**<u>Why we write articles / blogs?</u>** Our "Pepper" ecosystem has a sub-mission to **educate and through that empower** individuals and organisations to take leadership to tackle critical sustainability challenges.

These challenges are summarised into the following 10 categories (with a goal to solving for the problems that relate to each category) all the while recognising

- The wicked nature of the sustainability problems, and therefore
- The need for systemic thinking for solution-provision


We **<u>always</u>** need to position the blog in terms of how:

- The blog content / topic applies to these 10 Category, and
- Explain it from the viewpoint of one or more of four Agents involved in the Change Solution.

The four **<u>Agents</u>** are:

1) Government – policy setting and compliance / adherence regulation
2) Finance – enablement of new activities and implementing ideas
3) Business – practical activation and implementation
4) Consumer – push / pull economic market influence and choice / selection / sentiment forces

*The following is unnecessary detail for these articles, because it creates non-value adding complexity for a reader. But I am listing the strategic **<u>levers</u>** for change which categorise these agents' activities, which are:*

1) ***Organisational Strategy and Business Models***
2) ***Governance (Corporate and International)***
3) ***Communication and Education***
4) ***Sustainable Design & Technology***
5) *Government Policy & Regulations*
6) ***Sustainable Finance & Investment***
7) ***Organisational Culture and Practice***
8) ***Cooperation, Collaboration & Partnerships***

**<u>Implicit / repeated Article content</u> :**

**How do the RedPepper Mergers and GreenPepper Capital brands and the partnering ecosystem**

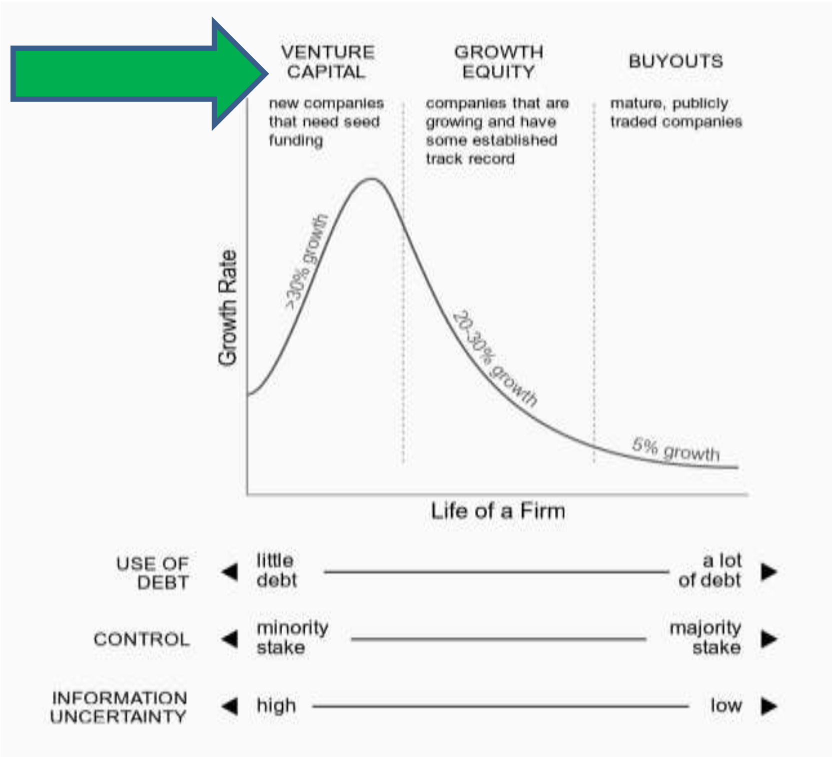
**- support these sustainability change agents, and**

**- enable the levers that address these 10 sustainability problems?**

1) **RedPepper Mergers** (advisory / consultancy to early stage Tech-for-Sustainability)
   - works with founders to package mechanisms for change as an investible story (<u>Investor Ready</u>)
   - sources Green <u>expansion capital</u> (Philanthropy, Govt Grants, Impact Seed, Debt Finance, Cashflow Liquidity, Venture Capital and Private Equity) for start-ups
   - advise (at a strategy level) on how to get <u>positive revenue growth</u> using these 8 business levers through JVs, Partnerships, HoAs, PPPs and buy side M&A mandates
   - manages sell side <u>M&A exit mandates</u>

2) **GreenPepper Capital** ( an umbrella set of boutique financial solutions funding change with early stage impact metrics and governance). This is called Responsible Investment (see Appendix).

- <u>Impact Seed Capital</u> – MVP and business validation crowdsourced non-equity funding (GP Impact / SustainAseed)
- <u>Operational Investment Capital</u> – early stage establishment crowdsourced equity funding (GP Invest)
- <u>Expansion Venture Capital</u> – proven revenue / business model venture equity funding (GP Venture)



All blogs / news articles must have 3 (interrelated parts), in order to appeal to multiple audiences, while not apologizing for being intellectual in nature. These "parts" are:

1) An **executive overview** (intended to grip the attention of a casual reader much like an academic abstract).
2) A commercial commentary – why should business care? What actionable points are takeaways
3) An academic commentary – this aims to showcase academic rigour around the proposed viewpoint and provide reference material evidence of this viewpoint's substance.

I have no desire to complicate a simple blog but I also feel that if it has no strategic fit, uniform structure and message then it is more rubbish posted online.

**I am proposing no more than 1 per month, maybe 1 every 2 months.**

## An introductory guide to Responsible Investment

### What is ESG (Environmental, Social, and Governance)?

ESG is the acronym for **E**nvironmental, **S**ocial, and (Corporate) **G**overnance, the three broad categories of interest for what is termed "Responsible Investment (RI)." These investors consider it important to incorporate their values and concerns (such as social or environmental concerns) into their selection of investments instead of simply considering the potential profitability and / or risk presented by an investment opportunity.

Environmental factors relate to the company's policies on, and interactions with, issues that affect the natural environment. This includes replacing polluting industry practices with recycling technologies, addressing climate change through decarbonisation, swapping conventional energy for renewable energy, changing out pesticides or genetically modified organisms (GMOs) with renewable agricultural practices, and better managing the extraction or use of raw materials in a plethora of ways.

Social factors broadly concern the corporation's interactions with other societal interests. These issues typically include employee and labour relations, human and animal rights, certain forms of workplace diversity, and the procurement of the products or services that the company supplies.

Governance factors typically focus on the corporation's structure and operation, and can include issues such as employee diversity, gender equality, gender variance acceptance, executive compensation, board member demographic diversity, political spending or lobbying, and management structure and policies.

We challenge you to think through these lists, relating them to your life and workplace and consider how much better your workplace would feel and perform (especially financially) if many of these points were equitably optimised.

*Read more in our coming article about why ESG investing returns higher profits and de-risks business. Does that sound simply logical?*

## Responsible investment unpacked

Responsible investment has many names. This happens because the mega-concept gets hijacked by entities seeking to emphasise a personal preference or attempt to define a unique sales proposition, in an attempt to be commercially competitive.

These alternatives include terms like “socially responsible investing”, “sustainable investing”, “impact investing”, and “mission-related investing” among many others.

At GreenPepperCapital, we interchangeably use overarching terminology like “Responsible Investment (RI)” and “ESG investing”, since our early-stage investment focus means we touch all these niche propositions agnostically. Simply put, we are no less well positioned than the next person, to compare the relative value of different attempts to “do good”?

Furthermore, varying ESG issues may or may not be relevant in an investee / portfolio consideration, depending on the specific area of ESG being targeted. While this omission, does not devalue one over the other, the systemic nature of problems / solutions does make it challenging to always “do no damage” even with the best intentions.

At GreenPepper Capital, alumni of Harvard University and Cambridge University – Centre for Sustainable Leadership – we leveraged world-leading best practice to design a change index which measures the nature and extent of the proposed positive impact of an investment. This allows us to compare the merits of two investments, which have different positive impacts but compete for limited investment capital, without ‘choosing sides’.

This makes GreenPepper Capital activist in our approach as investors and investment managers.

It also means we are positioning early-stage business to be financially sustainable - empowering a brighter future.


*Read more in our coming article about why ESG investing returns higher profits and de-risks business. Does that sound simply logical?*

## What is an activist ESG investor?

ESG activism is a term used to describe individuals and organizations that advocate. lobby and promote for Environmental, Social, and Corporate Governance (ESG) criteria to evaluate commercial decisions and actions.

It is historically used to reference an individual or institutional investor that seeks to acquire a controlling interest in a target company by gaining seats on the company's board of directors.

However, more appropriately speaking, activist investors are looking to make significant changes to the target company and unlock perceived hidden value within the target company.

## Contextual insights of relevance for GreenPepper Capital activism

ESG considerations can be employed as a thesis for investment, in a start-up, justification for divesting from a corporation or fund or to motivate shareholder political activism when targeting a private or public company or investment fund.

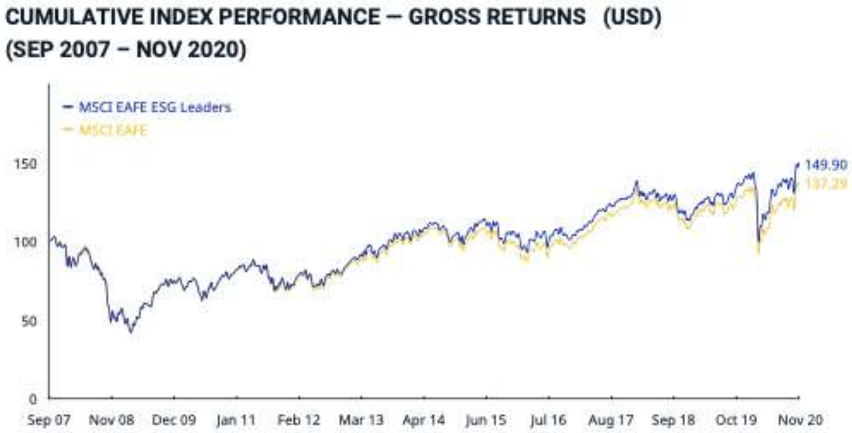
ESG causality that leads to investment or divestment of private money, is hard to critique since it is no less of a basis for a decision than any other reason. However, shareholder political activism has historically led to criticism of the ESG movement, with critics arguing that the movement harms financial returns and that it coerces individuals who participate in pooled investments like mutual funds to support political positions against their will.

However, multiple 2020 and 2021 world events has showcased pressing issues destabilising society, from systemic discrimination to climate crisis. Early-stage business, unencumbered by structural historical decisions and offering niche disruptive market solutions is well-positioned to create a shared-value economy (see Appendix 1(a)) (CDC 2020) to respond with solutions to address these issues.

## Motivation for using ESG in business

Globally, Responsible Investment (RI) grew to US$30+ trillion in 2019 and is predicted to reach US$50 trillion by 2030 (Morgan Stanley 2020).

Figure 2 illustrates the outperformance of the MSCI ESG Index over the traditional MSCI Index. This empirical comparison shows that ESG implementation has not come at the expense of financial return but rather, has enhanced it.




ANNUAL PERFORMANCE (%)

| Year | MSCI EAFE ESG Leaders | MSCI EAFE |
|---|---|---|
| 2019 | 24.58 | 22.66 |
| 2018 | -12.91 | -13.36 |
| 2017 | 24.02 | 25.62 |
| 2016 | 0.07 | 1.51 |
| 2015 | 2.74 | -0.39 |
| 2014 | -3.97 | -4.48 |
| 2013 | 24.75 | 23.29 |
| 2012 | 17.63 | 17.90 |
| 2011 | -10.25 | -11.73 |
| 2010 | 8.09 | 8.21 |
| 2009 | 34.57 | 32.46 |
| 2008 | -43.23 | -43.06 |

***Figure 2 : Morgan Stanley Capital International (MSCI) Index versus MSCI ESG Index (Morgan Stanley 2020).***

***EAFE refers to European, Australasian and Far East public markets***

Leveraging these public-market insights, a growing number of **multi-stage** private investors, surveyed by Pitchbook, regard ESG as a fundamental component of the way they invest (Pitchbook 2020). Similarly, asset owners (LPs) increasingly screen negatively and positively for **asset allocation** risk, based on ESG criteria (Buckley 2017).

## Support and Criticism

Environmental, Social, and Corporate Governance activists seek to identify and influence businesses based on the ESG standards valued by the activist.

Advocates for the use of ESG criteria in corporate operations and evaluation often argue that modern companies should consider—and advance—interests other than those of their shareholders when making business decisions. They favor a broad definition of corporate “stakeholders” that includes not only employees, suppliers, and customers, but the entire community, society, and environment in which the corporation operates or causes impact.

Chairman and CEO of BlackRock Larry Fink is among the most prominent endorsers of this broad conception of “stakeholder,” who wrote in his 2020 Letter to CEOs that companies must commit to “serving all stakeholders – your shareholders, customers, employees, and the communities where you operate,” in order to advance a goal of “achieving a more sustainable and inclusive capitalism.”

Investors and activists can take different approaches in applying ESG criteria. Investors who seek to align their investments with their personal values may utilize ESG factors when selecting investments. Activists go further, using ESG standards to put pressure on a business, sometimes even advocating for divestment of specific holdings based on value judgements. When activists are also themselves investors, they may put forth shareholder resolutions that seek to change a business’s behavior to align with ESG standards.

Critics of ESG activism contend that it unnecessarily politicizes corporations and seeks to compel companies to wade into controversial or divisive issues that are more properly addressed (if at all) by voters and government. They also argue that utilizing businesses to effect social change can create a conflict of interest for management between maximizing shareholder returns and pursuing non-economic ESG objectives, some of which could be directly harmful to future financial returns.

Within each ESG category are various specific related concerns.

For example, under the "Environmental" category are concerns such as pollution or waste material that a company produces and factors related to climate change.

A common factor is that ESG investors tend to be more activist investors, participating at shareholder meetings and actively working to influence company policies and practices.

## ESG Investing is Growing

ESG investing, despite the criticisms, is becoming increasingly popular and is most likely to be an investing approach used by millennials. Morgan Stanley Bank (NYSE: MS) recently conducted a survey that found that nearly 90% of millennial investors were interested in pursuing investments that more closely reflect the values they hold.

By 2018, approximately $12 trillion worth of investment assets were selected using a socially responsible investing strategy. As millennials begin to comprise a larger segment of the total pool of investors, you can expect ESG investing to expand right along with them.

The financial services industry's responded to the growing demand for ESG investments by making moves such as offering ESG-focused exchange-traded funds (ETFs). Both of the two largest ETF providers – BlackRock and Vanguard – offer clients a choice of ESG-focused funds. BlackRock added six new ESG funds in 2020, and its equity investment team now includes a Head of Sustainable Investing. Brokerage firms now customarily offer stock analysis employing ESG investment strategies, and robo-advisors such as Wealthfront can be set to seek out socially responsible investments.

Although ESG metrics are not currently a required part of financial reports for publicly traded companies, a growing number of companies are proudly including them in their reported statements or a separately issued document. Increasingly there is consensus among many regulators that some form of standardized ESG disclosures will be required of publicly-traded companies on most major global stock exchanges.

## Is Socially Responsible Investing a Responsible Investment Strategy to Follow?

Critics of the trend toward socially responsible investing charge that it detracts from profitable investments and makes both businesses and the financial markets operate less efficiently. One of ESG investing's harshest critics was the late Milton Friedman, the leading light of neoclassical economic theory. Friedman argued that evaluating a stock should focus on the company's financial value and bottom-line profits, period, and that socially responsible corporate expenditures are nearly always "non-essential expenses" that erode corporate and shareholder profits.

However, supporters of more socially conscious investing are mounting vigorous arguments supporting ESG investing as both "the right thing to do" and as an approach to investing that is most likely, over the long term, to provide investors with the best possible risk-adjusted return on investment (ROI). John Elkington is a co-founder of the firm, SustainAbility, which provides ESG consulting services to companies. He is a strong proponent of including non-financial considerations, such as environmental and social factors, in the assessment of stock value.

The advocates of ESG investing suffered a setback in 2020 when the U.S. Department of Labor issued a new ruling requiring fiduciaries of retirement plans to only implement investment strategies based solely on bottom-line investment performance (i.e., not based on ESG concerns) – in short, echoing the attitude of Friedman. Because of the new ruling, the managers of retirement plans may be reluctant to consider ESG-focused companies or investment funds.

## ESG Criteria

Each of the three elements of ESG investing – environmental, social, and corporate governance – comprises a number of criteria that may be considered, either by socially responsible investors or by companies aiming to adopt a more ESG-friendly operational stance.

While many ESG criteria are rather subjective (such as evaluations of "diversity" or "inclusion"), moves are occurring on several fronts that are designed to provide more objective, credible ratings of a company's performance in terms of ESG policies and actions.

In the past, a company's standing in terms of ESG has often depended less on substantive practices and more on how good the company's public relations department is. Businesses such as AccountAbility offer ESG consulting services for companies that want to implement broad ESG-friendly policies and practices.

## ESG – Environmental

Environmental criteria include a company's use of renewable energy sources, its waste management program, how it handles potential problems of air or water pollution arising from its operations, deforestation issues (if applicable), and its attitude and actions around climate change issues.

Other possible environmental issues include raw material sourcing (e.g., does the company use fair trade suppliers and organic ingredients?) and whether a company follows biodiversity practices on land it owns or controls.

## ESG – Social

Social criteria cover a vast range of potential issues. There are many separate social aspects of ESG, but all of them are essentially about social relationships. One of the key relationships for a company, from the point of view of many socially responsible investors, is its relationship with its employees. Following is a brief rundown of just some of the issues that may be considered when examining how a company handles its social relationships:

- Is employee pay fair, or perhaps even generous, compared to comparable jobs or similar positions throughout the industry? What type of retirement plans are employees offered? Does the company contribute to the employee retirement plans?
- In addition to basic wages or salary, what benefits or perks are employees provided with? With ESG-concerned investors, it can make a big difference in the evaluation of your company if, for example, you do things such as providing a free, very lavish buffet lunch for all employees every Friday – or provide other types of benefits that aren't common at all workplaces, such as an on-site fitness center.
- Workplace policies regarding diversity, inclusion, and prevention of sexual harassment are also frequently considered.
- Employee training and education programs; for example, does your company provide financial support for continuing or higher education and/or flexible working hours for employees pursuing further education; what opportunities exist for employees to be trained in new job skills at the company that will qualify them for higher-paying positions?
- What level of employee engagement with management is there? How much input do employees have in determining operational procedures within their respective departments?
- The level of employee turnover
- What's the company's mission statement? Is it socially relevant and beneficial to society?
- How well are customer relationships managed? Does the company engage with customers on social media? How responsive and efficient is the customer service department? Does the company have a negative history of consumer protection issues, such as product recalls?

- Does the company take a public or political stance on human rights issues? Does it donate money to charitable causes?

## ESG – Governance

Governance, in the context of ESG, is essentially about how a company is managed by those in the top floor executive offices. How well do executive management and the board of directors attend to the interests of the company's various stakeholders – employees, suppliers, shareholders, and customers? Does the company give back to the community where it is located?

Financial and accounting transparency and full and honest financial reporting are often considered key elements of good corporate governance. Also important are board members acting in a genuine fiduciary relationship with stockholders and being careful to avoid conflicts of interest with that duty. Are the board members and company executives a diverse and inclusive group?

The issue of executive compensation is a primary focus of many ESG investors, who, for example, don't tend to favor multi-million-dollar bonuses for executives while the company imposes a salary freeze in effect for all other employees. Is extra compensation for executives appropriately tied to increasing the long-term value, viability, and profitability of the business?

An example of how responsible corporate governance is put into practice can be seen in the policies of the company, Intuit (NASDAQ: INTU). One of the company's corporate policies that is aimed at helping to ensure that company executives take on a strong vested interest in the company's ongoing success, rather than just in earning some quarterly bonus, is a rule that requires the top-level chief executive officer to maintain stock ownership equivalent in value to ten times their annual salary.

In addition, executive bonuses depend on more than just revenue or income – factors such as employee, shareholder, and customer satisfaction are also part of the calculation.