Global Health and Innovation Conference

Responsible Investment in the 21st Century:
Recent Trends and Developments

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Agenda

• Why Responsible Investment Is Important.
• Defining Responsible Investment.
• Where Responsible Investment Is Today.
• The Swing of the Pendulum.
• This Is an Old Debate.
• What the Future Will Bring.
Why Responsible Investment Is Important

- **Financial Crisis**: Financial community has strayed off course.
- **Demographics**: 9 billion people means complex, interrelated problems that require the cooperation of finance with government, business and NGOs.
- **Natural Resources**: Increasingly clear limits on waste absorption and availability. Investment decisions affect sustainability.
- **Social Justice**: Legitimate demands for access to medicines, technology, finance. Investment decisions can address these demands
Defining Responsible Investment

- Alignment of investment policies and practices in ways that promote long-term societal goals.
  - RI helps align corporate practices with public policy outcomes.
  - RI helps direct investment activities (infrastructure, real estate, clean tech, alternative energy, bottom of the pyramid, small business, etc.) to activities aligned with long-term societal goals.
  - RI demands a balancing of profit with purpose, of self-interest with public interest.
Investors (Retail)
- Individuals
- Family Offices

Financial Advisors & Consultants
- Money Managers
- Mutual Funds
- Hedge Funds
- Public Equity Funds
- Etc.

Investors (Institutional)
- Pensions
- SWFs
- Endowments
- Banks
- Insurance

CSR Research Providers
CSR Engagement Specialists
Non-Profit Organizations
- Human and Labor Rights
- Environment and Social Justice
Government
- National
- International
Stock Exchanges
Academics

Publicly Traded Corporations
CSR Reports, Dialogue, Partnerships
Legal Compliance, Voluntary Initiatives
Avoid CSR Risks
Create Shared Value
Where We Are Today—Corporations

- Substantial progress in promoting Corporate Social Responsibility
  - 5-10K corporations publish CSR reports worldwide.
  - Sophisticated metrics for CSR measurement have been developed and widely recognized.
  - Shared value and corporate partnerships with NGOs and governments are increasingly accepted.
  - Government regulations promote CSR.
  - Industries establish their own standards for best CSR practices.

- Challenges remain.
  - CSR not integrated throughout companies or into corporate strategic management.
  - CSR not seen as a fiduciary duty by corporate directors.
  - Corporations engage in “greenwashing”—promote CSR but don’t change fundamental behavior.
Water Stewardship

All facilities in our system are required to meet locally applicable legal requirements for wastewater discharge. But we wanted to set our standards higher even though in some cases we can legally discharge to the environment without or with little treatment. So, in 2006, we set the goal that, by the end of 2010, all water used in our system operations would be discharged at a level not only compliant with locally applicable law, but also one that supports aquatic life even when not required to do so. Our internal wastewater treatment standards (please see the chart below) call for all water we discharge to be treated to that level.

To date, 100 percent of our Company-owned plants are compliant with our wastewater treatment standards and either fully treat wastewater on site or use a municipal or government-approved wastewater treatment plant with secondary treatment. As we expected, though, aligning an entire system spanning more than 200 countries and territories has proved to be challenging. Constructing and upgrading treatment systems is a substantial investment for our bottlers. Delays in financing, government permitting and construction have slowed progress, as has civil unrest in countries such as Yemen and Syria. As a result, we have not yet met our goal of 100 percent alignment across our entire system.

By the end of 2010, 93 percent of our system facilities had aligned with our water treatment standards. At the end of 2011, 96 percent had achieved alignment. Though much depends on variables beyond our control, we are working closely with our bottlers and are hopeful that all facilities will comply with our standards by the end of 2013.

The Coca-Cola Company Requirements for Treated Wastewater Quality*

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-Day Biological Oxygen Demand</td>
<td>&lt;50 MG/L</td>
</tr>
<tr>
<td>pH Level</td>
<td>6.5-8**</td>
</tr>
<tr>
<td>Total Suspended Solids</td>
<td>&lt;50 MG/L</td>
</tr>
<tr>
<td>Total Dissolved Solids</td>
<td>&lt;2,000 MG/L</td>
</tr>
<tr>
<td>Total Nitrogen</td>
<td>&lt;5 MG/L</td>
</tr>
<tr>
<td>Total Phosphorus</td>
<td>&lt;2 MG/L**</td>
</tr>
</tbody>
</table>

* These are six of the 25 water quality parameters established for the Coca-Cola system.
** Depends on receiving stream water conditions.

Replenishing the water we use

Goal: By 2020, safely return to communities and nature an amount of water equal to what we use in our finished beverages and their production.

Progress: In progress. We estimate we have balanced 35 percent of the water used in our finished beverages (based on 2011 unit case volume).

We are working to balance our water use by replenishing an amount of water equivalent to what we use in our finished products. Between 2005 and the end of 2011, we balanced an estimated 35 percent of the water used in our finished beverages based on 2011 production volume.68
# Nestle Materiality Matrix

## 2012 Materiality Analysis

<table>
<thead>
<tr>
<th>Increasing concern to stakeholders</th>
<th>Increasing or current impact on Nestlé</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Executive compensation*</td>
<td>- Governance, transparency and accountability</td>
</tr>
<tr>
<td>- Land rights/acquisition*</td>
<td>- Energy consumption</td>
</tr>
<tr>
<td>- Consumer privacy</td>
<td>- Community engagement</td>
</tr>
<tr>
<td>- Fair taxes*</td>
<td>- Local economic development</td>
</tr>
<tr>
<td>- Air and water pollution*</td>
<td>- Sustainable agricultural livelihoods</td>
</tr>
<tr>
<td>- Biodiversity</td>
<td>- Soil fertility</td>
</tr>
<tr>
<td>- Biofuels</td>
<td>- Transport and distribution</td>
</tr>
<tr>
<td>- Climate change adaptation</td>
<td>- Diversity</td>
</tr>
<tr>
<td>- Food waste</td>
<td>- Internal human rights in low-risk countries</td>
</tr>
<tr>
<td>- Life cycle impacts of products</td>
<td>- Animal welfare</td>
</tr>
<tr>
<td>- Manufacturing waste and recovery</td>
<td>- Animal welfare</td>
</tr>
<tr>
<td>- Nanotechnology*</td>
<td>- Security</td>
</tr>
<tr>
<td>- Nanotechnology*</td>
<td>- Employee benefits, remuneration, attraction, retention</td>
</tr>
<tr>
<td>- Biotechnology*</td>
<td>- Employee engagement</td>
</tr>
<tr>
<td>- Biotechnology*</td>
<td>- Employee training and learning</td>
</tr>
<tr>
<td>- Compliance</td>
<td>- Health and safety</td>
</tr>
<tr>
<td>- Environmental sustainability</td>
<td>- Workplace wellness</td>
</tr>
<tr>
<td>- Nutrition</td>
<td>- Security</td>
</tr>
<tr>
<td>- Water</td>
<td>- Employee benefits, remuneration, attraction, retention</td>
</tr>
<tr>
<td>- Rural development</td>
<td>- Employee engagement</td>
</tr>
<tr>
<td>- Responsible sourcing</td>
<td>- Employee training and learning</td>
</tr>
<tr>
<td>- Our people</td>
<td>- Health and safety</td>
</tr>
</tbody>
</table>

* Indicates new issue for 2012
Sustainability

EMC's sustainability efforts are founded on the principle that virtually all business decisions have economic, environmental, and social implications, and we are on a journey to embed this principle throughout the company. We strive to maximize our impact by focusing on those issues where EMC has the greatest potential to create positive change, holding ourselves accountable by measuring and reporting our progress, maintaining open and candid communication with our internal and external stakeholders, and collaborating with our peer companies and those in our value chain to expand the scale of our contributions.
Where We Are Today—Investors

- Substantial institutional investor interest.
  - Pension funds and other asset owners with $35 trillion in assets have endorsed the Principles for Responsible Investment.
  - Most large investment houses offer responsible investment products and services.
  - Innovations in microfinance, impact investing, benefit corporations, universal owner theory.

Challenges remain.

- Despite interest, actual investment practices among large institutions are largely unchanged.
- Responsible investment is treated as a niche market.
- Responsibility for the social and environmental implications of investment decisions not seen as a fiduciary duty.
PGGM Pension Fund: “State of the World”

How does ‘state of the world’ influence the portfolio & vice versa?

- Use of Responsible Investment tools
- Investment portfolio
- Sustainable return: Insight into the contribution of the portfolio to a more sustainable development of the world and the changes therein over time, e.g. by use of RI tools.

Other investors
- Market engagement
- Thought leadership
- Promoting RI in investment value chain

“state of the world”

Other players
The Swing of the Pendulum

- **1950s**: Extensive state ownership and government regulation of corporations globally.
- **1980s**: Global shift to privatization and deregulation of corporations.
- **1990s**: Global protests against practices and policies of deregulated businesses and under-supervised financial community.
- **2000s**: Responsible investment and corporate social responsibility used by national and international governmental bodies as “soft” regulation to direct unregulated companies to the public interest.
This Is an Old Debate

- Niccolo Machiavelli. Men “as they are” not “as they ought to be.” (1532).
- Adam Smith. The “invisible hand.” (1776).
- Theodore Roosevelt. Corporations should be “supervised and within reasonable limits controlled.” (1901).
- Milton Friedman. There is “one and only one social responsibility of business...to increase its profits.” (1962).
- Albert Hirschman. Economists need to be “vulnerable to moral concerns.” (1979)
What the Future Will Bring

- Globally mandated CSR reporting.
  - Stock exchanges, regulators. Models: Global Reporting Initiative; Johannesburg Stock Exchange SRI Index; European Union requires CSR disclosure.

- Reinterpretation of fiduciary duty.
  - Idea of ‘public fiduciary” and “intergenerational equity.”

- Agreement on what is in the public good.

- Tools to measure investors’ and corporations’ progress toward promoting and achieving agreed-upon goals.
Questions and Discussion
Appendix

Quotations
This Is an Old Debate

“How we live is so different from how we ought to live that he who studies what ought to be done rather than what is done will learn the way to his downfall rather than to his preservation.”

Niccolo Machiavelli, *The Prince* (1532)
“By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectively than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affection, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

-Adam Smith *Wealth of Nations* (1776)
This Is an Old Debate

“There is a widespread conviction in the minds of the American people that the great corporations known as trusts are in certain of their features and tendencies hurtful to the general welfare....It is based upon sincere conviction that combination and concentration should be, not prohibited, but supervised and within reasonable limits controlled; and in my judgment this conviction is right....Great corporations exist only because they are created and safeguarded by our institutions, and it is therefore our right and our duty to see that they work in harmony with these institutions....

--Theodore Roosevelt “Speech on the Nation’s Trusts” (1901)
“The view has been gaining widespread acceptance that corporate officials and labor leaders have a ‘social responsibility’ that goes beyond serving the interest of their stockholder or their members. This view shows a fundamental misconception of the character and nature of a free economy. In such an economy there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays with the rules of the game, which is to say, engages in open and free competition, without deception or fraud. . . . It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith . . .”

-Milton Friedman *Capitalism and Freedom* (1962)
“[I]t seems to me impractical and possibly even counterproductive to issue guidelines to social scientists on how to incorporate morality into their scientific pursuits and how to be on guard against immoral ‘side effects’ of their work. Morality is not something like pollution abatement that can be secured by slightly modifying the design of a policy proposal. Rather it belongs into the center of our work; and it can get there only if the social scientists are morally alive and make themselves vulnerable to moral concerns. . . .”

- Albert Hirschman, “Morality and the Social Sciences: A Durable Tension” (1979)
This Is an Old Debate

“A benefit corporation is a new class of corporation that voluntarily meets higher standards of corporate purpose, accountability, and transparency.”

“Benefit corporations: 1) have a corporate purpose to create a material positive impact on society and the environment; 2) are required to consider the impact of their decisions not only on shareholders but also on workers, community, and the environment; and 3) are required to make available to the public an annual benefit report that assesses their overall social and environmental performance against a third party standard.”

-Benefit Corporation website (2014)