



Introduction to ESG
Environmental, Social, Governance
and Its Impact on Risk Management

December 8, 2021

Housekeeping

To qualify for CPE credit:

- Actively respond to all polling questions and stay on for the duration of the broadcast
- If you have technical difficulties responding to the polling questions, please send an email to Elevatelearn@armaninollp.com with the name/date of your session along with your poll responses

Questions or comments:

- Submit via Chat

What You Will Learn Today

Learning Objectives

- Discover what an ESG program is and how to get started
- Evaluate ESG and risk management solutions
- Review how to manage and integrate ESG risk



Mary Tressel

Director, San Ramon, CA

Armanino Advisory LLC

Mary.Tressel@armanino.com

- > Mary is a Director in Armanino's Environmental, Social, Governance Services practice and is located in San Ramon, California.
- > She successfully led Armanino's B Corporation certification journey.



Bianca Sarrach

Director, Atlanta, GA

Armanino Advisory LLC

bianca.sarrach@armanino.com

- > Bianca is a Director in Armanino's Risk Advisory and Assurance Services practice and is located in Atlanta, Georgia.
- > She has over 16 years of experience in third-party compliance, risk management, sustainability, internal controls assessments and implementation, process analysis, and assurance services.



Kris Russell

Senior Manager, Dallas, TX

Armanino Advisory LLC

kris.russell@armanino.com

- > Kris is a Senior Manager in Armanino's Environmental, Social, Governance Services practice and is located in Dallas, Texas.
- > Kris has over 25 years of experience in leading sustainability programs.



Tamika Mitchell

Manager, St. Louis, MO

Armanino Advisory LLC

Tamika.Mitchell@armanino.com

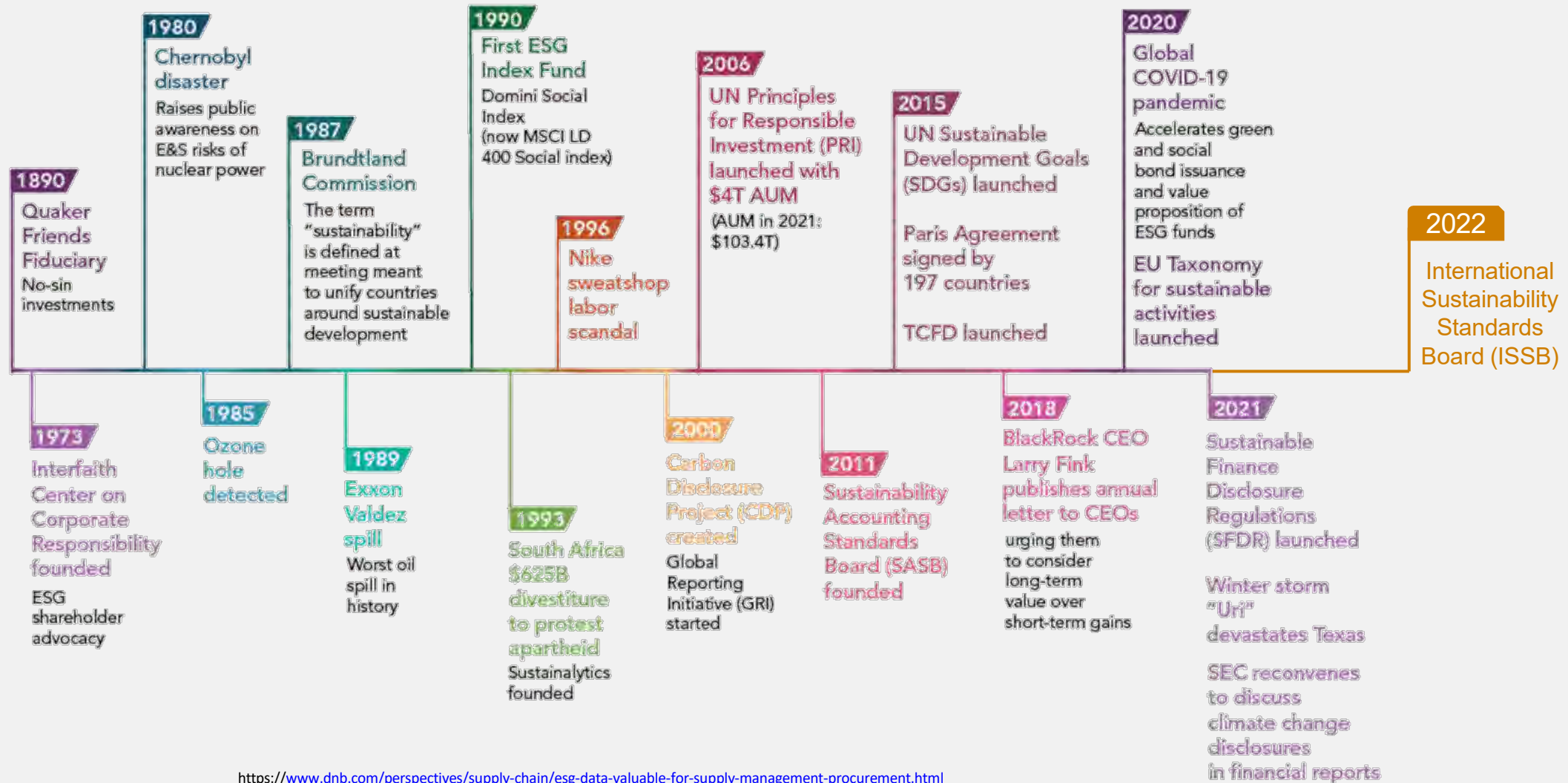
- > Tamika is a Manager in Armanino's Risk Advisory and Assurance Services practice and is located in St. Louis, MO
- > Tamika is a DEI Expert in Residence for St. Louis University and has 16 years of experience providing internal audit, consulting, and compliance services.

- > **The Rise of ESG**
- > **The ESG Program**
- > **ESG and Risk Management**
- > **Manage and Integrate ESG Risk**
- > **Q&A**



The Rise of ESG

The Evolution of ESG



<https://www.dnb.com/perspectives/supply-chain/esg-data-valuable-for-supply-management-procurement.html>

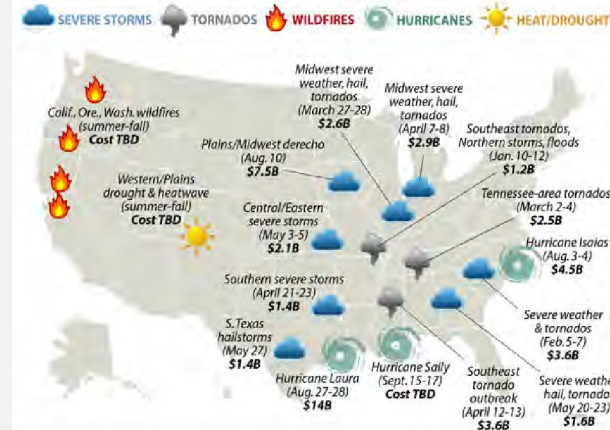
2020 – An Imperfect Storm



Where Climate Disasters Strike Across America

By Oct. 7 of this year, billion-dollar weather disasters in the United States had cost \$47.8 billion and claimed 188 lives.

U.S. BILLION-DOLLAR WEATHER EVENTS
 In CPI-adjusted dollars; some costs are still to be determined (TBD), Jan.-Sept. 2020



SOURCE: NOAA National Centers for Environmental Information; PAUL HORN / Inside Climate News



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The ESG Program

ESG Drivers

1

Risk Management

- > 95% of ESG related regulatory policies were developed after 2000
- > Sustainable investment regulations are starting to mandate disclosures on ESG issues
- > More mandatory climate reporting for companies
- > Reputational risk is a driving factor: companies' value today comes mostly from intangible assets and failing to adapt to changing expectations can experience a decrease in stock performance as well as brand damage

2

Access to Capital

- > Focusing on ESG-related issues can provide new venues for capital attraction
- > Banks are increasingly providing preferred lending rates to companies with good ESG performance
- > Green bonds/ sustainability have been purchased at a premium by investors who are hungry for sustainability-related investment vehicles
- > Apple, Starbucks, Toyota and Alphabet have all issued such bonds to raise capital for their sustainability initiatives
- > ESG issues are increasingly included in credit risk considerations

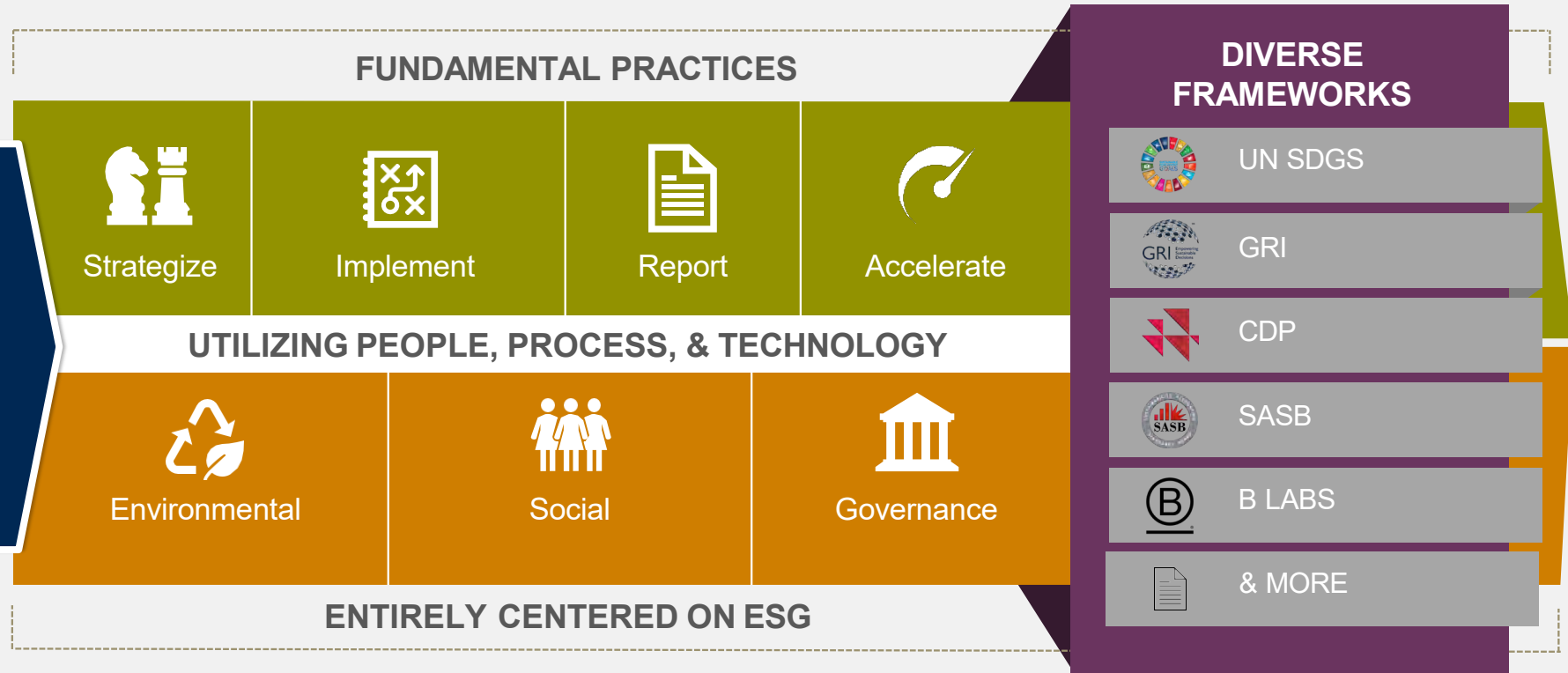
3

Financial Performance

- > Studies relating companies' ESG and financial performance have found companies that do good by the environment, their labor force, & communities, do well financially
- > The International Finance Corporation looked at the performance of 656 companies found that companies with good E&S performance tend to outperform those with worse environmental and social performance by 210 basis point on return on equity and by 110 bps on return on assets
- > A 2020 Harvard Study found that ESG Performance is related to higher Economic Value Added (EVA) Margin, EVA Spread, and Return on Its Capital (ROIC)



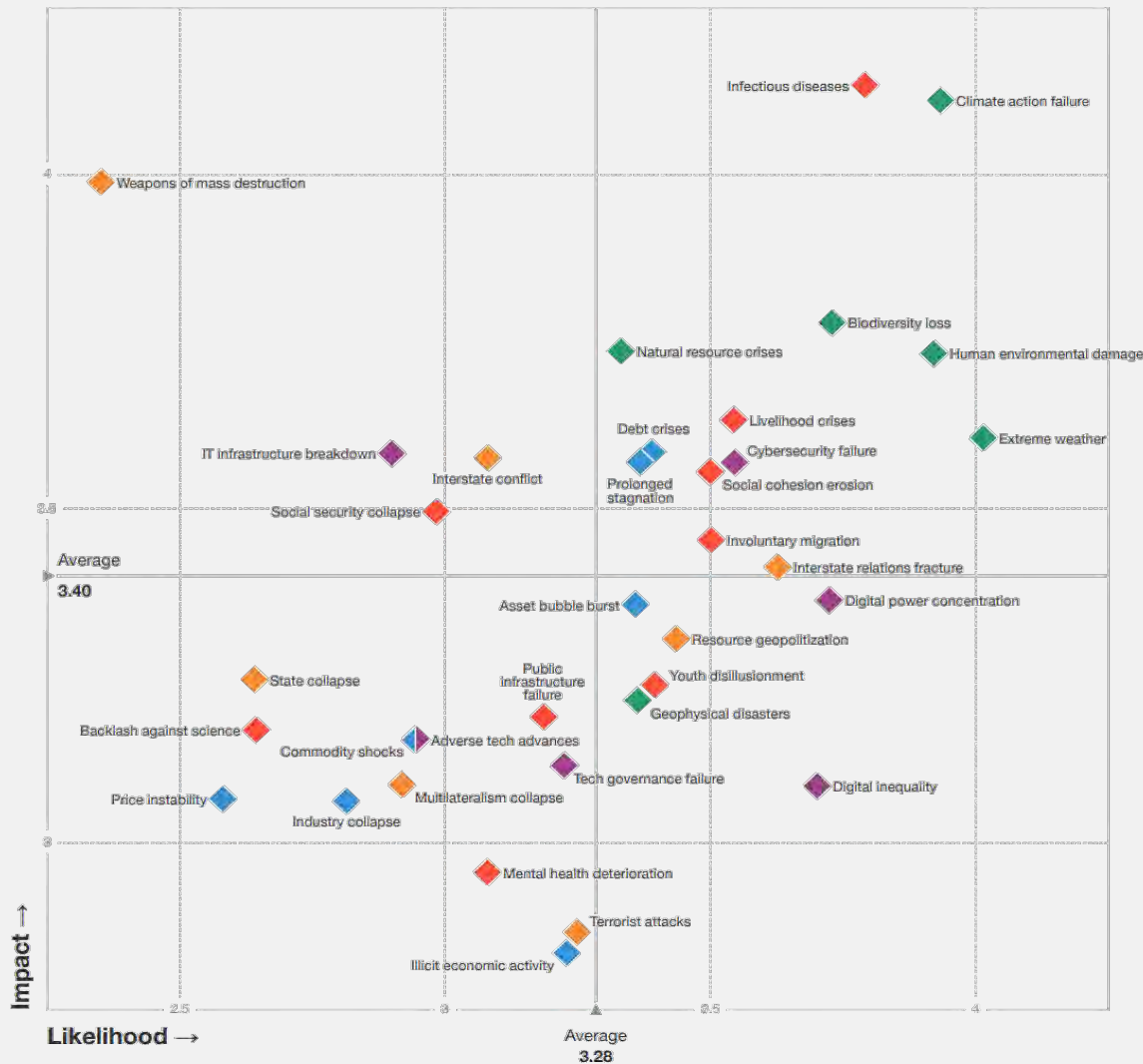
The ESG Program





ESG and Risk Management

Global Risk Landscape



Top Risks by likelihood

by likelihood

- 1 Extreme weather
- 2 Climate action failure
- 3 Human environmental damage
- 4 Infectious diseases
- 5 Biodiversity loss
- 6 Digital power concentration
- 7 Digital inequality
- 8 Interstate relations fracture
- 9 Cybersecurity failure
- 10 Livelihood crises

Top Risks by impact

by impact

- 1 Infectious diseases
- 2 Climate action failure
- 3 Weapons of mass destruction
- 4 Biodiversity loss
- 5 Natural resource crises
- 6 Human environmental damage
- 7 Livelihood crises
- 8 Extreme weather
- 9 Debt crises
- 10 IT infrastructure breakdown

Risk categories

- ◆ Economic
- ◆ Environmental
- ◆ Geopolitical
- ◆ Societal
- ◆ Technological

Source: World Economic Forum Global Risks Perception Survey 2021

ESG matters in recruiting and retaining Gen Z and Millennials



90%

of Gen Z believe companies should act to help social/environmental issues

83%

of Millennials would be more loyal to a company that boosted their efforts to support social causes

64%

of Millennials would not take a job at an employer without a strong CSR policy



Manage and Integrate ESG Risk

Connect Risk Management and Sustainability to Strategy armanino.com





For more information and resources visit us at

<https://www.armanino.com/services/advisory/environmental-social-governance/>

Bianca Sarrach

Bianca.Sarrach@armanino.com

314.983.1365

Kris Russell

Kris.Russell@armanino.com

972.590.5640

Mary Tressel

Mary.Tressel@armanino.com

925.790.2656

Tamika Mitchell

Tamika.Mitchell@armanino.com

314.824.5294

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