

# Investing in Sustainable Assets

Jvan Gaffuri

Lisbon, January 2017



## Agenda

### Financial Materiality of Sustainability

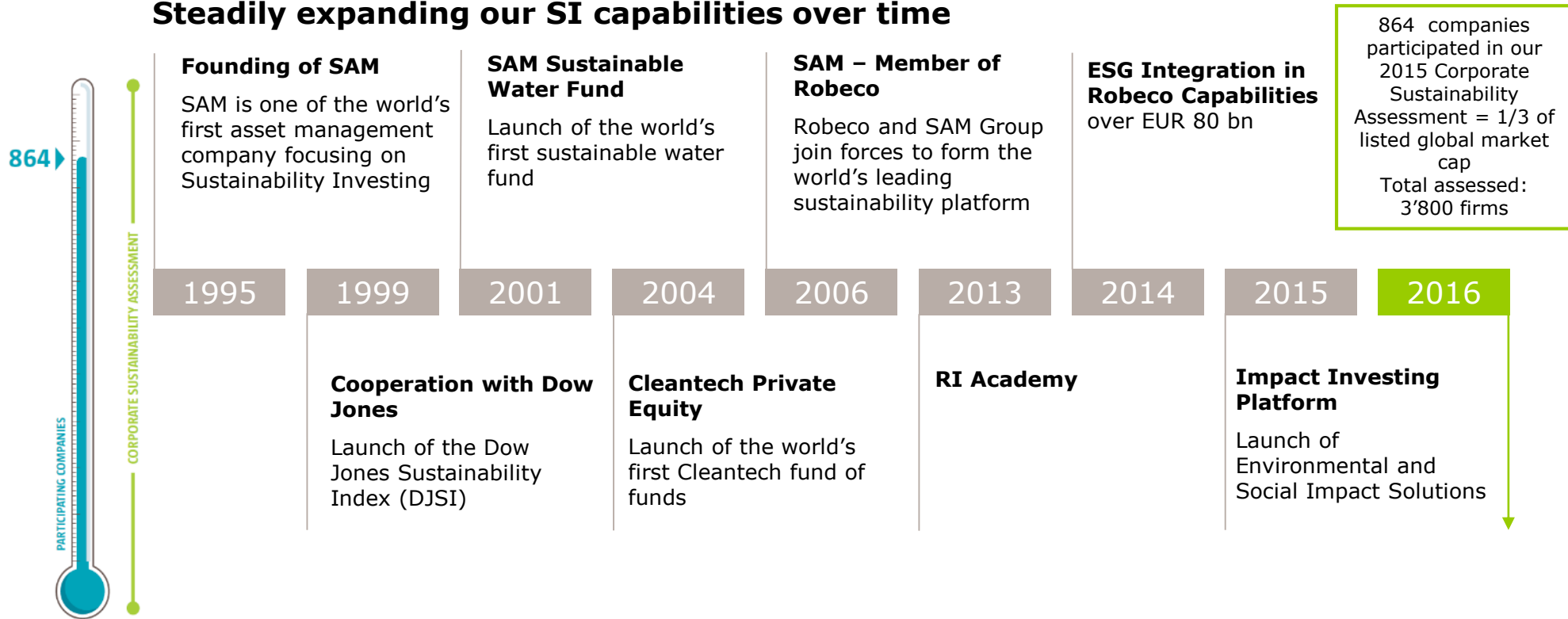
1. RobecoSAM: Short Profile
2. Financial Materiality of Sustainability
3. Shifting to a Long Term Investment Horizon



## 1. RobecoSAM: Short Profile

# RobecoSAM: The Global Benchmark for Sustainability Investing (SI)

## Steadily expanding our SI capabilities over time



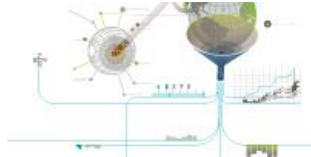
## RobecoSAMs capabilities

Asset Management



- Core
- Themes
- Impact

Indices



- Core
- Themes (Customized)

Private Equity



- Resource Efficiency
- European Mid-Market

Sustainability Services



- Company Assessment
- Benchmarking Services

Active Ownership  
& Engagement

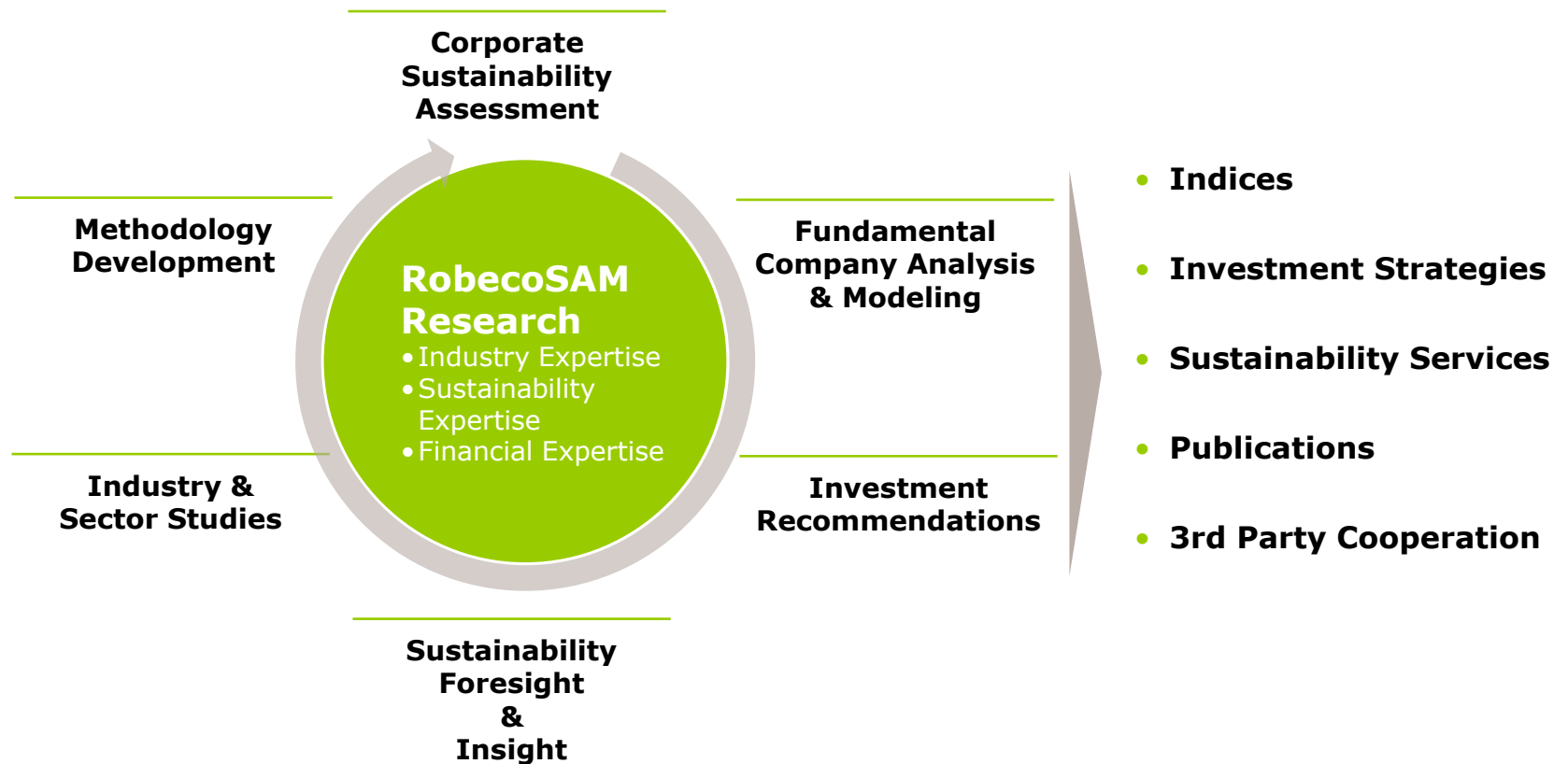


- Active Ownership
- Voting

# RobecoSAM integrated research approach and application

## Sustainability Investing enables investors to achieve superior risk/return

An integrated approach to company valuation considers both financial and non-financial criteria and leads to better informed investment decisions.



## Agenda

### Financial Materiality of Sustainability

1. RobecoSAM: Short Profile
2. Financial Materiality of Sustainability
3. Shifting to a Long Term Investment Horizon



## 2. Financial Materiality of Sustainability

# Financial Materiality Framework

## RobecoSAM's Definition of Materiality of Sustainability

RobecoSAM defines Materiality as "Any factor which might have a present or future impact on companies' value drivers, competitive position, and thus on long-term shareholder value creation"

### Key Question: How do different forms of capital impact financial performance?

#### Forms of Capital:

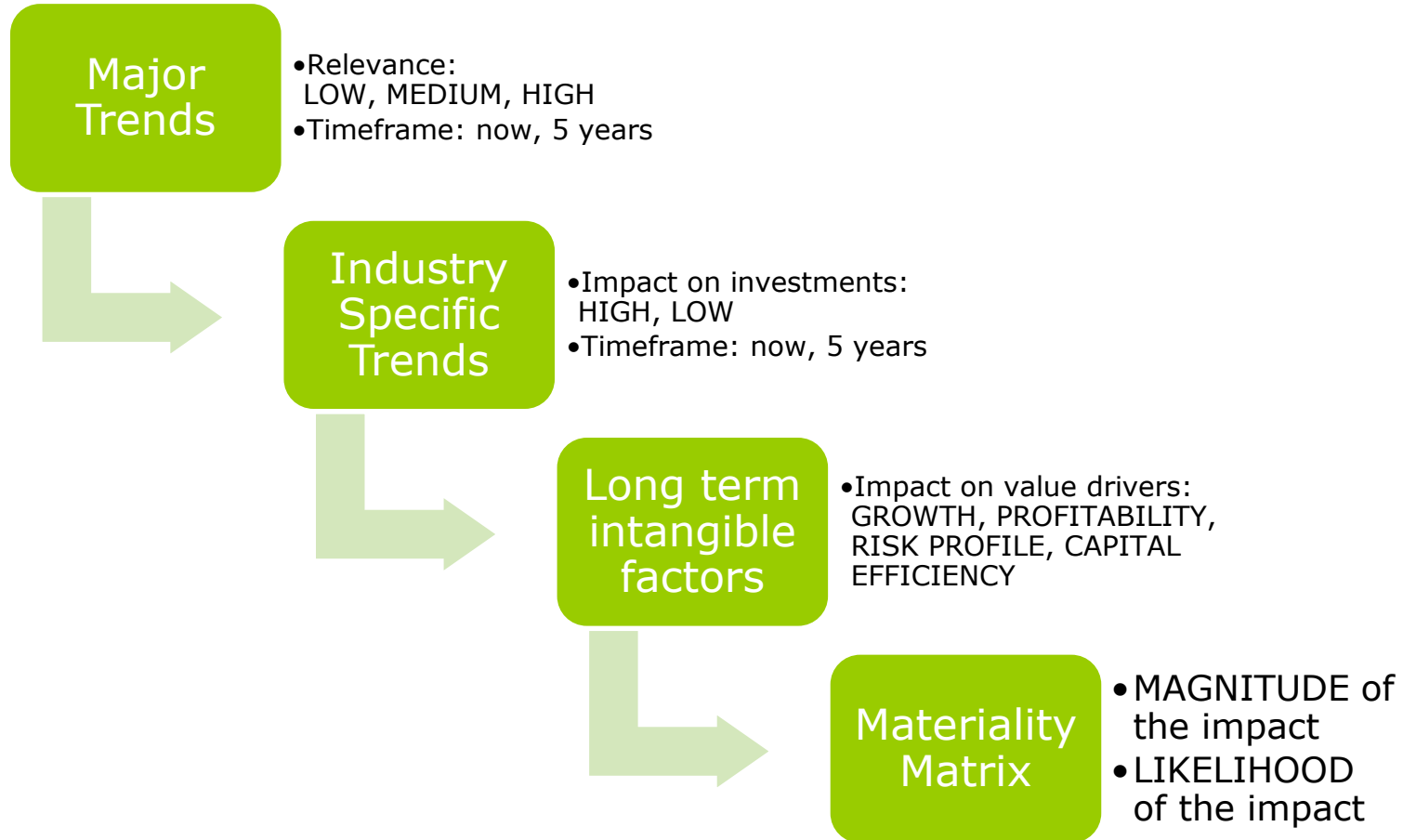
- Intellectual capital
- Customer capital
- Manufactured capital
- Human capital
- Environmental capital
- Social capital
- Financial capital & business model

#### Impact on Financials:

- Growth (Revenue)
- Profitability (Costs)
- Capital Efficiency
- Risk profile



# Industry Materiality Analysis Process





## Megatrends are Shaping the World

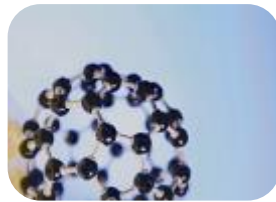
Accelerating Global Changes  
Exceeding Earth Carrying Capacity  
Shifting Demographics & Consumer Behavior

### Increased Regulation



- **Governance**
- **Anti-trust regulations**
- **Consumer protection**

### Accelerated Innovation



- **Co-creation capabilities**
- **Innovation Management**

### Natural Resources Scarcity



- **Resource efficiency**
- **Innovative materials**
- **Agribusiness**

### Climate Change



- **Agriculture**
- **Reconstruction**
- **Infrastructure**
- **Health**

### Demographic Shifts

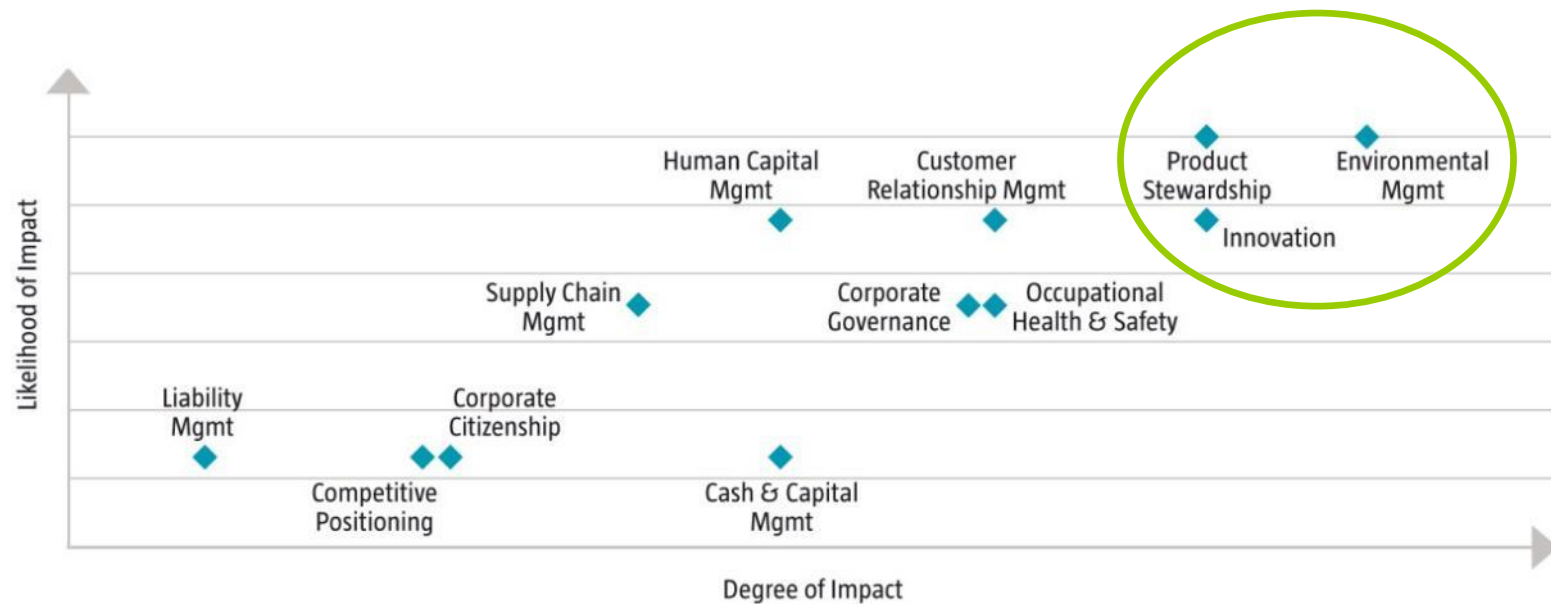


- **Scarcity skilled workforce**
- **Health costs**
- **Nutrition**

Competitive advantage for companies with better management of risks and opportunities

# Sustainability Factors prioritized by Likelihood and Degree of Impact

## Example: Chemical industry



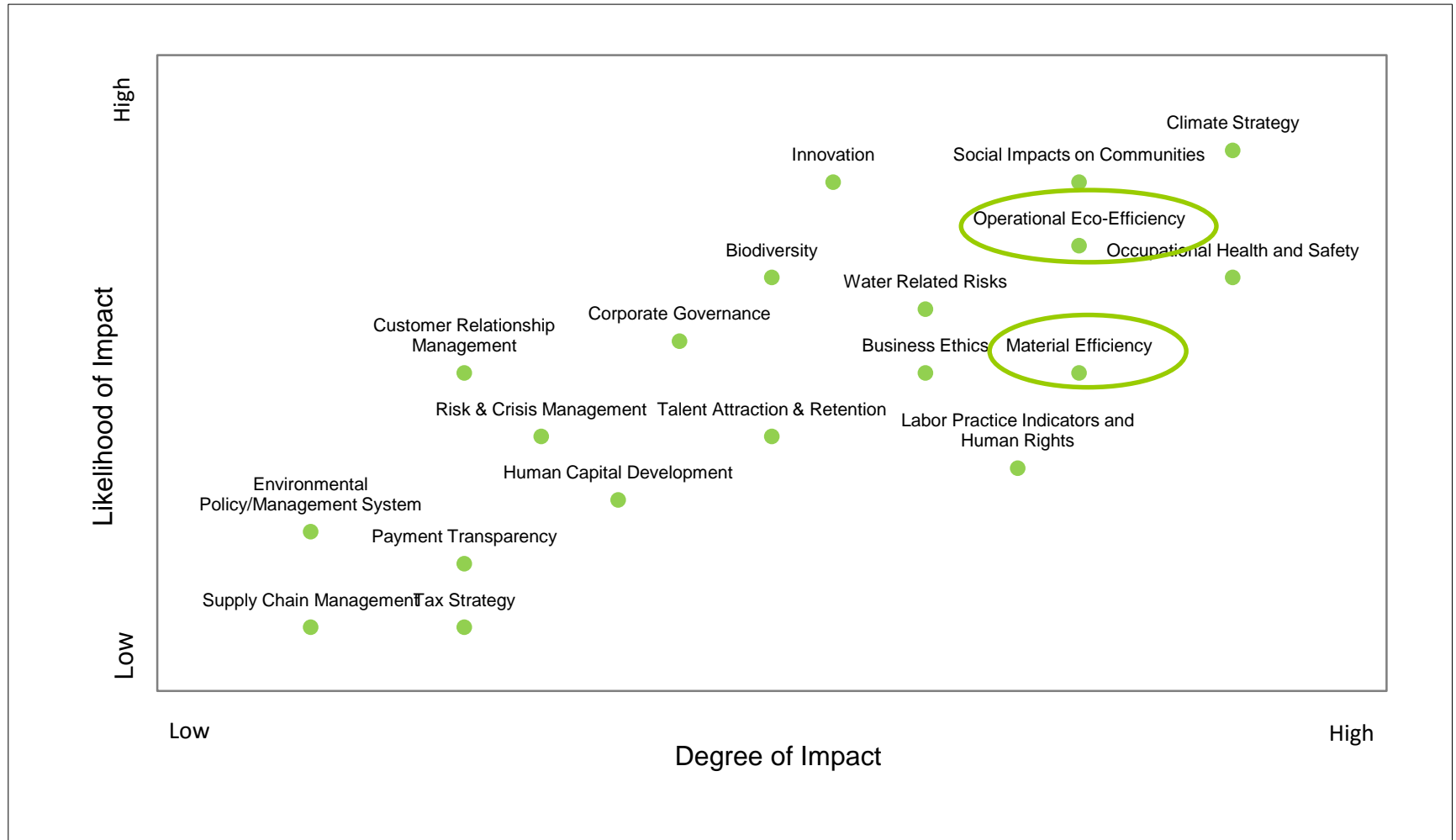
## Most Material Aspects

- Product Stewardship
- Environmental management
- Innovation management

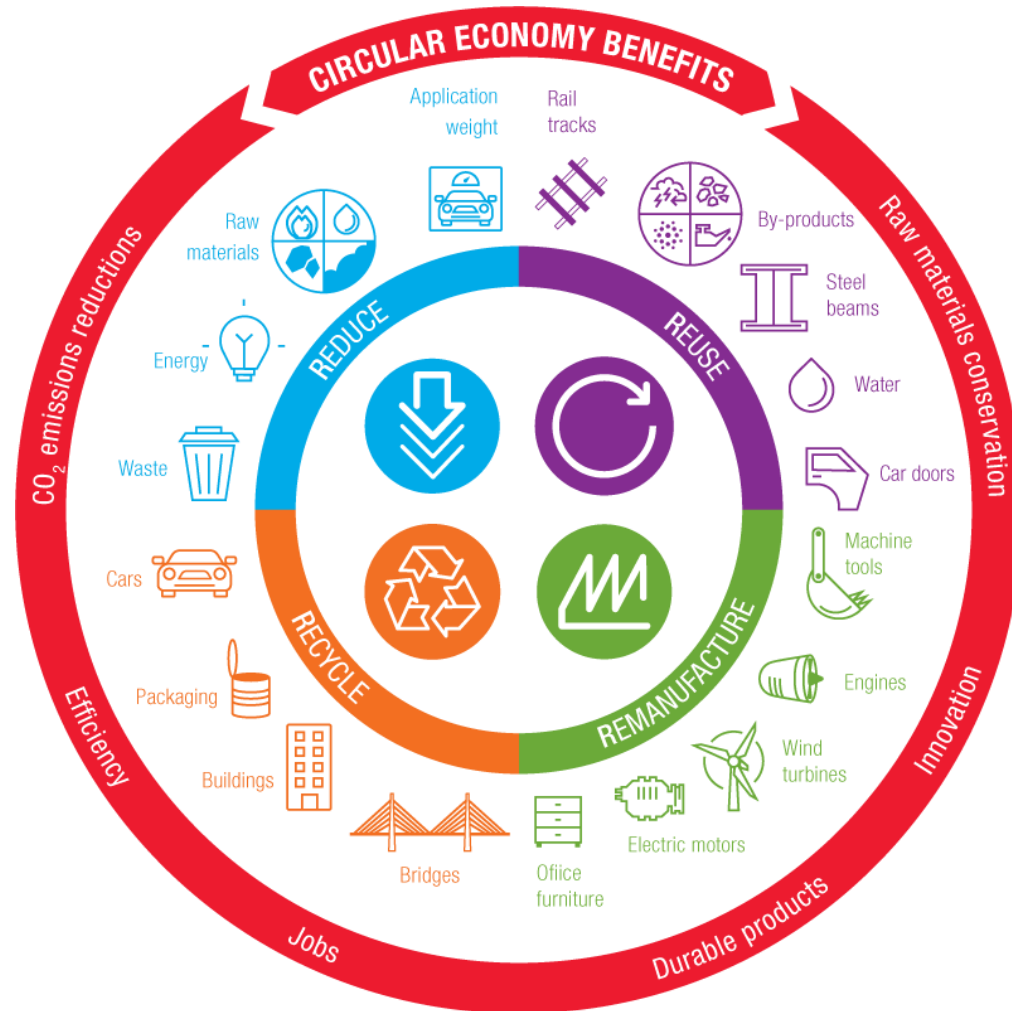
**Circular economy**



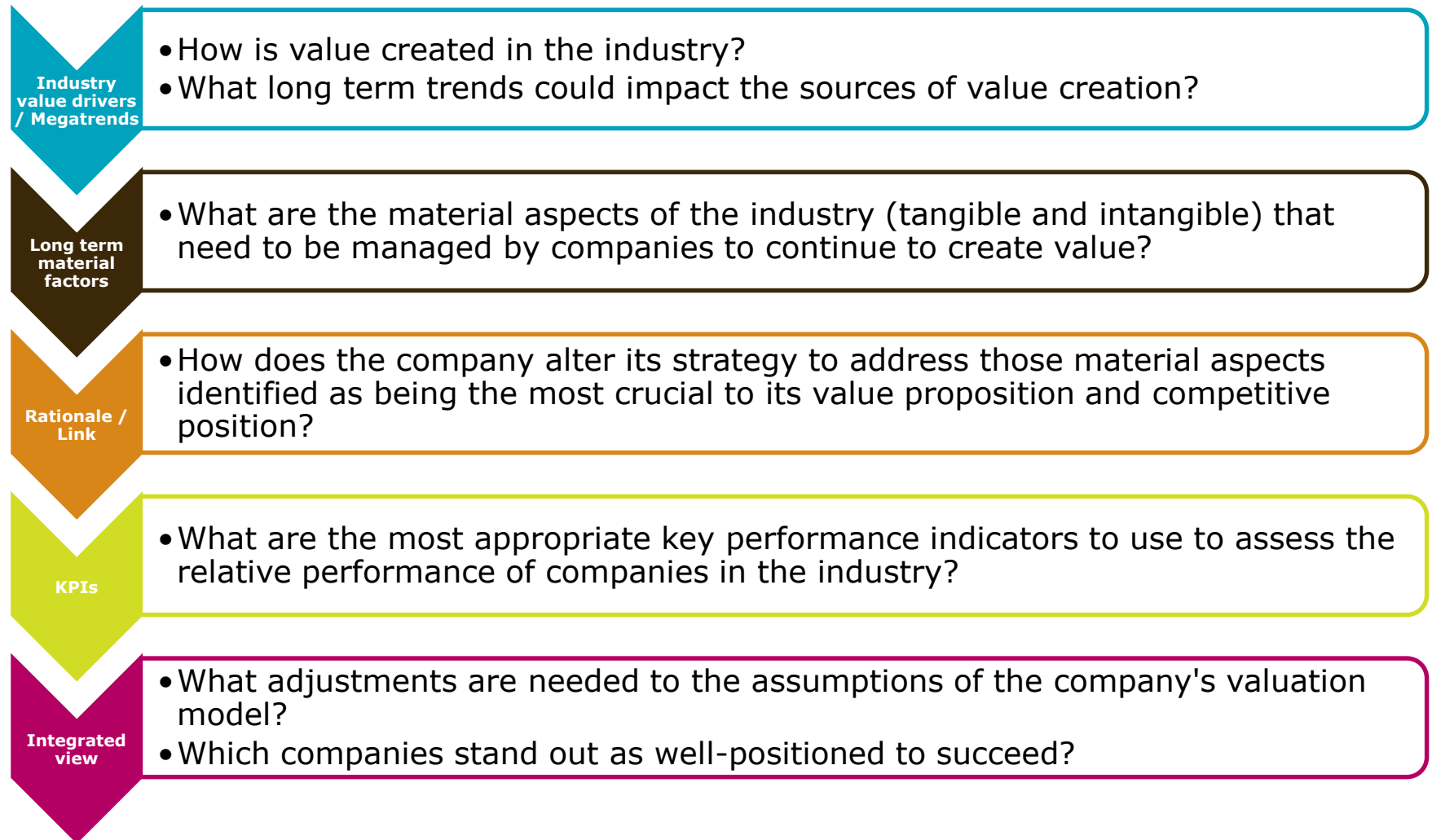
# Materiality Matrix for the Steel Industry



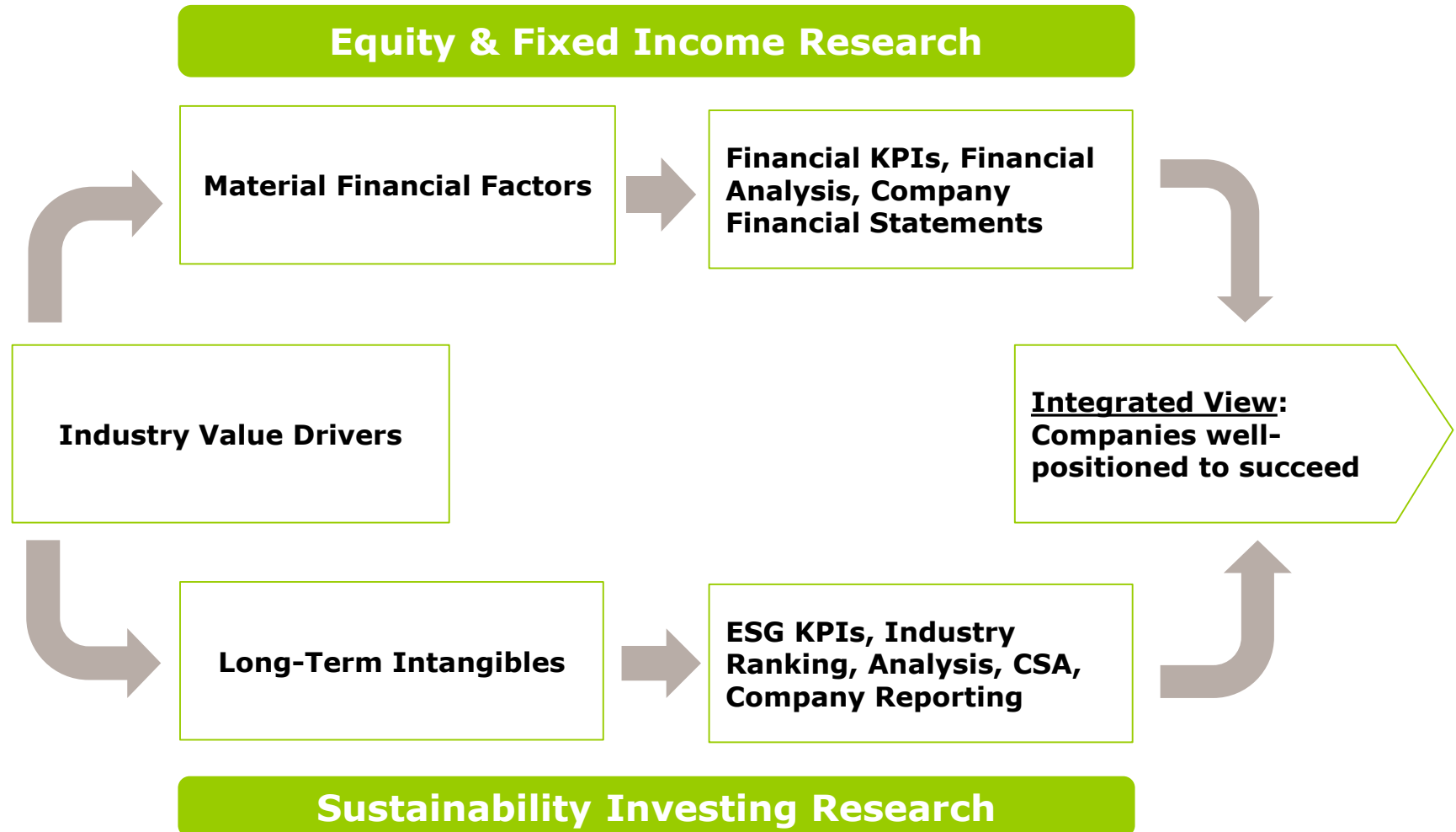
# Material Efficiency: Steel Industry



## Integrated View on Company's Valuation



# Integration of ESG in fundamental research





## Agenda

### Financial Materiality of Sustainability

1. RobecoSAM: Short Profile
2. Financial Materiality of Sustainability
3. Shifting to a Long Term Investment Horizon



### 3. Shifting to a Long Term Investment Horizon

# Move from Short term to Long-term Investing

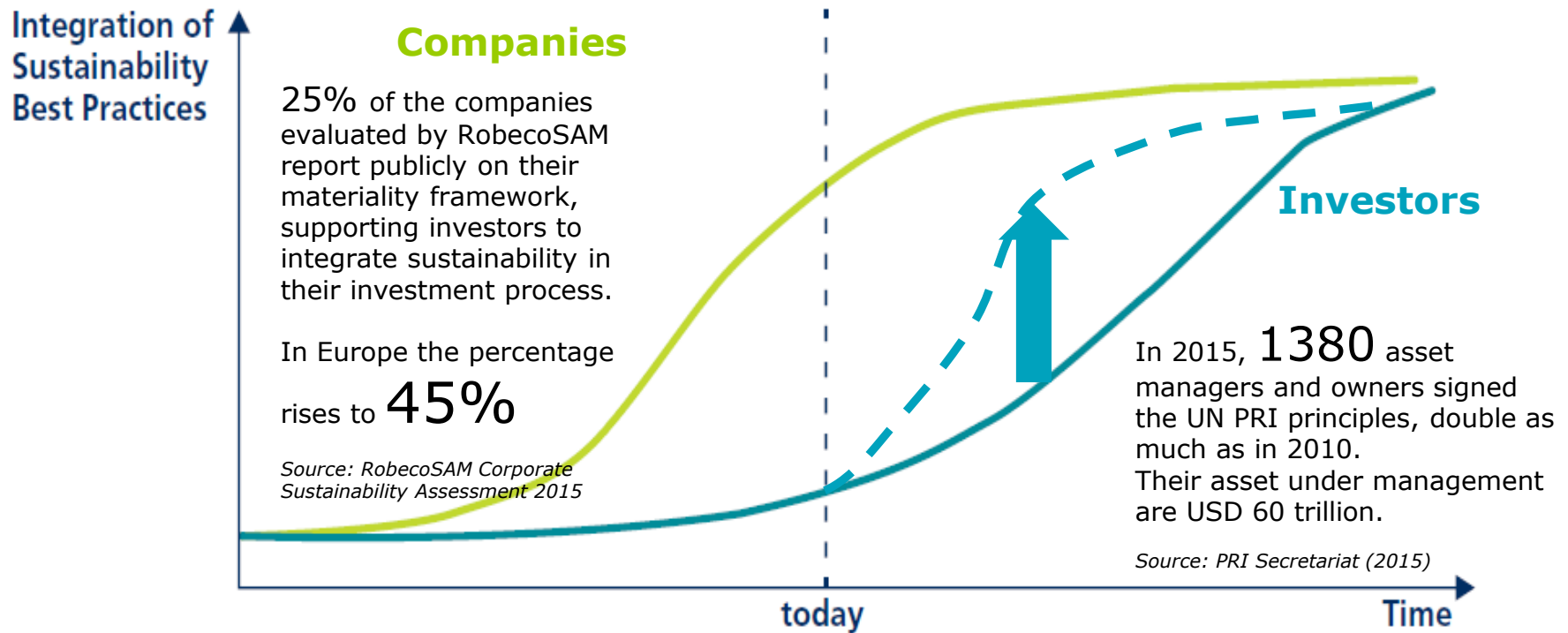
## Short-termism

- The **Disconnect**:
  - 78% of C-Suite executives indicate pressure to deliver financial results 2 years or less
  - 86% of these executive claim they would be more successful if they made decisions oriented toward a longer-term time frame (Source: Focusing Capital on the Long Term, McKinsey & Company and the CPPIB, 2013)
- The result: sub-optimal decisions for creating long term value which finally generate stock's pricing inefficiency, excess volatility, and bubbles.
- Missed investments from companies have negative consequences in the economy impacting GDP growth, employment levels and investment returns for savers.

## Move to Long-term horizon for Investors and Companies

- Strategies and reporting longer than 3 year time frame
- Metrics and incentives that are longer term
- Will generate positive impact on investment returns, company performance with positive impacts on economy and society.

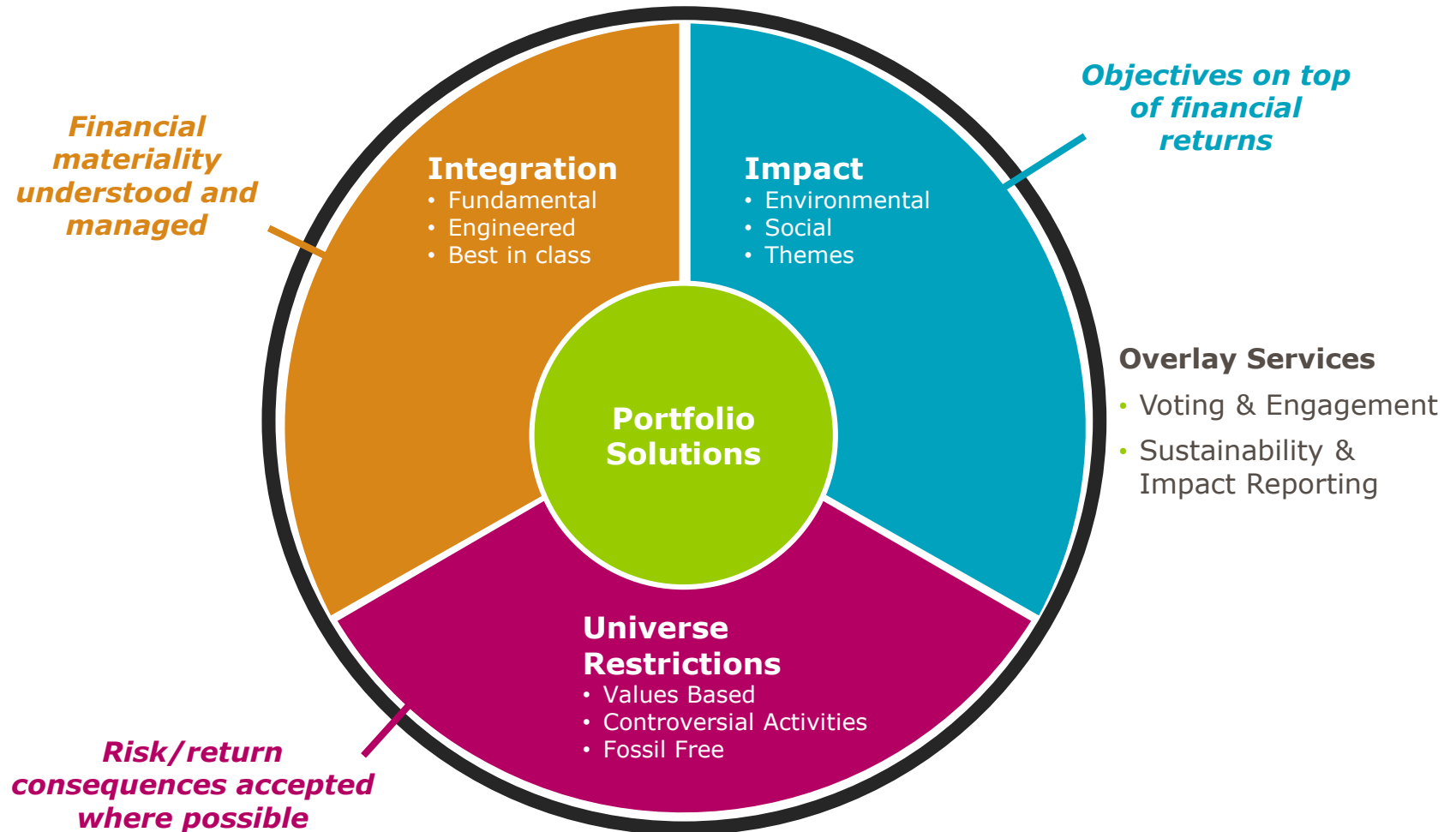
## Closing the ESG Integration Gap



Based on a series of industry studies, the chart above depicts the extent to which companies and investors have integrated sustainability into their core business, and where we stand today.

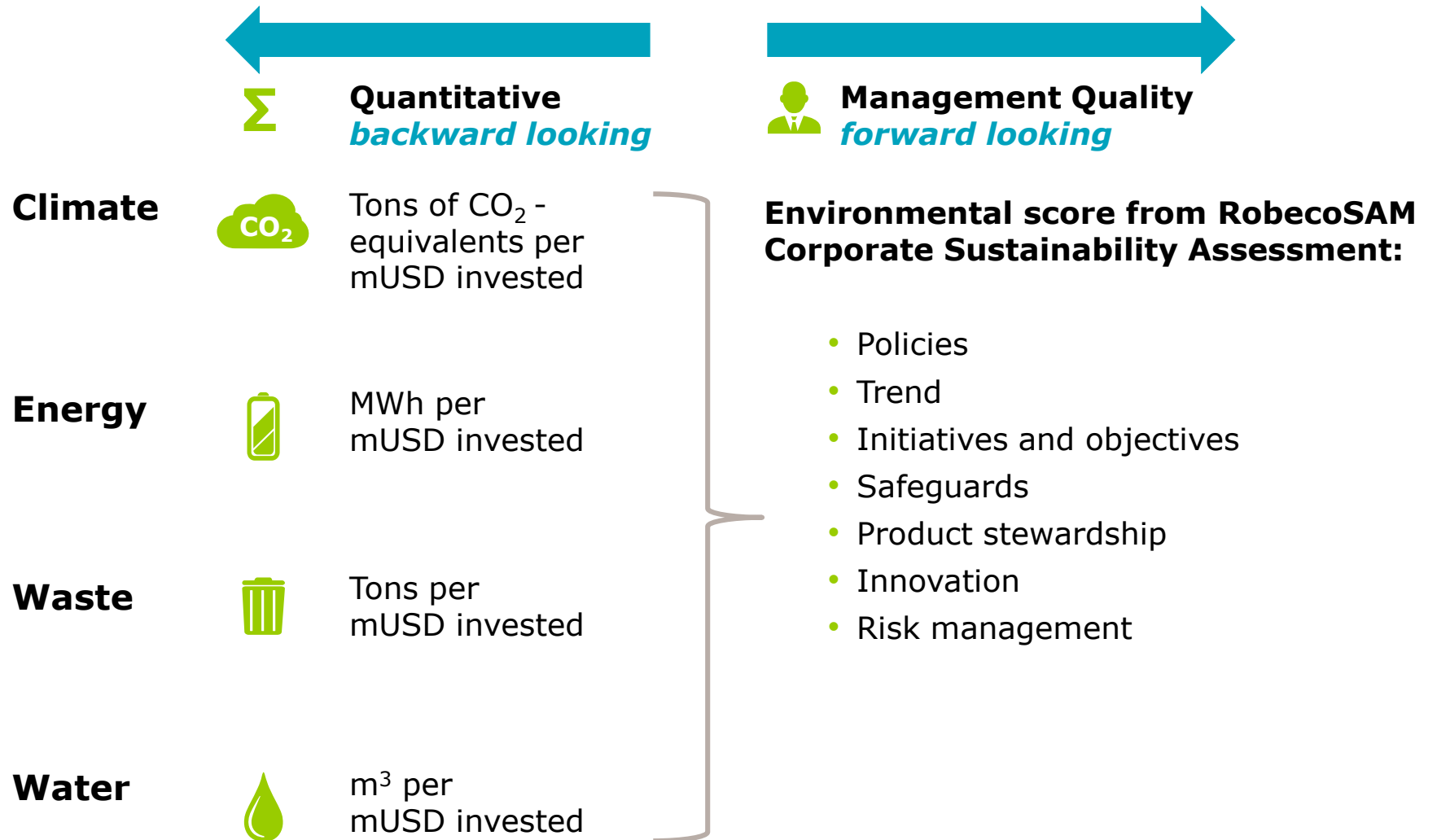
# Sustainability Investing Approaches

Consistent across asset classes Equity – Credits – Government Bonds investment capabilities





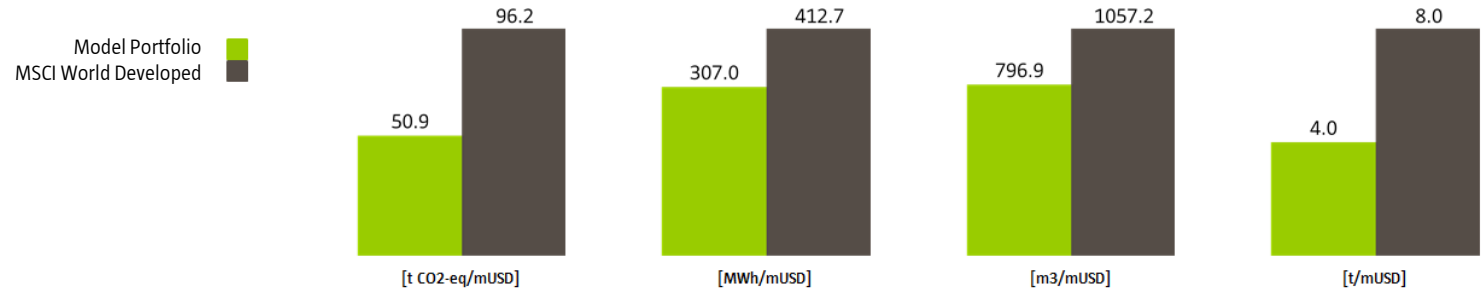
# How to measure environmental impact as investor?





# Impact Report – Impact Model Portfolio

## More than 20% Impact relative to the benchmark



Impact per mUSD invested	GHG Emissions - Scope 1 & 2	Energy Consumption	Water Use	Waste Generation
Unit per year	[t CO <sub>2</sub> -eq/mUSD]	[MWh/mUSD]	[m <sup>3</sup> /mUSD]	[t/mUSD]
Impact	45.2	105.6	260.2	3.9
<b>Impact (%)</b>	<b>47%</b>	<b>25%</b>	<b>24%</b>	<b>49%</b>
Savings/mUSD*	17 🚗	27 🏠	5 🚰	7 🏠

### Impact total invested: USD 100m

Portfolio Footprint	5,097	30,702	79,698	407
Benchmark Footprint	9,626	41,272	105,723	805
Impact	4,528	10,569	26,024	398
Impact Equivalent*	1,741 🚗	2,724 🏠	548 🚰	896 🏠

As of 31.12.2015

**\*European average figures per year**

Average carbon dioxide emissions from new passenger cars per year; average 20000 km and 130 g CO<sub>2</sub>-eq/km; in t CO<sub>2</sub>-eq (source: www.eea.europa.eu)

Average electricity consumption per household and year; in MWh (source: www.ec.europa.eu/eurostat)

Average water consumption per person and year; in m<sup>3</sup> (source:www.eea.europa.eu)

Average waste generation per household and year; in t (source: www.ec.europa.eu/eurostat)

2.6  
3.9  
47.5  
0.4

# Impact Measurement & Valuation

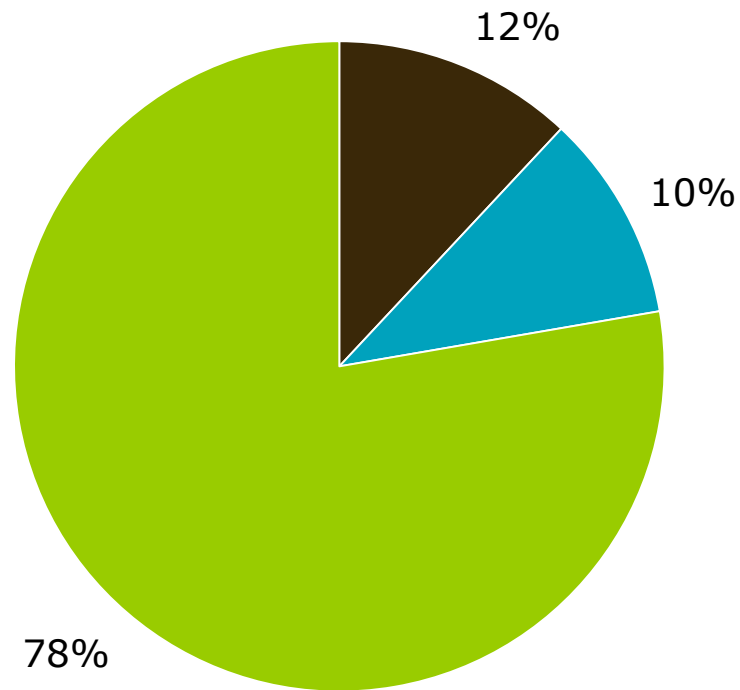
**A total of six questions were introduced in 2016**

These questions are:

- Business Programs for Social Needs
- Measuring Social Benefits
- Disclosure of Programs for Social Needs
- Impact Valuation
- Valuation Type
- Valuation Disclosure



## Almost 80% report they measure and value their impacts

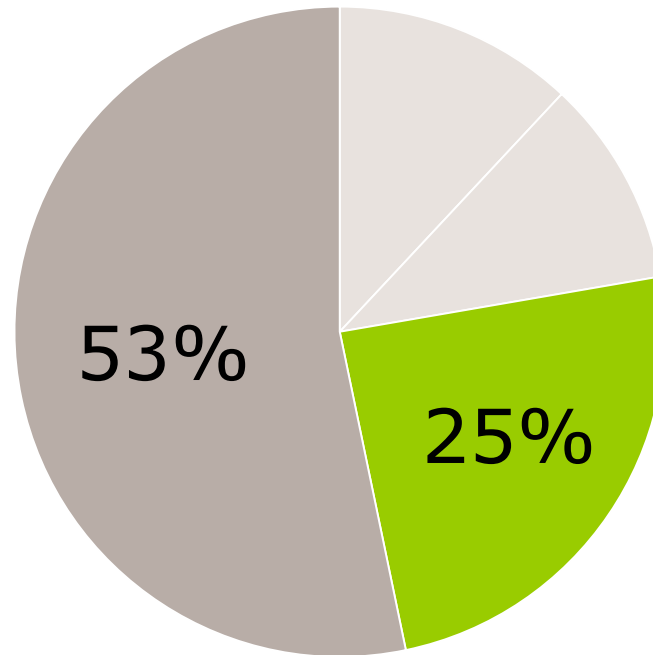


▶ We looked at 184 companies  
In 30 Countries  
Across 15 Industries

- ▶ We asked 3 simple questions:
1. Do you measure & value your impacts?
  2. Type of valuation?
  3. Disclosure

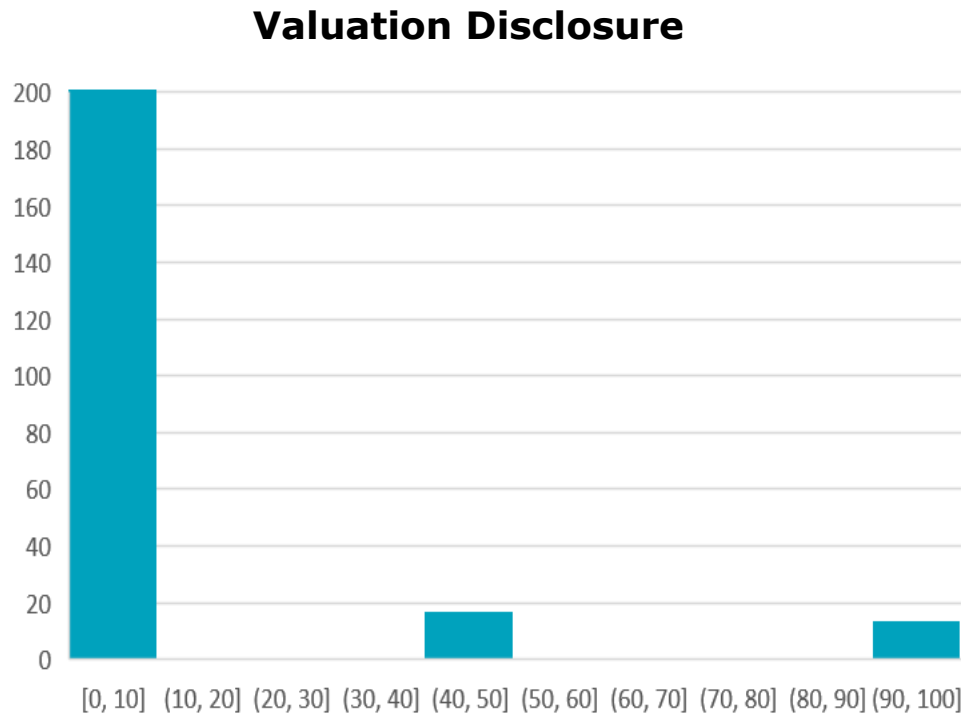
■ No      ■ In Progress      ■ Yes

## 25% measure and value their impacts



- 
- No
  - In Progress
  - Yes, and yes
  - Yes, but no
-

## Reporting on Impact Valuation



Generally, disclosure on impact valuation is absent.

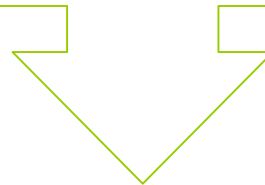
Disclosure is expected on:

- Active Program: reporting on status of the program, valuation done or in development
- Program Coverage: products, countries or regions, business units
- Identification of Externalities: one or more externalities has been identified and valued
- Valuation: qualitative, quantitative, monetary
- Methodology or Results provided: explanation on evaluation methodology, or results of the valuation.

*Note: The charts cover the scores of all participating companies to the RobecoSAM Corporate Sustainability Assessment from all industries*

## 3 Tips for Corporations

- **Start with the “homework”** ... make sure your product and operations are environmentally, socially, and economically sustainable. Prove it by quantifying your benefits
- **Move on to your supply chain** ... and do the same
- Understand **what the societal needs are** and how your company can **help to solve** them. Steer your **company strategy in that direction** ... and do not omit to measure the impact



Consider the megatrends as an **opportunity and not as a risk!**

## Contact us in case of questions



**Jvan Gaffuri**

Senior Manager Sustainability Services

+41-44-653 1254

[jvan.gaffuri@robecosam.com](mailto:jvan.gaffuri@robecosam.com)

[www.sustainability-benchmarking.com](http://www.sustainability-benchmarking.com)

[www.sustainability-indices.com](http://www.sustainability-indices.com)

**RobecoSAM Headquarters:**

Josefstrasse 218

CH-8005 Zürich

Switzerland

## Disclaimer

**No warranty** This publication is derived from sources believed to be accurate and reliable, but neither its accuracy nor completeness is guaranteed. The material and information in this publication are provided "as is" and without warranties of any kind, either expressed or implied. RobecoSAM AG and its related, affiliated and subsidiary companies disclaim all warranties, expressed or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose. Any opinions and views in this publication reflect the current judgment of the authors and may change without notice. It is each reader's responsibility to evaluate the accuracy, completeness and usefulness of any opinions, advice, services or other information provided in this publication.

**Limitation of liability** All information contained in this publication is distributed with the understanding that the authors, publishers and distributors are not rendering legal, accounting or other professional advice or opinions on specific facts or matters and accordingly assume no liability whatsoever in connection with its use. In no event shall RobecoSAM AG and its related, affiliated and subsidiary companies be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of any opinion or information expressly or implicitly contained in this publication.

**Copyright** Unless otherwise noted, text, images and layout of this publication are the exclusive property of RobecoSAM AG and/or its related, affiliated and subsidiary companies and may not be copied or distributed, in whole or in part, without the express written consent of RobecoSAM AG or its related, affiliated and subsidiary companies.

**No Offer** The information and opinions contained in this publication constitutes neither a solicitation, nor a recommendation, nor an offer to buy or sell investment instruments or other services, or to engage in any other kind of transaction. The information described in this publication is not directed to persons in any jurisdiction where the provision of such information would run counter to local laws and regulation.

© 2017 RobecoSAM AG