



Introduction to ESG

Financial Management Institute:
Vancouver Chapter Professional Development Event

Michelle de Cordova
Principal, ESG Global Advisors

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What is ESG?

Distinguishing Sustainability Terms and Materiality Approaches



Potentially Material ESG Issues: Hotels Example

G

Governance

- Board quality, diversity, independence and accountability
- Senior management diversity, accountability and executive compensation
- Oversight of strategy, risk management, performance, and disclosure, including for material E&S issues

E

Material Environmental Issues

- Climate Change: Physical Risks, Transition Risks, Opportunities
- Energy Management
- Water Management
- Waste Management
- Ecological Impacts

S

Material Social Issues

- Human Capital Management
- Employee Diversity & Inclusion
- Labour Practices & Modern Slavery
- Health & Safety
- Business Ethics
- Indigenous Relations
- Digital Security & Privacy

Other Material Issues

Traditional areas of oversight, including:

- Financial
- Operational

KEY Universal/Systemic Issues Sector-Specific Issues

Systemic, Long-Term Risks: World Economic Forum 2024

Global risks ranked by severity over the short and long term

"Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period."

Risk categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

2 years



10 years



Source: [World Economic Forum: Global Risks Report 2024](#)

Drivers

ESG Relationship to Value

- Review of **2,000 studies** up to 2015: **90%** of studies found a **positive or neutral relationship** between **ESG** and **financial performance**
- Review of **1,000 studies** 2015-2020: **59%** of studies found a positive relationship between ESG and financial performance
- **Financial performance correlation** associated with focus and disclosure on **material ESG factors**



ESG AND FINANCIAL PERFORMANCE:

Uncovering the Relationship by
Aggregating Evidence from 1,000 Plus
Studies Published between 2015 - 2020

By Tensie Whelan, Ulrich Alz, Tracy Van HoR and Casey Clark, CFA

The Rise of Responsible Investment

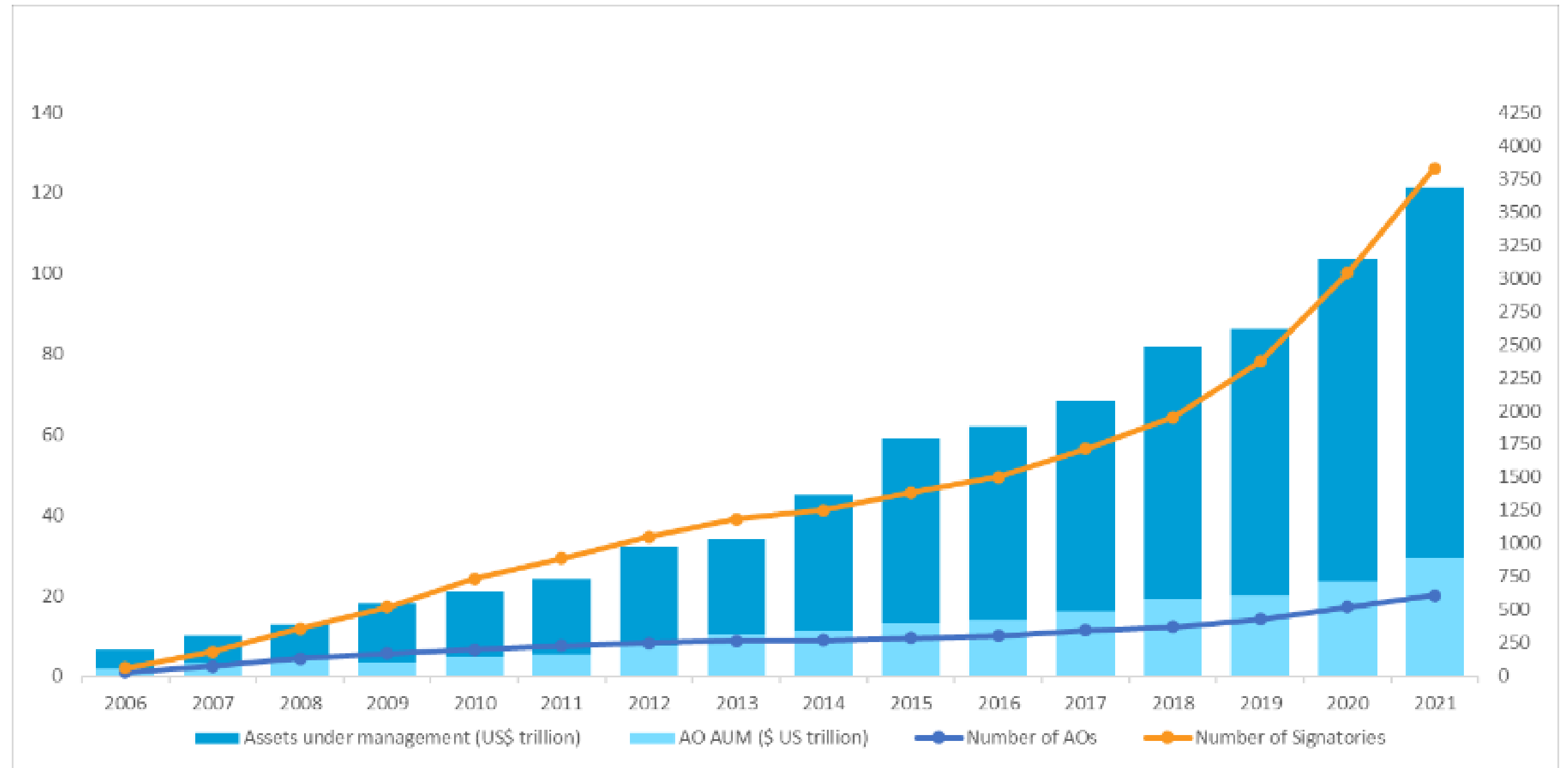


“Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets”

49%

share of professionally-managed assets in Canada

Source: [Responsible Investment Association – RI Trends Report 2023](#)



Growth in PRI signatory numbers and assets under management, 2006-2021

Source: [Principles for Responsible Investment: About the PRI](#)

Stakeholder Expectations: Employees

Most employees say it's important their employer acts on social issues - with living wages taking centre stage

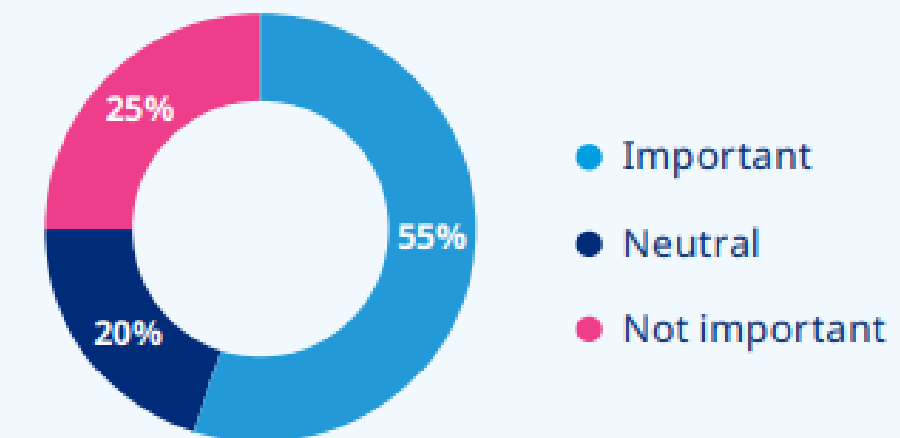
"How important is it to you that your employer clearly and strongly supports, through internal/external statements and tangible actions, any of the following?"



Source: Mercer's 2023-2024 CA Inside Employees' Minds Survey

Most employees say having investment options in ESG organizations is important to them

"How important is it to you that your company's defined contribution plan allows you to choose funds that are focused on investing in ESG companies?"

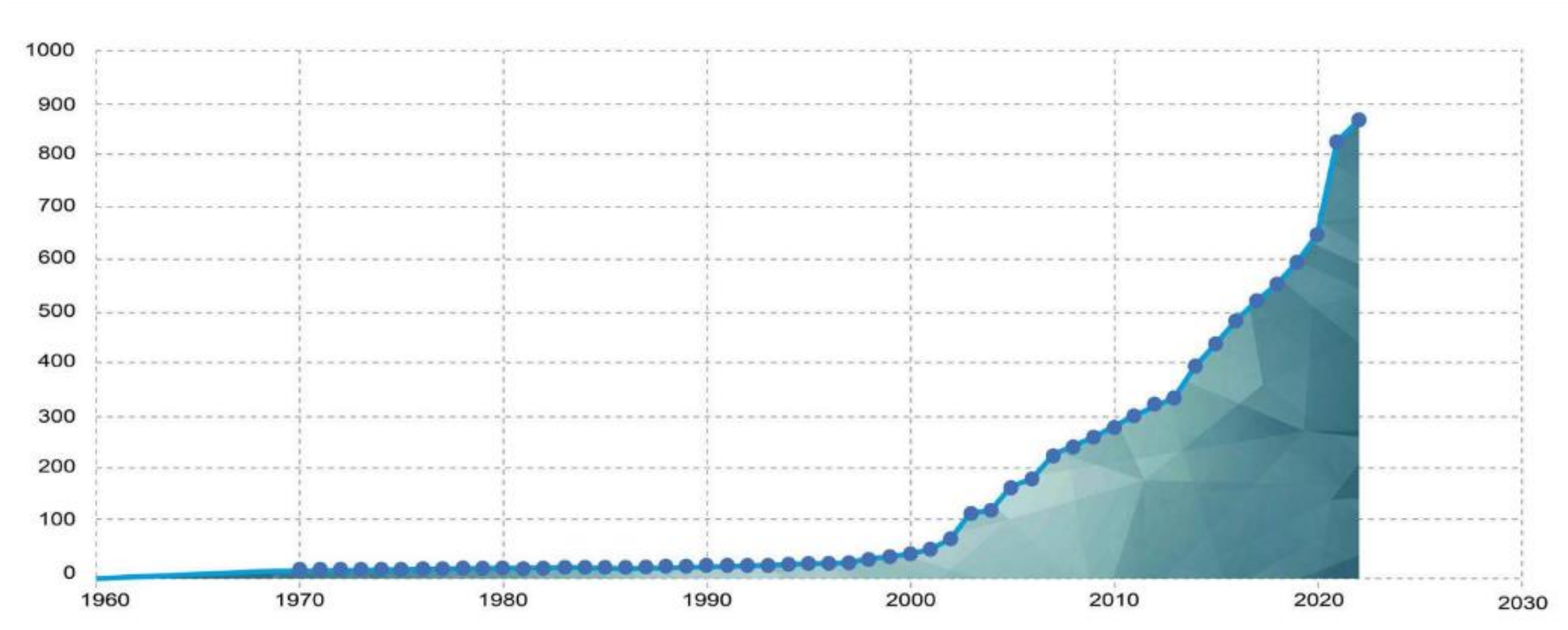


Which employees say this is most important?



Source: Mercer (2024) Canada Inside Employees' Minds

ESG Regulations & Standards



Adoption of sustainability regulations (expectations for companies and/or investors worldwide)

Source: [Principles for Responsible Investment: Responsible Investment Regulation Database](#)



Key Standards

Sustainability Reporting Frameworks

ESG - Financial Materiality



- **77 industry-specific** standards
- **E, S and/or G metrics** most likely to be financially material for the industry
- Developed for use by **listed companies**
- **SASB climate metrics** can be used in TCFD reporting



- **Climate-specific** standard
- Recommendations for disclosure on four pillars: **Governance, Strategy, Risk Management, and Metrics & Targets**
- Developed for use by **companies and capital markets** (investors, banks and insurance companies)

Corporate Responsibility - Impact Materiality



- Long-established CSR reporting standard focused on **company impact on stakeholders**
- **Modular system** consisting of Universal Standards, Sector Standards, and Topic Standards

International Sustainability Standards Board (ISSB)



- Under auspices of **IFRS**
- Global disclosure standards focused on investor and capital markets needs – **financial materiality lens**
- **Incorporates SASB and TCFD**, collaborates with GRI
- Standards effective for reporting periods beginning on or after **January 1, 2024**: disclosure of risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term:
 - **IFRS S1: sustainability-related risks and opportunities** (aligned with **SASB**)
 - **IFRS S2: climate-related risks and opportunities** (aligned with **TCFD**)
- As of May 2024, **jurisdictions representing over 50% of global GDP** had taken steps to adopt ISSB

Getting Started

Strategic ESG Approach



Thank you!
For more information:



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Michelle de Cordova, MSc
Principal

michelle@esglobaladvisors.com

+1 604-262-9768

LinkedIn: [Michelle-de-Cordova](https://www.linkedin.com/in/Michelle-de-Cordova)