

Presentation by

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# ESG: Environment-related Risk

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# Overview

What is Environment-related Risk?

Who is at risk?

Climate Change – mitigation & adaptation

Recalibrating our expectations

Supply Chain

Other Environment Risks

Impact on shareholder value

What is Social-related Risk?

Act now

# Environment-related Risk?

Risk **to the value of the business** from environmental factors?

Risk **to ecosystems** from the activities of the business?



## Global Reporting Initiative (GRI)

GRI 301: Materials	GRI 305: Emissions
GRI 302: Energy	GRI 306: Waste
GRI 303: Water and Effluents	GRI 307: Environmental Compliance
GRI 304: Biodiversity	GRI 308: Supplier Environmental Assessment

Source: (Global Reporting Initiative, 2022)

# Example ESG Ratings

[Morningstar Sustainalytics](#) “evaluate financially material ESG issues that affect the long-term performance of their investments”

[S&P DJSI](#) “track equity markets while applying a sustainability best-in-class selection process”

[MSCI](#) “measure a company’s management of financially relevant ESG risks and opportunities”

[Bloomberg](#) “integrate sustainable finance considerations into investors’ strategic decision-making”

# Climate Change

IPCC [Assessment Report 6](#)

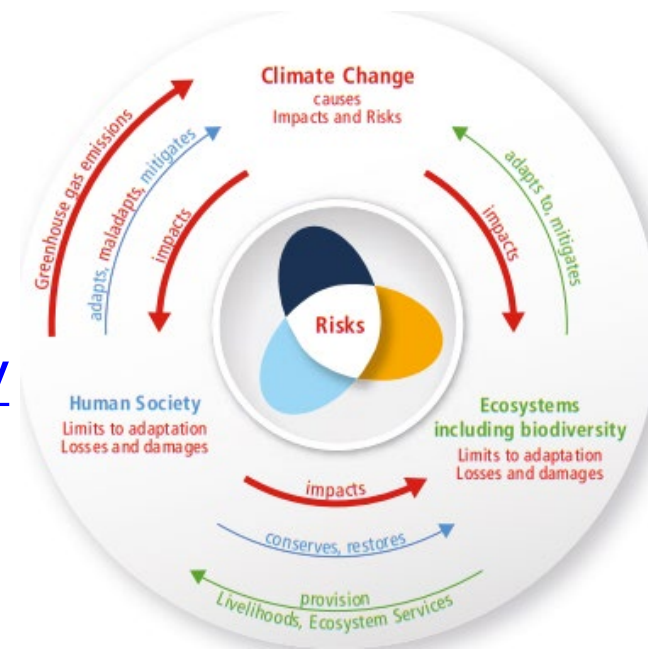
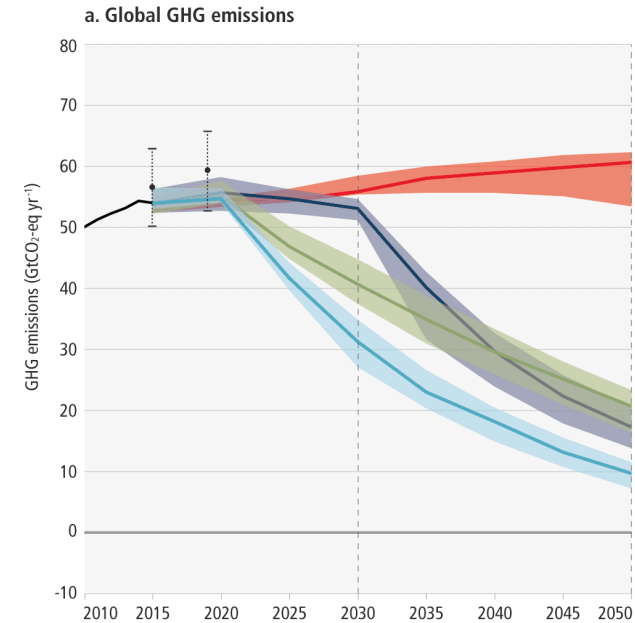
Fossil fuels and Deforestation

**Mitigation** – reducing risk by decarbonizing

- Net Zero targets
- IPCC [AR6 WGIII](#) inc. sector mitigations

**Adaptation** – reducing risk from climate impacts

- IPCC AR6 [WGII Summary for Policy Makers \(SPM\)](#) inc. Ch16 Key risks across sectors and regions



# Recalibrating our Expectations

Climate as risk multiplier

Accelerating physical impacts

Check company reports on [CDP](#)

Erosion of historical model validity

Inevitable Policy Response

e.g. [EU Taxonomy](#) ([Compass](#))

Becoming future fit

Outcompeting on carbon



**(C2.2) Describe your process(es) for identifying, assessing and responding to climate-related risks and opportunities**



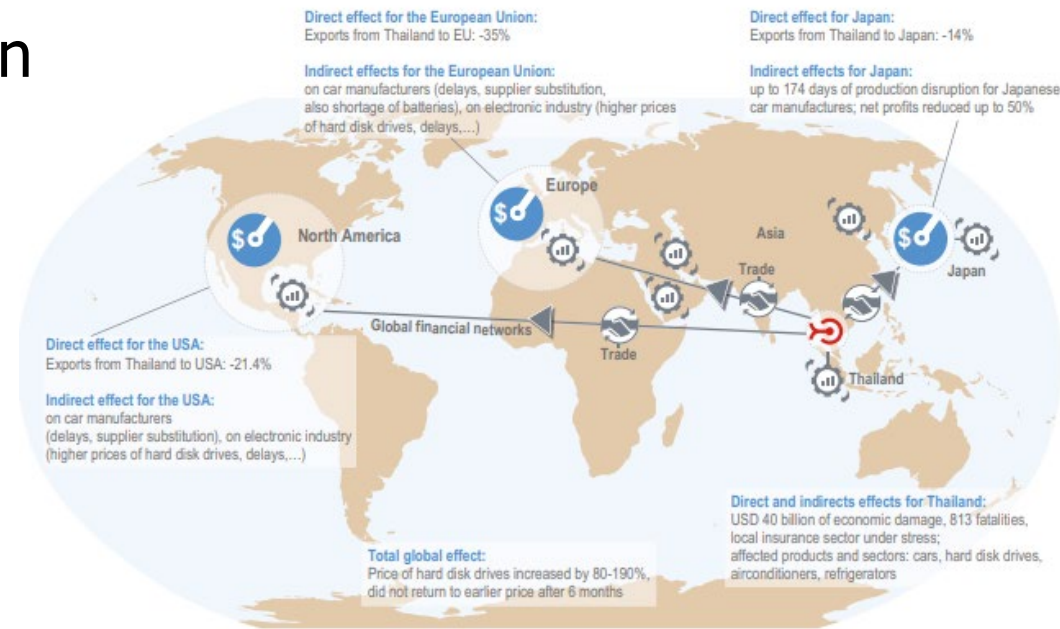
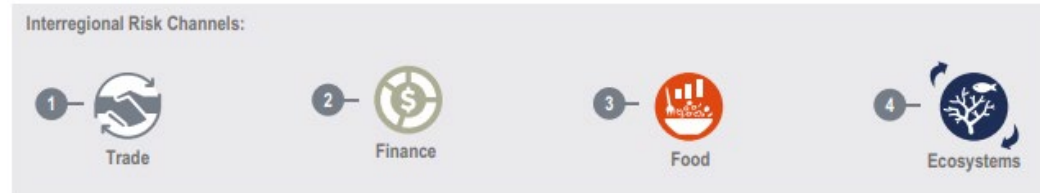
# Supply Chain

## Mitigation

- Scope 3 carbon cost
- Customer pressure on you

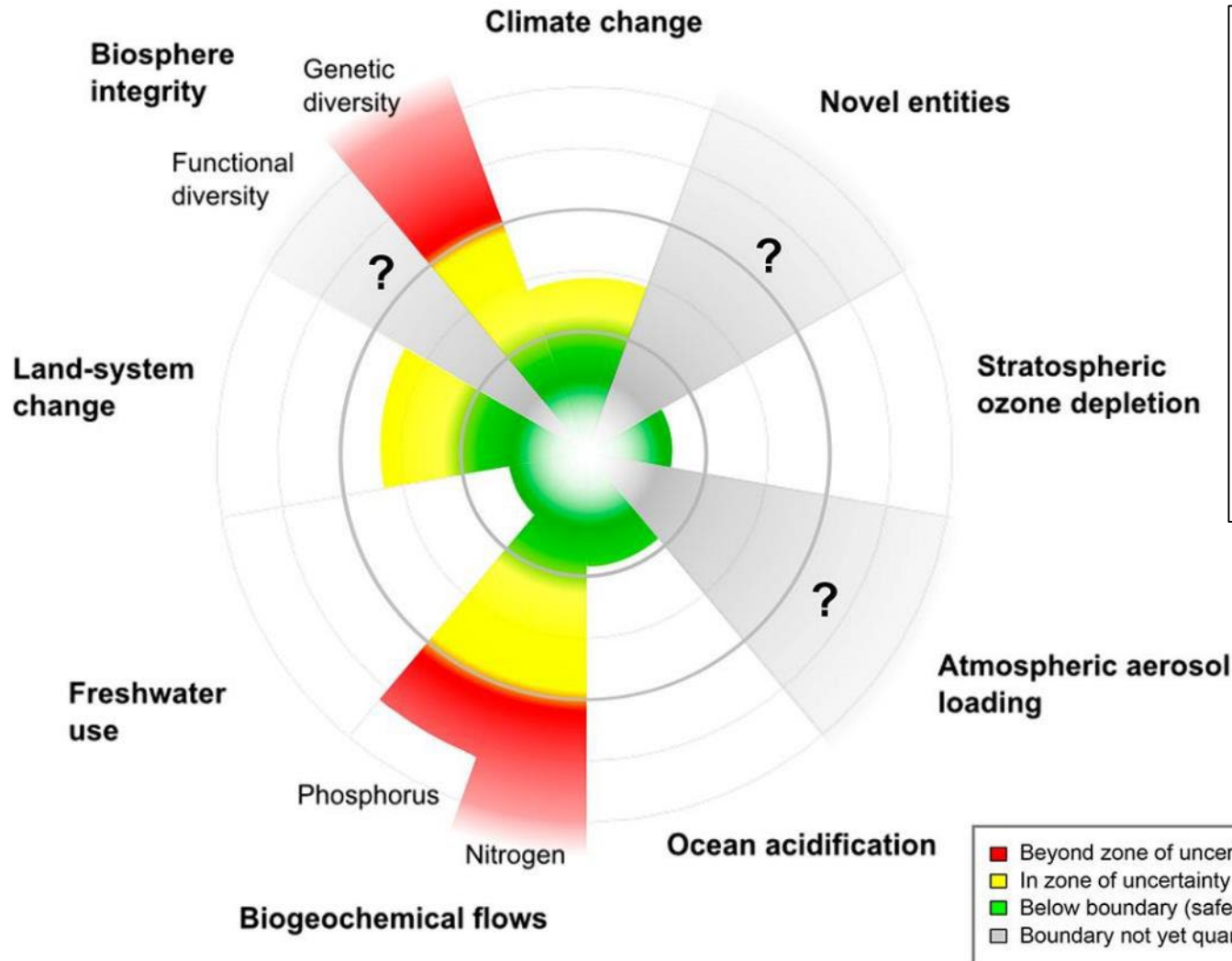
## Adaptation

- More 'extreme' weather events
- Raw material supply
- Climate-proofing





# Other Environment Risks



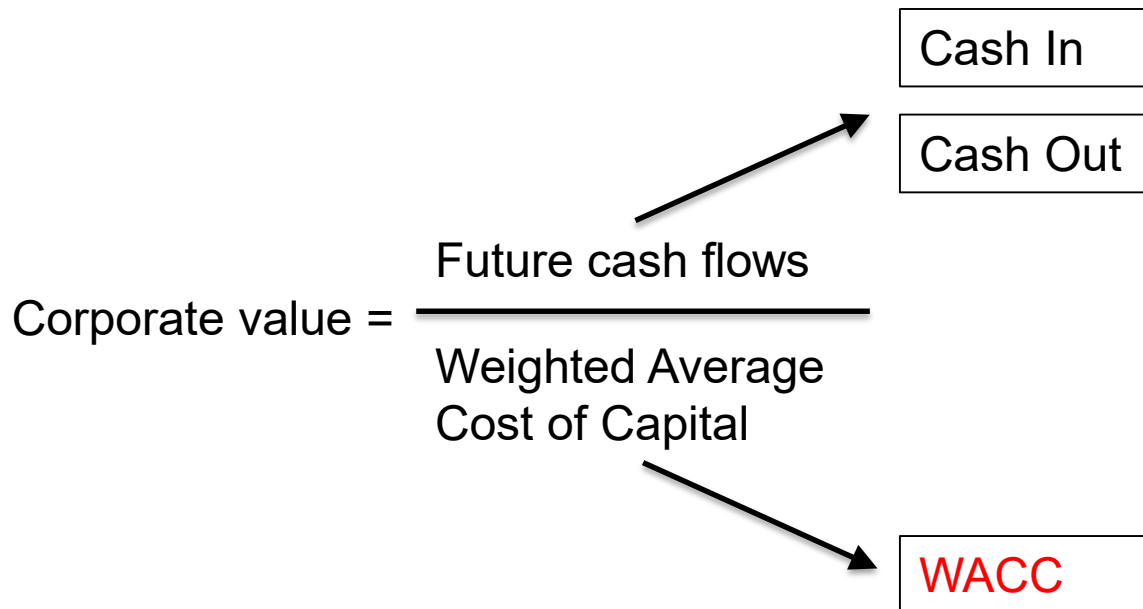
Safe  
Operating  
Space for  
Humanity



Source:(Steffen et al, 2015)

# Impact on shareholder value

Shareholder value = Corporate value - Debt



Determined by:

- Sales Growth
- Cash Profit Margins
- Cash Tax
- Fixed Assets
- Working Capital

- Cost of Equity
- Cost of Debt
- Capital Structure

Over the course of the **Competitive Advantage Period**

# Social-related Risk?

## Global Reporting Initiative (GRI)



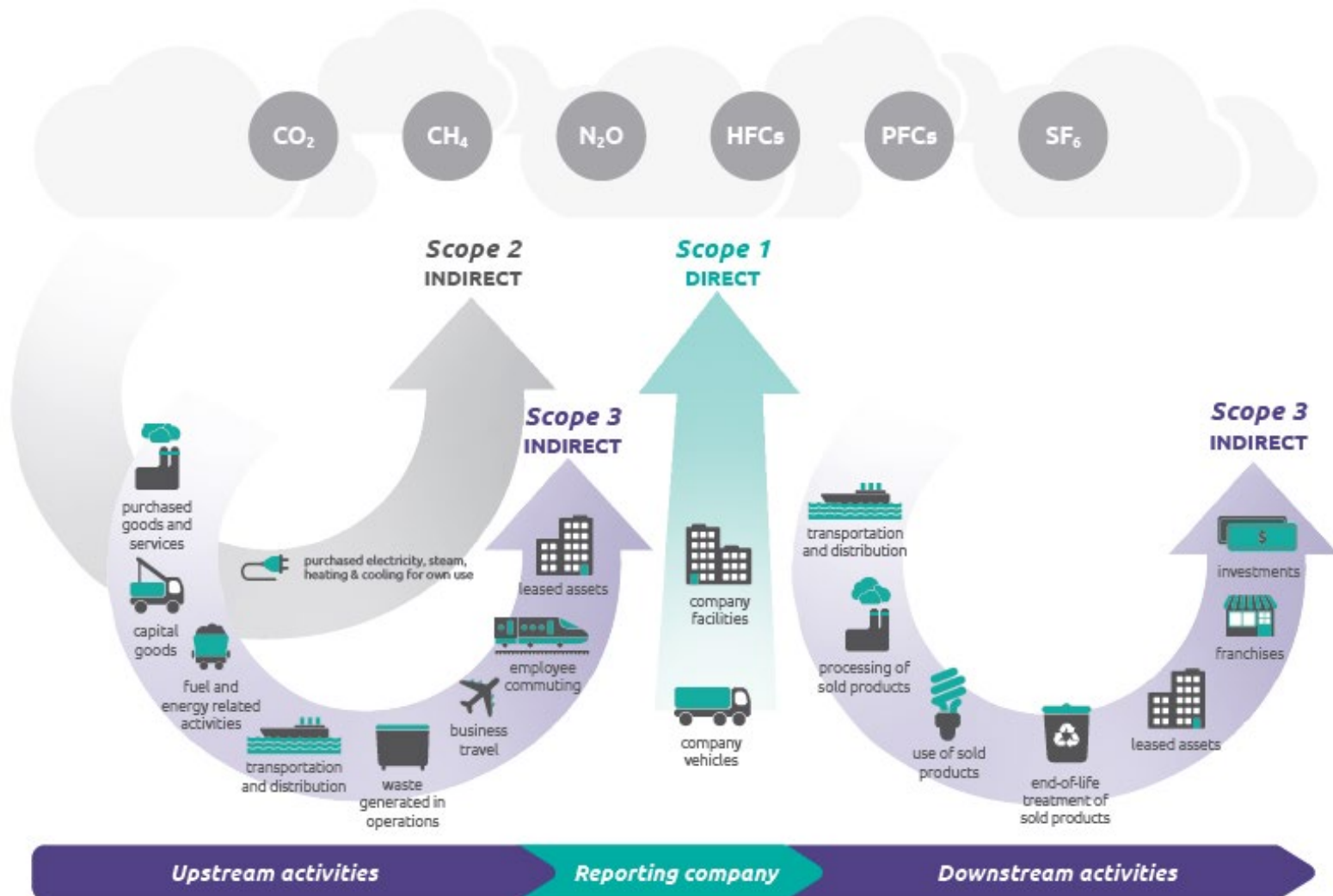
GRI 401: Employment  
GRI 402: Labor / Management  
Relations  
GRI 403: Occupational Health and  
Safety  
GRI 404: Training and Education  
GRI 405: Diversity and Equal  
Opportunity  
GRI 406: Non-discrimination  
GRI 407: Freedom of Association and  
Collective Bargaining  
GRI 408: Child Labor

GRI 409: Forced or Compulsory Labor  
GRI 410: Security Practices  
GRI 411: Rights of Indigenous  
Peoples  
GRI 412: Human Rights Assessment  
GRI 413: Local Communities  
GRI 414: Supplier Social Assessment  
GRI 415: Public Policy  
GRI 416: Customer Health and Safety  
GRI 417: Marketing and Labeling  
GRI 418: Customer Privacy  
GRI 419: Socioeconomic Compliance

# Act now

# Backup slides

# Greenhouse Gas (GHG) reporting scopes



# Expert views

“In the future, climate and ESG considerations will likely be at the heart of mainstream investing. Investors will tailor their investments and fulfil their fiduciary duties through: better quality and more widely available data on sustainability and performance; superior data analytics through the advent of AI and Machine Learning; and more informed judgements of strategic resilience.”  
(Carney, 2019)

“Two completely different meanings then. One considers E, S and G as inputs into an investment process, the other as outputs — or goals — to maximise. This conflict leads to myriad misunderstandings.” “it cannot be left to index providers to rate “goodness”. Investors can disagree whether a future carbon tax will hurt car company profits, but everyone should have the same emissions numbers. Standardised scores are a regulatory priority”.  
(Kirk, 2022)

# References

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Steffen, W. *et al.* (2015) 'Planetary boundaries: Guiding human development on a changing planet', *Science (New York, N.Y.)*, 348(6240), p. 1217. doi: 10.1126/science.aaa9629.