ESG AND ITS IMPACT ON EVERYTHING

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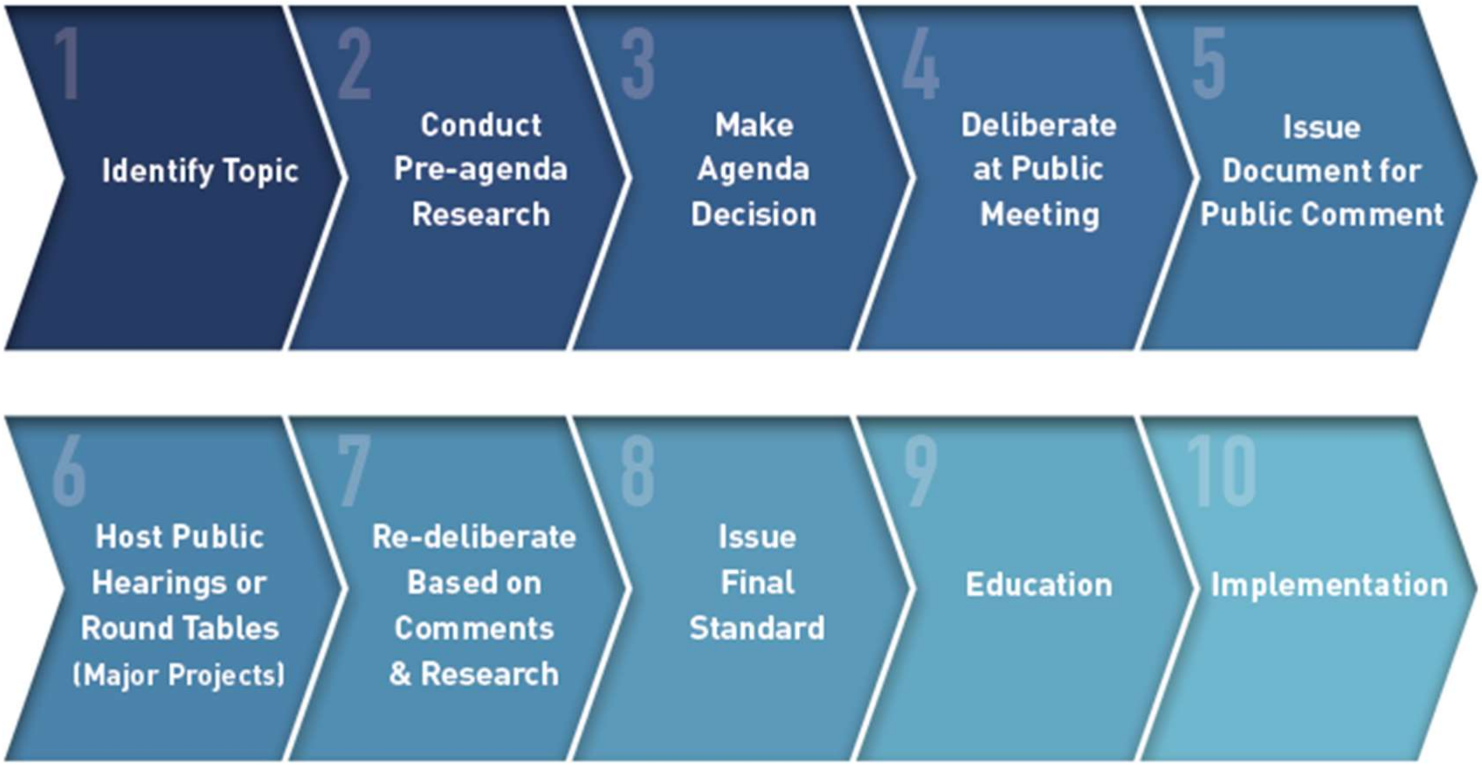
ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

FASB - STANDARD SETTING PROCESS



Source: FASB Website; About Us; Standard Setting Process

FASB - GUIDING PRINCIPLES

1	*To be objective in the decision-making process* - without influencing behavior
2	*To actively solicit and carefully weigh the views of shareholders*
3	To only issue standards when the expected benefit justifies the costs
4	To issue high-quality standards - in clear unambiguous language
5	To manage the process of improving standards - minimize disruption & useful
6	To provide clear and timely communication - Keep public informed
7	To review the effectiveness of past decisions

FASB – GUIDING PRINCIPLES

To be neutral, information must report economic activity as faithfully as possible without coloring the image it communicates for the purpose of influencing behavior in any particular direction.

Financial accounting standards are *not intended to drive behavior in any way*, including benefitting one industry or business model over another or spurring businesses to take certain actions. Instead, financial accounting standards are intended to provide investors and related users with decision-useful, neutral information that faithfully represents an entity’s economic activity as abasis for investment and other capital allocation decisions.

Revenue Recognition - IMPLEMENTATON TIMELINE

US PRESIDENTS:

George W. Bush
(2001 - 2009)

Barack Obama
(2009 - 2017)

Donald J. Trump
(2017 - 2021)

Key Dates	Summary of information provided
July 19, 2001 SEC announces Task Force focused on Revenue Recognition	Task Force was focused on converge with international accounting standards on revenue recognition
May 28, 2014 The FASB released an exposure draft of the new accounting guidance for comment	Proposed rules impacted revenue recognition of all companies in all industries
October 16, 2014 Comment period ended after 120 days	FASB received over 1,500 comments- The SEC adopted ASC 606 without any changes
Effective Date - 2018 Original effective date for public companies was 2019	Public companies implemented in 2018 Private companies deferred to 2020

CECL - IMPLEMENTATON TIMELINE

US PRESIDENTS:

George W. Bush
(2001 - 2009)

Barack Obama
(2009 - 2017)

Donald J. Trump
(2017 - 2021)

Key Dates	Summary of information provided
2008 FASB & IASB established a Financial Crisis Advisory Group	Financial Crisis Advisory Group was tasked with responding to the financial crisis
June 16, 2016 FASB releases an exposure draft of the guidance for comment	Proposed rules impacted the impairment of financial instruments
September 14, 2016 Comment period ended after 90 days	More than 200 comments were received- The SEC adopted ASC 326 without any significant changes
Effective Date - 2020 Original effective for private companies in 2021	Public companies implemented in 2020 Private companies deferred to 2023

ESG - IMPLEMENTATON TIMELINE

US PRESIDENTS:

Joe Biden
(2021 - ?)

January 27, 2021 - President Biden issues executive order on tackling climate changes at home and abroad

Key Dates	Summary of information provided
March 4, 2021 SEC announces Task Force focused on Climate & ESG	**Task Force** is focused on analyzing disclosure and compliance issues related to ESG strategies
March 21,2022 SEC announces proposed rule change to require climate-related disclosures	**Proposed rules** included disclosures on climate related risk governance and strategy as well as greenhouse gas emissions
May 25, 2022 SEC releases proposed guide (490 pages) Target date for final rules was October 2022	**Proposed implementation timeline:** • 2023 Acc. filers; 2024 Non-Acc. files; 2025 Smaller Reporting Companies
April 7, 2023 SEC indicated some easing of climate disclosures	**SEC received 14,000 public comments** Final rules are anticipated to be released in September 2023

ESG - OVERVIEW

ESG is one of the most significant developments in U.S. securities laws in decades

ENVIRONMENTAL

Reflects stewardship of resources, including:

- Climate change
- Greenhouse gas (GHG) emissions and pollution
- Water and resource management
- Pollution
- Other environmental impacts

SOCIAL

Considers relationships with employees, including:

- Health and safety
- Equality, diversity and inclusion
- Human rights and fair labor
- Community impact and ethically sourced material
- Product quality and safety

GOVERNANCE

Covers company leadership, including:

- Board diversity
- Executive compensation
- Shareholder rights
- Political lobbying and donations
- Ethics and anti-corruption
- Tax strategy

ESG - REDEFINES MATERIALITY

Materiality for financial impacts of severe weather or other natural disasters is defined as an absolute value of positive & negative impacts in excess of 1%.

FINANCIAL MATERIALITY

An item is material if there is a *substantial likelihood* that a *reasonable investor* would consider the information important in making an investment decision. *

** Established in 1937 by the Supreme Court*

ESG MATERIALITY

ESG Materiality refers to information that *may reasonably be considered important* for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders.

ESG - DISCLOSURE MATERIALITY

The impact of climate-related events and transition activities on the line items of the consolidated financial statements if the *absolute value of the amounts are one percent or more* of the related line item.

Climate-related impacts include:

- Replace existing assets with more energy efficient assets (including possible impairment and higher depreciation expense)
- Shifting consumer demand for products could result in inventory obsolescence
- Costs of achieving climate-related commitments
- Cost of climate related laws and regulations
- Changing sales terms could influence revenue recognition

ESG - CLIMATE RELATED RISKS

Companies must disclose climate-related risks and their actual or likely material impacts on the business, strategy, and outlook. Climate related risks fall into two categories:

PHYSICAL RISKS

Acute climate-related events such as:

- Wildfires,
- Floods
- Hurricanes,
- Tornadoes
- Heatwaves

Impacts from long-term temperature increases such as:

- Drought
- Rising sea levels

These disclosures will largely be based on scenario analysis.

TRANSITION RISKS

Risks associated with required changes to a company's business due to the transition to a low carbon economy.

- Adoption of climate-related policies to achieve national climate goals
- Climate-related litigation
- Changing consumer, investor and employee behavior and choices
- Changing demands of business partners
- Long-term shifts in market prices
- Technological challenges and opportunities, and other transitional impacts.

Source: US Securities and Exchange Commission (SEC), *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, Mar 2022, p 55 and TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures,* 2017, p 6.

ESG - GREENHOUSE GAS EMISSIONS (GHG)

The proposed emission disclosures go well beyond statutory or regulatory requirements of other federal agencies, including the EPA, in quantifying and reporting environmental impacts.

Under the proposed standard, Greenhouse Gas Emissions are categorized as follows:

SCOPE 1 EMISSIONS

Direct emissions - from operations that are owned or controlled by the reporting company.

SCOPE 2 EMISSIONS

Indirect emissions - from the generation of purchased or acquired electricity, steam, heat or cooling that is consumed by operations owned or controlled by the company.

SCOPE 3 EMISSIONS

All other emissions in value chain - indirect emissions not otherwise included in the registrant's scope 2 emissions that occur in the upstream and downstream activities of the company's value chain.

ESG | ESTABLISHING EFFECTIVE GOVERNANCE

ESG information is **rapidly impacting strategic decision-making** - from deal and capital market activity to executive compensation. As such, it is imperative businesses **critically examine** their **ability to provide accurate and reliable information** as a measure to not only build trust in society, but to also reduce risk of related securities litigation.

MATERIALITY ASSESSMENT

Determine which issues the company considers material and understand priorities and expectations of investors / stakeholders.

BOARD OVERSIGHT

Engage the board and consider the need for a separate ESG committee to address risks and opportunities identified by management.

ERM ALIGNMENT

Risks should be managed as part of the overall ERM process to ensure appropriate attention and resources are assigned.

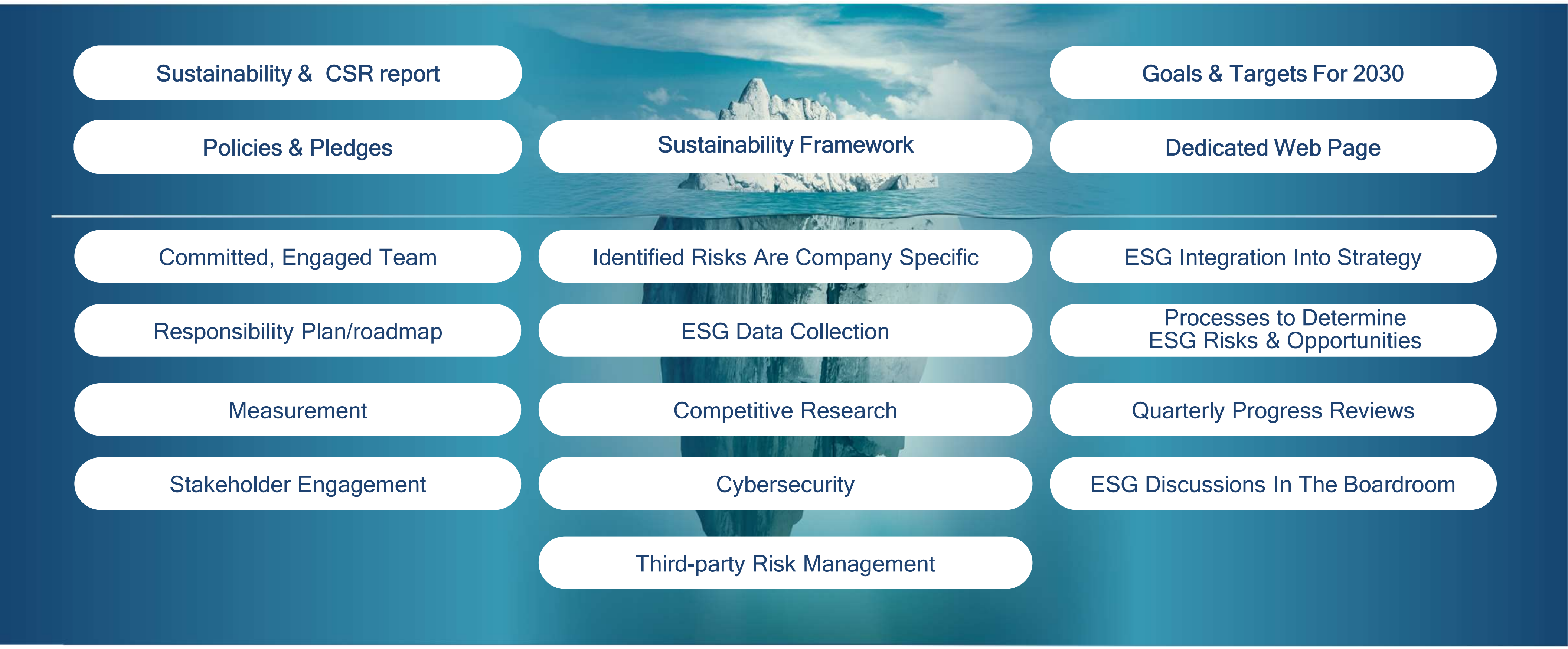
INTERNAL CONTROLS

Implement processes, policies and procedures around ESG measurement and reporting with comparable rigor as controls for financial reporting.

STRATEGIC PLANNING

Align the vision and objectives with the overall operational strategy.

ESG - BENEATH THE SURFACE



ESG - Developing and Effective Strategy

ESG is much more than a reporting matter and often involves many parts of a company's organization.

DEVELOP STRATEGY	DEFINE PROCESSES	DESIGN INFRASTRUCTURE	REPORT EXTERNALLY
Develop strategy and vision	**Define standardized policies, procedures and controls**	**Design the reporting infrastructure and tech-enable**	**Publish ESG narrative**
• Understand priorities and expectations of current investors / stakeholders • Determine which issues the Business considers material • Select appropriate standards / frameworks • Choose KPIs for internal and external reporting • Identify data sources and key stakeholders to support each KPI • Align the vision and objectives with the overall operational strategy	• Illustrate the prospective ESG workflow • Identify opportunities to integrate or leverage existing processes • Consider the role of the Board and other Committees • Design for flexibility and the potential to report new metrics, leverage different data sources, etc. • Create formal "Green Team" focused on ESG on a recurring basis	• Assess the existing landscape and ability to leverage current tools • Explore other vendors to supplement reporting and visualization • Create infrastructure supporting data sourcing, calculation, validation, reporting and analytics • Consider areas to enhance reliability with automation	▪ Conduct necessary internal training and change management ▪ Establish internal communication protocols, and reporting cadence ▪ Publish data (website, social media, formal ESG reports, financial statements) ▪ Provide audience with insight into future goals and plans to achieve ▪ Incorporate ESG data as part of the Business's mission

PROJECT MANAGEMENT

Traditional Leaders	CEO	CFO	CAO	CTO	Board	Chief Risk Officer	Corporate Development
Emerging Leaders	Controller	Chief Value Officer		Chief Sustainability Officer		Chief Diversity Officer	Head of Asset Management

ESG - SEC COMMENTS

Key themes regarding SEC comments on disclosures include:

- When an issuer has indicated to the SEC staff that disclosures are not material, the staff has subsequently requested that a quantitative materiality analysis be provided

- Disclosure topics where analyses have been requested include carbon credits, the effect of climate change on insurance premiums, and climate-related capital expenditures and compliance costs

- The SEC has also issued questions on issuers' sustainability reports versus Form 10-K disclosures, and capital expenditures related to climate-related projects

According to a PWC survey - 87% of investors believe corporate reporting contains unsupported sustainability claims (i.e., greenwashing)

ESG - HEADWINDS OF ESG

Key questions remain regarding the accounting standard:

COST OF IMPLEMENTATION
SEC estimates total disclosure cost to increase from $3.9 billion to $10.2 billion under the new rules (average cost increase of $420,000 for small public companies and $530,000 for bigger firms).

WEST VIRGINIA VS. EPA
The Supreme Court ruled the EPA lacks the authority to regulate carbon dioxide under the "major question" doctrine. Noting Congress must clearly indicate it is delegating specific authority.

SOLE INTEREST RULE
Nineteen state attorney generals wrote a letter to BlackRock's CEO warning that ESG investment policies violate the sole interest rule to maximize financial returns - not promote social objectives.

POOR RETURN ON INVESTMENT
A June 2022 study* found ESG funds tend to underperform and have higher fees resulting in an annual return that is 1.45% lower than comparable investments.

*Source: Rubenfeld, J. & Barr, W. (2022, September 6) "ESG Can't Square With Fiduciary Duty," *Wall Street Journal*

ESG

& CORPORATE RESPONSIBILITY

Each year, Vaco and our family of brands (MorganFranklin Consulting, Pivot Point Consulting, BUILT and Focus Search Partners) create professional opportunities for thousands of people and solutions for thousands of companies.

People are the foundation of Vaco's mission, and we understand the significance of drawing the circle wider to broaden our perspective, to connect on a deeper level, and to be a force for positive change in our world.

Through our evolving ESG (environment, social and governance) initiatives, we are committed to ensuring fairness in the workplace; encouraging expression and integration of diverse views and cultures; safeguarding the health, safety, dignity and well-being of all those we serve; and pursuing responsible and sustainable sourcing and operations.

DIVERSITY, EQUITY & INCLUSION AT MORGANFRANKLIN + VACO

NAMED TO
NEWSWEEK'S
America's Greatest Workplaces for Diversity
2023

The Vaco brand family is committed to creating and maintaining a culture of belonging, ensuring diversity is recognized, valued, and actively cultivated; instilling the values of inclusion and equity across our workforce; and providing the tools to facilitate effective internal and external conversations on these topics.

We bring these principles to our client engagements. Supporting this commitment are numerous actions and programs.

- Vaco's CEO signed the CEO Action for Diversity & Inclusion™ Pledge https://www.ceoaction.com
- Executive DEI Council co-chaired by Head of DEI & CEO
- Corporate sponsors of diverse professional organizations including NABA, ASCEND, ALPFA and American Corporate Partners
- McKinsey & Company Connected Leaders Academy available to team members from underrepresented populations
- Employee Resource Groups (ERGs) to increase sense of belonging and promote allyship
- Mutual Mentoring Program
- At the Hip Fellowship - engages underserved, early talent for skill advancement and "at the hip" access to our senior team members
- Diversity, inclusion and unconscious bias training
- Equitable hiring, including tools, systems, training and procedures
- Guest speaker series that addresses topics to advance inclusion
- Recognition of Vaconians who serve as Game Changers in advancing DEI
- Dedicated DEI site on Vaco's intranet to track progress, communicate DEI strategy, and provide information and educational resources
- Office scorecards measuring progress toward improved inclusion, diversity and equity
- Ongoing celebrations and recognition of events and dates that bring awareness to DEI
- **To learn more, please visit us at:** https://resources.vaco.com/diversity-inclusion

THANK YOU

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