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ESG and sustainable finance

ESG Europe 2011

Building sustainable long-term investment and corporate growth

October 4th-5th, 2011, Hilton Amsterdam, The Netherlands

Conference Report

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More than 260 asset owners, asset managers, corporates and service providers attended Responsible Investor's fourth ESG Europe 2011 conference in Amsterdam on October 4/5.

Roderick Munsters

"Long-term finance needs to keep its head in times of crisis"

The conference was opened by **Roderick Munsters, Chief Executive Officer of Robeco.** Munsters put the event into the context of the current market turmoil. He said there were three timeframes to consider. First, the real time market perspective dominated at present by uncertainty and fear. The second, he said, was the political sphere looking for consensus on a short-term basis. But the third, he noted, was that of long-term finance, which needed to keep its head in times of crisis. However, he said companies seemed to be ahead of investors in maintaining a long view: "I think investors need to catch up." Munsters welcomed the significant presence of faith investors at the event: "Their client base is second to none – we're talking billions of people. Qualitatively as a group of investors, they are very hard to beat and they are influencing large investment portfolios, notably land and real estate."

Simon Smits, Director-General International Relations, on behalf of the Dutch State Secretary of Economic Affairs, Agriculture and Innovation, said the Netherlands was rapidly developing its CSR and ESG infrastructure. Dutch law, he said, requires institutional investors and companies to be transparent about the implementation of their investment and CSR policy via a "comply-or-explain" process. But, above this, he said the government sought to promote the quality of reporting and stakeholder dialogue by offering 500 Dutch companies a free government benchmark that compares their performance on non-financial reporting each year with international peer companies in the same sector. As a result, he said, organisations saw the Netherlands as a place to develop CSR activities. Notably, participants in the group for Voluntary Principles on Security and Human Rights, comprising seven governments, 19 oil/gas/mining companies and 10 NGOs, had recently formed a legal entity for their initiative in the Netherlands. Smits said the Dutch government supported the development of clear rules and incentives by the European Commission to make non-financial reporting worthwhile. The subject of improved CSR/ESG reporting was a constant theme throughout the conference with a number of major new developments being unveiled.

Simon Smits

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Left to right: Simon Braaksma, Colleen Fletcher, Ralf Frank, Mervyn King, Yvonne Zwick & Hugh Wheelan

Colleen Fletcher, Director, Membership Services at CSR Europe, pointed to its 'valuing non financial performance' review in collaboration with the European Academy of Business in Society (EABIS), which seeks to demonstrate 'materiality' links between the corporate bottom line and ESG factors such as human capital, innovation and corporate governance. It is, she said, one of a number of collaborative "laboratories" launched as part of the European Alliance for Corporate Social Responsibility with strong backing from the European Commission.

Ralf Frank, Managing Director with the DVFA, the Society of Investment Professionals in Germany, presented a second collaboration within the same programme known as Project Delphi whereby asset owners, research houses and fund managers will test which ESG "super-factors" can add long-term corporate value and how they can be measured. Frank said its goal is to work out how these super-factors can be measured and factored into the investment approaches of institutional investors. He said the first stream of about 12 of Europe's largest asset managers would agree on a short-list of material "super-factors" before submission to the second working group to define the agreed metrics for their measurement. The asset owner group will then "validate and amend" the findings of the two previous work-streams. First findings are expected in 2012.

Yvonne Zwick of the German Council for Sustainable Development, said it had recently finalised a sustainability code for companies based on the G3 guidelines of the GRI and that the organisation would be looking to feed this into other European reporting initiatives.

Mervyn King, Chairman of the Global Reporting Initiative (GRI) and former Chair of South Africa's King Commission on corporate governance, told the conference that the two great challenges of the 21st Century were sustainability and financial stability: "There's an interconnectedness to this in the markets," he said. Wearing his hat as Deputy Chairman of the International Integrated Reporting Committee (IIRC), King said financial reporting was "no longer fit for purpose" and that a factor in the global financial crisis was a related lack of transparency and disclosure. He said integrated reporting would compel boards to address critical, non-financial, but material issues in clear language. Speaking on a panel about the recently issued UN Guiding Principles on Human Rights and the OECD Multinational Guidelines,

Mervyn King

"the two great challenges of the 21st Century are sustainability and financial stability"

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Thomas Dodd, CSR Co-ordinator DG Enterprise at the European Commission, said a new CSR communication would likely be published within weeks, not months as expected: "Human rights will be a fundamental part of it, " he said, pointing to the UN guidelines, known informally as the Ruggie Framework after its author, John Ruggie. Dodd said the Ruggie principles were "not mandatory but not exactly voluntary either" and that companies would now have to: "be active on issues such as human rights due diligence." He added: "The ability of other stakeholders to engage with companies is greatly enhanced by the existence of these principles" Dodd said that over the next year the Commission would be working with companies on sector specific guidelines for human rights.

Both **John Morrison, Executive Director of the Institute for Human Rights and Business** and **Winand Quaedvlieg, Deputy Director International Economic Affairs at the Confederation of Netherlands Industry and Employers VNO-NCW,** said Ruggie was a "game changer" despite being "soft law". They said investors could now play a critical role in asking companies why they were not involved in some of the collaborative initiatives that were springing up around issues like human rights. Are investors stepping up to play that role?

Giuseppe van der Helm, President of the European Sustainable investment Forum (Eurosif) said just over half of corporate pension funds (94 in number) responding to Eurosif's first Europe-wide survey said they now had a responsible investment policy with 60% (102) saying that ESG factors could affect the long-term performance of the fund. Nonetheless, looking at the survey breakdown for Dutch pension funds, **Bernard Walschots, Chief Financial Officer at the Rabobank Pension Fund**, said he was surprised that 30% of Dutch corporate funds had no ESG policy at all. He said the background of its parent group Rabobank, the Dutch farmers bank, meant that ESG was an important consideration for the fund with a requisite policy. But he noted that some of the fund's asset managers had told the fund that ESG had no bearing on their investment strategies. The old issue of ESG performance was a conference topic, albeit with a more positive slant than is usually heard.

Jeroen van der Put, director of the €3.5bn asset manager Media Pensioendiensten (MPD), reported a 2.5% outperformance on responsibly managed European and US large caps over the last six years. MPD, which is the asset manager of the industry-wide scheme PNO Media, has 50% if its 32% total equity portfolio in responsible management: "We believe there's a plus effect from positive screening". Interestingly, Van der Put said a survey of scheme members had revealed that 50% said ESG issues were more important than getting the highest market returns.

Alka Banerjee, vice-president of global equities at ratings agency Standard & Poor's said ESG indices in India and the pan-Arab region had consistently outperformed conventional benchmarks after the financial crisis of 2008. She said: "Companies with an ESG policy are apparently better managed and aware that ESG factors matter." In a keynote presentation,

Thomas Dodd

"companies will now have to be active on issues such as human rights due diligence"

Alex van der Velden, Head of Responsible Equity Strategies at PGGM, said the fund's landmark €3bn responsible equity portfolio had outperformed its benchmark by 17% since it was launched three years ago. He said the concentrated portfolio of 15-20 targeted truly long-term financial returns based on sustainability research and active ownership in a bid to get away from "benchmark thinking". The fund has engaged with companies including Geberit, Becton Dickinson, Mettler Toledo and Smuckers where Van der Velden said it could promote good ESG practices leading to more sustainable financial value. He said stock concentration and sector consequences could be offset through a disciplined investment approach. The PGGM programme was just one major ESG initiative unveiled at the conference. Another was the new Dutch Green Investment Corporation (GIC) modelled on the UK's Green Investment Bank. Just days ahead of the conference Holland Financial Centre, which is overseeing the scheme, got the go-ahead from the Dutch government to conduct a feasibility study into the public private partnership.

Ruud Nijs, Project Manager for the Green Investment Corporation, said the GIC would have four specific roles: as a co-financier, a matchmaker and aggregator and as a knowledge centre. He suggested the new institution could aggregate projects in the €200m-300m range into an index-linked green bond – and create "a new market for Dutch pension funds". For their part, UK pension funds have stepped up their strategic environmental awareness, said **David Harris, Director of Responsible Investment at FTSE.** He pointed to the British Telecom Pension Scheme's innovative £100m climate change portfolio, a passive fund that aims to achieve returns close to the FTSE All-Share index while

Lord Myners

"The Stewardship code is about uniform signing up to a pretty low set of standards"

reducing exposure to financial risk from the transition to a low carbon economy and rising energy costs. The UK Equity Carbon Optimised Index Fund uses a custom index from FTSE, carbon data provided by environmental analysis firm Trucost and is run by Legal & General Investment Management.

Roland Pfeuti, Head of Private Equity, Switzerland at SAM, said that despite difficult markets, he expected to see €50bn in new money invested in clean tech markets this year. "There's still an enormous amount of opportunity to put capital to work." Wind power, he said, was becoming utility scale, though prospects for solar were less certain because of tariff issues. Biomass and waste to energy, he said, were also on the verge of being commercially viable: "I think the risk return profiles are very interesting." In one of the conference's keynote Q&A sessions, **Lord Myners, Partner with Cevian Capital** and the former UK financial services minister, said he saw little "real world" impact of the United Nations-backed Principles for Responsible Investment (UN PRI): "In the real world most company executives and most company directors and most institutional fund mangers do not mention the PRI. My concern is that it's a matter of signing up, with no sanction no obligation, no vetting." Myners was also critical of some of the managers who have signed up to the Stewardship Code, the UK's year-old set of standards for institutional owners. He said a number of them were overstating the extent of their involvement in governance. The code, he said, "is about uniform signing up to a pretty low set of standards."


Lord Myners & Hugh Wheelan


Wolfgang Engshuber & Hugh Wheelan

Wolfgang Engshuber

"The PRI is determined not to become a 'talking shop' on ESG issues"

Responding to whether the PRI might just become a "talking shop" on ESG issues. **Wolfgang Engshuber, Chairman of the PRI**, said it was determined not to. He pointed out that the PRI was backed, not bound by the United Nations and said the initiative would be looking to influence the policy debate within governments more over time. However, he noted that the PRI first had to bed down its organisational structure and reporting processes. One priority, he said for the coming months would be for the PRI to do more work in convincing the giant US education foundations Harvard, Yale and Princeton to become PRI signatories. Developing the theme of corporate governance and engagement, **Rients Abma, Executive Director of Eumedion**, the collective Dutch lobby group, explained that Eumedion sends what it calls a 'Spearhead letter' to the largest Dutch listed companies to initiate dialogue ahead of the following year's AGMs. He said the 2012 letter was being drafted, with a focus on stating and mitigating risks and the appointment of external auditors. He said the response of companies to this formal process had been positive: "More and more companies are sending their draft AGM agenda to Eumedion for comment." Governance figures voiced their opposition, however, at the conference to the European Commission's proposed Financial Trading Tax.

Colin Melvin, Chief Executive of Hermes Equity Ownership Services, foresaw a "classic case of unintended consequences" which would lead to less engaged ownership from investors. Pension funds, he said, would move to investing in derivatives rather than directly because of a lower proposed trading tariff: "It will make the problem of disengaged ownership even worse."

Jarrko Syyrila, Deputy Director General of the European Federation of Asset Management Associations (EFAMA), the trading tax was a "bad idea" that was not in the interests of savers and investors. Another topic exercising conference speakers was current problems with microfinance, discussed on a joint panel with impact investing

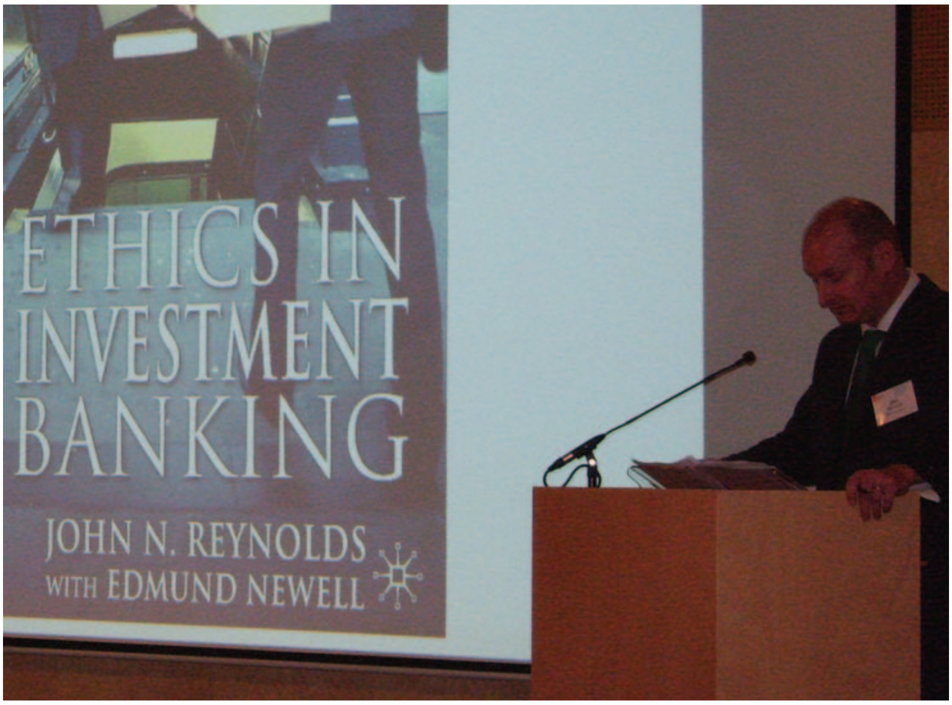

Left to right: Howard Sherman, Colin Melvin, Jarkko Syyrila, Elizabeth Tijssen, Hugh Wheelan

Jan Willem Oostveen, Director of Investments at Dutch pension fund giant, PFZW, said the asset class had moved away from being 'micro' and 'finance' to a costly, consumer credit industry. He said PFZW had trouble investing a €200m allocation to the sector, and asked: "Isn't there a smarter way for microfinance without all the costly intermediaries."

Lauren Burnhill, Managing Director at One Planet Ventures, said than an institutional allocation of €200m would be difficult to invest in the market as it stands: "There's a problem of scalable financial intermediaries. There's only half a dozen managers 'grown up enough' to manage that kind of money." Panel moderator

Harry Hummels, Managing Director at SNS Impact Investing, asked whether impact investing was just the new hype?

Ben Simmes, Director at Oikocredit, said "Microfinance was too good to be true and a lot of people jumped on the bandwagon despite a lack of regulation and governance. That hype, I hope, is over." A more positive development for both microfinance and impact investing, he said, was the PRI Principles for Inclusive Finance, though he noted that many institutional investors hadn't yet signed up.



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Ministry of Economic Affairs, Agriculture and Innovation

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