CORPORATE SUSTAINABILITY
Quarterly Newsletter

December 2016

The Isosceles Group

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CORPORATE SUSTAINABILITY QUARTERLY NEWSLETTER

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The Sustainability Newsletter is produced quarterly by The Isosceles Group. It focuses on major trends and developments in the areas of corporate sustainability and social responsibility, enabling companies to stay ahead of the curve on important and emerging issues. Hyperlinks to relevant information and studies have been provided if you are interested in obtaining further details on a particular topic. The December 2016 Sustainability Newsletter covers the period of mid-August to mid-November 2016. Sustainability updates for specific countries can also be provided upon request. If you have any questions about the presented materials or would like additional information on any of the topics, please contact Brittany Palmer at bpalmer@theisogroup.com.

August 2016

▲ The Rise of Sustainable Procurement

Procurement impacts multiple aspects of a company's operations, including risk, cost and cash flow management, product innovation, and economic and social footprint. With the increase in corporate sustainability planning, it is no surprise that a focus on sustainable procurement has begun to emerge in large multinational corporations.

Sustainable procurement typically considers a number of areas including risk, external demands, and internal drivers. Risk considerations may include risk management, complying with regulations, avoiding resource scarcity, maintaining a license-to-operate, and preserving brand capital. External demands may include those of clients, investors, regulators, NGOs and civil society with regards to governance, environmental and social issues. Internal drivers may include demands of corporate boards and officers, reducing costs, product innovation, avoiding supply chain disruptions, and improving supplier relationships.

There are a number of ways corporations can begin to address sustainability in their supply chain. Some choose in-house tools and expertise, including codes of conduct and supplier evaluation questionnaires. Others engage with third-party sustainable supply chain monitoring tools and companies, and many look towards industry groups and initiatives for a common, sector-specific approach.

As the shift towards sustainable procurement becomes more prominent, standards setters and certification bodies have developed materials, programs and certifications. Examples include the following:

- Chartered Institute for Procurement and Supply (CIPS) has highlighted the benefits of sustainable procurement as far back as 2009;
- The non-profit Sustainable Purchasing Leadership Council (SPLC) is currently developing a sustainable purchasing Benchmarking System; and
- The International Organization for Standardization (ISO) is aiming to release a finalized version of their new ISO 20400 'Sustainable procurement – Guidance'

standard to complement their broader 'ISO 26000 Guidance on Social Responsibility' standard by early 2017.

▲ New ISO Standard on Sustainable Procurement Coming in 2017

The new International Organization for Standardization (ISO) 20400 'Sustainable procurement - Guidance' will provide guidance on integrating sustainability into the procurement function. It will complement ISO 26000 'Guidance on social responsibility' by helping integrate sustainable procurement into sustainability planning more broadly. The guidance will be broken down into seven clauses, the major ones being Fundamentals, Policy & Strategy, Enablers and Procurement Process.

Fundamentals describes the scope, principles, and drivers of sustainable procurement. It is essentially the rationale and framework for the rest of the document. Topics include defining sustainable procurement, explaining why organizations should consider it, and key considerations.

Policy & Strategy looks at the intersection of sustainable procurement and top management. It describes how sustainable procurement can be aligned with an organization's overall sustainability policy. Topics include committing to sustainable procurement, aligning with organizational goals, adapting to the procurement context, and managing implementation.

Enablers looks more specifically at the interaction of sustainable procurement and the procurement management function. It describes the conditions necessary to organize the procurement function towards sustainability. Topics include governing procurement, enabling people, stakeholder engagement, setting priorities, measuring and improving performance, and grievance mechanisms.

Procurement Process focuses even more specifically on the individuals with procurement responsibilities and the actual process of integrating sustainability into their processes. Topics include planning, defining procurement criteria, sustainability aspects of supplier selection, contract management, contract review and lessons learned.

As is the case with ISO 26000, this new guidance will not be a certifiable standard. ISO 20400 has an anticipated publication date of early 2017.

▲ The Launch of the Natural Capital Protocol

Natural capital is a way of defining the wide range of assets that we derive from nature – the air we breathe, the water we drink, the minerals we mine, and the land we grow our food on for example. These assets are essential for mankind to prosper - including economically. Until now, the concept of natural capital has been largely excluded from corporate decision-making. When considered, means of accounting for natural capital have often been inconsistent across businesses and sectors, open to interpretation, or limited to moral arguments.

The Natural Capital Coalition, a global multi-stakeholder collaboration comprised of over 200 leading global initiatives and organizations, hopes to harmonize approaches to natural capital, and recently launched the Natural Capital Protocol in July 2016. The Coalition hopes the Protocol will help generate trusted, credible, and actionable information for business managers' decisions, by offering the first ever standardized framework to identify, measure, and value direct and indirect impacts and dependencies on natural capital.

The Protocol is built on the principles of Relevance, Rigor, Replicability, and Consistency. It is split into ten Steps spread across four Stages (Frame, Scope, Measure and Value, and Apply). Two sector-specific guides, focused on the apparel and food and beverage industries, have been created to give insights to companies in these sectors. The Coalition is in dialogue with sector-specific initiatives regarding the development of additional sector guides and is also working with the University of Cambridge Institute for Sustainability Leadership (CISL) to develop a Protocol Application Program to help support businesses interested in applying the Protocol.

▲ The new BICEPS Rating System for Maritime Shipping

The Boosting Initiatives for Collaborative Emission-reduction with the Power of Shippers Network (BICEPS Network), a joint initiative of five global shippers including AB InBev, AkzoNobel, DSM, FrieslandCampina and Huntsman, announced the launch of a rating system for shippers to be used in their global procurement processes in late August, 2016.

The new BICEPS Rating System will take a uniformed approach to calculating emissions in the shipping sector and the Network hopes the system will motivate carriers to improve their operations. It will rank carriers from A to F using relative results based on scores from a questionnaire that covers performance in five key areas:

1. Publication of sustainability information;
2. Actual emission scores and targets;
3. Improvement projects, and project statuses;
4. Collaboration of the carrier with the outside world; and
5. Long-term horizon in relation to sustainability.

September 2016

▲ Sustainable Investments are Trending

Sustainable investing is "any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues" (Eurosif). Strategies include ESG integration, corporate engagement, and screening. These strategies have grown more common as research continues to show links between ESG criteria and corporate financial performance. Studies have shown an increase in use of sustainability criteria in the European and American asset management markets. Specifically, 75% of senior executives in investment firms agree that a company's good sustainability performance is materially important when making investment decisions and around 60% of them believe that solid sustainability performance reduces a company's risk and lowers its cost of capital.

A few notable investor trends include the proliferation of the use of the United Nations Principles for Responsible Investment (PRI) and CDP data in the global investment community. The PRI were developed by an international group of institutional investors seeking to include ESG considerations in investment practices. The principles currently have 1,551 signatories, representing roughly $60 trillion in managed assets (roughly half the global market). CDP, formerly known as the Carbon Disclosure Project, is a non-profit that collects environmental data from organizations and transforms it into analysis on environmental risks, opportunities and impacts. Their data is shared on Bloomberg terminals and is requested by 827 investors, representing roughly $100 trillion in asset management. Finally, a number of sustainability themed indices have emerged from various organizations including Calvert, the Dow Jones Sustainability Indexes, the Russell FTSE, MSCI, Stoxx and Vigeo among many others.

Pressure is also mounting on the U.S. Securities and Exchange Commission (SEC) to mandate ESG disclosures in corporate reporting. The SEC sought public comment on modernizing business and financial disclosure requirements under its Regulation S-K: Concept Release until July 21, 2016. The agency specifically sought input on sustainability metrics that were important to investor decisions. The Sustainability Accounting Standards Board (SASB) was one of several organizations to offer extensive comments. SASB stated that the current disclosure requirements are insufficient, line-item disclosures are not appropriate for sustainability issues, and effective disclosures require a market standard. The UNPRI is similarly seeking new and improved requirements from the SEC for sustainability reporting. Other investors, with assets totaling $1.15 trillion, stated that they need improved reporting of material sustainability risks "to make informed investment and proxy voting decisions."

▲ Dow Jones Announces Changes to Sustainability Index

Dow Jones conducts an annual review of its Sustainability Index. The Index tracks the top sustainability-driven companies based on environmental, social and governance factors, as well as S&P indices. Based on the review conducted, Dow Jones selects companies to be added to the sustainability index, and can also remove companies. The companies recently added and removed are as follows:

- Additions
    - Cisco Systems Inc.;
    - Royal Dutch Shell PLC; and
    - Adobe Systems Inc.
- Removed
    - Intel Corp;
    - Samsung Electronics Co. Ltd; and
    - British American Tobacco PLC.

The changes became effective on September 19, 2016. In looking at the overall scores, it was determined that businesses scored highest in corporate governance, codes of business conduct, and environmental management systems, while they scored the lowest in eco-efficiency, human capital development, and materiality.

▲ Shift Towards Circular Economy

The UK Waste & Resources Action Program (WRAP) defines a circular economy as, "an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life." Circular economy laws and approaches are becoming more commonplace in various countries around the world through government implementation, and businesses are taking a lead in developing approaches as well.

A shift towards a circular economy creates a number of benefits including reduced waste, greater resource productivity, addressing resource security and scarcity issues, and reducing the environmental footprint of products and services. It could also generate $1 trillion in annual economic value and 100,000 new jobs by 2025 in addition to preventing 100 million tons of waste within the next five years. Gains from increasing efficiency in the manufacturing sector are mostly incremental and not enough for corporations to generate true competitive advantage whereas shifting towards a circular economy can.

Seeing these potential benefits, the Ellen MacArthur Foundation was established in 2010 with the aim of accelerating the transition to a circular economy. The foundation partners with global sponsors including Cisco, Google, H&M, Intesa Sanpaolo, Nike, Philips, Renault and Unilever, as well as governments and academia, to develop circular business initiatives. In addition, some corporations have begun to dive into their own circular economy initiatives. Veolia and partners recently developed the first complete circular economy for small appliances and is a Core Partner in the MacArthur Foundation's New Plastics Economy Initiative.

October 2016

▲ Standard & Poor's Global Ratings is set to launch Green Bond Evaluation Tool

Green bonds have risen in prominence the past few years, with issuance *expected* in the range of $56 billion in 2016 and anticipated rapid expansion in China in the coming years. These bonds are typical bonds that present an additional layer of interest for 'green' investors because they enable capital-raising and investment for new and existing projects with environmental benefits. The Green Bond Principles developed by the International Capital Market Association (ICMA) attempt to provide a standard definition globally.

Standard and Poor's Global Ratings is in the process of entering the green bonds field. It is proposing a new product to analyze and estimate the environmental impact of projects or initiatives funded by green bonds. The Green Bond Evaluation would consider both climate change mitigation and adaptation projects and would not be a credit rating. Evaluations would include three scores and an overall final score. They would factor in the following:

- Transparency: Quality of disclosure, reporting, and management of bond proceeds;
- Governance: Steps taken to measure and manage the environmental proceeds of the bond; and
- Mitigation/Adaptation: The impact of the expected resultant mitigation/adaptation efforts on a net benefit basis relative to local baselines (for mitigation) or reductions in the cost of expected damages (adaptation). This score would focus on either mitigation or adaptation depending on the bond being evaluated.

The S&P approach will go beyond Moody's Green Bond Assessment Methodology by factoring in the projected mitigation/adaptation impact of the bond. The proposed prototype is expected to be launched before year-end 2016.

▲ "Buildingomics" and the Expanded Argument for Green Building Certification

The Greenbuild Expo took place in early October 2016 in Los Angeles and expanded the conversation of green building certification by taking a new look at factors that are not typically included in return on investment (ROI) considerations. Historically, ROI arguments for green building certifications have focused on optimizing energy and water use. Because of the results from a recently released new study called COGfx, supported by United Technologies (UTC), a new focus on elevating workforce productivity and health has the potential to become a foundational aspect of decision-making. It is shaping a new area being called "buildingomics" that looks at the broader picture of various factors including air quality, temperature, and lighting, to consider how these factors come together to benefit productivity and wellness.

The double-blind, peer-reviewed study focused on 109 people across "high-performing" buildings in five cities over the course of a week. Prior rounds of COGfx research looked at individual factors, whereas the most recent round looked at the broader "buildingomics" perspective. Researchers found that workers in LEED-certified buildings score 26% higher on cognitive tests. The benefits were also found to extend beyond the workday, with a 6.4% increase in sleep quality scores that resulted in a 25% improvement in cognitive tests the day after. Moving forward, this research could enable an approach to green building certification that factors in employee productivity, absenteeism, sick time, and benefits spending associated with these issues, in the decision-making process.

▲ Corporate Sustainability Reporting Becoming Mainstream

Corporate sustainability reporting has been on the rise and continues to show growth in terms of the number of companies reporting. The increase in the quality of these reports, however, is a running debate. Provided in the following hyperlinks are the results of the most recent KPMG Survey of Corporate Responsibility Reporting published in November 2015 and the fourth annual Reporting Matters publication produced by the World Business Council for Sustainable Development (WBCSD) published in October 2016.

KPMG analyzed the world's 250 largest companies by revenue (G250), as well as the top 100 companies by revenue from 45 countries (N100). It found that 92% of G250 companies and 73% of N100 companies from their sample, produced some form of corporate sustainability report, up from 64% and 41% respectively a decade before. They also assessed quality based on seven factors and did not find an increase in quality over the previous two years apart from disclosure of sustainability trends and risks.

WBCSD analyzed sustainability reports for 163 of their member organizations based on seven indicators under the Principles category, seven indicators under the Content category and four indicators under the Experience category. It found that 76% of companies have improved their score since 2013, and 40% of reporters have improved their materiality disclosures, which are at the heart of the reporting process. In addition, results showed that the average time between reporting period and publication has continued to drop, and more companies are obtaining external assurance of their reports.

▲ ISO Developing New Facilities Management Standard

The International Organization for Standardization (ISO) has recognized the growing importance of the role of facilities management throughout the value chain of organizations. To this end, they are currently developing ISO 41001 'Facilities management – Management systems – Requirements with guidance for use.' The new standard will be compatible with ISO 14001 environmental management system and ISO 50001 energy management system standards amongst others, with publication expected in 2018.

The new standards hope to create a common language for facilities management that can be used globally and in multiple sectors. Suppliers and purchasers can both expect to benefit from these ISO 41001 standards. For suppliers, the standard will help influence financial, efficiency, compliance, environmental and sustainability terms, as well as provide a certification that can act as a market differentiator. For purchasers, the standards will facilitate benchmarking and can potentially help create expectations for suppliers to adhere to.

▲ GRI G4 Guidelines to GRI Sustainability Reporting Standards Transition is Complete

Since November 2015, the Global Reporting Initiative (GRI) has worked on transitioning from the G4 Guidelines to new Sustainability Reporting Standards ("GRI Standards"). The process was headed by the Global Sustainability Standards Board, an independent operating entity under the auspices of the GRI that was set up with the sole responsibility of setting globally accepted standards for sustainability reporting. The completed GRI Standards will replace the GRI G4 Guidelines and the transition will be marked by a series of launch events and webinars that began on October 19, 2016.

The GRI G4 Guidelines are currently the most widely-adopted sustainability reporting guidelines in the world, used by thousands of organizations globally. The transition to modular standards is considered the next step in the evolution of the Guidelines, making it easier to incorporate new sustainability topics in the future, and enabling the GRI to be even more widely-referenced by policy initiatives globally. Most of the changes focus on format and presentation, with much of the main content, concepts and disclosures from G4 remaining intact in one form or another.

▲ Human Rights Continues to be the Top Sustainability Consideration for Businesses

For the sixth straight year, business leaders have noted that human rights considerations top their list of sustainability priorities. This is according to the eighth annual BSR/Globescan State of Sustainable Business survey of 300 respondents from over 150 companies. Other organizations such as The Economist Intelligence Unit and the UN Global Compact have similarly found human rights to be an important issue in the business sector to address.

The United Nations (UN) launched their Guiding Principles Reporting Framework in 2015 to support the UN Guiding Principles on Business and Human Rights. Human rights issues are covered in a number of other frameworks and reporting mechanisms, including the International Integrated Reporting Council International <IR> Framework and the newly released Global Reporting Initiative (GRI) Sustainability Standards. Unlike the concept of materiality that other frameworks, guidelines, and standards use as a basis of reporting, the UNGP Reporting Framework uses the concept of salient issues. A company's material issues are those that are important to shareholders and other stakeholders and use the business as a starting point. The concept of salient issues looks at issues that stand out because they are at risk of the most severe negative impact and uses the lens of risk to people, instead of risk to business, as the starting point.

November 2016

▲ The Business Sector's Role in the Paris Agreement

For the Paris Agreement on climate change mitigation to go into effect, at least 55 countries, representing at least 55 percent of global emissions, had to approve the Agreement domestically and submit final approval to the United Nations. In early October, these thresholds were met with the addition of the European Union and India. Over 100 nations accounting for over 70% of global emissions have now officially signed up and the Agreement entered into force on November 4, 2016.

The Agreement will rely on ambitious efforts by the business sector to meet the agreed upon targets and many members-based initiatives have already begun approaching the topic from a variety of angles. The World Business Council for Sustainable Development (WBCSD) Low Carbon Technology Partnerships initiative (LCTPi) brings together 150 global businesses and 70 partners, in a cross-sectoral approach to collaborative work on climate change. BSR's

Resilience and Adaptation Initiative (READI) is a corporate platform that allows businesses to focus on resilience to climate risk across the value chain while also improving their ability to promote societal resilience. Ceres' Clean Trillion initiative seeks to bring businesses, investors, and policymakers together to facilitate an investment of $1 trillion per year in clean energy through 2050. All of these initiatives take different approaches to the mutual goal of involving the business sector in the recently realized post-Paris Agreement era.

▲ The Reporting Exchange to Enter a Beta Phase

The Reporting Exchange, a World Business Council for Sustainable Development (WBCSD) initiative developed in collaboration with the Climate Disclosure Standards Board (CDSB) and Ecodesk, is a freely available online platform that uses a crowdsourcing model to help users identify the reporting regulations, rules, policies, practices, initiatives, standards, codes and guidance which make up the reporting landscape as it evolves over time.

The platform has been designed to appeal to a broad range of users. Businesses can use it to keep on top of reporting requirements and access resources to help prepare sustainability information. Investors and academics, on the other hand, can use it to better understand the reporting landscape and context for specific disclosures. Regulators and standard setters can use it to compare different approaches to sustainability reporting requirements around the world.

All users can take advantage of a number of features that the Exchange offers to streamline their experience. The platform is multilingual and will allow users to search for country and sector-specific requirements, customize an organizational profile to track relevant trends, and share experiences and feedback with other organizations through a collaborative feature. A successful pilot version ran in the first quarter of 2016 and a beta version is set to launch in December 2016.

▲ Corporate Sustainability in the Context of a Trump Administration

On the campaign trail, presumptive President-elect Donald Trump vowed to "cancel" the Paris Agreement on climate change, eliminate the US Environmental Protection Agency (EPA), foster the resurgence of the coal industry and claimed the notion of anthropogenic climate change was created "by and for the Chinese." This contradicts previous positions including a 2009 open letter to President Barack Obama and Congress published in the New York Times calling for "meaningful and effective measures to control climate change" and a post-election sit-down with the New York Times more recently that saw him admitting "some connectivity" between human activity and climate change.

The uncertainty created by these multiple positions has naturally left many sustainability professionals wondering what is next and what the role of the private sector can and should be in a Trump Administration. In response to the results of the US Presidential elections, over 350 businesses and investors signed an open letter coordinated by C2ES, Ceres, Environmental Defense Fund, Environmental Entrepreneurs, The B Team, The Climate Group, We Mean Business, and World Wildlife Fund (WWF) calling on elected US leaders to support the following:

- Continuation of low-carbon policies to allow the US to meet or exceed its promised national commitments under the Paris Agreement on climate change;
- Investment in the low-carbon economy at home and abroad to give financial decision-makers clarity and boost investor confidence; and
- Continued US participation in the Paris Agreement to provide the long-term direction needed to limit global warming.

Others are driving the agenda by pledging to use renewable power – regardless of legislative requirements. The RE100 is a collaborative, global initiative with 83 signatories to date brought together by The Climate Group, CDP, and We Mean Business, committing to 100% renewable power.

About The Isosceles Group

The Isosceles Group provides environmental management and occupational health and safety services to industry and governments worldwide. Founded in 1999, our mission is to develop and optimize ESH systems and provide time-critical support in key compliance areas in a cost-effective manner.

Isosceles develops, implements and maintains occupational health and safety (OHS) and environmental management systems (EMS) at client facilities, and manages environmental issues that affect the acquisition, operation, expansion and closure of industrial and commercial real estate. Isosceles conducts environmental due diligence and corporate social responsibility (CSR) assessments worldwide, and has developed auditing and facility development protocols for the efficient assessment of OHS and EMS requirements for industry in over 65 countries, including China, India, Mexico, and countries within the European Union.

For more information on our services, please visit our website or contact us at 617-330-2800.