deep understanding of what influences sentiment, we deploy a proven model to realize value. We work with organizations globally, across all sectors and sizes, as our knowledge and insights drive breakthrough thinking and impact.

Every piece of advice, every insight, and every learning we share with our clients is research-driven and actionable. The value we add enables our clients to make informed decisions with great outcomes and has led to long-term relationships and a reputation for impact.

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