

THE HAWKAMAH JOURNAL



Investor Perspectives on ESG

By David Haglund, Ashim Paun, William Reichert, Nicole Martens and Michael Wilkins

Corporate Sustainability Practices

By Esther An and Raji Hattar

Boards, Corporate Purpose and Long-Term Horizon

By Selina Neri and David R. Beatty



خدمات الشركات والأعمال Corporate and Business Services

- 1 License Medical Establishment
- 2 Renew Medical Establishment License
- 3 License Pharmaceutical Establishment
- 4 Renew Pharmaceutical Establishment License
- 5 Approve Emergency Drugs & Psychotropic Materials
- 6 Registration of a conventional pharmaceutical product
- 7 License Doctor
- 8 Renew License of Doctor
- 9 License for practitioners of nursing & medical technicians
- 10 License for practicing the profession of pharmacist
- 11 Inspection of medical & pharmaceutical establishments
- 12 Renew registration of a traditional pharmaceutical product

FOREWORD

Dear Reader,

In today's rapidly changing business climate, attention to Environmental, Social and Governance (ESG) issues is becoming critical to long-term competitiveness and success. Companies that recognize the importance of adapting to changing socio-economic and environmental conditions are better able to identify strategic opportunities and meet competitive challenges. Additionally, embracing ESG helps companies attract and retain customers and employees.

Good ESG practices are also likely to increase a company's selection of financing options as major international institutional investors are increasingly making it clear that they expect the companies they hold to take a proactive approach towards ESG policies and messaging.

This 15th issue of the Hawkamah Journal focuses on how the MENA region can, through improved ESG practices, help attract foreign direct investment and deepen the region's stock markets.

In order to understand international investor expectations, we are delighted to feature a number of articles from the global investment community, which set out how they view ESG factors in their investment process and what are the benefits of ESG investing. This Journal also features articles from company perspective, outlining how MENA companies and their boards can embrace better sustainability practices.

I wish you a stimulating read.

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A Corporate Governance Checklist for Public Companies in MENA – What Needs To Be Done?



David Haglund

Senior Executive Director, Frontier/MENA Portfolio Manager, Franklin Templeton Emerging Markets Equity

In this article, David Haglund, portfolio manager covering the Middle East and North Africa region and wider global Frontier markets, provides his views on the corporate governance considerations institutional investors should take into account when making investment decisions.

Corporate governance standards across the Middle East and North Africa (MENA), like most of emerging markets, typically trail those in developed markets. The implications for companies which have lower levels of corporate governance are far reaching and often include an elevated risk profile, poorer performance and less potential for growth.

Even for those companies which do have higher levels of governance, and in turn increased access to financing, lower capital costs, stronger share and operational performance and higher valuations, the definition of ‘corporate governance global best practice’ is constantly evolving, which can make it challenging to keep up. We consequently still consider investing in companies with weaker governance if there is an improving trend. Many of the region’s blue-chip companies today for example had poor levels of governance over the past decade or two. Since then, they have made significant improvements in investor relations, transparency, risk management, shareholder engagement and board composition.

Although this positive trajectory is encouraging for the region, more needs to be done. As investors look for stability and clarity in today's historic economic downturn, we think there is no better time than now for public companies to ramp up their levels of corporate governance and bring them in line with global best practice. Below are some key corporate governance considerations institutional investors in and outside the MENA region take into account when making investment decisions.

Shareholder Engagement

Ongoing engagement is essential to building and retaining trust between a company and its shareholders, as it deepens mutual understanding and fosters accountability. It is important that management has a robust internal reporting system in place to communicate clearly across different platforms and at regular intervals. Clear, effective communication should also ultimately be based on a deep understanding of the shareholders, which needs to be routinely updated and monitored.

For communicating with investors, companies should supplement their results releases with investor presentations and host public, quarterly conference calls. Though more companies in the region are starting to host such calls, there are still many that do not. A company's executive management should also attend regional and international investor conferences and consider hosting annual 'investor days' at their premises. Working closely with sell-side research analysts to initiate and maintain research coverage is also essential, as the larger the investor community that the company interacts with, the deeper the breadth of analysis the company will be able to benefit from. Discussing and challenging the company's financials and strategy by numerous financial intermediaries leads to constructive and valuable feedback for the management and the board. Management would be short sighted not to take advantage of this feedback and use it to enhance governance and long-term value.

The board should also be open to including material shareholders' proposals on proxy forms to be discussed and voted on at annual general meetings. Shareholders should preferably be asked to vote on all material decisions of the company, such as large acquisitions and capex programs.

It is worth highlighting the role of the investor relations officer ("IRO"), who act as a bridge between the management, the board and the shareholders. The IRO is a great tool but shouldn't be a substitute for direct interaction with shareholders as executive management remains the preferred means of communication on material matters, such as business strategy and daily operations.

Globally, companies are increasing their levels of shareholder engagement. Those that have invested in this tend to benefit from shareholder support in market sell offs, such as the one we are living through now. Those that do not, typically suffer.

Transparency and Accountability

Many companies in the MENA region are still not aligned with global best practice when it comes to their levels of disclosure, and there are several factors we look at in a company's reporting process. Financial statements should be supported by investor presentations with detail on historical operational data and industry specific KPIs, and sensitivity analyses are a welcome addition. Most of this information should also be accessible on company websites, something we do not always observe. Lastly, the management and board can only be held accountable if their actions are disclosed and monitored.

Generally speaking, the more data available typically promotes trust, reduces the company's risk profile and helps all stakeholders make better decisions. An abundance of data tends to indicate internal control systems are solid and enables better risk monitoring. More transparency also

promotes accountability and, in turn, should foster a greater sense of management responsibility and increase operational performance.

It is also a widely accepted economic principle that reliable, real time and available information is key to the efficiency of the financial markets.

Independent and Qualified Board

Having a majority of independent board members increases oversight, reduces risk for minority shareholders and generally decreases the risk of corporate governance failure. Studies also show there is a positive correlation between board independence and firm performance. The biggest challenge to widespread adoption of independent board members in the MENA region today is amongst family owned businesses and state owned, controlled companies.

Aside from having more independent board members, directors need to have the appropriate expertise and background. Strong integrity is also key, and directors should be capable of challenging and providing guidance to the executive team. We would also like to see more women on regional boards.

Preferably, directors should not hold more than five board positions simultaneously. Board tenures tend to be relative long for some directors in the region and we would rather see a higher rotation of board members by encouraging lower average terms and implementing reasonable limits.

Aside from the board, monitoring committees (i.e audit, compensation and nomination committees) should also have a majority of independent directors. Several international and regional accounting scandals were the result of a weak audit committee for example, so having a majority of independent directors, if not all, is critical.

Finally, we are generally opposed to the same person being chairman of the board and CEO as it increases the risk for conflicts of interest, decreases effectiveness and tends to lead to negative operational performance. A clear line should consequently be set between the accountability of the board and that of executive management.

Executive Compensation

It is important that there is alignment between total remuneration and long-term value creation by the executive management, and that this is clear and transparent. Having a balanced, long-term and share-based program tends to keep management engaged and there should be a reward mechanism that holds them accountable for their decisions. A substantial part of remuneration should be share-based and ideally locked in for a period longer than three years. The total remuneration package should be published and approved at the company's Annual General Meeting. It is important that the total size of remuneration is not excessive, and is in line with regional peers and the company's profitability.

ESG (Environment, Social and Governance)

We like to see regional companies increase their focus on Environmental and Social factors as they are closely interlinked with Governance and the longevity of the business. The Covid-19 pandemic has exposed ESG risk with regards to issues like supply-chain disruptions and disaster preparedness, but there are other long-term factors such as climate change to still consider. Companies should strive to decrease negative environmental and social outcomes from their operations, and a failure to do so could result in reputational damage or harm their long-term viability.

ESG is still relatively in its infancy in the MENA region, however we are seeing improvements every year and companies are improving their



levels of sustainability risk and disclosures. There is more to be done however and we would like to see further disclosure on climate change risk analysis, carbon emissions, renewable energy, water consumption trends, social programs, health and safety policies, gender breakdown, equal opportunity policies and human right policies. These disclosures are aligned with global best practice and would likely uncover a few areas for improvement.

Related Party Transactions

Related party transactions tend to raise red flags amongst investors and can at times be used in an abusive manner. These transactions often lead to conflicts of interest and increase corporate governance risk. We would like to see companies

remove or at least significantly reduce the number of related party transactions over time. In the meantime, all related party transactions should be at arm's length and for fair market value and have true corporate benefit. Shareholders and directors should also disclose potential conflicts of interest and recuse themselves from voting on their approval.

Foreign Ownership Restrictions

Whilst removing investment hurdles is generally the responsibility of the domestic regulator, companies often weigh in on these decisions. For example, increasing the foreign ownership limit is to some extent the decision of UAE companies, and we would like to see them increase to the maximum permitted. In addition to benefiting

from the expertise of international investors, more foreign ownership may trigger benchmark inclusions and increase the volume of total active and passive investors in the MENA region.

Rotation of Auditors

Companies should change auditor every five years. This allows for a new auditor to take a fresh look at internal control systems and reporting procedures, generate recommendations not heard before and uncover previously unknown areas of risk.

Capital Allocation

Capital allocation is the combination of corporate governance and corporate finance. Investors prefer companies with a prudent capital allocation framework aimed at reducing financial risk and enhancing long-term value. We like to see manageable debt levels, a consistent dividend policy and adequate cash management, all of which are clearly beneficial in challenging times such as today.

In Summary

Whilst an exhaustive corporate governance checklist is outside the scope of this article, the foregoing considerations constitute some of the essential factors regional boards and management should be turning their attention towards.

As part of the regional financial community, we have a responsibility to assist companies and markets in rebuilding investor confidence after some of the most recent governance failures. But confidence and trust can only be rebuilt on the basis of robust corporate governance. We cannot expect governments and regulators to drive the change towards strengthening these standards alone— it must also be driven by shareholders, including institutional investors and financial intermediaries like analysts, brokers and rating agencies. Institutional investors in particular have a leading role to play in championing strong

governance standards and being stewards of this change.

We would like to see more regional public companies take the aforementioned steps to improve their corporate governance practices, not only to comply with domestic regulations and accounting standards, but also so that they come in line with global best practice. This will be essential to restoring market confidence and attracting both domestic and foreign capital in today's highly competitive financial world.

Looking forward, the long-term growth potential of the region remains strong, despite the ongoing Covid-19 pandemic and lower oil price environment, and we will continue to push for promising change in the corporate governance space.

Sustainable investing: from niche strategy to a flight-to-quality?



Ashim Paun

Global co-Head of ESG Research, Climate Change Strategist, Global Research, HSBC BANK PLC UK

COVID-19 has wrought havoc around the world. How have markets valued environmental, social and governance factors during the pandemic? Here, HSBC Global Research's Ashim Paun offers analysis of two sustainable investment stock screens compared with an equity benchmark. Outperformance is found during the current crisis and over the longer term.

The pandemic has brought widespread global disruption to communities and societies. Lockdowns implemented by governments everywhere – coupled with oil price volatility - have brought massive economic upheaval and huge swings in financial markets.

Before considering stock market impacts, an understanding of sustainability factors is important in understanding how companies and sectors are exposed to this crisis. Social factors associated with the pandemic deal mostly with the effects and include healthcare resilience and access to medicine, automation of tasks in the workplace, job security for gig workers and aspects of inequality. Environmental effects to consider include the emissions that come from less air travel, working from home, online deliveries, and temporary lower industrial activity, as well as potentially more on-shoring of production and agriculture.

An analysis of the environment must also consider the causes of the pandemic. The COVID-19 virus is an example of a deadly zoonotic infection (one that is passed to humans from animals). We have had others, including SARS, Ebola, HIV and previous influenza variants. The Centre for Tropical Veterinary Medicine at Edinburgh University found that, during the 20th century, the proportion of infectious diseases which can be transmitted from animals to humans grew, with 75% of emerging pathogens found to be zoonotic. Many zoonotic viruses have been transmitted to humans via consumption of wild animals and through the parallel wildlife trade. So the pandemic raises renewed questions over how we treat and interact with nature.

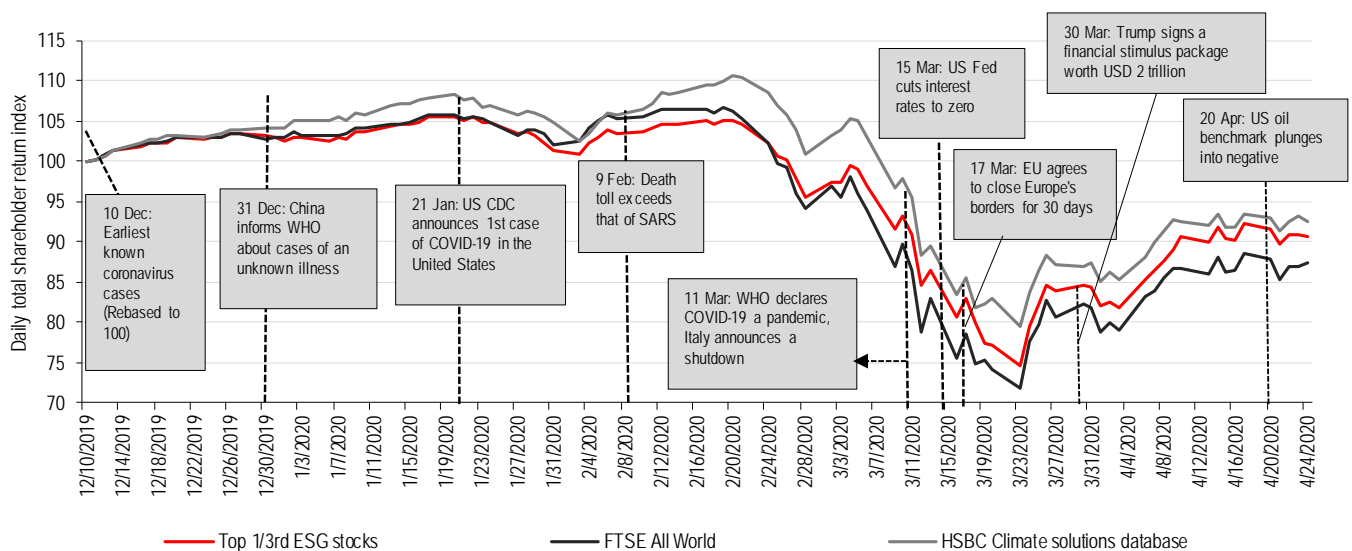
Short-term sustainability outperformance

These factors raise a broader question for investors – how do markets value sustainability during such a crisis? In research notes which HSBC Global Research has published recently for its global investor client base, two sustainable investment stock screens were compared with a global equity benchmark (the FTSE All World Index).

The first screen was a portfolio of approximately 600 Climate Stocks. Companies from across developed and emerging markets with at least 10% of their revenue from climate themes were

included. (These climate revenues were derived from HSBC's Climate Solutions Database (HCSDB) – a proprietary tool which analyses corporate revenues against a detailed taxonomy of climate themes and products.) Additional criteria for inclusion in the portfolio included a minimum market capitalisation of USD500m, and a minimum free float market capitalisation of 10%.

On a global basis, these Climate Stocks outperformed the benchmark by 5.1% over four-and-a-half months from 10 December 2019 through to 24 April 2020. (There are material regional differences, with double-digit outperformance of Climate Stocks in APAC and LatAm, but underperformance in North America.) A second portfolio included approximately 210 High ESG-Rating Stocks, again from developed and emerging markets. Companies with a market capitalisation in the top 20% of FTSE AWI constituents were considered, as larger companies typically disclose more and often face greater scrutiny on sustainability issues. From these large caps, the portfolio was then constructed from those registering in the top third in terms of environmental, social and governance (ESG) scores, according to the scoring methodology of research provider Refinitiv Eikon.



Again, outperformance against the benchmark during the pandemic period - of 3.7% - was found. (On a regional basis, this outperformance was more pronounced in Europe and Asia).

And the long-term?

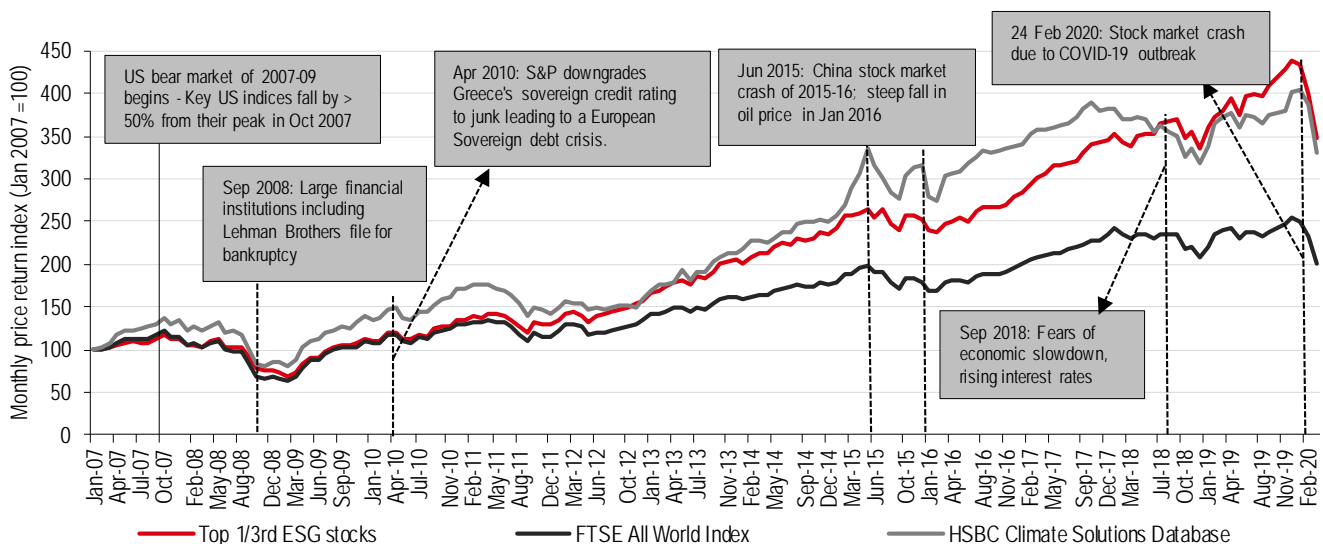
But what about over a period of many years? Many investors believe that long-termism is at the core of responsible investment. Here, the analysis was even more compelling. Both the climate and the high-ESG portfolios have outperformed since 2007 – a period covering the financial crisis of 2007-9, the subsequent sovereign credit crisis, stock market downturns in 2015 and 2018 and the current pandemic. Since January 2007, the high-ESG portfolio outperformed the global equity benchmark by 75% and Climate Stocks outperformed by 66%.

In absolute terms, the high-ESG portfolio grew by 248%, while our Climate Stocks grew 232%, compared with growth of c100% growth from the FTSE AWI.

We also find significant long-term outperformance across Europe, the Americas and particularly in the APAC region. The table on the next page captures this.

Factoring in risk

A final question which HSBC considered was the volatility of the sustainable investment stock screens – how should investors think about the risk-adjusted returns of these sustainability screens?



There are a number of measures of risk-adjusted returns used by investors. One is the Sharpe ratio - which allows an understanding of how much excess return the holder of a riskier asset should expect to receive compared with a risk-free asset, such as a US Treasury. The excess return essentially should compensate for the risk taken on by investing. This ratio uses standard deviation to measure volatility – and therefore risk – experienced during the period an asset is held for.

A second measure, the Sortino ratio, also measures risk-adjusted returns but factors in only negative, or downside, volatility. Some risk analysts prefer to look at Sortino over Sharpe, because Sortino's view of a portfolio's risk-adjusted performance is designed to ignore positive volatility, which would generally be seen as a benefit (since most would welcome unexpectedly high returns) and should not therefore be 'penalised' in standard deviation calculations.

Either way, the higher the Sharpe or Sortino ratio, the better the returns have been relative to the risk that has been taken on.

The analysis found strong risk-adjusted performance for the sustainability screens. The average Sharpe ratio values for the High ESG-Rating Portfolio and Climate Portfolio since 2007 are, at 1.5 and 1.3 respectively, considerably higher than the corresponding value of 0.7 for the global equity benchmark. Meanwhile, the average Sortino ratio values for the High ESG and Climate screens over this period, of 3.7 and 3.4 respectively, were also substantially higher than the FTSE AWI at 1.7. Material risk-adjusted

outperformance is also found across regional markets.

From niche strategy to the mainstream

In analysing such findings, further questions are raised about the factors that can drive such outperformance, as well as broader investor psychology. At HSBC Global Research, our long-held, core ESG conviction is the simple idea that issuers succeed long-term, and hence deliver shareholder returns, when they create value for all stakeholders – employees, customers, suppliers, the environment and wider society. Consequently, a key part of ESG is looking at how issuers serve

	Relative performance from 10 Dec 2019 - 24 Apr 2020	Relative performance from Jan 2007 to Mar 2020	Average (2007-Mar 2020) Sharpe ratio (Portfolio/Benchmark)	Average (2007-Mar 2020) Sortino ratio (Portfolio/Benchmark)
HSBC Climate Solutions Database rel FTSE All World	5.10%	66.14%	1.3/0.7	3.4/1.7
Environment & Land Use Management, rel FTSE All World	2.40%			
Low Carbon Energy Production, rel FTSE All World	9.60%			
Energy Efficiency & Energy Management, rel FTSE All World	2.10%			
Capital Deployment & Financial Products, rel FTSE All World	2.50%			
HSBC Climate Solutions Database Regional performance				
HSBC Climate Solutions Database Europe, rel FTSE Europe	5.30%	39.20%	0.9/0.3	2.7/0.8
HSBC Climate Solutions Database North America, rel FTSE North America	-2.20%	23.24%	1.1/0.8	2.6/1.9
HSBC Climate Solutions Database Asia, rel FTSE Asia Pacific	12.40%	149.02%	1.1/0.5	3.9/2.2
HSBC Climate Solutions Database Middle East & Africa, rel FTSE MEA	9.40%			
HSBC Climate Solutions Database Latam, rel FTSE Latam	15.10%			
ESG				
ESG vs FTSE All World Index	3.70%	74.55%	1.5/0.7	3.7/1.7
Americas ESG vs FTSE Americas	0.04%	96.06%	1.5/0.8	3.1/1.9
Europe ESG vs FTSE Europe	8.55%	105.08%	1.0/0.3	2.3/0.8
Asia ESG vs FTSE APAC	6.92%	64.33%	1.2/0.5	4.6/2.2

society, and what this may mean for the future. When crises manifest, particularly with social and environmental causes and implications, as with COVID-19 and (arguably and partially) oil price dynamics, then we believe this idea is ascribed greater weighting by investors, who view ESG as a defensive characteristic.

worst-case, and highest-likelihood scenarios. In our view, this is the pathway towards deeper integration of sustainability factors into investment management.

Lastly, and at a more structural level, we think investors should assess how well companies they own manage ESG risks and opportunities, embedding this in valuation. ESG data can be a useful starting point to analysis, but correlation does not equal causation. Investors should instead use ESG analysis to consider whether estimated earnings growth levels are still realistic, what does increasing volatility mean and should risk premia be altered, how companies have used earnings, and what are the trough multiples from previous crises. And what are the best-case,

Attracting long-term investors with strong governance and ESG



William Reichert
Partner, Charles Russell Speechlys LLP

There have been considerable advancements in recent years in improving the corporate governance environment throughout the MENA region. Much more work remains, however, to appeal to institutional investors, especially in the face of a particularly challenging investment climate. Fortunately, a number of very constructive measures were recently enacted that are improving matters, and forward-thinking leadership will likely continue this positive trajectory.

Background and current regional challenges

Corporate governance is still, relatively speaking, very much in the early stages of development in the MENA region. Although policies are quite advanced in certain states, particularly those in the GCC, substantial inconsistency remains throughout the region, and even the most

advanced regimes do not have the same depth and breadth of regulation and interpretation as their European and North American counterparts.

Strong governance is more critical in developing than mature markets, since robust policies and procedures that protect investors can partially compensate for a less developed regulatory regime. Despite the progress that has been made to date in improving corporate governance frameworks, several challenges exist that arise both from legacy issues as well as from more novel problems.

One of the main differentiators in the MENA region is that a majority of major business continue to be either family dominated or government backed. While some of these businesses have in fact adopted state-of-the-art governance regimes, these are the minority, and many continue

to suffer from deficiencies when it comes to some of the most fundamental issues of good corporate governance, such as problems with transparency and disclosure, independence and expertise, and sufficient minority protections.

Most sophisticated investors will be more ready to invest in developing markets when global markets are stable and returns in developing markets are particularly high. And while some more aggressive investors may be willing to overlook inadequate corporate governance controls in exchange for higher returns, this is not the case with institutional investors, who will consider strong corporate governance to be as important as solid financial performance. Institutional investors understand that strong corporate governance often leads to higher profits and performance anyway, but more importantly, they are under an obligation, often by applicable regulation, to disclose to their stakeholders the details of their portfolio companies, including their governance profiles. A high return is not worth the reputational damage that can be done by a corporate scandal due to weak policies and controls, and consequently a lack of clear and comprehensive corporate governance policies in target portfolio companies will scare off most major institutional investors.

To further complicate matters, investors flee to the safety of established markets during periods of crisis, putting increased pressure on firms in developing markets to attract capital. The MENA region has suffered from a number of setbacks in recent years, which will only increase the challenge in attracting investors. Even before the onset of Covid-19, oil prices were already low, and the pandemic has pushed them down much further. This has hurt GCC economies, since despite recent progress in diversification of business (particularly in the UAE and Bahrain, with Saudi Arabia recently making advances), reliance on oil and gas remains strong.

In addition, regional conflicts, from the wars in Syria and Yemen and the related conflict with Iran, as well as the blockade with Qatar, are only adding to a difficult investment climate. There have also been the well-publicized troubles of some of the region's biggest success stories, such as the downfall of Abraaj and now of NMC Healthcare, which shows that even companies that have had the most success in attracting foreign investment can suffer scandals that could likely have been avoided through more effective corporate governance.

Strengthening corporate governance with a focus on ESG

The challenges facing the region are considerable, and the outlook will unlikely improve in the short term. As a result, regulators throughout the region will need to take substantial measures to give comfort to institutional investors that are considering opportunities in the region. This will include making sure that corporate governance fundamentals are strong, as well as encouraging more companies in the region to pay attention to ESG considerations.

This must start with reinforcing the corporate governance "basics" including strong protection for minority shareholders, robust policies on reporting and transparency, a clear separation of the executive and oversight roles, a majority of independent, non-executive directors, separate audit, nomination and remuneration committees, comprehensive policies on compliance and ethics, etc.

What is of perhaps more importance, however, particularly in light of the Abraaj and NMC scandals, is to clearly demonstrate that these policies are being effectively implemented, and not just being given lip service. Companies should expect that investors will undertake thorough due diligence to make sure that strong governance is firmly embedded in a company's day-to-day operations and is part of its ethos, rather than being simply a nicely drafted policy

that is filed away and forgotten. This diligence will be part of an ongoing relationship, as the investor will undertake recurring investigations and expect regular reporting.

One new consideration in the current environment is that investors will be putting much more emphasis on business continuity plans. Although this is something that every company should already have been paying attention to, many have not, and this will need to become an area of particular focus.

In addition to solidifying traditional corporate governance, institutional investors have been increasingly insisting that their portfolio companies take into consideration ESG goals, have policies that further those goals, and make regular reports on the progress made towards those goals.

ESG goals can relate to a variety of issues, and companies should consider including several ESG goals as part of their mission, such as human rights and sustainable supply chains, reduction of poverty and philanthropy, climate change and the environment, social responsibility, ethics, diversity, integrity and transparency, etc. Institutional investors have been the main drivers behind the growth of ESG goals, and even if a company is not seeking investment directly from an institutional investor, including ESG goals can be important as there can be indirect pressure to adhere to them. For example, private equity houses will often impose similar ESG requirements, as they themselves frequently have institutional investors as limited partners, who will insist that the fund's portfolio companies comply with ESG goals.

The adoption of ESG goals is not purely an altruistic exercise, as studies have shown that companies that are dedicated to ESG are often more profitable when compared to those that place less emphasis on ESG. Reporting on ESG performance demonstrates transparency

and effective management and enhances a company's ability to attract long-term capital and institutional investors. Moreover, credit rating agencies have begun to look at the non-financial performance of companies to evaluate credit risks, and the incorporation of ESG considerations can have credit implications.

Although cynics may believe that institutional investors are touting ESG goals for marketing purposes, while really focusing only on the highest return, a recent Wall Street Journal article noted that ESG investing is not a fad, and that investment into ESG funds more than doubled in the first quarter of this year compared to last (despite the challenging economic climate). This is for very good reason, as a WSJ study showed that about three quarters of ESG funds outpaced¹ the average return of a fund's broader category.

As with more traditional corporate governance considerations, however, it is very important to avoid "greenwashing" and agreeing to implement ESG policies, but then failing to take the necessary actions to make change happen. Institutional investors will investigate implementation thoroughly, and a claim to pursue ESG goals without follow up can backfire and be worse than having no ESG plan at all.

Progress made and the way forward

Fortunately, there have been some very promising signs of progress recently, both in terms of strengthening corporate governance generally, and of furthering ESG goals specifically. Both have occurred in the UAE, which continues to be the leader in the region in establishing a business and investor friendly environment.

Earlier this year the UAE Securities and Commodities Authority adopted a new Corporate Governance Guide for Public Joint-Stock Companies (the New Guide), which introduces new rules for listed companies. While many of the requirements in the New Guide

¹ "ESG Investing Shines in Market Turmoil, With Help From Big Tech", Wall Street Journal, May 12, 2020.

reflect current international best practice, some measures go beyond that, including in particular a requirement for companies to establish gender diversity policies, and have a minimum of 20% representation of women on boards. Not only is this incredibly forward thinking, but something that is sorely needed in a region that falls far behind its counterparts in Europe and North America.

In addition, from an ESG perspective Dubai Financial Market (DFM), in cooperation with S&P Dow Jones Indices and Hawkamah, has introduced an ESG Reporting Guide (the ESG Guide) as well as an ESG Index, which was launched in April of this year. The ESG Guide aims to have companies incorporate ESG information into their reporting processes through a set of 32 ESG metrics. The ESG Index includes the top 50 Pan Arab companies based on their performance on nearly 200 ESG metrics and uses an ESG score-weighting scheme to identify the top performing companies in terms of ESG performance. It is too early to assess

the performance of the ESG Index, however, it is derived from the MENA-wide S&P/Hawkamah ESG MENA index, which was launched in 2011, and which has outperformed the benchmark. Although the New Guide and the ESG Guide are aimed at listed companies, privately held companies that are looking to attract institutional investment would also do well to enact policies that comply with both Guides. Moreover, while listed companies are encouraged to confirm their ESG data using external third-party verifiers, privately held companies may want to consider doing the same, as external verification can provide investors with a higher level of confidence in the quality of a company's ESG claims.

As is often the case, other regulators in the region will likely follow the example of the UAE and Dubai and incorporate similar policies, and encourage similar practices in their respective jurisdictions. Given the current extremely challenging environment, there has never been a better time to adopt such measures.



Responsible Investment: *Drivers, Trends and Actions to Take in Response to Covid-19*



Nicole Martens

Head of Africa & Middle East, Principles for Responsible Investment (PRI)

Since December 2019, headlines around the world have been dominated by one thing: Coronavirus (or Covid-19). The scale and severity of the pandemic means that it has (understandably) taken centre stage in every forum. Discussions cover the facts and figures, the rate of spread, attempts at solutions, and the likely impacts for economies. In the context of the short- and long-term impacts of the pandemic, the sheer number-as well as the breadth and depth of these conversations- comes as no surprise to many investors. It might surprise you though, to learn that what these conversations are actually about - at their core - is a rethinking of current economic models, specifically those of asset allocation and ownership. As their fundamental foundations, the discussions we

are having around how to address Covid-19, are conversations about implementing responsible investment approaches.

Indeed, the COVID-19 pandemic – and the global response to it – is a serious threat not only to global health, but to our communities, our economies and our investments. As long-term stewards of capital, investors can and should act to help reduce harmful short- and long-term impacts of the pandemic. In other words, they should be making investment decisions and practicing stewardship in a way that is aligned to a responsible investment approach.

What is Responsible Investment?

Responsible investment (RI) is an approach to investment which prioritises the generation of sustainable long-term financial returns, achieved through strategies and practices that incorporate environmental, social and governance (ESG) factors into investment decisions and active ownership (engagement).

RI argues that to ignore ESG factors is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries (see Covid-19 as the latest in a long list of examples of ESG issues impacting financial returns). RI presents a holistic approach to investment that aims to include any information that could be material to investment performance.

In practical terms, what this means is not that investors need rule out investment in any particular sector or company, but that ESG information is included in investment decision-making to ensure that all relevant factors are accounted for when assessing risk and return, to maximise shareholder and stakeholder return.

As such, in addressing the impacts of the Covid-19 pandemic, many investors are finding themselves intuitively practicing responsible investment – with many others fast realising that they too should be doing so!

What is Driving the Global Uptake of this Approach?

The Covid-19 pandemic is only one example of a complex ESG issue that has generated significant financial implications. And while this latest ESG crisis has shifted the needle for many investors, far more have already been practicing ESG integration approaches as standard. According to a recent Morgan Stanley report, 84% of asset owners globally are pursuing or considering investing approaches that integrate ESG.

The rationale behind the mainstreaming of the responsible investment approach worldwide can be boiled down to three key factors: materiality; market demand, and; regulation.

Academic studies consistently demonstrate that effective integration of material ESG factors into company operations can lead to meeting or exceeding market benchmarks, with these companies experiencing more effective risk management, lower costs of capital, better loan spreads and even improved customer loyalty. The latter is especially powerful in a market where 86% of millennials stated in a recent global investment study that they believe sustainable investing is important, a view shared by 79% and 67% of GenX and baby boomer investors, respectively. Arguably, the investors of today – and, importantly, of tomorrow – are demanding more from their investments than mere short-term financial performance. What they are looking for is a more holistic approach to investing.

Internationally, the regulatory environment is responding with vigour. More than 700 responsible investment-related regulations are currently in play around the world. Of those, more than half have been instituted over the past five years. The regulations in place and those proposed reflect an inevitable build-up of pressure from the market in recognition of the fact that the materiality of ESG integration feeds directly into fiduciary duty – because ESG issues can affect the value of investments, investors have a legal duty to their clients and beneficiaries to integrate ESG considerations into their investment processes. The practice of regulators within the UAE, for example, are already aligned to this trend, with bodies such as ADGM prioritising sustainability within their regulatory focus for the financial services sector.

What Does a Responsible Investor Response to Covid-19 Look Like?

The COVID-19 crisis impacts all investors and their beneficiaries regardless of holdings, strategy

or role in the investment chain. Responses to the crisis must therefore be predicated on the basis of systemic integrity and long-term universal returns being more important than relative company performance.

Outflows from funds have seen some asset owners and managers facing liquidity pressures, as well as declining fee revenues resulting from those outflows and from overall market falls. Despite this, responsible investors can and should respond by using their influence with companies and governments, and through their investment decisions. They should be supporting sustainable companies through this crisis – in the interests of public health and long-term economic performance – even if that limits short-term returns.

Notwithstanding, the roles and responsibilities of companies and governments in managing the short- and long-term impacts of the pandemic, and the role of investors in sending the correct signals to the market in this regard, cannot be overemphasised.

To this end, an immediate, robust response to

the Covid-19 crisis is needed across the global economy. For investors, this takes the form of seven key action points:

Action 1: Engage companies that are failing in their crisis management

Action 2: Engage where other harm is being hidden behind, or worsened by, the crisis

Action 3: Re-prioritise engagement on other topics

Action 4: Publicly support an economy-wide response

Action 5: Participate in virtual AGMs

Action 6: Be receptive to requests for financial support

Action 7: Maintain a long-term focus in investment decision making

Longer-term, the crisis will continue to raise broader questions on how our financial system is structured to respond to such threats. When



the public health emergency of Covid-19 starts to subside, the approach to recovery must be aligned with other key priorities: in particular, the climate emergency and global levels of inequality. The crisis has highlighted the attention that social issues, including emerging labour practices, must receive in the responsible investment community.

In this context, the practical face of responsible investment takes the form of reporting on and managing for long-term environmental, social and governance outcomes during the survival and recovery phases of this crisis. This is important for a number of reasons:

- To enable economies to enter the recovery phase with a clear view of the financial and non-financial baseline from which to start rebuilding
- To ensure the optimal protection of human, natural and capital resources which will enable faster growth during recovery phase
- To prevent and mitigate the effects of other social and environmental crises that may emerge post Covid-19

As we continue to face such issues, a review is needed of the structure and readiness of markets to respond to such economic and societal threats, including how to better prioritise and address key systemic issues over narrower company- or portfolio-specific ones, and how to increase collaboration between investors.

Now is the time for responsible investors to embrace decisive, collective action. It's time to demonstrate that the market can respond to the immediate crisis while simultaneously setting in place a recovery plan which prioritises social and environmental sustainability. In the coming months, it will be critical not to allow the current circumstance to distract us as a global community from the ultimate objective of sustainable, inclusive economies and resultant prosperous societies.

For more detail on these action points, as well as guidance on other Responsible Investment-related issues, visit www.unpri.org/covid-19

The PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

For more information, feel free to check out www.unpri.org

Assessing ESG risks in the GCC



Michael Wilkins

Head of Analytics and Research, Sustainable Finance, S&P Global Ratings

Environmental, social, and governance (ESG) factors are under ever-increasing scrutiny as investors and companies globally become more socially and environmentally conscious and the potential financial benefits are gradually understood. For example, an increasing number of companies with strong ESG performance have reduced costs, improved worker productivity, mitigated risk, and created new revenue-generating opportunities.

The assessment of companies' ESG performance, however, will inevitably look very different across regions. The heavily fossil fuel-reliant economies of the Gulf Cooperation Council (GCC), for instance, present unique ESG risks and opportunities for those operating and investing in the region.

Where material and visible, such risks and opportunities can impact the creditworthiness of entities. At S&P Global Ratings, we incorporate ESG factors into our credit ratings if our analysts believe that they will impact the entity's ability and willingness to meet its financial commitments either positively or negatively.

A financial concern

One of the most comprehensive empirical studies on ESG and financial performance conducted by Gunnar Friede, Timo Busch & Alexander Bassen, which aggregates the findings from nearly all academic review studies between 1970 and 2014, found a positive ESG-Corporate Financial Performance relation (ESG-CFP) in almost 63% of meta studies.

But ESG factors can have negative, as well as positive, impacts on a company's finances – and in turn, its creditworthiness. The influence may be reflected through a change in the size and relative stability of an obligor's current or projected revenue base, its operating requirements, its profitability or earnings, its cash flows or liquidity, or the size and maturity of its financial commitments.

Although true across the board, this may be particularly pertinent for the GCC, whose economies primarily rely on one of the sectors most exposed to ESG-related risk and disruption: oil and gas.

Environmental risks for oil-fuelled economies

The GCC's dependence on oil and gas means it is particularly exposed to environmental risks, especially in relation to greenhouse gas (GHG) emissions. In 2017, GCC countries alone generated an estimated 1.5 billion tons of absolute GHG emissions. In fact, on a per capita basis, GCC GHG emissions are among the highest globally. The second, perhaps more significant risk, is the pace of the energy transition away from carbon-based fuels, which could result in strong deviations from industry demand forecasts.

For regions such as the GCC and Iraq, where, on average, hydrocarbons comprise 81% of central government revenues, this poses a substantial risk as shifting investor appetite continues to drive down the price of oil. We ran a hypothetical stress test of oil prices gradually declining to below US\$40 by 2030, and the results indicated that without additional policy response, the average rating of Gulf sovereigns could fall by two notches.

However, with less stringent environmental legislation and lower production costs in the GCC than in Europe or North America, local firms are under less time pressure to adjust to changing global energy demands. This consequently provides sovereigns with some resilience to

energy transition risk, helping to buy time for economic diversification before the headroom on their credit ratings are negatively impacted.

The region may see select renewable energy projects as compelling opportunities for portfolio diversification. This is true especially for solar, due to the very high solar radiation levels and a large number of sunlight hours in the GCC throughout the year – two factors crucial for efficient and economically viable solar electricity generation. According to the International Renewable Energy Association, almost 60% of the GCC's land surface area has "excellent" suitability for solar photovoltaic deployment.

Regional engagement with renewables is already visible. Saudi Arabia's government, for example, recently announced an ambitious renewables target to deliver 58.7 gigawatts of clean energy. This would not only help diversification of energy sources but reduce the self-consumption of fuel by the country.

Governance risks in the GCC

In several countries across the region, such as the UAE, still-developing political institutions, centralized decision-making processes, and some weaknesses in transparency can present governance risk exposure.

For a GCC based insurer, governance deficiencies have resulted in a direct impact on credit ratings. An audit indicating financial reporting deficiencies and increased liquidity and capital adequacy risks in 2018 resulted in a rating downgrade to B from BB.

However, we believe that this risk can be mitigated. Indeed, Abu Dhabi Commercial Bank's strategic choices and sound business development has not been negatively impacted by its ownership structure. First Abu Dhabi Bank has similarly managed to mitigate this risk with its high-quality management team with a solid track record, stability in senior roles, and strong

disclosure practices compared with local and regional companies.

An upper hand

Interestingly, the GCC has historically been accustomed to incorporating social factors into business and investment strategy. Within Islamic finance, there are a range of reportedly substantial socially responsible products which can help entities hedge their social risk exposure. In particular, Qard Hassan, consisting of a loan granted for welfare purposes or to bridge short-term funding requirements where the borrower is required to pay only the principal; Zakat, similar to a tax levied on wealth that exceeds a certain threshold and is used for social welfare purposes without expectation of repayment or remuneration; and Waqf, a donation of an asset or cash for religious or charitable purposes with no intention of reclaim.

We also see similarities between the social focus of ESG analysis and the Sharia principle of profit-and loss-sharing, both of which ultimately aim to adopt a stakeholder view and increase social cohesion to ensure that no member of society is left behind.

The strong presence of Islamic finance in the GCC may give companies in the region a unique pathway in the transition towards adopting other ESG objectives. There are certain parallels, for instance, between the Sharia principles that underpin Islamic finance and the objectives of sustainable finance. The Sharia “protection of life” principle, for example, aligns with the environmental element of ESG, where both emphasize refraining from developing or financing operations that harm the environment or the wellbeing of humankind.

On the governance side, Islamic banks and instruments are typically subject to an additional layer of governance compared with their conventional counterparts, and are typically approved by Sharia boards, which can ensure the conformity of these products with Sharia at

any point during their life cycle. Finally, Sharia-compliant investing, like ESG-linked issuance, requires tracking of proceed allocation to eligible projects.

Islamic finance instruments are being harnessed to explicitly support the achievement of environmental objectives, too. Green sukuk, which are to some extent the Sharia-compliant equivalent of green bonds, are poised for significant future growth as core Islamic finance countries such as the UAE and Saudi Arabia look to shift to greener energy sources.

As such, we believe that Sharia principles and Islamic finance can contribute to the financings of green and social infrastructure needed for the transition to a low carbon economy.

Yet to be effective, we believe that these vehicles would benefit from robust governance frameworks and standardized interpretation of Sharia principles that are currently lacking to make a difference when it comes to effectively directing capital towards achieving ESG objectives.

Therefore, we believe that not only is there scope to mitigate the unique environmental and governance risks that the region faces – largely due to fossil fuel reliance and still-developing governance frameworks – but we may also see creditworthiness improve for companies that proactively adopt sustainable practices and capitalize on the investor demand for more ESG-conscious financing strategies.

Creating Sustained Business Value through ESG Integration



Esther An

Chief Sustainability Officer, City Developments Limited (CDL)

There is widespread acknowledgement among investors and business leaders that a company's ability to address material Environmental, Social and Governance (ESG) concerns will have a significant impact on its long-term sustainability and intrinsic value. In reality, however, companies often struggle to translate this value proposition into their business practices.

City Developments Limited (CDL), a Singapore-based real estate operating company, has embraced sustainability in its corporate philosophy for over two decades and it has been

ranked the world's top real estate company on the 2020 Global 100 Most Sustainable Corporations in the World.

In this comprehensive case study, Ms Esther An sets out CDL's ESG integration strategy covering areas such as who "owns" sustainability within CDL, how is sustainability linked with strategy, how sustainability drives innovation and what have been the benefits of ESG integration to CDL.

For the first time in almost 15 years, climate-related issues have been voted the top five business risks over the next decade¹. As Larry Fink, founder/CEO of BlackRock, one of the world's leading asset management firms, cautioned, "Climate risks are investment risks". According to the UNEP FI², the fiduciary duties of investors require them to incorporate ESG issues into decision-making processes and investment analyses, and to promote high standards of ESG performance in their investees. Since 2012, ESG investing has grown tremendously, as shown in the rapid growth from the initial 1,050 signatories to the UN-supported Principles for Responsible Investment, to its current list of 2,400 comprising a group that controls US\$86 trillion in capital³.

Globally, the buildings and construction sector accounts for some 40% of energy-related carbon dioxide emissions annually⁴. As a global real estate company, City Developments Limited (CDL) recognises that improving building technology and performance makes a difference to our environment and building users. For over two decades, CDL has adopted an ESG

integration strategy, anchored on our four key pillars – Integration, Innovation, Investment and Impact. This has built a solid foundation for us to mitigate and adapt to unprecedented threats posed by climate change, and hence creating sustained value for the future.

Integration: Creating Value Based on Our Corporate Ethos of "Conserving as We Construct" Since 1995

With strong leadership and commitment to sustainability, CDL has worked to create future value as a developer, asset owner and manager, and corporate citizen, by integrating ESG effectively and holistically into our business and operations. As the world steps up on climate action, CDL has already made major strides in incorporating sustainability into our corporate governance structure.

SUSTAINABILITY GOVERNANCE STRUCTURE



CDL's Board Sustainability Committee considers sustainability issues as part of a larger strategy formulation for long-term value creation.

¹ These are the top risks facing the world in 2020, World Economic Forum, 15 January 2020
² Fiduciary duty in the 21st Century Final Report, United Nations Environment Programme Finance Initiative, October 2019
³ Investing with Impact: Today's ESG Mandate in Private Equity, Bain & Company, February 2020
⁴ 2019 Global Status Report for Buildings and Construction, Global Alliance for Buildings and Construction, International Energy Agency and the UN Environment Programme, December 2019

CDL has established the longest history amongst Singapore companies to have a dedicated Sustainability Governance Structure. The Chief Sustainability Officer (CSO) reports directly to the Board Sustainability Committee, which comprises three independent directors and the Group CEO who is an executive director. The Board Sustainability Committee has direct advisory supervision on sustainability strategy, and their key roles include assisting the Board in the review of the company's sustainability issues and approach to sustainability reporting, reviewing the company's ESG framework, key ESG targets and performance, and reputation as a global corporate citizen. The CSO chairs the cross-department Sustainability Committee. Heads of departments and their key line managers are accountable for their ESG performances, which are linked to their appraisal.

Furthering our ESG integration, CDL became the first company in Singapore to publish a dedicated sustainability report using GRI Guidelines in 2008, nine years before mandatory reporting was required of companies listed on the Singapore Exchange. Our annual ESG report started to adopt external assurance since 2009. On a quarterly basis, we voluntarily report our ESG performance against the strategic goals set under the CDL Future Value 2030 sustainability blueprint established in 2017.

For robust disclosure that is aligned with evolving global metrics and standards, CDL has established a unique reporting framework combining GRI⁵ since 2008, IIRC's⁶ Integrated Reporting approach since 2015, SDG⁷ Reporting since 2016, TCFD⁸ since 2017, and the SASB⁹ real estate sector-specific standards in 2019. This aims to harmonise with the demand for increased corporate ESG disclosures by investors.

To create long-term sustainability and value over time, sustainable businesses ought to look beyond the current horizon and be future-ready. As the first real estate company in Singapore to have our carbon reduction targets validated by Science Based Target initiative (SBTi) in 2018, we joined the pioneer batch of 87 companies worldwide to support the UN Global Compact's Business Ambition for 1.5°C campaign in September 2019, pledging to align our operations with limiting global temperature rise to 1.5°C. In 2019, we conducted our second climate change scenario planning study, covering 1.5°C and 2°C warmer scenarios with expanded scope and geographic boundaries. As the supply chain plays a key role in our ESG performance, we also conducted a risk analytics and segmentation study of our supply chain to identify environmental and social risks posed by our top 100 suppliers and materials supplied.

Stakeholder engagement and support are also key to helping us achieve our sustainability goals. Our long-standing initiatives such as the CDL 5-Star EHS Assessment System since 2001 and the Green Lease Partnership Program since late 2014, have been most effective in aligning our stakeholders' practices with CDL's ESG commitment.

Innovation: Strengthening Climate Resilience Through New Technologies and Solutions

Apart from mitigating ESG risks, CDL has adopted a proactive approach for ESG integration to create greater business value and future-proof our business by harnessing new technologies. Since 2017, innovation has been our top material issue based on multi-stakeholder materiality studies conducted biennially. Leveraging new technologies, we continue to prioritise the development of green buildings to provide more

⁵ Global Reporting Initiative

⁶ International Integrated Reporting Council

⁷ Sustainable Development Goals

⁸ Task Force on Climate-related Financial Disclosures

⁹ Sustainability Accounting Standards Board

sustainable and healthier living for users. For over a decade, we have committed to investing 2 to 5% of construction cost in green design and features for each new development, voluntarily setting a minimum target at Green Mark GoldPLUS, two levels above the mandatory requirement¹⁰. In 2019, CDL accumulated 110 Green Mark awards, given out by the Building and Construction Authority (BCA), amounting to the highest number received amongst private developers in Singapore.

For a country like Singapore that lacks natural resources, innovative technologies are key in helping us raise productivity and Environment, Health and Safety (EHS) performances of our developments. CDL was awarded the Platinum accolade in the 2017 BCA Construction Productivity Awards, which recognised our efforts to raise construction productivity and standards via PPVC¹¹ applications. With PPVC technology, prefabrication takes place largely offsite and less works are required on-site, resulting in cleaner and safer worksites with less environmental impact.

Continued R&D is crucial to help us stay ahead of the curve. In partnership with the National University of Singapore (NUS), the NUS-CDL Tropical Technologies Lab and the NUS-CDL Smart Green Home Lab were opened in 2018 and 2019 respectively. Both labs conduct studies on smart features, green building technologies, and design for sustainable living. In 2019, we also embarked on a collaboration with the Solar Energy Research Institute of Singapore, integrating high-efficiency BIPV¹² modules with PPVC. Furthermore, in 2018, CDL formed the Enterprise Innovation Committee (EIC), an in-house establishment dedicated to shape corporate innovation culture.

To make a quantum leap towards a low-carbon economy, we must embrace innovation and leverage technology alongside sustainable investments. CDL's strong ESG track record has lowered our long-term borrowing cost and expanded our pool of ESG-centric investors and lenders. Since our pioneering green bond in 2017 which raised S\$100m, CDL has continued to tap into sustainable financing. In April 2019, we obtained S\$500m in two green loans, which allowed us to finance new green developments in Singapore and abroad. 2019 also saw us secure our first-of-its-kind S\$250m SDG Innovation Loan, to accelerate innovative solutions and technologies that embrace the SDGs in the built environment.

Building a sustainable future requires the collaboration of a larger ecosystem. The Singapore Sustainability Academy (SSA) was designed and built by CDL to be a hub for capacity building, thought leadership, and networking. As the first ground-up initiative and zero-energy facility in Singapore dedicated to supporting the SDGs and climate action, the SSA was set up with the support of six government agencies, 15 founding industry partners and Sustainable Energy Association of Singapore. Since its opening in June 2017, the SSA has attracted international partners such as UNEP, UNDP¹³, UNGC, and AVPN¹⁴.

Furthering our community investment, CDL set up the "Incubator For SDGs" in September 2019 in partnership with UNDP, Singapore Centre for Social Enterprise (raiSE) and Social Collider, providing rent-free co-working space at Republic Plaza, our flagship building, to selected social enterprises or start-ups that embrace the SDGs. The initiative offers extensive network and mentorship opportunities to help aspiring social innovators to scale up and reach out to potential investors.

¹⁰ Green building rating system awarded by Singapore's built environment authority, Building and Construction Authority (BCA)

¹¹ Prefabricated, prefinished, volumetric construction

¹² Building-integrated photovoltaics

¹³ United Nations Development Programme

¹⁴ Asian Venture Philanthropy Network

CDL furthered our social investment through the creation of national platforms, such as My Tree House and the CDL Green Gallery. A partnership between CDL and National Library Board, My Tree House was opened in 2013 as the world's first green library for kids. Built within 24 hours using prefabricated, modular construction technology, the CDL Green Gallery, located at the Singapore Botanic Gardens, is the first zero-energy gallery (BCA Green Mark Platinum) in Singapore that showcases Singapore's greening efforts.

Impact: Creating Sustainable Cities and Communities

CDL has reaped tangible and intangible benefits from our ESG-centric strategy. More than S\$28m cost savings was achieved between 2012 to 2019 from energy-efficient initiatives implemented for eight commercial buildings. Our low-carbon programmes have resulted in a 38% reduction in carbon emissions intensity in 2019 from 2007 levels, putting us on track to achieve our SBTi-validated target of 59% by 2030.

CDL's track record of effective ESG integration over two decades has been widely recognised by 12 leading global sustainability benchmarks, including the 2020 Global 100 Most Sustainable Corporations in the World, of which CDL was ranked top amongst listed real estate companies worldwide. CDL was also the only company in Southeast Asia and Hong Kong to score double 'A's in the 2019 CDP Global A List for corporate climate action and water security. Other major rankings which CDL is listed on for over a decade include FTSE4Good Index Series (since 2002), MSCI ESG Leaders Indexes (since 2010), and Dow Jones Sustainability Indices (since 2011).

To accelerate change for a sustainable future, people and communities will be key drivers. In 2019, we partnered with Jane Goodall Institute (Singapore) and NUS to feature world-renowned conservationist, Dr Jane Goodall, at the 7th Asia Environment Lecture. We also launched the "Saving Glaciers Alliance" last year to raise awareness on the importance of conserving the world's polar regions.

In addition, our long-standing community programmes, such as EcoBank, a zero-waste initiative that promotes reducing, reusing, and recycling; and the SDG City Challenge, a 2,000-strong event that promotes a green and healthy lifestyle, continue to receive strong support from our partners and the community. Our long-established youth initiatives, such as the CDL E-Generation Challenge (launched in 2010), the CDL-GCNS Young SDG Leaders Award (launched in 2011), and the Youth4Climate Festival (launched in 2018), have been empowering tens of thousands of youths to galvanise climate action.

As awareness for climate change and sustainability continues to grow in this new climate economy, adopting sustainable business practices has never been more important. Our integrated approach has helped us make financial sense of our commitment to sustainability, allowing us to effectively articulate our climate mitigation and adaptation strategies to our investors and stakeholders, connecting our ESG goals to our value-creation business strategy.

For CDL's sustainability vision and mission, please visit www.CDLsustainability.com

Delivering sustainability to the forefront of priorities amid challenges



Raji Hattar
Chief Sustainability Officer at Aramex

The global Covid-19 pandemic is serving as a litmus test for companies' business resilience, strength of leadership, agility of workforce, financial robustness, and perseverance to maintain their corporate purpose amid unprecedented challenges.

But it has also forced them to reflect on the question, "How could we have better prepared for this?"

The answer is simple, preparation for a crisis takes time, discipline, and commitment – it also requires taking serious steps in improving every element of the ESG.

More often than not, companies don't envision the "what if" hypothetical scenarios, and instead focus on satisfying short to medium term goals that are measurable and value-enhancing for their key stakeholders – customers, shareholders, and the list goes on. For some global companies, sustainability is very much embedded in their short to medium term goals, but for some companies in the region which are considered relatively late bloomers to ESG criteria, sustainability has only recently become a focus area.

So, when a crisis comes along – such as the one we are currently in the middle of – management focus shifts to taking prudent measures and adopting pragmatic approaches to cushion the financial blow. As a result, sustainability initiatives

may end up being bumped down on the priority list.

Not at Aramex. Because sustainability is a core and integral part of our strategy, operations, and mindset, and this has been the case since the founding of the company.

In fact, we believe this crisis revealed a major inflection point that catalyses the need to further weave in ESG into core business strategies, better anticipate social and environmental risks, and further intensify the roll out of initiatives with an increased sense of urgency.

From Aramex's experience, we can confidently say that this has truly set us apart during these difficult times. We are able to benefit from our sustainability efforts, for example by depending on our solar panels for powering warehouses in the UAE and Jordan, we are able to calibrate our energy needs accordingly, allowing us to reduce carbon footprint and emissions as well as realize cost savings. From a social perspective, we are able to provide benefits to the wider community because of our large network within our community outreach programmes. Those that need our help know we are there to support them in the best way we can. This helps us to act swiftly and start making a positive impact from early on.

But let's look at ESG in the region pre-Covid-19.

ESG is not a new concept but has recently become a global megatrend. In the region it is often misunderstood and regarded as siloed part of company strategies. In the past, some would even argue that it is a luxury for cash-rich companies that are comfortably operating in bull markets.

That is now changing. In fact, more than ever, ESG has pivoted from a previously peripheral concept to a central business-critical issue, that will ultimately address multi-pronged goals. If well-integrated and effectively implemented, it

has a powerful ability to create value, buttress business performance, incite stakeholder trust and confidence, catalyse innovation, and drive the overarching agenda for sustainable socio-economic development.

Since its establishment, Aramex has embraced ESG as an integral part of our corporate culture. In 2006, our company pioneered the first sustainability report in the region, which has laid a strong foundation for our long-term goals in adopting corporate sustainability practices across all our business strategies and day-to-day operations. In 2010, we further reinforced our commitment by aligning sustainability strategy into our core business strategy and folding it into our annual report. This has allowed us to link the impact of our ESG initiatives to our operations and financial performance through our first integrated report.

Over the years, our sustainability strategy has evolved as we endeavoured to adopt best practice approach and continue being leaders in the region. Our longstanding partnership with the UN Global Compact underpins our commitment in continuing to make good on our promise to lead an organisation that is committed to making a positive impact in line with the Ten Principles that meet the United Nations' Sustainable Development Goals (SDG).

We make conscious efforts to maintain our holistic, integrated, and transparent approach to sustainability. Since the beginning of our reporting practice, we have adopted reporting practices in line with the Global Reporting Initiative (GRI) Sustainability Reporting Standards and now the International Integrated Reporting Council (IIRC) Framework which allows us to effectively monitor and measure our value creation and impact, and provide a holistic view to all our stakeholders.

Meanwhile our environmental initiatives have allowed us to reduce electricity consumption per shipment by 29%, increase recycling by 22%, cut fuel per shipment by 22% and cut down in

2012. Currently, we are operating two recently completed solar farms in Jordan and the United Arab Emirates. The 1.2MW solar farm in Amman powers 90% of the needs of Aramex Jordan while the 3.2MW facility in Dubai has reduced the consumption of the targeted warehouse by 60%. Both facilities have greatly reduced negative impacts on carbon emissions.

In 2019, our “Delivering Good” sustainability platform was active in over 98% of our operations through educational, social, and environmental projects worldwide. Our community engagement initiatives involved active participation of our employees, who have worked hard in providing food, medicines, and emergency relief for underprivileged families and those affected by crisis and disasters. In addition, we have also been active in providing access to education, capacity building, and empowerment opportunities to over 44,000 youth.

Our extensive sustainability programme, which was built on three pillars comprising Youth Education and Empowerment, Supporting Entrepreneurs and Tackling Climate Change, has allowed us to implement 190 projects that made a positive impact to a little over 120,000 beneficiaries. Our Start-up Support Program has also made considerable progress in supporting 3,700 SMEs and entrepreneurs across our network.

Over the medium to long term we have set sustainability goals, including increasing the number of beneficiaries of our sustainability initiatives by 5% every year, building on the successful partnerships with all our stakeholders, and actively aligning our business model with the sustainable development goals and the national agenda of the UAE, as well as the countries where we operate. Ultimately, with these efforts, we will maintain our competitive position as a leader in sustainability.

This year, we are finalizing the commissioning of the site of the second phase of Dubai solar farm,

as well as other solar projects across the UAE, Jordan and Egypt. We have also embarked on initiatives that would see the use of electric vans across our operations. Covid-19 has not and will not interrupt the progress we have made on our sustainability strategy. In fact, it has unlocked opportunities that allowed us to create temporary jobs for more than 1,200 young people through our fleet in the communities impacted by the crisis.

A recent study from Harvard University revealed a strong link between ESG integration and corporate resilience during Covid-19. Research shows the direct impact on company’s profitability and reputation, and indirect impact on their ability to attract talent and retain customer loyalty.

We see this trend becoming more apparent in the aftermath of the pandemic where companies which have clearly demonstrated their purpose, and those which responded well during the crisis are set to establish resilience, receive positive reputational benefits, increase market share, and even outperform competitors.

The current crisis calls us to be a beacon of hope and a constructive force in driving transformation. As we set forth in navigating the path to the new normal, we would like to invite other companies to be not just deliberate in surviving the current upheaval, but take on a long-term and progressive view in making a positive impact on the environment and society. And this will help them in answering the question, “How could we have better prepared for this?”

Showtime for ESG



Selina Neri

Professor of Management and Corporate Governance, HULT International Business School

During these difficult times, many articles and research papers highlight how leaders should behave during a crisis, from speedy decisions, to adapting boldly to the new normal, taking ownership of problems, taking care of their teams and leading with authenticity. All laudable efforts. But when revenues drop overnight, factories (and whole economies) come to a halt, employees need to tele-work on a massive scale, warehouses are inaccessible, bills pile up and cash is short, there is a missing piece in the puzzle of the *coronomics* of running and governing a business during an unprecedented crisis: investors.

Remember the discussion on moral money, green money and ethical investing? Purposeful business? Maybe we do remember responsible capitalism or the call for business to be rooted in purpose and the environmental, social and governance (ESG) factors representing risks and opportunities in creating sustainable value. ESG encapsulates what corporate purpose is all

about and COVID-19 has brought ESG to the forefront: now more than ever, it's showtime and center stage for ESG.

In this devastating pandemic, there are two main reasons why ESG is key. In normal circumstances, ESG represents environmental (water consumption, contribution to the climate transition or circular design of products and services), social (community impact, inclusion, respect for human rights or combating modern slavery) and governance (director independence, executive compensation, disclosure, short and long term financial health of a business) factors increasingly informing investment decisions and the running of a business.

In the current *coronomics* circumstances, ESG boils down to what can make or break the very existence of a business.

ESG is key in that it can be the guiding light of a much needed investor and governance

behavior. COVID-19 has been called the acid test of responsible capitalism and the ESG test we have been waiting for. It is also showtime for ESG because now more than ever directors need their investors: they need to know capital providers are there by their side, they need to use the knowledge and financial power of investors to navigate this crisis. Directors of large and small companies need to reach out to their capital providers to calmly make evidence-based decisions that are needed today and that will inevitably have long-term consequences.

Study on alignment between corporate purpose and investor stewardship

Between 2017-2019 I conducted a study among members of the boards of Swiss listed, blue chip corporations and their institutional investors. Entitled “Director Engagement with Corporate Purpose: The Contribution and Potential of Institutional Investors”, the study discovered how directors engage with corporate purpose and how investor stewardship can support their engagement, as important steps for corporations to create value for society as well as investors. I interviewed and observed ‘in action’ board members (including chairs and vice-chairs) and C-level representatives of global investors, such as sovereign wealth funds (Europe and Asia), large index funds (USA), pension funds and asset managers (Europe). This study found that investors and directors of listed companies understand corporate purpose as sustainable value creation along financial, social and environmental dimensions, in the short and long term. Purpose is neither about moral obligations, nor about “doing good”, rather it encapsulates how companies create sustainable value. The study shows how directors engage with purpose and with their shareholders, and the role investors can play in keeping directors engaged on value creation.

What behaviors are needed on the part of investors?

Investors have the opportunity to show what it means to invest with purpose, to invest in companies (rather than in stocks), to be patient about the disruption in value creation that businesses face, but also to ask for executive pay cuts or voluntarily give up part of their pay, as Schroders and Amundi have respectively done in order to navigate this crisis. Investors can forego or agree to delay dividend payments, inject much needed liquidity in a business, help negotiate and extend credit lines.

Members of the board of directors now have an increased duty to reach out to their shareholders to discuss and agree the best course of action to navigate this crisis. Holding virtual AGMs is only one, formal, way to do so, giving investors the opportunity to raise questions formally and in real time. Most importantly, investors and directors can jump on virtual meetings to advise and lend a helping hand to their companies, becoming part of the solutions needed to survive 21st century challenges.

Investors have the right and duty to remain close to directors, who, in turn, must remain close to the business and its people. Investors and directors need to understand what is going on and figure out how they, their knowledge and network of connections, can be brought to bear to sustain the existence of their companies and respective eco-systems of employees, customers, suppliers, partners and communities. Investors can and must create a sense of calm for those governing and steering a business. In a world that is grappling with the short and long-term effects of COVID-19 (among other challenges), the consideration of ESG in investment and business decisions is vital, as ESG sits at the core of value creation.

Investor stewardship is about protecting and enhancing the value of the assets entrusted in one’s care. When stewardship takes the

form of “engagement” with boards, exercised around ESG topics, investors are able to demand directors’ attention. Investors can do so if they “walk the talk” or do what they say, are knowledgeable about their companies (both through research and first-hand relationships), establish and nurture strategic relationships with directors (chairs and vice-chairs, in particular), and keep an investment time horizon aligned with corporate purpose.

Surprisingly, the study also shows that what matters more for engagement is the stewardship approach rather than just the size of the investor (assets under management) or of their investment (percentage of voting rights), and that smaller investors are able to demand attention from boards provided that they are deemed credible by the companies.

Credibility in the eyes of directors is paramount. To be credible, investors need to have senior individuals leading engagement efforts, show companies that they know the fundamentals of the business they are invested in and be open to advise, discuss, agree and learn. Investors need to limit the use of proxy advisors, making them one element of voting decisions, rather than the

element, as directors regard proxies as “box tickers”, and tend to distance themselves from investors who solely rely on proxies.

What behaviors are needed on the part of directors?

Concerning how directors can engage with investors, what type of directors engage is as important as how they engage. The study indicates that engaged directors are proactive and authentic, interested and concerned, passionate, energetic and committed to sustainable value creation. They are or want to become knowledgeable purpose and ESG factors, while ensuring that the company remains compliant with laws and regulations.

These directors have a down-to-earth mindset, a positive predisposition towards the unknown, see opportunities and risks in uncertainty, have a personal value system of respect for self and others, for the natural environment and of accountability for one’s actions. They view investors as sources of capital who need to be attracted and retained, rather than shareholders who happen to acquire stocks.



Engaged directors are resilient, courageous, and not afraid of questioning the status quo. They go beyond the information executives feed them, dig deep and are hands on, wanting to understand the people and processes behind information packs, so that they can make evidence-based decisions.

These directors see themselves as serving the company and invest a significant amount of time in the role. Time matters and 'overboarded' directors, those serving on many boards, can be too busy to remain engaged. Engaged directors are motivated, competent and understand what is going on in society. Surprisingly, directors' exposure to the knowledge or circular economy, industry 4.0 and new generations' expectations are much more important to engagement than their biological age.

Engaged directors speak up, are confident in their own abilities and resolute in driving the company forward. They possess strength of character and will. Engaged directors agree with their C-level how they work together in the interests of the company, are big-picture thinkers and feel they can make a difference. They value their mental as well as structural independence, as an independent frame of mind allows them to challenge the status quo and make informed decisions.

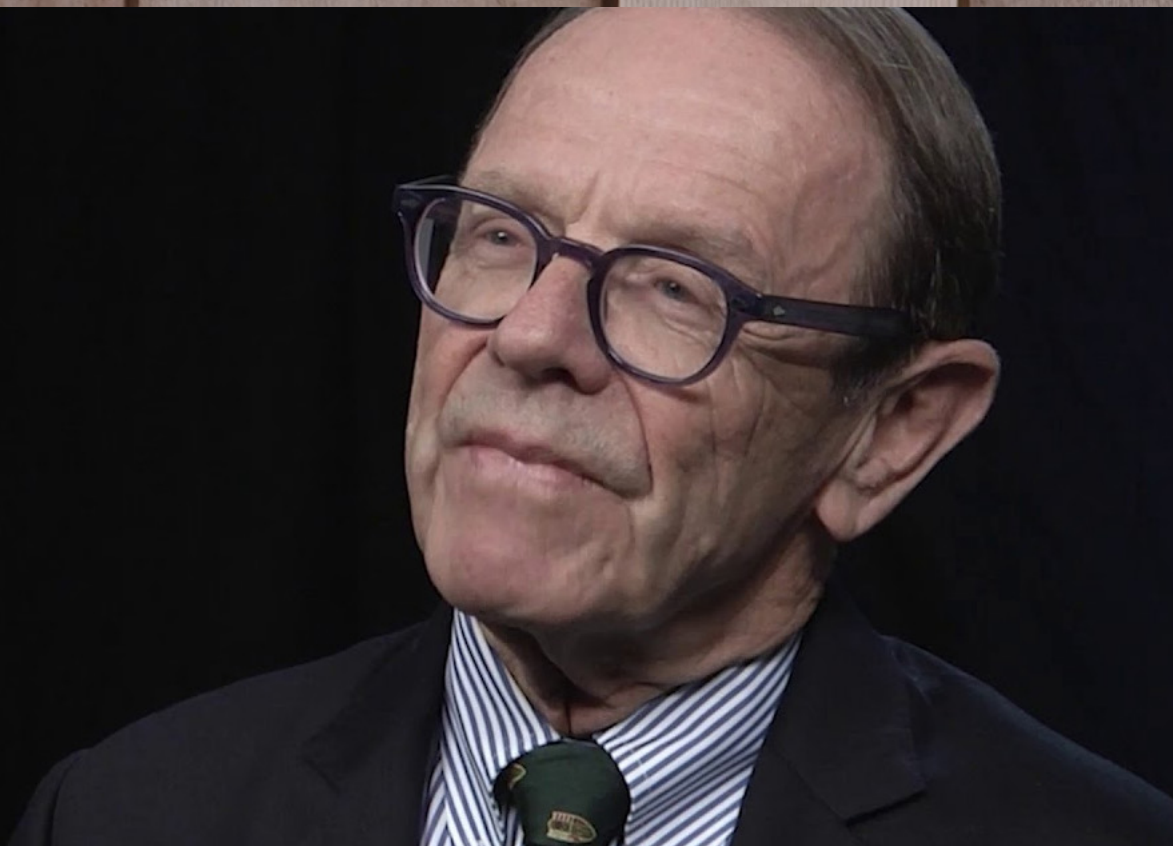
How do these directors engage with investors? First of all, directors do not get distracted by the flavor of the day, resisting being pulled in different directions by a headline, tweet or Facebook post. Instead they engage strategically and on principle, because they see investors as equal partners in value creation. They reach out to them on individual issues as well as on general topics, listen and discuss necessary trade-offs. Second, because what motivates these directors to serve on a board are the challenges of bringing the company into the future, making a difference, and learning from fellow directors and investors, engagement with investors takes a clear learning route.

Engaged directors acknowledge that "nobody can know it all" and engaging with investors also means asking for help. Because engagement needs to be coordinated, it normally rests with chairs, supported by vice-chairs. As front liners, they initiate and nurture strategic dialogue with investors. In other words, they proactively manage investors as part of strategic decision making and crisis management, rather than waiting for investors to knock on their door. Discussions with investors go well beyond quarterly reports and sales forecasts: they include ESG topics such as the climate transition, employee mental health during massive remote-working or how to rebalance an excessive dependency on a single-country supply chain, as these can impact the bottom line and are relevant and important. Chairs and vice-chairs' feedback on investors' meetings helps directors to remain engaged.

Conclusion

The study is a timely contribution to current discussions on the purpose of corporations and the role of directors and investors in creating sustainable value. Evidence indicates that both have a critical role to play in creating value that is more socially inclusive and not so dependent on the exploitation of the natural environment. Director engagement is never 'done', 'complete' or 'achieved", therefore, it needs to be supported and encouraged, so that corporate purpose can sit at the heart of strategic decision-making for value creation. The study also shows how pivotal it is for investors (large and small) to limit the use of proxy advisors, exercise their stewardship duties through engagement with companies and to dedicate time and money to investing in companies (and their directors), rather than in stocks.

Board members need to think long-term to get past the COVID-19 crisis



David R. Beatty

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How long is your company's real strategic time horizon?

Before your company emerges from the COVID-19 crisis, spend a day, as a board, asking this question and setting the horizon. That way you can, as a director, influence long-term outcomes profoundly and perhaps gain significant long-term strategic advantage for your company out of this global tragedy.

At one end of the strategic time spectrum would be a widely held public company that responds to the incessant pressures of short termism and the unremitting attacks from activist investors. This "Wall Street response" means your strategic time horizon is the next three months.

At the other end of the strategic time spectrum would be a private company, led by a founder, who sees the future as a generation away, at least five years and perhaps 10. Or the family company, in its second or third generation, looking well into the future to the next generation. So many companies follow the Wall Street time horizon that now, in a time of crisis, they cut staff, close factories, exit entire businesses and try to preserve what precious net cash flow they have ... and beg to their lenders for relief.

For example, one of the world's largest hospitality companies was heavily levered, borrowed more and more to buy back their stock at \$150 a share and increase dividends, giving everything back to the shareholders each quarter and leaving

nothing in reserve. They could, if they had the cash, buy back their shares for 50 per cent of what they purchased them for last year, but the entire C-suite is trying to get substantial debt relief and cutting staff aggressively, seriously compromising the quality of their eventual recovery.

At the other end of the strategic time horizon is the world's leading fleet telematics firm – Geotab of Oakville, Ont. Geotab has its fleet management software products in more than two million vehicles in North America. Geotab has been led from Day 1 by founder and chief executive Neil Cawse. It is now 20 years old with a growing global franchise, and the focus is clearly on using the crisis to significantly strengthen and expand its operations and advantage.

First and foremost, Geotab is looking after the health and welfare of its management team. Second, Geotab is actively supporting its partners and ecosystem, helping the trucking industry survive the incredible demands now placed upon it. Thirdly, Geotab is building its future by inviting all the greatest industry talent to join their Geotab team.

The balance sheet resilience has been carefully crafted for more than a decade and now is being put to use to tremendous long-term effect. Geotab will come out of this crisis with an incredibly strong strategic long-term, sustainable strategic advantage.

Four Seasons, another great Canadian global icon of long-term, sustainable, competitive and differentiated advantage, was built by Isadore Sharp around one value proposition: “Do unto others as you would be done by.” Since his first hotel, he has ingrained that value operationally in every management system – his people come first. Only then can the Four Seasons customers be assured of an “unparalleled experience for guests: intelligent luxury service.”

In the hotel crisis that followed the 9/11 attacks,

he had all of his global hotel managers on the phone once a day generating ideas about how to balance the welfare of their colleagues with the staggeringly low occupancy rates. His stock, then publicly traded, tanked, but Mr. Sharp was looking to the recovery and knew that the focus on his people would build a fierce and lasting loyalty. He never wavered.

The recovery occurred and Four Seasons maintains to this day a competitive differentiation that simply cannot be replicated.

I recently asked him how many interactions with customers his employees might have in a year: “Perhaps, 250 million,” he replied.

If culture is what people do “when no one is looking” and there are that many interactions when no one is looking, think how deeply ingrained the core value in each and every Four Seasons staffer is: “Do unto others as you would be done by.” This is the true source of enduring long-term strategic advantage.

My view would be that the creation of long-term, sustainable, differentiated and competitive advantage can be derived only with a strategic time horizon of five years and more. So, what can you do as a board of directors to help create that enduring advantage?

Improve your board's strategic potential to create this advantage by doing three things and doing them ASAP:

- Exit all “ideological” i-bankers. Having expert capital market presence at the boardroom table is essential. But having a robotic i-banker who keeps spouting the shibboleth of “shareholders, shareholders, shareholders” is toxic. Replace him or her immediately.
- Ensure the C-suite is operationally excellent and that the board has rich operational expertise from different industries.

- Hold that one-day “strategic horizon” meeting with clear definition of what a longer-term horizon actually means ... one quarter, one year, three years, five years, a generation.

With these in mind, this crisis can be used to dramatically shift the strategic horizons of your company to the longer term and in doing so help to shift free enterprise and publicly traded companies back to a sense of long termism.





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