



Workshop Summary

Valuation Workshop, Kuala Lumpur 31 July 2008

“Selling sustainability value to the capital markets”: Dialogue for companies and investors

Participating Companies & Institutions

Asian Development Bank, Manila	KPMG Financial Advisory Services	PRI
BNP Paribas	Lafarge Malayan Cement Berhad	PT Chevron Pacific Indonesia
Bursa Malaysia Berhad	Malayan Banking Berhad	Public Investment Bank Bhd
Chemical Company of Malaysia	Malaysia Institute of Accountants	Shell Malaysia Trading
Counterpoint	Maybank Berhad	Sime Darby Holdings Bhd
Digi Telecommunications Sdn Bhd	Mitsubishi UFJ Trust, Japan	SK Energy Korea
EUMCCI	Mn-Services, Netherlands	Skali Web Services Sdn Bhd
F&C Asset Management, London	New Zealand Superannuation Fund	TCE Int'l, Cambodia
Fox Communications Sdn Bhd	OWW Malaysia and Singapore	Tesco Stores (M) Sdn Bhd
Green Edge Consult Sdn Bhd	Perunding Good Earth Sdn Bhd	TNB Research Sdn Bhd
HeiTech Padu Berhad	Petroleum Nasional Berhad	UBS
Kenanga Investment Bank Berhad	Pixarus Communications Sdn Bhd	UNEP FI
KoSIF (Korea Sustainability Investing Forum)		WBCSD
		WRI

Background

Background and objectives of the meeting

On the 31th of July 2008, the World Business Council for Sustainable Development (WBCSD), the Business Council for Sustainable Development of Malaysia (BCSDM) and the United Nations Environment Programme Finance Initiative (UNEP FI) held a workshop with Malaysian and South Asian companies and investment institutions to discuss the integration of sustainability (SD) or environmental, social and governance (ESG) performance into the company valuation processes of capital markets. This workshop was convened as a part of the International Corporate Social Responsibility Conference 2008: Where Responsibility meets the Bottom Line – Kuala Lumpur 29-31 July 2008.

This workshop is also part of a series of valuation workshops being run by the WBCSD and UNEP FI. The workshop series was initiated based on the general view that for business to wholeheartedly take on the role as provider of goods and services that address global challenges, markets and market mechanisms (such as business valuations) need to be updated to promote sustainable development. When so designed, they will provide incentives for companies to drive innovation in goods and services that address global challenges and promote sustainable development.



The aim of these workshops is to provide a platform for business and the investment community to come together to discuss common challenges and build consensus on how sustainable development can be valued in the capital markets. This work builds on past work conducted by the WBCSD (Finance Sector project, Accountability & Reporting project, 2007 workshop on communicating sustainable development with the capital markets) and the work of UNEP FI in raising awareness of environment, social and governance issues (ESG) and its importance for investment decisions.

Workshop Summary

The half day gathering sought to explore the fundamental questions: **What do we need to value sustainability in the capital markets? What are the unique challenges and opportunities for Asian companies and financial institutions?**

The workshop explored these questions through the following exercises:

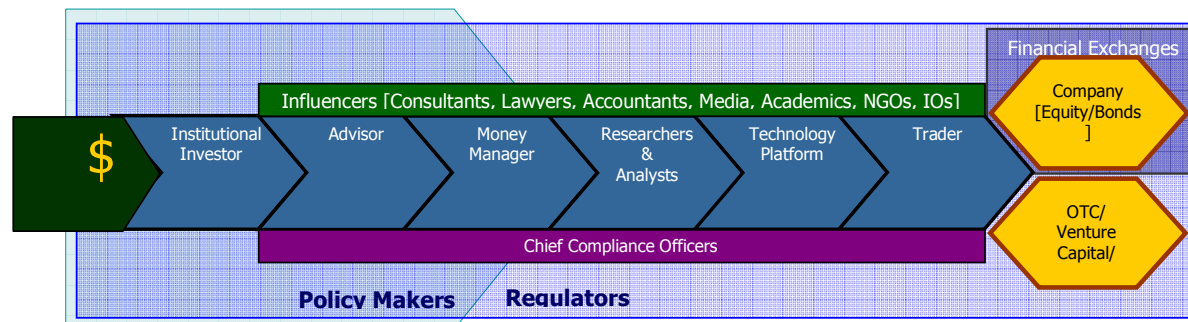
A taking stock of existing initiatives to identify the key drivers and barriers to the mainstream consideration of ESG issues in company valuation exercises and capital market pricing mechanisms;

A platform for both investor and investee company representatives to discuss, from each perspective, what is needed to make capital markets more efficient in valuing sustainability (ESG) factors; and

“Speed-dating” – A simulated investor-investee conversation to formulate a common understanding of the material importance of sustainability (ESG) issues to business value and investment decisions.

1. Taking stock of existing initiatives (against the investment value chain)

In order to address the question, *what do we need to value sustainability in the capital markets*, a common understanding of the tools and initiatives available was assessed. UNEP FI and the WBCSD performed a review of the initiatives and institutions that have added a layer of sustainability-related information to the conventional information flow over the past decade.



The Investment Value Chain

The investment value chain (figure above) helps portray the flows of company-related information from investee companies into the capital markets. This information will flow into the valuation models of mainstream capital market actors and will therefore influence the



capitalization of a given company if the information is material to the company's financial success, and delivered in a format that the investment community can efficiently and effectively use for its purposes.

The review of existing initiatives found three approaches emerging (when mapped against the investment value chain):

- I. Businesses providing an ESG approach / sustainability oriented services along the investment value chain ("The Pioneers").
- II. Initiatives providing tools / thinking to integrate ESG into the mainstream actors of the investment value chain ("The Drivers").
- III. Conventional, mainstream actors (or new businesses) integrating ESG into mainstream investment decisions, undifferentiated ("The Integrators").

This stock taking exercise found that despite the increasing momentum, the vast spectrum of initiatives seeking to address ESG integration have been most successful in helping companies and financial institutions communicate ESG value internally - - rather than helping market actors value sustainability in mainstream investment decisions.

2. Perspectives on sustainability (ESG) value and valuation

In two break-out sessions, investor and investee company representatives were asked to formulate their positions with respect to the materiality of ESG factors, and the way information is currently delivered to the capital markets.

Company perspectives

Companies offered the following examples of company information relevant to determining sustainability value

- Materiality - Demonstrated awareness of sustainability issues material to the company - - i.e. through policies, principles and mechanisms. Material issues, for the south Asian context, included: Lack of skills / education (training, translation of knowledge to skills, younger generation wants a career path that moves faster up corporate ladder); deforestation (past reputational issue to sustainable forestry practices); sustainable product management throughout the supply chain; social and cultural protection (understanding local business perspective). Climate change noted as an emerging issue, but not the top priority.
- Customers & suppliers - Sophistication in understanding customers and suppliers in order to communicate the benefits of sustainable products and business management.
- Measurement - Sophistication in measurement systems and processes that allow the company to report sustainable value in terms of progress and impact on value to society.
- Employees – Demonstrating diversity and inclusive employment practices. Management of gender issues highlighted.
- Governance & accountability – CEO and board responsibility for CSR / sustainability issues is very important. Need to demonstrate skill levels at senior executive levels. Governance systems need to reflect CEO and board ownership of these issues (not just communications).



- Opportunity space – demonstrate the cost savings and profit opportunities to managing material sustainability issues.

Companies offered the following insights into what we need to value sustainability in the capital markets

- Reporting - Include CSR / sustainability value in quarterly and annual corporate reporting
- Auditing – Need auditing / verification requirements for MNCs in Asia (not currently as rigorous as Europe)
- Communicate corporate culture – i.e. worker satisfaction. To do this, bring analyst / fund managers to the company's front line.

Investor perspectives

Investors offered the following examples of company information relevant to determining ESG value

- ESG issues - focus on climate change, energy efficiency, water and social issues such as poverty and business models that incorporate these areas.
- Skill shortage and renewable energy particularly important in the south Asian context.
- Japanese companies tend to focus on energy efficiency but investors also interested in labour and governance issues.
- Regional sector investments - Malaysia, China, India, SEA.

Investors offered the following insights into what we need to value sustainability in the capital markets

- Evaluation - Investors need to be clear about what they want and how to evaluate and make requirements transparent – need accepted process. Shariah compliant investing seen as a good example (very strict "7 gates to heaven" concept).
- Communication – Investors need on going interaction with investees, interaction is mostly with fund managers not the companies and decisions dependent on researchers' data. Companies must provide an annual report.
- Disclosure – Investors are not getting enough information, e.g. on environmental issues in S.Asia. Different sectors should come together to address issues relevant to their industry, e.g plantation, IT, construction.
- Government support / incentives - Malaysian government has had some success with incentives to promote sustainability. Some investors cite barriers of government and policies however.
- Capacity building – Investors need more robust understanding of ESG issues i.e. lack of knowledge of innovation as a solution. CEOs also lack knowledge, therefore cannot supply data.
- Assurance / certification for accountability.

3. “Speed-dating” to a common understanding of material SD (ESG) value

The main event of the workshop was the simulated one on one investor-investee conversations facilitated in a 'speed-dating' format. Each company participant, investee, (paired with an



asset manager, investor) was given ten minutes to articulate its top three material SD (ESG) issues to his/her asset manager “date”, and answer additional questions from the investor.

This activity aimed to drive companies to communicate SD (ESG) value in investor language. Asset managers were challenged to interpret the relevance of the ESG issues presented into overall business value (to be presented to the mainstream money managers).

Examples of company specific issues, financial relevance and quantifiable data required were discussed.

Summary

Both companies and investors agreed that the following are of particular relevance to valuing SD (ESG)

- Management systems to demonstrate management of sustainability issues
- Measurement systems need to include measurement of impacts of sustainability issues on the company's bottom line financials
- CEO engagement / support of ESG

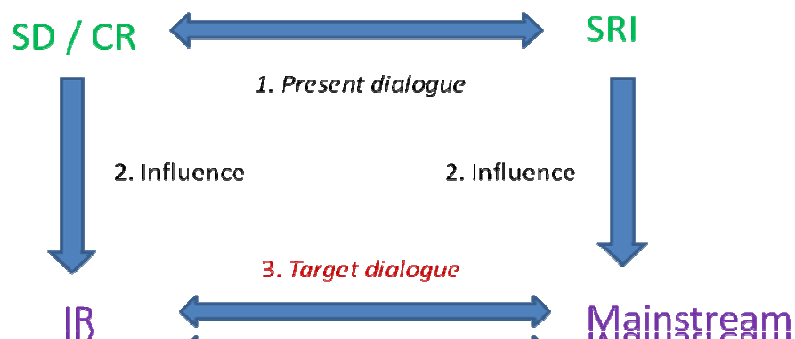
Summary of key take-aways

What do we need to value sustainability ESG in the capital markets?

Both companies and investors agreed that we need more of the following to value SD (ESG)

- More inquiry from investors needed - More questions about sustainability performance from investors at quarterly reporting
- Benchmarking of best practice (sector by sector) needed – There was disagreement on who might be the best body to do this. Cost-benefit analysis for internal capacity building was a related point
- Expert advisors needed – Agreed that it is difficult for one investor / manager to have broad knowledge of all issues for every company. The need to ensure the quality of advisors also expressed
- Online tools “open SRI” needed - Online SRI ratings, online tools for the UN PRI

Key gap (for both investors and investee companies) identified – need to influence and facilitate similar conversations taking place between investor relations and mainstream money managers. (Discussing material ESG value) - - per figure below.





Next Steps

This workshop series will continue with workshops planned in different global markets to the end of 2008. Please see below the complete schedule of workshops both completed and to come in 2008.

Findings from all workshops will be synthesized at the end of the year and will seek to draw conclusions in three areas:

1. Define the attributes of sustainability / ESG value agreed by both companies and financial practitioners. (What are the sustainability issues that are now considered core business or material business issues?)
2. What are the key data sets that companies need to disclose to be evaluated on their performance in the areas agreed above.
3. How can this data be integrated into investment decision-making?

Workshops (2008):

Completed

21-22 January 2008: Pilot Workshop – London, UK (with a focus on the UK and European markets)

12 MARCH 2008: Scale up Workshop – Montreux, SWITZERLAND (with a focus on WBCSD companies)

11 JULY 2008: New York City, US (with a focus on North American market)

31 JULY 2008: Kuala Lumpur, MALAYSIA (with a focus on the South Asian market)

Next workshops

OCTOBER 22 2008: Geneva, SWITZERLAND (with a focus on IR & mainstream money managers)

OCTOBER 30 2008: Vienna, AUSTRIA (with a focus on the Central & Eastern Europe market)

NOVEMBER 4 2008: Johannesburg, S. AFRICA (with a focus on the African market)

NOVEMBER 2008 (tbc): Tokyo, JAPAN (with a focus on the North Asian market)

The following summary note has been prepared in order to capture the key themes from this WBCSD – UNEP FI workshop. Our intention is to provide the reader with an overview of the key discussion points and outcomes rather than precise record of all statements. As with any meeting of this nature, many of the points are subject to interpretation; any inaccuracies are unintentional and are the responsibility of the authors.