S&P Global Sustainable1
Investor Client Council

H1 2023 European Meeting Minutes

DATE: Thursday, 11th May, 2023: 14:30 – 17:30 CET
LOCATION: Les Salons Hoche, 9 Ave Hoche, Paris, France

Attendees

Council Members

- Annika Esono-Manninen, Head of ESG, **OP Financial** (virtual)
- Eoin Murray, Head of Investment, **Federated Hermes** (virtual)
- Eric de Tessières, COO of the Sustainability Centre, **BNP Paribas Asset Management**
- Eva Cairns, Head of Sustainability Insights and Climate Strategy, **abrdn PLC**
- Filip Ferrante, Director of Corporate Sustainability, **KBC Global Services** (virtual)
- Florian Sommer, Head of ESG Strategy, **Union Investment** (virtual)
- Ophélie Mortier, Chief Sustainable Investment Officer, **Degroof Petercam DPAM**
- Rachel Whittaker, Head of Sustainable Investing Research, **Robeco**
- Robert Campbell, Senior Responsible Investment Financial Analyst, **Universities Superannuation Scheme (USS)**

S&P Global Attendees

- Mona Naqvi, Chair of the Council, **S&P Global Sustainable1**
- Myrna Ghanem, Secretary of the Council, **S&P Global Sustainable1**
- Lauren Smart, Chief Commercial Officer, **S&P Global Sustainable1**
- Thomas Yagel, Chief Operating Officer, **S&P Global Sustainable1**
- Sonia Kim, Managing Director, Head of Product, **S&P Global Sustainable1**
- Steven Bullock, Managing Director, Head of Research, **S&P Global Sustainable1**

Apologies

Council Members

- Samira Boussem, Head of ESG Solutions, **Natixis**
- Madeline King, Head of Research & Engagement, **LGIM**

S&P Global

- Richard Mattison, President of **S&P Global Sustainable1**

Meeting Objective

The meeting serves as the inaugural gathering of the European **S&P Global Sustainable1 Investor Client Council.** The aim of the Council is to facilitate a community of industry experts who meet regularly to discuss business challenges and opportunities arising from sustainability issues. Its members provide S&P Global with expertise to inform best practices and deepen S&P Global's understanding to serve the evolving needs of the market through relevant products and services.

Agenda & Record of Discussions

1. Welcoming Remarks

1.1. **Lauren Smart** (S&P Global) welcomed all attendees and thanked them for their participation in this important new initiative for S&P Global.

2. Purpose & Objectives

2.1. **Mona Naqvi** (Chair) stated the Council Guidelines and received verbal acknowledgement from all members of their understanding and agreement.

2.2. Members introduced themselves and each provided their rationale for joining the Council and what they hoped to achieve from participating in the 2023-2024 cycle. Reasons included community-building, learning more about S&P Global solutions, and peer-to-peer learning with respect to industry challenges and best-practices.

3. Sustainable Investing Today

Addressing the ESG backlash

3.1. **Mona Naqvi** (Chair) outlined market challenges surrounding the sustainable investment landscape and shared S&P Global's thoughts on market dynamics potentially contributing to confusion around ESG Scores (as reflected in the pre-reading materials).

3.2. Members discussed their recent experiences relating to enhanced scrutiny of sustainable investments, and generally underscored continued commitment to offering such products and strategies despite observing backlash in other regions.

3.3. All members acknowledged the importance of integrating what they considered to be potentially financially material and relevant sustainability factors across their investments as responsible fiduciaries.

The relevance of ESG scores & potential enhancements

3.4. Members agreed with S&P Global's proposed framing of potential drivers of market confusion pertaining to ESG data, and discussed challenges associated with different ESG scoring methodologies from data providers.

3.5. However, several members (**Robert Campbell**, USS; **Eva Cairns**, abrdn, **Rachel Whittaker**, Robeco, **Ophelie Mortier**, DPAM), expressed that they do not mind divergence among ESG scores from different providers and/or multiple scores from the same data provider, so long as the methodology and objectives behind different scoring frameworks are transparent and clear. Instead, most members felt that convergence on underlying data collected by data providers was more important than the approach or score outcomes.

3.6. Some members (**Rachel Whittaker**, Robeco; **Eric de Tessières,** BNP Paribas AM) also shared that they would welcome greater clarity around the intended use case for different ESG scores and analytics, as it can be confusing to properly interpret divergent opinions from data providers without consistency of inputs.

3.7. Other challenges cited were the omission of local or regional factors in scoring **(Ophelie Mortier**, DPAM) and the inherent complexity of distilling multiple variables into a single topline metric (**Robert Campbell**, USS).

3.8. Overall, all members acknowledged the continued role and relevance of aggregate ESG scores for certain use cases – but all emphasized the critical importance of accessing raw underlying data, which the group agreed is more relevant to investment workflows.

Internal scoring approaches

3.9. All members admitted to producing their own internal ESG score assessments based on multiple datasets and additional analytical research, for which raw data was cited as much more useful and robust.

3.10. Several members (**Robert Campbell**, USS; **Rachel Whittaker**, Robeco; **Eva Cairns**, abrdn; **Eric de Tessières,** BNP Paribas) additionally shared their high-level approaches to internal scoring, often using third-party ESG scores from data providers either as a starting point or analytical overlay with which to sense check their own research. Hence, the group commented that both raw underlying data and aggregate ESG score metrics are still useful, even if the latter is less likely to be used in investment selection directly.

3.11. **Robert Campbell (**USS) specifically highlighted an experimental process USS uses where their analysts sometimes use 'wildcards' to double a company's score or weight on an underlying sustainability criterion to determine the theoretical impact on the overall score and company valuation.

Additional enhancement requests for ESG Scores

3.12. All members acknowledged producing internal materiality matrices of relevant sustainability topics across industries, but several shared that they also consider established frameworks such as SASB (**Rachel Whittaker**, Robeco; **Robert Campbell**, USS). The group agreed they would find it additionally valuable to access S&P Global's detailed approach to material topics by industry group via our materiality matrices.

3.13. **Eric de Tessières** (BNP Paribas AM) expressed a desire to obtain forecasted future ESG scores via forward-looking "outlook" analysis, akin to a credit rating outlook, to help understand the expected transition of a company over time. Several others (**Florian Sommer**, Union) suggested going even further and would like to access S&P Global's expected financial valuation impact from ESG topics on companies.

3.14. The group also explored the idea of adding confidence intervals to ESG metrics, with mixed feedback, as this would not likely change their approach to using and scrutinizing such datasets although greater transparency is always appreciated.

The role of risk & impact in sustainable investments

3.15. **Mona Naqvi** (Chair) prompted a discussion around the respective roles of risk and impact, seeking to determine whether members viewed these concepts as inextricably linked or largely distinct and separate.

3.16. All members noted their approach to sustainable investing was primarily about addressing business risks and opportunities, but not impact. Members also agreed that ESG-related risks could potentially affect all portfolios and strategies and not just sustainability themed ones, whereas impact must be relegated exclusively to funds with impact mandates in accordance with their fiduciary duty. As such, the group agreed that it requires ESG data to focus on financial relevance and materiality above all else.

3.17. Some members (**Robert Campbell**, USS) further acknowledged that incorporating impact in ESG scores and datasets could in fact impede their ability to use them as they do not have an impact mandate across all their funds, a view which solicited agreement from other members across the room. While interesting, the group agreed that impact-related data and uses should be limited to niche, impact-focused funds and projects.

S&P Global's evolving approach to ESG risk & impact

3.18. **Steven Bullock** (S&P Global) presented S&P Global Sustainable1's evolving approach to risk and impact lenses for ESG scores (as reflected in the pre-reading materials).

3.19. All members said that they viewed risk and impact as distinct concepts and that these probably could not be combined in ESG scores without creating further market confusion.

3.20. Some noted combining risk and impact metrics under a single ESG framework seemed contrary to the evolving market belief that combining E, S, and G concepts into a single aggregate metric is already over-simplified and confusing (**Annika Esono-Manninen**, OP Financial; **Rachel Whittaker**, Robeco; **Eva Cairns**, abrdn).

3.21. **Eva Cairns** (abrdn) also questioned whether our approach does enough to properly net off risk and impact against each other, as these do not play out in isolation.

3.22. Others (**Eric de Tessières**, BNP Paribas AM**)** suggested our proposed impact concept does not really reflect the industry's pure definition of impact (which must be intentional and additional), a view with which the group agreed. **de Tessières** elaborated further, suggesting that it might be more appropriate to think about these issues in terms of business risks, opportunities, and *externalities* instead – though this choice of word was not necessarily preferred by the entire group.

3.23. **Florian Sommer** (Union Investment) underscored support for a shift towards risk and *opportunity*, as opposed to impact, and again emphasized the importance of ultimately translating these measures into financial valuation metrics to be useful for investors.

S&P Global's thematic sustainability dashboard

3.24. **Sonia Kim** (S&P Global) presented S&P Global Sustainable1's new thematic sustainability dashboard, which encompasses 12 sustainability metrics consistent across industries.

3.25. All members welcomed this approach to assessing sustainability performance through thematic lenses and expressed interest in having deeper access to the underlying raw data supporting these types of metrics.

4. <u>Networking Break</u>

4.1. The Council adjourned for a 15-minute break.

5. <u>Biodiversity & Nature: A New Frontier</u>

5.1. **Mona Naqvi** (Chair) initiated the session by referencing the Council's interest in thematic lenses (see 3.21) and noted the emergence of biodiversity and nature as indicators of growing interest to the market. **Naqvi** opened to the Council, seeking members' views on whether biodiversity and nature were seen as financially material to investors.

5.2. The Council expressed mixed views on the financial relevance of biodiversity and nature. Most suggested that the materiality and relevance to their investments remains unclear (**Eric de Tessières**, BNP Paribas AM; **Eva Cairns**, abrdn; **Robert Campbell**, USS; **Florian Sommer**, Union Investment) and would welcome further research from on this topic.

5.3. However, **Eoin Murray** (Federated Hermes) articulated his perspective that biodiversity is material as it is critical to solving the climate crisis, with the potential to reduce absolute atmospheric GHG emissions as a natural form of carbon capture and sequestration (CCS). **Murray** noted simply halting global emissions would not go far enough to achieve the goals of the Paris Agreement, reaffirming his view that that incorporating biodiversity and nature into investments is thereby key to mitigating climate risk.

5.4. Overall, members generally acknowledged that they are at least starting to consider biodiversity and nature as a potentially relevant sustainability topic, even if they are not necessarily integrating these into their decision-making yet. Several cited challenges pertaining to inconsistent data availability and limited firm-wide commitment and understanding of its materiality, i.e.:

5.4.1. The group felt disclosure gaps were part of the problem, as only high-level reporting is generally available, but biodiversity inherently requires much more granular information (especially - **Eva Cairns**, abrdn; **Robert Campbell**; USS; **Ophelie Mortier**, DPAM; **Eric de Tessiers**, BNP Paribas AM, **Rachel Whittaker**, Robeco).

5.4.2. Several members also raised concerns about the potential for false insights derived from the proximity of assets to biodiverse zones and being incorrectly labeled as "risky", without acknowledging the potential upside benefits of certain activities that might in fact help conserve ecological zones (**Eva Cairns**, abrdn; **Robert Campbell**; USS; **Eric de Tessiers**, BNP Paribas AM).

5.4.3. Most of all, the group felt that the biggest problem with biodiversity ultimately rested with the complexity of translating this type of risk into financial valuation impacts, with **Eric de Tessiers**, (BNP Paribas AM) citing carbon credits as the only measurable tool.

5.5. Some members (**Robert Campbell**, USS; **Eva Cairns**, abrdn) suggested that biodiversity scores could be a useful entryway to developing understanding and educating the market on the relevant metrics, so long as the underlying raw data was also made available. **Cairns** added that she would even find biodiversity scores more useful than ESG scores.

S&P Global's biodiversity methodology and approach

5.6. **Steve Bullock** (Head of Research, Sustainable1) presented S&P Global's approach and the newly launched biodiversity methodology in partnership with the UNEP to measure dependency and impact.

5.7. Prompted by S&P Global's study on mining for energy transition-related materials and biodiversity zones, **Ophelie Mortier** (DPAM) commented on how such data visualizations and geographical heatmaps are especially helpful for them to see the effect of their assets and better understand complex and interconnected issues, drawing agreement from across the group. The Council emphasized how more visuals of this nature could help demonstrate clearer linkages between climate and nature, underpinning materiality.

5.7.1. The group discussed one remaining challenge pertaining to the social connection where decisions based on biodiversity datasets may lead to disruption in supply chains as raw materials are no longer exported. The social implications and consequences are not currently measured (all). The concept of "additionality" was also seen as critically missing in current biodiversity assessments (**Eric de Tessiers**, BNP Paribas AM).

6. The Next Horizon

6.1. **Mona Naqvi** (Chair) initiated the session, asking members to share any other general feedback, ideas, or wishlist items they would like to see developed by S&P Global Sustainable1 in the future.

6.2. All members emphasized that robust data with clear linkages to the investment outcomes is a key priority for them. Reliability and quality of data were also repeatedly mentioned as critical to their storytelling and market positioning. The newly developed dashboard (3.20.) was viewed as a good starting point but could be improved to incorporate more KPIs and be more granular on individual themes.

6.3. Members unanimously agreed that the industry in general requires deeper research from credible sources to identify the investment story at both the regional and country-level (especially **Rachel Whittaker**, Robeco; **Ophelie Mortier**, DPAM). This would also allow for better materiality assessments.

6.4. All members also added that enhancements in fixed income and alternative assets should be prioritized where there is limited coverage of these asset classes by S&P Global's sustainability solutions.

7. Concluding Remarks and Next Steps

7.1. **Mona Naqvi** (Chair) and **Lauren Smart** (S&P Global) thanked the Council and summarized the following next steps:

7.1.1. S&P Global will organize a demo of its Marketplace Workbench Tool for the Council for any members that are interested in gaining complimentary access.

7.1.2. S&P Global will publish a new public facing webpage and a password-protected, member-only portal where they can access all relevant Council documentation.

7.1.3. The European Council will resume for the H2 2023 session in October 2023, further details of which will be forthcoming.

8. Council Adjourned

8.1. **Mona Naqvi** (Chair) briefly recounted next steps and adjourned the Council.

S&P Global Sustainable1
Investor Client Council

H1 2023 North American Meeting Minutes

DATE: Tuesday, 23rd May, 2023: 13:30 – 16:30 ET
LOCATION: Virtual

Attendees

Council Members
- Andrew Ford, Vice President of Global Sustainable Finance, **Morgan Stanley**
- Erin Bigley, Chief Responsibility Officer, **Alliance Bernstein**
- Joseph Williams (proxy), ESG Client Strategies and Implementation Manager, **Invesco**
- Jamie Franco, Global Co-Head of Sustainable Investment, **The TCW Group**
- Richard Manley, Chief Sustainability Officer, **Canada Pension Plan Investment Board (CPPIB)**
- Dr Ruben Lubowski, Chief Carbon & Environmental Market Strategist, **Lombard Odier IM**
- Sarah Hersh, Head of ESG, **Vanguard**

S&P Global Attendees
- Mona Naqvi, Chair of the Council, **S&P Global Sustainable1**
- Myrna Ghanem, Secretary of the Council, **S&P Global Sustainable1**
- Richard Mattison, President of **S&P Global Sustainable1**
- Lauren Smart, Chief Commercial Officer, **S&P Global Sustainable1**
- Thomas Yagel, Chief Operating Officer, **S&P Global Sustainable1**
- Sonia Kim, Managing Director, Head of Product, **S&P Global Sustainable1**
- Gautier Desme, Head of Data Innovation, **S&P Global Sustainable1**
- Christopher Heusler, Chief Operating Officer, **S&P Global Ratings**

Apologies

Council Members
- Anna Murray, Global Head of Sustainable Investing, **Ontario Teachers' Pension Plan (OTPP)**
- Glen Yelton, Global Head of ESG, **Invesco**
- Roy Appelman, Head of Research & Senior Portfolio Manager (MAS), **Goldman Sachs**

S&P Global
- Steven Bullock, Managing Director, Head of Research, **S&P Global Sustainable1**

Meeting Objective

The meeting serves as the inaugural gathering of the North American **S&P Global Sustainable1 Investor Client Council**. The aim of the Council is to facilitate a community of industry experts who meet regularly to discuss business challenges and opportunities arising from sustainability issues. Its members provide S&P Global with expertise to inform best practices and deepen S&P Global's understanding to serve the evolving needs of the market through relevant products and services.

Agenda & Record of Discussions

1. Welcoming Remarks

1.1. **Richard Mattison** (S&P Global) welcomed all attendees and thanked them for their participation in this important new initiative for S&P Global.

2. Purpose & Objectives

2.1. **Mona Naqvi** (Chair) stated the Council Guidelines and received verbal acknowledgement from all members of their understanding and agreement.

2.2. Members introduced themselves and each provided their rationale for joining the Council and what they hoped to achieve from participating in the 2023-2024 cycle. Reasons included keeping abreast of key trends, sharing best-practices around upcoming regulation and market challenges, and community-building among peers.

3. Sustainable Investing Today

Addressing the ESG backlash

3.1. **Mona Naqvi** (Chair) commented on the challenges in North America with regards to enhanced ESG scrutiny and backlash and invited members to share their recent experiences, evolving approaches, and challenges.

3.2. Members discussed the heightened ESG scrutiny and their respective approaches to sustainable investing. The Council was unanimous in its view that that ESG is about mitigating risks through integration and fundamental analysis, in accordance with their fiduciary obligations, and that this is clearly distinct from impact. All members agreed that the industry must do a better job of using more precise terminology:

3.2.1. **Jamie Franco** (TCW) emphasized the importance of being financially compensated for investment decisions and shared that her firm focuses exclusively on ESG integration either as a direct form of risk management or for the pursuit of alpha. **Franco** acknowledged that while some names they invest in can indeed do good for the world, the industry lacks the appropriate terminology to refer to these – occasionally bucketing them as opportunities or "*misusing the term impact*".

3.2.2. **Jamie Franco (**TCW**)** also referenced the concept of double materiality but expressed skepticism as to how to measure this, with diverse interpretations and preferences from clients. She further added concerns with using unclear language or approaches given the increasing number of state-level legal enquiries on this topic in the US.

3.2.3. **Joseph Williams** (Invesco) agreed and shared his firm has also been facing similar challenges in having to respond to numerous legal enquiries around their ESG investment approaches and corresponding terminology. He added his firm has not ceased sustainable investment activities, but that they are increasingly cautious with how they communicate the objectives of products and are "*avoiding flowery language*" where possible, especially in the US, though activity in Europe continues to flourish regardless.

3.2.4. **Richard Manley** (CPPIB) reiterated the fiduciary argument vis-à-vis a risk management lens, adding that ESG is simply an approach for "*managing 21st century risks and opportunities… to maximize profit without undue loss*" – a framing which he believes resonates with all investors independent of their region or legal landscape.

3.2.5. **Sarah Hersh** (Vanguard) weighed in by adding that customers do however exhibit a range of appetites and values for diverse investment approaches, especially when it comes to their choice of exclusionary screens – but that as a passive investor, Vanguard must also be able to demonstrate the case for alpha when taking any active risk in pursuit of a given ESG investment strategy, which is one of the reasons why they do not offer any ESG score-based products as these tend to limit market exposure significantly.

3.2.6. **Erin Bigley** (AllianceBernstein) agreed with the other views expressed by the group and expanded on the importance of using precise language to describe investment objectives, adding that "*the industry has not done itself any favors by using terms such as ESG and impact interchangeably when they are not the same thing*". **Bigley** reiterated the view that ESG integration is fundamentally about assessing relevant risks and opportunities.

3.2.7. **Mona Naqvi** (Chair) recounted the perspectives of the European Investor Council [which convened on May 11, 2023] that also views ESG in terms of risk and opportunity, but not impact which is seen as distinct and separate. **Naqvi** shared that the European cohort continues to be committed to sustainable investments as an approach to addressing financially material issues, demonstrating limited contagion from the recent US backlash.

ESG data challenges and enhancement requests

3.3. **Lauren Smart** (S&P Global) asked the group what data enhancements the group needed to execute with greater precision and communicate investment objectives more effectively.

3.4. Several members referenced major gaps in fixed income ESG data (**Joseph Williams**, Invesco; **Erin Bigley**, AllianceBernstein; **Jamie Franco**, TCW).

3.5. **Erin Bigley** (AllianceBernstein) also cited challenges around reliable data coverage for private companies, emerging markets, and small caps – and for all manner of sustainability metrics (climate, social, etc.). **Richard Manley** (CPPIB) agreed, claiming "*we still have a long way to go on the data*" exhibiting skepticism around the ECDI private market initiative which he views as "*nowhere close*" to meeting the needs of investors.

3.6. **Joseph Williams** (Invesco) commented on the generally poor timeliness and frequency of ESG data updates in general, which was met with agreement from the group, especially with respect to SFDR, according to **Williams,** as investors are often required to disclose before the companies themselves have disclosed.

3.7. **Jamie Franco** (TCW) concurred with issues pertaining to data coverage and timeliness, and greatly emphasized shortcomings in terms of corporate structure mapping for ESG data. **Franco** welcomes innovation from data providers but expressed strongly that providers should first focus on fixing the internal plumbing and improving data quality, where improvements are needed. These sentiments were shared by the group.

3.8. Several members (**Richard Manley**, CPPIB; **Joseph Williams**, Invesco) also highlighted challenges with data accuracy, noting that GHG emissions proxies for example can range anywhere between 10% to 20x the true value from companies – adding up to major inaccuracies in aggregate.

3.9. **Ruben Lubowski** (Lombard Odier) weighed in, citing problems with ESG data being too static and not forward-looking enough. In response, **Mona Naqvi** (Chair) referenced a recommendation put forward by a member of the European Investor Council to add a forward-looking ESG data "outlook", which members acknowledged could be useful.

Regulatory reporting challenges

3.10. **Jamie Franco** (TCW) suggested regulatory expectations are misaligned with the realities of data availability currently. **Franco** cited SFDR social indicators as an example, as much of the data isn't available and would require investors to engage with each individual firm, which is only possible for those with a very small, concentrated active pool of investments and is not feasible at scale.

3.11. **Jamie Franco** (TCW) also commented on the poor timeliness of reporting frameworks, stating that the "*ISSB standards are taking such a long time that the world has regulated beyond them*", as well as a broader lack of harmonization among standards, claiming she "*still has five definitions of green*".

3.12. **Richard Manley** (CPPIB) cautioned against conflating regulatory reporting with client reporting and stressed the importance of "*decision useful data points for investors*". **Manley** elaborated further, suggesting the European sustainable finance regulations have the potential to "*bankrupt institutions under the immense compliance burden for data points that aren't even decision useful or relevant to capital markets*." – a view which drew support and agreement from the other members.

3.13. **Jamie Franco** (TCW) added that frameworks such as Articles 8 and 9 might do more harm than good for the achievement of sustainable world outcomes, citing the importance of investing in companies that can make the most meaningful progress towards climate goals, while renewables alone would do little to move the needle for the transition.

3.14. **Andrew Ford** (Morgan Stanley) however expressed support for the evolving regulatory framework, suggesting it plays important role in catalyzing corporate disclosure and greater transparency, which is ultimately what the industry needs in his view.

Internal scoring approaches

3.15. **Sonia Kim** (S&P Global) raised the topic of scores and asked if a single aggregate metric remains suitable or if raw data, thematic lenses, or dimensions are more useful.

3.16. **Mona Naqvi** (Chair) conducted a poll, to which all members admitted to creating their own internal ESG scoring, preferring to leveraging underlying data from third party data providers to produce their own ESG insights. However, the group also acknowledged that aggregate scores can still be useful to benchmark different approaches:

3.16.1. **Jamie Franco** (TCW) emphasized the need for granular, underlying raw data to construct bespoke analytics, as no one-size-fits-all approach (or aggregate score) can satisfy diverse clients with varying preferences. **Sarah Hersh** (Vanguard) agreed, pointing out client expectations around ESG tend to vary markedly, making it difficult to adopt a combined metric in the investment process. **Hersh** acknowledged the usefulness of raw data in identifying investment signals as a starting point, however.

3.16.2. **Richard Manley** (CPPIB) echoed the group's comments and reiterated concerns over data quality issues often exhibiting Type 1 and Type 2 errors, which he felt prevented CPPIB from using aggregate ESG scores as the foundation of an investment decision.

3.16.3. **Erin Bigley** (AllianceBernstein) agreed but also pointed out a distinction between having to satisfy many investment objectives with the need for external reporting via comparable metrics. **Bigley** added using an independent third party's framework to benchmark different approaches can thus still be useful.

3.16.4. **Andrew Ford** (Morgan Stanley) shared that aggregate ratings may still be valuable for regulatory reporting, while acknowledging the role S&P Global can play in packaging numerous aggregate data combinations to serve different use cases. Above all, however, **Ford** emphasized the importance of data granularity, which users can roll up in the way they see fit, including as KPIs for diverse reporting frameworks.

<u>*Additional perspectives on the role of risk versus impact*</u>

3.17. **Mona Naqvi** (Chair) prompted a detailed discussion of the role of risk versus impact in ESG data with respect to S&P Global's evolving roadmap (outlined in pre-read materials).

3.18. All members reaffirmed the view that ESG is fundamentally about financially material risks (and by extension, opportunities), while impact must be treated as separate:

3.18.1. **Erin Bigley** (AllianceBernstein) underscored risk mitigation as core to any ESG investment strategy and explicitly suggested avoiding the term "impact" which must be intentional to describe what she would describe as opportunities. **Bigley** later reiterated this position of "*hypersensitivity to the use of the word impact*" as she suspects scrutiny of impact will only increase, sharing that her firm uses the "*lens of impact for very few investments*".

3.18.2. The group agreed and **Sarah Hersh** (Vanguard) added that "*while risk and opportunities are two sides of the same coin, risk versus impact presents a false dichotomy that is simply not relevant to fundamental analysis*".

3.18.3. **Jamie Franco** (TCW) elaborated further, suggesting the industry needs better categorization, tools, and frameworks to make such distinctions (risk / opportunity / impact), and that these could be defined in terms of performance outcomes.

3.19. **Richard Manley** (CPPIB) and **Jamie Franco** (TCW) briefly left call for other engagements.

4. Break

4.1. The Council adjourned for a 15-minute break.

5. Biodiversity & Nature: A New Frontier

Relevance of biodiversity to investors

5.1. **Mona Naqvi** (Chair) initiated the session by referencing demand for biodiversity and nature-related metrics. **Naqvi** highlighted the link between nature and climate discussed at the recent European Investor Client Council Meeting [May 11] and invited the Council to comment on their experiences of biodiversity in investments.

5.2. **Sarah Hersh** (Vanguard) shared this is not something Vanguard is currently pursuing, though some advisors they partner with are starting to integrate it. **Hersh** added she does not see a huge amount of appetite for another big standalone ESG challenge akin to climate. She feels that the TNFD has had limited traction relative to the TCFD and these initiatives probably would have been more successful if initially tackled together.

5.3. **Ruben Lubowski** (Lombard Odier) agreed with sentiments expressed among some of the European cohort in terms of the importance of biodiversity and nature to the climate crisis. **Lubowski** also raised the topic of community impacts, noting that destruction of nature is often tied to human rights and law enforcement, among other issues.

5.4. **Richard Manley** (CPPIB) and **Jamie Franco** (TCW) rejoined the meeting.

5.5. **Richard Manley** (CPPIB) added concerns over biodiversity data creating false risk signals and overlooking companies that make positive impacts via supply chains. **Manley** also disclosed his firm is a member of the TCFD and has an observer seat at the TNFD, but that his firm does not think that biodiversity is as relevant as climate to the capital markets.

5.6. **Jamie Franco** (TCW) acknowledged the role nature plays in reducing emissions but questioned the market's capacity to do so using tools other than carbon offsets, suggesting the investment incentives are not always aligned. **Richard Manley** (CPPIB) agreed and emphasized the need to value emissions-avoided or -removed, but expressed concerns over how to price this, adding that "*this won't be as easy to fix as carbon*".

Data gaps & enhancement requests

5.7. **Gautier Desme (**S&P Global) presented S&P Global Sustainable1's approach to measuring biodiversity risk and nature dependency and commented specifically on the interconnectedness of many of these issues identified in S&P Global's research.

5.8. Several members (**Andrew Ford**, Morgan Stanley; **Ruben Lubowski**, Lombard Odier) agreed that granularity and transparency in geolocation-specific, asset-level data are critical for this type of analysis.

5.9. Several members **(Andrew Ford**, Morgan Stanley; **Ruben Lubowski**, Lombard Odier; **Jamie Franco**, TCW) shared concerns over falsely inflating measures of biodiversity risk and nature dependency based on the proximity of assets, since not all activity is negative – citing examples such as vertical farming or circular economy-based activity, which can in fact reduce land usage.

5.10. **Richard Manley** (CCPIB) added that what he requires is greater transparency from company boards on whether they have identified ecosystem dependencies, what they are and where they occur, whether they are sustainable or unsustainable – and, if the latter, what steps the company is taking to remedy the situation. His preference is for data providers to make this type of information available before modeling hypothetical risk exposure based on geographical proximity of assets to biodiversity zones.

5.11. **Richard Manley** (CCPIB) referenced some research by Stanford University that questions whether it would be more sustainable to cease carbon offsets altogether, and suggested the industry needed a new method to properly account for carbon on a balance sheet, such as Social EPS or the dollar value of emissions avoided.

5.12. **Mona Naqvi** (Chair) asked whether the group felt data on the financial impacts associated with biodiversity risks could be useful, to which **Richard Manley** (CCPIB) responded that financial valuation impacts could be useful but only if fully transparent in methodology and not just another black box, which drew agreement from all members.

6. <u>The Next Horizon</u>

6.1. **Mona Naqvi** (Chair) invited members to share any other general feedback, ideas, or wishlist items they would like to see developed by S&P Global Sustainable1 in the future.

6.2. **Richard Manley** (CCPIB) expressed interest in aggregate league tables to better hold companies to account and ensure stated ambitions align with real world activities.

6.3. **Andrew Ford** (Morgan Stanley) expressed that while league tables would certainly catalyze good behavior, they might miss nuances around financed emissions relating to the transition, as simple point-in-time snapshots.

6.4. **Jamie Franco** (TCW) highlighted the importance of labelled bonds and understanding how these instruments are of quality and can be leveraged.

6.5. All members agreed further research was required to underscore the financial materiality and relevance of sustainability data points.

6.6. **Ruben Lubowski** (Lombard Odier) pointed to more forward-looking indicators.

6.7. **Richard Manley** (CCPIB) added that he would like to see more data on the abatement capacity of companies broken down by sector and issuer, especially within a given index universe such as the S&P 500.

7. Concluding Remarks and Next Steps

7.1. **Mona Naqvi** (Chair) and **Richard Mattison** (S&P Global) thanked the Council and summarized the following next steps:

7.1.1. S&P Global will organize a demo of its Marketplace Workbench Tool for the Council for any members that are interested in gaining complimentary access.

7.1.2. S&P Global will publish a new public facing webpage and a password-protected, member-only portal where they can access all relevant Council documentation.

7.1.3. The European Council will resume for the H2 2023 session in person on September 21st, 2023 at the Javits Center in New York City, further details of which will be forthcoming.

8. Council adjourns

8.1. **Mona Naqvi** (Chair) briefly recounted next steps and adjourned the Council.

S&P Global Sustainable1
Investor Client Council

H1 2023 Asia Pacific & Middle East Meeting Minutes

DATE: Thursday, 1st June, 2023: 18:00 – 21:00 CST (China Standard Time)
LOCATION: Virtual

Attendees

Council Members

- Astha Ummat (proxy), Vice President, ESG Investment Management, **Temasek Holdings**
- Jinsuk Choi, Head of Sustainable Investment Team, **Korea Investment Corporation** (KIC)
- Niels Stenbaek, Senior Vice President & Head of ESG and Climate Change Risk, **Saudi PIF**
- Sau Kwan, President, **E Fund Management**
- Vijay Singh Bains, Chief Sustainability Officer, **Emirates NBD**

S&P Global Attendees

- Mona Naqvi, Chair of the Council, **S&P Global Sustainable1**
- Myrna Ghanem, Secretary of the Council, **S&P Global Sustainable1**
- Richard Mattison, Vice Chair of **S&P Global Sustainable1**
- Lauren Smart, Chief Commercial Officer, **S&P Global Sustainable1**
- Thomas Yagel, Chief Operating Officer, **S&P Global Sustainable1**
- Sonia Kim, Managing Director, Head of Product, **S&P Global Sustainable1**
- Steven Bullock, Managing Director, Head of Research, **S&P Global Sustainable1**

Apologies

Council Members

- Kyung-Ah Park, Head of ESG Investment Management, **Temasek**

S&P Global Attendees

- Chris Heusler, President, **S&P Global Sustainable1**

Meeting Objective

The Council Meeting serves as the inaugural gathering of the European **S&P Global Sustainable1 Investor Client Council**. The aim of the Council is to facilitate a community of industry experts who meet regularly to discuss business challenges and opportunities arising from sustainability issues. Its members provide S&P Global with expertise to inform best practices and deepen S&P Global's understanding to serve the evolving needs of the market through relevant products and services.

Agenda & Record of Discussions

1. Welcoming Remarks

1.1. **Richard Mattison** (S&P Global) welcomed all attendees and thanked them for their participation in this important new initiative for S&P Global.

2. Purpose & Objectives

2.1. **Mona Naqvi** (Chair) stated the Council Guidelines and received verbal acknowledgement from all members of their understanding and agreement.

2.2. Members introduced themselves and provided their rationales for joining the Council and what they hoped to achieve from participating in the 2023-2024 cycle. Reasons included learning more about S&P Global's sustainability solutions, developing deeper sustainability knowledge, contributing to product innovation, and community-building.

2.3. The Council took a short break to switch from Zoom to Teams due to a technical glitch.

3. Sustainable Investing Today

Current ESG practices in APAC and the Middle East

3.1. **Mona Naqvi** (Chair) asked members to describe their current sustainable investment processes and reflect on their stage of ESG adoption.

3.2. Members agreed on the importance of ESG integration in their current workflows and the challenge of demystifying it for future generations, as they anticipate this type of investing to grow in the region over the coming years.

3.3. **Vijay Bains** (Emirates NBD) commented on the influx of regulations especially from the EU, which is catalyzing interest within his firm, though he feels more regionally focused approaches still need to be defined. As a trained climate scientist, **Bains** understands the risks involved and views ESG as key to building resilient investment portfolios.

3.4. **Astha Ummat** (Temasek) shared that her firm started engaging in ESG many years ago across all manner of investments "*from early stage VC funds to private equity and everything in the middle*" for their 300bn in AUM, and that "*Temasek wants to integrate ESG in 100% of their portfolios regardless of strategy*". She added, however, that this must be done via the lens of value creation, which they seek to link to financial metrics such as revenue and margins.

3.5. **Ummat** added that Temasek also seeks to build resilient portfolios based on market trends pertaining to the future of consumption and sustainable living, while at the same time maintaining a liquid strategy.

3.6. As the market is changing rapidly, one member noted, as emerging markets it is critical to contribute to the evolving innovation of the market and learn from each other to become pioneers in the region or respective countries.

The relevance of ESG scores & potential enhancements

3.7. Members discussed the importance of ESG ratings and their concern of disclosing their reporting correctly. Beyond regulatory requirements, a concern was how to present the rationale for a certain score to shareholders and stakeholders

3.8. Differences in the region also became apparent as different clients are in different phases of their integration approach and require more support from data providers. For example, a member explained how they are still in their infancy stage of full ESG integration which is their ultimate goal.

3.9. Overall, all members agreed that while some are more advanced than others in their approach, more data is needed on both the score and raw data level, and that data providers have a great role to play in helping them catch up with the more advanced regions like Europe and even the United States.

Internal data integration approaches

3.10. Some members agreed that scores are the best foundational way to start integrating ESG into their workflow.

3.11. However, **Niels Stenbaek** (Saudi PIF) instead advised that use of raw data is of higher priority to them in order to internally continue analyzing the data and produce sound interpretations depending on the conversation in progress with their clients and companies.

3.12. A few members mentioned they use more than one data provider to use a combination of indicators on both the aggregate and the raw data level.

3.13. **Sau Kwan** (E Fund Management) explained they developed internal scores with their own framework given they cannot use a global framework as they are still behind the more advanced regions focusing on ESG. The member also explained the importance of covering both equity and fixed income where the latter lacks data.

3.14. All members agreed that scores are easier to understand and to do comparisons, and one member noted that more guidance is needed to ensure these scores are followed by assurance to avoid any greenwashing.

Additional enhancement requests for ESG Scores

3.15. **Sonia Kim** (Head of Product) requested more detail on the importance of risk and impact as primary lenses and if this enhancement would be relevant for the clients.

3.16. Members mentioned looking at things from a risk and opportunity perspective as impact is more relevant on the financial impact side than in the scope of the likes of the SDGs.

3.17. One member mentioned they do take an impact lens but ultimately need to link back to financial impact.

3.18. A member enumerated the enhancements that would be most relevant, including higher frequency of updates and refresh of data, enhanced corporate governance metrics, more support in the region for benchmarking purposes.

3.19. With regards to the current format of scores, members agreed a score is more relevant than letters so they can decipher and use them more easily as well as create additional internal analyses.

3.20. Members were supportive of the roadmap in terms of assessing risk and enhancing raw data.

S&P Global's sustainability thematic dashboard

3.21. **Sonia Kim** (S&P Global) presented S&P Global Sustainable1's new sustainability thematic dashboard, which encompasses 12 sustainability metrics consistent across industries.

3.22. The Sustainability Dashboard was well received with the suggestion to allow for customization or a more thematic view.

3.23. **Mona Naqvi** (Chair) summarized the discussion and added that despite the backlash in other regions, clients were still strongly committed to sustainable investing and hungry for more.

4. Break

4.1. The Council adjourned for a 15-minute break.

5. Biodiversity & Nature: A New Frontier

5.1. **Mona Naqvi** (Chair) began by setting the scene of the growing demand for understanding reliance on biodiversity and the link between nature and climate change and invited clients to speak of their internal agenda with regards to the topic.

5.2. Some members found it to be relevant particularly as part of the Road to COP28. Challenges cited included the top-down movement to replace palm oil with other oils which require more land use.

5.3. A member agreed with the challenges presented and explained that while the TNFD is something taken into account, it is still an area they are keen to learn more about.

Linking climate to nature and other trends in the region

5.4. **Mona Naqvi** (Chair) addressed the Council and asked about the relevance of financial materiality when it comes to biodiversity and nature.

5.5. Members did not have comments, but instead spoke of the link between climate and nature and that beyond regulatory needs, generation needs are also more aware of these challenges.

5.6. One Member advised that priority needs to start with climate change which will lead to tackling biodiversity. However, as climate change is easier to tackle and more tangible, it is the right place to start.

5.7. Other challenges included reliance on a global supply chain as, for example, the Middle East is mainly desert where no food is grown, and water is scarce.

5.8. Members chimed in to agree that water is a big topic of concern and 'the next big thing'.

S&P's approach to biodiversity and nature

5.9. **Steve Bullock** (Head of Research) spoke of data availability and explained the methodology used to assess level of impact companies are having on different ecosystems. Steve continued to walk the Council through S&P's methodology.

5.10. **Vijay Bains** (Emirates NBD) explained that biodiversity is mainly looked at on the ExCo level but is still complex. Additionally, the social aspect is of growing importance. For example, the link between biodiversity, climate and slavery, where the example of supply chains producing materials in Africa for large global companies was used.

5.11. Additionally, members in the region spoke of the importance of engaging with NGOs especially when it comes to greenwashing, to ensure an open dialogue with organizations that are more familiar with matters of nature.

5.12. Another concern mentioned by the Council is the terminology that is available.

5.13. **Mona Naqvi** questioned the role of S&P when it comes to aiding with the terminology.

5.14. Members agreed S&P had done a good job when it comes to ratings and needed to expand that into ESG education. **Sau Kwan** (E Fund Management) underlined the region's hunger for research and education.

5.15. **Lauren Smart** (CCO) spoke of the potential interest in thematic sessions that can be led regionally, and the Council agreed on their hunger for insights particuparly to understand "this is where the market is going".

6. The Next Horizon

6.1. **Mona Naqvi** (Chair) requested wishlist items and additional enhancement requests or feedback from the Council.

6.2. A member named S&P as one of the top 3 among other competitors when it comes to ESG and Sustainability data, and requested guidance on benchmarking and peer comparisons, and research on the regional and global level through league tables.

6.3. **Mona Naqvi** recounted the topics and takeaways including, transparency and frequency updates, research to understand drivers of scores and improvements, league tables, and more education from the S&P side.

6.4. **Sonia Kim** (Head of Product) gave an open invitation to reach out with any additional feedback or thoughts.

7. Concluding Remarks and Next Steps

7.1. Mona Naqvi and Richard Mattison thank the Council and summarize key next steps.

7.2. The S&P Council members are setting up a Workbench demo for the team.

7.3. Members will receive access to a webpage for all Council documentation.

7.4. The APAC Middle East Council will resume for the H2 2023 session on xxx, 2023.

8. Council adjourned

8.1. **Mona Naqvi** (Chair) recounts next steps and adjourns Council.