



ICARE

April 2023



This is good for business

The importance of Social

Just transition





**Sustainability and Social
Impact is good for business**



Investors are more focused on companies societal impact practices



Governments and communities expect more from companies for "rights" to operate



Companies require continuous innovation to drive growth and value

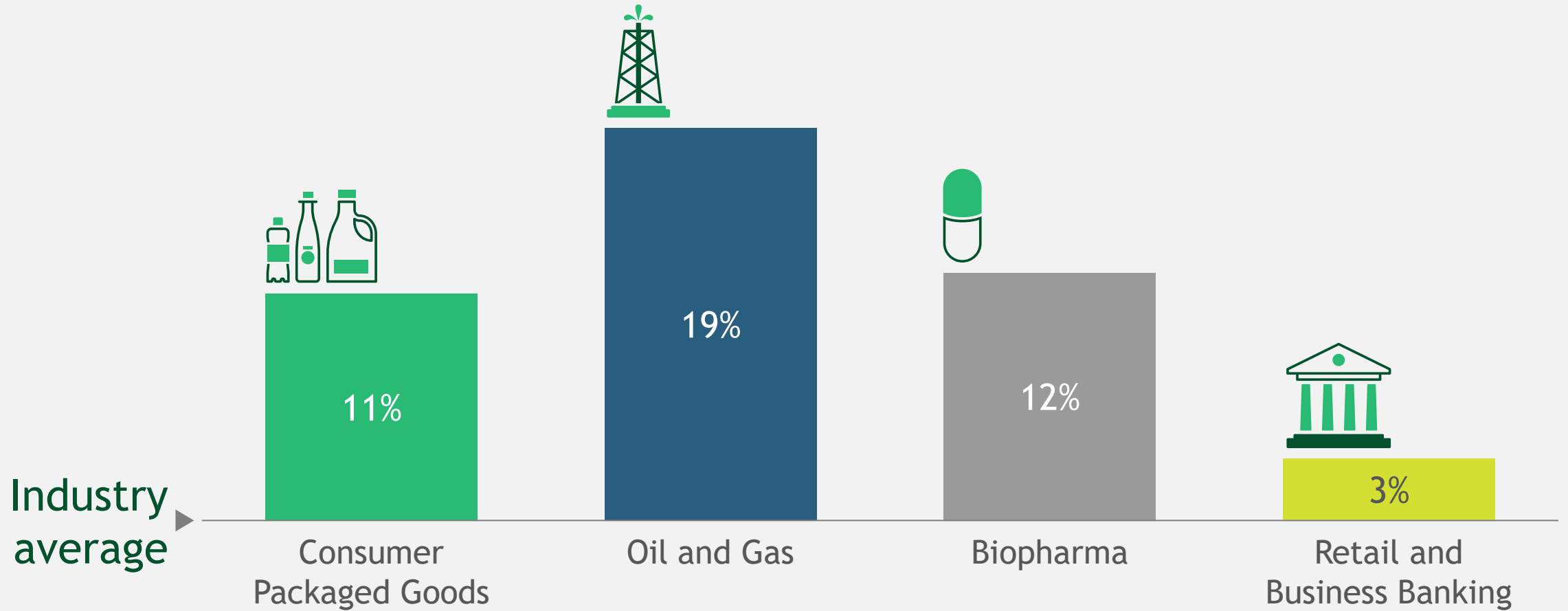


Millennials demand companies to raise their standards



Executives are concerned about their legacies

Valuation premiums



Margin premiums

Up to
12.4pp
Gross margin

Up to
8.2pp
EBITDA

Up to
8.2pp
EBITDA

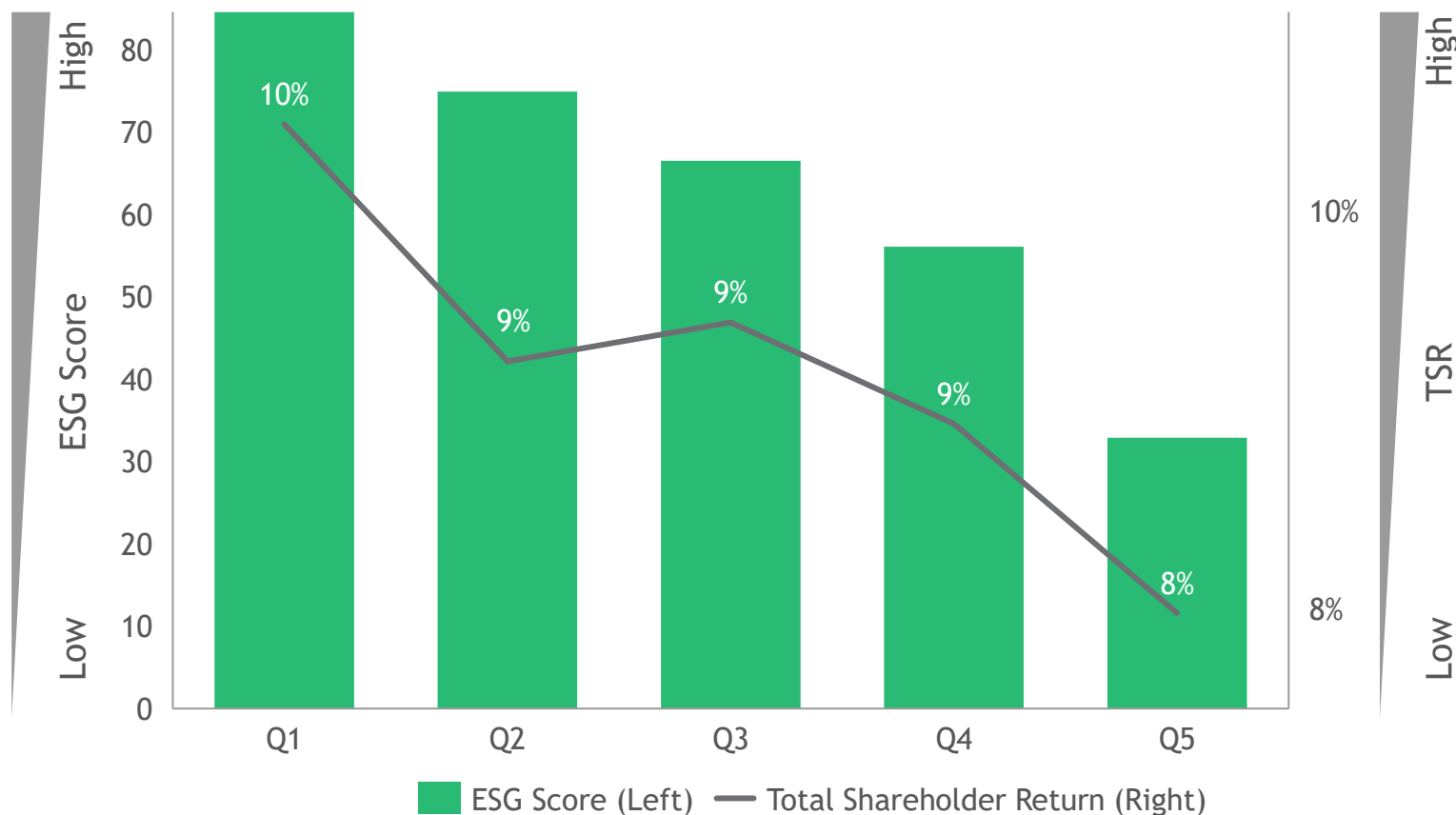
Up to
3.4pp
Net income
margin

Industry
average



Global sustainable leaders have outperformed laggards by an average of 2.12% annually from 2016 to 2020

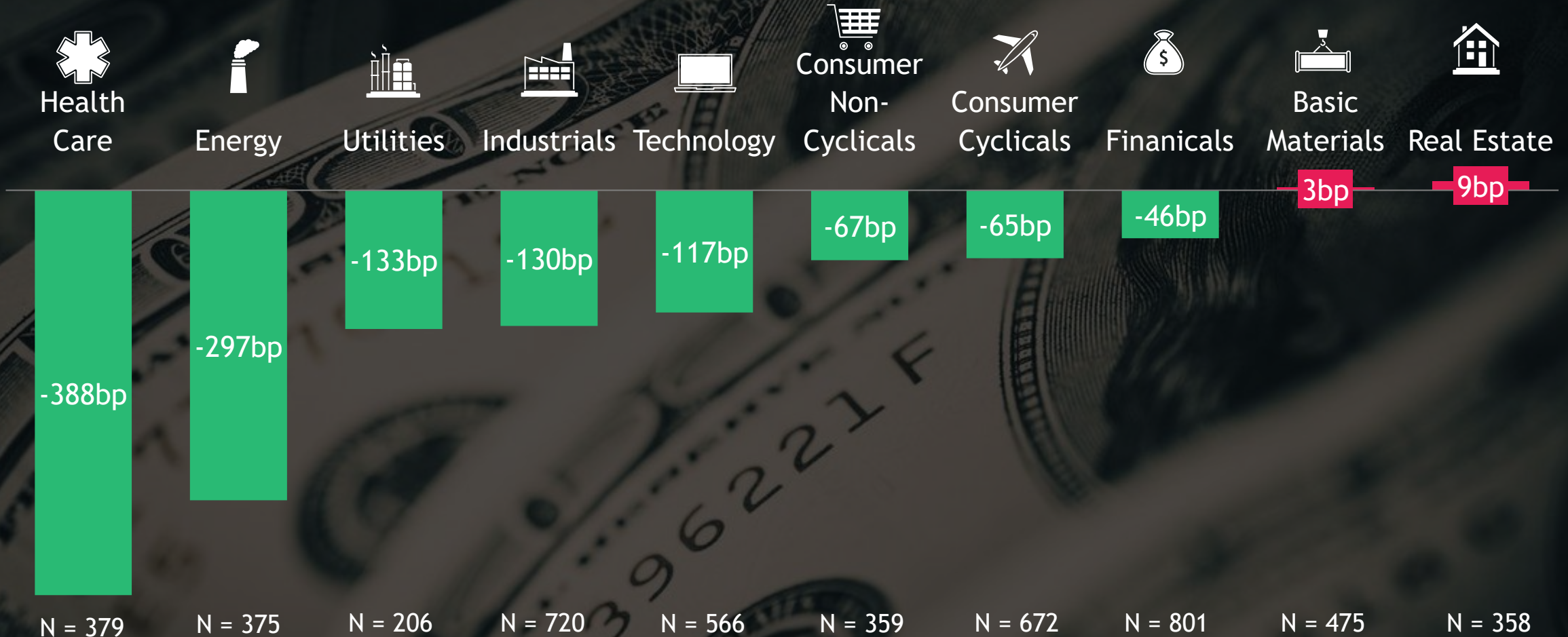
Difference in average annual Total Shareholder Return from high to low ESG scores



Source: Refinitiv data for listed companies from 2016 to 2020, BCG analysis
 Note: Sustainability leaders defined as top quintile Refinitiv ESG score, laggards defined as bottom quintile Refinitiv ESG score; Market cap agnostic methodology applied; Outliers removed with inter-quintile range methodology; N = 4,440

Leaders receive cheaper capital in most industries

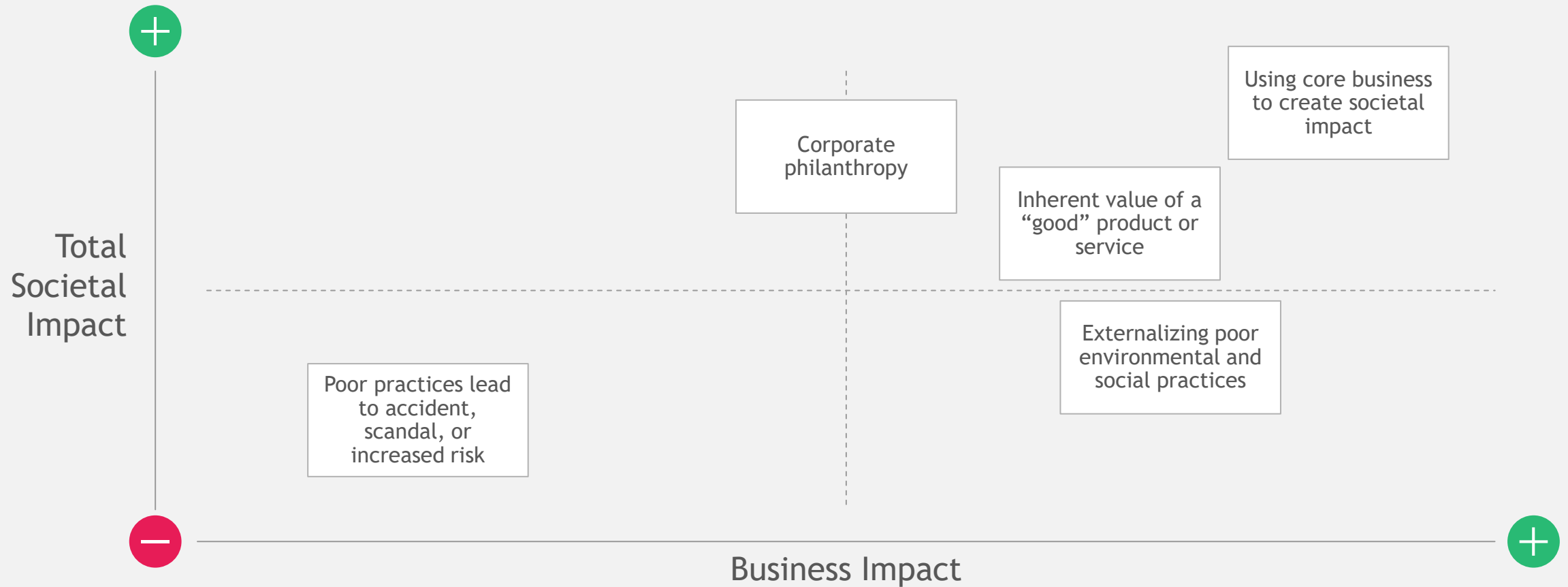
Average WACC discount of Global sustainability leaders vs. laggards



Source: Refinitiv data for listed companies from 2016 to 2020, BCG analysis

Note: Sustainability leaders defined as top quintile Refinitiv ESG score, laggards defined as bottom quintile Refinitiv ESG Score

A brief history of corporate total societal impact



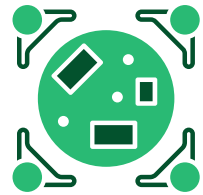


The importance of Social

Social is complex



Social is about **people** and society



Many **different views** and **definitions** of diverse Social topics



Most pressing Social issues differ widely by **geography** and **industry**



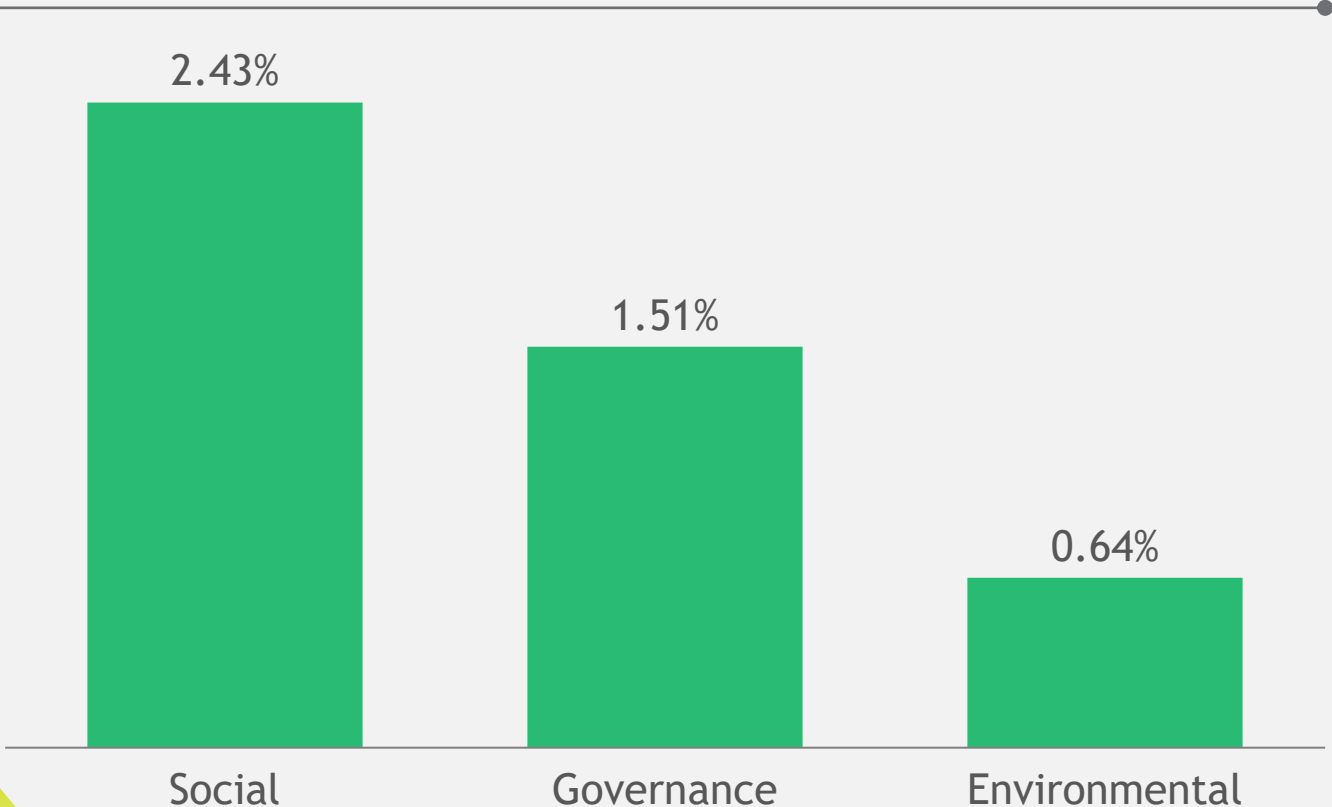
Unlike climate, **no common, global impact targets** or frameworks



For many banks, AM's and companies, **climate has taken recent priority** and resources

Social performance largest driver of TSR differential

Average annual Total Shareholder Returns differential per ESG pillar of Global sustainability leaders vs. laggards



Source: Refinitiv data for listed companies from 2016 to 2020, BCG analysis
Note: Sustainability leaders defined as top quintile Refinitiv pillar score, laggards defined as bottom quintile Refinitiv pillar score
N = 4,440

Social issues are ever growing with inequality recognized as a significant systemic risk



Opinion

Inequality has become an investor priority - How human rights advocates can respond



FINANCIAL TIMES

HOME WORLD US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HTSI

Ray Dalio: tackle inequality or face a violent revolution

Ray Dalio, founder of the hedge fund Bridgewater Associates, has warned that the world could face a violent revolution unless it tackles inequality. He says that the world is heading towards a period of high inflation and high unemployment, which could lead to a violent revolution.

BROOKINGS



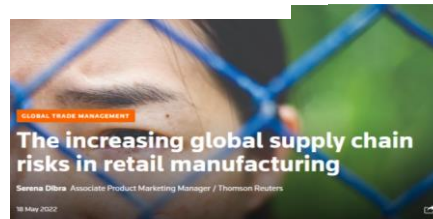
THE WALL STREET JOURNAL



WORLD

How Covid-19 Has Widened the Gap Between Rich and Poor Countries

THOMSON REUTERS



Human rights abuses in retail manufacturers' global supply chains, made worse during the pandemic, need to be identified and disrupted.

The New York Times

DEALBOOK NEWSLETTER

Economic Road Rage

The Fed, the markets and growing inequality.



Increased sustainability awareness amongst consumers is contributing to investor focus on Social

Investors are pushing corporates to address Social issues

66%

of consumers



... plan to make more sustainable or ethical purchases over the next six months

74%

of millennials



... believe that ethical corporate practices and values are an important reason to choose a brand

Behind the scenes of the investor push to change Washington's football team name



Sept 2020

Shareholders seeing success with push for racial equity audits



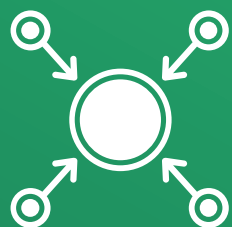
Mar 2022

87 investors representing **\$620B** in assets rallied **FedEx, Nike, & PepsiCo** to pull partnerships from Washington Football team over racist name

- Driven by **Native American clients**, Oneida Tribe
- Momentum spurred by George Floyd protests and heightened environment of **corporations' handling of racial equity in 2020**
- Outcome: Washington removed name and branding, **rebranded to Washington Commanders in 2022**

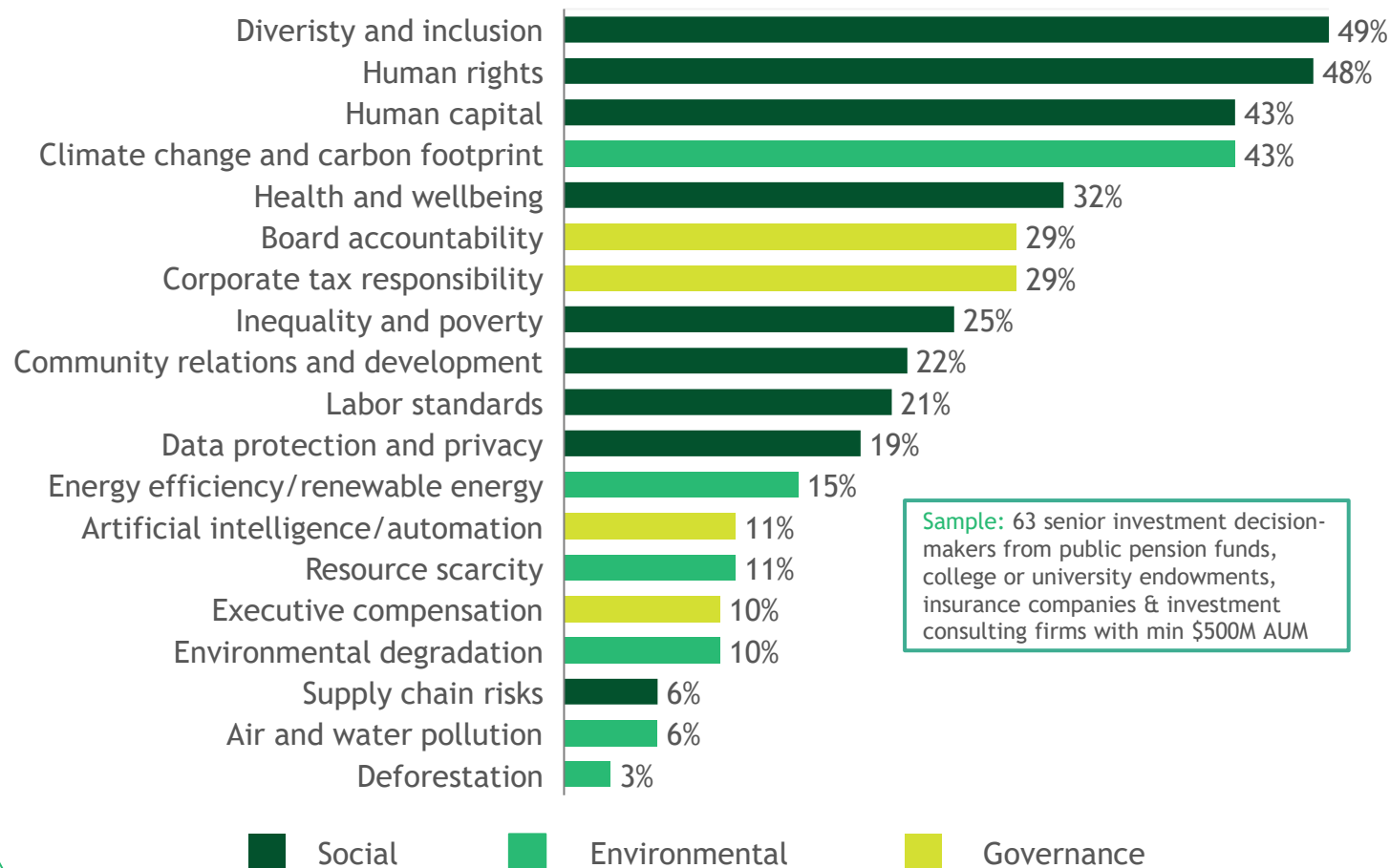
SOC, representing **~\$250B** in union assets pushed **8 FIs** incl. **Citi, BoA & JP Morgan** to conduct racial equity audits to address their negative impacts on communities of color

- Driven by **labour unions** represented by SOC Investment Group
- Push to have FIs identify, prioritize & remedy **negative impacts of their policies & practices**, spurred by George Floyd protests
- Outcome: Racial equity **audits pledged by 5 of 8 FIs** contacted and other companies such as **Apple & Tyson Foods**



Institutional investors have identified Social topics as the most important ESG factors

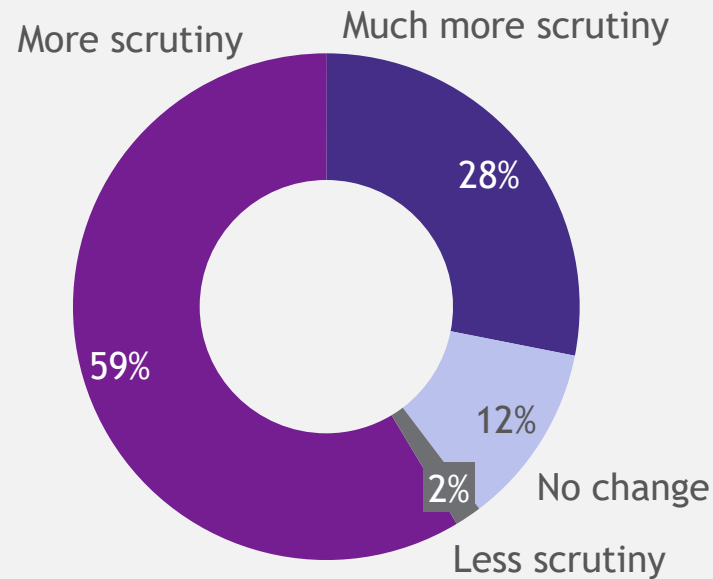
Which of the following ESG factors are a top priority for your organization's investment decisions?



Sample: 63 senior investment decision-makers from public pension funds, college or university endowments, insurance companies & investment consulting firms with min \$500M AUM

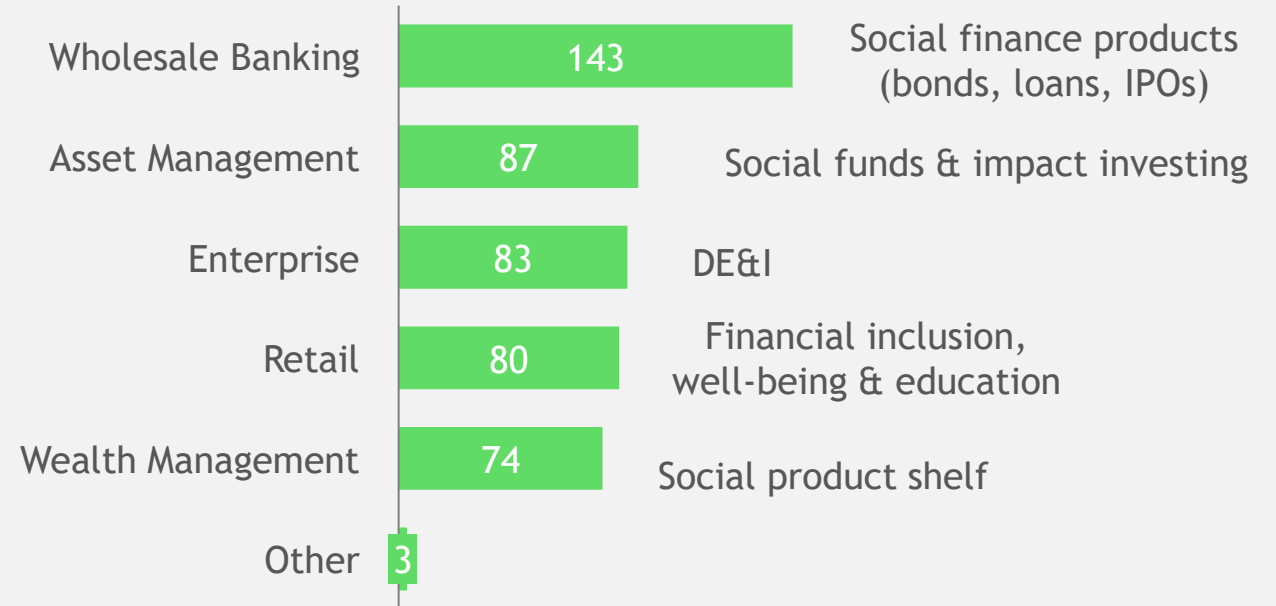
Social | Greater scrutiny expected in the future, with wholesale banking products seen as the most promising lever for advancing the Social agenda

87% of respondents expect more scrutiny on a bank's Social performance in the future








































Wholesale Banking levers are seen as most promising for advancing the Social agenda

Strongest BU and leading lever for change within each BU



BCG's Social taxonomy spans topics across value chain, going beyond existing frameworks, regulation and ESG ratings

	Description	Subtopics - non-exhaustive			Included in..
Human Rights	 <i>Respect human rights of all involved within value chain</i>	Freedom of assembly and association	Freedom of expression	Right to participate in electoral process	 
Fair Labor Practices	 <i>Fair and decent treatment of workers across value chain</i>	Equitable pay and progression	Decent working conditions	Child labor	   
Human Capital Development	 <i>Equal and inclusive opportunities in workforce</i>	Diverse representation	Upskilling	Employee engagement	    
Health & Safety	 <i>Promotion of physical and mental well-being</i>	Physical safety	Employee mental health	Workplace risk management	   
Access & Affordability	 <i>Equitable access to critical needs and essential services</i>	Access to financial services	Access to non-financial services	Access to infrastructure	   
Product Quality & Safety	 <i>Safe products and services that do not harm consumers</i>	Responsible selling practices	Accurate product labeling	Chemical / material safety	   
Consumer Privacy & Data Security	 <i>Appropriate measures to protect consumer data</i>	Compliance with privacy regulations	Consumer financial protection	Cybersecurity	  
Community & Stakeholder Relations	 <i>Engaging with and managing issues in local community</i>	Management of indigenous relations	Preservation of natural resources	Equitable access to financing	  

One must go beyond financial materiality and broaden the aperture to develop a comprehensive view of relevant Social topics

Financial Materiality

Potential impact of S topic on value of enterprise

Includes impacts on any levers that contribute to value creation or extraction - e.g., manufacturing capital, human capital, etc.



Double materiality:
applying financial and impact materiality independently, without ignoring interactions



Impact Materiality

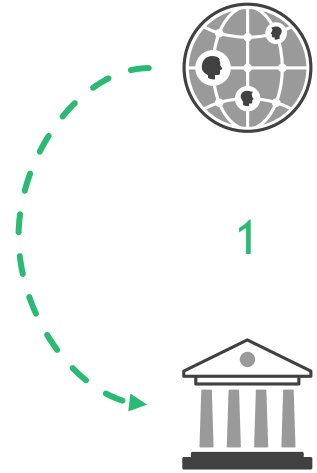
Potential impact of business undertaking on society, in relation to S topic

Includes impacts caused or contributed to by business, found anywhere in enterprise value chain

Critical to consider both lenses, given **dynamic nature of materiality** - e.g., as attitudes shift, topics that were previously only impact-material can become financially material as well.

4 ways in which an S topic can be material, through downside risks... (I/II)

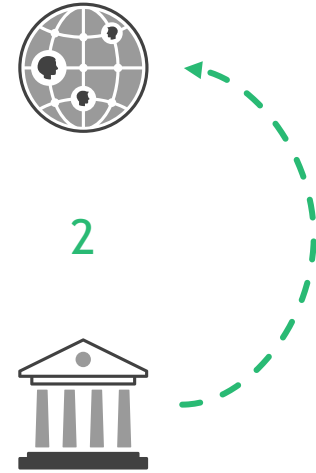
As view of materiality becomes more comprehensive, banks need a broader toolkit to approach Social



1

Society has one-directional impact on the bank

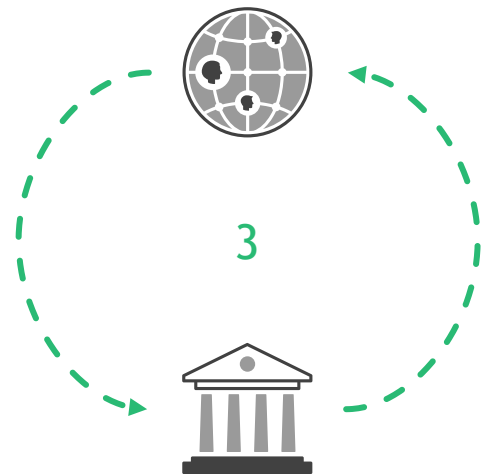
e.g., weak public health leaves society susceptible to disease, which can negatively affect bank's business



2

Bank has one-directional impact on society

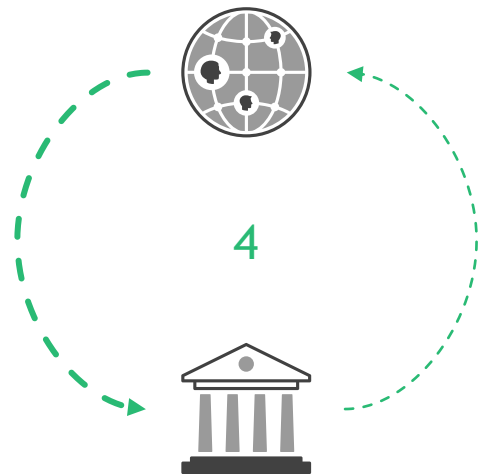
e.g., bank finances companies that employ prison labor, but the issue has not (yet) elicited a public outcry



3

Bank has impact on society, which directly circles back to bank

e.g., over time, bank faces more backlash over association with prison labor - incurs reputational damage and struggles with retention



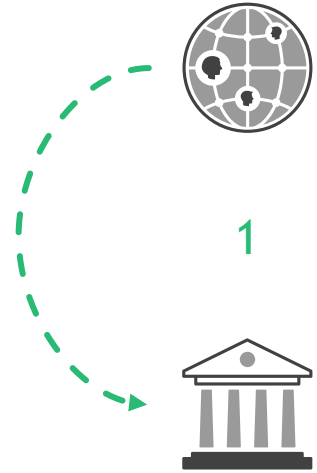
4

Bank is one of many contributors to broader societal issue

e.g., bank enables financial exclusion of certain populations, ultimately contributing to civil unrest

...and positive business opportunities (II/II)

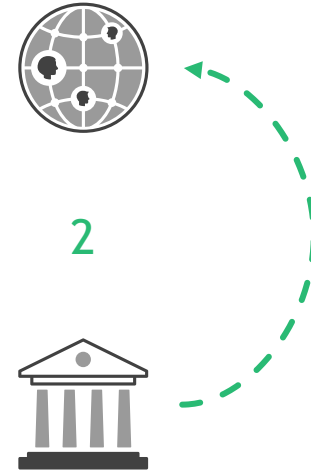
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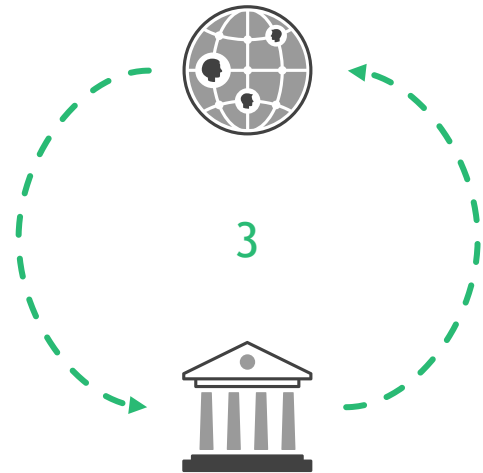
e.g., improved education on personal finance increases demand for bank's retail offerings



2

Bank has one-directional impact on society

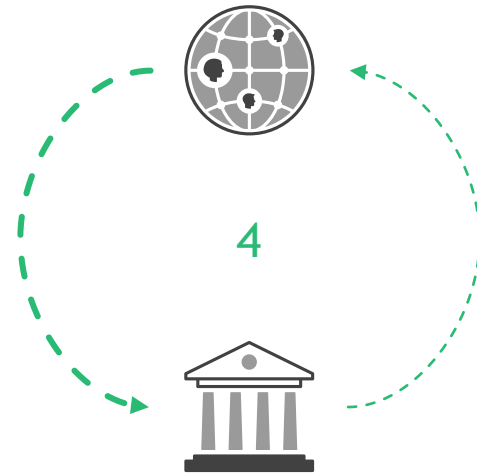
e.g., bank screens potential clients on human rights records, but the issue is not yet salient to consumers



3

Bank has impact on society, which directly circles back to bank

e.g., bank invests in SMEs with positive Social missions, resulting in benefits to reputation / perception



4

Bank is one of many contributors to broader societal issue

e.g., bank advocates for responsible FI regulation, ultimately contributing to systemic financial stability

Deep-dive | EFRAG materiality assessment is broadly inclusive



Stakeholders

2 groups of stakeholders for consideration:

- **Affected stakeholders**, who may be positively or negatively impacted by a business's activities or through its value chain
- **Users**, who have an interest in the business's reporting (authorities, investors, etc.)



Time Horizon

- Materiality should be assessed across **all time horizons** - short, medium, and long
- Reporting obligations on material topics should consider time horizons of public goals (e.g., climate commitments)



Value Chain

- Determinations of materiality should not be based on the business's proximity or contribution to the impact
- Impacts **anywhere within a company's value chain** should be considered

Deep-dive | EFRAG S standards inform reporting & disclosure for material S topics

The Social draft topical standards (ESRS S1-S4) provide a framework for organizations to report on topics related to their own workforce, the workers in their value chains, the communities impacted by their operations and the consumers and end-users of their products or services



ESRS S1: Own workforce

- Policies, targets, action plans and resources related to own workers and worker's representatives
- Performance measures:
 - Characteristics of the organization's employees and of non-employee workers in the organization's workforce
 - Working conditions
- Equal opportunities
- Other work-related rights



ESRS S2: Workers in the value chain

- Policies related to value chain workers
- Processes for engaging with them about impacts
- Channels to raise concerns
- Targets related to managing material impacts as well as material risks and opportunities
- Taking action on material impacts
- Approaches to mitigating material risks and pursuing material opportunities



ESRS S3: Affected communities

- Policies related to affected communities
- Processes for engaging with them about impacts
- Channels to raise concerns
- Targets related to managing material impacts as well as material risks and opportunities
- Taking action on material impacts
- Approaches to mitigating material risks and pursuing material opportunities



ESRS S4: Consumers and end-users

- Policies related to consumers and end-users
- Processes for engaging with them about impacts
- Channels to raise concerns
- Targets related to managing material impacts as well as material risks and opportunities
- Taking action on material impacts
- Approaches to mitigating material risks and pursuing material opportunities



Just Transition



What does Just Transition
mean to you?

Just Transition means
greening the economy
in a way that is as fair
and inclusive as
possible to everyone
concerned, creating
decent work
opportunities and
leaving no one behind



Source: ILO

Not only does climate change have a disproportionate impact on the most vulnerable members of Society...

Global South, responsible for ~8% of total emissions¹, will see the greatest rise in temp variability - up to 40% in Amazonia & Southern Africa

SIDS² populations, reliant on fish for 40-90% of animal protein, will lose a vital nutrient source due to coral reef deaths

Black & African Americans are 40% more likely to live in areas with highest projected increases in extreme heat related deaths

Climate and Social are deeply intertwined

... failure to address Social impacts of climate transition may derail the climate agenda as a whole

“ Climate won't happen without Social... People who don't know if they'll make it to the end of the month won't worry about end of the world.
—Director Of Sustainable Banking, Confidential

“ If we don't act to shape the transition... we will exacerbate the challenges that vulnerable individuals and communities face. This, in turn, will upend the transition to net-zero by making it seem squarely at odds with the well being of people.
—Council for Inclusive Capitalism

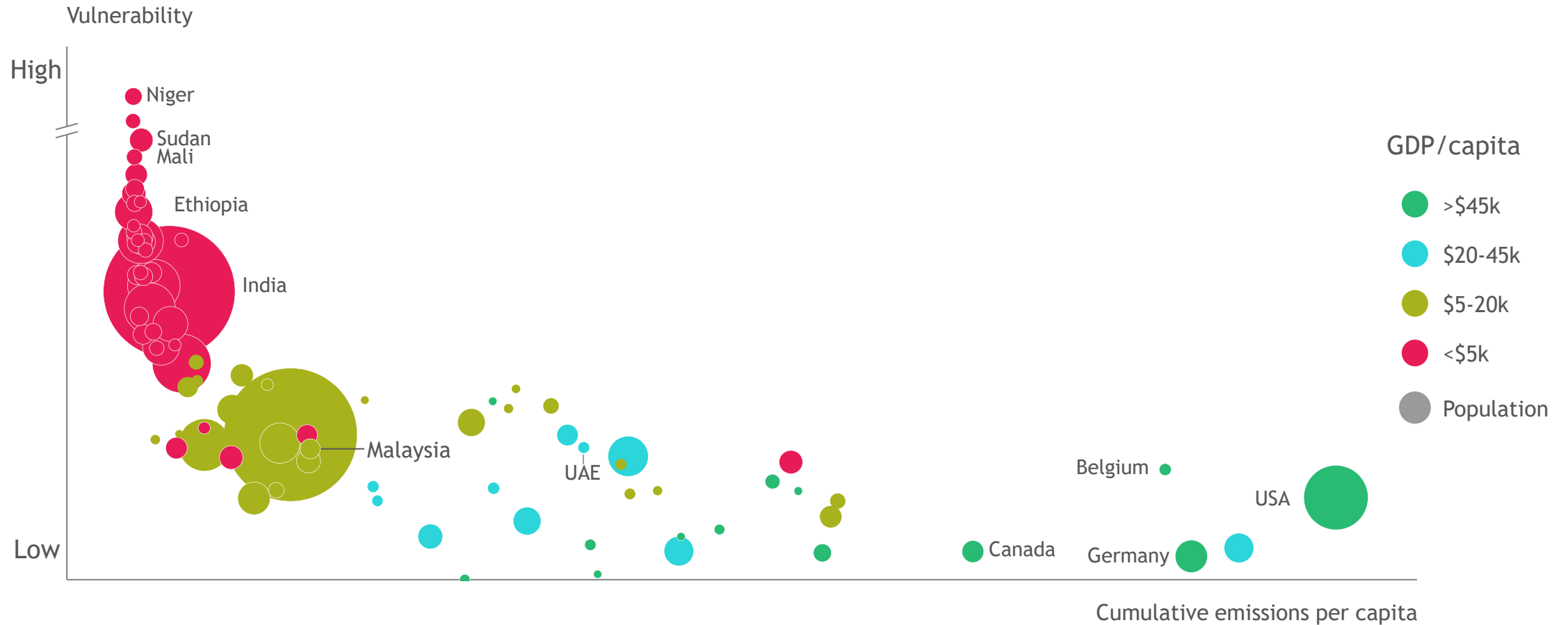
“ You cannot separate Net Zero from social and economic issues. There can be no progress to the Net Zero economy in Africa if we don't create opportunities for all its people.
—Rohitesh Dhawan, Chief Executive of ICMM

1. Cumulative CO2 emissions from 1850-2015 2. Small Island Developing State

Source: "Global decline in capacity of coral reefs to provide ecosystem services"; "Climate models predict increasing temperature variability in poor countries"; "Quantifying National responsibility for climate breakdown"; Carbon Trust; Centre for Inclusive Capitalism; IPCC; US EPA

Countries most vulnerable to climate change have contributed the least to atmospheric concentrations

Cumulative CO₂ emissions vs. climate change vulnerability

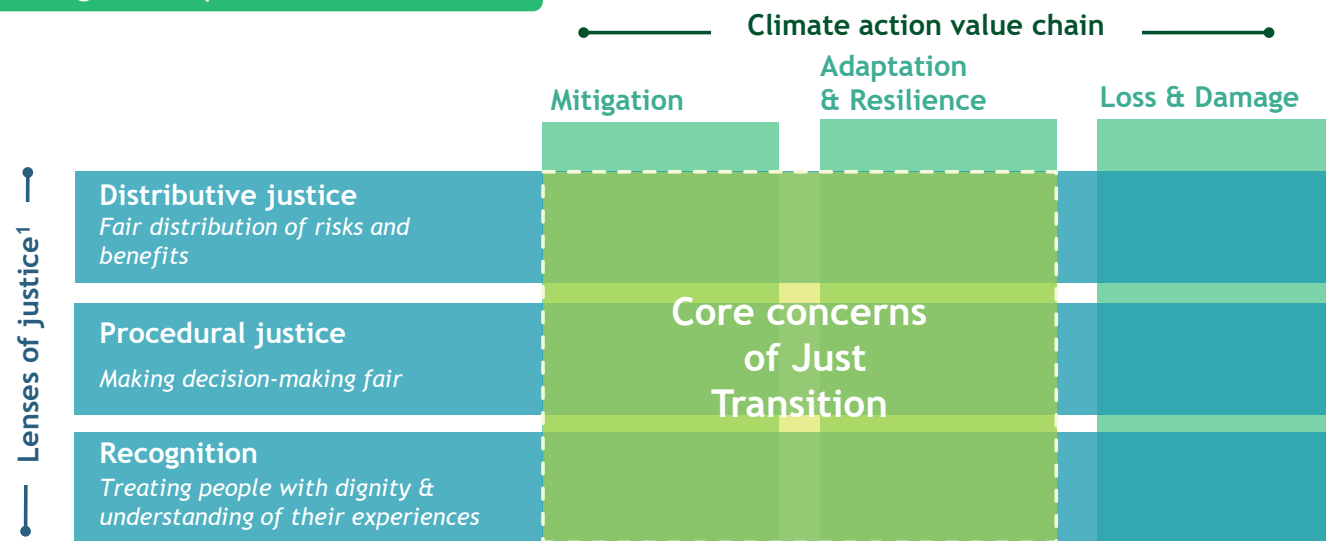


Bubble dimension represents population size. Population, GDP data and cumulative emissions as of 2020 1. Vulnerability relates to social, physical, economic and environmental factors, which make people or systems vulnerable to climate change

Source: World Risk Report, United Nations University Institute for Environment and Human Security (UNU-EHS); World Bank; Our World in Data

Just Transition means pursuing a **necessary shift away from high-emitting activities** towards a **net-zero economy**, while proactively managing and equitably distributing the **social costs and benefits** of climate action

Defining the scope of Just Transition



Understanding Just Transition's all-of-society implications



Workers facing job losses from sector transitions



SMEs fighting supply chain impact, with limited ability to transition



Households coping with rising costs



At-risk communities dependent on sunset industries & natural resources



Women & minorities facing unequal access to green jobs & severe exposure to climate risks



National & regional gov'ts dealing fiscal implications of fossil phaseout

The process of transitioning to a net zero-carbon economy produces four main types of opportunities and negative externalities



1 Workforce transition & labour rights

Job creation, job loss, and labour practices within the value chain of transition-related economic activities



2 Accessibility & equity

Equitable access to participate in the transition
Distribution of benefits and liabilities of the transition activities beyond the workforce (e.g., affordable energy access)



3 Land & community rights

Localised impact of land-intensive green infrastructure projects on communities near these sites



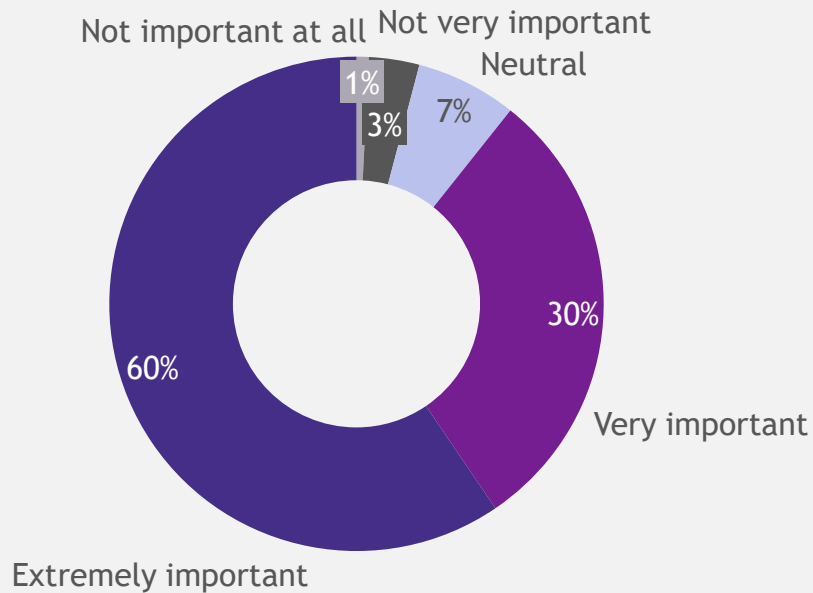
4 Natural resources & planetary boundaries

Impact transition activities on the natural environment, e.g., nature-based solutions and mineral extraction, and their consequent impact on human health & food security

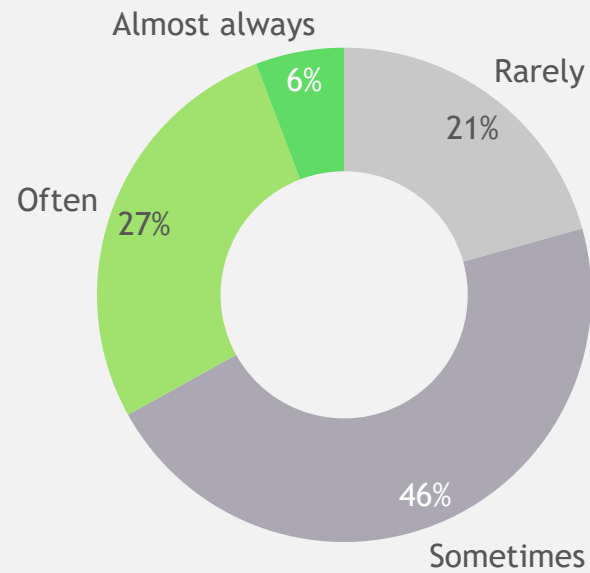
Affected stakeholders	<ul style="list-style-type: none"> • Workforce in high-emitting industries • Workforce in emerging green industries • Jobs at risk due to environmental degradation 	<ul style="list-style-type: none"> • Individuals and households of low socio-economic background • Populations in low-income countries 	<ul style="list-style-type: none"> • Communities at the frontline of large-scale infra projects • Indigenous Peoples dependent on natural resources 	<ul style="list-style-type: none"> • Inhabitants of degraded/restored land • (Non-human resources) Global transition mineral repository
Example KPIs	<ul style="list-style-type: none"> • No. of workers transitioned • No. of workers re-trained • Net job change • Presence of forced labour in supply chain 	<ul style="list-style-type: none"> • Proportion of population gaining access to renewable energy • \$m start-up capital provided to green entrepreneurs 	<ul style="list-style-type: none"> • Net impact of sunset activities on community livelihood • No. of First Nations persons displaced 	<ul style="list-style-type: none"> • Hectares of land deforested due to renewable development • Rate of transition mineral depletion

Just Transition | Social considerations are currently weakly woven into banks' climate activities despite strong intention

90% of respondents consider Social impacts important to their bank's climate activities

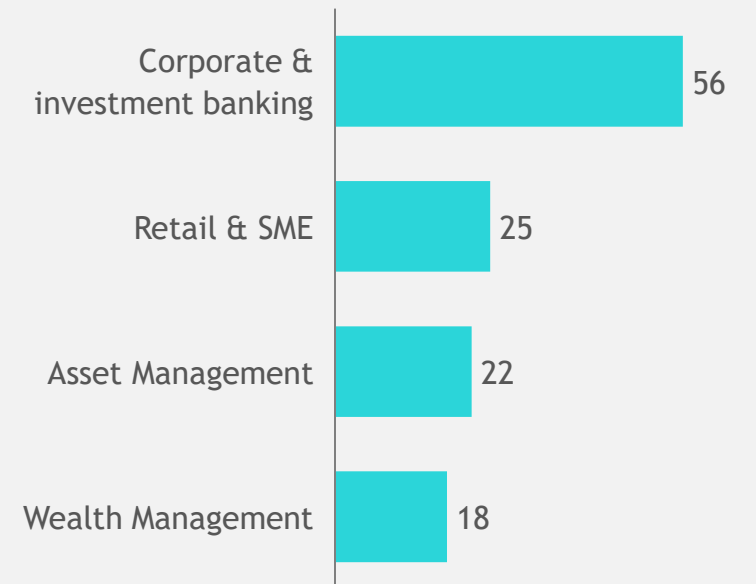


Only 33% of respondents always or often account for social impact in their bank's climate activities



Corporate & investment banking is seen as by far the most important business unit for JT

Number of respondents who ranked the below BU as #1 most important



Responses to the impact of transition activities can be classified into three levels of interventions



1 Avoid significant harm

Identify and avoid activities with direct impact on fundamental social rights, or irreversible damage on communities & nature

- E.g., development of green infra site that violates Indigenous communities' rights



2 Mitigate unavoidable externalities

Identify potential negative effects and set up compensative actions to neutralize effects

- E.g. Reskilling workers in sunset industries



3 Enhance significant contributions

Activities with positive social effects should be scaled, accelerated and deepened where appropriate

- E.g., successful energy access programmes should be replicated across similar markets

What does this
mean you and
your organization?



A glass globe is the central focus, resting on a thick bed of vibrant green moss. The globe reflects the surrounding forest, showing a mix of green foliage and blue sky. The background is a soft-focus forest scene with sunlight filtering through the trees, creating a warm, natural atmosphere. The overall color palette is dominated by various shades of green, from deep forest greens to bright, sunlit yellows and whites.

BCG

THE BOSTON CONSULTING GROUP

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