

Conference Report

Communicating ESG Value Drivers at the Company-Investor Interface

**Who Cares Wins
Annual Event 2006**



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Communicating ESG Value Drivers at the Company-Investor Interface

Who Cares Wins

Annual Event 2006

Thursday, 28 September 2006

ConventionPoint, SWX Swiss Exchange, Zurich, Switzerland

Hosted by:

- International Finance Corporation (IFC)
- Swiss Department of Foreign Affairs
- UN Global Compact

Report prepared by:

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onValues Investment Strategies and Research Ltd.

October 2006



Forewords by hosting institutions

The third annual event of the Who Cares Wins initiative allowed us to broaden the dialogue on integrating environmental, social and governance (ESG) issues into mainstream investment beyond financial institutions to companies active in different sectors. It was also an opportunity to 'groundtruth' where we know are weaknesses in the ESG integration effort. The challenge now is to deepen the dialogue around those weaknesses. Going forward, it will be important to find creative ways to bring practitioners together around each identified issue. We have made at this conference, and during the previous two, connections and relationships which are important and which will last. Indeed, we have created a community of interest.

Rachel Kyte

*Director, Environment and Social Development Department
International Finance Corporation*

Globalisation leads to considerable opportunities, as well as new risks for companies. As a consequence, investors are focussing on risk management, of which environmental, social and governance issues form an important part. Who Cares Wins, as a neutral learning and discussion platform has helped to sharpen the understanding of these issues. Nevertheless, the debate is still in a nascent stage. Financial institutions as well as companies are encouraged to play an important role in integrating ESG issues in daily business practices and overcoming remaining challenges. Such efforts contribute to the creation of a framework in which economic growth and sustainable markets can be achieved, a level playing field emerges and globalization becomes fairer and less fragile.

Ambassador Thomas Greminger

*Head of Political Affairs Division IV, Human Security
Swiss Department of Foreign Affairs*

We continue to move towards a tipping point with respect to environmental, social and governance issues finding their way into mainstream financial markets. This is supported by asset owners demanding that ESG factors are better factored into long-range portfolio management, including shareholder engagement — a desire reflected in the recent launch of the Principles for Responsible Investment. At the same time, it is clear that the communication link between companies and the financial community should be improved. As this report reveals, there is now a significant opportunity for companies



**Communicating
ESG Value Drives
at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

to communicate the ways in which ESG implementation efforts — through initiatives such as the UN Global Compact — link to value drivers. Meanwhile, analysts and fund managers are encouraged to dialogue more actively with companies on these issues in order to broaden their analyses and, hopefully, improve investment returns. Of course, such efforts will also contribute to the ultimate vision of the UN Global Compact – creating more sustainable and inclusive markets that deliver benefits to all, including the world’s poor.

Gavin Power

*Head, Financial Markets
UN Global Compact*

Contents

1. About Who Cares Wins 1

2. Objectives of the 2006 Event 2

3. Key insights from the Event. 4

4. Insights from plenary and break-out sessions 5

5. Recommendations for companies and investors 12

6. Reflections on the progress made so far and future directions. 14

7. Appendices 16



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Abbreviations

ESG Environmental, social and governance [issues]
IR Investor relations

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios...”

— Principles for Responsible Investment, launched 2006
Signed by institutional asset owners and managers with total assets of
over US\$5 trillion

“[We] are convinced that in a more globalised, interconnected and competitive world the way that environmental, social and corporate governance issues are managed is part of companies’ overall management quality needed to compete successfully. Companies that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action or accessing new markets...”

UN Global Compact Who Cares Wins report, 2004
Endorsed by financial institutions with total assets of over US\$6 trillion

1. About Who Cares Wins

In June 2004 a group of 20 financial institutions with combined assets of over US\$6 trillion¹ published and publicly endorsed a report entitled 'Who Cares Wins: Connecting Financial Markets to a Changing World'. Facilitated by the UN Global Compact, the focus of the report was a series of recommendations, targeting different financial sector actors, which taken together seek to address the central issue of integrating environmental, social and governance (ESG) issues into mainstream investment decision-making and ownership practices.

The key characteristics of Who Cares Wins are as follows:

- ◆ The core constituency is the middle of investment chain: asset managers and the investment research community
- ◆ However, Who Cares Wins also provides a platform for asset managers and investment researchers to engage not only with their peers, but also with companies, institutional investors and other private and public actors in the investment chain
- ◆ The principal setting for this engagement is an annual closed-door, invitation-only event for investment professionals (previous Events took place in Zurich in 2004 and 2005)
- ◆ The public bodies that host Who Cares Wins aim to create a neutral and protected space for frank dialogue between financial professionals on the challenges of mainstreaming ESG issues in the sector

Every year Who Cares Wins maps the progress made by different actors in integrating environmental, social and governance issues into mainstream investment decision-making. A summary for the 12-month period preceding the Event is contained in the appendices.



¹ Current endorsing institutions: ABN AMRO, Aviva, AXA Group, Banco do Brasil, Bank Sarasin, BNP Paribas, Calvert Group, China Minsheng Bank, CNP Assurances, Credit Suisse, Deutsche Bank, F&C, Goldman Sachs, Henderson, HSBC, Innovest, IFC, KLP, Mitsui Sumitomo Insurance, Morgan Stanley, RCM, UBS and Westpac



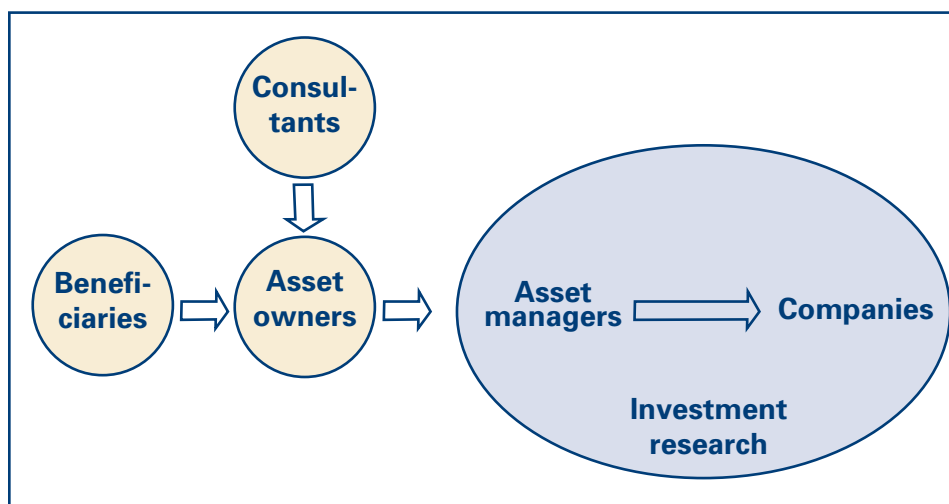
Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

2. Objectives of the 2006 Event

Area of interest and participants

In 2005 Who Cares Wins concentrated on the relationship between the core constituency of asset owners and investment researchers and the institutional asset owners whom they serve. In 2006, on the basis of a clear request from previous Event participants, Who Cares Wins chose to look downstream from asset managers and researchers and focus on communication of material ESG issues at the company–investor interface.



The Event would not have been possible without the active and engaged participation of a group of publicly-listed companies, including BASF, BT Group, F. Hoffmann-La Roche, Holcim, Nestlé, Rio Tinto and Royal Dutch Shell, who offered invaluable insights into their ESG business models and communication as a start for the discussions.

In addition to both mainstream and specialised asset managers and researchers, representatives from the following communities were present at the Event:

- Institutional asset owners
- Investment consultants
- Private and investment banking representatives
- Exchanges
- Multilateral agencies
- Government representatives

A full list of participants can be found in the appendices.



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ESG Value Drives
at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**

Initial assumptions

The following 'ground rules' were established for the discussions that took place at the Event:

- ◆ All participants have at least a basic understanding of the ESG business and investment cases
- ◆ Participants are aware that the Event is focussed on mainstream institutional investment. Although there are clear overlaps with the interests of ethical / SRI investors, the target community is investors who focus on the financial performance of their investments
- ◆ The Event expressly focuses on ESG communication between companies and investors (but this is not to say that communication with other stakeholders is not important)
- ◆ Discussions should stay focused on how to improve the interaction and mutual understanding between companies and investors; challenges within companies or the asset management / research communities should not be the focus of the Event
- ◆ In keeping with the aim of encouraging frank dialogue, the entirety of the Event was held under the Chatham House Rule (participants are free to use the information received, but neither the identity nor the affiliation of the speakers, nor that of any other participant, may be revealed)

Specific goals

The goals of the 2006 Event were to:

- ◆ Showcase and reinforce best-practice in ESG communications on the side of both companies and investors
- ◆ Identify what improvements can be made by the senders (companies) and receivers (investors) of information in order that material ESG issues are communicated to the financial markets in a clear and integrated fashion
- ◆ Clarify the role of supporting actors such as consultants, professional bodies, exchanges, regulators and standard-setting agencies

To achieve these goals, Event participants were asked to provide answers to the following framing questions:

1. Why does it seem difficult to convey an ESG business case to financial markets?



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

2. In practical terms, what actions can single investors and companies undertake to improve communication and strategic insight?
3. What are systemic issues that need to be tackled through collaborative initiatives, standardisation and (potentially) regulation?

3. Key insights from the Event

- ◆ The overall impression from the Event was that we are at the beginning of a new phase in the communication of ESG issues between companies and investors. Until now the communication has focussed almost exclusively on SRI investors; going forward it will have to serve also the needs of mainstream investors and be better integrated in normal IR communications
- ◆ The ESG communication between investors and companies is currently not very sophisticated. Mainstream analysts and investors rarely show interest or ask questions. Companies often tend to satisfy the needs of different stakeholders at the same time, which results in a lack of prioritisation and lack of focus on financially material issues. But both sides are currently improving their approach to ESG issues — analysts are improving the quality of their research and models, companies have projects under way to map ESG issues against financial value drivers and better tailor their communication to investor needs
- ◆ Analysts have difficulties in factoring highly uncertain events into their models. Where quantification is not possible, analysts tend to underestimate or ignore the financial impact of ESG issues. Given that the complexity and uncertainty in tomorrow's economy will likely increase, analysts will be forced to develop frameworks and models that can deal with low-probability, high-impact events. Some participants suggested that ESG performance should be seen as an indicator of management quality and factored into valuation models by adjusting discount rates and / or comparative valuation metrics (such as profit multiples)
- ◆ The communication is mostly centred on risk management (downside), notwithstanding the fact that both companies and investors have increased their communication and understanding of the opportunities (upside) related to ESG trends. It is expected that this will result in a more balanced view of both down- and upside factors in the future
- ◆ Companies and investors can improve their communication by avoiding terminology that marginalises the issues and by linking ESG



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

information to well-accepted concepts such as management quality, corporate strategy and brand value. More forward-looking information and a more candid discussion of challenges, dilemmas and issues that cannot be tackled at the level of individual companies will also improve the communication

- ◆ The availability of comparable and investment-relevant company data is important. Several initiatives and commercial providers are filling the gap. To improve comparability within sectors, companies should take the lead in developing sector-specific reporting standards
- ◆ Companies believe that their ability to embed ESG issues in their core strategy both internally and with other industry participants and mainstream investors will be limited if the current consumers of ESG data do not make clear how those data are used in their investment processes
- ◆ Markets have clearly not yet reached full efficiency in their assimilation of ESG issues. The space is therefore full of opportunities for entrepreneurial 'early-movers' on both the company and investor sides

4. Insights from plenary and break-out sessions

In communicating the key insights that came out of the plenary and break-out sessions, this report focuses not on the particularities of the ESG issues faced by the individual publicly-listed companies attending the Event, but rather on what those companies' presentations revealed about generic challenges in communicating ESG issues between companies and investors.

Insights from publicly-listed companies

On experiences of interactions with investors on ESG issues:

- ◆ The needs of the investment community vary greatly, but overall there are still very few questions from mainstream investors on ESG issues
- ◆ Mainstream analysts take it for granted that ESG issues are suitably handled by the management of blue-chip companies
 - ◆ In the absence of major incidents, mainstream investors tend to assume that environmental and social performance is satisfactory. In contrast, investors do not give the benefit of the doubt to companies on governance matters
 - ◆ This holds until a catastrophic event takes place, which often provokes an overreaction by the market



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ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

- ◆ Some analysts understand that ESG issues can pose material risks and opportunities, but struggle to quantify these risks
 - ◆ Where quantification is not possible analysts tend to underestimate or ignore the financial impact of ESG issues
- ◆ Companies feel somewhat overwhelmed by the requests for ESG data (principally coming from SRI investors)
 - ◆ Some companies commented that they prioritised data requests based on the usefulness of the data produced to the company itself
- ◆ Investors and analysts are not articulate or forthcoming in explaining how ESG information is being used and incorporated into their investment practices

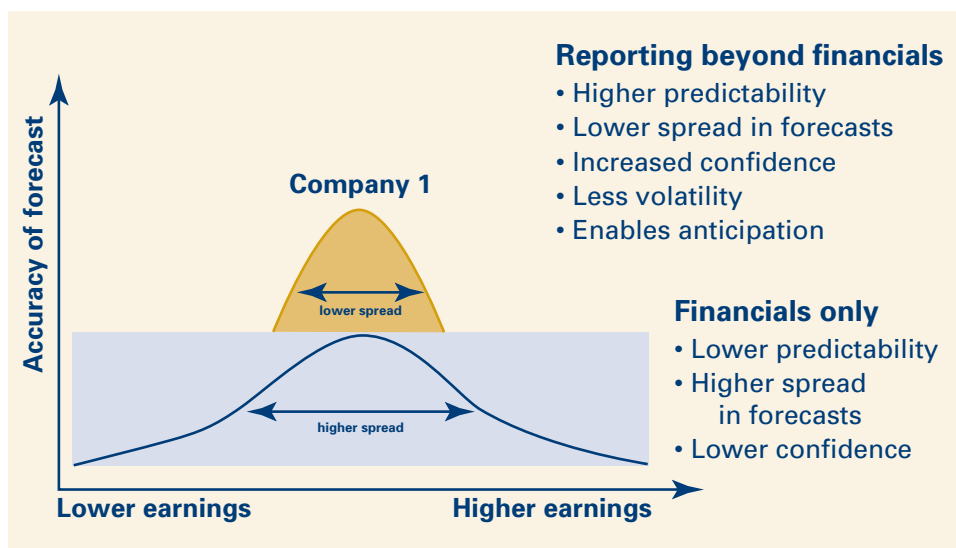
On company communication strategies:

- ◆ Many companies seem to have internal projects underway to map ESG strategies quantitatively onto financial value drivers. These may ultimately be made public and may lead to improved communications
- ◆ Communication between companies and investors on ESG issues is not always optimal. Language is often a barrier
 - ◆ There are differences in definitions — what this community may call ESG issues may already be bundled by many mainstream analysts as sector-specific operational issues
 - ◆ In the pharma session, it was first mentioned that, compared to governance, environmental and social issues were less important for companies. During the discussion, however, participants acknowledged that core business issues were related to societal expectations but had simply not been labelled as 'social' (e.g. funding and access to medicines). The term 'social' therefore leads to misunderstandings about the strategic dimension of such issues
 - ◆ In the food session, it was noted that the use of the term 'corporate social responsibility' leads to misunderstandings and can disengage mainstream analysts
- ◆ Some companies noted that reporting a broader spectrum of data to analysts (including ESG data) can reduce the variance in analysts' financial estimates. Such an effect is beneficial to the company in its attempts to manage market expectations



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006



Source: World Watch Issue 1 2004, PwC; Schroders, Kirchoff Consultants, 2005

- ◆ The listed companies in the panel agreed that standardised reporting of certain key ESG data (e.g. energy and water consumption, greenhouse gas emissions) would be in the interest of all in the industry (i.e. that it is a non-competitive issue)
 - ◆ Given that the mean industry ESG rating is often at least as important as the ESG performance of any one company, all 'boats' in the industry have an interest in rising the tide
 - ◆ A degree of industry specificity is required in the ESG indicators

Insights from investors

On the role of ESG issues in investment decision-making and ownership practices:

- ◆ Company performance on ESG issues is first and foremost regarded as being an indicator for overall management quality / confidence in management. Given that management quality ranks as the top factor taken into account by analysts and investors when judging companies (see figure below), this is potentially a very strong driver
- ◆ The recognition of the materiality of governance issues far outstrips that of environmental and social issues (although it is acknowledged that the relevance of environmental and social issues is strongly sector specific)
- ◆ Participants noted that in some industries the differences between leading companies in terms of their ESG strategies were not very marked and therefore not an important source of differentiation

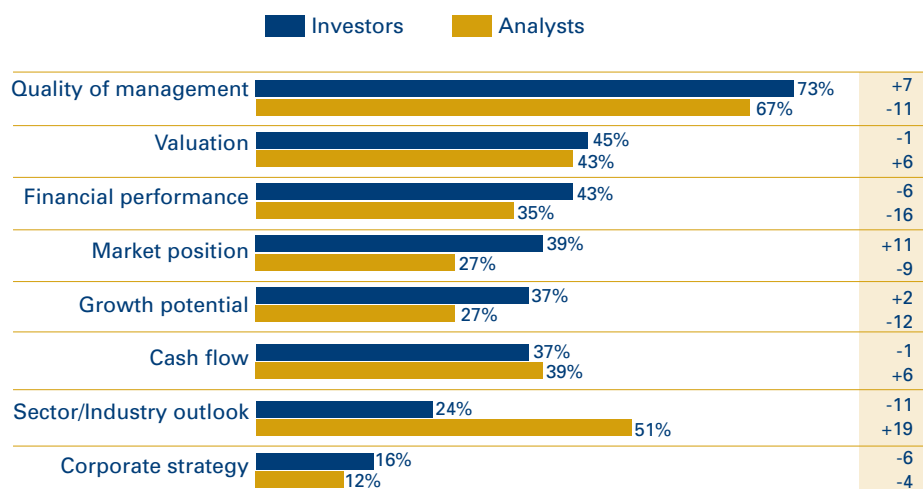


Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

for asset selection purposes. In contrast, some investors are more concerned about the future viability of the entire business model of certain industries

Q: What are the most important factors you take into account when making your judgement about companies?



Source: IRS MORI, 2005

On company communications on ESG issues:

- ◆ There has been a discernible improvement in the companies' conceptual linking of ESG issues to their core businesses
 - ◆ But the quantification of the ESG impact is rarely estimated by the company. The investment community is left with a lot of work to do to take the information through towards an investment / ownership decision
 - ◆ e.g. companies present a compelling conceptual case for climate change as a risk and opportunity, but it is not possible to gauge their exposure or response relative to competitors (for asset selection) or other sectors (for strategic asset allocation)
- ◆ Despite the solidity of the governance case, the clear focus of the company presentations and investor questions at the Event was on environmental and, to a lesser extent, social issues
 - ◆ Some participants found that this reinforced their suspicions that bundling environmental and social issues together with governance was disingenuous given their relative weightings in investors' minds



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

- ◆ Company disclosures on ESG issues are often inconsistent and difficult to compare across a single industry. There are a couple of ESG threads common to all sectors — e.g. energy and water consumption, greenhouse gas emissions — that must be reported consistently across industries
- ◆ Companies tend to favour presentations of the potential upside related to ESG issues. Information about mission-critical risks was less likely to be volunteered
 - ◆ Some ESG issues pose risks to companies, sectors and regions that are not easily mitigated, certainly in terms of the efforts of single companies or the efforts of companies without the aid of the regulator. There is little candid discussion of low-probability, high-impact events that could significantly impact current business models
- ◆ There seems to be a concerted effort in some companies to know their investor base better, particularly understanding better the long-term objectives of those investors
- ◆ Companies often try to please all stakeholders at the same time through one communications channel. The financially-driven investor often lacks ESG information tailored to his specific needs
- ◆ Companies are reluctant to triage / prioritise among the ESG issues faced, often stressing that all issues communicated are important. However, this is problematic for sceptical investors, who may have a limited capacity to absorb new business drivers
 - ◆ It is hard to get a clear view from the company on which of the many material ESG issues pose the biggest financial threats and opportunities
 - ◆ Where an attempt at prioritisation is made, there is often a lack of clarity from companies on the methodology used (with some notable exceptions)
- ◆ In some cases there seems to be silos dividing the CSR and finance teams in companies, which inhibit the acceptance of material ESG issues both at the core of the companies and in the investment community
 - ◆ The feeling persists that most communications are generated in CSR departments, with a late contribution from finance / IR / strategy
 - ◆ Investors acknowledged that such silos also exist in the buy- and sell-side investment communities (between ESG specialists and industry analysts)



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

On reporting frameworks and data provision:

- ◆ For the leading companies in an industry, there is no need to wait for the rest of the field in terms of moving ahead with ESG reporting. The others will soon follow if it seems to be a commercially astute move
- ◆ There was strong support for the concept that company data reported using the GRI framework was useful to financially-focussed investors, and a desire for the number of GRI-reporting companies to rise substantially
 - ◆ It was also suggested that widespread adoption of GRI reporting would likely reduce the number of questionnaires and other ESG data requests received by companies
- ◆ Data providers and rating agencies noted that the requests for ESG data made by upstream investment researchers, asset managers and owners were not always accompanied by a clear willingness to pay for the service
 - ◆ The economics of data provision, ratings and investment research are already poor. Asset owners and managers cannot expect the bottom of the investment chain to bear all the enterprise risk for providing the global coverage of ESG data requested by some diversified investors
- ◆ Participants commented that investors should make clearer that demands for standardised data do not imply that the interpretation of those data will also be standardised — it is still possible to have proprietary and competitive investment products based on standardised raw data
- ◆ As with leading companies, innovative data providers can push the envelope of ESG data faster than large collaborative initiatives such as the GRI

On the use made by the investment community of ESG information:

- ◆ Investors are hampered by the lack of consistent data and longer time series
- ◆ There is often a greater focus on the risk side — investors feel that they are on more solid empirical ground with ESG-related value destruction than with value creation
- ◆ Asset managers and researchers seldom try to integrate within models the low-probability, high-impact events that may characterise some ESG issues. This may result partly from the difficulty of quantifying uncertain data, but also because the market is fundamentally averse to multiple

forecasts — it wants rather to know what ‘the’ unique forecast is, rather than multiple forecasts for multiple scenarios

- ◆ Some analysts and investors use ESG information to adjust discount rates (e.g. integrating ESG information into their indicators of management quality). Some investors suggested that this may indeed be the best approach
 - ◆ There was some scepticism from companies and investors alike as to whether modelling for ESG issues in forecast profit and loss line items or cash flows is possible
 - ◆ It was suggested that the natural home for ESG analysis could be in more qualitative decisions such as management scorecards, adjustments to discount rates and semi-quantitative premiums or discounts to comparative valuation metrics (such as profit multiples)
- ◆ Even within the same industry, there may be large differences in the ESG priorities for different companies, making it hard to standardise industry-specific ESG reporting
 - ◆ However, some sector-specific initiatives have been fruitful, such as the ICMC Sustainable Development Framework (for the metals and mining industry; derived from the GRI)
- ◆ Quantification is important, but it is important not to get too fixated on this. ESG-informed prudent investment decisions are the bottom line

On the role of other actors in the investment chain:

- ◆ Some exchanges are seeing business opportunities in ESG data provision. On the quasi-regulatory side, however, exchanges are unlikely to be leading actors
 - ◆ Competition from private equity means that more onerous public equity listing requirements would challenge the exchanges’ business model



**Communicating
ESG Value Drives
at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

5. Recommendations for companies and investors

Recommendations for companies made by investors

- ◆ The natural starting point for a discussion of the relation of ESG issues to the company's investment case is a discussion of the company's core strategies and business model
- ◆ Companies should set their own agenda, and communicate proactively on ESG issues. They should begin with what is important for them, and present not only what might interest the investor community
 - ◆ Do not try to second-guess a community that has heterogeneous interests in ESG information. When communicating to mainstream investors present a strategic, financially-focussed story
 - ◆ Seek dialogue with investors in order to understand their needs and priorities
- ◆ Avoid using terminology that marginalises the issues. Use concepts that are known and accepted by mainstream analysts (e.g. management quality, corporate strategy, brand value)
- ◆ Prioritise the ESG risks and opportunities and explain the rationale used in prioritising
- ◆ Use communications that are tailored to investors, as opposed to 'one-size-fits-all' communications to a wide range of stakeholders
- ◆ Quantification or at least contextualisation of the company's exposure to and actions on ESG issues is crucial
 - ◆ Information on ESG eventualities is of little use without a sense of the scale and probability of the business impact
- ◆ A proactive and candid discussion of risks / downside would be welcomed
 - ◆ Give examples of challenges, dilemmas, actions taken and lessons learned
 - ◆ Increase communications on low-probability, high-impact events common to all sector participants. Acknowledging the existence of these issues is already a step towards remedial action, and a differentiator vis-à-vis competitors
- ◆ Involve financial journalists in ESG-related communications
- ◆ Improve internal communication between the CSR and investor relations

departments. The ESG business case should be better integrated in normal IR communications

- ◆ Reporting by standardised frameworks (such as the GRI) would be appreciated by all investor types. Collaboration between companies on industry-specific indicators is also likely to be positive for all

Recommendations for mainstream analysts and investors made by companies

- ◆ Show an active interest in financially-material ESG issues during company results presentations, one-on-one meetings, road shows, industry conferences, etc.
- ◆ Insist on receiving strategic context and discourse when ESG issues are presented
- ◆ Improve communications between specialist ESG teams and sector teams
- ◆ Provide constructive feedback to companies on their ESG communications
- ◆ Explain how the information provided will be used in the investment process (selection of sectors and individual assets, basis for ownership decisions, etc.)

Recommendations for other investment chain actors

- ◆ A useful role for the regulator could be to highlight companies who are not reporting material ESG data or those who are reporting in a misleading way (even where the company is notionally reporting using generally-accepted frameworks such as the GRI and CDP)



**Communicating
ESG Value Drives
at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

6. Reflections on the progress made so far and future directions

The Event closed with a presentation by Anthony Ling, CIO of Goldman Sachs Investment Research, giving his personal opinion of the progress of the asset management and investment research industries on ESG integration, and the future challenges facing those industries and other investment chain actors. There follows an extract from his forward-looking comments.

Anthony Ling: Where we stand, speed of progress, the challenges ahead

- ◆ Are we moving fast enough and in the right direction?
 - ◆ Much has been done across the industry, but moving out of at nascent stages
 - ◆ More needs to be done, we are still in the danger zone
 - ◆ A thousand flowers are blooming and many institutions lack focus
 - ◆ Few genuinely link ESG to mainstream — few ESG questions for companies
 - ◆ ESG is important in an increasing number of broker polls, but peripheral in many. Two worlds are emerging
 - ◆ The US remains behind Europe; stirrings in Japan, Canada and Australia
 - ◆ Broad coverage of issues and sectors, wide range of approaches: good choice for users, but reflects lack of focus and integration
- ◆ Are there practical ways for actors in the investment chain to improve communication and integration of ESG issues?
 - ◆ Partnerships, advisory capacity to teams, one-off company notes, news flow and lists of issues are relatively easy to produce. However, they do not genuinely add value to any mainstream part of the investment chain and they are not durable
 - ◆ Entrepreneurial spirit ('if you build it they will come') will triumph over over-inclusive, bureaucratic consensus building
 - ◆ Understand the investment decision-making process and where ESG analysis feeds into company or portfolio models
 - ◆ Long-term investors should improve knowledge of financial analysis and the core businesses of companies — speak the same language



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

- ◆ What are the key challenges that require action in the year ahead?
 - ◆ We are all believers. If we are right ESG will become mainstream for companies and investors within a three- to five-year period
 - ◆ Each metric developed, each opportunity or risk reported, each piece of research, each mandate won is a victory. Lots of small victories will win the war
 - ◆ Market forces will win out in the end. As time progresses proof of concept increases — after a number of years irrefutable evidence will be in place
 - ◆ Pigeonholing ESG as a separate part of companies or the investment chain will kill it — it must be embraced as part of mainstream
 - ◆ Staying focused and keeping up the momentum is the key challenge

Next steps

In the concluding section of the Event, Julie Hudson from UBS Investment Bank briefed participants on the outcomes of a meeting with the CFA Institute that took place in May 2006. Several Who Cares Wins endorsing institutions took part in the exploratory meeting to discuss ways in which coverage of ESG aspects in the CFA curriculum could be improved. An ongoing dialogue with the CFA Institute has since been established.

The organisers also announced that the future of the Who Cares Wins Events will be reviewed in the coming months. Who Cares Wins was always meant to be an initiative limited in time, with the intention of catalysing action that can then be embedded in and carried forward by the industry itself. Participants were asked to indicate if they believe that a further Who Cares Wins event should be planned in 2007 by replying to the Event feedback form. The extent to which endorsing institutions should play a stronger role in organising future events and changes in the format of the event will also be assessed in the coming months.

The proceedings from the 2006 Who Cares Wins Event will be a key input for the UN Global Compact Leaders Summit 2007, which will take place on 5–6 July 2007 in Geneva, Switzerland. The Leaders Summit will assemble CEOs and other senior executives from the Global Compact's participant companies, and will present a key opportunity to feed back to business leaders how their action on ESG issues is interpreted by the mainstream financial community.



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

7. Appendices

Event agenda

09:00 Registration and coffee

09:30 Welcome and introduction

- ♦ Richard Meier, Director International & Research, SWX Swiss Exchange
- ♦ Gavin Power, Head, Financial Markets, UN Global Compact

09:50 Keynote

- ♦ “Delivering the sustainability business case to financial markets”
- ♦ Karl Mahler, Global Head of Investor Relations, F. Hoffmann-La Roche
- ♦ Dianne Young, Investor Relations Officer, F. Hoffmann-La Roche
- ♦ Short Q&A

10:10 Towards integrated communication of ESG value drivers

- ♦ George Dallas, Managing Director, Standard & Poor's
- ♦ Tom Hill, Chief Communication Officer, UBS
- ♦ Adrian Hosford, Director of Corporate Responsibility, BT Group
- ♦ Nigel Jones, Head of Investor Relations, Rio Tinto
- ♦ Karl Mahler, Global Head of Investor Relations, F. Hoffmann-La Roche
- ♦ Jennifer Walmsley, Associate Director, Hermes Pensions Management

11:15 Coffee break

11:45 Parallel break-out sessions, Part 1

Session I — Managing global supply chains: focus on the telecom sector

- ♦ Case study on BT Group
- ♦ Presenters: Adrian Hosford (Director of Corporate Responsibility), Mark Smith (Investor Relations Manager)

Session II — Global reach: focus on energy and materials sectors

- ♦ Case studies on BASF and Royal Dutch Shell
- ♦ Presenters: Lothar Meinzer (Sustainability Center, BASF), Solveig Hinsch (Corporate Investor Relations, BASF), Tjerk Huysinga (Vice President, Investor Relations, Royal Dutch Shell)



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Session III — Valuable health: focus on food and pharma

- ♦ Case study on F. Hoffmann-La Roche
- ♦ Presenters: Karl Mahler (Global Head of Investor Relations), Oliver Eckelmann (Group Controller Sustainability Management), Dianne Young (Investor Relations)

13:00 Lunch

14:15 Parallel break-out sessions, Part 2

Session IV — Providing the tools for efficient communication

- ♦ Presenters: Alexander Barkawi (Managing Director, SAM Indexes), Sean Gilbert (Associate Director, Global Reporting Initiative)
- ♦ Intervention: Dominique Habegger (Vice President of Research, ASSET4)

Session V — Global reach: focus on energy and materials sectors

- ♦ Case studies on Holcim and Rio Tinto
- ♦ Presenters: Barbara Dubach (Head of CSR, Holcim), Nigel Jones (Head of Investor Relations, Rio Tinto)

Session VI — Valuable health: focus on food and pharma

- ♦ Case study on Nestlé
- ♦ Presenter: Anita Baldauf (Investor Relations Officer)

15:45 Coffee break

16:15 Concluding open debate

- ♦ What we learned today: key insights from parallel sessions
- ♦ Outcomes from meeting with CFA Institute; importance of ESG training
- ♦ Outlook on planned WCW activities going forward

16:50 Closing remarks

- ♦ Anthony Ling, Director of European Research, Goldman Sachs
- ♦ Where we stand, speed of progress, the challenges ahead

17:00 Adjourn and aperitif reception



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ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Participants

Organisation	Name	Position	Break-out session	
			Morning	Afternoon
ABN AMRO Private Banking	van Assem, Vincent	Head Sustainable Development Private Clients	III	V
ABP Investments	Stuivenberg-Kruijmer, Agnes	Portfolio Manager Equities	III	V
ASrIA	Brown, Melissa	Executive Director	II	V
ASSET4	Habegger, Dominique	Vice President of Research	III	IV
AXA Investment Managers	de Brito, César	Investment Portfolio Manager	III	V
Bank Sarasin & Co.	Kämpf, Klaus	Vice President, Sustainability Research	II	V
BASF	Hinsch, Solveig	Investor Relations Manager	Speaker II	V
BASF	Kunde, Annette	Manager	II	IV
BASF	Meinzer, Lothar	Director, Sustainability Center	Speaker II	V
BHP Bruggen und Partner	Streiff, Thomas	The Sustainability Forum Zuerich	III	VI
BT Group	Hosford, Adrian	Director of Corporate Responsibility	Speaker I	VI
BT Group	Smith, Mark	Investor Relations Manager	Speaker I	VI
CalPERS	Stausboll, Anne	Assistant Executive Officer	II	IV
Carlson Investment Management	Emanuelsson, Allan	SRI Analyst, Portfolio Manager	II	V
Comité syndical national de retraite Bâtirente	Tankwe, Laetitia	Extra-financial Risks Manager	II	VI
Credit Suisse Corporate and Investment Banking	Kretschmer, Ralph	Director, Corporate and Investment Banking Switzerland	II	V
Credit Suisse Group	Schanzenbächer, Bernd	Global Head Sustainability Affairs	II	V
CRISIL	Gokarn, Subir	Executive Director & Chief Economist	II	IV



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at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**

Organisation	Name	Position	Break-out session	
			Morning	Afternoon
DaimlerChrysler	Heger, Wolfram	External Affairs & Public Policy	II	IV
DELSUS	Siddy, Dan	Managing Director	III	IV
Deutsche Bank	Warth, Julia	Investor Relations - SRI, CSR	II	IV
Dexia Asset Management	Herinckx, Gaëtan	Head of Sustainability Analysis	III	V
EIRIS	Hine, Stephen	Head of International Relations	II	IV
Environmental Finance	Nicholls, Mark	Editor	II	IV
equinet Institutional Services	Pratsch, Marcus	Extra Financial Research	I	IV
Ethos	Laville, Jean	Deputy Director	III	VI
F&C Asset Management	Jenkinson, Kirsty	Associate Director	II	VI
F. Hoffmann-La Roche	Eckelmann, Oliver	Group Controller Sustainability Management	Speaker III	VI
F. Hoffmann-La Roche	Mahler, Karl	Global Head of Investor Relations	Speaker III	IV
F. Hoffmann-La Roche	Young, Dianne	Investor Relations Officer	Speaker III	VI
Fonds de réserve pour les retraites (FRR)	de Salins, Antoine	Member of Executive Board	III	IV
Fonds de réserve pour les retraites (FRR)	Villermain-Lecolier, Nada	Head of Asset Manager Selection & SRI	III	IV
GES Investment Services	Howchin, John	VP International Operations	II	IV
Global Reporting Initiative	Gilbert, Sean	Director, Technical Development	I	Speaker IV
Goldman Sachs	Forrest, Sarah	Head of ESG Research	II	V
Goldman Sachs	Lawson, Sandra	Senior Global Economist	II	VI
Goldman Sachs	Ling, Anthony	CIO, Goldman Sachs Investment Research	II	V
Grupo BBVA	Fernández-Valdés Zubiría, Jaime	Investor Relations Manager	I	IV
Hermes Pensions Management	Walmsley, Jennifer	Associate Director	II	VI



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Organisation	Name	Position	Break-out session	
			Morning	Afternoon
Holcim	Dubach, Barbara	Head CSR/SD Coordination	II	Speaker V
Holcim	Knuchel, Marco	Investor Relations Officer	II	V
HSBC Asset Management	Diab, Adeline	SRI Analyst	I	VI
ING Financial Markets	Klijn, Robert	Specialist Sales Oil & Gas, Utilities & SRI	II	V
Innovest Strategic Value Advisors	Dutronic, Perrine	Managing Director	I	VI
Innovest Strategic Value Advisors	Kiernan, Matthew	Chief Executive	III	IV
Institutional Shareholder Services (ISS)	Jansen, Marcelle	Vice-President International Sales	I	IV
Institutional Shareholder Services (ISS)	Tulay, Mark	Director of Business Development, ESG and Pension Markets	I	IV
International Finance Corporation (IFC)	Bjerborn, Cecilia	Program Officer, Sustainable Financial Markets Facility	III	VI
International Finance Corporation (IFC)	Caines, Richard	Manager, Environmental and Social Development Department	I	IV
International Finance Corporation (IFC)	Kyte, Rachel	Director, Environment and Social Development	II	IV
Investec Asset Management	Gray, Malcolm	Head, Client Services, Fund Manager	II	IV
KLD Research & Analytics	Friedman, Noel	Managing Director, Research Products	III	IV
Lombard Odier Darier Hentsch	de Wolff, Angela	Head of SRI	II	IV
Morgan Stanley	Dean, Angela	Managing Director	I	IV
Nestlé	Baldauf, Anita	Investor Relations Officer	I	Speaker VI
Norges Bank Investment Management	Gjessing, Ola	Senior Analyst	II	IV
Oddo Securities	Desmartin, Jean-Philippe	SRI Research Manager	III	V
onValues	Hagart, Gordon	Senior Consultant	Speaker I	Speaker IV
onValues	Knoepfel, Ivo	Managing Director	Speaker III	Speaker VI
onValues	Specking, Heiko	Analyst	III	VI



**Communicating
ESG Value Drives
at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**

Organisation	Name	Position	Break-out session	
			Morning	Afternoon
Pictet & Cie	Butz, Christoph	Sustainable Investment Specialist	II	V
PREVI	Magalhães, José Reinaldo	Chief Investment Officer	I	IV
responsAbility	Mohamed Ali, Arif	Analyst	I	VI
Rio Tinto	Jones, Nigel	Head of Investor Relations	I	Speaker V
Robur	Nilsson, Anna	Head of SRI Analysis	III	V
Royal Dutch Shell	Huysinga, Tjerk	Vice President, Investor Relations, Continental Europe	Speaker II	VI
Royal Dutch Shell	Steenhuis, Alger	Investor Relations Officer	II	VI
SAM Indexes	Barkawi, Alexander	Managing Director	II	Speaker IV
SECO (Swiss State Secretariat for Economic Affairs)	Landmann, Lucretia	Programme Manager, Investment Promotion	II	V
SG Research	Lucas-Leclin, Valéry	Senior SRI Financial Analyst	III	VI
SNS Asset Management	Grapperhaus, Joos	Managing Director	II	V
Standard & Poor's	Banerjee, Alka	Vice President Global Index Management	II	IV
Standard & Poor's	Dallas, George	Managing Director	II	IV
SustainAbility	Zollinger, Peter	Director	Speaker II	Speaker V
Swiss Department of Foreign Affairs	Probst, Marc	Head of Human Security and Business	II	V
Swiss Re	Ulardic, Christina	Sustainability Risk Advisor	II	V
SWX GROUP	Meier, Richard	Director International & Research	I	VI
The Nathan Cummings Foundation	Williams, Caroline	Director of Shareholder Activities	III	IV
Trucost	Mattison, Richard	Managing Director	II	V
Trucost	Thomas, Simon	Chief Executive	II	V
UBS	Hill, Tom	Chief Communication Officer	I	VI



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Organisation	Name	Position	Break-out session	
			Morning	Afternoon
UBS	Leitz, Christian	Director Communication Management	II	V
UBS	Seidler, Alexander	Group Risk Control, Group Environmental Policy	I	IV
UBS Global Asset Management	Gamboni, Gianreto	Director, Social Responsible Investments	III	VI
UBS Global Asset Management	Schumacher, Ingeborg	Director SRI	II	V
UBS Investment Bank	Hudson, Julie	Head of SRI Research	I	V
UN Global Compact	Power, Gavin	Senior Advisor	I	IV
UN Secretariat for the Principles for Responsible Investment	Gifford, James	Lead Project Manager	II	IV
UNEP Finance Initiative	Clements-Hunt, Paul	Head of Unit	I	VI
United Nations Office at Geneva	Pachoud, Gérald	Special Adviser to the Special Representative of the Secretary-General on Human Rights	III	VI
Universities Superannuation Scheme (USS)	Russell, David	Senior Adviser, Responsible Investment	III	IV
World Federation of Exchanges	Clifford, Peter	Deputy Secretary General	I	IV
World Federation of Exchanges	Pattillo, Robert	Consultant	III	IV
World Resources Institute	Ros Filho, Luiz	Program Director, Sustainable Enterprise Program	III	VI
Zürcher Kantonalbank	Boesch, Stefan	Senior Financial Analyst, Sustainable Enterprise Program	III	V
	Ernst, Mathias		II	IV
	Hunziker-Ebnetter, Antoinette		I	VI

Key ESG events in the preceding year

Prepared by Gordon Hagart and Ivo Knoepfel of onValues, with input from Gavin Power

Several articles sourced with thanks from Enhanced Analytics Initiative newsletters



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ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

August 2005

Who Cares Wins holds second Annual Event

Endorsers of the Who Cares Wins initiative meet in Zurich at an event co-hosted by the UN Global Compact, the International Finance Corporation (IFC) and the Swiss Department of Foreign Affairs. Participants include senior officers from a number of major investment companies in addition to representatives from pension funds and other institutional players. Emerging practices and initiatives are shared with respect to the integration of environmental, social and governance (ESG) issues into investment. While it is agreed that significant progress has been made in advancing the movement, participants concur that the work still needs to be 'institutionalised' within organisations.

September 2005

US investors show interest in sell-side activity on specific ESG issues

Mainstream US institutional investors are starting to show interest in how sell-side analysts deal with some environmental, social and governance (ESG) issues. The initial focus is on the analysis of stock options but in a move that shows the potential for coordinated action in the future on other ESG issues, the Council of Institutional Investors, which represents more than 130 public, corporate and union pension funds with combined assets of more than \$3 trillion, recently wrote to over 30 major research institutions with a request for action on this issue. The request was that these houses adopt proactive policy positions requiring analysts to include the cost of options in their earnings estimates and valuation models. A few institutions have already acted ahead of this expression of client demand.

Further information: www.cii.org

October 2005

Freshfields Bruckhaus Deringer / UNEP FI on legal responsibility

UNEP FI commissioned a legal opinion from Freshfields Bruckhaus Deringer (the third largest law firm in the world), seeking clarification on where the legal responsibility for ESG issues lies in the investment chain. The commission posed the following questions:

- Does the law in the largest capital markets jurisdictions (the study covered Australia, Canada, France, Germany, Italy, Japan, Spain, the UK and the US) permit institutional investors to consider ESG issues in their investment decision making and ownership practices?
- Are investors obligated to take action on such issues in some cases?
- What is the likely evolution of the (interpretation of the) law with respect to investors and ESG issues?

Freshfields' study came back with an unequivocal conclusion that the integration of



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ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

ESG issues into investment analysis, so as to more reliably predict financial performance, is clearly permissible and is arguably required in all jurisdictions.

Further information: www.unepfi.org

UNEP FI Global Roundtable, New York

The Freshfields study was launched at the UNEP FI Global Roundtable at UN Headquarters in New York in October 2005. This two-day event assembled more than 500 professionals to discuss the impact of ESG issues on the financial sector.

US Commentators highlight the negative impact of financial markets' short-termism on corporate America

The New York Times highlighted one aspect of this connection — the negative impact on long-term thinking — in its editorial (5 October 2005): "Executives have to learn to think in years and decades again. As it stands, chief financial officers sweat bullets at the end of the quarter, hoping to beat Wall Street earnings estimates. Chief executives worry about the share prices rather than the underlying health of the business. American companies can keep thinking short-term, but only if they want to get beat in the long run." Bloomberg also ran a story entitled; "Bush Faces Pressure from Wall Street to Act on Global Warming", (28 September 2005). The article quoted senior figures from several investment houses including Lehman Brothers, JPMorgan, Sanford Bernstein and also quoted Goldman Sachs' note on climate risk by Abby Cohen.

Further information: www.nytimes.com ; www.bloomberg.com

ESG issues gaining prominence in annual reports of US corporations

A new survey of 160 annual reports in North America has revealed that public companies are placing greater emphasis on ESG reporting. The Annual Report Trends Survey 2005, conducted by the Craib Group and IR consultancy BarnesMcInerney Inc., found that 36% of North American annual reports surveyed published a separate section on sustainability or corporate responsibility. The authors of the report highlighted that companies have recognised that to earn the trust of investors today, they need to be more transparent and more accountable than ever before, and are building that into the detail contained within annual reports. The survey found that ESG reporting is becoming a focal point for annual reports as companies are increasingly recognising that understanding that a company's relationship with the environment, employees, customers, suppliers and communities may affect their ability to deliver long-term shareholder value.

Further information: www.accountabilityrating.com and www.greenbiz.com

Enhanced Business Reporting Consortium helps companies communicate with investors

In October 2005 the Enhanced Business Reporting Consortium released its first version of a comprehensive information framework to help companies communicate better with their investors and other key audiences. The Enhanced Business Reporting Framework promotes greater transparency of corporate strategy and performance, designed to provide structure for the type of narrative management discussion required in many countries, such as the MD&A required in the US and the OFR in the UK. The framework structure includes four broad categories, Business Landscape, Strategy, Competencies & Resources and Performance.

Further information: www.ebr360.org

December 2005

Investing in the Future: a European Conference on Corporate Social Responsibility and the Finance Sector

Hosted by the UK Government as part of its Presidency of the EU and co-funded by the European Commission, the organisers of Investing in the Future looked at existing initiatives within the finance sector that aim to progress a long-term investment culture in European capital markets to support more responsible, productive and sustainable corporate practice. Discussion centred on how the finance sector might tackle material risks and new opportunities, such as climate change and what and who could take the lead in encouraging the right balance between market-led and voluntary approaches.

Further information: www.cpi.cam.ac.uk

IFC and BOVESPA launch Brazilian sustainability index

IFC and its partners launched the BOVESPA Sustainability Index, the first of its kind in Latin America. The index includes up to 40 local companies listed on the Sao Paulo Stock Exchange and will track not only their economic and financial performance, but also their corporate governance and environmental and social performance.

Who Cares Wins Steering Committee consults with partners on future directions and priorities

The Steering Committee of Who Cares Wins, an initiative for asset managers and investment researchers convened by the IFC, the Swiss Department of Foreign Affairs and the UN Global Compact, met a group of senior financial sector representatives at the London Stock Exchange to discuss the priorities that should be addressed by Who Cares Wins at its annual event and beyond.

S&P finds relationship with non-financial stakeholders key to linking CR and CG

According to a recent report by S&P, adapting to the Sarbanes-Oxley Act of 2002 and other corporate governance reforms will likely shift directors' attention to a greater focus on strategic oversight and enterprise risk management. At the same time, investors are increasingly focusing on operational and reputational risks, and their effect on corporate financial performance and market valuations. The report recognises that the common thread that binds both trends together is the need for managers, directors, and investors to better understand a company's relationships with critical non-financial stakeholders, which include employees, customers, communities, and regulators — with corporate governance and corporate responsibility merging to form a business case.

Further information: www.standardandpoors.com

UN Global Compact features the integration of ESG into financial markets at China Summit

The UN Global Compact convenes a summit in Shanghai, with more than 400 international leaders from business, finance, government and civil society. The summit features a plenary session on the integration of ESG into mainstream financial markets. Institutions represented include Goldman Sachs, the Shanghai Stock Exchange, Calvert and the IFC.



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at the
Company-Investor
Interface**

**Who Cares Wins
Annual Event 2006**



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ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

January 2006

Enhanced Analytics Initiative publishes results of December 2005 evaluation of investment research incorporating extra-financial issues

The Enhanced Analytics Initiative (EAI) announced the results of its latest evaluation of extra financial research in mid-January. The number of research providers producing relevant extra-financial analysis increased from 17 to 31 in the 12 months following the December 2004 Evaluation. In the same period, there was an increase of 500% in the number of reports qualifying for evaluation.

Further information: www.enhanced-analytics.com

Corporate governance perceived as top factor impacting investment performance

A new study of US institutional investors by Mercer Investment Consulting shows that 75% of US investors believe that environmental, social, and corporate governance (ESG) factors can be material to investment performance. Mercer IC conducted a survey of 183 US institutional investors, including US pension plans, foundations, endowments, and other long-term savings pools responsible for over US\$500 billion in assets under management. The research demonstrated that there is a growing belief among investors that responsible corporate behaviour with respect to ESG issues can have a positive influence on the financial performance of companies — particularly in the long term.

Further information: www.merceric.com

February 2006

GRI opens G3 draft reporting guidelines for public comment

Between January and March the Global Reporting Initiative (GRI) presented the draft G3 ESG reporting guidelines, opening a period of public comment. The final guidelines will be released in October 2006.

Further information: www.globalreporting.org

March 2006

Making the connection to climate change

A recent report from Ceres, the largest coalition of investors, environmental and public interest organisations in North America, with \$3 trillion in assets, entitled 2006 Corporate Governance and Climate Change: Making the Connection has examined how 100 of the world's largest companies are positioning themselves to compete in a carbon-constrained world.

Further information: www.ceres.org

April 2006

United Nations launches Principles for Responsible Investment

United Nations Secretary-General Kofi Annan and the CEOs of investment institutions who collectively steer and safeguard \$2 trillion in assets visited the New York Stock Exchange to launch the Principles for Responsible Investment. The UN has supported the need to raise sustainability issues for some time which has led to the creation of the UN Global Compact, which has become the world's largest corporate responsibility initiative now involving 3,000 corporate participants and other stakeholders. Meanwhile, more than 160 banks, insurers, fund managers and others are involved in the UN Environment Programme Finance Initiative, which

works to understand the impacts of ESG issues on financial performance. The Principles aim to provide a framework for achieving superior long-term investment returns.

Further information: www.unpri.org

More companies put brakes on frequent forecasts; quarterly earnings guidance can take analysts' attention away from long-term goals

The Wall Street Journal has examined a prominent trend illustrating that more and more companies are refusing to offer quarterly earnings estimates to analysts and investors. The National Investor Relations Institute, in a survey of its members in March, found the percentage of publicly traded companies giving out guidance dropped to 66% from 71% in the prior year. Of companies that give forecasts, quarterly earnings guidance fell to 52% from 61% a year ago. The percentage providing annual earnings guidance increased significantly, to 82% from 61% in last year's survey. Louis Thompson, Jr., President of NIRI, said that corporate managers who chase financial goals only three months out aren't properly engaged in establishing long-term, sustainable growth strategies. In March 2006 Merrill Lynch's Global Head of Research commented, "Merrill Lynch believes it would be in the best interests of investors if companies dropped quarterly earnings guidance. Market participants need to see it for what it is – a rough assessment of one indicator of a company's well-being. Earnings guidance dictates an outcome and discourages debate. Worst of all, this one number cannot possibly convey the subtle forces that shape a wise capital allocation decision and ultimately investors are let down."

IFC launches competition to improve ESG-inclusive research for emerging market equity investors

The International Finance Corporation (IFC) launched a competition to provide investors in emerging market equities with better research on companies' environmental and social performance. IFC's Capturing Value programme invites research houses, rating firms, index providers, and similar organisations to compete for grants to encourage high-quality, long-term investment in emerging markets from pension funds and other investors worldwide. Winning proposals will be selected by IFC and a panel of independent experts from the UN Global Compact, First State Investments, the World Resources Institute, the World Federation of Exchanges, the Association for Sustainable & Responsible Investment in Asia, and the Swiss consulting firm onValues.

The Center for the Study of Fiduciary Capitalism holds a conference on Universal Ownership

The Center for the Study of Fiduciary Capitalism held a conference in California on the implications of the 'universal owner' hypothesis for large institutional investors. A universal owner is a large financial institution, such as a pension or mutual fund that owns securities in a broad cross section of the economy. Because of this broad, diversified portfolio of stocks, bonds, and other asset classes, investment returns (especially in the long-term) will be affected by the positive and negative externalities generated by the entities it is invested in. Moreover, the characteristics of universal investors may make engagement with investees on ESG issues a more viable option than avoidance or divestment.

Further information: www.fidcap.org

Finance is seductive: a closer look at business education

April's edition of A Closer Look explored how business schools are starting to integrate ESG issues into the teaching of finance. It reports that finance can be numbers-intensive as it is based on fundamental mathematic principles, making it seem values-neutral and even scientific at times. Yet, finance involves substantial



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at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

moral judgments about the world in which we live and as a result ESG issues and the principles of sustainability are becoming a core part of business schools' curriculum.

Further information: www.beyondgreypinstripes.org

May 2006

Who Cares Wins endorsing institutions meet with senior representatives of the CFA Institute

Under the auspices of the Who Cares Wins initiative, representatives of institutions including ABN AMRO, Credit Suisse, Goldman Sachs and UBS met with the Managing Director and the Curriculum Director of the CFA Program. The discussion centred on how the CFA Program (one of the most significant qualifications for financial analysts) and the CFA Institute's other professional development materials might expand their coverage of ESG issues.

'Enhanced Analytics for a New Generation of Investor'

The Universities Superannuation Scheme (USS) published a new report entitled *Enhanced Analytics for a New Generation of Investor: How the Investment Industry Can Use Extra-Financial Factors in Investing*. The report examines how analysts and investors are challenged with respect to integrating all relevant variables into their judgements. The authors conclude that certain types of data, including ESG issues, can be easily overlooked when deciding to buy or sell a stock or take an active ownership decision — creating an opportunity for better informed investors.

Further information: www.usshq.co.uk

June 2006

EAI publishes results of June 2006 evaluation of investment research incorporating extra-financial issues

The EAI's latest evaluation of investment research points to a growing number of research providers capable of integrating extra-financial issues within investment analysis. The evaluation noted an increasingly active and innovative contribution of economic research teams to extra-financial research, particularly concerning the impact of demographics, of geopolitical developments, and of regulatory trends on selected sectors. Clean technologies and how they benefit from long-term societal and environmental trends were also widely covered. The growing and increasingly sophisticated coverage of the Asia-Pacific region was notable. In contrast, research on corporate governance, on extra-financial aspects of mergers and acquisitions, and on intellectual and human capital was underrepresented relative to the importance of these issues to the buy side.

Further information: www.enhanced-analytics.com

Mistra workshop on ESG issues in fixed income investment

Mistra, The Foundation for Strategic Environmental Research, convened a workshop for institutional investors on the integration of ESG issues into fixed income investment. The workshop was stimulated by the apparent mismatch between the research devoted to understanding the financial impacts of ESG issues in the fixed income domain and that in equities (in a climate of large and growing allocations to (particularly long-dated) fixed income investments).

Investors call on SEC to require disclosure on financial risks of climate change

Ceres announced that 28 institutional investors, managing more than \$1 trillion of assets, have called on the US SEC to require publicly-traded companies to disclose

the financial risks of global warming in their securities filings. In a letter to SEC Chairman Christopher Cox, the group wrote that climate change poses material financial risks to many of their portfolio companies and that those risks should be disclosed as a matter of routine corporate financial reporting to the SEC. While some U.S. companies have voluntarily reported their climate risk to shareholders, the vast majority of businesses — including many of the country's largest emitters of greenhouse gases — have refused to do so.

Further information: www.ceres.org ; www.incr.com

July 2006

Thomson Extel and UKSIF publishes its SRI & Extra-financial Survey 2006

The report notes that there has been a market drive towards greater transparency and integration of ESG-inclusive research. 32% of buy-side firms are devoting over five percent of brokerage commissions to ESG-inclusive research — up more than five-fold from the previous year. The survey also examines the issue of nomenclature. "For the Survey this year, we specifically broadened the scope beyond SRI to include 'Extra-Financial'," stated Steve Kelly, Global Head of Thomson Extel Surveys, in reporting the findings. "While this has enabled a somewhat wider range of data to be gathered, it has also brought into sharp relief the question of nomenclature."

Further information: www.extelsurvey.com

Show me the money

Fourteen of the world's largest investment institutions have launched a report in collaboration with the United Nations Environment Programme Finance Initiative (UNEP FI) and investment consultant CRA RogersCasey. The report, entitled 'Show me the money', explores the links between the ESG issues for specific industry sectors and the way in which global investors value companies. "There is a growing worldwide understanding of the pivotal role the investment community and capital market actors have to play in addressing critical ESG challenges. At the same time, the mainstream investment community is waking to the burgeoning opportunities associated with sustainability-promoting companies, technologies and investment funds," commented Achim Steiner, UNEP Executive Director and United Nations Under-Secretary-General.

Further information: www.unepfi.org

Carbon Disclosure Project (CDP)

In response to the call of 211 investors with \$30 trillion assets under management the CDP, the secretariat for the world's largest institutional investor collaboration on the business implications of climate change, has received carbon disclosure statements from 900 companies — a big increase on last year. The report detailing the responses will be launched on 18 September in New York with a follow-on launch in London on 20 September. The CDP enables institutional investors collectively to sign a letter requesting for disclosure of information on greenhouse gas emissions. Historically, the CDP has sent requests to the largest 500 companies in the world, however in 2006, it expanded its reach for information to over 1900 companies.

Further information: www.cdproject.net

Revised Equator Principles launched

The Equator Principles Financial Institutions, which collectively represent more than 80% of the global project finance market, announced the launch of the revised Equator Principles. The revisions reflect the recent changes to the International Finance Corporation's (IFC) Performance Standards, upon which the Equator



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006



Communicating
ESG Value Drives
at the
Company-Investor
Interface

Who Cares Wins
Annual Event 2006

Principles are based. Equator Principles adopting institutions undertake to finance only those projects whose environmental and social risk management complies with the Principles' criteria.

Further information: www.equator-principles.com

August 2006

Marathon Club reports on industry response to long-term, long-only investing consultation paper

The Marathon Club, a collaboration of investment organisations that aims to promote active long-term, long-only (LTLO) investing, revealed this month the response it has received to its industry-wide consultation paper on the construction and implementation of LTLO investment mandates. The following key themes emerged from the responses:

- Lengthening the term of the investment contract while maintaining a quarterly review focusing on performance alone will not change short term behaviour
- A greater focus must be placed on the development of a portfolio's investments within the review meeting
- There is wide recognition that a long term approach requires a more comprehensive understanding of investment issues by trustees, and there is a need to develop governance structures.
- Some respondents expressed a concern that the approach suggested in the paper was too narrow and should extend to other investment approaches

Peter Scales, Chairman of the Marathon Club and Chief Executive of the London Pension Fund Authority, commented: "We have been pleased with the quality of the industry's response to the consultation paper. The Marathon Club launched this consultation because we saw a need to refocus investment on the long-term. The feedback we have received is encouraging; it shows broad support for the Club's views and will greatly assist us in developing concrete guidelines for implementation of a long-term mandate."

Further information: www.marathonclub.co.uk

Trustees accused of failing to invest responsibly

Fair Pensions warned that UK trustees were not sufficiently engaged with ESG issues. The group quoted one vice-chair of a global fund manager as saying: "After the new pension disclosure regulations came into force, pension funds were on the phone to their fund managers to ask for a bit of text to put in the statement of investment principles (SIP). Beyond cosmetics, little has actually changed." Clive Gilchrist, Director at BESTrustees, said: "[ESG is not] a priority with all the recent pensions legislation. It is something that has been left to investment managers, and has probably not been monitored as closely as other aspects of investment."

September 2006

Who Cares Wins third Annual Event in Zurich, Switzerland

