CLIMATE GOVERNANCE INITIATIVE RUSSIA

www.cgi-russia.ru

KORN FERRY

Global Investors views: An Effective Board of Directors and Company Value

Challenges for 2022

Global investors with $12 trillion under management have their say

January 2022

Table of contents

Executive summary

In a business world being transformed by COVID-19, volatile operating environments, and heightened ESG (Environmental, Social, Governance) concern, the quality of Corporate Governance is critical. A survey of equity and fixed income portfolio managers, representing investors with about $12 trillion in assets under management, has underlined the business value of an effective Board of Directors (hereinafter BoD).

ESG weighting and company valuation:

- **Effective corporate governance has a major company value impact.** Premiums for strong corporate governance range from 10% to 50%. But discounts for weak corporate governance can reach 80%, with many investors excluding companies with weak corporate governance from investment consideration.
- **The weighting of ESG factors averages 25%.** Some portfolio managers noted that without an incorporated ESG strategy, a separate justification can be required for an investment.
- **When considering ESG factors the G (Governance) weighting ranges from 30% to 70% of the total ESG score**. For the majority of investors it equals 50%.

The rising role of an effective Board of Directors

- **All investors are seeing an increased corporate governance and strong BoD factor in company valuations.** The role of environmental considerations has become significantly more important in recent years, with the E (Environment) and the G (Governance) increasingly interlinked.
- **Corporate governance metrics are a particular focus of portfolio managers when taking equity positions in corporate IPOs.** Russian IPOs grew significantly during 2021, with the IPO market expected to remain strong during 2022 (assuming the absence of negative geo-political surprises). Effective BoD performance is a key determinant of investor attention, and company value, in a competitive IPO market.
- **All members of the investment community emphasized the growing need for a closer, regular and more open dialogue** between the BoD and investors.

What an effective Board of Directors means for investors

- The investor survey highlighted the following factors when assessing BoD effectiveness
  - **The time commitment, percentage and powers of independent members** of the BoD,
  - **The diversity, appropriate competence and skills** of BoD members,
  - **The existence and activities of committees** in the structure of BoD operations,
  - **The quality of issues considered at BoD meetings, the voting participation and the quality of decisions made** by BoD members,

- **The implementation and monitoring of ESG strategy, and stress testing results**
- **The fulfilment of goals** set for the BoD and company,
- **The KPIs** of BoD members, and the management, availability and results of KPIs for the implementation of ESG indicators.

→ **Investors place great importance on the diversity, skill set, and independence of the BoD.** They agree that independent members should comprise at least 50% of the BoD. They also believe there should be people on the BoD who can, if necessary, constructively challenge management.

→ **Board renewal and the timely rotation of independent BoD members** is important for a fresh look at a company's strategy.

Corporate governance assessment - No standard approach

→ **All investors referred to the subjective and complex nature of BoD assessment**. Simple metrics are not informative, and details about BoD members' expertise are not always clear from public sources. This makes BoD evaluation an art, which can vary from one company to another and from one BoD to another.

→ **Scoring matrices, weighting a range of criteria, are prevalent**.

→ **Valuation approaches are often individual**, with weightings varying by company, industry and country.

→ **Investors look at indicator dynamics, and also consider company plans** to improve BoD structure.

→ **The ESG transformation means investors will more often adopt a longer-term perspective of a company's strategic performance**, exceeding 5-10 years.

Forecasts for 2022: Competition for investor attention and shifting Board of Directors priorities

In 2022 investors, regulators and consumers will increasingly place the ESG agenda at the centre of BoD deliberations, making it more integral to corporate strategy. The new competitive environment will push companies to increase their focus on **long-term success across a broader scope, incorporating** all participants in the operating ecosystem and broader society. The shift towards more **inclusive capitalism** for all stakeholders has already begun. But, for many making the transition, it is still a nascent, tentative and complex process, with a lot of unknowns. In 2022, companies will be expected to take concrete steps.

These are our expectations for 2022:

1. **Investors will become more selective and pay more attention to corporate governance quality.**
2. **Notwithstanding potential black swans, the boom in IPOs is likely to continue, and investor attention will place ESG agendas as a key focus for the boards of companies entering the primary market.**
3. **Green financing and ESG lending will continue to grow strongly, both in Russia and abroad.**
4. **The ESG agenda will become more central across broader sectors of corporate activity and clearly highlight the beneficiaries and leaders of the new green transformation trends**
5. **ESG risks, and particularly climate risks, will remain near the top of an elevated 2022 risk environment.**
6. **Flowing on from COP26 decisions, a regulatory and legal environment, binding both companies and investors, will take shape, integrating uniform global standards (including reporting).**
7. **ESG disclosure in Russia will continue to improve across all sectors.**
8. **Following the announcements of Russia's long-term ESG targets many companies are likely to announce longer-term ESG targets in 2022.**
9. **There will be an increasing need for BoDs to include ESG committees.**
10. **Diversification by skills, gender, age and independence will continue, taking the Russian corporate world closer to its international counterparts.**
11. **Russia is preparing to implement carbon regulation throughout 2022.**
12. **Russian BoDs of export-oriented businesses should be actively preparing for looming cross-border carbon taxes.**

Introduction. Global investors with $12 trillion under management have their say

Portfolio managers from global investment funds took part in the survey. The investors represent a cross-section of investors: 50% invest in equities and 50% in fixed income. Representatives from investors in the United States, France, Switzerland, Sweden, Canada, United Kingdom, China and Russia are included.

Fund managers participating in the survey:

	Company	Total assets under management, billions	Country	Respondent asset class
1	JP Morgan Asset Management	$2,988	USA	Equities
2	Amundi	$2,050	France	Equities
3	Prudential Financial	$1,720	USA	Fixed Income
4	Axa Investment Management	$995	France	Fixed Income
5	BMO Global Asset Management	$949	Canada	Fixed Income
6	BNP Paribas Asset Management	$718	France	Fixed Income
7	Abrdn	$716	United Kingdom	Equities
8	Barings	$387	United Kingdom	Fixed Income
9	Pictet	$287	Switzerland	Fixed Income
10	Voya Investment Management	$257	USA	Fixed Income
11	Swedbank Robur Fonder	$188	Sweden	Equities
12	Taiping Asset Management	$156	China (Hong Kong)	Fixed Income
13	Ashmoregroup	$94	United Kingdom	Fixed Income
14	AFK "Sistema"	$18.7	Russia	Equities
15	Siguler Guff (Russia Partners Management)	$13	Russia	Equities
16	East Capital	$6	Sweden	Equities
17	Aton	$4.6	Russia	Equities
18	Prosperity Capital Management	$3.4	Russia	Equities
Total		$11,551		

1. ESG becomes a prime investor factor

> ***"The first thing we look at is the ESG strategies"***
>
> ***- Elena Loven, Senior Portfolio Manager, Swedbank Robur Fonder***

Almost all investors pay attention to a company's ESG strategy, look at the performance of its ESG indicators, and evaluate its ESG disclosures.

According to **Sonya Dilova (Director, Fixed Income, BMO GAM EMEA)** and **Kalina Lazareva (Director, Responsible Investment, BMO GAM EMEA),** "Corporate governance is a paramount investment factor at BMO Global Asset Management. Both fixed income and equity investment processes envisage engagement with company BoD members. Direct communication is always preferred, and this is particularly helped when a board has a dedicated member to communicate with the stakeholders."

According to a **PricewaterhouseCoopers** BoD survey in 2021, CEOs are more likely to make disclosures on ESG topics to investors: 2/3 of directors identify ESG topics as the main subject of investor questions. According to the December 2021 **Bank of America** poll of fund managers, ESG investments (17% of respondents) are in the top 3 most popular trades (17%) after Bitcoin (18%) and US tech stocks (39%). We believe ESG investments will remain a strong investment theme in 2022.

Appendix 1 presents an interesting case study from our partner Korn Ferry on the impact of ESG on the Russian company Polymetal.

The IPO process underlines ESG's importance

Alexander Lupachev, Director of Russia Partners emphasized the importance of ESG in equity listings. "The risk of a dominant majority shareholder is a frequent risk with Russian IPOs."

IPO / SPO focus is growing. According to Reuters, Russian companies raised about $7 billion in IPOs and secondary placements in 2021, up from more than $6 billion in 2020. With strong competition between companies for investor attention, the importance of an effective BoD has significantly increased.

Viktoria Blatova, Executive Vice-President (ESG), AFK Sistema related details of two 2020-2021 IPO's underlining the importance of ESG for investors: "The OZON IPO order book was oversubscribed many times with major interest. However, we also found that a number of institutional investors didn't participate in the IPO, as OZON was not, at that time, disclosing enough ESG data to accord with their investment policies. That lesson was later applied to the first "green" IPO of Segezha Group. Their IPO met strong investor demand, which was helped because the Group clearly showed they responsibly used renewable resources to create products with a minimal carbon footprint and environmental impact in demand on the global market."

Conclusion

Companies need to pay more attention to corporate governance in particular, and to the ESG agenda in general, amidst tougher competition for investor capital.

2. What is an effective Board of Directors for portfolio managers?

> *"You can never be too independent or too transparent, there is always room for improvement"*
>
> *-Alaa Bushehri, Head of EM corporate debt, BNP Paribas Asset Management*

BNP PARIBAS ASSET MANAGEMENT

Weak corporate governance can be costly

A number of investors stressed that they reject, and have always rejected, investment opportunities due to poor corporate governance or shareholder problems for private companies. Conflict at the shareholder, Board of Directors and management levels, social problems (such as large strikes), or tensions between management and employees, and poor corporate culture generally, were also most acute during crisis periods.

In the event of incidents, the market quickly imposes discounts for poor corporate governance, and companies then have to go to great lengths to get valuation restored by the market. The market has a long memory of all ESG failures.

Performance analysis factors: from independent director numbers to KPIs and stress tests

→ The time commitment, percentage and powers of independent members of the BoD

→ The diversity, appropriate competence and skills of BoD members

→ The existence and activities of committees in the structure of BoD operations

→ The quality of issues considered at BoD meetings, the voting participation and the quality of decisions made by BoD members

→ The implementation and monitoring of ESG strategy, and stress testing results

→ The fulfillment of goals set for the BoD and company

→ The KPIs of BoD members, and the management, availability and results of KPIs for the implementation of ESG indicators.

Never too much independence, and there should be directors ready to appropriately "challenge" management

Investors carefully study the composition of BoDs. The majority of portfolio managers (90%) want to see independent directors comprise at least 50% of a Board of Directors. **According to Andrew Edmondson, Portfolio Manager at the Ashmore Group**, "It's important to have people on board who can stand up and 'challenge' management." This view was supported by other investors also.

According to Korn Ferry, in 2021, Russian company BoDs were comprised of 44% independent board members, up from 42% in 2020 and 37% in 2019. But among the Chairmen of Boards of Directors, only 30% are currently considered independent.

Russia has made significant progress in terms of board composition, but it still lags behind developed economies in terms of independent directors. The top 3 countries by the percentage of independent directors: Holland (87%), USA (85%) and Canada (81%). Turkey has the lowest rates (35%).

It is important for portfolio managers that independent directors are truly independent. Against a backdrop of insufficient professional information transparency, with disclosures about directors, it is often difficult for investors to assess how independent a director is.

More than half of the Russian companies under consideration do not disclose biographical information about their board members on their corporate websites, in particular, about work they do, or have done, for other companies.

Also, according to investors, an independent director who has been on a board of directors for more than 6 years may no longer be considered independent. In 2021, the average tenure of members of the BoDs of Russian companies was 5.5 years, and the rotation of Russian company board members accords with global investor wishes

Denis Spirin, Corporate Governance Director, Prosperity Capital Management: "An independent director should know the industry and the company, as well as understand the essence and value of good corporate governance, both for a company and investors. Among other characteristics, we value the ability of an independent director to defend, actively but constructively, interests of the company as a whole and in favor of all its shareholders during conflict situations or discussions of potentially negative related party transactions and in solving other problematic issues""

Diversification is welcomed in everything

Investors are increasingly focusing on diversifying BoDs. The presence of women and international members of BoDs is encouraged, but these are not the only diversifying factors.

Female representation on Russian BoDs in 2021 – with 13% of BoD members - is quite low compared to best international practice. In the UK (FTSE350) women make up 34.3%, and in the US (S&P500) 30% of BoDs. More positively, Russian women are increasing their BoD presence rapidly, with the current 13% up from 10.5% in 2020 and 8.4% in 2019. Only 5% of the Chairpersons of Russian company BoDs are female.

Foreign citizens comprised 30% of the BoDs of Russian companies in 2021, unchanged from previous years, and 25% of Chairmen of Boards of Directors are foreign citizens. Investors want to see foreigners on BoDs to bring diversity of professional skills and competencies, as well as to use the international experience of foreign directors.

A number of investors expressed a preference to see younger directors, as the modern world becomes more technologically complex, and is subject to deeper and faster transformations, especially in the field of IT.

Currently the average age of directors is 55.2 years, little changed from previous years. However, for new directors the average is already down to 50.5 years, and has begun to decline.

Boards of Directors require time and focus

Those surveyed emphasized the importance of directors devoting sufficient time to activities with the companies where they are on the BoD, and not being overburdened with other obligations.

At the same time, Russian company BoD Chairmen are engaged, on average, in another 2.5 BoD positions. In the contemporary business environment this is a heavy additional workload.

Companies should focus on achieving stated goals

Undoubtedly, the major BoD effectiveness measure is the long-term company results their decisions contribute to. In a number of situations goals set may not be met due to factors outside the control of a BoD, and this doesn't indicate BoD weakness.

Board of Directors and management must work together to achieve stronger results

Evgeny Malykhin, a Partner, Managing Director, and Head of Investment at Aton, notes that an effective BoD should work in collaboration with competent management to achieve strategic company goals. Management and the BoDs should be well-coordinated mechanisms which together lead the company to maximize its value for investors, while upholding a responsible ESG position towards society.

An ESG committee can strengthen a corporate governance profile

A number of investors highlighted the introduction of ESG committees, under the BoDs, for strengthening corporate governance.

In 2021 51% of Russian companies have a Sustainable Development Committee. This exists both separately (in 45% of companies) or as part of other committees (generally the strategy committee [30%] or health and safety committee [25%]). In addition to this a record 35% of ESG committee chairpersons are women.

Investors are ready to take into account plans to improve the Board of Directors

Note that where the benchmark of 50% of independent directors on the BoD is not reached, or the diversification of directors lags behind global trends, then most investors are ready for dialogue with companies, and take into account plans to improve company boards.

Viktoria Blatova, Executive Vice-President (ESG), AFK Sistema indicated that Sistema pays attention to **"**Not just current corporate governance, but also to future potential corporate governance."

BoD remuneration

Portfolio managers attach great importance to BoD remuneration. This should focus on meeting not just short-term, but also long-term company goals, including ESG KPIs.

According to Elena Lowen, Senior Portfolio Manager from Swedbank Robur Fonder, "Companies setting long-term goals for BoD motivation give positive signals for investors."

Conclusion

Companies need to focus on increasing the efficiency of the board of directors with a focus on independence and diversification. This promotes better strategy and protects the interests of shareholders and bondholders. Goldman Sachs underlines the increasing importance of ESG with its position of no longer preparing IPOs for companies where there are not at least two female or minority representative board members. ESG committees, increased openness about the biographies of board members, and about the work of the board, will be positively viewed by investors.

3. Evaluation of BoDs is an art form

> ***"Factors and problems of management are of decisive importance for investment analysis, but they are often difficult to measure."***
>
> ***- Tieu Bich Nguyen, Chief Investment Officer, Fixed Income, Taiping Asset Management***

中国太平 CHINA TAIPING

No standards, assessment is often subjective

Investors identified that BoD performance assessment was inherently subjective, and shaped by a lack of uniform corporate governance assessment standards. Simple metrics can often be uninformative, and the depth, or application, of directors' expertise isn't always clear from public sources.

Investor methodologies vary, with score matrices leading

89% of investors surveyed noted they had their own methods for assessing BoD effectiveness. At the same time, 61% of portfolio managers use quantitative assessments of corporate governance quality and BoD effectiveness.

Most often, investors use score matrices combining weighted criteria to determine a total score. Within this, the corporate governance weighting is often heavier than for other metrics in the overall company assessment.

"We score all companies on Quality, and build that score out of a long term view on the industry, management excellence, moat, accounting quality and resilience, and

ESG. Of those components, ESG – which places particular emphasis on corporate governance in Russia – is the piece that has the greatest power to make a company uninvestable for us." **William Scholes, Investment Director, abrdn**

"Governance structure is one of 18 ESG factors we look at. We assess governance structure on a five-point scale that takes into account the structure of the Board of Directors and its composition. Depending on the factors, we get an overall ESG ranking, which can influence our estimate of the cost of capital. And there is a minimum ESG score - non-compliance means a company will be excluded from our portfolios. The score is higher for ESG funds." **- Andrew Edmondson, Portfolio Manager, Ashmore Group**

Some investors analyze indicator dynamics. Many investors opt for an individual valuation approach, changing weights according to the company and the industry.

The average weight of ESG factors in the assessment totals 25%, "G" in ESG ranges from 30% to 70%

All investors agree that ESG factors influence the value of the company.

83% indicated that ESG is a key valuation parameter, with ESG not greatly influencing company value for the other 17%.

44% of investors indicated the ESG weight of company valuation between 10% and 30%, while 11% of investors believed the ESG weighting at 50% or more. Among those portfolio managers disclosing their ESG weights, the average weight attributed to ESG is 25%.

Evgeny Popov, Senior EM Analyst, Pictet, says that in emerging markets the ESG factors are extremely important, with up to 50% of a company's weight in a valuation matrix reliant on these factors, which "have become absolutely mandatory over the past two years."

When assessing specific ESG factors, the weight of G (Governance) can range from 30% to 70%, and in most cases equals 50%. With a negative G rating, all portfolio managers stated that they would rather not invest in the company at all.

The E is dominated by greenhouse gas emissions. Investors may also refuse to invest in companies generating high environmental pollution levels. More funds are turning away from investing in coal producing or coal reliant companies. For example, recent The list of funds with climate stop factors is rapidly expanding.

The two year rise of ESG to assessment prominence

In early 2020 a McKinsey study had only 57% of investors saying ESG programs create shareholder value. But in less than two years it has become vastly more important.

The ESG transformation and contemporary business challenges means investors take a longer term perspective to analyse strategic company positioning

David Nicholls, **Assistant Portfolio Advisor, East Capital** says the fund places great importance on forward-looking ESG positioning and metric comparisons against competitors, primarily focusing on the next 3-5 years, but also bearing in mind longer term strategy. Russian companies generally have a 5-year strategic planning horizon, which is one of the reasons we have seen relatively few robust "net zero" commitments. David expects this is something that will change over the next year or so as many companies are actively working on their longer term climate strategies, especially given that Russia now has its own net zero target (albeit 2060 rather than 2050).

ESG Ratings are significant, but investors have their own rankings

Investors are careful to assess the corporate governance quality of companies they select for investment, reflecting the potentially serious consequences. They don't rely solely on ESG ratings from agencies (MSCI, Bloomberg, S&P Global, JUST Capital, Institutional Shareholder Services (ISS), Sustainalytics, Refinitiv, and others). Investors often conduct their own ESG analysis, and the quality of corporate governance they find is at the heart of the assessment.

"There are so many differences between the various ESG rating providers that we always look directly at company reporting to form our own opinion on ESG rankings." **- Andrew Edmondson, Portfolio Manager, Ashmore Group**

The bondholders' approach is different

Bondholders are more focused on the competence of the Board of Directors to ensure sufficient financial flows to meet debt obligations, and accord less weight to the quality of corporate governance. But they also emphasize the growing importance of ESG, through the cost of raising debt capital, as an influence on company value.

Boards of Directors' self-assessment is useful

Investors welcome BoDs undertaking self-assessments, as well as seeking external independent expertise, but note they often carry out their own assessments using their own methodology. Where this happens, it is vital the BoD is open and transparent.

"A number of companies conduct self-assessments, and this can also be an effective way of assessing, when the companies share the results of self-assessments with investors." – **Tieu Bich Nguyen, Chief Investment Officer - Fixed Income, Taiping Asset Management**

33 Russian companies out of 40 (83%) conducted an internal BoD performance assessment in 2020. And 27 companies (68%) conducted external evaluations.

Conclusion

The contemporary business world, and the rate of change it embodies, exacerbated by the pandemic, means that companies need to significantly lengthen the long-term planning and goal setting horizon, up to 2050-2060 for ESG goals. In view of the complexity, subjectivity, and effectiveness of Board of Directors assessment, Directors will need to conduct more assessments, and be more open with equity and fixed income holders.

4. A strong and open Board of Directors can achieve a 50% company valuation premium

> *"We have known for a long time that good corporate governance impacts the company's capitalization. Yet it is only today that this premium is becoming too high to ignore"*
>
> *- Anton Storozhenko, Senior Client Partner, Practice Leader, Board Services, KornFerry .*

KORN FERRY

Quality corporate governance premium - from 10% to 50%

Most of the surveyed investors estimate the premium for good corporate governance at between 10% and 20%. Two out of eighteen global funds believe company value can be boosted by 20% to 50% through quality corporate governance, and one Russian investor believes the premium could be even higher.

Many investors note that good corporate governance is the norm and does not deserve a premium. But weak corporate governance should lead to a discount, or to the exclusion of a company from the investment portfolio.

Weak corporate governance equals up to 80% valuation hammering or investment pariah status

94% of investors clearly emphasized that they punish poor corporate governance. Valuations can be axed by up to 80% or the company exiled from potential investment.

Denis Spirin, Corporate Governance Director, Prosperity Capital Management: "Corporate governance can be a major factor in investment decisions. Even with an excellent financial model, companies with poor corporate governance might be not considered as worthy investment".

Conclusion

Effective Boards of Directors can create significant value for companies and investors. The same way strong corporate governance can attract up to a 50% valuation premium, weak corporate governance can see a company banished from investment.

5. Challenges and Opportunities 2022: the shift of interests from shareholders towards stakeholders with a focus on long-term goals.

> *"In 2022, BoDs will tackle the challenge of balancing public and investor expectations of sustainability with long-term value and short-term profit targets. The shift towards more inclusive capitalism for all stakeholders has already begun."*
>
> *- Olga Pascault, Founder and Chair of the Management Board, CGI Russia*

1. **Investors will become more selective and pay more attention to corporate governance quality.** Global economic growth and equities markets will slow down significantly (global GDP growth is forecast by the World Bank to decline from 5.5% in 2021 to 4.1% in 2022), which will make investors more selective in choosing both equities and fixed income. Global investors will place greater emphasis on the composition of the BoD, especially independence and competence.

2. **Notwithstanding potential black swans, the boom in IPOs will likely continue, and the investor attention struggle will make ESG agendas critical for the boards of companies entering the primary market.** We expect 10-25 Russian companies may go public in 2022. That continued strong Russian market placement growth will mean the ESG agendas of these companies will be closely scrutinized by investors.

3. **Green financing and ESG lending will continue to grow actively, both in Russia and abroad.** Green financing might reach $6-8 billion in the coming years in Russia. For example, Sberbank plans to increase its ESG loan portfolio several times in 2022 (from about $3 billion in 2021). For the first time, VTB will offer savings accounts holders scope to transfer part of the income from their accounts to the nature protection fund. ESG scoring will become an integral part of lending policy in both Russian and International banks.

4. **The ESG agenda will become central across more corporate sectors and clearly highlight the beneficiaries and leaders of the new green transformation trends** (aluminum, nickel, copper, renewable energy sources, electric vehicles, solar panels, etc.), and it will also be important for BoDs to make the most of this long-term global economy shift towards carbon neutrality.

5. **ESG risks, particularly climate risks, will remain near the top of an elevated 2022 risk environment.** Let's highlight the ongoing Covid challenges, climate risks, company climate agenda transformation risks, geo-political risks, supply-chain risks, higher inflation risks, and the risks posed by increased price volatility for goods and products. We also emphasize new post-covid operational environment transformation risks, where new technologies and changing consumer demand will challenge older business models.

6. **Flowing on from COP26 decisions, a regulatory and legal environment, binding both companies and investors, will take shape, matching uniform global standards (including reporting).** The new International Financial Development Standards Board (ISSB) aims to create a unified standard for non-financial reporting based on: CDSB, VRF and TCFD.

7. **ESG disclosure in Russia will continue improving across all sectors.** This may mean large enterprises will be required to provide annual reports on greenhouse gas emissions. Rosstat will start collecting ESG data. Insurers will start preparing ESG reports in test mode. The Moscow Exchange is preparing to mandate issuers disclose ESG risk data.

8. **Following the announcements of Russia's long-term ESG targets many companies are likely to announce longer-term ESG targets in 2022.** We expect a large number of Russian company commitments to achieving carbon neutrality by 2050 –2060, with a smaller number committing by 2030. Medium-term climate targets will also become more ambitious, and companies will have clear roadmaps for achieving them.

9. **There will be an increasing need for BoDs to include ESG committees.** Companies will face heavier challenges implementing ESG strategies, including developing an energy transformation roadmap for their businesses and supply chains. This will shape a more focused approach to restructuring business processes, where an integrated climate approach, and people and structures more responsive to ESG will be essential. This means more ESG committees will be created, and existing ESG committees expanded in Russia's corporate sector in 2022.

10. **BoD member diversification by skills, gender, age and independence will continue bringing Russian corporate culture closer to international counterparts.** We expect more women, sustainable development specialists (especially in ecology and climate), and more technology expertise, to join Russian BoDs. We also think that companies entering the IPO / SPO market will incorporate more genuinely independent directors with technology, climate agenda and digital marketing expertise.

11. **Russia will implement carbon regulation throughout 2022 after the law "On limiting greenhouse gas emissions" came into effect from December 30, 2021.** VTB and MOEX have already announced carbon trading plans. With energy and resources producers flagging significant interest, Russian carbon trading is expected to grow rapidly.

12. **BoDs of Russian export-oriented companies should be actively preparing for looming cross-border carbon taxes.** The EU will introduce a carbon tax on imported products with high greenhouse gas emissions. According to the current draft, this will come into force on January 1, 2023, with a transitional phase until 2025. Other developed economies have similar proposals. In 2022, this is motivating Russian boards to optimize costs by minimizing greenhouse gas emissions.

> ***"We see an expanding focus on responsible investment principles and the investors' focus is also shifting to assessing non-financial performance, in particular climate governance issues. Investors increasingly prefer those companies in which BoDs and management are responsible for the analysis and minimization of environmental risks, where they pay attention to social initiatives and have strong and balanced corporate governance."***
>
> ***- Elena Sapoznikova (Haykin), Founder and Member of the Management Board, CGI Russia***

Conclusion

Investors, regulators and consumers will increasingly shape the Board of Directors agenda at all companies. This will underline ESG priorities as an increasingly important component of strategy, risk management and human resources policy in 2022. The increased speed of decision-making and the broadening scope of the BoD agendas will necessitate new competencies at both the BoD and senior management levels. The new, more competitive, environment will force companies to place greater emphasis on long-term success, where the interests of all participants in the operational ecosystem, and society as a whole, will be taken into account.

APPENDIX 1. Polymetal BoD ESG case

This appendix presents a case study on ESG's impact on Polymetal from our partner Korn Ferry. For more case studies on how boards add value to companies, see Korn Ferry's Annual Review of Russian Board Practice.

Case: Polymetal // ESG - as a factor in the sustainable development of a company in a period of market and social turbulence.

Tatiana Chedaeva, corporate secretary

Situation:

Polymetal is listed on the London Stock Exchange and is required to comply with the UK corporate governance code. In addition, the growing influence of ESG principles is becoming an additional factor - many funds fundamentally refuse to invest in businesses with a bad reputation in the field of ecology, social responsibility or corporate governance. There are examples on the market when scandals in these areas have led to the resignation of management and significant capitalization losses. In this regard, as well as in connection with historical prejudices, the issue of reputation for Russian companies is now especially acute.

What Was Done:

The Sustainable Security Development Committee was founded five years ago. At first, the emphasis was on safety, since the mining company belongs to a hazardous sector and the risk of accidents had to be minimized. But three years ago, the focus shifted more towards green projects, environmental friendliness and sustainable development. The chair of the committee on sustainable development participates in the work of other committees and programs, including non-profit ones, which actively promote this topic. This means the Board of Directors has taken an active role in assisting and supervising management in order to ensure that the company is moving in the right direction.

Insight:

Issues of values and principles may be overlooked by management, which focuses on financial and economic performance. However, due to the trend towards increasing ESG importance for business, the Board of Directors, which takes an active role in these issues, becomes the most important factor in ensuring the company’s sustainability.

CGI Russia

Olga Pascault

Co-Founder and Chair of Management Board

opascault@cgi-russia.ru

Elena Haykin Sapozhnikova

Co-Founder and Member of Management Board

ehaykin@cgi-russia.ru

Natalia Otkupschikova

Director of Analytics

research@cgi-russia.ru

Natalia Sheveleva

Director of Analytics

nsheveleva@cgi-russia.ru

Contacts

www.cgi-russia.ru

www.eng.cgi-russia.ru

info@cgi-russia.ru

research@cgi-russia.ru

linkedin.com/company/russian-chapter

twitter.com/CgiRussia

facebook.com/CGIRussia

instagram.com/cgi.russia/