



A financial investor's  
perspective on  
Sustainability

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September 23<sup>rd</sup>, 2011

# The Growing Importance of Intangibles in Finance

Historically, financial markets have valued companies mostly on the basis of their tangible assets (i.e. book value)

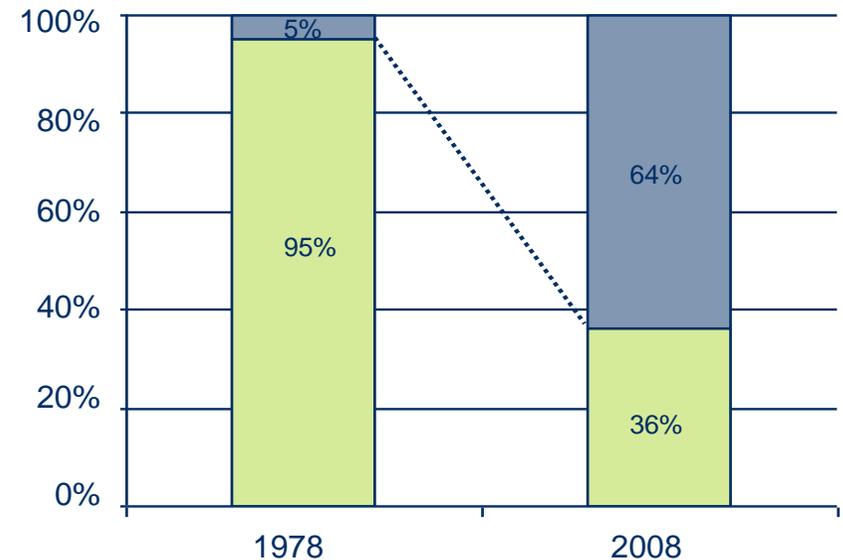
Over the last 30 years, markets have come to assess companies beyond their book value, increasingly incorporating intangible assets

Some 'intangible assets':

- i. Human capital
- ii. Intellectual Property
- iii. Relationships and brand
- iv. Transparency of structure/processes

## THE RISE OF THE INTANGIBLES

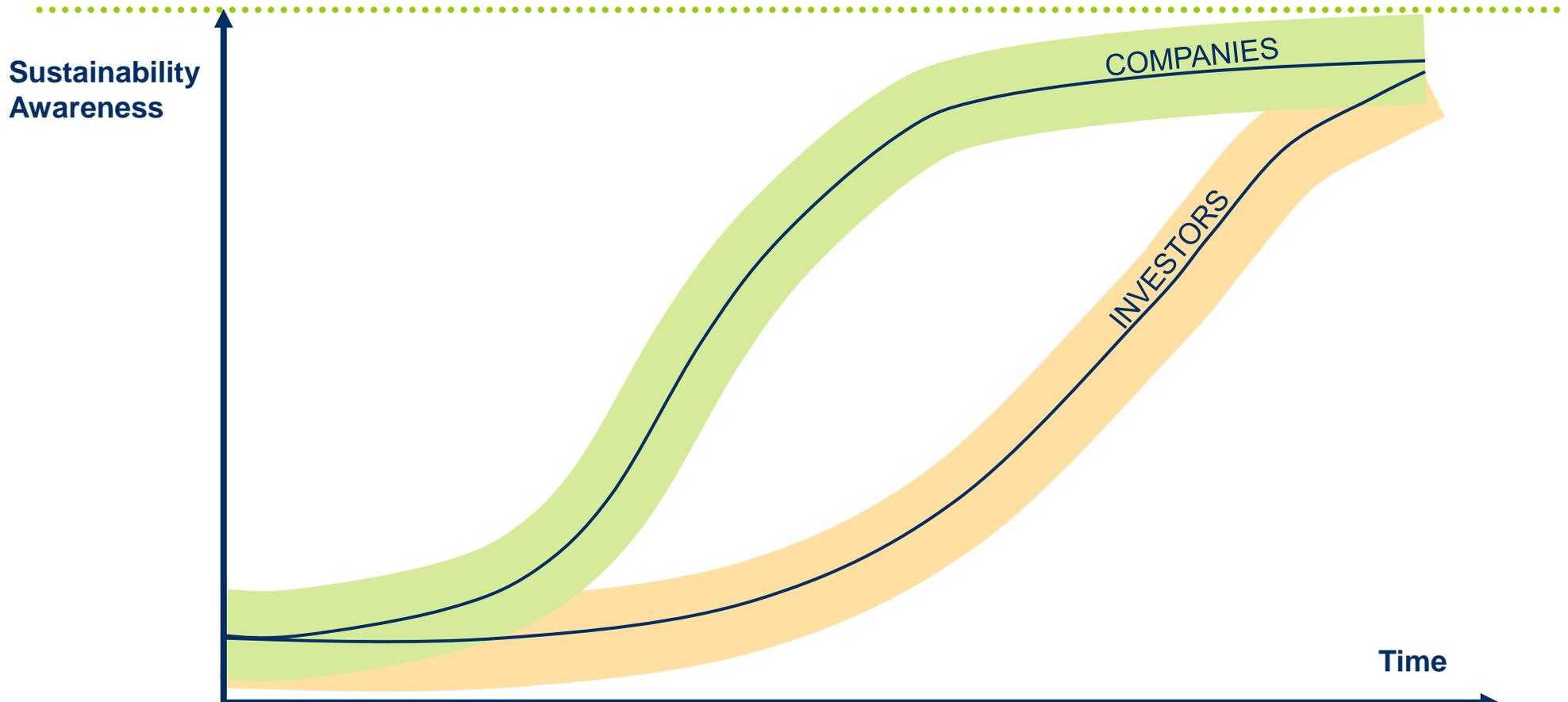
Dow Jones Industrial Market Capitalization



Source: Interbrand: Brand Value Management (2008)

■ Intangibles  
■ Tangibles

# Sustainability Awareness and Finance: Where is the Present Time?



- It is very difficult to generalize a timescale across different industry sectors
- SAM experience shows that:
  - the chemical industry has been at the forefront of developing sustainability awareness
  - the chemical industry's legacy makes investors very aware of the sustainability aspects associated with chemical companies

# A Definition of Corporate Sustainability

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**Corporate Sustainability** is a company's capacity to prosper in a competitive and changing global business environment by managing and anticipating current and future economic, environmental and social risks and opportunities to create stakeholder value

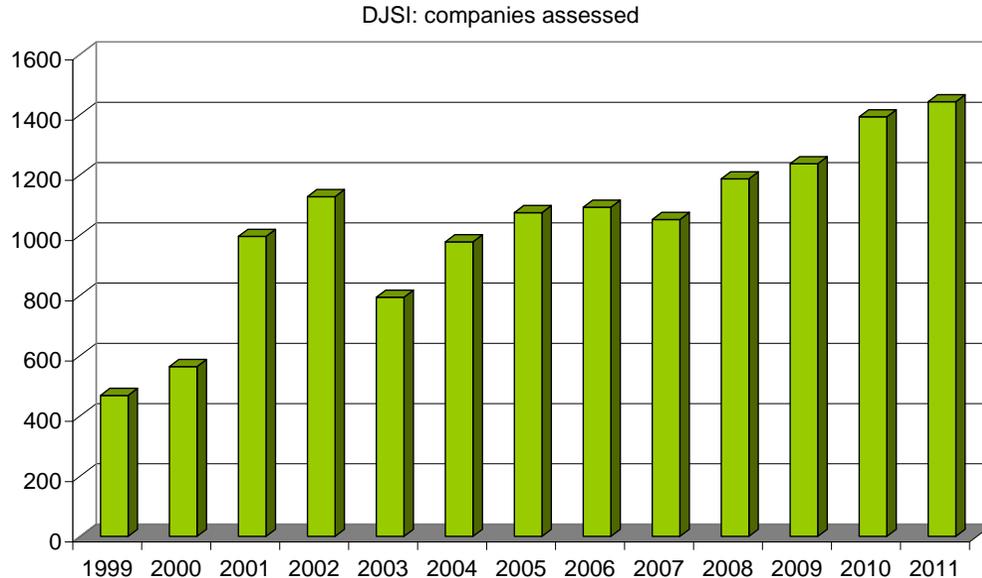
# SAM at a Glance

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- Investment boutique focused exclusively on Sustainability Investing since 1995
- Powering Dow Jones Sustainability Indices since 1999
- Member of Robeco (part of AAA-rated Rabobank Group)
- EUR 11.3 billion total assets (as per 30.06.2011)
- Servicing a global and diversified client base (pension funds, retail investors, private investors)
- Approx. 100 employees headquartered in Zurich, Switzerland

# SAM Corporate Sustainability Assessment

*A way to incorporate sustainability into classical finance*

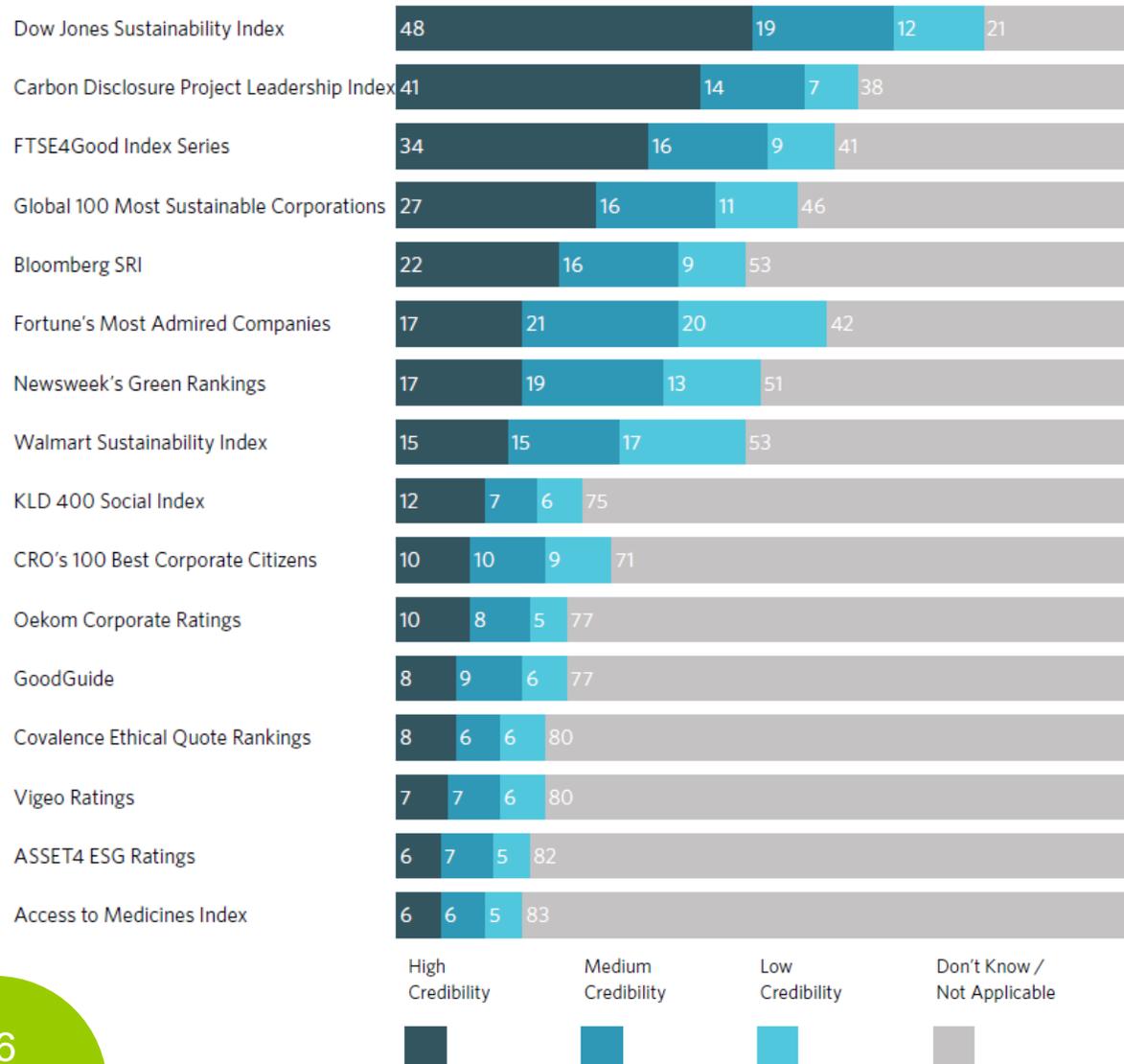


*Growing over the years in participation, scope and (sometimes) complexity*

	1999	2011
Number of assessed companies	468	1443
Average number of questions to companies	50	100
Average total sustainability score	27	48

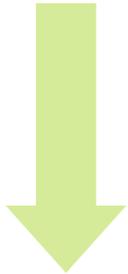
- 2,500 largest companies worldwide invited very year
- Covering 58 industrial sectors
- Covering 57 countries

# How credible do you find the following ratings to be?

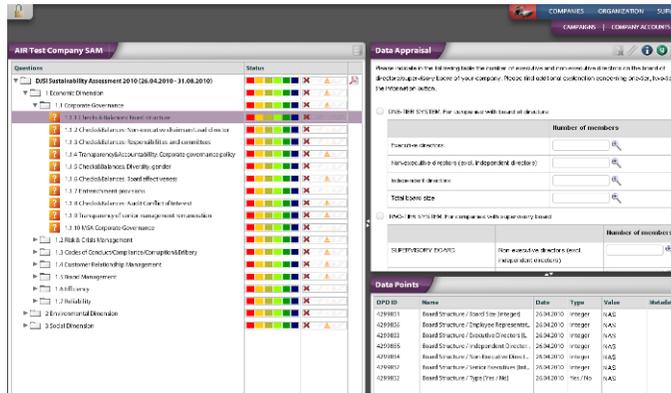


# Measuring Corporate Sustainability at SAM

## Information gathering

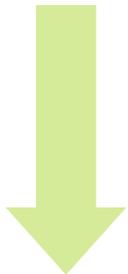


Criteria



- Web-based questionnaire
- Company documents
- Company interactions

## Sustainability Database

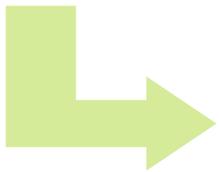


Scores

Corporate Sustainability Assessment Results									
Explanations:	Company Score	Average Score	Best Score	Lowest Score DUSI World	Lowest Score DUSI Europe	Lowest Score DUSI North America	Lowest Score DUSI Asia Pacific	Dimensions or Criteria	
<b>Total Scores:</b>									
Total Score	60	58	66	61	64	67	61		
<b>Dimension Scores:</b>									
Economic Dimension	62	62	66	62	62	62	65	44	
Environmental Dimension	36	51	86	67	75	36	67	16	
Social Dimension	64	56	80	80	80	56	79	40	
<b>Criteria Scores:</b>									
<b>Economic Dimension</b>									
Corporate Governance	69	77	91	65	65	64	64	5	
Codes of Conduct/Compliance/Corruption/Antibribery	62	75	100	66	66	78	78	6	
Service development	50	43	100	39	39	39	50	3	
Innovation Management	8	25	81	26	26	8	42	2	
Brand Management	40	52	94	62	62	40	58	7	
Risk & Crisis Management	63	71	100	51	51	66	70	6	
Customer Relationship Management	38	53	86	64	64	38	50	10	
Privacy Protection	96	77	100	68	68	62	100	5	
<b>Environmental Dimension</b>									
Environmental reporting	54	61	100	71	64	54	60	3	
Climate Strategy	54	52	94	73	65	54	73	4	
Environmental Policy/Management System	10	56	100	63	63	10	63	4	
Operational Eco-Efficiency	49	41	100	35	41	10	38	5	

- Integrated assessment of economic, social and environmental criteria

## Investment universes



Products



- Investment products
- Clients' portfolios

# Sustainability Investing – Empirical Evidence of Value Generation

## SUSTAINABILITY CAN OUTPERFORM

Cumulative Log Outperformance in %  
Source: SAM



\*Slight changes were applied to the universe and methodology for the period between 2009 and 2010 (e.g. Canadian stocks are included in this period).

- Added value is generated by selecting sustainability leaders and avoiding sustainability laggards
- Value creation is consistent and stable for the entire time period

# Chemical Sector: a Study on Sustainability Leaders and Laggards

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*According to our methodology, this is what contributes to sustainability in the chemical industry:*

## **Economic Dimension**

Corporate Governance

Risk & Crisis Management

Codes of Conduct/Compliance/Corruption&Bribery

Customer Relationship Management

Innovation Management

## **Environmental Dimension**

Environmental Reporting

Environmental Policy/Management System

Operational Eco-Efficiency

Product Stewardship

Climate Strategy

Genetically Modified Organisms

## **Social Dimension**

Social Reporting

Labor Practice Indicators

Human Capital Development

Talent Attraction & Retention

Corporate Citizenship and Philanthropy

Occupational Health and Safety

Standards for Suppliers

- Data were retrieved for the period 2009-2011

- Average scores of top and bottom 20%

participating companies were analyzed to

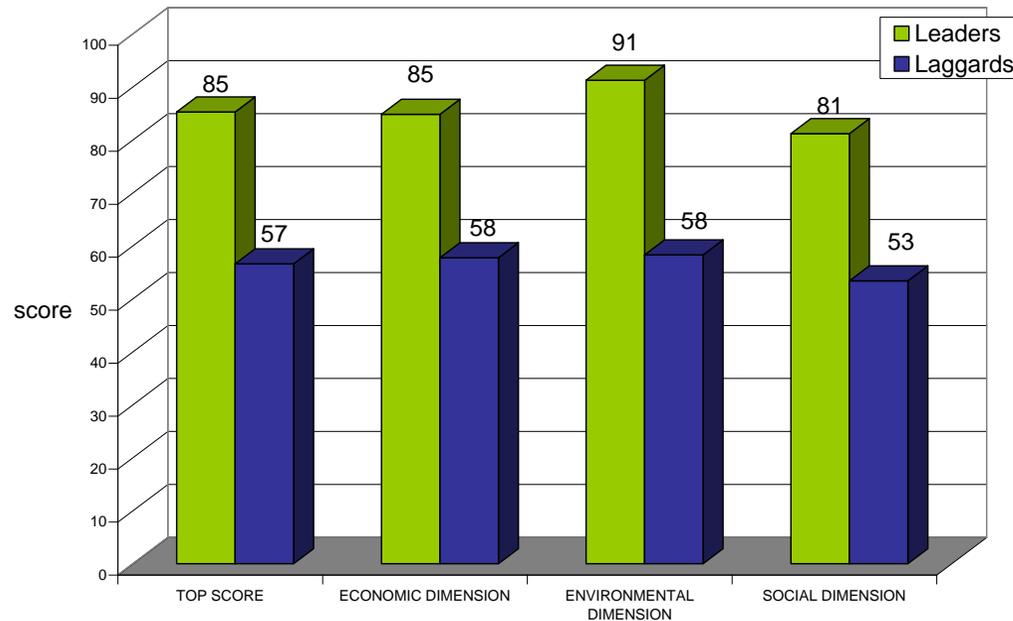
investigate:

- What specific criteria differentiate leaders from laggards?

- What does the gap analysis tell us?

- How is the sector evolving?

# An Overview of the Performance in Each Dimension

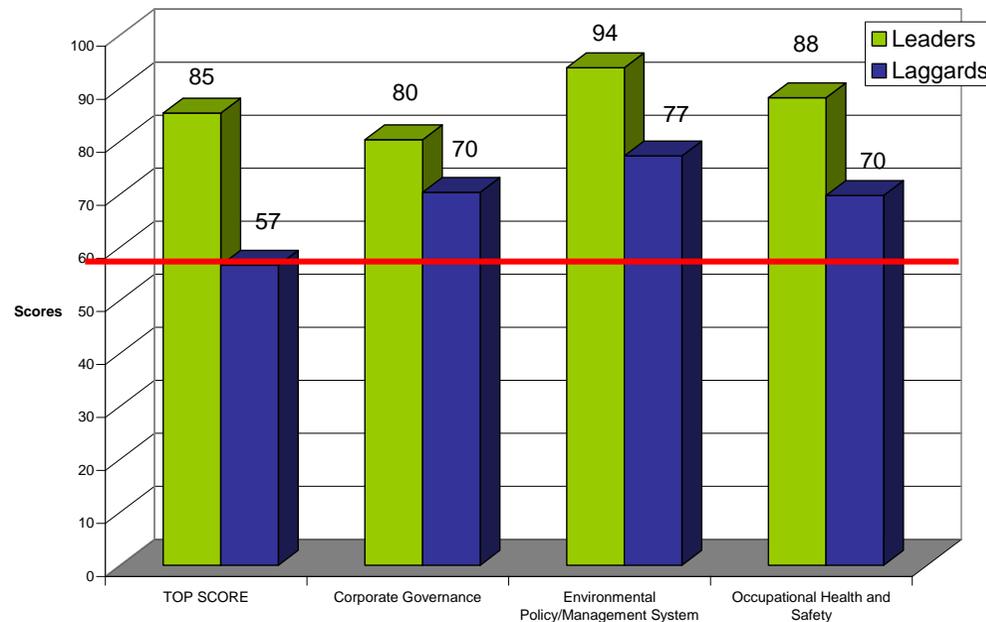


Few trends appear:

- Sustainability leaders show better scores than laggards in all three dimensions
- Score gaps are roughly similar in all dimensions
- Both leaders and laggards perform above average in „environmental“ and below average in „social“ dimension

# Corporate Governance, Environmental Policy, OHS

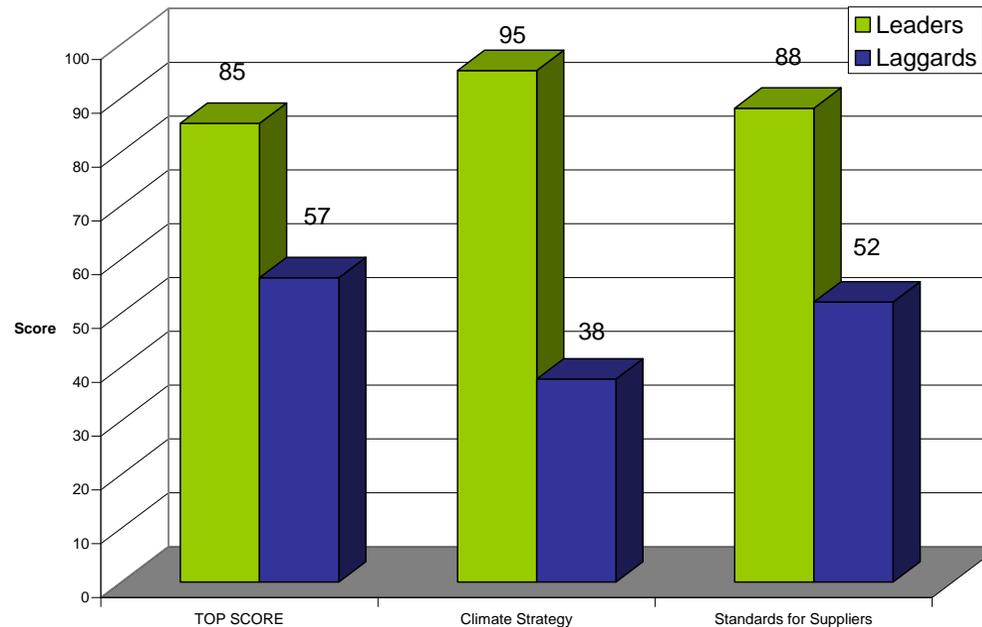
- **Corporate governance** focuses on transparency of executive management remuneration, avoidance of conflicts of interest; absence of entrenchment provisions
- **Environmental policy** focuses on depth of organizational scope, certification and policy effectiveness
- **OHS:** employee training, accidents prevention, OHS performance tracking, well-being at the workplace



- Laggards are catching up with leaders
- The „classical“ notion of sustainability has become a business *qualifying* rather than a *winning* factor
- Pressure from internal and external stakeholders, media and society may have prompted such a trend

# Climate Strategy and Standard for Suppliers

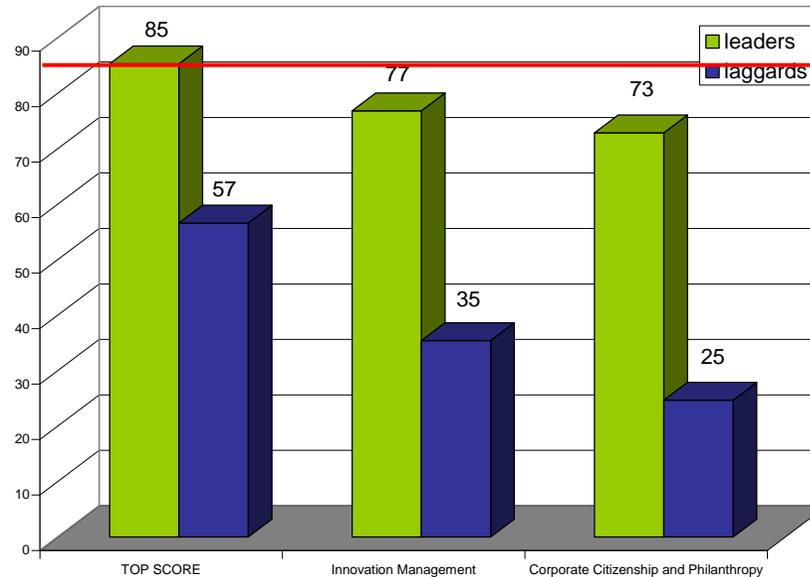
- **Climate Strategy** involves primarily active management of carbon emissions, definition of reduction targets and sensitivity analysis of financial impact.
- **Standards for Suppliers:** evaluation of whether quality standards for key suppliers are in place, whether and how suppliers are checked/audited and how non-compliance is managed.



- A wide gap is observed between leaders and laggards
- Leaders score higher than average top score, laggards lower
- Proposed Explanation: a move from *measuring* sustainability to *managing* corporate impact on stakeholders

# Innovation Management and Corporate Philanthropy

- **Innovation Management** comprises innovation input (R&D spending), innovation management (processes in place, KPIs) and innovation output (success rates, return on investment). Additionally, the importance of environmental and social innovations is analyzed.
- **Corporate Philanthropy** questions measure how companies assess the value of their philanthropy programs.



- Leaders show a wide advantage in respect to laggards, but their scores are rather low
- Proposed explanation: Leaders are better than laggards at measuring performance, but the move to managing exposure has not materialized yet.

# Conclusions

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- Today, a sustainability strategy for chemical corporations must include also aspects beyond the „classical“ notion of sustainability: here the awareness of leaders and laggards is already relatively high
- Data show that leaders are able to carve a „sustainability gap“ vs. laggards by moving from measuring their exposure to ESG themes to managing it
- According to our methodology, sustainability leaders in the chemical industry too are still struggling with some rising aspects of sustainability, such as corporate philanthropy

# Thank you for your attention

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# Back-up

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# SAM at a Glance

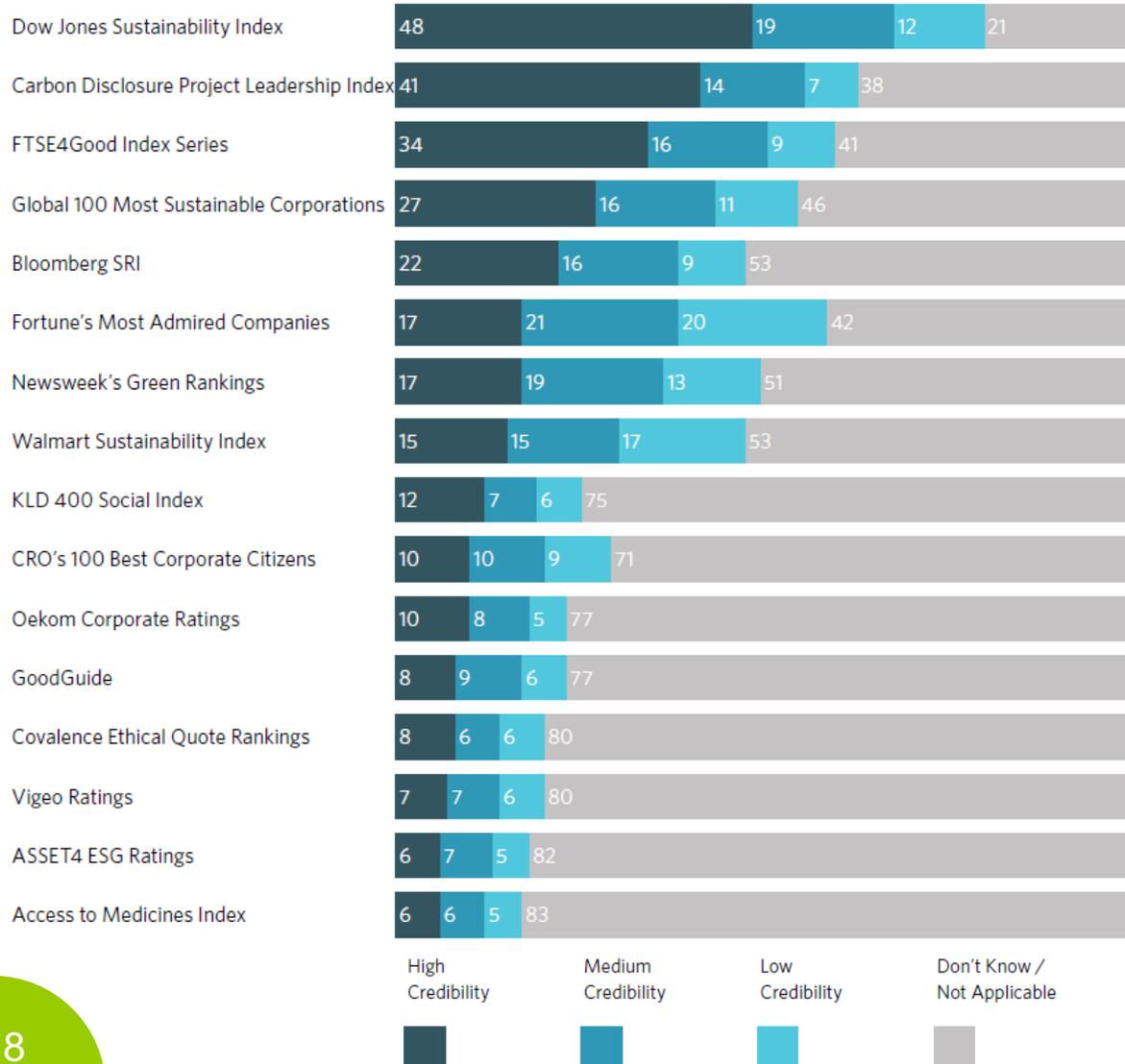
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- Offering complementary capabilities of Sustainability Investing
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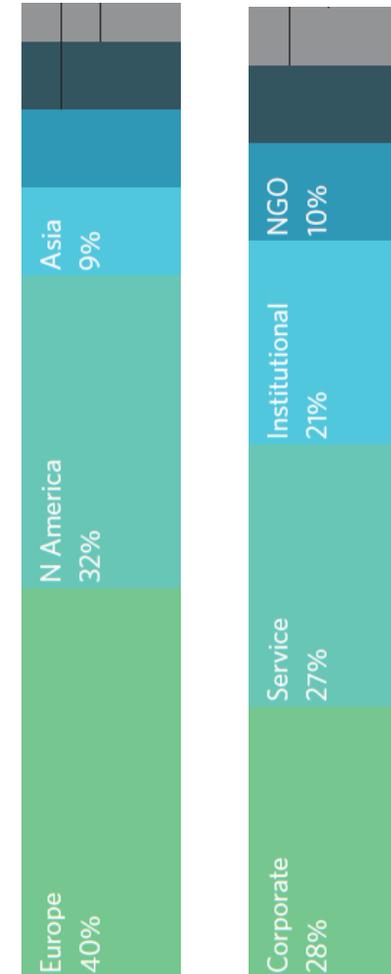


# Is the Sustainability Data Qualitatively Material?

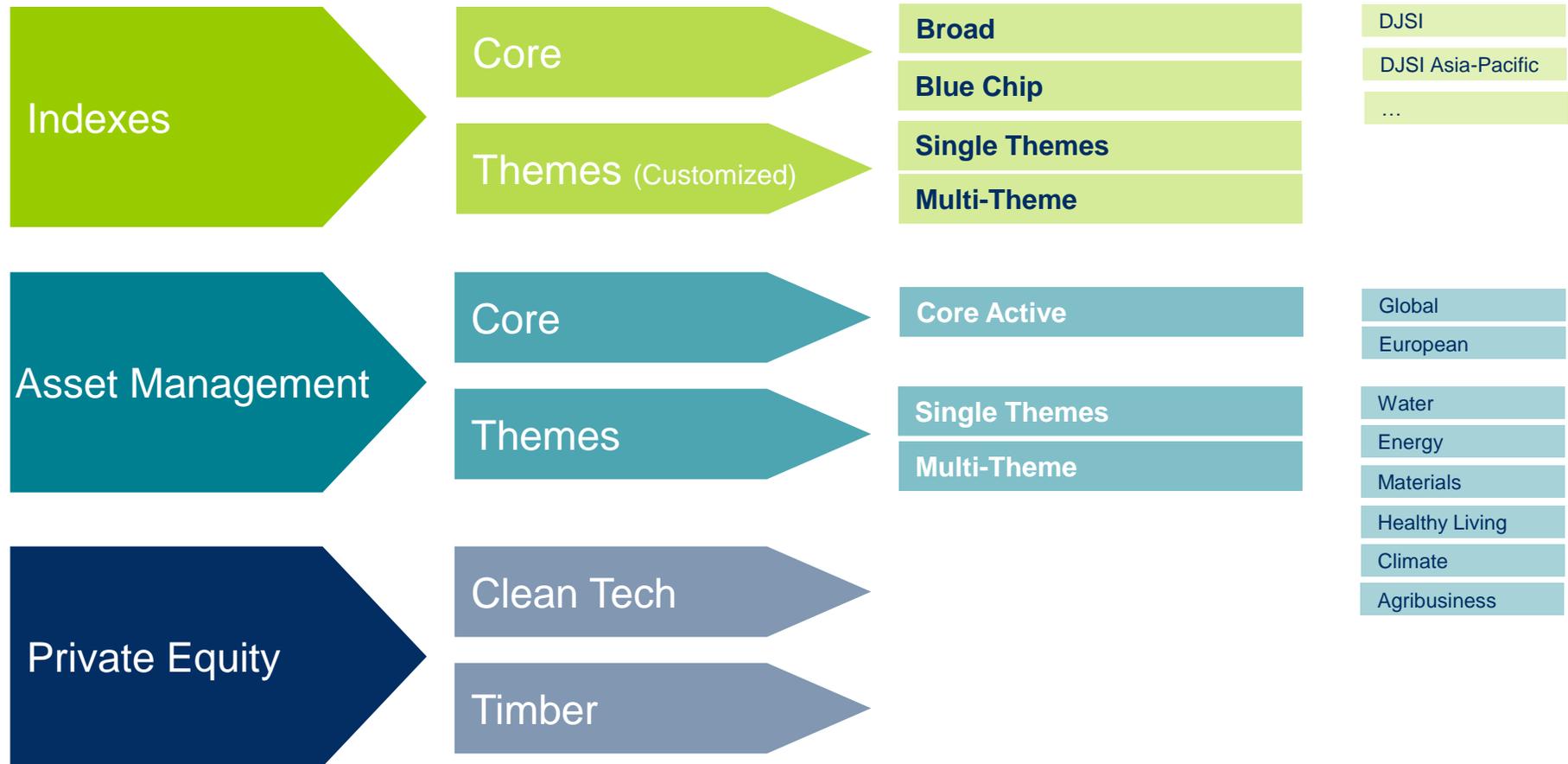
How credible do you find the following ratings to be?



1000 Sustainability professionals sampled



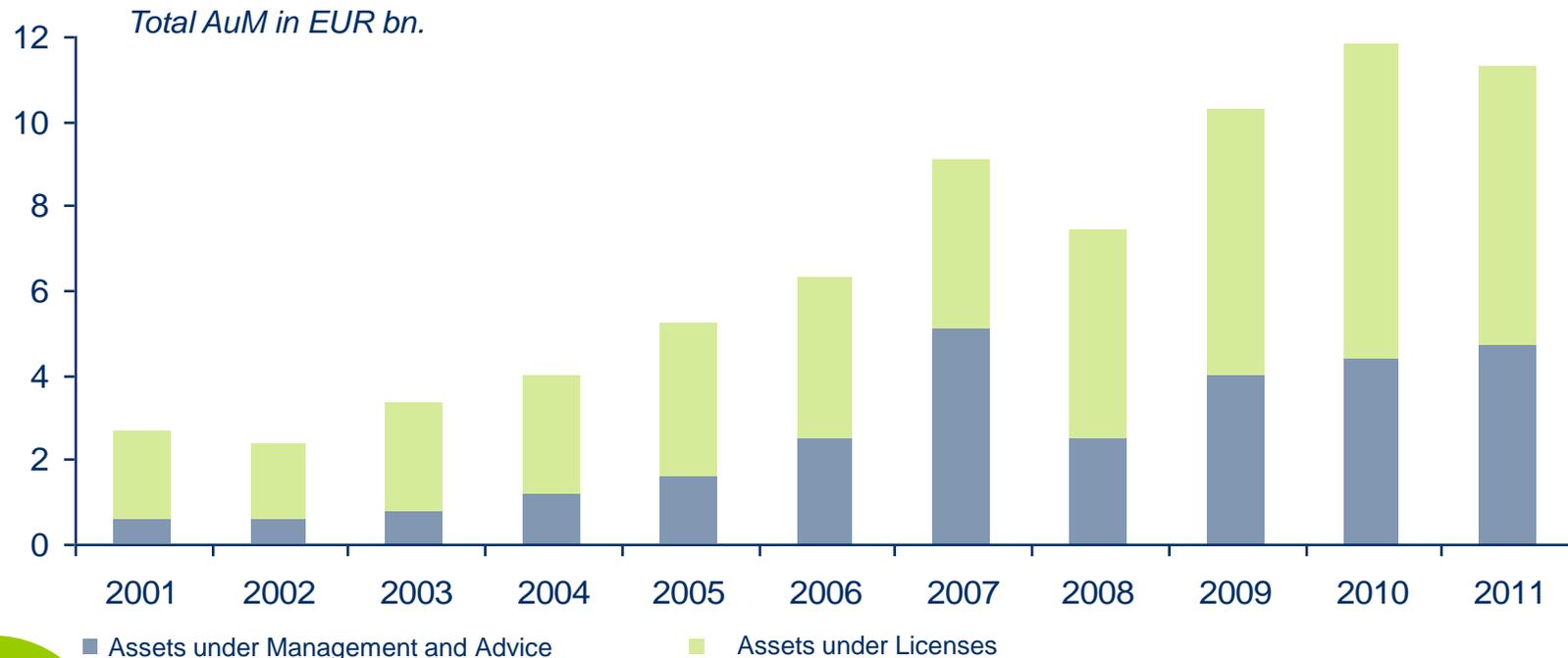
# Sustainability Integrated in All Investment Products



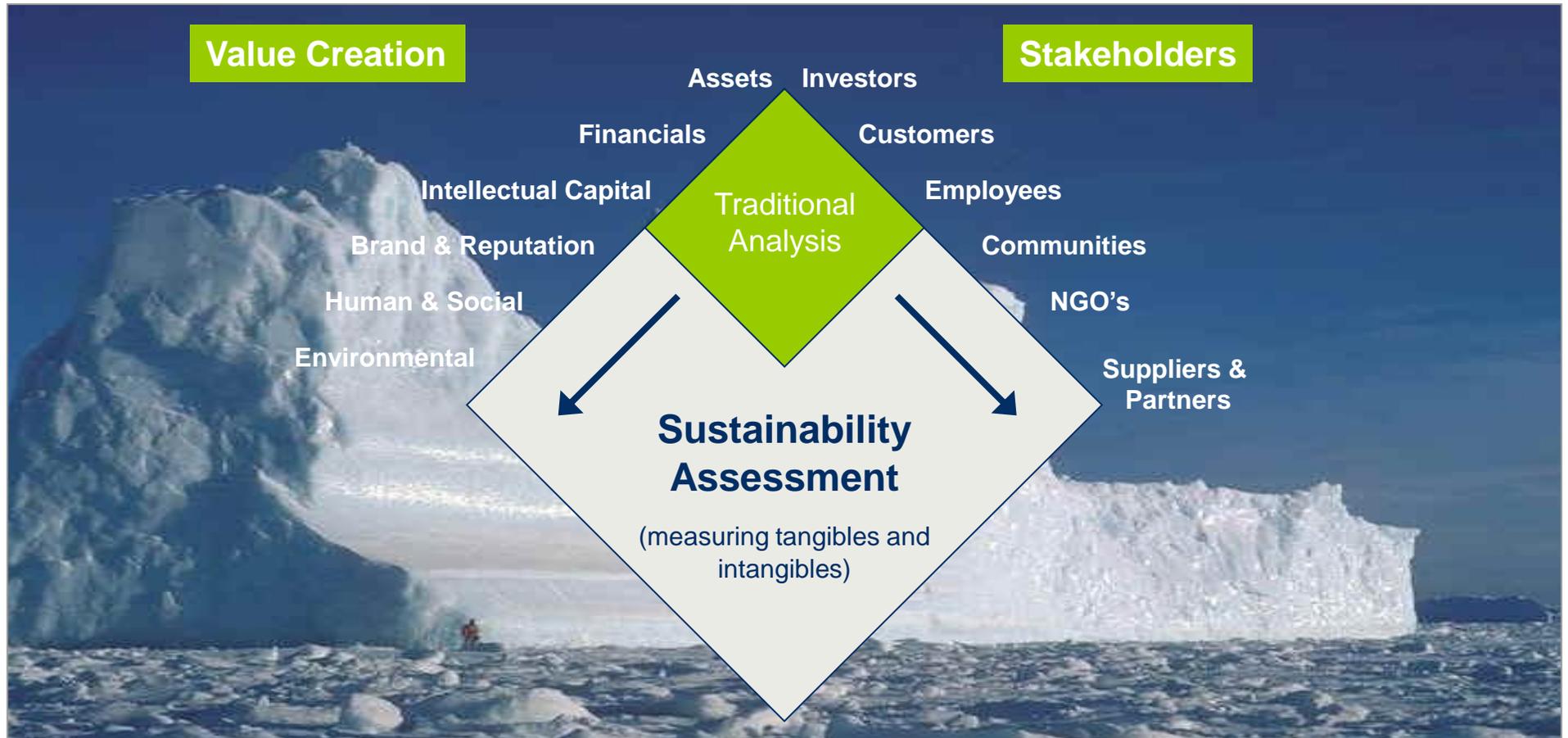
# Total Assets

## Assets under Management, Advice and Licenses (as of June 2011)

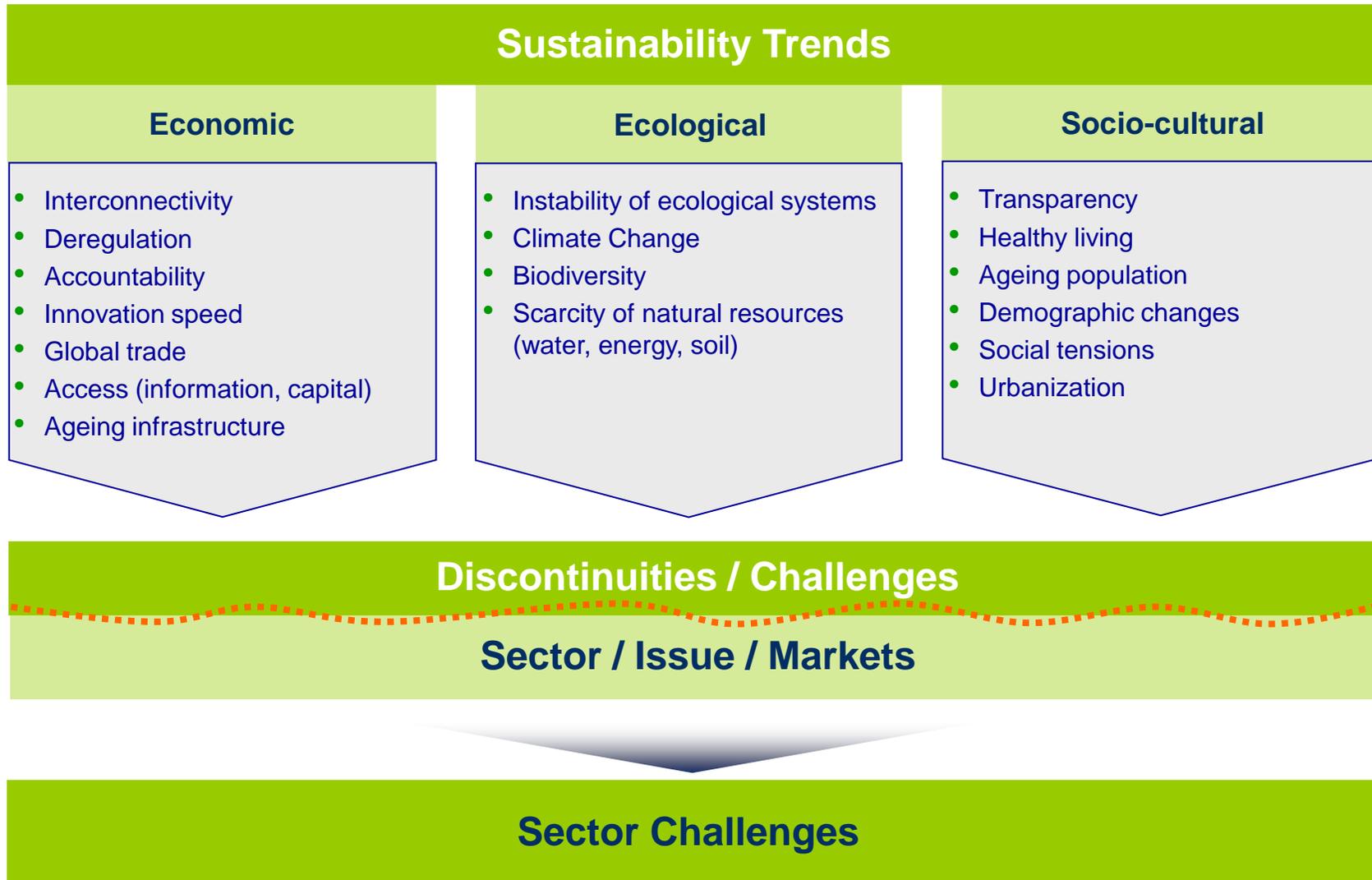
- EUR 4.7 billion Assets under Management and Advice
- EUR 6.6 billion Assets under Licenses



# Value Creation by Sustainability



# Sector specific trend analysis



# Media & Stakeholder Analysis (MSA)

- MSA helps to verify a company's involvement and management of critical economic, social and environmental issues or crisis situations
- Cases identified in the MSA can lead to exclusion of the DJSI anytime during the year
- MSA can add up to 50% of the weighting in an individual criteria
- Impact analysis revealing potential risks of reputation, financial liabilities
- Assessment of materiality based on:  
Media, direct contacts with company, NGOs, consumer organizations, websites of public authorities, governments, international organizations
- Issues covered:

<b>Economic-crime</b>	illicit commercial practices	Human rights issues
Workforce conflicts	Large disasters or accidents	



# DJSI World – Selection

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## Dow Jones Global Total Stock Market Index

2,500 largest companies  
58 DJSI sectors  
57 countries

## Component Selection

Top 10% of companies in terms of sustainability in each DJSI sector  
15% target market cap coverage in each supersector

## DJSI World

323 Components  
57 DJSI sectors  
27 countries  
Review 2010: 50 ADD / 43 DEL

# DJSI assessment and selection process

## DJSI World



## DJSI Europe



## DJSI North America



## DJSI Asia/Pacific



\* 600 largest companies from Canada and the United States

\*\* 600 largest companies from South Korea, Australia, New Zealand, Japan, Hong Kong, Taiwan, and Singapore

# SAM Corporate Sustainability Assessment & Valuation

## Economic Criteria

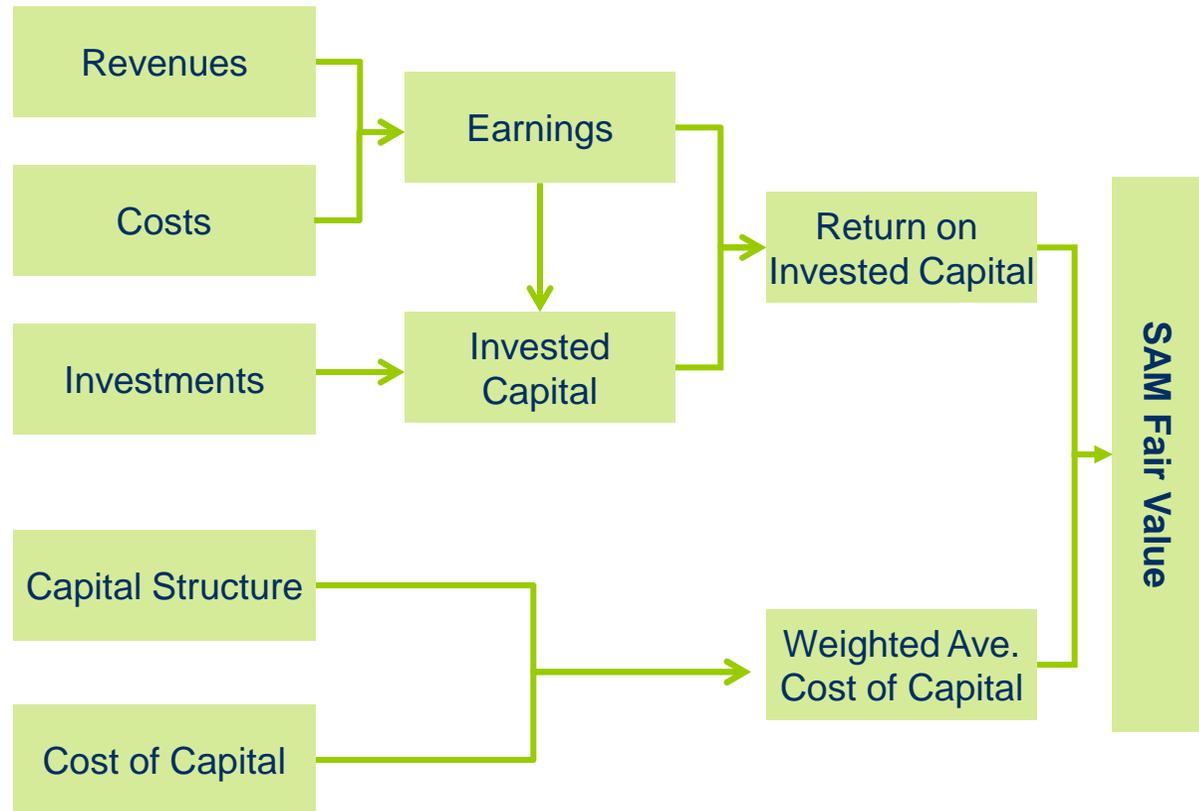
- corporate governance
- risk & crisis management
- brand management
- etc.

## Environmental Criteria

- operational eco-efficiency
- climate strategy
- environmental reporting
- etc.

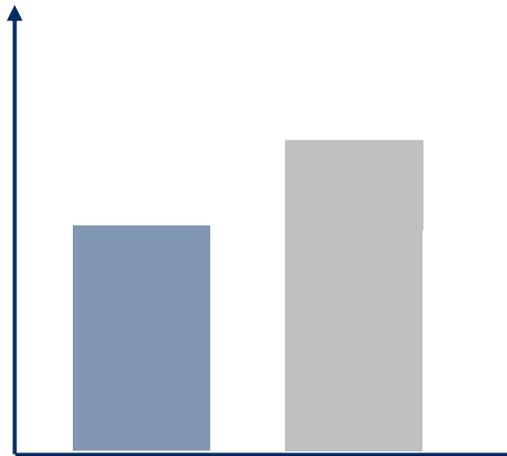
## Social Criteria

- human capital development
- stakeholder engagement
- supply chain management
- etc.



# SAM Corporate Sustainability Assessment & Valuation

## Company Valuation - Discounted Cash Flow (DCF)



Market Value Fair Value

ROIC	10.0%
WACC	5.0%

## SAM Corporate Sustainability Assessment



&

ROIC	+0.2%
WACC	-0.2%

ROIC	10.2%
WACC	4.8%

## SAM Fair Value



**SAM Fair Value Impact**  
range of + 10% - 15%

Legend:  
ROIC Return on Invested Capital  
WACC Weighted Average Cost of Capital

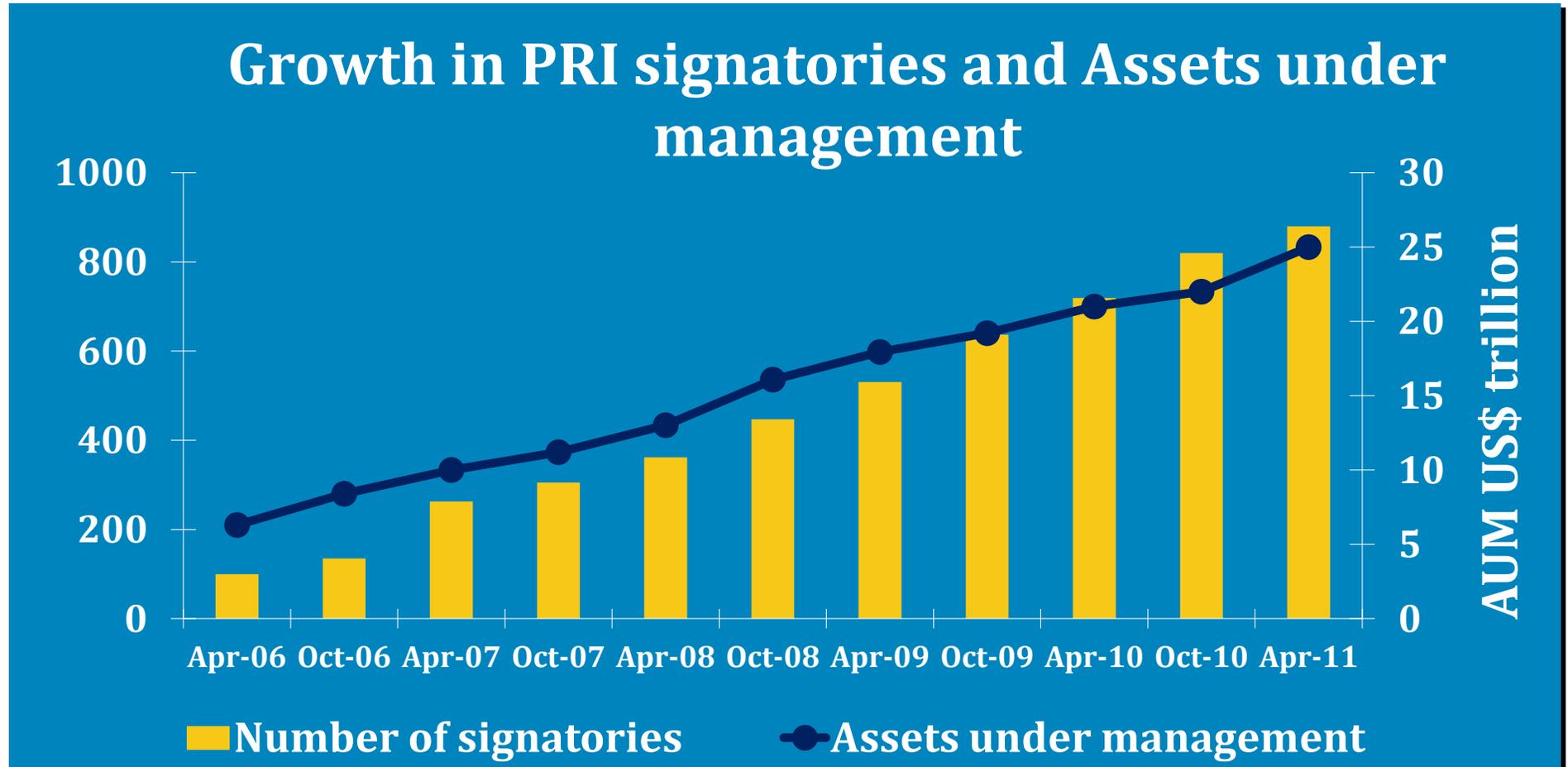
# Market Developments

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## The UN Principles for Responsible Investments (UN PRI)

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

# Growth UNPRI



Source: PRI Secretariat April 2011

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