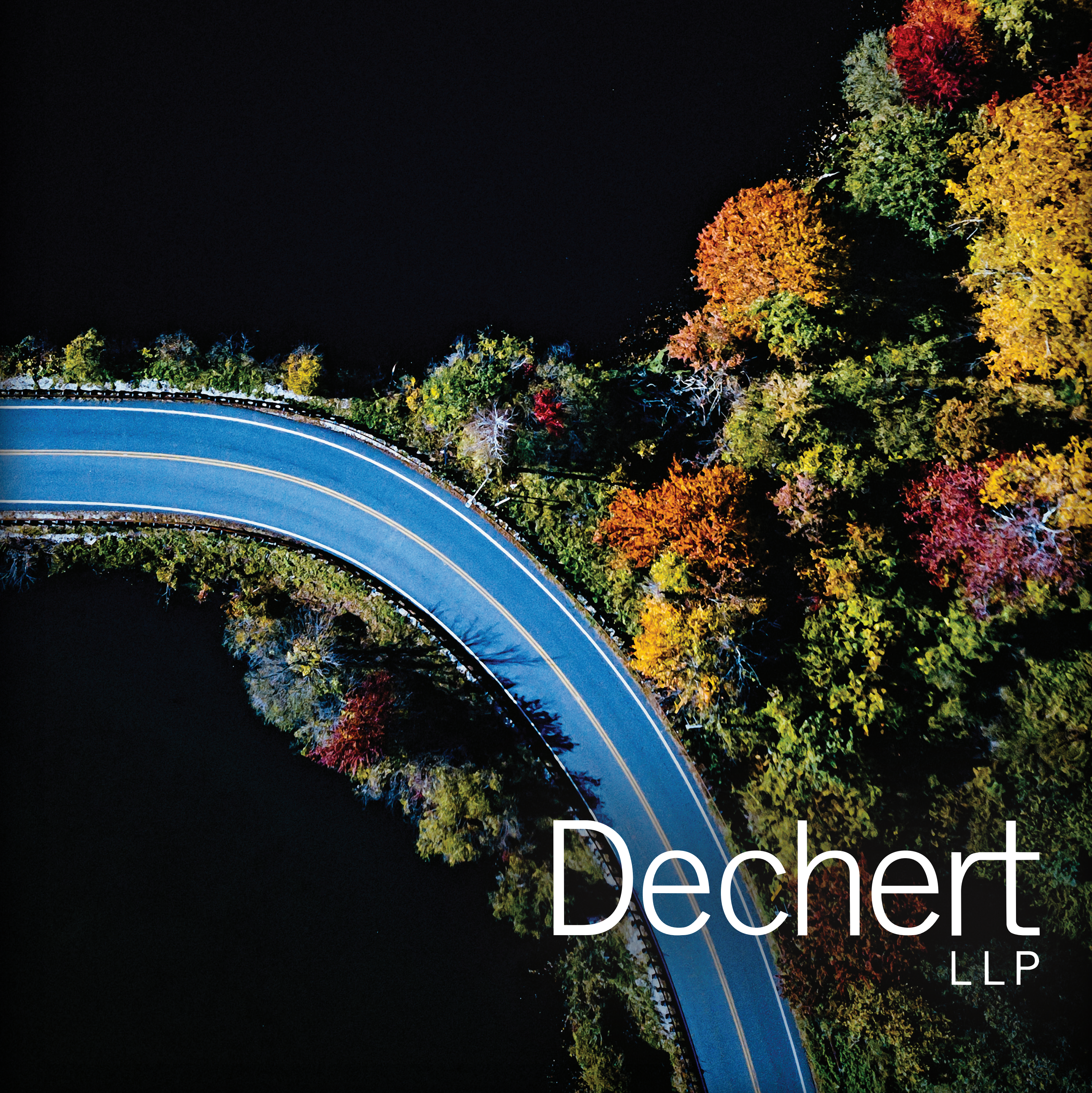
Rising Tide of ESG: Primer for U.S. Corporate Issuers and Investors Webinar Series

Key Takeaways



Dechert LLP

Environmental, Social and Governance (ESG) continues to be a prominent issue facing corporate issuers and investors in the United States.

During the three-part webinar series “Rising Tide of ESG,” Dechert lawyers were joined by industry experts to discuss a broad range of trends and developments impacting the world of ESG.

The key takeaways from the three panels are highlighted in the following pages.

Session One: Core Principles: ESG Five Ws

In session one, the panel discussed how ESG is defined, and why it is a heightened focus for investors, issuers and other market participants in the United States. Specifically, the panel discussed how the ESG movement is developing rapidly as a new world order emerges where investors are more adept at analyzing a business's impact on the world and society, and where regulators are doing more to define the green and sustainable agenda. Our panelists noted:

- ESG generally – and sustainability in particular – should not be seen as a cost to a business, but an investment in its future, providing it with a license to operate.
- The European Commission's Sustainable Finance and EU Taxonomy helps investors by defining what is green and sustainable. Although initially focused on environmental issues, it is expected to move onto social priorities and provide a global benchmark for other authorities to build on. This could become a model for a similarly developed framework in the United States.
- Effective corporate governance requires the right kind of oversight by Boards of Directors and executive compensation structures that incentivize ESG commitment and performance.
- Longer term ESG aspirations should be supplemented by short- and medium-term targets, as current Boards and management teams will not be in place in 2050.
- Businesses should not hesitate in beginning the process of ESG reporting, even before pushed to do so by investors or regulators. It may not be perfect from the start, but it can be modified and improved along the way.
- There will be more rules around ESG disclosure in the coming years, resulting in a melting pot of regulatory frameworks and differing evaluations by investors.

Panelists:

Abbi Cohen
Partner
Dechert LLP

Stephen M. Leitzell
Partner
Dechert LLP

Marc Lindsay
Managing Partner and Director of Research
Sustainable Governance Partners

Ana Carolina Oliveira
Head of Sustainable Finance covering the Americas region
ING Capital LLC

View recording here.

Session Two: Greener Pastures: ESG in Debt and Equity Investing

In this second session, panelists discussed the increasing focus on ESG by PE firms, corporate borrowers and lenders driven by new regulations, concerns regarding climate risk and impact to the environment, supply chain sustainability, diversity and inclusion, workplace health and safety, and board-level accountability. In particular, lenders and investors are looking for strong ESG credentials in borrowers and issuers as key indicators of future performance, but accessing that information is not always straightforward. As investment and lending decisions are increasingly influenced by ESG considerations, debt and equity investing will be transformed over the coming years. Our panelists indicated that:

- ESG principles are becoming a critical element in gaining market share, improving operating performance, engaging employees and raising capital.
- When a business assesses its value proposition to stakeholders, it must overlay ESG principles to enhance that value, taking into account its specific business priorities.
- PE firms and operating companies are employing bespoke metrics to monitor and evaluate ESG principles, which make it challenging for the market to coalesce on standards.
- European Commission regulations have spurred innovation in green and sustainable investing/lending, which is likely to be felt worldwide; but U.S. regulators (including the SEC) are less prescriptive.
- The bond market is more advanced than equities in ESG disclosure, where focus is generally tied to impact to the environment and sustainability.
- Sustainability-linked loans and bonds are becoming increasingly sophisticated, providing capital that is aligned with ESG performance.
- Private companies do not fall under the same disclosure obligations as public companies, but bodies such as the Loan Syndications and Trading Association (LSTA) are developing transparency through due diligence questionnaires for loans and refinancings, along with other initiatives.
- There are established metrics for assessing green and environmental credentials, and methods of measuring social impacts are far less developed. However, regulators such as the SEC are increasingly focused on diversity and inclusion.

Panelists:

Sarah Gelb
Partner

Allison Gosselin
Director, Environmental, Social and Governance
Graham Partners

Christian A. Matarese
Partner
Dechert LLP

Tess Virmani
Associate General Counsel & Executive Vice President – Public Policy, Head of ESG
LSTA

Naz Zilkha
Partner
Dechert LLP

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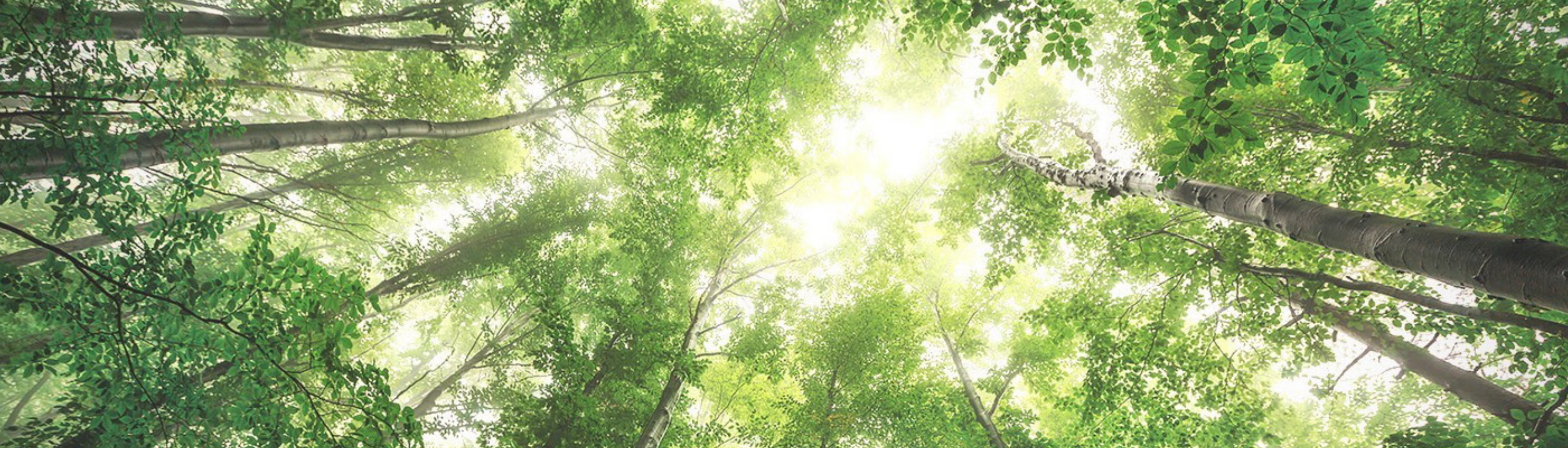

Session Three: Practice Makes Progress: Improving Your ESG Profile

In the third session, the panelists took a more granular look at ways in which private and public companies could engage with ESG performance. Many companies are charting their own courses for developing ESG policies and strategies without a specific template – in part because current U.S. standards are based more on principles than directives, and each organization has different characteristics, goals and stakeholders. Our panelists noted:

- ESG strategies arise from discussions between companies and their management, investors and other stakeholders, including employees and customers. Effective strategies that efficiently allocate resources should establish material, measurable objectives that are specific to the organization, and prioritize addressing any significant gaps.
- Organizations should develop clearly communicated plans to advance their ESG goals. Plans should involve visible buy-in from the C-Suite to demonstrate top-down support.
- One obstacle to ESG gains is the cognitive bias of the abstract acronym "ESG." To overcome this, companies should identify topics that resonate with employees on a personal level, such as climate change, diversity, equity and inclusion, and employee health and safety. Teams should broadcast specific ESG wins, and individuals should be recognized for their work, which could include remuneration.
- Internally, companies can advance their ESG agendas via education and cross-group collaboration. Externally, companies can improve their ESG profiles with tailored disclosures, which could include working with third-party verification services to provide ESG scores or other reports. These steps may be beneficial for both public and private companies, notwithstanding many U.S. frameworks currently focusing on public issuers.

Panelists:

Maayan Beeber
Director
Sustainalytics Corporate Solutions

Alex Gonzalez
General Counsel and Corporate Secretary
Braven Environmental

Rick S. Horvath
Partner
Dechert LLP

Angelina X. Liang
Partner
Dechert LLP

Kate Macauley
Vice President, ESG - Private Equity Lead
Ares

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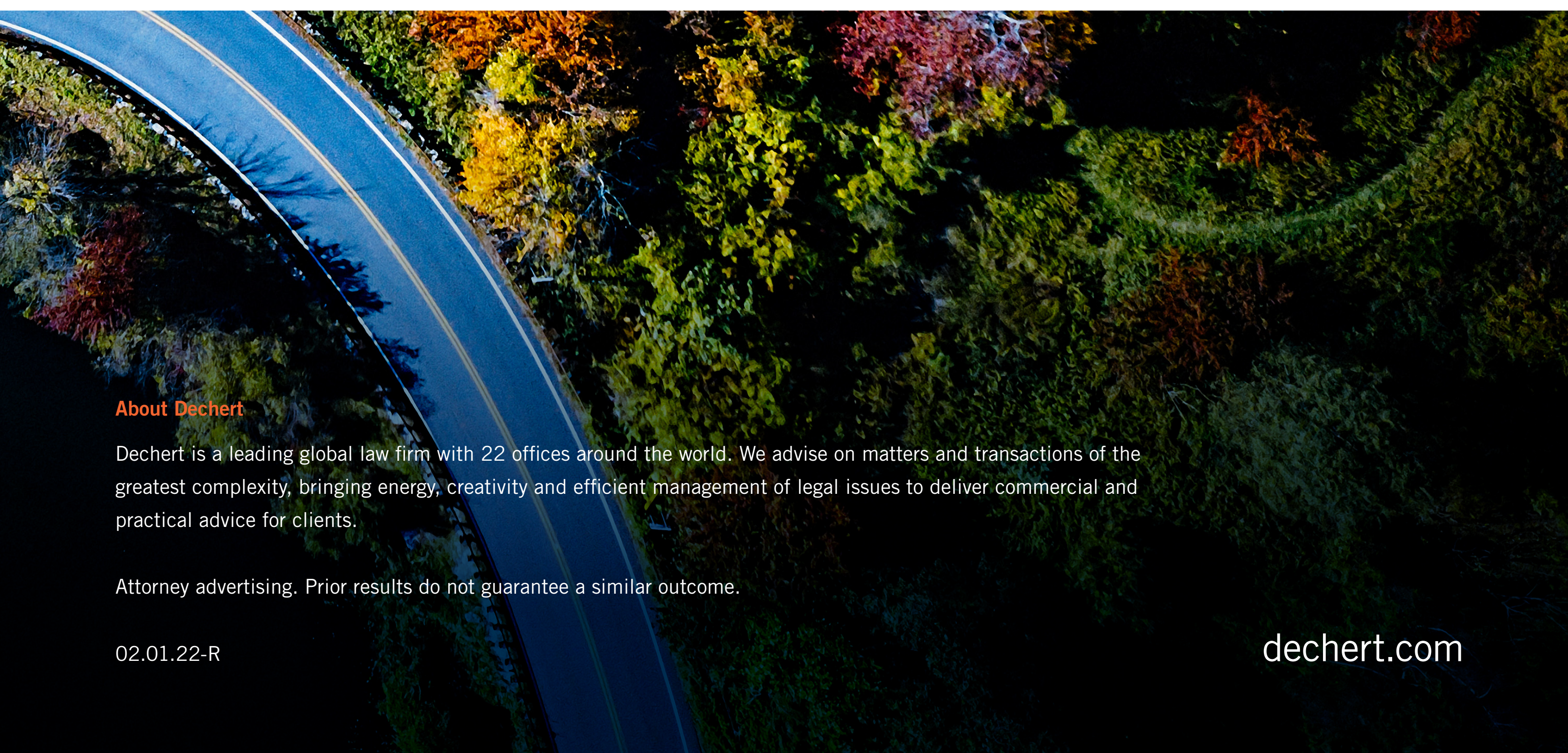

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