

ESG drives value in the public and private markets

Truist Securities and Nasdaq joined forces to share their perspectives on the importance of environmental, social, and governance (ESG) factors in the public and private markets and the role of sustainability in capital raising.



At a recent forum with business leaders from across the country, Truist Securities and Nasdaq joined forces to share their perspectives on

the importance of environmental, social, and governance (ESG) factors in the public and private markets. Discussions centered on what matters to investors when considering ESG, and how companies can strengthen their strategies and tell their sustainability stories most effectively. We've summarized thoughts shared by Julie Bennett Bunuan, Head of ESG Advisory & Intra Industry Coverage at Truist Securities, and Michael Stiller, Nasdaq's Global Head of ESG Advisory & Engagement.

An increasing focus with investors

While investors have considered environmental, social, and governance factors for years, they've become a higher priority recently and have taken a more prominent position in the evaluations and frameworks that drive investment decisions. The number of ESG-dedicated funds has grown exponentially, and more investment policies are calling for part of a portfolio to be directed to these funds.

As of June 30th, 2022, there were more than 5,800 ESG funds globally, with more coming online at a steady pace. A total of \$2.9 trillion is invested in ESG funds and ETFs, up 43% annually over the past four years, according to Nasdaq data.¹

ESG is no longer a nice-to-have—investors are increasingly incorporating sustainability considerations into their investment decisions. Businesses securing capital should be able to articulate how they embrace sustainability principles in their values and corporate positioning.

Truist's pillars of ESG



Environmental

- Greenhouse Gas Emissions
- Water and Waste Management
- Renewable Energy Use
- Sustainable Products / Services / Technologies
- Biodiversity & Natural Capital



Social

- Labor Management
- Employee Training & Development
- Diversity, Equity & Inclusion
- Privacy / Data Security
- Community Impact
- Health & Safety



Governance

- Business Ethics
- Board Independence
- Shareholder Rights
- Board Diversity
- ESG Governance

Aligning on terms: What is ESG?

In boardrooms, business news, and elsewhere, “ESG” has become a virtual catch-all term. Some think of it as the “greening” of business, while others put it in the same broad category as corporate social responsibility (CSR), and still others have yet to engage with the term at all. When investors are making decisions about where to place capital, they evaluate businesses using the three ESG pillars, and focus on those that are most relevant for a specific company or industry.

Why ESG matters for businesses of all types

While environmental, social, and governance considerations may have been used initially to screen out companies that had shortfalls in these areas, a sustainability framework now applies to businesses of every type and in every industry—it has matured to encompass policies that will help companies

build their financial endurance and target the areas of ESG where they can have the greatest impact.

A strong ESG positioning may be an expression of your values and desire to do the right thing, but it also demonstrates your commitment to the principles that drive business resiliency and grow enterprise value. Investors need to hear about the business impact of your sustainability efforts in a clear and compelling way. Also, customers, business partners, and employees will want to understand a business’s effect on the environment and the communities in which it operates.

But how do you tell a clear, authentic, and compelling sustainability story that resonates with investors and other stakeholders? There are concrete steps you can take to be more confident not only in your story, but in your ESG efforts themselves.

Principles that make ESG a value driver

Whether you’re considering an IPO, navigating as a public company, aiming to attract equity investors, or even looking for ways to enhance your brand with employees and customers, creating an enduring ESG framework follows these principles:

- **Start thinking about your ESG goals and story long before you’re in the IPO process.** Once you’re in the middle of the IPO process, it’s too late. Work with your employees and your professional advisors early on to identify what data you have and what data you’ll need to tell your ESG story to various stakeholders, spotlighting the ESG factors that are most relevant to your business. While most investors don’t expect you to have a full-blown sustainability strategy out of the gate, be prepared to articulate the impact of your work and any goals or areas of focus early in the process. Also, make it clear who runs your ESG efforts and will respond to requests for information.
- **While you’re forming your sustainability strategy, know that the financial markets’ expectations of ESG are still fluid, but evolving quickly.** Almost weekly, news is cropping up about proposed regulations, activist shareholders putting pressure on boards, a new ESG fund opening, or investors questioning the strength and authenticity of efforts and commitments. You’ll want to work with your advisors to keep up with changes as they develop.
- **Ignoring ESG is not an option.** Engagement on sustainability strategy is an expectation of investors, business partners, employees, and customers for businesses of all sizes and types. Failure to engage or understand the potential impact could be viewed as a risk by investors, and a turn-off for customers or workers who care about sustainability. Some business owners view ESG as a politically sensitive topic—it’s

important to put partisan and personal sentiments aside and recognize that whether you agree with it or not, sustainability is a growing concern to investors and other stakeholders.

- **It’s more important to show progress than perfection.** Rest assured you don’t have to do everything at once, and you don’t need a perfect ESG story. What matters is that you show attention and thoughtfulness to sustainability matters and incremental advancement toward your goals. For instance, early on you may only have a brief narrative or a handful of slides to explain your efforts (what you’re doing, how you’re doing it, how you’re measuring your success, and what you plan to do in the future). Investors value thoughtfulness and they understand that ESG is a process that takes time.
- **Authenticity wins.** Don’t try to be something you’re not. Investors and others can see through any lack of depth, no matter how well-intentioned. It’s more important to be candid about where you are, where you might be lagging on stated goals, and where you could use some help strengthening your ESG efforts and storytelling.

Whatever your business, demonstrate authenticity in pursuing initiatives that are aligned with your business and its strategy without trying to cover all the possibilities or showcase unrealistic goals. Investors want to see an approach that’s focused, actionable, affordable, and achievable.

- **Concentrate on what's material for your business, then demonstrate commitment and seriousness in pursuing it.** Attention to environmental, social, and governance goals is not going to look the same for every business. A manufacturer may be concentrating on production waste and byproducts along with emissions reduction. A consumer goods company might introduce a product line designed to reduce environmental impact. A services company might focus on making its executive leadership team and board more diverse and reducing waste in its office buildings. A technology company may be working on improving diversity in hiring and mentorship to create an inclusive environment conducive to attracting and retaining diverse talent.
- **Create a single, go-to destination on your website to tell your ESG story, both internally and externally.** Internally, create a landing page and content that helps employees understand and support your efforts. Make your sustainability efforts visible to employees so they can understand, contribute, and function as ambassadors for your efforts. Externally, consider creating a landing page on your website that allows you to highlight your ESG work as it evolves. You can post items such as sustainability reports, ESG roadmaps, governance details, and stories about various initiatives.
- **Think about the composition of your board.** While this is only one aspect of the "G" in "ESG," board diversity, in all aspects, is particularly important to investors. Remember that diversity starts with race and gender, but it also encompasses factors such as age, nationality, and industry experience. Shareholders and investors are placing ever-increasing pressure on boards, and threatening moves such as proxy votes to remove boards they don't consider to be diverse. Additionally, regulators are pushing harder and harder for transparency around board selection, and at the time of this publication the SEC (Securities and Exchange Commission) is considering increasing the requirements around board transparency.
- **A forward-leaning stance in ESG can give you a critical competitive edge.** It's important to keep the big picture in mind—your ESG efforts can set you apart from competitors, help you attract broader capital sources, and lead to reductions in operational costs through energy efficiency. You might also find an edge with business partners and customers who monitor the ESG progress of their suppliers. Your effort can even become a revenue driver if it enables your business to introduce sustainable solutions that resonate with buyers who come with their own ESG goals and motivations.

Learn more about the impact that your ESG efforts can make.

Call us to talk about sustainability and how it can affect your business outcomes, capital raising, and company value. Contact your industry leader at [Truist Securities](#) to find out how Truist can work with you on your ESG strategy.

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¹ Nasdaq Corporate Solutions, as of June 30, 2022.