



**BOSTON | COMMON**

ASSET MANAGEMENT

*The Governance of Sustainability  
Why Investors Care*

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# Integrating ESG Factors into Investment Decision-making

- **Our Investment Thesis:**

- **A long term view** is necessary to generate sustainable returns.
- **ESG integration** maximizes opportunities and minimizes risk. We seek investments in well-governed and innovative companies that are industry leaders or are creating solutions to society's challenges.
- **Active shareowner engagement** promotes long-term thinking, improves company fundamentals.

- **Our ESG Research & Engagement Framework aims to:**

**Environmental**

- Promote sustainable energy production and use
- Mitigate climate risk
- Promote responsible water stewardship

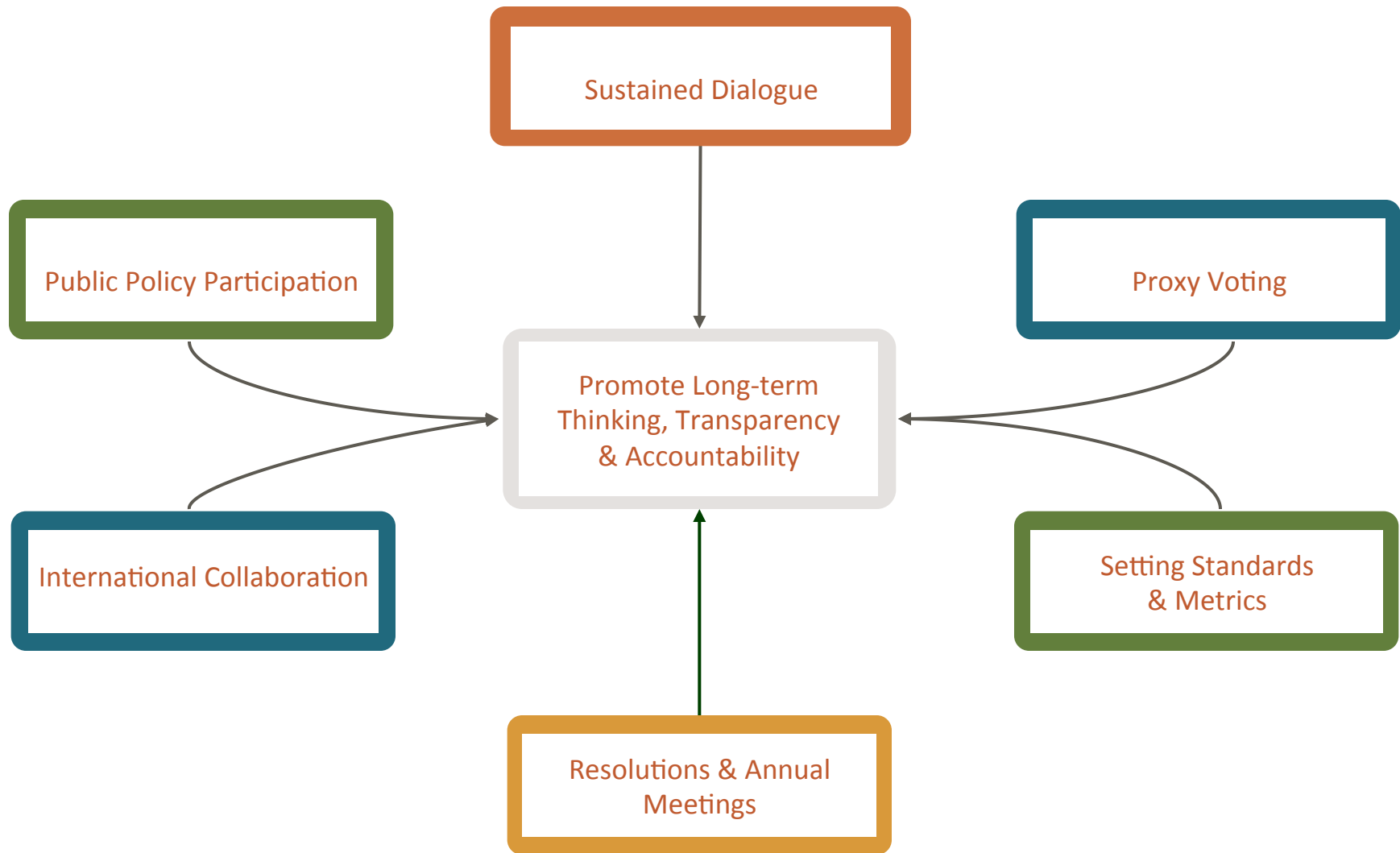
**Social**

- Protect human rights
- Promote gender and income equality
- Advocate for global health

**Governance**

- Support ethical, transparent, and accountable corporate culture

# Active Ownership Strategies



# What is Driving Investors to be More Strategic?

- Global Stewardship Principles (International Corporate Governance Network)
- Demonstrating the Impact of their Engagement Activities
  - Impact of Equity Engagement Framework
  - PRI Signatory annual reporting requirements
- ESG Ratings & Portfolio Level Metrics
  - Portfolio Carbon Footprint (Montreal Carbon Pledge)
  - 2 Degrees Alignment Post COP 21
  - Sustainable Development Goals (SDGs)
- Scrutiny on Human Rights Due Diligence (OECD POSCO Case)

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# Moving Human Rights to the Governance Agenda

- ICGN *Human Rights Through a Governance Lens Viewpoint* (April 2015)
- UNGP Reporting Framework Investor Statement backed by \$5 trillion investor coalition
- Governance Week 2016: Human Rights & Governance Roundtable (NYC, June 2016)
- UN Guiding Principles Reporting Framework (Part A)
  - *What does the company say publicly about its commitment to respect human rights?*
  - *How does the company demonstrate the importance it attaches to the implementation of its human rights commitment?*
- UK Equality & Human Rights Commission Business and human rights: A five step guide for company boards (May 2016)

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# Banks & Climate Change: Industry Approach

- *Are Banks Prepared for Climate Change?* Impact Report (October 2015)
  - 45 banks benchmarked on 10 climate risk metrics
  - 22 banks actively engaged (Asia, Australia, Canada, Europe, U.S.)
- 2016 Engagement Focus (Update Report)
  - Establish long-term, comprehensive climate strategies with board level oversight and explicit links to executive compensation
  - Measure and disclose the total carbon footprint of financing activities with a special focus on carbon-intensive sectors and targets to reduce overall exposure
  - Disclose quantitative figures and targets supporting energy efficiency and renewable energy financing as a portion of overall lending and investments.
  - Conduct regular environmental stress tests and disclose the integration of findings into decision banking
- Financial Stability Board (FSB) Taskforce on Climate-related Disclosures

# Eco-Efficiency: Total Portfolio Approach

- Cross-Sector approach with an initial focus on most carbon intensive holdings
- Engagement Focus: How are companies making the most efficient use of energy and water resources, and eliminating wastes?
  - Data & Reporting
  - Targets & Goals
  - Capital Allocation
  - **Governance of Sustainability**
  - **Board & Leadership Responsibility**

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# Eco-Efficiency: Total Portfolio Approach

## Governance of Sustainability

- Does the company assess corporate climate and water risks? Please provide some examples.
- Is energy and water efficiency included in the company's core business strategy, corporate policies, or operational guides?
- Is the company active in industry groups, lobbying activities, or has the company made public statements to support energy and water efficiency?

## Board & Leadership Responsibility

- Is there board level oversight for the company's energy and water use, efficiency investments, and performance?
- At what level does senior management provide active support, oversight, and accountability?

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# What Investors Are Looking for from Companies?

## Governance of Sustainability

- Company-wide Assessments on ESG Risks & Opportunities
- Board Level Oversight & Training
- Targets & Goals
- Disclosure Focus on Assessment & Implementation
- Alignment with Lobbying & Public Policy Positions
- Industry Initiative Participation

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