

Extra-Financial Analysis and Investment Processes

Eric Borremans
Head of Sustainability Research



What is “extra-financial” analysis?

“Systematic assessment of corporate governance,
environmental and social responsibility”

Example - Automotive Industry

> Financial Criteria

- Trends in developed markets
- Emerging markets exposure
- Timing and margins of new models
- Incentives to customers
- Supply cost increases
- Operational efficiency and flexibility
- Product quality and recalls
- Currency and interest rate exposure

> Extra-Financial Criteria

- Corporate governance - role of family/state shareholders
- Fuel economy - CO2, smog and particulate emissions
- New technologies (hybrids, fuel cells)
- End-of-life vehicles
- Worktime flexibility
- Pension liabilities
- Employment practices in supply chain

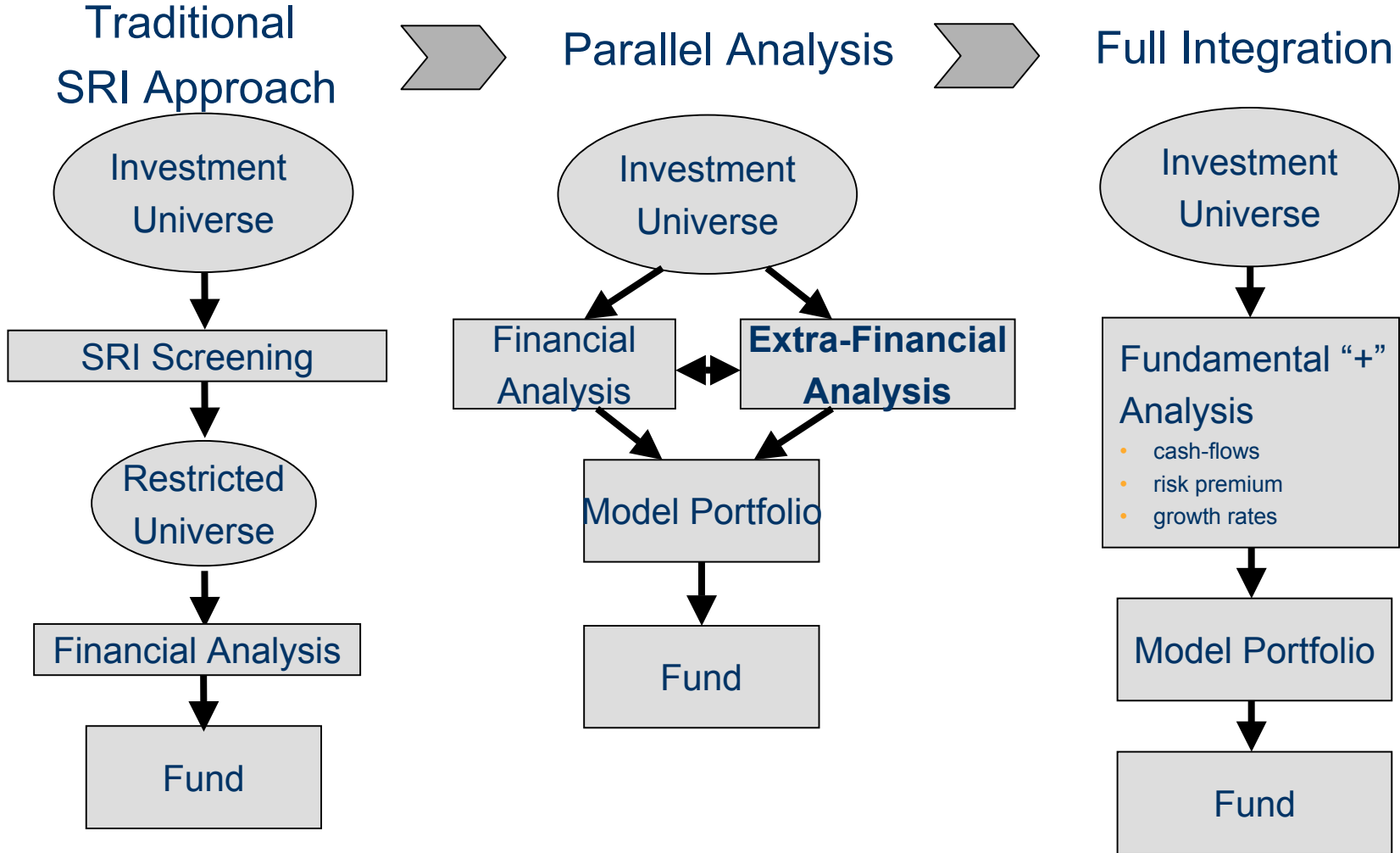
Why is “extra-financial” analysis becoming more relevant to investment decisions?

- > Well-governed companies tend to outperform poorly governed companies
 - a trend exacerbated by financial scandals

- > Environmental and social issues are increasingly regarded as “material” and financially relevant
 - more stringent legislation
 - changing consumer preferences
 - increasing NGO pressure

**A more complete view of
investment risks and opportunities**

A path to mainstreaming



Source: BNP PAM



Some Challenges

- > Understanding and acceptance of ESG
- > Competing for access time with companies
- > Evaluation and remuneration of sell-side research
- > Integration with in-house valuation models, ratings and investment recommendations
- > Performance attribution
- > Application to different asset classes

Evaluate and Reward Sell-Side Research

> Yearly questionnaire sent to all brokers

“Please describe your current and projected product offering in the field of corporate governance, environmental social responsibility (...)”

- “N/A”
- “No specific product yet”
- “Theme-based reports at the moment. Our project is to instill ESG considerations in company reports as a way to provide a more comprehensive assessment of the risk premium attached to the company”

> Extra-financial analysts have a stake in the voting process

> Participate to Extel survey