Finance and the ‘S’ in ESG: A possible convergence?

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INTRO TO THE PRI:
Launched in April 2006 at the NYSE, the Principles for Responsible Investment has:

2 UN PARTNERS: UNEP FINANCE INITIATIVE UN GLOBAL COMPACT

1325 SIGNATORIES: ASSET OWNERS, INVESTMENT MANAGERS AND SERVICE PROVIDERS

45 US$ TRILLION: ASSETS UNDER MANAGEMENT

6 PRINCIPLES: RECOGNISING THE MATERIALITY OF ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES
RESPONSIBLE INVESTMENT:

**PERFORMANCE**
not philanthropy

“The high-sustainability companies dramatically outperformed the low-sustainability ones in terms of both stock market and accounting measures”

**RETURNS**
not sacrifice

“There are positive, strongly statistically significant positive abnormal returns associated with going long good corporate governance firms and shorting those with poor governance.”

**DIVERSE APPROACHES**
not just excluding “unethical” investments

“We believe that ESG analysis should be built into the investment processes of every serious investor and into the corporate strategy of every company that cares about shareholder value.”

**RISK MANAGEMENT**
not breach of fiduciary duty

“As we note above, the links between ESG factors and financial performance are increasingly being recognised. On that basis, integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”

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_Yale School of Management_  
_Deutsches Bank_  
_Freshfields Bruckhaus Deringer_
### WHAT IS ‘SOCIAL’?

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<tr>
<th>Social Capital</th>
<th>Human Capital</th>
<th>&gt;&gt;</th>
<th>Employees</th>
<th>Human Rights</th>
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<td>Supply Chain</td>
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<td>Employee Turnover</td>
<td>Non-discrimination</td>
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<td>Product Safety</td>
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<td>Employee Absence</td>
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<td>Local Communities</td>
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<td>Cyber Security</td>
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<td>Improving Lives</td>
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<td>Customers</td>
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“Not all S factors are relevant to all companies … ”
CASE-STUDY: BEHIND THE BRANDS
CASE-STUDY: TARGET

Target operates general merchandise and food discount stores in the United States. It also offers credit through its branded proprietary credit cards.

In December 2013, the US retailer Target reported a massive data breach, which involved the theft of debit and credit card data of some 40 million customers who shopped at its stores on Black Friday, with a further breach of personal data of 70 million customers reported in January.

The breach exposed the company to nationwide class action lawsuits from both customers and banks.

It experienced a 10% decrease in customer traffic in January 2014 compared to the previous year while its fourth-quarter earnings report showed a 5.3% fall in sales.

Forbes has estimated that the total cost of the breach could reach as much as $18 billion, including remediation costs, lost revenue, declining profits, lawsuits and fines.

This equals to approximately 24% of Target’s revenues for 2013.

See:
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S opportunities are often overlooked:
Human capital management, growth markets, emerging regulations.

What can investors do?

- Thematic / impact investing – e.g. Pax Ellevate Global Women's Index Fund
- Screening
- Integration
- Engagement – policy makers (regulation, e.g. forced labour, and disclosure)
- Engagement / Voting

For more information, see: http://www.unpri.org/areas-of-work/clearinghouse/