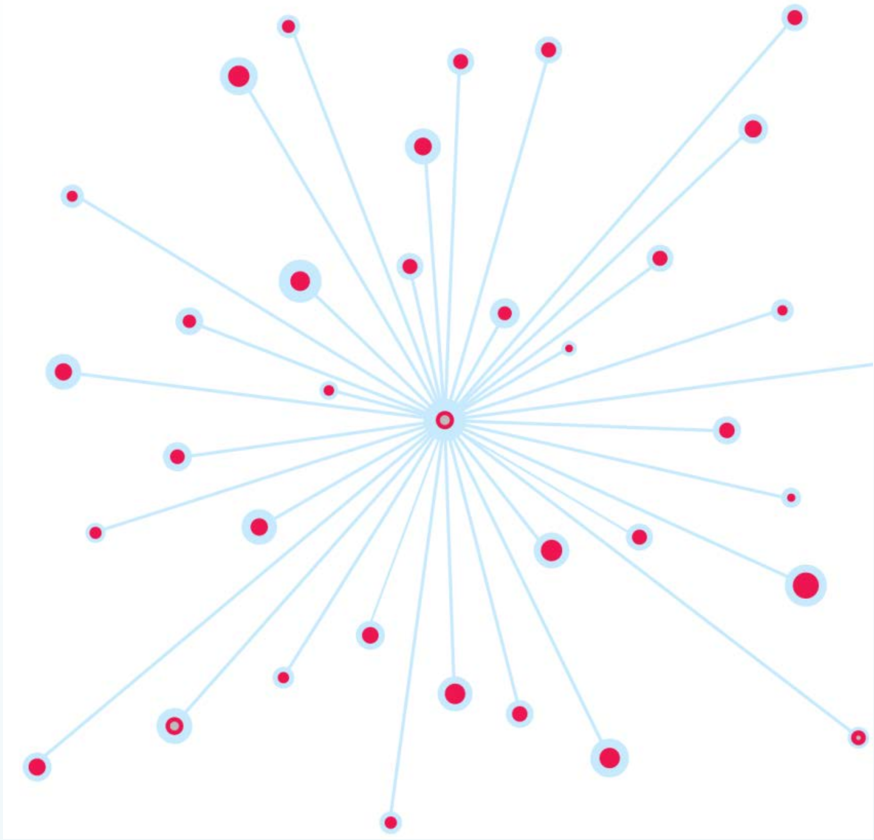


TRENDS CONVERGING!

An Expert Looks Ahead of the Curve for
Corporate Sustainability & Responsibility Professionals

THE CONVERGENCE OF IMPORTANT
CSR • ESG • SRI • SUSTAINABILITY
TRENDS IN THE YEAR 2016 AND BEYOND

A commentary by
HANK BOERNER
Chairman & Chief Strategist
GOVERNANCE & ACCOUNTABILITY INSTITUTE
Veteran Trendspotter

TRENDS CONVERGING!

An Expert Looks Ahead of the Curve
for Corporate Sustainability & Responsibility
Professionals

THE CONVERGENCE OF IMPORTANT
CSR • ESG • SRI • SUSTAINABILITY
TRENDS IN THE YEAR 2016
... AND INTO 2017

A commentary by

HANK BOERNER
Chairman & Chief Strategist
GOVERNANCE & ACCOUNTABILITY INSTITUTE
Veteran Trendspotter

TRENDS CONVERGING!

An Expert Looks Ahead of the Curve
for Corporate Sustainability & Responsibility
Professionals

THE CONVERGENCE OF IMPORTANT
CSR • ESG • SRI • SUSTAINABILITY
TRENDS IN THE YEAR 2016 AND BEYOND

A commentary by
HANK BOERNER

Veteran Trendspotter
Chairman & Chief Strategist
Governance & Accountability Institute, Inc.

DISTRIBUTED BY

New York, New York
Tel 646.430.8230 | Email info@ga-institute.com
Web www.ga-institute.com

TRENDS CONVERGING!

An Expert Looks Ahead of the Curve for
Positive ESG & Sustainability Trends in 2016
For Corporate Sustainability & Responsibility Professionals

First Edition — July 2016 — Print and Digital Formats
Second Edition — Updates — October 2016

Copyright © 2016 by Henry Boerner - All Rights Reserved

ALL RIGHTS RESERVED, including the right of reproduction in whole or in part in any form by electronic or mechanical or other means without permission of the authors and publisher. Exceptions for reviewers who wish to quote brief passages in connection with a review prepared for a publicly-available medium.

For information about permission to reproduce selections from this book please email: info@ga-institute.com

Library of Congress ISBN 978-0-9975524-0-9
Library of Congress Copyright Office Registration Applied For
Author: Boerner, Henry ("Hank")

Published by Boerner Communications, Inc.
Distributed by Governance & Accountability Institute, Inc.
Offices: New York, New York
Tel 646.430.8230 Email info@ga-institute.com

The boxed impression of the globe with check mark, and outline of symbols in chalked format is the trademark of Governance & Accountability Institute, Inc. Registration applied for.

Note: The author has included the proper names of sources, with the relevant information that has been quoted. The majority of information is made publicly-available by the sources referenced. Links to original sources included in various sections of the commentary.

• • •

TABLE OF CONTENTS

	A Commentary By Christopher P. Skroupa on Trends Converging *Founder/CEO, Skytop Strategies*	 i
	A Commentary By Pamela Styles on Trends Converging *Founder/Principal, Next Level Investor Relations LLC*	 iv
	Introduction	 1
1	We Seem to Have An ESG Green Light For American Fiduciaries	 7
2	The “Universal Owner” Concept — Slowly and Steadily Expanding	 9
3	Corporation / Shareowner — And Corporation / Stakeholder Engagement Trends	 14
4	The Sustainable Accounting Standards Board (“SASB”)	 17
5	But Analysts And Asset Managers Are Not Asking...	 20
6	Materiality — It *Really Matters*!	 23
7	The European Union *Accounting Directive*	 27
8	*Dodd-Frank* Reform Legislation — Operating Rules	 30

9	What Does My CEO Make? Why It Matters To Me	34
10	Proxy Season 2016 — Critical Issues In Public Focus	38
11	Important Trend: Beta Engagement — "Swarming"	44
12	Focus On Risk — Prevention, Response, Mitigation and Recovery	47
13	Obama Administration — Watch For Big Moves In Final Months	50
14	President Barack H. Obama — Secretary General of The United Nations?	53
15	United Nations and the Important Sustainable Development Goals (The "SDGs")	56
16	Supply Chain Continues In Sharper Focus	59
17	About the Customers — in B-to-B and B-to-Consumer Markets	64
18	Helping Members Be More Sustainable: The Role of Trade and Professional Organizations	68
19	Growing Peer Pressure on Companies for Greater ESG Disclosure	71
20	G&A Institute's S&P 500® Reporting Trends Research — Critical Mass Is Reached in the S&P 500® Universe	75
21	Mainstream Investor Uptake — Seriously Considering Corporate ESG Factors — Strategies and Performance	77
22	Concomitant Moves — The 2015 Sustainable Investing Year Survey Results	80
23	The Rise of Impact Investment	82
24	Third Party Products and Services — Analytics, Benchmarks, Indexes, Scores and More	87

25	Avalanche / Tidal Wave / Tsunami of Evidence — Based Reports on The Value of ESG Investing ……	90
26	"COP 21" — Post -Paris Meetings Developments ……	93
27	Stock Exchanges — Development of Rules and Guidance ……	103
28	Expansion of Capital Markets / Investing Opportunities ……	107
29	University Endowments — Putting Pressure on Public Companies, Industries and Sectors ……	112
30	About Fossil Fuel Disinvestment ……	115
31	A Tax on Carbon Emissions — Important Public Sector Decisions Are Ahead ……	118
32	Backlash — United States Corporate Inversions — "Fair Share" Tax Avoidance ……	121
33	Wall Street vs. Main Street Sentiments — The 2016 Presidential Election Year ……	125
34	Fallout of Corporate Scandals — U.S. and Global ……	128
35	Food and Beverages Companies in Focus — Beware The Yuck Factor ……	133
36	Media Focus on Un-Sustainability / Irresponsible Corporate Behavior ……	138
37	Anti-Corruption — Globalization of Business Challenges ……	141
38	The Big Lawsuits to Come? ……	144
39	Corporate Disruption: Creative Destruction Trends — No One Is Safe! ……	147
40	Getting Rid of the Bad Stuff ……	151

41 Competition for Talent — Job Creation, The Changing Workplace, Employer Concerns — Recruitment and Retention 155

42 The Impact of the Infusion of Legions of Sustainability — Minded Talent Into the Corporate Sector 157

43 Focus On "The Corporation" — Is a Company Really a Person? 160

44 Pope Francis — Perspectives and Actions of The Roman Catholic Church Worldwide 163

45 Lessons Learned — Green Giants Move Ahead The Compelling Business Case For Sustainable Business 170

46 Mandated U.S. Corporate Reporting On Sustainability 175

47 Finally — The Wild Card, The Black Swan, The Unknown Unknowns , and Other Unpleasant Surprises 181

Author Sign Off 184

Addendum: Look For An Expanded Lexicon Vocabulary 186

Personal Background: On Trend Detecting 188

A COMMENTARY BY CHRISTOPHER P SKROUPA ON TRENDS CONVERGING

Most of us who have been in and around the capital markets—and in the public companies that Wall Street capitalizes—accept the belief that 2008 was an epiphany for stakeholders who felt that the drivers of value were out of alignment with society's values.

More and more we are interconnected, and companies that are focused only on generating profit, without consideration of their role as an instrument of society, experience what usually happens when we disconnect: isolation and threat of failure. Of course, after the 2008 financial crisis, some firms failed: and some stepped back and turned their attention inside to chart a different course.

Why? The answer to this question is embedded in the underlying drivers of change. These are trends that my friend and colleague—a trend-spotter extraordinaire, Hank Boerner — lays

out in his complex yet easy-to-read analysis of what we can expect of public companies, both today and tomorrow.

Senior management of public companies, their shareholders and the broader base of stakeholders are engaging on the complex issues of change. Important questions are raised. Why do corporations exist? Who do they serve? What are the benefits derived from the creation of value—and most important—how is value defined? These questions are part of the public dialogue that we see emerging from the underlying drivers of change in the capital markets and in the corporate suites.

The 21st century company will serve society, but in different ways. If the period of the 1980s through 2008 manifested an over-exuberance on corporate earnings, the decade ahead may prove to be quite different for corporate managers and Wall Street financiers. If we created companies as a tool to deliver value to society, then what society expects from companies will shape a new kind of public company.

For example, ESG (environmental, social and governance) standards — topic areas where we hold, or aspire to hold, companies more accountable to those who are vested in the companies' success—may become embedded in brand value and, yes, lead to greater shareholder value.

Hank demonstrates the underlying drivers of this top line trend through examining the complex interaction between a panoply of trends, acting with synergy and through a period of time like no other point in our history.

For those whose careers are invested inside public companies, those toiling in banking and finance or whose world is affected in some way by the actions of a public company, this book is an insightful read. You'll find yourself nodding in agreement and also questioning as you move through it.

I enjoyed it because it distilled what we are taking away from our conferences and in the many related topic areas that Hank covers so well in these chapters.

I hope the writing will inspire you to ask lots of questions about the future of the public company and how it affects your life—and the world—as we become more and more interconnected—and ever-more reliant upon the concept of shared value.

***Christopher P. Skroupa** is Founder and CEO of Skytop Strategies based in New Paltz, New York.*

A COMMENTARY BY PAMELA STYLES ON TRENDS CONVERGING

The ESG/Sustainability field has been developing for decades. From a corporate perspective, it was initially associated with (environmental, social and investor) activism, questionnaire overload, governance pressures, distraction and sheer cost to companies, and a host of other negative connotations. But somewhere along the way things began to shift, first in the UK/Europe then in North America. Corporate boards and management teams, and traditional institutional asset owners and managers began to see competitive opportunities inherent in thoughtful attention to the subject.

Hank Boerner has been following developments in this field longer than anyone I know.

In *Trends Converging,* Hank shares his executive knowledge and perspective to describe the convergence we have been seeing, to where it is today with much of the ESG/Sustainability discussion going mainstream. He also describes ongoing developments and

trends in the field, including commentary on sustainability reporting; ESG-related legislative, regulatory and disclosure mandates; hot topics e.g. carbon, water; supply chain; return on investment; pension investing; investment risk mitigation; proliferation of tracking and product level Sustainability index funds; and other influences.

As someone who spent the first twenty years of my career on the corporate side, in finance, strategy and Investor Relations (much of the time for companies with maligned products and sectors), I had the same negative perception of all this that I described in the first paragraph. Subsequently, while I have focused on helping my clients bring their investor relations and stakeholder communications to the next level, advances in the ESG/Sustainability field began presenting opportunities for companies to bridge their sustainability program successes into constructive IR communications strategies. In the last few years, the body of research confirming this shift into the mainstream has become compelling, starting with a 2014 report that confirmed inclusionary ESG/Sustainability investment strategies overtaking exclusionary strategies and then rapidly expanded.

Now I see that ESG/Sustainability is becoming an imperative for companies to seize competitive opportunities across the B2B, B2C and capital investor spectrum. It is rapidly becoming a subject of attention and impact both for operations management and mainstream investors and IROs.

Hank is a valued colleague and mentor to whom I owe much for my ESG/Sustainability perspective. I am thrilled that he has taken the time to share his knowledge with others in his new book.

Pamela Styles *is founder and principal of Next Level Investor Relations LLC. She consults on traditional Investor Relations issues strategy and leading-edge opportunities within the rapidly emerging mainstream ESG/Sustainability investment community, as relates to IR. She also writes and speaks on the subject. Pam also serves as a Fellow of Governance & Accountability Institute.*

INTRODUCTION

What's ahead for corporate managers and investment professionals in the year 2016...in 2017*...and beyond?* What developments, what converging trends and "alignment of stars" could affect risk and opportunity equations in the fields of *Sustainability, Corporate Responsibility, and Sustainable Investment? In Corporate Citizenship, Ethics, Compliance, Accountability? In traditional Corporate Governance?*

It's a favorite pastime of many editors and commentators as the year ends and calendar pages turn to the New Year to project trends and events that could or will shape risk and opportunity. That is, developments in the business sector, in government, in the social sector; in science; in the arts, culture, and other human pursuits. We might also look back over the just year ended and think about events and developments that affected our personal and professional lives...and that might affect us in the New Year.

Yes, some years we would rather forget — 2008 was a bummer for most of us as our investment statements came in the mail or we looked at our retirement account on line. We still can get shivers as we recall the 40 percent freefall in the value of our 401k's, right? Maybe $10 trillion dollars was lost in portfolio

value, housing value and beyond. But in general, each new calendar year is typically viewed as a period of great hope and looked-forward-to opportunity on New Year's Eve, as we celebrate the old and the new. And our personal and professional "hopes" are front-of-mind.

We are well on our way into the year 2016 and fast approaching the new year, 2017 — and so as we adjust to the present and year's realities and hopes (but "hope" is not a strategy, as Daimler AG Chairman Dieter Zetsche points out), what is in store for us as sustainability and responsibility professionals? As sustainable investing professionals?

As a long-time trendspotter, trend mapper and "issues sentinel," I see events in 2016 and moving into 2017 shaping up as a very important transition period for sustainability and corporate responsibility professionals.

And trends reaching the inflection point during 2016 and 2017 will shape our future well into the years that follow.

To begin, I would pose some questions to (1) corporate boards and executive suite, (2) to line and functional managers in various industries and sectors, and (3) to investment professionals (asset owners, managers, analysts) to think about as they read or skim through these pages:

For The Corporate Community

- Would you like to have your company pointed out as an example of outstanding leadership in corporate responsibility, accountability, governance, ethics, and sustainability?

- Would you be pleased if investors (present and potential owners and holders) perceived *your* enterprise as a long-term, sustainable investment that belongs in their portfolio (or index, bond portfolio or benchmark or other investable product offering)?

- Would you like to have strong talking points in your investment story about reduced costs, more efficient operations, strong revenue growth through differentiated products and services, higher profits, and a "bullet-proofing" against the knowns (climate change risk) and the "unknown unknowns" (as famously framed by Secretary of Defense Donald Rumsfeld)?

- Would you like to stand out among your (1) industry peers and (2) investment peers...to be considered an example of outstanding corporate leadership?

- Would you like to rest easy at night knowing that your global supply chain is resilient and not likely to suffer a crisis overnight (in a far distant time zone) — say, with your company's apparel or other labels strewed prominently among the ashes of the building?

For The Investment Community

- Are you looking for signals of clear differentiation among companies in your portfolio, or being considered for your investment — companies that have a much better "alpha" right now as well as the opportunity to go the distance (to be more sustainable!) and not be found later in the graveyard of failed enterprises?

- Are you able to identify sector and industry leadership companies to invest in...companies with lower costs, dependable supply chain and intelligent outsourcing, with board and C-suite leadership that understands the importance of such intangibles as freedom or license to operate, good will and brand value, and works to protect access to markets and stakeholder support?

- Are you looking for companies that mainstream investment houses and a universe of independent third party service providers [of rankings, scores, analytics, opinions] see as the more sustainable enterprises over the longer-term...companies with leaders who excel and position their company for greater competitive advantage in their sector and industry, and product / service categories?

These are important questions that could be asked internally if there is skepticism or doubt about the value of corporate sustainability as voiced by higher authorities. Keep them in mind as you move through the content. The answers to many of your questions are likely to be found in these pages.

OK,
***let's proceed from here to look into* this**
critical year of convergence — 2016 —
to attempt to divine what is in store in
terms of risk and opportunity. We'll try
to provide answers to the above questions
in our narrative.

Searching for the right description, the year 2016 has been shaping up as a period of reaching *critical mass* — of important trends *converging* — of the *rapid marshalling of certain forces* — of "right time & right place" — of a *historic inflection point in the capital markets*.

There is a lot going on that is shaping positive (and sometimes negative) outcomes especially in the fields of corporate sustainability and responsibility, and sustainable investing.

I'll explain *why* and *what* is "converging" that I believe paints a promising, quite positive picture for sustainability professionals in 2016. A number of developments and trends are presented here in the following pages for your information.

Note that I have adopted the approach of updating the chapters as developments warrant, to keep the document "alive" and up-to-date for the reader. The updates will be noted for you. I've

included links to original content, or additional content for your further exploration.

And I welcome *your* input, which I may include in the updates.

1

WE SEEM TO HAVE AN ESG *GREEN LIGHT* FOR AMERICAN FIDUCIARIES

Let's start our exploration here: Should U.S. fiduciaries consider corporate ESG strategies and performance and the sustainability efforts of equity issuers as part of their required due diligence? Will fiduciaries violate their responsibilities if they *ignore* corporate ESG performance in their management of assets? These questions are front-of-mind now for a growing universe of U.S. fiduciaries overseeing public employee pension funds, foundations, endowments and other institutional settings.

Secretary of the U.S. Department of Labor Thomas Perez in October 2015 gave a *green light* to U.S. fiduciaries for consideration of corporate ESG performance alongside the traditional financial analysis — this was the ERISA clarification for fiduciaries (ERISA: *Employee Retirement Income Security Act*, passed by the U.S. Congress in 1974).

With this comforting clearance in place for 2016 investment strategy-setting, we should keep watch on the trustees and investment management staff of foundations, trust funds, public sector retirement systems, labor funds, endowments, and other U.S. fiduciaries who can now freely adopt ESG screening resources and policies.

The potential flow of new monies into the expanding field of ESG-focused investment products could accelerate as the word gets around in fiduciary circles — and more evidence-based research is presented that makes the investment case for ESG and sustainability.

To give you an idea of the shift in fiduciary focus, the Pew Trusts reported that in 1972, as the changes in attitudes about fiduciary duty were well underway, U.S. public sector pension and retirement systems had about 75 percent of their portfolio in fixed-income and "safe" investments, guided by then-present "Prudent Man" / "Prudent Investor" rules and regulations.

Changes in U.S. federal and state "prudent man" approaches, especially after ERISA become law in 1974, included directing of investments into equities and alternative investments and product offered by Wall Street houses. By 2012 (latest year of data), the ratio shifted to almost 75% equity and alternatives, and only 25% or so fixed-income. Fiduciaries need higher returns to meet future payments to beneficiaries. Why move away from "safe-only" investments? Return! The increased ability to pursue greater returns for future liabilities to beneficiaries.

Consider This

Pew Trust says public pension funds have US$3 trillion in assets to cover what will be $4 trillion in long-term "earned" payments to beneficiaries. The growing awareness of the benefits of sustainable investing practices could influence the portfolio management policies of a growing number of pension fund fiduciaries. The "influencers' in this field include California state pension funds — these examples are CalPERS and CalSTRS; also, New York State Common Fund; the five New York City pension funds…and numerous others in state and municipal government systems that become believers and "sustainability investors."

Key to keep in mind:

Evidence-based research that clearly shows the advantage (the "Alpha") of sustainable investing should encourage more large fiduciaries who have ignored ESG in the past to now pay closer attention, and change their portfolio management approaches to close that projected $1 trillion pay-out gap.

2

THE "UNIVERSAL OWNER" CONCEPT — SLOWLY AND STEADILY EXPANDING

Speaking of fiduciaries, here is a concept introduced by good governance pioneer Robert A.G. Monks (principal of Lens Fund, founder of ISS, and the first administrator of ERISA at the U.S. Department of Labor). The foundational idea (advanced in the 1995 book, "Corporate Governance") by authors Bob Monks and Nell Minow) is that large investing institutions, such as large public employee pension funds, labor union retirement funds, mutual funds, and other fiduciaries have such large portfolios that these become representative of the economy as a whole...and therefore, fiduciaries should exercise their influence and power to address (among other things) ESG issues. (And, the "S" for social/societal issues.)

The concept means: The fiduciaries become "Universal Owners" and as such they are obligated to address important issues in our society-at-large (like climate change), and within industries and engage with companies in portfolio on the issues of societal importance.

Another way that I look at this is that the fiduciaries are shepherds of the wealth of their millions of beneficiaries and should be acting in *their* interest, beyond the responsibility of generating financial return to assure the future payments to beneficiaries. Fiduciaries are stewards with important roles in protecting their beneficiaries...who number in the tens of millions. Think about the implications of that.

One of my early introductions to this concept was an important seminal paper by James Hawley and Andrew Williams of the Graduate Program at the School of Economics and Business Administration at St. Mary's College of California ("The Emergence of Universal Owners").

The academics explored the question, "what happens when financial institutions effectively own almost the entire economy? Their interests [then] are the same as the public-at-large," [they argued].

This was in 2000, 25-plus years after dramatic changes in American fiduciary investment (ERISA, the *Employee Retirement Income Security Act)* was passed by Congress in 1974, opening the door to broader classes of assets for fiduciary investment, far beyond the "Prudent Man" restrictions then in force. The portfolios are large pension funds changed dramatically in just a few short years.

At the time of their writing in 2000, large institutional owners owned 60% of the largest 1,000 American companies' stock. The number is even larger these days.

The TruCost organization more recently observed: “Large institutional investors are Universal Owners, as they often have highly-diversified and long-term portfolios that are representative of global capital markets. Their portfolios are inevitably exposed to growing and widespread costs from environmental damage caused by companies. They can positively influence the way business is conducted in order to reduce externalities and minimize their overall exposure to these costs.”

Key: TruCost sees: “Long-term economic well-being and the interests of beneficiaries are at stake. Institutional investors can and should, act collectively to reduce financial risk from environmental impacts.”

TruCost points out that many of the signatories of the Principles for Responsible Investment (PRI) are Universal Owners. TruCost is working to measure the “unaccounted costs of business activities” by putting a price on natural resources that power business — but rarely show up on the balance sheet.

PRI and the UN Environmental Programme (UNEP) conducted research back in 2010 that helped to frame the arguments (and shaped TruCost views) on Universal Ownership.

This ties in to the view that “Natural Capital” is important to consider in a company’s move toward the practice of Integrated Reporting (with material disclosures related to carbon, water, resource dependency, pollutants and waste being liabilities). Corporate accounting for Natural Capital is a pillar of the Integrated Reporting approach advanced by the International Integrated Reporting Council (IIRC) and other proponents.

TruCost notes that 37 major financial institution CEOs have said they would be integrating natural capital considerations in their products and services, and are committed to the UN-backed "Natural Capital Declaration."

The focus on institutional investor activism over the 1975-2000 period by academic scholars Hawley and Williams included great attention being paid to corporate governance issues at public companies; environmental liabilities; and "social" issues such as the cost of rising healthcare due to long-term tobacco use. Think of the irony of that — pension fund fiduciaries were invested in tobacco companies to generate financial return while providing generous healthcare coverage to their many beneficiaries.

There's more information for you at: http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-hawley-williams.pdf

Professor Hawley's journal articles and other information of value is at: http://www.stmarys-ca.edu/node/142136

Watch for increasing discussions about Universal Ownership in 2016 — the concept may come into its own as ESG analytical and portfolio management approaches gain wider recognition and favor.

• • •

3

CORPORATION / SHAREOWNER — AND CORPORATION / STAKEHOLDER ENGAGEMENT TRENDS

Out of the bunker and into the stakeholder community — that's the essence of the trend that's been underway now for several decades. In the continuing conversations with corporate managers that we at G&A Institute have, it is the rare case that the issue of stakeholder engagement is *not* brought up. An increasing (and encouraging) number of U.S. corporate senior managements recognize the importance of identifying and connecting with stakeholders, and getting their views on what external and internal stakeholders identify as important issues.

There are creative ways for companies to do this — conducting surveys, organizing workshops, structuring formal advisory boards, using on-line forums such as Convetit (a tool we use at G&A) to gather perspectives and have ongoing conversations with stakeholders one-to-one, and more.

Corporations and institutions utilizing the Global Reporting Initiative (GRI) “G4” standard for their sustainability reporting see the emphasis on “stakeholder engagement” that is fundamental to the fourth generation of the standard since 1999-2000 (thus, the now-familiar “G4”).

At G&A Institute we are seeing more structured, comprehensive approaches to corporate-stakeholder engagement being described in the G4 reports being analyzed by our team of analysts.

We see the effectiveness of stakeholder engagement being viewed as an important demonstration of management’s commitment to a *key corporate strategy* — that is, being a more open and transparent and inclusive enterprise, one that seriously considers the opinions of both internal and external stakeholders.

This is an important element of effective issues management and risk management. And, a mark of outstanding corporate leadership.

In 2016, 2017 and beyond, more companies will be engaging with stakeholders if they have not already begun to do so. The 16th Century poet John Donne observed, “No man is an island entire of itself...” Corporate managers should heed: No business enterprise [likewise] is an island. Today, all business enterprises are interconnected in many diverse ways with their stakeholders. (Donne wrote: “Because I am involved in mankind, and

therefore never send to know for whom the bell tolls; it tolls for thee.”)

***Everything is connected* —**
and ESG is the glue.

• • •

4

THE SUSTAINABLE ACCOUNTING STANDARDS BOARD ("SASB")

The non-profit Sustainable Accounting Standards Board (SASB) organization will complete all sector and industry standards for release (for public use) in 2016. The "materiality mapping" for 12 sectors (and industry components of each) is an important tool for investors (the primary backers of SASB) and for the managements of public companies.

The guidance from SASB is in the form of *Industry Briefs*, and sector/industry standards (accounting metrics and disclosure guidance), and other resources being developed by SASB.

For example, SASB issued a comprehensive *Implementation Guide for Companies* for corporate issuers that want to integrate the SASB sector standards into their 10-k disclosures, or at the very least understand what investor expectations are, as expressed in the guidance. This approach, SASB says, is a cost-effective way to communicate material [sustainability] impacts to investors that satisfies requirements of Regulation S-K. The

74-page guide helps corporate managers understand the materiality assessment; performance evaluation and benchmarking; disclosure and implementation considerations, and more.

The organization is also offering the Fundamentals of Sustainability Accounting (FSA) Credential, with focus on (1) the need for Sustainability Accounting Standards, (2) Understanding SASB standards, and (3) using the standards. A Level 1 exam is available at the end of the curriculum study period.

I'm pleased to report that G&A Institute EVP Louis Coppola was one of the pilot program participants and now holds the Fundamentals of Sustainability Accounting (FSA) certification, designed for professionals who will benefit from the links between material sustainability information and a company's financial performance.

Watch in 2016 — in 2017 — and beyond, for U.S. company managements to increase their focus on the key metrics suggested by SASB Industry Working Groups, which developed the sector standards.

As the discussion about materiality (and related disclosure) increases in 2016, U.S. managers will be looking closely at the SASB Sustainability Accounting Standards.

KEY

There are spirited conversations going on in many corporate offices on the topic of "what should we disclose and why" as related to sustainability and responsibility matters.

What is "material" - what is not?

SASB's efforts are a valiant attempt to provide clarity for corporate reporters from their investors' point-of-view.

Learn more about SASB at:

- www.sasb.org

• • •

5

BUT ANALYSTS AND ASSET MANAGERS ARE NOT ASKING...

We hear that expressed quite a lot in our conversations with U.S. corporate managers. The investor relations staff, the CFO, the CEO and others are not being *directly* asked about "ESG" and "sustainability" by financial analysts and asset managers in the shareowner base. That is changing, even if slowly at first.

In many instances, it's a matter of "language" — do they ask about "sustainability" — or about cost reductions, the potential impact of a tax on carbon, reduced energy use in production, the rate of turnover of key staff, or marketplace advantages of sustainable products / services? What about the matter of "freedom" or "societal license to operate" in some countries or regions?

One of the critical catalysts for change is the efforts of the CFA Institute, the professional membership organization for certified financial analysts worldwide. The institute is the global standard-setter that creates the curriculum and training materials

for analysts (at varying levels); candidates for the Chartered Financial Analysis (CFA) accreditation take rigorous exams for Levels I, II and III. (The exam content increases in complexity at each level.)

CFA Institute has been long been focused on corporate governance, and more recently on environmental and social issues. CFA Institute resources — manuals, educational content (such as books, articles, conferences and videos) — help practitioners understand the importance of ESG in investment practices.

The institute recently issued a *Guide for Investment Professionals — ESG Issues in Investing*, stating that “for investment professionals, a key idea in the discussion of ESG issues is that systematically considering ESG issues will likely lead to more complete investment analysis and better-informed investment decisions.”

Members of CFA chapters have been collaborating with the global institute staff to develop curriculum resources that will aid the chartered financial analyst in understanding the importance of ESG performance in the analysis of the corporate issuer.

The New York Society of Securities Analysts (NYSSA, the largest CFA holders’ chapter) has been participating in the education effort. I’m honored to be chair of the NYSSA Sustainable Investing Committee, and my partner Louis Coppola is a core team member. Key members of our committee and other members of NYSSA are collaborating with CFA Institute in the development of curriculum focused on ESG factors for the analyst and portfolio manager.

We believe that the work of the CFA Institute and its chapters on the subject of ESG investing is going to mean more questions will be asked now of corporate issuers when analysts and asset managers engage with IR staff. More analysts asking means more resources will be devoted by companies to tell their sustainability story.

KEY

Moving ahead, IR officers, CFOs and CEOs can expect to have those ESG questions posed by more often analysts, asset owners and asset managers.

Investors seek and expect greater transparency on ESG issues on the part of companies in their portfolio.

The connection points — corporate IRO, financial analyst and asset manager — will enter into a more robust conversation regarding the ESG aspects of corporate operations and the impact on finance.

More about CFA Institute at:

- www.cfainstitute.org
  Search: "ESG Resources"

• • •

6

MATERIALITY

— *IT REALLY MATTERS!*

The GRI G4 framework, SASB and other suggested reporting standards — these are at heart all about expansion of corporate disclosure on finance and business matters — and enabling more effective, structured reporting by public companies. Right now, for most companies in most countries, this is a "voluntary" exercise — and beyond the scope of what is required in mandated financial filings (such as the 10-k in the U.S.A.). (Note that an increasing number of countries are mandating ESG or CR reporting by home-based companies.)

We're seeing the dramatic expansion of "materiality" discussions inside companies, in the investment community, in the public sector, and among other stakeholders.

We've been conducting extensive research on materiality issues and "what matters" in corporate reporting — you'll find the research reports on our corporate website.

In 2016, watch for news about an important research project by our G&A Institute team — "What Matters" looks at the first 2,000-plus reports published that follow the Global Reporting Initiative's G4 framework.

We are looking at key performance indicators (KPI's) across 35 GRI-categorized sectors to determine what is considered by public company (reporters) least-to-most important in terms of materiality. (The GRI G4 framework is all about materiality, and what matters to both stakeholders and corporate managers in the context of materiality.)

In the United States, the U.S. Supreme Court's definition of "materiality" is embodied in this description: "A *fact* is material if there is a substantial likelihood that the fact (the information) would have been viewed by a reasonable investor as having significantly altered the total mix of information made available." (*TSC Industries vs. Northway Inc.*)

The Securities & Exchange Commission (SEC) relies on this interpretation as well in its oversight of the corporate and investment communities (Regulation S-X, 2005).

GRI, in developing the G4, said: "The report should cover Aspects that: Reflect the organization's significant economic, environmental and social impacts; or, substantively influence the assessments and decisions of stakeholders…"

The International Integrated Reporting Council (IIRC) advised: "The report should disclose information about matters that substantively affect the organization's ability to create value over the short-, medium- and long-term."

But “beauty is in the eye of the beholder,” as the expression of ancient Greece advises us. Meaning that, stakeholders — including present and potential shareowners — are more and more looking beyond the narrow existing definition. While accounting professionals may describe ESG performance considerations as “non-financial,” or “intangible,” ESG performance is *very tangible* to a growing number of investors.

The respected law firm of Gibson Dunn points out that for a claim of securities fraud, brought under Section 10(b), a plaintiff must show that the defendant (say, the management or board of a large public company) made a statement that was “misleading as to a material fact.” But we are in new territory with investors’ intensifying focus on corporate ESG performance.

What is “left out” can be very material to an investor.

So for 2016 and Beyond, We Could Ask

What if a company doesn’t mislead — but doesn’t disclose [material ESG data and information]? As more and more stakeholders demand ESG performance or risk information, the withholding or non-disclosure of that information will increasingly pose risks to corporate managements.

KEY

Smart corporate managements will perform annual or biennial materiality assessments to carefully determine and map:

(1) what is material to the company, and
(2) what is material to the stakeholder, and
(3) where disclosures really have to be made in the context of the U.S. Supreme Court definition.

To help clients, the G&A Institute team developed a suite of resources and tools for the corporate materiality analysis exercises...for beginners on the sustainability journey, and for the more mature corporate reporting organization.

• • •

7

THE EUROPEAN UNION ACCOUNTING DIRECTIVE

In November 2014, the European [Union] Parliament voted to adopt new rules regarding disclosure of non-financial and diversity information by companies in the 28 member states. The rule became law in December 2016, and in financial reporting years beginning 1 January 2017 will be in force for EU business enterprises.

The Directive requires that member state law be adopted (starting in 2015) to require large companies as well as micro-, "small undertaking" and medium-size undertakings (companies) to begin reporting on what we could refer to as their ESG and/or CR performance. For large companies, the threshold is 350 million Euros on the balance sheet, 700 Euros in turnover and 250 average full-time employees. (Other firms have sliding scale requirements.)

The projection is that as many as 5,000 companies could be required to begin such reporting if they do business in the EU or list stock on the EU exchanges. We think about this in "tsunami" terms; there is an anticipated tidal wave of new

corporate reports coming to stakeholders in the months immediately ahead.

For those companies headquartered outside of Europe not yet doing any sustainability disclosure or reporting — consider that there will be many more European-based peer companies beginning their reporting, or, if already reporting, will be upping their game.

We should mention "Brexit" here — the voters in the United Kingdom have decided Great Britain should "exit" the European Union and that process is getting underway. After the exit, the UK (England, Scotland, Wales, Northern Ireland) headquartered companies will have considerable adjustments to make. It is too early to say what the impact might be on corporate sustainability reporting...but this is an area worth monitoring. .

What About Other Nations?

The actions of the European Union is part of a global trend. The 379 public companies listed on the Johannesburg (South Africa) stock exchange must publish integrated reports (financials plus ESG performance), following the King III Code. Denmark requires companies to publish in their financial reports their use of environmental resources if it is material. Brazil's Bovespa exchange requires companies to publish sustainability reports or explain why (they do not). The *2012 Grenelle II Act* in France requires companies to include ESG information in their Annual Report. *The Credit Institution Act* in the Republic of Ireland (an EU state) requires financial institutions supported by the government guarantee scheme, to issue a corporate responsibility report biennially.

The actions of government-regulated stock exchanges (as described here and in other chapters) and the actions of public sector regulatory and other bodies are driving the dramatic expansion of sustainability and responsibility reporting. The European Union moves will most likely inspire other nations (outside of the union, including trading partners) to follow the example. The G&A Institute team contributed the United States of America perspectives to the GRI publication, "Carrots & Sticks" — a copy is available for download on the G&A website at www.ga-institute.com.

Question to ask internally in your company in 2016:

Where do we stand in vis-a-vis our investing or industry peers?
-Our key customers?
-Our key suppliers?
-How might the European Accounting Directive changes affect our enterprise?

In consideration of this...what do I need to know and do?

More on the EU Directive at:

- ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm

8

DODD-FRANK REFORM LEGISLATION — OPERATING RULES

After the 2008 capital markets debacle, the U.S. Congress passed *Dodd-Frank — the Wall Street Reform and Consumer Protection Act*. As with all federal legislation, operating-rules-of-the-road are to be developed by affected regulatory agencies. There has been heavy lobbying related to *Dodd-Frank* rule-making from the get go (the legislative package was signed into law by President Barack Obama back in summer 2010).

This is the most sweeping financial reform legislation enacted since the dark days of the *Great Depression* in the early 1930s. Going into 2016, there were *still* rules to be developed. The Davis Polk law firm issues a periodic update (the "Regulatory Tracker") on the rule-making progress or lack there-of, and for 3Q 2015, a total of 271 *Dodd-Frank* rulemaking deadlines had passed; 193 had been finalized and 58 awaited finalization. Rules had not yet been issued for 83 rules required (21%).

Dodd-Frank legislation encompasses greater oversight of financial institutions; creating of the Consumer Financial Protection Bureau (CFPB); the need for greater bank reserves "just in case;" creating the Financial Stability Oversight Council; regulation of credit raters (S&P, Moody's, Fitch, others); more governance reforms (building on prior federal legislation); changes in securitization products...and more.

The roles and duties of important oversight agencies and standard-setters — Securities & Exchange Commission, Federal Deposit Insurance Corporation, Financial Accounting Standards Board, Commodity Futures Trading Commission, Federal banking regulators — were addressed in *Dodd-Frank.*

Corporate governance was a primary concern for the *Dodd-Frank* principal framers (Congressman Barney Frank of Massachusetts and Senator Chris Dodd of Connecticut, both of whom have since left the Congress).

Explains the Morrison & Foerster law firm in its *Cheat Sheet*: "The legislation addressed executive compensation; new stock exchange listing standards; public company proxy statements; and expanded disclosures for all public companies soliciting proxies or consents. As a result, companies will [potentially] have to change the composition and operation of their compensation committees, adopt new governance and compensation policies, and prepare for an advisory vote on executive compensation.

We are already seeing the ripple effects of these in corporate governance matters (such as the Say-on-Pay voting by shareholders). There is provision for companies to "claw back" compensation based on financial information required to be reported in the event that the disclosures have to be re-stated. The SEC is empowered now to develop rules to enable shareholders to nominate directors — that has not happened yet, but do stay tuned!

Companies are supposed to explain why the same person holds the chairman and CEO titles. Conflicts of interest have to be reported. The law firm authors observed, "There is every reason to believe that the rule-making process will be a *long and winding road*." Shades of Sir Paul McCartney's popular song — it has been that — but we seem to be nearing our destination.

We are paying close attention to *Dodd-Frank* developments in 2016 as these affect E, S and especially G. The United States often embarks on the long and winding reform road after a national crisis occurs (such as the 1929 market crash and the 2008 financial crisis). The rules don't prevent the next crisis, it seems, they only change the nature of the game and we will have different outcomes as market players game the system.

KEY

Sustainability proponents argue that greater emphasis on examining corporate ESG / sustainability disclosures lessens risk, creates more resilient enterprises, directs capital to the most investment-worthy of companies, and brings significant benefits to society.

At G&A Institute, we develop resources to help make the case — the ESG reporting case, the investing case, the business case, the supply chain case, the talent recruitment and retention case, and so on.

More about the Morrison Foerster Law Firm and its excellent knowledge-sharing (briefing) activities at:

- www.mofo.com

• • •

9

WHAT DOES MY CEO MAKE? WHY IT MATTERS TO ME

One signature element of *Dodd-Frank* in rulemaking was "finally finalized" by the Securities & Exchange Commission: the CEO-to-median-worker-pay-ratio disclosure. On August 5, 2015, the SEC adopted the final rule, which requires that public companies disclose the ratio of the compensation of the CEO to the median compensation of employees.

And so in corporate documents — registration statements, proxy and information statements, and annual reports — we will be seeing this ratio publicized in the first Fiscal Year (FY), beginning January 1, 2017 or afterwards for some companies. Expect to see some preliminary disclosures later in the year 2016 and media references to the coming "ratio" debate as company management wrestle with the "how" — the particulars of what will be publicly-disclosed beginning in just a few months. (Recently, as the communications workers union negotiated with Verizon, the union ran TV ads featuring the CEO-worker pay ratio to generate public support in New York City.)

MSCI, in its “2016 ESG Trends to Watch” report, had the headline “Mind the Pay Gap — Turning the Spotlight on Pay Inequality and Performance.”

Companies will begin disclosing the CEO pay ratio in January 2017, and some experts may argue that in light of the escalating ratio — the ratio moving from 30-to-1 to over 300-to-1 over four decades — and the increasing debate over inequality, stakeholders may “name and shame” some companies and their CEOs.

This is becoming part of the public dialogue on the “wealth and income inequality gap,” which such politicians as U.S. Senator Bernie Sanders are trumpeting as a key issue their campaigning.

Some investors may argue that inequality includes company actions, the rise in CEO pay, and the link of the issue to long-term economic growth (inequality as a holding-back-growth factor). In this context, CEO pay in Corporate America and for Wall Street firms is typically highlighted.

We can expect to see expanded public dialogue on this topic as we move toward the deadline. The name-and-shame actions may be by media and stakeholders.

Update — October 2016

The executive compensation experts at Veritas in their October 24, 2016 "Compensation in Context" newsletter for clients advised that the SEC Division of Corporate Finance has released new Compliance and Disclosure Interpretations.

These include these clarifications:

1. *Companies need to identify the median once every three years, not every year, but the ratio disclosure is required each year.*

2. *Any date in the last three months of the recent FY can be used for the ratio calculations.*

3. *Up to 5% of non-U.S. employees can be excluded in determining the media.*

4. *Employees "acquired" by merger/acquisition can be excluded until the next FY. (What will the giants AT&T and Tim Warner do if the merger goes forward and the ratios are calculated!).*

5. *5. The SEC will allow for geography-based cost-of-living adjustments to "equalize" high- and low-income countries.*

There is more valuable information available for you at the Veritas web site: www.veritasecc.com

What do you think will happen when the employees find out that the CEO compensation is 300-1, 550-to-1 or even higher (than the company's median pay)?

We saw a comment to the likes of, "...is a health insurance company CEO really worth 1,000 times the pay of an Acute Care nurse?"

And the answer is....

What if the company's performance lags its industry peers, is increasing outsourcing and laying off workers, when management is in the middle of announcing layoffs or negotiating a labor negotiation...and as the ratios become public in those instances?

Presidential candidate and U.S. Senator Bernie Sanders will not be alone in attacking rising American inequality in 2016 and in the coming year.

• • •

10

PROXY SEASON 2016 — CRITICAL ISSUES IN PUBLIC FOCUS

The ideal arena in which to monitor issues that matter to investors — and companies — gets played out in the annual corporate proxy voting season (usually at the peak in the first half of the calendar year). What are the hot issues for proxy season 2016? (Keep in mind that these issues are becoming perennial and so migrate on to 2017 and beyond.)

Investors demand more disclosure on climate change:

- *What are the risks and opportunities for the public company shares in portfolio?*
- *What are board and management's specific plans regarding climate change?*
- *Why isn't more information about all this being disclosed to shareowners*?

And regarding what many consider to be shareowner money:

- *Just who is getting company money in the political arena (which candidates)?*

- *What are the company's political contributions (to political parties, candidates, SuperPacs, and especially through trade associations such as the U.S. Chamber of Commerce's lobbying and money funneled to super PACs...and more)?*

Holly Gregory, an outstanding thought leader on corporate governance (she's a senior attorney at the law firm Sidley Austin LLP) sees these issues in focus for clients in 2016:

- access to the corporate proxy by shareholders to influence board candidacies (the basis of 35% of governance shareholder resolutions in 2015);

- board structure and composition (such as board diversity achievements);

- majority voting for shareholders (replacing the plurality voting tendency);

- board focus on risk management;

- executive compensation matters;

- audit committee reporting;

- and (and important focus for board in 2016) reporting on sustainability practices and reporting.

Note that the "defining issue" in corporate governance (the "G" in ESG) in the 2015 proxy season was centered on the means of providing shareowner access to the proxy nominations process, says Ms. Gregory. This was mandated in *Dodd-Frank* but SEC is behind in its rule-making so it is up to investors to move the needle.

The access to the board nominating process movement is led by fiduciaries/activist investors; among these, consider the actions of the highly-visible [elected] Comptroller Scott M. Stringer of the New York City pension funds. His office filed resolutions at 75 companies in which the five City of New York employee pension funds hold shares. Expect to see much more of this type of activism this year. (There's more on Comptroller Stringer and the New York City Funds in another chapter.)

An important factor in corporate proxy campaigns is the advice of the Institutional Shareholder Services (ISS) unit of MSCI, which counts as clients numerous public employee pension funds and labor [and joint labor-management] pension systems.

The 2016 issues in focus for ISS (and therefore, for institutional investor clients and the companies they invest in) include:

- yes, proxy access;
- director over-boarding (too many board commitments for an individual director);

- unilateral board actions (board actions diminishing shareholder value);

- competing/conflicting shareholder proposals, as when companies present a competing proposal to shareholder proposals;

- the board candidate nominating process;

- and, environmental and social risk oversight (expectations that the board, responsible for risk oversight, fails to identify and manage a material social or environmental risk).

Individual sustainable & responsible investing asset managers may view issues through their own lens. Boston-based Zevin Asset Management for example sees its work as improving the conduct of companies held in portfolio. The mutual fund advisor works to improve sustainability, respect for civil rights and liberties, and economic justice.

Led by SRI pioneer Robert Zevin (chairman and chief investment officer), the investment advisory company pressures the managements of public companies in portfolio to improve on setting renewable energy goals; holds companies accountable for climate change; engages Big Oil companies on climate change issues; seeks comprehensive lobbying disclosure from companies such as Walt Disney Company; and engages Wal-mart Stores on disclosure of state lobbying issues.

We see the annual corporate proxy voting season as an important public arena in which issues of importance to shareholders are placed before the entire shareholder body for examination, discussion and decision-making. The shareholder community has honed its skills in bringing important issues to the attention of executive management and boards, and to public attention.

Savvy managements engage shareholders on the issues, and work to reduce the risk of appearing to be intransigent or not really caring about the issues in focus.

Our team has been working with corporations on proxy issues for several decades. The lessons are that communication and engagement with investors pays off as tension is reduced and solutions are mutually explored.

At the least, investors can gain a better appreciation of management views [on a subject matter] even if the two sides cannot come to agreement.

But given the litany of trends described here, engagements are a sensible first step for managements looking to improve their brand, their public perception, and their reputation.

Information about attorney Holly J. Gregory, co-leader of Sidley's influential global Corporate Governance and Executive Compensation practice at:

- www.sidley.com/people/holly-j-gregory

New York City Comptroller Scott M. Stringer is an important influence in setting U.S. corporate proxy agendas. There is more information at:

- comptroller.nyc.gov

• • •

11

IMPORTANT TREND: BETA ENGAGEMENT — "SWARMING"

The parent of ISS (MSCI) describes an important trend to pay close attention to: "Beta Engagement" [of companies] by investors.

MSCI researchers note that this is different from the traditional "Alpha Engagement," where *one* investor engages *one* company on an issue. In the Beta approach, investors band together on an issue (or more than one issue) and approach multiple company managements and boards all together, in a united effort to effect change.

I view the trend as "Institutional Investor Swarming." In the book I co-authored with Mark W. Sickles in 2010 — *Corporate Governance, Enabling Financial, Environmental and Social Stability* — we provided this concept in the narrative about: "Swarming Intelligence, such as bird flocking or fish schooling, where the performance of the whole is greater than, and different than, the sum performance of all the parts."

Institutional investor *swarming* is occurring more often now as MSCI's view of "Beta Engagement" rises. City of New York Comptroller Scott M. Stringer has launched the "Board Accountability Project," demanding increased "viable" proxy access in corporate bylaws. He began with six companies in 2014 and steadily grew his focus on public companies to 75 by end of 2014 — NYC Pension Funds have filed 72 or more new shareowner resolutions calling on companies to make changes.

NYC Funds invest in 3,500 U.S. companies. Success: 109 companies have enacted proxy access bylaws changes since the campaign launch. Other investors have voiced support for the New York City Funds' campaign.

In late-April 2016, Comptroller Stringer issued a progress report: 50 of the 72 companies, or two-thirds, had agreed to his proposal and would implement the changes requested by the funds.

City of New York funds are not alone among fiduciaries demanding dramatic change. A "swarm" of investors is approaching Vanguard funds to urge the mutual fund advisory firm to support [the demand] for more disclosure on corporate political spending. Vanguard [it is charged] has voted against (or abstained) from every disclosure vote in 2016.

The Corporate Reform Coalition (made up of investors and advocates) launched a campaign in November 2015 to urge Vanguard [the mutual fund advisory company] to change its policy on voting guidelines — to vote in favor of political spending disclosure.

"The secret spending that's flooded our democracy is political, but when it is funded by our retirement saving, it gets personal," said Emma Boorboor of U.S. PIRG, a federation of state-level Public Interest Research groups. Swarm effect: 59,000 emails sent to Vanguard in support in the first weeks.

I'm watching for signs of an increase in demand by shareowners to have part of the CEO and executive management team members' compensation and incentives tied to improved performance in sustainability and corporate responsibility...and to the long-term success of the enterprise they manage .

Information about the book that I co-authored with my National Association of Corporate Directors (NACD) colleague, Mark W. Sickles is at:

- www.amazon.com/Strategic-Governance-Financial-Environmental-Sustainability-ebook/dp/B0048EKJ00

MSCI's important views on Five ESG Trends to Watch in 2016 is at:

- www.msci.com/esg-trends-to-watch-in-2016

12

FOCUS ON RISK — PREVENTION, RESPONSE, MITIGATION AND RECOVERY

Back in my introductory comments I talked about the heightened focus on risk management with board room and C-Suite giving risk greater attention. (Or should be: the SEC in 2010 reminded boards of their risk oversight responsibility.) I would count "sustainability" and "ESG performance" and "corporate responsibility" among the risk situations to be examined now — and if these are not in focus, that company is in the "higher risk" column for investors and stakeholders. (And it is not just me saying this; numerous independent ESG analytics firms' scores, ratings, rankings and opinions on companies bear this out.)

What About Risk Disclosure?

Question

Are companies doing enough in risk management? Are they telling their shareowners what they are doing? In January 2016, the Washington, DC-based Investor Responsibility Research Institute (IRRC) said that corporate risk disclosures are

dominated by “non-specific boilerplate, and fail to provide investors with a clear picture.”

The IRRC conducted a study of corporate disclosure — *The Corporate Risk Factor Disclosure Landscape* — with Ernest & Young LLP (E&Y) that looked at the top five largest publicly-traded companies in 10 different industries with aggregate market cap of US$8 trillion.

Finding

Corporate disclosure reads like a laundry list of generic risks couched in legalese and lacking meaningful specificity. This does not enable investors to distinguish between the relative risk profile of different companies and the importance of risks to a company.

Investors need disclosure that reveals the *extent, effects and management of risks*. Remember, the Securities & Exchange Commission reminded boards of directors in 2010 that they have clear responsibilities for oversight of risk and responsibility to communicate about the board leadership structure and the board rules in risk management. Is this happening? If it is, where is the increased disclosure (communication) to investors?

We'll be closely monitoring risk and board involvement in enterprise risk management and board communication on this topic which is rapidly rising in importance to institutional and individual shareowners.

More information about the IRRC and its world class research at:

- irrcinstitute.org

13

OBAMA ADMINISTRATION — WATCH FOR BIG MOVES IN FINAL MONTHS

The second term of the administration of President Barack Obama comes to a close in less than a year (on Friday, January 20, 2017). The President of the United States oversees about 4,000 key appointees who administer the various cabinet and other agencies that are the heart of the federal government. The president signs congressional legislation into law. The federal agencies adopt rules / regulations for the entities that will be subject to the law (the statute).

When Congress won't move, or when the elected "CEO of the U.S.A." thinks important issues should be addressed by the Federal government, he can issue an Executive Order, or have the cabinet agencies issue an Interpretation, or encourage a regulatory agency (such as SEC) to issue an Interpretation.

And so, since taking office in January 2009, President Obama had issued 228 EOs through May 2016. (These types of actions

can include Presidential Memoranda, Proclamations, Disclosures, and more.)

On October 5, 2009, the important EO 13514 was issued, titled: *Focused on Federal Leadership in Environmental, Energy, and Economic Performance.* On July 19, 2010, an EO was issued: *Stewardship of the Ocean, Our Coasts, and the Great Lakes*. On August 18, 2011, EO 13583 was issued, entitled: *Establishing a Coordinated Government-wide Initiative to Promote Diversity and Inclusion in the Federal Workforce.*

Important

On March 19, 2015, the President issued another EO — 13693: *Planning for Federal Sustainability in the Next Decade*. This sweeping Order gives the important federal agencies — such as the Department of Defense — marching orders, environmental goals and objectives. The EOs are affecting and will affect prime defense contractors — watch for their alignment with federal sustainability guidelines, and the ripple effect throughout the prime supply chain networks.

Keep in Mind

The federal government is the largest buyer of goods & services in the U.S.A. across the private and public sectors. And many of the government's contracts are issued for the long-term.

Watch for more Executive Orders *et al*, to be coming from the Obama White House in the remaining days of the administration.

The model is the creator of the modern U.S. presidency, Teddy Roosevelt (1901-1909), who issued 1,081 orders. In his last days in office, bucking the tide of a reluctant Congress, "TR" issued dozens of EOs. (We can thank TR for our National Park System concepts.)

In all, President Roosevelt issued orders and took other actions to preserve something like an average of 100,000 acres of American land per day for each day in office! It took seven years after he left office for the 64th Congress to catch up and create our national parks system in 1916 — we're celebrating the 100th Anniversary of the system in 2016.

As we hear the critics of President Obama's [228] actions through May, keep these stats in mind regarding Presidential EOs:

- President Ronald Reagan: 380 total in 8 years
- President George H.W. Bush (#41): 165 in 4 years
- President George W. Bush (#43): 270 in 8 years

And through the challenging years of the Great Depression and WW II, the *super-signer* of Executive Orders, Franklin D. Roosevelt: 465 in 12 years. He saw the need and took action, his admirers say.

As of October 13, 2016, the most recent E.O. was issued. Learn more about President Executive Orders at:

- www.whitehouse.gov/briefing-room/presidential-actions/executive-orders

14

PRESIDENT BARACK H. OBAMA — SECRETARY GENERAL OF THE UNITED NATIONS?

President Obama turns over the keys to the White House to his elected successor in January 2017. What then? As we prepared our look at 2016 trends, a Kuwaiti newspaper report said that the president is interested in becoming Secretary-General of the United Nations. The rumor made its way (rapidly) through traditional and social media.

The UN post has always been held by a statesman *not* from a world power, so this possibility seems far-fetched. But imagine the UN with President Barack H. Obama at the helm.

It was another U.S. President who dreamed of heading the world organization when he left office. That was Franklin Delano Roosevelt, leader of the free world in World War II. He created "the united nations" of 15 allied nations during the war to battle the forces of fascism and envisioned the possibilities for a formal "UN organization" to address global issues and challenges.

(That nascent organization would succeed the League of Nations, which collapsed as WWII began in 1939.) Unfortunately, President Roosevelt tragically died in office in the month (12 April 1945) when the "United Nations Conference on International Organization" (the present day UN) that we know commenced a three-month organizational meeting in San Francisco (April to June 1945) by 50 nations in alliance in the last days of WW II.

It's an intriguing rumor — imagine what would follow if the former American President became the UN leader! The champion of U.S.A. sustainability leadership at the helm of the global organization?

Speaking to the United Nations General Assembly in New York City on September 2015, President Barack Obama reviewed the history of the UN over the 70 years of existence, and said: "Out of the ashes of the Second World War, having witnessed the unthinkable power of the atomic age, the U.S. has worked with many nations in the Assembly to prevent a third world war — by forging alliances with old adversaries; supporting the steady emergence of strong democracies accountable to their people instead of any foreign power; and by building an international system that imposes a cost on those who choose conflict over cooperation, an order that recognizes the dignity and equal worth of all people."

The President went on: "…I stand before you today believing in my core that we, the nations of the world, cannot return to the old ways of conflict and coercion. We cannot look backwards. We live in an integrated world — one in which we all have a stake in each other's success. We cannot turn those forces of integration. No nation can insulate itself... that is true of the United States, as well."

And he addressed the future of our planet: "We can roll back the pollution that we put in our skies, and help economics lift people out of poverty without condemning our children to the ravages or an ever-warming climate. The same ingenuity that produced the Industrial Age and the Computer Age allows us to harness the potential of clean energy... there is no stronger sign of leadership than putting future generations first."

Sounds sort of like an acceptance speech!

Update — October 2016

Alas, there is a new General Secretary that is not President Obama. The former Prime Minister of Portugal, the Honorable Antonio Guterres will succeed Ban Ki-moon in 2017. Maybe next time...

As the UN Refugee Chief (UNHCR) Guterres vowed to be an advocate for the "downtrodden" if he became Secretary General.

15

UNITED NATIONS AND SUSTAINABLE DEVELOPMENT GOALS (THE "SDGs")

Speaking of the power to bring about enormous changes in human behavior that is inherent in the United Nations — after several years of serious consideration and multi-party collaboration, in Fall 2015 the United Nations General Assembly voted to adopt 17 sustainability development goals (SDGs) to significantly expand the horizons of the 2000 Millennial Goals for corporations, NGOs, governments, and other stakeholders.

Now, these institutions, sovereign nations, and organizations are busily aligning their strategies, plans, programs, and actions with the new SDGs.

The goals are designed to "transform our world" through such efforts as ending poverty; eliminating hunger; moving toward gender equality; providing clean water and sanitation; protecting life on land and below water; bringing about peace and justice and stronger institutions; and reducing inequalities.

KEY

Watch U.S., European and other nations — and the companies operating within — as they align their sustainability strategies and programs with select SDGs, and put measurement systems in place to manage and report on their progress.

Companies did that with the Millennial Goals, especially setting 2015 "E" deadlines; the SDGs run out to 2030 for goal recalibration and goal-setting.

G&A Institute EVP Louis Coppola, a board member of the Global Sourcing Council (GSC), is working with his colleagues on an ambitious initiative that will help Council corporate members in their respective SDG alignment efforts. The Council is providing a platform for supporters and partners to educate and inspire extraordinary activities around the 17 goals in sourcing and supply chains through a communications campaign focused on one SDG per week.

Watch the ongoing announcements from G&A and the GSC on this exciting developments that began in 1Q 2016 — you'll find explanations of ways that company managers can collaborate with the Council on SDG integration at their firm.

KEY
Keep in mind there are 17 strategic goals and 169 separate performance indicators embodied in the SDGs.

At G&A Institute, we are helping companies chart their strategies, initiatives, programs, and engagements as managements adopt select goals and indicators for their enterprise.

We'll have much more to report on this over the coming months.

The SDGs are very important consideration for corporate managements embracing sustainability and responsibility. There's more at:

- www.un.org/sustainabledevelopment/sustainable-development-goals/

• • •

16

SUPPLY CHAIN CONTINUES IN SHARPER FOCUS

This issue, or bundle of issues, is a biggie for manufacturers, with ripple effects spreading out from large-cap companies to their suppliers around the world.

As with the environmental crises in the U.S. in the 1960s and 1970s, tragic events in far-off lands brought American and European customer focus on the negative activities of prominent brand marketers — thanks to headlines splashed across traditional and new media.

Example

Think of the continuing impact on companies after the April 2013 Rana Plaza factory collapse in Dhaka, Bangladesh. More than 1,000 people died in the building's five vertically-stacked factories, 2,500 were injured, and murder charges were brought against 41 people.

In the ashes were garments labeled for (according to *Forbes)* prominent western brand makers and retailers using the factories' services, which the media focused attention on: Joe Fresh, Primark, JC Penney, Matalan, Benetton and others.

Key stakeholders are today asking: what is the human cost of having cheaper production in less developed countries? On the positive side, no Wal-Mart involvement was reported in the accident, though some reports said that the retailer had used Rana Plaza firms in the past.

In Bangladesh, there is now an *Accord on Fire and Building Safety* that customer-companies are asked to sign. A workers' compensation fund is accepting payments from western companies such as VF Corporation (North Face and Jansport), The Children's Place, H&M, Mango, the Gap, Wal-Mart, and others.

Activists in U.S. universities are keeping the pressure on for reforms through the United Students Against Sweatshops (USAS coalition). Social media is effectively used to embarrass U.S. and E.U. companies.

Industry action: The Sustainable Apparel Coalition is working to "transform the apparel, footwear and home textiles industry through pioneering assessment tools..." Corporate members include Adidas, Burberry, Disney, Columbia, VF, Gap, Esprit, LL Bean, Nike, Hanes, H&M, and many other well-known manufacturers and brand marketers. Members come from "all points on the globe and every link in the supply chain," the coalition explains.

This is one driver among several that is changing the nature of the global supply chain.

In Europe, a number of large chemical manufacturers have joined forces through their association — CEFIPC, the European Chemical Industry Council — to work toward "a more sustainable Europe," including focus on "getting responsible chemical management recognized through the entire supply chain of the industry..." That includes supply chain partners of the major customers such as Bayer and BASF.

The economist and cable TV broadcaster Fareed Zakaria in his excellent, incisive book, "The Post American World," focuses on two important, long-term trends that are re-shaping economies, politics, culture and more. These are (1) the continuing globalization of business, and (2) the continued progress of technological advances, both of which in turn helps to power the continuing globalization of businesses of every size.

He wrote: "This is not a book about the decline of America but rather the rise of everyone else." He described this as a *tectonic shift, a great power shift*.

Author Zakaria described the rising power of 25 multinationals from the emerging economies that will be among tomorrow's corporate sector. There are four companies each from Mexico, South Korea, Taiwan; three from India; two from China; one each from Argentina, Chile, Malaysia and South Africa.

While in a military sense, he points out, the United States stands alone as the world's "Superpower," in most other categories we

have power centered in many other countries in other societal dimensions — industrial, educational, social, cultural.

This could be considered a handsome dividend of the long and costly “Cold War” between the U.S.A. and allied nations, and the Soviet Union (USSR) and its allies, including the former Comecon trading bloc. Barriers have come *down, down, down*. We are now seeing the application for permission of American businesses to trade with Cuba, including major airlines bidding for bilateral landing rights.

In all of the changing order and sometimes chaos of the *New Normal*, U.S. companies have achieved, and can continue to achieve and excel in the fields of corporate sustainability, environmental protection, corporate philanthropy, corporate citizenship, and corporate responsibility.

We are a nation of laws and the unique American style of corporate governance often sets the pace for companies in other nations. The pressure of U.S. institutional investors is a major factor in changes taking place in “G” — an important part of ESG.

The “swarming” of investors in coalitions working to effect change and urging improvements in corporate E, S and G is a powerful societal force, one that makes the American nation stronger in the long run, with more resilient public companies, more resilient supply chain, more responsible behaviors in the business sector.

As other nations rise, the U.S. influence does not have to diminish; American corporate leadership and investor leadership

can be the beacons for counterparts and peers in other nations, developing and well-developed.

These trends are very apparent in the examination of U.S. and other nations' corporate reporting in G&A Institute's "Sustainability: What Matters Big Data Platform™" and related resources on disclosure and reporting of corporate sustainability, responsibility and citizenship journeys.

We are very encouraged!

I encourage you to read Fareed Zakaria's terrific book for the complete story: "The Post American World." Published 2008 and since revised by the author. Publisher: W.W. Norton & Company, New York, New York. Link:

- www.amazon.com/Post-American-World-Fareed-Zakaria/dp/039306235X

• • •

17

ABOUT THE CUSTOMERS — IN B-TO-B AND B-TO-CONSUMER MARKETS

It should be becoming clear in looking at what is going on in the *New Normal* that B-to-B customers and consumers are now increasingly looking at *where* their product comes from (country of origin), *what* the ingredients are (especially in food and beverages), *who* is involved in producing the product, using what methods and technologies, and *what* human health impacts or environmental impacts all of *that* may cause.

Of course, the benefits to both users and our society of "sustainable, green" and related products and services will be the competitive thrust of companies striving to keep customers happy and bringing new customers on board.

Sustainability will continue to grow in importance as a differentiator for industrial companies, with the leaders (such as Unilever, Coca Cola, PepsiCo, Mondelez Intl, Campbell's Soup, and others in consumer markets) gaining competitive advantage through the efforts of their respective sustainability journeys.

We see a continuing tug-of-war between large food manufacturers and the consumer base, in such areas as nanotechnology; generic modification (of crops and food animals); radiation of food (for safety reasons); large feedlot or henhouse production vs. "more natural open field grazing;" the amount of salt, sugar and fat in processed foods and beverages; importation of food vs. in-country production; and ingredients. Consider the challenge: the Chipotle casual fast food chain uses more than 20 ingredients in its popular counter offerings, much of it locally-sourced, locally-prepared.

The New York Times food writer Mark Bittman, who has moved on to the private sector, wrote many columns and feature stories on food in the newspaper and the digital version. He was amazed at the popularity of his "foodie" offerings, and the elements of our society that "food" touched and intersected with.

In his farewell column (published in September 2015), Mark Bittman observed: "When I began five years ago, food was not generally a serious topic as it is now. Now, nearly everyone knows that food matters. I've identified the major issues facing us in the interwoven fields of food, agriculture, nutrition and the environment."

This is not always an easy journey for food companies. Look at the chaos and prolonged crisis at Chipotle in 2016, as consumers got sick after eating at the chain's outlets across the United States. Being "fresh and natural and local" can pose threats to the food supply, as we are learning.

"Industrial" production of our food is necessary for scale and affordability. That does not go down easy with a growing universe of "foodies," especially Millennials, who have different approaches to food than previous generations.

The increased attention on "food matters" has put pressure on major food and beverage marketers to "do more, be better," and we at G&A Institute see the corporate sector response in the steadily increasing flow of data and narrative emanating from Big Food and Big Beverage. These companies are sensitive to public opinion — point-of-purchase decisions are made every day by consumers about their product offerings, right?

Companies like Unilever, Coca Cola, Campbell's Soup, General Foods, Mondelez, Coca Cola, and others are setting the pace. We see their continued efforts to respond to consumer likes and wants as creating value for the customer and society. The interweaving (as Mark Bittman observed) of food with agriculture, nutrition and the environment is very powerful.

Corporate laggards here could well be the marketplace losers. That's something more and more mainstream investors are tuning in to.

At G&A Institute, the team has been involved in food and beverage issues for many years, especially in critical issues and crisis management situations.

One outbreak, one contamination, one serious incident can do great damage to a brand. The increasing emphasis of sustainability in this sector is a bulletproofing exercise as well.

We'll continue to closely monitor the food and beverage sectors in 2016 and beyond.

18

HELPING MEMBERS BE MORE SUSTAINABLE: THE ROLE OF TRADE AND PROFESSIONAL ORGANIZATIONS

We are seeing serious efforts expanding in key industries as trade and professional membership organizations develop codes of conduct and "sustainability norms" for members, usually with focus on strategies, practices and policies on sustainability and responsibility for their member organizations.

In another chapter we mentioned the Sustainable Apparel Coalition and CEFIC. There are numerous other organizations helping their members — and member supply chains — be more responsible and sustainable.

This is very encouraging and a good sign for both the American and the global society. The trade and professional membership associations on point are helping to advance societal benefits through their broad individual and/or corporate membership bases.

These include:

- Electronic Industry Citizenship Coalition (EICC).
- American Cleaning Institute (see our profile of ACI on G&A's Sustainability Update blog).
- Rail Industry Sustainable Development Principles.
- Automotive Industry Action Group (AIAG).
- Rainforest Alliance for Certified Coffee.
- Cape Town Declaration of the World Jewelry Confederation.
- American Chemical Society (ACS).
- U.S. Pet Industry Sustainability Coalition is a "collaborative playground for advancing sustainability" in the booming pet products industry (members include Petco).
- Air Transport Action Group (staging an annual aviation & environment summit with civil aviation organizations worldwide).
- Sustainable Furnishings Council.

Then, there are industry and sector-focused initiatives evolving; an example is the effort to achieve a more sustainable mining industry in Africa addressed by the Framework Agreement developed in 2013 at a summit in South Africa. (This was organized by labor, business and government.)

And on and on — trade & professional membership associations will be stepping up the game for their members — and the member organizations (companies and individuals) will be looking at their supply chain for areas of improvement.

We regularly interact with these and other associations and bring you news via our various communications channels, including our profiling of associations on our blog.

19

GROWING PEER PRESSURE ON COMPANIES FOR GREATER ESG DISCLOSURE

The outcome, an important end result of the corporate sustainability journey is the publication of a report, usually annually, and perhaps more often, and in greater numbers now, following the GRI framework for ESG reporting.

A lot of work and resources (financial and human) go into the work long before the sustainability report is published. The first sustainability report for an organization could take a year of more of planning and intense work:

- strategies have to be set (the work of board and C-suite);
- internal teams organized, including representatives of functions, geographies, business units, specialists;
- resources identified and deployed (considerable effort for the Multinational Enterprise (MNE));

- measurement & management systems have to be put in place where they don't exist (most often for tracking environmental matters, such as emissions, waste, water use, and energy use and conservation);

- internal subject matter experts (SMEs) and content owners are roped into the process; content is gathered and processed — and finally the report then appears.

This is a multi-functional exercise for most companies; many different departments become part of the collaborative effort. No resting on laurels, of course; the peer companies (the industry and investing competitors) are doing the same and raising the bar year-after-year. This growing peer pressure on companies is generating very positive results overall for society.

As the exclusive data partners for the Global Reporting Initiative (GRI) in the U.S.A., United Kingdom and Republic of Ireland, the G&A Institute team carefully analyzes every report published in these countries, and in our global research, we look at company reporting in every major market. Our team looks at more than 1,500 sustainability reports each year.

We are encouraged to see tremendous progress being made in disclosure and reporting related to ESG performance by the leading companies in each sector and industry, and the stimulus of this progress as evidenced by other companies making progress in the sector. The bar is raised each year.

As I said, this is creating significant pressure on peer companies for making progress and then reporting on same. After all, the corporate reporters also are part of the major customers' supply

chains, and the customers are asking questions about ESG performance.

Public companies compete vigorously for access to capital; they compete for market share; they compete for human talent...and more. Reporting on the progress of the sustainability journey is important!

We see this increased competition within sectors and industries, and within the global business community overall, creating challenges for companies (1) already reporting on the journey; (2) positioned as sustainability leaders and intending to hold on to the honor; (3) and, especially on companies not yet embarked on the sustainability journey, and not really prepared for the reporting process that is ahead of them.

The G&A Institute's "Sustainability: What Matters Big Data" resources on corporate sustainability, responsibility and citizenship grows larger and stronger by day as our analysts add data, narrative and other dimensions gleaned from disciplined tracking, monitoring and charting of public reporting.

We are very encouraged by what we see happening in the corporate sector and in the investment community regarding the embrace of sustainable investing practices.

G&A Institute publishes research on corporate reporting activities — our findings are available for you on our corporate website. More research reports are coming forth in 2016 and 2017.

Visit www.ga-institute.com for more information on our research and complimentary copies of our reports.

20

G&A INSTITUTE'S S&P 500® REPORTING TRENDS RESEARCH — CRITICAL MASS IS REACHED IN THE S&P 500® UNIVERSE

Every year the G&A Institute team monitors the S&P 500 Index® universe of companies to analyze their reporting and disclosure activities. Owner S&P Dow Jones Indices/part of McGraw Hill Financial says this benchmark/index represents more than 80% coverage of available market capitalization for the United States. (The companies in the S&P 500 are an important group because investment funds with an aggregate of US$7.8 trillion in Assets Under Management benchmarked to the 500, including $2.2 trillion of indexed assets as of mid-2016.)

Our analysts look at S&P 500 Index® companies' sustainability reporting activities. In 2011, we found just fewer than 20% of companies reporting; for year 2014, we found 75% of companies were reporting. What about the holdouts (the lagging 125 companies or so) we asked? Will they begin reporting? Will S&P 500 companies continue to report?

We found the answer earlier in 2016: *Yes*, the S&P 500 continue to report on their sustainability journeys. And more of them are doing so — there are just 99 laggards now, with 81% of the universe publishing ESG/Sustainability/Corporate Responsibility information. Good news!

The S&P 500 companies represent that "critical mass" in corporate sustainability, responsibility and citizenship reporting — ignoring the trend may prove to be a wrong-headed decision by the boards and C-suites in the laggard companies. And, for companies closely aligned with S&P 500's that they do business with, partner with, supply, and so on.

We continue our S&P 500 universe of company research with partnering organizations, including Trust Across America and Bloomberg LP. Additional information is available on the G&A website as we publish results at www.ga-institute.com.

21

MAINSTREAM INVESTOR UPTAKE — SERIOUSLY CONSIDERING CORPORATE ESG FACTORS — STRATEGIES AND PERFORMANCE

It was a small, dedicated group of asset owners and their managers (internal staff, external asset managers) that over the past four decades created the modern sustainable & responsible investment ("SRI") movement.

One such pioneer, as example, was the Interfaith Center on Corporate Responsibility (ICCR) coalition, launched by the National Council of Churches in the early 1970's to leverage their collective assets under management to address governance and societal issues and work to attempt to change corporate behavior.

ICCR has achieved notable success over its 35-plus years of existence in putting important issues on the table for broad public discussion, and in bringing action to change corporate behaviors that were not behaving responsibly in ICCR's view.

Commenting on this, ICCR Chair Reverend Seamus Finn speaking to PBS said: “The more a company is able to integrate a good, solid, social and environmental policy and governance policy into their model of business then they will be around a lot longer.” In other words, they will surely be more s*ustainable* — and more attractive to investors.

While ICCR is very much a major factor in sustainable and responsible (SRI) investment, the organization has many companions now in its pursuits. And those asset managers often are the big names in **bold** typeface of Wall Street: Goldman Sachs, Morgan Stanley, BlackRock, TIAA-CREF; and, large asset owners such as CalPERS, CalSTRS, New York Common Fund, the City of New York Pension Funds, the Connecticut State Treasurer, and others.

To be sure, there are other sustainability-focused investor coalitions that trod the familiar paths that ICCR does on societal issues. These include the Investor Network on Climate Risk (INCR), organized and managed by Ceres; the Investor Environmental Health Network (IEHN); and ad hoc coalitions such as some described elsewhere in this narrative.

G&A Institute’s trade association is the nexus of asset owners and managers, consultants, and others involved in sustainable investing: The Forum for Sustainable & Responsible Investment (US SIF), and until recently its sub-units — SIRAN, the Sustainable Investment Research Analyst Network; IWG, the International Working Group. Members manage US$2 trillion in Assets Under Management, or advisement. In 2016, US SIF will publish the latest survey on *Sustainable, Responsible and Impact Investing Trends*, a signature activity of the organization.

This process can be viewed as an action-response-action — companies are making great progress in their ESG performance; they are expanding and improving on reporting on their progress and achievements; investors are responding by examining the progress made — and expecting "more," especially from companies in their portfolio. It's a *race to the top* for prominent large-cap companies, an ever-higher bar to reach for.

Trend to note: We are seeing a growing universe of small-cap and medium-cap public companies and privately-owned companies adopting ESG approaches and beginning their sustainability journeys.

In 2016, we are monitoring the continuing uptake of ESG analytics, and other affects on portfolio management, by mainstream financial institutions and other key fiduciaries.

We often hear analysts and asset managers do not ask about our sustainability performance from corporate IR folks. Expect that to change quite a bit in 2016, 2017 and beyond.

• • •

22

CONCOMITANT MOVES — THE 2015 SUSTAINABLE INVESTING YEAR SURVEY RESULTS

Every other year the U.S. Forum for Sustainable & Responsible Investment (US SIF) conducts an important pulse-taking for sustainable investment in the U.S. This effort began back in 1995 when the survey results indicated that $600 billion in professional AUM or so were attributed to sustainable and responsible strategies (or in the term of the day, socially responsible investment).

At the start of 2014, the total of U.S.-domiciled Assets Under Management (AUM) there were subject to sustainable and responsible strategies was ten times that number, $6.57 trillion — accounting for $1 in $6 of all AUM under professional management.

This was a whopping 76% increase over the level at the start of 2012 ($3.74 trillion). The next survey results will be for S&R AUM at the start of 2016 (end of 2015); among those surveyed will be money managers and community investment institutions.

Consider $1 in $6 of professionally-managed AUM in the United States — some 16 per cent — are now subject to ESG analysis of some kind. This is hard to ignore, isn't it? We'd say that it is difficult for corporate C-suite managers to ignore this powerful trendline.

There is more information on the US SIF website and in the available report on the 2014 survey results. (There is a charge for the report.) For details see: www.ussif.org/trends.

Also there: report results back to 1995 and the first survey — worth exploring!

What do you think this year's survey results will be? (The effort is "Report on U.S. Sustainable, Responsible & Impact Investing Trends.")

I'm betting on higher numbers in the results — and that will have a powerful impact on the asset managers NOT using ESG and other criteria.

Check out the latest survey of asset owners and managers by US SIF at:

- www.ussif.org

23

THE RISE OF IMPACT INVESTMENT

We're witnessing the harnessing of the power of the capital markets to meet environmental and social challenges, along with financial returns (market rate as well as below market). This is "Impact Investing," which we could also describe as "outcome" investing — that is, having defined outcomes that will result from the project, in such endeavors as clean tech, microfinance, agriculture, infrastructure, affordable housing, job creation, community development, medical & healthcare, education and more.

One of the pioneers in Impact Investing is the Mission Markets organization, founded in 2008, with the mission of: "Providing products & services that it makes it easier to use the power of the capital markets to create a better world." MM is a Certified B Corporation, and "members" work with the company to carry out the mission. These include community groups, finance intermediaries, wealth managers, institutional investors, NGOs, individual investors and family offices.

Investment is directed through the use of equity, debt, public and private funds, royalties, and notes; all offerings must go through a defined due diligence process.

MM supports investment in sectors, such as affordable and green housing; LEED-rated commercial development; arts and culture; health and wellness; fair trade; natural products; gender lens investing; and inclusive finance. Also, wetland and habitat "banking;" water infrastructure; forest carbon; sustainable forestry; land conservation; and sustainable agriculture.

This approach is fast moving out of a niche category; the example of mainstreaming for Impact Investing is market leader Goldman Sachs: "At G-S, we believe that strong communities are the foundation of a prosperous society. Through our Impact Investing Initiatives, we find innovative commercial solutions that address social and civic challenges in communities across the U.S.A." Since 2001, the Goldman Sachs Urban Investment Group has committed $4 billion-plus to underserved communities, partnering with local leaders and nonprofits.

Goldman Sachs Stated Views

Underscoring the importance of impact investing, in the summer of 2015 Goldman Sachs Asset Management (GSAM) acquired Imprint Capital, a San Francisco-based investment advisor and leader in developing investment "solutions" that generate measurable ESG impact along with financial return. GSAM named Hugh Lawson to lead the company's ESG activities globally; he is head of client strategy.

Noted Lawson: "We think ESG investing has gone mainstream and that most investments going forward will need an awareness of ESG factors at a minimum, and then at a more extreme sense, people will be deploying capital there." He is a trustee at Rockefeller Brothers Fund, which recently "de-carbonized" by divesting oil stocks and investing in a company offering a "low-carbon solution" to infrastructure.

Think about that decision: Oil was priced at $90 per bbl when the Fund began selling fossil fuel stocks; the oil today is priced in the $30 to $40 per bbl range. And think about this: The Rockefeller fortune was established more than a century ago on fossil fuels! The family's Standard Oil empire included many of today's well-known brands, like ExxonMobil (Standard Oil of NJ and Standard Oil of NY - later, Mobil Oil). The $850 million fund was created in 1940 by the children of the founder's son, John D. Rockefeller, Jr.

Most of the impact investing focus has been on development and revitalization projects (affordable housing, job creation, quality education, healthcare, and small business).

In the City of Detroit, for example, Goldman Sachs invested $5.9 million in the Detroit Riverfront development project, a revival project important for the Motor City as it continues its comeback.

By 2015, 54 Goldman Sachs offices partnered with 900 nonprofits on 1,600 projects worldwide.

On climate change challenges: The firm has an updated Environmental Policy Framework in place to guide the $150 billion in financing committed to clean energy (out to year 2025).

Goldman Sachs "impact" drives global progress, the firm says in its ESG Report.

Green Bonds — ESG in Fixed Income

"Green Bonds" could be included in the Impact Investing scenario. Bloomberg's *Sustainable Finance* (January 2016) reported that green bond issuance set a record of $41.8 billion in 2015 and may double that in 2016 (source: Climate Bonds Initiative, London). Almost half the market was focused on renewable energy projects; 20% on energy efficiency; 13% on low-carbon transportation; and 9% on sustainable water projects.

A Nordic bank executive saw momentum building after the climate change Paris talks, and sees the green bond market reaching $100 billion in 2016. Strong areas of interest would include the Nordic region, the Netherlands, Switzerland, the United Kingdom, and Republic of Ireland.

In the United States, the dollar volume of green bond issuance was higher in 1Q 2016 than in 4Q 2015, according to Moody's Henry Schilling. Total U.S. municipal green bond volume is $4.2 billion — 10% of the worldwide market in 2015.

The giant private equity firm KKR says this about the power of impact investing: "KKR identifies social enterprises in need of

expertise and resources... KKR teams with them for a time to achieve desired business outcomes."

As we can see, there are many exciting aspects and dimension to the emerging field of impact investing, with a variety of financial products and approaches available, and discrete applications for directing funding with financial return and positive societal outcomes — impacts, well defined.

I expect that impact investing will continue to be a very attractive investing opportunity for both individual and institutional investors in 2016 and 2017.

• • •

24

THIRD PARTY PRODUCTS AND SERVICES — ANALYTICS, BENCHMARKS, INDEXES, SCORES AND MORE

Coca Cola Company managers have said in analyst meetings that the company receives upwards of 300 inquiries each year from external parties seeking various kinds of information. Other corporate managers complain of the familiar "questionnaire fatigue" as third party compilers of ESG and related information conduct their surveys — some quite extensive.

Third party providers include familiar brand names such as: Bloomberg — with 300,000-plus terminal subscribers worldwide accessing financial information. The Bloomberg ESG Dashboard is one of the fastest growing features on the professional services terminal. (Customer usage increased 76% in 2014, Bloomberg reported.)

Bloomberg collects ESG data from public sources and integrates this into the Equities, Bloomberg Intelligence and Fixed Income platforms. More than 11,000 companies are covered.

(Bloomberg also offers data on executive compensation for 7,500 companies in 65 countries.) What can financial professionals find on the Bloomberg? Product life cycle analysis resulting in CO2 emissions reductions; water risk considerations for equity valuation; fixed income as the next horizon for sustainable investment; and much more.

Thomson Reuters acquired ASSET4 in 2009; this is a global ESG data provider, and offers a powerful platform — EIKON, that competes with the Bloomberg platform, with a claim of 34% of the market. EIKON has 200,000 subscribers who can access information on more than 5,000 public companies (there are 500+ ESG metrics in the platform).

These are the two companies that have expanding platforms available to subscribers for a broad range of financial and investing data, narrative and other information. Both have been adding ESG information to their platforms for six years or more.

Other data providers include MSCI, offering a broad range of research and advisory services to investors. (MSCI has been a serial acquirer, and it now includes the former operations of Institutional Shareholder Services; Government Metric International; Audit Integrity; The Corporate Library; and RiskMetrics.)

CDP, formerly known as Carbon Disclosure Project, now collects and assembles volumes of climate risk data from companies — carbon emissions, water, forestry management, supply chain activities — and performs sector research as well. Investors ranked CDP #1, the not-for-profit says, with 1,200 professionals from 600+ institutions voting in the independent

research category in the survey conducted by *Responsible Investment*. CDP reports that 822 institutional investors managing US$95 trillion in AUM are clients. On the corporate side, 75 purchasing organizations use CDP to look at climate risk (including such companies as Dell, PepsiCo and Wal-Mart).

The importance of the work of these independent service providers should not be underestimated or ignored by corporate managements. The scores, ratings, rankings, profiles and other data and narrative provided to institutional investors — usually worldwide — affects valuation, access to capital, preference for sustainable investors, and more.

G&A Institute partners with numerous third party providers to conduct research or share information. We are also skilled at "speaking the language" of sustainability in the context of the individual third party providers, assisting our corporate clients with effective responses to such inquiries as from CDP, RobecoSAM and Sustainalytics. And we help our clients connect with Bloomberg to improve their profile on the ESG Dashboard, the fastest growing feature on the platform.

25

AVALANCHE / TIDAL WAVE / TSUNAMI OF EVIDENCE — BASED REPORTS ON THE VALUE OF ESG INVESTING

"Sustainable & Responsible Investing" (SRI) has been a thematic approach for some investors for several decades. Over the past decade, consideration of a company's "ESG" factors has gained wider acceptance in the capital markets. As a result, there is a widening body of typically rigorous research now that explores the importance of considering ESG factors in financial analysis and investment decision-making.

The continuous flow of information — from such citadels of academic authority as Harvard Business School, Oxford University, and many other higher education institutions — is making the business case and the investment case for ESG, sustainability, corporate responsibility, and more. As these research efforts are publicized, and the media presents them to executive managers and board members, more companies are beginning their sustainability journeys.

Recently, an important "study-of-studies" was released by *Responsible Investor*. The research was conducted by Deutsche

Asset & Wealth Management and Hamburg University — this is "ESG & Corporate Financial Performance: Mapping the Global Landscape."

The meta analysis reviewed 2,000+ empirical studies dating back to 1970, looking at the "durable, overall impact for ESG integration to boost the financial performance" of companies.

Result: the majority of the 2,000 studies found that the addition of ESG into investment analysis and decision-making has had a positive impact on financial performance. Within ESG criteria, such issues as reputational damage (think of VW and BP) are important considerations. Indeed, the authors advise that E, S and G should be looked at separately as well by investors, because "ESG" as an approach may distort certain factors that should be looked at individually.

Separately, a study by IRRC Institute and CFA Institute found that almost three-quarters of investment professionals are using ESG information when making investment decisions. CFA Institute, the worldwide accreditation organization for Certified Financial Analysts (CFAs), completed the study in August 2015. (You can see the results in "ESG Issues in Investing: Investors Debunk the Myths ESG Issues.") See Chapter 18 for our profile of CFA Institute.

The top three issues for investors in decision making, the survey revealed are: (1) board accountability, (2) human capital, and (3) executive compensation. How do investment professionals use ESG information? Fifty-seven percent (57%) integrate ESG in the whole investment analysis and decision-making process;

48% use best-in-class positive alignment; 36% use ESG analysis for exclusionary screening.

On corporate ESG / sustainability reporting: 61% of respondents agreed that public companies should be required to report at least annually on sustainability indicators; and 69% wanted independent, third party assurance.

In 2016, watch for many more academic studies and organizational survey results to be publicized — further making the ESG investing and business cases for corporate managements and investing professionals.

At G&A Institute, we have been conducting related research, especially focusing on disclosure and structured reporting on corporate sustainability and responsibility.

You'll find the results on our company website. Watch for more research reports from G&A in the months ahead.

Check out the Meta Study at:

- www.responsible-investor.com

26

"COP 21" — POST-PARIS MEETINGS DEVELOPMENTS

The leaders of many of the world's sovereign nations met in Paris, France in late-2015 for "COP 21" — the ongoing governmental discussions centered on "what do to about climate change." (COP: "Conference of the Parties.")

The theme of the most recent meeting (following the trajectory of the 1992 framework meeting and the 1997 Kyoto Protocol) — the resulting agreement was focused on 1.5 Degrees Celsius (2.7 degrees Fahrenheit) — the limit that is a consensus of scientists and climate experts who say this has to be the limit for global temperature rises.

Danger ahead: if the limit is breached, this would bring about cataclysmic events in many countries (especially those with low-lying shorelines, and for many major cities, including the major urban areas of New York City, Seattle, Washington, San Diego, California, and Miami, Florida).

The concept of the temperature limit (target) may be easy to agree to — but the many country leaders leaving the *City of Light* did not take home a formal, agreed-to means of accomplishing the objective. The United States of America set a high standard with President Barack Obama's "Action Plan on Climate Change," released December 12, 2015.

This included a prescribed Clean Power Plan for the U.S.A.;

- preparation for the changes climate change will bring;
- leadership in international efforts;
- addressing carbon pollution;
- addressing public health issues (such as preventing premature births);
- creating clean energy jobs;
- stronger fuel economy standards;
- increasing clean energy production;
- expanding the clean energy economy;
- cutting energy waste;
- having the federal government leads energy efficiency ($4 billion will be provided for energy upgrades of federal buildings)...and more.

The Obama Administration Plan is not without critics and court challenges. The good news is that the U.S. Supreme Court has upheld an important element of the Plan. (This was a decision by Chief Justice John Roberts in March 2016, who rejected the move by 20 states to kill parts of the Plan that limited mercury and other toxic emissions on the part of coal-fired plants.)

The United States Advantage En Route to Paris

The Boston Consulting Group's Gregory Pope and David Gee in writing commentary for CNBC saw an advantage for the United States going in to the Paris talks. The advances in technology that will make the nation a global leader in low-cost, low-pollution energy production are keys to a clearer future.

The pair conducted research with Professor Michael Porter of the Harvard Business School that found the explosive growth of low-cost un-conventional natural gas and the scale up of ever-more competitive wind and solar power are happening "in a big way" in the U.S.

The U.S. can replace up to 50% of its use of coal with natural gas and renewables, and reduce carbon emissions by 30% by 2030 — without impacting electricity prices or total energy bills.

Renewables are on pace to replace today's fossil fuel-generating assets as they reach retirement over the next 20-to-30 years.

The Paris conference attendees *did agree* to the 1.5 C limit scenario. As Morgan Stanley Research states in its *Sustainable & Responsible Business* report, the final agreement reached "...noticeably lacked resolutions regarding enforcement and clear measures toward achieving the goal. Legal enforcement was left out of the agreement reached — thereby enabling the present U.S. administration to bypass the U.S. Senate approval."

The Constitution of the United States definitely appears to require that the U.S. Senate approve international treaties:

> *Section 2: [The President] shall have Power, by and with the Advice and Consent of the Senate to make Treaties, provided two-thirds of the Senate present concurs...*

This type of approval is not likely in this hostile and confrontational political environment for the current President of the United States in 2016, given the clutch of climate deniers sitting in powerful positions in the Republican-dominated U.S. Senate. So — President Barack Obama will likely not present the post-Paris accord for Senate approval before January 2017.

This situation is reminiscent of the infamous *disapproval* of U.S. membership in the League of Nations and approval of the treaty at the end of WW I by the U.S. Senate, which was proposed by [Democrat] President Woodrow Wilson. That vote against the League of Nations 20th Century treaty, and League membership for the U.S.A., was 49 against and 37 in favor, some seven votes shy of the two-thirds needed for passage.

This was almost a century ago, after the end of the tragedy of World War I and following extensive negotiations between victors and losers in Paris.

That vote in the U.S. Senate *against* the League of Nations 20th Century treaty and League membership for the USA was 49 to 35 (falling seven votes short of the two-thirds then needed).

The New York Times ***headline of the day read: "Senate Defeats Treaty, Vote 49 to 35; Orders It Returned to the President; German Disorders Grow, Hundreds Slain."***

And so, a century ago, our nation began moving toward the awful precipice — peace was moving away from our grip in the 1920s and 1930s and the American nation steadily moved towards isolationism. And then came World War II and U.S. involvement in armed conflict in all of the world's regions.

President Obama apparently will not let climate change "approaches" meet the same kind of fate if he can manage that. Many stakeholders believe that action on climate change is a societal imperative for the United States as a world economic leader. And so - we can expect more Executive Orders and other actions that are within the President's ability to effect change in the waning months of the Obama Administration.

What *Was* Accomplished in Paris in 2015?

In all, Morgan Stanley Research observes, 187 countries responsible for 98.5% of global greenhouse gas emissions submitted NDCs (National Determined Contributions — reduction targets) to the conference. MS Research identifies five major areas of progress that cheered conference participants — and that we should closely monitor for the impact on our own businesses going forward now:

- Introduction of the 1.5-degree Celsius goal.
- Greater focus on progress and continual commitment, to be reviewed every five years.
- US$100 billion per year in Climate Finance for Developing Countries, and a role for private investment.
- Agreed-to principle of using market-based emission trading mechanisms.

The 1.5-degree C goal means that reaching the goal will require dramatic moves toward a low-carbon economy worldwide, including innovation in carbon capture, renewable fuels alternatives to fossil fuels, more energy efficiency, and changes in various types of infrastructure.

All of these mean (1) changes in the way most companies operate, (2) greater emphasis on new technologies, (3) more emphasis on corporate and institutional sustainability, and (4) more public reporting on all of these efforts. This is good news for the United States of America.

Morgan Stanley Research projects that R&D investment could trigger a wave of creative destruction for existing industry leaders as innovations are funded and resources re-allocated.

Is your firm ready to address risk and opportunity challenges in the coming "low-carbon" economy?

The New York Times commented last year that the result of Paris COP 21 could be a strong signal to financial and energy markets, triggering a shift away from coal, oil and gas (today's primary energy sources) toward wind, solar and nuclear power.

Update—November 3, 2016

The New York Times — "The Paris Agreement on Climate Change is Official - Now What?"

The Paris Agreement goes into effect on Friday, November 4, 2016. In Paris, the Eiffel Tower and Arc de Triumphe will be floodlit in celebration. "Most companies have not even figured out yet how much GhG they will emit, much less made plans to curb emissions. The financial framework — a carbon price or tax - has barely started to emerge. It is not a question of billions [of dollars] it is trillions [needed] said Angel Gurria, Secretary General of the Organization for Economic Cooperation and Development (OECD), speaking at the NYT Energy for Tomorrow conference in Paris..."

Link to this important story:

- *www.nytimes.com/2016/11/04/business/energy-environment/paris-climate-change-agreement-official-now-what.html*

Decoupling from "Dirty" to "Cleaner" Energy

MSCI in its "2016 ESG Trends to Watch" (coordinated by the skilled research team of Linda Eling, Matt Moscardi, Laura Nishikawa and Ric Marshall. They said institutional investors could start to "de-couple" clean from dirty in power generation assets, creating "good" utilities or specialized structures consisting of renewables to attract investments.

"Carbon accounting" by public companies will be a part of the response to this.

MSCI researchers identified 550 companies in the MSCI ACWI Index that are "ahead of the curve," in accounting for their carbon emissions targets relative to country targets. Alas, 112 out of 146 companies in the energy sector have set *no* carbon reduction targets at all.

Important for companies and investors to keep in mind: The Council of State Governments, the only organization in the U.S.A. serving public officials in all three branches of state governments, is reminding state level lawmakers and administrators that the Obama Clean Power Plan is a top issue for energy and environmental matters.

The federal Clean Power Plan (approved August 2015 by the U.S. EPA) is designed to cut carbon pollution from existing power plants by 32% below 2005 levels by year 2030.

The Force of the New U.S. *Clean Power Plan*

The new rule sets target emission reductions for U.S. states — which then design their own plans. The top issues involved in this are: energy and environment; international affairs (remember the Keystone Pipeline, running from Canada down to the U.S. Gulf coast); education; fiscal and economic development; federal affairs; health; interstate compacts; transportation; and workforce development.

In 2016 and beyond, these issues in the states will be front and center, in changing the way we generate, transmit and use energy, says the Council.

These will affect electricity transmission, ratemaking, grid reliability, water quality and quantity, and the use of science-based decision-making. (You can learn more at the Council's on-line CSG Knowledge Center.)

COP 21 officially was the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (also known as CMP 11), held 30 November to 11 December 2016. The goal was to agree to a new approach to climate change, for all nations to follow, to keep global warming below 2-degrees Celsius.

The energy revolution coming: many U.S. companies with the largest renewable capacity, notes the MSCI team, often have significant operations powered by fossil fuels. Operations powered by Renewables are only 8% of the total of electric power generation assets of utilities sector companies.

We are closely watching American utility companies and other large industrial consumers of legacy power generation output as they develop strategies and shift gears and rapidly move toward new targets in the low carbon economy in 2016.

27

STOCK EXCHANGES — DEVELOPMENT OF RULES AND GUIDANCE

Member organizations of the World Federation of Exchanges (WFE) — the global trade association for stock exchanges — have been collaborating to develop "sustainability policies" for companies who shares are listed on the respective exchanges.

In November 2015, the WFE's Sustainability Working Group announced its recommendations (these are voluntary, to be adopted by the individual exchanges).

Guidance is offered on 34 key performance indicators, including energy consumption, water management, CEO pay ratio, gender diversity, human rights, child and forced labor, temporary worker rate, corruption and anti-bribery, tax transparency, and other corporate policies.

"Exchanges operate orderly markets, seek to foster investor trust and invest in promoting good corporate governance standards," said WFE CEO Nandini Sukumar. "As an industry exchanges

are seeking to connect the dots for investors, companies, regulators, and the wider community. The guidance provides exchanges with practical advice on how to take their sustainability policies to the next level."

Keep this in mind: There are 44,000 companies with total market cap of US$64 trillion,(equivalent to 75% plus of global GDP), listed for trading on WFE member exchanges around the world (as of midyear 2016).

The WFE has been collaborating with the broad effort convened by a number of parties to address stock exchange listed company requirements.

This is the "SSE" — the Sustainable Stock Exchanges initiative. Collaborators include the Ceres Investor Network on Climate Risk (INCR), UN Conference on Trade & Development, UN Environmental Programme Finance Initiative (UNEP-FI), UN Global Compact (UNGC), and the Principles for Responsible Investment (PRI), and a number of WFE member exchanges.

The Role of NASDAQ in the USA

NASDAQ OMX is an important part of this overall effort, committed to discuss a global standard for ESG reporting. Notes Evan Harvey, Director of Corporate Responsibility for the exchange: "Because we care about the performance of our markets. Nasdaq built its reputation, in part, on the value of transparency — and providing investors and other stakeholders with a better understanding of some key performance metrics makes markets better, more efficient, and more sustainable.

He continues: "As a listing venue, we do everything possible to support our listed companies, provide them with access to long-term capital and help them grow their business. As a Self-Regulating Organization (SRO), we are also obligated to support the interests of many different market participants. Investors should have a complete picture of the long-term viability, health, and strategy of their intended targets. Environmental, social, and governance (ESG) data is a part of that total picture. Informed investment decisions tend to produce longer-term investments." (From an interview with Evan by our colleague, Chris Skroupa of Skytop Strategies, published in *Forbes*, April 10, 2015.)

Back in Spring 2010, G&A Institute "rang the closing bell" at the NASDAQ Market Site in Times Square to celebrate the launch of the NASDAQ OMX CRD Global Sustainability Index (I am an advisor to the CRD organization).

That day, we collaborated with CRD and NASDAQ to host one of the first ESG investor-focused conferences staged in New York City.

Today, we are strategic partners with Skytop Strategies in presenting the "ESG Summit" sponsored by NASDAQ in New York City. (The first was in June 2015;

the second was in June 2016 at Baruch College/CUNY).

The key supporters of the day-long event included Cornerstone Capital; Baker & McKenzie Law Firm; MSCI; Deutsche Bank; State Street Advisors; Insight360; Global Initiative for Sustainability Ratings (GISR); Ceres; CDP; and, The Analyst Desk.

We value our close collaboration with NASDAQ as the exchange continues exerting its leadership on sustainability matters in the United States and in the global exchange community.

I should note here that I was head of communications of the New York Stock Exchange and a board-elected officer earlier in my career. Among the duties was counseling listed company managements on the importance of timely disclosure.

• • •

28

EXPANSION OF CAPITAL MARKETS / INVESTING OPPORTUNITIES

Thanks to the investment angels looking down on us with favor, our investment portfolios are back in mostly black (positive) territory. The financial markets nightmare of 2008-2009 is behind us, even with a serious upward-bound market correction that took place as I began writing this commentary in January and into February 2016.

We have many more ESG-focused products as well for our short- and long-term investment. Exchange-traded Funds (ETFs) are an example. A good number of ETFs are now ESG / sustainable investment-focused.

The big investment management houses are focusing on ESG approaches for their new products and offerings for both institutional and individual market. Consider the following:

Goldman Sachs On ESG

"At GS Asset Management (GSAM), we believe responsible and sustainable investing extends beyond the evaluation of quantitative factors and traditional fundamental analysis. Where material, it should include the analysis of an entity's impact on its stakeholders, the environment and society."

The GSAM ESG Working Group consists of senior members across asset classes and meets regularly to discuss best practices on ESG integration, including our responsible investment objectives. (Goldman Sachs is a CDP investor signatory and is a UN PRI signatory.)

Morgan Stanley

The company created the Institute for Sustainable Investing to lead work across the firm, with clients, and with academic institutions to help mobilize capital to sustainable enterprises, via global markets, and the investors who drive them (according to James P. Gorman, Chairman and CEO).

Take a look at the Institute CEO Audrey Choi sharing her perspective at TED@State Street Talk. She is also Managing Director and Head of MS Global Sustainable Finance Group.

MSCI

This leading provider global of research-based indexes and analytics reported a surge in demand for ESG data and indexes in Fall 2015. As of July 2015, equity ETF assets tracking MSCI ESG Indexes had increased nearly 30% to US$1.8 billion. ETFs

tracking the MSCI Low Carbon Indexes accounted for almost 80% of the total equity assets of carbon-themed ETFs since introduction in September 2014 (AUM reached $460 million in July 2015).

"We are actively addressing the challenges of integrating ESG factors into benchmarks," said Baer Pettit, Managing Director and Global Head of Products.

Citigroup

In February 2015, Citi announced a comprehensive, $100 billion, 10-year commitment to finance sustainable growth ("...reducing climate change impacts and creating environmental solutions that benefit people and communities"). "With this initiative, Citi will build on its leadership in renewable energy and energy efficiency financing to engage with clients to identify opportunities to finance Greenhouse Gas (GhG) reductions and resources efficiency," said the company CEO, Michael Corbat. "Incorporating the principles of sustainability into everything we do improves our own operations, enhances our client work, and contributes to a better world."

BlackRock

This is the largest money manager in the world (with US$4.5 trillion AUM at mid-year 2016). Says the company: "At BlackRock we frame our corporate governance program, including the treatment of social, ethical and environmental issues, within an investment context. We believe that a sound corporate governance framework promotes strong leadership by

boards of directors and good management practices, contributing to the long-term success of companies and better risk-adjusted returns for our clients. Our Corporate Governance and Responsible Investment team (CGRI) also partners with BlackRock portfolio managers to factor ESG considerations into their investment analysis." BlackRock began marketing the BlackRock Impact U.S. Equity Fund in October 2015.

UBS

"Sustainable investing is a force to be reckoned with. Clients, employees, investors, government agencies, and civil society are concerned about the broader impact of business activity and the investment community's response."

Merrill Lynch

ML launched new reporting tools in 2015 — using MSCI ESG research — allowing more than 14,000 financial advisors to view ESG metrics on select individual SMAs and fund managers, as well as their new Sustainable Impact Multi-Asset portfolios.

The trendline here is clear:
Mainstream investment firms, managing trillions' of dollars in various asset classes, are embracing ESG approaches for their own operations, and in to better serve the clients are now demanding products and services that align with their values. Watch for even more rapid take up in the mainstream capital markets community in 2016 and 2017.

The G&A team has been "making the investment case" for corporate internal managers who very often have to persuade their company's executive team, the investor relations managers, the CFO, heads of business units, and other functional leaders, of the importance of sustainability to the company's present and potential investors.

We are going to have loads more information to share with our corporate colleagues in the months ahead, given the trend lines outlined here. Our "Making the Investment Case" document is constantly updated and shared.

• • •

29

UNIVERSITY ENDOWMENTS — PUTTING PRESSURE ON PUBLIC COMPANIES INDUSTRIES AND SECTORS

The "wealth" of universities and colleges includes "hard assets" — such as investments of their endowment funds. Harvard Management Company, Inc., as worthy example, is a pioneering endowment fund founded in 1974; it manages US$36 billion in assets for parent Harvard University.

On the HMC website, there is a focus on investing for the long-term — "Integrating ESG Factors." HMC explains that as a long-term investor, HMC is focused on environmental, social and governance (ESG) factors that may affect the performance of our investments — now and in the future." The 3-pronged approach is:

- ESG integration of material ESG factors in investment analysis, monitoring and asset management;

- Active ownership, exercising voting rights and engaging in dialogue with select portfolio companies on ESG risks;

- Collaboration with global investors and other endowments to develop and define sustainable investment best practices.

HMC supports the UN Principles for Responsible Investment (PRI) and is a signatory of CDP.

This ESG focus is relatively new to the Harvard fund — largest in its class — and should be expected to be closely followed by Ivy League peers and other higher education endowments.

The largest of these include (according to *US News & World Report*) Yale, Princeton, MIT, Stanford, Texas A&M, University of Michigan, University of Pennsylvania, Columbia, and Notre Dame. At the end of 2014, these institutions alone had a collective US$170 billion in AUM. The total of AUM for all U.S. endowments is estimated at $400 billion or more.

There is heightened focus on the investment policies and practices of university and college endowments by students and faculty, and other stakeholders.

The Sustainable Endowment Coalition (SEC) is focused on bringing about changes in investment policies, notably in divesting fossil fuel companies in portfolios.

SEC cites corporate behaviors such as allegations of abusing human rights, environmental "crimes," and especially the fossil fuel industry's negative contributions to climate change.

SEC organizers are at work on numerous campuses, and using social media to advance their campaigns, nationally and locally. The plummeting share prices of fossil fuel companies due to dramatic reductions in crude oil pricing is separately adding, well, "fuel" to the arguments of the Coalition, separate of environmental arguments.

We are monitoring to see the effects that these types of pressures being applied to university and college endowments — and how these fiduciaries respond by adopting ESG investing analysis and portfolio management approaches.

And, to see if university fiduciaries will seriously consider the threat of "stranded assets" of traditional fossil fuel companies in 2016.

• • •

30

ABOUT FOSSIL FUEL DISINVESTMENT

This is a big argument in the investment community: should an asset owner / manager (a fiduciary) hold on to traditional fossil fuel companies in portfolio... or divest / dis-invest... and avoid these types of companies altogether in portfolio management?

The New York Times in its June 2015 “Energy & Environment” feature put the issue in focus as the Norwegian Government Fund (the world’s largest Sovereign Wealth Fund (“SWF”) with almost US$1 trillion in AUM) joined the “social movement” in selling fossil fuel companies (divesting coal companies).

The movement began in 2001, on the campus of little Swarthmore College (in eastern Pennsylvania). The ripples have spread worldwide; AXA (a French investment management firm) is selling $560 million in coal investments; the Rockefeller Family said its philanthropy arm will sell fossil fuel companies; and Stanford and Syracuse universities are selling coal.

Ironies noted: The Rockefeller fortunes have been heavily concentrated in fossil fuels since the family's rise to uber-wealthy status began in the 1800s with exploration and marketing of fossil fuels. And, the great wealth of the Norway SWF was made possible by the steady flow of royalties from the country's North Sea oil & gas holdings!

Is this a global social movement — like the campus protests against South Africa's *Apartheid* system — or a wise financial move (as the value of oil, gas and coal companies' reserves declines)? *Looks like both!*

If this social movement continues to gain momentum, the decisions of large investors — the likes of mutual fund complexes Fidelity, American Funds, and Vanguard in indexes; ETF sponsors; other SWFs following Norway's lead; college and university endowments, and other fiduciaries — could profoundly change the way equity and fixed-income investors look at fossil fuel companies.

The actual amount of assets to be divested in endowments today is relatively small, according to an Oxford University study — but the symbolism of it in the context of a low carbon economy could loom large. As I write this in mid-2016, the price of U.S. crude is at a 14-year low (ranging in early 2016 from $30-to-$40 and ranging at highs up to $50 per bbl). So much for earlier predictions of $150 bbl oil as global demand rises and moved toward the "peak oil" limits forecast decades ago..

In the *Times* feature, sustainability activist Bill McKibben, leader of the 350.org coalition, explains: "The goal is not to bankrupt the fossil fuel industry. We can't do that with divestment alone.

But we can help *politically* bankrupt them. We can impair their ability to dominate our political life."

The ripple effects of the divesture movement could include even greater pressure on companies using fossil fuels — like America's electric utilities — to move to renewable energy sources.

We continue to chart the spreading consequences for this for industrial energy consumers, and for the investment community as the discussions around the world about "what to do post-COP 21" go on in the halls of power in individual sovereign nations, in the United States and European Union, and in other regions.

And we are watching the actions of both large and small fiduciaries in the U.S.A. and Europeans as they assess the future of fossil fuels as a dominant energy source (or not) and they consider the impact of dramatic changes taking place in energy on their portfolios.

31

A TAX ON CARBON EMISSIONS? — IMPORTANT PUBLIC SECTOR DECISIONS ARE AHEAD

This brings us to the ongoing discussion about putting a "price on carbon," which could be one of the major results of the recent Paris climate change meetings.

Morgan Stanley Research in the post-Paris analysis cited the move of several nations to put in place a carbon taxing system, especially Chile (effective 2017). These actions include public policy decisions in Mexico (the government introduced its program in 2014); the European Union (a program has been in place since 2009, adjustments now being considered to make it more effective); China (set to launch national ETS in phases beginning in 2016 through 2020); and Korea (first Asia program began January 2015, covering 525 businesses in 23 sectors).

In the U.S., a "cap & trade" policy has been a metaphorical electric third rail for policy makers on the national level. But in the states if could be different, with action coming in state houses and not in Washington, D.C.

The State of California's "AB 32" was designed to bring GhG emissions to the 1990 level by the year 2020. The tax is collected in tiny amounts as motorists pump their fuel — and the calculations on the meter spin and spin (the state does have the highest taxes on motor fuel in the nation). Consider that the State of California alone is among the 10 largest economies of the world. And often what starts in the state spreads to other states - California is still a trend-setter.

Some media characterized the California tax on gas under AB 32 as "hidden," because at 10 cents per gallon would people take notice? Especially with gas at the pump at half the price levels of only a short time ago?

The funds collected are to be allocated for projects "that support the goals of AB 32," reducing GhGs, sequestering emissions, and funding long-term efforts to improve public health and protect the environment, and spur innovation in clean energy production.

Will other states follow the Golden State? Will the national government?

Keep in mind: The U.S. government now owes creditors at least $20 trillion and the Fiscal Year 2016-2017 budget negotiated by the White House and Congress projects greater expenses than income (once again, no surprise). We the taxpayers of the U.S.A. are staring at least a $544 billion *shortfall* over the 12 months of the next fiscal year. (Some economists assert the federal debt may be as high as $70 trillion in total — several times the current GDP, when all debt is accurately accounted for.)

Watch the possibility of the carbon tax being levied on U.S. consumers and industry to be seen as a possible budget-gap closer — while deliberately or inadvertently helping the U.S.A. to fulfill some of the commitments made to further clean up the environment.

Depending on the politics of the next Congress and White House occupant.

Don't count carbon tax down-and-out — a growing universe of company leaders are factoring in such as tax consequence on their operations and finances.

• • •

32

BACKLASH — UNITED STATES CORPORATE INVERSIONS — "FAIR SHARE" TAX AVOIDANCE

Suddenly it is the "in" trend for United States-headquartered companies to give up their "American citizenship" to save money on taxes. The policy makers call this "inversion," with the company changing the legal domicile for that of a land with lower corporate taxes. That may be the only thing changing (the address on the tax form), with headquarters staying in the bricks and mortar or glass-clad facility in a U.S. state.

These are "Benedict Arnold companies," as a few societal critics are trumpeting. It is an issue discussed by several candidates even if briefly in the 2016 Presidential campaigning.

Bloomberg News explained the maneuver in November 2015, with comments by Jesse Drucker and Zachary Mider ("How US Companies Buy Tax Breaks"). The example presented is that of Pfizer, the large "American" pharma company, created in the City of Brooklyn (now part of New York City) back in 1849.

Pfizer announced plans to become an Irish firm, to avoid U.S. taxes. (The plan experienced setback in 2016 but the possibilities of a deal remain, however it is a long-shot.)

More than 50 U.S. companies have re-incorporated in low-tax countries since 1982, Bloomberg says, including 20 alone since 2012 to mid-year 2016. The Republic of Ireland (an E.U. member state) is a quite popular choice. (Note that G&A Institute is the exclusive data partner for the GRI in the Republic of Ireland, though we're keeping our home in the Big Apple.)

The technique often used is for the U.S. company to acquire a foreign entity and then move their headquarters — Medtronic did this (it is now "Irish" and an EU company). Burger King is a Canadian company. Pfizer did announce it plans to combine with Allergan, Ireland-based Pharma Company.

The U.S. Internal Revenue Service really does not like these schemes. (Remember that deficit each year and the constantly-expanding national debt. Money is needed in the U.S. Treasury!)

My colleague Daniel Doyle, a G&A Institute Fellow and veteran chief financial officer, observed: A related issue is that a large number of U.S. companies have earned huge amounts abroad, but do not remit these results lest they become subject to U.S. income taxes. The potential deal could be to lift the tax burden on patriated profits in exchange for tougher prohibitions against inversion schemes. Something worth watching, Dan advises.

National “Citizenship” is an important consideration now for many companies. Indeed, General Electric has long called its CR efforts a demonstration of corporate “citizenship.” I was American Airlines first “Citizenship Officer,” back a few decades ago.

We were very proud of being an *American* company, and that was our *first name*, after all. We had many national, regional and especially local or locally-applied programs and initiatives in the major cities that we served, such as Detroit.

Will companies that invert be considered “non-citizens” of the U.S.A.? Are they “bad” citizens for avoiding their fair share of taxes? Does a good corporate citizen avoid paying taxes even when not moving the headquarters to a foreign land? GE, *The New York Times* has explained in major coverage, deploys hundreds of lawyers and tax experts to work *to not* pay taxes (as do many other large-cap companies).

***Will these efforts lead to hits on American corporate reputations in the future?
Stay Tuned!***

This could become a major component of the corporate sustainability — or citizenship — dialogue if the trend were to accelerate.

We can expect members of the next Congress and occupant White House to look carefully at corporate tax policies if the trend does continue.

Even if the trend does not continue, U.S. corporate tax rates — and the amounts actually paid by a major corporation — will continue to be a hot topic in the context of reducing the debt, tax reform, paying down the debt, the role of Corporate America in our greater society...and more.

33

WALL STREET VS. MAIN STREET SENTIMENTS — THE 2016 PRESIDENTIAL ELECTION YEAR

The 2016 Presidential campaign features personalities like the irascible veteran “democratic socialist,” U.S. Senator Bernie Sanders of Vermont, who is really hitting the hot button on sensitive areas for the middle class. Senator Sanders’ polemics seem to have moved former Secretary of State Hillary Clinton to the left of the political spectrum on various issues.

President Candidate Bernie Sanders has expertly positioned the “Wall Street vs. Main Street” set off — the folks on Wall Street are the *enemies* of the American middle class is his frequently articulated position. The answer is “reforming Wall Street,” he says. “Wall Street cannot continue to be an island unto itself, gambling millions in risky financial decisions while expecting the public to bail it out.” Furthering his argument, “it is time to break up the largest financial institutions in the country...”

Secretary Clinton did not want to be left behind in this line of argument; in a bylined op-ed in December 2015, in *The New York Times* ("How to Rein in Wall Street") she called for addressing "bad behavior," with the government having authority (if another crisis occurred) to downsize banks, reorganize some, and break up those who are too large.

She likes the "Volcker Rule," separating banking and investment activities — which, ironically, husband President Bill Clinton set aside in 1999. (The separation had been in place for 60+ years as "Glass-Steagall," which experts say by being removed as protection helped to bring on the 2008 financial crisis.)

Secretary Clinton has not forgotten, she has written, the devastation suffered by the middle class (caused by reckless bank behavior), and in her presidential campaign she has said she would create (if elected president) an economy that creates good jobs, rising incomes, sound investment decisions, and more security for the middle class.

Worth watching: These proposals sound like an argument for more ESG focus in our investment decisions, public policy making, government funding, and regulatory frameworks. We'll be hearing much more as the political season progresses.

Wouldn't it be interesting if the U.S. 2016 election were at the core about moving left to embrace a more socialist or moving right to embrace a neo-conservative political point-of-view? (Are these to be the two choices on the table for voters?).

And considering all of the above issues and more — put this in the Wealth and Income Inequality issues buckets, including such items as the income gap, the wealth-accumulation gap, the 1% vs. the 99%, the wealth and political campaign funding, tax policies (tax the rich arguments), male vs. female compensation rates... and more.

These touch on many of the ESG issues...and on issues raised by activist investors, including during proxy voting season.

34

FALLOUT OF CORPORATE SCANDALS — U.S. AND GLOBAL

As I began this narrative, I mentioned the various crisis events that I and members of the G&A Institute team have been involved in over four decades. There is always a corporate crisis, isn't there! Some are more spectacular than others. Some crises present an existential threat to the enterprise, no matter its size. (A large-cap firm may be acquired by another company as its share price dribbles down to a more attractive level for an acquirer. We had that happen to a few of our former clients.)

Over the past few months we've been fascinated with the still unfolding Volkswagen diesel emissions scandal. This crisis represented an absolute failure of corporate governance in Germany's most important industry — vehicle manufacturing. As part of the continuing effort to clean up American air, water and lands, the U.S. Environmental Protection Agency (EPA) expands the regulations that govern industrial activities and such matters as the emissions coming out of your car's tailpipe.

Our team was hired by the diesel engine manufacturers' coalition 15 years ago to organize the Diesel Technology Forum (our former colleague in the Rowan & Blewitt consultancy, Allen Schaeffer, was recruited to head the DTF). The Forum was organized to create a public dialogue concerning diesel power. "The dirty diesel" of old was fast disappearing as new, "clean diesel" power" evolved.

Part of the reason the manufacturers joined forces was the ratcheting up by the U.S. EPA of vehicle tailpipe emissions standards. VW met the standards, or it seemed.

Now we know that rigging tests through tampering with vehicle software was the short cut that VW chose. At what level in the company? Not entirely clear yet. Are fines to be levied by the U.S. EPA for just the USA vehicles? Not entirely clear yet (could end up being in the billions when all is settled). What is to be done with the cars that do not meet the standard? Not clear yet (VW is offering a buyback or other compensation). And keep in mind that the European Union is certainly on the case — most luxury cars in the EU are diesel-powered.

In the immediate fallout, VW's top management postponed issuing its *Annual Report* and shareholder meeting; initially set aside at least US$7.5 billion for settling things (the actual amount will certainly be much higher); is negotiating with various regulators; and, has hired famed settlement negotiator [attorney] Kenneth Feinberg to work on solutions for stakeholder payments.

So what are the lessons? VW is not the "clean company" that is was presented in its communications. On its website in the "Sustainability and Responsibility" section, the company says: "The VW Supervisory Board consulted intensively on the current situation at its meeting on Friday, September 25th (2015). There is absolutely no excuse for the manipulations which have deeply shocked Volkswagen. The company will leave no stone unturned in getting to the bottom of this, will call those responsible to account, and take the necessary actions."

Imagine *other* large-cap, high-value brand marketers having to say something like this *after* publishing sustainability reports, winning third party recognitions, and being a proud member of a prominent sustainability index such as the DJSI (VW was a member and was quickly dropped by RobecoSAM Group, managers of the Dow Jones Sustainability Indexes).

Update — October 2016

Commenting in the influential automobile trade publication, WardAuto, the Diesel Technology Forum's Allen Schaeffer (our former colleague) said: "Based on what we hear from manufacturers, what we have seen in our own opinion surveys and analysis, we are confident about the future role of clean diesel in the U.S. market, despite the VW diesel emissions situation..." Good news for some of VW's peer companies, if the "bullet" can be avoided. (Some U.S. brands saw an uptick in sales in recent months.) As for VW, its brands are not allowed to sell diesels in the U.S. market.

Advice

In 2016, continue monitoring for signs that prominent companies may be ignoring the "danger ahead" signals, discounting certain risks, while claiming the high ground in sustainability and responsibility — and moving inexorably toward a crisis situation that will generate VW-type of BP-type headlines...because they really don't walk-the-talk.

The question we will be considering is: Will a crisis situation be more complicated for a sustainability leader to navigate, given its positioning as a "sustainable company?"

We keep our issue and crisis management skills sharp and our tool box ready. What I have kept in mind is an observation shared at one of the many sustainability conferences Louis Coppola, myself and our colleagues attend. There are several thousand companies being monitored, the expert explained, and 100, maybe 200, are under the microscope, because of one thing or another going on.

At any given time, the list will narrow quickly and we'll find a half dozen, maybe a bit more, in crisis mode. It's inevitable for many reasons.

We always tell our clients (and have for years) — it is not a matter of "if," but "when" the crisis at your company will occur.

We live in a dangerous neighborhood, don't we!

• • •

35

FOOD AND BEVERAGES COMPANIES IN FOCUS — BEWARE THE *YUCK FACTOR*

There is Intense Focus on this Important Economic Sector

And on the subject of crisis management — we're watching the food and beverage industry closely these days, as we have for the few decades.

The former lead food journalist and commentator for *The New York Tim*es, Mark Bittman, in his farewell in 2015 noted the following: "The world of food changed [during his column's time]; it became apparent that industrial meat production was environmentally devastating as well as horrifying; that many of the official recommendations of the U.S. Department of Agriculture were hypocritical or just wrong; that so-called nutrition science was often barely a step or two removed from astrology; that food workers were almost universally maltreated;

and more. My views changed and it was time to write differently.”

Over the years of his excellent reporting, Bittman “identified the major issues facing us in the interwoven worlds of food, agriculture, nutrition and the environment. Now, nearly everyone knows *that food matters...”*

What was clearly articulated by Mark Bittman — and many other food writers — is that *people care about food.* Consumers are asking important questions: *What’s in my food? Where did it come from? How was it prepared? Are any ingredients harmful? What about GMOs? What about nano-tech and food?*

There is intensifying focus in America — and in Europe — on industrial agriculture, food animal production, seafood harvesting, imported foods, on food safety, and more issues. We’re watching the sustainability journeys of food and beverage marketers and the strides the leadership companies are making to communicate about these things to consumer audiences.

There is an important ripple effect for companies in the supply chain of the giants, and we’re watching that, too. Take a company like Anglo-Dutch Unilever, widely applauded for its corporate responsibility and sustainable business practices. The company is working with other “cocoa belt” and “coffee belt” ingredient and product producers to improve working conditions in the origin nations around the Equator.

With PepsiCo and Marks & Spencer, Heineken, Tesco, and others, for example, Unilever launched an app for carbon management to help foster industry collaboration on sustainable

agriculture. The effort is branded “The Cool Farm Institute,” and the mission is to help farmers assess and improve the economic and environmental performance of their business. This will help coffee growers — usually working in subsistence conditions — to meet the requirements of the new Sustainable Agriculture Initiative (SAI) Platform, a new Green Coffee Carbon Footprint Product Category Rule (CFP-PCR). This effort will help farmers calculate GhG emissions from their coffee production to meet certain standards (of the NGOs Fairtrade International, Rainforest Alliance, and a few others.).

Worldwide, agriculture and food production are huge sectors within most country economies. The nexus of important issues in environmental protection, nutrition, agriculture production, protection of the workforce, local working conditions, protection of natural resources, water management, pesticide use, ag biotech, nanotech in agriculture, and more...is: FOOD!

We continue to monitor the various issues that continue to evolve, emerge and mature and come to flash point in agriculture, food production, food & beverage marketing, and the companies large and small, that are affected by this in 2016 and into 2017 and beyond.

Update — October 2016

Ceres partnered with World Wildlife Fund (WWF) to encourage water stewardship at the farm level...where, the organizations said, "the biggest footprint is by far..."

Ceres/WWF said that more than 70% of the planet's freshwater is used to grow the food we eat. To protect that water, and help companies support smart-water practices in their ag supply chains, the two organizations have teamed to launch the "Ceres-WWF AgWater Challenge."

Seven major food companies are part of the kick-off: Diageo, General Mills, Hain Celestial, Hormel Foods, Kellogg, and WhiteWave Foods — all will collaborate with Ceres and WWF to reduce their water use and pollution impact.

The focus is on highly-stressed watersheds — Mississippi River Basin; California's San Joaquin Valley; Mexico; India; China.

There is more about this at:

- Summary of AgWater Steward Commitments / Ceres-WWF AgWater Challenge: www.ceres.org/issues/water/agriculture/agwater-challenge/ceres-wwf-agwater-challenge-summary-of-agwater-steward-commitments

- Recipe For AgWater Stewardship: How the Food And Beverage Sector Can Protect Freshwater Resources: www.ceres.org/press/blog-posts/recipe-for-agwater-stewardship-how-the-food-and-beverage-sector-can-protect-freshwater-resources

- Companies Rise to the AgWater Challenge: www.ceres.org/issues/water/agriculture/agwater-challenge/

36

MEDIA FOCUS ON UN-SUSTAINABILITY / IRRESPONSIBLE CORPORATE BEHAVIOR

For many issues in our society, "the media" sets the agenda for the public dialogue. "Media" is a catch-all phrase as used now with less and less of its traditional meaning as a descriptor for what once were the usual means of Americans following the news — daily newspapers in major urban centers; television networks broadcasting over public airwaves; wire services.

The "medium" (plural = media) for most people was the traditional daily newspaper, wide-circulation popular magazines with national circulation, even global in reach; and in the later years of the 20th Century, network and local radio channels. Collectively, they *were* nation's media.

Today, social media — think of this as "citizen publishing" — are often the primary means of receiving news and commentary on various societal topics. Media can now mean traditional (old) publishing; TV network broadcasting; cable television

programming (like Fox News Channel and CNBC, MSNBC, Univision); on-line web-enabled publishing; Facebook posts; LinkedIn news sharing; Twitter feeds; local print newspapers; websites, blogs, list-servs…and more...much more *media.*

Book publishing — in traditional print and on-line digital version — continues in popularity. Think about a book being the collection and summation of a year or much more of intensive research by an author, the synthesizing of all that, and then the commitment of words to page.

The spate of books about governance, the behavior of big banks and investment houses, the 2008 market crash, the follow up, have educated us on what happened and what we might do about it. (Like the U.S. Congress passing *Dodd-Frank* reform legislation.) Some of the books have become movies ("The Big Short" made its way around the big screens of America).

My favorite author works on recent current events include: *The Big Short; The Fortune Tellers; Money and Power; Reckless Endangerment; The Sellout; Griftopia; The Big Squeeze; Money for Nothing; All the Devils Are Here; Flash Boys; Billion Dollar Lessons; Blood on the Street; Senseless Panic; Unintended Consequences; Too Big to Fail; Bad Money.*

The lessons learned and truth imparted and insights shared (for us) in all of these great works will be infused into media coverage in various ways (writers quoting writers), and will inform public policy-making in some way.

The books about corporate malfeasance continue to come to market in a steady flow, and some end up as movies ("The Big Short"); other writers like *The New York Times'* Andrew Ross Sorkin turn their experience into hit cable shows such as Showtime's popular "Billions." (He authored "Too Big to Fail" and regularly informs us in his Times articles.)

The counterweight to all of this narrative, the advance positive perceptions about Corporate America and Wall Street, is inherent in the disclosure and reporting of the company's sustainability and responsible efforts.

Think about this:
If you don't tell your company's story
— somebody else will!

That's an important lesson of my 40+ years working in and around and serving Corporate America client organizations.

Read about Sorkin's journey from watching Wall Street characters, and writing pages in his book to co-creating the *Billions* program:

- www.vanityfair.com/news/2016/01/billions-showtime-andrew-ross-sorkin-brings-wall-street-drama-to-tv

37

ANTI—CORRUPTION — GLOBALIZATION OF BUSINESS CHALLENGES

In the U.S.A., in 1977 after a series of international scandals, the Congress passed *The Foreign Corrupt Practices Act* (FCPA), which as the Department of Justice explains: "FCPA was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business."

This is the big anti-bribery prohibition that often complicates the lives of boards of directors and senior corporate executives as they expand their operations into distant lands, especially those ruled by despots (with hands extended, palm up). The FCPA reach can be global. The provisions apply to all U.S. persons and foreign issuers of securities, and to foreign companies that "cause, directly or indirectly" a corrupt payment to take place within the U.S.A.

There have been so many missteps that the DOJ website has a reference section of "Related Enforcement Actions" that is

alphabetical and chronological (years 1977-2015). Prominent names appear here: Siemens, Statoil, ABB, Alcatel, Avon, ADM, AON, Transocean, and more.

In December 2015, the Securities & Exchange Commission put forward rules to require resource extraction issuers to disclose payments made to the U.S. federal government or foreign governments for commercial development of oil, gas or minerals. This rulemaking was mandated by the *Dodd-Frank* legislation (Section 1504), which requires greater transparency about such payments.

A company would be required to file payments in annual reports filed with the SEC. This would be similar to rules in Europe and proposed in Canada. We'll see the final rules issued by SEC after the comment period closed (February 2016). The initial rule floated by SEC in August 2012 was vacated by a federal court.

Extractive industry companies will have three regimes to follow (when the SEC rule is adopted) — the (1) U.S. Rule; (2) Amendments to E. U. Directives; and (3) the Extractive Industries Transparency Initiative (EITI). Here the questions about materiality are important: under EITI rules, companies must report "material" payments. The U.S. government and the E.U. have thresholds ($100,000 during a fiscal year, and so on.).

The Extractive Industries Transparency Initiative (EITI) is a voluntary, global effort to "strengthen accountability" for revenues paid to (and received by) for oil, gas and mineral resources. Participating countries publicly disclose royalties, rents, bonuses, taxes, and other payments in an EITI report. The

U.S.A. is committed to implementing the standard and is in the process of becoming an EITI-compliant country.

We're thinking about the various issues involved in the above: The quality and nature of extractive industry compliance with various reporting regimes; the continued expansion into less-developed countries by countries and China (with voracious appetite for raw materials); companies having to hold their nose and do business with despots and corrupt regimes; bank oversight, as terrorist organizations such as IFIL sell oil on the black market, or otherwise move money around the world, bumping into criminal territory.

Lots of issues here to watch in 2016 and beyond to avoid trouble. The sustainable company will be extra-vigilant to protect its reputation.

There is more information available on EITI — the Extractive Industries Transparency Initiative at:

- eiti.org

• • •

38

THE BIG LAWSUITS TO COME?

In all of the discussions about Fiduciary duty, we are often seeing the observation that fiduciaries are *not* doing their duty if they *don't* consider the financial ***and*** corporate ESG performance.

Obviously, there are many asset owners and managers ***not*** considering corporate non-financial / intangible information — ESG performance is excluded in their portfolio deliberations.

- And on the corporate side, some public-traded companies are still ignoring the new norms for disclosure and reporting on Material ESG issues.

- And so, the questions:
  For fiduciaries, shouldn't you be considering ESG?
  For company executives, shouldn't you be disclosing material ESG issues?

The question may eventually be resolved through litigation. A shareholder or group of shareholders may bring such a lawsuit, in the attempt to hold a fiduciary responsible after suffering a loss due to non-disclosure of material ESG losses.

Or, an investor or group of investors may bring legal action because a publicly-traded company caused a financial loss by not disclosing material ESG data or information.

For example, in terms of "governance" or "society" abuses, consider the nation's "Big Banks" and their actions in 2006, 2007 and into 2008 — that is, their lending and securitization practices leading to the 2008 financial crisis, and into the *Great Recession.*

Concerning the banks' boards and executive teams:

- *What did they know?*
- *When did they know?*
- *Why didn't boards act to stop the borrower-abusive and in many cases fraudulent disclosure or reporting practices?*

The Big Banks have paid well more than $100 billion in fines — that is shareholder money being used to settle the matter, a reduction in value of the enterprise. Weren't the details of all of the subprime lending practices *material* — the high risk and probable collapse to be communicated publicly? And if so — why were there little or no disclosures?

The Law Firm of Goodwin Procter addressed this in an analysis of Securities & Commodities Regulation (which examined current laws and regulations affecting the securities and futures industries) in September 2014. In Mergers & Acquisitions litigation, the firm noted, "...plaintiffs seek an injunction alleging that disclosures were inadequate or misleading in various ways. In resolving such claims, the courts frequently find that additional disclosures would *not* be material...but in some cases they have required additional disclosures..."

In this analysis, the firm noted that shareholders filed suit in more than 90 percent of the M&A deals valued over $100 million for the fourth straight year. Plaintiffs allege that various categories of *material omissions* that would so significantly alter the *total mix of* information that stockholders would be unable to decide how to tender their shares, how to vote on a merger, or whether to seek [independent] appraisal of shares.

Applying this to corporate ESG and sustainability, how long will it be before a single fiduciary (shareholder) or a coalition decide to apply the concept of the "missing ESG information" to loss of share value or other loss due to non-disclosure by a company in portfolio?

Stay Tuned!

More on the Goodwin & Procter Law Firm at:

- www.goodwinlaw.com

39

CORPORATE DISRUPTION: CREATIVE DESTRUCTION TRENDS — NO ONE IS SAFE!

Back in the 1990s, Harvard Business School professor Clayton Christensen first used the term, “disruptive technology” in his book “The Innovator Dilemma” — characterizing new technology as “disruptive” or “sustaining.” The disruption effect comes when new markets are created, displacing existing products and services.

This is now happening at an accelerated pace, thanks to continuous advances in IT. And thanks to ever-smarter kids working in real or metaphorical garages and tapping into eager angel and venture capital networks. The list of successes is growing longer, and the list of displaced and stranded “whales” and “dinosaurs” is equally growing longer.

Look at...Uber vs. established taxis and limousine and Uber vs. local governments all over the U.S.A. and even around the world. Or Airbnb vs. hotels and vs. local regulators and vs. local taxing authorities.

The little Township of East Hampton, New York — a seaside vacation favorite of Hollywood royalty and a variety of New York City dwellers in summer months — just before peak summer season the town officials considered a tax on very temporary stays (read: Airbnb guests at local homes).

And then there is the amazing story of the now-giant digital marketer, Amazon — with its disruptive technology taking on the bricks & mortar retailers like formidable industry leader Wal-Mart Stores. The firm started modestly, we might remember, offering books and showering customers with excellent book reviews to guide their buying preferences.

Probably seen as quaint now: A team of qualified editors busily turned these reviews out, and then customers were invited to add theirs (I often post reviews on Amazon). From such tiny "mustard seeds" the best practices grew to today's multi-faceted on-line retailer.

We are watching the progress of The "Shared Economy" Concept — the Buyer Wins, the Seller Wins, Society Wins.

Who loses? The slow-to-adapt, the industry laggard, the modern-day Avery Sewells (look him up!).

Personal note: I was telling my wife, Mary Ann the story of my early childhood "chores" in the early (and very cold) winter mornings. I would get up at 6 a.m. to stoke the furnace, put new pieces of coal in, open the apertures and get oxygen flowing across the fire pit in the boiler. The tiny cinders from the old "banked" fire overnight would be saved for spreading on icy sidewalks. Black coal by the half ton would be dumped in our basement in the house near to Kennedy International Airport.

Disruption: Along came our oil burner. The long slide of King Coal as a preferred heat source was underway even in my early childhood. The slide is accelerating now, with once-dominant coal enterprises filing for bankruptcy protection — Arch Coal, Patriot Coal, Alpha Natural Resources. Arch alone has $4.5 billion in long-term debt to wrestle with.

The disruptors? Cleaner natural gas, released from Mother Earth through relatively newer fracking techniques (another disruptive technology). Geothermal heating and cooling in homes. Some disruptors come quickly (like post-WW II homeowners with coal furnaces switching to oil burners); others need breakthrough developments (like slant drilling for hydraulic fracturing, or fracking, releasing gas from shale deposits near populated areas).

We at G&A are always monitoring disruptive technologies for signs of upheaval in established industries and sectors. The results would include a cleaner environment but in many instances. I'm not sure about the "sustainability" element, though. Some companies are inadvertently disrupting their own operations through innovation and break-through products and processes.

"Sustainability" in the traditional sense in the equities markets meant "staying power, longevity," and when disruption occurs, how will we know what the long-term consequences will be.

All this makes business...fun.

• • •

40

GETTING RID OF THE BAD STUFF

Speaking of changing conditions, tune in to the trend of getting rid of the legacy “bad stuff” as the investment community looks with favor on “cleaner” or “cleaned up” public companies.

The “bad stuff” is not *really* that bad, in so many cases. But the streamlining and re-alignment of the lines of business of large-cap companies can lead to divestiture of old line businesses — like commodity chemical manufacturing.

DuPont deNemours & Company, with a proud 200-year history anchored in the chemicals industry, divested its chemicals business (the spinoff is Chemours, a new public company that is producing performance chemicals). DuPont became a “next generation” company — leaner and more efficient.

Chemours began life as an independent publicly-traded company owing DuPont $4 billion in debt, and assuming responsibility for legal liabilities from products such as Teflon, a flouropolymer product, and facing lawsuits and environmental fine of $295

million [in remediation accrual] according to Credit Suisse. Those fines could double, say CS researchers.

The New York Times Magazine, on January 10, 2016, had a cover story about the environmental and public health damages caused by operations at the company's Parkersburg, West Virginia plant. The compound "PFOS" — perflourooctanoic acid, used in the making of the popular product Scotchgard®. Tons of waste were dumped in the company's landfill, which made its way into the Ohio River and local water supply, and tons of "sludge" were land filled, the author writes.

DuPont stopped using PFOS in 2013. Class action and individual personal injury lawsuits have been filed — some 3,500 are still pending, according to *The Times*. Finally, after years of pressure, the U.S. EPA in 2016 will issue guidelines (for lifetime health exposure levels to PFOAs (the ubiquitous perfluorochemicals in industrial use, including PFOS).

DuPont began discussions for a combination with Dow Chemical, which has been busily divesting "one-core" assets — such as a chemicals business unit that is part of the Performance Materials Division. Other chemical companies are divesting business units, including AkzoNobel (paper chemicals). There are a number of factors at work (including lower pricing in commodities), but also the opportunity in restructuring and deal making to get rid of chemical units with issues.

The global chemicals business will continue to be in the focus of shareholders, regulators, communities, and other stakeholders. There were 1,322 Superfund contaminated sites in the U.S. in

February 2014, according to Wikipedia. Only 375 sites have been "cleaned" to date.

Observation: I worked on numerous corporate and municipal "Superfund" sites in recent years. Some of these had contamination that will last — literally! — for a thousand years or more. At one project we discussed what "pictographs" to use to warn future generations if the use or today's English language faded.

In my home region of Long Island, New York, we have a "reserve" deep underground aquifer for use if the upper level aquifers become unusable. Rain fell in the deep water reservoir back in the days of the Roman Empire!

Think about the impact on future generations of recent industry, government and other contaminations of recent decades!

• • •

41

COMPETITION FOR TALENT — JOB CREATION THE CHANGING WORKPLACE, EMPLOYER CONCERNS — RECRUITMENT AND RETENTION

The Society for Human Resource Management (SHRM) in April 2012 warned of a potential "massive loss of knowledge that will walk out the door as millions of Baby Boomers retire." (The boomers were those born 1946-1964 — a 77 million strong demographic cohort — 4MM+ births per year for 18 years!)

U.S. employers are ramping up training programs to close skill and knowledge gaps that occur; they are recruiting older workers; and retraining workers.

And they are hiring the GenXers and the Millennials — to fill the gaps as older workers walk off the job for the last time, and to bring new much-needed skills to the enterprise (such as being facile with technology, social media, new management methods and so on).

The Generation Xers are those born after the end of the Baby Boom (1964) to the late-1970s. The Millennials were born from the early 1980s to the early 2000s. They are entering the workforce *en masse* now and will be for the next decade or more.

Some demographers peg the population of the Millennials at 75-plus million men and women. Demographers are saying they now outnumber the Boomers still in the working economy.

The Millennials are definitely different in certain attitudes — they embrace the concept of sustainability; desire to work for a responsible, ethical, sustainable enterprise; do not want to work for a company that pollutes or produces certain products; and they pursue sustainability learning at colleges and universities and other means of higher and professional education.

And they are coming to *your* company with those attitudes and perspectives!

Are employers ready? These men and women, many now possessing advanced degrees in sustainability, environmental management and related topic areas, are and will profoundly re-shape the companies that they work for. The young professionals are familiar with the plusses and minuses of company "A" vs. company "B" in terms of seeking employment.

Current and future employees have concerns that are echoing in various public dialogues including the 2016 presidential campaigns. They want to earn a living wage. They are weighed down by student loan debt. They want a full-time job, not a consultancy. They are worried about automation and being

replaced by a robot or AI (no matter their professional background). They want employers to demonstrate accountability, responsibility, ethical behavior, and to be socially-responsible.

In this conversation, I would put a good part of this in the context of the Main Street / Wall Street set-off.

Often the expectations of the capital market players are opposite those of employees at companies on the metaphorical main streets of the nation.

Big Business and the associations that represent them, and often the public officials elected with corporate financial backing, are seen as *anti-labor, anti-employee*, and not concerned about the *communities* in which facilities are located — far from corporate headquarters. Every downsizing, every outsourcing of major plants, every furloughing, re-ignites the Wall Street vs. Main Street arguments.

On the positive side, large companies are doing better at communicating their concerns to the employee base, providing extensive training and re-training and education benefits, involving employees in decision-making, and otherwise tip-toeing toward the European model.

The strategic positioning as a sustainable and responsible employer is a strong antidote to anti-business attitudes, for Americans of all ages.

Check out the Society at:

- www.shrm.org

• • •

42

THE IMPACT OF THE INFUSION OF LEGIONS OF SUSTAINABILITY—MINDED TALENT INTO THE CORPORATE SECTOR

As the Baby Boomer generation moves out of the workforce, the replacements are lining up. Consider the size of the cohort moving to retirement: this is the 77 million Americans born between 1946 and 1964; they will be celebrating birthdays at the ages of 52-to-70 in 2016.

Some demographers project that the Gen Xers (ages 35-50 today) will be equal to the size of the Boomers in less than five years. Others say it is happening now — or sooner than later.

The members of the next generations for employers are the children of the Boomers — Generation "Xers," born from 1965 to 1980. And then there are the 75+ million Millennials (born 1980 to the early 2000s), the late-born children and grandchildren of the earliest Boomers.

There will be significant turnover in corporate ranks, from newbies up through the senior management and specialist ranks. At G&A Institute, we interact with a good number of Millennials. They are tuned in to sustainability, embrace its concepts and are well trained and educated.

It's become more challenging now to count the course offerings, programs, majors, joint major programs, and the number of colleges, universities and other education centers (such as Columbia Earth Institute with 800+ students involved). The programs are preparing younger men and women for sustainability and ethical leadership in the year ahead.

(The Aspen Institute used to publish a useful guide to college and university offerings — "Beyond Pinstripes" — we are w-a-y beyond that pioneering effort now. So many schools now offer such programs that publication of the report ceased.)

Student demand for sustainability training is definitely on the increase. This remind us of the 1970s when the work of Watergate-era journalists Bob Woodward and Carl Bernstein ("All The President's Men") inspired would-be journalists and lawyers, and higher education institutions quickly expanded their journalism and law school offerings.

The Sustainable Brands organization reported in September 2015 that according to research by Cone Communications, Millennials are universally more engaged in corporate social responsibility efforts. Out of 10 Millennials, nine would switch brands to one association with a cause, and two out of three would use social media to engage around CSR.

Cone looked at young Millennials, mature Millennials, male and female, affluent and "Mom" Millennials, and the headline is: Millennials are the strongest CSR supporters in the United States.

We'll see more U.S. companies adjusting their strategies to reach and motivate in various ways this important segment of our population.

At the G&A Institute, we partner with academic institutions such as Rutgers University, Baruch College / City University of New York, NYU, St. Louis University, and other institutions to help to structure and advance CR and sustainability studies.

We are launching our own proprietary Web e-learning platform, in fall 2016. We designed this learning resource to offer partners' and our own customized curricula for learning more about sustainability and related topics.

We're inviting partnering organizations offer their programs; and we will continue to team with established universities to offer programs and curricula.

43

FOCUS ON "THE CORPORATION" — IS A COMPANY A PERSON?

Apparently the U.S. Supreme Court rulings — like *Citizens United vs. the Federal Elections Commission* — indicate to us that companies (especially joint stock companies created by humans) are, well, just *plain folk* like we humans — at least in some respects.

Some of the rights granted to humans by our Constitution (especially Freedom of Speech/the First Amendment protections) also apply to certain *non-natural* creatures of humankind

This concept apparently goes back to 1886 and a SCOTUS case — and the notes of reporter in the Santa Clara County, CA vs. Union Pacific Railroad case before the court. This is according to an excellent book on the subject by Thom Hartman, "Unequal Protection, the Rise of Corporate Dominance and the Theft of Human Rights" (Rodale Press 2002).

Watch for an expanded public debate on Corporate Personhood and the rights of Natural Persons vs. Artificial "Corporate

Persons" Rights & Privileges. The 2016 political campaigns and Big Money influence vs. individual contributors will be an anchor in the discussion.

This could be a US$5 billion to $10 billion presidential race (if not more) as monies from all kinds of funding mechanisms is "invested" in the preferred candidates and political parties. (In the Obama vs. Romney campaign of 2012, $2.6 billion was spent, not including primary campaigns before the general election.) By year-end 2015, the candidates had raised more than a half-billion dollars just for the primary season.

The issues raised in the presidential campaign, in the congressional campaigns (all seats are up every two years), in the U.S. senatorial campaigns (1/3 of the upper house 9s elected every two years) will be touching on issues raised in the ongoing discussions about the importance of ESG factors, sustainability, climate change, diversity, equal pay, income inequality, regulation of business (or de-regulation), the future of fossil fuel, the need for campaign finance...and many more issues.

These issues will in some ways impact the activities of the sustainability advocates as they echo the statements of progress-minded candidates or find comfort in the positions taken by candidates and parties.

A good read: Thom Hartmann's "Unequal Protection" — see:

- www.truth-out.org/opinion/item/331:unequal-protection-how-corporations-became-people-and-how-you-can-fight-back

44

POPE FRANCIS — PERSPECTIVES AND THE ACTIONS OF THE ROMAN CATHOLIC CHURCH WORLDWIDE

There are an estimated one billion-plus Catholics worldwide, and the huge global infrastructure of the Roman Catholic Church that can implement policies and practices. Worldwide, the Bishops of the Church among other things are traditional heads of local dioceses — there are almost 200 dioceses in the U.S.A. alone. There are "ecclesiastical provinces" organized in metropolitan area; these are usually headed by an archbishop (New York, NY, Washington, DC, Baltimore, MD, etc.).

The Roman Catholic Church as a collective institution is one of the largest owners and holders of assets in the world, including properties, solid gold bars, bonds, cash, equity investments, pension systems of various orders, Catholic charities, and healthcare systems.

Imagine the power that such an institution can bring to bear on challenges, in the world, in the United States and other large nations.

The Bishop of Rome — Pope Francis — in May 2015 issued "Laudato Si," the Encyclical Letter of the Holy Father, "On Care of Our Common Home." Among other things to explain his position, he addressed a joint session of the U.S. Congress in September 2015. (Note that in the audience, 31% of Members were Catholic, as well then six of the nine Supreme Court Justices.) The speech received 37 standing ovations.

So what are the Pope's concerns, expressed in the House of the People? Consider these:

- climate change;
- addressing common needs;
- addressing risk to our common home (the Earth);
- addressing income inequality (especially in less-developed nations);
- the responsibility of richer nations;
- advancing justice and peace;
- the dignity of human life;
- job creation;
- business is a "noble vocation;"
- environmental challenges.

“We should have a ‘culture of care’,” Pope Francis said, and “now is the time for action” to protect our planet.

The Pope’s 74-page letter “to the world” and especially to the Catholic faithful in all lands, addressed topics that are front-of-mind for sustainability professionals:

- Pollution and climate change are a threat to the world.
- Part of the cause is the residue of industrialization.
- Part of the cause is our throwaway society.
- The climate is a common good, belonging to all.
- Warming has effects on the carbon cycle. This affects drinking water, agriculture, energy and other activities.
- Climate change is a global problem, affecting environmental, social, economic, political, and distribution of goods.
- There are critical issues in water, biodiversity, global inequality.

Pope Francis called for a vision of “integral ecology,” one that seriously considers environmental, social and economic factors.

The Holy Father set out suggestions for “approach and action,” with dozens of specific steps that could be taken to address challenges and bring about integral ecology. It is in these specificities that action will come through the organs of the worldwide RC Church, and its billion adherents to the faith.

We should not underestimate the enormous power that will be applied in many direct, indirect and subtle ways to implement

“Laudato Si,” the Holy Father’s vision of how his church can help to bring about significant changes in the global society.

Consider the work of the Interfaith Center on Corporate Responsibility (ICCR), the 35-year old faith-based investment coalition, whose 300 members manage $100 billion in assets. ICCR is a value-driven organization “who view the management of their investments as a powerful catalyst for social change.” ICCR’s membership includes many RC Church institutional investors.

We can expect to see the Pope’s vision applied by ICCR institutional members in the areas of concern — corporate governance, domestic health, the environment (including global warming), fair lending, food access and safety, human rights, and water (including corporate water impacts).

I’m keeping in mind the century-long influence that another Pope had with his encyclical letter on labor right and human rights and the relationship of labor and capital...

This was Pope Leo XIII and his 1891 letter, “Rerum Novarum” — on “the Rights and Duties of Capital and Labor.” This encyclical addressed the conditions of the working classes as industrialization and the emergence of the modern capital markets gained momentum.

What resonates for some today: “Remedy must be found quickly for the misery of wretchedness pressing so unjustly on the majority of the working class...” Through the decades since the start of the 20th Century, Roman Catholic Church interests have been guided by *Rerum Novarum’s* dictates to the faithful.

Expect the vision of the present pope to serve RC Church interests in similar ways — with impacts being felt in discussions about climate change, global warming, the plight of the worker, income and wealth inequality, financial and economic fairness, and many more issues that are in the realms of the capital markets and the global corporate community.

MSCI Research on Inequality

About the issues surrounding wealth and income inequality: MSCI recently projected important trends for 2016. In the firm’s “2016 ESG Trends to Watch” report, there is this observation:

According to the NGO Oxfam, at the end of 2014, 80 individuals owned the same wealth as the bottom half of all of the world population. (The number was 388 individuals in 2010.) This is not just a societal issue, MSCI points out. OECD estimates that that growing inequality has cumulatively cuts six to seven percentage points off U.S. economic growth in the United States,

Italy and Sweden between 1990 and 2010. (The U.K., Finland and Norway cut in growth was higher, at nine percent.)

What needs more understanding, says MSCI in its report, is how corporations feed into inequality (through job cuts, pushing down of wages, maximizing shareholder return) which over time could impact economic growth and stability.

So — in 2016 we are monitoring the growing intensity of the public debate about wealth and income inequality, in the presidential race for sure (thanks to Senator Bernie Sanders and his positions on the subject), in the fiduciary concerns raised (especially by activist investors), and in the restlessness of the population

This could intensify if the public anger rises and if "elite" targets are selected (that is, those perceived to be responsible for growing inequality in developed and developing countries).

The actions of the worldwide Roman Catholic Church, following the Pope's clearly stated positions on inequality, will be important to watch in the months ahead.

The statements and actions of investors will also be worth watching. The public dialogue on inequality will have many dimensions, depending on the voices raised.

As responsible investment thought leader (and G&A Institute Fellow) Steve Viederman often notes, "where you sit will determine where you stand on an issue." ("Sitting" meaning your affiliation, where you sit during the business day.)

You can read the whole of the Pope's Encyclical, *Laudato Si* at:

- w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html

The MSCI "2016 ESG Trends to Watch: Opportunities and Risks" information is at:

- www.msci.com/www/blog-posts/2016-esg-trends-to-watch/0282925304

45

LESSONS LEARNED — GREEN GIANTS MOVE AHEAD THE COMPELLING BUSINESS CASE FOR SUSTAINABLE BUSINESSES

For some of us, this may be an outdated or too-simplistic a question: *So who is making money by being more sustainable?* What do companies gain by pronouncing how "green" they are?

There are important lessons for corporate boards and C-Suite executives — if we look at the "Green Giants," companies that were recently publicized for American investors by TheStreet.com (a financial website, reporting on a recent analysis published by author Freya Williams).

The seven (7) companies are "...making billions with focus on sustainability" — they are Goldman Sachs, Tesla, Chipotle, Unilever, General Electric, Nike, Toyota, and Whole Foods.

These firms were determined to be "Green Giants," that "translate sustainability into stock performance, returning 11.7% more than select peers over the five years" ending September

2015, according to Freya Williams, who devoted a decade to the research and analysis. The companies outperformed the S&P 500 benchmark by an average 6.8% per year.

The background on this comes from the research from her book — "Green Giants." Freya Williams devoted eight years to compiling evidence that brands can generate maximum profits and also be a force for social (or societal) good.

As she explains: "These companies cut across the global economy. They make products as diverse as burritos and beauty cream, sport shoes and sports cars, organic kale and airplane engines. They cover a spectrum of price points and spend types, from low-cost and discretionary to big-ticket, corporate purchases. They span B2B and B2C companies."

Consider this: The companies generate a collective $100 billion in combined annual revenues from their sustainable business strategies.

What's the secret? Here is the business case presented by Freya Williams:

- They are iconoclastic leaders, with commitment at the top of the organization;
- they have disruptive technologies;
- they aspire to a higher purpose; sustainability is "built in," not "bolted on;"
- their products and services have mainstream appeal;
- and, there is a new "behavioral contract" with customers and stakeholders.

That behavioral contract: They embrace transparency and collaboration; they understand that behavior shapes the brand; that actions — not advertising, builds corporate reputation.

Beyond the seven Green Giants, Freya Williams sees other companies “racing” toward the $1 billion mark: Warby Parker (eyewear); Airbnb (hospitality); Chipotle “wannabees” SweetGreen and Dig Inn; Honest Company (Hollywood’s Jessica Alba).

You can learn more at Freya Williams’ website and in her book, “Green Giants - How Smart Companies Turn Sustainability Into Billion Dollar Businesses.” (E. Freya Williams used to head Edelman’s Business + Social Purpose practice in North America. She is co-founder of OgilvyEarth.) Link:

- www.greengiantsbook.com

There is a recent interview with Freya Williams on the Triple Pundit web platform:

- www.triplepundit.com/2016/10/green-giants-use-sustainability-grow-sales

In our monitoring and charting of corporate sustainability and the progress made by individual companies, we are capturing the competitive advantages gained by corporate sustainability leaders...

This is part of our "*Sustainability: What Matters Big Data Platform™** *" and related G&A Institute resources.

• • •

46

MANDATED U.S. CORPORATE REPORTING ON SUSTAINABILITY

Maybe U.S. Companies Will Be Required… Or Strongly Advised… to Disclose ESG Data & Information

Big changes in corporate reporting may be just over the horizon this year.

As we were finishing our writing of this commentary, in late-Spring 2016 the Securities & Exchange Commission (SEC), which regulates many parts of the capital markets and corporate community disclosure and reporting for investors (under a number of empowering statutes), issued a *Concept Release* and a call for public comments on expansion and updating of mandated corporate financial reporting.

Among the considerations: expanding disclosure requirements to include ESG factors, and further defining materiality.

SEC has been conducting a "Disclosure Effectiveness Initiative," which includes looking at the requirements, and the form of presentation and delivery of corporate information made available to investors.

"Regulation S-K" since 1977 has been the principal requirement for filing corporate financial and business information (such as the familiar 10-K, 10-Q, 8-K, etc.).

In 1975, as the public focus on environmental matters continued to increase (all kinds of federal "E" laws were being passed), and institutional investors were expanding their range of investments to include many more corporate equities, the SEC considered expanding reporting on environmental issues. The initial proposal was deemed to have exceeded SEC's statutory authority. But the issue did not go away, and over time public accounting and SEC reporting rules expanded to include many aspects of corporate "E" matters.

In December 2013, when the *JOBS Act* ("Jumpstart Our Business Startups") was passed by Congress, SEC was charged with issuing a report [to Congress] on corporate disclosure rules. The goal of the initiative is to improve corporate disclosure and shareholders' access to that information.

The Spring 2016 concept release was part of that effort. The SEC wants to "comprehensively review" and "facilitate" timely, material disclosure by registrants and distribution of that information to investors. Initially, the focus is on Reg S-K requirements. Future efforts will focus on disclosure related to disclosure of compensation and governance information in proxy statements.

Asset managers adopting ESG analytics and portfolio management tools cheered the SEC move. In the very long *Concept Release* — B*usiness and Financial Disclosure Required by Regulation S-K*, at 341 pages, there is a small but important section devoted to "public policy and sustainability" topics (page 204-215).

ESG / Sustainability in Focus for Review and Action

SEC stated that in seeking public input on sustainability and public policy disclosures (such as related to climate change) we recognize that some registrants (public companies) have not considered this information material. Some observers continue to share this view.

The *Concept Release* poses these questions as part of the consideration of balancing those views with those of proponents of greater disclosure including ESG information:

- Are there specific public policy issues important to informed voting and investment decisions?

- If the SEC adopted rules for sustainability and public policy disclosure, how could the rules result in meaningful disclosures (for investors)?

- Would line items about sustainability or public policy issues cause registrations to disclose information that is not material to investors?

- There is already sustainability and ESG information available outside of Commission (S-K) filings — why do some companies publish sustainability, citizenship, CSR reports...and is the information sufficient to address investor needs? What are the advantages and disadvantages of these types of reports (such as being available on corporate websites)?

- What challenges would corporate reporters face if ESG / sustainability / public policy reporting were mandated — what would the additional costs be? (Federal rule making agencies must balance cost-benefit.)

- Third party organizations — such as GRI and SASB for U.S. company reporting — offer frameworks for this type of reporting. If ESG reporting is mandated, should existing standards or frameworks be considered?

The Commission received numerous comments about the inadequacy of current disclosure regarding climate change matters. And so the *Concept Paper* asks: Are existing disclosure requirements to elicit the information that would permit investors to evaluate material climate change risk? Why? Why not? What additional disclosure requirements or SEC guidance would be appropriate?

The subject of expanded disclosure of corporate ESG, sustainability, responsibility, citizenship, and related information has a number of voices weighing in. Among those organizations contributing information to the SEC are these (many touched on elsewhere in this document): GRI; SASB; Ceres; IEHN; ICCR;

PRI; CFA Institute; PWC; E&Y; ISS; IIRC; BlackRock Institute; Bloomberg; World Federation of Exchanges; US SIF.

The overwhelming view is that investor consideration of ESG matters is important and that change is needed in the existing corporate reporting and disclosure requirements.

For Your Action

I urge your reading of the Concept Release, particularly the pages 204 through 2015, to get a better understanding of what is being considered, especially as advanced by SRI proponents;

You can weigh in with your views — to make sure the SEC commissioners, staff and related stakeholders understand if you believe that expanding corporate disclosure and reporting rules — or strong SEC guidance —is needed to help investors better understand the risks and opportunities inherent in the ESG profiles of companies they do or might invest in.

SEC rules or strong guidance on ESG disclosure would be a huge step forward in advancing sustainability and ESG consideration by mainstream capital market players.

We include this here for your information, even though the commentary period closed in mid-July 2016.

Information Sources

Concept Release - B*usiness and Financial Disclosure Required by Regulation S-K*

Available at:

- www.sec.gov/rules/concept/2016/33-10064.pdf

Use the SEC comment form for your response:

- www.sec.gov/rules/concept.shtml

You can email the SEC: rule-comment@sec.gov

Important

- The file number is S7-06-16 (the closing date for comments).
- The SEC release was on 13 April 2016; this means the comment period is open for 90 days, to mid-July.

47

FINALLY — THE WILD CARD, THE BLACK SWAN, THE UNKNOWN UNKNOWNS AND OTHER UNPLEASANT SURPRISES

In every economic, business and capital markets cycle, there are wild card or black swan events. Things we did not see coming. Why should 2016 be any different in that respect?

There was widespread euphoria in the land in the 2004-2005-2006-2007 years. Homeowners were refinancing their homes not once, but serially. Why not? Housing values would always go up and up and…

Until 2006, when home price increases peaked and then went into free fall. Especially in South Florida and Las Vegas, and other overheated markets.

The commercial banks, surviving S&Ls, community banks, mortgage brokers — all were gleefully selling their assets, the home mortgages — into "packages" assembled by Wall Street wizards. The collapse of the collateralized mortgage obligations

auction market in 2007 began the trip to hell for lenders, brokers, homeowners, consumers — all of us!

Remember the canary-in-the-coal-mine when Long-Term Capital Management hedge fund operation became illiquid in summer 1998? That was really a harbinger of bad things to come, which was largely ignored. Sixteen financial institutions had to bail LTCM out with a US$3.6 billion "re-capitalization" that the Federal Reserve System oversaw.

"Securitization" became the rage and the source of funding for the sub-prime lending (and borrowing) spree of the mid-decade, especially from 2005.

Traditional lenders' "Originate-to-Hold" practices quickly became the rage of "originate-to-sell/distribute/and offload quickly." The "bad stuff" went off the books of the banks and investment giants and into the portfolios of often gullible or asleep-at-the-switch institutional investors.

By October 2007, the party was beginning to be over — the punch bowl was taken away — as the credit markets for real estate lending just about stopped working. Bad real estate loans rolled up in CDOs (collateralized debt obligations) and SIVs (special investment vehicles).

By September 2008, credit all but vanished — Wall Street had gotten a $700 billion bailout; Lehman Brothers failed; AIG was bailed out; the credit markets were frozen — almost no one could get credit.

Irresponsible and reckless practices of credit rating agencies including slapping on (for a fee) AAA ratings on paper being sold to non-US investors. (European central banks and financial institutions are still working their way out of that mess.)

Anthony Downs, a prolific author and senior fellow at the Brookings Institution in Washington, DC in December 2007 observed: "How long will [the real estate lending game] stay frozen or semi-frozen is difficult to predict. Both sides hope it will not remain frozen long enough to severely damage either side. Don't bet on the outcome."

That may qualify as the understatement of the first decade of this 21st Century!

The Dodd-Frank legislation is supposed to protect the investor through the many provisions ("titles") of the 2,000 pages of the Act. Stay Tuned — about one-third of the rules are still to be put in place, and the lobbying against the rulemaking has been fierce since the law was passed in 2010.

Stay Tuned!

• • •

AUTHOR SIGN OFF

I hope that you find this exploration of trends and critical issues "convergence" of value in your professional life. No matter where you toil — in the corporate sector, in the investment community, in a not-for-profit organization — "sustainability" and "responsibility" will be touching you in various ways.

For me, the following trends are shaping capital markets and corporate sector behaviors:

As explained up top, *so many fiduciaries own so many shares in so many companies*, they are indeed Universal Owners with clear responsibility to shape corporate behavior, policies, practices, as stewards of other peoples' money, and societal influencers on key issues (such as global warming).

And, smart corporate leadership recognizes the importance of being responsible, sustainable, and "good citizens" not only in their home country but wherever they do business in the global economy.

In many ways, considering these two macro-trends, ESG is the modern-day Rosetta Stone for figuring out the *quality* of corporate management, the *efficacy* of adopted corporate strategies, the *quality* of the corporate engagement with stakeholders and the *level of passion and commitment* of the enterprise's workforce.

Take that "81%" of the S&P 500 universe that *are* reporting on their sustainability journeys. Those companies are setting the pace for their peers, and their supply chain. And the tip of the spear, those players in the capital markets who are closely following the reporting, are finding competitive advantage as they look to beat the average of the mean.

We'll continue to share our views on all of this in our G&A Institute "Sustainability Update" blog; in our weekly newsletter, "SHQ Highlights," in client *Issue Briefs*, through our periodic Flash Reports and news releases, and especially through our ongoing research and analysis.

I will be updating this document as developments and actions require. You'll see my updates are various pages, where appropriate, especially moving into 2017.

If you would like to communicate your thoughts on all this, you can reach me at: hboerner@ga-institute.com.

And as I have been saying for most of my writing career:
Stay Tuned!

• • •

ADDENDUM

LOOK FOR AN EXPANDED LEXICON VOCABULARY

We hear the complaints every day in our conversations with corporate managers, investment professionals and others: too many terms being applied to the new norms. Examples are:

— **Sustainability**

— **Sustainable Investing**

— **Sustainable Finance**

— **Impact Investing**

also, "Outcome Investing" for results

— **"Green" Everything**

— **Corporate Greenwashing**

— **Accountability**

— **Community Investment / Reinvestment**

as inspired by the National Community Reinvestment Coalition (NCRC)

— **Corporate Citizenship...and more…**

"ESG," "Sustainability," Corporate Responsibility," and "Sustainable Investment" are coming into the mainstream investment and corporate lexicons more often now.

But we think it could be some time before things settle down and we are all on the same page with the *New Normal* terminology. We will be making progress toward that end in 2016 and into the coming year. What are your favorite terms when you speak with board members and upper management? With your colleagues?

• • •

PERSONAL BACKGROUND

ON TREND DETECTING

Here is some background I'd like to share with you as I to put my thoughts on all of this in perspective: I've been involved in risk management, issue management, crisis management (and especially crisis response), corporate communication and consulting in corporate strategy-setting for most of my career.

As a young corporate manager, I was American Airlines' first Corporate Citizenship Officer, managing the national CSR and community relations programs of one of the nation's great airline companies. I had some of the same responsibilities as an officer of the New York Stock Exchange and head of communications. I helped many U.S. and multinational corporate clients as consultant and advisor to put CSR, citizenship and issue management strategies and programs in place.

In the decades that followed the CSR movement waxed and waned, and on a positive note, has become back with renewed vigor in the 21st Century. That's good news!

As a crisis manager, I've been on point when my employers or corporate or institutional clients were embroiled in serious situations in (I estimate) at least 300 separate critical incident or crises incidents, maybe more. I've counseled managements and boards of publicly-traded companies; multi-national enterprises; privately-owned companies; financial institutions, including commercial banks; federal government agencies; and other bureaucracies when the stuff *hit the fan.*

Sometimes the fan hits were multiple and all coming at the same time, because crisis situations are never about one isolated event or situation. Speaking of convergence, most of the crisis situations were very complicated because a number of issues exploded and converged at all once (at the "wrong time" for managements and boards).

The periodic waves of crises and critical events of recent decades — some of them posing existential threats to the affected companies — over time led to a greater emphasis being placed on more effective risk management by C-suite and board room players.

Paying closer attention to environmental matters became a necessity for corporate managers, lawmakers, regulators, NGOs, investors, and others, after such dramatic events as the Three Mile Island crisis (the nuclear plant meltdown in Pennsylvania in 1979); the Union Carbide MIC plant disaster in Bhopal, India (1984); the Alaskan waters oil spill as the *Exxon Valdez* oils tanker hit the rocks in Prince William Sound in 1989. (The *Torrey Canyon* tanker spill of 1967 in UK waters should have provided lessons to help prevent the *Valdez* disaster.)

Many of us can remember the game-changing events during the turn of the calendar from 20th to 21st Century. In October-November 2001, *Fortune* magazine's 7th largest company (on the *Fortune 500)* abruptly failed — Enron. *Poof* — this supposed fortress of a publicly-owned American energy company disappeared in the fog of accounting scandals. Thereafter, we saw the end days for WorldCom, Adelphia Cable (the remnants became parts of Time Warner Cable and Comcast), and too many other public companies.

And as confidence in the accounting industry in general plunged, we saw the Big 8 firms shrink to the Big 4 (absent the former leader, Arthur Andersen & Co.).

Public Policy Actions: Federal Governance Reforms Packaged As *Sarbanes Oxley*

Facing a crisis of confidence in the wake of the Enron scandal, then-President George W. Bush appointed a high-level task force to address the issues and to propose solutions. On point were Treasury Secretary Paul O'Neill and Commerce Secretary John Snow (both former corporate CEOs). By spring there were competing "reform" bills in the House and Senate and some rules already being issued by the Bush Administration.

In August 2002, the *Sarbanes-Oxley* package of legislation was signed into law — and "corporate governance reform" was in the air everywhere. This was primarily about "G" — governance. There were 11 major "titles" of reforms in the package of legislation we know as "SOX" today.

What About Addressing Decades of Industrial Environmental Damage?

For those familiar with ESG (environmental, social/societal and corporate governance concerns) we could ask, what about the "E" — the environmental? What about damage done by business activities?

In the post-WWII years of the 20th Century, many large industrial operators and chemical manufacturers around the world too often treated the environment pretty shabbily, as we look back on things.

Our nation's lakes, streams and rivers were too often seen as convenient means of carrying away liquid and solid waste to the ocean — to disappear out of our sight. The nation's air? This was seen as an ideal reservoir for receiving the noxious and toxic waste pumping out of smokestacks and carrying the toxic pollutants "away." "Acid rain" would result, scarring the trees on eastern U.S. mountaintops above a certain height (for example in New York State and in New England). And the sooty rain would damage cars, homes and business facilities in the storm's path. Utilities in the Midwest would build 1,000-foot tall smokestacks to ensure that the waste air would get high enough in the prevailing west-to-east winds.

The 1970's / 1980's Public Sector Response

In response to what many viewed as a true national disaster, an environmental crisis of epic proportions, over a period of years the U.S. Congress passed the *National Environment Policy Act; OSHA; Ocean Dumping Act; Oil Pollution Act; Pesticide*

Registration Improvement Act; Clean Air Act; Clean Water Act; RCRA; *Toxic Release Inventory; Endangered Species Act*; CERCLA ("Superfund"); *Energy Independence and Security Act*; EPCRA (*Emergency Planning and Community Right-to-Know Act*); *Toxic Substances Control Act* (TSCA)…and more.

Tens of thousands of pages of environmental regulations flowed from federal and state legislatures and regulatory bodies in the nation's capital and in the state capitals.

Environmental issues were addressed in class action law suits and through activists' pressures as well; as a result industry wrestled with clean up of asbestos contamination; the increasing damage of acid rain; mold; toxics in the air, land and water; harmful pesticides and other affects of other chemicals in the workplace, agriculture, and in our homes.

As the world turned its attention to environmental issues, sometimes very dramatic events captured media headlines. From the time of the Cuyahoga River (running from Akron to Cleveland, Ohio) dramatically catching fire *again* (in June 1969) due to extreme industrial pollution — and being featured in *Tim*e magazine ("the river doesn't flow, it oozes") — the cleanup of the United States land, air and water got underway in earnest.

I remember as a pilot in the 1970s flying out of a Long Island airport and heading west over New York City and Northern New Jersey and having to be on instruments until 4,000 feet altitude — the yellow smog below had blanketed the urban and suburban New York metro area and hid the ground from view.

Today, we live in a much cleaner society, with smog gone from the air overhead in most places; with rivers and lakes once again safe for fishing; with autos and trucks spewing far less toxic fumes; with waste incinerators' fires out in our cities and towns.

There is still much work to do, but we have come a far ways from the smokestack era in most places in our country.

And So To The 21st Century, Midway Through The Second Decade.

Savvy corporate managements in various industrial fields have recognized the importance of being more responsible, more accountable, of creating a more sustainable enterprise, of seriously considering the views of stakeholders, of re-structuring their organization to be a leader in corporate responsibility and sustainability. This is the *new enlightenment* of corporate leaders.

The providers of capital — institutional and individual investors — are increasingly taking into account the corporate ESG performance (environmental, social, corporate governance) for their portfolio management decisions.

Take note: We are in "new norm" for business leaders, and demonstrations of being a "good corporate citizen" is (or should be) a priority for C-suite and board room.

Positive Signs In The Corporate-Society Dynamic

There have been profound changes taking place in Corporate America and in the global financial community over the past two decades that signal positive developments ahead for the business-society dynamic.

For the most part, we are continuing to move far away now in the United States and other developed countries from the days of rivers erupting in toxic flames and people dying or being maimed when they were caught downwind from plant explosions. (Notwithstanding, the misbehavior of BP and its contractors in the Gulf of Mexico, and several other examples of really terrible corporate governance.)

And about the practice of ocean dumping? Sorry to say while the U.S.A. and other countries have worked to curtail garbage flows to the seven seas, according to a report released in January 2015 at Davos forum by MacArthur Foundation and the World Economic Forum, the projection is that eight (8) *million tons* of plastic *now* enters the ocean each year, adding to the 168 million tons already there. By 2050 we could have more tonnage of plastic than fish by weight! (Plastic and tuna salad, anyone?)

Putting on my hat as a trend-spotter, and corporate strategist, I'm going to be closely watching the following trends in this new year. Some of these are long-term trends coming to critical points — tipping points, in author Malcolm Gladwell's views — while others are emerging trends or new developments that are or could be game changers over time. Maybe this year!

You will notice in moving through my narrative on trends that many [trends] are interwoven, interconnected, with one trend influencing others.

That is one of the major reasons I see 2016 as a year of trends convergence, a period of historic inflection in our capital markets and the American corporate sector.

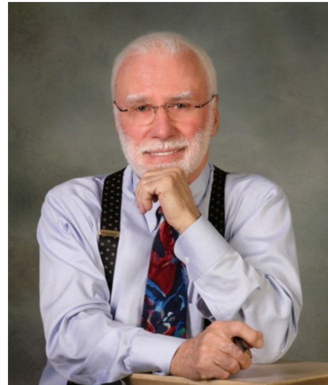
And in the professional and personal lives of you, dear reader!

Thank you for getting this far. I have designed the narrative for you to dip into, or read as a more linear perspective. I am interested in your thoughts — please share them with me at hboerner@ga-institute.com.

• • •

ABOUT THE AUTHOR

HANK BOERNER



Henry (Hank) Boerner is the chairman and chief strategist of Governance & Accountability Institute, a research, strategies and advisory firm based in New York City. He is Chair, Sustainable Investing Committee, New York Society of Securities Analysts (NYSSA), the largest chapter of the CFA Institute. He is also active in the Sustainable Investment Research Analyst Network (SIRAN).

He served as chair of the Issue Management Council, a global network of primarily corporate strategists and issue management professionals.

A prolific author, he has been a commentator for Thomson Reuters publications for the past dozen years. He was also editor of NIRI's *IR Update*. (NIRI is the National Investor Relations Institute, founded in 1969, and is the largest professional association for corporate IR officers and consultants responsible

for communication among corporate management in the world.) He is a long-time member of NIRI and its Senior Roundtable.

Earlier in his career, Hank was a board-elected officer of the New York Stock Exchange (responsible for NYSE communications); the first "Corporate Citizenship Officer" of American Airlines; and Director of Public Relations and Community affairs at the New York State Metropolitan Transportation Authority.

From 1992 to 2006, he was Managing Director of the Rowan & Blewitt issue and crisis management consultancy (New York, NY and Washington, DC) serving mainly *Fortune 100* companies and leading multi-nationals.

His writing includes co-authoring *Strategic Governance: Enabling Financial, Environmental and Social Sustainability*, with Mark W. Sickles.

Contact the author at: hboerner@ga-institute.com.

• • •

• • •

ABOUT GOVERNANCE & ACCOUNTABILITY INSTITUTE, INC.

Founded in 2006, G&A Institute is a sustainability corporate responsibility consulting firm headquartered in New York City. Services include advising corporations in executing winning strategies to maximize return on investment and win favorable recognition at every step of their corporate responsibility and citizenship positioning, and in their sustainability journey.

The G&A team helps corporate and investment community clients recognize, understand and address corporate sustainability and responsibility issues to address stakeholder and shareholder concerns. This is part of the G&A Institute education and knowledge-sharing mission.

The G&A Institute team members are experts in corporate transparency, disclosure and structured reporting practices and trends. G&A is the exclusive Data Partner for the Global

• • •

Reporting Initiative (GRI) in the USA, United Kingdom and Republic of Ireland (the latter two are European Union member states). A G&A team perform this pro bono work on behalf of GRI. Over the past 5 years, G&A has analyzed more than 5,000 sustainability reports in this role and databased many important data points for each of the five thousand reports. This work is leveraged in the numerous research reports published by G&A.

G&A's sustainability-focused services and resources include: counseling & strategies for the corporate sustainability journey; sustainability reporting assistance; thorough materiality assessments; stakeholder engagement; benchmarking; enhancing investor relations; sustainability communications; manager coaching, team building & training; advice on third party awards, recognitions and investable index inclusions; issues monitoring & customized research; and assistance with investor relations and corporate communications.

Governance & Accountability Institute is a member organization of the Forum for Sustainable & Responsible Investment (US SIF); and, an Organizational Stakeholder (now "Gold Community") of the Global Reporting Initiative (GRI).

For information:
Louis D. Coppola
Executive Vice President
646.430.8230 ext 14
lcoppola@gainstitute.com

ABOUT THE AUTHOR

Henry ("Hank") Boerner is a veteran strategist, consultant and advisor to managements and boards, and regulator contributor of commentary to business and financial publications. His areas of focus include issue and crisis management, strategy-setting; the changing dynamics in the business-society relationship and dynamics; the accountability trends affecting corporate executives and boards; and the accelerating uptake of "corporate sustainability" considerations by investors and corporate leaders.

In the corporate arena, Boerner's expertise includes the key areas of sustainability, responsibility, citizenship, ethics, investor relations, communications, and public policy. He is active in the investment community as well, and serves as chair of the Sustainable Investing Committee of the New York Society of Securities Analysts (the largest CFA Institute chapter).

The National Association of Corporate Directors (NACD) named Hank to the *Directorship 100*, as "...one of the persons to watch in the field of corporate governance..." He was also named by Trust Across America's for one of its lifetime awards as a thought leader in business trustworthiness.

TRENDS CONVERGING!

An Expert Looks Ahead of the Curve for Corporate Sustainability & Responsibility Professionals

THE CONVERGENCE OF IMPORTANT CSR • ESG • SRI • SUSTAINABILITY TRENDS IN THE YEAR 2016 AND BEYOND

TRENDSPOTTING • CHARTING • ANALYSIS
Making the investment case… Making the business case…
Making the supply chain case… Making the ESG case…
…and more!

A commentary by
HANK BOERNER
Chairman & Chief Strategist
GOVERNANCE & ACCOUNTABILITY INSTITUTE
Veteran Trendspotter

Distributed by

GOVERNANCE & ACCOUNTABILITY INSTITUTE, INC.
Your Sustainability Headquarters
GRI's Exclusive Data Partner in the USA, UK & Ireland

New York, New York
646.430.8230 | info@ga-institute.com | www.ga-institute.com