



ESG Perspective in Investments

3rd July 2015

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Manager, Advisory Services



Agenda

- Introduction to Sustainalytics and the Responsible Investment industry
- How we rate company ESG performance
- Case Study: Banks

Who We Are

- One of only two global ESG research firms and the only fully independent ESG research firm
- Over 200 professional staff with more than half engaged in research
- 15 offices, providing local market knowledge
- 20 years of experience in the field of ESG research & analysis

What We Do

- Serve over 250 institutional investors from 22 countries
- Provide comprehensive ESG and Corporate Governance ratings and research across more than 4000 companies worldwide
- Help investors integrate ESG factors and considerations into their investment processes



ESG Research and Services



Company
ESG Research



Country
Research



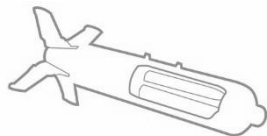
Portfolio
Reviews &
Assessments



PRI
Implementation
Services



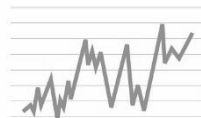
Sustainable
Bond Services



Controversial
Weapons
Research



Global
Compact
Compliance



Indexes



Thematic
Research



Sector
Research

Our Clients

Institutional Investors

Companies

Sustainability Bonds



Institutional Investors

Policy development and implementation

- Support with developing ESG policies and views
- ESG related goals and targets
- ESG issue / ESG integration Training
- Communication and Reporting

Portfolio analytics & monitoring

- Portfolio analytics
- Event Alerts
- Company Research & Ratings
- Country Research & Ratings
- Sanctions & Compliance

ESG integration and screening

- Best in class selection
- Exclusions/screening
- ESG integration
- Thematic/impact investing

Engagement support

- Topic identification
- Company flagging
- Research
- Engagement execution

ESG Approaches & Analysis



ESG Approaches	Description	Type of ESG Analysis
Active Ownership/ Engagement (voting)	Corporate engagement, proxy voting	Controversial practices
Positive Screening/ Best in Class	Investing in the top ESG performing companies in a given sector	ESG performance (scores)
Exclusions	Excluding poor ESG performers and/or companies	ESG performance (scores) Controversial practices
Norms-Based Screening	Excluding companies that violate basic societal norms, controversial business lines, e.g. tobacco, gambling, controversial weapons	Controversial products
ESG Integration	Incorporating ESG information into the traditional investment process: identification of ESG signals and adjusting valuation	ESG performance (scores) Macro/Industry ESG issues
Positive/ Thematic/ Impact	Investing in solutions to sustainability challenges, e.g. clean technology.	Sustainability products/ services

Momentum for ESG - Global



- ✓ **\$21.4 trillion in ESG strategies (using broad definition of ESG strategies)**
- ✓ **30% of total global assets under management now managed under an ESG strategy**
- ✓ **Europe, United States and Canada combined account for 99% of global investments referencing ESG considerations**

Region	2012	2014	Growth
Europe	\$8,758	\$13,608	55%
United States	\$3,740	\$6,572	76%
Canada	\$589	\$945	60%
Australia/NZ	\$134	\$180	34%
Asia	\$40	\$53	32%
Total	\$13,261	\$21,358	61%

Note: Asset Values are expressed in billions

Source: Global Sustainable Investment Alliance (GSIA), Global Sustainable Investment Review, 2014

Momentum for ESG - Europe

- ✓ Exclusions remains the dominant strategy and has exhibited the strongest growth rate across conventional SRI strategies
- ✓ Integration practices now cover an estimated 31% of the overall European investment market

In € million (EU 13)	2011	2013	Growth
Sustainability Themed	€ 48,046	€ 58,961	22.60%
Best-in-Class	€ 283,081	€ 353,555	24.90%
Norms-based Screening	€ 2,132,394	€ 3,633,794	70.40%
Exclusions	€ 3,584,498	€ 6,853,954	91.20%
ESG Integration	€ 3,164,066	€ 5,232,120	65.40%
Engagement and Voting	€ 1,762,687	€ 3,275,930	85.80%
Impact Investing	€ 8,750	€ 20,269	131.60%
EU Industry (EFAMA est.)	€ 13,800,000	€ 16,800,000	21.70%

Note: EFAMA estimates of European professionally managed assets (AuM) cover 27 markets.

Source: Eurosif European SRI Study 2014

Primary Drivers and Related ESG Strategies

Primary drivers

ESG strategy

Regulatory Risk: Legislation and International Treaties/Conventions

- Europe: controversial weapons
- US: divestment from Sudan, Dodd-Frank and conflict minerals
- Global Compact, ILO

Norms-based & Exclusionary approaches

Reputation Risk

- Awareness of potential reputation risk
- Manage and mitigate reputational risk

ESG monitoring + voting

Search for Materiality:

- Risk management: fiduciary duty
- Financial performance: new players are entering the RI market seeking alpha - impact investing, private equity, alternative assets

ESG integration + Engagement + voting

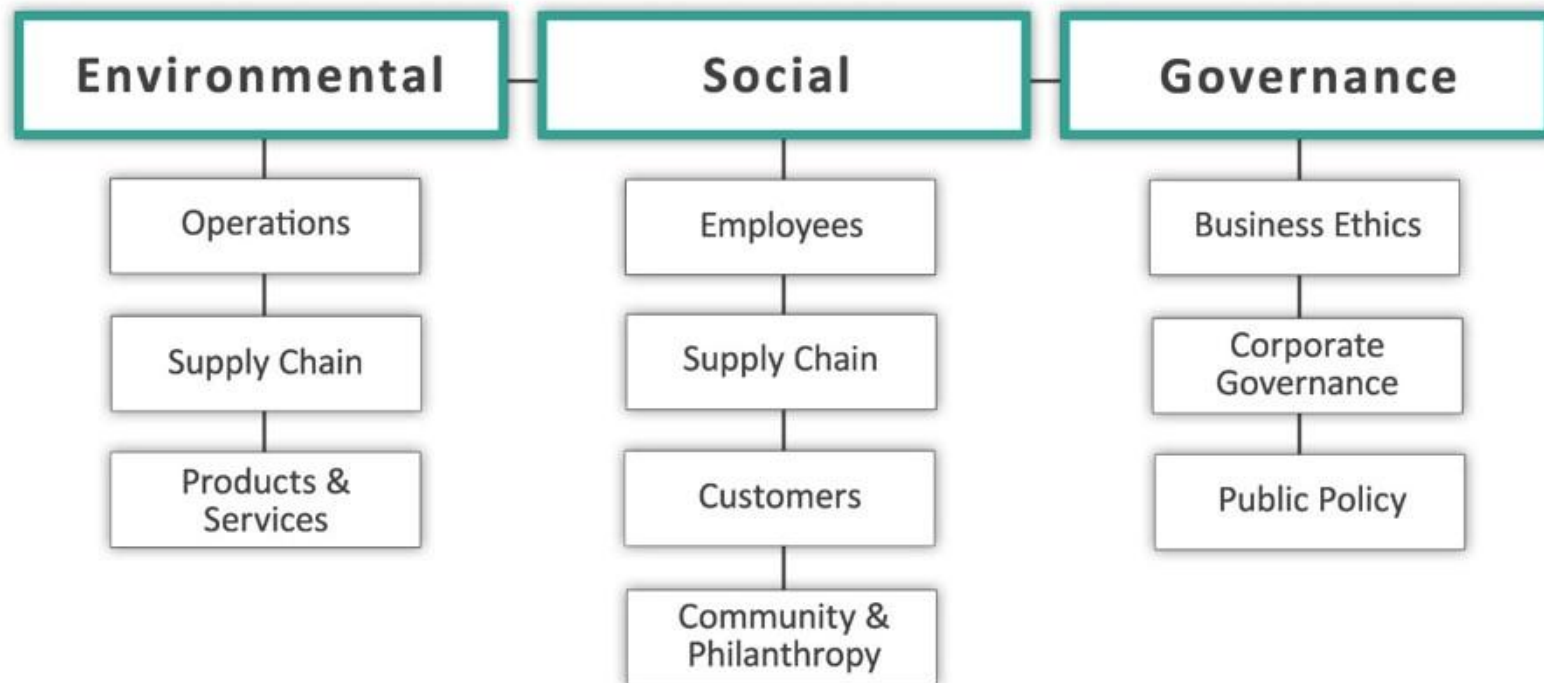
Contribution to Sustainable Development

- Universal ownership: capital markets play a leading role in addressing long-term systemic concerns

Impact investing solutions

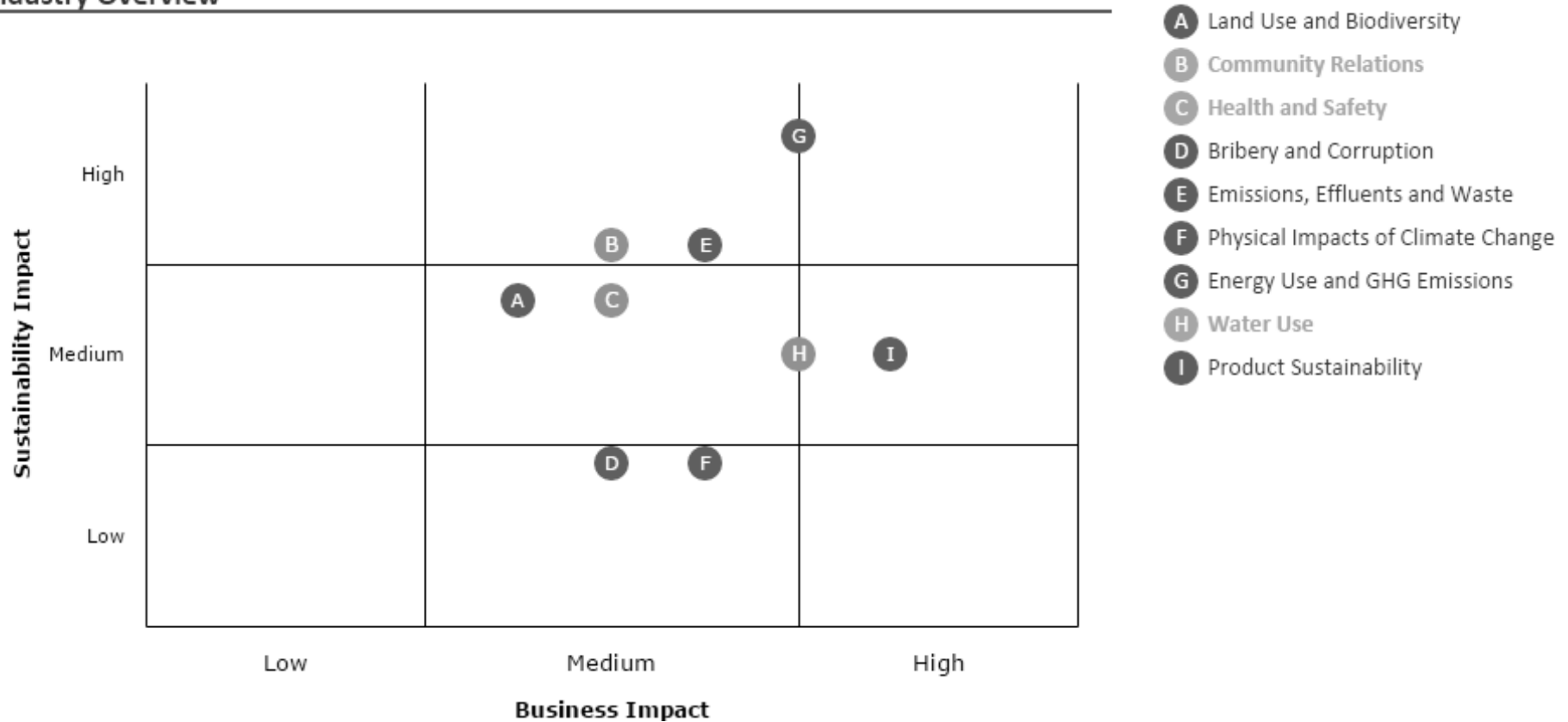
Company ESG Ratings

ESG Ratings and Key Issues



KEY ESG Issues

Industry Overview



ESG Rating Components

Preparedness

- Management systems and policies
- e.g Health and Safety Programmes, Programmes/targets for Hazardous Waste Generation

Disclosure

- Disclosure of key ESG issues as part of industry initiatives
- e.g Scope of GHG Reporting, Tax Transparency per country

Quantitative performance

- Targets and quantitative commitments, performance metrics
- e.g. Water Intensity, Environmental Fines and Penalties, Employee Turnover Rate

Qualitative performance

- Assessment of E,S,G controversies
- e.g Operations controversies, Environmental supply chain controversies

Controversy Areas

E

Product & Service

Operations

Environmental Supply Chain

Employee

S

Social Supply Chain

Customer

Society & Community

G

Business Ethics

Governance

Public Policy

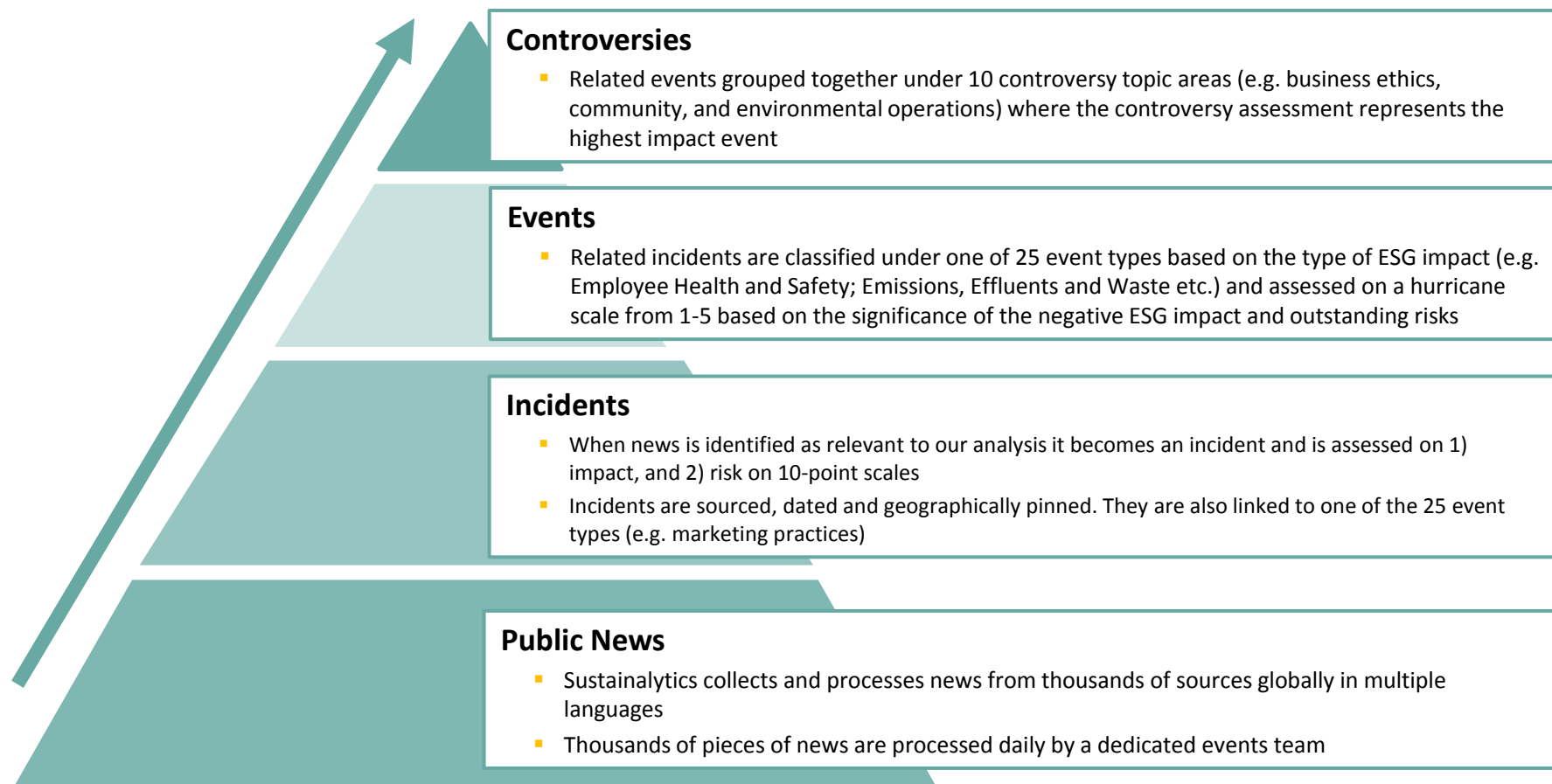
Events and Controversies

Qualitative performance is assessed through a company's involvement in controversies. Events and controversies are assigned a category rating based on the severity of a company's ESG impact and risks:

Category Level		Explanation	Raw Score
5	Category 5 Severe	Severe ESG impact, potentially posing risks to the company, representing the most egregious corporate behavior	0
4	Category 4 High	High ESG impact, potentially posing risks to the company, often reflective of structural problems within the company	20
3	Category 3 Significant	Significant ESG impact, with potential risk to the company	50
2	Category 2 Moderate	Moderate ESG impact, with potential risk to the company	80
1	Category 1 Low	Low ESG impact, posing negligible risks to the company	99

Event/Controversy Structure

Data is analyzed as it moves from news to incidents to events and controversies to uncover insightful information:



Research Process



We assess company performance based on a broad set of indicators:

- Review of company reporting: annual reports, CSR reports, publicly available policies, etc.
- Review of external sources (Newspapers, NGOs, publications, etc.)
- Analysis by experienced analyst
- Structural peer review
- Company feedback always included in the research process
- Research process is underpinned by detailed and stringent Quality Management System

Company Feedback Responses



MSCI Developed Markets Index Company Feedback Response Rates

Industry	Nov 2013	Change (2012)
Utilities	53.66%	14.91%
Mediacom	45.88%	13.35%
Chemicals, Packaging and Household and Personal Products	45.35%	5.95%
Financials	43.72%	7.88%
Transportation	41.32%	2.73%
IT	41.30%	4.18%
Health care	40.17%	8.31%
Food	36.88%	3.03%
Industrials	36.19%	6.72%
Construction	35.56%	15.56%
Materials	35.42%	4.38%
Consumer Discretionary	34.00%	1.74%
Energy	33.62%	4.93%
Real Estate	30.25%	7.70%

Indicators, Weights and Ratings

Indicators

×

Weights

=

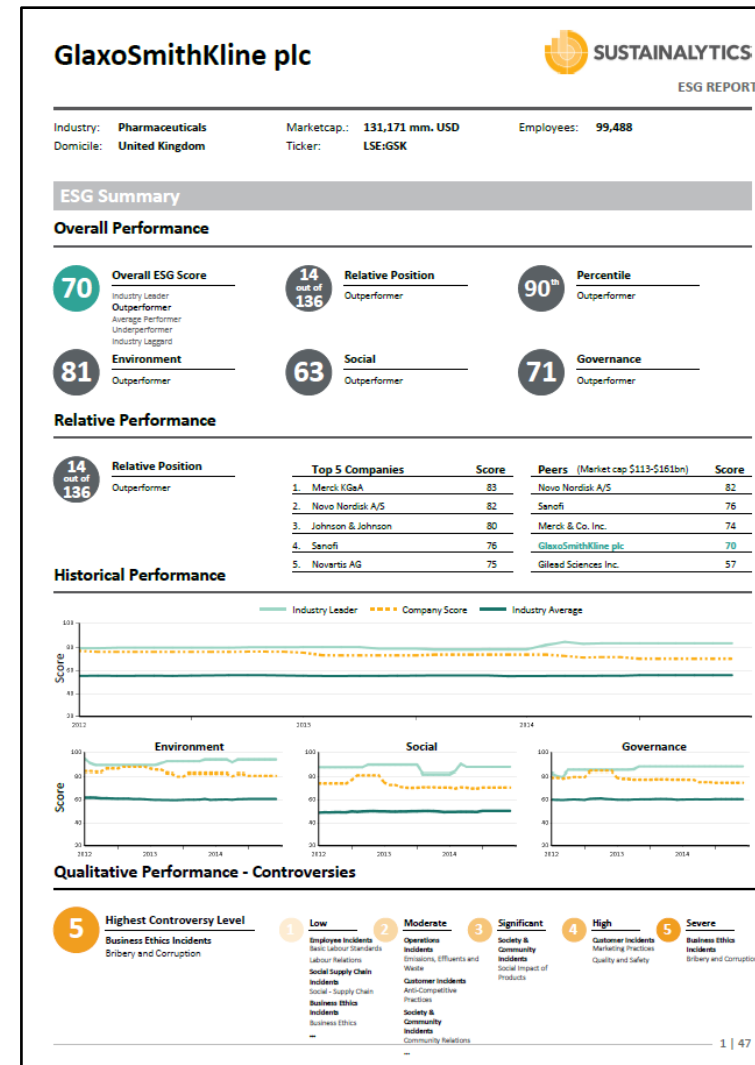
Rating

- Weighted average of 50-80 ESG indicators
- Core and sector indicators
- Sector weights

Company ESG Report Overview

Sustainalytics' Company ESG Reports provide insight and analysis into:

1. Quantitative Performance Overview
2. Qualitative Analyst Insights
3. Controversy/Event Analysis
4. Transparent score calculation with indicators and weights
5. Full list of sources and indication of company feedback



Investor interests: trends Q1 2015 SUSTAINALYTICS

- Investors were most frequently looked at Financials companies. Food, IT and Energy were in second place
- Top 20 downloaded companies:

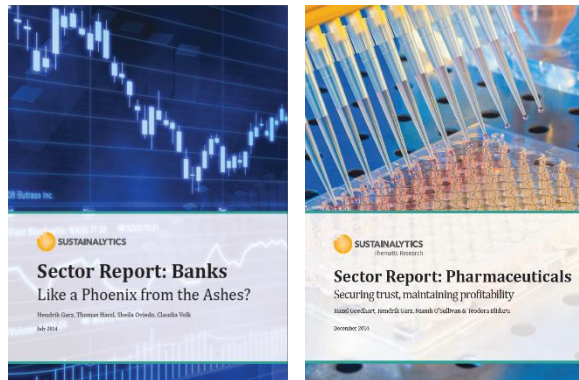
Apple Inc.
Nestle S.A.
Sanofi
HSBC Holdings plc
Wal-Mart Stores Inc.
Total SA
Glencore Plc
SAP SE
Royal Dutch Shell plc
Unilever plc

Google Inc.
BMW Group
GlaxoSmithKline plc
3M Company
Microsoft Corporation
BNP Paribas
Bayer AG
Novo Nordisk A/S
BP PLC
Banco Santander, S.A.

Thematic & Sector Research

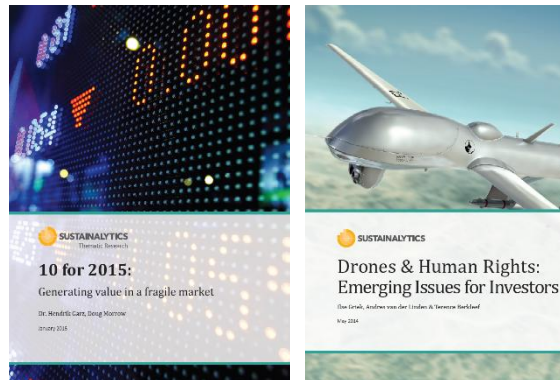
Thematic Research Team is dedicatedly responsible for sector studies and sustainability research pieces. Publications include:

Sector Reports



- In-depth sector analysis and focus on ESG trends
- Annual updates
- Upcoming reports: Automobiles, Precious Metals, Utilities

Thought Leadership Reports



- Deep dive on emerging key ESG issues
- Quarterly reports
- Upcoming reports: Stranded Assets, Sustainable Mobility 2.0

Asia Insights



- Analysis of key issues in Asia
- Quarterly reports
- Upcoming reports: Anti-monopoly regulation in China, Family businesses in Asia

Case Study: Banks

Sector overview

Sustainalytics covers approximately 400 banks globally

Average scores globally:

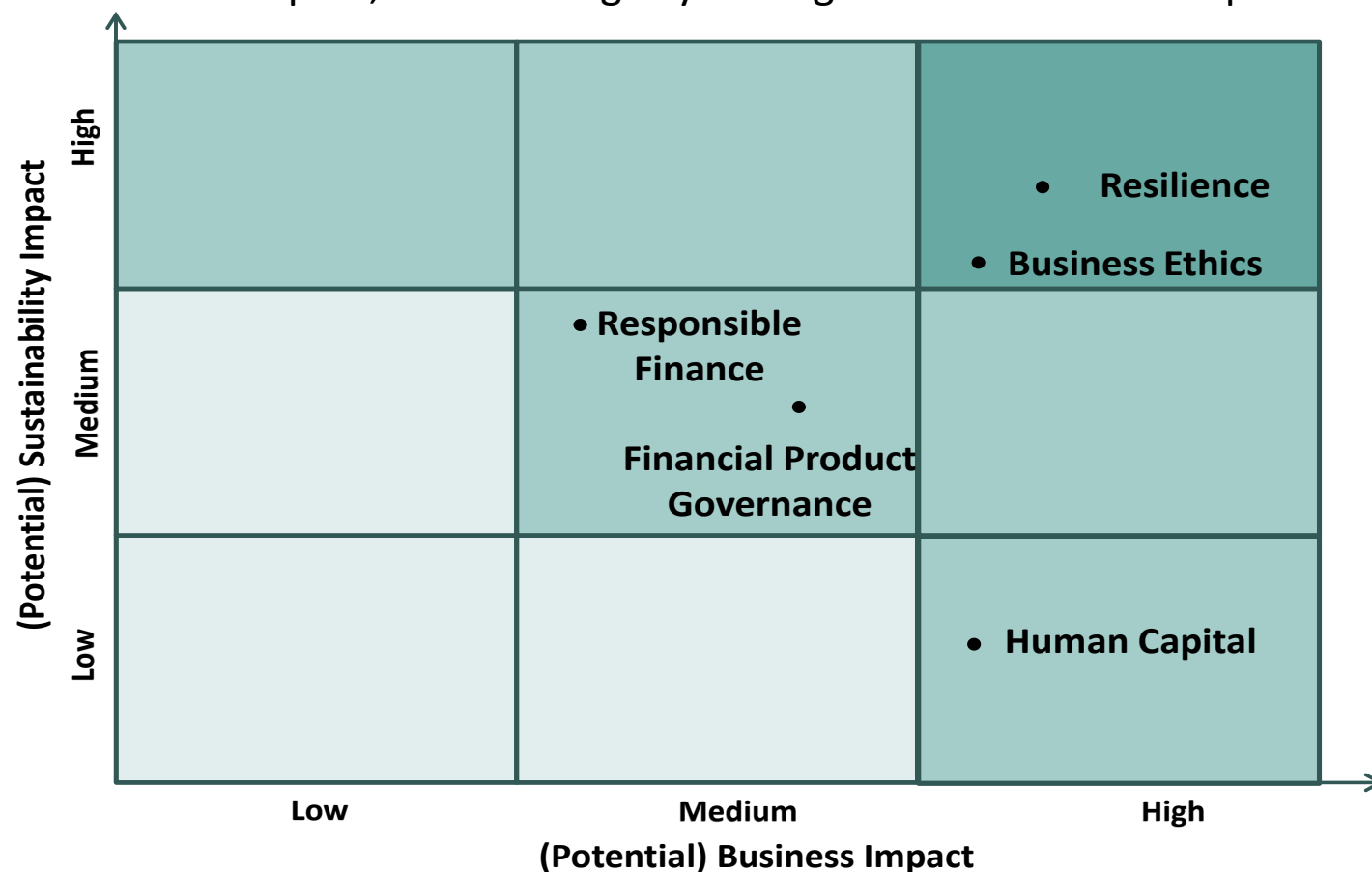


E	S	G
47	64	52
30%	35%	35%

Region	Number	Avg. Score	Leader
Developed Markets	160	58	DNB ASA
BRICs	54	54	Banco Santander Brasil
Emerging Markets	82	52	DGB Financial Group
Non-listed (global)	77	58	KfW

Materiality Matrix for Banks

- **Key ESG issues** = most material areas of exposure in terms of sustainability and/or business impact, determining key management areas for companies



Key ESG Issue: Responsible Finance SUSTAINALYTICS

Responsible Finance

Credit & Loan Standards

Responsible Asset Management

Sustainable Financial Services

PRI Signatory

Responsible Investment Policy

UNEPFI Signatory

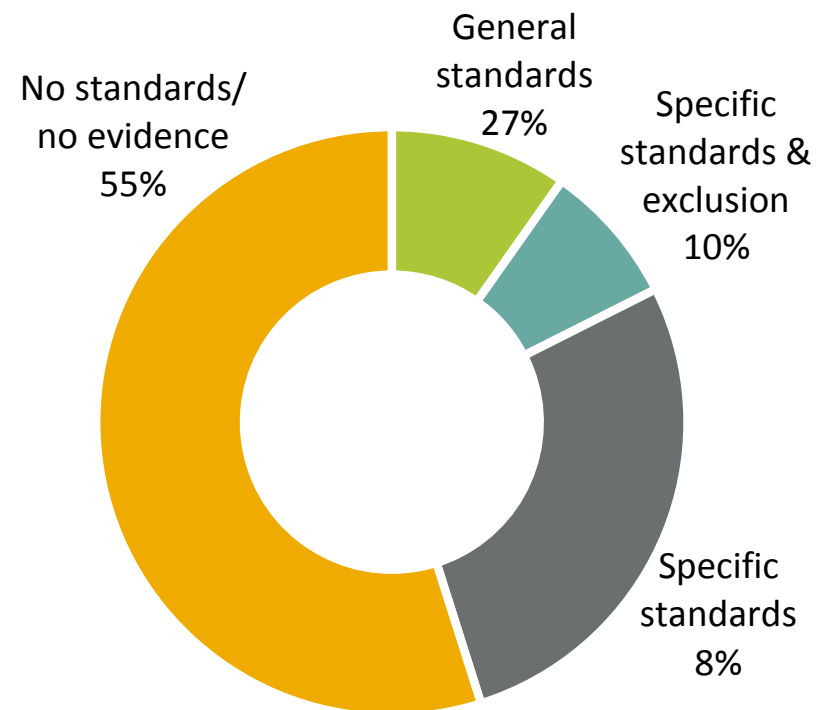
Equator Principles Signatory

Responsible Investment Team

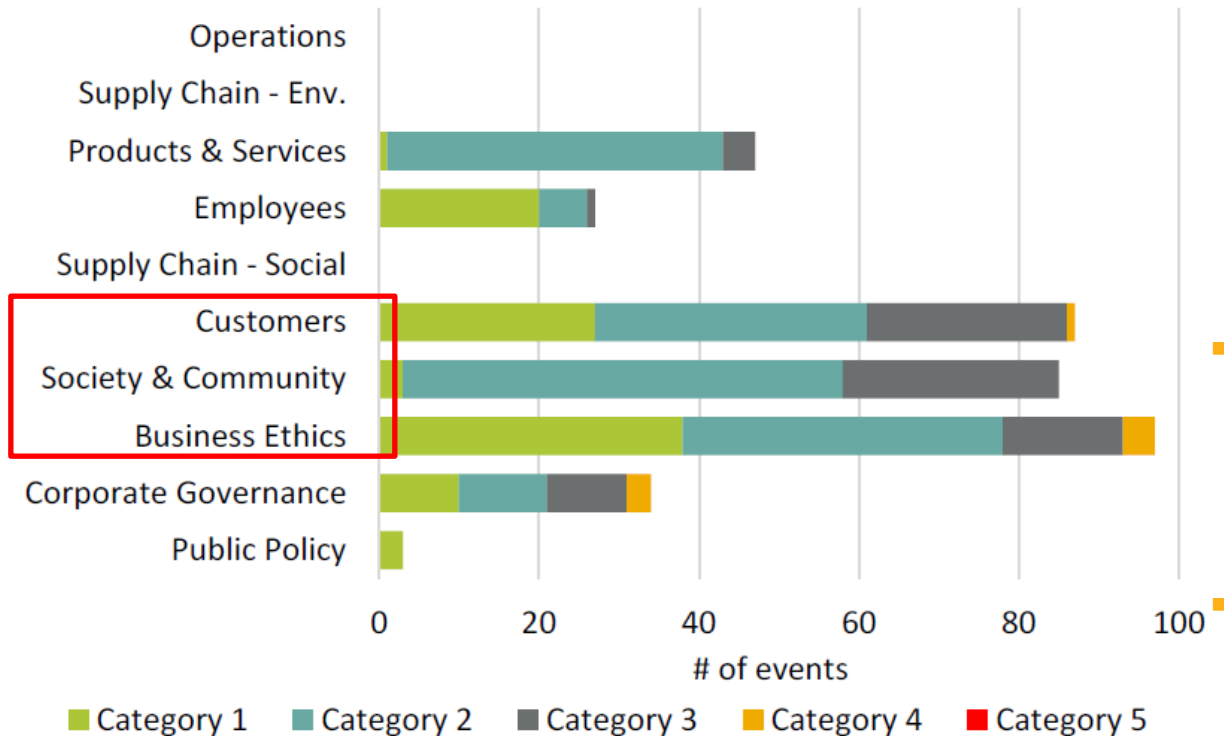
Financial Inclusion

Environmental Impact of Products Events

Credit & Loan Standards



Controversies



- **Customers:** Although mortgage-backed securities incidents have dominated since the 2008 financial crisis, anti-competitive practices are growing in importance (e.g. commodity market manipulations)
- **Society & Community:** Breaches of government sanctions, human rights, community relations, etc.
- **Business Ethics:** A number of banks are assessed as category 4 due to participation in interest rate manipulations (e.g. LIBOR, FOREX) or sanctions non-compliance

Business Ethics Controversy

Governance Controversies

Business Ethics Incidents

4

Category 4
High



In May 2015, Citigroup pleaded guilty to criminally manipulating the foreign exchange markets between 2007 and 2011, fired eight employees and agreed to pay a record fine of USD **2.4 billion** to the U.S. Department of Justice, the Federal Reserve, and other U.S and U.K. based financial regulators.

Forex Manipulation: In May 2015, six banks agreed to settle criminal charges of manipulating the foreign exchange markets between 2007 and 2011, resulting in a total of approximately USD 10 billion in fines.

Citigroup has been implicated in and continues to be investigated over numerous instances of unethical conduct. Citigroup has generated over USD 2.4 billion in fines connected to Forex manipulation. Citi's Forex settlement with US regulators in May 2015, combined with settlements with European regulators in November 2014, as the second highest in the industry at **USD 2.28 billion.**

JPMorgan has been implicated in and continues to be investigated over numerous instances of unethical conduct



J.P. Morgan has generated over USD 2.4 billion in fines over the past 10 years, with the vast majority of the fines connected to Forex manipulation. JPM's Forex settlement with U.S. regulators in May 2015, combined with settlements with European regulators in November 2014, was the third highest in the industry at **USD 1.9 billion.**



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