

More than 300 investor and CSR professionals attended this year's ESG Europe 2010 conference, the Investor-Corporate Summit on October 13 in Amsterdam. The event was organized by Responsible-Investor.com in partnership with the Dutch Ministry of Economic Affairs, the Norwegian Embassy in The Hague, CSR Netherlands, and in association with the European Sustainable Investment Forum (Eurosif).



Gala dinner, October 12:

The age of fiduciary capitalism?

At a packed gala dinner the evening before the conference, the keynote address, titled "Share of mind wins share of wallet" was given by **Roger Urwin**, global head of content at Towers Watson, the investment consultant, and an advisory director at MSCI, the global index firm. Urwin predicted that the coming decade could see: "Fiduciary capitalists take over from the financial capitalists such as hedge funds and private equity" as the driving force in shaping market behaviour. Urwin, one of Europe's most respected investment consultants, said a key part of his recent thinking was geared around the concept of universal ownership: the principle that larger funds that own a slice of the entire market should focus more on the sustainability and long-term growth prospects of the economy. This, he said,

was a logical way for large asset owners to rationalise sustainable investment and "wise up" governments on the issue. But he noted that there were many roadblocks to the idea, not least pension funds that are "asset rich and time poor", with an investment "compass" that still mostly points toward short-term profits. "I think universal ownership is a good way for asset owners to become a force in ownership rights and corporate development. We are already seeing some interesting examples of corporate legitimacy in this area. For example, PepsiCo has been developing some significant long-term sustainability aspects for their business. Why, therefore wouldn't we expect something similar from asset owners to become the guardians of corporations as part of their fiduciary responsibility?"



Conference Report

Conference, October 13:

Governments step up involvement in the ESG/CSR space



Edith Siermann

The conference was opened by the chair, **Edith Siermann**, chief investment officer at Robeco, who alluded to the challenge of ESG integration within a fund management house: “You need good information from both governments and corporations. Only with this can we implement sustainable investment policy.”

The point was picked up by the first of the day’s governmental interventions by **Renée Bergkamp**, Director-General of Enterprise and Innovation at the Ministry of Economic Affairs of the Netherlands: “We all have an interest in ESG information in Europe – expectation is at an all time high. Together we can make CSR information cheaper and more effective.”

Bergkamp said the financial crisis had shown that shareholders should be more



Renée Bergkamp

vocal on corporate policies on pay and long-term risk. But she pointed out that only 28 of the top 100 European pension funds were signatories to the UN PRI. To this end, she called on conference participants to support the European Commission on its forthcoming green paper on corporate governance: “I believe Holland has something to offer here. We have developed practices for use at European level, not by blacklisting companies but by providing clear benchmarkable guidance on ESG/CSR reporting expectations and praising good companies. A good reputation in CSR is simply good for business.”

As a result, she said Dutch companies were doing well in benchmarks such as the Dow Jones Sustainability Index, with five of the top 20 companies.



Rikke Lind

Picking up the governance theme, **Rikke Lind**, State Secretary for the Minister of Trade and Industry of Norway, said: “The BP oil spill shows how one company’s action can result in environmental mayhem. It’s inconceivable to solve the climate crisis without corporate engagement.” Lind said strong corporate CSR policies were “integral” to Norway’s foreign and industrial trade policy and had a key role to play in reducing future global financial crises: “The rules of the game have changed. Investors cannot tolerate more casino capitalism. We believe it’s in every company’s interest to adopt the CSR agenda and adhere to the new ISO26000 standard and GRI reporting guidelines. Governments need to be good role models and companies need to integrate CSR.”



“The BP oil spill shows how one company’s action can result in environmental mayhem”

Conference Report

Plenary 1:

How investor ESG and corporate CSR connect and where the relationship is headed.

The Norwegian Government's NOK2.9trn (€360bn) Global Pension Fund, is often painted as the world's great corporate excluder, but **Valborg Lie, special advisor, Norwegian Ministry of Finance**, which oversees the fund, said blacklisting was a "small part" of its strategy - it excludes just 51 companies out of 8,000 stocks held: "Naming and shaming is not our starting point at all and exclusion is a measure of last resort when we need to safeguard the values that the Norwegian people represent." She said the fund was now taking a more 'holistic' view of furthering engagement with companies, particularly as many of its assets are passively managed: "Exclusion will continue to be in our toolbox but as a measure of last resort."

On engagement, **Claudia Kruse, senior sustainability and governance expert, at APG Asset Management**, said choosing which companies to lobby was complex, but financially driven. An engagement with Korea's Hankook Tyres, for example, over employee deaths came about because of its role as a main supplier to BMW. The engagement, she said, led to new reporting on the issue. Asked about the value of integrated CSR/financial reporting during the audience Q&A, Kruse, said: "Integrated reporting is really part of the solution from an investor's point of view. And ideally what we really want is one standard, globally applicable".



L to R. Pieter van Stijn, Miguel Veiga-Pestana, Claudia Kruse, Valborg Lie

However, **Miguel Veiga-Peastana, Vice President Global External Affairs at Unilever**, said the investment community was just one stakeholder the company engaged with alongside NGOs, consumers and governments: "We need more structured dialogue. The level of detail that investors seek is demanding, and the time-frame sometimes unrealistic. Also, it's not always clear how that information is being used. We don't get much feedback!"

Pieter van Stijn, advisor for responsible investments at PGGM, said a major role for investors - notably in the environmental space - was to remind companies that the future is not always a given. "For example, we hear oil companies say oil demand will increase, so we need to look for more oil, but that may

not be the most sustainable course."

Thomas Dodd, CSR co-ordinator at the Enterprise and Industry DG of the European Commission, said a new communication [policy statement] on CSR would be issued during 2011, with a European multi-stakeholder forum on CSR planned for November this year. He said: "ESG disclosure is increasingly likely to be taken on board by the Commission. There is an on-line public consultation in the coming months seeking views on where policy should go." Asked about harmonisation of CSR reporting initiatives, he said: "We need to be going towards some sort of regime where there is more comparability, but we need to be very cautious for a number of reasons."

On integrated reporting, he noted: "We don't yet have a position on whether it is part of the solution. But it is part of the debate, absolutely."

Another part of the investor armoury regarding corporate malfeasance, said **Bruce Bernstein, attorney at BLBG, the US law firm**, was the class action law suit.

However, he said investors should be aware of the implications of a US legal case concerning National Australia Bank, regarding the rights of non-US investors to sue companies in the US if they bought their shares on a foreign exchange. The case ruling, he said, could be particularly important for investors considering action in the US against BP.



L to R, Bruce Bernstein, Thomas Dodd, Pieter van Stijn

Conference Report

Keynote: Paul Woolley,
Founder, Centre for the Study of
Capital Market Dysfunctionality
at the London School of Economics.



Paul Woolley

Woolley warned that financial markets had become “inefficient, exploitative and unstable”. He said the the next crisis could spell the end of capitalism as we know it. “I believe the solution lives with the giant funds, sovereign wealth funds, pension funds, charitable funds. You are the custodians of social wealth”. Woolley pointed out that in the last 10 years, UK and US pension funds had made 1% real returns while their agents had returned 1.5%. Economic theory, he said, had done the world “a major disservice” in promoting false promises such as the efficient market hypothesis and the self stabilising of markets. “Efficient market theorists ignored the intermediaries. This was a schoolboy howler perpetuated by academics.” Large funds, he said, needed to change the way they contracted with their agents. In a manifesto for giant funds, Woolley said they should set GDP growth as their benchmark. He said investors should avoid performance fees and investment in hedge funds and private equity where opacity, leverage and high fees were a deterrent.

Specialist Panel:
**The mainstreaming of sustainability
initiatives in corporates**



The panel was moderated by **Dries van Loenen, head of unit sustainable enterprise at the Dutch Ministry of Economic Affairs.**

“CSR reports aren’t used by mainstream capital markets. They aren’t really usable to make investment decisions. It’s my mission to change this!” announced **Dr Hendrik Garz, executive director extra financial research at West LB, the German bank.**

He said an initiative by The European Society of Financial Analysts Societies (EFFAS) to create a series of key performance indicators (KPIs) for ESG 3.0 took an “investor perspective”, unlike other broader initiatives. Workshops with investors and companies, he said, would accompany a feasibility study on a potential voluntary ESG Disclosure Project: “We are also working with index providers regarding possible indices and talking with stock exchanges on reporting requirements. We might also expand these KPIs into other asset classes such as private equity and fixed income.

From the corporate side, **Henk de Bruin, head of corporate sustainability at Philips,** said the company benchmarks its sustainability initiatives against competitors and carries out trend analysis with stakeholders: “We try to learn continuously what stakeholders and shareholders want. Integrated reporting is a main issue at the moment.”

He said Philips was targeting 50% green product sales by 2015. “Sustainability is a value creator for us. It means improving wellbeing while respecting natural resources.”

*“We try to
learn continuously
what stakeholders
and shareholders
want”*

Conference Report

Specialist panel:

The growth of the European SRI market: Unveiling the Eurosif 2010 survey

Matt Christensen, executive director of Eurosif presented the results of its 2010 European SRI study – the benchmark survey of institutional investors on the topic. It estimated that total SRI assets shot up to €5 trillion as of December 31, 2009, a significant jump from €2.7 trillion on December 31, 2007 – a growth of 87%, or a compound annual growth rate of 37%.

http://www.responsible-investor.com/home/article/european_eurosif/

Eric Borremans, head of development, sustainable and responsible investments at BNP Paribas Investment Partners, welcomed the results, but suggested the growth be treated with caution.

“The interesting questions are whether this growth is demand or supply driven and in which way core and broad SRI assets are defined.”

Stephane Voisin, head of sustainable and responsible investment at CA Cheuvreux, said there was now a clear demand for companies to respond to manage their ‘extra-financial’ issues:

“Research providers have grown and will further grow if this demand is articulated, especially as risk mitigation continues to drive institutional investors to factor ESG

issues into investment.”

Antoine Sorange, Head of Sustainable Research at Amundi Group, questioned how far ESG integration had really come: “It’s important is now to look for definitions which give this term more substance as today the branding does not imply an indication of quality of ESG integration approaches.” He said increased costs of ESG integration could also hinder its shift towards mainstream acceptance. Sorange said ESG integration may help fund managers acquire new clients, but that it definitely helped keeping existing ones.

Manuel Doméon, head of SRI management at Edmond de Rothschild Asset Management, said the Eurosif study showed clear demand for the supply of new retail investment products and



Matt Christensen

predicted that fund managers would increasingly have to market the environmental and social dividends of their products: “The best-in-class approach might work for institutional investors, while the retail fund interest might be more to eliminate dirty companies in their RI portfolios, which brings up the question of how a good, but responsible retail product could look.”



“The interesting questions are whether this growth is demand or supply driven and in which way core and broad SRI assets are defined.”

Conference Report

Specialist panel: Investor-Corporate engagement workshop

The panel was moderated by **René van Hell**, deputy director trade and investment policy & globalisation, Dutch Ministry of Economic Affairs.

On the investor side, **Leon Kamhi**, executive director at **Hermes** said institutional investors needed a “constructive relationship” with corporates “but with bite” – best achieved, he said, in a private dialogue. Companies, he said, were complex organisations and change takes time, but investors had to show “gravitas, tenacity, integrity and consistency, using engagement ‘catalysts’ such as profit warnings.

From the corporate perspective, **Tjerk Huijsinga**, vice president investor relations Europe at **Shell**, said the company had seen increasing engagement in the last five years from both SRI and generalist fund managers. The firm recently took fund managers and sell side analysts to see its oil sands operations in Canada, a focus of ire at this year’s annual general meeting. An oil sands report, he said, had received positive feedback from investors: “Although we didn’t agree with the AGM resolution on oil sands, we believe it had positive outcomes for us.”



Nadia Laine, head of client services (Europe) at **Eiris**, said a recent survey by the company showed that the two highest engagement concerns of investors were a company’s overall ESG risk management and its human rights policy.

However, **John Swannick** of the **European Academy of Business in Society (EABIS)** asked why if CSR/ESG

information was so important for investor engagement with companies, it wasn’t being produced/quantified properly? He said EABIS was carrying out ongoing research looking at ESG information in terms of broad financial market practices/mainstream investors to gauge its “tangible value”.

R to L: Leon Kamhi, René van Hell, Nadia Lane, John Swannick



Conference Report

Specialist panel: Carbon Disclosure Project and ESG Indices

Paul Simpson, newly appointed chief executive officer of the Carbon Disclosure Project (CDP), said half of the world's investor capital was now requesting corporate carbon disclosures, and that harmonising its disclosure requirements and enhanced auditing methods were high on CDP's agenda for the coming years. He said CDP was cooperating with the International Finance Corporation to focus on the BRICs countries where progress needs to be made. Simpson said that while more and more companies are setting emission reduction targets, only 19 % had adhered to them while the data of the remaining 81% show increased emissions. CDP had also launched a water disclosure project and was investigating a data project on biodiversity, he said.



Alka Banerjee, vice president global equities, S&P Indices, said the company would shortly launch a new ESG index focused on the Middle East and North Africa (MENA), to sit alongside its India and Egypt ESG country benchmarks. The S&P

ESG India index has significantly outperformed the S&P CNX Nifty index in the last year. She said that in frontier markets, ESG research was at its earliest stages and was based on cooperation with local research providers and scores based on company responses to 190 targeted questions. A major value of local indices she said was in pushing forward ESG market developments and education: "Companies understand their position in the market though the possibility to compare to peers and to follow up with best practice. Indices are spotlights on investor expectations and risk assessments."

David Harris, Director of Responsible Investment, FTSE Group, explained how FTSE had been focusing on the risk side of climate change for broad investor portfolios, alongside its existing opportunity-based indices. Working with EndsCarbon, the research group, and using CDP data, Harris said FTSE's new CDP Carbon Strategy Indices looked at future potential liabilities for companies in terms of climate change, rather than current carbon emissions. For example, he said, in the airline sector Easyjet's business

model could be more exposed to carbon pricing when the sector joins the European Emissions Trading Scheme in 2012 than British Airways because of its focus on budget pricing.



Conference Report

Specialist panel:

ESG Asset specialists, equities, fixed income, alternatives



Victor Verberk

“RI is about collaboration, asset allocation and public policy”

Victor Verberk, head of investment grade credit at Robeco said the fund manager sees the same alignment of interests on ESG issues between bond holders and equity owners. The firm uses ESG research from SAM, its SRI specialist sister company. Verberk said it paid particular attention to downside sustainability risk factors to credit quality such as legal liabilities, accounting restatements, risk management and governance.

In turn, **Remy Briand**, Managing Director Index & ESG Research at MSCI, said a consultation with clients had revealed a “total lack of systematic measurement of ESG risk at the portfolio level”. Briand said clients were either using “clunky systems” or not ingraining ESG in their investment process at all. He said: “This is something try to address with ratings or indices.”

However, **Rory Sullivan**, head of responsible investment at Osmosis Investment Management, said there was no right model for integrating ESG data, and that much of it wasn't material: “The quality of ESG disclosure is not a proxy for

risk and in reality ESG integration has little social value. RI is about collaboration, asset allocation and public policy. We need to look behind ESG integration.”



Remy Briand

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Specialist panel:

Research, human rights initiatives, and corporate disclosure

The United Nations as Focal Point for CSR: the case of business and human rights

David Vermijs, representing the Institute for Human Rights and Business, said Harvard Professor Ruggie, special representative of the UN Secretary-General on business & human rights had succeeded in reaching consensus and endorsement of a human rights framework for business, with finalisation aimed for June 2011. This, he said, was being defined in a four point pathway: policy, assessment of current impacts to act proactively rather than passive, ensuring that human rights are integrated throughout the company, and tracking and publicly report the performance. He said further guidance for human rights due diligence was included in the new ISO 26000 standard and the IFC performance standards. Vermijs encouraged investors to comment on the draft version..

“A human rights framework for business”

Sudip Hazra, ESG analyst at **Bloomberg** said one of the main challenges for harmonising ESG data was overcoming “the blanks” in available information. He said these gaps should be used by investors to engage with companies on the missing information. Bloomberg, he said, expects that its ranking and scoring of companies’ performance on ESG issues will create a virtuous cycle for companies to report and disclose further data.



Michael Jantzi

Michael Jantzi, chief executive officer at **Sustainalytics**, focused on the development of a useable set of ESG KPIs. He said competition on the quantities of KPIs should remain in the past and convergence and sharing could bring value, but he said it thought it unlikely we would see a global standard.

Jantzi said ESG research helped investors take informed decisions if focused on outlooks and saw the emergent social issues of today as tomorrow’s investment risks.



Vipul Arora

Vipul Arora, founder director of **Solaron Sustainability Services** said better contextual information and groundwork would lead to further understanding of the ESG risks and opportunities of companies in emerging markets. Like an iceberg, Arora said much of the valuable ESG information was below the surface, away from readily available public sources.



Sudip Hazra

Plenary 2:

The future of governance and corporate/investor relations: what investors and companies need to know

John Howchin, secretary general of the ethical council of Sweden's AP pension buffer funds

compared excluding companies to ignoring a street brawl, and said the ethical council had shifted its focus towards engagement: "We're into a good review right now and likely to be more transparent on this in the future." He said the key to good engagement was to invest in quality research and ensure you are asking the right questions.

Kris Douma, head of responsible investment support and active ownership at Mn Services

said that a review of the Dutch Tabaksblat code to include environmental and social risks alongside governance issues in company reporting, had yet to see much response from companies or investors. But he said he expected this to be a focus for Dutch investors in the coming year. He said a group of five of the largest Dutch pension fund managers had also joined forces to focus on ESG issues in unlisted companies.

Jeanett Bergan, head of Responsible Investments at KLP in Norway said that the Sustainable Value Creation initiative, an investor-led ESG reporting project with companies, which has been successful in Norway and Sweden, was looking to develop further: We're looking at the idea



L to R, Herman Mulder, Jeanett Bergan, Kris Douma, John Howchin

of an information hub where companies can update their own data and investors have access. We're considering something publicly available that can drive market practice.

Herman Mulder, independent member of the Dutch national contact point for the OECD guidelines for multinational enterprises, said the OECD guidelines for countries to publicly refer ESG corporate issues to other OECD members should be at the fore of investor attention for

engagement activities. He urged investors to get involved in a current renewal process of the guidelines.

(http://www.oecd.org/document/33/0,3343,en_2649_34889_44086753_1_1_1_1,00.html)

Mulder also said that it was time to look at convergence of CSR reporting standards. He said next year's G20 Paris meeting would have integrated CSR/financial reporting on the agenda, describing it as the "crucial issue" right now.



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research and ensure
you are asking the
right questions*

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Responsible-Investor.com would like to thank all the conference speakers, attendees and sponsors for a great event.



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We look forward to seeing you again next year.



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