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Environment, Social, & Governance (ESG)

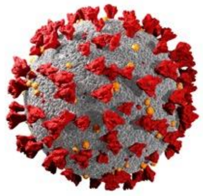
SIFM '22 - Thought Leadership Discussion

June 23, 2022

Grant Thornton US

Global Considerations | Building A Sustainable Business

UN SDGs facilitating a global commitment to sustainability



COVID-19 has spurred economic upheaval
‘ The Great Reset’

Inequality is accelerating activism

Climate change is influencing corporate strategy

> “Within the next 5 years…. all investors will measure a company's impact on society, government, and the environment to determine its worth
>
> *- Larry Fink, BlackRock CEO*

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ESG | Global Focus

Mounting pressure on companies around the world to improve ESG disclosures & enact ESG risk management frameworks.

"acting in pursuit of the public interest and acting to maximize the bottom line are complementary"

SEC Chair
Allison Herren Lee

SFDR is being "enacted to address the twin objectives of increasing transparency of sustainability-related disclosures and to increase comparability of disclosures for end investors."

ESMA

"While the world moves towards a single standard, BlackRock continues to endorse TCFD- and SASB-aligned reporting."

Larry Fink

Issuers are required to state whether they have made disclosures consistent with the recommendations of TCFD or explain if they have not done so.

Financial Conduct Authority

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ESG | Simply Stated

ESG represents a company's efforts to **systematically assess, manage, and monitor risks of material potential impact to the strategic and financial decisions of the company.**

The term ESG is often used as a synonym for *sustainability, CSR, public relations, social investment, or environmental compliance*.

While some of these elements may factor into an ESG program, at the center of ESG is the **management of risk and the preservation of shareholder value.**

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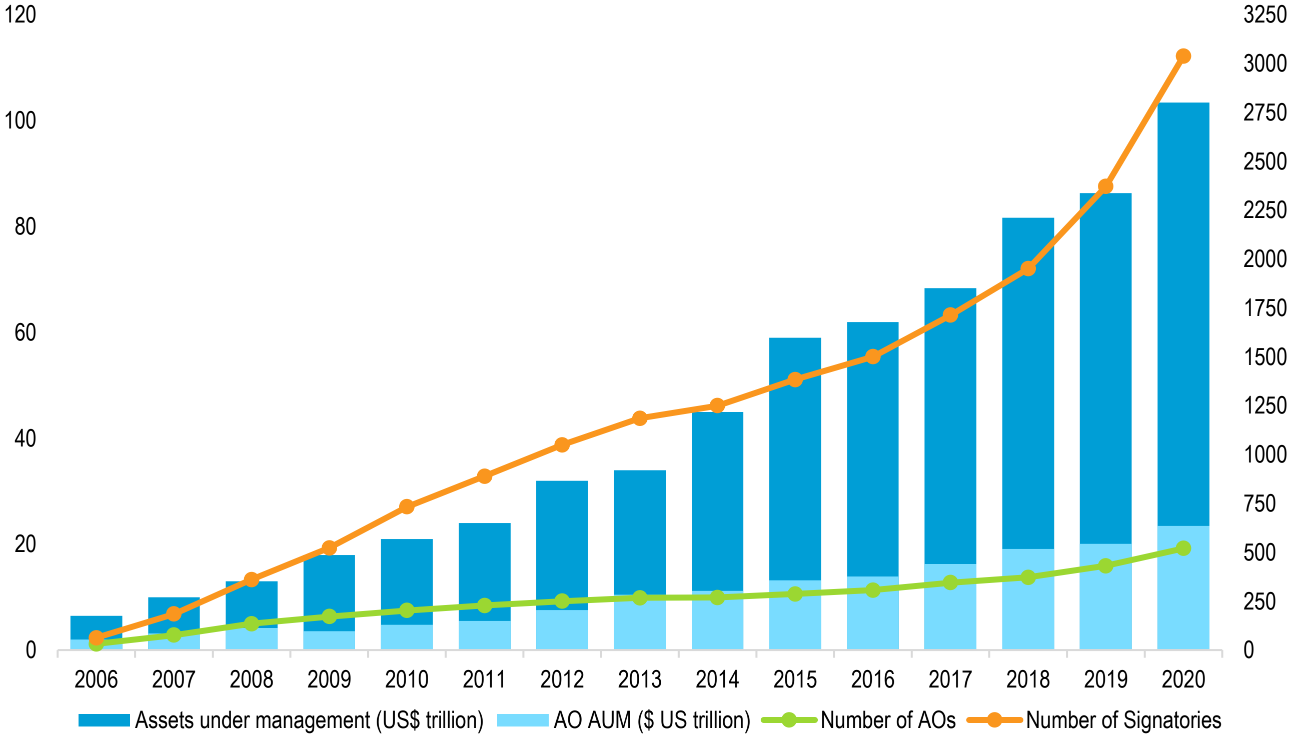
Investor Attitudes | Fast Changing

Key Drivers of Change:

- Transition of the debate on ESG issues from values-based argument to long-term value creation and risk assessment.
- Increasing pressure on insurance industry to demonstrate sustainable business practices in the aftermath of the 2008 Financial Crisis and catastrophic physical (climate related) disasters.
- Increased momentum of ESG stewardship initiatives and proliferation of best practices.

PRI Signatory Growth



Sources: UN PRI

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ESG | Risk Governance is Paramount

The Business Problem:

- The various drivers of increased sustainability reporting — investor, regulatory, and social — have created pressure for organizations to produce reporting and positioning on ESG topics.

- Without a reasoned ESG risk management strategy built on a clear-eyed understanding of the issues, poorly executed sustainability reports and ESG strategies can quickly run afoul of regulatory compliance and astray of investor, customer, and workforce expectations.

The Business Solution:

- Focus on effective internal control and governance over ESG matters.

- Identify and evaluate its top ESG impacts and determine goals to manage them.

- Target goals should be realistic and measurable because of the risk of not meeting them.

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ESG | Key Components - Not Industry Agnostic

Corporate governance applies universally across all industries.

Strong governance of corporate, environmental, and social issues creates sustainable companies

Material environmental and social issues vary significantly by industry may even be company-specific, depending on the level of materiality of each risk factor.

Corporate Governance

Board Quality
- Independence
- Skills and Qualifications
- Diversity
- Refreshment
- Board Leadership

Management Incentives
- Pay-for-Performance Alignment
- Ownership Requirements
- Metrics and Goals
- Severance / CIC Payouts
- Claw-back Provisions

Shareholder Rights
- Board Accountability to Shareholders
- Shareholders' ability to act
- Voting Rights

Environmental

Climate Change
- Carbon Emissions
- 2-Degree Alignment
- Fossil Fuel Reserves
- Energy Efficiency
- Renewable Energy

Resource Management
- Water Management
- Raw Materials
- Energy Sources

Environmental Impact
- Air Quality
- Ecological impacts
- Critical Incidents (accidents)
- Waste Management
- Plastics

Social

Workforce & Human Capital
- Inclusion and Diversity
- Supply Chain Labor
- Workplace Health and Safety
- Gender Pay Gap

Value Chain (Suppliers and Customers)
- Product Health and Safety
- Data Privacy
- Data Security
- Predatory Sales / Pricing

Society and Communities
- Community Relations
- Economic Impacts
- Human Rights
- Corruption
- Political Activities

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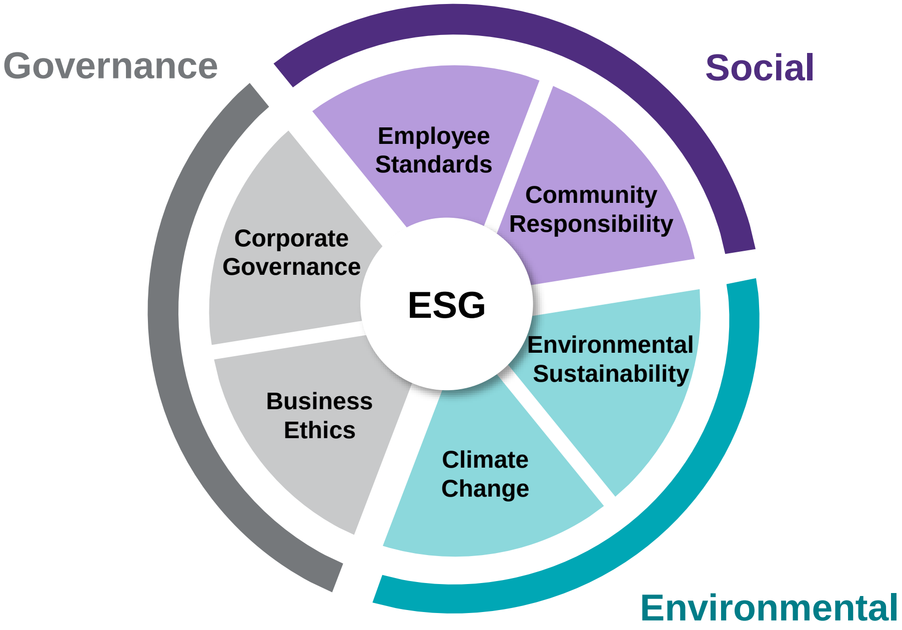
ESG | Focus Areas

ESG is moving towards a more risk intelligent enterprise relative to various ESG Risk impacts. Organizations are evaluating how to align core organizational values and goals with ESG considerations and mandates.

ESG – Strategy & Risk Framework Building



Focus Areas

Environment	Climate Change	• Greenhouse Gas Emissions • Water & Wastewater Management
Environment	Sustainability	• Innovation, Responsible Sourcing / Production • Land Use
Social	Employee Standards	• Fair Labor Practices • Diversity & Inclusion • Employee Development
Social	Community Responsibility	• Fair Disclosure & Marketing • Access & Affordability • Economic Impacts
Governance	Corporate Governance	• Leadership Diversity • Control & Oversight • Accounting Practices
Governance	Business Ethics	• Anti-Competitive Practices • Corruption & Fraud

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Key Internal Stakeholders | Three Lines

At all levels, the stakeholders must leverage their competencies to further the implementation of ESG efforts within the ERM framework.

1

1st Line – Chief Sustainability Officer, Investor Relations, and Communications

The First Line is best embodied by the Chief Sustainability Officer (CSO) and supporting personnel, who will emerge at the forefront of organizational efforts to embrace ESG and climate-smart strategies, define the complex, external sustainability landscape and guide responsive strategy, enhance risk mitigation tactics, and design new operations and controls.

2

2nd Line – CRO and equivalent risk management leaders (Financial Reporting, Supply Chain RM, Third Party RM, Quality Assurance, and Compliance)

The Chief Risk Officer (CRO) and equivalent risk management leaders comprise the Second Line, responsible for adapting standard risk frameworks to ESG topics and lower-level risk managers across the organization in identifying, monitoring, and ultimately managing down ESG risks.

3

3rd Line – Chief Audit Executive, Internal Audit leaders

The Chief Audit Executive or equivalent internal audit leaders spearhead the Third Line, assessing the effectiveness of the first two lines, providing independent and objective assurance, and liaising with external regulators and auditors.

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Key External Stakeholders | Regulators

At all levels, the stakeholders must leverage their competencies to further the implementation of ESG efforts within the ERM framework.

4

Regulators – United States Securities Exchange Commission (for now)

The US regulator that is currently most often associated with sustainability matters is the Securities & Exchange Commission (SEC). The SEC's current reporting system incorporates corporate disclosures of ESG-related activities. The SEC has created the Climate and ESG Task Force to detect and monitor ESG-related misconduct..

5

Other Organizations

The Financial Stability Oversight Board (FSOB) created the Task Force on Climate-Related Financial Disclosures (TCFD) in 2015 to develop guidelines for and roadmaps to voluntary, climate-related reporting. TCFD's framework is the gold standard for climate-related disclosures across industries and countries. The NAIC is closely monitoring these developments.

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‘Dynamic’ Materiality:

Sustainability topics can move – either gradually or very quickly

Reporting on matters that reflect the organization’s **significant impacts on the economy, environment, and people** (GRI, CDP)

To users with various objectives who want to understand the enterprise’s positive and negative contributions to sustainable development

Reporting on the sub-set of sustainability topics that are **material for enterprise value creation** (SASB, CDSB)

Specifically to the sub-set of those users whose primary objective is to improve economic decisions

Reporting that is **already reflected in the financial accounts*** (FASB)

*Including assumptions and cashflow projections

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	Evidence	Governance	Standards Development	Due Process
Sustainability Standards — GRI Standard	Focus on evidence that **disclosure is in the public interest**	**GSSB:** 15 members across 5 constituencies of business enterprises, civil society organizations, investment institutions, labor and mediating institutions	Global groups of subject matter experts **across the 5 constituencies**	**Governance oversight** of due process **Evidence vetting** Standards Board review **Public exposure** exposure drafts **Finalization** Revision and board approval **Standards released**
SASB Standard	Focus on evidence of impact on **revenues expense, valuation of assets/liabilities, cash flows, or cost** of capital of an entity	**SASB Standards Board:** 9 members from academics, investors, companies, legal, risk, and auditing	Global industry specific experts primarily from **issuers and investors**	

- FIT FOR PURPOSE as determined through appropriate consultation and due processes
- COMPARABLE across companies and geographies
- ASSURABLE providing reliable information
- ADAPTABLE as issues evolve
- Can be SUPPLEMENTED BY JURISDICTIONAL REGULATORY REQUIRMENTS

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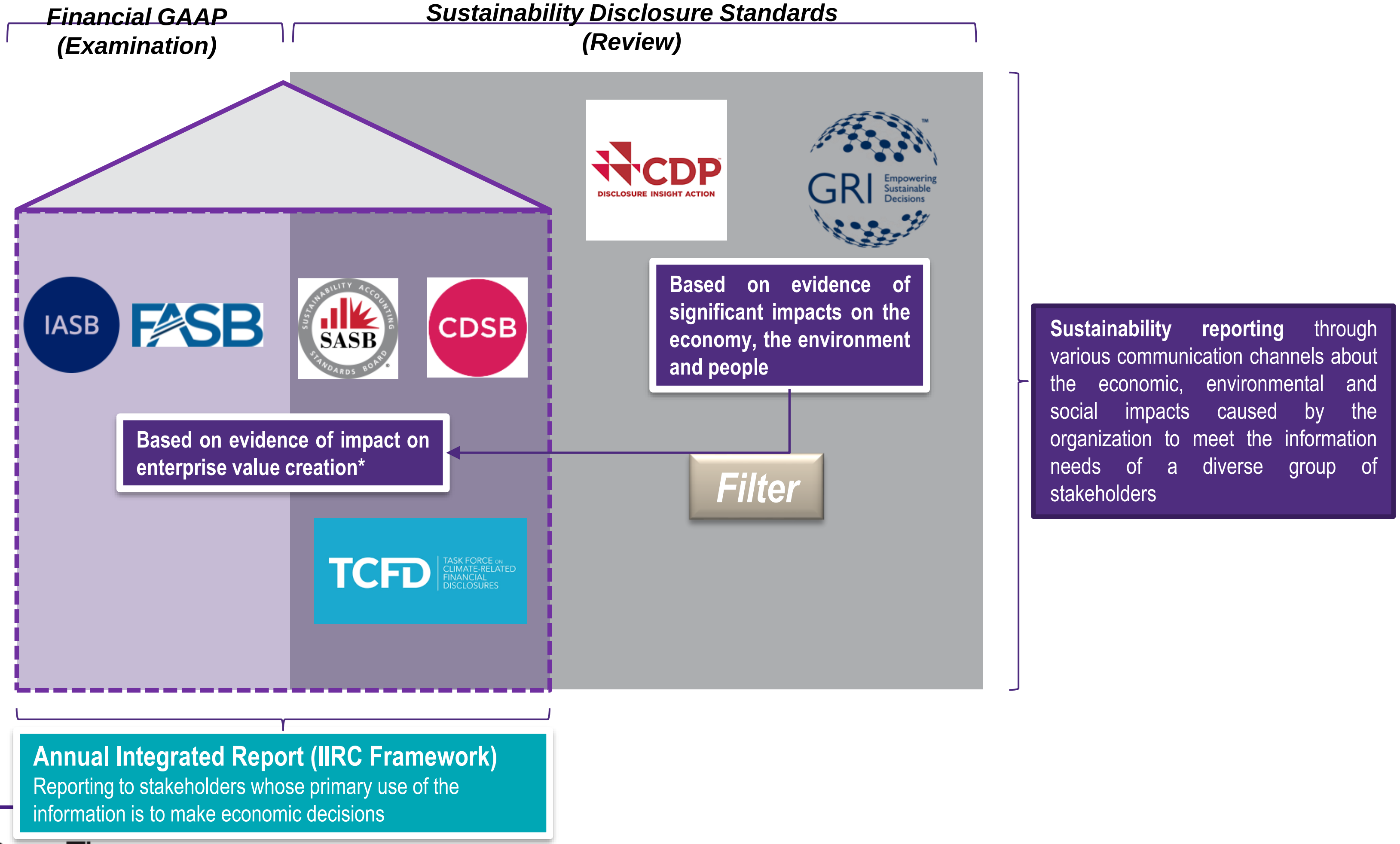

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Frameworks
A set of principles-based guidance **for "HOW"** information is structured and prepared, and for what broad topics are covered

Standards
Specific, replicable and detailed requirements **for "WHAT"** should be reported for each topic

	TCFD	SASB	GRI
About	Focuses on climate-related financial disclosures to help investors and others understand material risks related to climate change	Can be used to identify, manage, and communicated financially material sustainability information to investors	Can be used to help businesses understand and communicate the impact of business on critical sustainability issues
Benefits	Principles-based recommendations serving as a foundation for global climate-related disclosures	Enables companies to report financially material metrics that are industry specific to meet the needs of investors globally and is capable of being assured	Enables companies to report impact of its social and environmental activities to various stakeholders and is capable of being assured
At-A-Glance	Principles-based recommendations to manage and report on climate risk globally	Supports presentation of financially material information globally to inform capital allocation decisions	Supports presentation of socially material information that can be tailored to cultures and geographies

Integrated ESG reporting framework drawing on the existing ESG frameworks and standards

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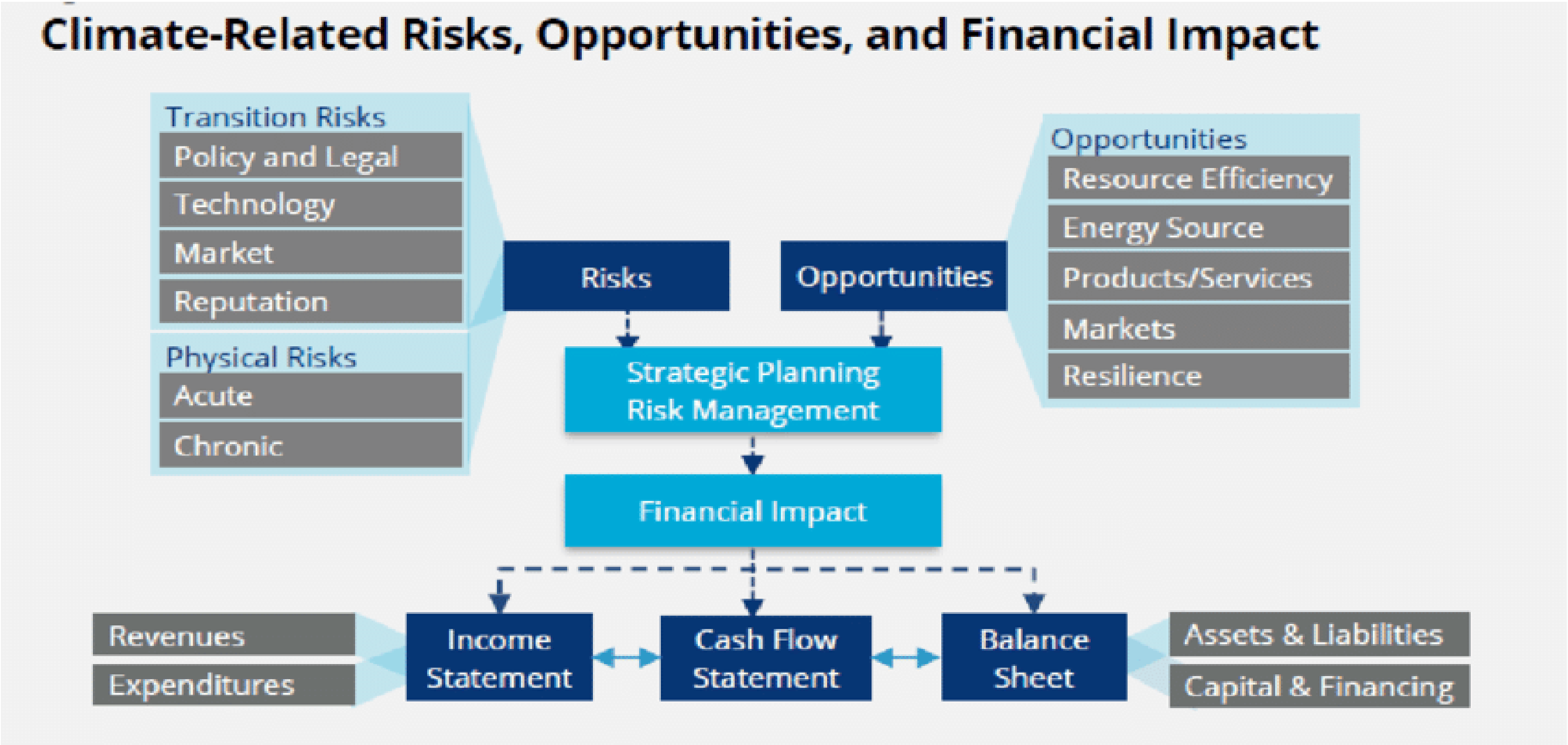
TCFD | Climate Risk Assessment



*Source: Sustainability Accounting Standards Board Foundation ("SASB") and CDP Worldwide on behalf of the Climate Disclosure Standards Board ("CDSB"), TCFD Implementation Guide (2019)

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Investor & regulatory ESG requirements

The SEC agenda and potential proposed rules align to key areas of investor focus on ESG.

	Regulators	Investors			Proxy advisory firms
	SEC	BlackRock	State Street	Vanguard	ISS
Climate	✓	✓	✓	✓	✓
Board Diversity	✓	✓	✓	✓	✓
Human Capital	✓	✓	✓	✓	✓
Cybersecurity	✓				

"Most stakeholders – from shareholders to employees, to customers, to communities, and regulators – now **expect companies to play a role in decarbonizing** the global economy.

Few things will impact capital allocation decisions – and thereby the **long-term value of your company** – more than how effectively you **navigate the global energy transition in the years ahead**."

- Larry Fink, CEO of BlackRock

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TCFD | Right-sizing scenario analysis

The following components may be included in assessing the selected scenarios depending on the offering selected.

A variety of scenario analysis components can be used in order to "right size" the assessment for your needs

- Risk Taxonomy & Register
- Operational Impact – Qualitative metrics
- Financial Impact – Quantitative metrics
- Risk scoring & analytics
- Materiality assessment
- Resiliency assessment
- Velocity & timing of risks
- Prioritized roadmap

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TCFD | Scenario analysis benefits and outcomes

Navigating a variety of futures to ensure climate change preparedness strengthens organizational capacity and bolsters positioning amongst peers. Communicating future risk to investors reveals opportunities that can be leveraged now and in the future.

Strengthen Resiliency

- Improved ability to adapt to the operating environment and **limit business disruption and improve reliability in operations**
- Quantifying the financial implications of transition scenarios can **inform strategic decision-making and reinforce long-term resiliency**

Mitigate Loss

- Stress testing business assumptions and circumstances forces **preparation** for a variety of futures
- Focusing analysis on the highest risk variables will **safeguard against a scenario's greatest potential loss,** whether it be climate's effects on a **company's operating cost curve** or the physical location of an asset

Maximize Return

- Changing soil, climatic, atmospheric CO_2 conditions and improper land management increase probability of **supply chain vulnerabilities** and reduced return on assets, while also **impacting raw materials/input pricing**
- Understanding how climate scenarios affect **RYAM's access to capital markets and costs of capital** will allow for optimized financial management over the long-term

Accelerate Adaptation

- Effective scenario analysis **requires collaboration** amongst a diverse set of stakeholders, including communities, researchers, domain experts, planners and decision-makers
- Developing impact hypothesis and scenario parameters drives collective understanding while **revealing information gaps, accelerating adaptation** response potentialities

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TCFD | Scenario analysis continuum

GT offers three levels of TCFD Scenario Analysis to meet a range of desired outcomes based on the organization's needs.

Organizational Value

Compliance Based

Meet baseline expectations of stakeholders and regulators.

- Satisfy investors
- Not used for informing decisions

Managed & Replicable

Generate a detailed understanding of scenario risks in preparation for future mitigation activities.

- More detailed analysis provides nuanced insights
- Informs operational planning and decision making

Strategic & Integrated

Incorporate scenario analysis into strategic initiatives as a differentiator in the market.

- Detailed analysis and statistical modeling uncover opportunities for differentiation
- Integration into broader strategic initiatives for greatest ESG maturity increase
- Resilient operations able to weather operational disruptions

Cost & Complexity of Analysis

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TCFD | Scenario analysis options

The engagement options offer a range of depth and breadth – from high level classification and impact analysis, to detailed statistical analysis and modelling. The table below summarizes what is included at different levels of Scenario Analysis offerings.

	Compliance Based *Satisfy investors, regulators, etc*	**Managed & Repeatable** *Use for operational planning*	**Strategic & Integrated** *Used for strategic planning*
Risk Taxonomy & Register	✓	✓	✓
Qualitative Metrics	✓	✓	✓
Quantitative Metrics		✓	✓
Materiality Assessment		✓	✓
Risk Scoring & Analytics			✓
Resiliency Assessment			✓
Prioritized Roadmap			✓

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Sample output | Risk taxonomy & register

This sample visualizes potential components included in a Compliance Based Risk Taxonomy output.

Selected Scenario	Risk Category	Risk Name	Risk Description	Actualization	Business Impact & Opportunities	Rayonier's Response	Financial Impact
IEA's Net-Zero Energy by 2050	Transition Risk	Investor Pressure to Disclose Scenario Analysis in TCFD	If our investors are requiring Rayonier to disclose GHG emissions, then Rayonier risks losing access to capital markets for non-compliance	Short-Term	• Investors and lenders may not wish to provide capital to RYAM • Investors and lenders may only invest/lend on more unfavorable terms to RYAM • Need to dedicate resources to analyze and produce our TCFD disclosure	• Currently provide a basic disclosure against TCFD framework • Working with investors/lenders to strengthen TCFD to meet requirements	Medium
		Carbon Tax	If regulators implement a carbon tax, then Rayonier risks a reduction in profitability through investments in CO_2 mitigation	Mid-Term	• Invest in CO2 reduction technologies for RYAM operations • Purchase additional carbon offsets • Opportunity to leverage land holdings as carbon offsets depending on market rate	• Currently watching future legislation for our affected markets • Begin assessing market opportunity to determine at what rate it becomes profitable to save assets for offset credit	Small to Medium
IEA's Stated Pledges Scenario	Physical Risk	Operational Disruptions	If natural disasters cause operational disruptions, then RYAM risks reduction in profitability, and reputational damage.	Mid-Term	• Profitability declines quickest in High Purity Cellulose • Productive assets may become unprofitable	• Diversify supplier portfolio across larger geographic footprints	Medium
		Access to Wood Fiber	If climate patterns change, then RYAM risks supply chain disruption and reduced profitability	Long-Term	• Assets may become stranded and need to be sold a reduced value • Raw material prices may increase	• Partnering with local forestry stakeholders • Diversification of supplier pool	Large

SAMPLE

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ESG Assurance | Internal Audit

Has **the metric** been disclosed consistently year over year?

If so, **was the calculation the same each year**?

Has **third-party assurance** been provided on the information?

If so, **by whom** (e.g., engineering firm, independent accounting firm, environmental firm)?

Additional questions to consider:

1. What was the level of assurance (e.g., reasonable vs. limited)?
2. What are the qualifications of the assurance provider, and what does the assurance incorporate (e.g., some non-CPA firms qualify the assurance and say they are not opining on the accuracy of the data)

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Board Oversight | Where the Company is Today

Board members must consider where their company is today with respect to ESG information:

1. Has the company identified <u>all relevant, or material risks</u> associated with ESG frameworks and requirements?
2. Does management have the <u>necessary information</u> needed to assess ESG-related risks, and on <u>what cadence</u> should ESG information be provided to the board?
3. Do one or more board committees have <u>explicit oversight responsibility for ESG</u>, and what role do other committees and the full board play in ESG oversight (e.g., governance committee involvement in overseeing related factors, audit committee involvement in assessing the appropriateness of management's risk assessment of this information)?

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ESG Assurance | Internal Audit

Risk processes and controls will vary based on the risks identified and the data sets associated with each risk type

ESG Risk Management Processes

Risk Identification	Risk Scoring	Risk Measurement	Risk Monitoring
Identifying the ESG starting points for risk types including, defining each risk and building a risk taxonomy Example: Climate Risk.	Embedding into existing RCSA processes Inherent and Residual scoring across 12 month + time horizons	ESG risks are measured similar to other risks, i.e. operational risks E = TCFD physical and Transitional risk measurements across the value chain	Establish a cadence by risk type. Use of "single source of truth" dashboards and data sources

When the ESG Risk Mitigation strategy is deemed appropriate, controls will take multiple forms depending on the source of the risk.

People

Policy & Procedures
E.g., whistleblower protection

Training
E.g., bias reduction classes

Process

Third Party Controls
E.g., supplier alignment and management

Monitoring/Reporting
E.g., statements

Systems

Data & Analytics
E.g., ESG sentiment analysis

Trend Tracking
E.g., ESG litigation

ESG risks and controls re-evaluated regularly to ensure ESG strategies remain appropriate for current challenges and are both reliably and validly reported through existing risk governance operating models

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ESG Practices | Do Not Follow

The following are a few of the most common misconceptions and problematic practices among companies when dealing with the management of ESG topics:

- **Excessive Focus on Ratings**: A company approach that focuses exclusively on improving the company's rating is at risk of allocating more resources to "checking boxes" instead of developing a strategy that is tailored to the company's unique outlook and exposure to risk.
- **Treating ESG Solely as a Communications Effort**: Communications can help the company amplify its messaging, but they cannot substitute for a robust management system that addresses material risks.
- **Lack of Board and Management Oversight**: The company's ESG management strategy should be positioned as a core part of the company's vision and values. The involvement of the board and senior management is key.
- **Disconnect from Business Strategy**: An ESG strategy that does not consider the company's strategic objectives and does not inform the main corporate strategy fails to serve its purpose.
- **Compliance-Oriented Approach**: An approach to ESG management focused on compliance with rules and regulations may appear as reactive and indicate a reluctance to go above and beyond minimum requirements.
- **Inconsistencies across the Firm:** Lack of a company-wide strategy and coordination leaves significant gaps in the company's ESG management programs, with potential exposures to risk.
- **Lack of Assessment and Monitoring**: Lack of effective monitoring of ESG performance impedes the company's ability to make progress and receive full credit for its ongoing initiatives through reporting.

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ESG Practices | Follow

An ESG strategy cannot be separate from the broader organizational strategy. The further development of an ESG strategy effectively means the integration of sustainability elements to a company's core strategy.

- **Emphasis on Material Issues:** Priority is given to the most material issues from a financial, environmental, and social standpoint.
- **Strategic Alignment:** The emphasis on materiality allows for the development of an ESG strategy that is fully integrated with the broader strategy.
- **Board Leadership and Oversight:** The Board and top management will own the strategy and oversee its implementation.
- **Innovative Programs and Policies:** Introduction of new policies, procedures, and technologies to achieve the company's long-term strategic objectives.
- **Metrics and Goals:** The implementation program includes quantitative and qualitative objectives which can be monitored to measure the company's progress towards its goals.
- **Monitoring:** The implementation should allow for regular assessment of the effectiveness of the various programs, so that the company can make adjustments for improvement.

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