MHP Group

Capital Markets ESG *Insights*

January 2023

Welcome

In this latest iteration of the MHP Capital Markets' quarterly ESG Insights newsletter, we have a conversation with ESG service provider Inspired PLC on key ESG themes and considerations as we enter 2023. We examine how corporate culture impacts ESG and sustainability in business, from a communications perspective. Finally, we explore the upcoming disclosure recommendations from the Task Force for Nature-related Financial Disclosure (TNFD). We also feature newly certified B Corp *ProCook* as our Client in Focus.

For any questions or feedback please contact us at **esg@mhpgroup.com**

Section 01

Key ESG themes for 2023

Q&A with INSPIRED PLC

Inspired PLC is an ESG service provider which offers expert energy advisory and sustainability consultancy services to over 2,900 UK businesses via its three divisions: Inspired Energy Solutions; Inspired ESG Solutions; and Inspired Software. We spoke with Adam Baker, Director of ESG Advisory at Inspired, on the prominent ESG themes and regulations for 2023, and the key considerations for corporates embarking on their own sustainability journey.

1. What are the key ESG themes going into 2023, and are there any key pieces of regulation corporates should be aware of?

In 2023, we expect to see both a broadening of key topics and a deepening of expectations around established themes.

For example, **biodiversity** will continue to receive increasing attention this year and in the future. The first version of the Taskforce on Nature-related Financial Disclosures (TNFD) framework is expected in September 2023. It will provide guidance on how to report and act on nature-related risks, similar to the Taskforce on Climate-related Financial Disclosures (TCFD) in relation to climate change.

Also, **Net-Zero Transition Planning** will become more prominent in 2023, following the launch of the UK Transition Plan Taskforce (TPT) in April 2022. This will create a universal standard for climate transition plans and help companies plan for achieving their net-zero targets. Currently, the first draft of the framework is open for consultation, with the final version expected this summer. In 2023/2024, the Financial Conduct Authority (FCA) will be consulting on updating regulations, to include TPT reporting.

The **Carbon Border Adjustment Mechanism** has been provisionally approved by the EU. It will impose a carbon tax on foreign exporters to the EU, in relation to electricity, iron and steel, cement, aluminium and fertilizers. The legislation will be phased in at the start of October 2023. Exporters covered under this new legislation will initially only need to provide Scope 1 and 2 data. Also, there have been changes to the emissions reduction targets and free credit allocation under the European Emissions Trading System (EETS). This will require more ambitious targets and free credits will be phased out by 2034.

UK Green Taxonomy development has been temporarily paused, due to the complexity and challenges experienced with the EU's taxonomy. The UK Government will publish its Green Finance Strategy in early 2023, which will include an update on plans for the Green Taxonomy.

2. What are the biggest challenges facing corporates today, from an ESG perspective?

As ESG action and reporting become essential, internal capacity and costs often pose some of the greatest challenges for businesses. Developing and driving an

Adam Baker
Director of ESG Advisory
Inspired PLC

ESG strategy requires knowledge and expertise. A specialist external consultancy can provide the necessary skills and support for developing internal capacity.

Data continues to be one of the biggest challenges for ESG reporting, for both companies and investors. Wherever possible, use existing systems and data collection processes to support ESG reporting. These should be developed and adapted over time, as necessary. This will help to embed it into a company's regular processes and make it easier for it to become an integral part of the business.

3. What advice would you give to a company embarking upon their ESG journey?

For some businesses, the biggest challenge may involve how to start the ESG process. We advise companies to align themselves with an established standard, for example, the Global Reporting Initiative (GRI), or Sustainable Finance Disclosure Regulation (SFDR). This can be used to assess their initial position and to determine the indicators that are applicable to the business. Subsequently, they can determine which of the indicators are considered to be material. From this, it is possible to build an ESG strategy with short-term quick wins and longer-term actions, which will require more planning and resources.

4. What are the common pitfalls for your clients when it comes to ESG?

When looking to embed ESG within a company, there are a few common pitfalls. ESG is considered a journey which should start with careful planning. Using a common standard ensures a structured and robust approach. Combined with providing relevant data, this will help to avoid generic statements and accusations of greenwashing. Also, when setting targets, these should be made with a good understanding of what is possible and feasible for the business. We recommend aligning with industry standards or global initiatives, for example, the Science Based Targets initiative (SBTi). Being transparent about the current position, challenges, and next steps (including research and planning), will provide stakeholders with confidence in the approach taken.

The importance of *corporate culture* to ESG

It is now widely accepted that corporate culture, defined by the FCA as "a combination of the values, attitudes and behaviours manifested by a company in its operations and relations with its stakeholders", is inextricably linked with business performance.

Recent research by HSBC highlights that as corporate culture rises in importance to investors and they develop frameworks through which to assess it, company boards face the challenge of monitoring and sustaining a positive culture, ensuring it remains an asset rather than becoming a risk to business. Many companies are now either seeking to leverage positive culture or being forced to navigate the fallout of perceived cultural missteps.

Businesses – and the individuals that lead them – are increasingly being judged by stakeholders on their actions, with high profile issues yielding potentially damaging headlines and ***commentary***. Elon Musk's controversial takeover of Twitter led to dramatic culture shifts at the iconic social media platform, sparking ***widespread criticism*** and a mass exodus of employees, including top executives.

> *"A combination of the values, attitudes and behaviours manifested by a company in its operations and relations with its stakeholders"*
>
> FCA definition of corporate culture

A new world

Under the spectre of looming recession, a war for talent continues to rage across multiple industries as corporates scramble to attract and retain the best people in a shrinking pool and shore up their businesses in the face of external challenges.

While traditional incentives like competitive salaries and benefits naturally remain important, a company's behaviour, purpose, and values – as demonstrated through its culture – have seemingly overtaken these on the typical employee's list of priorities. This is demonstrated in part by 'The Great Resignation', a now familiar term for the recent mass exodus of employees across multiple sectors during and after the pandemic, driven largely by factors not linked to remuneration.

In a ***seemingly permanent shift***, the ways in which we work have changed, with hybrid working (anathema for some companies – or even whole industries – as recently as a few years ago) expected as standard, and flexible working to accommodate a shifting of the talent map driven by out-of-city migrations, commonplace. Failing to adapt to such changes is likely to disadvantage companies competing for the best people.

Driving business performance

Citing a recent study of 500 companies across the globe by leadership advisory firm, Heidrick & Struggles, HSBC claims that companies led by CEOs with culture among the top three drivers of their business outperform their peers. These companies had a three-year revenue CAGR more than double than that of those who did not see culture as a top priority: 9.1% compared with 4.4%.

Separately, ***PWC's 2021 global culture survey*** of 3,200 workers in more than 40 countries states that a staggering 69% of senior leaders credit success through the pandemic to company culture, with almost 70% saying that adaptability to accommodate employees during this period continues to offer a competitive advantage. Going even further, according to the survey, 66% of C-suite executives believe culture is more important to performance than strategy or operating model. Additionally, a rising number of hiring managers cite alignment with culture as a key factor when hiring candidates, ***equal to – or even exceeding – experience and skillset***.

Where historically employees were arguably a lower priority audience in the stakeholder universe, many now believe that the overall ***employee experience should be on par with the customer or user***. Employee experience spans a number of factors: the physical environment of the workplace; whether a company's values align with the employee's own; whether its purpose reflects their beliefs; and whether its culture meets their needs and expectations, among others.

Other stakeholders are also demanding more clarity on such factors as they navigate the businesses they choose to engage with. Effectively articulating culture, purpose, and values has therefore never been more important. Similarly, recognising that diversity – across race, gender, and age, among other factors – provides a workforce with a huge range of experiences and skills impossible to replicate in a non-diverse group; this can also signal strength of culture, and is vitally important to multiple stakeholders.

With corporate culture firmly in investors' sights, ESG targets linked to executive remuneration are likely to more frequently include alignment with cultural factors. Investors are also likely to increasingly scrutinise corporate culture, particularly where there appears to be a disconnect between the views of executives and the wider workforce, going beyond staff surveys to directly engage with employees.

Finding the balance

Boards and management teams should be wary of leaning too far into some cultural reforms, lest they upset the balance of contributing factors. Hybrid working, for example, while high on the list of employee expectations post-pandemic, taken to the extreme, risks adversely impacting the obvious benefits of in-person collaboration.

This is reflected in a ***recent article in the Financial Times*** which quotes Claire Wills, London managing partner at Corporate Law firm, Freshfields, as saying: "We have an opportunity here for the next generation of lawyers to achieve a greater work/life balance. At the same time, we've always been a firm with a strong cultural glue." The firm expects London employees in the office three days a week. The same article reports that Deloitte, which claims that 96 per cent of its staff said they wanted to have the freedom to choose how flexibly they work, therefore has "no mandated office days" and has since recorded high scores in productivity surveys.

A demotivated or disengaged workforce – a common biproduct of poor corporate culture – will impact productivity, and ultimately profitability. While companies are making huge strides in improving corporate culture and ensuring it is recognised as a key business driver, appropriate oversight, accountability and management remains key to ensure the correct balance is maintained to support performance.

After TCFD comes TNFD – *what do you need to know?*

ESG disclosures and requirements continue to evolve, with a new framework set to be launched this year focused on nature and biodiversity.

In our Q3 2021 edition of ESG Insights, we outlined the introduction of the *Task Force for Climate-related Financial Disclosures (TCFD),* which continues to be adopted globally at pace. *The Task Force's 2022 Status Report* revealed that it has support from 3,800 members, a rise of 1,200 on 2021.

Six years following the release of the TCFD's recommendations, the ***Task Force for Nature-related Financial Disclosure (TNFD)*** will publish a new set of recommendations for market adoption in September 2023.

*"We now have to shape [the finance sector's commitments to net zero] ...
to include biodiversity and nature."*

Mark Carney, UN Special Envoy for Climate Action and Finance

Established in 2021, the TNFD was created to address to the risk that nature loss poses to business, whilst articulating the opportunity of being nature-positive. It aims to enable companies and financial institutions to integrate nature into financial and business decision making, and allow them to report and act on evolving nature-related risks and opportunities.

"Nature underpins the global economy. More than half of the world's economic output – US$44 trillion of economic value generation – is highly or moderately dependent on nature. Our economies are embedded within nature, not external to it. Yet most corporates, investors and lenders today are inadequately accounting for nature-related risks and opportunities."

- TNFD, Why nature-related risk and opportunity management matters

Currently in its beta phase, with v0.3 of the framework published in November 2022, the recommendations aim to:

- Help provide better information to support strategy and risk management at board level, and improve capital allocation and asset valuation decisions by corporates
- Promote more informed investment, credit and insurance underwriting decisions by financial institutions
- Enable a stronger understanding of the concentrations of nature-related risk and opportunities, based on insights into nature dependencies and impacts

Before companies shake their heads at yet another framework to adopt, helpfully the TNFD will complement the TCFD and be aligned to it. It will utilise existing disclosure and guidance already in place whilst being structured using the same four pillars: governance, strategy, risk management, and metrics and targets. This alignment to the TCFD will allow for easier adoption whilst helping facilitate the shift towards integrated sustainability disclosures over time that span both climate and nature.

The TNFD continues to identify disclosure metrics which will be proposed in v0.4 of the framework, due to be released in March this year, before the complete set of recommendations are released in September.

A high-level overview of the disclosure recommendations include:

Governance
the ways in which the organisation's oversight and decision-making functions take nature-related risk and opportunities into account

Strategy
the integration of actual and potential effects of nature-related risks and opportunities on the organisation's business model, strategy and financial planning

Risk & impact management
how the organisation integrates nature-related risks into its overall risk management approach

Metrics & Targets
quantitative and qualitative performance indicators and aims related to nature-related risk and opportunities, based on nature dependencies and impacts

Nature related exposure is complex, so companies should start assessing the risks and opportunities it poses at an early stage. Much of the TNFD builds upon the former's approach and guidelines that have already been developed, thus we recommend corporates look to utilise work already undertaken through TCFD alignment as a sensible starting point.

Client in focus:

ProCook®

ProCook Group plc is the UK's leading direct-to-consumer specialist kitchenware brand. It operates a direct-to-consumer business model, designing, sourcing, and retailing a high-quality range of cookware, kitchen accessories and tableware.

Founded over 25 years ago by the O'Neill family, the company originated selling cookware sets by direct mail in the UK. Since then, ProCook has grown into a market leading, multi-channel specialist kitchenware company, employing over 700 colleagues, and operating from its Head Office in Gloucester.

Becoming a B Corp™

Since ProCook began, its CEO Daniel O’Neill has been committed to doing the right thing. For a number of years, Daniel was keen to embark upon the B Corp journey, largely because the certification is a key way that consumers can identify companies with a mission to benefit people, communities, and the planet. B Corps are purpose-driven and take action to meet high social and environmental standards, operating transparently and sustainably.

“There are very few UK homeware brands of our size certifying as B Corps so we’re incredibly proud to be trailblazing in our sector. The work that goes in to certifying when you are a long established, large company is enormous but worth every effort. Alongside our sustainability goals, B Corp provides a stringent framework against which we can measure ourselves. The economic conditions for retailers are tough right now, but at ProCook we believe in honouring our responsibilities to people and the planet alongside our commercial goals.”

ProCook CEO, Daniel O’Neill

As a B Corp, ProCook has made a legal commitment to balance the interests of its shareholders with those of people and planet. This includes striving to continuously improve its practices and join the growing network of B Corps, showing that the Group can use its for-profit business as a force for good. It has recently been announced that there are now 1000 certified B Corps in the UK, of which ProCook is proud to be one.

The B Corp certification process requires full transparency, and ProCook had to undergo a rigorous analysis process of its entire operational practices. Being a certified B Corp holds the Group accountable to its actions, and it must undergo recertification every three years. The threshold to become certified is achieving 80 points on the ***B Impact Assessment (BIA),*** which is subsequently verified by B Lab. Having achieved this threshold, ProCook will now focus on improving its weaker areas ahead of recertification, with the aim of increasing its score to 85 points in 2025. The BIA score is an important internal metric and ProCook's desire to improve its score demonstrates the Group's ongoing commitment to being a socially responsible and environmentally conscious business.

The B Corp framework is an excellent tool to improve business practices and as part of the global B Corp community, ProCook forms part of a growing movement of businesses working towards a healthier planet, reduced inequalities, and stronger communities, both locally and globally.

In what areas are ProCook doing well?

ProCook scored particularly highly in the workers and customers section of the BIA, as shown by the benchmarking figures below. ProCook is passionate about fostering a safe and welcoming workplace, where people can be their authentic selves. The Group encourages feedback from colleagues, listens to suggestions and incorporates these into future business decisions. ProCook is proud to be a Living Wage Employer as it believes all colleagues deserve a wage that meets everyday needs, and the Group's base rate of pay for both salaried and contracted employees follow the Living Wage Foundations recommendations. The Group also has a high level of gender and age diversity, with over 72% of managers women. Employee satisfaction is high, with The Group ranked among the UK's Best Workplaces™ 2022 by Great Place to Work®.

Workers

Workers evaluates a company's contributions to its employee's financial security, health & safety, wellness, career development, and engagement & satisfaction. In addition, this section recognizes business models designed to benefit workers, such as companies that are at least 40% owned by non-executive employees and those that have workforce development programs to support individuals with barriers to employment.

Questions Answer	*Overall Score*	*Operations Score*	*Ibm Score*	*N/A Score*
57/57	*29.0*	*28.1*	*0.0*	*0.9*

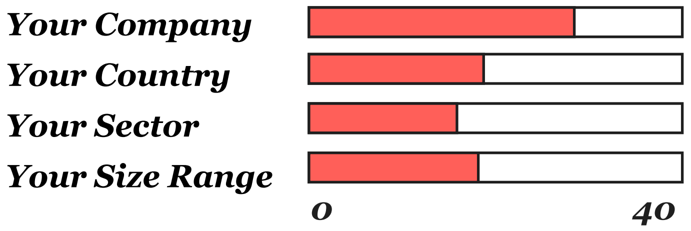


Figure 1. ProCook BIA score for the B Corp workers section, benchmarked against other UK businesses, businesses in the same sector and of a similar size.

Customers

Customers evaluates a company's stewardship of its customers through the quality of its products and services, ethical marketing, data privacy and security, and feedback channels. In addition, this section recognizes products or services that are designed to address a particular social problem for or through its customers, such as health or educational products, arts & media products, serving underserved customers/clients, and services that improve the social impact of other businesses or organizations.

Questions Answer	*Overall Score*	*Operations Score*	*Ibm Score*	*N/A Score*
11/11	*3.6*	*3.6*	*0.0*	*0.0*

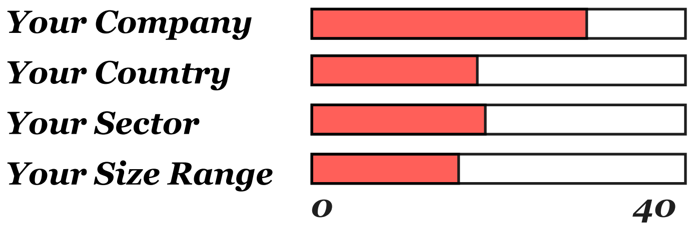
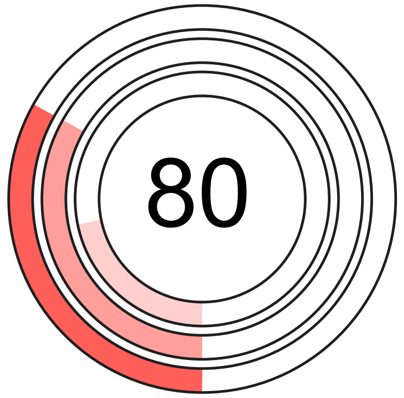


Figure 2. ProCook BIA score for the B Corp customers section, benchmarked against other UK businesses, businesses in the same sector and of a similar size.

ProCook is also doing well in the customer section of the BIA due to its high-quality products, long guarantees and stringent data privacy and security. The Group encourages feedback from customers and has over 85,000 Trustpilot reviews with an average of 4.7/5 stars.

Overall B Impact Score

Based on the B Impact assessment, Procook earned an overall score of 80.00. The median score for ordinary businesses who complete the assessment is currently 50.9



- **80** *Overall B Impact Score*
- **80** *Qualifies For B Corp Certification*
- **50.9** *Median Score for ordinary businesses*

Governance *Workers* *Community* *Environment*

Figure 3. ProCook's overall B Impact Assessment score, with a score of 80 vs the median UK business score of 50.9

Challenges of becoming a B Corp

ProCook is predominantly focusing on improving its environmental performance both internally and throughout its supply chain, which is crucial but takes time and resource. Working closely with suppliers for specific recordings of environmental data (e.g., water, waste, carbon, chemical) and associated reduction targets can be challenging, but the Group is committed to ensuring it operates with the environment at the forefront. ProCook has faced similar difficulties internally with its own product collection, and the measurement of environmental data along with setting ambitious but achievable reduction targets. Although the Group is keen to improve its environmental credentials, the figure below shows that ProCook is working to much higher standards than other UK businesses in the same sector and of a similar size.

Environment

Environment evaluates a company's overall environmental management practices as well as its impact on the air, climate, water, land, and biodiversity. This includes the direct impact of a company's operations and, when applicable its supply chain and distribution channels. This section also recognizes companies with environmentally innovative production processes and those that sell products or services that have a positive environmental impact. Some examples might include products and services that create renewable energy, reduce consumption or waste, conserve land or wildlife, provide less toxic alternatives to the market, or educate people about environmental problems.

Questions Answer	*Overall Score*	*Operations Score*	*Ibm Score*	*N/A Score*
62/62	24.0	24.0	0.0	0.0

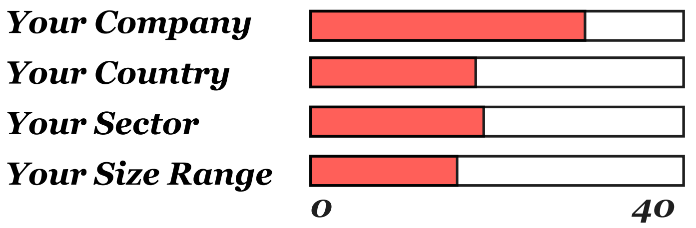


Figure 4. ProCook BIA score for the B Corp environment section, benchmarked against other UK businesses, businesses in the same sector and of a similar size.

ProCook will continue to explore ways to further embed B Corp into everything it does. Its aim is to improve its BIA score annually, measuring internal success against this. Implementing new policies and practices takes time and training, but the Group is dedicated to ensuring all employees are engaged in its B Corp journey.

The future for ProCook as a B Corp

ProCook is currently in the process of mapping its Scope 3 carbon emissions, which is a huge piece of work and will allow the Group to recognise where it can make further carbon reductions as part of its ambition to reach net zero emissions. The Group is also developing an impact report (which is a requirement of all certified B Corps) whilst ensuring its sustainability objectives are aligned to the Sustainable Development Goals (SDGs), utilising BIA's SDG Action Manager.

ProCook's future aim is to continually improve its operational practices and therefore its BIA score, and the Group encourages other businesses to look to complete the BIA, using the framework to improve businesses practices and become B Corp certified. The B Corp community are collaborative businesses, keen to share knowledge, experience and best practice. Becoming a B Corp is much more than just a certification, it's a movement for change.

Upcoming *events*

In case *you missed it…*

On 27 October, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, ***announced*** that it was changing its Union Strategic Supervisory Priorities (USSPs) to include ESG disclosures alongside market data quality

On 8 November, Deutsche Bank's Private Bank Chief Investment Office ***published*** its 2022 ESG client survey findings, revealing that more than half of investors (53%) regard climate change as the most important factor affecting their investment decisions, up from 47% last year

On 22 November, the FCA ***announced*** the formation of a group to develop a Code of Conduct for Environmental Social and Governance (ESG) data and ratings providers, aiming to support greater transparency and trust in the market for ESG data and ratings services

In a statement on 7 December, Vanguard ***confirmed*** it was pulling out of NZAM (the Net Zero Asset Managers initiative), dealing a major blow to the $66tn global alliance trying to combat climate change, saying it wanted to provide "clarity" to investors and claiming that NZAM had resulted in confusion about "the applicability of net-zero approaches to the broadly diversified index funds"

On 13 December, the FCA ***announced*** that it had established a new advisory committee to the FCA's Board to work on Environmental, Social and Governance (ESG) issues

In their second annual UK ESG Review published on 20 December, SIFA Strategy and Peel Hunt ***found*** that most small and mid-caps link executive pay to ESG performance, backed up by 78% of survey respondents agreeing that the responsibility to address ESG matters sat at the top of an organisation's structure

On 5 January, Barclays ***predicted*** that global sales of corporate bonds with environmental, social and governance (ESG) targets will rebound in 2023 and top $460 billion, after the asset class had its first setback in 2022 as higher interest rates weighed on credit markets.

Upcoming *key events*

Event	*Date*
23 ESG and Sustainable Finance Outlook | America / EMEA Edition	*31 January 2023*
Baird Sustainability Conference	*22-23 February 2023*
Chatham House Sustainability 2023	*23 February 2023*
Edie 23: Sustainability Leaders Forum	*1-2 March 2023*
Chatham House: Energy Transitions 2023	*1-2 March 2023*
Informa Connect: TCFD & Climate Risk Reporting	*7-8 March 2023*
ESG For Brands Conference	*18 April 2023*
RiskMinds Edge Climate Change Risk & ESG Conference 2023	*20 April 2023*

Link to previous
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ESG content

MHP ESG Insights: October 22

MHP ESG Insights: July 22

MHP ESG Insights: April 22

MHP ESG Insights: Supply Chains

MHP ESG Insights: January 22

MHP @ COP26: In Conversation with Mark Landler

MHP ESG Insights: COP26 Roundup

MHP ESG Insights: In Discussion with Mark Babington at the FRC

MHP ESG Insights: October 21

MHP ESG Insights: July 21

MHP ESG Insights: April 21

MHP Capital Markets

MHP Capital Markets provides strategic financial communications advice to private and public companies across a range of sectors. We advise companies on all aspects of their engagement with the capital markets, from financial reporting, M&A, IPOs and fundraisings to corporate profile-raising activity, ESG communications and reputation management.

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MHP Group

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We lead the way in the application of behavioural science to solve communications challenges. We create strategies and multichannel campaigns to engage every audience, from consumer to policy maker, and from stakeholder to shareholder. With 200 specialists in London and San Francisco, we are trusted by many of the world's leading businesses and brands.

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