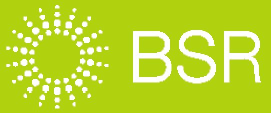

ESG in the Mainstream:

The Role for Companies and Investors in Environmental, Social, and Governance Integration

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www.bsr.org

About this Report

This report was written by Laura Gitman, Blythe Chorn, and Betsy Fargo of BSR's Advisory Services team. The report is based on a literature review, as well as interviews with BSR members and individuals from a range of investor firms, research providers, and industry experts listed in the appendix. The authors would like to thank the interviewees for their time, insights, and review of this report for accuracy. Any errors or inaccuracies that remain are those of the authors alone.

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Please direct comments or questions to Laura Gitman at lgitman@bsr.org.

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ABOUT BSR

A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With six offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.

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Executive Summary

With the growth in corporate responsibility efforts over the last two decades has come an increasing number of questions about the extent to which mainstream investors value these activities and whether they impact a company's financial performance. While the socially responsible investment community has focused on Environmental, Social and Governance (ESG) issues for decades, most of these investors have an explicit goal of aligning financial activities with social and environmental objectives, values, or beliefs. More recently, there has been a lot of talk about ESG Integration, which refers to the incorporation of ESG criteria into investment analysis based on the belief that ESG issues are a driver of financial returns. There are indications of a growing trend of ESG integration among more mainstream investors. The number of signatories to the UN Principles for Responsible Investment (UN PRI) has soared to 500, representing US$18 trillion of assets, and the global financial crisis has peaked even more interest in the investment community to use a broader set of metrics for assessing management quality and risk. BSR therefore undertook this report with the support of our member companies to explore the extent to which this trend is really happening, and the implications for public companies in terms of how they manage ESG issues and communicate to investors.

In this report, published in September 2009, we assess current perceptions and activities around ESG integration and provide specific recommendations to companies and investors. Findings revealed that the integration of ESG criteria into mainstream investing continues to increase. Investors cite a number of factors driving integration. For one, investors' perceptions about the value of integration to achieving strong financial returns are becoming more positive. Investors also consider ESG performance as a proxy for a company's strong management and a demonstration of the business' ability to identify risks and plan for long-term, strategic growth. Demand from clients for ESG integration is also on the rise, particularly from pension funds, and some investors view integration as a way to create competitive advantage and differentiate their firms. Finally, there is a growing sense among investors that at least some specific ESG factors, if not all, are becoming more material to the financial success of businesses.

As integration increases, a number of trends have emerged. To start, despite the growth in investors considering ESG performance, companies are not communicating proactively or regularly on ESG to these mainstream investors. Also, while a handful of investors are integrating ESG factors across their entire portfolio, this is a rare exception. Instead, most investors are integrating ESG through specialized products and services such as distinct funds that use ESG data as an extra layer of analysis and thematic funds and indices that focus on ESG issues.

Although these trends are still in the early stages, they have important implications for companies, as well as for the investor community. To respond to and promote the increase of ESG integration, BSR recommends that companies' investor relations teams and senior management develop familiarity with ESG and create a strategy for communicating with investors on ESG performance. The investment community also should help advance integration by requesting ESG data from investor relations and continuing to evolve their own integration of ESG factors in investment analyses.

While ESG is far from fully integrated into mainstream investments, increased communications between investors and companies on these issues can address many of the persistent challenges and work to improve ESG integration. When investors begin analyzing ESG performance the same way they assess a company's management team or external market risks, then companies will be rewarded or penalized for how they manage ESG issues as part of improving overall business performance and long-term sustainable growth. While this is not yet a typical investment approach, there is exciting momentum in this direction. BSR looks forward to continuing this dialogue with investors, public companies, research and data providers, and other experts in an effort to help shape the future of investments.

Introduction

With the growth in corporate responsibility efforts over the last two decades has come an increasing number of questions about whether and how investors value these initiatives. The recent financial crisis has brought renewed attention to the investor perspective and potentially an opportunity to increase the consideration of companies' social and environmental performance in investment analyses. Many companies have also begun asking how they can evolve their communications on Environmental, Social, and Governance factors to these mainstream investors.

Environmental, Social, and Governance (ESG) integration refers to the idea that all types of investors, including mainstream investors focused exclusively on generating financial returns, should examine the corporate responsibility practices and performance of companies because they have a material impact on the financial performance of companies.

Historically, evaluation of ESG performance has been the realm of socially responsible investors (SRIs) who endeavor to align financial activities with social and environmental objectives, values, or beliefs. The growing belief in the business value that can be derived from strong ESG performance though has brought more and more companies and mainstream investors to ask whether ESG should be factored into investment valuations. Integration requires that investors take a broader perspective of business risks and

ESG vs. SRI: What's the Difference?

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. Integration denotes a wide range of activities, from the use of one or two ESG criteria in a specific product to the incorporation of ESG criteria in all valuation models across an entire firm.

Socially Responsible Investment (SRI) 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. This is often achieved through negative or positive screening, as well as shareholder activism.

The line between the two is increasingly blurring, but this report seeks to focus largely on the ESG Integration investment space, rather than the SRI firms that at least have a more explicit objective of improving companies' ESG performance.

opportunities to include those presented by ESG issues such as potential costs associated with climate change. And companies with strong ESG performance are presumably rewarded for their investments in corporate responsibility programs through improved analyst ratings, more investor interest, and potentially a higher stock price.

The global financial crisis of late 2008 has led to intense scrutiny of the foundational beliefs and basic structures that underpin current global markets and investment models. As part of this reexamination, questions about the efficacy of integration and related trends have intensified. Could more advanced integration have helped to prevent the crisis? Will the economic crisis prove to be the platform needed to drive systemic integration of ESG metrics? Or will the economic crisis quell the increasing commitment to responsible investment?

Without a doubt, ESG integration continues to evolve rapidly in today's highly dynamic global marketplace. So too do the roles of asset owners, mainstream investors, and companies in promoting and supporting ESG integration.

To date, none of these three groups of actors in the financial system has taken the lead in driving integration. Rather, the current landscape has been characterized as a game of chicken, in which asset owners aren't demanding integration, investor relations at public companies aren't communicating about ESG, and investors aren't asking about ESG policies or performance. Each side seems to be waiting for the other to demonstrate the significance or impact of ESG issues. Until integration is achieved though, companies with strong ESG performance may not be appropriately valued, and incentives to improve will remain incomplete.

Based on recent trends, ESG integration is clearly on the rise and becoming more widespread among mainstream investors. This is especially true among certain types of investors and within focused products or services. Despite the progress, however, the use of ESG criteria is still not entirely mainstream, and there continues to be a number of systemic barriers that will likely continue to evolve over the next decade.

Project Objectives and Methodology

Launched in March 2009, BSR embarked on a study to understand the current context and trends in the integration of ESG factors into mainstream investment. Because of BSR's unique network of member companies and experience in corporate responsibility, this study also set out to explore the implications of these trends for companies and their investor relations strategies.

Building on BSR's report "Environmental, Social, and Governance: Moving to Mainstream Investing?" published in June 2008, BSR sought to explore the impact of the 2008 financial crisis on the integration of ESG factors into the investment approaches of mainstream investors and institutional shareholders. In particular, this study aimed to:

» Assess to what extent ESG activities are influencing company valuations or similarly influencing mainstream investor attitudes and actions.

- Understand the current context and trends regarding:
  - investors and companies' perspectives on the value of integrating ESG factors into mainstream investment;
  - and the processes, constraints, and opportunities for improving integration of ESG factors into companies' valuations.
- Determine how companies can better communicate with all investors on key ESG issues.

To explore these questions, BSR undertook a detailed review of the latest public research and also conducted over 25 interviews with corporate investor relations professionals, corporate responsibility managers, institutional investors, asset managers, equity research, and leading players and thinkers in the ESG space.

BSR also partnered with Responsible-Investor.com to analyze and publish findings from the Responsible-Investor.com (RI) Landscape 2009 Survey. The RI Landscape 2009 Survey was administered through the Responsible-Investor.com website and received 75 responses, 56 from asset managers and 19 from asset owners. The large majority of asset manager respondents are considered mainstream investors. Seventy percent of respondents reported having more than US$1 billion in assets under management, and respondents collectively represented more than US$28 trillion in assets under management.

Background

In June 2008, BSR produced the report "Environmental, Social, and Governance: Moving to Mainstream Investing?" that explored how ESG criteria were being incorporated by mainstream financial institutions—as well as the barriers that have prevented institutions from integrating the criteria on a universal scale. This report looked beyond SRIs to explore how mainstream financial institutions can evaluate ESG criteria in order to maximize financial performance.

The study revealed that, at the time of release, there was no standardized approach to integrating ESG criteria into mainstream investing practices. Different institutions had developed different ESG metrics, different ways of evaluating companies against those metrics, and different philosophies on how to integrate ESG into business practices.

In the end, the study demonstrated that further mainstreaming of ESG required overcoming several key barriers, including:

- a lack of long-term empirical evidence that links ESG criteria to financial returns and demonstrates outperformance compared to a recognizable baseline;
- a lack of consistent reporting on ESG factors to enable comparisons between companies;
- shareholder demands for strong short-term financial performance that compete with ESG investments, which are longer term by nature;
- a shortage of investment professionals capable of assessing companies based on ESG criteria;
- and investor cynicism toward considering ESG criteria.

Since the publication of BSR's last report, financial markets globally have undergone substantial stress and change, and substantial progress toward integration has been made both by investors and companies. This report aims to investigate and update findings from BSR's previous report, shifting focus from evaluating barriers to identifying the key implications for companies and their role in communicating to investors about ESG performance.

The ESG Landscape

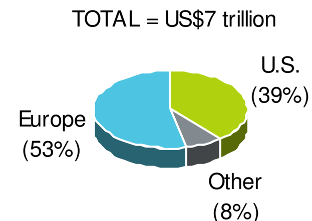
Overall, the integration of ESG criteria into mainstream investing seems to be expanding. However, it is still early and the progress has been largely limited to specific investors and products. Furthermore, a number of systemic barriers still remain. The details of these trends and barriers are discussed in the next chapter, but it is important to first understand the current state of the market and how it has evolved over the past few years. The indicators described below provide context for trends described later in this report.

Challenges with Measuring the ESG Market

In September 2008, the European Sustainable Investment Forum (EuroSIF) estimated that the global market for responsible investment—defined by EuroSIF to include both ESG investments and focused SRI funds—at US$7 trillion, with the majority of investments coming from Europe.[1] Based on an estimated global market size of US$95 trillion[2], this represents roughly 7 percent of the total market. A breakdown by region is provided in Figure 1.

Figure 1. Responsible Investment Assets Under Management by Region

TOTAL = US$7 trillion



Source: EuroSIF. "SRI Study 2008."

"I am convinced that companies that follow the philosophy of social and economic responsibility are performing better in the long term than those that do not."

—European Core Growth Investor
Source: Thomson Reuters. "Perception Snapshot: ESG Factors and the Buy-Side." 2008

While EuroSIF's estimate provides context on market size, it's worth noting the challenges with measuring the market share of ESG investments. Currently, it is nearly impossible to consistently quantify the market size and track changes over time. Fully integrated ESG investments that simply use ESG criteria as part of overall analysis are often not categorized or tracked separately from other mainstream investments. In fact, the whole point of such integration is that it is not separated out, and by its nature, cannot be tracked. This would be similar to trying to identify what percentage of investments look at management quality.

Furthermore, for years, ESG integration was erroneously regarded as synonymous with Socially Responsible Investing (SRI), and much of the current market research still includes both SRI and ESG integrated investments. In addition, the approaches to ESG still vary widely, making it hard to define what should be included in a market size calculation. Many approaches are passive, and there is also skepticism that investors are talking more about ESG than they are actively integrating it. Even if a firm commits to integrating ESG criteria, there are questions as to whether to include all of their assets in the market size, or just the smaller percentage where ESG criteria are systemically being used. The lack of standardization and definition around ESG criteria makes it challenging to use market size as a key indicator of the integration of ESG criteria.

Given these challenges, this report uses indicators for current market size estimates that are intended to be directional. And there are a number of factors beyond market size that can be used to illustrate trends. Many of these factors are described on the following pages and inform the conclusions of this report.

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[1] EuroSIF. "SRI Study 2008."
[2] Estimate extrapolated from the UN PRI's "PRI Report on Progress 2009," and includes listed equities, fixed income, real estate, private equity, hedge funds, and infrastructure.

UN Principles of Responsible Investment (UN PRI)

Recognizing the growing view among investment professionals that ESG issues can affect the performance of investment portfolios, the United Nations coordinated the development of the Principles of Responsible Investment—a framework for investors on how to give consideration to ESG issues when fulfilling their fiduciary (or equivalent) duty of maximizing financial performance.

The Principles provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices. Signatories voluntarily commit to the Principles by demonstrating support from top-level leadership to apply the Principles and by regularly reporting on their progress.

The rapid and expansive uptake of the Principles reveals significant interest among asset owners and managers in ESG integration as well as the critical role that the UN PRI is playing in supporting integration.

Learn more at: www.unpri.org.

ESG Integration on the Rise

OVERALL GROWTH IN ESG INVESTMENTS

Despite the difficulty in sizing the ESG market, several points indicate that the ESG market is growing substantially. In a 2008 study by Thompson Reuters' Corporate Advisory Services, 84 percent of the 25 global buy-side investors interviewed claimed to evaluate ESG criteria in some way when making an investment decision, with 16 percent saying it was a key factor.[3]

The RI Landscape 2009 Survey similarly showed significant levels of commitment to ESG, with integration on the rise over previous years. Eighty percent of participants claimed to have an explicit policy statement regarding responsible investment or ESG issues, reflecting a 10 percent increase over 2008 responses. Furthermore, 60 percent of respondents indicated that they use an ESG strategy for at least some portion of assets under management, reflecting a 12 percent increase over 2008 responses. These assets were estimated on average to encompass 28 percent of each respondent's total assets under management. While there is clearly some self selection bias in these survey findings, they still represent significant progress. Seventy-three percent also indicated a belief that asset owner interest has grown since the start of 2008 as a result of stakeholder pressure (internal and external), political and regulatory pressure, and risk management. Sixty percent of survey respondents are signatories to the United Nations Principles of Responsible Investment (UN PRI).[4]

In just three years, the number of signatories to the UN PRI has soared from 50 to over 560, and includes over 180 asset owners, 280 investment managers, and 100 professional service providers spanning 36 countries as of July 2009. Signatories collectively represent US$18 trillion of assets – a sizeable amount considering the overall global market is US$95 trillion based on UN PRI estimates by asset class (including equities, fixed income, hedge funds, real estate, and infrastructure). While the signatories overall represent almost 20 percent of the total market, the percentage of their assets that are actively integrating ESG may be closer to 4 percent, as seen in Table 1. And while each signatory commits to the six Principles – including a pledge to "incorporate ESG issues into investment analysis and decision-making processes" – the extent to which ESG criteria are being actively applied across signatories' portfolios varies greatly. Thus, it can be concluded that the growth in the number of signatories is a good indication of *interest and awareness* of ESG, but not necessarily an indication of action.

The most recent "PRI Report on Progress," an assessment of roughly 300 global pension funds and fund manager signatories, however, revealed growth in both interest and activity around ESG integration among signatories. Over 70 percent of asset owners and investment managers claimed that their approach and commitment to responsible investment has to a moderate or large extent been translated into a plan of action—reflected in business planning, strategic planning, or similar internal management processes. In general, UN PRI signatories have made the greatest progress in the past year on Principle 1 (incorporation of ESG), as well as on Principle 2 (active ownership) and Principle 5 (working together). In looking at integration of ESG by asset class, listed equity was the most common asset class subject to internal integration of ESG criteria with 94 percent of investment managers and 89 percent of asset owners stating integration for some listed equity in developed markets, and 84 percent of investment managers and 79 percent of asset owners stating integration for some listed equity in emerging markets.[5] Yet, the extent to which ESG criteria has been applied across their portfolio of listed equities is unknown. An estimated breakdown of UN PRI signatories' assets subject to ESG integration relative to the total market is provided in Table 1.

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[3] Thomson Reuters. "Perception Snapshot: ESG Factors and the Buy-Side." 2008.
[4] Responsible-Investor.com and IPE. "Responsible-Investor.com Landscape 2009 Survey." Analysis conducted by BSR.
[5] UN PRI. "PRI Report on Progress 2009."

Table 1. PRI Signatories: ESG Integration Relative to Total Market

Asset Class	Assets Subject to Integration (US$ in trillions)	Total Market Size (US$ in trillions)	Share of Total Market
Listed Equities	1.46	32.6	4 percent
Fixed Income	1.44	29.1	5 percent
Real Estate	0.25	10.4	2 percent
Private Equity	0.12	2.5	5 percent
Hedge Funds	0.06	1.5	4 percent
Infrastructure	0.04	18.9	<1 percent
Total	*3.37*	*95*	*4 percent*

Source: UN PRI. "PRI Report on Progress 2009." To avoid double-counting, only internally managed assets of PRI signatories were included in this estimation. Further analysis conducted by BSR.

The study also demonstrated a "significant number of mainstream investors had 'turned a corner' on putting responsible investment into practice." Results from the nearly 300 responses to the annual survey indicated a 25 percent increase in the number of asset owners, such as pension funds, putting responsible investment criteria into contracts with external managers of their investments—jumping from 38 percent last year to 63 percent this year.[6]

INTEGRATION EXPANDING IN SPECIFIC AREAS

Integration of ESG criteria is also expanding in emerging markets. According to a recent study by the International Finance Corporation, "market participants confirmed the importance of sustainability criteria in analyzing emerging market investments. If anything, [survey] respondents were more enthusiastic about sustainability criteria after the [economic] crash than before".[7] This finding was echoed in a similar study conducted by the Emerging Markets Disclosure Project.[8]

In addition, there has been a rise in investors committed to specific ESG topics. For example, the Carbon Disclosure Project (CDP), an independent nonprofit organization that collects greenhouse gas data from the world's largest corporations on behalf of institutional investors, currently has more than 475 signatory investors that collectively represent US$55 trillion of assets under management. The number of signatories has increased dramatically in the past two years, up from roughly 300 investors in 2007, demonstrating growing interest in particular ESG topics like climate change.[9]

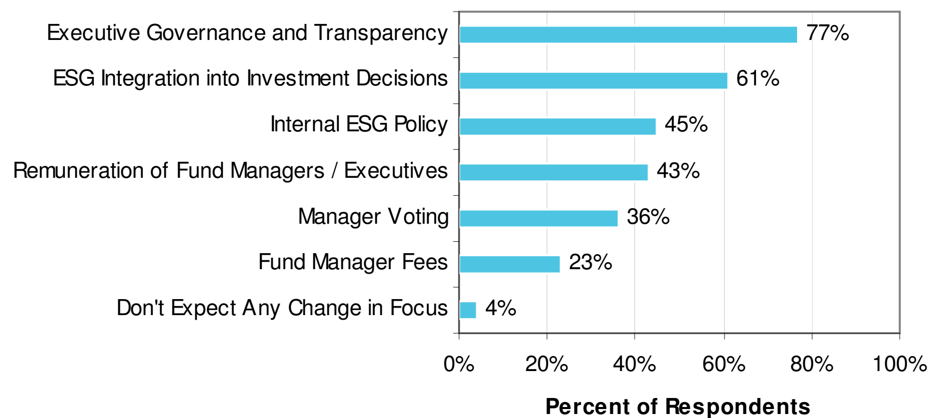
INTEGRATION UNDETERRED BY ECONOMIC CRISIS

Some industry leaders believed ESG was recording its strongest year in 2008 based on commitments from institutional investors, and there was fear that the credit crisis would

[6] UN PRI. "New data signals growing 'cultural change' amongst significant portion of global investors." July 16, 2009.
[7] International Finance Corporation. "Sustainable Investing in Emerging Markets: Unscathed by the Financial Crisis." July 2009.
[8] Emerging Markets Disclosure Project. "Emerging Markets Investor Survey Report." June 2009.
[9] Carbon Disclosure Project. August 2009.

slow down the mainstreaming of ESG factors.[10] To date, there is no clear indicator to support these concerns; rather, several indicators point to the opposite. Of the 75 respondents to the RI Landscape 2009 Survey, no one stated a belief that the financial crisis of 2008 would have a negative effect on ESG investment strategies; rather, 67 percent of respondents said they believed it would not have an impact on the likelihood to invest or increase assets managed according to ESG integration criteria, and 33 percent said they believed the crisis, if anything, would drive an increase in assets invested according to ESG criteria. Seventeen percent also said they believed the financial crisis would lengthen time horizons of investments, a common prerequisite for valuing ESG activities. Asset managers' perspectives on some specific implications of the economic crisis on ESG investments are shown in Figure 2.

Figure 2. The Impact of the Financial Crisis: Changes in the Focus of Asset Owners According to Asset Managers



Source: Responsible-Investor.com Landscape 2009 Survey.

Primary Drivers of Integration

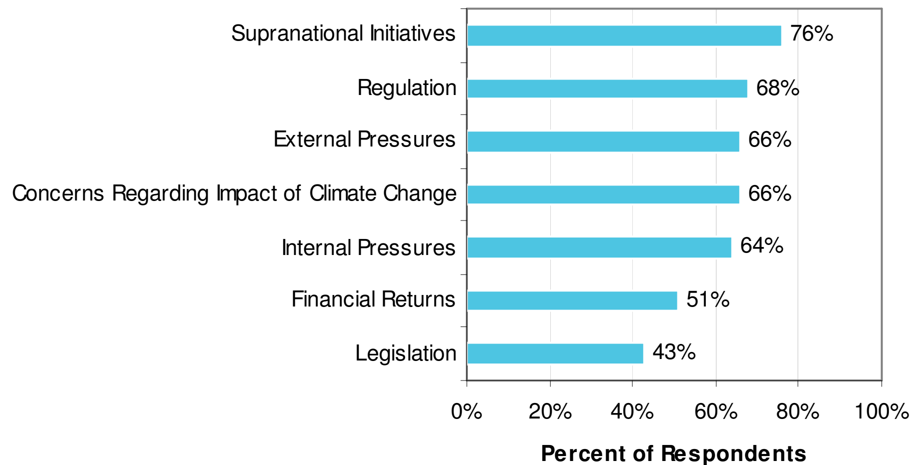
As the statistics above demonstrate, ESG criteria are increasingly being incorporated by mainstream investors. While a handful of investors, such as Robeco Investment Management and APG All Pensions Group (APG), are integrating ESG factors across their entire portfolio, this is a rare exception. Rather, most investors are integrating ESG criteria through specialized products and services such as distinct funds that use ESG data as an extra layer of analysis and thematic funds and indices that focus on ESG issues. Integration also seems to be heavily concentrated in specific types of assets and asset managers, namely public equity and institutional investors.

Challenges to integration do persist, including many highlighted in BSR's previous report on ESG mainstreaming, such as insufficient ESG data, investor capacity, and ongoing "short-termism." Investors, though, are developing solutions to address these barriers, and it seems that even the drastic financial crisis hasn't deterred the growth of integration.

[10] Mercer. "2008 in Review: Responsible Investment isn't just for Christmas." January 12, 2009.

In looking at the drivers of ESG investment over the next three to five years, asset managers in the RI Landscape 2009 Survey cited a number of factors that are helping to increase integration. Responses are detailed in Figure 3.

Figure 3. Asset Manager Perception of Drivers of ESG in the Next 3 to 5 Years



Source: Responsible-Investor.com Landscape 2009 Survey.

"The impact of the integration of financial and non-financial factors into analysis of security valuation comes through enhanced appreciation of a wider variety of risks and through identification of potential opportunities afforded by changing societal expectations."

—"Responsible Investment," BlackRock

Investor response to these factors is still in the early stages, and is not yet consistent among mainstream investors. Through further research, three core drivers emerged that are helping to advance integration.

PERCEIVED VALUE INCREASING

Perceptions about the value of integrating ESG into investment valuations have often been cited as a barrier to increasing integration. However, investors are increasingly indicating that ESG criteria are important indicators of the overall likely financial performance of companies. APG, the pension fund for employers and employees in service of the Dutch government and the educational sector, believes that companies with strategies that, in addition to financial return, place a high value on environmental and social factors, and good corporate governance will perform better in the long term. By integrating ESG factors, APG expects to be better able to meet its obligation to achieve the highest possible return for its clients.

Although there is still significant skepticism about the positive impact of ESG integration on financial returns, the number of studies and examples demonstrating a positive correlation continues to grow. For example, by 2007 the companies on Goldman Sach's GS SUSTAIN focus list had outperformed the MSCI World Index by 25 percent, with a 72 percent success rate versus their sector peers since August 2005.[11] And a report released in June 2009 by RiskMetrics and the UN Global Compact showed that publicly listed Global Compact participants whose annual communications on progress were recognized as "notable" by the initiative have consistently outperformed the MSCI World by an average of 7.3 percent since March 2007.[12]

There are a number of qualitative rationales investors are also citing to explain the value of ESG integration. Many investors describe strong ESG performance as a proxy for strong and effective management. Identification and oversight of ESG issues indicates a

[11] Goldman Sachs. "Introducing GS Sustain." June 22, 2007.
[12] United Nations Global Compact. "Notable Reporters Outperform Key Stock Index." June 17, 2009.

management that has a high awareness of the company's external operating environment and a sound ability to identify emerging issues. Similarly, positive ESG performance can serve as an indicator for companies' ability to manage risk and adapt in the face of new challenges to their business models. At APG for example, portfolio managers consider ESG performance as a part of understanding business context.[13]

"We're seeing more requests for proposals including questions about ESG integration from clients who weren't asking about ESG a couple of years ago."

—Ron Bates, Managing Director, Portfolio Manager, Legg Mason Investment Council

Investors also state that strong ESG performance is indicative of a company's ability to take a long-term and strategic approach to growth. Companies focused on short-term returns and immediate payouts are less likely to invest in ESG issues as well as in other intangible initiatives that create long-term value. However, companies that can anticipate changes in the marketplace driven by ESG issues are perceived as being poised to turn challenges into opportunities.[14] Consequently, although questions about direct correlations between integration and financial returns remain, many investors are recognizing the value of ESG integration in other ways. As Matt Christensen from EuroSIF explained, "investors are moving away from looking at ESG considerations as a performance handicap and instead are increasingly of the opinion that all potential risks must be assessed in an investment decision, including ESG."[15]

INCREASING CLIENT DEMAND

Investors are consistently citing increased client demand as a driver of ESG integration. There has been a steady growth in the number of assets owners, particularly pension funds, requesting asset managers integrate ESG criteria into fund analysis, especially in Europe. The size of these funds, in addition to the quantity, draws investors and heightens asset managers' willingness to adopt their practices to meet owners' needs.

Interest from retail investors is also growing and is expected to continue to intensify. In particular, high net worth individuals have become personally concerned with ESG issues but look to mainstream investment managers with whom they are familiar rather than SRIs for responsible investment opportunities.[16] Robeco cites client demand as one of the drivers of its decision to integrate ESG criteria into its entire portfolio.[17] Furthermore, of the asset managers responding to the RI Landscape 2009 Survey, 45 percent indicated a belief that investor interest in ESG has "broadly increased" as a result of financial crisis.[18]

"As governments progressively move towards limiting carbon emissions … there is likely to be a significant impact on the economic performance of high polluting companies. This is one instance where the axiom 'past performance is no guarantee of future performance' is particularly relevant."

—"A Comprehensive Analysis of the Relationship between ESG and Investment Returns," State Street Global Advisors

There are also a number of investors who view integration as an opportunity to differentiate their products. At Deutsche Asset Management, a growing number of pension funds and other clients are asking for some kind of product with ESG criteria integrated, and the bank sees its expertise on climate change and ESG integration as a unique competitive advantage among large banks in the EU and overall in the U.S. [19]

ESG ISSUES INCREASINGLY MATERIAL

Finally, there is a growing impression among investors that some ESG factors, if not all, are becoming increasingly material to the financial success of businesses. While not necessarily material in an accounting framework for financial reporting, material in this sense refers to the idea that some issues, because of their importance to stakeholders and influence on achieving business goals, directly impact business success. For example, environmental issues related to water and energy use are becoming more directly linked to financial performance as the scarcity and prices of such inputs escalate.

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[13] Interview with Erik-Jan Stork, Sustainability Specialist Global Equities Asset Management, APG. June 25, 2009.
[14] Boston College Center for Corporate Citizenship. "How Virtue Creates Value for Business and Society: Investigating the Value of Environmental, Social, and Governance Activities."
[15] Interview with Matt Christensen, Executive Director, EuroSIF. June 23, 2009.
[16] Booz & Company and Robeco. "Responsible Investing: A Paradigm Shift from Niche to Mainstream." October 2008.
[17] Presentation by Erik Breen, Head of Corporate Governance and Sustainability, Robeco. Integrating ESG into Portfolios. June 25, 2009.
[18] Responsible-Investor.com and IPE. "Responsible-Investor.com Landscape 2009 Survey."
[19] Interview with Bruce M. Kahn, Ph.D., Director and Senior Investment Analyst, DB Climate Change Advisors, Deutsche Asset Management, and Gunnar Friede, Senior Fund Manager Equities, Global Equities and ESG Strategies, DWS Investment GmbH. June 17, 2009.

Impending regulation of governance issues and climate change also have raised the profile of ESG, particularly within certain sectors. Many investors are beginning to integrate analysis of these factors into their valuations to account for the risks that regulation and other factors could create for unprepared companies. For example, a recent survey of signatory investors to the CDP revealed a general consensus among respondents that the materiality of climate change has been increasing and will continue to do so.[20] As Julie Gorte from Pax World explained, "every sell-side report on carbon-intensive sectors now includes climate change as a risk factor".[21]

Similarly, governance issues such as executive compensation are gaining traction in legislative bodies and investment analyses around the world. According to a 2009 survey by McKinsey, more than 50 percent of investment professionals believe that the current economic turmoil has increased the importance of governance programs relative to shareholder value. That is more than double the number of respondents who declared increased importance in environmental or social programs.[22] This focus on materiality also means that investors are integrating ESG overall, but beginning to look at specific environmental, social, and governance issues that are deemed material.

These drivers help illuminate *why* ESG integration is increasing among mainstream investors. The following section explores key trends that explain *how* integration is occurring, and how it may continue to evolve over the next few years.

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[20] Mercer. "Investor Research Project—Investor Use of CDP Data." 2009.
[21] Interview with Dr. Julie Gorte, Senior Vice President, Sustainable Investing, Pax World Management Corp. July 22, 2009.
[22] McKinsey Quarterly. "Valuing Corporate Social Responsibility." February 2009.

Key Trends

Integration of ESG criteria in mainstream investing continues to rise due to increases in the perceived value, client demand, and materiality of ESG. It is useful to understand, however, that integration is not uniform and that different players in the investment community have made varying levels of progress in integration. The trends described below seek to illuminate how integration is occurring in different parts of the investment system and how investors are implementing ESG integration.

Companies Are Not Communicating to Mainstream Investors on ESG Performance

While the vast majority of the largest global companies now issue Corporate Responsibility reports, and many of the leaders also engage directly with the SRI community, the general consensus, both among companies and investors, is that companies are not yet communicating with the broader set of mainstream investors on ESG issues. What communications do exist are often isolated to the departments that have primary responsibility for ESG and to their communication mechanisms. ESG often does not get addressed by investor relations officers (IROs) or senior management, and therefore does not reach the majority of the company's investors,

IROs assert that very few investors are asking questions about their companies' ESG policies and practices. Rather, investors remain mostly focused on understanding companies' margins, growth models, and perspectives on the macro economy. In terms of extra-financial information, most questions focus on products and their ability to compete in the marketplace. Some IROs describe that even when trying to describe how environmentally-friendly aspects of products would differentiate them in the marketplace, investors are only interested in hearing about anticipated performance.

As a result, IROs maintain that ESG issues are not a priority compared to other investor relations topics. Many of the IROs interviewed explained that while they and their companies recognize the business value of their sustainability initiatives, the lack of questions from investors has diminished any potential motivation for integrating ESG into their communications. In a 2009 survey conducted by the National Investor Relations Institute (NIRI), the issue of sustainability was ranked as less pressing than 13 other IRO concerns, ranging from maintaining analyst relationships/coverage to evolving regulations and shareholder activism.[23]

Consequently, investor relations professionals generally have been reactive rather than proactive in providing investors with data about ESG issues. When asked about the percentage of time that is devoted to ESG issues in different IRO activities in the recent NIRI survey, less than 50 percent of participants responded that ESG issues are included in meetings with investors, including roadshows, one-on-one meetings, and daily inquiries. When inquiries are made about ESG performance, most investor relations professionals seem to pass off questions to their corporate responsibility colleagues. Many investors interviewed stated that they generally try to bypass investor relations, where their questions are often disregarded, and go straight to the corporate responsibility function. Most IROs feel that they should simply provide the information that investors and analysts are asking for, and that they should not be more proactive in providing ESG data. And while investors often want to engage directly with senior management on these issues, IROs first need to recognize the value in order to provide such access.

However, there are a few emerging trends that may lead to more investor relations communication on ESG issues. Over the last few years, a number of global large-cap

[23] National Investor Relations Institute. "NIRI Sustainability/CSR Survey—2009. Summary Results and Executive Alert Graphics."

companies such as United Technologies and Novartis have begun producing integrated annual reports that include both financial and ESG performance data. According to KPMG's annual "International Survey of Corporate Responsibility Reporting," 4 percent of the world's largest 250 companies integrated corporate responsibility information into their annual reports.[24] Integrated reporting raises the profile of ESG issues for investor relations and for investors, and it arms IROs and senior management with the information to communicate on ESG issues and their impact on the business. As the integration trends described in this report continue to rise, investor relations can expect an increase in the number of ESG-related inquiries and will need to be more prepared to communicate on ESG performance.

Also, in some cases, mainstream investors are integrating ESG concepts but using a different terminology to describe them. Many traditional financial indicators are impacted by or related to ESG—such as costs of input, political risk, and more. For example, many retail food companies are now offering healthier products in response to changes in markets concerned with rising obesity. While these products are clearly better for consumers and society, they are also in response to shifting market conditions. Food-sector analysts examining companies' abilities to respond to these changing conditions may not be integrating ESG issues by design, but they are taking a wider view of risks and opportunities that include ESG factors. As Zachary Karabell from River Twice Research described, "any good agriculture-focused analyst thinks about weather—weather isn't what they do, but he has to understand how the weather impacts—and it's the same thing with understanding potential cap-and-trade legislation."[25] As ESG issues continue to become more material, IROs and senior management may receive an increasing number of ESG-related questions even if they aren't posed in those terms. Companies will need to recognize the link between the questions they are hearing and the corporate responsibility activities of their companies to provide the right kinds of information to investors.

Finally, the number of shareholder actions and resolutions related to ESG issues is increasing significantly. The Interfaith Center on Corporate Responsibility, an association of 275 faith-based institutional investors, reported the largest number of shareholder actions registered in its database during the 2009 proxy season.[26] While corporate governance issues predominated, other topics including climate change, food safety, and labor practices were also high on investors' agendas. Similarly, of the 300 global pension funds and fund manager signatories to the UN PRI surveyed in 2009, 95 percent reported involvement in a total of 12,000 shareholder engagements with companies.[27] Presuming that this trend continues, companies should expect to see ESG issues arising through more high-profile channels and IROs will be called on to engage with these issues more directly.

Institutional Investors Leading Integration

There seems to be a general sense among investors, academics, and experts that ESG issues are beginning to be integrated by more mainstream investors into their valuations and investment decisions.[28] However, mainstream investors aren't a monolithic group. Integration appears to be moving fastest within the institutional investment community, rather than within the retail investor community.

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[24] KPMG International. "KPMG International Survey of Corporate Responsibility Reporting 2008."
[25] Interview with Zachary Karabell, President, River Twice Research. June 8, 2009.
[26] Kropp, Robert. "Activist Shareowners Tally Victories in 2009 Proxy Season." Sustainability Investment News.
[27] UN PRI. "PRI Report on Progress 2009."
[28] See for example: Mercer. "2008 in Review: Responsible Investment Isn't Just for Christmas." 12 January 2009. Brewster, Deborah. "Investors: Institutions Lead the Way in Investments." Financial Times. June 3, 2009.

There are many drivers specific to institutional investors that explain this trend. First, for institutional investors such as pensions or foundations, fiduciary duty doesn't hamper explicit consideration of the economic, environmental, and social impacts of investments—many view it as part of their duty. In some cases, integration of these impacts is even legally required. A recent UN-backed report states that institutional investors are at serious risk of being sued for negligence if not proactive in incorporating ESG factors into contracts with pension funds.[29] A primary example of a mandated fund is the Norwegian Government Pension Fund. Since 2004, the fund has been required to meet ethical requirements set by the Norwegian Ministry of Finance through exercise of active ownership in the companies in the portfolio and exclusion of companies from the investment universe of the fund. In April 2009, the ministry announced that the fund will further expand integration of environmental and social aspects and good corporate governance as relevant factors in all aspects of the fund's management. Among signatories to the UN PRI, the number of owners including responsible investment criteria in fund management contracts rose 25 percent between 2007 and 2008, and there is an expectation among many asset owners and managers that this trend will continue to increase.[30] To meet this rising demand, institutional investors have had to develop their capacity to integrate ESG criteria.

Similarly, even when consideration of investment impact on ESG issues isn't explicitly mandated, the longer-term focus of most institutional investors means that ESG integration is of greater interest. The time horizon for ESG criteria to impact financial performance is appreciably longer term than traditional financial indicators, and the value of ESG integration consequently requires more lasting investments to be realized. The California Public Employees' Retirement System (CalPERS) believes that as a "permanent owner—a long-term beyond long-term investor," improved or best practices in corporate governance (including environmental and social practices) will lead to better financial performance in its funds. As a result, CalPERS invests with partners that use corporate governance strategies to earn value for the fund to meet its objective to achieve returns not available in traditional public markets.[31]

In addition to a longer time horizon, institutional investors often represent government employees, teachers and academics, unions, or medical practitioners, who may be predisposed to considering broader societal and environmental issues.

This trend is particularly pronounced in Europe, where institutional investors comprise a higher proportion of total investors than in the United States. Institutional investors in Europe also typically have had more historical experience with ESG issues as a result of their client base (European government and pension funds) and the larger unmet market need resulting from the lack of socially responsible investment firms.

Currently, integration of ESG factors by institutional investors seems to be focused predominantly in equity investments. Although some investors like CalPERS have succeeded in integrating some facet of ESG performance into each of their asset classes—alternative investments, global equity, global fixed income, inflation-linked, and real estate—most integrated investment strategies are directed toward global equity. One recent survey by Mercer of ESG integration by asset class revealed that almost 70 percent of investment strategies incorporating ESG were in listed equities.[32] Listed equity was also the most common asset class subject to integration by UN PRI signatories. Ninety-four percent of UN PRI investment manager signatories reported incorporating

[29] Asset Management Working Group of the United Nations Environment Finance Initiative. "Fiduciary responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment." July 2009.
[30] United Nations Principles of Responsible Investing. "PRI Report on Progress 2009."
[31] Interview with Anne Simpson, Senior Portfolio Manager for Corporate Governance, and Bill McGrew, Portfolio Manager-Corporate Governance, CalPERS. July 7, 2009.
[32] Guyatt, Danyelle. "Mercer's ESG Rating Pool Continues to Grow." Mercer. September 30, 2008.

ESG criteria into some internally managed listed equity assets in developed markets, and 84 percent reported some integration for listed equities in emerging markets.[33] Presumably, this trend is due to the ease of marketing equity funds and the momentum that has been created in client demand by the rising importance of climate change.

Looking forward, interviewees and trends suggest that integration will continue to expand among types of investors and asset classes. As institutions like CalPERS demonstrate successes in incorporating ESG criteria into assets beyond public equity, other investors will be more likely to seek opportunities to use ESG in other classes to reduce long-term risk and meet client demand. Resources such as the UN PRI's recent guide on ESG integration in private equity also will help investors expand their ESG strategies.[34] Also, given the growing client demand, institutional investors as well as investment banks are likely to become less content to cede clients and will develop their capacity to integrate ESG to develop and maintain a competitive position. It remains unclear how this trend will evolve with asset managers who are less dependent on pensions and public funds.

Integration Characterized by Niche Products and Services

While integration by mainstream investors is increasing, particularly among institutional investors, it is still generally limited to specific niche products and services. Very few large-scale mainstream investors, with the notable exceptions of Robeco and APG, have integrated ESG criteria across their full portfolios.

Rather, many mainstream investors are designing specialized products to meet the demands of a specific client base. These include specialized or thematic funds, focused research, or indices. Deutsche Asset Management, for example, has established distinct funds that are built by first using the strength of ESG performance to narrow from a broad universe of stocks to a subset of potential companies that could be included in the fund. This subset of stocks is then evaluated using traditional financial analyses to determine which to include in the fund.[35] At State Street Global Advisors, the institutional investment management arm of State Street Corporation, ESG criteria are factored into many of its enhanced equity models to control for risk. Leveraging their recent global study of ESG ratings and investment returns, State Street Global Advisors integrated selective ESG alpha factors into some Australian quantitative equity models and is continuing to explore implementation possibilities for other regional and country active models.[36] Goldman Sachs has built integration into one specific part of its business through the establishment of its GS SUSTAIN focus list, and many mainstream investors have built top-down thematic funds on ESG-related issues such as clean tech and alternative energy. In addition to its ESG India Index, which launched in January 2008, Standard & Poor's has also released a U.S. Carbon Efficient Index that offers a broad, U.S. market index composed of companies with relatively low carbon emissions that seeks to track the return of the S&P 500.

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[33] UN PRI. "PRI Report on Progress 2009." July 2009.
[34] Dunkley, Emma. "PRI Publishes Guidance on Responsible Investment in Private Equity." Global Pensions. July 16, 2009.
[35] Interview with Bruce M. Kahn, Ph.D., Director and Senior Investment Analyst, DB Climate Change Advisors, Deutsche Asset Management, and Gunnar Friede, Senior Fund Manager Equities, Global Equities and ESG Strategies, DWS Investment GmbH. June 17, 2009.
[36] Interview with Christopher McKnett, Principal. ESG Investments, State Street Global Advisors. June 25, 2009.

What unites these strategies is that they are each specialized products rather than organization-wide philosophies or approaches to investment. Thus, they seem to have been built to provide an option for requesting clients or to use as a pilot within the firm, rather than as overall recognition of the impact ESG factors can have on company performance As Chris McKnett from State Street Global Advisors explained, "through our experience managing ESG funds— and as an outcome of our global empirical analysis of the relationship between ESG ratings and investment returns—we haven't been able to demonstrate a persistent and 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 and conduct further research."[37]

These niche products provide good opportunities for investors to gain familiarity with ESG issues, to test the value of integration, and to become acquainted with the marketplace for ESG investment. However, they also reveal that ESG integration is still viewed as one type of investment strategy as opposed to a fundamental component of valuation that should be a part of any investment strategy.

Integration Focused on Material Issues

"We begin the process of integrating ESG by assessing how the world has changed in relation to each industry. 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

Current ESG integration is also not absolute in terms of the ESG issues that investors are evaluating. Rather than trying to integrate analysis of all identifiable ESG criteria, mainstream investors are using the concept of materiality to identify specific ESG issues that have a potential impact on financial performance. As Elaine Prior at Citigroup described, "we lump together a lot of ideas under the banner of 'ESG' that we may in the end find aren't at all related".[38] Since they don't have an overall objective to improve social and environmental performance, mainstream investors don't need to look at the universe of ESG issues for each company. Rather than evaluating all ESG factors with available data, mainstream investors are first evaluating which of these extra-financial issues are likely to significantly influence companies' products, clients, and market share, and then integrate only performance indicators for those particular issues and for those particular companies or sectors.

While these issues will necessarily vary by sector and even company, two consistent issues that currently seem to be transcending sector are climate change and governance issues. According to the "2008 Investor Statement on Climate Change" report, "the main

[37] Interview with Christopher McKnett, Principal, ESG Investments, State Street Global Advisors. June 25, 2009.

[38] Interview with Elaine Prior, Director and Senior Analyst, Investment Research, Citigroup. June 17, 2009.

areas of focus for investors continue to be those where climate policy makes the issue material, for example where there are clear investment opportunities in renewable energy or sectors that are exposed to emissions trading schemes."[39]

One consistent comment from investors interviewed was the need for investor relations and senior management to identify which ESG issues are material for their companies through annual reporting and other communications methods. Such guidance not only helps investors determine how to structure valuation models to incorporate ESG factors but also reflects companies' overall awareness of external and emerging issues and management quality. It's likely, therefore, that mainstream investors' focus on materiality as a tool for integration will continue. As companies begin to identify material ESG issues themselves, it's also expected that more analysts will take notice and integration will expand beyond niche products and approaches and emerge as part of overall investment philosophies.

ESG Data Improving

The lack of consistent and comparable ESG data has been one of the most substantial and pervasive barriers to ESG integration. The lack of specific mandated disclosures means that even among leading corporate responsibility/sustainability reports, the data are likely to vary on issues covered and methods for measurement. And over the last year, some investment firms have reduced or eliminated their internal ESG research teams, presumably due to the financial crisis, but resulting in further challenges for analysts trying to integrate ESG data.

Generally though, reporting of ESG data seems to be increasing as well as improving. According to KPMG's annual "International Survey of Corporate Responsibility Reporting," nearly 80 percent of the world's largest 250 companies issued reports in 2008, a 27 percent increase since 2005. Within the United States, where corporate responsibility reporting has traditionally lagged, 73 of the country's largest 100 companies issued reports in 2008, up from 32 in 2005.[40]

Additionally, reporting on corporate responsibility by companies is becoming more uniform thanks to global voluntary initiatives like the Global Reporting Initiative (GRI) and the CDP. The former is a reporting framework that sets out the principles and indicators that businesses can use to measure and report their economic, environmental, and social performance and aims to standardize corporate reporting. In 2008, more than 1,000 organizations worldwide were estimated to have issued sustainability reports based on the GRI guidelines—an increase of 46 percent over 2007 figures.[41] Somewhat related, the CDP collects climate-change-relevant corporate data on a global basis directly from companies to assemble the largest corporate greenhouse gas emissions database in the world. In 2008, approximately 1,600 companies responded to the CDP questionnaire. Both of these initiatives have set guidelines for the types of ESG data companies should collect and disclose. As a consequence, participating companies generally have disclosed at least a subset of reported data that is comparable across industries and geographies. Both GRI and CDP also store company reports and submissions on their websites, making data easily accessible and consistent for investors.

Availability of data through third-party providers also seems to be increasing. By gathering ESG data from public sources and through company surveys and interviews, data providers remove much of the resource burden from ESG integration for mainstream investors. Data providers seem to be increasingly sophisticated in their ability to develop

[39] Institutional Investors Group on Climate Change. "Investor Statement on Climate Change Report 2008."
[40] KPMG International. "KPMG International Survey of Corporate Responsibility Reporting 2008."
[41] Global Reporting Initiative. "Number of Companies Worldwide Reporting on Their Sustainability Performance Reaches Record High, Yet Still a Minority." July 2006.

consistent data points and key performance indicators and in providing analysis on how indicators compare to help investors understand the relative performance of companies. ASSET4, for example, has created large databases of comparable data points for companies that users can access through products that allow definition and comparison of substantial sets of data across multiple companies and industries. This type of data and tool allows investors to focus their resources on understanding how ESG factors are best integrated into their valuation models. Nonetheless, there are concerns among investors about the quality of the third-party data. In the RI Landscape 2009 Survey, 81 percent of respondents indicated using ESG research from brokers or research agencies. Of those respondents who use ESG research from research agencies, only 35 percent rated the quality of research as “excellent” or ”good,” with 25 percent rating it as fair, and 3 percent rating it as poor.

The trend toward improved data is only likely to increase. Perhaps most significantly, ESG data is becoming increasingly accessible for investors through mainstream data tools and providers. For example, Bloomberg is currently developing an ESG data service that will provide all terminal users with access to publicly available ESG data from 2,000 to 3,000 companies.[42] Any investor using a Bloomberg terminal will now be looking at ESG data alongside financial indicators. Similarly, many stock index providers are creating specialized indices that include ESG criteria in their listing process. While Dow Jones and FTSE have been creating screened indices for several years, other groups such as Standard & Poor’s recently have introduced a number of indices composed of companies rated on their performance on a range of ESG issues, including extent of transparency, water use, and carbon footprints, and that also seek to track returns to traditional indices. The expansion of ESG data availability through mainstream providers means that mainstream investors are more likely to be exposed to these issues on a regular basis through providers they know and trust.

Given the potential ability to quantify the financial impact of some ESG issues such as climate change through regulation, and increases in the perceived value of integration, data consistency and availability from companies and providers is expected to continue to improve. Like the trend toward integrated reporting, initiatives are also developing to link accounting of financial and non-financial data, which also have the potential to increase data quality. For example, the Accounting for Sustainability Project has just released a set of five principles that promote "connected reporting"—reporting that connects an organization's sustainability impacts with its financial performance more clearly, concisely, and consistently—and commits participants to collaborative research and training in this area.[43] As ESG data become more integrated into overall accounting and reporting, it is likely to increase in uniformity and comparability as well.

ESG Legislation and Regulation Increasing

There has also been a steady rise in legislation and regulation related to ESG performance and disclosure recently, and this growth is expected to accelerate. There are two types of policy affecting ESG integration: policies mandating ESG disclosures, and those addressing specific ESG issues such as corporate governance, labor rights, or climate change. Many questions remain about what shape different policies could take, but there is a definite increase in the amount of attention being paid to ESG issues and disclosure in governments worldwide.

Policies on ESG disclosure have the potential to vastly improve the availability and comparability of ESG data. Regulations on disclosures are increasing rapidly, as is pressure on governments to mandate ESG reporting. In the last five years, eight

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[42] Lubber, Mindy S. “Companies: Come Clean on Climate Change.” Business Week Online. June 3, 2009.

[43] The Prince’s Accounting for Sustainability Project. “Forum Principles Launched.” July 6, 2009.

"Today, more than ever, investors are demanding sustainability metrics to inform their investment decisions. Given the current economic crisis and developments in ESG disclosure globally, we believe that the time is right for the SEC to explore and institute requirements for corporate sustainability reporting. We believe our proposal, if implemented, would help investors make more informed, long-term investment decisions, improve overall corporate performance and conduct, and reestablish public confidence in companies, markets, and regulators."

—"Social Investment Forum ESG Disclosure Policy Submission to the SEC," July 20, 2009

countries— China, Denmark, Germany, Japan, Malaysia, Norway, Sweden, and the U.K.—have passed legislation or issued directives to increase reporting of ESG performance. Some are faulted for setting low standards that don't promote comparable reporting; in the U.K., for example, the 2006 Companies Act only requires companies listed on the London Stock Exchange "to report on non-financial issues relevant to their business within annual reports." However, these policies do generally require that companies report on material ESG issues and can consequently advance conversations between investors and companies. In other countries, pressure for regulation is escalating. The advent of the new U.S. presidential administration has raised expectations for regulation by the Securities and Exchange Commission (SEC) on mandatory ESG disclosures, and officials are said to be strongly considering regulatory options.[44] In the EU, the European Commission is planning a series of meetings to examine regional ESG disclosure policy.

Comparability in ESG data may also increase through regulation on financial reporting mechanisms. In the U.S. for example, the SEC is requiring all public companies to submit their financial statements in the XBRL data format by 2011. XBRL is a tool for standardizing and making business-information reporting interactive to improve searchability and comparability of corporate filings. Along with the drive toward mandatory ESG disclosures, groups including CERES, the Investor Network on Climate Risk, and socially responsible investors are pressuring the SEC to expand XBRL reporting requirements to include ESG data.

Policies and proposals related to how companies manage ESG issues are also intensifying. National and global climate change policies that would restrict greenhouse gas emissions are gaining traction and could have spectacular implications for business, especially for particular sectors such as utilities and extractives. Legislation to promote alternative energy is also increasing, and many experts expect that the attention policymakers pay to water use may also intensify in the next decade. Similarly, social issues such as labor in the supply chain are getting more consideration from policymakers, particularly as part of free trade agreements. And of course the financial crisis has brought renewed focus on governance issues. The issues of executive compensation, board oversight, and shareholder rights have been highlighted in policy debates arising from the economic crisis, and legislation in the United States is thought to be forthcoming.[45] All of these policies and proposed legislation have the potential to significantly impact the operating environments for businesses and the requirements for how companies manage different ESG issues.

While investors always have tracked policies likely to impact business, the shift has been in the increasing focus of policy on ESG. Consequently, while investors may not always think of these issues as "ESG," as described above, many are beginning to track these issues more closely and to look for opportunities to integrate them into their valuation models because they have become more closely regulated and more material to business success.

Barriers to Full Integration Remain

Despite the apparent increase in integration of ESG into mainstream investment decisions, a number of barriers still remain. Many of these were described in BSR's previous report in the summer of 2008, but they have evolved since then.

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[44] Lehmann, Evan. "SEC Turnaround Sparks Sudden Look at Climate Disclosure." New York Times Online. July 13, 2009.

[45] Metrick, Craig, and Burstein, Katherine. "What the Hill? Potential Changes in Washington and Impacts for Institutional Investors." Mercer. July 14, 2009.

The Aspen Principles for Long-Term Value Creation

In 2007, a group of leaders from business, labor, institutional investors, and trade associations released the "Aspen Principles for Long-Term Value Creation" as a call to action and to build the dialogue about the costs of short-term thinking.

The Aspen Principles offer guidelines for long-term value creation for both operating companies and institutional investors and focus on:

» defining metrics of long-term value creation;
» focusing corporate-investor communications around long-term metrics;
» and aligning company and investor compensation policies with long-term metrics.

Signatories to the Principles are currently collaborating to expand engagement and understand best practices to curb short-termism. As endorsement grows, the Aspen Principles have the potential to significantly drive long-term thinking in business and investment, which may facilitate ESG integration.

BUSINESS VALUE OF SUSTAINABILITY IS NOT BEING INTEGRATED INTO INVESTOR COMMUNICATIONS

As already described in this report, although more investors view ESG criteria as indicators of business value and future financial performance, companies are either not perceiving or not communicating ESG risks and opportunities in the same way as financial risks and opportunities. Not only does this limit the amount and quality of information about ESG performance that investors can glean from IROs and senior management, it also hampers investors' ability to understand the link between ESG factors and financial performance. Until company representatives who interact with investors recognize and communicate externally about ESG and its impact on business success, investors will continue to rely on corporate responsibility reports and external data research, and will not believe that companies truly understand the impact of ESG issues on their bottom line and manage these issues in an integrated fashion.

THE VALUE OF ESG INTEGRATION STILL ISN'T FULLY UNDERSTOOD

The continued isolation of ESG integration in niche products and services rather than across portfolios demonstrates that the value of integration still not uniformly accepted. While client demand and awareness of impending regulation that could create financial impacts from non-financial factors have driven investors to integrate ESG factors to some extent, a lack of complete understanding of the influence that ESG factors can have on financial performance across companies and industries is still preventing ESG integration as a part of overall investment philosophies. Integration itself means that one cannot isolate the direct correlation of a specific ESG factor or ESG overall to stock price, but it's the integrated way that a company manages these issues that impacts performance. This is similar to how an investor assesses management quality, but cannot isolate a specific correlation to stock price.

CONTINUING EMPHASIS ON THE SHORT TERM HAMPERS DEMONSTRATION OF LONG-TERM VALUE

Despite expectations that the current financial crisis could lengthen investment horizons, there is very little evidence to suggest that mainstream asset owners and managers are expanding the length of their investments. Rather, investors are still focused on quarterly earnings results and whether they've met guidance expectations. Many interviewees explained that even institutional investors who request more ESG integration and longer-term performance still review and reward their managers on a quarterly basis. The continued focus on short-term performance has hindered demonstrations of the value of ESG integration, which is generally thought to differentiate performance over the long term. The responsibility will fall on asset owners to amend investment performance expectations to allow investments to more fully mature before ESG integration value could be established. Initiatives like the Aspen Principles for Long-Term Value Creation are also helping to address the root causes of short-termism (see sidebar).

QUALITY ESG DATA IS STILL LACKING

Despite the improvements in the availability of consistent and comparable data described above, challenges still remain. According to the RI Landscape 2009 Survey, "lack of information/knowledge" was the most frequently cited barrier to growing ESG-based investments (62 percent of respondents). For investors carrying out the initial data-gather phase of integration, analysts have to go to many data sources, both internal and external, and often struggle to gain access to the right people within companies to find necessary information on policies and performance. Investors who source ESG data from third-party providers continue to be concerned about the quality of data. Many interviewees explained that they only use purchased data as a starting place for their research. And the lack of consistent disclosures and measurements from companies continues to limit investors' ability to compare companies even within sectors.

INVESTOR CAPACITY IS STILL WEAK

Finally, the capacity of investors to analyze and integrate ESG criteria still remains low on average. In the same way that ESG integration is isolated in specialized products and services, capacity also generally remains isolated in particular teams or functions. Training on ESG issues is usually a push rather than a pull. As Chris McKnett at State Street

Global Advisors explained, “the number one way to drive capacity is to get a sizeable client who wants us to integrate ESG”.[46] Some firms are growing capacity by integrating company engagement so that ESG and financial analysts meet with companies as a team. Others are relying on the increasing prevalence of data to lead to increasing awareness of analysts. There are also industry-wide educational efforts underway. The CFA Institute, for instance, has published a number of resources for investors on ESG integration, and many MBA programs are beginning to include curriculum on ESG in finance courses.

[46] Interview with Christopher McKnett, Principal, ESG Investments, State Street Global Advisors. June 25, 2009.

Recommendations

The trends outlined above have important implications for companies, investor relations and the investor community. The following section outlines specific actions companies and investors can take to respond to the barriers preventing greater ESG integration and to adopt an ESG-based approach.

Companies

While many companies have a Corporate Responsibility or Sustainability function that is dedicated to ESG issues, a key finding in this study is that understanding and communication about ESG needs to be broadened to those who have the most direct interaction with mainstream investors, namely IROs and senior management. The increasing integration of ESG by mainstream investors is impacting the role and expectations of investor relations departments. While there seems to be general agreement that IROs do not need to become experts in ESG issues, they do have a significant role in articulating the link between ESG and financial performance, communicating on ESG to investors, providing connections to senior management who can further comment on these issues, and ultimately aiding companies in achieving the return on their investments in sound ESG policies and performance. IROs can take several steps to improve their capacity to perform this role. While many of these recommendations focus on IROs, they are intended to apply to any company representative who has a role in engaging with investors, and it's advised that IROs provide access to business management who can also speak to these issues whenever possible.

GAIN FAMILIARITY WITH ESG

The first step for IROs to prepare for and respond to increasing integration is to gain familiarity with ESG trends and understand how integration can impact their companies. IROs need to acknowledge that integration is occurring and that more and more mainstream investors will be asking about ESG factors. IROs will no longer be able to evade ESG questions by not responding or passing them off to corporate responsibility departments.

IROs and senior management also need to appreciate how ESG integration can impact the financial success of their businesses. Too often, IROs believe that ESG is not significant to their company because they evaluate it based on the percentage of shares owned by pure SRIs. It's important to expand this perspective to include the variety of ways that ESG criteria may be influencing their large, mainstream investors. For example, ESG performance can have a broader influence on the media, customers, and the public. Also, SRIs often focus on shareholder resolutions and engagement, which affect all shareholders. And ESG research and data is sold to or used by a variety of investors and asset managers, often without any visibility to investor relations.

IROs and senior management need to become acquainted with the ESG issues facing their companies and familiar with their companies' performance. Their knowledge doesn't need to be detailed, but they need to be aware of key issues for their industries and companies so that they are prepared for questions that investors may pose. These may include:

- most significant and material ESG issues;
- top successes in meeting ESG goals over the last year;
- biggest ESG challenges;
- and the most exciting initiatives to address ESG issues/challenges over the year.

Perhaps most importantly, IROs need to know where to get more information on ESG issues, particularly when there isn't a specialized corporate responsibility function. There are a number of steps IROs can take to become acquainted with ESG at their companies:

- **Be aware of public ESG disclosures.** The vehicles through which companies publicly disclose their policies and performance on ESG issues, such as corporate responsibility reports and websites, are the first places that investors start when trying to gather ESG data. This information is generally considered to be a basic starting point; questions that reach IROs typically go beyond what is publicly disclosed. But being familiar with this information will improve IROs' general knowledge and put IROs and investors on the same playing field.
- **Join corporate responsibility colleagues' conversations with investors.** Many conversations about ESG are occurring in companies without investor relations present—either because investors are re-directed by investor relations to corporate responsibility departments, or because investors are bypassing investor relations completely. IROs can learn a lot from these conversations. In addition to better understanding the types of information investors are seeking, IROs can hear the responses that corporate responsibility departments provide and how they are framed. While there is no expectation that IROs will be taking over all of these conversations in the future, they certainly will see the quantity of these conversations increasing and should be able to respond to basic requests for information.
- **Take advantage of ESG resources.** There are numerous regional and global organizations focused on ESG integration and SRI. Many provide excellent information through listserves and websites, and some also hold regular conferences and virtual events. While their purposes and values differ, all of these groups can provide IROs with useful insight into which topics are most pertinent for specific industries; updates on ESG trends, regulation, and legislation; and foresight into the kinds of information investors are seeking.

Materiality Analysis: Determining the Most Strategic ESG Issues

A materiality analysis is an excellent tool to identify and build internal consensus on which ESG issues are most strategic and material for a company.

Beginning with an expansive universe of corporate responsibility issues, companies undertake a structured process to prioritize the issues that substantively influence the assessments and decisions of stakeholders and that have significant influence over the success of the business.

The result is a set of prioritized issues that companies can focus their resources and attention on to make the most significant commercial, social and environmental impacts. And, of course, these analyses support conversations with investors who want to understand which issues companies' deem strategic and why.

IDENTIFY FINANCIALLY MATERIAL ISSUES

As mainstreaming trends toward a focus on integration of the most material ESG issues for sectors and companies, investors are consistently calling on companies to identify and communicate about ESG in terms of materiality and strategy. While many do this as part of their corporate responsibility reporting, it's important to highlight to investors that it's part of overall business planning as well. In fact, demonstrating that the company understands the material issues and has a materiality process indicates to investors the quality of the company's management and risk systems.

Corporate responsibility and sustainability reporting typically deals with a broad spectrum of issues, some of which may be incredibly strategic for the company—such as water impacts for a beverage company or access to medicines for a pharmaceutical company. Other issues may be more important simply because they demonstrate to stakeholders the company's basic awareness and compliance. IROs can play a crucial role for ESG integration by acting as a filter to identify which issues investors should consider most seriously because of their potential impact on the companies' financial performance.

At some companies, the corporate responsibility department may already have conducted a materiality analysis. Typically, this process involves a prioritization of issues that are most important to companies' stakeholders and to companies' commercial success. If an analysis has been completed recently, IROs should review the process to understand how the universe of issues was chosen, how the criteria for ranking were determined, and what the results of the analysis revealed. Other companies may not have a strong understanding of their ESG issues in terms of materiality, in which case IROs should partner with their corporate responsibility colleagues and other leaders from around the company to conduct a materiality exercise.

The crucial role for IROs in discussing materiality is to describe ESG issues in terms of business risks and opportunities. IROs are intimately acquainted with the vocabulary and thinking of investors and uniquely qualified within companies to articulate the business significance of ESG issues to investors in terms that resonate. IROs should be able to convey the impact of material ESG issues on their companies' key revenue and cost drivers, including products, customers, market positioning, and impending regulation.

DEVELOP A PROACTIVE STRATEGY FOR COMMUNICATING ON ESG

Although mainstream investors may not currently be asking many questions about ESG, the trends show that investor interest is growing, and companies need to be proactive and prepare to communicate on these issues to a wider investor audience. By describing the connection between ESG and financial performance, companies can capitalize on their ESG efforts and provide investors with a more holistic view of the value of their companies.

ESG communications can take a variety of forms, including traditional methods that companies already use, as well as newer forms of communications:

» **Annual reports:** Investors are consistently requesting that companies include information about their ESG policies and performance in annual reports. Integration of ESG can take a variety of forms, from briefly referencing ESG in discussing risk to incorporating ESG issues into discussions of financial and business information throughout the report. Even for investors who aren't yet integrating specific ESG issues into their valuation models, inclusion of ESG in annual reports demonstrates that businesses have a holistic view of their operating environment and that risks are well managed.

» **One-on-one conversations and road shows:** Direct interactions with investors are great opportunities to introduce ESG information. IROs should look for opportunities to highlight how their companies are managing ESG risks and opportunities in terms of products or markets. IROs should also consider proactively inviting their corporate responsibility colleagues to participate in investor meetings, as they can be particularly helpful if detailed follow-up questions arise. IROs may find that these steps bring up many more ESG questions that investors haven't been asking or have been taking directly to corporate responsibility.

» **Third-party data provider surveys:** To supplement publicly disclosed data, many third-party data providers send companies surveys on ESG. There are currently a plethora of surveys, and many companies are already suffering from survey fatigue. Nonetheless, IROs should prioritize and respond to a few and could also consider using one of the online platforms available for streamlining reporting and survey responses. These platforms collect and manage data for distribution to the financial community. Completing surveys in partnership with corporate responsibility colleagues can also be a good opportunity to learn more about company practices and understand the types of data investors need.

» **Corporate responsibility reports:** In addition to integration of ESG into annual reports, investors are also calling for improved reporting in standalone corporate responsibility reports. Because integration in annual reports limits the quantity and depth of information that can be included, investors need another venue to get more detailed information. IROs need to take a formal role with corporate responsibility colleagues to produce these reports and should also proactively distribute the reports to investors just as they would annual reports.

» **Internal business leaders:** Finally, IROs need to consider who else in their companies could be communicating on ESG and provide investors with access to business leaders. As recognition of the strategic significance of ESG issues has grown though, investors have become more interested in understanding business leaders' perspectives and plans on ESG. As Erik-Jan Stork at APG explains, "our most valuable information source is contact with companies, and while sustainability managers can be helpful, we want to speak to line management".[47] IROs need to be careful not to sideline these questions as less important or automatically refer questions to the CR department. Rather, senior leadership should be equipped and encouraged to communicate with investors on ESG.

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[47] Interview with Erik-Jan Stork, Sustainability Specialist Global Equities Asset Management, APG All Pensions Group. June 25, 2009.

Investor Community

Many investors are waiting for companies to make the first move by proactively communicating on their ESG performance. Yet there are a number of steps that investors can take to encourage ESG communications from investor relations and senior management and to improve their own ability to integrate ESG criteria.

INCREASE ESG FAMILIARITY AND EMBED IT IN COMPANY CULTURE

The only way to truly make ESG factors a part of mainstream investment decisions is to embed it within company culture and business processes. While mainstream firms may choose to market their ESG practice based on a specialized team or function, all staff analysts should be trained on ESG factors and their linkage to financial performance. Investors should consider the critical touch points that help define company culture—such as employee communications and training—and how to embed awareness of ESG into those touch points. This will help firms build capacity across staff, rather than perpetuate internal silos. Two such approaches include:

» **Integrate ESG issues into staff orientation and ongoing training.** While not every analyst needs to be an ESG expert, investors should generally be aware of ESG issues and their impact on financial performance. Respondents to the RI Landscape 2009 Survey indicated that only 54 percent currently offer staff training on ESG issues. By incorporating ESG into training, investors will be regularly reminded of the issues and more prepared to spot material issues and opportunities for integration. At Goldman Sachs, for example, the new analyst orientation includes a short module on ESG.

» **Identify Material ESG Issues.** As described above, the trend in mainstream integration is not to integrate the whole universe of ESG criteria in investment analyses but to isolate and focus on the most material ESG issues for sectors and companies. While companies need to identify from their perspective which ESG issues are material for their companies, investors also need to consider ESG materiality for the sectors that they cover. By also undertaking materiality analyses and forming firm perspectives on which issues are most important for different sectors, investors will be able to evaluate companies' priorities and ask the right questions.

» **Make ESG data available to all staff.** While integration may be focused on specialized products at most mainstream investment firms, analysts who identify material ESG issues or want to better understand the risk factors for their sectors should have access to the data and tools to improve their valuations. While Bloomberg's move to include ESG data on its terminals will vastly improve analysts' access, firms also should provide access to any other data or tools that it uses in integrated products to all analysts. At Deutsche Asset Management, the ESG data purchased from third-party data providers is available to all analysts, rather than just their specialist teams.[48] Whether a firm purchases data or relies on internal analysis, providing access to information sends a strong message that the company believes ESG factors are worth considering—and analysts' curiosity may prove to be the most effective driver of integration.

DEMONSTRATE INTEREST

Pressure from investors is critical to motivating the investor relations community to communicate the link between ESG factors and financial performance. While investor relations may not have the answers immediately, the investment community needs to ask for ESG data more frequently and send a stronger message that the information is an

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[48] Interview with Bruce M. Kahn, Ph.D., Director and Senior Investment Analyst, DB Climate Change Advisors, Deutsche Asset Management, and Gunnar Friede, Senior Fund Manager Equities, Global Equities and ESG Strategies, DWS Investment GmbH. June 17, 2009.

important factor in company valuation. Considerations and practical tips for demonstrating interest include:

- **Send requests directly to investor relations.** Circumventing IROs and going straight to corporate responsibility does not help increase quality reporting on ESG factors. Investor relations and senior management need to know investors are interested in ESG in order to understand the imperative for ESG communications. While this may prolong the time it takes to gather appropriate information, it contributes to the groundswell needed to prompt better ESG reporting. Investors should pick ESG issues that are important to their particular sector, and ask companies focused questions about how they perceive and manage risks associated with the issue.
- **Consider shareholder engagement as an effective means of demonstrating interest in ESG issues.** Shareholder resolutions and engagement command the attention of IROs, sending a clear message that ESG issues are a growing concern to investors. Mainstream investor participation in shareholder engagements around ESG issues helps perpetuate the integration of ESG factors. Consistent with the UN PRI, there are many investor networks that investors can participate in to become more familiar with the issues and increase the profile of engagements.

CLOSELY MONITOR LEGISLATION

Legislation on ESG issues has the potential to significantly impact company value, particularly within the United States, where several bills have been proposed that would affect entire industries.[49] Investors need to be aware of future legislation on ESG topics, and include projections of policy implications in their valuations of companies. To improve access to critical ESG data and the quality of data being reported, investors should evaluate whether to engage in policy discussions around mandatory disclosure. With the new U.S. presidential administration, the debate over regulation by the SEC is likely to intensify. In addition, investors can fill an important role in public policy discussions by bridging issues and financial impact. In recognizing that a particular ESG issue will have a significant impact on company valuations, consider engaging in public discourse and influencing the political process. On climate change, for example, mainstream investors could join an established business coalition, such as the U.S. Climate Action Partnership or the U.S. Business for Innovative Climate and Energy Policy, both of which aim to influence federal legislation around climate change.

SECURE SENIOR-LEVEL COMMITMENT

Commitment from senior executives in the mainstream investment community is a critical step toward integration. Cynicism and conflicting messages about the value of integration for improving financial performance remain fundamental barriers to further integration. Yet a 2009 study showed that 61 percent of 84 Chief Financial Officers and 56 percent of 100 investment professionals surveyed believe ESG programs increase shareholder value during typical economic climates.[50] For organizations that believe in value creation and take steps to integrate ESG factors into investment decisions, a publicly stated senior-level commitment would go a long way toward clarifying an investment firm's message, motivating analysts to work with ESG criteria, and making investors more open to an approach that incorporates ESG criteria. For example, APG has a Responsible Investment Policy for the entire group, with the first principle to "integrate ESG as widely as possible across the portfolio."

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[49] Examples include: Waxman-Markey climate change bill, American Clean Energy Leadership Act of 2009, and American Health Choices Act of 2009.

[50] McKinsey Quarterly. "Valuing Corporate Social Responsibility." February 2009.

Conclusion

While integration of ESG into mainstream investment is far from absolute, there are definite trends demonstrating increases in the perceived value, client demand, and financial materiality of ESG. To reach full integration, many barriers still need to be overcome. However, increased communications between investors and companies can address many of the persistent obstacles and work to improve ESG integration.

When investors begin analyzing ESG performance in the same way they assess a company's management team or external market risks, then companies will be rewarded or penalized for how they manage ESG issues as part of improving overall business performance and long-term sustainable growth. While this is not yet a typical investment approach, there is exciting momentum in this direction.

BSR and its member companies will continue to look for opportunities to advance the dialogue with investors, research and data providers, and other experts in an effort to help promote ESG integration.

For comments on this report, or to get involved in future initiatives, please contact Laura Gitman at lgitman@bsr.org.

Appendix

Glossary

- **CalPERS:** California Public Employees' Retirement System
- **CDP:** Carbon Disclosure Project
- **CSR**: Corporate Social Responsibility
- **ESG:** Environmental, social, and governance
- **EuroSIF:** European Sustainable Investment Forum
- **GRI:** Global Reporting Initiative
- **IRO:** Investor Relations Officer
- **NIRI:** National Investor Relations Institute
- **SEC:** U.S. Securities and Exchange Commission
- **SRI:** Socially responsible investment; socially responsible investors
- **UN PRI:** UN Principles on Responsible Investment

The Responsible-Investor.com Landscape 2009 Survey

Responsible-Investor.com provides institutional investors with a comprehensive online magazine and information resource which recognizes the growing requirement to achieve investment returns within an environmental, social and corporate governance framework.

The RI Landscape 2009 Survey of asset owners and asset managers is a unique annual snapshot of responsible and sustainable investment trends that aims to plot the changing contours of the market through insightful comparative data and incisive commentary from both asset owners and asset managers based on their reactions to topical questions.

In this second annual barometer of the responsible investment market, Responsible-Investor.com aimed to gauge responses from one of the broadest institutional investor readerships worldwide as to whether it has become more important than ever to consider environmental, social and governance (ESG) issues in institutional investment, or if RI was a luxury for rising markets? The survey also probed what the role is for responsible investment at the heart of a systemic financial breakdown and how investors should prepare for the advent of the so-called new green economy?

BSR is indebted to Responsible-Investor.com for the use of the results from the 2009 Landscape Survey. More information on Responsible-Investor.com and the survey is available at www.responsible-investor.com.

Research Interviews

CORPORATE IROS & CORPORATE RESPONSIBILITY MANAGERS

- Altria Group, Inc.: Michael Neese, Director of Investor Relations; Alisia Rudd, Senior Manager, Corporate Responsibility Strategy and Environmental Programs, Altria Client Services; Wendy Shields, Specialist, Corporate Responsibility Strategy and Environmental Programs, Altria Client Services
- Cisco Systems, Inc.: Sandy O'Halloran, Investor Relations; Teri Treille, Global Program Manager, CSR
- Ford Motor Company: Thomas Niemann, Reporting Manager, Sustainable Business Strategies; Kate Noser, Investor Relations
- Johnson & Johnson: Stan Panasewicz, Director, Investor Relations; Pat Molino, Vice President of Group Issues and Communications Management; Shaun Mickus, Director Corporate Citizenship

CREDIT RATING AGENCIES, RESEARCH, AND DATA PROVIDERS

- Standard & Poor's: Alka Banerjee, Vice President Global Index Management, Chairperson of the S&P/Citigroup Equity Indices and S&P Emerging Market Indices
- Asset4: Keith Green, ESG Specialist; Ted Yarnell, Vice President and General Manager Americas
- Bloomberg: Curtis Ravenel, Global Head, Sustainability Initiatives

MAINSTREAM INVESTORS

- APG All Pensions Group: Erik-Jan Stork, Sustainability Specialist Global Equities Asset Management
- CalPERS: Bill McGrew, Portfolio Manager-Corporate Governance; Anne Simpson, Senior Portfolio Manager for Corporate Governance
- Citigroup: Shawn Miller, Director, Environmental and Social Risk Management
- Citigroup: Elaine Prior, Director and Senior Analyst, Investment Research
- Deutsche Asset Management: Gunnar Friede, Senior Fund Manager Equities, Global Equities and ESG Strategies; Bruce M. Kahn, Ph.D., Director and Senior Investment Analyst, DB Climate Change Advisors
- Goldman Sachs SUSTAIN: Marc Fox, Executive Director
- Legg Mason: Ron Bates, Managing Director, Portfolio Manager; Alison Bevilacqua, Senior SRI Analyst
- Norwegian Pension Fund: Valborg Lie, Senior Advisor, Asset Management Department
- River Twice Research: Zachary Karabell, President
- State Street: Christopher McKnett, Principal, ESG Investments
- TIAA-CREF: Scott Budde, Managing Director for Global Social and Community Investing

SRI FUNDS

- EuroSIF: Matt Christensen, Executive Director
- FTSE Group: Jayn Harding, Principal Advisor, Responsible Investment
- Pax World High Yield: Dr. Julie Gorte, Senior Vice President for Sustainable Investing
- UK Sustainable Investment and Finance: Adam Ognall, Deputy Chief Executive
- Walden: Bill Apfel, Portfolio Manager/Director of Securities Research; Tim Smith, Senior Vice President, Environmental, Social, and Governance Group; Heidi Soumerai, Portfolio Manager/Director of ESG Research

OTHER RESOURCES

- CFA Institute
- Global Reporting Initiative
- National Investor Relations Institute: Audrey Mickahail, Senior Manager, Research
- Responsible-Investor.com: Hugh Wheelan, Editor; Tony Hay, Publisher
- UN Principles of Responsible Investment

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