CORPORATE SUSTAINABILITY
Quarterly Newsletter

March 2017

The Isosceles Group

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The Corporate 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 March 2017 Corporate Sustainability Quarterly Newsletter covers the period of mid-November 2016 to mid-February 2017. 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.

November 2016

▲ EU to Require Pension Funds to Assess Climate Change Risks

The European Union (EU) adopted a Directive on Institutions for Occupational Retirement Provision (IORP II) in late November 2016 that was finalized in January 2017. The Directive amends rules governing IORPs that were set forth in 2003 through Directive 2003/41/EC (the "IORP" Directive). Such amendments will require EU occupational pension funds that manage assets valued at approximately €3 trillion (~$3.17 trillion), on behalf of around 75 million people, to include environmental risks in their investment strategies. The potential risks associated with outlined factors, including stranded assets and extreme weather linked to climate change, political change, and volatile energy prices, will now get the same level of attention as traditional sources of risk such as liquidity, operational, or asset risks. EU Member states will have until the end of January 2019 to transpose the new rules into national law.

The Directive comes as the EU looks at a variety of measures to reduce long-term systemic risks, including the possibility of carbon stress tests for financial firms. Policymakers and climate scientists also hope this will encourage money to flow out of fossil fuels and into greener sectors.

▲ EU Reaches Landmark Agreement on Conflict Minerals Regulation

Conflict minerals refer to those that are extracted in global conflict zones and sold to perpetuate and fund fighting. The most prominent examples are tin, tantalum, tungsten, and gold (3TGs) extracted from the eastern provinces of the Democratic Republic of the Congo (DRC).

In the US, Section 1502 of the Dodd–Frank Wall Street Reform and Consumer Protection Act requires companies to verify that 3TGs used in their products are not conflict minerals. Now, the European Union (EU) has also set about to regulate 3TGs. Key points for EU regulations were agreed to in June 2016 by the European Council and European Parliament. The co-legislators have been working together since then to finalize the text. The definition of how and when the regulation will apply to EU importers was the key sticking point.

The final version of the agreement aims to ensure sustainable sourcing for more than 95% of all EU imports of 3TGs which will be covered by due diligence provisions as of January 1, 2021. The agreement also calls for the deployment of support for importers, especially small and medium-sized enterprises, as well as development aid and foreign policy actions to ensure the effectiveness of the regulation and its positive impact in conflict areas.

▲ New Study Finds 98% of Companies do not Achieve their Sustainability Goals

A new survey and report by Bain & Company reveals that only 2% of companies achieve expectations set as part of their sustainability programs, compared to a 12% success rate for transformational change programs more generally. Of the remaining companies, 81% settle for mediocre sustainability performance while 16% fail to deliver, producing less than half of the expected results. The report is based on a survey of over 300 companies engaged in such transformations.

The surveys delved deeper into the issues and found that the largest barriers to change are a lack of resources and competing priorities. They also state that leadership support is the most critical success factor. The report suggests four ways for companies to achieve breakthrough results in sustainability, including:

- Making a public commitment;
- Garnering CEO and executive level action and support;
- Focusing on changing employee mindsets; and
- Hardwiring sustainability objectives into organizational processes.

December 2016

▲ The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) Releases Draft Recommendations

A recent report by the World Business Council for Sustainable Development (WBCSD) has found that 89% of member companies indicate that sustainability issues could have a financial impact on their business. Only 29% of members who outline material sustainability risks in corporate sustainability reports, however, reflect this information in their legal filings or disclosures on risk. In addition, 70% of members do not believe their risk management practices are adequate at addressing those risks, leaving a gap in understanding sustainability-related financial risks for both companies and investors.

During last year's COP 21 in Paris, Mark Carney, Governor of the Bank of England, and Michael Bloomberg, former Mayor of New York City, announced the creation of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD, under the auspices of the Financial Stability Board (FSB), aims to help investors understand their financial exposure to climate risk by helping companies disclose relevant information in a clear and consistent way, using a common framework. The task force should help companies better understand and report on these risks, and help investors use comparable data in their decision-making processes.

The 31 members of the TCFD include both users and preparers of climate disclosures from across the Group of Twenty (G20). It released its Recommendations Report in December 2016, with a resulting 60-day public consultation period. The core elements of recommended climate-related financial disclosures include metrics and targets, risk management, strategy and governance, and guidance for all sectors, as well as supplemental guidance for specific sectors that intentionally attempt to link with other disclosure initiatives to avoid redundancy.

▲ Bill Gates Launches Breakthrough Energy Ventures

During COP21, Bill Gates announced plans to accelerate investment in clean energy research and launched the Breakthrough Energy Coalition, a partnership between governments, research institutions, and investors to drive an aggressive global program focusing on zero-emission energy innovation.

One year in, Gates has officially launched Breakthrough Energy Ventures (BEV), a new $1 billion clean tech investment fund that is a spinoff of the Coalition, guided by scientific and technological expertise and committed to investing in developing new ways to live, eat, travel, and build. The 20-year fund is backed by more than a dozen of the world's richest entrepreneurs, including Amazon founder Jeff Bezos, Virgin Group's Richard Branson, Jack Ma of Alibaba Group, and leading venture capitalists John Doerr and Vinod Khosla.

Investments will focus on four investment criteria, including:

1. Climate Impact – technologies that have the potential to reduce GHG emissions by at least half a gigaton;
2. Other Investments – companies with potential to attract capital from sources outside of BEV;
3. Scientific Possibility – technologies with an existing scientific proof of concept; and

4. Filling the Gaps – companies that need the unique attributes of BEV capital (patience, judgment by scientific milestones, flexible investment capabilities, and a significant global network).

As BEV is just getting started, it is not currently taking unsolicited investment opportunities. In the future, it will post more information to its website about how best to engage.

▲ OSHA Pushes to Include Worker Health and Safety in Sustainability Plans

The U.S. Occupational Safety and Health Administration (OSHA) issued a white paper entitled Sustainability in the Workplace: A New Approach for Advancing Worker Safety and Health that aims to link workplace safety to sustainability and calls for safety to be fully integrated into sustainability initiatives.

The paper acknowledges that occupational safety and health (OSH) is already a part of sustainability initiatives and conceptual frameworks, but notes that research shows sustainability tends to focus on environmental concerns in practice.

The paper highlights several ways to leverage sustainability to advance safety and health, including:

- Creating new partnerships to support integrated OSH and sustainability activities;
- Enhancing interdisciplinary training and education;
- Measuring the impact of OSH performance on business outcomes;
- Recognizing employers that integrate OSH into sustainability efforts; and
- Improving access to data on OSH for sustainability reporting.

▲ DOE Releases Five New Energy Efficiency Standards

In 2007, then-President George W. Bush directed the US Department of Energy (DOE) to develop efficiency standards for battery charger systems. Uninterruptable power sources (UPSs) were initially intended to fall under the purview of this directive, but in 2012, the DOE determined UPSs should fall under their own rule-making category.

In December 2016, new standards were released for UPSs as well as pool pumps, portable air conditioners, walk-in coolers and refrigerators, and “packaged boilers” that heat commercial and multifamily buildings. The UPSs standards alone are expected to save consumers and business up to $3 billion on electric bills over the next three decades, the equivalent in electricity to power 7 million US homes for a year or the annual pollution from 10.3 million cars.

The future of four of these regulations, however, is murky. In one of his first acts as President, Donald Trump signed an executive order issuing a government-wide freeze on new or pending regulations that include many of these standards as they had not yet completed their 45 day review period before being posted to the Federal Register.

January 2017

▲ Companies Rise to the AgWater Challenge

About 70% of freshwater globally is used for agriculture, with the remaining 30% left for drinking water, cooking, and industry. In addition to the devastation to people and the environment that climate change, population growth, and water pollution cause, they also bring major financial risks to leading food and beverage companies. These risks include supply chain disruptions and integrity, operating expenses, and growth constraints – all of which can be expected to occur more frequently if water risks are ignored.

To address this concern, Ceres and the WWF launched a new, collaborative initiative called the AgWater Challenge that seeks to drive leading food and beverage companies to make water-related commitments. These commitments should aim to reduce the water impacts of key agricultural commodities, be locally-relevant strategies, and support and incentivize farmers to strengthen water stewardship.

So far, seven companies, including Diageo, General Mills, Hain Celestial, Hormel Foods, Kellogg's, Pepsi Co., and WhiteWave Foods, have led the charge as water stewards. The five key ingredients of AgWater Stewardship are as follows:

1. Assessing water risks in key sourcing regions;
2. Setting sustainable agricultural policies that address water;
3. Setting time-bound goals to reduce water impacts of key crops;
4. Directly supporting and incentivizing growers to protect water resources; and
5. Collaborating at the watershed level to protect water resources in high-risk areas.

▲ Energy Productivity Can Impact all Aspects of the Triple Bottom Line

In the face of the new Trump administration, the private sector is being called upon more than ever to lead on climate change. One option many organizations have turned towards is energy productivity because of its potential impact on the environment, society, and operating costs. Doubling energy productivity in the US alone would save over $300 billion annually in power bills and create 1.3 million jobs. Globally, it could reduce fossil fuel bills by nearly $2.6 trillion and create more than 6 million jobs. This could lead to a 33% reduction in

US emissions by 2030. The impact on the bottom line can be seen in reduced energy and materials costs that affect operating expenditures.

Cost cutting measures businesses can take to reduce energy consumption and costs range from insulating old pipes and updating HVAC systems to streamlining manufacturing processes. In response to the Paris Agreement, actions taken by The Climate Group, in partnership with the Global Alliance for Energy Productivity and the We Mean Business coalition, has led to the EP 100, an initiative seeking to drive energy productivity gains. Momentum for the group of companies pledging to double energy productivity has picked up, with Covestro, Dalmia Cement, Danfoos, Hongbo Group, Johnson Controls, Mahindra Holidays and Resorts, Mahindra & Mahindra, and Swiss RE on board as of January 2017.

EP100 companies are required to make a public pledge to double their energy productivity. Companies must choose a relevant energy productivity metric, establish a baseline year as early as 2005, and pledge to double energy productivity within 25 years. Interested companies can contact Jenny Chu, Head of EP100 at the Climate Group.

▲ Global CO_2 Initiative Seeks to Develop Carbon Capture and Use

There are many traditional approaches to the complex challenges associated with climate change. Governments are focusing on helping communities adapt to its impacts. Businesses and regulators are increasingly looking to decarbonize by increasing energy efficiency and clean energy production. Oil and gas producers, among others, are looking towards carbon capture and storage.

A newer approach that the Global CO_2 Initiative is focusing on is 'carbon capture and use,' with the ambitious goal of capturing 10% of global CO_2 emissions and transforming them into useful products while reducing CO_2 concentrations in the atmosphere and creating new markets for CO_2 based products.

The non-profit, CO2 Sciences, will fund research and development in carbon capture and utilization using philanthropic contributions to the tune of $400 million over the next ten years. In parallel, the Global CO2 Initiative funds the development and commercialization of CO2-based products and services through a for-profit platform that invests in companies. The for-profit platform hopes to accelerate the widespread adoption of CO2-based products for broad climate benefit.

Interested parties can donate to the non-profit platform or contact it directly to learn more.

▲ Further with Food Tackles Food Waste

The U.S. spends more than $162 billion a year growing, processing, and transporting food that is never eaten. This costs the average family of four $1,500 each year, wasting fresh water, energy, land, labor and money, all while unnecessarily increasing the national carbon emissions footprint. Businesses throughout the value chain are affected in a variety of ways, as are certain sectors such as manufacturing, retail, and hospitality.

Reducing food waste can provide new revenue streams for companies as well. A recent study by The Business and Sustainable Development Commission found the biggest business opportunity arising from the SDG Food and Agriculture goal is reducing food waste in the value chain, which could yield up to $405 billion annually in economic benefits.

To help companies save money and other resources lost to wasted food, The Rockefeller Foundation, the US Department of Agriculture (USDA), the US Environmental Protection Agency (EPA), and a partnership of 10 industry and non-profit organizations are launching Further with Food, an online hub seeking to help achieve the US goal of cutting food waste in half by 2030.

For interested organizations, the website includes best practices for preventing, recovering, and recycling food loss and waste, as well as educational materials and information on existing government, business, and community initiatives.

▲ CDP Begins Rating Companies on their Supplier Engagement

CDP, formerly the Carbon Disclosure Project, registered over 6,500 corporate disclosures on environmental information in 2015. In a 2016 report, it found that supply chains are responsible for up to four times the emissions of a purchasing company's direct operations, thus making supply chains a critical focus area for businesses. CDP began including supply chain questionnaires in the 2016 reporting cycle and developing a Supply Chain Program by working with 89 of the largest purchasing organizations in the world with over $2.7 trillion in combined purchasing power.

With supply chain data in hand, the CDP published the Supply Chain Report in January 2017. This new report names the companies that scored the highest on supplier engagement on climate issues. CDP scores are based on performance across four areas related to governance, ambition, measurements, and supplier engagement. Future versions will also name companies failing to manage these considerations in their supply chain.

CDP hopes this report will drive the development of sustainable supply chains, and thus reduce carbon footprints in multiple ways. It intends to reward high-performing purchasing organizations while spurring laggards to improve their performance. CDP also hopes the rating system will provide a tool for companies to benchmark supply chain performance.

The work is being carried out in collaboration with BSR, ADEC Innovations and McKinsey & Company.

▲ Low-Carbon USA Encourages Support of Low Carbon Policies and Investment in the US

A collection of over 530 companies, representing over $1.15 trillion in revenue and employing about 1.8 million people across 44 states, have joined forces with 100 investors that manage more than $2 trillion in assets to back the Business Backs Low-Carbon USA statement.

The initiative was coordinated by C2ES, Ceres, Environmental Defense Fund, Environmental Entrepreneurs, The B Team, The Climate Group, We Mean Business, and WWF in December 2015 with 100 companies joining together to publish a full-page ad in the Wall Street Journal urging world leaders to adopt an agreement in Paris. Companies later came together in April 2016 to welcome the signing of the Paris Agreement, and more recently, to call on the Trump Administration to support low-carbon policies and investments.

The Low-Carbon USA initiative has received support from Fortune 500 and small family-owned business alike and calls on policies to help curb climate change. Specific demands include:

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

Companies and investors wishing to add their name to the statement can do so by registering here.

▲ IIRC and GRI Join Together to Launch the GRI Corporate Leadership Group on Integrated Reporting

The International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI) have joined forces to launch the GRI Corporate Leadership Group on integrated reporting (CLGir). Both organizations hope to see corporate reporting evolve to allow integrated reporting (<IR>) and sustainability reporting to play a more central role. The IIRC and GRI formed the CLGir to make their relationship more explicit and to explore several areas, including how the International <IR> Framework and GRI Standards can be used by companies to:

- Embed sustainability into operations and business strategy;
- Communicate to stakeholders how they create value across a variety of capitals;
- Identify and design disclosures to demonstrate performance against strategy; and
- Have a meaningful influence on investors' understanding and perception of the business.

The CLGir will be open to corporate participants and hopes that participants will achieve three principle goals:

- Be central to global discussions by engaging with leaders and participating in strategic sessions;
- Shape the future with peers using direct feedback and exploration of sustainability topics; and
- Profile their work by getting recognition and improving their reputation via coverage of the outcomes of the CLGir's work.

The 2017 program will include four Leadership Labs across London and Amsterdam focused on a variety of sustainability topics, the first of which will be announced in March. Interested companies with robust experience in corporate reporting or that are seriously considering integrated reporting can contact GRI.

February 2017

▲ The Science Based Targets Initiative is Taking Off

Greenhouse gas (GHG) emissions are continuing to increase despite recent efforts to reduce them, such as the Paris Agreement. Under the current trajectory, average global temperatures are projected to increase by 3.7 to 4.8°C by the end of this century, well beyond the 2°C threshold on which scientists have insisted. A growing list of companies are searching for ways to reverse this global trend by reducing their own GHG emissions to levels aligned with the 2°C goal.

The Science Based Targets initiative (SBTi) – a joint initiative by CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI), and WWF – defines science-based targets as those "in line with the level of decarbonization required to keep global temperature increase below 2°C compared to pre-industrial temperatures, as described in the Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)."

The initiative focuses on the facilitation of the process through a sector-specific methodology, calculation tool, and target setting manual. It also hopes to incentivize corporate efforts through the Mind the Science Report, which highlights the business case, a target tracker to provide on-line data visualizations of progress towards targets, and various corporate engagement and public relations campaigns to get companies on board.

As of early February 2017, 209 companies have signed up, 32 of which already have approved targets. Interested companies can reach out to the SBTi through its online contact form for more information.

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.