

LeaderXXchange® Investor-Director ESG Roadmap

Introduction

Climate change and other Environmental, Social and Governance (ESG) issues are becoming increasingly relevant to the investment and business communities, as the scale and urgency of the challenges become apparent.

Investment decisions increasingly consider these issues to predict companies' long-term success. This provides an opportunity for both boards and management teams to incorporate ESG into long-term corporate strategies and create value for shareholders and stakeholders.

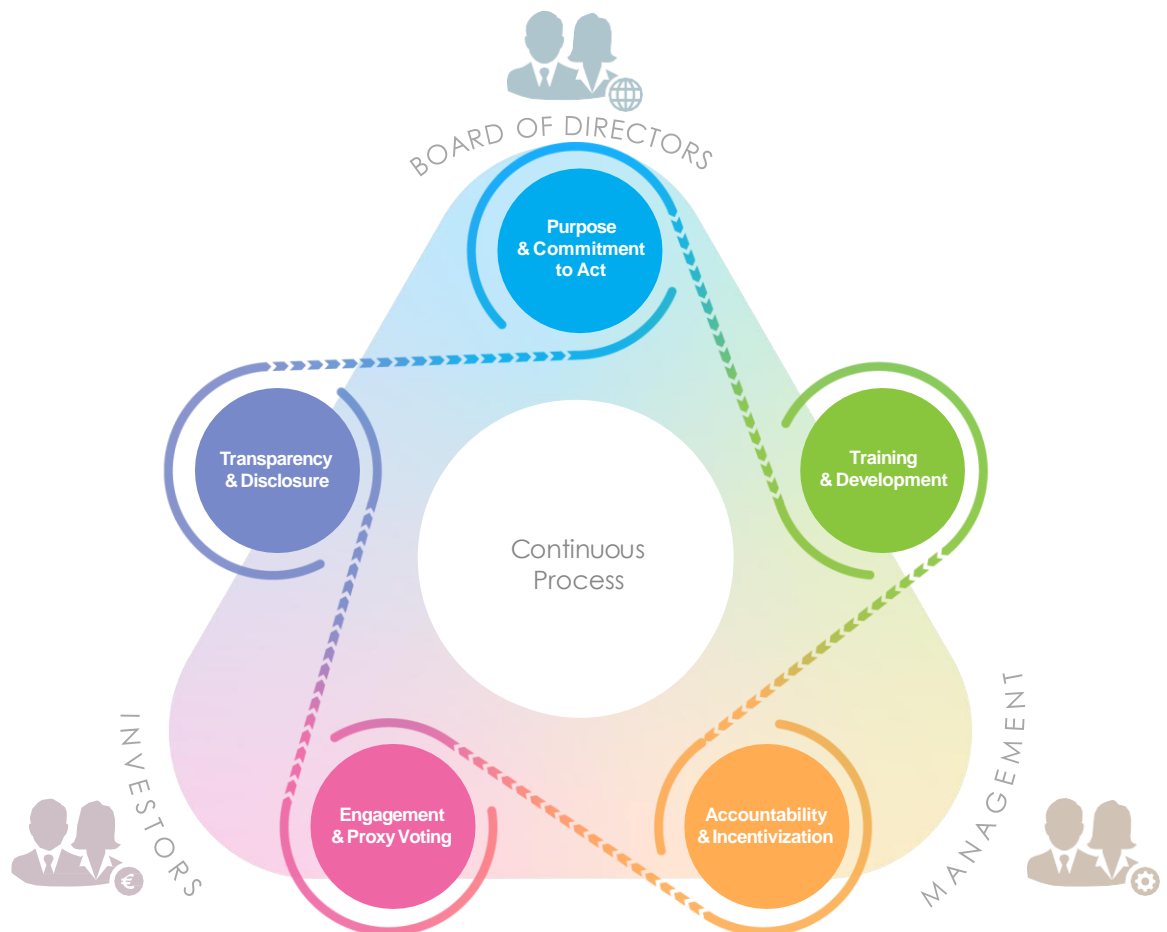
To break down the silos that separate investors from board directors and build a bridge of knowledge and trust on major ESG topics, LeaderXXchange® launched The Investor-Director Dialogue on Climate-related Risk Management Series in 2016 together with Spencer Stuart's European Board Practice group.

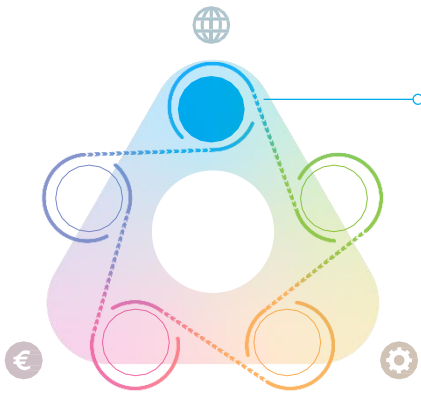
LeaderXXchange® formed an Investor-Director ESG Working Group in 2017, when the annual Investor-Director Dialogue Series showed its limits. Comprised of six directors and six investors,

participating in their personal capacity and operating under Chatham House rule, the Group used a collaborative and systematic approach to help board directors, management and investors rapidly adapt to the "new normal".

The LeaderXXchange® Investor-Director ESG Roadmap illustrates how board directors, management and investors can work together to deliver better ESG outcomes, address unprecedented environmental and social challenges and promote disruptive technological innovation that will strengthen business models and improve performance for all stakeholders.

It is divided into five sections: Purpose & Commitment to Act, Training & Development, Accountability & Incentivization, Engagement & Proxy Voting and Transparency & Disclosure. For each section, the LeaderXXchange® Roadmap presents actionable best practices for board directors, company management and investors, respectively, to accelerate positive impact.





Purpose & Commitment to Act

Tackling climate change and other ESG issues requires a clear purpose and commitment to act from the top of the organization.

Board of Directors

Boards to take a long-term view, embed ESG into company's purpose while considering materiality and intentionality, and to approve corporate purpose with commitment to act

Board composition to include relevant ESG expertise in director skill sets

Integrate ESG topics in board and committee oversight of long-term strategy, risk, opportunities and remuneration

Management

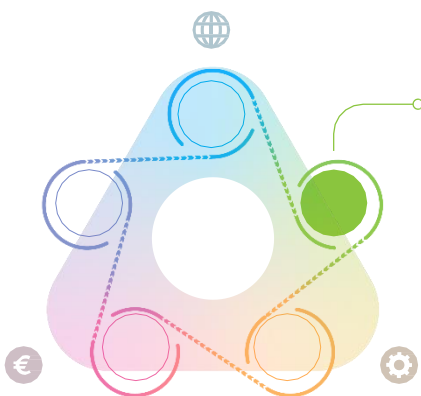
Corporate purpose and commitment to act translates ESG into company strategy set by management while considering materiality and intentionality

Corporate mission statement requires approval by the board of directors

Investors

Top management of investor organization must take a long-term view, embed purpose and ESG into the investment philosophy while considering materiality and intentionality

Top management of investor organization to mandate integration of ESG topics into investment process



Training & Development

Training and development are crucial for raising awareness and understanding of ESG issues, enabling effective discussion and analysis of ESG topics.

Board of Directors

Board and committee agendas to include material ESG topics

Learn from internal or external experts as needed

Leverage in-house expertise to provide directors with customized training programs on climate change and other ESG topics

Management

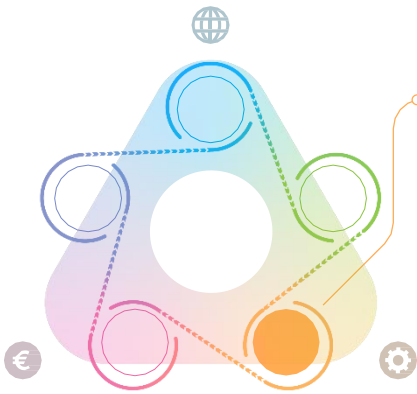
Increase awareness and promote best ESG practices in company

Provide climate change and ESG training throughout the organization

Investors

Increase awareness and promote best ESG practices in the investor organization

Conduct ongoing climate change and ESG training for management and throughout the investor organization



Accountability & Incentivization

There must be clear accountability on ESG topics, along with appropriate incentivization to ensure that both financial and ESG performance are monitored and rewarded accordingly.

Board of Directors

Adopt clear board governance framework taking ownership of ESG oversight at the board and the CSR, strategy, audit, compensation and nominating committee levels

Ensure that compensation and rewards incorporate key ESG long-term performance objectives

Management

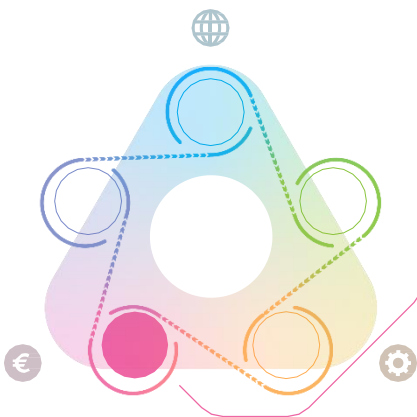
Adopt clear ESG governance framework and reporting structure to CEO and the board of directors

Compensation and rewards tied to disclosed company ESG targets and objectives for management and other employees

Investors

Adopt clear ESG governance framework and reporting structure to investor organization's management leadership

Compensation and rewards to incorporate ESG performance objectives



Engagement & Proxy Voting

Engagement and proxy voting are effective ways for directors, management and investors to raise awareness, share best practices and progress and take action on material ESG topics.

Board of Directors

Establish principles and policies that govern the board's approach to engagement and strive for best practice

Engage CEO, CFO and other members of management on material ESG topics and objectives

Engage investors on material long-term ESG topics and objectives

Management

CEO, CFO to actively engage on material ESG topics during meetings with investors and sell-side analysts, on earnings calls and investor days

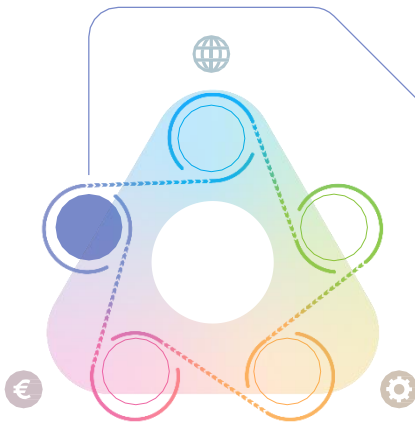
CEO, CFO and other members of management to discuss material ESG topics and targets with the board and its committees

Investors

Establish principles and policies that govern the organization's approach to engagement and proxy voting

Engage with portfolio companies' CEO, CFO and independent directors on material ESG topics

Engagement and proxy voting consistent with long-term view and ESG disclosure



Transparency & Disclosure

Transparency and disclosure of ESG issues help to show intent, measure outcomes and better demonstrate commitment to ESG

Board of Directors

Disclose experience and expertise of the board and individual directors on climate change and other material ESG topics

Disclose how the board and committees address climate change and other material ESG topics and track progress of disclosed ESG targets and objectives

Management

Adopt an integrated reporting framework

Publish an integrated report and clearly disclose long-term material ESG targets with intermediate steps

Clearly disclose results against set targets and objectives

Investors

Disclose principles and policies that govern the investor organization's approach to ESG, engagement and proxy voting

Consider ESG materiality and intentionality in all disclosure

Disclose proxy voting records and engagement activities to show alignment with investment principles and policies

In conclusion...

The LeaderXXchange® Investor-Director ESG Roadmap is an *actionable* solution designed to break the silos that separate boards of directors, management, and investors. It offers a systematic approach they can readily adopt using ESG best practices to help them on their sustainability journey.

The *governance framework* can guide boards of directors, investors and management on their sustainability journey.

The *assessment tool* helps objectively evaluate the robustness of an ESG governance framework as it applies to a board of directors, corporate management or an investor and determine whether it is conducive to delivering meaningful outcomes.

By working together, the investment and business communities, alongside other stakeholders that are committed to building a more sustainable future, can take an active part in addressing the urgent environmental and social challenges and create long-term value for society and shareholders.

Acknowledgements

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This Roadmap would not exist without them and many others who are not mentioned and have generously given us their time, shared their ideas and offered us their support over the years.

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While we have made our best efforts to accurately quote and reference this report, please send any comments, suggestions or corrections contact@leaderxxchange.com

LeaderXXchange® is a purpose-driven organization that advises and promotes diversity and sustainability in governance, leadership & investment.

We focus on understanding market trends and anticipating investor needs to develop award-winning investment and strategic solutions designed for impact.

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