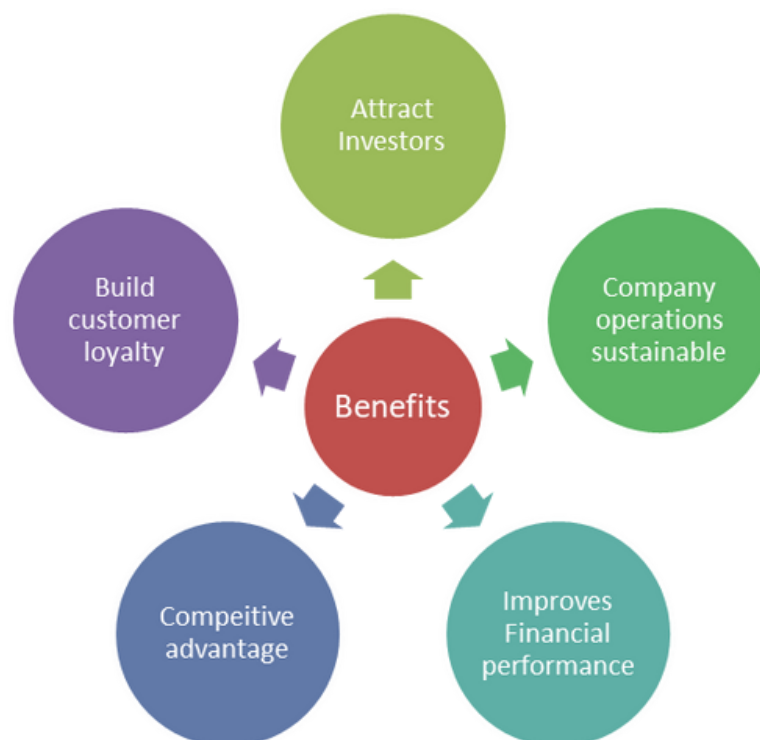


INCREASING SIGNIFICANCE OF ESG

The standardization and quantification of measurement of corporate performance on environmental, social, and governance (ESG) criteria has made significant strides in recent years. Investor's interest in businesses that receive favorable ratings for their ESG performance or seem to be taking ESG objectives seriously has increased.

Globally, listed companies are shifting their attention away from short-term profit maximization and towards long-term environmental, social, and governance (ESG) goals. The majority of corporate executives are increasingly becoming aware of the growing significance of ESG issues, which may have an impact on both the financial stability and brand reputation of a firm.



Businesses and investors can both profit directly from the use of the ESG framework. Investors can benefit from the low-risk investments linked to an ESG-centric brand, while businesses benefit from the expanded capital pool and strengthened brand identity.

Bloomsbury Intelligence expects ESG Exchange traded funds to reach \$1 trillion and ESG Debt \$11 trillion by 2025.¹

ESG plays a major role in creating a firm's value in ways manifold. A compelling ESG proposition enables businesses to enter new markets and grow within existing ones. Governmental bodies are more willing to grant corporate actors the access, approvals, and licenses that open up new growth opportunities when they have faith in them.

Neste in Finland, which was first established as a conventional petroleum-refining business more than 70 years ago, now derives more than two-thirds of its income from green products and renewable fuels. Sales of Unilever's other water-saving goods after the development of Sunlight, a dishwashing detergent that uses significantly less water than its other brands, outpaced category growth by more than 20% in a number of water-scarce markets.²

ESG can significantly lower costs as well. In addition to other benefits, correctly implementing ESG can assist businesses manage rising operating costs such as raw material costs and the real cost of water or carbon.

Companies may be able to exercise more strategic freedom thanks to a stronger external value proposition, which reduces regulatory pressure. In reality, across industries and regions, it has been observed that ESG robustness lowers the probability of unfavorable government action for businesses. It may also win the support of the government.

¹ <https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape140-5-trillion-of-global-aum-by-2025-finds-Bloomberg-intelligence/>

² <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx>

A compelling ESG proposal may support businesses in attracting and retaining top talent, improving employee engagement by fostering a sense of mission, and boosting overall productivity. Shareholder returns and employee happiness are positively connected.

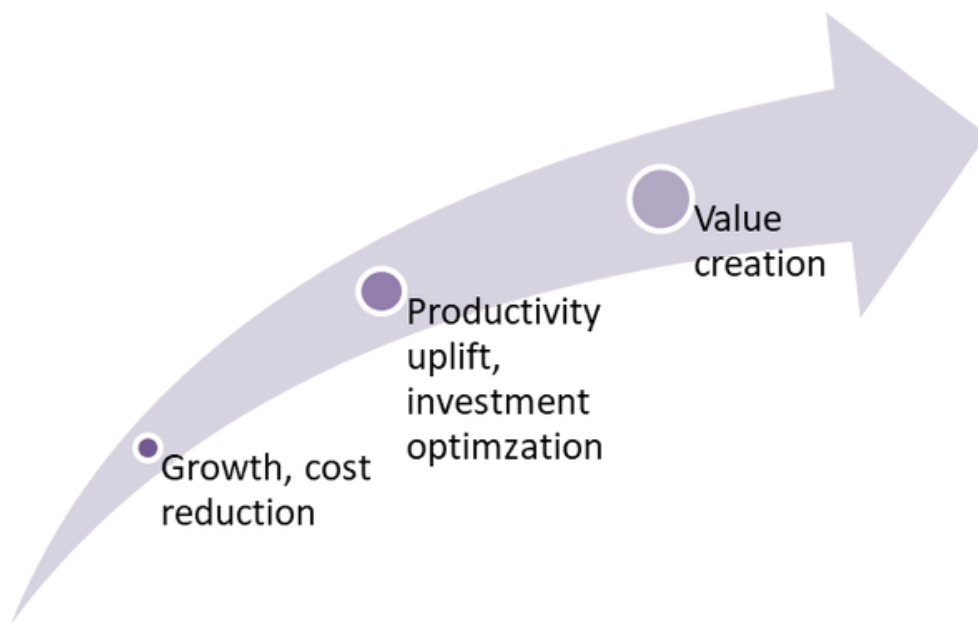
For instance, Alex Edmans of the London Business School discovered that over a longer time horizon of more than 25 years, the firms that earned Fortune's "100 Best Companies to Work For" list generated 2.3 percent to 3.8 percent higher stock returns per year than their competitors³.

Recent studies have also demonstrated a link between having a positive social influence and having higher job satisfaction, and field studies indicate that when businesses "give back," employees respond enthusiastically⁴.

By shifting capital to more promising and sustainable possibilities a strong ESG proposition can improve investment returns. Additionally, it can assist businesses in avoiding stranded investments that would not be profitable due to long-term environmental problems. Establishing solid ties with all facets of society adds value, because it makes the company model more resilient. On the other hand, value is destroyed when relationships with stakeholders are compromised in an effort to meet financial goals. It embodies short-termism in its purest form and is extremely detrimental to the financial goals of the majority of stockholders.

³ *ibid*

⁴ Jan-Emmanuel de Neve et al., "Work and well-being: A global perspective," in Global Happiness Policy Report, edited by Global Council for Happiness and Wellbeing, New York, NY: Sustainable Development Solutions Network, 2018



Businesses must take the long view, in order to enhance creation of value, they must meet the demands of their clients, team members, and communities—oftentimes a global community—as well. A positive cycle is fueled by flourishing enterprises that are focused on the long term. They elevate living standards, boost tax income, and produce jobs. Wealth is not a fixed pie, and ESG helps create wealth.

Hence, ESG becomes crucial for companies considering the growing awareness of ESG among the people.