JTC ESG

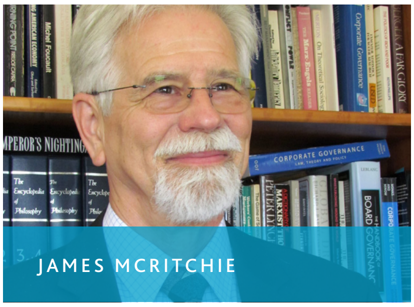
INSIGHT

JUNE 2021

NEWSLETTER FROM JTC

INVESTORS - ESG MATTERS

If companies remain unsure how important ESG is, they should take note of the recent public reminder investors of both Netflix and Exxon issued. The message was clear: Shareholders want to be taken seriously when it comes to ESG.



JAMES MCRITCHIE

"Institutional investors are aligning their portfolios toward better ESG performance," said Matthew Bell, EY UK&I Climate Change and Sustainability Services Leader, in an article about why ESG performance is growing in importance for investors. "This signals a different approach from focusing on 'responsible funds,' and instead seeing ESG issues as fundamental to the performance for all investments."

So, what happened at Netflix? Investors are growing increasingly dissatisfied with the streaming-video giant, citing corporate inaction, as reported by MarketWatch. Signaling a strong message to Netflix, a majority of shareholders voted to reject two board directors and pass two out of three shareholder proposals.

"Netflix routinely ignores the votes of shareholders," said James McRitchie, who is a California-based founder of CorpGov.net. McRitchie wrote his wife Myra Young's shareholder proposal, which asked for more transparency into the company's political spending, and passed with 80.7% of the vote, according to a review by Proxy Insight, a source of information on global shareholder voting.

In a conversation with JTC *Insight*, McRitchie discussed how he hoped Netflix would become more accountable to its shareholders. "Hopefully, institutional owners are growing weary, especially given that although Netflix outperformed the Nasdaq over the last five years, it has underperformed during the most recent one- and two-year time periods…that despite the fact that many people were home watching Netflix in massive numbers during the pandemic."

In the case of Exxon, activist firm Engine No. 1 nominated four board directors, two of which it secured at Exxon's annual meeting last month. Concerned with climate risk, Engine No. 1 publicly stated last December that Exxon needed to lower its carbon emissions to ensure long-term financial viability.

Standing by its commitment to ESG, Engine No. 1 also launched 'Transform ETF 500' with $100 million in assets and plans to invest in 500 of the largest U.S. stocks; and track the Morningstar U.S. Large Cap Select Index.

"The problem isn't passive investing, it's passive ownership," said Engine No. 1 Managing Director Michael O'Leary in a company press release. "Too many sustainable investing strategies shift an investor's exposure away from companies that need to change rather than working to change them. We see an opportunity to harness the power of investors in a new way."

"Companies ignore stakeholders at their peril – companies that do not earn this trust will find it harder and harder to attract customers and talent, especially as young people increasingly expect companies to reflect their values," said BlackRock CEO Larry Fink in an open letter this year to fellow CEOs. "The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders."

Fink's letter also noted that "It's not just that broad-market ESG indexes are outperforming counterparts. It's that within industries – from automobiles to banks to oil and gas companies – we are seeing another divergence: companies with better ESG profiles are performing better than their peers, enjoying a 'sustainability premium.'"

Sources:
MarketWatch; Bloomberg; EY; Engine No. 1; CorpGov.net; BlackRock

EDITOR'S NOTE

In case you missed our big company news last month, INDOS Financial is officially now a JTC Group Company!

Following regulatory approval from the Financial Conduct Authority (FCA), JTC completed the acquisition of INDOS Financial on 1st June 2021. The full story can be accessed here.

While the INDOS Financial brand will be retained for service offerings, we rebranded our ESG *Insight* newsletter and hope you'll enjoy the new look and feel of it!

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REGULATIONS & STANDARDS

Consultations call for action: Task Force on Climate-related Financial Disclosures (TCFD) by July 7th, 2021.

The TCFD is conducting a public consultation to inform its Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans, including the associated Portfolio Alignment Technical Supplement developed by their Portfolio Alignment Team. Responses to this consultation will be instrumental in helping them improve the usefulness of TCFD's guidance across Metrics and Targets and Strategy Pillars and improve comparability across financial disclosures. Feedback and participation is encouraged across all sectors.

To participate, the public is first invited to read TCFD's Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans and the Portfolio Alignment Technical Supplement. Following completion of reading the two documents, interested applicants should submit their Consultation Questionnaire to TCFD for review. All submissions are confidential.

In other news, the UK Regulator has published new climate-related disclosure rules for listed companies and certain regulated firms. According to a press release published in late June, the FCA is proposing the following:

- to extend the application of its TCFD-aligned Listing Rule for premium-listed commercial companies to issuers of standard listed equity shares
- to introduce TCFD-aligned disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers, with a focus on the information needs of clients and consumers

JANINE GUILLOT

OTHER ESG NEWS

June continued to prove to be a big month for ESG news, especially with the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) completing their merger to create the new Value Reporting Foundation (VRF).

An open letter by VRF CEO Janine Guillot to the ESG community discusses why the two organizations decided to merge, along with their vision to help advance sustainability disclosure and the global corporate reporting landscape. "The Value Reporting Foundation will operate as one global organization with a unified strategy," shared Guillot. "We aim to help businesses and investors develop a shared understanding of drivers of enterprise value and how value is created, preserved or eroded over time."

Guillot also stressed the importance of disclosures and reporting in her letter. "Sustainability information serves a broader array of stakeholders—including employees, customers, civil society, policy makers and investors—than traditional financial reporting."

PICK OF THE MONTH

Is there an ethical way for software companies with facial recognition technology to collect data about the public, while pleasing investors who have a strong interest in maintaining ESG standards and privacy?

Recent use of Artificial Intelligence (AI) has raised some moral and ethical questions. In a recent article, Bloomberg noted "How these software systems are used – or misused – looks set to become the next pressure point for investors seeking to allocate capital in line with environmental, social and governance standards." Investors want companies to use AI but in an ethical and moral way.

Bloomberg also reported that 50 global asset management firms overseeing more than US $4.5 trillion recently pledged to press the companies they invest in to ensure facial recognition technology is developed "in an ethical way, with the right regulation and oversight."

Alphabet Inc., Google, Apple Inc., Tencent Holdings Ltd., and Alibaba Group Holding Inc. are examples of companies developing face-scanning software. Amazon has a face recognition technology called 'Rekognition,' although there is a current ban on police use of its software due to wrongful arrests made.

For more information email:

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RESPONSIBLE TOGETHER

Sustainability. Empowerment. Adaptability. Action.

A sustainable future is driven by innovation. With an unwavering commitment to fulfil JTC's purpose-driven responsibilities to our people and our stakeholders, we unite to become a force for good and a force for change.

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