

Board Roundtable: Informed Climate and ESG Decision-Making

September 9, 2021

Directors & Boards WEBINARS

FOR TODAY



- Moderated by David Shaw, Publishing Director, *Directors & Boards* Magazine.
- There will be time for questions. Enter them from your computer anytime during the presentation.
- The webinar will run for no more than 60 minutes.
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Making rational informed decisions on ESG

**Board members
are under
pressure to
“do something”
about ESG**

**How can we sort
through
the noise and
make rational,
informed
decisions?**

Core Principles

Purpose

Stewardship

Effective governance is essential to guide decisions and results in Environmental and Social initiatives



Boards' responsibility for E and S reflects the expanding purpose of the corporation to serve all stakeholders

ESG decisions should not be made in silos

ESG risks and opportunities should be evaluated and prioritized as part of a company's broader spectrum of risks and opportunities

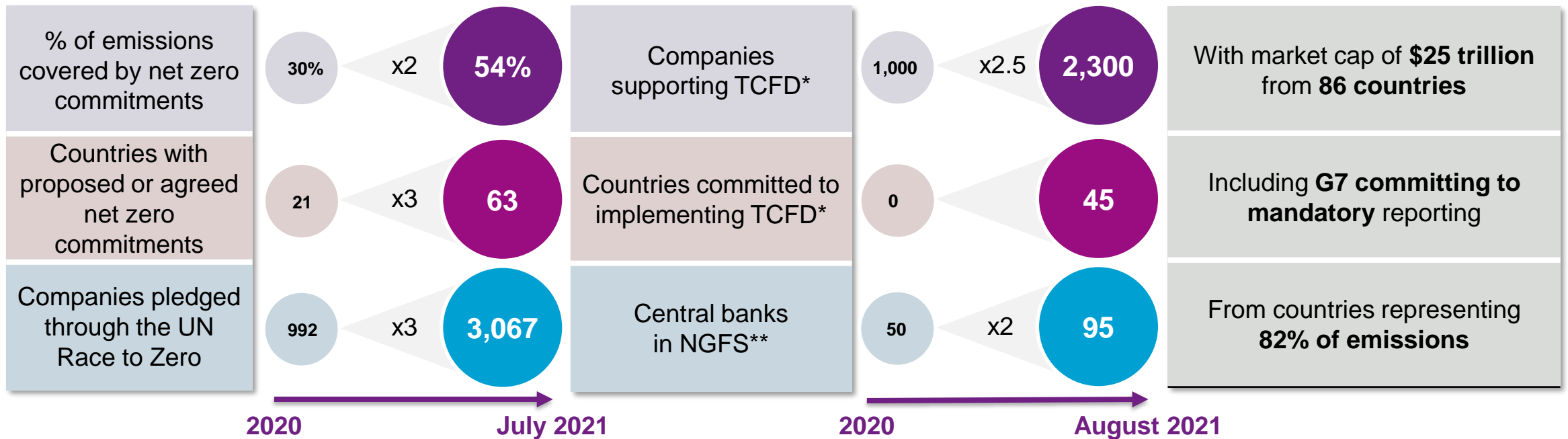
POLL 1

How do you view ESG issues at your companies?

- More of a risk
- More of an opportunity
- Equally a risk and an opportunity

Climate considerations are transforming the structure of the global economy

- Paris goal of limiting warming to well below 2C, and preferably to 1.5C, requires net zero greenhouse gas emissions by 2050 and deep cuts of at least 30% by 2030
 - There is already significant momentum behind this target



*TCFD is the Taskforce on Climate-Related Financial Disclosures
 **NGFS is the Network of Central Banks and Supervisors for Greening the Financial System
Sources: ECIU Net Zero tracker, UN Race to Zero, TCFD, NGFS websites, Morningstar.

The financial sector is leading the way

- At least 30 sustainable investment funds introduced in the US every year since 2016 — 71 in 2020 alone
 - Sustainable fund flows accounted for nearly one quarter of overall flows into funds in the US in 2020
- April 2021: **Net-Zero Banking Alliance** announced
 - 55 banks from 28 countries representing US\$37 trillion, almost a quarter of global banking assets
- July 2021: **Net-Zero Insurance Alliance** announced
 - Eight of the world's largest insurers / reinsurers
- Both part of broader **Glasgow Financial Alliance for Net Zero (GFANZ)** — now with over 270 firms across core of financial sector, GFANZ is the gold standard for net zero commitments
 - Already over \$88 trillion in financial commitments to net zero through GFANZ

Other factors are important too

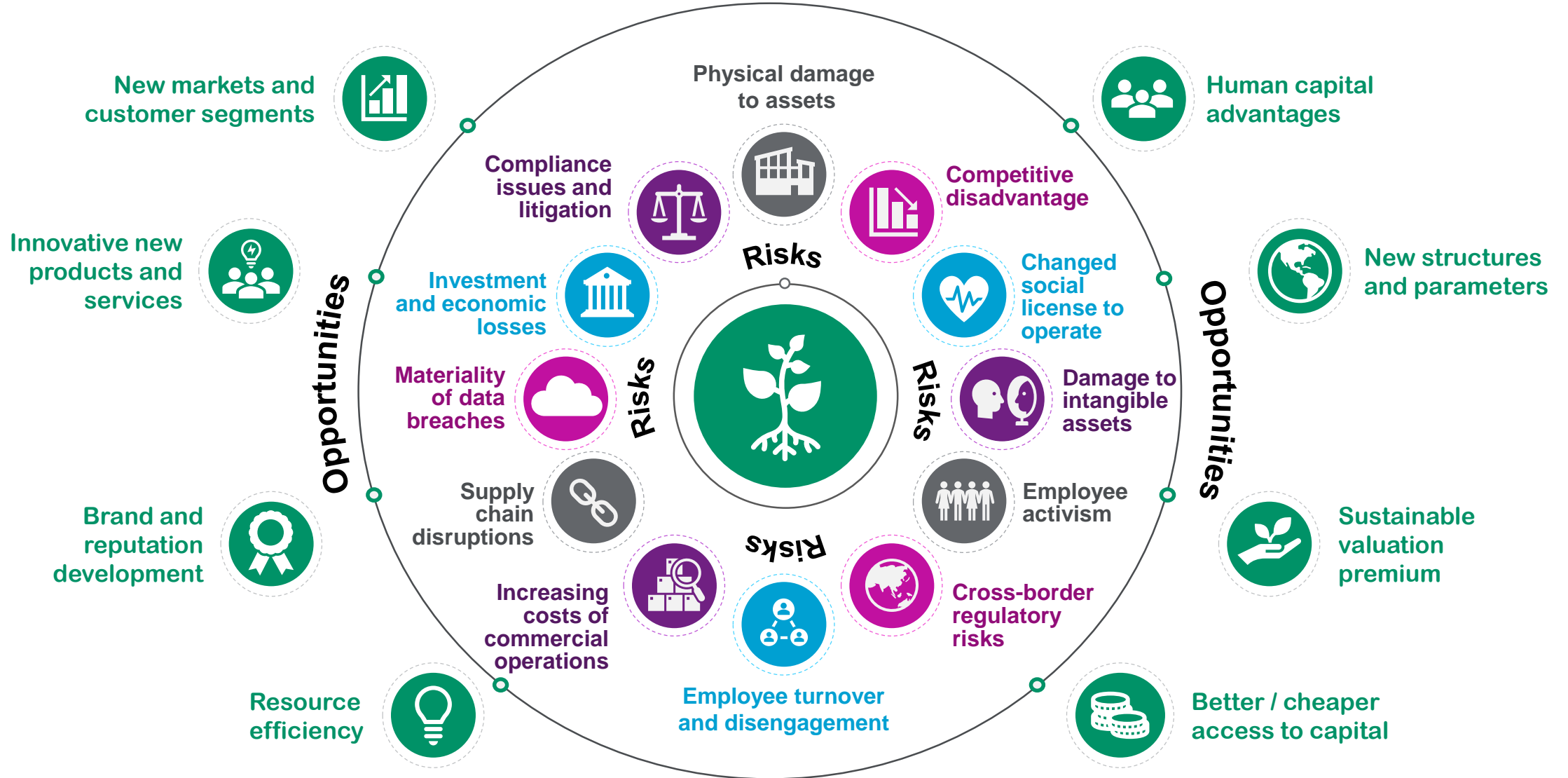
Examples – not comprehensive

Non-climate environmental considerations	Social considerations	Governance considerations
<ul style="list-style-type: none">■ Biodiversity■ Water■ Waste, toxicity■ Air quality■ Environmental justice	<ul style="list-style-type: none">■ Employee health, safety and development■ Labor practices■ Employee engagement, diversity, equity & inclusion■ Broader supply chain health and safety issues■ Relationships with local communities and suppliers	<ul style="list-style-type: none">■ Pay issues■ Anti-corruption and lobbying transparency■ Board diversity■ Tax policies■ Shareholder policies■ Data breaches

Purpose and strategy

- **Integrating change throughout your organization**
 - Greater clarity of purpose — positive feedback loops
- **Different strategic opportunities**
 - Adapt — Unilever, Walmart, Mastercard
 - Diversify — Shell, National Grid
 - Transform — Ørsted, GM
- **Keep up with the competition**
 - Venture investments in climate tech: \$15 billion in first half of 2021 alone
 - Investments in farm tech: \$8 billion last year
- **First need to overcome challenges of identification and prioritization**
 - Agree on ESG framework / assess which ESG metrics are material
 - Consider in the context of other opportunities and risks

This changed world creates opportunities, as well as risks



Value creation: Securing competitive position in the new economy

- **New markets and customer segments / innovative new products and services**
 - Diverse workforce can extend the customer base
 - Price premia for 'green' products
 - Better supply chain relationships
- **Brand and reputation development**
 - Consumers and workers seeking products / companies that align with their personal values
- **Resource efficiency**
 - Use less energy, water, fewer virgin raw materials
 - Preserve resources in the system for longer (circularity)
 - Better relationship with surrounding communities, greater social licence to operate

Value creation: Financial and structural

■ Better / cheaper access to financial capital

- Financial sector being encouraged to reward the best performers and penalize the underperformers
- Net zero commitments in finance sector a key consideration going forward
 - Lower cost of capital
- Access to government capital important in some sectors
 - Further alignment of country-level and corporate-level climate commitments to come

■ Sustainable valuation premium

- 2020 McKinsey study showed that executives considering corporate acquisitions would be willing to pay 10 –15% more for a company with a positive ESG record

■ New structures and parameters

- One-off opportunity to help shape system-wide expectations and standards / increase readiness

Accelerating M&A activity involving climate or ESG firms

Buyer	Target	Target Type	Date
Goldman Sachs	NN Investment Partners	Asset Manager	August 2021
Moody's	RMS	Data / Analytics	August 2021
DuPont	KKS Advisors	Consulting	July 2021
AMG	Parnassus	Investment Firm	July 2021
Blackstone	Sphera	Software / FinTech	July 2021
AXA	ClimateSeed	Marketplace	July 2021
JPMorgan	OpenInvest	Software / FinTech	June 2021
BlackRock	Baringa Climate Change Scenario Model	Data / Analytics	June 2021
KKR	ERM	Consulting	May 2021
Deutsche Börse	ISS	Data / Analytics	February 2021
McKinsey	Vivid Economics & Planetrics	Data / Analytics, Consulting	March 2021
Perpetual Asset Management	Trillium	Asset Manager	July 2020
Morningstar	Sustainalytics	Data / Analytics	April 2020
MSCI	Carbon Delta	Data / Analytics	September 2019
Moody's	Four Twenty Seven	Data / Analytics	July 2019

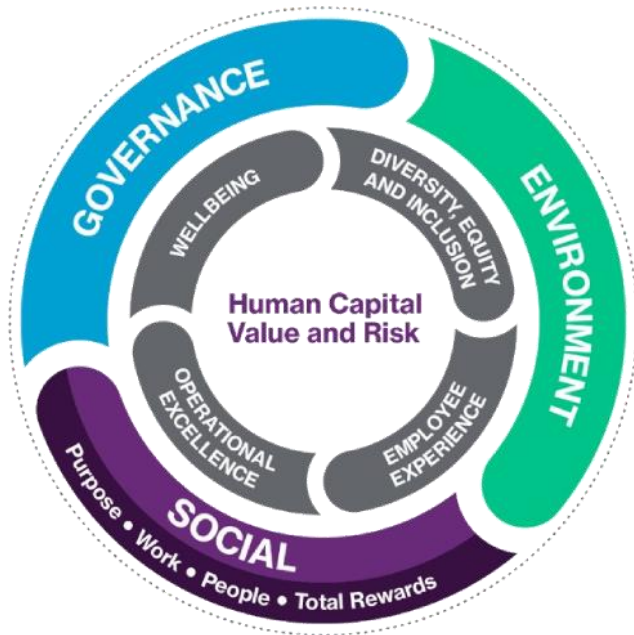
Source: Centre for Climate-Aligned Finance, Rocky Mountain Institute

POLL 2

Which ESG issues are most important to the companies you serve:

- Diversity, Equity and Inclusion
- Employee wellbeing
- Climate change/Greenhouse gas emissions
- Other environmental issues (such as water, pollution)
- Transparency around political engagement/lobbying

Assessing human capital value and risk



Home | Insights | Heatmap | [Export](#) | [Grid-view](#)

Company Scorecard



Overall Alignment:
Weak
46th %ile of all companies

Overview & Outcomes

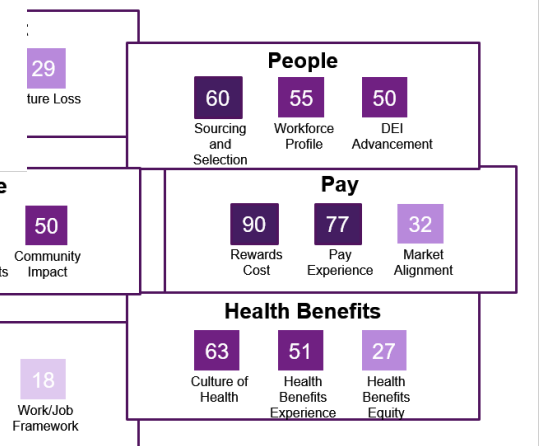
Wellbeing 75	Ways of Working: 79 Team Culture: 72 Culture of Growth: 70	Wellbeing 76	Ways of Working: 79 Team Culture: 72 Culture of Growth: 70
DE&I 76	Health Benefits Equity: 80 DEI Advancement: 73 Skills for the Future: 72	Other Focus Areas 70	Market Alignment: 73 Pay Mix: 72 Social Impact: 68 Flex Work Strategy: 68 Career Mobility: 67 Training & Development: 67
EX 74	Pay Experience: 74 Career Experience: 70 Wealth Benefits Experience: 66		

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Identified "High Priority" or "Most Concern"



Benchmark: ■ 75-100% ■ 50-75% ■ 25-50% ■ 0-25%

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We developed an integrated framework to address ESG, with a focus on Sustainable Human Capital Value and Risk Management, which we then translate into specific metrics



Total Rewards includes Pay, Health Benefits, Career, and Wealth Benefits

Integrated Themes: Common categories across multiple pillars

Focus Areas: Other categories and metrics, specific to each pillar, not linked by integrated themes

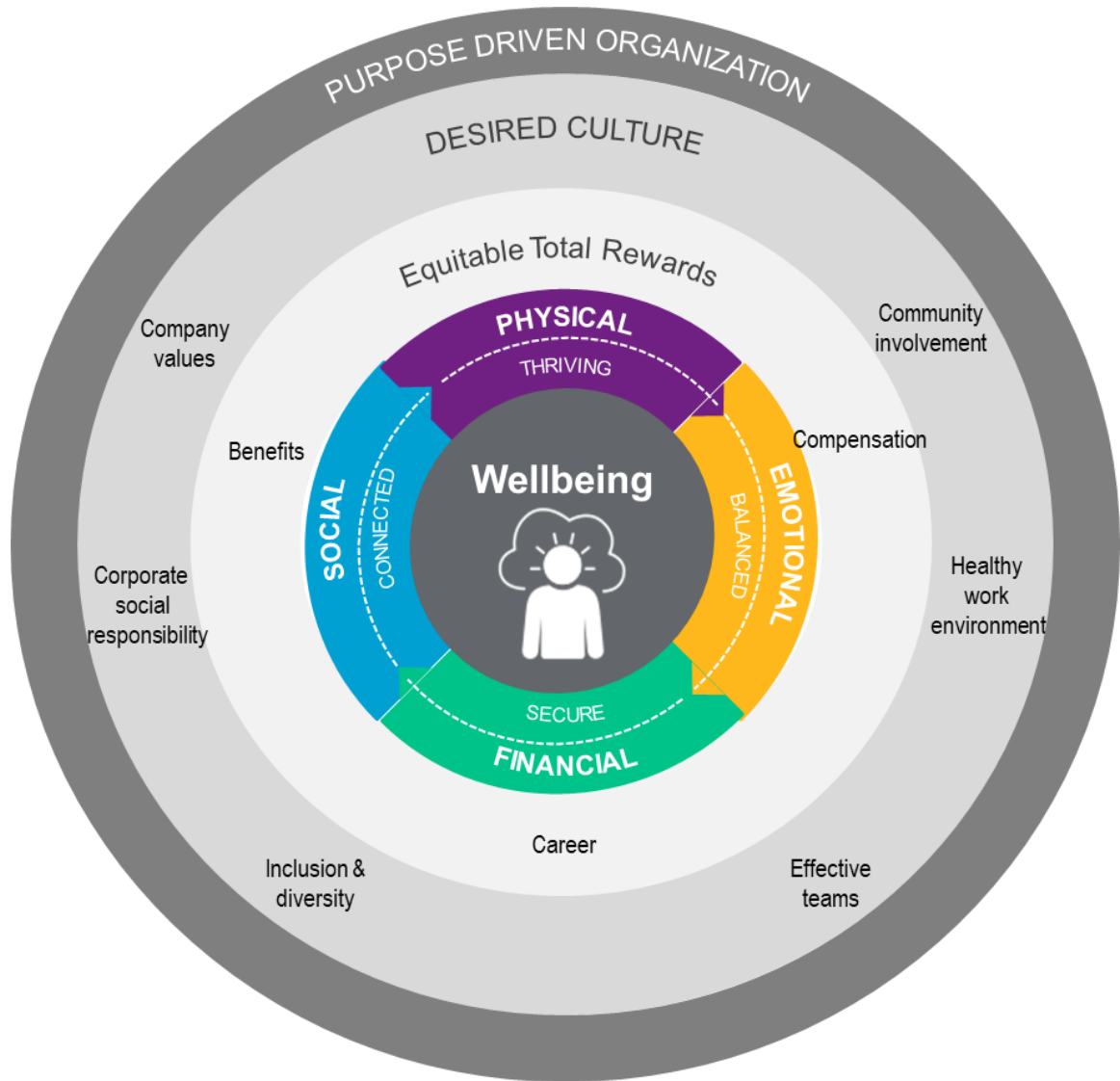
	Environment	Social				Governance
		Purpose	Work	People	Total Rewards	
Integrated Themes	Wellbeing					
	Diversity, Equity & Inclusion					
	Employee Experience (EX)					
	Operational Excellence (OX)					
Focus Areas (not integrated across pillars)	Environmental Focus Areas	Purpose Focus Areas	Work Focus Areas	People Focus Areas	Total Rewards Focus Areas	Governance Focus Areas

List of metrics commonly used by organizations — not meant to be exhaustive

Human Capital Value & Risk

		Environment	Social						Governance	
			Purpose	Work	People	Total Rewards				
						Pay	Health Benefits	Wealth Benefits		Career
INTEGRATED THEMES	Wellbeing	Attitudes Towards Environment	Purposeful Company Culture	Ways of Working	Team Culture	Pay Philosophy	Culture of Health	Culture of Financial Wellbeing	Culture of Growth	Culture of Compliance
		Actions to promote environmental wellbeing	Actions to promote Purpose	Healthy Work Environment	Wellbeing through Teams	Wellbeing through Pay	Wellbeing through Health Benefits	Wellbeing through Wealth Benefits	Wellbeing through Growth & Opportunities	Wellbeing Oversight
	Diversity, Equity and Inclusion	Environmental Determinants of Health	DEI Commitments	Skills for the Future	DEI Advancement	Pay Equity	Health Benefits Equity	Wealth Benefits Inclusion (Access, Quality, Value)	Equitable Career Access	DEI Oversight
	Employee Experience	Climate Experience	Strong Sense of Purpose	Doing great work in thriving organization	Engagement and Retention	Pay Experience	Health Benefits Experience	Wealth Benefits Experience	Career Experience	EX Governance
	Operational Excellence	Green Technology	Technology to deliver on core values	Technology to Optimize Work	Technology to Support Talent	Technology to "Deliver Pay"	Technology to Deliver Health Benefits	Technology to Deliver Wealth Benefits	Technology to Support Career Growth	Technology to automate processes
		Transparency of Actions	Purposeful Processes	Processes to Optimize Work	Processes to Support Talent	Processes to Deliver Pay	Processes to Deliver Health Benefits	Processes to Deliver Wealth Benefits	Processes to Support Career Growth	Compliance / Governance
Focus Areas <small>(not integrated across verticals)</small>	Climate Change	Purpose Statement	Work/Job Framework	Sourcing and Selection	Market Alignment	Market Alignment	Market Alignment	Training & Development	Governance and Oversight	
	Nature Loss	Corporate Values	Talent Segmentation Approach	Workforce Profile	Pay Mix / Pay for Performance	Financing / Cost	Financing / Cost	Career Mobility	Quality of Governing Body	
	Freshwater Availability	Employer Reputation / Brand	Flexible Work Strategy	Employee Health & Safety	Rewards Cost		Liability Management	Coaching, Mentoring, Sponsorship	Disclosure & Reporting Compliance	
	Air and Water Pollution	Community Impact	Optimal Organization Structure	Performance	Recognition				Ethical Behavior	
	Waste	Social Impact	Enablement of Innovation	People leader effectiveness					Risk and Opportunity Oversight	
			Cost & Return of Work							


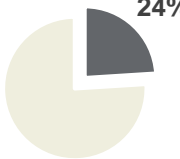
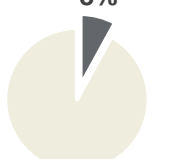






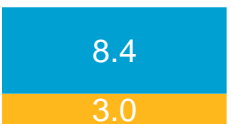
The human capital landscape is changing to center around employee wellbeing



- Wellbeing is not an isolated program or initiative
- Wellbeing is purpose-driven and woven into the fabric of organizational values and the Employee Experience
- It is inextricably linked to a myriad of:
 - Policies
 - Programs
 - Benefit offerings
 - Desired culture
 - Productivity improvement
 - Longer term organizational talent retention
 - Sustainability of business results

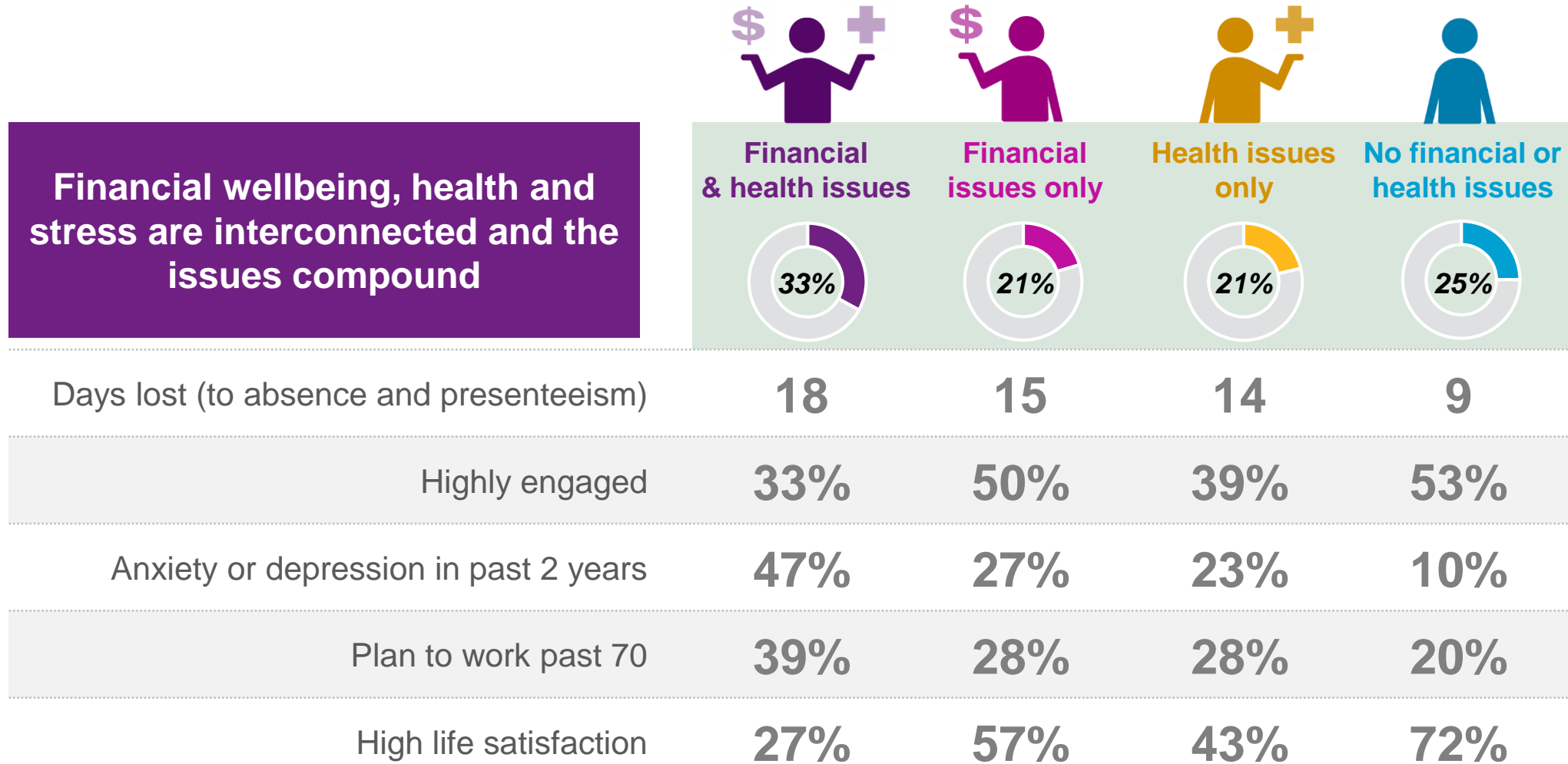
The business case for financial resilience

Employees with low financial resilience are more likely to have poor health and be less productive at work

	Low financial resilience Cannot pay 6 months of household bills if the need arose	High financial resilience Can pay 6 months of household bills if the need arose
 <p>Poor health</p>	 <p>24%</p>	 <p>8%</p>
 <p>Suffered stress, anxiety or depression in past 2 years</p>	<p>44%</p>	<p>18%</p>
 <p>Money concerns keep me from doing my best at my job (% agree / strongly agree)</p>	<p>25%</p>	<p>13%</p>
 <p>Days lost to absence and presenteeism</p> <p>To presenteeism </p> <p>To absence </p>	 <p>14.1 3.8</p>	 <p>8.4 3.0</p>

Sample: Full-time employees only. Source: 2019 Global Benefits Attitudes Survey, United States

The business case for holistic health and financial solutions



Note: Employees with health issues have fair, poor or good health (but not very good).

Sample: Full-time employees only.

Source: 2019 Global Benefits Attitudes Survey, United States

Case study — Organization ABC

ULTIMATE GOALS

Enhancing ABC's resilience

Enabling strategic risk action

PROJECT DELIVERABLES

Phase I

Identification and prioritization of ABC's significant risks



Phase II

Risk and intervention option quantification and identification of priority actions

We are here



Phase III

Outline of multi-year plan and implementation of immediate priority actions

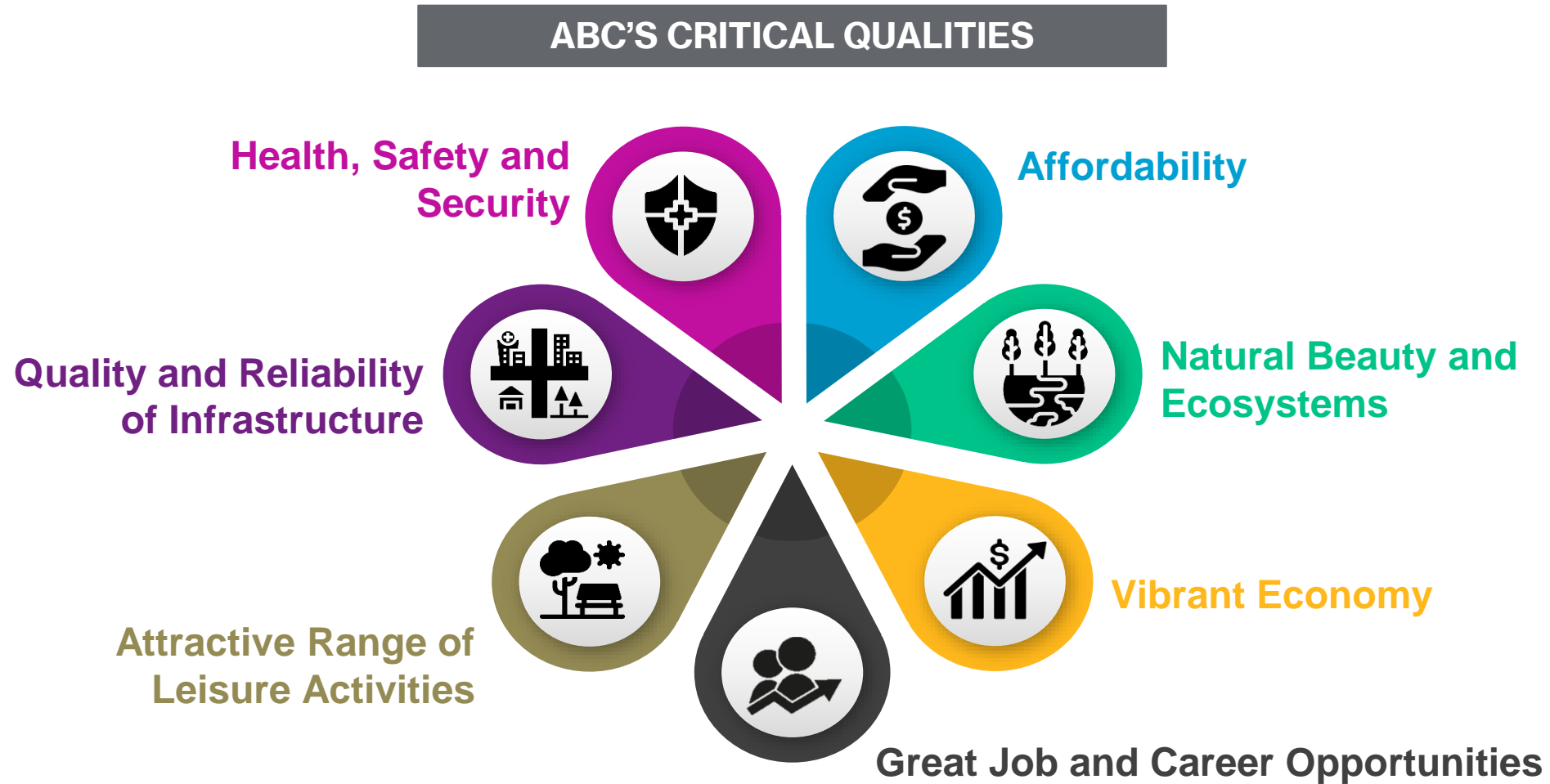
CRITICAL FOUNDATIONS

10-year view

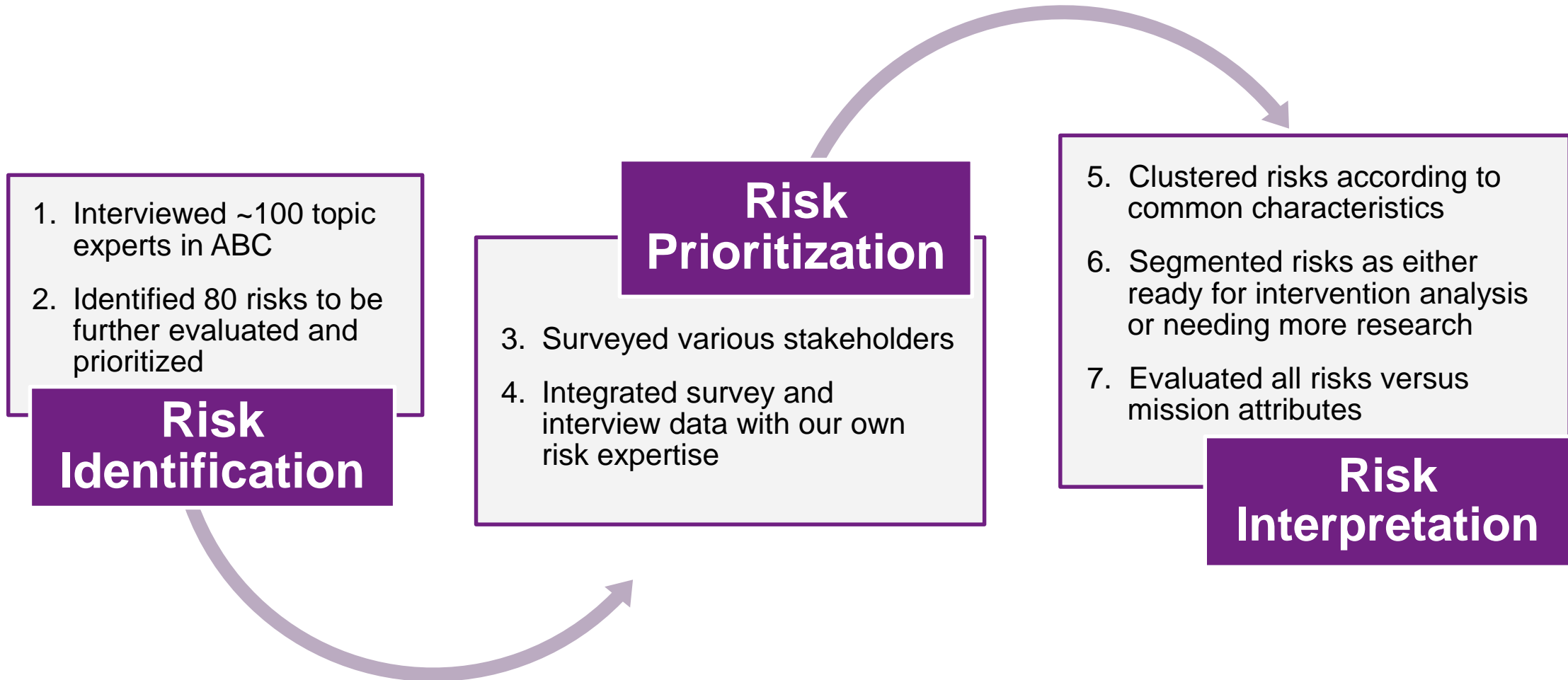
Economic and wellbeing framework

Underlying vulnerabilities

At the beginning, we confirmed that the risk strategy would protect the organization's mission and the qualities that support it

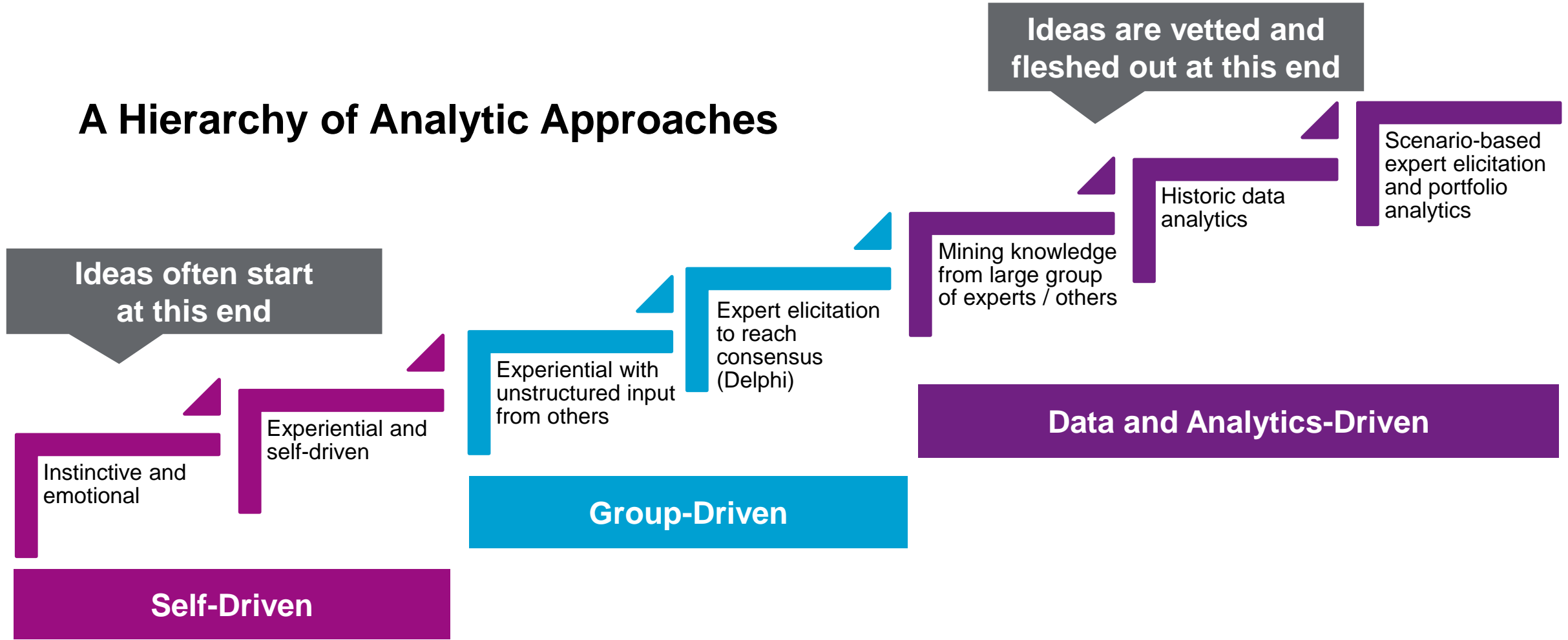


Phase 1: Various stakeholders within ABC were then gathered to identify all risks, which were prioritized based on perceived likelihood and impact, and alignment with ABC's mission



Credible, fact-based analytic approaches are employed to quantify risks as well as opportunities and to prioritize investments in both

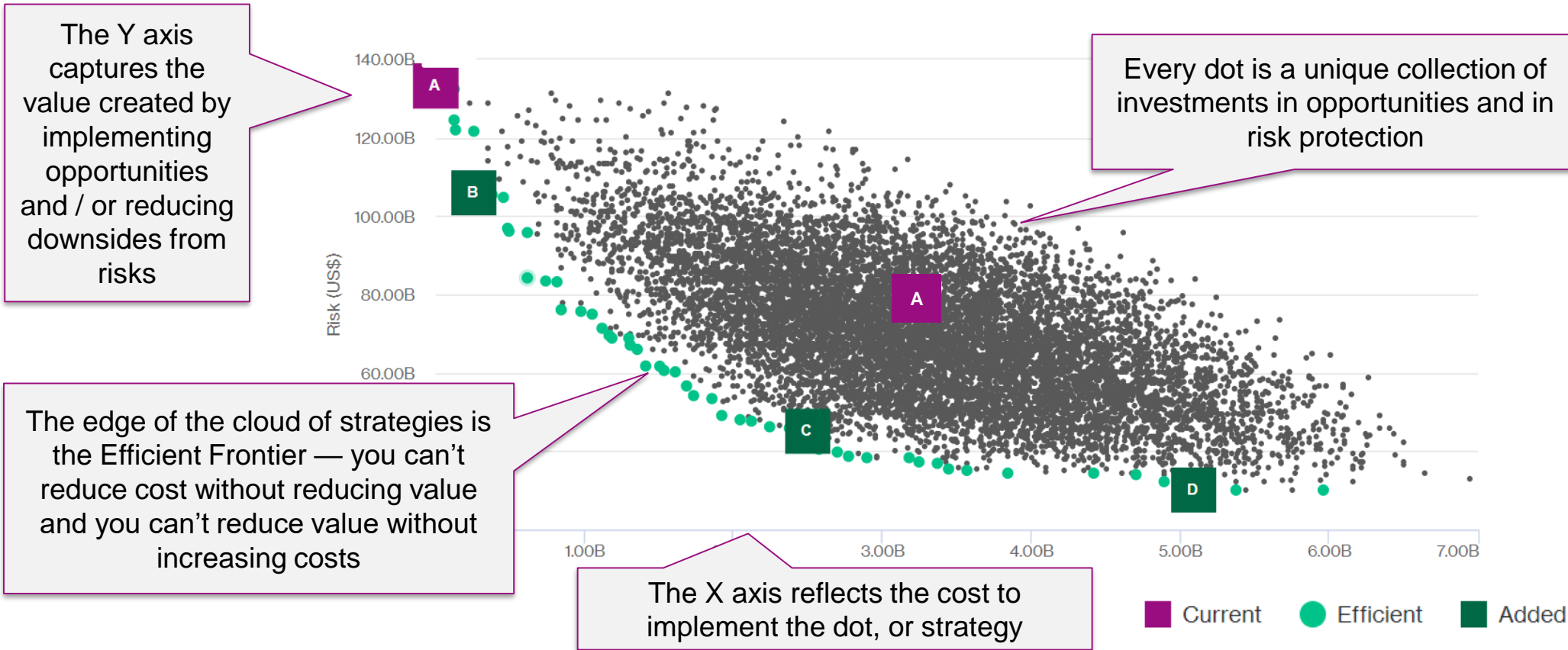
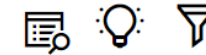
A Hierarchy of Analytic Approaches



Investment alternatives in opportunity generation and risk reduction are compared in the same framework

The aim is to move the company to the 'efficient frontier' of strategy alternatives

Cloud of possible portfolios over a 10 year time horizon



POLL 3

How are ESG risks and opportunities likely to be treated by your Board in three-to-five years:

- With greater attention
- With same/similar attention as today
- With less attention

