ENVIRONMENT, SOCIAL AND GOVERNANCE INVESTING

WHAT IS ESG INVESTING?

Environmental, social and governance (ESG) investing is focused on how finance can contribute to a better world. Traditionally, investors look at the economic performance and indicators of a company to help them determine if they should invest. Increasingly, investors are also looking at ESG indicators to inform their investment decisions. In response, companies are developing annual reports that present their performance on ESG indicators. This response is also coupled with the growing recognition in the private sector that sustainability is an integral component of success and building resilience.[1]

OVERVIEW OF CRITERIA CONSIDERED IN ESG[2]:

Environmental	Includes criteria that charcterizes the energy and natural resources that a company uses and its impact on the environment from its outputs.
Social	Includes criteria that characterizes a company's impact on its employees, the communities it operates in and society at large.
Governance	Includes criteria that characterizes the internal practices, and procedures that guide a company to efffectively govern itself, comply with the law, and meet the needs of stakeholders.

The shift in investing strategies that ESG is creating, can affect how we measure and define sustainability within the agricultural sector. Agri-food and agribusiness companies working to make progress on ESG indicators valued by their shareholders and stakeholders can affect their entire supply chain, all the way to the producer. For example, one of Nutrien’s 2030 ESG targets is to enable producers to adopt sustainable and productive agricultural products and practices on 75 million acres globally.[3]

HOW DOES ESG INVESTING WORK?

Responsible investing is observed as far back as the 1960s when investors started to exclude stocks or sectors from their portfolios that they believed caused harm, which included investment boycotts in the tobacco industry.[4] Once a niche investment strategy, ESG is transforming the investment world as 3,879 asset and investment managers service providers have signed the United Nation's Principles for Responsible Investment.

ESG investing is dependent on multiple reporting frameworks. These reporting frameworks enable companies to consistently report on key ESG indicators each year and allow investors to effectively assess companies' ESG reports through recognized frameworks.[5] These frameworks include the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Other frameworks are more focused on one individual pillar such as the Carbon Disclosure Project and Task Force on Climate-related Disclosures which characterize ESGs indicators under the environmental pillar.

The different variations of ESG reporting frameworks have caused duplication in reporting and have made ESG reporting a complex process to unpack. To address this, SASB and GRI recently announced a collaborative workplan to promote clarity and compatibility across ESG reporting frameworks.

Example: Nutrien's 2022 ESG Report

In Nutrien's 2022 ESG Report, Grower Solutions to meeting the company's 2030 targets are shared. Nutrien's approach to *achieving 75 Million sustainable and productive acres by 2030* includes enabling the adoption of sustainable products, conservation practices and technologies, measuring outcomes from adoption of solutions, and verifying acres enrolled through a third-party program.

Finance leaders are increasingly taking action to effectively integrate ESGs within financial and market frameworks. For example, Michael Bloomberg is leading the Task Force on Climate-related Financial Disclosure (TCFD) with a mission to improve and scale reporting of climate-related financial information.[6] The TCFD and other private sector actors recognize that climate risks can translate to financial risks, which has motivated them to ensure that the climate impacts and risks of a company are effectively measured and integrated within investment decisions.

While ESG investing is premised on creating a better world, it has also shown to create economic opportunities and drive financial growth. In 2016, Barclays found that investment portfolios that were based on ESGs showed steady performance advantages.[7]

Recently, criticisms of ESG have been discussed in media.[8] These criticisms are based on concerns that ESG can be used to advance greenwashing campaigns and can be used as a distraction to the more immediate scaled action needed to mitigate climate change. However, responses to these criticisms suggest that we cannot simply rely on government regulation to solve the complex societal challenges we face.[9] Instead, developing frameworks that foster responsible ESG investing practices and establishing commonly agreed upon standards can drive greater accountability and transparency within the sustainable investment industry.

WHY IS ESG INVESTING IMPORTANT?

- ✓ It can encourage direct investment to Canadian agriculture to support implementation of best management practices.
- ✓ It raises the bar for sustainability in agri-food to meet investor demands for sustainable companies.
- ✓ It drives improvements to monitoring, reporting and verifying the sustainability of investing systems.

HOW DOES ESG INVESTING RELATE TO CASI?

For companies to make sound ESG claims, they will need transparent, verifiable systems in place to back their claims. CASI is one potential solution to enabling farmers to demonstrate good practices (through participation in various programs and identifying other good management practices) to support claims within their supply chains.

RESOURCES

1 KPMP. (2021). *Environmental, Social and Governance (ESG): A key approach to business resilience*. https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/03/esg-a-key-approach-to-business-resilience.pdf

2 McKinsey. (2019, November). *Five ways that ESG creates value*. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value

3 Nutrien. (n.d.) *ESG Targets*. https://www.nutrien.com/sustainability/esg-portal/esg-targets

4 MSCI. (n.d.). *The Evolution of ESG Investing*. https://www.msci.com/esg-101-what-is-esg/evolution-of-esg-investing

5 Goldschein, P., & Marks, M. (2019, October). *GRI, IRF and SASB: Updated guidance on reporting frameworks.* https://www.greenbiz.com/article/gri-irf-and-sasb-updated-guidance-reporting-frameworks#:~:text=Unlike%20GRI%2C%20SASB%20and%20IIRC,collect%20for%20its%20investor%20audiences

6 TCFD (Taskforce on Climate-related Financial Disclosures). *TCFD Recommendations*. https://www.fsb-tcfd.org/recommendations/

7 Barclays. (2016, October). *The positive impact of ESG investing on bond performance*. https://www.investmentbank.barclays.com/our-insights/esg-sustainable-investing-and-bond-returns.html

8 Fancy, T. (2021, March). *BlackRock hired me to make sustainable investing mainstream. Now I realize it's a deadly distraction from the climate-change threat*. Globe and Mail. https://www.theglobeandmail.com/business/commentary/article-sustainable-investing-is-a-deadly-distraction-from-actually-averting/

9 Heaps, T. (2021, April). *Editor's Note: We can't let greenwash make us lose sight of the prize*. Corporate Knight. https://www.corporateknights.com/channels/responsible-investing/we-cant-let-greenwash-make-us-lose-sight-of-the-prize-16182319/

Financial support was provided through the AgriAssurance Program under the Canadian Agricultural Partnership.