World Business Council for Sustainable Development

UNEP Finance Initiative
Innovative financing for sustainability

Workshop Outcomes
Valuation Pilot Workshop, London 21-22 January 2008

Participating Companies & Institutions

ALLIANZ	MORLEY FUND MGT	VODAFONE
E.ON	NOVOZYMES	WESTPAC
EURIZON CAPITAL	PRICEWATERHOUSECOOPERS	WESTLB
GOLDMAN SACHS		WRI
HENDERSON GLOBAL	RIO TINTO ALCAN	UN PRI
HSBC INVESTMENTS	STOREBRAND	UNEP FI
KPMG	SUEZ	WBCSD

Workshop Summary

Background and objectives of the meeting

On 21 and 22 January 2008, the World Business Council for Sustainable Development (WBCSD) and the United Nations Environment Programme Finance Initiative (UNEP FI) convened a small group of responsible investment practitioners (asset managers and financial analysts) and their counterparts at investee companies (sustainability and investor relations professionals) to discuss the integration of environmental, social and governance (ESG) performance into the company valuation processes of capital markets.

The impetus for this meeting was the overall impression that despite the surge in sustainability (and CSR) reporting, responsible investment (RI) activities and the increasing number of initiatives and businesses working towards more holistic financial analysis, pricing mechanisms of capital markets appear to remain indifferent to the sustainability performance of publicly listed companies.

From a sustainability standpoint, this situation is unsatisfactory as it is self-evident that only if capital markets adequately capture and reflect the sustainability performance of companies will the latter have the ultimate incentive to entirely integrate ESG considerations into their core business strategy. And it is believed that only then will the corporate community be able to fully align sustainable development with one of their key missions: maximization of shareholder value.

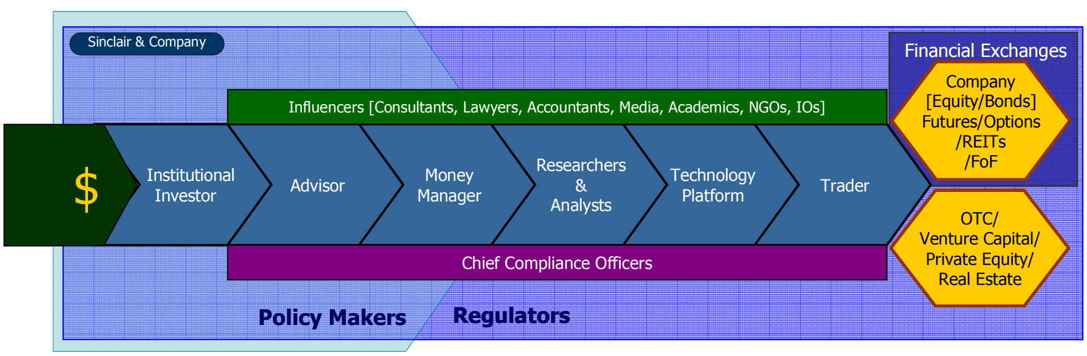
The one and a half day gathering sought to explore one fundamental question: ***What is needed to value sustainability in the capital markets?***

The workshop looked at this question in four ways:

1. A taking stock of existing initiatives to identify the key drivers and barriers to the mainstream consideration of ESG[1]-issues in company valuation exercises and capital market pricing mechanisms.
2. A review of the brand valuation journey and its links to valuing sustainability (ESG).
3. 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.
4. "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 activities

In order to address the question, *what do we need to value sustainability in the capital markets*, a common understanding of what we have now was needed. 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:

- Businesses providing an ESG approach / sustainability oriented services along different segments of the investment value chain (**The Pioneers**).

[1] *ESG (environment, social and governance issues) is investment language for sustainability issues.*

- Initiatives providing tools / thinking to integrate ESG into the mainstream actors of the investment value chain (**The Drivers**).
- Conventional, mainstream actors (or new businesses) integrating ESG into mainstream investment decisions, undifferentiated (**The Integrators**).

Workshop participants concluded 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. Lessons from the brand valuation journey

- Rita Clifton, CEO of Interbrand, was invited to the workshop dinner as a keynote speaker to provide a review of the brand valuation journey and its links to valuing sustainability (ESG). Clifton and her Interbrand colleagues highlighted.

- "*Sustainability is a complex issue. We are currently working to clarify our thoughts on this debate – whether through a link to Brand Valuation or through a more pragmatic approach for brand strategy. What is clear is that there is a great need for increased understanding of the link between branding and sustainability for decision makers.*"

- There were two main themes to the dinner discussion that followed:

    - How is brand value similar and different to sustainability (ESG) value? *(Tangibles & intangibles)*
    - What are the links between merger & acquisition (M&A) activity, sustainability and ESG value? *(It was the series of brand acquisitions in the late 1980's that exposed the hidden value in highly branded companies and brought brand valuation into the spotlight).*

3. Perspectives on sustainability (ESG) value and valuation

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.

Investor perspectives

- Mainstream investors (including asset managers and analysts) will only consider ESG information as long as it is clearly material. They feel that the conventional sustainability reporting of most companies is too broad, too voluminous and the information disclosed too often financially irrelevant. The investment community would appreciate sustainability reporting schemes to be materiality-focused and specifically catered to unique investors rather than the whole plethora of external stakeholders. "Less is more"!

- The investment community expects companies to create, within their reporting, a clear link between the ESG information disclosed and its financial materiality, ideally, as a core component of annual reports.
- The investors present were also aware that in order to systematically gather, process and integrate ESG information into investment analysis and decision-making, investment tools such as company valuation models need to be further developed to be able to adequately capture ESG information.

Investee (company) perspectives

- Investee companies felt that when it comes to ESG factors, a series of key aspects is constantly overseen by investors and therefore undervalued by the markets - - *i.e. the quality of companies' internal risk management, the degree to which sustainability is integrated into product development and the companies' ability to seize sustainability opportunities (e.g., bottom of the pyramid markets), as well as to attract and retain talented staff.*

- Companies acknowledged that they have struggled in communicating sustainability performance value in investor relevant language.

- Investee companies highlighted that many ESG factors may become material because of their impact on brand, reputation and market standing. This also implies the opportunity of translating good ESG performance into incremental brand value, especially against the background of rapidly increasing ESG awareness among consumers. Investors should start to pay closer attention to this new "kind" of materiality.

4. "Speed-dating" to a common understanding of material 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 fifteen 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, their financial relevance and possible indicators were discussed.

Summary of key take-aways

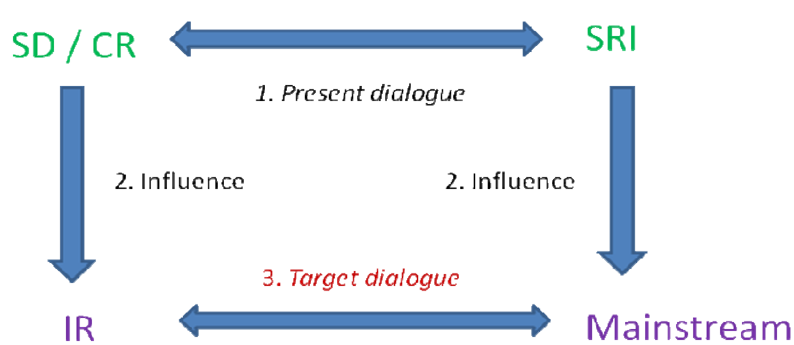
For investee companies:

- Communicate only ESG performance material to the core business.
- Report on sustainability issues alongside financial reporting in annual reports.
- Explain the financial relevance of material ESG factors in investor-friendly language.
- Data provided to investors should be as standardized as possible within sectors.

For investor companies:

- Communicate to markets, clients and especially investee companies the type of ESG information needed for mainstream investment analysis.
- Develop and extend the analytical tools needed to fully utilize the new categories of information.
- Address the gap in ESG education, awareness and institutional incentives, especially for sell-side analysts and advisors.

Key gap identified – *need to influence and facilitate similar conversations taking place between* investor relations *representatives and* mainstream *money managers.*



Suggested Next Steps

At the conclusion of the workshop participants acknowledged that this platform (of WBCSD companies and UNEP FI financial institutions) produced a valuable discussion space for companies and investors to build consensus and to accelerate progress.

Building on the insights and common views reached in this workshop, the following next steps have been suggested:

1. **March 08** – **MONTREUX, SWITZERLAND** (WBCSD LD Meeting)
   WEDNESDAY MARCH 12 – 10.30 – 12.00, 14.00 - 18.00
   (please find more detail in invitation attached)

   Purpose / Desired outcomes:
   - engage broader group of companies & FIs
   - deeper drill into sector specific materiality (**speed dating by sector** - with investors)
   - deeper drill into valuation tools for asset managers
   - prepare CSR & SRI to engage IR for scale up meeting
   - Output: press release - Bloomberg is willing to interview companies following the Montreux **speed-dating by sector** session

2. **July 08** – **NYC** (UNEP FI Meeting)

   Purpose / Desired outcomes:
   - carbon copy London workshop for American companies (SD) and American FIs (SRI)
   - scale up by region

3. **Fall 08** – **UNEP FI AGM** (To be determined)

   Purpose / Desired outcomes:
   - integrating the mainstream into the process.
   - buy in from IR / Mainstream money managers - re materiality of ESG & what is needed to value ESG in capital markets - (speed dating on steroids)
   - Output - press release – NY Times coverage

4. **NOVEMBER 08 – S.AFRICA** (WBCSD Council Meeting)

   Purpose / Desired outcomes:
   - Raising the profile - CEO dialogue

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.