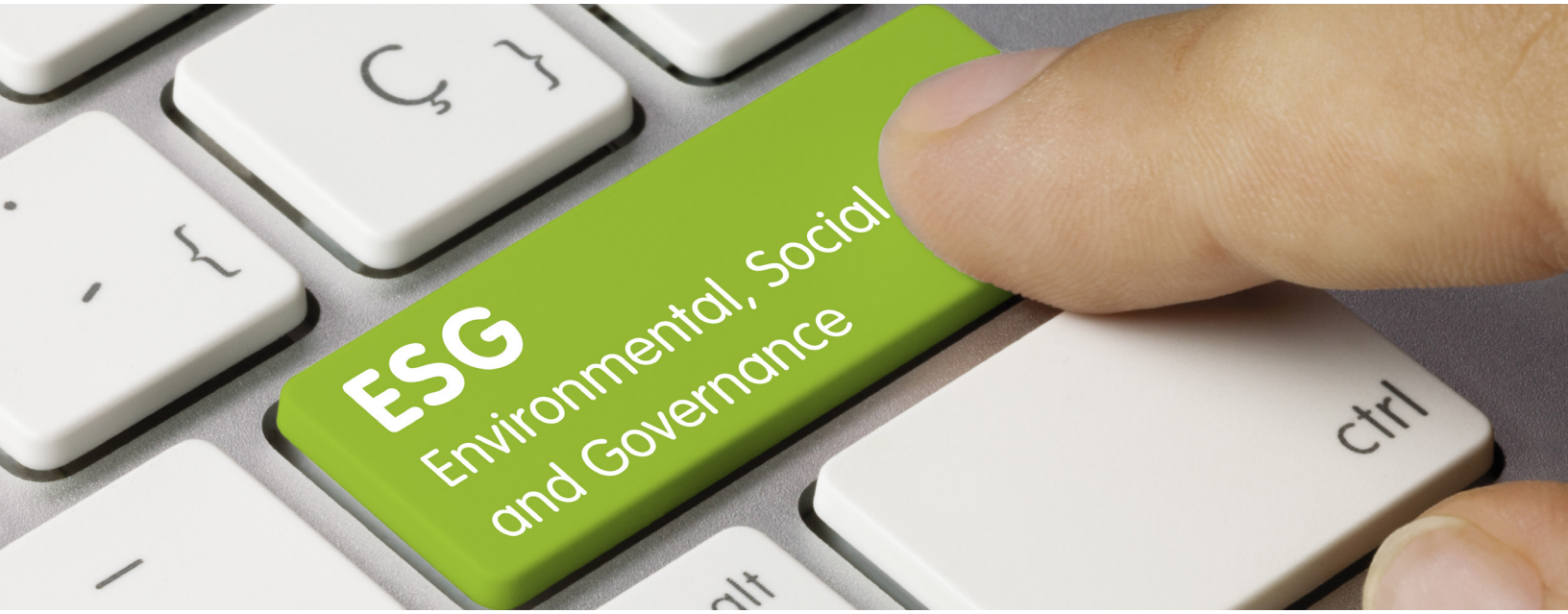
Environmental, Social, and Corporate Governance



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What is ESG?

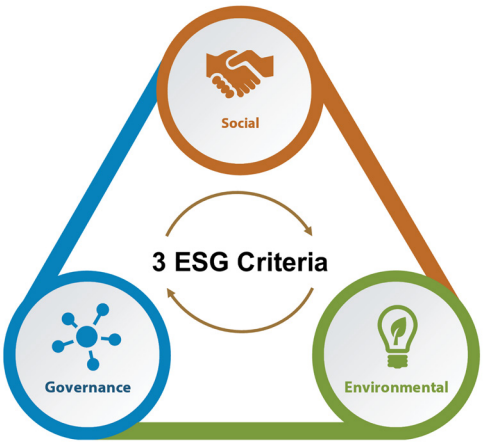
Environmental, Social, and Corporate Governance, otherwise known as "ESG" is a set of criteria used to assess a company's operational performance as it relates its financial prospects. This measure is used in enhancing corporate transparency; thereby enabling investors to identify companies with values similar to theirs.

ESG serves as an effective framework for investors and public organizations to better understand the company's long-term value creation. According to NASDAQ, "ESG information is not just text but data, focusing on the performance that is measurable, manageable, actionable, and reportable".

Environmental Criteria—Focuses on evaluating a company's environmental footprint by assessing its energy consumption, waste generation, utilization of resources, and quantity of pollutants discharged or emitted.

Social Criteria—Examines the company's relationships with external stakeholders who may include its business partners and surrounding communities.

Governance Criteria—Assesses a company's transparency as it relates to its accounting methods, ethics and compliance, and other internal affairs.



The 17 Sustainable Development Goals

Sustainable Development Goals (SDGs) can provide background and direction for identifying and defining ESG risks and objectives. The SDGs may be used to direct development of targets and goals that are precise enough to be addressed by direct business activities while others can be addressed through a firm's management of its supply chain and its own governance.

The SDGs include 17 ambitious objectives:

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
3. Ensure and promote well-being for all at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower all women and girls.
6. Ensure availability and sustainable management of water and sanitation for all.
7. Ensure access to affordable, reliable, sustainable, and modern energy for all.
8. Promote sustained and inclusive economic growth, full and productive employment and decent work for all.
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities and human settlements inclusive, safe, resilient and sustainable.
12. Ensure sustainable consumption and production patterns.
13. Take urgent action to combat climate change.
14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.
15. Protect and restore sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, reverse land degradation, and halt biodiversity loss.
16. Promote peaceful and inclusive societies for sustainable development; provide access to justice for all; and build effective, accountable, and inclusive institutions at all levels.
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Overall, a focus on ESG can help an organization understand the positive impact it can drive while managing any risks its operations may have on customers, investors, employees, and communities. It is another way to assess an organization's success beyond the balance sheet and examine how it impacts the world we live in.

As the global investment firm PIMCO (2017) noted, "the United Nations Sustainable Development Goals (SDGs) can serve as one framework for measuring impact in ESG-focused fixed income strategies."

Who is talking about ESG?

Even though the term ESG was coined in 2005 from a report titled "Who Cares Wins," investors today are embracing, and even promoting, ESG integration into their business models more than ever.

Due to the higher number of investors and investors adopting ESG, public companies are beginning to change their reporting practices to better reflect their commitment to sustainability and other ESG issues.

On the other hand, private companies are not involved in reporting ESG data. However, those who aspire to go public or be acquired, will be more attractive to investors and buyers if they have a strong ESG focus and the infrastructure in place to mitigate risks. Adopting ESG principles will help a private company differentiate itself from the competition.

Regardless of whether the company remains private or goes public, evidence indicates that ESG factors are critical to understanding its full risk profile and how prepared it is to meet future challenges.

Why is ESG important?

ESG helps companies, external and internal stakeholders, and asset managers.

To investors, factoring ESG data helps:

- Create awareness of the effects of various environmental impacts,
- Generate a high-quality return stream that is likely to be more stable over the long term and,
- Understand the changing demographics of the global investor base.

To asset managers, incorporating ESG risks into investment decisions helps them gain a fundamental understanding of the key risks and opportunities associated with each company or asset.

To companies, ESG helps to improve their long-term social and environmental impacts.

There is a growing body of academic and analytic evidence suggesting that ESG excellence correlates with other benefits, such as lower costs of capital, reduced shareholder turnover, and enhanced talent recruitment and retention.

NASDAQ's 2019 Reporting Guide

What are companies doing to lead the charge in this area?

Companies are making significant strides with their ESG data by enabling transparency with their business practices such as corporate responsibility data disclosure, political contributions, and management diversity; developing strategic plans to reduce their climate footprints and climate risk exposures; and implementing gender identity, racial diversity, and sexual orientation non–discrimination policies.

How can Apex help?

Apex offers consulting services to identify and manage your ESG risks and opportunities through materiality assessments, performance evaluations, gap assessments, and reviews of ESG-related policies and governance structures.

Once risks are identified, we can develop a comprehensive set of recommendations and then work with your organization to create an action and implementation plan to build a highly effective ESG program.

If you are reporting ESG metrics and material subjects through corporate social responsibility reports and other venues, Apex can provide gap assessments and report assurance to improve reporting and maintain transparency with your target readers and stakeholders.

References:

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ESG Self Assessment

We recommend you start by looking at the following five (5) questions which will help to address where your ESG program currently stands:

1. What are the main ESG issues associated with your company's business activities?
   - Do you manufacture products? If so, your challenges may be focused on natural resource conservation, supply chain, labor practices, community interaction, waste reduction and environmental protection.
   - Or are you a services company? If so, your challenges may be more focused on the corporate governance and internal policies such as inclusion and diversity.
   - Is your company global? If so, you may have challenges related to supply chain, internal stakeholders, or neighboring communities.

2. What strategies, policies or specific measures, if any, has your firm already implemented with energy efficiency, carbon efficiency, waste management, and water management?

3. Does your ESG program specifically addresses the 17 Sustainable Development Goals (SDGs)?

Yes	No	Not Sure		Yes	No	Not Sure	
☐	☐	☐	No Poverty	☐	☐	☐	Reduced Inequalities
☐	☐	☐	Zero Hunger	☐	☐	☐	Sustainable Cities and Communities
☐	☐	☐	Good Health and Well-Being	☐	☐	☐	Responsible Consumption and Production
☐	☐	☐	Quality Education	☐	☐	☐	Climate Action
☐	☐	☐	Gender Equality	☐	☐	☐	Life Below Water
☐	☐	☐	Clean Water and Sanitation	☐	☐	☐	Life on Land
☐	☐	☐	Affordable and Clean Energy	☐	☐	☐	Peace, Justice and Strong Institutions
☐	☐	☐	Decent Work and Economic Growth	☐	☐	☐	Partnerships for the Goals
☐	☐	☐	Industry, Innovation and Infrastructure				

4. To whom (which stakeholders) and how frequently does your organization release its ESG reports?

5. Have you and your leadership identified the corporate governance system and risk management measures?

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