Ceres

TURNING POINT

Corporate Progress on the Ceres Roadmap for Sustainability

Executive Summary

www.ceres.org/turningpoint

Acknowledgements

Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses. Our mission is to transform the economy to build a sustainable future for people and the planet.

Research Provider
Vigeo Eiris is an independent provider of global environmental, social and governance (ESG) research and services for investors, public and private organizations and NGOs. The agency evaluates the level of integration of sustainability factors in the strategy and the operations of organizations and undertakes a risk assessment to assist investors and companies in decision making. For more information, visit www.vigeo-eiris.com.

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GRAPHIC DESIGN BY YIPPA

WEB DESIGN BY SEE3

FOR MORE INFORMATION, PLEASE CONTACT:
Jacob Robinson from Ceres
email: j.robinson@ceres.org

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Letter from the President

The rapidly changing climate, a global water crisis, and profound and ongoing human rights abuses undermine not only business operations, but also the lives and livelihoods of employees, customers and stakeholders.

Investors — both large and small — are ramping up sustainable investment strategies focused on environmental, social and governance issues, and more and more mainstream investors are calling on companies to recognize, assess and mitigate the sustainability risks they face.

In our new report, **TURNING POINT: Corporate Progress on the Ceres Roadmap for Sustainability,** we take a closer look at how more than 600 of the largest U.S. companies are responding to these calls and positioning themselves for success in a world increasingly shaped by unprecedented environmental and social challenges. The analysis specifically takes a closer look at the progress of more than 600 companies to meet 20 key expectations of sustainability leadership within the areas of governance, disclosure, stakeholder engagement, environmental and social performance, as outlined in *The Ceres Roadmap for Sustainability.*

Our findings show more companies now understand the business imperative of addressing sustainability risks and are stepping forward in greater numbers than ever before. For example, nearly two thirds of the more than 600 companies have committed to reduce greenhouse gas emissions, more than half of the companies assessed now have formal policies to manage water resources and nearly half have policies to protect the rights of their workers.

However, as our analysis shows, many companies are acting neither as quickly nor as boldly as they should to deliver on the global Paris Agreement and Sustainable

> We have reached a turning point. It is no longer just about raising the ceiling. It is about lifting the floor. The time has come for bold and scalable solutions, not just from a few leading companies, but from companies of all sizes and across all sectors who need to transition from making commitments to taking concrete actions.

Development Goals and to truly transform into sustainable enterprises. Notably, we found that while 69 percent of companies call on their suppliers to effectively manage their environmental and social impacts, only 34 percent actually provide tools and resources to incentivize action. Furthermore, compared with the 64 percent of the companies with commitments to reduce greenhouse gas emissions, only 36 percent set time-bound, quantitative targets — and only a quarter of those targets work toward reducing emissions by at least 25 percent by 2020.

We have reached a turning point. It is no longer just about raising the ceiling. It is about lifting the floor. The time has come for bold and scalable solutions, not just from a few leading companies, but from companies of all sizes and across all sectors who need to transition from making commitments to taking concrete actions.

We must work together to build a more equitable and prosperous world. This will require all investors and companies to take the higher road toward a sustainable future.

Mindy Lubber

President and CEO, Ceres

Mindy A. Lubber

Introduction

A rapidly changing climate, global water scarcity, modern slavery: these realities are dramatically reshaping the world we live in and requiring investors and companies to change the way they do business to ensure success in an uncertain future.

The financial impacts of environmental and social threats are bigger and more tangible than ever before, and all corners of the economy are calling on companies to take responsibility for a more sustainable future, both for their own interest and that of society.

The Ceres Roadmap for Sustainability provides a strategic vision and practical framework for sustainable corporations to navigate this changing business environment. It sets expectations for companies to embed stronger sustainability practices into corporate governance, disclosure and stakeholder engagement efforts and ensure accountability for driving sustainability performance improvements across value chains. As global environmental and social threats increase, integrating sustainability into core business strategies — and capturing its competitive advantages — becomes ever more critical.

In **TURNING POINT: Corporate Progress on the Ceres Roadmap for Sustainability,** Ceres used data provided by Vigeo Eiris to assess the progress of more than 600 of the largest U.S. publicly traded companies towards meeting the expectations established in the Ceres Roadmap. **TURNING POINT** provides valuable insight into how companies are positioned to address critical sustainability issues such as climate change, water pollution and scarcity and human rights abuses. It also identifies those companies meeting the Ceres Roadmap expectations and actively readying themselves to be a part of the sustainable economic future by taking the path beyond business as usual.

Investing in a Sustainable Future

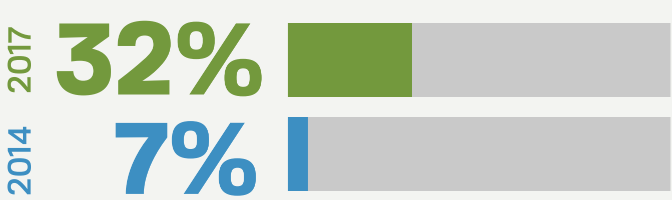
A growing body of evidence shows strong sustainability performance positively influences financial performance in the short and long term. And investors are increasingly rewarding companies who proactively manage sustainability risks through strong governance and business integration.

TURNING POINT: Corporate Progress on the Ceres Roadmap for Sustainability analyzes companies representing more than 80 percent of the total market capitalization in the United States. The assessment helps investors identify those companies that are — and those that are not — preparing for success in a world increasingly shaped by environmental and social crises. The key findings, sector trends, company scorecards and examples of companies taking action are useful tools for investors seeking to understand the current state of corporate sustainability and to identify opportunities for engaging the corporations they own.

Key Findings

1 Materiality matters, but its role in decision-making remains unclear.

Driven by investor calls to disclose the most material sustainability risks — including climate change, natural resource scarcity, diversity and inclusion, among others — more companies are taking steps to prioritize the environmental and social issues of greatest importance. By defining what is critically important, companies can direct more time and resources to the issues that matter most to their businesses and stakeholders. Companies increasingly understand that materiality assessments matter — but how they use this information to guide strategic planning and decision-making remains unclear.



32 percent of companies conduct materiality assessments — a huge leap from just 7 percent in 2014.

6%

Just 6 percent of companies publicly disclose how materiality assessments guide strategic planning and decision-making.

> As the tides turn with more mainstream focus on sustainability, we need concrete and comprehensive information from companies about how they are tackling environmental and social issues.
>
> Betty Yee
>
> Controller of the State of California

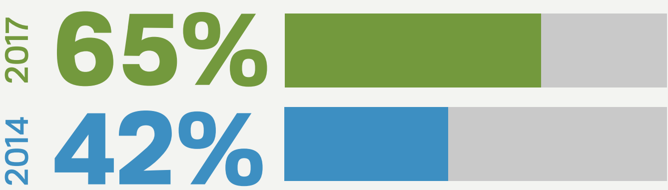
2 Executive-level sustainability oversight improves, while board oversight plateaus.

Climate change, global water security, human rights abuses and inequality present new and evolving challenges that both executives and corporate boards must consider as part of their fiduciary duty. Although accountability for these material issues has increased among senior executives, oversight among corporate boards has not kept pace.

65%

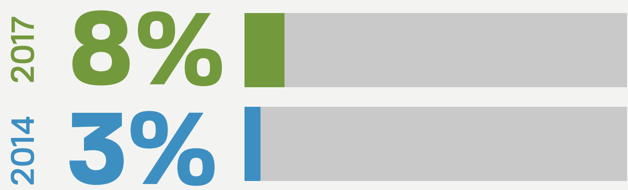
65 percent of the companies assessed hold senior-level executives accountable for sustainability performance — but only 31 percent of companies formally integrate sustainability into board committee charters.

MANAGEMENT ACCOUNTABILITY



65 percent hold senior-level executives accountable for sustainability performance — a meaningful increase from 42 percent in 2014.

EXECUTIVE COMPENSATION



8 percent link executive compensation to sustainability issues beyond compliance (e.g. diversity, GHG emissions, water management) — an increase from the 3 percent doing so in 2014.

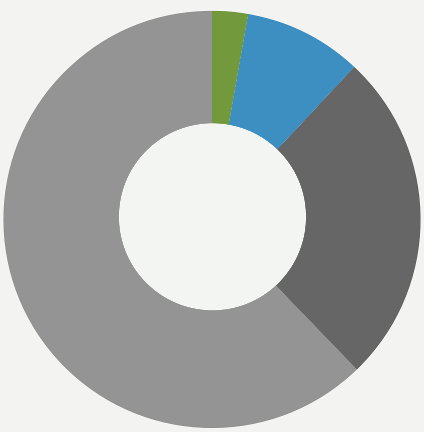
3

Employee engagement can unlock sustainable innovation and drive talent retention, but not enough companies recognize training as the key.

Employees are an under-utilized sustainability resource. Every day, they make decisions that affect corporate sustainability performance, and often have the most successful and innovative ideas for improving sustainability. Employee training builds skills and changes behaviors, and the potential for sustainability innovation and impact can be compounded by job-specific training.

38%

38 percent of companies provide at least some training for employees on sustainability topics.



- 3 percent provide sustainability training across the entire company and target training to specific jobs
- 9 percent provide sustainability training across the entire company
- 26 percent provide limited programs to engage and train employees on sustainability issues
- 62 percent no evidence of employee training on sustainability issues

3%

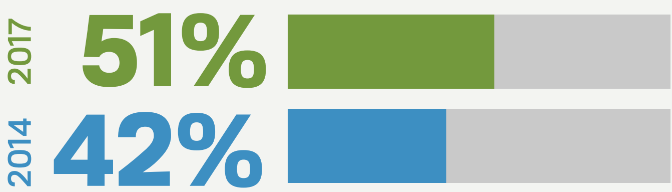
Just 3 percent provide company-wide and job-specific training on relevant sustainability issues.

50%

Of the companies that engage suppliers on sustainability issues, only half also train and engage direct employees.

4 Financial risk disclosure improves, but lacks detail and nuance.

Robust disclosure provides investors information needed to make better decisions. As the financial implications of a changing climate, increasing resource scarcity, data privacy violations and human rights abuses become ever more tangible, investors expect more transparency about actions companies are taking to address these risks. While more companies disclose sustainability risks in annual financial disclosures, most stick to boilerplate language, failing to provide investors decision-useful information.



51 percent of companies discuss climate change risks in annual financial filings, compared to 42 percent in 2014.

32%

A third of companies disclosing climate risk in the 10-K are doing so only from the lens of regulatory risk.

> Environmental and social risks are fundamentally reshaping the competitive landscape in many industries and are quickly becoming factors integral to competitiveness in the 21st century. Investors need decision-useful sustainability performance information, and they prefer to see this information disclosed within traditional investor communications.

Mary Jane McQuillen

Managing Director, Portfolio Manager, and Head of Environmental, Social and Governance Investment, ClearBridge Investments

5 Without concrete targets, commitments to mitigate climate change fall short.

With the announcement of the Trump administration's intent to withdraw from the Paris Agreement, a chorus of voices from the business community spoke their resounding objections. The "We Are Still In" movement — now including more than 2,500 government, business, investor and university leaders; 127 million Americans; and companies representing $6.2 trillion of the U.S. economy — demonstrates a collective commitment to address climate change and transition to a clean energy future. But to limit global temperature rise to well below 2 degrees Celsius, companies must not only set goals to reduce greenhouse gas (GHG) emissions and increase renewable energy sourcing, those goals must be concrete, measurable, ambitious, and science-based.

32%

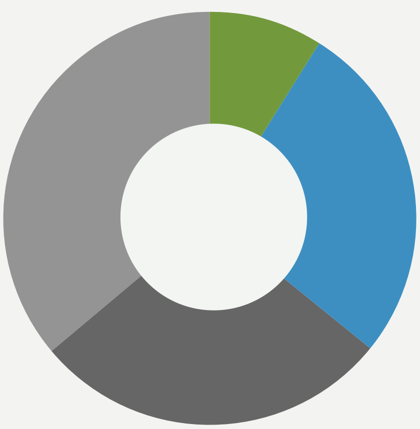
RENEWABLE ENERGY

32 percent of companies commit to increase renewable energy sourcing, but just 10 percent set time-bound targets and **only half** of those targets are science-based in line with the Ceres Roadmap.

64%

GHG EMISSIONS

64 percent have commitments to reduce greenhouse gas (GHG) emissions.



- 9 percent set science-based targets in line with the Ceres Roadmap
- 27 percent set time-bound, quantitative targets to reduce GHG emissions, but are not in line with the Ceres Roadmap
- 28 percent have general commitments to reduce GHG emissions, but no time-bound targets
- 36 percent do not have commitments to reduce GHG emissions

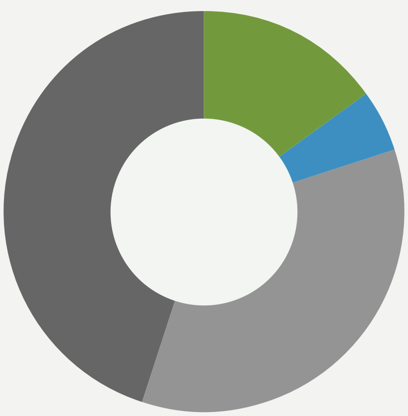
6 More companies commit to water stewardship, but few prioritize areas most at risk.

Access to clean water and global water variability — resulting in increasingly severe droughts and flooding — are among the most significant climate impacts facing communities around the world. Today, more than 40 percent of the world's population suffers from water scarcity, undermining health, economy, environment and security. Despite the global scope of the water crisis, companies must not only understand impacts to water resources across the value chain, but also develop and prioritize specific local responses.

55%

WATER MANAGEMENT

55 percent commit to managing water use.



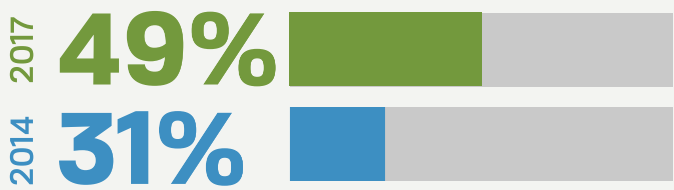
- 15 percent set targets that prioritize action in the parts of the value chain with highest risk to water resources
- 5 percent set time-bound, quantitative targets to manage water impacts, but do not prioritize highest-risk operations
- 35 percent have general commitments to manage water impacts, but no time-bound targets
- 45 percent do not have commitments to manage water impacts

81%

81 percent of the companies in water-dependent sectors — including food and beverage, footwear and apparel, and semiconductors — have water stewardship programs, but just 37 percent of companies set quantitative targets focused on prioritizing action in the parts of value chain that pose the highest risk to water resources.

7 Human rights commitments increase — but systems to protect workers remain scarce.

Human rights are everyone's business, and every business has a critical role to play in ensuring fair, safe and equitable workplaces. A growing number of companies are formalizing commitments to protect the basic human rights of workers across their global supply chains. Surprisingly, these companies do not always extend the same protections to employees within their own corporate walls, nor do they put in place systems needed to ensure those commitments translate into action.



49 percent have formal policies protecting the human rights of direct employees — up from 31 percent in 2014.

15%

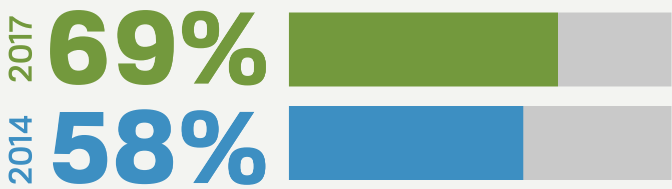
Just 47 percent of companies with formal human rights policies have basic systems in place to ensure those policies are carried out, and only 15 percent conduct human rights impact assessments of operations and global supply chains.

67%

67 percent of human rights policies explicitly prohibit the use of forced and child labor, a significant increase from the 42 percent doing so in 2014.

8 Building sustainable global supply chains is underway, but it will take more than just words on paper.

Supplier codes that guide environmental and social performance have become commonplace for multinational corporations, and are a critical first step for extending sustainability commitments deep into the value chain. Unfortunately, only a small group of industry leaders translate these commitments into action, by proactively engaging and incentivizing suppliers toward improved performance. Those companies with formal audit programs are, however, significantly more likely to deploy a range of meaningful engagement tactics in order to improve the lives of workers and the communities they live in.



69 percent of companies assessed set sustainability performance requirements for their suppliers — an increase from 58 percent in Ceres' 2014 assessment.

34%

While 69 percent call on their suppliers to effectively manage their environmental and social impacts, only **34 percent** engage suppliers through training, capacity building and incentives.

36%

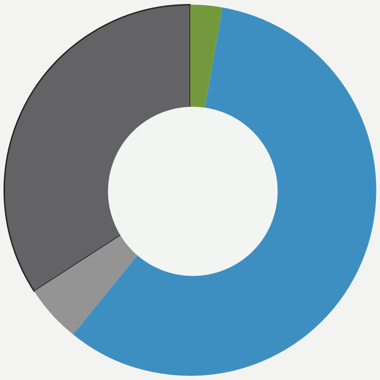
The 36 percent of companies assessed that formally audit suppliers are **over three times more likely** to integrate environmental and social criteria into procurement decision-making and **over five times more likely** to proactively engage suppliers on sustainability issues through training, capacity building and other incentive programs.

9 More companies commit to diversity, but don't yet incentivize change.

As tensions over race, gender and sexual orientation increase, so does the value investors, companies, and employees place on diverse and inclusive workplaces. In the 2017 proxy season, nearly 100 shareholder resolutions asked companies to examine gender pay equity, improve diversity on boards of directors and management, and prepare diversity and non-discrimination reports — all considerable increases from 2016. But although more companies formalized diversity and inclusion commitments, few actually link compensation to diversity performance metrics, missing a key opportunity to incentivize change.

66%

66 percent implement formal trainings or employee resource groups focused on diversity and inclusion.



- 3 percent link executive compensation to diversity performance metrics
- 58 percent hold a senior executive accountable for diversity, but no links made to compensation
- 5 percent provide only basic training and/or resource groups on diversity and inclusion
- 34 percent have no evidence of diversity initiatives

> "The role of business has never been more critical in advancing gender equality. Ensuring that company leadership is held accountable — and linking compensation to the achievement of specific diversity metrics — is crucial if we want to accelerate the pace of change toward closing the overall gender gap in the workforce.

Heather Smith

Lead Sustainability Research Analyst, Impax Asset Management LLC / Pax World Funds

10 Accountability at the top drives business integration and stronger ambition — but sustainability needs to hit paychecks.

Holding the most senior decision-makers in the company — including the C-suite and board of directors — accountable for sustainability performance leads to more ambitious commitments. And connecting accountability to compensation drives even higher levels of business integration.

98%

98 percent of the companies with time-bound and company-wide targets to reduce greenhouse gas emissions hold senior executives accountable for sustainability.

97%

97 percent of companies with targets to address water impacts hold senior executives accountable for sustainability, compared to the average of 65 percent.

2x

Companies with board oversight, who also link executive compensation to sustainability oversight, are **over two times more likely** to have company-wide time-bound targets to reduce GHG emissions and to formally protect the human rights of employees, than those who do not.

Explore *TURNING POINT:* *Corporate Progress on the Ceres Roadmap for Sustainability*

The Ceres Roadmap for Sustainability is a resource to help companies re-engineer themselves for success in a world increasingly shaped by unprecedented environmental and social challenges that threaten the global economy and communities around the world. It is also a tool for investors to better understand how the companies they own can prepare for success in an uncertain future.

TURNING POINT: Corporate Progress on the Ceres Roadmap for Sustainability provides both companies and investors with a greater understanding of the current state of corporate sustainability leadership, and what is needed to accelerate the transition toward a more sustainable global economy.

Readers can further explore the findings of **TURNING POINT** and the online platform featuring:

- ➡ Key findings and analysis
- ➡ Interactive data charts
- ➡ Individual scorecards of the 600+ companies assessed
- ➡ Sector-specific performance trends and analysis
- ➡ Examples of companies taking action

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Ceres

www.ceres.org/turningpoint

Headquarters
99 Chauncy Street, 6th Floor
Boston, MA 02111

California Office
212 Sutter Street, 2nd Floor
San Francisco, CA 94108

(617) 247-0700 roadmap@ceres.org