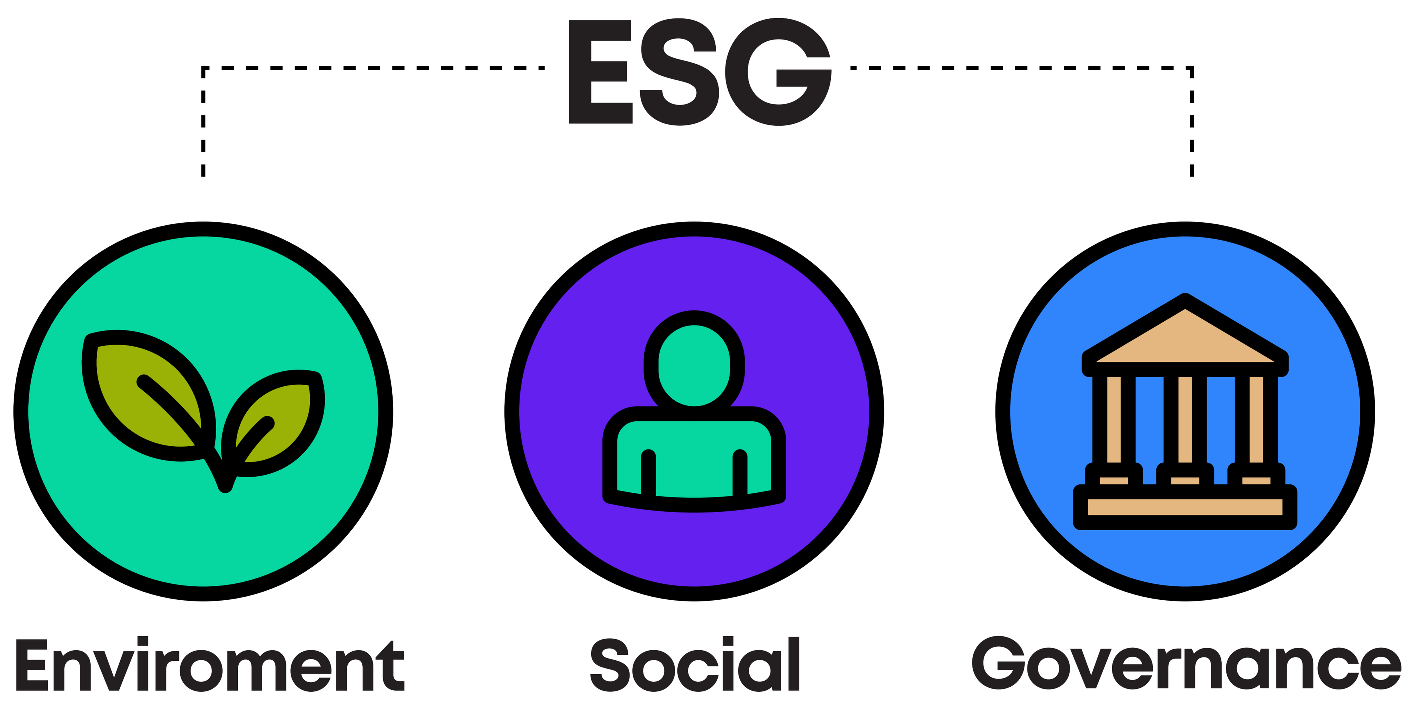
Exacture

Why is ESG Important for Companies and Their Boards?



Improved Access to Capital

ESG is the product of the 2004 collaborative initiative between the **UN Global Compact and CEOs** of more than 20 major financial institutions with assets under management (AUM) of over USD $6 trillion. The initiative establishes that integrating environmental, social, and governance issues into investment decision-making, and thus capital markets, reduces business risk, improves long-term corporate performance, strengthens financial markets, and delivers more sustainable outcomes for society.

Businesses with **better ESG performance** tend to be more sustainable, provide better long-term returns to investors, and will have greater access to the ever-growing pools of ESG capital. Conversely, businesses with poor ESG performance – or those that do not embed ESG factors into corporate performance reporting – will increasingly be se en as riskier, less sustainable, and will be less able to access capital.

Improved Risk Management

As the world changes, environmental and social factors increasingly and irreversibly impact our lives. The externalities of businesses (environmental and societal impacts of a product or service not included in – or external to – the cost associated with the production, use, or disposal of that product or service) are increasingly being seen for what they truly are which is a risk to the sustainability of a business.

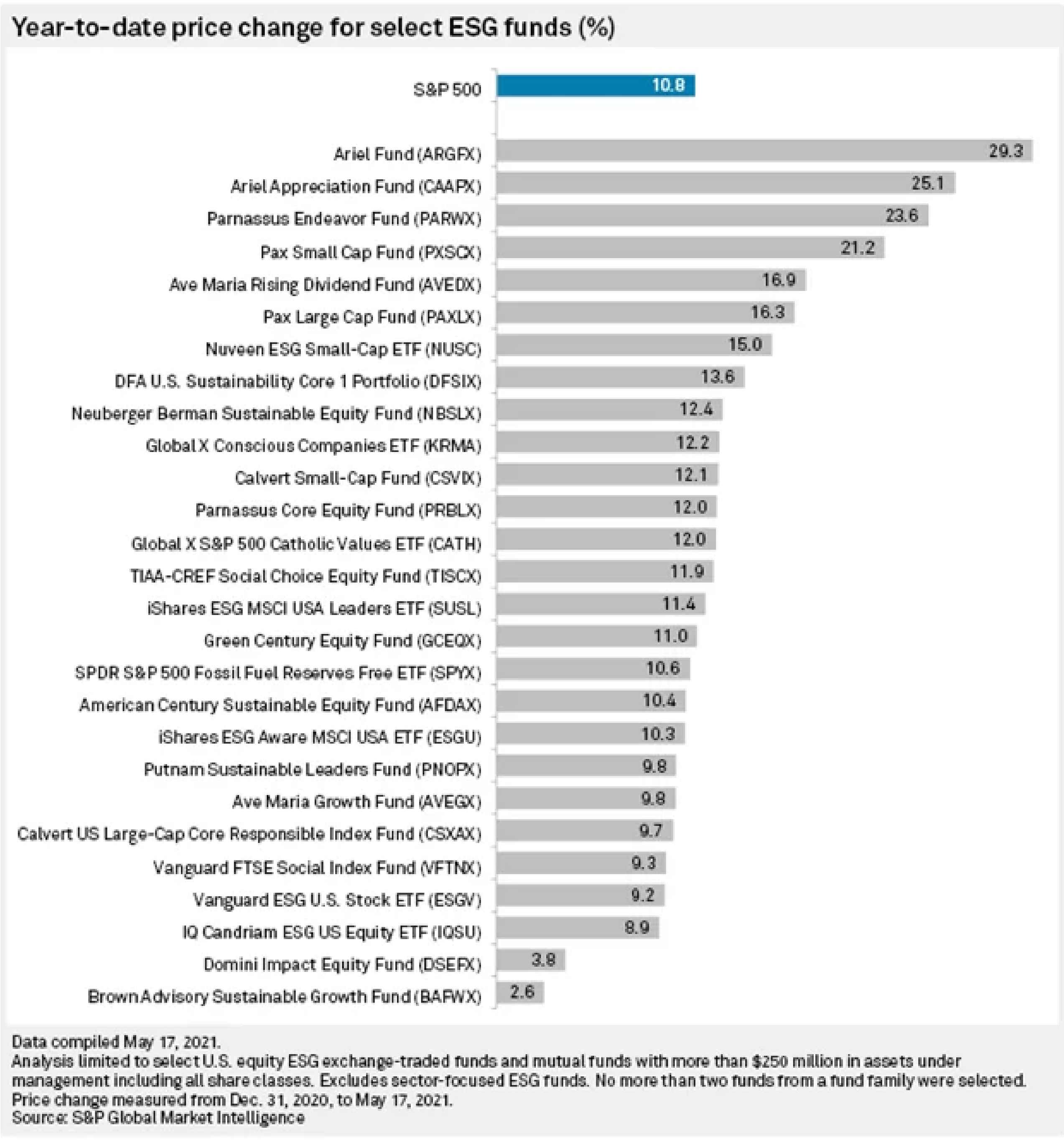
In practice, therefore, **ESG is the assessment of a company's risk**, externalities, and management activities in relation to all its stakeholders: workers, communities, customers, shareholders, and the environment. It is the new lens by which investors, employees, and society at large view the companies they invest in, work for, and buy from.

Better Financial Performance

As concluded in the 2004 **UN Global Compact report Who Cares Wins** – 'in a more globalised, interconnected and competitive world', the improved management of environmental, social and corporate governance issues will 'increase shareholder value' and 'have a strong impact on reputation and brands, an increasingly important part of company value'.

By incorporate ESG thinking into governance and management, a business regularly and systematically assesses both financial and non-financial factors that could affect their long-term sustainability. ESG-led businesses thus have a wider, deeper and longer-term view of the risks and opportunities that could impact their operations.

They are better armed to identify risks sooner, manage them better and simultaneously recognize opportunities to take advantage of them. In our rapidly changing world, **ESG provides a business with the framework** for better risk manage, improved social and environmental sustainability, and better overall financial performance.



Source: S&P Global Market Intelligence

Increasing Risk in Not Embracing ESG

The world around us is changing fast and so to is investors' tolerance towards businesses with poor governance practices, and/or unsustainable environmental or social impacts. Today, corporate ESG leaders are enjoying access to, and the inclusion in, an ever-increasing pool of ESG funds.

Businesses that ignore ESG do so at their peril as there are clear indications of significant and increasing financial risks in being an ESG laggard.