

ESG-Analysis of listed companies – further need for data ?

Dr. Matthias Fawer 58th LCA Discussion Forum Zürich, March 31 2015

Agenda

- 1. Sustainability Analysis:
 - How we proceed
 - What we finally aim at
- 2. Key challenges with ESG data:
 - For the sustainability analyst
 - For the reporting companies
- 3. Conclusion

Notenstein – a forward-thinking Swiss private bank

- Specialised in wealth management and advisory services for institutional and private investors
- Our core offering is sustainable investments
- Limited company owned by Raiffeisen Switzerland (cooperative)
- Successor to Bank Wegelin & Co. Private Bankers, founded in 1741
- Well established with 12 branches throughout Switzerland
- About 700 employees
- Client assets under management: around CHF 21 billion, of which CHF 3.8 billion in the institutional clients business unit

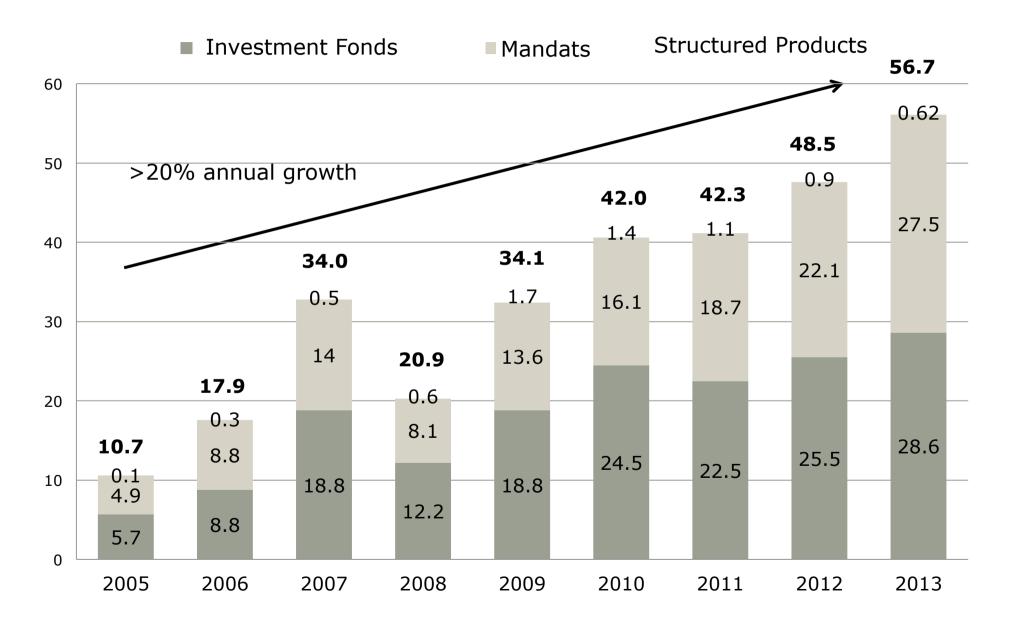




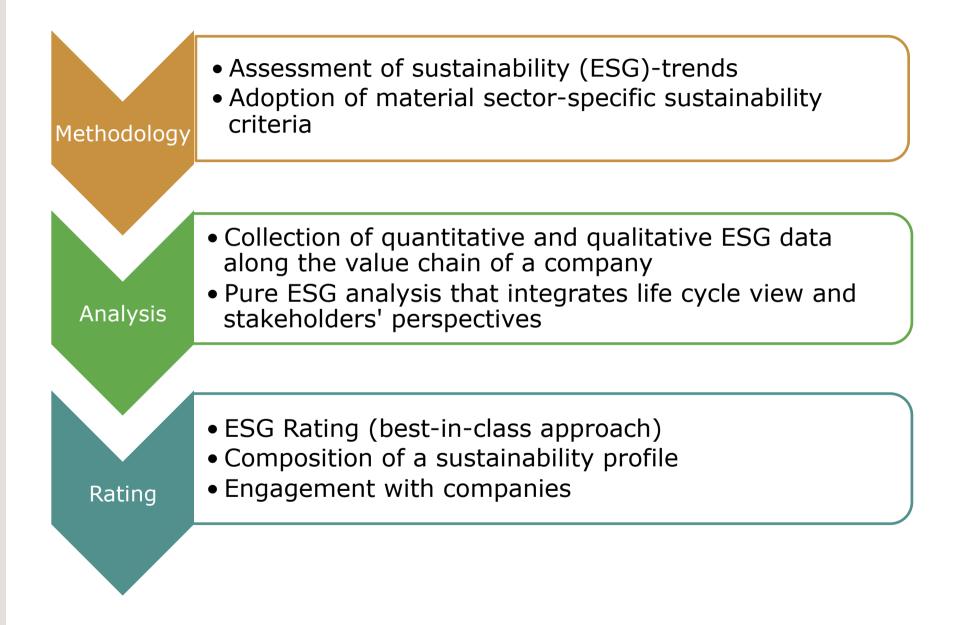




Sustainable investment in Switzerland (CHF bn)



Sustainability Analysis: How we proceed



Sustainability Analysis: what we aim at

As sustainability analysts, our key objectives are:

- Getting a good understanding on how companies manage their ESG risks and opportunities;
- Getting detailed quantitative data over a certain period of time as well as explanatory comments from companies helping to **understand** their ESG policy and performance;
- Being able to trust these data and use them to compare companies within a sector according to a best-in-class approach
- Building a sound ESG Rating to support the investment decision: sustainable or not sustainable?

ESG data – top level tree structure

Environment

Supply chain

Environmental standards for suppliers & purchasing

- Requirements (production, transport)
- Implementation
- Performance

Production

Conservation on the job

- Raw materials
- Energy
- Water
- Emissions and waste
- Biodiversity

Products

Environmental products

- "Design for Environment" standards
- Environmental product innovations and applications (material and energy efficiency, reduction of contaminants, recyclability etc.)
- Products harmful to the environment

Social

Suppliers

Social standards for suppliers

- Requirements
- Implementation
- Performance

Employees

- Health: occupational safety
- Participation: co-determination, diversity
- Distribution of wealth: wages, layoffs, labour conflicts
- Quality of work: commitment, satisfaction
- Knowledge: education and training

Society

- Health: plant safety
- Participation: major projects, local population
- Distribution of wealth: taxes, community service and charitable contributions
- Knowledge: R&D, innovations
- Controversial activities: e.g. human rights

Customers

- Health: product safety
- Distribution of wealth: competition disputes
- Product quality
- Participation and information: client management and satisfaction, complaint management

Governance

Strategy

Development of the business model

 Development of exposure to sustainability opportunities and risks

Target markets/products

 Development of exposure to sustainability opportunities and risks

Management

Corporate governance

- Supervisory board
- Shareholders' rights, takeover protection
- Remuneration
- Accounting

Management systems

- CSR Management (conservation, job protection etc.)
- Risk management
- Quality assurance
- Business ethics/compliance
- Supplier management

Communication/transparency

From an **investor** perspective - key challenges with NOTENSTEIN analysing ESG data:

- getting detailed quantitative data instead of qualitative data
- getting data that are provided with fair background information
- getting comprehensive data that integrate a life cycle perspective, as well as stakeholders' concerns
- in getting standardised data that allow comparison and benchmarking within one sector
- in getting trustworthy and externally verified information

ESG data are the raw material for a sustainability analyst, however companies still don't speak the same language

From a **company** perspective: Key challenges with delivering ESG data

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Companies are under growing pressure to deliver ESG information, this may be challenging for the following reasons:

- "Questionnaire fatigue": some companies complain that they are piled with requests
- Too many standards: companies are offered different sets of reporting standards from sector specific to very general
- Lack of resources: some companies don't have the resources to meet stakeholder expectations in terms of sustainability reporting
- The missing regulatory level playing field: companies leading in transparency may be at disadvantage

Current tasks

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We push companies for publishing data for the whole value chain:

 We look into the entire value chain of a company. For some sectors, Carbon Disclosure Project (CDP) scope 3 emissions data are of utmost importance, e.g. ICT, food, automobiles

Given the challenges, what we reasonably expect as sustainability analysts:

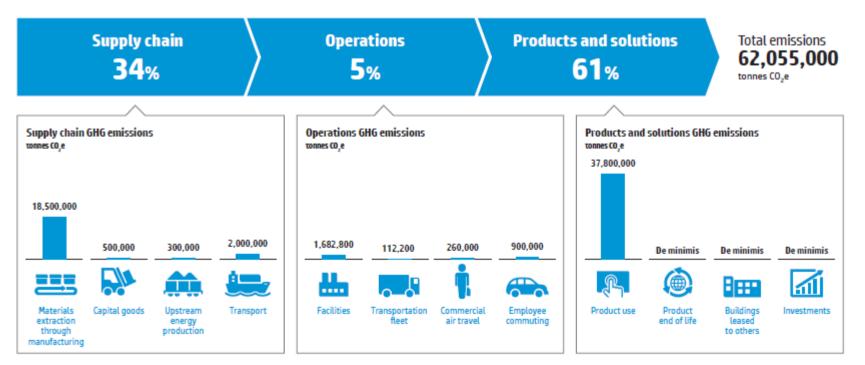
- For now, basic but standardized data that cover the value chain and stakeholders' concerns
- For now, more industry initiatives promoting sector specific guidelines for reporting
- In the short term, more discussions and collaborative efforts leading to a common approach in reporting data along the life cycle

Example of the technology hardware sector

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Use phase of ICT products and solutions (scope 3 emissions) represents the largest carbon footprint (for companies like HP, more than 60%)

- Few companies in the sector report on the energy efficiency of their products and the related carbon footprint of the use phase of their products
- Only few companies in the sector disclose scope 3 absolute and intensity targets



Our carbon footprint, 2013

Conclusion

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To sum up, our response to the question raised in the title is:

- Yes, we need further data that help assessing the ESG performance of a company. In this regard, we welcome any initiative pushing for further life cycle data
- But first of all, we need companies to speak the same language!
 - Standardized data that help our analysis
 - More transparency from all companies, not only from leaders
 - More dialogue between companies
 - Industry initiatives that promote reporting standards

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Many thanks for your attention

Dr. Matthias Fawer

Sustainability Research Notenstein Private Bank Freie Strasse 90, 4051 Basel Tel. +41 (0)61 201 33 54 Fax +41 (0)61 201 33 85 E-Mail: matthias.fawer@notenstein.ch www.notenstein.ch

