



## BSR Conference 2008 | Sustainability: Leadership Required Role of Mainstream Financial Markets: The Other 92 Percent

Breakout Session Summary

Wednesday, November 5, 2008 | 2–3:30 p.m.

### Speakers

- Melissa Epperly, Equity Research Analyst, Goldman Sachs
- Heather Langsner, Director of Research, Innovest Strategic Value Advisors
- Rita Soni, Country Head, Responsible Banking, Yes Bank
- Laura Commike Gitman, Director, Advisory Services, Business for Social Responsibility (moderator)

### Highlights

- Environmental, social, and governance (ESG) issues have varying degrees of relevance in different industries and companies. However, in general, the use of these criteria is on the rise.
- There is a need for more standardized metrics to compare companies' activities in areas like environmental impact and governance because those factors affect long-term financial performance.

### Memorable Quotes

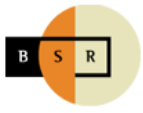
- When it comes to mainstream investors using ESG criteria, “it’s not a question of if it’s going to happen, it’s a question of when.” —Melissa Epperly, Goldman Sachs
- “Our goal from the outset was to communicate issues in a way that was relevant to mainstream investment houses.” —Heather Langsner, Innovest Strategic Value Advisors

### Overview

Gitman started the session by asking the panelists to describe how ESG criteria are being integrated at their organizations.

Soni, of India-based Yes Bank, explained that ESG criteria already are essential to investments in India because of the sustainability context of the Indian market. Environmental and social issues such as poverty, constrained water supply, and environmental degradation are much more apparent in India than in Western markets, and thus harder to ignore when evaluating investments. Yes Bank integrates environmental and social policies into every deal through a checklist that is used to evaluate the investments'





## Business for Social Responsibility

adherence to these policies. In addition to these day-to-day practices, Yes Bank focuses on responsible banking in the Indian market through microfinance, agricultural-rural social lending, and a sustainable investment bank.

Epperly said that the Sustain Team, her research group at Goldman Sachs, helps develop frameworks to objectively quantify ESG criteria and look at investments over the long term. This type of analysis is gaining traction with investors, especially among pension funds, which are more interested in long-term results.

At Innovest, Langsner said, the goal always has been to communicate environmental and social issues in a way that is relevant to mainstream investors. She explained that Innovest does not use companies' corporate social responsibility reports in their evaluation, but rather, the firm conducts its own research to evaluate performance on ESG criteria. For example, because banks' performance in climate change is determined more by its investments than its actual operations, Innovest looks directly at those investments to determine a bank's climate change performance.

Langsner added that analysts are getting better at creating models to predict financial performance based on ESG criteria, and the information they're providing to mainstream investors is more accessible than it used to be. For instance, she said that when Innovest was investigating sustainable lending practices in October 2000, the firm predicted the subprime mortgage collapse.

When asked why questions about ESG criteria are not frequently asked on quarterly analyst calls, Epperly said these types of questions are more commonly asked in Europe than in the United States. However, investors are increasingly asking these types of questions, and Epperly expects that trend to continue. She added that one of the barriers for analysts asking ESG questions is the lack of standardized reporting across companies and the varying interpretations of the Global Reporting Initiative. She also noted the importance of reporting the same metrics every year, and added that increased standardization in reporting also will help analysis of non-financial data.

\* \* \*

This summary is also available on [www.bsr.org/bsrconferences/2008/session-summaries.cfm](http://www.bsr.org/bsrconferences/2008/session-summaries.cfm).

