SETTING A COURSE FOR ESG PREPAREDNESS

A Practical Guide for Small- and Mid-cap Companies

In partnership with

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Embarking on the ESG reporting process can feel like a daunting path, whether the journey be that of a mega-cap or a small-cap issuer.

To add more complexity to the already seemingly arduous reporting journey, companies must also navigate through a sea of perceived challenges and incorrect orthodoxies about the ESG reporting process. These can range from "ESG is not feasible because it is intrinsically too difficult" or "ESG is not desirable, because it is a distraction," to the ever-so-popular "ESG is not measurable, at least to any practicable degree."[1] Further, as ESG has become a front-page topic in the media, we find ourselves moving back in time to a matter of first principles: ESG at times means many things to many people, but when it comes to your significant institutional investors, their focus is grounded in topics that are likely to have a material impact on a company's long-term value.

As the ESG ecosystem evolves, so too do stakeholder expectations for current, informative ESG disclosures. With those expectations, it has become imperative that companies of all sizes develop or adapt their ESG reporting to align with the frameworks and standards embedded therein.

Our motivation, grounded in the focus on value as a North Star, is to demystify the reporting journey — particularly of small- and mid-cap companies - to examine:

- Why ESG matters;
- Where to start;
- How ESG metrics can be tracked accurately over time;
- Who to involve; and
- What happens after you report.

Furthermore, developing a successful ESG effort does not necessarily require a six-figure budget. In other words, there is optionality in the process and ways to collect, manage and report data that are economically viable for companies of any size.

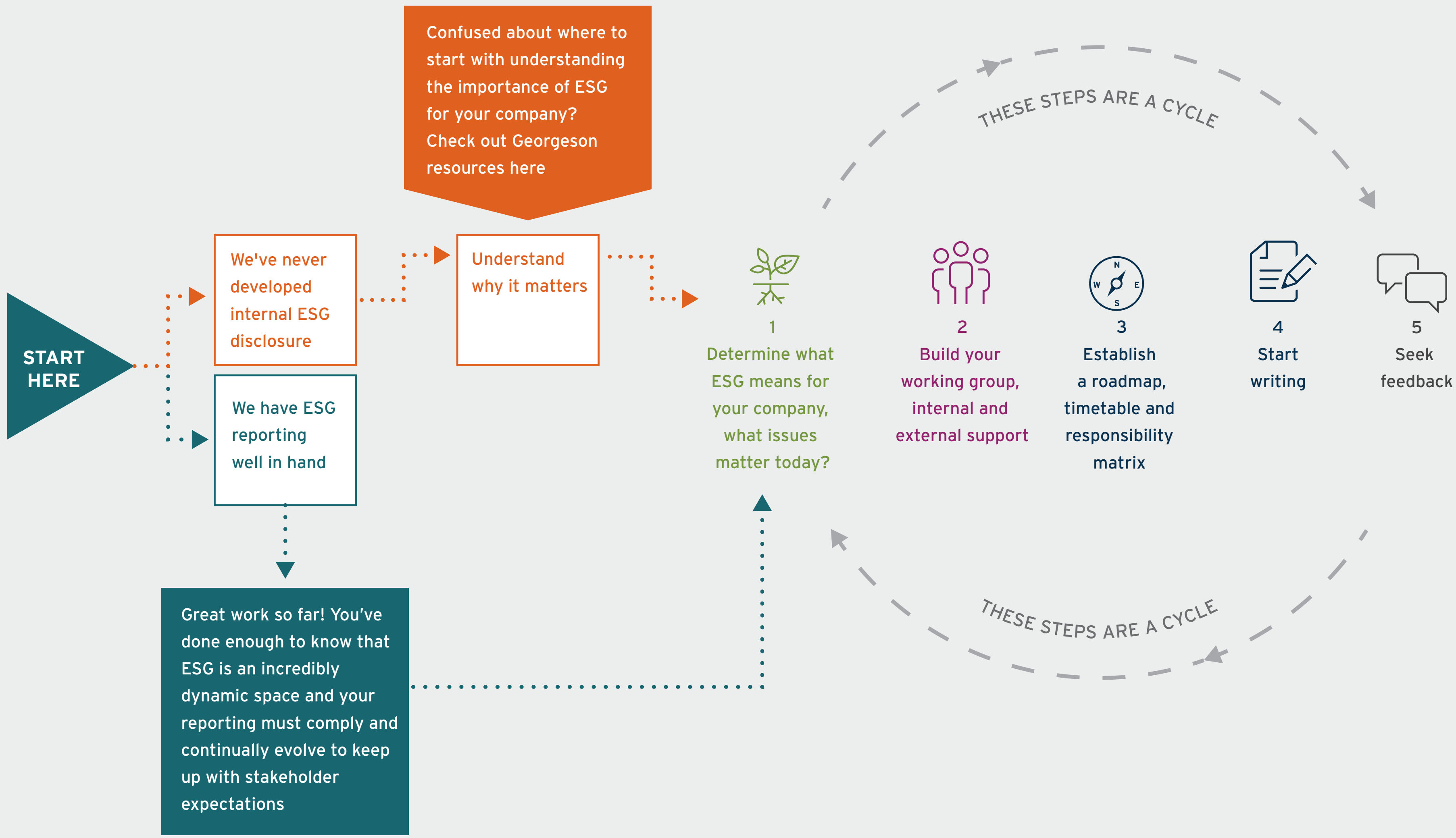
Throughout this report we discuss the role of an external advisory network, including an ESG advisory team and an external investor relations team. Where relevant, we separated the related topics by type of external advisor.

Throughout this white paper we have attempted to, where possible, describe any ESG-related acronyms. However, if you're looking for more information about any ESG-related acronyms referenced in this paper, check out **Georgeson's ABCs of ESG** here.

[1] "Does ESG really matter — and why?", McKinsey Quarterly, August 10, 2022.

ES....WHAT?

Unsure what ESG means and where to start?



WHY DOES ESG REPORTING MATTER?

ESG reporting can be an important lens for a company's current and perspective stakeholders including investors, employees, and clients, amongst others.

With that in mind, as well as the potential increase in ESG-related regulatory requirements, the question of 'why does this matter?' begins to crystalize. ESG reporting is important today because it's a means for stakeholders to understand how ESG risks and opportunities are managed, considered in the company's overall strategy, and operationalized.

As companies begin to develop their ESG reporting, the exercise often illuminates more strategic opportunities or risks that may not presently be considered in a company's risk management efforts. In either case, uncovering these risks and opportunities could lead to benefits such as cost savings or changes to business lines, and ultimately enable a company to better execute on its strategic priorities.

Various studies exist finding that companies with strong ESG fundamentals and practices in place are often rewarded by improved financial performance. While this point is often debated, it's clear that ESG does have tangible financial implications. Companies with clearly developed priorities can take advantage of ESG-linked lending structures that may offer discounts to rates otherwise provided. Further, at this point all major credit rating agencies are considering ESG-related risks when assessing companies, and failure to appropriately manage such risks can increase a company's costs of capital.

WHERE TO START

To begin the process of formulating an ESG reporting strategy, begin by examining the '**why**', '**what**', and '**who**' is driving your decision to provide disclosure.

WHY: In light of growing interest amongst a variety of stakeholders, including large institutional investors, to see ESG reporting in place for more companies, consider your company's rationale for beginning this journey. Consider framing questions like, are you pursuing robust ESG reporting in response to investor demand or client or customer feedback? What are your peers doing? What are your direct competitors focused on? What is your industry trending towards when it comes to environmental, social and governance matters? What information are your investors responding to or requesting from you? What questions are you fielding from clients or customers on ESG specifically? This grounding can help focus the narrative on the relative audience(s).

WHAT: In the beginning stages of an ESG reporting strategy figuring out key logistics will be important. Consider what investor-preferred reporting frameworks you'd like to include/work towards and begin to look at what issues are material to your industry. You can work with an external advisor to dig into specific investor preferences to help focus your report priorities and goals. Discuss internally and with external partners the timeline for publishing. Consider keeping a running list of metrics that peer companies track in their ESG reports, and then review this material with your newly formed ESG Committee. Are these metrics also relevant to your company, and is it possible to track them on an ongoing basis? At this stage consider the report's format, will it be hosted on a webpage or a standalone PDF?

Georgeson recently interviewed 20 top institutional investors in the US, UK and Europe representing $30.5 trillion in AUM to discuss their ESG positions and methods. Learn more about investors' ESG priorities here. **2022 Global Institutional Investor ESG Insights (georgeson.com)**

WHO: As you begin to formulate your reporting plan, line up key internal and external team members. It's also important at this stage to break down the silos of E, S, and G and discuss the interconnectedness of these matters. Consider the role of the different departments that will need to provide relevant data and metrics to support your report. ESG is not the sole domain of any one department, while one department may lead it's typical that there will be both cross-functional collaboration as well as engagement at multiple levels. Discuss with the board their involvement in the reporting process, and develop disclosure around the Board of Directors' s ESG oversight. As you look outside of your company, consider involving an investor relations and ESG advisory firm.

ESG INTEGRATION: STRATEGY AND RISK MANAGEMENT

HOW TO STRUCTURE AN EFFECTIVE INTERNAL TEAM

BOARD OF DIRECTORS

Nominating and Corporate Governance Committee	Audit Committee	Compensation Committee

ESG Management Committee / Working Group

- Executive Team
- General Counsel
- Head of ESG/Sustainability/CSR
- Investor Relations
- Operations
- Enterprise Risk Management

WHO TO INVOLVE EXTERNALLY

The support system your company has in place for ESG reporting is essential. A solid internal team comprised of various key departments working together with support from executives and the Board of Directors can help your company efficiently prepare effective ESG reporting. To enhance this internal team, external ESG advisory firms and investor relations professionals, given their diverse and dynamic ESG reporting experiences, can serve as a critical guide through the steps which will ultimately lead to a successful report, a well-versed website, and intellectual investor conversations.

Throughout the ESG reporting process, your external advisory teams, including corporate governance and investor relations, can offer a unique lens, that of Wall Street, and serve as the conduit to your shareholder base. So, when should ESG advisory and investor relations groups get involved in the ESG reporting process? The earlier these externals teams can get involved, the more effective the overall execution of the reporting timeline.

Once you've established your reporting 'why', begun to uncover what you'd like your report to accomplish, and assembled a dynamic internal team and external advisory network, the report drafting can begin.

We've outlined four key areas of the reporting process:

1 Guiding questions to focus your report and define data collection scope

When beginning to outline your inaugural or enhanced ESG report, consider developing a set of questions to guide your data collection scope. What ESG-related issues are most impactful to your industry? Do you have data to provide a baseline or roadmap to improvement? What ESG reporting topics and data points are trending in your industry? Consider discussing with your internal team and advisors, what investor-preferred reporting frameworks you want to develop for your report (Example: **TCFD**, **SASB**, **GRI**). Host internal stakeholder interviews to uncover possible areas for data collection and disclosure. Ask your executive team how they would like to be involved in the reporting process.

2 Data collection

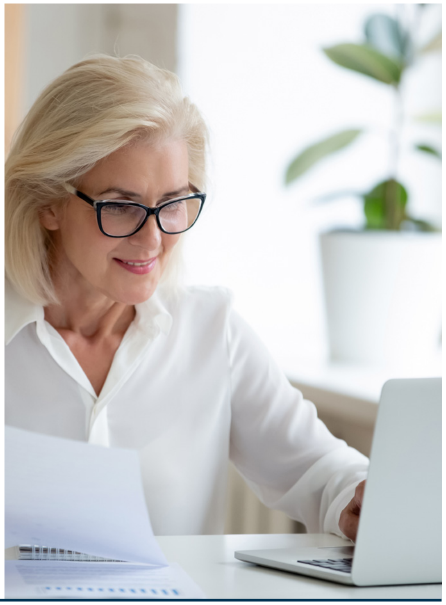
ESG reporting-related data collection may feel like a colossal task for your company, but certainly an essential component of the process. To start, coordinating and compiling existing and updated disclosures can be helpful. Discuss with relevant departments if they have responded to any data-seeking surveys and how you can utilize that information, where relevant (example: CDP). Given pending SEC disclosure requirements, compounded by the fact that many large investors use ESG data for investment and voting decision-making purposes, you could consider involving your internal audit team, as you would with drafting your proxy statement. Looking into the future, when your ESG report becomes available and related data included in your SEC filings, you will begin to receive requests from investors and rating agencies to fill out ESG surveys. It's important to know this in advance of publishing your report in order to allow your internal team and external advisors time to develop an effective plan to memorialize ESG-related data and conduct routine updates to prepare for inbound inquiries in the future. Data collection maintenance will be key to continually developing effective ESG disclosure, and ultimately help demonstrate ESG-related achievements over time.

3 Report drafting

Once the data is collected, finding the most compelling way to relay this information as succinctly and simply as possible to all stakeholders is essential. While involved in the process, investor relations professionals are not typically writing the initial draft of the ESG report. The report is often written by operational individuals on your ESG Committee, or can be developed by a member of your external advisory team. Once sections of the report have been drafted, your external advisory team, including investor relations and your ESG advisory group, will review the material, streamline as necessary and weigh in on the terminology used, data provided and examples offered. How will the investor community react to the goals and metrics listed in your report? Can the information you provided be tracked from the outside and correlated to financial performance? Based on the feedback investor relations provides, continue to refine the report's content. Hedge some of your risks by thinking through the potential questions investors may have regarding the report's content, and proactively answer these questions in the text before the questions are ever asked.

4 Market outreach and response

Once the report is ready for publishing, ensuring the investment community and ESG rating agencies know the report is available is key. One important step in garnering attention for your ESG report is to issue a press release announcing that the report has been published. Investor relations can help craft the text of the release, including messaging core pieces of the analysis while at the same time leaving enough at bay to encourage investors to read the full report. Other key communications tools include preparing your management and Board of Directors for inbound inquires and developing an effective ESG web presence.



Preparing management and Board of Directors for inbound questions: Once the report is live, management should be adequately prepared to answer any inbound questions from current and prospective holders, making initial research on the industry trends and investor topics of interest all the more important. To ease this process, your investor relations team can put together a "factsheet on ESG" for management to have readily available for investor calls and meetings. This factsheet should be considered a living document to be updated as your company's ESG efforts progress and in response to the types of questions commonly posed by investors. For instance, what are some of the key goals of your company's ESG program? What benchmark(s) are used to determine your company's ESG progress, and why have you chosen such standards to measure and evaluate success? What were your company's key ESG accomplishments this year, and what are your targets going forward?

Updating your corporate website: Beyond an initial press release, corporate and investor relations websites are prime places to post your ESG report to make it easily accessible to all. Work closely with your investor relations team to write the content for this website. Similar to the initial process of auditing peer ESG reports, investor relations can audit peer ESG or sustainability webpages. How detailed are these pages? What could investors expect of your own company based on what others in your industry have done? If your company decides not to issue a full ESG report and instead begins the process with a webpage or pages dedicated to environmental, social and governance policies, investor relations is crucial to supporting the content development of this page so that it does not simply look like a "check the box" effort to investors.

In addition to creating an ESG-specific page on your investor website, investor relations can assist in updating other areas of the current site that are related to the content of your ESG report. For instance, investor relations should help maintain the corporate governance page, including Board of Director bios and governance policies. Consider adding details to the director bios that justify why they sit on your board and what unique experiences and skillsets they bring to the table.

The corporate website can also be leveraged for ESG-related information. This can be especially helpful when it comes to offering more robust data in the case that a full ESG report is not issued by your company. Investors will often review pages on your corporate website, such as HR and recruiting pages for information on diversity, equity and inclusion, or corporate philanthropy pages to see how your company is supporting the communities in which your employees live and work. Partner with your investor relations team to tie those pages to your overall ESG report. Seamlessly, connected messaging is essential to successful communications of your ESG goals, commitments and progress.

PREPARE FOR INBOUND ESG SURVEYS

Once your report is live, you can expect to be contacted by various survey agencies seeking ESG data.

The number of ESG surveys can seem endless. Your external advisory team, specifically your investor relations partner, can assist in sorting through these requests, determining which are being requested by important investors or rating agencies and then make actionable decisions on what surveys your company should respond to and which you can skip. These surveys can also require quite an extensive amount of data, so thoughtful consideration of which surveys to answer and how to collect the necessary information is crucial. Your external advisors can help gather data, answer the surveys in conjunction with your ESG Committee and keep a running depository of all of the questions asked to make it easier to respond to future requests.

WHAT'S NEXT?

Once your ESG report is complete and made publicly available, the work is far from over.

The ESG effort is ongoing, and investor relations is core to the continued engagement necessary to fully leverage the tremendous amount of work that went into and will continue to go into your company's ESG efforts. Keep in mind that ESG is not a topic only important to your traditional active investors. The Index Industry Association, which represents more than three million indices covering equities, fixed income, commodities and foreign exchange, found that nearly two-thirds of portfolios will include ESG investments over the next 10 years.[2] So, how can investor relations get the message out to a broad group of investors and corporate governance professionals while ensuring that consistent, helpful data is relayed?

Investors are increasingly focused on ESG-related commentary in annual reports and proxy statements. According to the Harvard Law School Forum on Corporate Governance, compared to 2021, in 2022 ESG categories with the largest increase in disclosure in SEC filings, including the proxy and 10-K, included environmental disclosure (up 89% year-over-year),[3] human capital management (up 86% year-over-year) and environmental and social targets and goals (up 76% year-over-year). If we focus specifically on the proxy statement, Harvard Law finds that amongst Fortune 50 companies, 90% made specific climate change disclosures in their proxies in 2022.

It is clear that there is no avoiding providing information related to your ESG efforts in both the annual report and proxy, so it is key to work with investor relations to strategically incorporate this information into both filings. For those corporate governance professionals that may only review the proxy and not your full ESG report, take this opportunity to communicate that ESG is a part of your company's corporate governance efforts, critical to human capital management and essential to reducing your company's impact on the environment.

[2] "Index Industry survey sees ESG in two-thirds of portfolios in ten years," by Hazel Bradford, Pensions & Investments, July 28, 2022.
[3] "ESG Disclosure Trends in SEC Filings," Harvard Law School Forum on Corporate Governance, July 16, 2022.

ONE STEP FURTHER

While your external audiences — buy-side investors, sell-side analysts, and rating agencies — are key to the ESG reporting process, it is important not forget about the internal players as well.

As you come to terms with wrapping up your first, second or even tenth ESG Report, remember to keep your executive team and Board of Directors well versed. Investor relations should provide your executive team and the rest of the ESG Committee with articles, reports, analyses and other documentation on a regular basis so that they can stay abreast of best practices and even the pitfalls of your industry with regards to sustainability trends. This practice of continuous learning and research will arm your company with the knowledge to refine and improve your ESG efforts.

You also need the continued support of your Board of Directors. Leverage your external advisory team, including your ESG advisory group and investor relations team, to keep your Board up to speed on the ESG space by drafting quarterly or bi-yearly reports on your company's progress towards its long-term ESG goals. Furnish your directors with the information to stay one or more steps ahead when it comes to their knowledge of environmental, social and governance trends.

With all that said, this brings us back to the start of this white paper and the bias that ESG and small- and mid-cap companies are incompatible. We hope that in reviewing this report you see that this statement could not be further from the truth. Small-cap, mid-cap and large-cap companies are all compatible with ESG. You just need to get started!

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About Georgeson

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic advisory services, including solicitation and shareholder engagement strategy, investor identification, ESG strategy and implementation support, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide.

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About Addo Investor Relations

Addo Investor Relations is a strategic investor relations and financial communications firm based in Los Angeles, California. Started in 2009 by Chief Executive Officer and former public company CFO Andrew Greenebaum, our mission is to provide expert tactical and strategic solutions to optimize clients' financial perception among investors. Our co-sourced model leads to long-lasting client relationships, while our experience, industry knowledge, analytical ability and Wall Street relationships allow us to achieve the best results for our clients. We have a small agency feel with large agency expertise.

Learn more about our team and our extensive industry experience by visiting our website at www.addo.com or give us a call at 310-829-5400.

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ADDO is a full service strategic communications advisory firm, specializing in investor relations, initial public offerings and capital markets transactions support.

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