



BNY MELLON

SUSTAINABILITY  
PLATFORM  
OF TURKEY

# Environmental, Social and Governance Perspective in Investments

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# Definition and Evolution

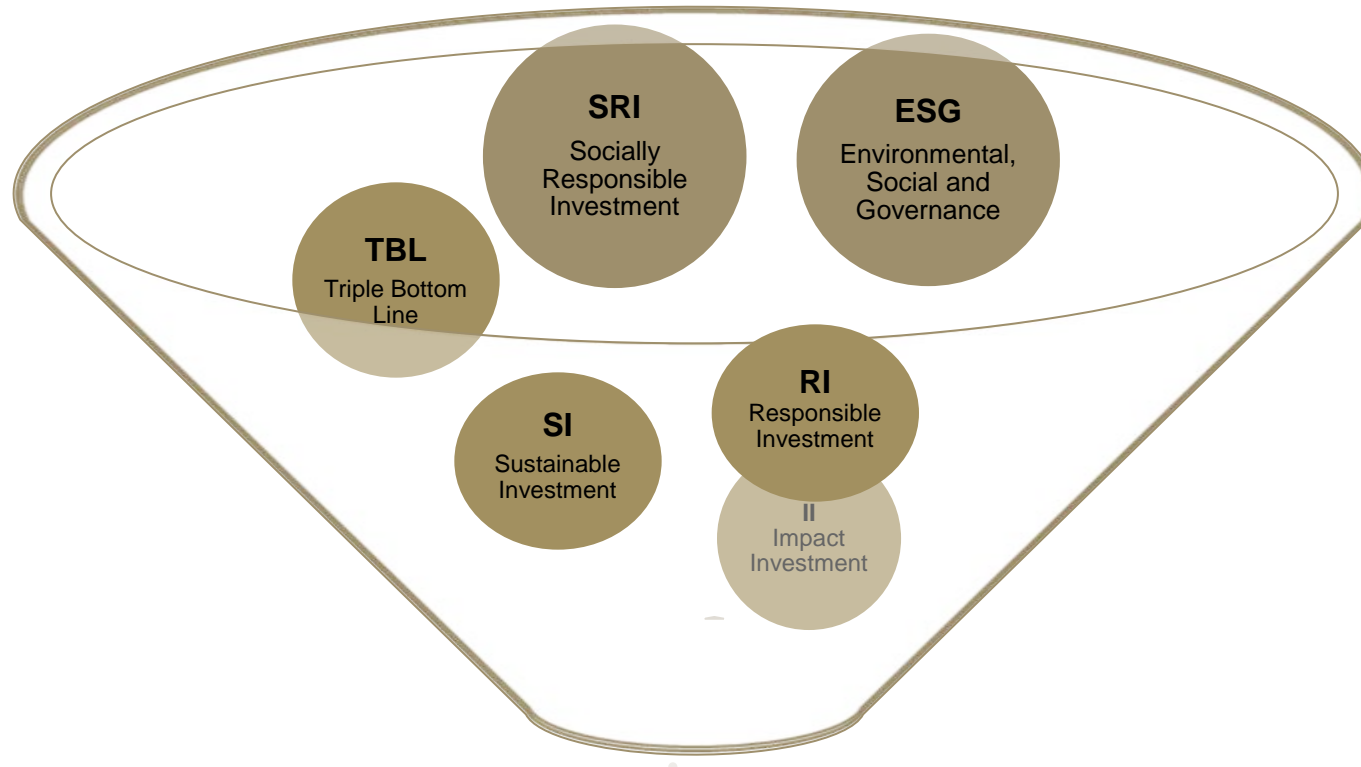


# Definition of Sustainable Investment<sup>1</sup>

“Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.”

- USSIF: The Forum for Sustainable and Responsible Investment

## COMMON TERMS FOR SUSTAINABLE INVESTMENT



<sup>1</sup> USSIF - The Forum for Sustainable and Responsible Investment. 2015. *SRI Basics*, <http://www.ussif.org/sribasics>

# What is ESG and Why Does It Matter?

**Environmental, Social and Governance (ESG) disclosure is of increasing importance to issuers and the investment community globally**

Issues related to the specific components of ESG are:

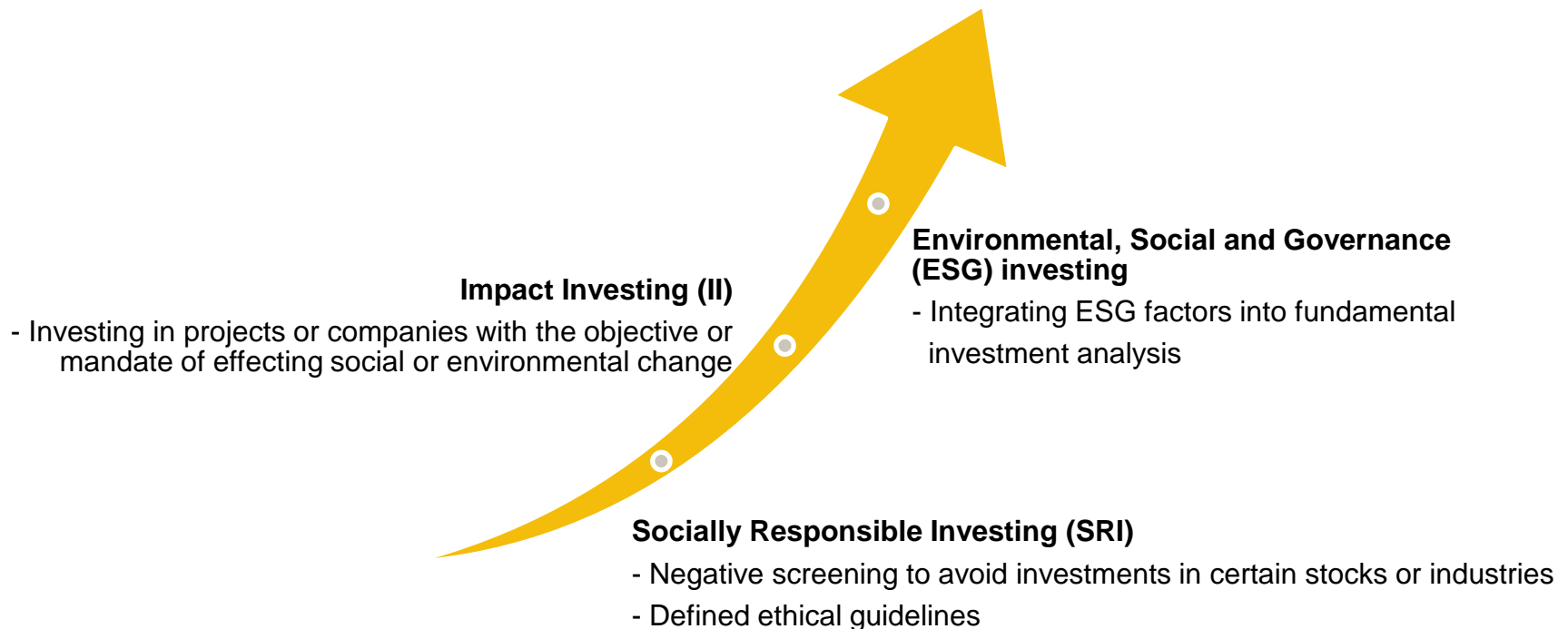
Environmental	Social	Governance
Resource management and pollution prevention	Workplace (diversity, health & safety, labor-management relations, human rights)	Shareholder rights
Emissions and climate impact	Product Integrity (safety, quality)	Board accountability and Executive compensation
Reporting of material non-financial metrics	Community Impact (community relations, responsible lending, corporate philanthropy)	Disclosure

- Investors increasingly recognize that ESG factors can have an impact on long-term financial performance
- With the growing investor attention to integration of ESG in investment decisions, disclosing ESG information may provide you with a competitive edge

# The Evolution of Sustainable and Responsible Investing<sup>1</sup>

The definition of Responsible Investing has changed from merely screening to embracing risk-based metrics

**Mitigate Risk and Create Long-Term Sustainable Value**



<sup>1</sup>Commonfund Institute. 2013. *From SRI to ESG: The Changing World of Responsible Investing*.  
[http://www.commonfund.org/InvestorResources/Publications/White%20Papers/Whitepaper\\_SRI%20to%20ESG%202013%200901.pdf](http://www.commonfund.org/InvestorResources/Publications/White%20Papers/Whitepaper_SRI%20to%20ESG%202013%200901.pdf).

# ESG Analysis and Implementation

- ESG investing involves integrating ESG factors into fundamental investment analysis to the extent that investors perceive them to be material to investment performance
- ESG analysis examines whether ESG issues may be material to a particular company's performance, and to the investment performance of securities in a long-term portfolio

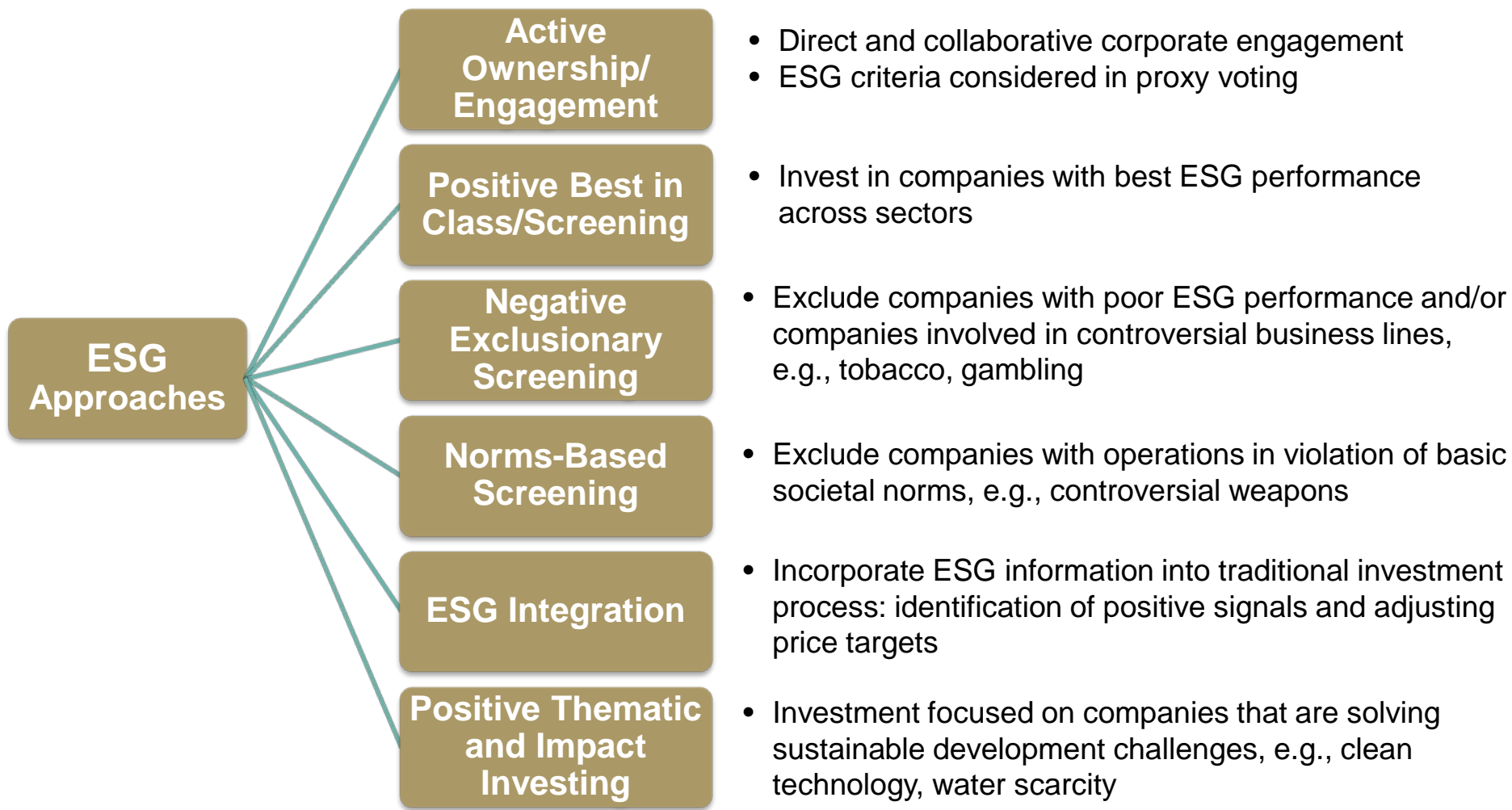


## Examples of ESG Analysis

Area of Focus	Activity	Impact on Financial Performance
Environmental	↓ Emissions	↓ Costs ↑ Profitability
Social	↑ Health & Safety Measures	↓ Turnover & Absenteeism
Governance	↑ Reporting & Disclosure	↓ Reputational Risk

Source: Business for Social Responsibility (BSR) presentation to BNY Mellon Depositary Receipts, *ESG Landscape Briefing*, January 29, 2015.

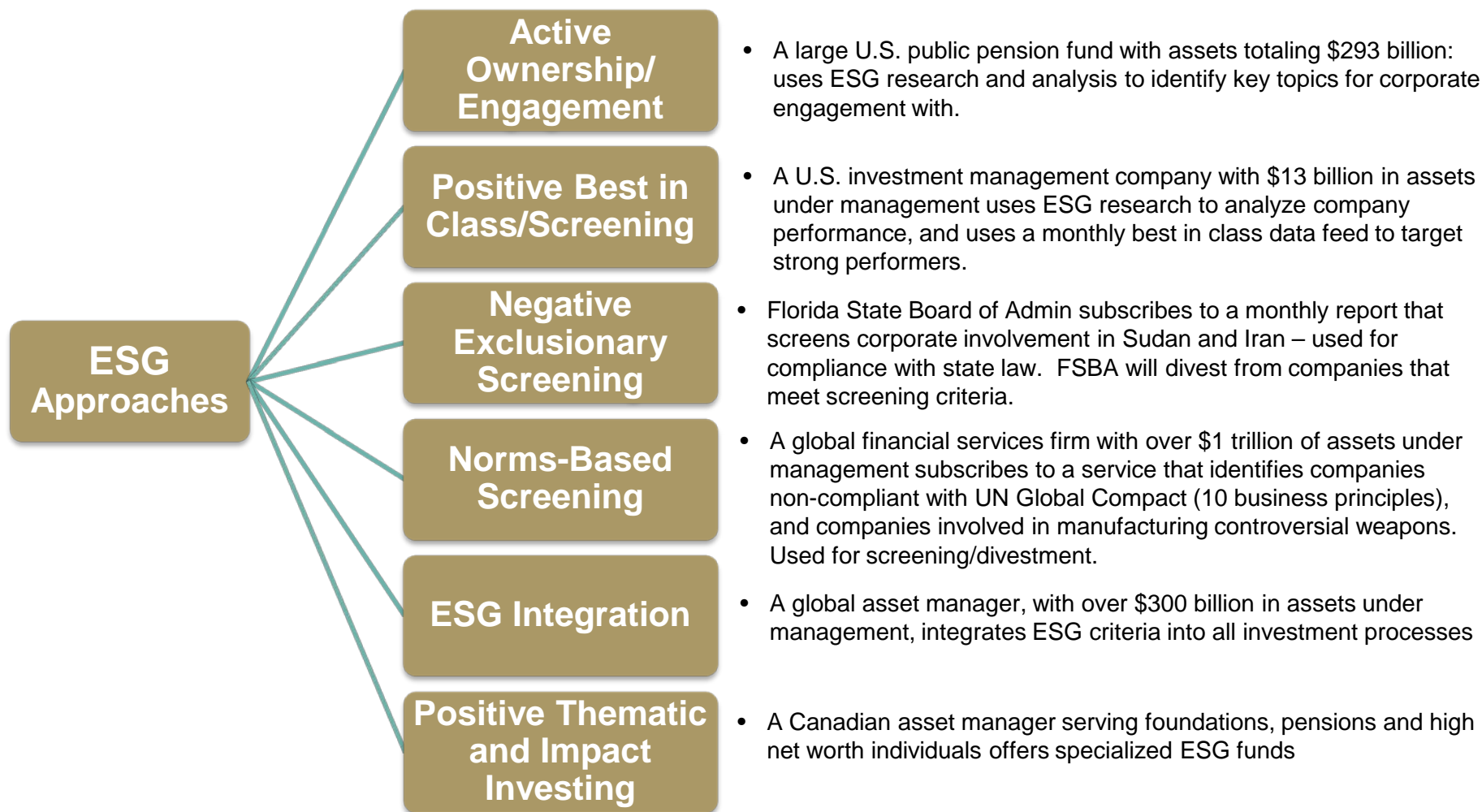
# Approaches to ESG Investing



Source: Sustainalytics, presentation to BNY Mellon Depositary Receipts, *Introduction to Sustainalytics*, April 30, 2015.



# Examples of Different Investors Utilizing ESG Approaches



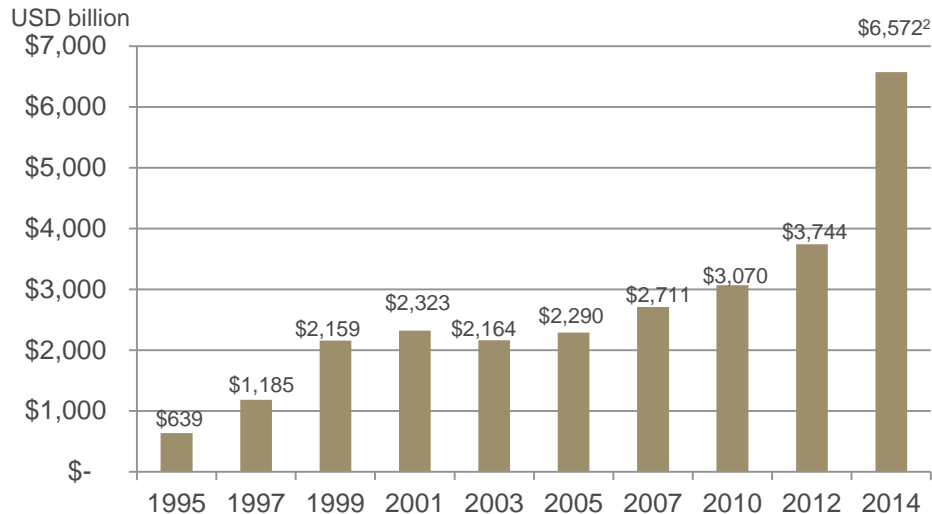
Source: Sustainalytics, presentation to BNY Mellon Depositary Receipts, *Introduction to Sustainalytics*, April 30, 2015.

# Trends in ESG Investing

## Adoption of ESG investment strategies is increasing among mainstream investors:

- Global ESG AUM in 2014 reached \$21.4 trillion (+61.1% from 2012), led by Europe (\$13.6 trillion) and the U.S. (\$6.6 trillion). This accounts for 30.2% of the professionally managed assets in the regions covered.<sup>1</sup>
- The U.S. has experienced the greatest growth in SRI and ESG (+75.7%) assets over the past two years.<sup>2</sup>
- 66% of IROs say they are responsible for communicating ESG issues to the markets.<sup>3</sup>

### Growth of U.S. SRI / ESG Assets, 1995-2014<sup>2</sup>



### U.S. SRI / ESG AUM, End 2014 Total \$6.57 trillion<sup>3</sup>



<sup>1</sup> Global Sustainable Investment Alliance . 2015. 2014 Global Sustainable Investment Review. [ONLINE] Available at: [http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA\\_Review\\_download.pdf](http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf).

<sup>2</sup> US SIF. 2015. 2014 Global Sustainable Investment Review. [ONLINE] Available at: [http://www.ussif.org/Files/Publications/SIF\\_Trends\\_14.F.ES.pdf](http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf).

<sup>3</sup> BNY Mellon, Global IR Survey data 2015 (publication date to be announced)



# ESG Drivers

# ESG Driver: The Proliferation of ESG Data

ESG information is becoming more available and more specialized

- Bloomberg<sup>1</sup>

- Covers more than 11,000 companies with ESG data and more than 7,500 companies with executive compensation data in 65 countries
- In 2014, number of Bloomberg customers using ESG data increased by 76%

- MSCI<sup>2</sup>

- Covers over 5,700 equities and 350,000 fixed income securities
- Consideration of over 1,000 ESG data points

- Sustainalytics<sup>3</sup>

- Covers major indexes around the world (over 4,500 companies)
- Engaged by BNY Mellon Depositary Receipts

<sup>1</sup> Bloomberg. 2015. *Bloomberg Impact Report*. <http://www.bloomberg.com/bcause/customers-using-esg-data-increased-76-in-2014>

<sup>2</sup> MSCI. 2015. *MSCI ESG Research Launches Next Generation ESG Ratings Product*. <https://www.msci.com/documents/10199/5a0b36c1-f35d-4ca4-b1f0-ca19cd481bd4>

<sup>3</sup> Sustainalytics. 2014. *Sustainalytics An Overview: How can we Help You?*, [http://www.sustainalytics.com/sites/default/files/aboutsustainalytics\\_fulltext\\_august2014\\_online.pdf](http://www.sustainalytics.com/sites/default/files/aboutsustainalytics_fulltext_august2014_online.pdf)

# ESG Driver: Rising ESG Disclosure Regulations Globally



Source: Business for Social Responsibility (BSR) presentation to BNY Mellon Depositary Receipts, *ESG Landscape Briefing*, January 29, 2015.



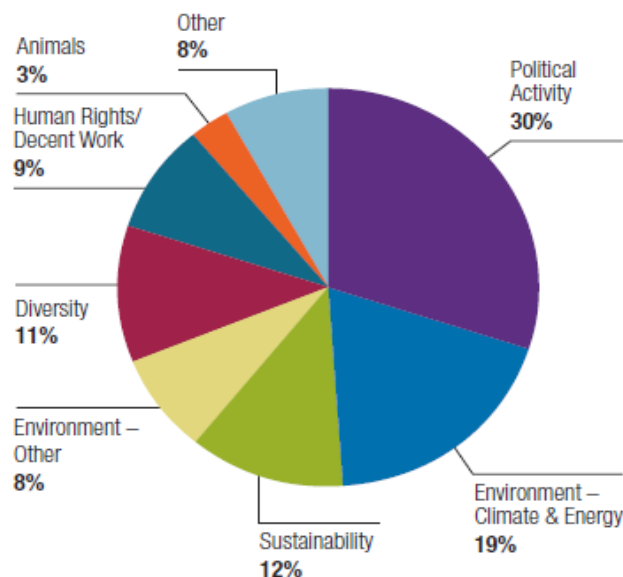
# ESG Driver: Shareholder Activism

- Investors are increasingly challenging U.S. companies at their annual general meetings (AGMs) on their ESG impacts and policies.
- For the 2014 U.S. proxy season, a record 417 sustainability-related shareholder resolutions were put forward with an increasingly successful rate of approval (21.5%).
- Political spending and climate related resolutions are most common issues; sponsors are often social investment firms, pension funds and faith-based investors.

## Examples

- During 2014 U.S. proxy season, 41 shareholder resolutions on climate change were included on the agendas of U.S. corporates, including the meetings of JPMorgan Chase and PNC Financial Group.
- ExxonMobil meeting included shareholder resolution to review exposure and vulnerability of its facilities and operations to climate risk and to estimate costs for risk management and adaptation.

2014 Proposals Filed



n=417

Source: Business for Social Responsibility (BSR) presentation to BNY Mellon Depositary Receipts, ESG Landscape Briefing, January 29, 2015.

# ESG Driver: Client Demand

In the U.S, client demand cited by 80% of money managers to the question of why they offer ESG products.<sup>1</sup>

In Europe, 81% of institutional investors believe that ESG integration is in the interest of fiduciary duty.<sup>2</sup>

**Pension funds** are leading the way.<sup>3</sup>

- Pension funds are at greater risk of being sued for neglecting fiduciary duty if not proactive in incorporating ESG criteria
- Pensions funds represent investors who may be predisposed to ESG issues (e.g. government employees, teachers, unions, etc.)

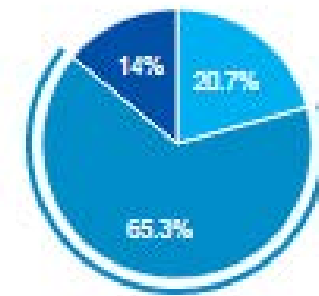
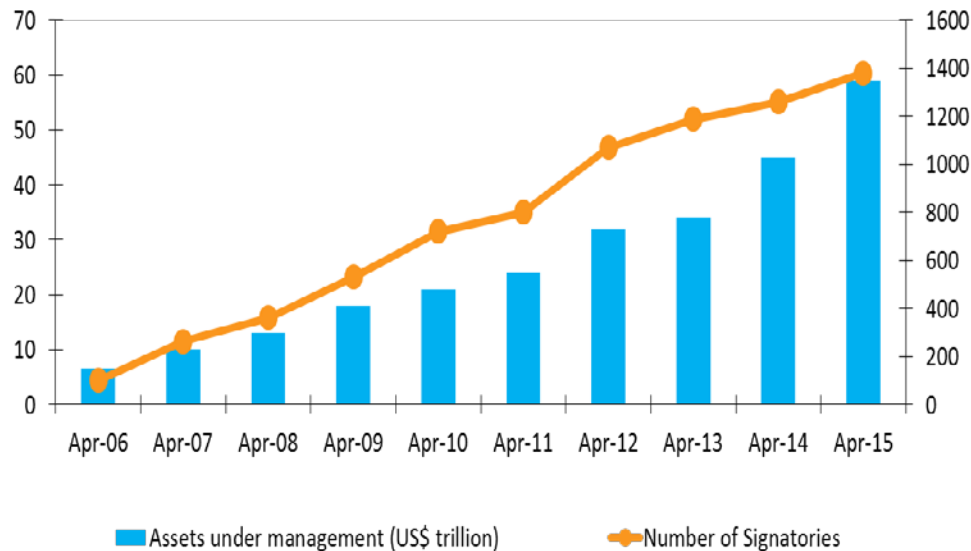
<sup>1</sup> Trillium Asset Management. 2014. *US SIF Foundation: Client Demand is Major Factor Driving Growth in SRI*. <http://www.trilliuminvest.com/us-sif-foundation-client-demand-major-factor-driving-growth-sri/>.

<sup>2</sup> Novethic, European Asset Owner's ESG Perceptions and Integration Practices, 2010.

<sup>3</sup> Association of Climate Change Officers, ESG in the Mainstream The Role of Companies and Investors in ESG Integration, <http://www.accoonline.org/ccls/Disclosures2010/ACCO-CCLS-April2010-Panel2-Olson.pdf>

# ESG Driver: UN Principles for Responsible Investment<sup>1</sup>

- Launched in April 2006, the PRI Initiative has been instrumental in raising awareness about responsible investment among the global investment community, increasing the level of transparency around the activities and capabilities of its signatories and fostering collaboration between them, and supporting their engagements with companies and policymakers on ESG.
- The UN PRI signatories represent \$59 trillion assets under management and 1,388 signatories (as of June 2015).



ASSET OWNERS

287

INVESTMENT  
MANAGERS

907

PROFESSIONAL  
SERVICE PARTNER

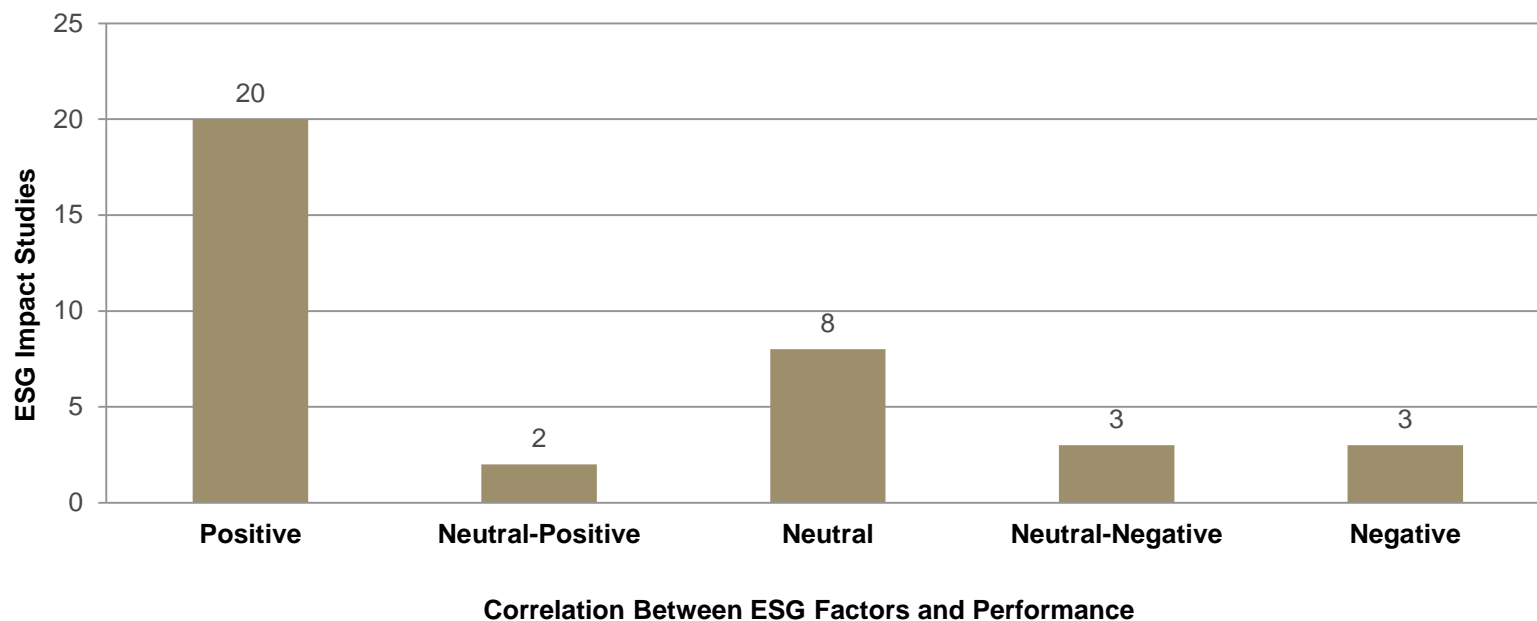
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<sup>1</sup> Principle for Responsible Investment. 2015. *PRI Fact Sheet*. <http://www.unpri.org/news/pri-fact-sheet/>

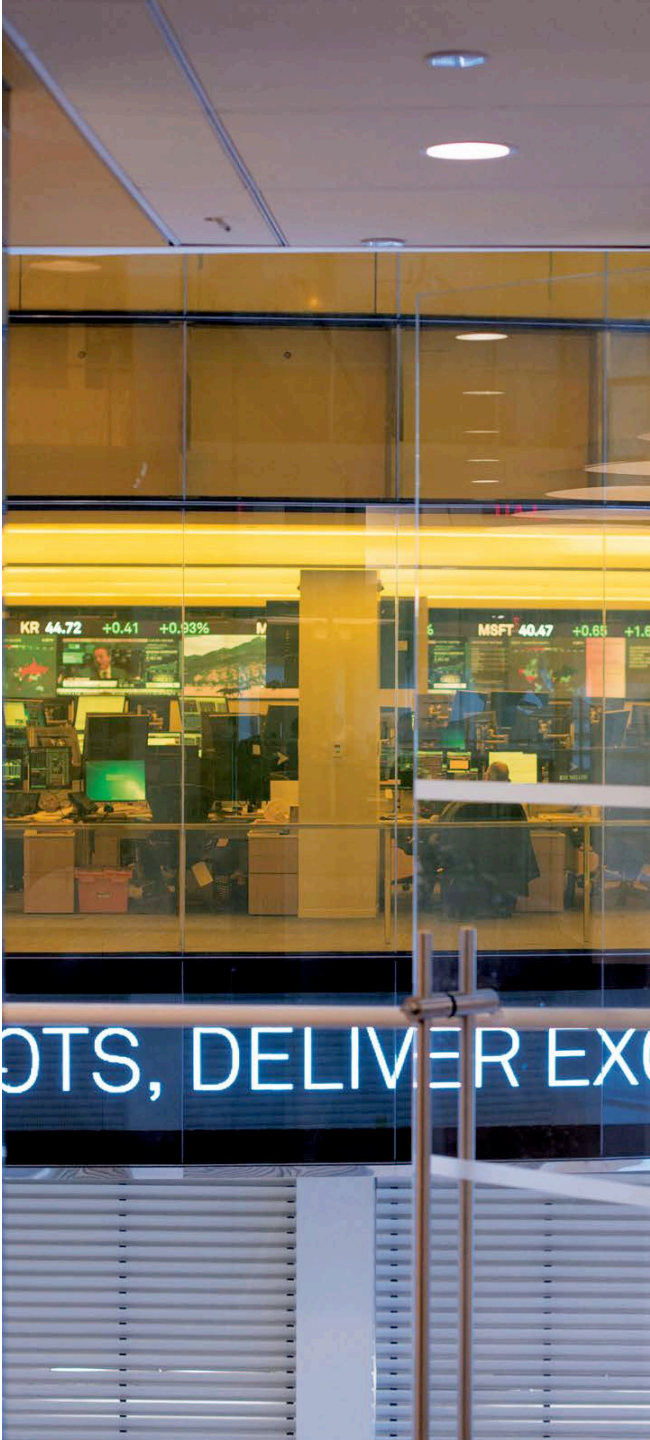
# ESG Impact on Performance

- No universal acceptance that ESG integration leads to outperformance of the market.
- 55% of studies evaluated by Mercer Consulting showed positive correlation
- 83% showed at least a neutral or better correlation

## Correlation Between ESG Factors and Performance



1 CalPERS. 2011. *Responsible Investment's second decade: Summary report of the state of ESG integration, policy and reporting*. <https://www.calpers.ca.gov/eip-docs/investments/video-center/view-video/mercer-report-second-decade.pdf>



# Industry Initiatives



# Sustainability Reporting

## Reporting should focus on your company's material impact areas:

- A sustainability report discloses the impacts—positive or negative—that a company's operations make on the environment, society and economy.
- Sustainability reporting is voluntary. However, it can benefit the company in multiple ways, including enhancing your reputation and brand, improving relationships with stakeholders and fostering the development of a broader sustainability strategy.
- Key organizations that provide sustainability measurement and reporting frameworks
  - The **Global Reporting Initiative (GRI)** provides an international sustainability reporting framework. Its most recent guidelines were released in 2013, the G4 Guidelines. In 2014, more than 4,000 organizations voluntarily registered sustainability reports with the GRI Sustainability Disclosure Database, up from approximately 250 organizations in 2010.
  - The **International Integrated Reporting Council (IIRC)** provides a framework called **Integrated Reporting <IR>** for stakeholder consensus and integrated reporting that can be viewed as complementary to the GRI framework. The Integrated Reporting <IR> framework targets investors, whereas the GRI guidelines focus on a broader set of stakeholders (the two frameworks also use different definitions of what is considered “material”).
  - The **Sustainability Accounting Standards Board (SASB)** establishes sustainability accounting standards for use by publicly reporting corporations in the U.S. for the disclosure of material sustainability issues to investors and the public. SASB standards are designed to correspond with the disclosure sections of standard document filings for the SEC, such as forms 10-K and 20-F.

Source: Sustainalytics, presentation to BNY Mellon Depositary Receipts, Introduction to Sustainalytics, April 30, 2015.

# Sustainability and ESG Indices

Sustainability and ESG indices are tools to measure and benchmark companies' performance with ESG practice standards.

Inclusion in sustainability and ESG indices may encourage an increase in passive investment and lead to external, independent recognition of ESG efforts, and reputational benefits.

## Key Sustainability and ESG Indices

Index Provider	Index Series	Notes
Dow Jones	Dow Jones Sustainability Indices <sup>1</sup>	<ul style="list-style-type: none"><li>• Global equity</li><li>• Uses a best-in-class approach to select sustainability leaders from across all industries.</li></ul>
FTSE	FTSE4Good Index Series <sup>2</sup>	<ul style="list-style-type: none"><li>• Global equity</li><li>• Mainly European equities</li></ul>
MSCI	MSCI ESG Index Families <sup>3</sup>	<ul style="list-style-type: none"><li>• Global equity</li><li>• The largest ESG index provider</li></ul>

<sup>1</sup> Dow Jones Sustainability Indices. 2015. *DJSI Family Overview*. <http://www.sustainability-indices.com/index-family-overview/djsi-family-overview/index.jsp>.

<sup>2</sup> FTSE. 2015. *FTSE4Good Index Series*. <http://www.ftse.com/products/indices/FTSE4Good>

<sup>3</sup> MSCI. 2015. *ESG Indexes*. <https://www.msci.com/esg-indexes>

# Stock Exchanges' Broader ESG Initiatives

- Since 2001, eight stock exchanges around the world have launched corporate governance indices (CGIs)<sup>1</sup>
- Inclusion in CGIs can be a way to improve business performance and help companies attract outside investment

Launch Date	Country	Stock Exchange	Index Name
2001	Brazil	BM&F Bovespa	Special Corporate Governance Stock Index (IGC)
2001	Italy	Borsa Italiana	FTSE Italia STAR
2003	South Korea	Korea Stock Exchange (KRX)	Korean Corporate Governance Index (KOGI)
2004	South Africa	Johannesburg Stock Exchange (JSE)	Socially Responsible Investment (SRI) Index
2007	Turkey	Borsa Istanbul (BIST)	Corporate Governance Index
2008	China	Shanghai Stock Exchange (SSE)	Corporate Governance Index
2008	Peru	Lima Stock Exchange (BVL)	Good Corporate Governance Index
2011	Mexico	Mexican Stock Exchange (BMV)	Sustainability IPC Index
2014	Turkey	Borsa Istanbul (BIST)	Sustainability Index

<sup>1</sup> International Finance Corporation. 2013. *Raising the Bar on Corporate Governance: A Study of Eight Stock Exchange Indices*.  
[http://www.ifc.org/wps/wcm/connect/a6724900400aca13af3aff23ff966f85/Raising\\_the\\_bar\\_on\\_CG.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/a6724900400aca13af3aff23ff966f85/Raising_the_bar_on_CG.pdf?MOD=AJPERES)



# ESG Data Resources

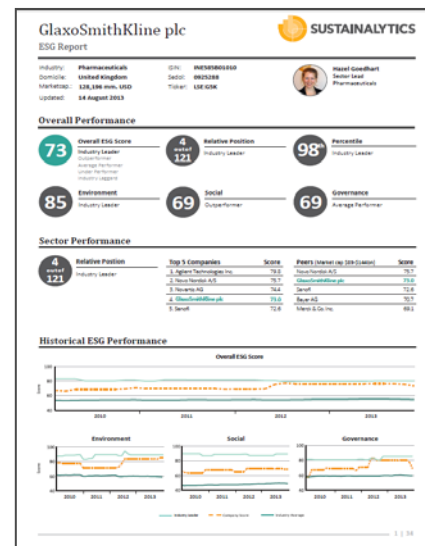
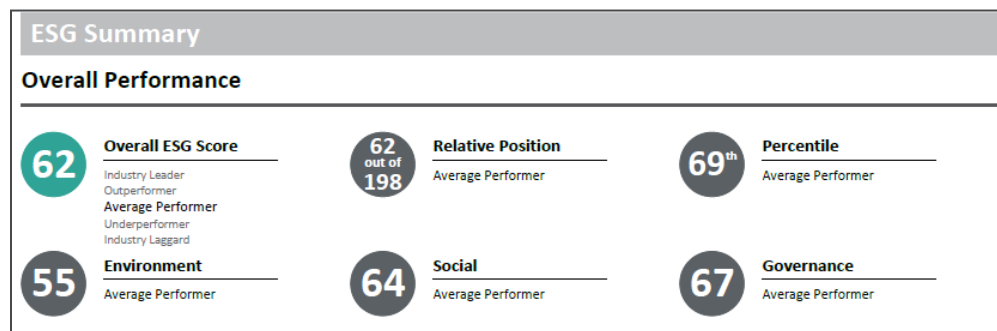
# ESG Data Resources

- Learn how the investment community consumes ESG information
- Identify the analysts who cover your company
- Ask for feedback from your investors on which data sources they use for information and/or decision making
- Gain understanding of engagement policy from investors
- Seek ESG rating information and provide feedback to the ESG rating agencies that rate your company

## Examples of ESG research firms.

- Bloomberg
- CAMRADATA
- EIRIS
- IW Financial
- MSCI
- Sustainalytics
- Thomson Reuters

## EXAMPLE OF SUSTAINALYTICS' COMPANY ESG REPORT<sup>1</sup>



<sup>1</sup>Sustainalytics, 2015. *Company ESG report*. <http://www.sustainalytics.com/company-esg-report>





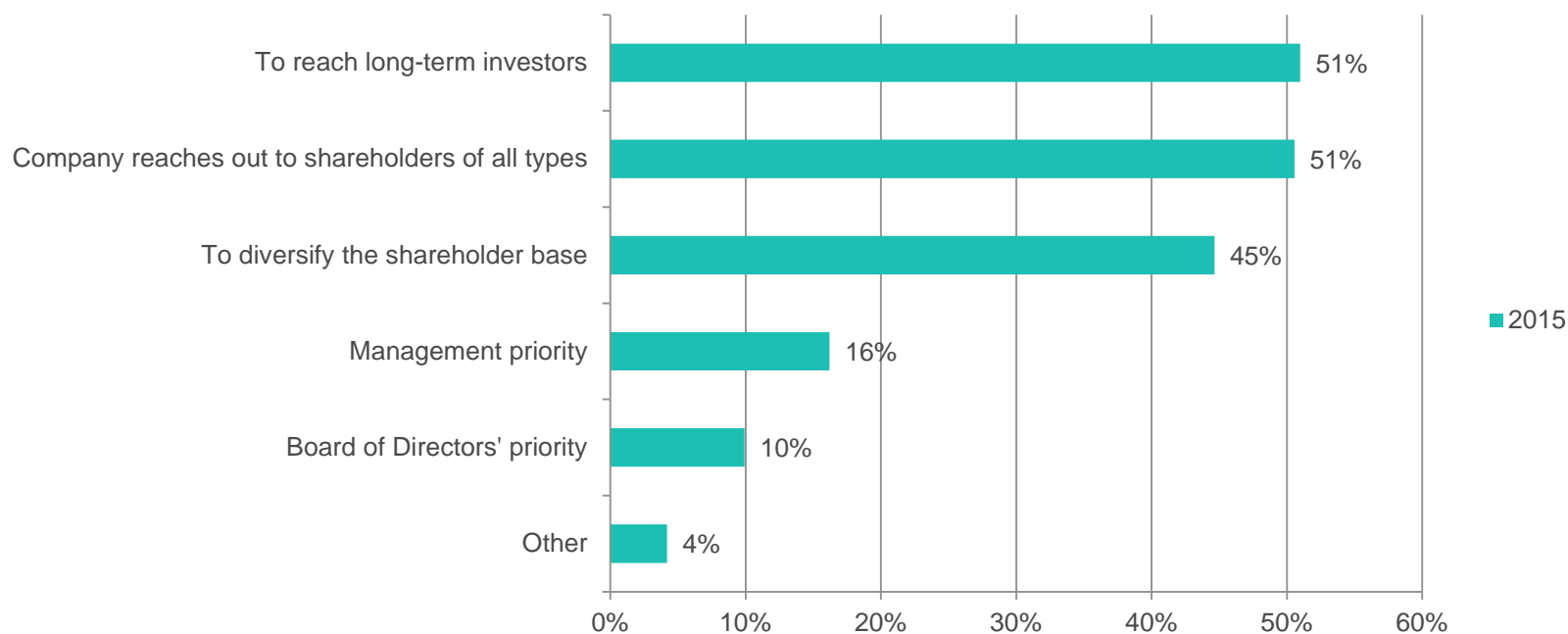
# **Issuers Perspective and Strategy**

# Main Reasons to Engage with ESG Investors

## In a survey of issuers worldwide

- Reaching long-term investors and diversifying the shareholder base remain top reasons for issuers to target ESG investors.

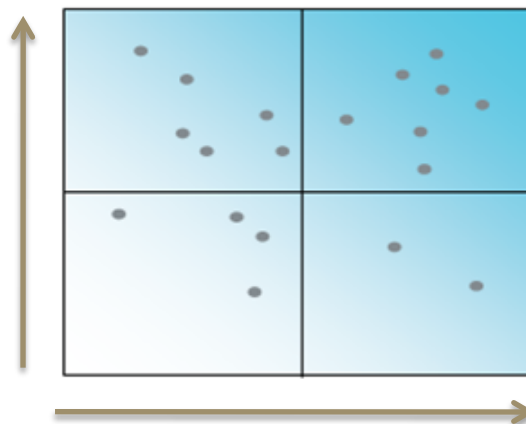
## Why does your company currently reach out to socially responsible and/or ESG investors?



Source: BNY Mellon, Global IR Survey data 2015 (date of publication to be announced)

# Understanding Materiality

Materiality assessments are essential for companies to determine their sustainability priorities and identify key overlap areas between business success and sustainable development.



**In assessing materiality, companies must answer the following questions:**

- Which sustainability issues should matter the most?
- How can we align business strategy with sustainability?
- How can we identify the products, services, and business models that have the greatest potential for business success/growth and sustainable development?
- How can we communicate to stakeholders about the scale and scope of our sustainability activities?

Source: Business for Social Responsibility (BSR) presentation to BNY Mellon Depositary Receipts, *ESG Landscape Briefing*, January 29, 2015

# Consideration for Building ESG Strategies

## Proactive measures as part of an ESG strategy

### Understand and build your ESG profile

- Identify your company's material ESG issues
- Identify key issues and trends of your sector
- Understand how you compare to your peers
- Include a section on IR webpage dedicated to ESG efforts
- Continue to showcase company's focus on sustainability in IR and corporate presentations

### Identify and engage key intermediaries

- Target and develop relationships with SRI/ESG-focused analysts on the sell side and at specialist research firms
- Attend sustainability and ESG conferences to showcase your company's commitment
- Engage key index organizations

### Engage SRI/ESG Investors

- Develop ESG investor targets
- Understand how ESG criteria are embedded in the decision-making process at the investment firms you are targeting
- Develop a narrative around how your ESG practices protect or create economic value

# Increase Visibility with ESG Community

**Increase ESG knowledge and visibility of your company within the ESG community by attending ESG events**

- Join the discussion: attend and speak at ESG conferences
- Learn new approaches and track trends and policy developments in the field
- Network with key corporate leaders, investors and policymakers

## Examples of Recent Key Conferences

Conference	Date	Location
World Economic Forum on Latin America 2015	May 6-8, 2015	Riviera Maya, Mexico
USSIF 5th Annual Conference	May 4-6, 2015	Chicago, USA
Ceres Conference 2015	May 13-14, 2015	San Francisco, USA
RI Europe 2015: the investor-corporate summit	June 2-3, 2015	London, UK
ICGN Annual Conference	June 3-5, 2015	London, UK





# Conclusion

# Conclusion

- Mainstream investors are increasingly adopting ESG strategies into their investment process
- Investors look at ESG metrics both as a risk management tool and a potential factor in value creation

## **To increase your visibility in the ESG space, consider:**

1. Identifying key ESG performance measurements for both your company and sector, developing steps for enhancing your company's profile;
2. Getting involved in the ESG community;
3. Learning how investors analyze ESG data and company ESG scores; and
4. Developing an ongoing dialogue with investors about your company's ESG profile and incorporate ESG strategy into general investor communications.

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