The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing

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UNEP FI Asset Management Working Group

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UNEP Finance Initiative Governance and Implementation Overview

**UNEP**
(UN Member Governments)

**Finance Initiative**
(160 banks, insurers, asset mgrs)

**Elected Steering Committee**

**Resulting Cooperative Work Streams**

### Issue Based Work Groups
- Asset Management
- Climate Change
- Env. Mgmt., Reporting & Indicators
- Insurance
- Property

### Special Projects
- Biodiversity
- Finance & Conflict
- PRI
- Water

### Regional Programmes
- Africa
- Asia-Pacific
- Central and Eastern Europe
- Latin America
- North America
Asset Management Working Group – the genesis

- An increasing number of investors becoming more interested in Environmental, Social and Governance issues
- Little consideration from brokerage houses, analysts and policy makers

April 2003: twelve asset management firms launch an AMWG under UNEP FI to explore and document the materiality of ESG criteria as they relate to the portfolio management.
- Sent letter to more than 50 international brokerage firms requesting special sector reports on extra financial issues
- 14 reports from 11 brokerage firms confirmed
- June 2004: launch at UN Global Compact Leaders Summit
- Enthusiastic welcome from the financial community: over 100,000 downloads from the UNEP site
The purpose of the Asset Management Working Group is to address the integration of and correlations between corporate governance/sustainability and stock selection. This is accomplished by encouraging action and providing research in:

1. Reviewing corporate governance practices and the relationships between shareholders and companies in different markets.

2. Identifying and analysing relationships between strategic investment drivers and sustainability drivers.


4. Highlighting investment opportunities and risks associated with climate change and biodiversity conservation.
Asset Management Working Group: **MATERIALITY 1**

International Leverage and Expertise:  
Twelve firms, Nine Nations, 1.6 trillion $ AUM

<table>
<thead>
<tr>
<th></th>
<th>Firms</th>
<th>Country</th>
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<tbody>
<tr>
<td>1</td>
<td>Acuity Investment Management</td>
<td>Canada</td>
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<tr>
<td>2</td>
<td>BNP Paribas Asset Management</td>
<td>France</td>
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<td>3</td>
<td>Calvert Group Ltd.</td>
<td>USA</td>
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<td>4</td>
<td>Citigroup Asset Management</td>
<td>USA</td>
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<td>5</td>
<td>Groupama Asset Management</td>
<td>France</td>
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<td>6</td>
<td>Morley Fund Management</td>
<td>United Kingdom</td>
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<td>7</td>
<td>Nikko Asset Management</td>
<td>Japan</td>
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<td>8</td>
<td>Old Mutual Asset Management</td>
<td>South Africa</td>
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<tr>
<td>9</td>
<td>SANPAOLO IMI group</td>
<td>Italy</td>
</tr>
<tr>
<td>10</td>
<td>Storebrand Investments</td>
<td>Norway</td>
</tr>
<tr>
<td>11</td>
<td>ABN AMRO Bank N.V.</td>
<td>Brazil</td>
</tr>
<tr>
<td>12</td>
<td>HSBC Asset Management</td>
<td>Europe</td>
</tr>
</tbody>
</table>
MATERIALITY 1

sectors:

APPAREL
CHEMICALS
CONSUMER ELECTRONICS
OIL AND GAS
PHARMACEUTICALS
INSURANCE
UTILITIES

Contributors:
Debeche Bank Securities
Citigroup Asset Management
Nikko Citigroup Limited
Royal Bank of Canada
Goldman Sachs International
ABN AMRO
West LB Panmure
Dresdner Kleinwort Wasserstein
Nomura
HSBC Securities
UBS
The reports would:

• Identify the ESG issues that are likely to impact company competitiveness and reputation in a particular industry.

• Identify and, to the extent, possibly quantify their potential impact on stock price.
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Asset Management Working Group: **MATERIALITY 2**

14 companies, 7 countries, 2 trillion $ AUM

1. ABN AMRO Bank N.V. Brazil
2. Acuity Investment Management Canada
3. BNP Paribas Asset Management France
4. Calvert Group Ltd. USA
5. CAM Legg Mason USA
6. Groupama Asset Management France
7. Henderson Global Investors UK
8. Hermes Pensions Management UK
9. HSBC Asset Management Europe
10. Insight Investment Management UK
11. Mitsubishi Trust Japan
12. Morley Fund Management UK
13. RCM (a company of Allianz Glob. Invest.) UK
14. Sanpaolo IMI group Italy
MATERIALITY 2 – on the wave of the great success of MAT1, more names from the most prestigious brokerage firms

1. ABN AMRO
2. CM-CIC
3. Deutsche Bank
4. Dresdner Kleinwort Wasserstein
5. Goldman Sachs International
6. JP Morgan
7. Merrill Lynch
8. Morgan Stanley
9. West LB Panmure
10. UBS
Corporate governance and social responsibility - by definition - include an organization’s environmental and health & safety management activities.

Therefore, corporate governance and social responsibility are essential components of sustainability, and prerequisites for a sustainable organisation.
‘Corporate governance will become increasingly important in the global economy and integral to the operations of every company, large and small, public and private’\textsuperscript{1}.

‘In the next decade social responsibility will continue to grow in importance … and become the standard by which all organisations are judged’.

‘Corporate governance and social responsibility affect the whole of the world economy down to the individual worker or pension holder’\textsuperscript{1}

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A socially responsible organisation can expect:

- an enhanced reputation;
- improved stakeholder trust; and
- will be rewarded in the marketplace and their communities.
“In today’s world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy.”

- Alan Greenspan
Global poll of managers who feel that the following factors will become or will remain important in five years, average, per cent

- Climate Change: 55%
- Corporate Governance: 42%
- Employee Relations: 31%
- Environmental Management: 25%
- Health Issues: 19%
- Sustainability: 34%
- Water (Use/Access to Clean Water): 36%

Source: Mercer Investment Consulting; The Observer (UK) - 7 May 2006

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Conclusions

Transparency, good governance and reputation are all crucial to company performance. This is particularly relevant in the financial sector, where trust in capital markets and loss coverage is sensitive to both stakeholders and customers. Linking your company to the United Nations Environment Programme through UNEP FI is a sign of your commitment to identify, promote and realize the adoption of best sustainable practices at all levels of organizational operation. UNEP and the UNEP FI name carry significant economic value, and in partnering with us your organisation will gain worldwide exposure.

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A legal framework for the integration of environmental, social and governance issues into institutional investment

Freshfields Bruckhaus Deringer

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We receive the assets from our clients, but they belong to our clients

Thank you

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UNEP Finance Initiative
Innovative financing for sustainability

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