

# Impacts of Sustainability Indices on Corporates and Investors

THE STOCK EXCHANGE OF THAILAND

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IT COULD BE UNPREDICABLE AND VOLATILE OUT THERE.  
HOW DO YOU DIFFERENTIATE AND STAND OUT?





# SUSTAINABILITY IS AN ANSWER!



# IMPACTS OF SUSTAINABILITY INDICES ON CORPORATES AND INVESTORS

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## 01 **WHAT ARE SUSTAINABILITY INDICES?**

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## 02 INTEGRATING SUSTAINABILITY AS A DRIVER OF CORPORATE PERFORMANCE

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## 03 POSITIVE IMPACT OF THE DJSI ON COMPANIES

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## WHAT IS SUSTAINABILITY?

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**“Sustainability in its simplest form is the *ability to continue and to prosper*. There are both risks and opportunities ahead. The ESG (Environmental, Social and Governance) framework we're adopting will *help us make better investment decisions for the long term*.”**

- Anne Simpson, Senior Portfolio Manager and Director of Global Governance, California Public Employees Retirement System (**CalPERS**)



## HOW OTHER ASSET OWNERS LOOK AT SUSTAINABILITY

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***Switzerland's largest life insurer will allocate USD 2 billion to green bonds with proceeds to finance environmentally beneficial projects***

- Cecilia Reyes, CIO, Zurich Insurance

***Malaysia's second largest public pension fund would soon issue its maiden ESG mandate***

- Wan Kamaruzaman bin Wan Ahmad, CEO, KWAP

***AP4, and a group of the largest asset managers and institutional investors announced publicly at the Climate Summit of September 2014 in New York, intention to jointly divest USD 100 billion of carbon related investments worldwide by end of 2015***

- Source: Asia Asset Management October 2014

## WHAT ARE SUSTAINABILITY INDICES?

Sustainability has become a crucial element for investors. From depletion of resources, through to the industries' dependency on diminishing raw materials; the value attributed to longer term sustainable solutions is becoming of greater focus for companies.

Sustainability indices have become increasingly important as a result of trends observed in the last decade:

- ❑ Growth of passive investing--particularly ETFs (*more than **USD\$2 trillion** AUM acc. to BlackRock, June 2014*)
- ❑ iShares ETFs on DJSI World Enlarged ex-All, DJSI Europe ex-All and DJSI Eurozone ex-All have **\$389 million** in AUM as of Jan 2015, up from \$284 million in August 2014 and \$136 million in May 2013
- ❑ Growth of various forms of SRI, ESG and Sustainability Investing more broadly:
  - *According to the US SIF Foundation's 2014 **Report on Sustainable and Responsible Investing Trends in the United States**, as of year-end 2013, more than one out of every six dollars under professional management in the United States—**\$6.57 trillion or more**—was invested according to SRI strategies.*
  - *From 2012 to 2014, sustainable, responsible and impact investing enjoyed a growth rate of more than 76 percent, increasing from \$3.74 trillion in 2012. More than one out of every six dollars under professional management in the United States today—**18% of the \$36.8 trillion in total AUM** tracked by Cerulli Associates—is involved in SRI.*



## WHAT ROLE CAN INDICES PLAY?

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Motives for Sustainability Investing range from purely ethical or socially responsible investment (SRI) concerns, to the belief that it is simply “good business”—leading to better long run risk/return profiles--to take sustainability into account

- ❑ Sustainability indices represent one of the instrumental and efficient capital markets solutions to help mobilize capital at large that is needed to support sustainability projects and services.
- ❑ To allow deployment and implementation of more sustainable technologies and business practices needed to for long-term growth.
- ❑ Climate impact bears a great financial risk and makes for a more insecure investment. Sustainable investments can be seen as a contribution to mitigation of this risk. Particularly as a hedge against the potential effects.
- ❑ Indexing provides transparent benchmarks for the market segments.





## DJSI – THE FIRST GLOBAL SUSTAINABILITY INDEX

DJSI World launched in 1999 in cooperation between Dow Jones Indices (now S&P Dow Jones Indices) and SAM (now RobecoSAM).



DJSI World selects **10% of best-in-class companies** globally on the basis of RobecoSAM CSA (ESG) scores:

- Focused entirely on sustainability, without regard to the market cap size and country exposures of the resulting portfolio, therefore has high tracking error and may create geographical or currency biases
- Regional and country DJSI **do not** have geographical biases as they apply best-in-class approach in their respective markets
- Regional and country DJSI are not subsets of the DJSI World, as they apply different selection rules (*regions – 20% best-in-class companies, countries – 30%*)

*Versions with ethical exclusions are also available*



## ANALYTICAL PARTNER – ROBECOSAM

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Since 1999, RobecoSAM has been providing the ESG scores that determine the composition of various Dow Jones Sustainability Index (DJSI) families.

- Headquartered in Zurich, with 130 employees, RobecoSAM is one of the strongest brands in sustainability research and asset management globally.
- As evidence of this “good investor business” aspect: RobecoSAM runs its own significant active management business based on proprietary sustainability criteria (AUM above US\$9 billion)
- RobecoSAM’s focus is on factors that are critical to the creation of long-term shareholder value in a specific business model, i.e., financially material factors

## ANALYTICAL INPUTS: ROBECOSAM CORPORATE SUSTAINABILITY ASSESSMENT (CSA)

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- Each year, RobecoSAM invites the world's 3,000 largest publicly traded companies to participate in RobecoSAM's Corporate Sustainability Assessment (CSA). The CSA is the source of the scores that power all of the DJSI families
  
- The CSA is comprised of a questionnaire that the invited companies fill out online, and extensive documentary evidence that the companies provide in support of their answers
  - For the 2014 CSA, RobecoSAM received responses from 818 of the invited companies, representing about 50% of the S&P Global LargeMid Cap. (The response rate has been rising steadily each year.)
  
  - Amongst those invited companies that do not respond, RobecoSAM selects companies who make up industry's and regions's 50% of the benchmark market cap for analysis and scoring, on the basis of publically available information, by RobecoSAM's affiliate eValue Serve. Approximately 2,900 companies were assessed in 2014.

# ANALYTICAL INPUTS: ROBECOSAM CORPORATE SUSTAINABILITY ASSESSMENT (CSA)

The CSA identifies **59 different industries** and asks a wide range of industry-specific, financially relevant questions, covering the three key dimensions of sustainability:

## **Economic:**

- Corporate Governance
- Code of Conduct, Compliance
- Risk & Crisis Management
- Customer Relationship Management
- Innovation Management

## **Environmental:**

- Environmental Management System
- Environmental Performance
- Climate Strategy
- Product Stewardship
- Biodiversity

## **Social:**

- Human Capital Development
- Talent Attraction & Retention
- Occupational Health & Safety
- Stakeholder Engagement
- Social Reporting

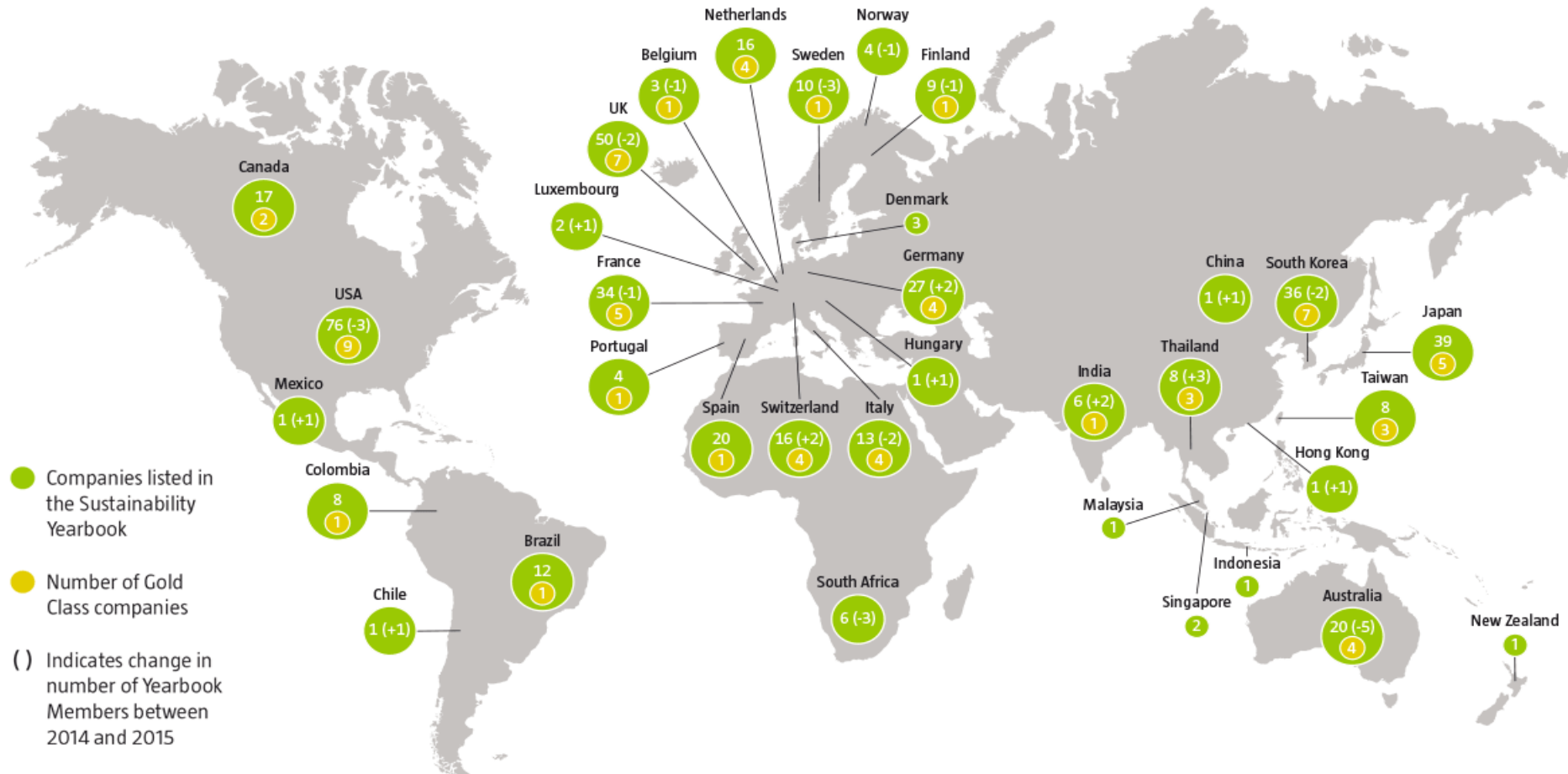
- A **Media and Stakeholder Analysis (MSA)**, based on on-going monitoring of news events by RepRisk, further helps to verify a company's involvement in sustainability and management of critical economic, social and environmental issues or crisis situations.

*CSA process is verified by Deloitte to assure for its independence, robustness and integrity.*



# ROBECOSAM 2015 SUSTAINABILITY YEARBOOK HIGHLIGHTS

## GOLD CLASS COMPANIES BY COUNTRY



Source: Robecosam 2015

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## COULD A COUNTRY BE SUSTAINABLE?

### **Robecosam's Country Sustainability Ranking measures country intangibles.**

- The country sustainability framework evaluates 59 countries – 21 developed and 38 emerging markets – on a broad range of Environmental, Social and Governance factors that RobecoSAM considers to be relevant for investors.
- It consists of 17 indicators, each of which is based on various data series, or sub-indicators. Each indicator is assigned a predefined weight out of the total framework. Based on the standardized scores countries receive for each indicator and its corresponding weight, a country sustainability score ranging from 1-10, with 10 being the highest, is calculated for each country.
- The resulting scores offer insights into the investment risks and opportunities associated with each country, and allow investors to compare countries to each other.



## COUNTRY SUSTAINABILITY RANKING 2015

<b>Top 10 only</b>	
Sweden	8.25
Australia	7.87
Switzerland	7.83
Denmark	7.71
Norway	7.68
UK	7.57
Canada	7.53
Finland	7.36
USA	7.27
Netherlands	7.17

Source: Robecosam 2015



## COULD A COUNTRY BE SUSTAINABLE?

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Investors' demand for long-term oriented strategies that integrate ESG considerations across a range of different asset classes is likely to grow.

Financial crisis, exposed some of the shortcomings of traditional measures used to evaluate country risk.

RobecoSAM and Robeco continuously refine its country sustainability methodology to capture sustainability measures that are relevant to country risk. This will ensure that the ranking serves as a valuable tool that provides additional information to complement analysis of countries' creditworthiness.

# SUSTAINABLE STOCK EXCHANGE

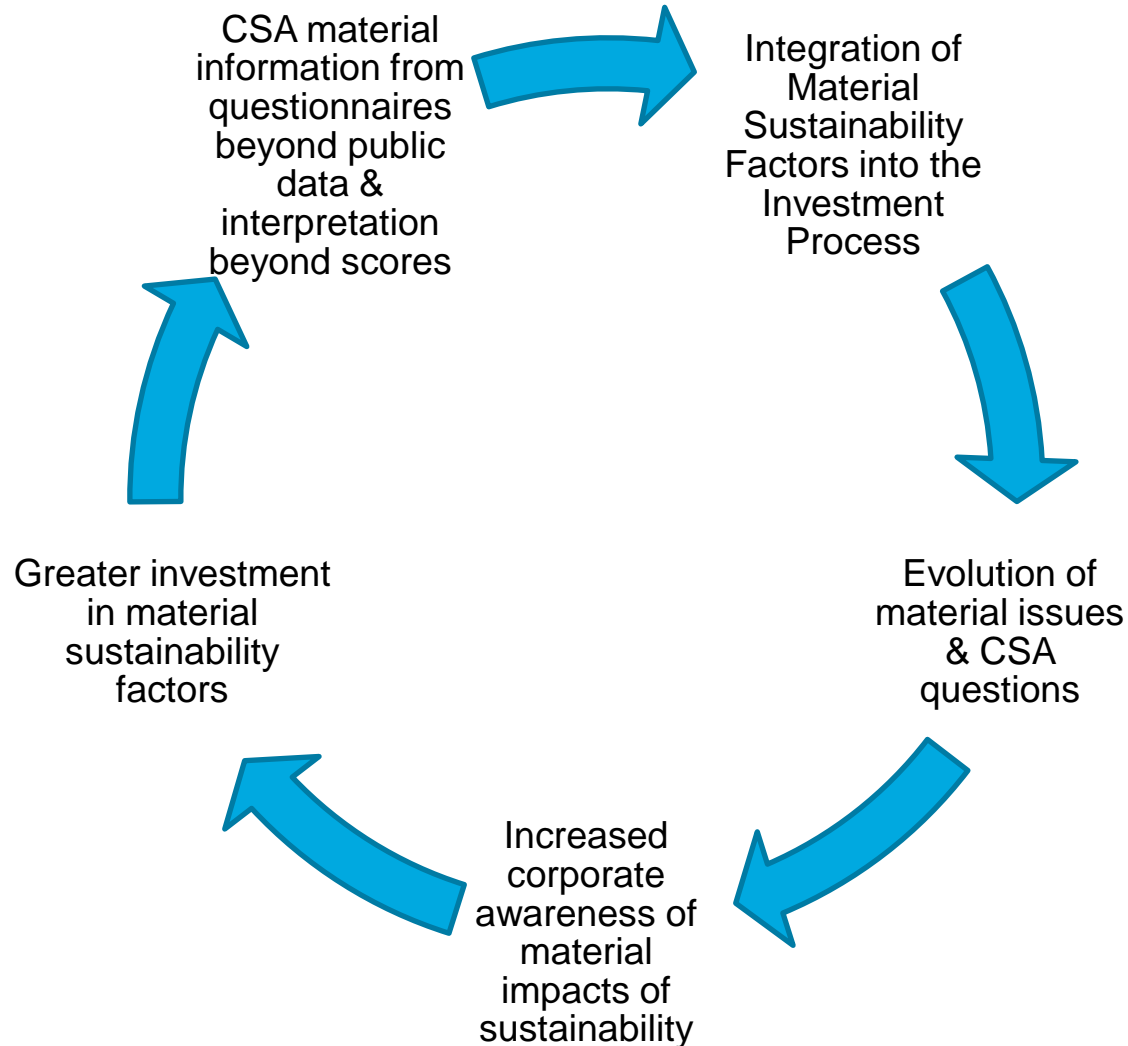
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## Partnering with the UN Sustainable Stock Exchanges Initiative

- On July 14, 2014, the Stock Exchange of Thailand joined the UN Sustainable Stock Exchanges Initiative, jointly launched by United Nations Conference on Trade and Development (UNCTAD), United Nations Global Compact (UN Global Compact), United Nations Principles for Responsible Investment (UNPRI) and United Nations Environment Program Finance Initiative (UNEP FI) in 2009. Among other commitments, the organizers of this initiative were also committed to supporting stock exchanges to achieve the goals. The initiative aims at forming collaboration between exchanges, financial institutions and investors worldwide **to enhance corporate transparency and ultimately positive impact on environmental, social and corporate governance issues, as well as encourage sustainable investment.**
- SET voluntarily commits, through dialogue with investors, companies and regulators, **to promoting long-term sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on our exchange**

Source: SET website

# FINANCIAL MATERIALITY: DRIVER OF CSA DEVELOPMENT



## FINANCIAL MATERIALITY IN REPORTING

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### Examples of environmental and social initiatives that could lead to cost savings and revenue generation

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#### **Environmental Cost Savings**

- Decreased energy consumption
- Increased load factor for transportation
- Decreased business travel – increase of virtual meetings

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#### **Environmental Revenue Generation**

- Development of new products with lower environmental impact
- Improvements of existing products' environmental performance, enabling the company to tap new market segments

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#### **Social Cost Savings**

- Initiatives to increase employee engagement, which in turn might lead to decreased voluntary turnover rates
- Improved health & safety measures leading to lower lost-time injury frequency rates (LTIFR)
- Policies on limiting working hours in the supply chain, which in turn can lead to lower claim rates following higher production quality

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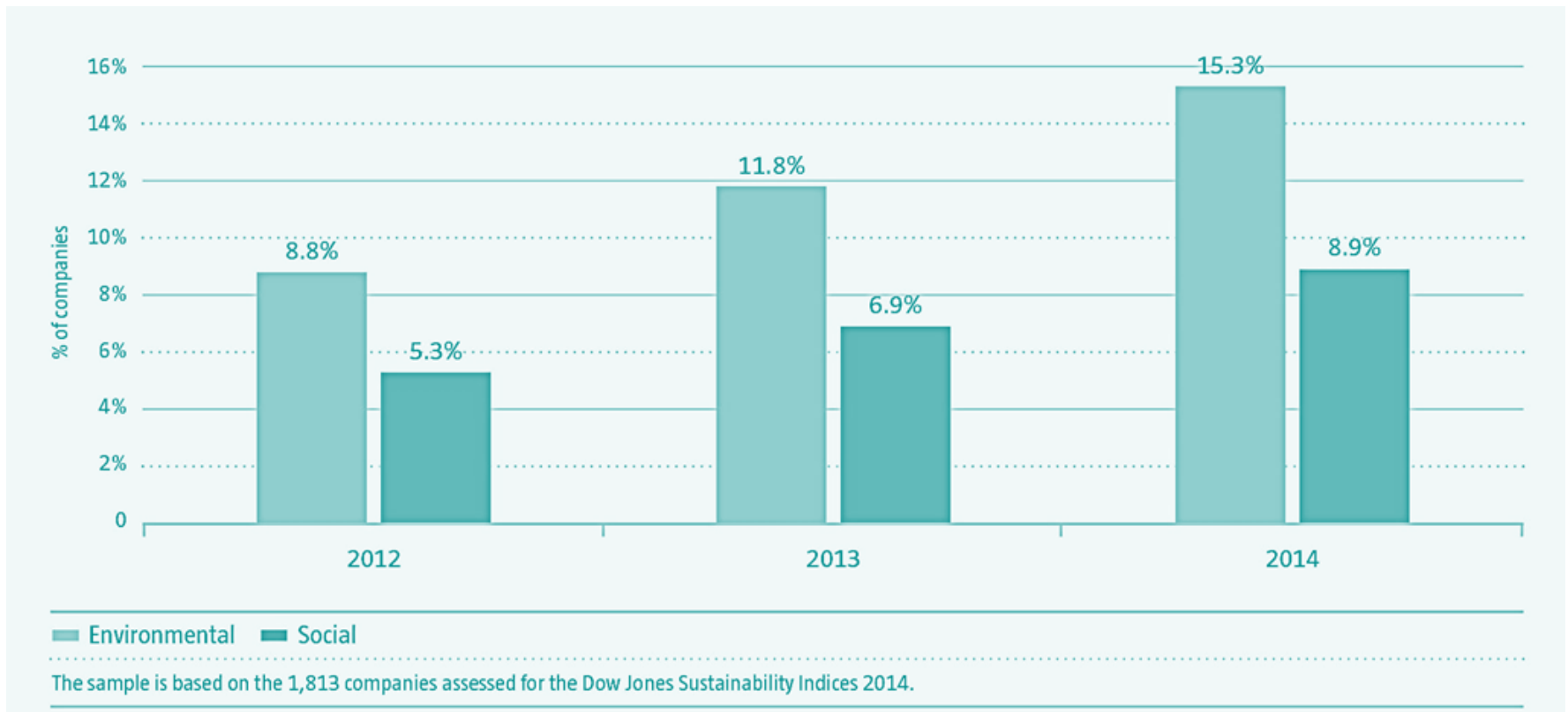
#### **Social Revenue Generation**

- Development of new products with social benefits, for example, products specifically designed for improving life in emerging markets



# REPORTING REDEFINED: TRANSLATING THE SUSTAINABILITY STORY INTO STRATEGIC COMMUNICATION

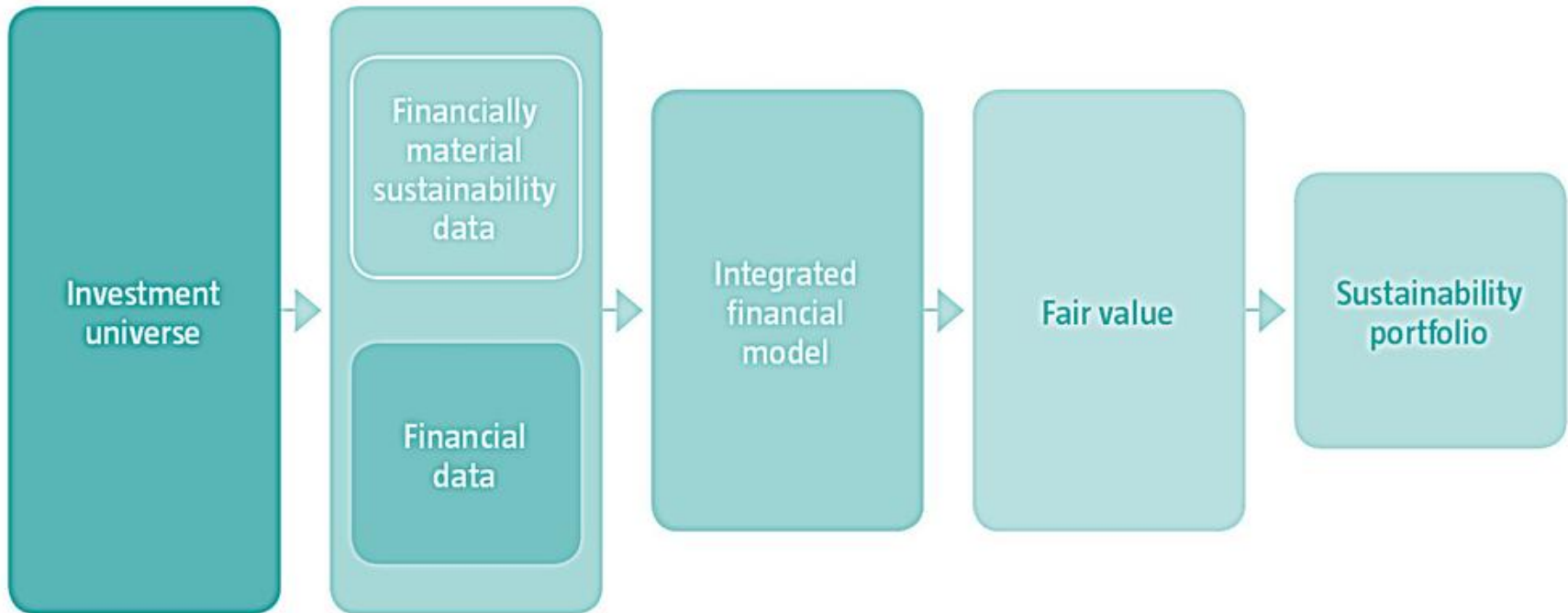
Percentage of companies reporting on material social and environmental information in the main part of the annual report



Source: RobecoSAM

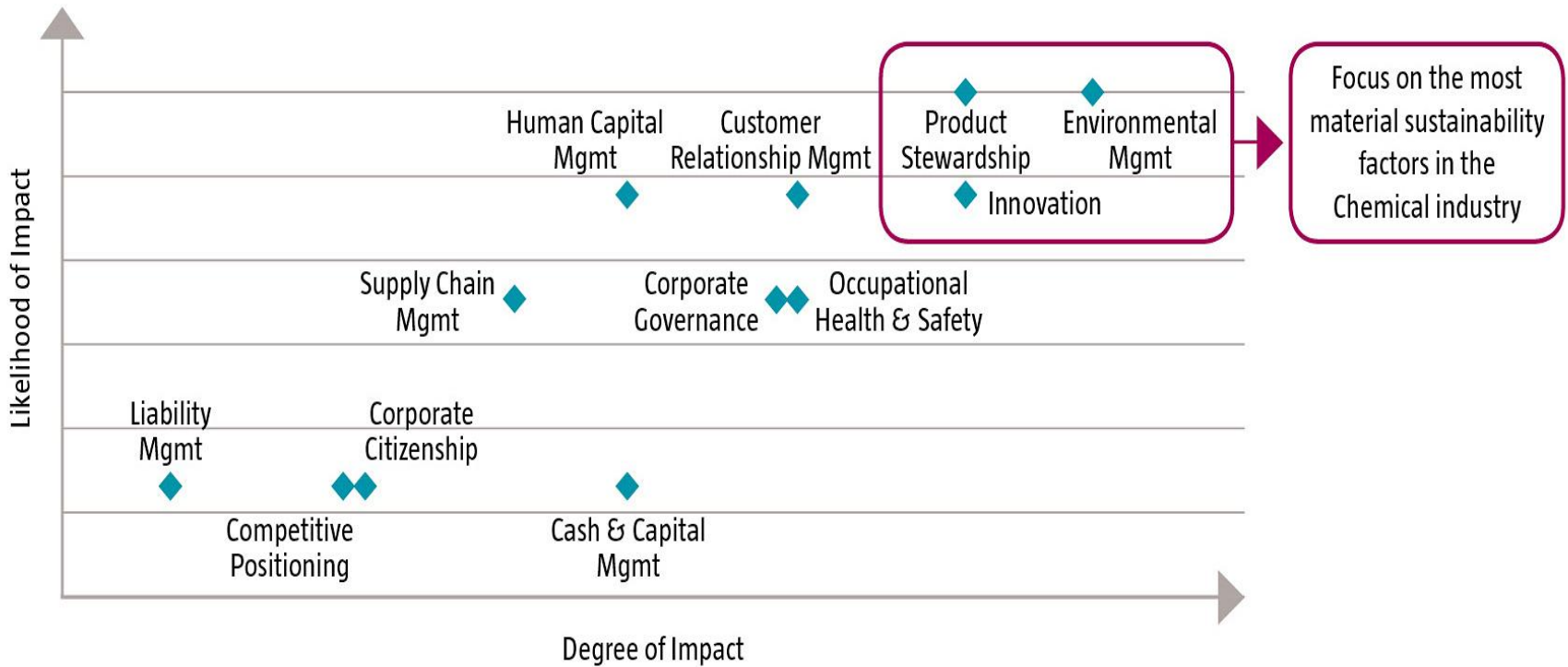
# THE MOST ADVANCE APPROACH TO INTEGRATION OF SUSTAINABILITY INTO FINANCIAL VALUATION

True sustainability integration. Sustainability and financial data are fully integrated into financial model to arrive at fair value



# FROM THEORY TO PRACTICE: INTEGRATING SUSTAINABILITY INTO FINANCIAL VALUATION

## Materiality matrix for the Chemical industry



## CHEMICALS INTEGRATION GRAPHIC

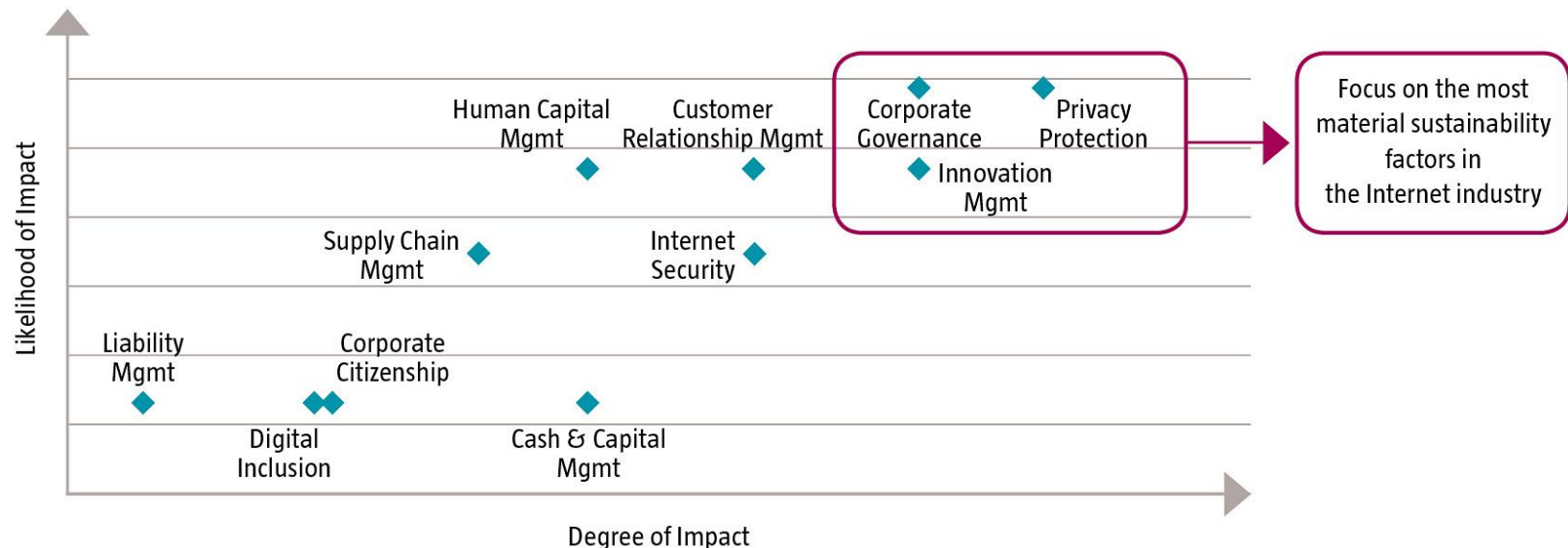
### Integrated valuation analysis of chemicals company

Drivers	Sales growth	Margins	Cost of Capital (Discount Rate)	Fair Value
	4.0%	13.7%	8%	
<b>Valuation (ex-Sustainability)</b>		EU recovery: > 200bps		€ 57
<b>Sustainability factors</b>	++ Innovation  + 1%	+ Environmental Management + Product Stewardship  + 1%		+ € 10 (+ 17.5%)
<b>Total</b>	<b>5.0%</b>	<b>17% by 2017</b>	<b>8%</b>	<b>€ 67</b>



# FROM THEORY TO PRACTICE: INTEGRATING SUSTAINABILITY INTO FINANCIAL VALUATION

## Materiality matrix IT Services & Internet Software and Services industry

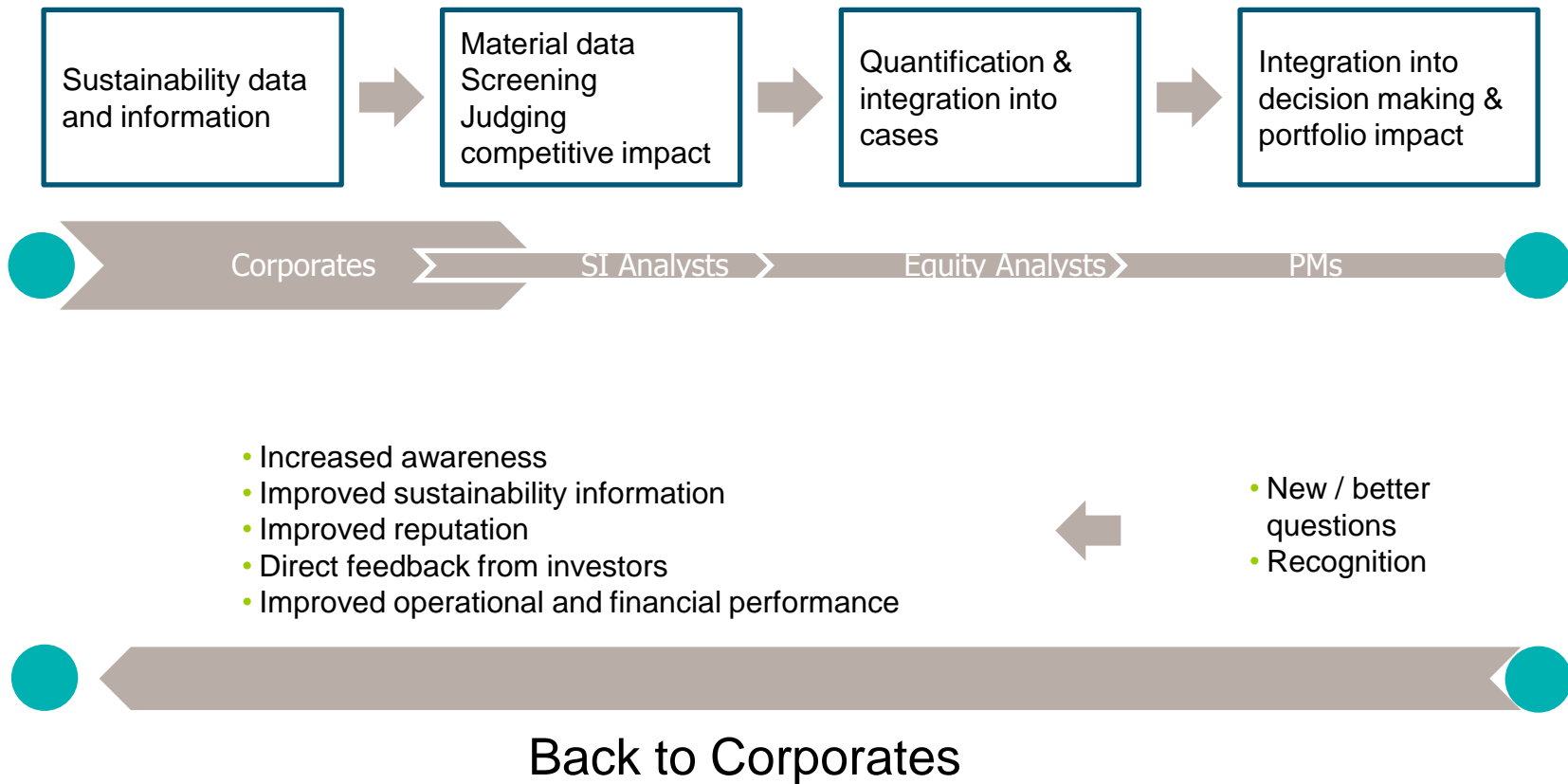


## IT INTEGRATION EXAMPLE

### Integrated valuation analysis of internet company

Drivers	Sales growth	Margins	Cost of Capital (Discount Rate)	Fair Value
	15% (10-year estimate)	35%	8%	
<b>Valuation (ex-Sustainability)</b>				\$ 105
<b>Sustainability risk factors</b>			- Privacy Protection -- Corporate Governance + 1%	- \$ 15 (- 14.3%)
<b>Total</b>	<b>15%</b>	<b>35%</b>	<b>9%</b>	<b>\$ 90</b>

# SUSTAINABILITY INTEGRATION AS A DRIVER OF THE CORPORATE PERFORMANCE



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## POSITIVE IMPACT OF THE DJSI ON COMPANIES

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### **Positive Impacts of DJSI membership for Companies**

- Proof of leadership in sustainability in the relevant market
- Improvement of Corporate Sustainability Performance
- Strengthening internal networks and communication
- Raise awareness of sustainability throughout the organization
- Improve data and sustainability disclosure



## INDUSTRY GROUP LEADERS - 2014

Name	Industry Group	Country
Abbott Laboratories	Health Care Equipment & Services	United States
Air France-KLM	Transportation	France
Akzo Nobel NV	Materials	Netherlands
Alcatel-Lucent	Technology Hardware & Equipment	France
Bayerische Motoren Werke AG	Automobiles & Components	Germany
EDP Energias de Portugal SA	Utilities	Portugal
GPT Group	Real Estate	Australia
ING Groep NV	Diversified Financials	Netherlands
Kao Corp	Household & Personal Products	Japan
LG Electronics Inc	Consumer Durables & Apparel	Republic of Korea
Lotte Shopping Co Ltd	Retailing	Republic of Korea
Roche Holding AG	Pharmaceuticals, Biotechnology & Life Sciences	Switzerland
SGS SA	Commercial & Professional Services	Switzerland
Siemens AG	Capital Goods	Germany
Sodexo	Consumer Services	France
Swiss Re AG	Insurance	Switzerland
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors & Semiconductor Equipment	Taiwan
Telecom Italia SpA	Telecommunication Services	Italy
Telenet Group Holding NV	Media	Belgium
<b>Thai Oil PCL</b>	<b>Energy</b>	<b>Thailand</b>
Unilever NV	Food, Beverage & Tobacco	Netherlands
Westpac Banking Corp	Banks	Australia
Wipro Ltd	Software & Services	India
Woolworths Ltd	Food & Staples Retailing	Australia

## POSITIVE IMPACT OF THE DJSI ON COMPANIES

As of Jan 2015, a Total AUM of \$4.619 billion USD invested in investment vehicles based on DJSI Index Family--including passive tracker funds, ETFs and structured products.

***Investors to DJSI include some of the following companies:***

Aegon (NL)	Groupama (FR)
Ahorro Corporacion Gestion (ES)	Invesco (DE)
Amundi Asset Management (FR)	JP Morgan Asset Management (UK)
Anima SGR (IT)	Lombard Odier Asset Management (CH)
Aviva (ES)	MEAG Munich Ergo (DE)
Bardays Capital (UK)	Metzler Asset Management (DE)
BlackRock Asset Management (UK)	RobecoSAM AG (CH)
BT Financial Group (AU)	Seligson & Co Fund Management (FI)
Credit Suisse Asset Management (CH)	Shinhan BNP Paribas Asset Management (KR)
Danske Capital, Sampo Bank (FI)	Sparinvest (DK)
Deutsche Postbank (DE)	State Street Global Advisors (US)
Eurizon Capital (IT)	Storebrand Kapitalforvaltning (NO)
Folksam Sak (SE)	Theodoor Gilissen Bankiers (NL)
Generali Investments Italy SpA (IT)	Transcap Investments (AU)

## POSITIVE IMPACT OF THE DJSI ON INVESTORS

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### **Investor benefits through Innovation in Sustainability Integration**

- Focus of leading companies on measuring the economic benefits of sustainability
- Process of Innovation is driven by learning with the companies
- Greater buy-in from Management = more strategic investments in sustainability and more materially relevant sustainability disclosure
- Improved Risk-Return profile of the portfolios