

The Impact of SRI



An Empirical Analysis of the Impact
of Socially Responsible Investments
on Companies by oekom research

May 2013

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Foreword by our partners

When Kofi Annan invited leading institutional investors to New York in 2005, he was convinced that they had a significant role to play in promoting a sustainable global economy. Now, eight years later, almost 1,200 institutions have signed up to the UN Principles for Responsible Investment (PRI). Together, they manage more than 34 trillion US dollars, which gives them enormous potential for exerting influence. The aim of the PRI is to mobilise the signatories to integrate ESG criteria into their investment processes and to take proactive steps to introduce them into their dialogue with companies.

In the past year, PRI signatories have sought dialogue with over 1,300 companies calling for increased transparency on ESG issues. In the last report on implementation of the PRI, 70 per cent of signatories stated that they regularly ask companies questions about ESG integration and request that they publish relevant information in their annual reports. However, calling for transparency is just the first step; more and more often, companies are being urged to take concrete action. For example, just recently PRI signatories, who together are responsible for the management of three trillion euros, called upon companies to sign up to the Global Compact and implement its ten principles.

Can they succeed? And if so, how far does the investors' influence over the companies extend? It is thanks to this study that for the first time we have answers to these questions. Overall, the results show that Kofi Annan was correct in his assessment, referred to above, of the influence investors have on making the economy more sustainable. This both endorses our efforts and gives us an incentive to persuade more investors worldwide of the advantages of working with the PRI.

Since its foundation in 2000, the UN Global Compact (GC), together with its partners, has shaped the debate on sustainability and the development of strategies and tools for implementing sustainability in companies. The German Global Compact Network (DGCN) brings together German GC participants from business, government and civil society committed to implementing and disseminating the 10 principles of the Global Compact and the goals of the United Nations, not only in Germany but worldwide.

Demands and signals from relevant stakeholders play a prominent role in shaping change processes and innovations in companies. In this context, investors are also becoming increasingly important. The GC is seeking to reflect this trend, for example through its close cooperation with the Principles for Responsible Investment (PRI).

This oekom Impact Study clearly shows that companies are picking up the capital market's signals regarding sustainable and responsible company management and are taking these into consideration in their strategy development. This creates a market mechanism with incentives for companies to act sustainably. It is now up to the market players to strengthen the effectiveness of this mechanism, without losing sight of efficiency and transparency requirements. Sustainability rating agencies like oekom research are key players here, creating the information base and thus also laying the foundations of trust necessary for such incentive mechanisms to function. Thus, they also directly support the GC's goals. The DGCN will continue to work together with financial market players to make even more effective use of the important lever they provide for promoting sustainable development in Germany and worldwide.

Dr. Wolfgang Engshuber
Chair, PRI Advisory Council
and PRI Association Board



Dr. Jürgen Janssen
Global Compact Focal Point Germany,
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH



Foreword by our sponsors

The challenges facing participants on the financial markets are steadily growing. The markets are currently in a state of upheaval, and regulatory requirements are constantly increasing. Clients' risk behaviour has changed, and the "new normal" in terms of returns poses a dilemma, particularly for more risk-averse investors. In the years to come, the conservative investments they prefer, such as German government bonds or savings deposits, will be hard pressed to preserve the value of their assets in real terms. Supplementing these with real assets such as equities etc. makes it possible to achieve asset preservation, but at the same time it is of course also necessary to take into account the greater volatility and risk of loss associated with the latter.

As investment risk rises, there is a parallel rise in the need for higher-quality risk management and expert knowledge of individual types of investment, which is why client advisors recommend asset-managing investment solutions with balanced portfolio structures based on active risk management.

For some time, investors have increasingly been focussing on sustainability in investment, and they are specifically demanding it. HypoVereinsbank has been providing a sustainable asset management service for many years and has for example stopped actively offering investments which participate directly in price movements in basic food commodities. The trend of recent years has also shown that a sustainability approach, such as the one we have been implementing for years together with oekom research, does not necessarily entail disadvantages in terms of asset performance.

As business partner, Société Générale Securities Services (SGSS) Deutschland KAG strongly supports oekom research in their belief that large corporations can and should contribute more in the sense of a paradigm shift: incorporating sustainability in their strategies. To achieve this, the parent company of SGSS, Société Générale, works hand-in-hand with the industry in the preservation of the environment and sustainable development through the "Green Finance" initiative, and has implemented Ambition 2015, a long-term plan not only offering its shareholders sustainable growth but to also better identify and better manage our impact on society and the environment.

Long-term planning is also the focus of a white paper issued by Nobel laureate Al Gore and David Blood in December of last year, calling for the integration of sustainability in the investment process. As per them, presenting quarterly results, for example, "encourages some investors to overemphasize the significance of these measures at the expense of the longer term, more meaningful measure of sustainable value creation."

If we go back to Al Gore, most of us will remember "An Inconvenient Truth". His notion for incorporating sustainability research into the investment process obviously derives from the presentation and film that provided a rude awakening to a not so convenient future. We hope that we can all take the seriousness of it to heart and act accordingly—with this study and its interesting findings surely providing food for thought.

Oliver Postler

Chief Investment Officer Retail
& Private Banking
HypoVereinsbank – Member of Unicredit
Unicredit Bank AG



Christian Wutz

Managing Director
SGSS Deutschland KAG



Foreword by oekom research

One of the key motives of sustainable investors is, by factoring environmental, social or governance-related (ESG) criteria into their capital investments, to exert influence on companies in order to encourage them to step up their efforts in the field of sustainability management. The thinking behind this is that if access to equity and loan capital is dependent on whether companies behave in a responsible way, then they will be more likely to take account of such criteria in their corporate management decisions.

Even though sustainable investors today clearly also have other motives, particularly that of reducing reputational and performance risks, the motive of influencing companies continues to play an important role. However, no comprehensive analysis of whether this lever will actually succeed in changing the direction of the economy toward a “green economy” has yet been conducted. While there is definite evidence of an increased level of commitment to sustainable development on the part of companies, the extent to which sustainability strategies and measures are motivated by the sustainable capital market or are even geared specifically to the expectations of sustainable investors remains unclear.

Against this background, the aim of oekom’s Impact Study is to use data obtained from a survey of companies to analyse what influence the sustainable capital market has on their structures, outputs and processes. The companies’ assessments of this issue are supplemented by actual case studies. In addition, the study documents current trends in sustainable investment and in corporate sustainability management.

Twenty years ago, when oekom research’s first ratings were conducted, our principal motive was to use the capital market as a lever for increasing sustainability in the economy. Then, as now, we were convinced that our ratings would motivate companies to achieve a steady improvement in their social and environmental performance. Our concern has always been the “double dividend” which sustainable investors can obtain — returns which are in line with the market, coupled with a positive environmental and social impact. In this respect, this study also represents a balance sheet of our work for sustainable development to a certain extent.

Without wishing to give too much away at this point, overall the results are positive. The companies surveyed confirm that the lever does basically work. A significant proportion of them factor the demands of sustainability rating agencies (SRAs) into the design of their business strategies, and where sustainability management measures are concerned, the majority do so. At the same time, the relationship between companies and sustainability analysts is not free of misunderstandings, and we must all work together to overcome these. To this extent, the results of the study both validate what we do and motivate us to do more.

We are extremely grateful to our partners — the German Global Compact Network and the Principles for Responsible Investment — and to our sponsors — HypoVereinsbank and Société Générale Securities Services Deutschland KAG as well as Evangelical Lutheran Church in Bavaria, KEPLER-FONDS KAG, Metzler Asset Management, Missionszentrale der Franziskaner and Raiffeisen Capital Management — for supporting the study. oekom research’s 20th anniversary also presents a good opportunity to thank our clients and partners for the good and trusting working relationship we have built up over the years. Last but not least, I would like to thank our shareholders and our staff, thanks to whose hard work and commitment oekom research is now one of the world’s leading SRAs.



Robert Haßler
CEO oekom research AG

Executive summary

The aim of oekom's Impact Study is to analyse to what extent the demands of sustainable investors and the evaluations of sustainability rating agencies (SRAs) working on behalf of these investors influence the design of structures, outputs and processes in the companies evaluated. Influencing companies in this way is one of the key motives of many sustainability-oriented investors. In order to answer this question, we conducted a survey of around 750 major companies. 199 companies from nearly 30 countries and 34 sectors took part in the survey. The principal findings were as follows:

- ◆ 58.1 per cent of the companies surveyed rate the importance of “sustainable development” to the future development of their company as “very high”, with a further 38.9 per cent rating it as being of “fairly high” importance. ► [page 23](#)
- ◆ For 61.3 per cent of companies, the demands of SRAs were a decisive factor in prompting them to tackle the issue of sustainability, while for 59.3 per cent it was the demands of sustainable investors. The only factor that was more important here was the demands of customers (65.8 per cent). ► [page 24](#)
- ◆ The companies found shortcomings in the transparency of SRAs' rating processes. Just under a third of the companies find these processes to be transparent, and 44.4 per cent have only a vague idea of how the rating of their company was put together. ► [page 26](#)
- ◆ Almost one in three companies say that enquiries from sustainability analysts influence the company's overall strategy. 60.3 per cent of the companies confirm that such questions influence their sustainability strategies, and 68.9 per cent that they influence specific sustainability management measures. ► [page 27](#)
- ◆ Of the sustainable investment strategies used, the best-in-class approach has the greatest influence on companies (39.9 per cent). The companies see engagement, i.e. direct dialogue between investors and companies, as the next most important strategy (37.4 per cent). By contrast, they attach little importance to the use of exclusion criteria in this context. ► [page 27](#)
- ◆ The overwhelming majority of the companies use sustainability ratings as a management tool, e.g. as a trend radar (96.0 per cent), for analysing strengths and weaknesses (84.3 per cent) or for monitoring the success of sustainability management measures (65.0 per cent). ► [page 28](#)
- ◆ Just under half of the companies (48.2 per cent) think that the benefits of sustainability ratings outweigh the costs involved, while the other half see the cost-benefit ratio as negative. ► [page 29](#)
- ◆ Almost one in three companies say that their performance in sustainability ratings affects management remuneration. For 8.5 per cent of the companies this applies across the board, while for 21.6 per cent it is true for selected managers. ► [page 30](#)
- ◆ Almost nine out of ten companies (87.9 per cent) see it as important or even very important to be awarded a good sustainability rating or to be included in sustainability indexes and funds. 97 per cent of companies expect a good sustainability rating to have a positive effect on their reputation. Correspondingly, most companies are happy to use good rating results in their external communications (84.4 per cent). ► [page 31](#)
- ◆ More than two-thirds of the companies (70.8 per cent) are convinced that good sustainability rating results help them recruit highly qualified employees. The proportion of companies which detect growing interest in sustainability-related issues among conventional analysts is similarly high. ► [page 31](#)
- ◆ No fewer than 41.1 per cent of the companies surveyed feel that a good sustainability rating definitely makes it easier to access external finance. ► [page 32](#)

In oekom research's view, the following conclusions can be drawn from the results of the survey:

- ◆ Socially responsible investments and sustainability ratings motivate the majority of companies to make a greater commitment to sustainable development. From the companies' point of view, access to the capital market makes an important business case for the integration of sustainability criteria into company management. One of the key motives of sustainable investors is thus fundamentally addressed.
- ◆ However, this does not fully exhaust their potential influence. A comparison of the influence on the companies of the various sustainable investment strategies with the corresponding movements in capital volumes demonstrates this. For example, only a relatively small amount of capital worldwide is invested on the basis of the best-in-class approach — just under ten per cent of the total of 10.4 trillion euros which are invested taking ESG criteria into account. According to the companies, however, of all the various SRI strategies this is the one which has the greatest influence on sustainability management. By contrast, a comparatively large amount of capital is invested on the basis of exclusion criteria, which are seen by companies as being of limited influence. If capital were allocated in a more impact-oriented way, influence on companies could be increased further.
- ◆ SRAs still have a great deal to do in terms of the transparency and clarity of their evaluation processes and rating results and the costs and benefits of ratings. There is a need for further systematic development of existing initiatives concerned with comprehensive transparency and quality, for example ARISTA®, which deals with European quality standards for SRAs. In particular, greater transparency, together with the improved understanding by companies of the aims and content of sustainability ratings that this would bring, could further increase the influence of ratings on the way in which sustainability management is organised. There is also potential for improvement in the rating process, for example through the use of pre-completed company profiles instead of questionnaires or the wider use of new media for the exchange of information.

1. Background and objectives of the study

Returns, risk and liquidity have been the deciding factors in capital investment ever since people have had money and wanted to invest it. Over the past 20 years, this “magical triangle” of capital investment has been supplemented by a fourth aspect:

sustainability. Increasing numbers of both private and institutional investors want to know whether the companies they are entrusting their capital to will handle it responsibly.

Motives of sustainable investors

On the investor side, two motives can be distinguished. On the one hand, investors wish to take those values into account in their capital investments for which they, as private individuals, stand or to which their organisation is committed. For example, the churches began excluding companies from investment which make their money from the production of weapons or alcohol over 200 years ago. On the other hand, investors are convinced that the risk-return ratio is improved when social and environmental criteria are taken into account in capital investment. This view is supported by numerous studies (cf. chapter 2.2.1.).

Furthermore, many investors see the capital market as an important lever for inducing companies to take greater account of social and environmental issues. Their intention is that if the quality of corporate sustainability management is also factored into capital investment, companies will pay more attention to this issue in order to secure access to equity capital (shares) and loan capital (bonds) and/or to have a positive influence on the conditions under which such access is possible.

Sustainable investment strategies

To enable them to apply a reasonable amount of force to this lever, investors use a variety of key strategies. Firstly, as mentioned above, they can use **exclusion criteria** to bar companies whose businesses they disapprove of from their investment universes. In addition to the classic “sin stocks” – alcohol, gambling, pornography, armaments and tobacco – investors are focussing more and more on companies’ business behaviour. For example, they boycott shares in companies which breach internationally recognised labour rights in their supply chains, e.g. by using children or forced labour in production. Other investors exclude, for example, companies which rely on payment of bribes rather than performance when arranging new business deals.

Under the **best-in-class approach**, the second strategy relevant here, those companies which are among the leaders in their sector in terms of sustainability management are selected for investment. One of the investors’ aims here is to trigger competition within sectors to come up with the best sustain-

ability performance. This strategy is thus particularly representative of the relationships between cause and effect analysed as part of this Impact Study.

The third strategy, that of **engagement**, involves investors exerting direct influence, either individually or as part of a concerted action, on companies in which they hold shares or bonds. In this way, they hope to achieve targeted improvements in areas relevant to sustainability. In the best-case scenario, engagement involves an escalation process which may even end in disinvestment, i.e. the sale of shares or bonds.

Under the **integration strategy**, the fourth sustainable investment approach, social, environmental and governance (ESG) criteria are integrated into conventional ratings of issuers. These can range from individual to very comprehensive lists of criteria. If they are not blurred already, this is where the borders between sustainable and conventional corporate analysis and capital investment become so. In practice, there are also further sub-strategies,

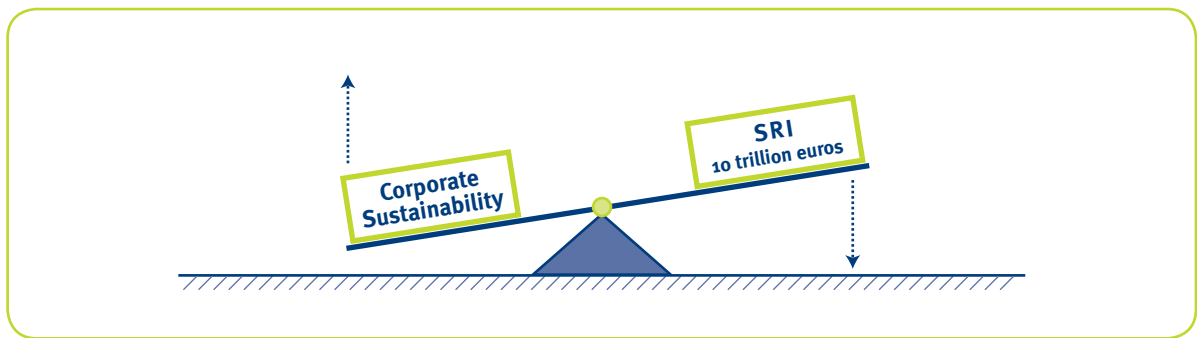


Figure 1: The leverage of socially responsible investments on the quality of the sustainability management in companies; own research (2013)

which can be categorized under these four main approaches. Combinations of various approaches are often encountered, for example a best-in-class approach combined with exclusion criteria.

The potency of these tools depends largely on how much capital lies behind them. According to calculations by the Global Sustainable Investment Alliance (GSIA), at least 10.4 trillion euros worldwide are managed taking ESG criteria into account (cf. chapter 2.1.5.).¹ The GSIA calculates that sustainable capital investment's market share of total global managed assets stands at around 21.8 per cent.

Motivated investors, a sophisticated set of instruments, a relevant market share – together form a powerful lever for sustainable investment. But is it strong enough to move the resistance and actually motivate companies to increase their efforts to achieve sustainable development? And if so, what is the most effective SRI investment strategy here?

These questions lie at the heart of this Impact Study by oekom research. Indeed, the main purpose of the survey of 199 major companies from a large number of countries and sectors was to provide answers to them. It has provided an insight into the way in which the companies deal with SRAs' ratings and shows what specific influence the ratings have on the design of structures, outputs and processes in the companies.

Section 2 of the study starts by analysing the market for SRI. It looks at various regions as well as examining global trends. Key questions include which SRI strategies are being implemented and to what extent. Section 3 shows the current status of CSR management in the companies. Section 4, which documents the results of the company survey, forms the core of the report. Finally, section 5 summarises the most important findings and draws possible conclusions.

2. The lever: development of sustainable investments

The more capital is invested in line with ESG criteria, the better the lever described above works. The following section will illustrate how this market has

developed in the German-speaking countries, in Europe and other regions as well as globally, and what the drivers of this development are.

2.1. Current trends in various markets

2.1.1. German-speaking countries

Sustainable mutual funds in the German-speaking countries

According to data from the Sustainable Business Institute (SBI), a total of 384 sustainable mutual funds were licensed for marketing in Germany, Austria and Switzerland as at 31 December 2012.² The total volume of assets in the funds stood at 35 billion euros.

Between 1999 and 2012, the number of sustainable mutual funds recorded by the SBI rose from 12 to 384, and the assets managed in them from 0.3 to 35 billion euros.

The overall market for sustainable investments in German-speaking countries

According to a study by the Forum for Sustainable Investment (FNG) published in December 2012, the sustainable investment market has continued to grow in Germany, Austria and Switzerland.³ According to the FNG, the sustainable investment volume of these three countries amounted to a total of 103.5 billion euros as at 31 December 2011.

Of this total, mutual funds and mandates accounted for 60.6 billion euros, sustainability-orient-

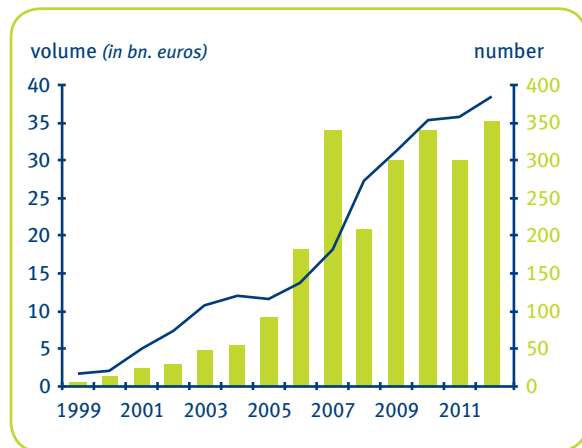


Figure 2: Volume and number of sustainable mutual funds in German-speaking countries; as at 31.12.; in bn. euros; source: SBI (2013)

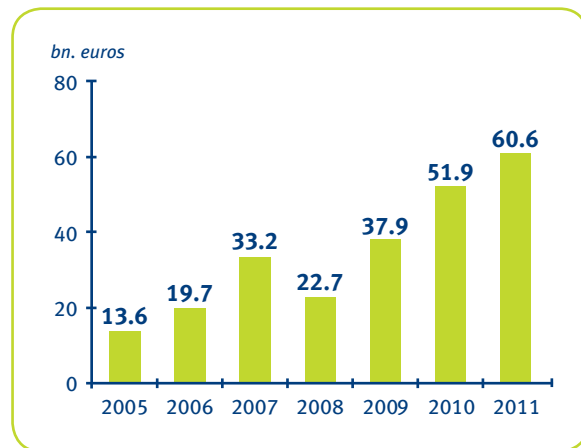


Figure 3: Volume of assets managed in sustainable mutual funds and mandates in the German-speaking countries; in bn. euros; source: FNG (2012)

ed specialists banks' own-account and customer investments for 41.7 billion euros, and sustainable certificates for 1.2 billion euros. The development of sustainable capital investments in the German-speaking countries can easily be seen from the volumes managed in mutual funds and mandates. Between 2005 and 2011 these more than quadrupled.

The inventory must also take account of so-called asset overlays. Here, exclusion criteria are applied to the entire investment universe. In the German-speaking countries, the main focus is on cluster munitions. FNG calculates that asset overlays in the German-speaking countries now total 1,055.6 billion euros. Germany, with 618.2 billion euros, accounts

for the largest share, followed by Switzerland with 429.2 billion euros and Austria with 8.2 billion euros.

Allowing for double-counting, the overall volume of sustainable capital investments in Germany, Austria and Switzerland stood at 1,113.8 billion euros as at 31 December 2011.

2.1.2. Europe

Sustainable mutual funds in Europe

According to a study by Vigeo Italia, 884 sustainability funds were licensed for distribution in Europe as at 30 June 2012, representing a volume of 94.7 billion euros.⁴ This corresponds to a market share of 1.6 per cent of all retail funds licensed in Europe. Belgium has the highest country market share for SRI retail funds with 8.9 per cent.

France (254), Belgium (223), Great Britain (92) and Switzerland (80) together account for about 73 per cent of all funds included in the study. With a total volume of 41 billion euros, France is by far the largest market for sustainable mutual funds in Europe, ahead of the UK (14 billion euros) and Switzerland (9 billion euros).

In terms of number, equity funds account for the vast majority (419), followed by fixed income (149) and balanced funds (120). The average size of SRI retail funds stands at 107 million euros.

The overall market for sustainable investments in Europe

If investments by institutional investors as well as mutual funds are included, an analysis by the European umbrella organisation Eurosif shows that at the end of 2011, the overall volume of sustainable capital investments in Europe totalled more than 6.7 trillion euros.⁵ Compared with 2002, the volume had thus increased more than twenty-fold.

A wide variety of investment strategies are employed here. These include exclusion of holdings from the investment universe, integration of ESG criteria into conventional financial analysis and norms-based screening, as well as engagement and voting on sustainability matters and the best-in-class approach. Eurosif calculates that in Europe, the exclusion strategy influences the greatest amount of capital, around 3.8 trillion euros.

Institutional investors account for 94 per cent of the overall volume of SRI in Europe, with six per cent

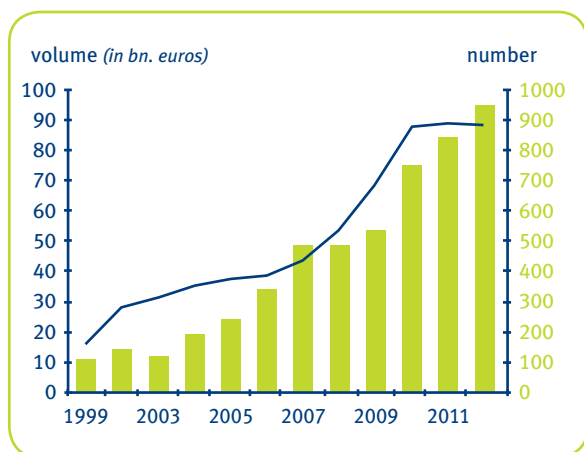


Figure 4: Volume and number of sustainable mutual funds in Europe; as at 30.06.; in bn. euros; source: Vigeo Italia (2012)

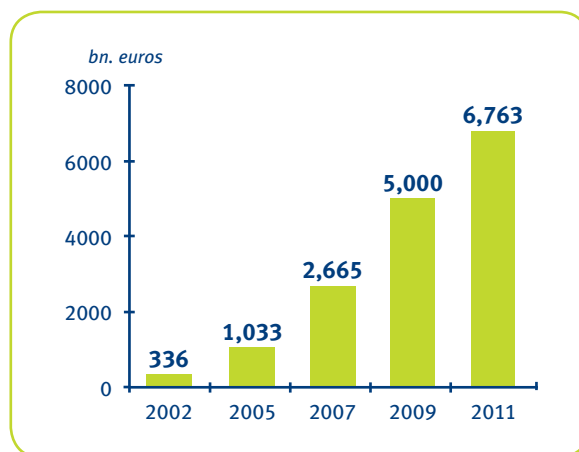


Figure 5: Volume of capital invested according to sustainability criteria in Europe; as at 31.12.; in bn. euros; source: Eurosif (2012)

in the hands of private investors. According to the investors and asset managers surveyed for the 2012 Eurosif study, institutional investors will continue to be particularly important to the future development of sustainable investment in Europe. They

Strategy	Capital influenced
Exclusions	3,829.3
Integration	3,204.1
Norms-based screening	2,346.3
Engagement / Voting	1,950.4
Best in Class / Positive screening	283.2
Sustainability-themed investments	48.1

Figure 6: SRI strategy in Europe by volume; as at: 31.12.11; in bn. euros; source: Eurosif (2012)

2.1.3. USA and Canada

According to a 2012 market analysis by the US Social Investment Forum (US SIF), 2.8 trillion euros are currently invested in the US taking sustainability criteria into account.⁶ Compared with the previous market survey in 2010, the volume has risen by over 20 per cent.

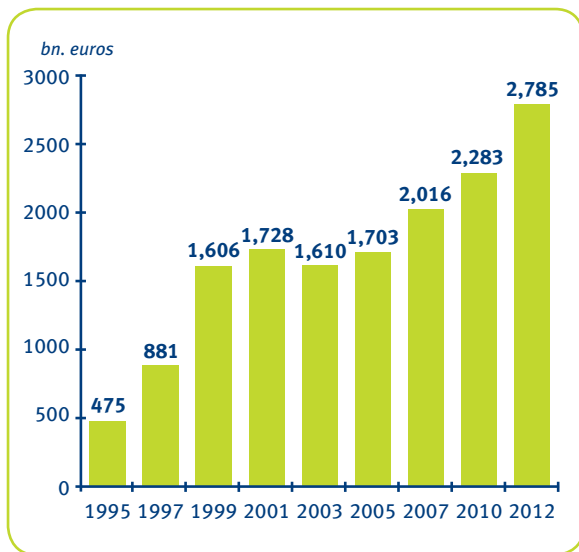


Figure 7: Sustainable investing in the USA 1995 – 2012; in bn. euros; source: US SIF (2012)

2.1.4. Asia

A study by ASrIA, the Association for Sustainable & Responsible Investment in Asia, puts the total volume of sustainable capital investments in Asia at 74 billion US dollars (approx. 56.5 billion euros) at the end of 2011.⁸ Japan accounts for 7.6 billion euros, and other Asian countries for 49 billion euros.

As in Europe, in Asia too the entire spectrum of SRI strategies is used. The integration approach, i.e.

were ranked first among the five most frequently cited drivers of development of the SRI market. Legislative bodies and regulatory authorities came in second place, and third place was taken by international initiatives such as the United Nations-supported Principles for Responsible Investment (PRI).

US SIF differentiates between just two SRI strategies: “ESG incorporation” and “shareholder resolutions on ESG issues”.

ESG criteria are incorporated into the investment analysis and securities selection process in the management of 2.46 trillion euros, while shareholder resolutions are applied to 1.14 trillion euros of assets under management. A number of capital investments make use of both strategies.

The Canadian SRI Review 2012, recently published by the Social Investment Organization (SIO), shows that in Canada, too, the market for sustainable capital investment is continuing to grow.⁷ For example, since the previous market study was published in June 2010, the volume of assets managed according to sustainability criteria has grown by 16 per cent to 600.9 billion Canadian dollars (approx. 448 billion euros) (as at December 2011). This represents a market share of 20 per cent of all assets under management in Canada. According to the SIO, the greatest increase is to be seen among pension funds and in the area of ‘impact investing’. Impact investments are defined as capital investments which actively support the aims of an investor, for example a foundation.

taking social and environmental criteria into account in traditional financial analysis, is particularly common. This strategy is used in the management of over 33.6 billion euros.

The second most important strategy, which influences assets worth 31.4 billion euros, is that of engagement, or the exercise of voting rights at company shareholders’ meetings, and it is followed by

the use of exclusion criteria. Best-in-class ratings and/or positive screening are used in the management of 5.1 billion euros.

All in all, compared with Europe and the US and given the economic strength of countries such as China, Japan and South Korea, the volume of sustainable investments in Asia falls far short of its potential.

Strategy	Capital influenced
Integration	33.6
Engagement / Voting	31.4
Exclusions	10.2
Impact investing	5.5
Best in Class / Positive screening	5.1
Sustainability-themed investments	3.6

Figure 8: SRI strategies in Asia by volume; as at 31.12.11; in bn. euros; source: ASRIA (2012)

2.1.5. Sustainable investments worldwide

The Global Sustainable Investment Alliance (GSIA) puts the total volume of sustainable investments worldwide at more than ten trillion euros.⁹ This represents 21.8 per cent of the total assets managed professionally in the regions covered by the report.

The calculations included data for Africa, Asia, Australia, Europe and North America. For other regions, e.g. the Arab countries and South America, there is currently no up-to-date data available. When interpreting the data, it should be noted that there is currently no valid standard for the definition and interpretation of sustainable investments. The classification of individual capital investments as sustainable investments can therefore vary from region to region.

With regard to the SRI strategies used, the GSIA presents the following data:

Strategy	Capital influenced
Exclusions	6,344
Integration	4,739
Engagement / Voting	3,592
Norms-based screening	2,292
Best in Class / Positive screening	764
Impact investing	68
Sustainability-themed investments	63

Figure 9: SRI strategies worldwide by volume; in bn. euros; source: GSIA (2013)

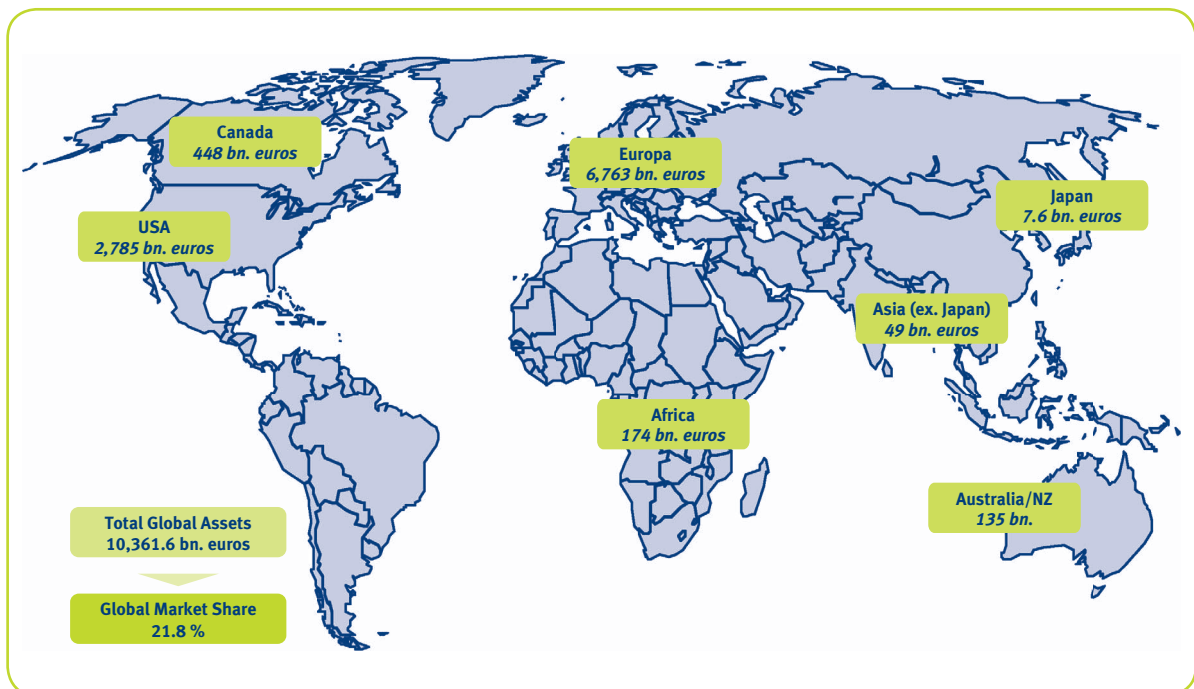


Figure 10: SRI worldwide; source: Global Sustainable Investment Alliance (GSIA), Eurosif, FNG

This overview also shows that the use of exclusion criteria and the integration of ESG criteria into corporate analysis influence the greatest amount of capital, with the engagement strategy coming in third place in terms of volume. Here, too, several strategies are often used in parallel.

Once again, the volume of capital investments where the investors themselves or their managers have pledged to take social and environmental criteria into account, either as a voluntary commitment

or as part of an initiative, lies significantly above these figures. This applies particularly to signatories to the PRI, whose capital investments totalled over 24 trillion euros at the end of 2012 (cf. section 3.1.). The Carbon Disclosure Project (CDP), under which several thousand companies are regularly surveyed on their climate protection measures, is currently backed by more than 650 institutional investors who together own assets totalling around 60 trillion euros.

2.2. Performance of sustainable investments

As described earlier, sustainable investors are aiming for a double dividend, i.e. one that links economic targets and sustainability-related added value. Curiously, although in discussions about the effects of sustainable capital investments much is said about the financial performance and competitive-

ness of such investments, very little mention is made of the social and environmental benefits. In a study by the Swiss bank Pictet, this was once described as the “SRI performance paradox”.¹⁰ Both aspects of performance will be illustrated below.

2.2.1. Financial performance

As Albert Einstein was aware, “It is easier to split an atom than to shatter a prejudice”. This also applies to the preconception that sustainable capital investments do not perform structurally as well as conventional investments. The frequently cited main argument for this is that any limitation of the investment universe, for example through the use of exclusion criteria, must inevitably lead to a reduction of potential returns and a higher risk, due to the reduced opportunities for diversification. Sustainable investors, by contrast, are convinced that these additional criteria regarding social and environmental

performance actually help provide a more comprehensive understanding of the complex web of opportunity and risk involved in a security.

This view is backed by numerous empirical studies. In two metastudies carried out in 2007 and 2009, the management consultancy firm Mercer analysed the results of a total of 36 relevant performance studies.¹¹ Their findings: 20 studies found a clearly positive correlation between factoring sustainability criteria into the selection of issuers and return on investment, while only three studies saw a negative impact.

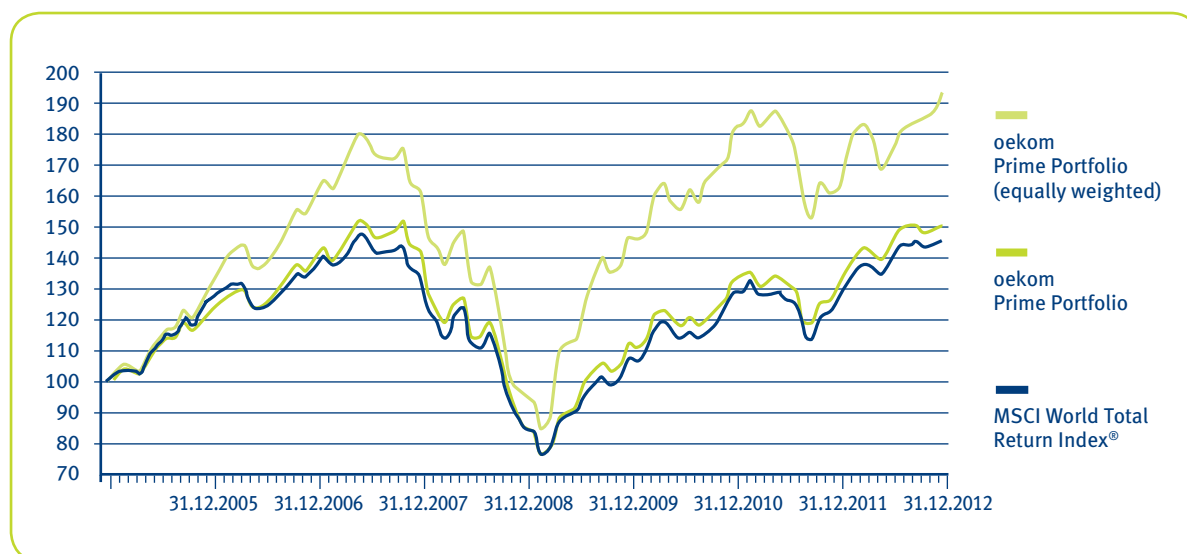


Figure 11: Return on investment during the period 31.12.04 to 31.12.12; 31.12.04=100; source: oekom research/DPG (2013)

Over 100 relevant studies on sustainable investment were examined by Deutsche Bank in a study published in summer 2012.¹² The findings: 89 per cent of these studies showed that companies whose sustainability management was rated positively also performed better in economic terms. They have lower capital costs and represent a lower risk for investors. The authors summarise the findings as follows: all investors who set store by shareholder value should integrate analysis of companies' sustainability performance into their investment strategies.

A study published in 2011 by the asset manager RCM, part of Allianz Global Investors, shows that the inclusion of ESG criteria does not have a negative effect on the performance of a portfolio but on the contrary even enables outperformance in the long run.¹³ For the period between 2006 and 2010, RCM analysed the effect of including ESG criteria on the performance of portfolios containing titles from the MSCI World, MSCI Europe or MSCI US indexes. The MSCI World Equal Weighted Index (MSCI EWI) was used as a benchmark. It showed that investors could

have increased their profits by 1.6 per cent per year over a period of five years if they had invested in companies with an above-average ESG performance.

oekom research chose an even longer period on which to base an analysis it carried out jointly with Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios (DPG), a German company specialising in performance measurement for investment portfolios.¹⁴ This study compared the performance and risk of a portfolio of large companies awarded Prime status by oekom research against that of the MSCI World Total Return Index® for the period from 31 December 2004 to 31 December 2012. Weighted by market capitalisation, the oekom Prime Portfolio Large Caps (PPLC) yielded a return that was almost eleven per cent better than the conventional benchmark index. When the PPLC securities were weighted equally, their cumulative returns were actually more than double those of the MSCI World Total Return Index®. The annual risk (volatility) for the PPLC portfolio weighted by market capitalisation was, at 18.14 per cent, somewhat lower than for the benchmark (18.26 per cent).

2.2.2. Extra-financial performance

While, as described, the financial performance of sustainable capital investments has been the subject of numerous studies and analyses, the question of the social and environmental added value of such investments has so far been very much neglected. Unlike microfinance investments, where the success of such programmes is frequently demonstrated to investors by social impact assessments, in the case of sustainability funds and other sustainable investment products there is generally a lack of relevant data and analyses. This is noteworthy insofar as sustainable investors' utility function explicitly includes a social and environmental dimension. Evidence that individual investment products bring manifest and measurable social and environmental added value should therefore actually be of great interest to such investors.

The number of studies concerned with measuring the extra-financial performance of sustainable capital investments is extremely limited. One pioneer in this area was the 2008 study by Pictet bank which was mentioned previously. The authors demonstrate that companies in an appropriately sustainably optimised portfolio emit less CO₂ and create more jobs than their conventional competitors and thus offer the investor measurable added value in environmental and social terms. At the same time, they bemoan

the fact that there are scarcely any tools for measuring the extra-financial performance of sustainable capital investments so far. Five years after the publication of the study, little has changed to alter this assessment.

More closely in line with the questions posed in the present Impact Study was a 2010 analysis by the German consulting firm adelphi.¹⁵ It investigated the influence of sustainable investment on the economy, in particular on its climate protection efforts. To this end, the authors of the study compared the greenhouse gas intensity of conventional, sustainable and climate-friendly capital investment products in order to determine the average carbon footprint of a German investment portfolio. This comparison found that private investors can significantly reduce their carbon footprint by choosing climate-friendly and sustainable investments. Another survey of German companies yielded the following additional findings:

- ◆ "Climate-friendly" investments have a limited but discernible influence on the management of companies. This influence is most strongly in evidence in companies which often feature in climate protection or sustainability funds and in very large public companies.

- ◆ “Climate-friendly” and sustainable capital investments promote competition between companies to come up with better climate strategies and improved sustainability performance. However, in the authors’ view only a relatively small number of companies have so far actively participated in this competition.

The conclusion of the adelphi study is that investors who want their investments to have a positive impact on the climate and the environment can achieve this through climate and sustainability funds. But then this is self-explanatory, of course. If a sustainability or climate fund demands reduced emissions of greenhouse gases as a prerequisite for a company’s inclusion in the fund, the carbon balance of the fund must by definition be better than that of products where this criterion plays no role in the selection of securities. Also relevant for sustainable investors is the issue of whether their capital investments make a contribution to companies continuing to improve their carbon balances.

In February 2013, the French research institute Novethic presented an analysis of SRI performance indicators for the French market.¹⁶ The aim of the study was to measure whether socially responsible investment contributes to generating fewer carbon

emissions (see here too the adelphi study cited above) or creating more jobs. The result: out of 65 asset managers offering SRI products in France, only seven have developed ESG indicators to assess the environmental and social benefits of their products. According to the asset managers, the main hurdle when assessing the performance of SRI products is a shortage of reliable and relevant indicators published by companies. Furthermore, the authors add that indicators such as greenhouse gas emissions are not representative of a comprehensive sustainability approach. The conclusion of the report is that the methods being developed by several market participants make it possible to compare the ESG performance of a fund in relation to a benchmark but not to calculate its real impact in terms of CO₂ emissions or job creation. In addition, participants all have their own methodologies, making it very difficult to compare SRI funds on the basis of impact-related ESG indicators.

Against the background of these varied analyses it appears that it would be worth taking a closer look than hitherto at specific sustainability dividends at the individual investment product level: this suggestion is directed both at issuers of such products and at SRAs.

3. Corporate sustainability management – current status and trends

There is no shortage of declarations of commitment to corporate responsibility. More than two-thirds of listed companies in Germany claim to see sustainability as being crucial to their own future development.¹⁷ In a survey of medium-sized enterprises from Germany, Austria and Switzerland, over 92 per cent of respondents expressed their expectation that the public—especially advertisers, business partners and customers—would in future look even more closely at how responsibly a company is managed in social and environmental terms. Approximately 70 per cent of the CEOs surveyed believe that acting responsibly also pays off financially.¹⁸

In a survey of 378 companies in Europe, the USA, Canada and the Asia-Pacific region, the auditing and

advisory firm KPMG discovered that between 2008 and 2011, the proportion of companies stating that they are pursuing a sustainability strategy has risen from 50 to 62 per cent.¹⁹ 61 per cent of those surveyed are convinced that implementing sustainability programmes has paid off, either by cutting their costs or by increasing their profitability.

These are very striking figures. But what is oekom research's view of the status quo? This will be explained below. First, however, a brief overview of the norms, standards and voluntary commitments which form the framework for companies' sustainability management.

3.1. The framework: norms, standards and voluntary commitments with regard to sustainability in companies

What does social responsibility entail for companies? The European Commission, in its “renewed EU strategy 2011–14 for Corporate Social Responsibility” defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.²⁰ The EU Commission sees the priority areas of such a concept as including human rights, employment practices (e.g. diversity, gender equality, health and safety), climate protection and species diversity, resource efficiency and combating bribery and corruption.

The EU Commission recommends that large companies, in particular, abide by internationally recognised principles and guidelines, such as e.g. ISO 26000 and the OECD Guidelines for Multinational Enterprises. **ISO 26000** “Social Responsibility”, which is a guidance standard on the recognition of social responsibility, was adopted by the International Organization for Standardization (ISO) in November 2010.²¹ The key issues it defines include human rights, the environment and fair operating and business practices. Although the aim of the ISO was to develop a guideline rather than a certifiable standard, a number of countries now have national standards which enable certification.

The **OECD Guidelines** are a code of conduct for global corporate responsibility and represent recommendations by governments for the world of business. The ten chapters of the Guidelines set out recommendations in the areas of transparency, employment relations, the environment, corruption, consumer protection, technology transfer, competition and taxation. They refer to international agreements such as the Universal Declaration on Human Rights and the ILO core labour standards, and emphasize the sustainable development model and the precautionary principle.

When developing a CSR management system, many companies seek, through associations, to exchange experiences with other companies from the same sector or from other sectors. The aim here is firstly to learn from others and by so doing to organise sustainability management structures and processes more efficiently. Secondly, however, industry associations focussing on sustainability are also tools for lobbying politicians.

Among these associations, the **UN Global Compact** undoubtedly plays a particularly important role.²² This agreement between companies and the UN stems from an initiative by the former UN Secretary-General Kofi Annan. By recognising the UN Glo-

bal Compact, which was officially launched in 2000, companies undertake to abide by its ten principles of corporate responsibility. These relate to the areas of human rights, labour rights, environmental protection and combating corruption. 7,000 companies from 145 countries have so far signed up to the UN Global Compact. Signatories have to report annually on their progress and problems they have encountered. Companies which fail to do so can be excluded from the Global Compact.

Besides the UN Global Compact, there are a wide variety of other industry associations focussing on different regions, e.g. the **World Business Council for Sustainable Development (WBCSD)**, **BSR** and **CSR Europe**, or on specific issues, for example the **European Business Ethics Network (EBEN)** and the **Business and Biodiversity Initiative**.

Concerning the SRI market, the **United Nations-supported Principles for Responsible Investment (PRI)**²³ are particularly important in relation to investments. They comprise six principles for sustainable investment. Signatories to the PRI – institutional investors and asset managers – undertake to factor these principles into their investment policies. By the end of 2012, the PRI had been recognised by more than 1,000 institutions, which together managed an impressive total of around 32 trillion US dollars.

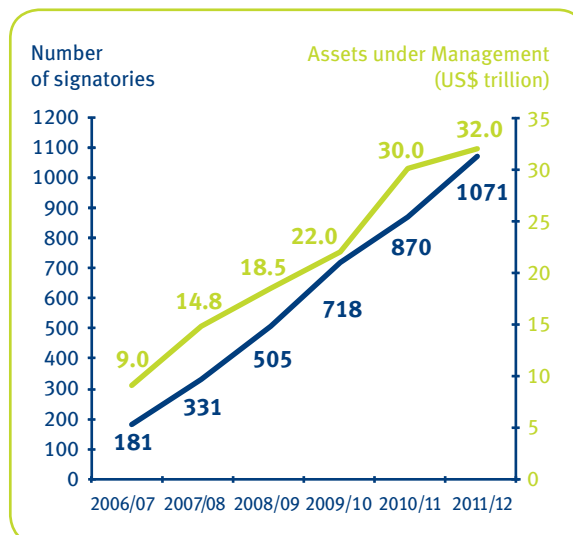


Figure 12: Number of PRI signatories and volume of capital managed by them (in trillions of US dollars); source: www.unpri.org

In summer 2012, the **Principles for Sustainable Insurance (PSI)** were adopted at the Rio+20 conference as a counterpart, so to speak, for the insurance sector.²⁴ As at the end of 2012, 37 insurance companies had committed themselves to implementing its four principles.

3.2. Status quo of sustainability management in companies – results of oekom’s ratings

We will come straight to the point here. The companies’ self-assessment described at the beginning of this section, regarding the importance of the sustainability model and the current status of relevant

activities, does not stand up to external scrutiny. Only around one in six of the companies from the MSCI World rated by oekom research (16.7 per cent) currently demonstrate a “good” level of commitment

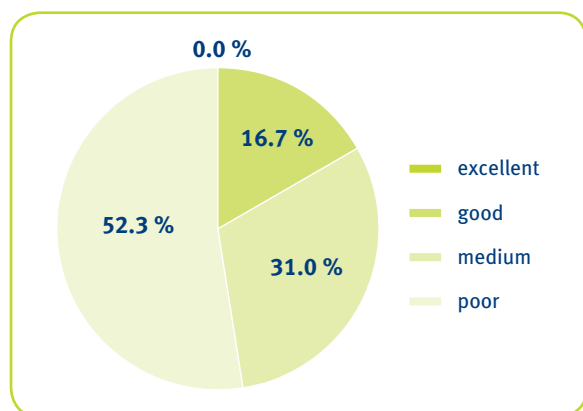


Figure 13: Evaluation of the sustainability performance of companies from the MSCI World; in per cent; as at: 31.12.12; source: own research (2013)

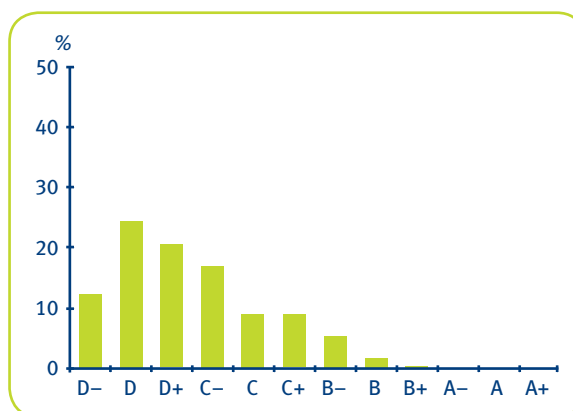


Figure 14: Distribution of oekom rating scores for companies from the MSCI World; in per cent; as at: 31.12.12; source: own research (2013)

to sustainable development, while not a single company has yet succeeded in qualifying for the “very good” category. Just under one-third of the companies (31 per cent) have introduced satisfactory sustainability management initiatives, but these are often not being implemented systematically on a company-wide level. Over half the companies have so far taken little or no action in this area.

The distribution of the rating scores shows that the highest-scoring MSCI World companies achieved

a score of B+ on oekom research’s rating scale, which ranges from A+ (highest score) to D-. oekom research has never yet awarded a rating in the A range to a large international corporation. Underlying this is the assessment that even those companies which are leaders in the sustainability field are still a long way from being managed sustainably. Most of the companies were awarded scores in the D range.

The sector leaders

Nowadays, there are companies in every sector which show a particularly high level of commitment to sustainable development. The following table gives an overview of the top performers in each sector. The overwhelming majority of these are from Europe. UK companies are particularly strongly represented, heading no fewer than seven of the sectors. The US

did not produce a single sectoral leader. This table makes it clear once again that even the best companies are only achieving scores in the B range, sometimes even only a C+, and that there is still a definite need for improvement, even among the top companies in each sector.

Sector	Best-performing company	Country	Rating
Automobile	Renault	FR	B
Banks	Westpac Banking	AU	C+
Chemicals	Linde	DE	B
Construction	Berkeley Group	GB	B-
Consumer Electronics	Sony	JP	B-
Food & Beverages	Coca Cola Hellenic Bottling	GR	B-
Household & Personal Products	Henkel	DE	B
Insurance	Swiss Re	CH	C+
IT	Ricoh	JP	B+
Leisure	Accor	FR	B-
Machinery	Atlas Copco	SE	B
Media	Reed Elsevier	GB	B-
Metals & Mining	Anglo American	GB	B
Oil & Gas	OMV	AT	B-
Paper & Forest Products	Svenska Cellulosa	SE	B
Pharmaceuticals	GlaxoSmithKline	GB	B-
Real Estate	British Land	GB	C+
Retail	Marks & Spencer	GB	B-
Telecommunications	BT Group	GB	B
Utilities	EDP – Energias do Brasil	BR	B

Figure 15: The best-performing companies in selected sectors; as at: 31. 12. 12; basis: MSCI World; source: own research (2013)

The most active industries

In a sectoral comparison, the paper and forestry industry achieved the highest rating. It scored 47.7 on a scale from 0 to 100 (highest score) and was thus the most successful in fulfilling oekom research’s industry-specific minimum requirements for sustainability management.

Manufacturers of household products came second, with an average rating of 45.4, followed by car manufacturers, which achieved an average score of 40.8. Languishing at the bottom of the rankings were retail (21.7), real estate (20.6) and oil & gas (18.9). Insurance companies and banks, too, failed on average to reach even 25 per cent of the maximum possible points.

Sector	Rating	Sector	Rating
Paper & Forest Products	47.7	Leisure	26.1
Household & Personal Products	45.4	Telecommunications	25.9
Automobile	40.8	Metals & Mining	25.0
Consumer Electronics	38.1	Chemicals	24.6
IT	30.2	Insurance	24.1
Food & Beverages	30.2	Banks	23.0
Utilities	28.9	Construction	22.4
Machinery	27.8	Retail	21.7
Pharma	27.2	Real Estate	20.6
Media	26.6	Oil & Gas	18.9

Figure 16: Average rating of companies from selected industries on a scale ranging from 0 (very poor sustainability performance) to 100 (very good sustainability performance); basis: MSCI World; as at: 31. 12. 12; source: own research (2013)

Background: Corporate Responsibility Rating by oekom research

The oekom Universe currently comprises around 3,000 companies from over 50 countries. We cover major international indexes such as the MSCI World, MSCI Emerging Markets and Stoxx 600 as well as national indexes such as the Austrian ATX, the Belgian BEL20, the French CAC40, the German DAX30 and the Swiss SMI.

All companies are rated on the basis of a comprehensive, industry-specific list of criteria. This process utilises approximately 100 separate industry-specific indicators drawn from a pool of around 500 indicators, in order to take account of the specific sustainability-related challenges facing each industry. Management structures and performance are evaluated in six thematic areas, including employees & suppliers, corporate governance & business ethics and products & services.

oekom research employs an absolute best-in-class approach. Under this approach, the only companies which qualify for best-in-class status are those which have achieved a minimum rating score set by oekom research on its rating scale, which ranges from A+ (highest score) to D-. In this context, oekom research uses the term “Prime threshold”, which is set separately for each industry. The greater the industry’s (potential) adverse impact on the environment, employees and society, the higher the threshold. Companies whose performance exceeds this threshold are awarded Prime status by oekom research. The industry-specific lists of criteria are regularly updated in order to take into account new technical, social, legal and other relevant developments.

In addition, oekom research carries out a comprehensive analysis of possible breaches of a total of 18 exclusion criteria for all companies. These include on the one hand controversial business areas, such as the classic “sin stocks” – alcohol, gambling, military, pornography and tobacco – but also issues such as a company’s involvement in the areas of nuclear power or agricultural genetic engineering. On the other hand, there are also exclusion criteria relating to company behaviour, e.g. in the areas of labour and human rights, corruption and environmental pollution.

4. Influence of sustainable investments on companies – an empirical analysis

4.1. Methodology used in the company survey

Sample and response

The survey of companies took the form of a written questionnaire and was carried out during November and December 2012. oekom research wrote to a total of 750 large companies worldwide which we regularly evaluate in the oekom Corporate Rating. 199 of

the companies took part in the survey, putting the response rate at 26.9 per cent.

As regards the national origin of the companies taking part, Germany provided the largest contingent with 36 companies. 23 of the companies were from France, and 20 from the USA. 17 Japanese companies were among those representing the Asian region.

Country	Share of participants	Proportion of parent population	Sector	Share of participants	Proportion of parent population
Germany	18.1	13.1	Banks	20.1	23.7
France	11.6	8.1	Utilities	9.0	6.8
USA	10.1	15.1	IT	8.5	9.1
Japan	8.5	8.5	Machinery	6.0	5.1
Italy	5.0	2.6	Chemicals	5.0	3.0
Sweden	5.0	3.4	Oil & Gas	4.5	3.4
Switzerland	4.5	4.6	Metals & Mining	4.0	4.5
United Kingdom	4.5	8.9	Telecommunications	4.0	3.4
Netherlands	4.0	3.4	Pharmaceuticals	3.5	2.8
Spain	4.0	4.1	Construction Materials	3.0	2.8
Austria	3.5	3.8	Retail	3.0	3.4

Figure 17: Participants in the survey by country of origin and by sector, in per cent

From a sectoral perspective, banks were particularly strongly represented among the companies which responded, with a total of 40 banks taking part in the survey. These included 22 commercial banks, five public & regional banks and five development banks. Energy suppliers made up the second-largest contingent, with 18 companies taking part, while 17 companies came from the IT sector and twelve from the machinery industry.

Exactly two-thirds of the companies that responded have committed themselves to observing the ten principles of the UN Global Compact, and 14.2 per cent to complying with the six principles of the PRI. One in ten of the companies taking part in the survey has even signed up to both sets of voluntary commitments.

- ◆ Signatories to the UN Global Compact 66.7 per cent
- ◆ Signatories to the PRI 14.2 per cent
- ◆ Signatories to both sets of voluntary commitments 10.1 per cent

More than half the companies taking part (54.8 per cent) achieved oekom Prime status. The top companies achieved a score of B+ on oekom research's scale, which ranges from A+ (top score) to D–, and overall there was an approximately normal distribution of results around the mean rating score of C+. Comparison with the rating structure for MSCI World companies shows a clear shift to the right, i.e. the sustainability rating of the participating companies

is better on the whole than those of the companies from the MSCI World (cf. section 3.2.). This illustrates an important feature of the participants: the companies which responded were predominantly compa-

nies which view sustainability as an important issue. This does not detract from the findings obtained by the study, but must be borne in mind when interpreting the results.

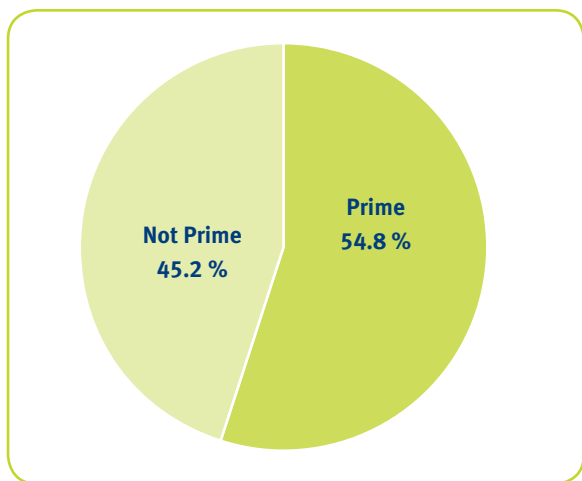


Figure 18: Proportion of participating companies with oekom Prime status

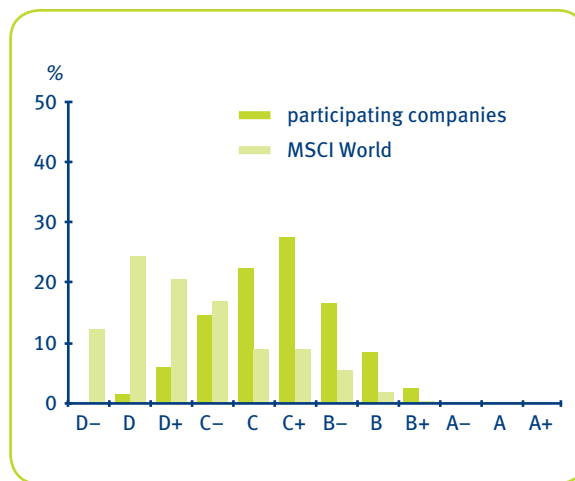


Figure 19: Distribution of the scores of companies participating in the oekom Corporate Rating (dark green), compared against distribution of the scores in the MSCI World (light green); as at: 31.12.12; in per cent

In a second phase of the survey, selected companies were asked for additional information for the case

studies presented in section 4.5. This follow-up survey took place in January and February 2013.

Presentation of the results

The results of the survey are incorporated into the report in three forms:

1. Graphical analyses at the individual question level: here the actual question, the distribution of the responses and the relevant parent population are indicated in each case.
2. Original quotations from the surveys: since these have not been formally approved by the companies, only the sector of the companies concerned is given.
3. Case studies on specific measures taken by companies which can be traced directly to enquiries or demands by SRAs. The case studies have been agreed with the companies (cf. section 4.5.).

4.2. Importance of sustainability from the corporate point of view

Significantly more than half the companies surveyed (58.1 per cent) see “sustainable development” as very important to the company’s future development. A further 38.9 per cent attach fairly high importance

to this issue. This result once again demonstrates the above-average affinity of the companies with the topic sustainability.

How does your company rate the importance of sustainability to the company's overall future development?

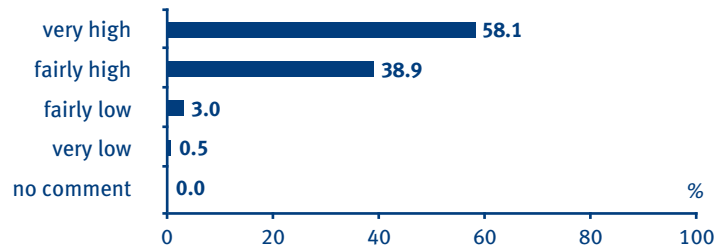


Figure 20: n = 198; in per cent

The SRI market is an important part of the reason why these companies engage with the issue of sustainability. Among the factors which prompted the companies to tackle the challenges of sustainable development, enquiries from SRAs came in second place, being mentioned in 61.3 per cent of responses, and demands from sustainability-oriented investors in third place (59.3 per cent). The importance of these two factors was surpassed only by the influ-

ence of customers, whose expectations were the deciding factor prompting just under two-thirds of the companies to take on the issue of sustainability. Just under half the companies (48.7 per cent) cited activities by competitors in this field as a motivating force and for well over a third (36.7 per cent) it was the requirements of legislative bodies or authorities.

What factors prompted your company to tackle the issue of sustainability?



Figure 21: Proportion citing factor as very important or fairly important; multiple responses allowed; n = 199, in per cent

Customers will also be of particular importance to the future development of sustainability. 93.5 per cent of the companies surveyed assign them “very high” or “fairly high” importance. The same degree of importance was attached to the companies’ own employees. Significantly higher importance (85.9 per cent) is attached to the role of legislative bodies and

authorities in companies’ future development than was the case looking back at the factors which were initially crucial in prompting companies to engage with the issue of sustainability. SRAs and sustainable investors came in at 84.4 per cent and 83.4 per cent respectively.

In your opinion, how important will the following players be to the future development of sustainability in your company?

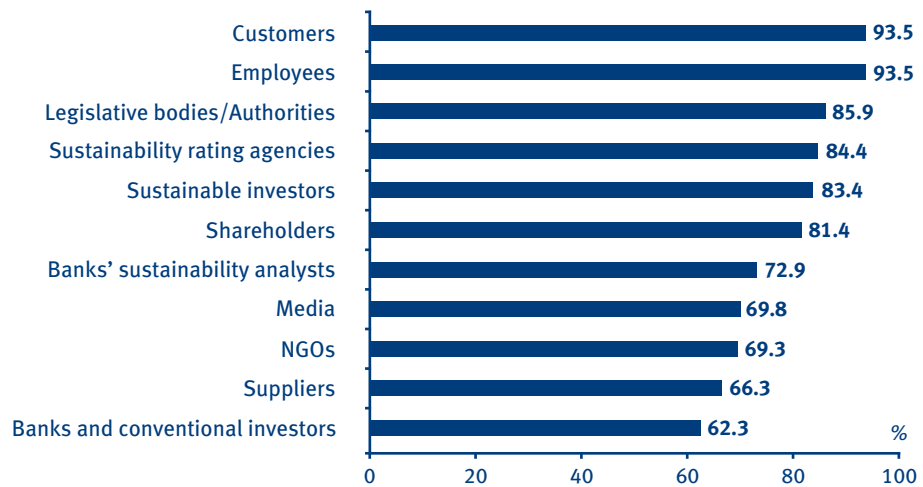


Figure 22: Proportion citing factor as very important or fairly important; multiple responses allowed; n = 199, in per cent

4.3. Management of SRI-related enquiries by the companies

Business people have a reputation for complaining, and when it comes to sustainability ratings, there are frequent (and perhaps not unreasonable) complaints about the constantly growing number of enquiries about corporate sustainability management – the buzzword here being “questionnaire fatigue”.

The majority of the companies surveyed (66.3 per cent) reported receiving up to ten enquiries a year from SRAs, with 22.5 per cent having received between ten and twenty such enquiries in the twelve months prior to completing the questionnaire. Just under one in ten companies stated that they had received up to 30 enquiries from agencies.

71.4 per cent of the companies stated that they had responded to all such enquiries, and a further 9.7 per cent had responded to more than 90 per cent. 15.1 per cent of the companies took a more selective approach to responding and had responded to between 51 and 90 per cent of such enquiries.

In 71.8 per cent of the companies, 100 person-days – which translates into approximately half a full-time post – were sufficient to respond to the enquiries, while eleven per cent of the companies invested more than 200 person-days.

In the overwhelming majority of the companies surveyed, the CSR and/or sustainability department is responsible for responding to enquiries from SRAs,

and in one in eight companies the investor relations department takes on this responsibility. It seems remarkable that, despite the high value which the companies attach to a positive rating in terms of effective communication (cf. section 4.4.2.), the corporate communications department is responsible for responding to such enquiries in only 7.5 per cent of the companies. “Traditional” environmental departments, which in many companies were responsible for instigating their engagement with the issue of sustainability, are now in charge of the enquiries in only 4.5 per cent of the companies.

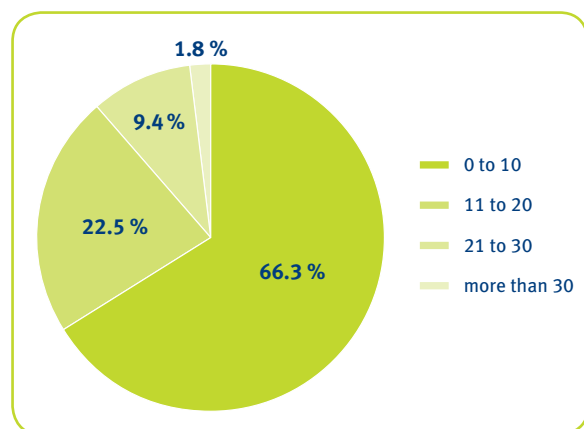


Figure 23: Number of enquiries from SRAs received by the companies surveyed in the period from October 2011 to October 2012; n = 198; in per cent

What department in your company is responsible for responding to enquiries from sustainability rating agencies?

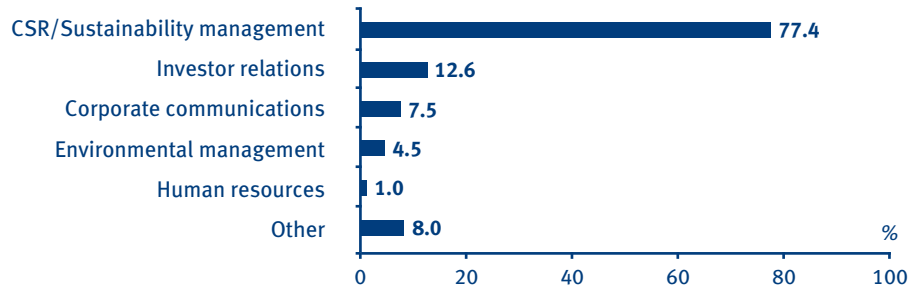


Figure 24: n = 199; in per cent

The overwhelming majority of the companies expressed the view that communication with sustainability-oriented financial market layers — institutional investors, asset managers, SRAs — will continue to

increase in future. 53.5 per cent of the companies agree strongly with a statement to this effect, while a further 42.9 per cent broadly agree.

Communication with sustainability-oriented financial market players will become more important to our company in future.

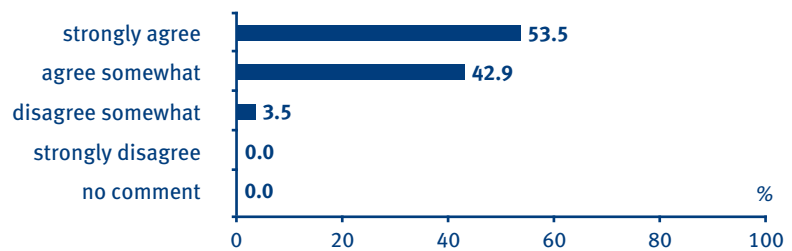


Figure 25: n = 198; in per cent

The companies feel that the SRAs need to improve the transparency of their rating processes. Only around a third of the companies (32.8 per cent) deem the latter to be completely or largely transparent. However, as many as 44.4 per cent of the com-

panies state that they have only a vague idea of how the SRAs arrive at their assessments. Just under one in six companies (16.2 per cent) declines to make a wholesale judgement here, seeing significant differences between individual SRAs. Overall, the compa-

How transparent do you find sustainability rating agencies' evaluation processes in relation to your company?

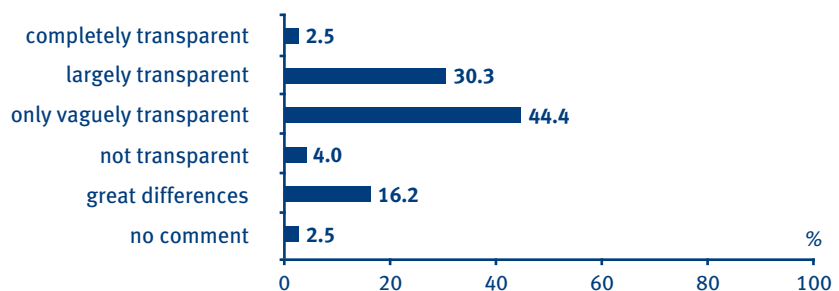


Figure 26: n = 198; in per cent

nies ascribe a particularly high degree of transparency to the following:

- ◆ oekom research (41.3 per cent)
- ◆ SAM/RobecoSAM (29.8 per cent) and
- ◆ EIRIS/imug (10.7 per cent).

4.4. Influence and use of sustainability ratings in the companies

4.4.1. Influence on the way in which sustainability management is organised

How are sustainability ratings used in the companies and what influence do they have on the specific way (sustainability) management is organised in the companies? These aspects form the focus of the third section of the company survey.

Approximately a third of the companies surveyed (32.6 per cent) stated that enquiries from sustainability analysts influence the overall strategy of the company; almost five per cent even described them as having a very great influence.

Such enquiries have an even greater impact on companies' sustainability strategies and on targets set in this area. Here, 15.1 per cent of the companies describe such enquiries as having a very great influ-

ence while a further 45.2 per cent see them as having a fairly great influence on the formulation of such strategies and targets. According to the companies, the influence of such enquiries was greatest on the design of individual sustainability management measures.

Overall, more than two-thirds of the companies (68.9 per cent) claim to factor in enquiries from sustainability analysts. The case studies from various sectors exemplify the kinds of measures involved here (cf. section 4.5.).

Rating agencies support our internal target setting and monitoring of progress. An external view and according comments/recommendations are highly welcome and appreciated.

Sektor: Auto Components

What influence do enquiries from sustainability analysts have on the ...



Figure 27: n = 197; in per cent

Effectiveness of SRI strategies varies

Not all the sustainable investment strategies presented in section 2 have the same impact on companies' sustainability management. Here, companies regarded the best-in-class rating as the most influential. 39.9 per cent of the companies surveyed put this approach, which aims to set up a competition to achieve the best sustainability

performance within a sector, in first place. The companies saw engagement, i.e. direct dialogue between companies and investors, as the second most important strategy. According to the companies, the use of exclusion criteria and the exercise of voting rights at shareholders' meetings have significantly less influence.

It is worth noting in this context that the investment strategy which the companies see as having the greatest effect on the organisation of sustainability management — the best-in-class rating — influences only a comparatively small amount of capital

We have improved measurement of our responsible Sourcing Programme in response to an index provider's questions.

Sektor: Metals & Mining

Which of the following strategies used by sustainable investors has the greatest influence on your company's sustainability management system?



Figure 28: n = 198; in per cent

(cf. section 2.). By contrast, the use of exclusion criteria, the most widely used strategy in terms of the

volume of investments managed, has relatively little influence on the companies.

Use and benefits of sustainability ratings

The companies have also begun to use sustainability questionnaires and ratings as management tools. For example, more than 84 per cent of companies surveyed agree with the statement that they use sustainability ratings in strengths/weaknesses

analyses of their sustainability management systems. As many as 96 per cent of companies confirm that they use enquiries from sustainability analysts as a kind of trend radar which helps them detect new social and environmental issues and trends early on.

Sustainability ratings provide a sound basis for a strengths/weaknesses analysis of our sustainability management system.

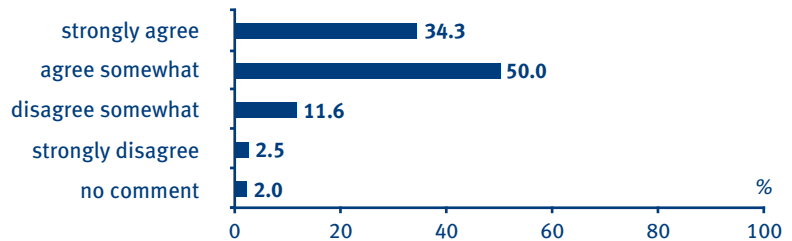


Figure 29: n = 198; in per cent

Enquiries from sustainability analysts provide a kind of trend radar which helps us to detect relevant social and environmental sustainability trends early on.

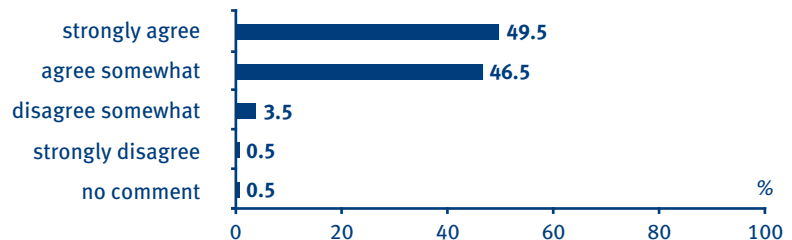


Figure 30: n = 198; in per cent

At this point, it should be emphasized that SRAs often provide these “services” to companies free of charge. At oekom research, for example, it is the investors who commission our ratings, not the companies themselves. The companies rated even receive their full rating report, which may be up to 40 pages in length, free of charge. This is what fundamentally distinguishes the sustainability rating from conventional financial ratings by S&P, Moody’s and Fitch, where the issuer pays for the rating. This gives

Most sustainability rating agencies do not provide sufficient/ quality feedback to enable us to make objective assessment of where we can improve our performance. Some now charge for feedback, but we do not have the budget to buy this.

Sektor: Utilities

oekom research a high degree of independence from the companies it rates. However, comprehensive and unremunerated transparency about rating results is by no means the norm among SRAs, as the comment by an utility company shows. In order to preserve this independence, oekom research does not offer rated companies any fee-based advice on organising and/or improving their sustain-

Weaknesses in sustainability ratings are one of the main indications for improvements and therewith for sustainability measures.

Sektor: Banks

ability management systems. In oekom research’s view, this clear distinction between rating and consultancy is a key component of the credibility of SRAs and should therefore become the norm.

The companies surveyed are divided on the question of whether the benefits of sustainability ratings which have been described, such as their use in target setting, strengths/weaknesses analyses or forward-looking issues management, outweigh the effort involved in the survey (cf. section 4.3.). 48.2 per cent of the companies surveyed agreed with a statement to this effect, while 45.7 per cent disagreed.

As oekom research sees dialogue with companies and their active collaboration in the rating process as a crucial component to the meaningfulness of sustainability ratings, as many companies as possible should be encouraged to participate. From the companies’ point of view, an improved cost-benefit ratio could be an important lever here.

We regularly conduct internal reviews to determine goals and to further develop it’s sustainability strategy. Within this process the sustainability rating results and enquiries are consolidated with other feedbacks as the annual sustainability assurance or the feedback of our annual employee survey.

Sektor: Banks

The cost-benefit ratio of responding to the enquiries of sustainability rating agencies is proportionate.

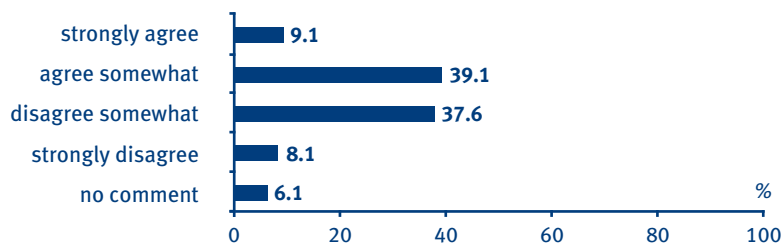


Figure 31: n = 197; in per cent

The majority of companies also see sustainability ratings as having a role to play when it comes to monitoring the success of sustainability management measures. One in five companies (20.3 per cent) agree strongly with the statement that they use sus-

tainability ratings to monitor the success of sustainability management measures, with a further 44.7 per cent broadly agreeing.

The evolution on what’s important to the rating agencies helps us to see what’s changing and elevating in importance. It helps us see things that might not be big for us at the moment, but may be worth learning more about and, perhaps, developing an action plan to improve in that area.

Sektor: Construction Materials

We use sustainability ratings to monitor the successful implementation of sustainability management measures.

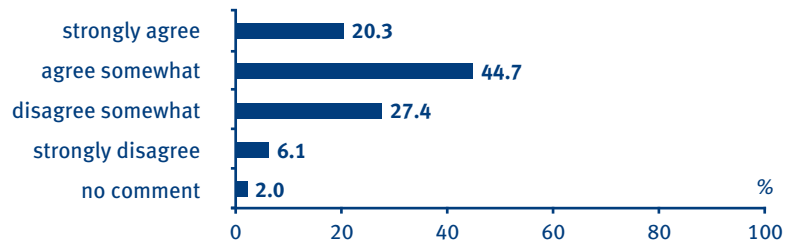


Figure 32: n = 198; in per cent

Sustainability ratings and remuneration

Monitoring success is also relevant in that sustainability-related targets and the achievement of these are increasingly being taken into account in remuneration. These range from individual targets, such as the reduction of CO₂ emissions at a particular site or high levels of employee or customer satisfaction, to comprehensive lists of sustainability targets.

Overall, almost a third of the companies surveyed (30.1 per cent) state that their company's performance in sustainability ratings affects management

remuneration. For 8.5 per cent of these companies this is the case across the board, while for 21.6 per cent it is true for selected managers. oekom research sees the linking of remuneration and sustainability performance as a key lever for promoting increased consideration of social and environmental aspects in company management.

Water management has been a topic on the list of sustainability rating agencies in the last few years. This encouraged us to start working on this issue. E.g. water management systems, water management plans have been implemented in water-scarce regions like Africa etc.

Sektor: Construction Materials

Does your company's performance in sustainability ratings affect management remuneration?

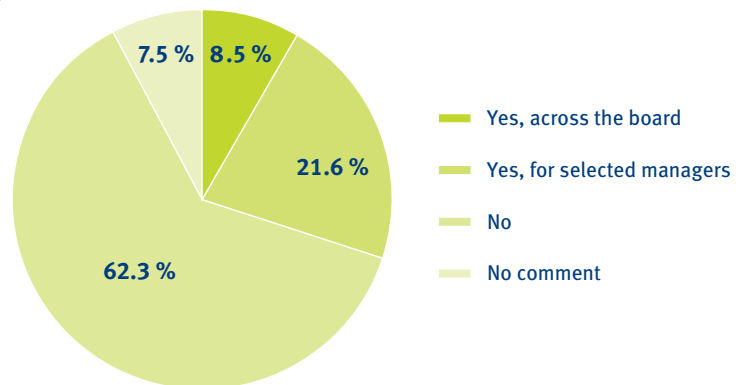


Figure 33: n = 199; in per cent

4.4.2. Importance of sustainability ratings for the company's external relations

Besides their effects, described above, on structures and processes within the company as well as on remuneration systems, sustainability ratings are also important to companies' external relations. Almost nine out of ten companies surveyed (87.9 per cent) see it as important or even very important to

be awarded a positive sustainability rating or to be listed in sustainability funds and indexes. This may be due to any one of a variety of motives, including reputation, the "war for talent" or the costs of financing, which will be examined in detail below.

How important is it to your company to be awarded a positive rating by a sustainability rating agency and to be included in sustainability funds or indexes?

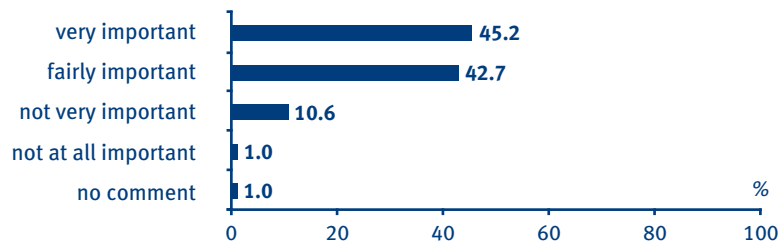


Figure 34: n = 199; in per cent

The positive effect on a company's reputation is seen as particularly important. Almost all the companies surveyed agreed with the statement that a good sustainability rating has a positive impact on a com-

pany's reputation. Only 2.0 per cent of companies did not agree with this statement, while 57.6 per cent agreed strongly.

A good sustainability rating has a positive effect on our reputation.

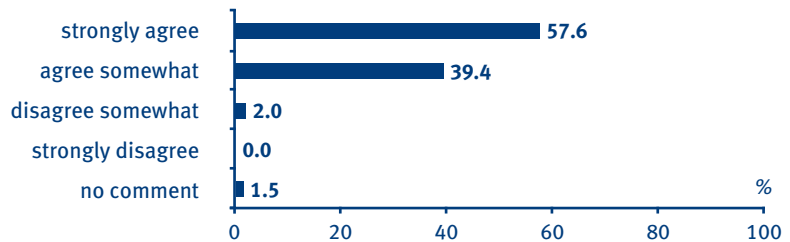


Figure 35: n = 198; in per cent

No wonder, then, that companies are keen to report positive performance in sustainability ratings. Reporting on relevant ratings and awards now forms part of the standard information on companies' websites and in sustainability reports – at least in com-

panies which have positive results to report. More than four-fifths of the companies surveyed (84.4 per cent) say that they make use of relevant ratings in their external communications.

We make use of high scores in sustainability ratings in our external communications.

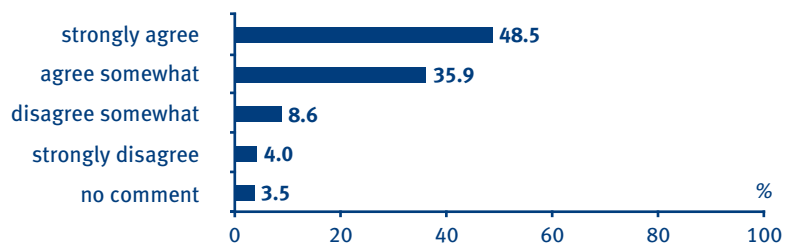


Figure 36: n = 198; in per cent

A company's reputation certainly impacts on its ability to attract qualified employees. Even if work-life balance is the main issue for "Generation Y", now flocking from the lecture theatre to offices and laboratories, surveys of graduates show that social and

environmental engagement is also an important factor in their choice of employer. On the whole, the companies surveyed have also discovered this to be the case. As many as 70.8 per cent agree with the statement that a good sustainability rating is helpful

when it comes to the recruitment of highly qualified employees, sometimes referred to in rather aggressive terms as the “war for talent”. Around a quarter

of respondents (25.8 per cent), however, felt unable to agree with this view.

A good sustainability rating helps us recruit highly qualified employees who are focussed on their employer’s commitment to social and environmental issues.

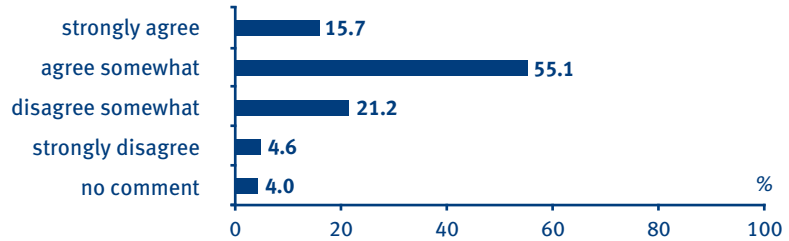


Figure 37: n = 198; in per cent

There is a similarly high level of agreement on the question of whether the management of sustainability-related issues is also becoming more important to conventional analysts. More than three-quarters of the companies surveyed (78.8 per cent) agreed with a hypothesis to this effect. This reflects the integration strategy’s significant share of the SRI market. oekom research views its growing impor-

tance to conventional analysts as a logical development. If, as has been demonstrated by numerous studies (cf. section 2.2.1.), the incorporation of ESG criteria into corporate analysis and capital investment has a positive impact on the economic performance of investments, then the fiduciary duty of asset managers alone would require them also to take these criteria into account.

The issue of sustainability management is also becoming increasingly important to conventional analysts.

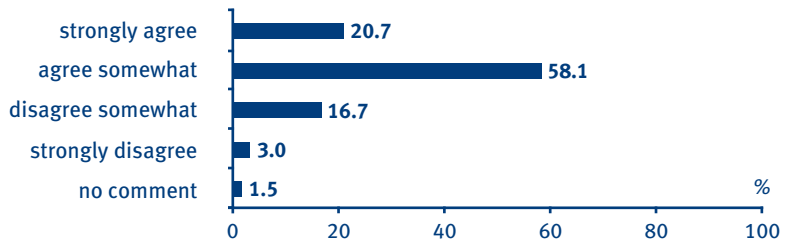


Figure 38: n = 198; in per cent

41.1 per cent of the companies surveyed feel that a good sustainability rating definitely makes it easier to obtain external finance, for example by issuing bonds or raising loans. However, the proportion

of companies that disagree with this statement is equally high. The number of companies unwilling to express an opinion, at 18.3 per cent, was higher for this question than for any other in the survey.

A good sustainability rating makes it easier for us to access external finance, for example by issuing bonds or raising loans.

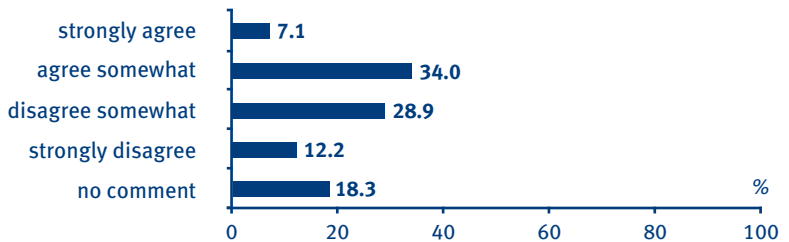


Figure 39: n = 198; in per cent

4.5. Case studies

More than 60 of the companies surveyed identified specific measures which they can trace back directly to enquiries from SRAs and SRI investors, some of them even supplying details of several. Most of these measures relate to the collection of data and to the scope and scheduling of sustainability reporting. Activities in the area of supply chain management were cited a remarkable 14 times, with human rights and general sustainability management each receiving seven mentions. Corporate governance and climate change were each mentioned by six companies as areas in which measures could be traced back to external enquires, while five had been inspired to take action in the area of water management.

A number of specific measures are presented below in the form of case studies. These profiles were drawn up by the companies. The spectrum here

Issue	Number of examples
Collection of data & reporting	25
Supply chain management	14
Human rights	7
Sustainability management	7
Corporate governance	6
Climate change	6
Water management	5

Figure 40: Issues / areas where companies have taken action in response to demands from the SRI market

ranges from very specific individual measures, such as a new regulation on company cars, to the revision of a sustainability strategy.

Case study: Aareal Bank (1)

- ◆ **Impulse/requirement** Supplier standards with regard to labour/health and safety issues and measures to check compliance with the company's labour standards are not in practice.
- ◆ **Action/result** Review of the supplier policy regarding compliance with labour standards. The supplier policy is currently under review and will include amongst other things additional clauses regarding the respect of labour standards. In this process, the supplier audit will be revised too.
- ◆ **Further Information** Further information will be available in 2013 as the reporting will be further developed.

Case study: Aareal Bank (2)

- ◆ **Impulse/requirement** Policies to reduce impact of business travel.
- ◆ **Action/result** Review of company car guidelines. The company car policy has been modified: a limit for CO₂ emissions of company cars has been set.
- ◆ **Further Information** Further information will be available in 2013 as the reporting will be further developed.

Case study: Bristol-Myers Squibb (1)

- ◆ **Impulse/requirement** Several rating firms asked about a human rights policy.
- ◆ **Action/result** We joined the UN Global Compact and a human rights policy supports the principles. We developed and issued a Corporate Policy on Human Rights and a Position Statement on Human Rights. The Corporate Policy was included in the 2012 Standards of Business Conduct and Ethics for employees available on our public website. The Position Statement was posted on our external sustainability web site for transparency.

- ◆ *Further Information* www.bms.com/Documents/ourcompany/Standards-Business-Conduct-Ethics.pdf
www.bms.com/sustainability/social_progress/human_rights/Pages/default.aspx

Case study: Bristol-Myers Squibb (2)

- ◆ *Impulse/requirement* A rating firm asked for more public transparency on our Access to Medicines initiatives in developing countries.
- ◆ *Action/result* We developed a new Access to Medicines section on our public web site with a significant amount of information about our company programmes and initiatives.
- ◆ *Further Information* www.bms.com/responsibility/access-to-medicines/Pages/default.aspx

Case study: Johnson Controls

- ◆ *Impulse/requirement* Social investor research firms are increasingly asking for third party verification of sustainability data such as GHG and water use. There is also a strong push from CDP (Carbon Disclosure Project) to have this data externally verified in order to qualify for their leadership indexes.
- ◆ *Action/result* We hired Bureau Veritas as our third party independent auditor to verify our GHG and water data. We received certificates for each set of data which we then attach as backup detail to our annual CDP submittals and also in our sustainability reports that get sent to the various social investor and sustainability investor research firms. We started the external verification of our data in 2012 and just completed the audit process again in 2013. This will be something we will most likely continue to do as a best practice for our reporting and also to learn where we can improve on our data collection and reporting.
- ◆ *Further Information* See our GRI Report which is posted to our web site:
http://www.johnsoncontrols.com/content/us/en/sustainability/reporting/GRI_report.html

Case study: Novozymes

- ◆ *Impulse/requirement* Though Novozymes has had many corporate citizenship initiatives for a long time, rating agencies, indices (such as Dow Jones Sustainability Index), and other stakeholders observed that our initiatives lacked a clear ambition and position as part of our sustainability strategy and performance.
- ◆ *Action/result* Novozymes began to focus on the following areas: Clear direction of the CSR activities with relevance to our business operations; Nature of engagements and ability to maximize benefit for the communities; Transparency of these activities – Setting KPIs and reporting on performance.
We launched a new group-wide corporate citizenship strategy, Citizymes, in 2011, which is closely aligned with our core business values. With the new initiative, we are concentrating our community efforts on broader programmes that increase our reach and impact by drawing on our core scientific competencies to increase scientific understanding and awareness of environmental responsibility in local communities.
- ◆ *Further Information* For further information, please refer to ‘Corporate citizenship’ at the website: <http://www.novozymes.com/en>;
For latest information about the numbers of learners reached in 2012, please refer to Socioeconomic impact at The Novozymes Report 2012

Case study: Snam

- ◆ *Impulse/requirement* The special focus attributed to the Supply Chain Sustainability issues from the sustainability rating agencies (e.g., SAM, CDP) in recent assessments. Furthermore, the growing commitment and attention of Snam to the ESG issues in its procurement activity.
- ◆ *Action/result* The integration of ESG factors into Supplier selection is carried out through a three steps formalized process: Suppliers' Scoring Model Analysis (performed on 100 per cent of suppliers); a Qualification Process (carried out on 100 per cent of suppliers); a Feedback (performed on 100 per cent of critical suppliers and, partially, to non critical suppliers). In addition to the "Suppliers' Day for Sustainability" (Nov, 2011), in July 2012 Snam organised "My safety is your safety", a workshop targeting companies involved as suppliers of goods and services. Furthermore, Snam is carrying out an estimate of Scope 3 GHG emissions in the company's supply chain.
- ◆ *Further Information* Sustainability Report 2011, pg. 45-47 and www.snam.it/en/Suppliers/Become-supplier/.

Case study: Unibail-Rodamco

- ◆ *Impulse/requirement* In 2012 the Group decided that it was the right time to re-consider its sustainability vision, stimulated by both SRI investors and main indexes such as DJSI.
- ◆ *Action/result* A materiality study has been conducted through 6 complementary tests:
 - 1: What value is Unibail-Rodamco deriving from its current sustainability strategy?
 - 2: What are the future compliance risks related to European and French legislation?
 - 3: What are the long term risks and opportunities that could affect "business as usual"?
 - 4: What are the current and future business challenges and opportunities that the sustainability strategy needs to address according to internal stakeholders?
 - 5 & 6: What do Unibail-Rodamco's peers prioritise and where do they innovate?The conclusion of this study led to a new prioritisation of issues to address approved by the Management Board.
- ◆ *Further Information* Annual Report 2012

5. Conclusion: Mission accomplished?

On the basis of the results of the survey, the opening question of this study, as to whether the sustainable capital market motivates companies to be more sustainable, can be answered with a resounding “Yes!”. Around one in three of the companies surveyed confirm that the demands of sustainability analysts have an influence on the company’s overall strategy, and more than two-thirds of companies state that they factor analysts’ expectations into the design of specific measures in their sustainability management systems. At the same time, many companies use ratings as a management tool. e.g. for strengths/weaknesses analysis and as a trend radar. In management remuneration, performance in sustainability ratings also now plays a not inconsiderable role.

This influence on companies brings with it responsibilities for SRAs, which need to be reflected in high standards governing their work. These include in particular a high level of transparency concerning criteria, methodology and processes. From the companies’ point of view, there are shortcomings in this area. If around half the companies surveyed have only a vague idea or even no idea at all on how their company’s rating was arrived at, this indicates a clear need for action on the part of the SRAs. Transparency about criteria and rating mechanisms is, after all, an important prerequisite for the influence they seek to exert. Only in this way can it be ensured that the companies comprehend exactly what sustainable investors expect of them. This responsibility also includes the independence of SRAs, which oekom research believes must be reflected in a clear separation of evaluation and consultancy and in a business model where the rating is paid for not by the issuer, but by the sustainability-oriented investor as the user of the information.

The companies’ criticism of the effort involved in responding to enquiries from sustainability analysts must be looked at in a more differentiated way. oekom research feels that this needs to be viewed more specifically in relation to the market share of sustainable capital investments and to the effort involved in dealing with corresponding enquiries from conventional analysts. If more than one in five euros worldwide is now being invested according to ESG criteria, this signifies a corresponding level of inter-

est in such information among investors. It is therefore incomprehensible why, for example (in purely numerical terms) a company which has five employees dealing with questions from conventional analysts and rating agencies should not have at least one person responsible for corresponding enquiries from sustainability analysts.

Even more so, given that sustainability ratings also benefit the company. It is not just a question of efficient design and control of internal structures and processes, but also of positive impacts in the corporate environment, first and foremost the company’s good reputation in the eyes of business partners, customers and (potential) employees. Anyone who is aware of the importance of reputation to business success can gauge the contribution (generally unremunerated) made here by good sustainability ratings.

Nonetheless, the SRAs have a variety of options for keeping companies’ expenditure within bounds. For example, oekom research stopped working with questionnaires over ten years ago; now it initially puts all available information on a company’s sustainability performance into a sustainability profile so that the company just has to fill in the gaps. The fact that companies’ sustainability reporting has gradually improved in recent years is helpful here.

With regard to investors’ investment behaviour, it should be noted that by no means the entire leverage of sustainable investment’s 20 per cent market share even reaches the companies. This is principally because a significant proportion of the relevant capital is invested on the basis of SRI investment strategies which the companies are not directly aware of. This applies mainly to the widespread use of exclusion criteria. By contrast, the tools which the companies say have the greatest influence on their sustainability management—the best-in-class approach and dialogue between investors and companies—account for a comparatively small amount of capital. If capital were allocated in a more impact-oriented way, investors’ influence on the companies could be increased still further. In other words: investors wishing to influence companies’ sustainability performance would be well advised to make use of the best-in-class and engagement approaches.

Despite the need for action by SRAs and investors described above, the central message of this Impact Study for sustainable investors is a positive one: the concept of “capital for sustainability” has essentially been shown to work. Companies wishing to procure equity or loan capital on the capi-

tal market will increasingly need to meet investors’ expectations in terms of their social and environmental performance. The formula “no sustainability—no capital” will encourage companies to move further toward the green economy envisioned by the United Nations.

Glossary

Best-in-class approach

Under the best-in-class approach, the best companies in an industry are selected for investment, best here being defined as particularly committed to social and environmental matters. A distinction can be made between the relative and the absolute best-in-class approaches. Under the relative approach, a set percentage of the best companies in an industry are selected, irrespective of their effective sustainability performance, for example, always the top 20 per cent. Under the absolute approach a minimum threshold is also taken into account and only companies which satisfy these minimum requirements can be best-in-class.

CSR

Corporate Social Responsibility; including social and environmental aspects.

Engagement

Also: active shareholding, approach which is widespread particularly in the Anglo-American world, in which investors attempt through direct dialogue with companies to rectify grievances about the companies' social and environmental performance. This approach is now also gaining in momentum in continental Europe.

ESG

This abbreviation stands for Environmental (E), Social (S) and Governance (G) and describes three dimensions of sustainability that are routinely integrated into sustainability ratings and sustainable capital investments.

Exclusion criteria

Approach, common among sustainability investors, whereby companies which are active in certain areas of business (e.g. relating to alcohol, pornography, military or tobacco) or which attract attention through controversial business behaviour (e.g. human rights and labour rights violations), are excluded from investment.

Materiality

The financial relevance of individual environmental and social criteria and of the sustainability concept as a whole is examined under the heading of "materiality". There continues to be the widely held preconception that sustainable investors have to make do with lower yields than conventional investors. However, numerous studies have provided evidence that sustainable investments exhibit no systematic disadvantage in terms of yield, and some studies even see a yield advantage in such investments.

PRI

The United Nations-supported Principles for Responsible Investment (PRI) comprise six principles for sustainable investment. Signatories to the PRI undertake to implement these principles in their capital investment.

SRA

Sustainability Rating Agency.

SRI

Socially Responsible Investment.

About oekom research

oekom research AG is one of the world's leading rating agencies. Since 1993, oekom research has actively helped to shape the market for sustainable investments. Our research universe comprises the world's major companies and countries. On this basis we offer a comprehensive package of research services for the integration of ethical, social and environmental aspects in the investment management of our clients. Our client base comprises more than 75 asset managers and institutional clients from a total of ten countries. We provide research for assets totalling more than 520 billion euros.

Key to the success of oekom research AG is the credibility of our analyses. In order to guarantee this, there are in our view two particular aspects that are of crucial importance: independence—both at agency and at analyst level—and a sophisticated quality management system. In both these areas, oekom research has followed a consistent path since its founding in 1993 and has put appropriate standards in place on various levels. For example, we do

not permit any companies which we evaluate, nor any financial market players, to be shareholders in oekom research. We also consciously refrain from providing any form of consultancy to the companies which we evaluate.

With regard to the quality of our rating processes, the market has for years acknowledged our leading position. Nonetheless, over the last year our rating system has undergone a detailed audit by external auditors of its compliance with the internationally recognised ARISTA® quality standard of the Association for Responsible Investment Services (ARISE).

At the moment, oekom research's interdisciplinary team consists of 48 members. We try to put the basic principles of corporate responsibility into practice in all our activities, especially, as an employer, in the way we treat our employees and, as a market participant, in the way we treat our clients and competitors. We take appropriate action to minimise the load on the environment which our business activities generate.

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- 22 cf. www.unglobalcompact.org
- 23 cf. www.unpri.org
- 24 cf. www.unepfi.org/psi

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oekom research AG
Goethestraße 28
80336 Munich
Germany
Phone: +49 - (0)89 - 54 41 84-90
Fax: +49 - (0)89 - 54 41 84-99
info@oekom-research.com
www.oekom-research.com

Executive Board:
Robert Haßler
Matthias Bönning

Editorial Staff:
Rolf D. Häßler
Ines Markmiller

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