
ESG

Trends and Ratings

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Part 1.

Concept of ESG



The relating concepts of ESG

Corporate Social Responsibility (CSR)

A business that seeks benefits for the entire society, including workers and the local community, And carrying out production and business activities, while making decisions and activities accordingly such as environmental management, ethical management, and social contribution

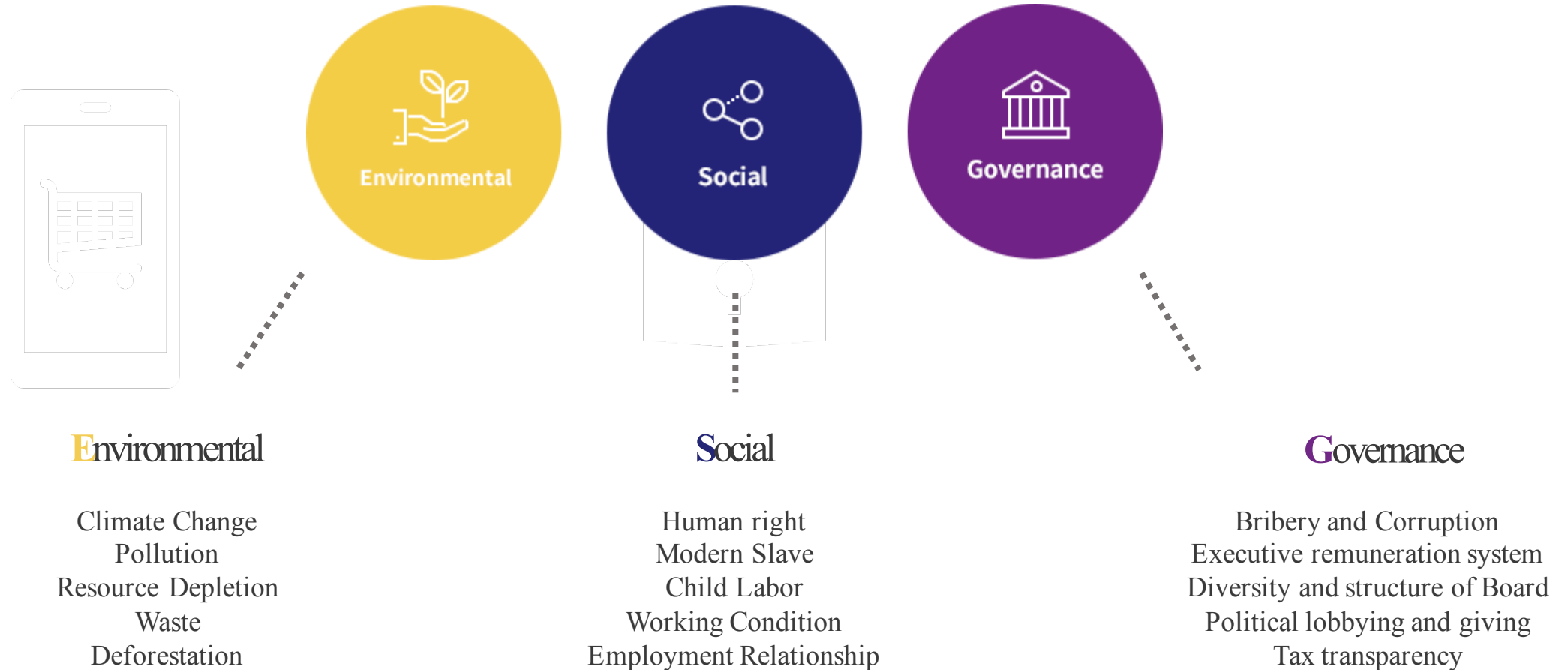
Sustainable Investment (SI)

Investment activities that enhance shareholder and corporate value by minimizing risks associated with management while striving for continuous development

Social Responsibility Investment (SRI)

Combining the concepts of social responsibility and investment, in which economic growth, social welfare and the environment are mutually balanced

The Overall Concepts of ESG



The Overall Concepts of ESG



Financial factors + *Non-financial factors*

= Profit Increase

1. Industrial revolution (1760~1830)

- *Mechanization using power such as steam engines and hydroelectricity*
- *Average Income and Population Growth*
- *The origin of the environmental movement*

2. Second Industrial revolution (1870~1914)

- *The rapid spread of electricity use → Scientific management*
- *Rise of the working class, increase in professional workers, consumer-oriented culture*
- *Air pollution → The Coal Smoke Abatement Society*

3. Interest in the environment following industrialization (1960~1980)

- *Revitalization of the market economy → Spread of water pollution*
- *Industry was able to formulate its own environmental definitions and regulations*
- *1971, Established 'Greenpeace'*
- *1961, 'Industrial Standardization Act' and 1963, 'Pollution Prevention Act' (South Korea)*

4. Advanced Industrialization (1980~2000)

- *The automation of facilities and technological innovation*
- *1992, UNCED, 'non-binding action plan' on sustainable development*
- *1997, 'Kyoto Protocol'*

5. *The Information Age(2000~)*

- *Environmental change, disease, social inequality, and unethical behavior*
- *July 2000, 'UN Global Compact, (UNGC)'*
- *Sep 2000, 'UN Millennium Declaration'*
- *Sep 2015, 'Transforming our world: the 2030 Agenda for Sustainable Development'*

Changes in management quality with the trend of the times

- **Environmental management**
: Managing the human activities on the natural environment and the impact of those activities
- **Social responsibility management**
: pursuing environmental and ethical management, social contributions, and interests in society, including workers and local communities, while conducting production and sales activities
- **Social value management**
: pursuing social values that prioritize the public interest and community development, such as job creation, equal opportunity, regional development, and ethical management
- **Sustainable management**
: striving for sustainable development in all areas of the environment, economy, and society while minimizing risks to enhance shareholder and corporate value

Part 1. The basis of ESG



1990s

Triple Bottom Line

Environmental
Economic
Social



1996

Environment Management

Economic profit creation
+
environmental improvement



1997

Global Reporting Initiative

Economic,
Environmental,
and social indicators



2015

Sustainable Development Goals

Economic,
Environmental,
and social indicators

➔ *The basis for setting ESG goals*

The emergence of ESG



- Principles when companies invest in capital in consideration of ESG factors
- 3,000 investment institutions around the world
- National Pension Service, Corporate Governance Service, Sustainvest (South Korea)

Environmental



Social



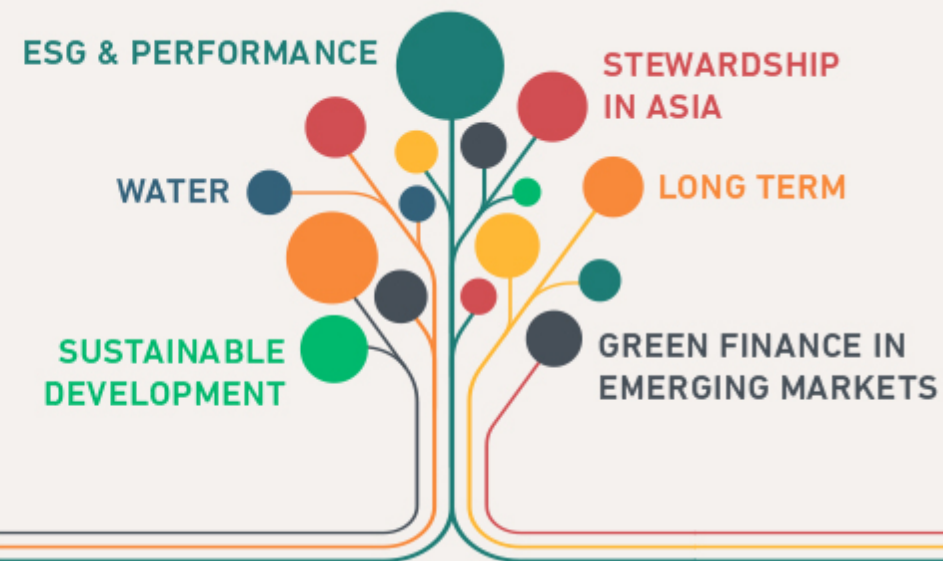
Governance



- Investment management in compliance with ESG factors
- Becoming a sound company in the 3 factors of ESG
- Becoming Global Trend

Part 2.

Trends of ESG



The trend of ESG related research

Research Trends over the past 10 years

- Research using ESG evaluation indicators
- Main *5 keywords* are..
corporate value, governance, accounting transparency, sustainability, sustainable investment
- Researchers mainly use KCGS's ESG rating in their studies

Recent major issues about ESG

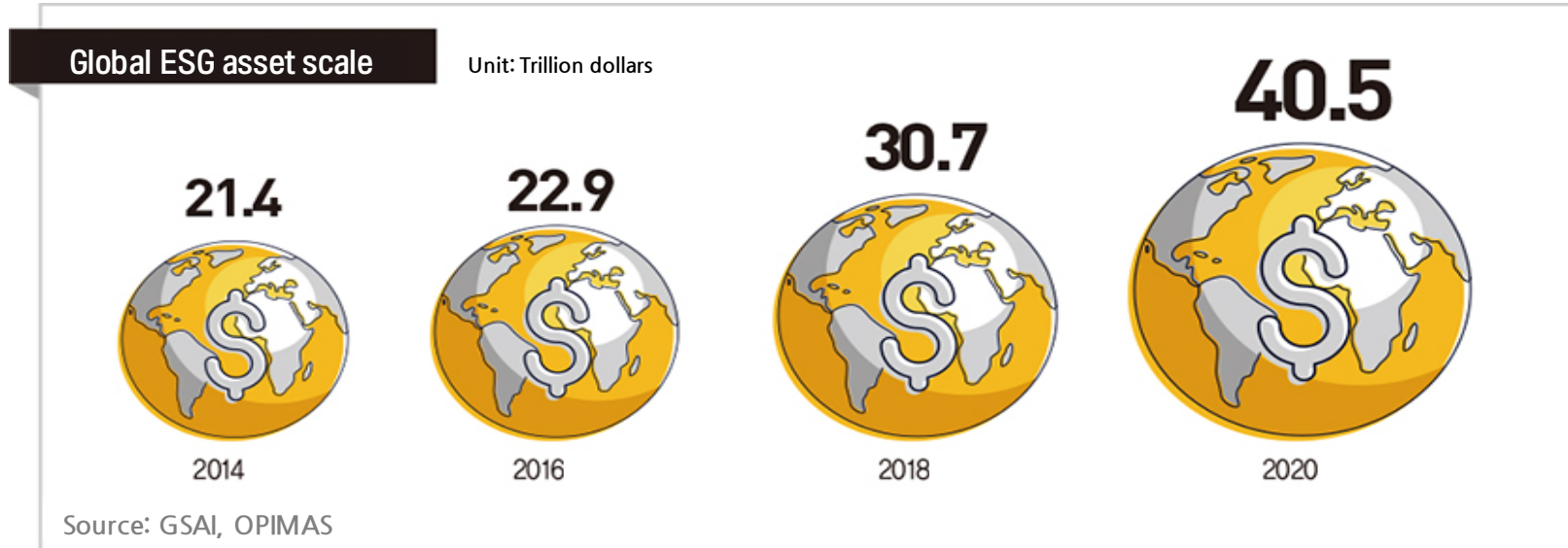
- *Standardization* of different *ESG evaluation rating systems*
- *ESG funds act as a refuge from the sharp drop in global asset prices due to the pandemic*

The trend of ESG investment



- KRS has been disclosing ESG ratings of listed companies since 2017
- Special purpose bonds for financing consistent with ESG are called ESG bonds
- Green bonds and Social bonds issuance is sured
- The government emphasizes the role of inclusive finance
- Interest and Investment in eco-friendly issues and social investment are increasing
- ESG investment is also increasing
- ESG has become an important theme in stock market
- Overseas, renewable energy ETFs showed explosive growth

The Scale and growth of ESG



- the total scale of global ESG assets is almost \$40.5 trillion.
- In the fourth quarter of 2020, the total size of global ESG funds reached \$152.3 billion
- European share is overwhelming at 79.3%, and the US accounts for 13.4%.
- In Europe, 49% of total assets under management were classified as ESG investment assets.
- Canada, Australia, New Zealand, Japan and Asia combined totaled \$11.1 billion.
- In Canada, Australia and New Zealand, ESG accounts for more than half of total investment assets.
- In the US, the proportion of ESG investment assets is still around 26%, and in Japan, it is around 18%.

Classification and definition of GSAI's ESG investment strategy

Negative Screening

Exclusions based on ESG factors in a fund or portfolio related to a particular industry, company and method of operation

Positive Screening

Investing in industries, companies or projects that have shown positive ESG performance relative to their industry peers

Norm-based Screening

Investment screening based on minimum standards of international norms presented by OECD, ILO, UN and UNICEF

ESG Integration

Integrating a systematic and explicit way of integrating environmental, social and governance factors into financial analysis

Part 2. The Ideals and Gaps in ESG Investment Status

Largest Investment Firms by Assets Managed



- Those of 8 are US Companies, the other 2 are German and French companies
- The 3 largest asset managers are BlackRock, Vanguard and State Street
- Combining all shares they have, they account for 88% of the U.S. S&P 500 companies

Domestic and Overseas Activities to spread ESG management

ESG information disclosure standardization

- The European Commission issued an agenda to develop standards for non-financial disclosures.
- Five organizations including GRI, SASB, IIRC, CDSB, and CDP agreed to establish a common standard in September 2020

Mandatory disclosure of ESG information by the Financial Services Commission

- Disclosure of ESG information was made compulsory in Korea
- The corporate governance report disclosure : KOSPI-listed companies with total assets of 2 trillion won or more
- It will be expanded to 1 trillion won from 2022, 500 billion won from 2024, and all KOSPI listed companies in 2026
- The sustainability report disclosure : KOSPI-listed companies with assets of 2 trillion won or more from 2025

ESG bond issuance and Revision of Stewardship Code

- In Korea, Social bonds are leading and Korea Housing Finance Corporation, public institutions, and banks are also issuing social bonds.
- The Stewardship Code is a system in which institutional investors intervene in corporate decision-making through the exercise of their voting rights

Plastics regulation and quota for female directors

- The EU has been imposing a tax on non-recyclable plastic packaging waste from January 2021.
- Listed companies with total assets of 2 trillion won or more without having all directors on the board of directors of a specific gender must include at least one female registered executive on the board of directors by July 2022.

Part 3.

ESG ratings

Environmental



Greenhouse Gas Emissions



Waste & Pollution



Water Use



Land Use

Social



Workforce & Diversity



Safety Management



Customer Engagement



Communities

Governance



Structure & Oversight



Code & Values



Transparency & Reporting



Cyber-Risk & Systems

Part 3. The institutions of ESG evaluation

Member of
**Dow Jones
Sustainability Indices**
Powered by the S&P Global CSA



FTSE4Good



Dow Jones Sustainability Indexes, DJSI

Evaluation Area

Evaluation Factors

ECONOMIC

*Corporate Governance
Risk Management
Code of Ethics
Industry-specific Categories
CRM*

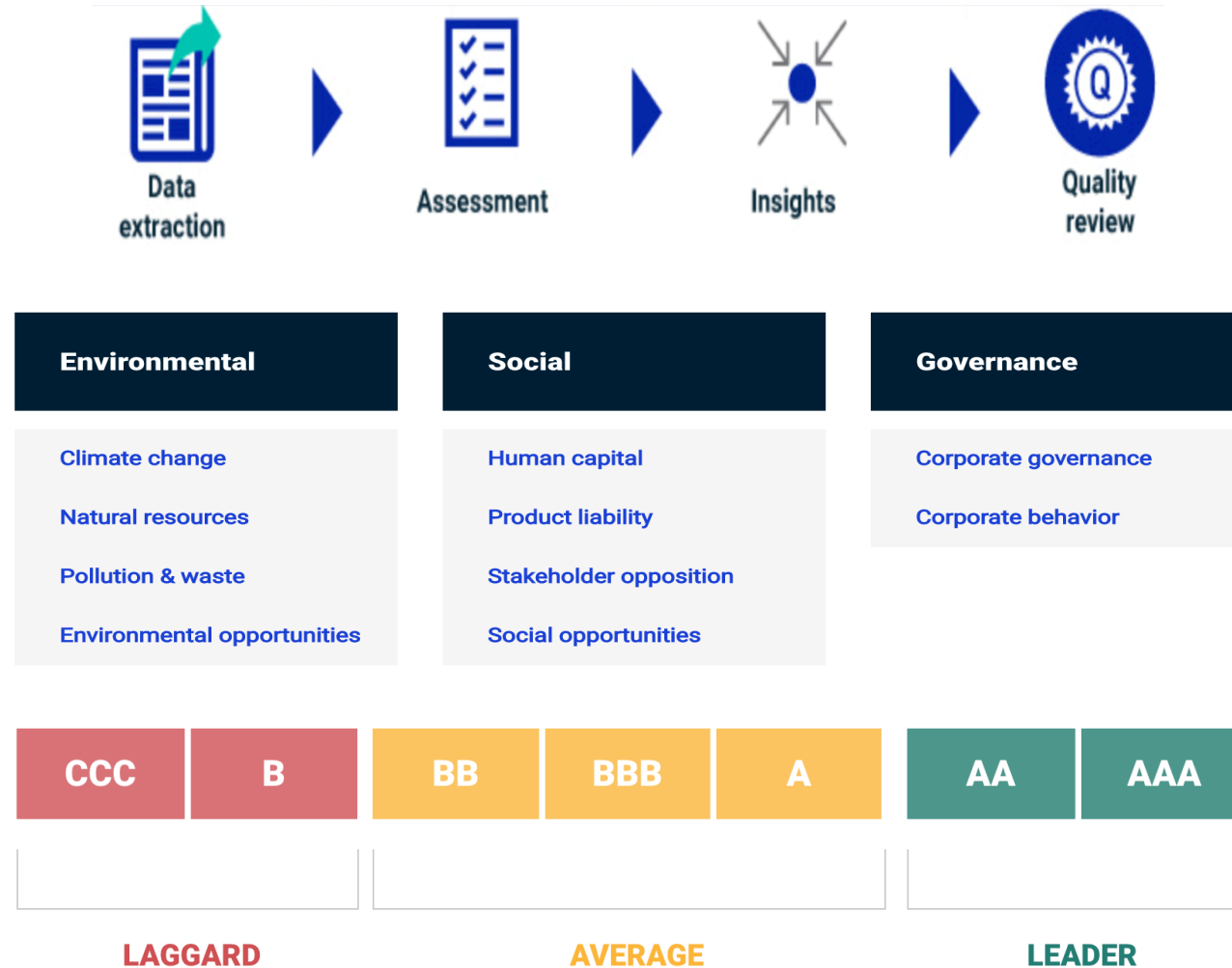
ENVIRONMENT

*Environmental reports
Industry-specific Categories*



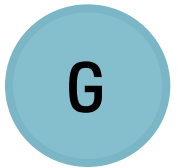
SOCIAL

*Transfer resource development
Human resource retention
Labor index
Corporate Citizenship
Social report
Industry-specific Categories*

MSCI ESG Rating Model



KCGS ESG Scoring Model

<i>Evaluation Area</i>	<i>Evaluation Model</i>	<i>KCGS Practice</i>	<i>Laws, Institutions, Norms</i>
	<p>✓ Management process model Environmental risk management and performance evaluation by industry Dividing the environmental sensitivity by industry into high, medium, and low Environmental management system, performance, and stakeholder response level</p>	<p>Leadership and governance Risk management Operation and Performance Stakeholder communication</p>	<p>Basic Law of Low-Carbon Green Growth Act on Registration and Evaluation of Chemical Substances ISO 14001 and environmental labeling environmental certification system Climate-related financial information disclosure (TCFD), etc.</p>
	<p>✓ Stakeholder Model Focus on those who have formed a direct/indirect interest with the company Considering important social responsibility management issues for stakeholders by industry by classifying them into WCS subcategories</p>	<p>Leadership and governance Non-financial Risk management Operation and Performance Stakeholder communication</p>	<p>Antitrust and Fair Trade Act Social Responsibility World Standard (ISO 26000) International Labor Organization Core Conventions UN International Human Rights Declaration OECD Human Rights Due Diligence Guidelines, etc.</p>
	<p>✓ Controllable model Categorization by major devices for governance to work Corporate governance requirements for general listed and financial companies The size of the assets and the establishment of major committees within the BOD Considering the characteristics of the detailed financial industry</p>	<p>Board of Directors Leadership Shareholder rights protection Audit BoD and Stakeholder communication</p>	<p>The Commercial Act OECD Corporate Governance Principles UK FRC and Japan JPX Corporate Governance Code ICGN Global Governance Principles Basel Banking Supervision Committee Banking Governance Principles</p>

SUSTINVEST - ESG Rating Index/Model

E	S	G
Innovation activity Production process Supply Chain Management Customer care	Human resource management Production process Customer care Social contribution	Shareholders' rights Information Transparency BoD Composition and Activities Director's remuneration Affiliate Risk Sustainability Management

- ✓ A company's value chain-based index system
- ✓ Both quantitative and qualitative data are used
- ✓ Weighted by correlation with long-term financial value

Summary and Suggestion

- ESG evaluation affects strategic decisions of companies.
- ESG affects the profitability of large-scale funds.
- In the future, it is predicted that only a small number of companies will survive.
- Most are integrated through gathering and alliances among evaluation companies.
- ESG evaluation costs are not involved by companies.
- Users of the information pay the ESG rating agencies.
- Investors who use ESG information may unfairly undermine or overestimate the value of the company being evaluated by colluding with ESG rating agencies.
- It may be helpful to use information from multiple ESG rating agencies rather than relying on information from a single ESG rating agency.

Thank you for listening.