

Chronology of important achievements and events in the ESG-inclusive investment field

A selection for the period September 2005 – September 2006

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Several articles sourced with thanks from Enhanced Analytics Initiative newsletters

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 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/fileadmin/documents/freshfields_legal_resp_2005.pdf

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 greenbiz.com/news/news_third.cfm?NewsID=28919

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.

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/usrisurvey

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 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/pdf/financereportun.pdf

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/enhancedanalytics.php

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/news ; 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/fileadmin/documents/show_me_the_money.pdf

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 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