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Environmental,
social and
governance

ESG Perspectives

A 360° view of key ESG issues and opportunities for corporates in 2022

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ESG perspectives

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Whether it is the announcement of another new policy or regulation, pressure from an activist shareholder, responding to changes in consumer demand, or addressing global political events, **environmental, social and governance** (ESG) considerations increasingly permeate every aspect of the corporate ecosystem and, as a result, are rapidly moving to the very heart of companies' strategic decision-making and planning.

But what does ESG really mean for corporates in 2022?

In this guide we draw together insights from leading ESG advisors in order to provide a 360° response to this question and unpack some of the most important issues on the ESG agenda now and over the next reporting season:

- Global law firm **Hogan Lovells** discuss key changes to the legal and regulatory framework for ESG;
- Investment and advisory specialists **Cardano** provide insight into what ESG reporting requires in practice;
- **Georgeson**, the global provider of shareholder engagement and proxy solicitation services, explain what ESG is leading investors to focus on and how companies should respond; and
- Strategic communication experts **Kekst CNC** discuss the opportunities which ESG presents.

Advisors from each of the contributing firms would be delighted to discuss further with you what this means for your particular business.



Building from the ground up



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Boards have a delicate tight-rope to negotiate in ensuring that the targets they set are consistent with the expectations of both investors and the wider public.

Jonathan Russell, Partner
Hogan Lovells

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The time is now



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The transition to a sustainable future is happening now and businesses must have their responses ready.

Claire Maloney, Partner
Kekst CNC

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ESG reporting in practice



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Developing a pragmatic approach to ESG reporting is a new challenge for many boards but, done successfully, can help shape strategy, capital allocation and stakeholder perception.

Michael Bushnell, Managing Director
Cardano Advisory

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ESG shareholder engagement



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With new regulation, ESG ratings divergence and changing investor policies, companies need to engage their shareholders to understand what their owners expect of them.

Cas Sydorowitz, Global CEO
Georgeson

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Building from the ground up

by Jonathan Russell and Patrick Sarch, Hogan Lovells

The legal ESG frameworks applicable to corporates in all sectors have grown exponentially in number and scope in recent years. They will continue to do so for the foreseeable future as standards coalesce and new initiatives are elaborated. Businesses and their leaders are also grappling with serious new challenges in the ESG sphere in real time. The combination can be overwhelming if not managed actively.

Corporate disclosure obligations continue to play a central part in these developments, driving change throughout organisations. The range of UK companies caught by mandatory ESG-related disclosures, for example, is rapidly widening. Since 1 January 2021, all premium-listed UK issuers have been required to make “comply or explain” disclosures in their annual reports in relation to recommendations by the Task Force on Climate-related Financial Disclosures (“TCFD”). From 1 January 2022, the same requirements apply to standard-listed UK issuers, while similar TCFD-aligned disclosures are being phased in for FCA-authorized asset managers, life insurers and pension providers. And for financial years beginning on or after 6 April 2022, TCFD-aligned disclosures are now mandatory for larger private UK companies (in broad terms, those with over 500 employees and annual turnover over £500 million).

The exact scope of disclosure obligations will vary by company. Whatever their sector, affected companies need to ensure that they are able to describe not only the risks their business faces and the policies they have adopted to address them, but also the processes and controls they have in place to ensure compliance with those policies, both within their own business and, where appropriate, across their supply chain and wider business relationships. Similarly, ESG due diligence obligations are also likely to expand. The European Union’s (EU) plans for a Corporate Sustainability Due Diligence Directive would require a new ESG due diligence duty to be integrated into corporate policies, obliging companies to identify and manage adverse human rights and environmental impacts in their own operations and across their wider value chain.

It is proposed these would apply not just to larger EU companies and those in high-risk sectors that meet certain criteria, but also to non-EU companies that meet equivalent thresholds for EU turnover (€150 million or, in the case of high risk sectors such as agriculture, textiles and mineral extraction, €40 million).

International pressure to ensure equivalence may also lead other jurisdictions, including the UK, to adopt similar requirements.

It is clear that best practice is rapidly evolving as investors (themselves subject to tighter ESG obligations) exert greater scrutiny over the way companies are managing and evaluating ESG-related risks, and companies develop a better understanding of the challenges involved in determining satisfactory metrics for assessing their ESG impact.

The additional legal requirements and a renewed focus on what enlightened shareholder value actually means increase the potential for enforcement action and litigation. As ClientEarth’s recent announcement that it would seek to bring proceedings against a major energy company’s directors for failure to implement a strategy that “truly aligns” with the 2015 Paris climate agreement demonstrates, boards have a delicate tight-rope to negotiate in ensuring that the targets they set are consistent with the expectations of both investors and the wider public. Failure to do so may ultimately lead not just to reputational damage for organisations, but also to direct liability for directors. A clear understanding of the current legal framework and its likely future structure is therefore increasingly a business-critical issue for all organisations and a necessary pre-requisite to developing a successful strategy for future growth.

About Hogan Lovells

As ESG Counsel, we provide innovative, multi-jurisdictional, cross-practice and industry-focused advice from our global network of 45+ offices. Our legally-driven holistic approach to managing ESG issues draws on the full scope of our global practice and sector capabilities to help our clients drive long-term sustainable profits and maximise positive impact. Find out more [here](#).



ESG reporting in practice

by Michael Bushnell and Ben Wilmot, Cardano Advisory

The rise in corporate sustainability reporting has been sudden and dramatic. In less than a generation, sustainability reporting has gone from a minority activity to a mandatory one. Now, increasingly, that reporting is becoming more onerous and covering ever more factors.

This rapid change brings with it a number of problems and opportunities. Finance teams have historically been set up to identify and report on financial risks through well-established accounting standards, often using whole teams of professionally qualified individuals drawing on decades of professional experience. Sustainability analysis does not have that same luxury – as it goes to standards, experience, professional qualifications or headcount. Moreover, operational staff may themselves be struggling to understand and document the business’s exposure to sustainability risks, making reporting doubly hard at a time where understanding these risks is becoming increasingly important.

Common questions that we see companies asking include:

1. What sustainability opportunities/risks should we be looking at?
2. How can we measure the potential impact of those opportunities/risks?
3. In what format do we present sustainability factors to ensure investors, lenders, customers and staff all have a clear view of the business?
4. How do we internally monitor or mitigate any risks identified?

The regulatory and legislative changes set out by Hogan Lovells on the previous page will help to answer some of these issues by standardising the factors that should be considered at a bare minimum and setting more structure around industry-wide reporting. However, there will be no silver bullet and implementing these changes will itself require significant organisational time and effort.

To help answer the questions posed above, companies need to assess their unique exposure; a deep understanding of the business and its exposure throughout the value chain to environmental, social and governance factors is required.

We recommend considering each major component of the business individually across specific climate and social change scenarios (though this will normally be aggregated in the end for reporting), for example:

- What locations does the company operate in? Are there physical, transition or sustainability risks associated with those locations or geographies?
- What product does the company sell? What is required to enable the sale (transportation, raw materials, specific workforce, sales network)? How would demand or availability be affected?
- Are there any mitigating/enabling effects arising from the industry in which the company operates?
- How reliant on external funding is the company? How might the availability of financing or investor support change?

Understanding and modelling the above takes an understanding of the business, external market sentiment and global/regional impacts of climate, environmental and social change. Some companies will have the expertise in the organisation already; others will wish to make use of external expertise to ensure best practice or to reduce the internal time required to meet this new reporting commitment.

About Cardano

Cardano is a privately-owned, purpose-built risk, advisory and investment specialist with over 500 professionals across offices in the United Kingdom and the Netherlands. We advise clients with assets in excess of £370 billion, including our dedicated Sustainability Advisory business, and hold assets under management of over £48 billion, including c. £17 billion dedicated to pure sustainable investing. Sustainability has always been at the core of how we run our business. Find out more [here](#).



ESG shareholder engagement: climate, remuneration, activism and directors

by Cas Sydorowitz and Kiran Vasantham, Georgeson

In the span of a few years, much has changed regarding the ESG landscape, both from the investor and issuer perspectives. Against the backdrop of COP26 and an increased focus on sustainable investing, there are several interesting themes for the 2022 annual general meeting (AGM) season.

Georgeson recently conducted in-depth interviews with major global institutional investors representing US\$30.5 trillion assets under management and found that 65% of investors felt external pressure significantly impacted their ESG voting and investment decisions – such as the Sustainable Finance Disclosure Regulation’s (SFDR) mandatory ESG disclosure obligations.

Say on Climate

2021 was an unprecedented year with climate-focused resolutions receiving strong support from investors in Europe and the United States. Last year, nearly 20 companies put forward board-sponsored ‘Say on Climate’ proposals across Europe.

We expect that ‘Say on Climate’ resolutions will likely receive an increase in investor support in 2022 because of client pressure and regulatory interventions according to a majority of investors within the Climate Action 100+ and Net Zero Asset Management. Several leading companies across multiple European markets have already announced their intention to put forward such a vote at their 2022 AGM for the first time.

Remuneration

Remuneration remains a key focus area and the most contested category during European AGMs in the last couple of years. Opposition has increased 18% in 2021, which should act as a warning for boards to focus on their shareholder engagement.

Investors have increasingly looked to link executive pay to ESG metrics and performance, and we expect to see this even more. In 2022, large UK and European companies that fail to do this will face opposition from investors.

Nearly all the investors Georgeson surveyed suggested that 10-20% remains the right weighting for allocation of ESG metrics.

ESG activism & directors

Small, newly-formed funds like Engine No. 1 and Bluebell have focused on connecting a company’s social and environmental impact and building long-term shareholder value. Their activist campaigns made ‘David and Goliath’ story headlines while both managed to replace directors on boards. In both cases, asset owners and managers publicly backed these successful campaigns.

In 2022, we will likely see investors target climate laggards due to poor practices, poor implementation or insufficient progress. We expect to see a material increase of votes against directors or board chairs as well as support for resolutions addressing such issues.

Understanding investors

Climate and diversity concerns will likely dominate this proxy season because of the systemic nature of the risks these issues pose and because these topics are now front and centre in institutional investors’ engagement priorities and voting guidelines.

Investors are looking to understand how companies integrate ESG into corporate strategies and what type of involvement boards have in these considerations. Around half of the asset managers surveyed believe that divestment or going ‘underweight’ is becoming an increasingly valid mechanism in response to poor ESG practices, while most agree that dialogue and voting are the first steps.

Bespoke investor profiles can help boards understand how shareholders might perceive a strategic corporate decision or corporate governance changes. Information such as an investor’s voting history, external influencers and governance policy red lines can help a company establish its ESG strategy or further development with target-setting.

Engagement is also a key factor. Engaging with investors positions a company as transparent, actively listening and responsive while fostering a constructive relationship. Responsive and active engagement is a year-round exercise that happens before, during and after the vote and is only one step towards gaining investor trust and support.

The act of engagement is a meaningful, ongoing line of communication between companies and investors that educates and nurtures understanding on both sides. In particular, post-season outreach is essential to understand why investors opposed or supported a particular proposal.

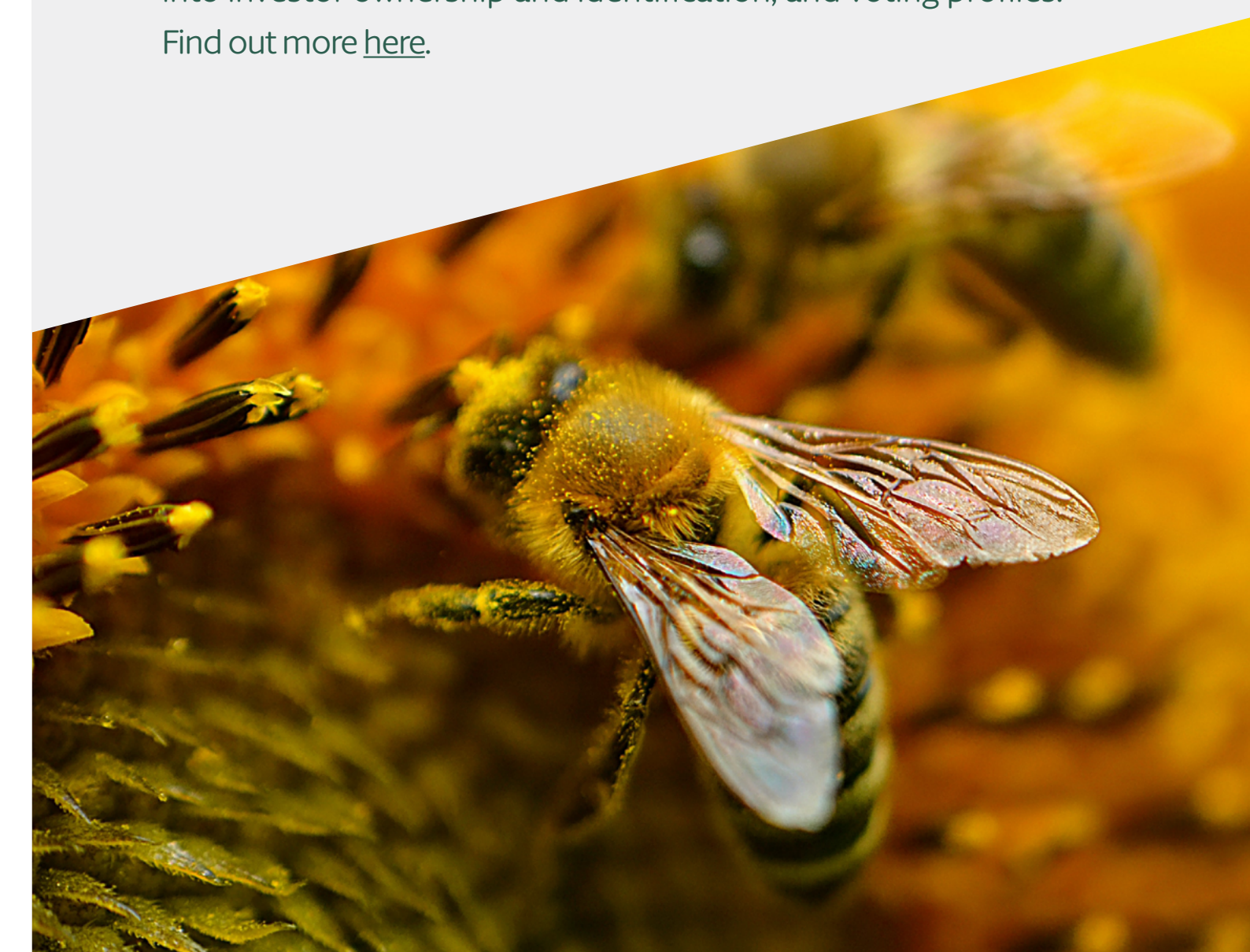
For a copy of Georgeson’s 2022 ESG investor survey, please click [here](#).



About Georgeson

Established in 1935, Georgeson is the world’s foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual and special meetings, M&A, proxy contests, and extraordinary events. Our core proxy expertise is enhanced with consulting services, including ESG advisory, insight into investor ownership and identification, and voting profiles.

Find out more [here](#).



The time is now

by Claire Maloney and Meghan Sheehan, Kekst CNC

Sustainability has long been viewed as an ambition that belongs far into the future. Action on ESG has tended to be about a gradual shift to a more sustainable future, driven by a slow but steady drip feed of changing regulation and policy. Net zero ambitions have been focused on commitments that will bite 10-30 years from now. Related risks have been viewed as longer term and often hypothetical or sometimes academic in nature.

But the situation in Ukraine has brought these future musings into sharp and immediate relief in a way that no regional flooding or fire has done before. The geo-political implications of our global dependence on oil and gas have been referenced for years as a footnote in the climate transition debate.

Seemingly overnight, a safe, equitable, net zero world is no longer a lofty ambition that sits 30 years out. The Ukraine situation has thrust the questions and impacts surrounding ESG into the here and now.

Energy is the immediate issue on the table, but the impacts will quickly flow into other industries and open up new questions on social and governance dimensions. For a low carbon future to be effective, mitigating the social fallout will also need careful consideration. The pedal has been pressed on the climate transition and there is no going back.

But this is not the sole motivating factor for corporates in their backing of Western sanctions and withdrawal from Russia. This is also not a moral judgement, but a clear understanding of the social and governance risks resulting from such a situation.

The question facing businesses right now is not whether ESG is still relevant, but rather how to navigate the immediate implications of this unexpected acceleration. ESG pressure on businesses is coming from multiple angles: changing employee and customer expectations, investor activism, regulatory intervention and with growing frequency, ESG-based litigation.

Now more than ever, the world is watching how businesses act. There are things businesses can and should be doing to mitigate the risks and even capture the significant opportunities that arise. From engaging with regulators to helping investors understand commercial impacts to identifying M&A opportunities, forward planning and clear communication can help businesses thrive through the transition, not just survive it.

Credibility issues arise when there is misalignment in three critical elements of ESG reputation: the expectations of what your business or sector should be doing on ESG, the perception of what your business is doing and the reality your business is in.

It is crucial to understand each of these elements and to bring your stakeholders on a journey to ensure they are as aligned as possible. That requires an up-to-date view of the rapidly changing expectations for different industries, a clear-eyed and objective understanding of how your business is perceived and internal agreement and vision on what your business is actually doing to navigate everything from supply chain impacts to rapidly changing regulation and policy.

In a world where the expectations of businesses are rapidly changing, these reputational issues can quickly become financial and operational crises.

By distilling the noise of ESG chatter into these critical elements, businesses can use their communications and engagement to get ahead of scrutiny. The transition to a sustainable future is happening now and businesses must have their responses ready.

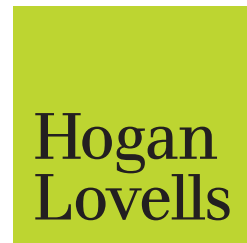
About Kekst CNC

In an era of unprecedented challenge, change and opportunity, we act as a trusted communications advisor to businesses, institutions, and their leaders around the world.

ESG is now an essential component of business-critical communications. We help our clients translate ESG strategies into demonstrable competitive advantage, rooted in reality, evidence and action.



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Meet with us: Supporting your ESG strategy

ESG advisors from Hogan Lovells, Cardano, Georgeson and Kekst CNC would be delighted to meet with you to share our insights and thinking on ESG and to discuss the opportunities and potential pitfalls which ESG presents for your specific business. If you would like our support on your ESG strategy, please get in touch with one of the contacts listed, or your usual contact.

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