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

- Sustained Dialogue
- Proxy Voting
- Setting Standards & Metrics
- Resolutions & Annual Meetings
- International Collaboration
- Public Policy Participation

Promote Long-term Thinking, Transparency & Accountability
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)
Moving Human Rights to the Governance Agenda


- 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?*

• 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

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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
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?
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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