



# The value of sustainability targets for institutional investors. Does it make a difference?

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## Subjects

- Introduction
- Managing environmental, social and corporate governance (ESG) risks
- Company-based information: ESG/CSR reporting
- Engagement
- Third-party sources



## Fair Impact

- Insight into ESG issues
- Extensive international network
- Twenty years in financial services industry
- Founded in 2010
- Partnership with independent ESG consultants
- Representative of RepRisk AG



## Reasons to manage ESG risks

- Norm-based investors (“ethical, sustainable and responsible investors”):  
focus on compliance risks regarding violation of pre-defined standards
- Institutional investors who seek to maximise their risk-adjusted return:  
focus on investment risks regarding business practices, corporate governance,  
and corresponding reputational risks



Opportunity because markets are inefficient  
with respect to information on environmental and social risks



## How to assess a company's ESG risks?

- Audit reports
- Company-based information
- Third-party sources

## Company-based information: KPIs for ESG

- DVFA Society of Investment Professionals in Germany
- EFFAS European Federation of Financial Analysts Societies
- Individuals who manage or evaluate investments or credit risks as professionals
- Integration of ESG into Financial Analysis and Corporate Valuation





## Guide for companies

- Stock - listed companies and issuers of bonds
- Overall requirements presentation ESG/CSR reports
- Guidelines presentation and structure
- Minimum requirements content



## Purpose of ESG/CSR reports

- Minimising risks arising from ESG aspects
- Proactively seeking advantages from “translating” ESG issues into company’s product and service portfolio
- Monetary terms or units
- Management puts performance data into context with explanations





## Disclosure of ESG data

- Annual report, ideally Management Discussion and Analysis section
- Updates via corporate website
- ESG issues and respective key performance indicators in table format
- Line items and relational benchmarks
- Presentation slides senior management (selectively)



## **Eurosif European SRI Study 2010: Engagement in Europe**

- UK: 19% growth in engagement to £830.1 billion (€922.3 billion)
- Executive remuneration very hot topic following financial crisis and recession
- France: engagement (€6.1 billion) only practiced by minority group of activist funds that have roots in corporate governance activism
- The Netherlands: engagement strategies €307,5 billion



## **Trade Union Congress Fund Manager Voting Survey 2010: Remuneration does matter**

- Large majority of respondents: client interest voting and engagement activity had risen
- Financial crisis had played a part in this
- Remuneration most popular issue for investor dissent
- Majority of investors supporting less than third of remuneration reports on which votes were sought, but a handful voted for over 60%



## The UK Stewardship Code aims to set the standard. Principle 4: protecting and enhancing shareholder value

Instances when institutional investors may want to intervene include when they have concerns about:

- the company's strategy and performance,
- its governance or
- its approach to the risks arising from social and environmental matters.



## Stewardship Code continental Europe

- The Netherlands
  - Eumedion publishes best practice for participants in spring 2011
  - Dutch Corporate Governance Code Monitoring Committee monitors compliance by Dutch listed companies and institutional investors: engagement needed before AGM, because of proxy voting
- More guidance from Brussels expected



## Reasons to do an ESG road show

- New shareholders with long-term commitments
- ESG investor teams still separate from mainstream institutional investor teams
- Focus on different issues
- During credit crisis outflows ESG funds relatively low
- ESG funds growing faster than market
- Also other stakeholders like ESG researchers, family offices, NGOs and private banking teams



## Environmental, Social, and Governance (ESG) Risks

- BP
- Siemens
- Goldman Sachs
- UBS
- Sinar Mas Group / KitKat

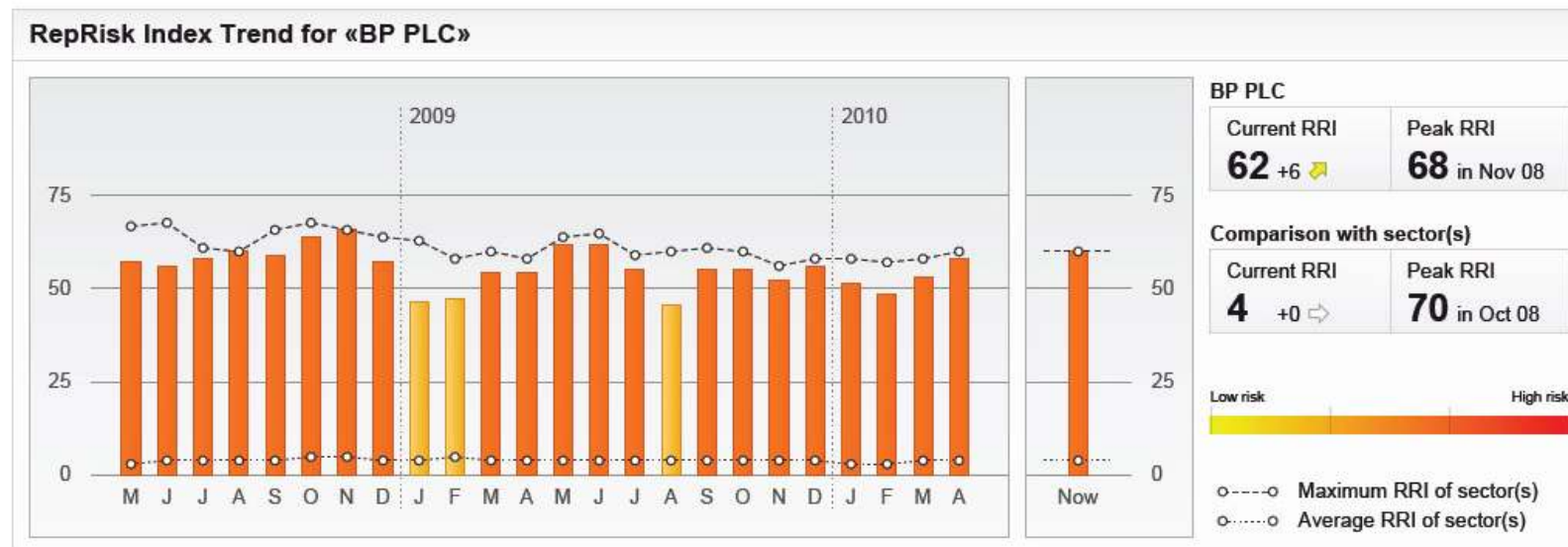


<http://www.greenpeace.org.uk/blog/forests/kit-kat-give-orang-utan-break-20100317>



## BP's risks peaked in 2008 and materialised in 2010

### RepRisk Index Analysis of «BP PLC» from May 2008 to April 2010





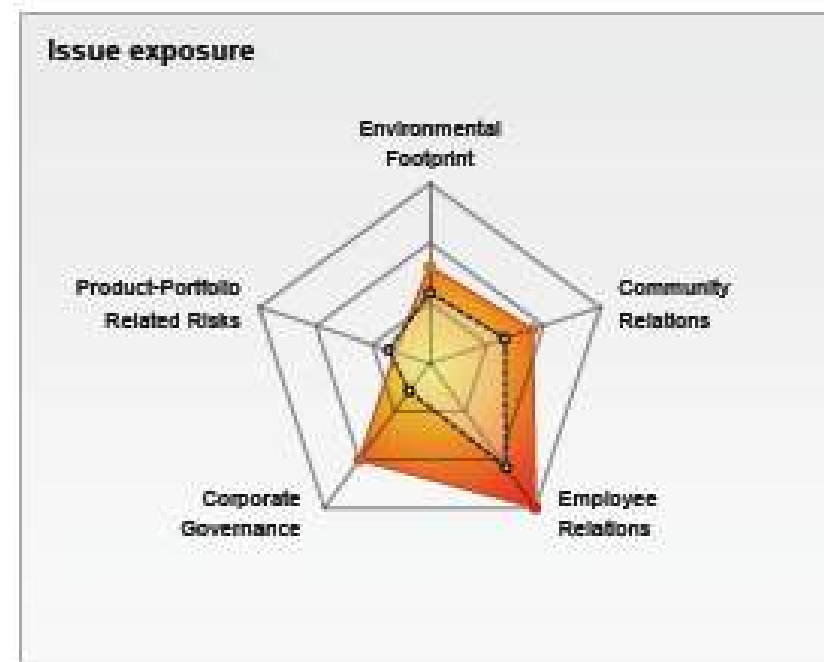


## ESG risk assessment based on third-party sources

### Example Marks & Spencer PLC

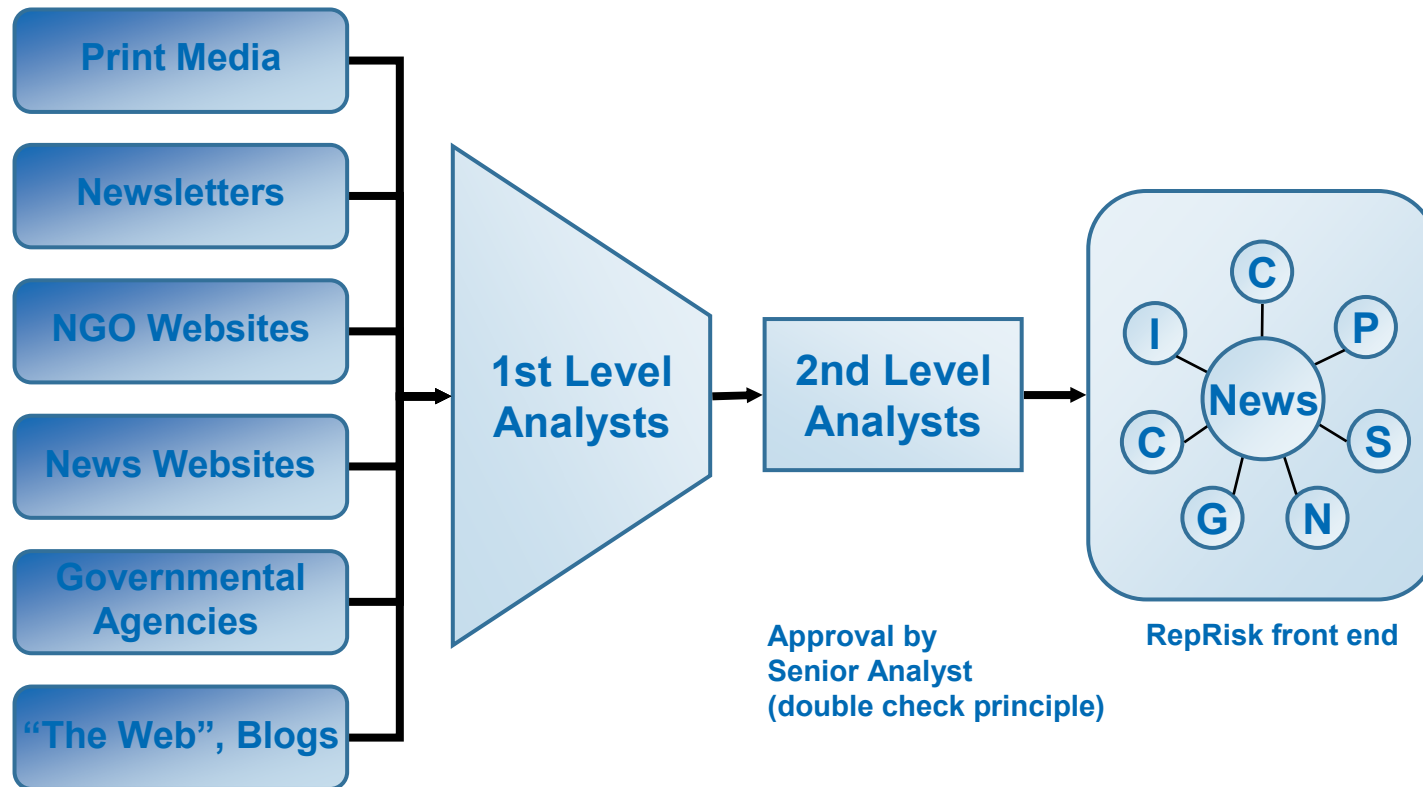
(based on RepRisk data)

- Environmental Footprint (E)
- Community Relations (S)
- Employee Relations (S)
- Corporate Governance (G)
- Product-Portfolio Related Risks





## How RepRisk works



Advanced search algorithms covering Chinese, English, French, German, Japanese, Korean, Portuguese, Russian and Spanish sources worldwide



## 15'000 Companies associated with controversial issues in over 180 Countries



- Dashboard
- Watchlists
- News

- Companies
- Projects
- Sectors
- Countries
- Issues
- UN GC Principles
- NGOs
- Governmental Bodies
- Campaigns

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## Sinar Mas Group

Alter watchlist:  ▼

**RepRisk Relationships** i

General Information	Sort by <a href="#">Relevance</a>   <a href="#">Name</a>
Companies (255)	- <a href="#">Greenpeace International</a> (25)
Projects (27)	- <a href="#">Roundtable on Sustainable Palm Oil (RSPO)</a> (12)
Countries (32)	- <a href="#">Friends of the Earth Indonesia / Indonesian Forum for Environment (WALHI)</a> (5)
Issues (22)	- <a href="#">Greenpeace China</a> (4)
UN GC Principles (8)	- <a href="#">Greenpeace Indonesia</a> (3)
<b>NGOs (36)</b> →	- <a href="#">Greenpeace Southeast Asia</a> (3)
Campaign Exposure (1)	

**RepRisk Index Trend** i

Current RRI	Peak RRI	Trend of the RRI over the past 24 months, based on all news.
<b>31</b> -13 ▲	<b>64</b> in Aug 2010	

Date / Source	News	Abstract
25.11.2010 eyesontheforest.or.id	<a href="#">Asia Pulp and Paper and affiliates suspected of greenwashing</a>	Greenomics Indonesia has published a report criticizing Asia Pulp & Paper (APP) for wrongfully claiming it is planning a carbon reserve project in Kampar, Indonesia, consisting of a pulpwood plantation on a concession held by PT Putra Riau Perkasa. [Note of the RR Analyst: the Kampar Carbon Reserve is to be developed in partnership with Carbon



## The value of sustainability targets for institutional investors. **Does it make a difference?**

**Yes!**

- Investors focus on compliance and investment risks
- Opportunity: inefficient markets with respect to information on environmental and social risks
- Executive remuneration very hot topic following financial crisis and recession
  
- Companies minimise risks arising from ESG aspects via reporting
- Proactively seek advantages from “translating” ESG issues into company’s product and service portfolio



Thanks for your attention



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