



ESG in the Mainstream
The Role of Companies and
Investors in ESG Integration

Selected BSR Report
Findings and Discussion

ACCO Climate Change
Leadership Series
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What Is ESG Integration?

- **ESG Integration** refers to the incorporation of environmental, social, and governance criteria into investment analysis **based on the belief that ESG issues are a driver of financial returns.**
- **This differs from Socially Responsible Investment (SRI)**, which is the integration of social and environmental criteria into investment decisions with **the goal of aligning financial activities with social and environmental objectives, values, or beliefs.**



Integration is Increasing

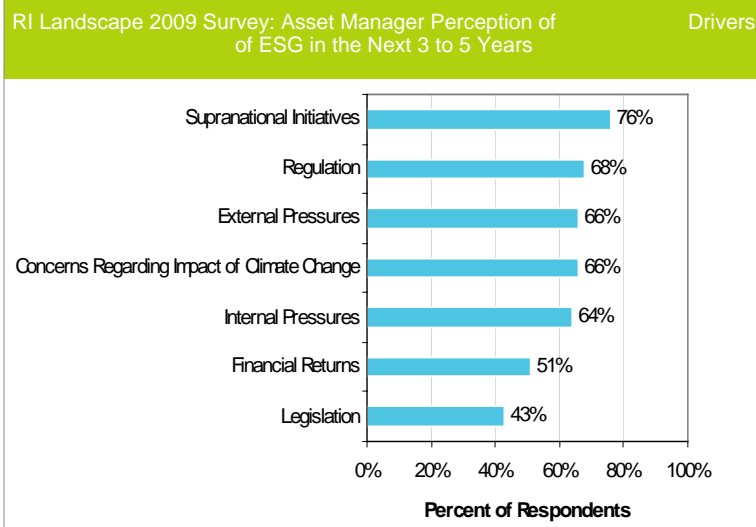
While the market size of ESG Integration is hard to measure, estimates range from 4% to 20% of the global market

- UN PRI signatories have increased from 50 to 500 in last 3 years, representing US\$18 trillion in assets
 - 25% increase in UNPRI asset owners putting responsible investment criteria into contracts with external managers
- RI Landscape 2009 Survey respondents indicated:
 - 60% use an ESG strategy for at least some portion of assets under management – a 12% increase over 2008 responses
 - 67% believed the financial crisis would not have an impact on ESG integration
 - 33% believed the crisis would drive an *increase* in assets invested according to ESG criteria



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What's Driving Integration?



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Yet, Integration Limited to Certain Areas

Pension funds are leading the way

- Expanded view of fiduciary duty and longer-term focus
- At greater risk of being sued for negligence if not proactive in incorporating ESG criteria
- Represent investors who may be predisposed to ESG issues (e.g. government employees, teachers, unions, etc.)
- Especially true in Europe, where institutional investors represent a larger portion of the market and ESG fills unmet market need resulting from lack of SRI firms

Integration is strongest in listed equity investments

- 70% of investment strategies incorporating ESG were in listed equities (Mercer)
- 94% of UN PRI investment managers claimed integration of responsible investment criteria for at least some listed equity in developed markets (UN PRI Annual Survey)



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...And is Characterized by Niche Products

Growing number of niche ESG products from mainstream institutions

- **Deutsche Bank:** distinct funds that use ESG as a first screen
- **Goldman Sachs:** GS Sustain global equity strategy
- **State Street Global Advisors:** integration into some equity models to control for risk
- **S&P:** U.S. Carbon Efficient Index, ESG India Index

"We haven't been able to demonstrate an overall positive correlation between ESG issues as a whole and financial performance, but we still have enough client demand to continue to develop ESG investment strategies."

- Chris McKnett,
State Street Global Advisors

Very few large, mainstream investors have integrated ESG criteria across portfolio

- ESG integration viewed as one type of strategy rather than a fundamental component of every strategy
- Notable exceptions of **Robeco** and **APG**



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Investors Focus on Material Issues

Not all issues are considered equal

- Mainstream investors focus on the extra-financial issues most likely to influence company products, clients, and market share
- ESG is being used as a proxy for management quality or risk
- Investors look to companies (IR) to signal which issues are material

Climate Change and Governance issues predominate

- Policy impacts of climate change are likely to impact most companies
- Good governance has risen in investor analysis as critical to a company's ability to manage risks

"Understanding the industry context in which companies operate is critical to understanding the potential materiality of environmental, social, and governance issues, and the appropriate assessment of company response."

– "Introducing GS Sustain", Goldman Sachs



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Barriers to Integration Remain

- Value of ESG integration is still not fully understood by investors
- Short-term emphasis on investment performance hampers demonstration of long-term value
- High quality ESG data is still lacking, or not easily accessible to investors
- Investor capacity to analyze and integrate ESG criteria into decision-making remains low
- Business value of sustainability is not being integrated into IR strategies



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What Can You Do?

- Ensure that both IR and senior management can speak to the company's material ESG risks and opportunities and build internal awareness
- Measure ROI of ESG investments where possible to further the business case for CR from an investor perspective
- Develop a strategy for proactively communicating ESG performance to investors *in terms of impact on business*
 - Provide investors access to business leaders
 - Reference ESG issues in annual report
 - Complete third-party survey requests (DJSI, FTSE4GOOD, CDP)



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Questions?

Download the report at
[http://www.bsr.org/reports/BSR ESG Integration Report Sept 2009 final.pdf](http://www.bsr.org/reports/BSR_ESG_Integration_Report_Sept_2009_final.pdf)

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