AHFA – ESG: It's Not Just for Public Companies

August 10, 2023

Empowering Trust®

Why is UL Solutions here?

A global leader in applied safety science, UL Solutions transforms safety, security and sustainability challenges into opportunities for customers.

Our
15,000+
mission-driven employees work in

40+
countries around the world

About ESG

ESG is a collective term for a business' impact on the environment and society as well as how robust and transparent its governance is in terms of company leadership, executive pay, audits, internal controls, and shareholder rights.

It measures how business **integrates environmental**, **social,** and **governance** practices into **operations**, as well as its business model, **its impact**, and its **sustainability**.

The three components that make up ESG are **environmental**, **social** and **governance**.

Market drivers

ESG investors are making decisions
based on objectives for:

Reducing risk

Increasing returns

Screening out undesirable investments

Generating positive sustainability impacts

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

UN CLIMATE CHANGE CONFERENCE UK 2021

SUSTAINABLE DEVELOPMENT GOALS

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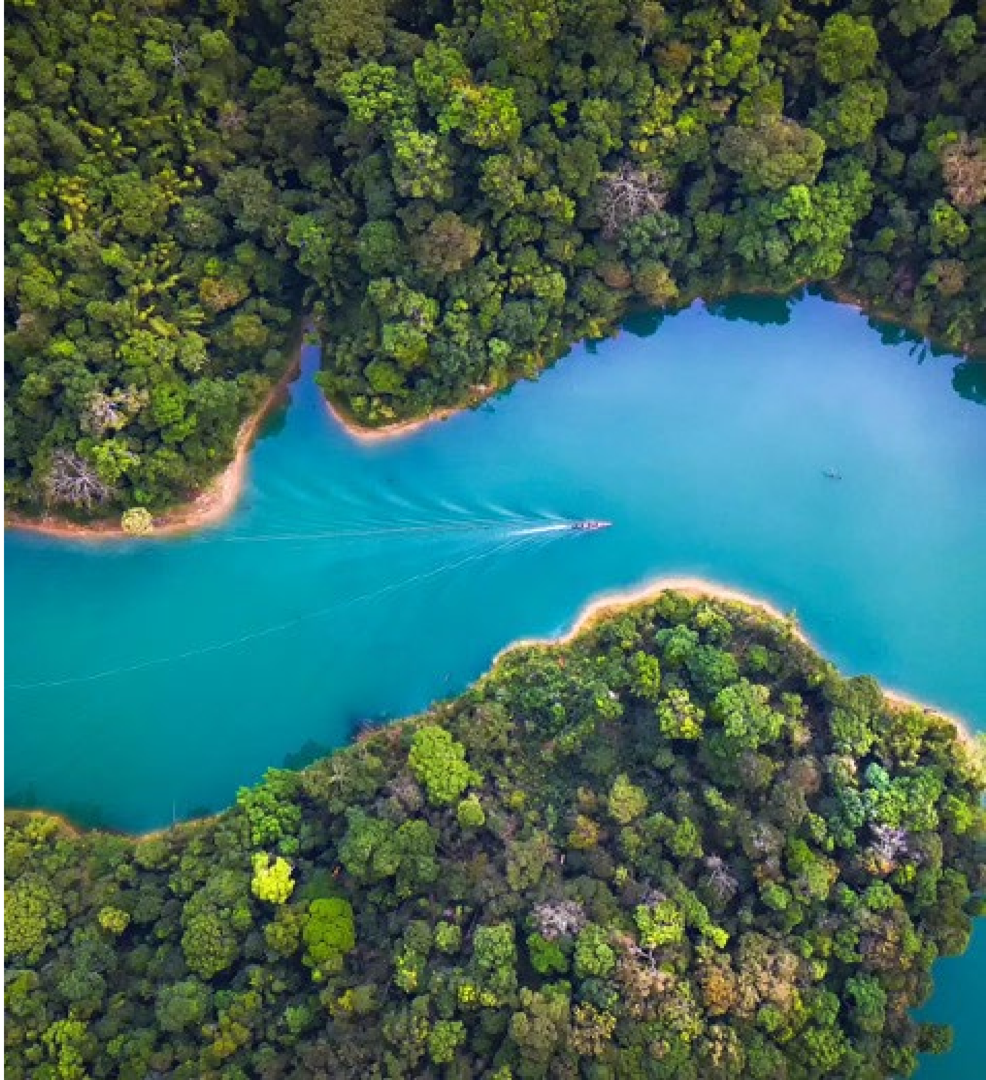


ESG performance is important to customers for 5 reasons

1 Business Partners	2 Consumer and NGOs	3 Regulatory Requirements	4 Operating Performance	5 Investors
Companies which do not conform to ESG related metrics and standards (e.g. CDP ratings) may not be able to do business with partners	Consumers are choosing to buy brands marketed as 'sustainable' NGO groups highlight company performance an failings to a wide audience on specific topics	National stock exchanges are increasingly reporting requirements in addition to specific ESG related polices such as carbon taxes	Attention to ESG can lead to product and service innovation and bring gains in efficiency	Companies which do not report or report poor results vs. standards, peers and benchmarks may be divested
Liberty Global working for British Telecom (18% of annual revenue)	WeWork telephone booths	2% of Singaporean companies disclose Carbon Footprint data. Now Mandated by SGX.	Signify – Circular Economy, Lighting as a Service.	See Volvo, later

Big 3 are clear on what their attitude to ESG

Vanguard

When a Vanguard fund..invests ..we expect that the fund **may hold shares of that company conceivably forever**. The way a board governs a company— including its oversight of material environmental and social risks—**should be aligned to create sustainable value long into the future**

Glenn Booraem, Vanguard Investment Stewardship Officer

State Street

“In the past, some have mistakenly assumed that our **predominantly passive management style** suggests **a passive attitude with respect to corporate governance. Nothing could be further from the truth.”**

William McNabb, Chairman and CEO

BlackRock

‘we will be increasingly disposed to **vote against management and board directors** when companies are not making **sufficient progress on sustainability-related disclosures**’

Larry Fink Chief Executive

Source: Company documents, press releases and news articles

And they are taking direct action with companies… including our clients

Blackrock commentary on Volvo 2020 AGM resolutions

Volvo

Blackrock owns ~1.7%

We voted AGAINST all key resolutions *outlined above given our concerns about progress on climate-related risks reporting*

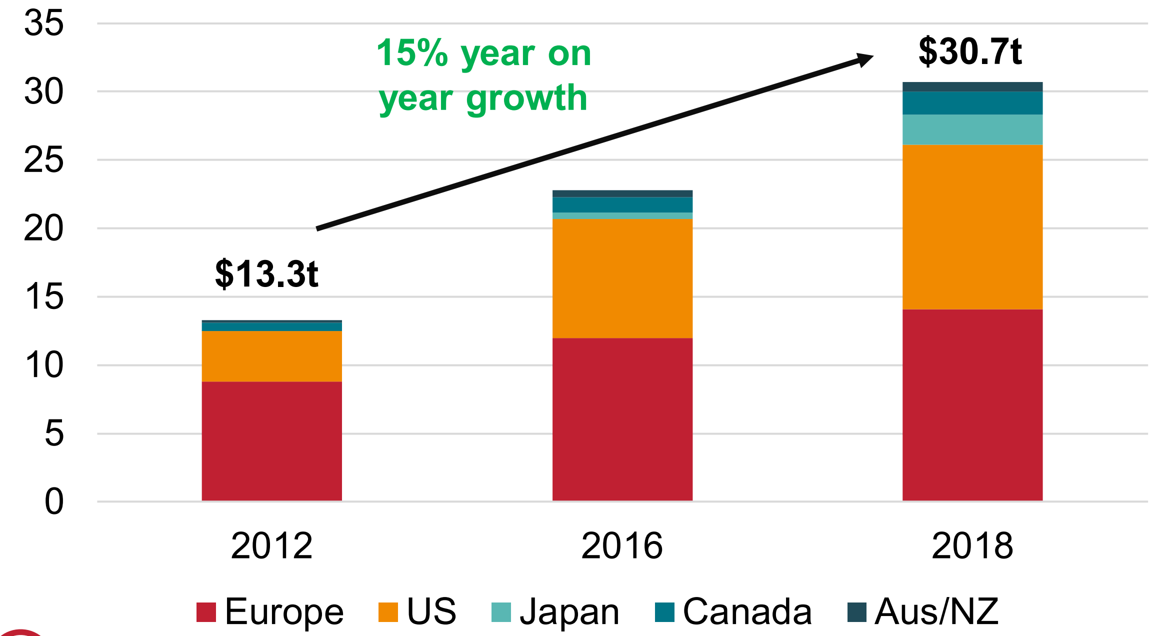
Given the ***significant material climate risks for Volvo*** *based on its business lines, we expect* ***robust reporting*** *on the governance framework around these risks and how they are* ***incorporated into the company's strategy and risk management process***

As a result, we would expect the company to already have ***fulsome disclosures in place****, including more explicit alignment with the* ***TCFD framework***

Source: Blackrock public report, Volvo website

ESG investment growing apace

Global ESG investment by region



Commentary

- **Definitions vary** of what constitutes 'Sustainable investment' and not all regions report
- Growth driven largely by the **US and EU**
- **US number** supported by location of **largest asset managers** BlackRock, Vanguard and State Street & others
- 2020 figure: $35.3t

Source: Global Sustainable Investment Alliance , Responsible Investor, ACGA

Regulations, standards and targets.

Scope 3
Scope 3 emissions

SFDR
Sustainable Finance Disclosure Regulation

ISSB (SASB)
International Sustainability Standards Board

Net Zero
Net Zero Coalition

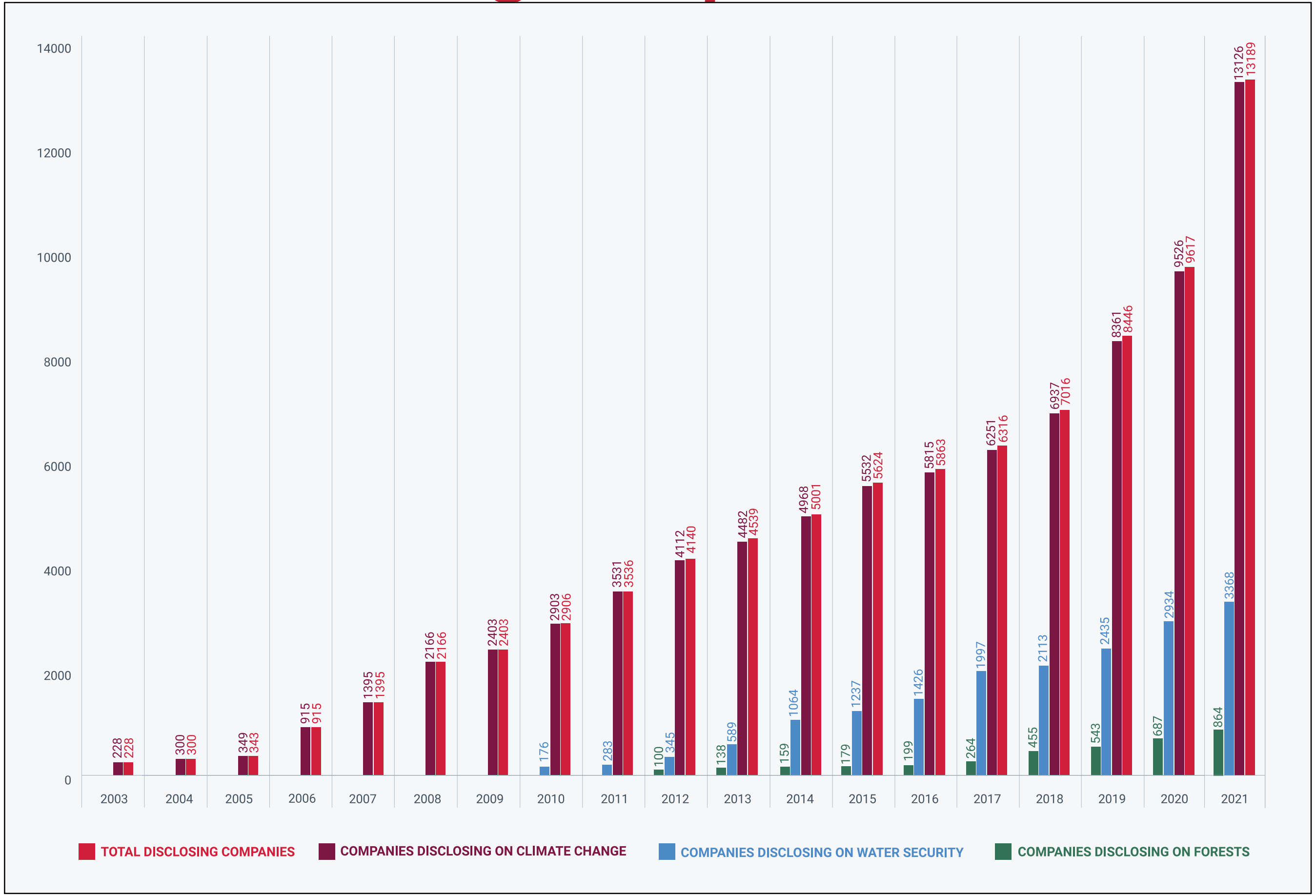
CSRD
Corporate Sustainability Reporting Directive

SEC
Security Exchange Commissions

TCFD
Task Force on Climate-Related Financial Disclosures

CDP
Carbon Disclosure Project

Growth in disclosing companies since 2003:



Navigating ESG Regulations

EU Corporate Sustainability Reporting Directive (CSRD)

Securities and Exchange Commission (SEC) Proposed Climate Disclosure Rule

Task Force on Climate-Related Financial Disclosures (TCFD)

CSRD - Corporate Sustainability Reporting Directive

Assets of
20 MILLION
euros or more

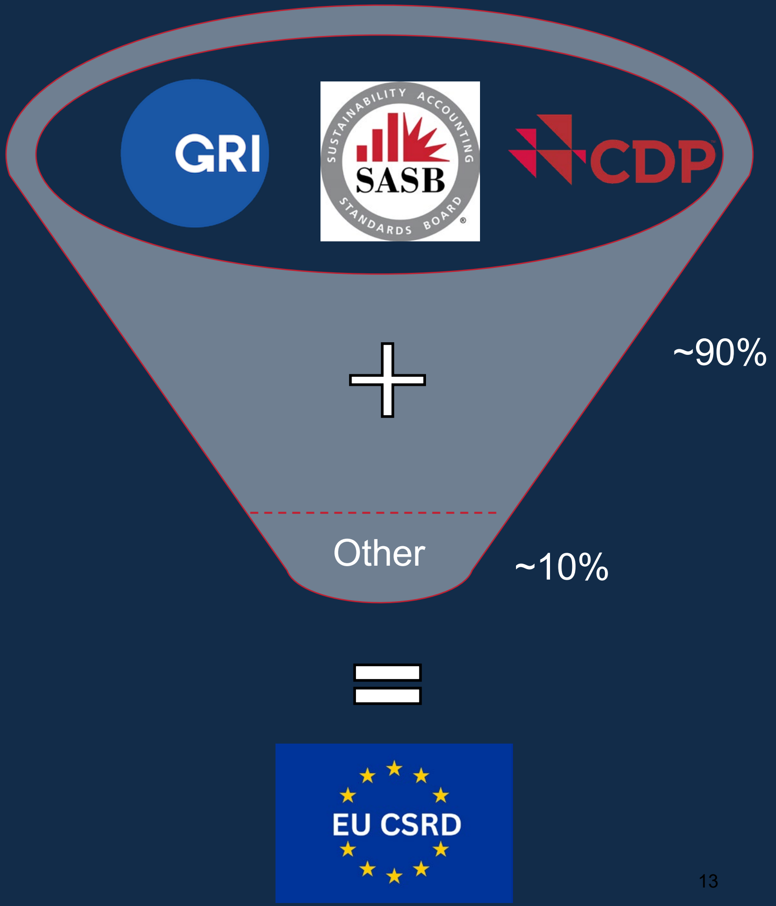
A net turnover of
40 MILLION
euros or more

250
or more
employees

The CSRD requires companies to report if they meet at least two of the above criteria

What is CSRD?

- EU Directive mandating ESG Reporting in specified format for the first time
- The requirements cover all aspects of ESG reporting, and are broadly in alignment with existing mainstream voluntary reporting standards, specifically GRI, SASB and CDP
- The remaining 10% of requirements are to be finalized, and also contain requirements for electronic submission of records in a specified format to a central database (to be established)
- Directive vs Regulation
    - Directive: you must do this, but we won't specify how
    - Regulation: you must specifically comply with x



Timeline - CSRD reporting and assurance

R+LA = Report and Limited Assurance. R+RA = Report and Reasonable Assurance. TBC = To be confirmed

First compliance year	2025	2026	2027	2028	2029
EU CSRD. First reporting in 2025 of financial years that begin on or after January 1 2024					
Large companies in NFRD [1]	R+LA of FY24				TBC R+RA of FY28
Other large companies [2]		R+LA of FY25			TBC R+RA of FY28
Listed SMEs [3]			R+LA of FY26	*2 year deferral option**	
Non-EU parent [4]					TBC R+LA of FY28

1. Large companies already in scope of EU Non-Financial Reporting Directive (NFRD) (approx. 11,700)
2. Companies not in scope of EU NFRD that exceed 2 of 3 thresholds: 250 employees, EUR40M turnover, EUR20M in assets
3. Companies whose securities are traded on a regulated market in the EU but do not qualify as “large” companies per the above definition.
4. Non EU companies with revenue in EU of more than EUR150M if there is one branch or subsidiary based in EU with revenues of more than EUR40M

* SMEs have an option to defer CSRD reporting and assurance for up to 2 years

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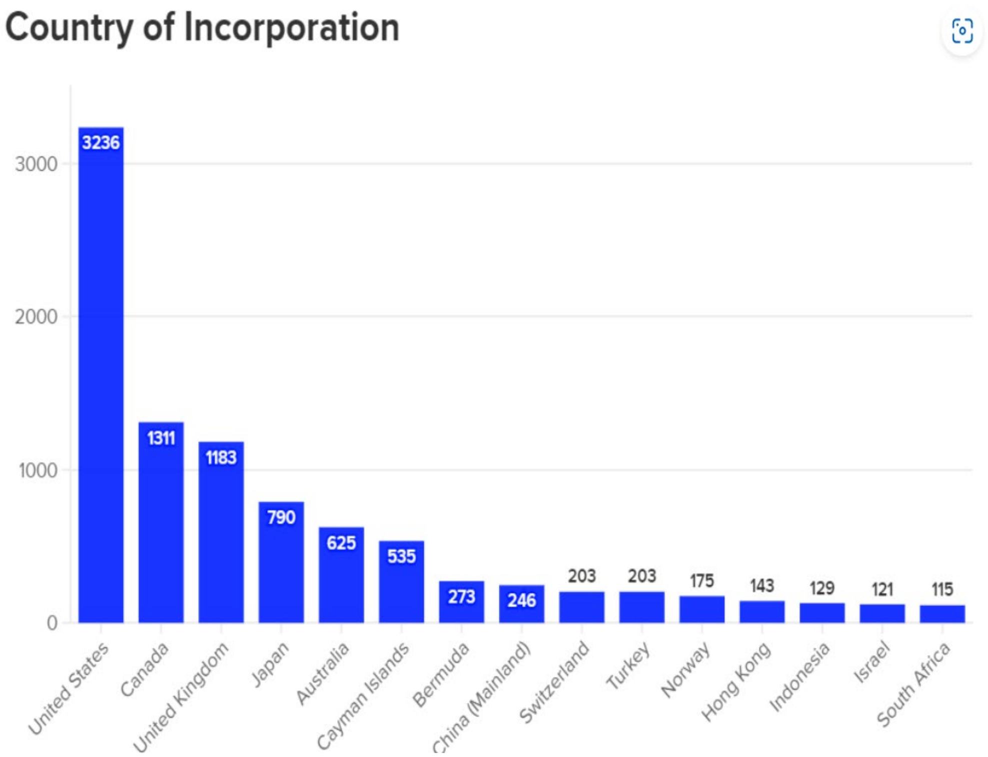
Additional Scope outside of the EU

In addition to the 50k companies already analysed a further c.10,300 non-EU companies will be subject to the CSRD.

From a geographical perspective, 31% of the non-EU companies affected are American, and 11% from the UK. Rather less are from other countries: 8% are Japanese, 6% Australian, 5% from the Cayman Islands

We can extrapolate a similar industry alignment to the EU, with outliers like the Cayman islands almost entirely focussed on Financial Services.



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TCFD
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD (Global)

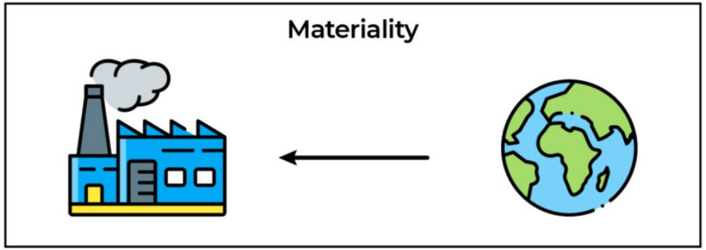
- *Not just another reporting framework*
- *Climate change and financial risk orientated*
- *Forward-looking by nature*
- *Baked into emerging global standards*

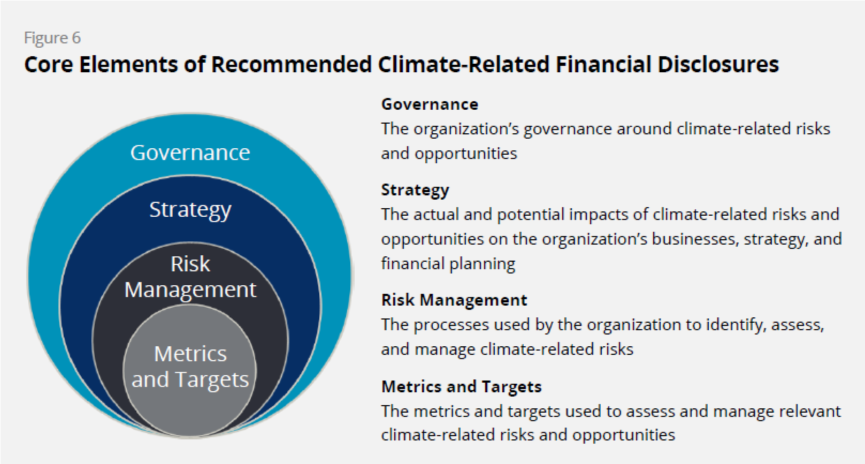
About TCFD – Key takeaways

What is it?

- TCFD is a market-driven initiative developed by Financial Stability Board (FSB) in 2015.
- Presents a framework consisting of 11 recommendations aimed to help public companies and other organizations more effectively disclose climate-related risks, opportunities and their financial impact.
- Today there are 2,616 supporters globally, including 1,069 financial institutions responsible for assets of $194 trillion
- Over 120 regulators and governmental entities from around the world support the TCFD
- Multiple jurisdictions have proposed or finalized laws and regulations to require disclosure aligned with the TCFD recommendations

This includes Brazil, the European Union, Hong Kong, Japan, New Zealand, Singapore, Switzerland, and the United Kingdom





TCFD – Supporting Recommendations

Figure 7

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

SEC Proposed Climate Disclosure Rule (U.S.)

- *Climate change and financial risk orientated*
- *Focused on investor protection and financial markets stability*
- *Does not aspire to advance a green transition*
- *Applies single materiality principle (financial materiality)*
- *Around 6,933 public companies concerned*
- *Significant compliance costs in place*

About SEC Proposed Climate Disclosure Rule

High Level Requirements (public companies only):

1. **Governance Disclosure:**
   The oversight and governance of climate-related risks by the registrant's board and management
2. **Risk Management Disclosure:**
   Processes for identifying, assessing, and managing climate-related risks
3. **The Effect of Climate Risks on Strategy, Business Model and Outlook:**
   How any identified climate-related risks have affected or are likely to affect the registrant's strategy, business model, and outlook
4. **The Impact of Climate Risk on Business and Financials**
   How any climate-related risks identified by the registrant have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term.
5. **Financial Statement Metrics**
   The impact of climate-related events (severe weather events and other natural conditions) and transition activities on the line items of a registrant's consolidated financial statements, as well as on the financial estimates and assumptions used in the financial statements

! The Final Rules Will Be Challenged in Court !

'The SEC is not tasked with environmental regulation, nor has Congress amended the SEC's regulatory authority to pursue the proposed climate disclosure' – group of Republican senators

About SEC Proposed Climate Disclosure Rule

Requirements:

6. GHG Metrics

- Scopes 1 and 2 GHG emissions (absolute and in intensity terms)
- Scope 3 GHG emissions (smaller reporting companies are exempt from this requirement)
  - (i) if material (from financial perspective)
  - (ii) if the registrant set a GHG emissions reduction target or goal that includes Scope 3 emissions.

Unless exist already, no disclosure mandate for:

- Targets
- Transition plans
- Scenario analysis

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3 core solutions to accelerate your ESG management

Advisory

Global team of domain experts on carbon and ESG

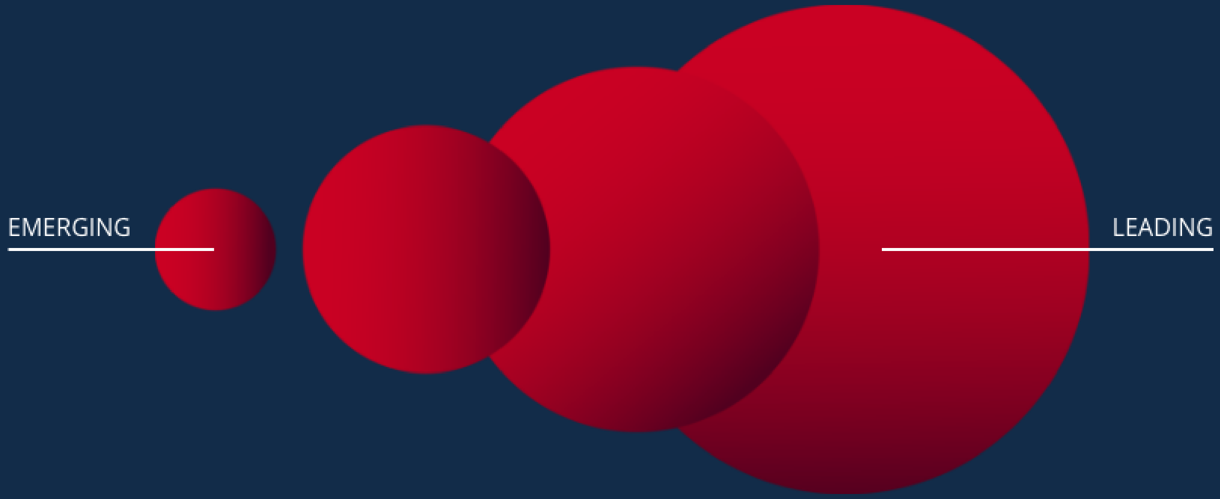
Software

Leading software as a service for ESG data management and reporting

Assurance

Trusted partner for independent verification

Where are you on your sustainability journey?



When it comes to ESG and sustainability, companies range from emerging to leading and utilize advisory, software and verification services for better transparency, data management and ESG performance.

5 Action Areas

Mobilize

Establish and optimize your ESG programs

Measure

Implement robust systems for measuring ESG performance

Manage

Drive continuous improvement on your ESG KPI's and goals

Report

Streamline and enhance your ESG disclosure and reporting

Assurance

Independent verification of key ESG KPI's

Q&A

Thank you

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