Argyle

Reflections on Corporate Reporting of **Environmental, Social and Governance Data**

Introduction

As ESG matters continue to make headlines, stakeholder expectations are evolving and shaping the overall narrative. Although corporations may still occasionally add disclosures as a result of investor pressure (and investors are definitely more interested than ever before!), the reality is that leading reporters are now proactive, rather than reactive. For many, there is no longer a distinction between climate risk and a company's long-term viability.

The corporate responsibility landscape is changing at a lightning pace, with companies and their leaders striving to present an authentic and *positive* ESG message. In recent weeks:

- In response to the announcement that the U.S. would be withdrawing from the Paris Climate Accord, a number of US corporations, states and cities joined together in a pledge that honors the previous commitments notwithstanding the President's decision to withdraw.
- 175 CEOs signed onto the "CEO Action for Diversity and Inclusion" initiative, holding themselves accountable for certain diversity goals.

This piece highlights how leading reporters place sustainability and social responsibility at the heart of their disclosures, intertwined with their culture, values and purpose. We also explore the growing impact of stakeholder and public support. Specifically:

1 Corporate Commitment to ESG Strategies

2 Ownership at the Board and Executive Levels

3 Sustainability and Corporate Responsibility Disclosures in the Proxy Statement

4 Investor Focus and Climate Change

5 Shareholder Proposals

6 SEC Rulemaking

For purposes of this thought piece, we focused on American companies that have a history of using the GRI (Global Reporting Initiative) as a framework for their best practice environmental reporting. We then explored how these organizations introduce philosophies stemming from their ESG principles into governance practices and stakeholder disclosures, such as the Proxy Statement. Sections detailing "Investor Focus and Climate Change" and "Shareholder Proposals" uses third party data highlighting shareholder proposals put forward as of February 15, 2017.

Corporate Commitment to ESG Strategies

Organizations have made varying levels of commitment when considering and adopting ESG principles. Some groups have gone so far as to incorporate sustainability efforts into their overall strategy and corporate identity. In 2016, 82% of the S&P 500 published some form of corporate social responsibility report.[1]

INTERNATIONAL PAPER

International Paper presents sustainability at the very core of the company's strategy – "The IP Way Forward". For them, ESG is good business. It allows them to attract and retain top talent, increase employee engagement and manage risk, especially reputational challenges that may come from being in their industry.

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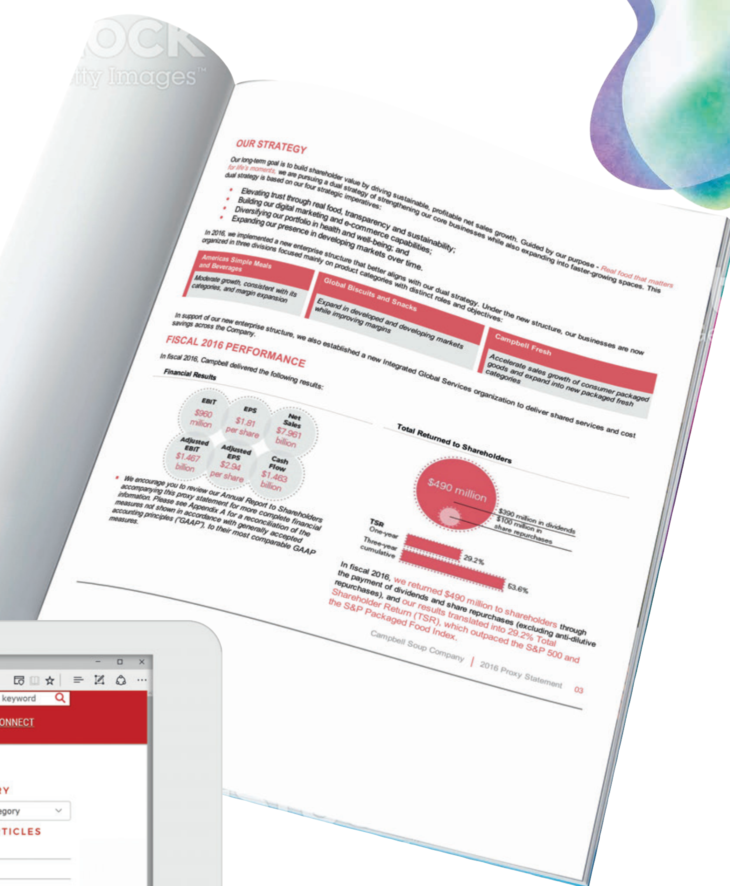
International Paper
http://www.internationalpaper.com/planet

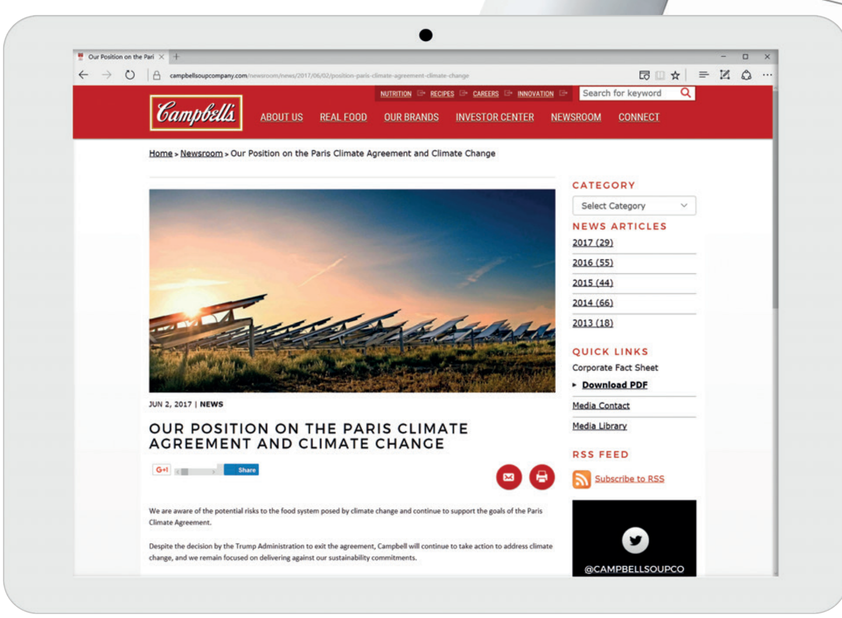
[1]Governance & Accountability Institute, Inc.

CAMPBELL SOUP COMPANY

For **The Campbell Soup Company**, transparency and sustainability are closely aligned with customer and stakeholder trust. As an organization, they are taking their purpose and strategy to the next level and using their commitment to ESG to define who they are as a corporate citizen.

If you were to visit the company's homepage on June 2, 2017, you would have been greeted with Management's commitment to take action to address climate change in the wake of the United States' withdrawal from the Paris Climate Accord, and remain focused on delivering against their sustainability commitments. This is followed by their commitment to LGBT employees and the celebration of Pride month, and the recent investment of solar panels at their Camden NJ facility, reinforcing their nationwide commitment to renewable energy.





> *When an issue materially could affect corporate performance or value, it belongs on the table.*
>
> — Cerces

LEARN MORE

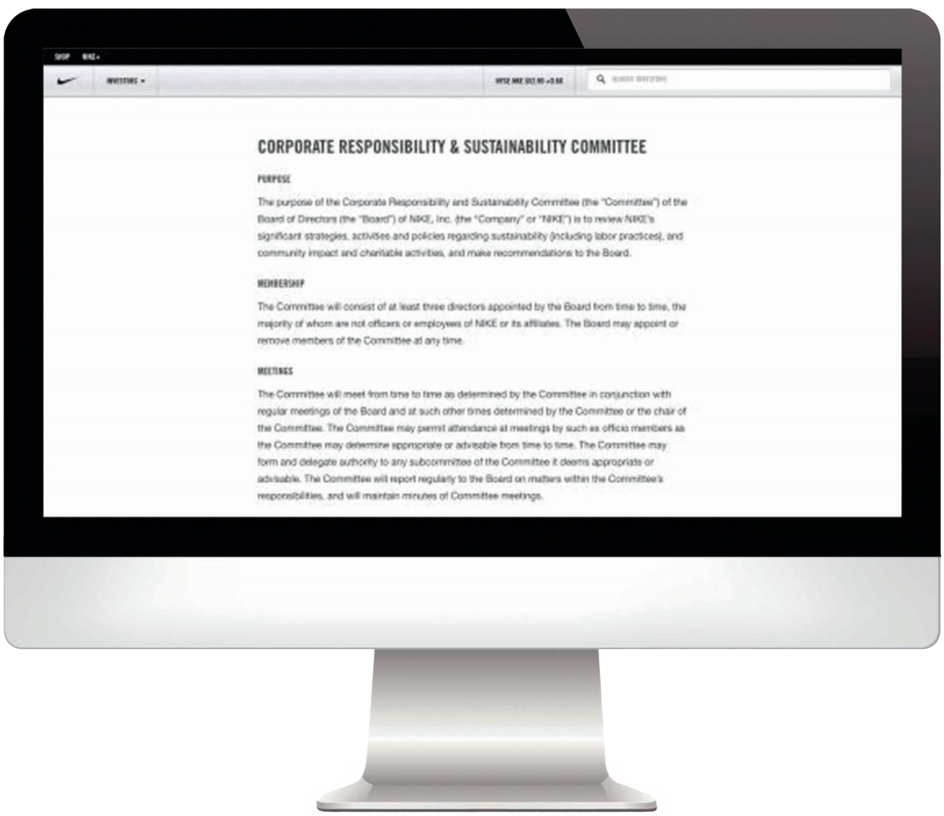
The Campbell Soup Company
http://www.campbellcsr.com

Ownership at the Board and Executive Levels

Placing oversight of ESG related matters with the Board and Executive Leadership is one of the most effective ways to ensure accountability and consistency throughout each division and function within the organization.

NIKE

When it comes to Corporate Responsibility, **Nike** is a pioneer, particularly at Board level. Established in 2001, one of the primary roles of the **Corporate Responsibility and Sustainability Committee** is to support innovation, especially innovation aimed at building a more sustainable business model.



LEARN MORE

Nike
http://investors.nike.com/investors/corporate-governance/board-committee-charters/corporate-responsibility-and-sustainability-committee/default.aspx

> *A committee could be a useful addition to many if not most boards in at least five ways:*
>
> - *as a source of knowledge and expertise,*
> - *as a sounding board and constructive critic,*
> - *as a driver of accountability,*
> - *as a stimulus for innovation,*
> - *and as a resource for the full board*
>
> — Lynn Paine[1]

INTERNATIONAL PAPER

The **"Public Policy and Environment Committee"** is composed of independent directors, including the Chairman of the Board. Meetings are regularly attended by Executive leadership.

Public Policy and Environment Committee

Current Members
- David J. Bronczek (Chairman)
- William J. Burns
- Ahmet C. Dorduncu
- Stacey J. Mobley
- Kathryn D. Sullivan
- Ray G. Young

All Members are Independent

Meetings in 2016: 4

Attendance Rate: 92%

Meetings
Meeting agendas are developed by the Public Policy and Environment Committee chair in consultation with committee members and senior leaders, who regularly attend the meetings.

Responsibilities
The Public Policy and Environment Committee has overall responsibility for the review of contemporary and emerging public policy issues, as well as technology issues pertaining to the Company. The committee reviews the Company's health and safety policies, as well as environmental policies, including the Office of Sustainability policies, to ensure continuous improvement and compliance. The committee also reviews the Company's policies and procedures for complying with its legal and regulatory obligations, including our *Code*, and charitable and political contributions.

LEARN MORE

International Paper
http://www.internationalpaper.com/company/leadership/board-committees

[1]Paine, Lynn. Sustainability in the Boardroom. July-August 2014. HBR.org

PRUDENTIAL

At **Prudential**, the **Corporate Governance and Business Ethics Committee** addresses sustainability as a large part of the risk assessment for the business.

- **Corporate Governance and Business Ethics Committee:** the Company's political contributions, lobbying expenses and overall political strategy, as well as the Company's environmental, sustainability and corporate social responsibility to minimize reputational risk and focus on future sustainability;

CAMPBELL SOUP COMPANY

Corporate Responsibility is listed as a key operational objective on the company's executive compensation, ultimately impacting the payout of the CEO & NEOs annual incentive compensation.

LEARN MORE

Prudential
http://www3.prudential.com/annualreport/report2017/proxy/HTML1/tiles.htm

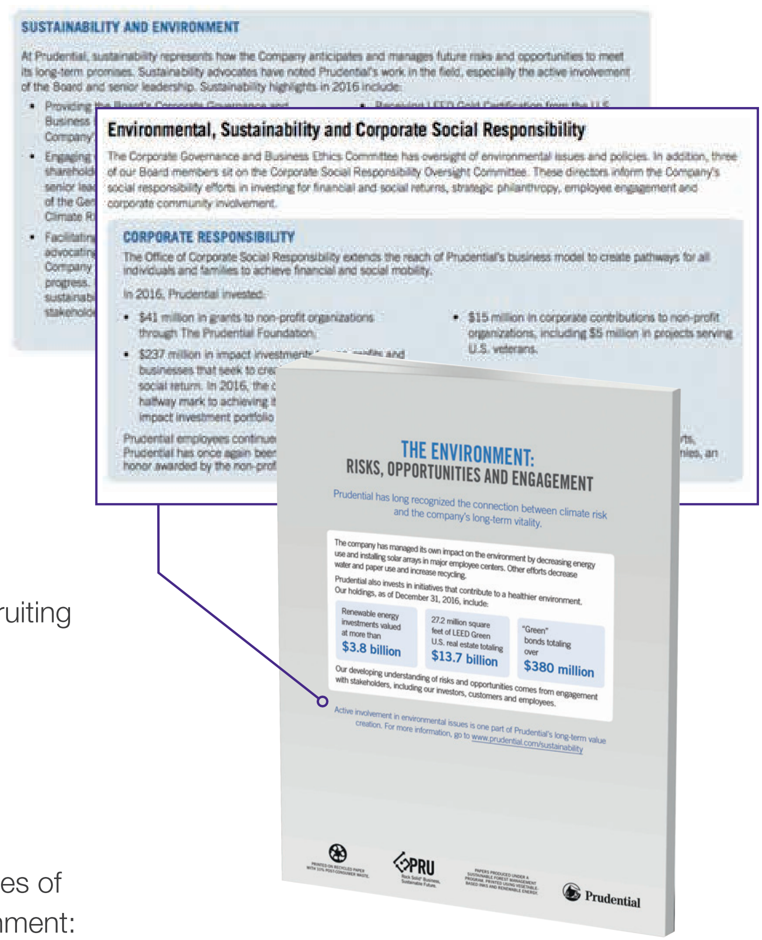
Campbell Soup Company
http://www.envisionreports.com/cpb/2016/16A20JL16E/default.htm?voting=true#d=2&p=1&m=1

Sustainability and Corporate Responsibility Disclosures in the Proxy Statement

The dialogue around materiality and ESG related topics continues to build momentum. Although the SEC has not yet provided guidance, many organizations have taken the first step in incorporating their environmental and diversity strategies into their disclosures.

PRUDENTIAL

In their most recent Proxy Statement, **Prudential** discloses ESG related matters on multiple occasions and expands upon their recognition of the "connection between climate risk and the company's long-term viability".



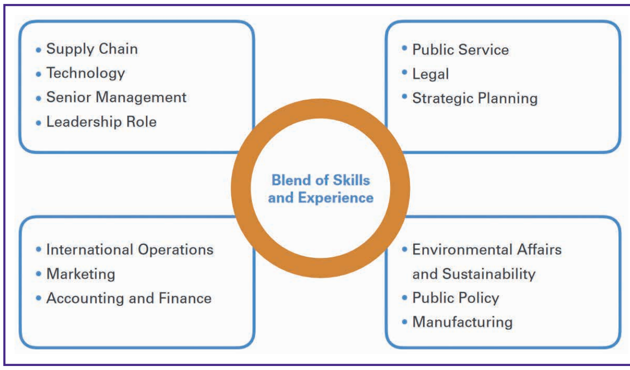
- Sustainability and environmental matters are worthy of an independent section in the letter from the Board, highlighting the director level ownership of sustainability and social responsibility matters
- Sustainability, environmental and corporate responsibility are presented as the skills and qualifications of critical importance when recruiting directors, and have been for many years
- In the Corporate Governance section of the proxy statement, a section is dedicated to Environmental, Sustainability and Corporate Social Responsibility
- The back cover - one of the most visible pages of any document – is dedicated to "The Environment: Risks, Opportunities and Engagement".

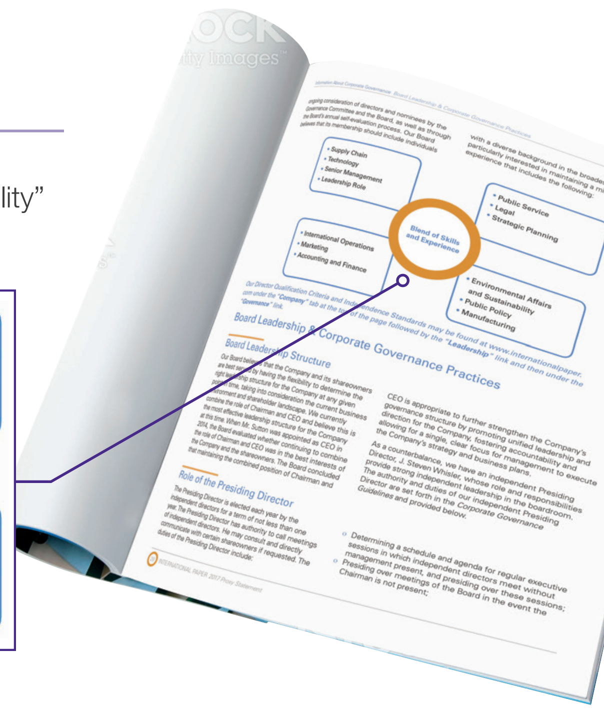
LEARN MORE

Prudential
http://www3.prudential.com/annualreport/report2017/proxy/HTML1/tiles.htm

INTERNATIONAL PAPER

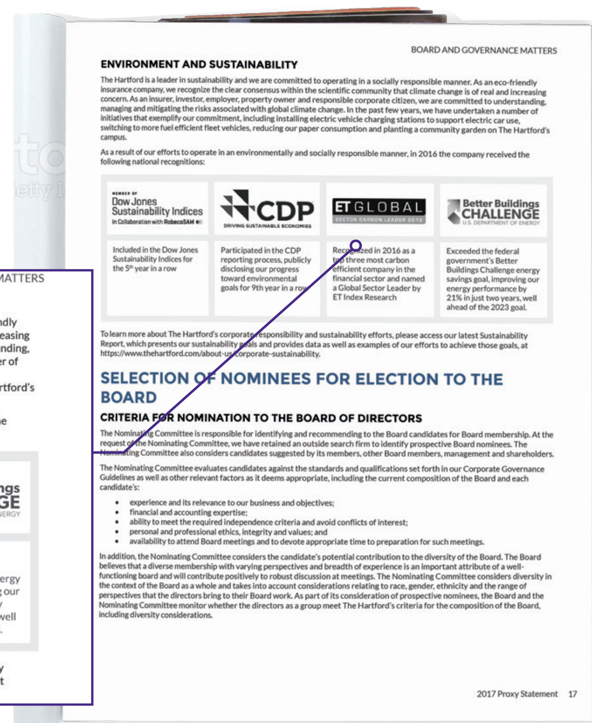
International Paper lists "Environmental Affairs and Sustainability" as a key skill and qualification when recruiting directors

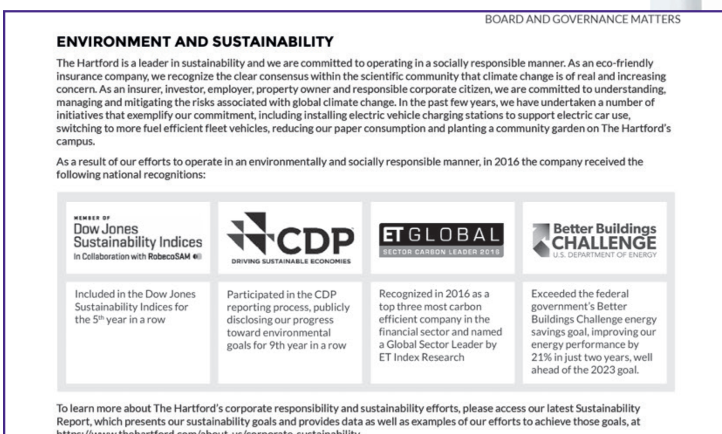




THE HARTFORD

The Hartford uses third-party recognitions to validate its status as a leader in sustainability, and underline a focus on social responsibility. In addition, disclosures specifically address the company's commitment to "understanding, managing and mitigating the risks associated with global climate change."





BOARD AND GOVERNANCE MATTERS

ENVIRONMENT AND SUSTAINABILITY

The Hartford is a leader in sustainability and we are committed to operating in a socially responsible manner. As an eco-friendly insurance company, we recognize the clear consensus within the scientific community that climate change is of real and increasing concern. As an insurer, investor, employer, property owner and responsible corporate citizen, we are committed to understanding, managing and mitigating the risks associated with global climate change. In the past few years, we have undertaken a number of initiatives that exemplify our commitment, including installing electric vehicle charging stations to support electric car use, switching to more fuel efficient fleet vehicles, reducing our paper consumption and planting a community garden on The Hartford's campus.

As a result of our efforts to operate in an environmentally and socially responsible manner, in 2016 the company received the following national recognitions:

Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM	CDP Driving Sustainable Economies	ET GLOBAL Sector Carbon Leader 2016	Better Buildings CHALLENGE U.S. Department of Energy
Included in the Dow Jones Sustainability Indices for the 5th year in a row	Participated in the CDP reporting process, publicly disclosing our progress toward environmental goals for 9th year in a row	Recognized in 2016 as a top three most carbon efficient company in the financial sector and named a Global Sector Leader by ET Index Research	Exceeded the federal government's Better Buildings Challenge energy savings goal, improving our energy performance by 21% in just two years, well ahead of the 2023 goal.

To learn more about The Hartford's corporate responsibility and sustainability efforts, please access our latest Sustainability Report, which presents our sustainability goals and provides data as well as examples of our efforts to achieve those goals, at https://www.thehartford.com/about-us/corporate-sustainability.

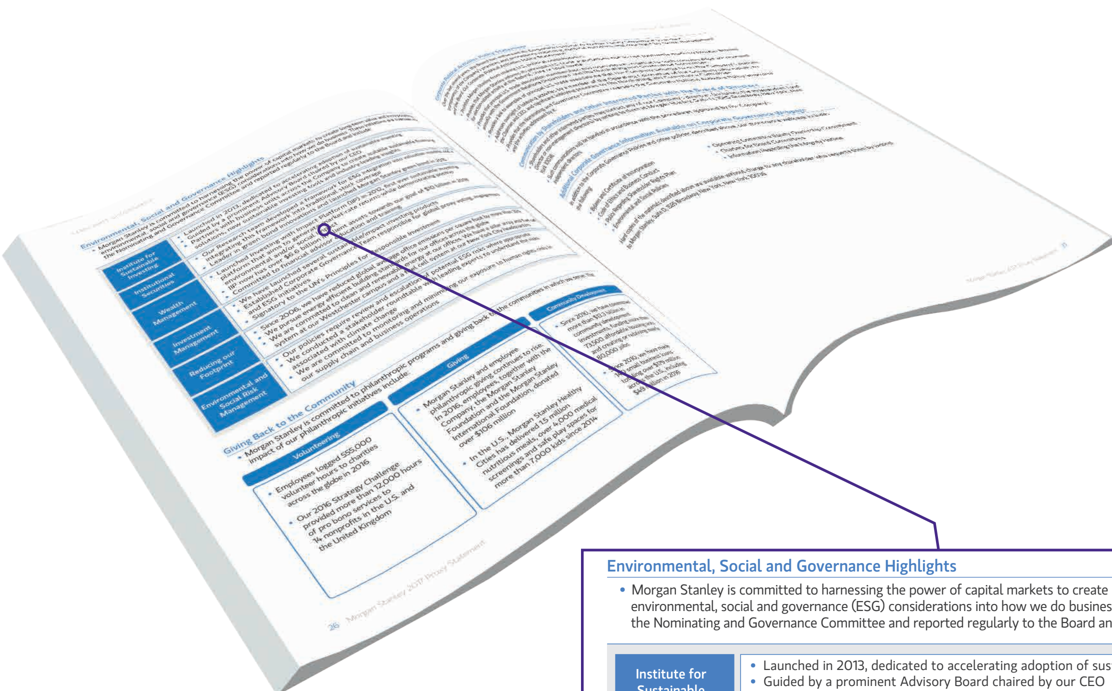
LEARN MORE

International Paper
http://s1.q4cdn.com/597881801/files/doc_financials/2016/Annual/2017-IPCo-Proxy.pdf

The Hartford
https://ir.thehartford.com/~/media/Files/T/Thehartford-IR/documents/events/proxy-statement.pdf

MORGAN STANLEY

Morgan Stanley dedicates a page in its Corporate Governance section to discuss ESG investing initiatives. The firm also addresses its own efforts to reduce its global footprint and commitment to environmental and social risk management (including climate change and human rights risks).



Environmental, Social and Governance Highlights

- Morgan Stanley is committed to harnessing the power of capital markets to create long-term value and incorporating environmental, social and governance (ESG) considerations into how we do business. These initiatives are overseen by the Nominating and Governance Committee and reported regularly to the Board and include:

Institute for Sustainable Investing	• Launched in 2013, dedicated to accelerating adoption of sustainable investing • Guided by a prominent Advisory Board chaired by our CEO • Partners with business units across the Company to create scalable sustainable financing solutions, new sustainable investing tools and industry-leading insights
Institutional Securities	• Our Research team developed a framework for ESG integration into valuation models and is integrating this framework into traditional stock coverage • Leader in green bond innovations and launched Morgan Stanley green bond in 2015
Wealth Management	• Launched Investing with Impact Platform (IIP) in 2012, first ever sustainable investing platform that aims to generate market-rate returns while demonstrating positive environmental and/or social impact • IIP now has over $6.6 billion in client assets towards our goal of $10 billion in 2018 • Committed to financial advisor education and training
Investment Management	• We have launched several sustainable/impact investing products • Established Corporate Governance Team responsible for global proxy voting, engagement and ESG initiatives • Signatory to the UN's Principles for Responsible Investment
Reducing our Footprint	• Since 2006, we have reduced global average office emissions per square foot by more than 35% • We pursue energy efficient building standards for our offices across the globe • We are committed to clean and renewable energy at our offices. We have a solar array and fuel cell system at our Westchester campus and a fuel cell system at our New York City headquarters
Environmental and Social Risk Management	• Our policies require review and escalation of potential ESG risks where appropriate • We conducted a stakeholder roundtable with leading experts to understand the risks associated with climate change • We are committed to monitoring and minimizing our exposure to human rights risks in our supply chain and business operations

LEARN MORE

Morgan Stanley
https://www.morganstanley.com/about-us-2017ams/pdf/2017_Proxy_Statement.pdf

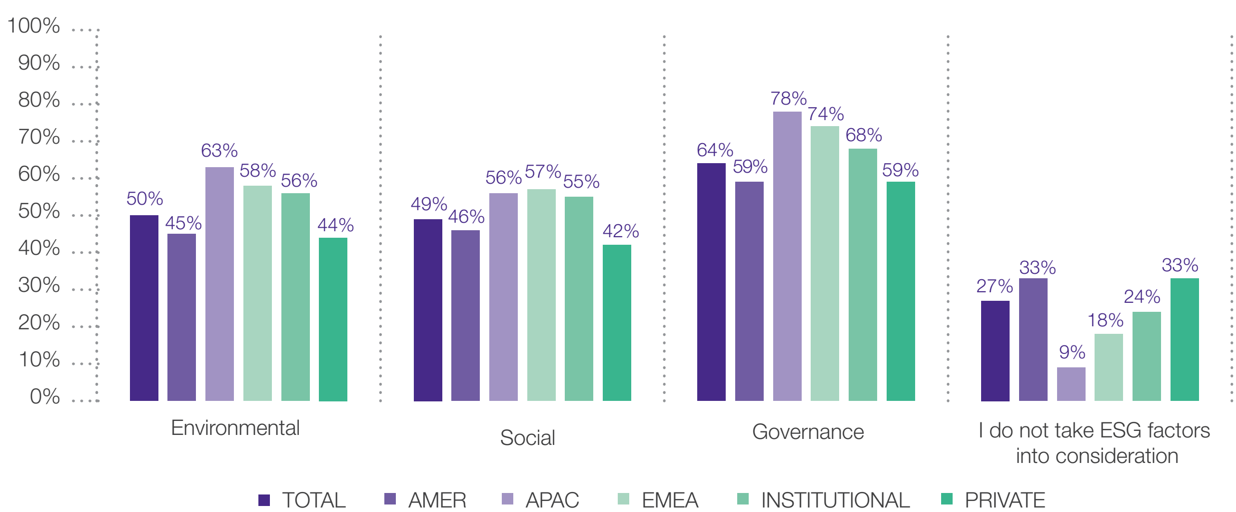
Investor Focus and Climate Change

As ESG matters continue to take center stage and make headlines, stakeholder expectations are evolving and shaping the corporate narrative. The conversation around climate change has direct implications on management's strategy for risk mitigation into the future.

> *... we are willing to be patient with companies when our engagement affirms they are working to address our concerns. However, our patience is not infinite - when we do not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect the long-term economic interests of our clients, we will not hesitate to exercise our right to vote against management recommendations. Climate-related risks and opportunities are issues we have become increasingly focused on at BlackRock as our understanding of the related investment implications evolves.*
>
> — BlackRock

In a 2015 survey by CFA Institute of global investors, "the top reason(s) investors consider ESG products is to adequately manage risk.[1] While some believe ESG considerations are simply a part of the overall fiduciary responsibility, client demand is increasing on a global scale.

Which, if any, of the following ESG issues do you take into account in your investment analysis or decisions?[2]



[1,2]https://www.cfainstitute.org/ethics/Documents/issues_esg_investing.pdf

TOP REASONS WHY[1]

63% To help manage investment risks	**44%** Clients/investors demand it	**38%** ESG performance is a proxy for management quality
37% It's my fiduciary duty	**37%** To help identify investment opportunities	**30%** My firm derives reputational benefit

Morrow Sodali's 2017 Institutional Investor Survey asked investors to identify which 3 ESG aspects would be the focus of engagement in 2017. Climate Change topped the list, with 50% of respondents indicating this topic would be an engagement driver. Compare this result to last year, where board composition, shareholder rights and executive compensation were the hot button topics. As Morrow Sodali notes, "This result is not surprising considering the Paris Climate deal and the aggressive targets that investors have set to reduce their portfolios' carbon footprint."[2]

Overall support for commitment to ESG policies was made clear by the swift backlash by both the public and business communities when the announcement was made that the US is withdrawing from the Paris Climate Accord.

Nationwide, a majority of Americans support participation in the Paris agreement[3] and there is wide ranging commitment for the 194 nation accord amongst companies spanning nearly every sector and market cap. Leading up to and since the announcement to withdraw, a number of CEOs publicly denounced the move through full-page newspaper ads, press releases, and tweets. Companies that have committed to forging ahead with the goals of the Paris agreement range from the anticipated Tech giants such as **Google**, **Facebook**, **Microsoft** and **Amazon**, to companies in more traditional industries such as **Goldman Sachs**, **Exxon Mobil**, **Shell**, and **Cargill**.[4]

[1]Results are representative of the 73% who take ESG issues into account, n=967.

[2]http://www.businesswire.com/news/home/20170301005097/en/Morrow-Sodali-Annual-Institutional-Investor-Survey-2017

[3]http://climatecommunication.yale.edu/publications/paris_agreement_by_state/

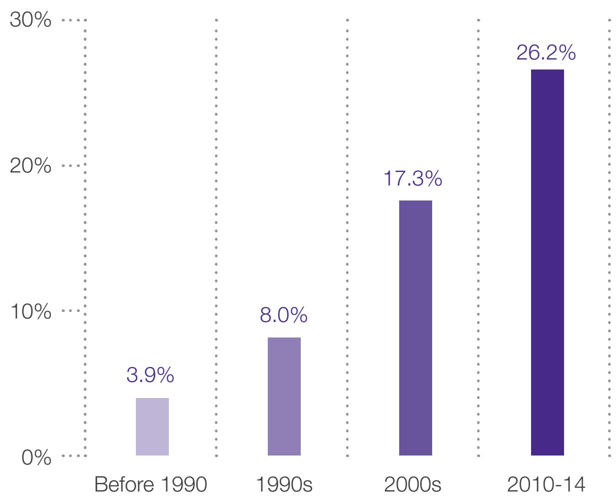
[4]https://www.nytimes.com/2017/06/01/business/climate-change-tesla-corporations-paris-accord.html

Shareholder Proposals

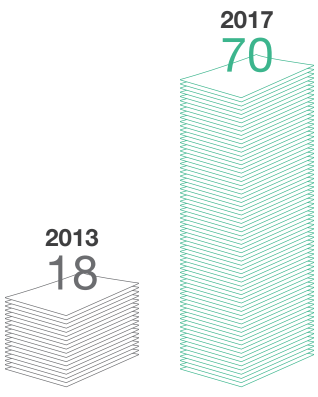
ESG is no longer a focus exclusive to activist environmental and humanitarian groups. As Institutional Investors look to maintain portfolios with long-term viability, the shareholder proposal has become a prominent – and powerful – means of influencing corporate commitments.

Investor support for shareholder proposals on board oversight of sustainability issues has progressively risen from an average of 3.9 percent before 1990 to 26.2 percent in the period from 2010 through 2014. Support levels today are more than six times what they were before 1990.

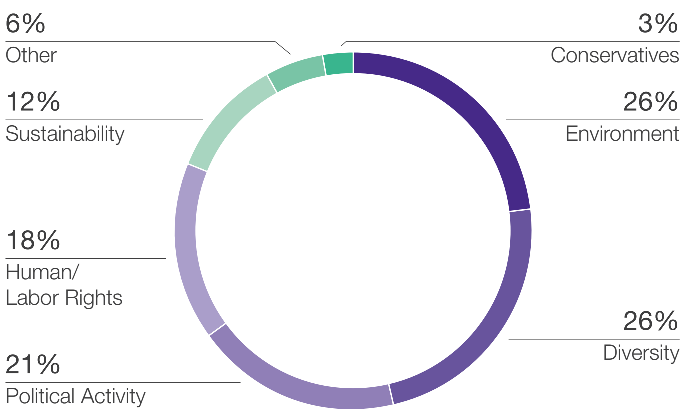
SUPPORT FOR SUSTAINABILITY RELATED SHAREHOLDER PROPOSALS[1]



The number of specifically **climate-related proposals** has increased from **18** in 2013 to **70** in 2017[3]



PROPOSALS FILED IN 2017[2]



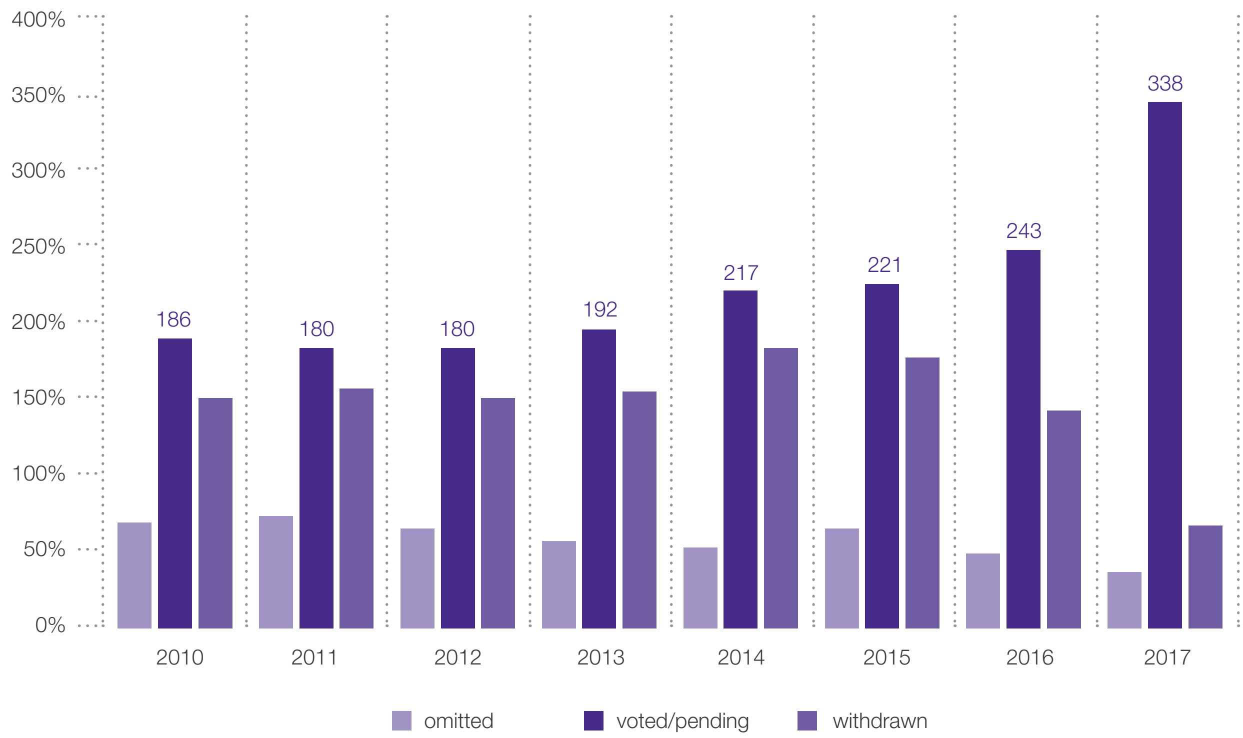
In 2017,
10 companies
received shareholder proposals to Link executive pay to sustainability metrics[4]

[1]Board Oversight of Sustainability Issues: A Study of the S&P 500. Sustainable Investments Institute (Si2) and Investor Responsibility Research Center Institute (IRRCI). DeSimone, Peter. March 2014.

[2, 3, 4]Welsh, Heidi and Michael Passoff. Proxy Impact 2017: Helping investors vote their values. As You Sow, Sustainable Investments Institute (Si2), Proxy Impact.

Research by **Sustainable Investments Institute (Si2)**, **As you Sow** and **Proxy Impact** reports in the 2017 edition of Proxy Impact, the annual report aimed at "helping investors vote their values", that shareholders are becoming more bullish. "Proponents withdrew the lowest number of proposals yet last year, while the lowest number yet were omitted after challenged filed by companies at the SEC." What is unknown is whether the SEC is also being more bullish regarding the Commission's guidance regarding disclosure related to climate change published in 2010 or if companies are more willing to have dialogue with shareholders regarding ESG related issues.[1]

PROPOSALS FILED SINCE 2010[2]



In May 2017, **Exxon Mobil** shareholders, including **Blackrock** and other large institutions, approved by 62% a proposal that requires the company to report on the effect of global policies aimed at reducing emissions and global warming to 2 degrees centigrade. The proposal, presented by the **New York State retirement fund**, was defeated in 2016 with 38% in favor, indicating growing support for shareholder proposal routed in sustainability and transparency efforts.[3, 4] Shareholders of **Occidental Petroleum** also passed a proposal requiring the company to disclose the impact climate change will have on the business.

[1]https://www.federalregister.gov/documents/2010/02/08/2010-2602/commission-guidance-regarding-disclosure-related-to-climate-change

[2]Welsh, Heidi and Michael Passoff. Proxy Impact 2017: Helping investors vote their values. As You Sow, Sustainable Investments Institute (Si2), Proxy Impact.

[3]http://www.nasdaq.com/article/exxon-suffers-stinging-defeat-on-shareholder-climate-resolution-cm797244

[4]http://www.latimes.com/business/la-fi-exxon-climate-change-20170531-story.html

SEC Rulemaking

Investors are asking the SEC to approach corporate reporting on ESG as material matters that should be subject to the same standards of rigor as any other financial disclosure.

In April 2016, the SEC issued a Concept Release: Business and Financial Disclosure Required by Regulation S-K as part of its disclosure effectiveness initiative. This concept release sought input broadly on the importance and usefulness of various disclosures (both those currently required and those under consideration).

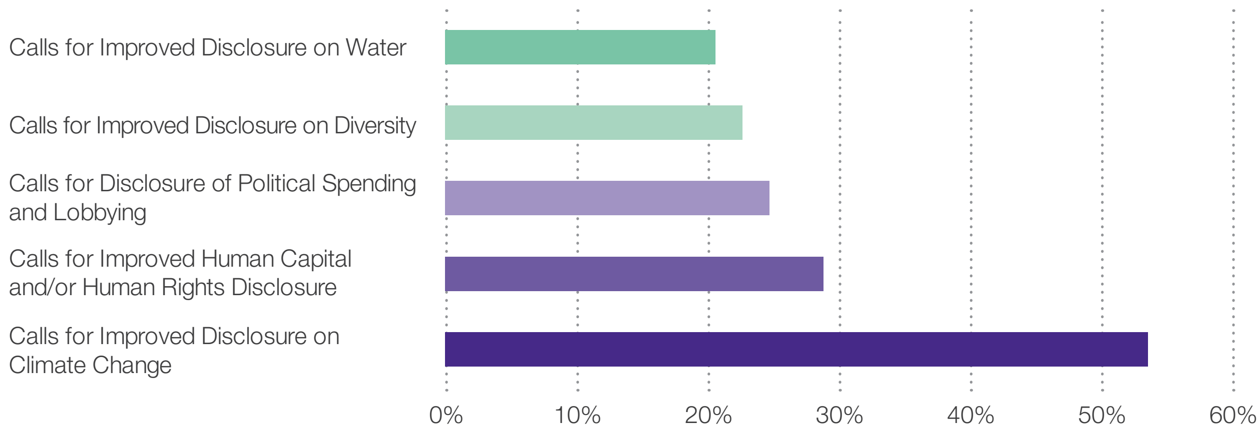
The SEC received over 276 non-form comment letters in response to the Concept Release, where 2/3 of comment letters address sustainability-related concerns. The primary focus in most letters was the importance of improved ESG and sustainability related disclosures in filings made to the SEC.

The SEC received over **276** non-form comment letters[1]

2/3 of these letters address sustainability-related concerns[2]

COMMENT TOPICS

Top Five Sustainablity-Related Reg. S-K Comment Topics[3]



As leading law firm **Sullivan & Cromwell** stated in its comment letter, “the sustainability topic is clearly on the table at this point, and the Commission will sooner or later have to–and should–address it.”[4]

[1, 2, 3]SASB http://www.sasb.org/wp-content/uploads/2016/09/Reg-SK-Comment-Bulletin-0913161.pdf

[4]Sullivan & Cromwell LLP, *Business and Financial Disclosure Required by Regulation S-K – File No. S7-06-16*, Comment letter to the Securities and Exchange Commission, (August 9, 2016) https://www.sec.gov/comments/s7-06-16/s70616-354.pdf.

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