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Engagement & SRI Strategy
for Long-Term Investors

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The ethos. Group

- **ethos. investment foundation** (exclusively for Swiss pension funds)
 - ➔ created in 1997 by two pension funds.
 - ➔ 81 members; CHF 860 million assets under management (30.04.2005).
- **ethos services Inc. consultancy**
 - ➔ wholly owned by the ethos Foundation.
 - ➔ carries out consultancy mandates for the exercise of shareholders' voting rights.
 - ➔ executes fund management mandates incorporating sustainable development criteria (CHF 90 millions).
 - ➔ initiated and advises the ethosfund mutual fund (CHF 35 millions) managed by the bank LODH & Cie.c

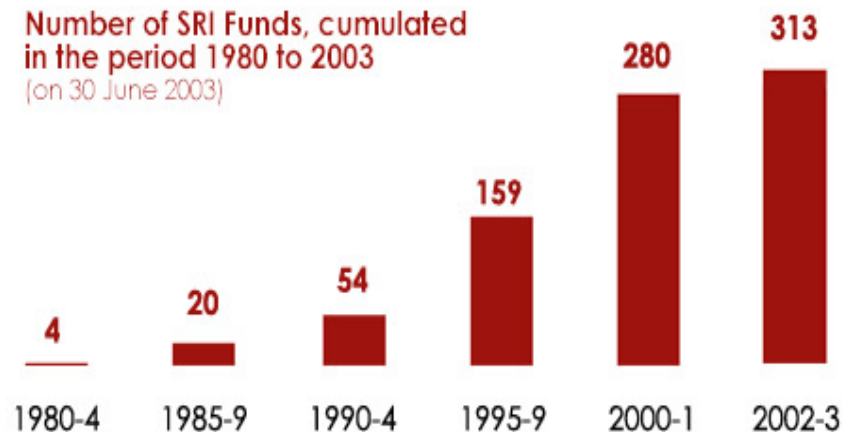
An Integrated approach to asset management

- **To build an investment portfolio**
The portfolio manager selects securities according to specific criteria.
- **To exercise shareholder voting rights**
Analyzing agendas of general meeting in conformity with corporate governance codes of best practice.
- **To engage in a constructive dialogue with companies' management** and enhance their awareness to the values promoted by their shareholders.

The SRI Market today

There is great demand to reconcile the need of capital investment and personal values :

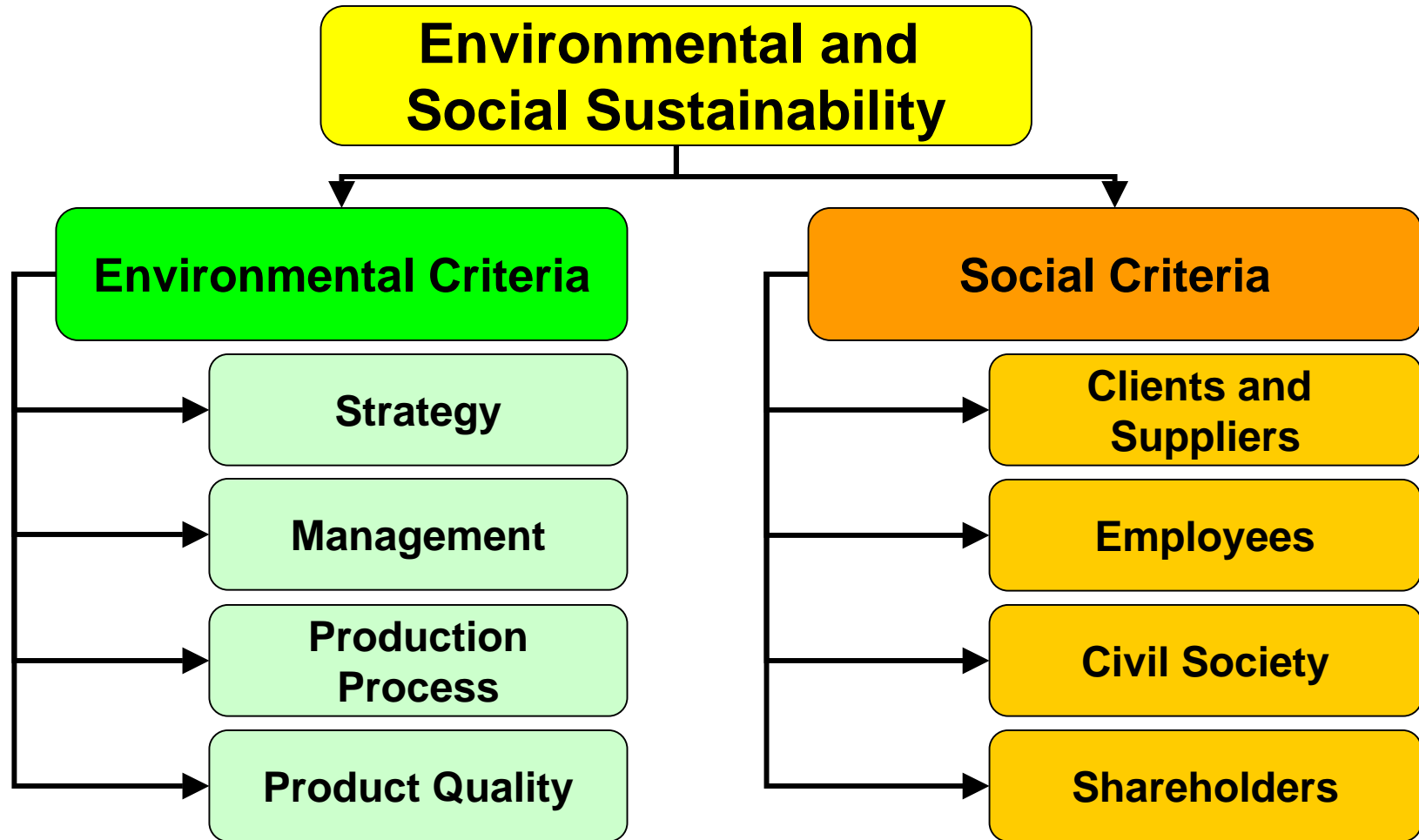
- The growth of SRI is greater than that of traditional investment
 - In the USA : According to US SIF \$2,164 billion (largest SRI market)
 - In Europe : According to Eurosif, SRI Institutional market €34 - 336 billion depending on the definition (2003 Report)
- Core SRI was « only » 2.1% of total European pension fund equity holdings at the beginning of 2003.



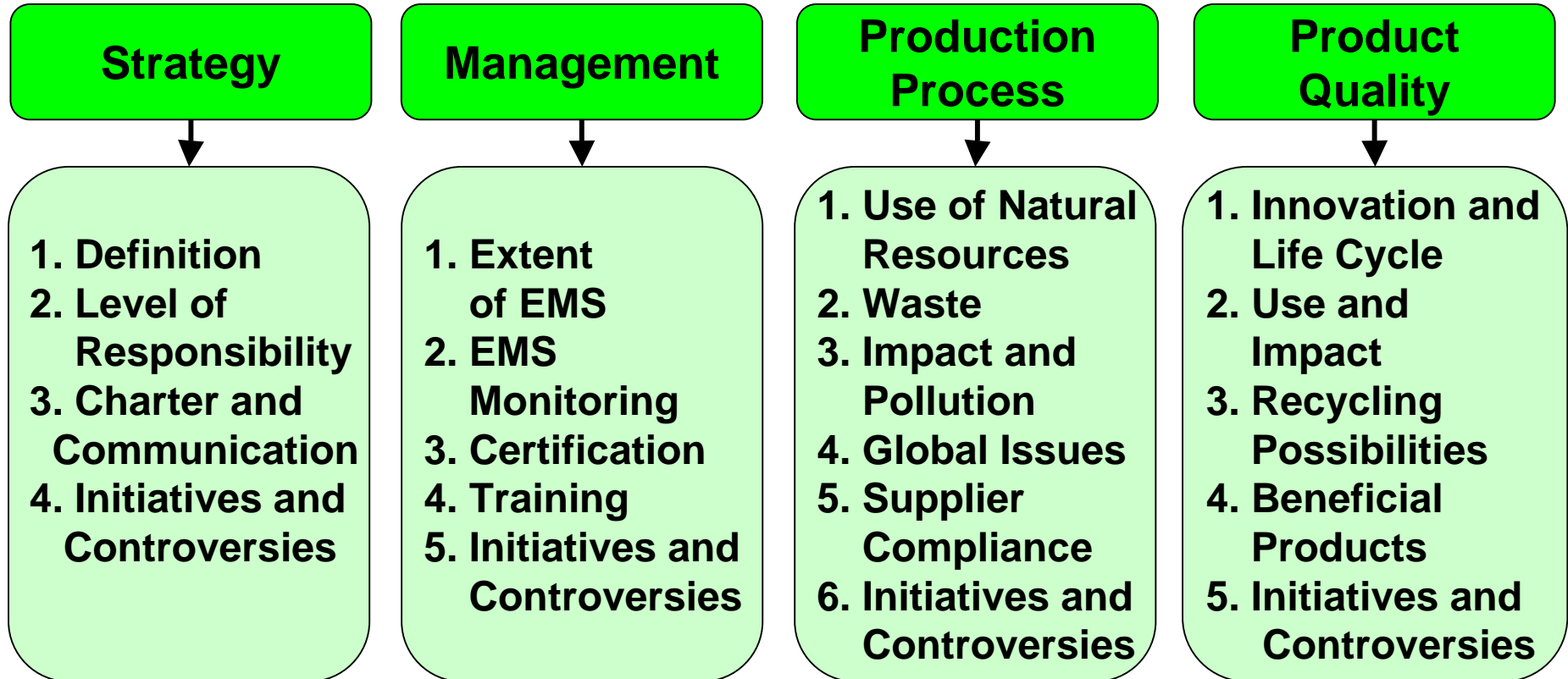
Sustainable development strategy : added values for the company

- A pro-active management with an environmental and social strategy contributes **to create and maintain the long-term value of the company.**
- The aim is to:
 - Improve margins and reduce risk.
 - Seize new business opportunities.
 - Strengthen employees' motivation.
 - Enhance the company's reputation.
 - Create a company culture of honesty and integrity
- An efficient environmental and social management is an additional factor of success for the company.

ethos Global Sustainability Rating



Environmental analysis



Social analysis

Clients and Suppliers

1. Client Policy
2. Client Relations
3. Product Quality and Social Impact
4. Supplier Policy
5. Supplier Relations
6. Suppliers and Human Rights
7. Initiatives and Controversies

Employees

1. Strategy
2. HR Management
3. Social Dialogue
4. Working Conditions
5. Equal Opportunities
6. Initiatives and Controversies

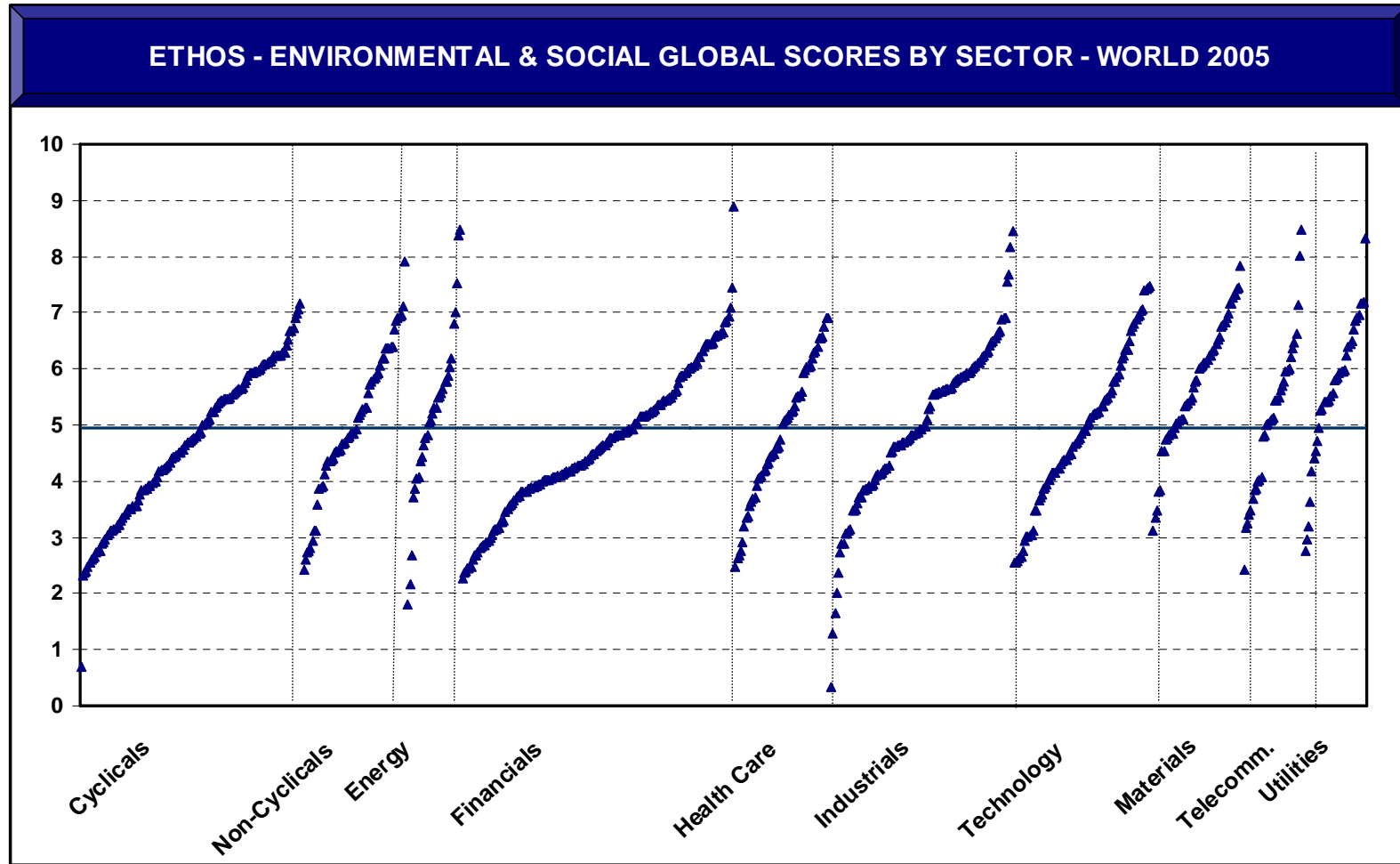
Civil Society

1. Policy
2. Community Relations (Philanthropy)
3. NGO and Local Community Relations
4. Legislation and Corruption
5. Human Rights
6. Initiatives and Controversies

Shareholders

1. Disclosure
2. Capital Structure
3. Board of Directors
4. External Auditors
5. Participation Rights
6. Initiatives and Controversies

Sector analysis – World equities



Active dialog with companies

Main forms of action

- Intervene and vote at annual shareholder' meetings :
 - Vote on all items of the agenda.
 - Take the floor at the general meeting.
 - File shareholder resolutions.
- Engage dialogue with management :
 - Engage in a general dialogue.
 - Engage in a dialogue on specific issues, ex: Ethos Engagement Pool.
 - React to current events.
- Engage dialogue with authorities (stock exchange, etc.)
 - Propose amendments to laws or regulations.
 - Participate in consultation procedures.
- Inform the press.

Active dialog with companies

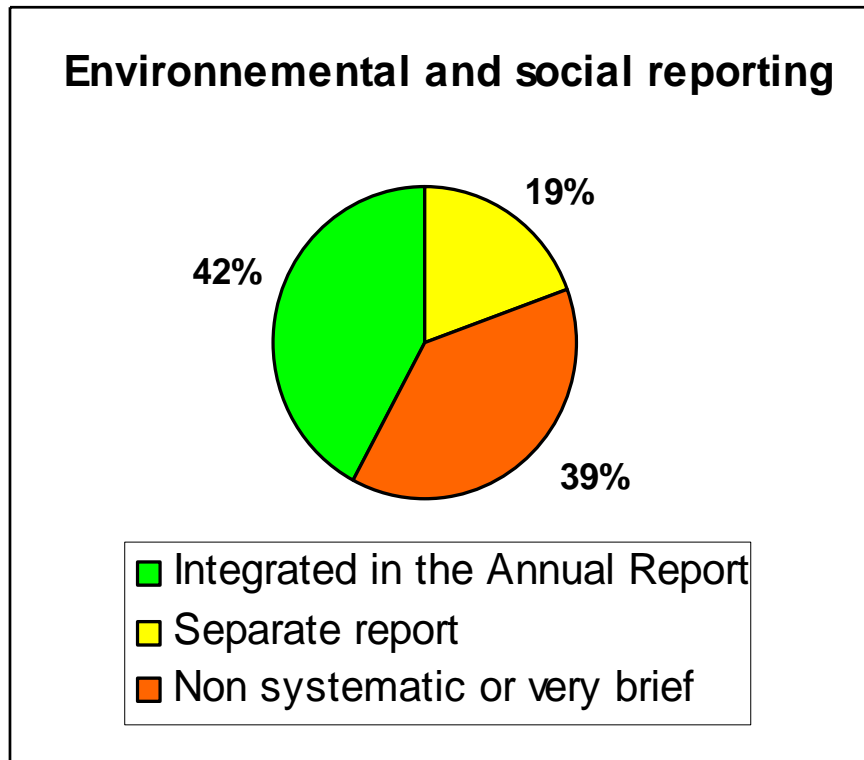
Ethos Engagement-Pool (EEP)

- **Aim** : the EEP wants to engage an **active dialog with strategic objectives** in the following topics: :
 - ✓ *Good corporate governance of firms*
 - ✓ *Social responsibility*
 - ✓ *Environmental responsibility*
- **Members** : Institutional investors (pension funds)
- **Targeted firms** : 100 among Swiss companies
- **The themes are selected by the members of the EEP, but the execution and the communication are done by ethos services**

Active dialog with companies

Environmental and social reporting

Among the 26 biggest swiss listed companies (SMI):



- **Employees** and the **environment** are the themes for which companies provide the more information.
- Information on **suppliers** is generally lacking or remains very limited. None of the companies provide complete **data**.

The Challenges for SRI

- Reconcile **performance and ethical values**
 - ➔ Combine financial objectives with social equity, human rights, environmental protection, democracy and economical development
- Distinguish between companies' communication strategy and **real sustainable management strategies**
- Implementation of corporate governance and CSR : **link with shareholder value** to be confirmed
- **New challenges** for companies to be integrated : climate changes, patents, awareness of civil society and consumers ...