

Stream 2

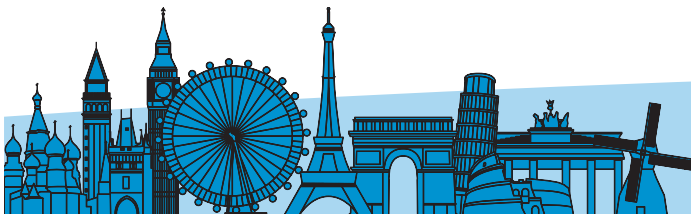
The OECD guidelines for multinational enterprises: how do they apply to investors?

14:15 – 14:55

Roel Nieuwenkamp, *Chair*, **OECD Working Party on Responsible Business Conduct**

Flavia Micilotta, Executive Director, **EUROSIF**

Moderator: Adrienne Margolis, *Founder and Editor*, **Lawyers for Better Business**





The Force of Finance for Responsible Business

How OECD Guidelines Apply to Investors?











BACKGROUND: RESPONSIBLE BUSINESS CONDUCT AT THE OECD



OECD Guidelines for Multinational Enterprises



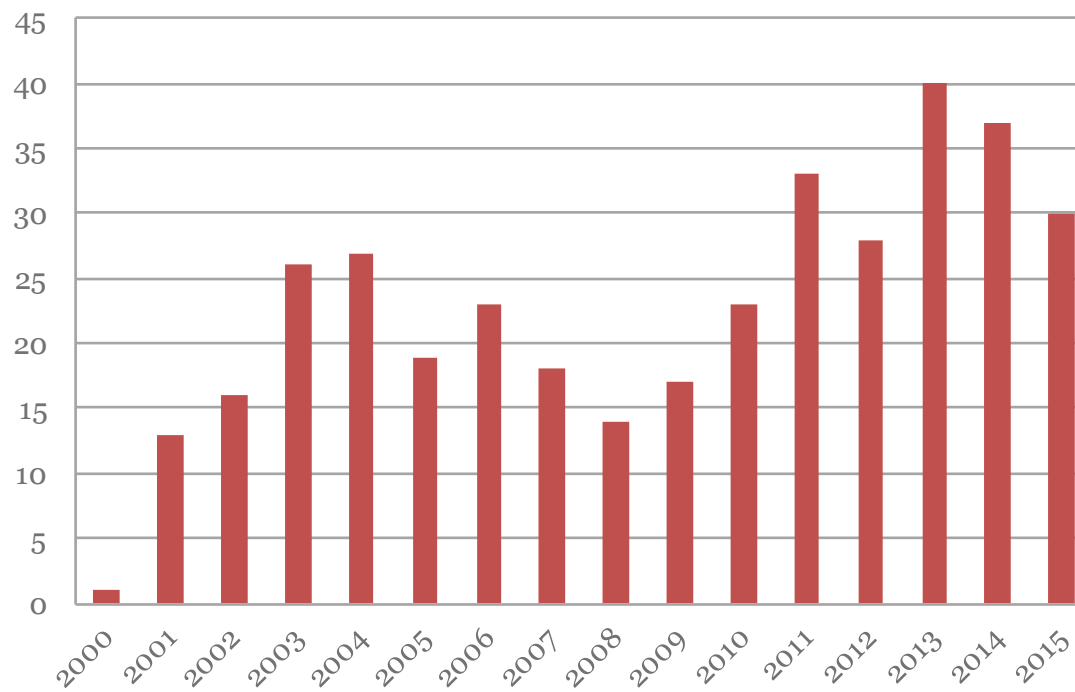
- Multilateral Agreement on **Responsible Business Conduct (RBC)** – 40 years
- **All areas of business ethics:** disclosure, human rights, labour, environment, bribery & corruption, consumer interests, science & technology, competition, taxation
- **All sectors** of the economy – **including Finance**
- Government-backed recommendations for business
- Binding for governments, non-binding for MNE's
- **46 Adherent Countries**, including 12 non-OECD countries
- Unique promotion and complaint mechanism, e.g. national promotion and mediation of “specific instances” by **National Contact Points (NCPs)**



“Specific instances” at a glance



Over 360 complaints were submitted to National Contact Points (NCPs) between 2000 and -2015, covering MNE operations in 101 countries.





“Specific instances” at a glance

- Financial sector is the fastest growing sector
- 8% of specific instances from 2000-2010
- 17% from 2011





Specific instances at a glance

- From 2011- 2015:
- Approx. 50% of specific instances accepted for further examination by NCPs resulted in an agreement between the parties.
- Approx. 36% specific instances accepted for further examination by NCPs resulted in an internal policy change by the company in question.
- Even in instances of non-agreement impactful outcomes were achieved (e.g. clarification of expectations, agreements outside of the NCP process, application of leverage by financial institutions etc.)





Emerging Trend: Force of Finance

Government Consequences

- ECA, Economic Diplomacy
- Canada Model – China Gold Case



Responsible Investors

- Vedanta, Soco, Daewoo, Mylan
- AFL CIO Shareholder Resolutions
- Committee on Workers Capital
- Aviva initiative





Sector-specific due diligence for RBC

Supporting common approaches and collaboration



[OECD Due Diligence Guidance for Responsible Mineral Supply Chains](#) (2011)



[OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#) (approved December 2015)



[FAO-OECD Guidance for Responsible Agricultural Supply Chains](#) (approved December 2015)



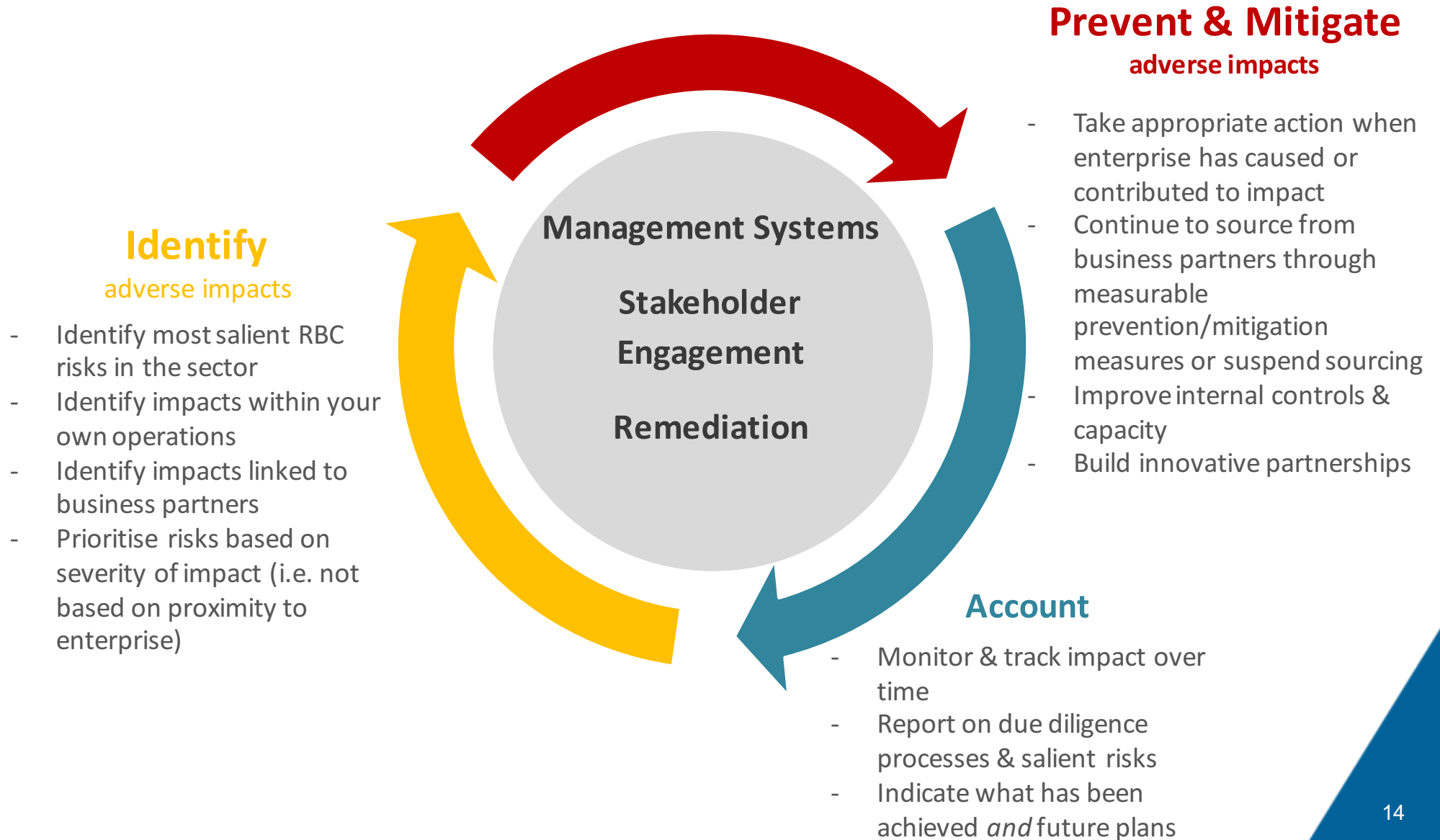
[OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector](#) (forthcoming 2016)



[Responsible Business Conduct in the Financial Sector](#) (good practice papers forthcoming 2016)



Core due diligence components





OECD Guidelines for Multinational Enterprises – Due Diligence



Risk-based due diligence is main tool to identify, prevent or mitigate risk

“Enterprises should:

- *Carry out **risk-based due diligence** , (...), to identify, prevent and mitigate actual and potential adverse impacts (...), and account for how these impacts are addressed.*
- ***Avoid causing or contributing to adverse impacts** on matters covered by the Guidelines, through their own activities, **and address such impacts when they occur.***
- ***Seek to prevent or mitigate an adverse impact** where they have not contributed to that impact, **when the impact is nevertheless directly linked to their operations, products or services by a business relationship.**”*



General due diligence principles



- ✓ Due Diligence is **flexible**, use **risk-based approach**. **Prioritise** business relationships for risk identification and management, based on **severity** of adverse impacts. E.g.
 - ✓ Sector assessment (e.g. high-risk sector?)
 - ✓ Counterparty assessment (e.g. commitment to RBC, practices, reporting?)
 - ✓ Asset or project assessment (for high-risk sectors, counterparties or geographies)
- ✓ **Practical limitations:** Nature and extent of due diligence tailored to size of company and clients, context, severity of adverse impacts, etc.
- ✓ **“Leverage”** is essential to prevent or mitigate adverse impacts directly linked to operations, products or services by a business relationship
- ✓ **Disengagement a last resort** and considering impacts of disengagement

Factors that could affect leverage in financial sector:*

- Amount of funds, size of holdings
- Duration of tenor
- Nature and strength of relationship
- Potential for negative impact on client/investee performance
- Potential for negative impact on own institution
- Multiple financiers/business relationships with similar ESG objectives
- Written agreement or contractual clauses on ESG issues

* Adapted from SFA report, 2012



OECD GUIDELINES AND THE FINANCIAL SECTOR



OECD PROJECT ON RESPONSIBLE BUSINESS CONDUCT IN THE FINANCIAL SECTOR

Objective:

The aim of this project is to outline, through a multi-stakeholder process, the practical approaches for financial service providers (FSPs) to meet expectations of the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) through their due diligence, across a range of financial services.

Context:

- The due diligence processes recommended by the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) **can help financial institutions evaluate risks of adverse impacts and respond to them appropriately.**
- Some inherent complexities in the sector present challenges, such as **extensive and complex business relationships, rapidity of transactions, and operations** which do not fit neatly into the model of suppliers and buyers in a supply chain make application of the OECD MNE Guidelines challenging.



OECD PROJECT ON RESPONSIBLE BUSINESS CONDUCT IN THE FINANCIAL SECTOR : ACTIVITIES

Draft due diligence paper
& case studies on specific
financial services or
products



Multi-stakeholder Expert
Working Sessions



Final paper on due
diligence for specific
financial services or
products



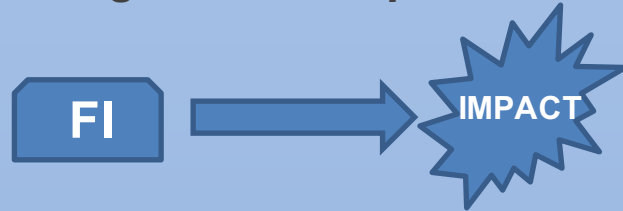
Financial products or services covered:

1. **Investment**
2. **Asset based and project finance (Q3 2016)**, including asset or project insurance
3. **Corporate finance (Q4 2016)**, including capital market services, corporate lending, insurance

Due diligence provisions

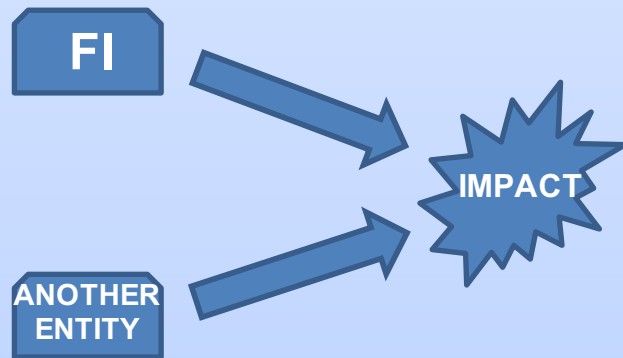
Examples in the Financial Sector

Causing adverse impacts



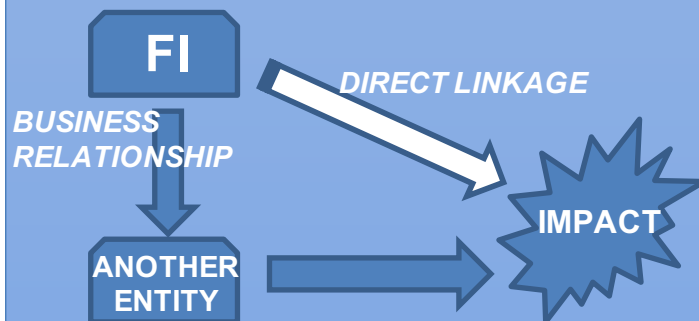
- FI impeding creation of a trade union
- FI discriminating financial services to clients on the basis of race or gender

Contributing to adverse impacts



- Setting unrealistic timetable for a construction firm to build FI offices, resulting in labour abuses
- FI limits resource allocations for stakeholder engagement as financier of extractive project, resulting in displacement of local communities without meaningful engagement

Adverse impacts directly linked to operations, products or services by a business relationship



- Syndicated finance for an extractive projects that displaces populations without meaningful stakeholder engagement
- Minority shares in a company that sources from conflict-affected areas without appropriate supply chain due diligence



Emerging good practices



- **Management systems:** e.g. formal policy, allocation of responsibility & procedures wrt to management of ESG risk.
- **Identification:** e.g. ESG market research, risk-based portfolio screening, company engagement, etc.
- **Prevention and mitigation:** e.g. engagement with companies, divestment, adjustment of investment position, participation in multi-stakeholder initiatives.
- **Accounting:** internal and public reporting.



Potential challenges in applying due diligence



Challenges	Responses
Management systems: Interpretations of fiduciary duty or equivalent legal concepts narrowly	<ul style="list-style-type: none">➤ Understand domestic legal obligations➤ Identify alignments➤ Develop a policy and processes consistent with the expectations of clients and beneficiaries
Identification: Information deficits and credibility of information, prioritisation	<ul style="list-style-type: none">➤ Use existing information and resources and supplement with other approaches as relevant.
Prevention and mitigation: Lack of leverage, prioritisation	<ul style="list-style-type: none">➤ Risk based approach
Accounting: confidentiality concerns	<ul style="list-style-type: none">➤ Balance transparency with confidentiality to the extent possible:



Further information

Information on the OECD's work on Responsible Business Conduct

<http://mneguidelines.oecd.org/rbc-financial-sector.htm>

Contact: tyler.gillard@oecd.org; barbara.bijelic@oecd.org;

Prof dr Roel Nieuwenkamp, Chair Working Party on Responsible Business

roel.nieuwenkamp@minbuza.nl



#OECDrbc

@Nieuwenkamp_CSR



Friends of OECD Guidelines



Blog: <https://friendsoftheoecdguidelines.wordpress.com/>



Developing Sustainability through European Financial Markets

The OECD Guidelines and SRI

Flavia Micilotta
June 22nd 2016, London

© Eurosif, 2016

OECD and Eurosif

OECD Watch and Eurosif worked together on the EU-funded project “Promoting Convergence of CSR Practices and Tools among European Socially Responsible Investors (SRI) and National Contact Points for the OECD Guidelines for Multinational Enterprises



“Sustainable and responsible investment (“SRI”) is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies.”

Eurosif



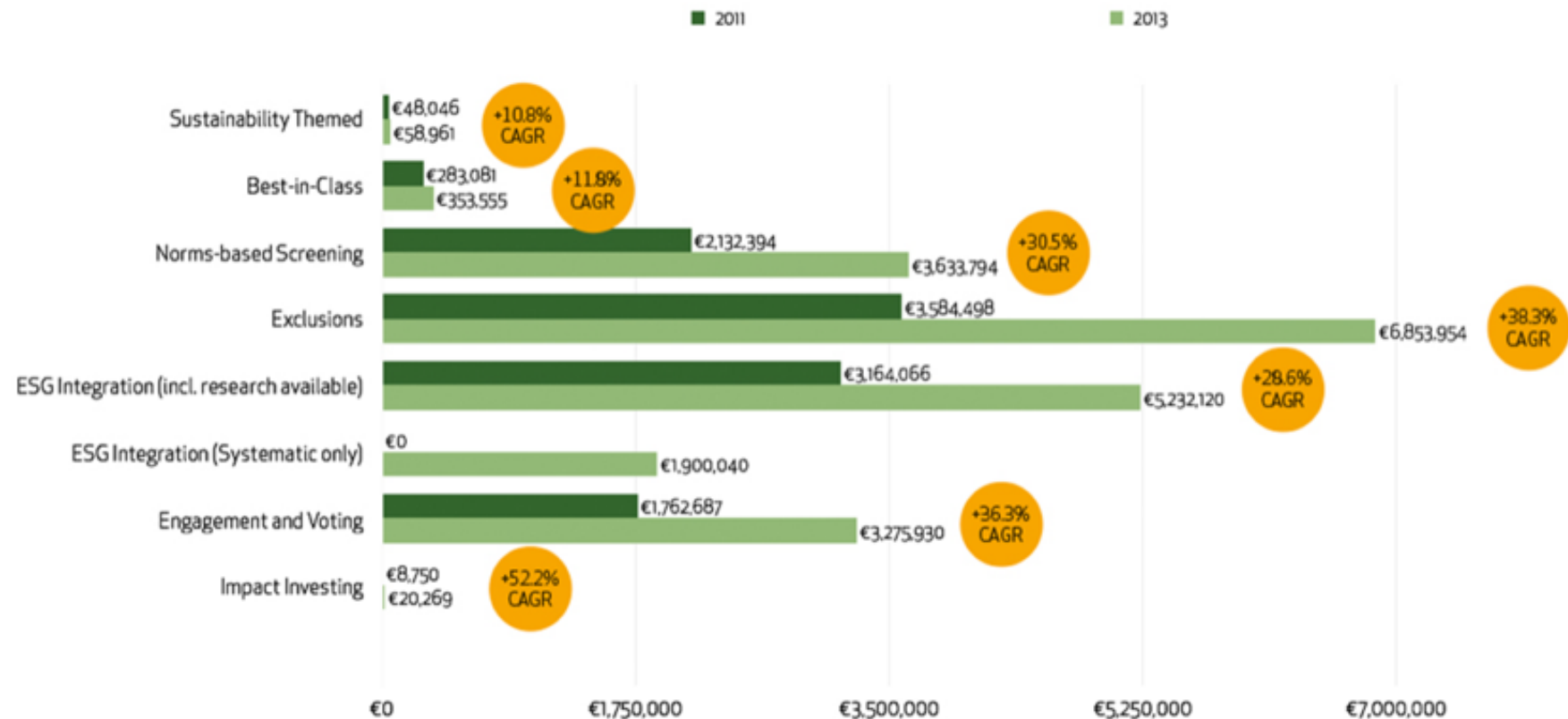
The relevance for SRI



- This introductory fact sheet explains how the SRI community can use the OECD Guidelines. It outlines how the OECD Guidelines fit into the larger CSR normative framework compared to other internationally agreed guidelines and instruments.
- Not only guidance but a key indicator through the NCPs

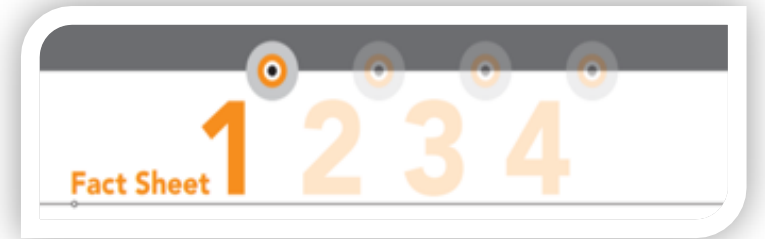
- Information disclosure
- Respect for labour standards
- Contribution to sustainable development
- Respect for human rights
- Supply chain responsibility
- Consumer interests
- Science and technology
- Competition
- Taxation
- Environment
- Bribery and corruption
- Whistleblower protection

Overview of SRI strategies in Europe



Source: Eurosif (EU 13)

The relevance for SRI



- Norms-based screening
- Exclusions

OECD Watch's [Quarterly Case Update](#) presents highlights of complaints filed by NGOs that allege violations of the OECD Guidelines

[The OECD Investment Committee](#) also periodically publishes a list of cases, based on the information they receive from NCPs.

- Engagement and voting

A complaint charging that a company has violated the OECD Guidelines can be not only an important indicator of past behaviour but also provides an opportunity to see how companies deal with problems

Defining a framework



- Using the OECD Guidelines chapters as framework, allows investors or SRI agencies define a methodology and better understand if companies are in compliance with the Guidelines


Chapter 4 EMPLOYMENT AND INDUSTRIAL RELATIONS

- Does the company employ local personnel and provide training?
- Does the company unfairly influence negotiations on employment conditions or employees' right to organise?
- Does the company use forced or compulsory labour in its operations?


Human Rights and SRI



- Assessing adherence to the OECD Guidelines' Human Rights Provisions

**Civil and political rights**

- Is the company operating in or intending to operate in or trade with countries known to have serious and persistent human rights problems?
- Has the company and the board carefully analysed its responses to the OECD's Risk Awareness Tool?
- Could the company's operations (investment, trading or other commercial activities) be perceived as directly or indirectly supporting human rights violations by government forces, rebel groups or others?
- Has the company adopted the Voluntary Principles on Human Rights and Security and has it taken the necessary steps to ensure that the relevant staff, including security personnel, is fully capable of implementing the policy?

**Security issues**

- What are the company's policies for handling allegations of human rights abuse by employees or security personnel?
- Does the company assess risks to those within and outside the project site posed by its security arrangements?
- Does the company make reasonable inquiries to ensure that those providing security are not implicated in past human rights abuses?
- Does the company ensure its security personnel are appropriately trained in the use of force?
- Does the company ensure its security personnel are appropriately trained to interact with workers and the local community?

prisoners having been tortured in the cells. Human Rights Watch, Amnesty International and the International Committee of the Red Cross claimed that the facilities were run in a way that breached human rights. The indefinite deprivation of liberty of prisoners was also in conflict with Article 9 of the Universal Declaration of Human Rights: "No one shall be subjected to arbitrary arrest, detention or exile."

commentary on the
ECD and adhering
hold the view that
corporations should
st country but also
national standards.

Supply Chains and SRI



- Assessing Adherence to the OECD Guidelines' Supply Chain Provision

Examples of Alleged Violations of Supply Chain Responsibility

Sector

Description

Textile/Garment

In 2006 NGOs filed a complaint with the Dutch NCP charging that Indian suppliers of jeans company G-Star violated numerous workers' rights including freedom of association and collective bargaining and engaged in abusive and discriminatory practices.

Chemical

In 2004 NGOs filed a complaint with the German NCP alleging that Bayer used child labour in their supply chain in India.

Oil

In 2002 an NGO filed a complaint with the German NCP against the German Branch of Total Fina Elf charging the company with serious environmental damage as a result of practices within its pipeline operations in the Russian Federation.

Financial

In 2006 Norwegian and Argentinian NGOs filed a complaint with the Swedish and Norwegian NCPs against financial services group Nordea for their role in arranging possible financing for Finnish company Botnia's pulp mill project in Uruguay, where numerous rights/legal violations were alleged.

Source: OECD Watch's Case Alert Database

ion on



Supply Chains and SRI



- The Guidelines provide key questions to be used to gather information on a company's supply chain.
- Various interpretations of the evidence of an 'investment nexus' – recommendations for service providers

Examples of Alleged Violations of Supply Chain Responsibility

Sector	Description
Textile/Garment	In 2006 NGOs filed a complaint with the Dutch NCP charging that Indian suppliers of jeans company G-Star violated numerous workers' rights including freedom of association and collective bargaining and engaged in abusive and discriminatory practices.
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Source: OECD Watch's Case Alert Database

Conclusions

- They provide a useful tool for investors to integrate ESG evaluations in their analysis
- They represent a comprehensive and coherent framework
- They highlight crucial issues for investors
- They are a multi-stakeholder tool

Stream 2

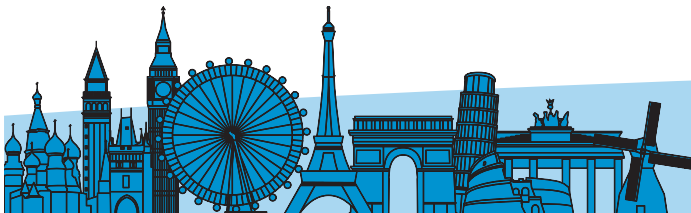
Impact investing, and measuring positive results

15:00 – 15:40

Edward Siegel, *Managing Director*, **Big Issue Invest**

Ambika Sampat, *Business Development Manager*, **Acumen**

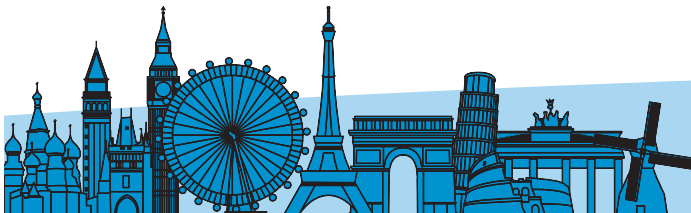
Moderator: Pradeep Jethi, *Co-founder and Advisor*, **Social Stock Exchange**



Afternoon Networking Break

15:40 – 16:20

Sponsored by **Impax Asset Management**



Stream 2

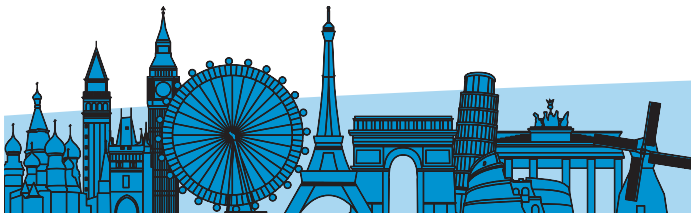
Engaging companies on climate change

16:20 – 17:00

Bruce Duguid, *Director of Engagement*, **Hermes Investment Management**

Edward Mason, *Head of Responsible Investment*, **Church Commissioners for England**

Moderator: Mike Tyrrell, *Editor*, **www.SRI-CONNECT.com**



Stream 2

ESG and Big Data: generating value for asset owners with/through financial data science

17:05 – 17:45

Andreas Hoepner, *Associate Professor of Finance, ICMA Centre, Henley Business School*

Pierin Menzli, *Head Sustainable Investment Research, Bank J. Safra Sarasin*

Moderator: Carlota Garcia-Manas, *Engagement Manager, National Institutions of the Church of England*



Sustainable Investing 2.0 with Bank J. Safra Sarasin

‘ESG & Big Data’ – From Data to Client Insights

Responsible Investor Europe 2016

Pierin Menzli, Head Sustainable Investment Research

June 22/23 2016

Overview

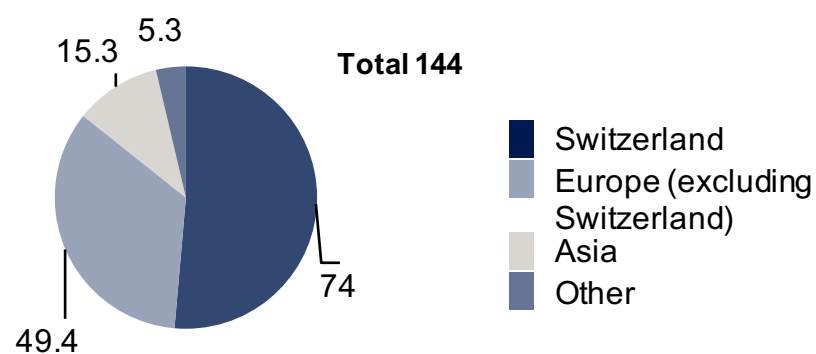
175
YEARS

2015 Key Facts and Figures – J. Safra Sarasin Group

Shareholders' equity	CHF 4.1 billion
Assets under management	CHF 144 billion
BIS Tier 1 ratio	27%
Headcount (full-time equivalents)	2022

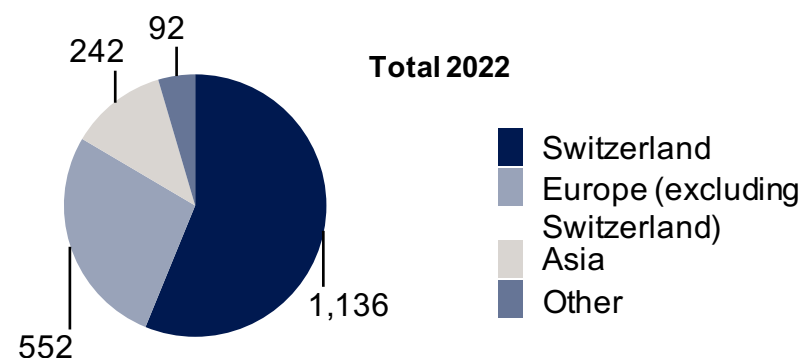
Assets under management by booking centre

31 December 2015, CHF billion



Headcount by location

31 December 2015, full-time equivalents



Sustainable Investing at Bank J. Safra Sarasin

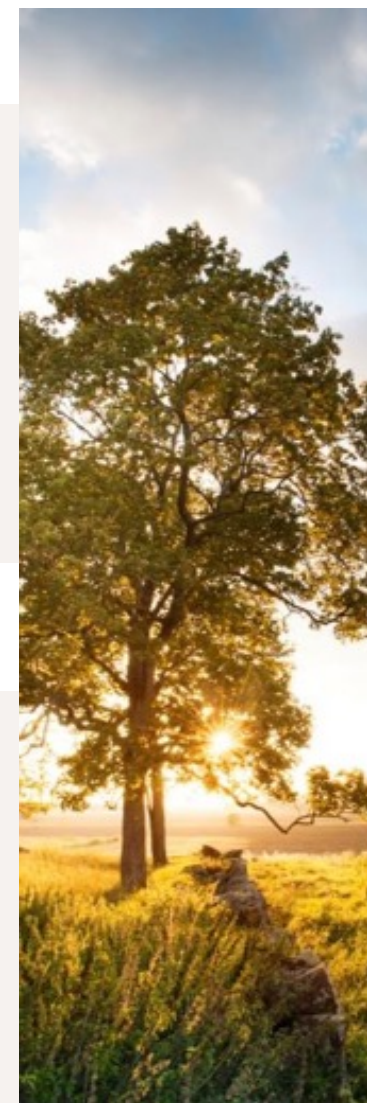
Pioneer, Innovation & Thought Leadership

Generation 1.0

- 1994 - Bank Sarasin launches world's first **eco-efficiency fund**
- Post 2000 – **Equities/bonds/real estate**: large range of sustainable investment strategies
- 2003 - Extension of corporate sustainability analysis to **countries** and **public financial institutions**
- 2008 – '**Sustainable Private Banking since 1841**'

Generation 2.0

- 2014: Introduction of **financial data science** complementing active fundamental approach
- 2015: Launch of proprietary investor services & products, e.g. **portfolio ESG impact analysis**
- 2016: **Market leadership** in Switzerland; strong focus on innovation, performance and thought leadership



Why Does Financial Data Science Make Sense in Sustainable Investing?

- To cope with rising data availability
- To address many data gaps and inconsistencies in ESG data with new methods
- To translate more data into valuable client insights
- To achieve better investment results in interdisciplinary teams
- To attract and retain lateral thinkers, creative minds and have fun

Three client use cases

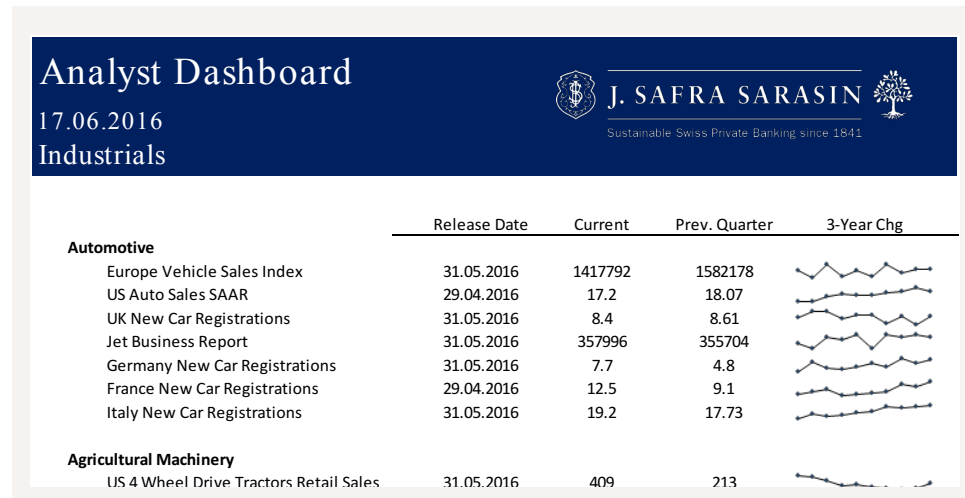


Our Sustainable Investment Process

Three Client Use Cases

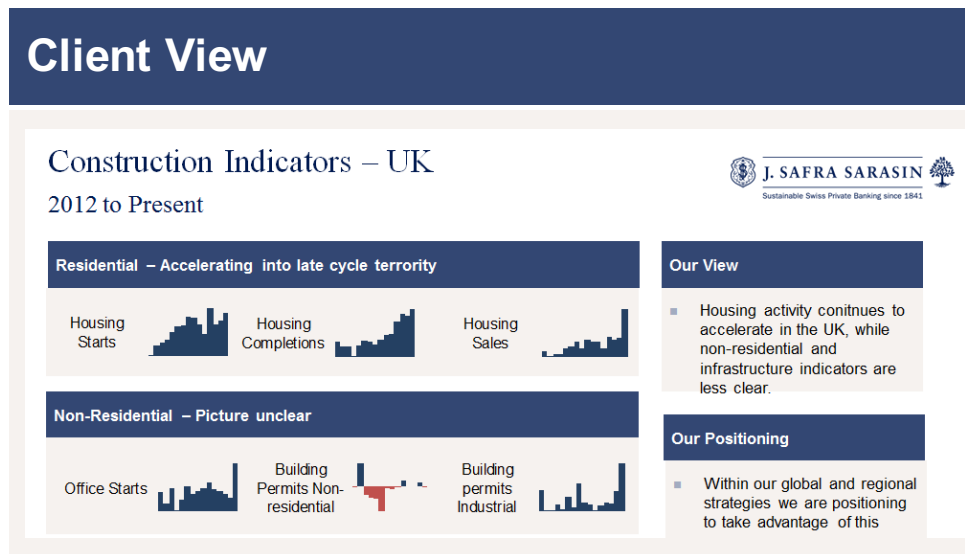


Use Case I: Customised macro dashboard



Analyst Benefits

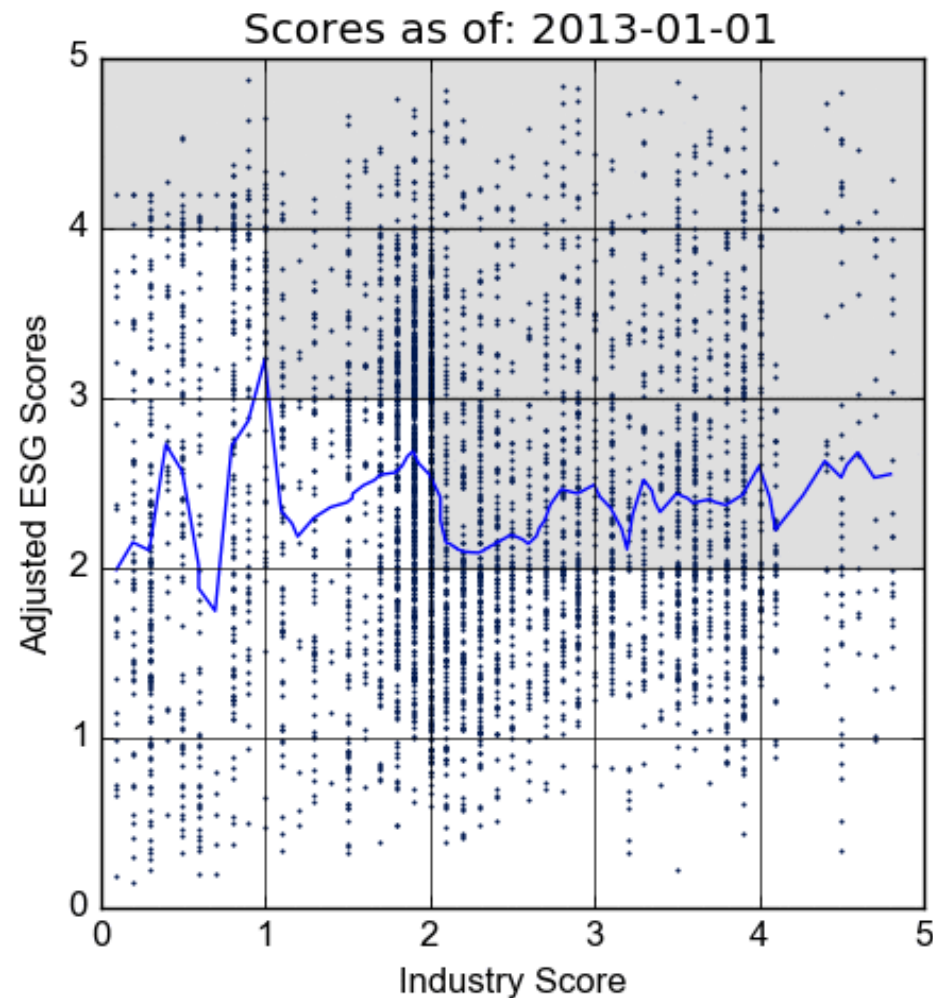
- Macro data points highlight strength/weakness in particular regional industries and markets for idea generation
- Embedded as KPIs in investment cases



Client Benefits

- Portfolio strategy presentations containing intuitive data driven conclusions
- Enhanced understanding of top-down aspects impacting portfolio construction process

Use Case II: Dynamic ESG Analysis



• Company score

— Average Company Score For Each Industry

Integrating Data Science

- Adapting the Sarasin Sustainability Matrix® for Generation 2.0
- Raw unadjusted ESG data have short comings with respect to data gaps, distribution and stability over time

Analyst Benefits

- Ensures a robust and best-in-class opportunity set for fundamental analysis

Client Benefits

- Investment strategies can be constructed with controlled & optimised exposure to industries facing significant sustainability challenges

Use Case III: Client Portfolio Controversy Monitor

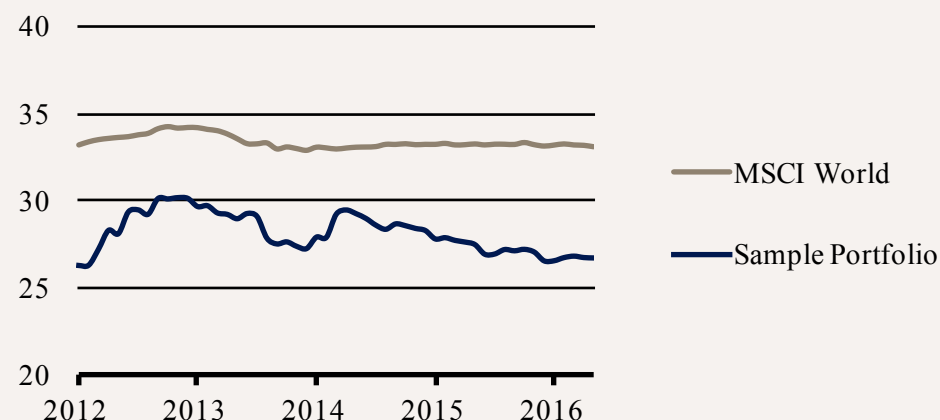
Controversy Methodology

- Real time algorithmic rule based analysis of thousands of news sources in multiple languages
- Developed in tandem with RepRisk results in the *Company Issue Index (CII)* calculated for thousands of companies

Client Benefits

- CII integration in fundamental analysis
- Starting point for divestment or engagement discussions
- Monitoring of overall portfolio controversies risk assessment, flagging controversial components

Portfolio Company Issue Index



	Name	CII	Theme
Sample Portfolio	Henkel	44	Stakeholder Opposition
	American Water Works	41	Compliance with Legislation
	Medtronic	41	Community Impact
MSCI World	TE Connectivity	62	Corporate Governance
	Tyco International	62	Corporate Governance
	General Motors	61	Corporate Behaviour

- **Satisfy different client needs** - Interact with our clients and support their investment beliefs, risk profiles and preferences
- **Offer a positive client experience** – more than positive financial returns
- **Learn from consumer technology companies** – client focused, innovative, platform and data driven, and successful!

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J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

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www.jsafrasarasin.ch

RI Europe, June 22nd 2016

A financial data science insight:

Can corporate governance reduce downside risk for asset owners?

Andreas Hoepner
SociovestixLabs

First in Financial Data Science.

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What was this audience looking at?



... something got them very curious ...



... they saw their first ever Financial Data Science presentations



London June 2016

SociovestixLabs

Introduction

What is financial data science & how can it be used?

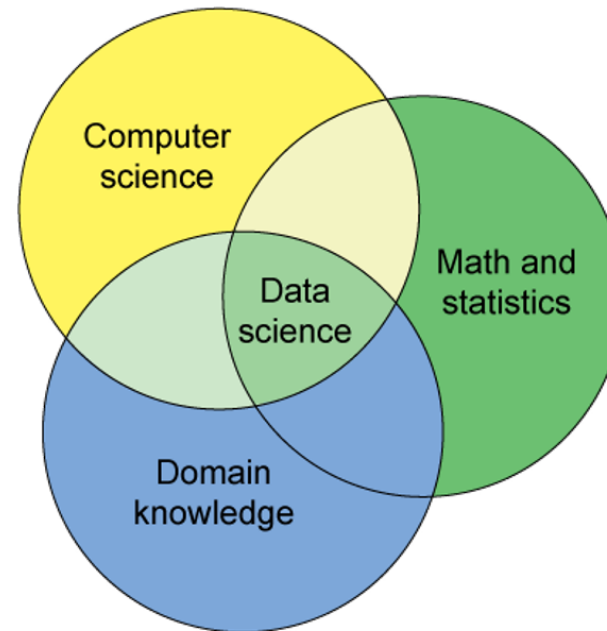
SociovestixLabs

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What is Financial Data Science?

Financial Data Science

- Data Science
 - Domain knowledge
 - Computer Science
 - Math & Statistics
- Financial Data Science
 - Domain Knowledge = Finance
- Application in Responsible Investment
 - Dynamic ESG



Inspiration for joint research idea

A brief recap on the academic evidence

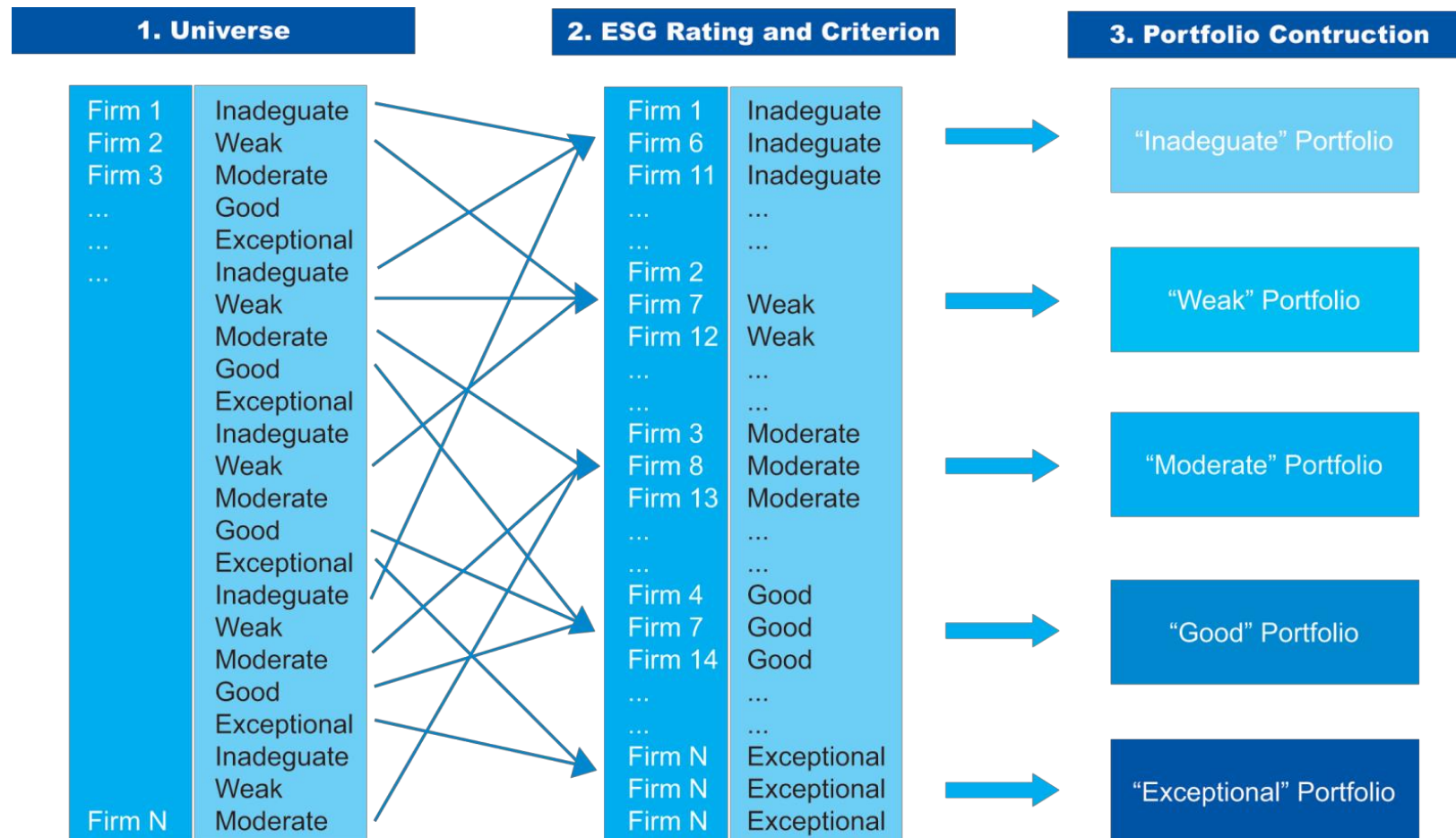
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The Basic Laboratory Process

Simplified Example of Portfolio Construction in a Financial Data Science Laboratory

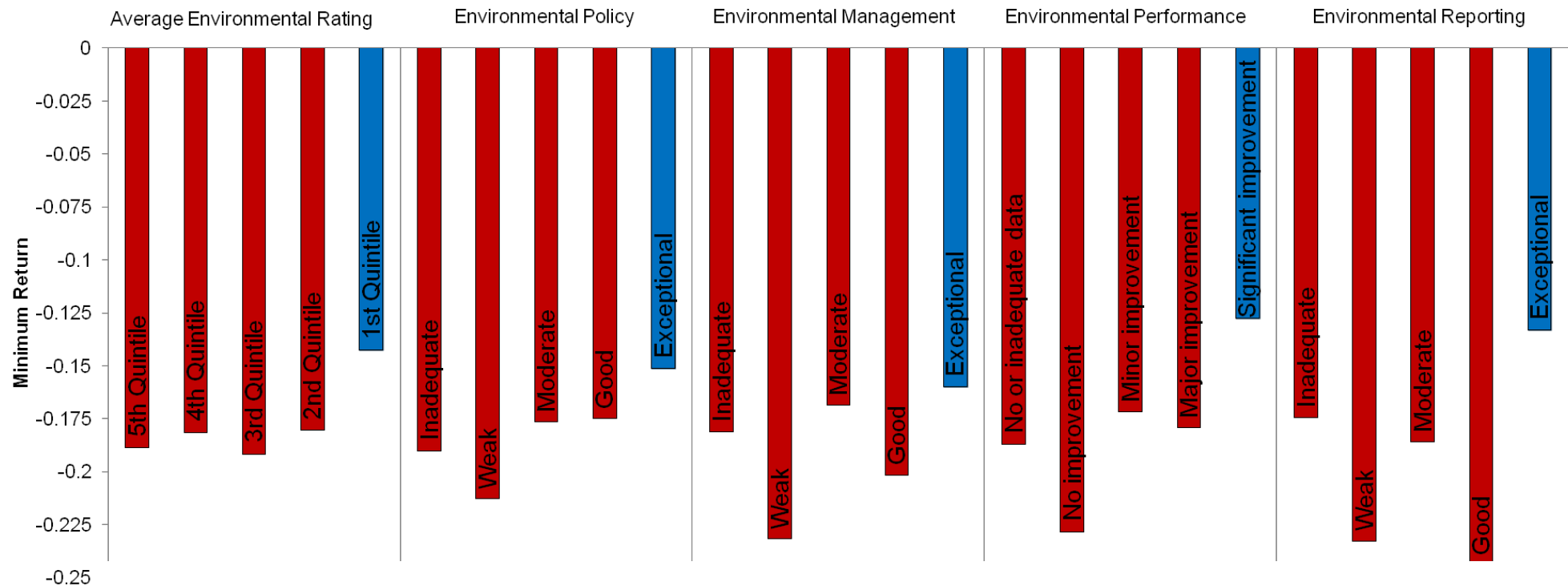
Time to 1 million robust Smart Beta Assessments (Risk & 3-level Fama-French): < 5 days



[Based on a research project with M. Rezec]

E-KPIs reduces Worst Case Risk (at issue/criterion level)

Sample: FTSE All World 2005–2010 (Hoepner, Rezec & Siegl, 2013)



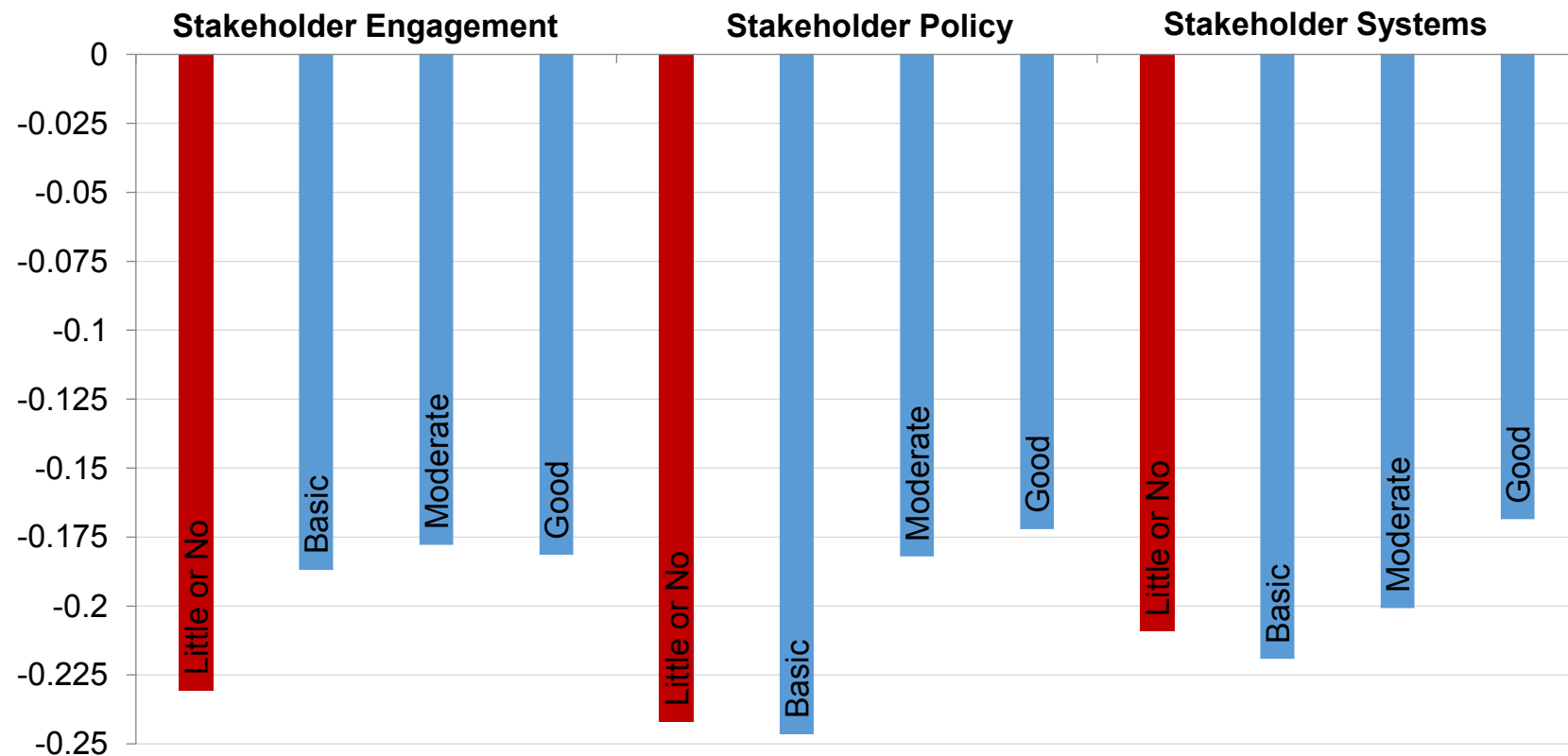
- Portfolios rated most responsible (shown in blue) have over 100 basis points lower worst case risk than less responsible portfolios (shown in red).

[Based on a research project with M. Rezec and S. Siegl]

S-risks increase Worst Case Risk (at issue/criterion level)

Sample: FTSE All World 2005-2010

(Hoepner, Rezec & Siegl, 2016)



[Based on a research project with M. Rezec]

The joint research project

Can we find hidden champions among ESG criteria for downside risk reduction?

SociovestixLabs

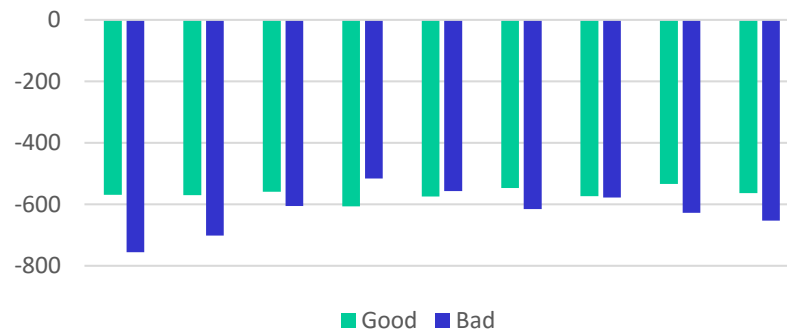
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Crucial Parameter of Project

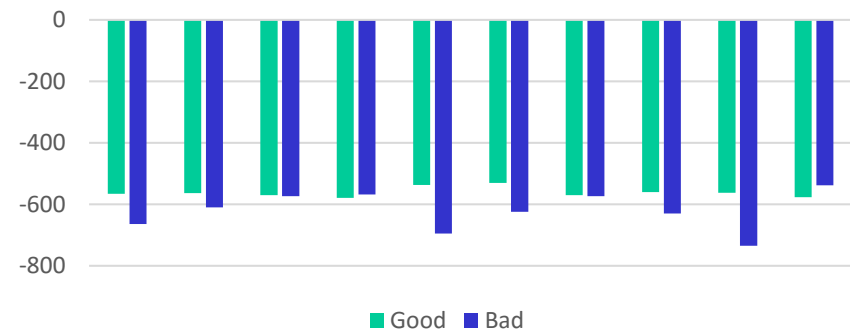
- Standard (Downside) Risk
 - Defined as 'Semi-Standard Deviation', which is precisely the squared lower partial moment ignoring upside deviations
 - Controlled for diversification & potential upside constraints
- Time Period
 - 2007-2014 [Academic was 2005-2010]
- ESG Data Hierarchy
 - E, S, or G Pillar – MSCI E-data & S-data
 - Issues within Pillar
 - Metrics within Issues – MSCI G-data
- Investable Universe (without survivorship bias):
 - 3,484 constituents of FTSE All World with MSCI ESG data
 - Relatively close proxy to overall Sarasin universe

G-metrics results

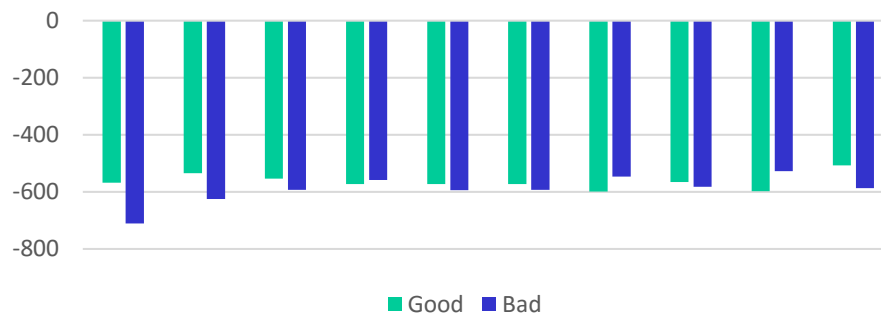
Drawdown Risks of G-metrics (1/4)
in bps per month



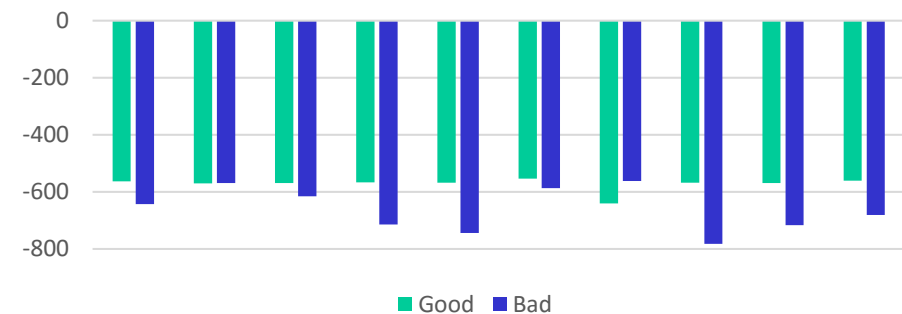
Drawdown Risks of G-metrics (2/4)
in bps per month



Drawdown Risks of G-metrics (3/4)
in bps per month



Drawdown Risks of G-metrics (4/4)
in bps per month



Looking into more detail (Step 1 of 2):

Where does one of these hidden champions perform well?

SociovestixLabs

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CEO Equity Policy performs well in 5 of 6 regions though ...



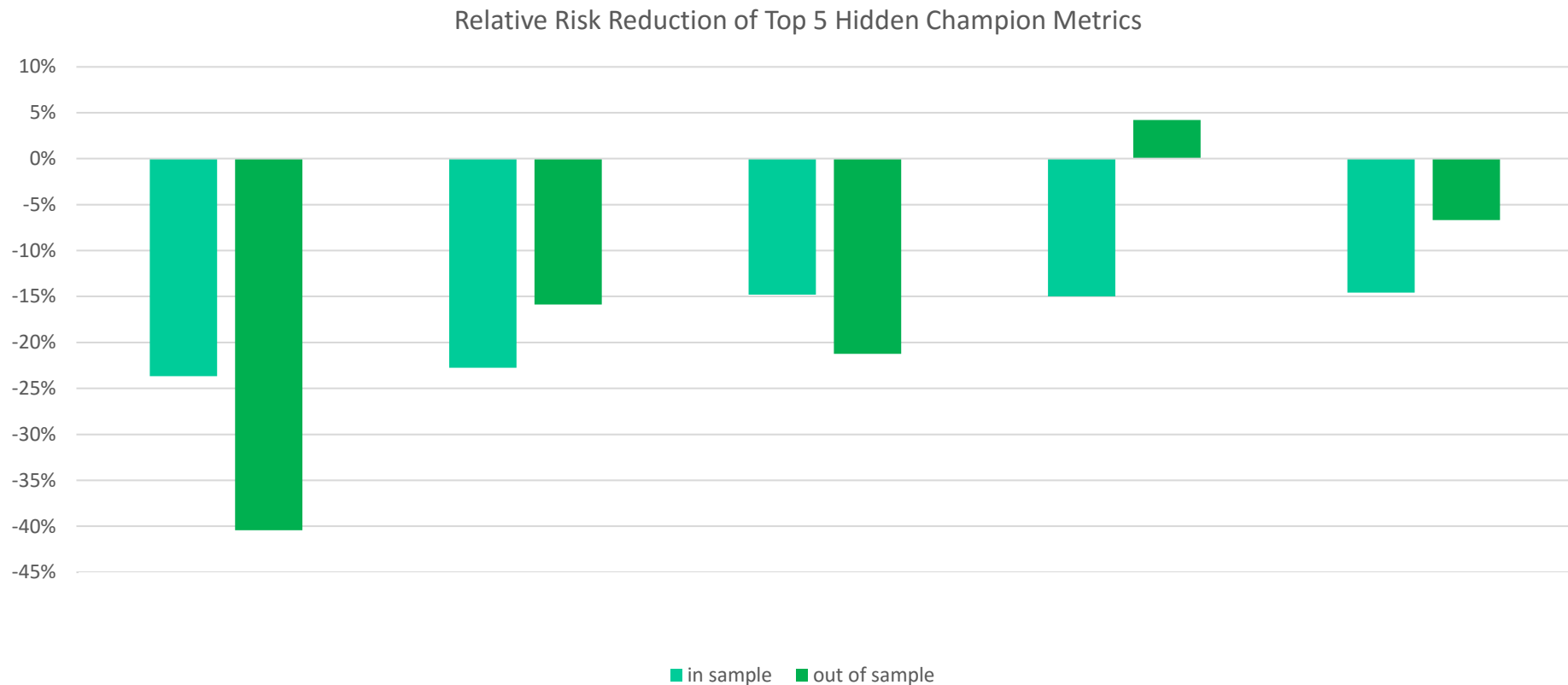
Looking into more detail (Step 2 of 2):

How do the Top 5 of the Top 10 hidden champions perform in the '*out of sample*' Sarasin universe over the last 2 years?

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Out of sample relative risk reductions



1.) ?

2.) Has the company adopted effective stock ownership guidelines for the CEO (ie CEO equity holdings > 5 times annual pay)? (Bad if no; N (Bad) > 750 in sample | > 700 out of sample)

3.) ?

4.) ?

5.) ?

Practical Implementation Opportunity:

Corporate Governance Overlay

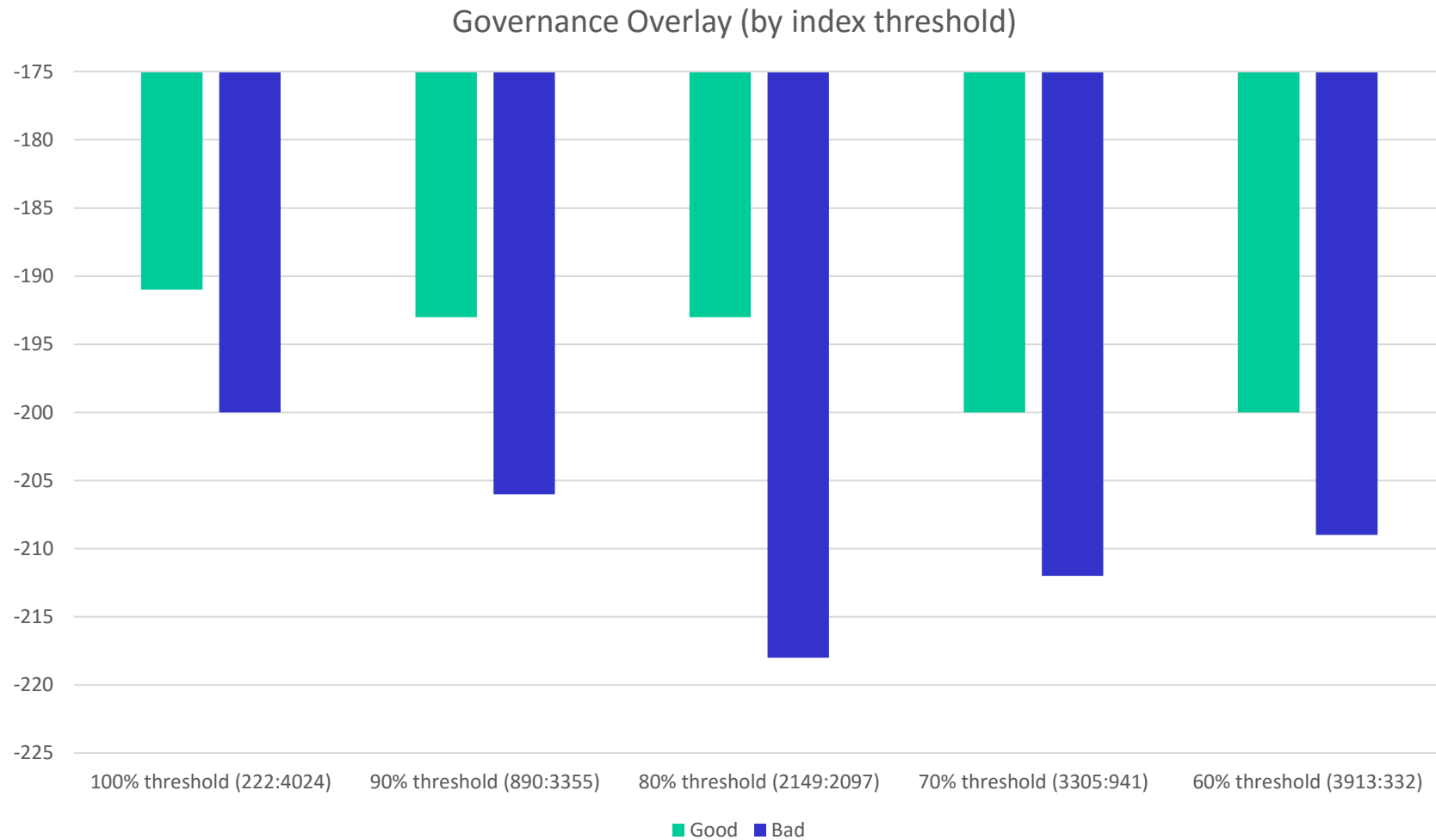
[as orthogonal complement to Sarasin's Sustainability Matrix]

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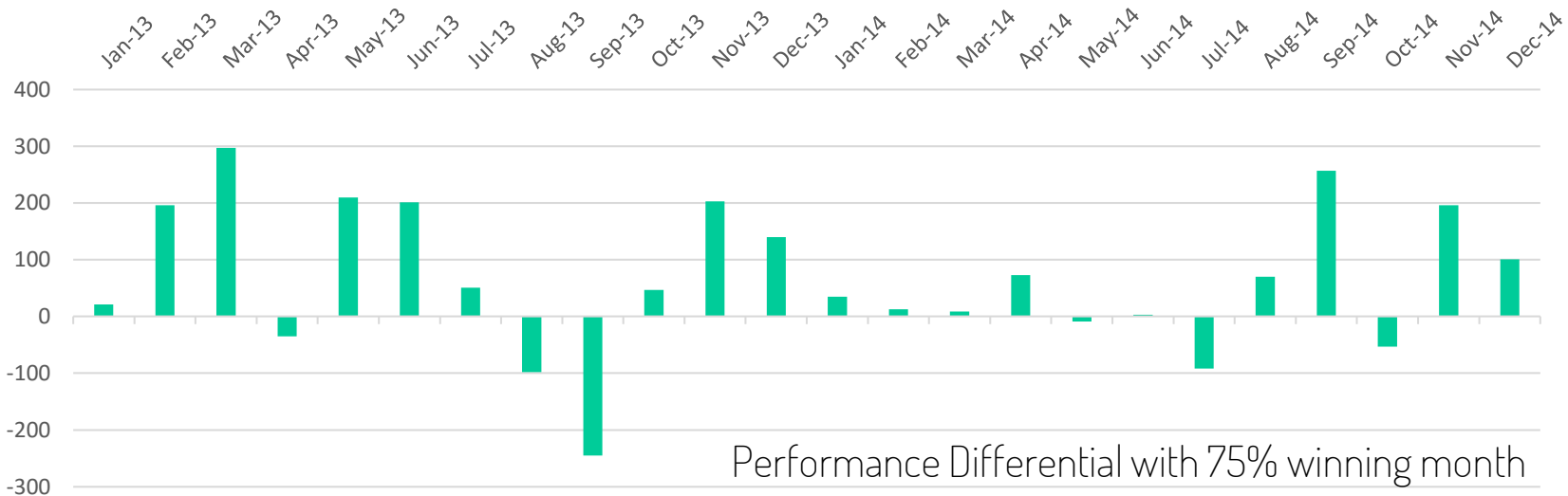
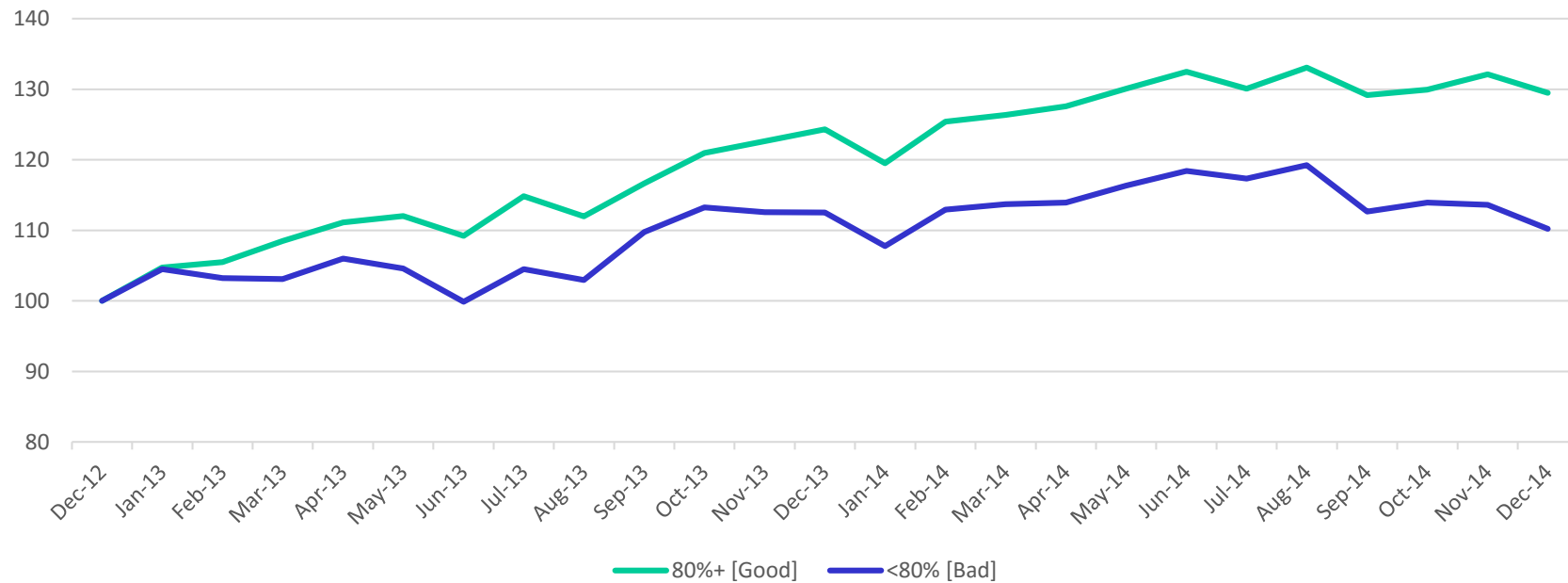
Governance Overlay Opportunities

Out of sample Sarasin universe | G-index of all 10 hidden champions



Best Option: 80% threshold

Out-of-sample portfolio chart



Performance Differential with 75% winning month

RI Europe, June 22nd 2016

Thank you for your attention.
Questions & comments very welcome

Andreas Hoepner
SociovestixLabs

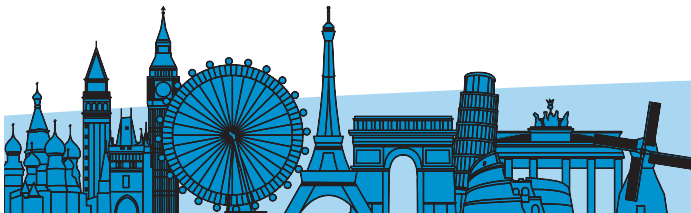
First in Financial Data Science.

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Announcing the deep data initiative: enhancing data delivery standards for fund managers

17:45 – 18:00

Andreas Hoepner, *Associate Professor of Finance*, **ICMA Centre, Henley Business School**



Cocktail Reception and Networking

17:45 – 19:30

Sponsored by **RobecoSAM**

ROBECOSAM 
We are Sustainability Investing.



Stream 2

Corporate lobbying: what should investors be aware of, and what could they learn?

9:00 – 9:40

Charlotta Dawidowski Sydstrand, ESG Manager and Strategist, **AP7**

Ben Fagan-Watson, *Research Fellow*, Policy Studies Institute, **University of Westminster**

Louise Rouse, *Investor Engagement Consultant*, **Rouse Research & Consulting**

Moderator: Kirsty Collins, *Sustainability and IR Strategy Advisor*



Stream 2

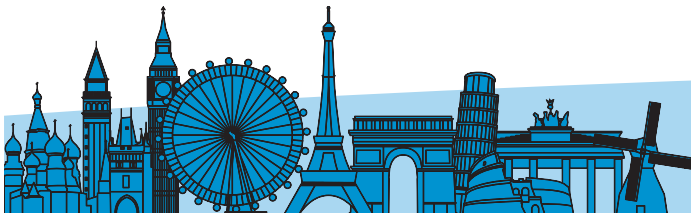
How can investors support climate transition and how do we know we are getting there or even arrived? Explaining the Transition Pathway Initiative

9:45 – 10:25

Rory Sullivan, *Independent Consultant*

Faith Ward, *Chief Responsible Investment and Risk Officer, Environment Agency Pension Fund*

Moderator: Adam Matthews, *Secretary of the Ethical Investment Advisory Group, Church of England*



THE CLIMATE CHANGE TRANSITION PATHWAY INITIATIVE



A CHANGING LANDSCAPE...

- International policy context continuing to develop
 - Increasing number of asset owners/institutional investors with climate change policies requiring engagement
 - Need for greater clarity about what transition looks like against which engagement can take place
 - Growing number of initiatives and engagement interventions – how do we know what is succeeding?
 - Need to ensure our interventions are making a genuine difference and that expectations are clearly articulated
-

DEVELOPING A TRANSITION PATHWAY?

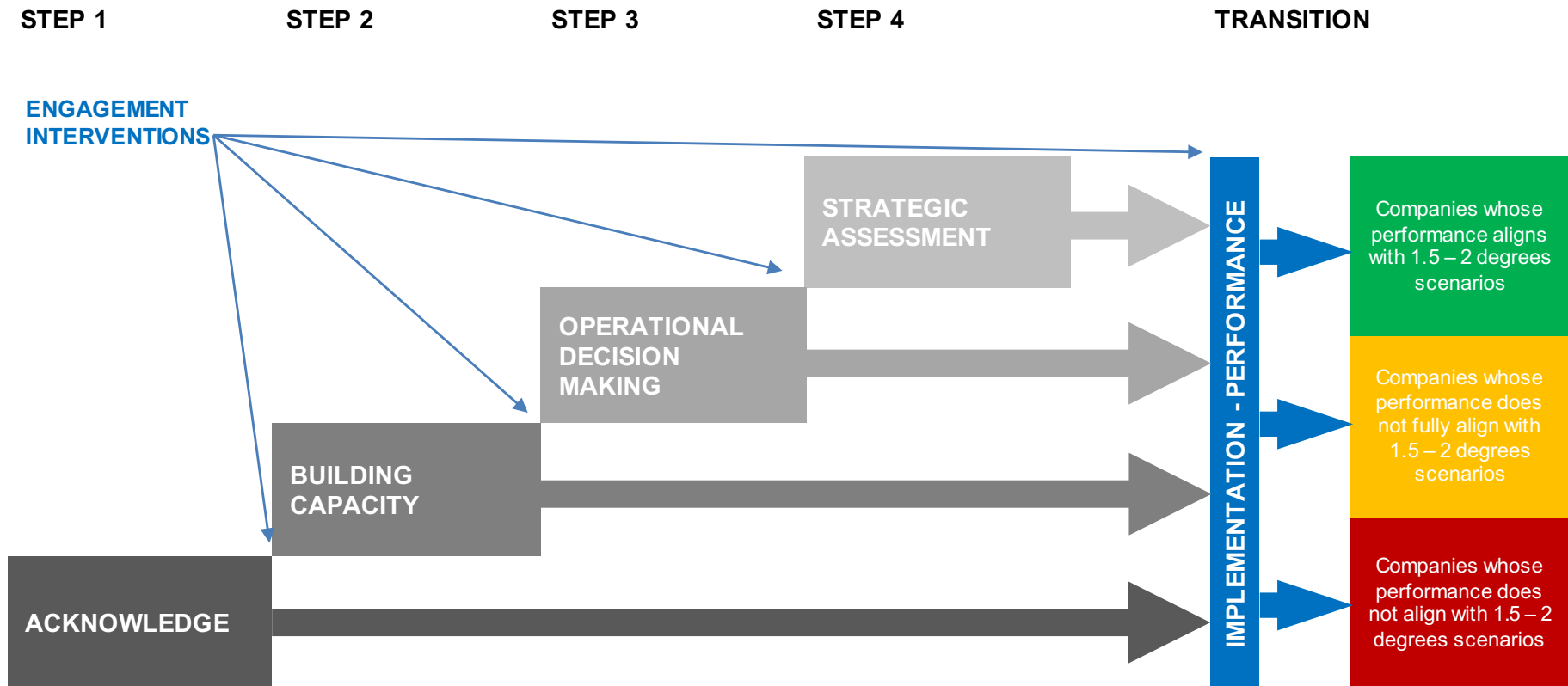
As Asset Owners we are:

1. Defining what a low carbon transition pathway is for companies in different sectors (producers and energy intensive).
 2. Creating a clear, transparent and online tool hosted by an academic institution that can monitor and track company and sector performance, as well as provide objective analysis that can be used to assess risk and opportunities relating to climate change transition.
 3. Inviting other Asset Owners and the wider market to adopt/support this approach.
 4. Outlining how we as individual Asset Owners will use this tool to:
 - i) Inform our investment decision making;
 - ii) Inform and structure our engagement interventions to strongly encourage companies to move along the path;
 - iii) Inform and potentially align our voting with other shareholders that support this approach.
-

WHAT UNDERPINS THE PATHWAY?

- A robust, transparent tool that has academic credibility (working with leading international academic institution)
 - An intervention that will be taken seriously and has potential to shape the broader response/approach to climate change by the 'market' (Currently working with 7 Asset Owners; aim to have 15 internationally representative)
 - An initiative that doesn't duplicate other efforts and can draw from other initiatives (Learning/drawing from CDP and other disclosure initiatives)
 - A basis to provide context for existing engagement programmes (Aiming for A shareholder resolutions etc.)
 - An approach that enables each Asset Owner to define how they will internalise it (informs both Trustee Committees and investment managers)
-

WHAT DOES TRANSITION LOOK LIKE?



HOW CAN WE USE THE FRAMEWORK?

1. To inform our investment decision making based on **assessment of risk** and opportunities relating to climate change transition.
 2. To judge which companies are positioning themselves as part of the low carbon transition and which we believe fall below a threshold of acceptability against the expectations of Asset Owner's climate change policies.
 3. To align our voting for 2017 with the transition pathway.
 4. To identify engagement targets beyond existing interventions.
 5. To assess impact and effectiveness of existing engagements such as Aiming For A and company responses.
 6. To provide a basis to transparently communicate our approach to wider Church stakeholders.
-

THANK YOU...

Adam C.T. Matthews

Head of Engagement

Church Commissioners & Pensions Board

Faith Ward

Chief Responsible Investment & Risk Officer

Environment Agency Pension Fund

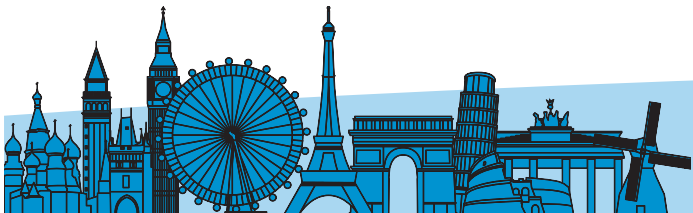
Dr Rory Sullivan

Consultant to the Transition Pathway Initiative



Networking Break

10:25 – 11:05



Stream 2

Food: how are today's eating trends and regulations driving company prospects?

11:05 – 11:45

Martin Barrow, *Associate Director (Head of Footprinting)*, **The Carbon Trust**

Neil Brown, *Investment Manager, Pan European Equities*, **Alliance Trust Investments**

Moderator: Helena Viñes Fiestas, *Head of Sustainability Research*, **BNP Paribas Asset Management**





BNP PARIBAS
INVESTMENT PARTNERS

The asset manager for a changing world

/ Eating trends and company prospects

For investment professionals

/Consumer demands



62%
cutting down on sugar



57%
eating more natural, fresh foods



65%
cutting down on fats

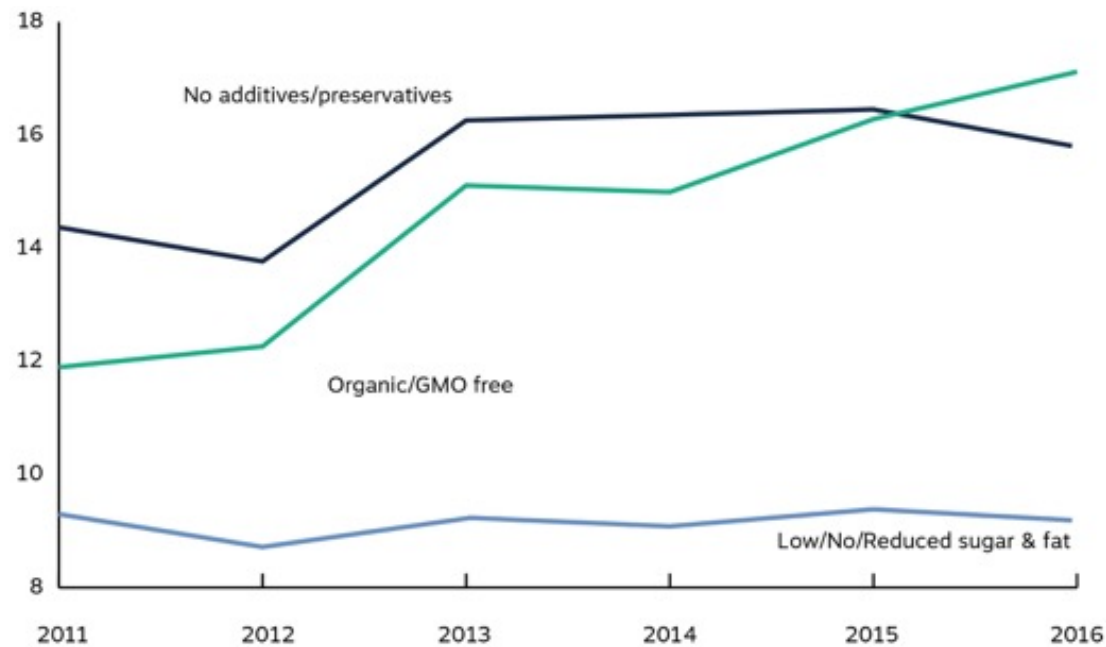


37%
eating fewer processed foods

Source: Nielsen 2015

/ Industry response

Health claims % of all new food and drink launches



65% 2015 product launches in health

Source: Berenberg, Mintel GNPD 2015

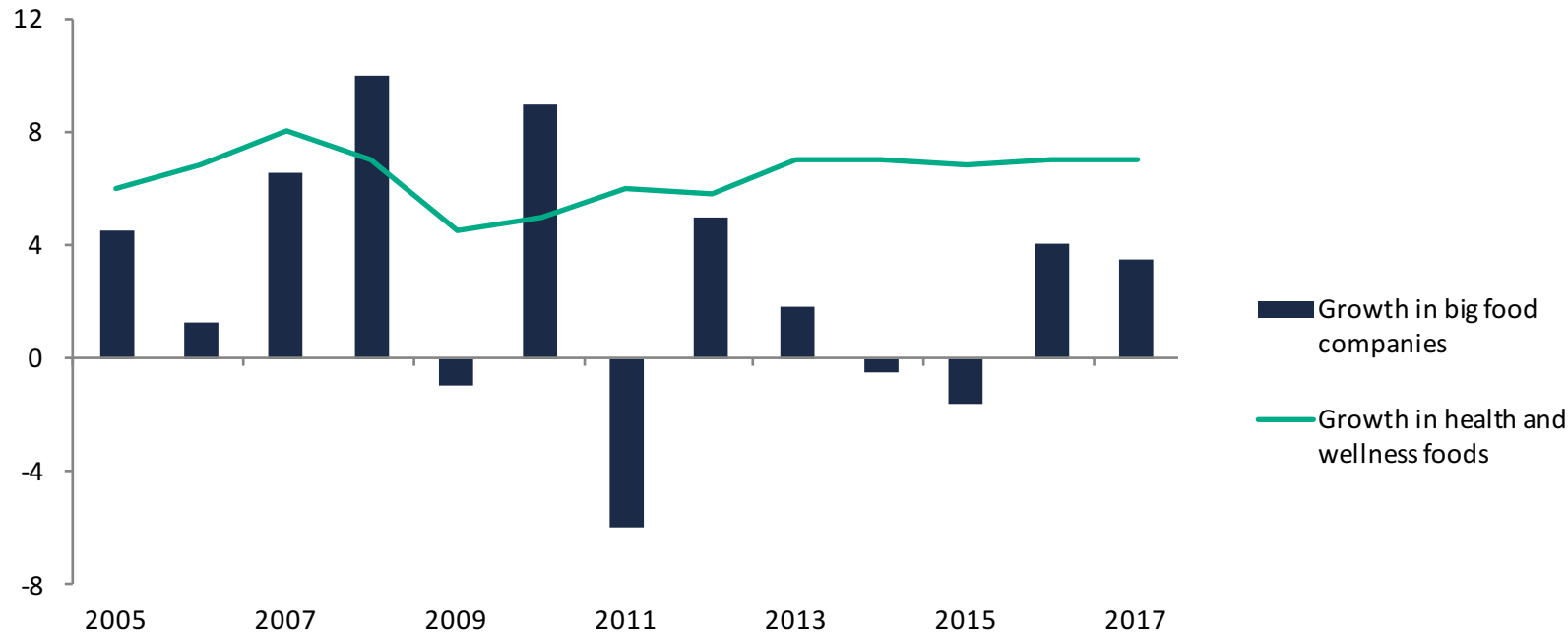
/Government regulation

15 countries have imposed health-related food and drink taxes

Source: World Cancer Research Fund International, International Business Times 2016



/ Clear opportunities in food



Source: Berenberg, Euromonitor and Bloomberg, 2015

Health and Wellness include: Food intolerance; Organic; Natural; Better for you (reduced salt, fat, sugar), Fortified/Functional. Big food companies include: Nestle, Mondelez, Kraft, Danone, General Mills

6-8% growth - double the sector



/Kerry Group



/Wessanen

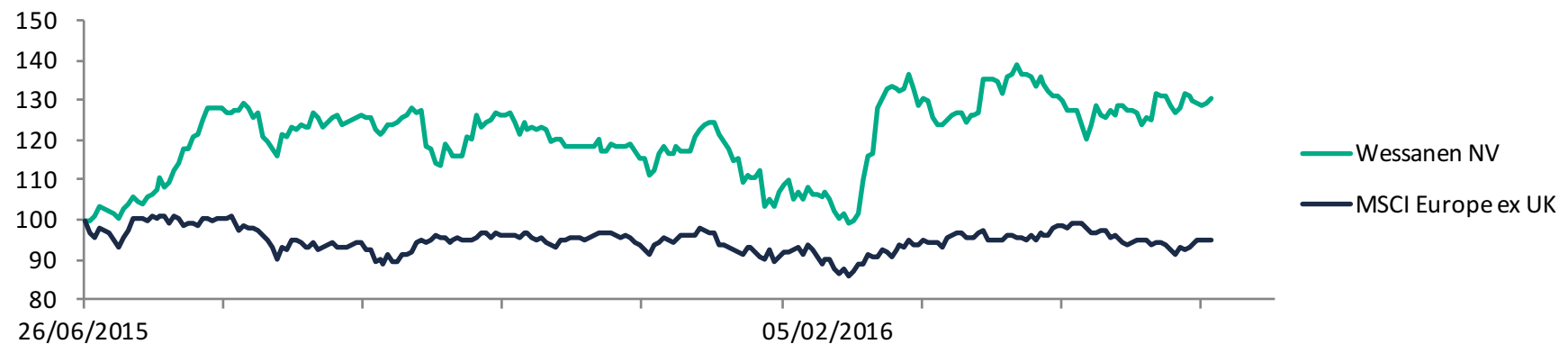
Wessanen



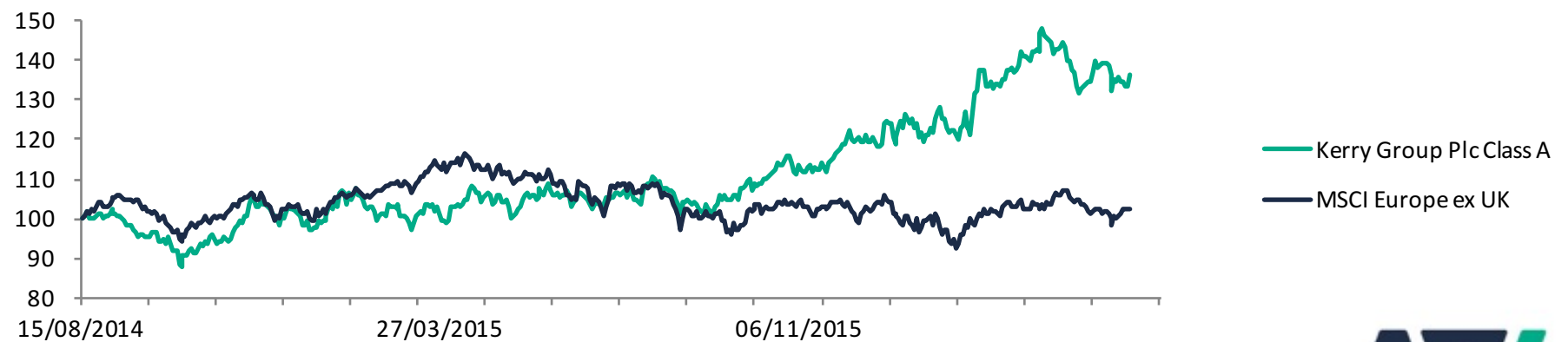
ATI

/Performance

/Wessanen



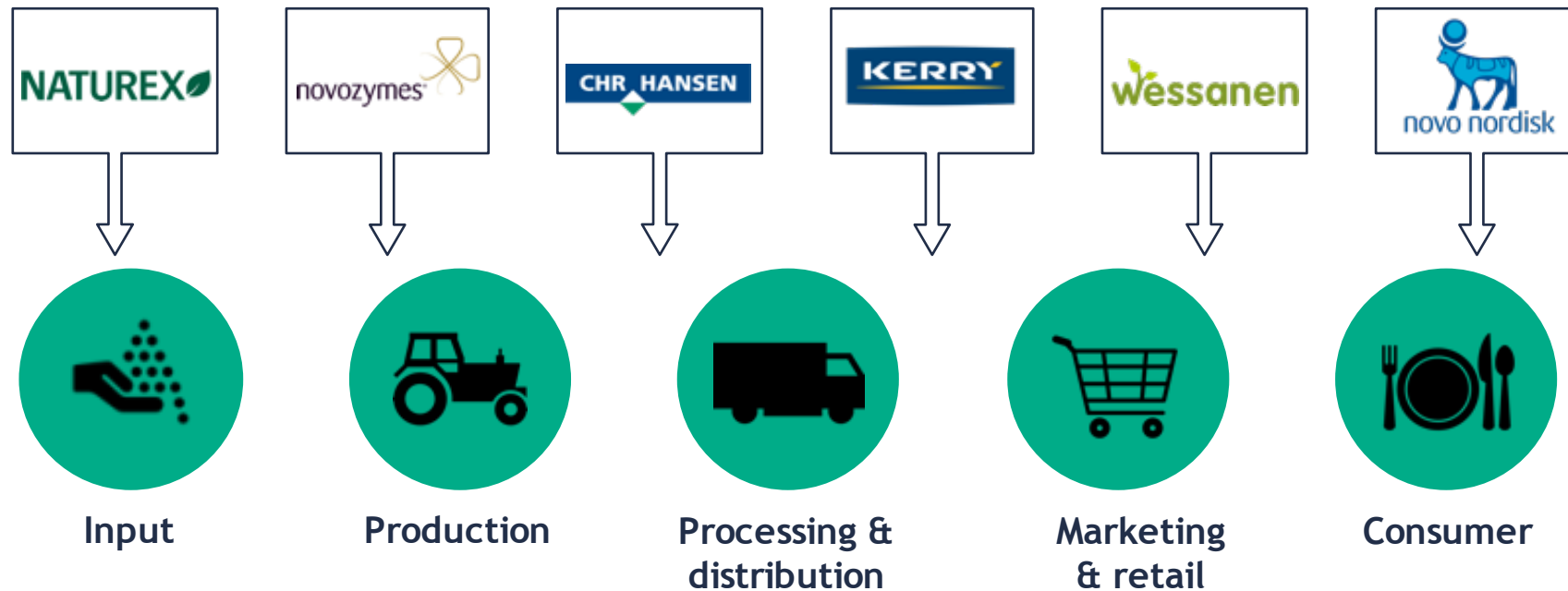
/Kerry



Source: ATI as at 31/05/16



/ Opportunities across value chain



/Risk information

- This presentation is intended for investment professionals only. It must not be distributed to, or relied upon by, retail investors.
- The value of investments and the income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.
- Past performance is not a guide to future performance.
- Funds which undertake ethical screening to meet their investment aims are unable to invest in certain sectors and companies.
- Some of the funds have underlying holdings which are denominated in currencies other than Sterling and therefore may be affected by movements in exchange rates. Consequently, the value of these investments may rise or fall in line with exchange rates.
- Bonds may be adversely affected by changes in interest rates and expectations of inflation. Corporate bonds are subject to credit, liquidity and duration risks. Adverse changes in the financial position of an issuer of corporate bonds or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.
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QUESTION

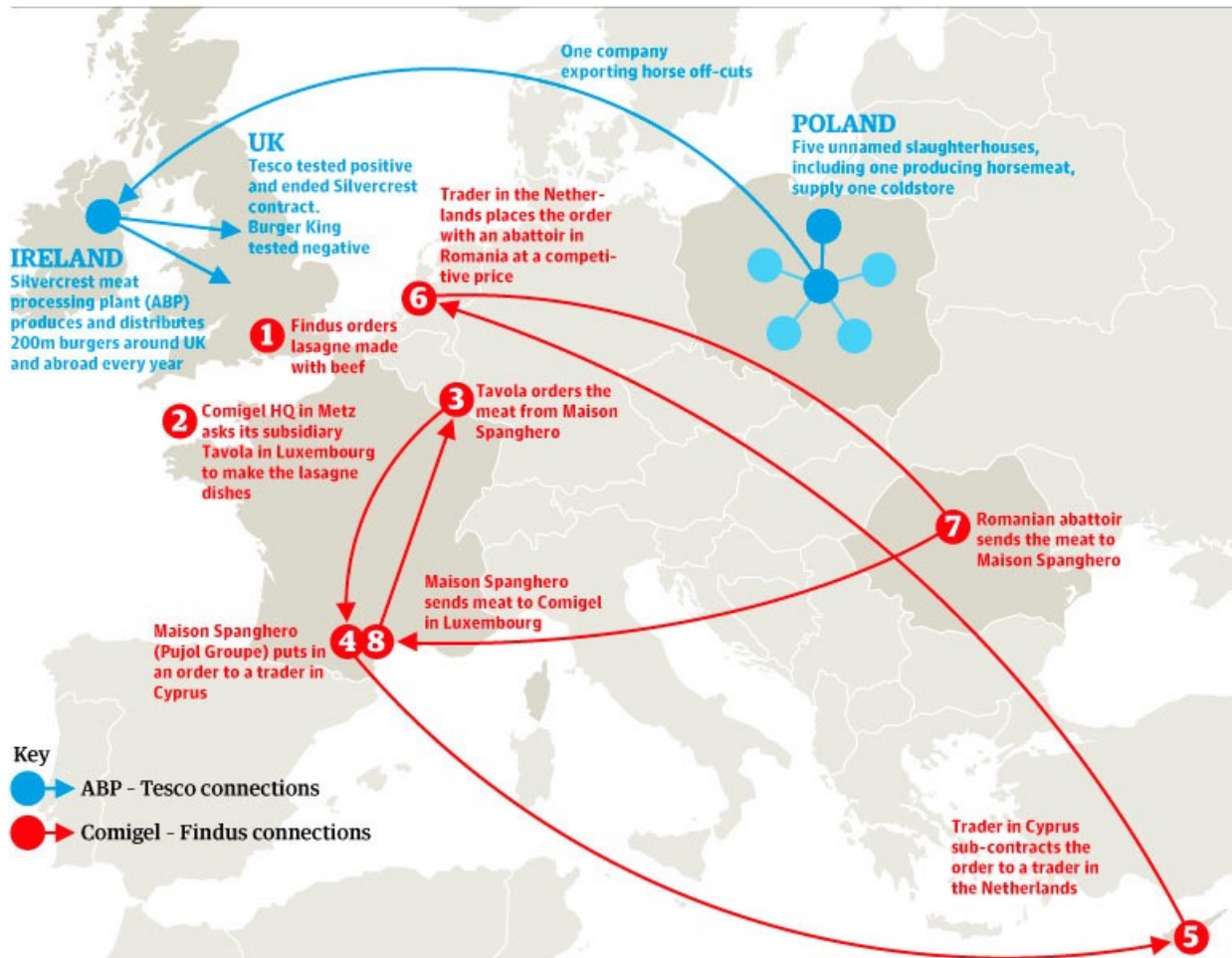


Guess how many kilometres can horse meat traverse within Europe before it becomes part of a frozen lasagne shelved in a supermarket?

- 3 000 km
- 8 000 km
- 13 000 km



Britain's horsemeat The ABP and Comigel connections



The companies involved

- McAdam Food Products**
Blamed by ABP Food Group for selling them Polish meat "in good faith".
- Rangeland Foods**
Was suspended after the Irish department of agriculture confirmed that 75% equine DNA was found in raw ingredients.
- Silvercrest Foods**
Found to be supplying beef burgers containing traces of horse DNA to supermarkets by the Food Safety Authority of Ireland.
- Dolepak**
One of the plants named by the Food Safety Authority of Ireland as having supplied beef-burgers to retailers that contained traces of horse and pork DNA.
- Litely meats**
Also found to be supplying products to supermarkets with traces of horse DNA.
- Comigel**
Findus withdrew their beef lasagne products after its French supplier, Comigel, raised concerns about the type of meat used in the lasagne. The Findus UK beef lasagnes were found to contain up to 100% horsemeat. The French company also supplied to Aldi.
- Freeza Meats**
Frozen meat at the Freeza Meats company was found to contain 80% horsemeat. It is potentially linked to the Silvercrest factory in the Republic of Ireland.
- Peter Boddy Licensed Slaughterhouse**
Raided by police and the FSA on the 12 February, all meat was seized and operations suspended. The FSA believe that meat products purporting to be beef for kebabs and burgers, were sold to Farmbox Meats Ltd in Aberystwyth, when they were in fact horse.
- Farmbox Meats Ltd**
Raided by police and the FSA on the 12 February, all meat was seized and operations suspended. The FSA are investigating Peter Boddy Licensed Slaughterhouse in the belief that products thought to be beef were sold to Farmbox Meats when they were actually horse.
- LJ Potter Partners at Stillman's**
Six of the eight horses slaughtered in the UK have been found to contain traces of bute. They were then sent to France and may have entered the food chain.
- High Peak Meat Exports Ltd**
Two horses slaughtered at High Peak Meat Exports Ltd were found to have traces of bute in the FSA's recent testing, but the meat did not leave the slaughterhouse.
- Draap Trading Ltd, Belgium**
Jan Faen, a director of Draap Trading Ltd is at the centre of investigations into how horsemeat entered the European food chain. The Dutch trader confirmed he bought a consignment of horsemeat from two Romanian abattoirs, and sold it to French food processors and has insisted he had clearly labelled it as horse.
- Spanghero, France**
One of the companies delivered meat by Draap Trading Ltd which then supplied the meat to Comigel. Spanghero insisted the meat arrived labelled "Beef - originating in EU".
- Doly Com and Carmolimp, Romanian slaughterhouses**
The slaughterhouses that are believed to have supplied horsemeat to Draap. They have insisted the horsemeat sent to Holland was properly labelled.



Source: The Guardian, *Horsemeat scandal: the ABP and Comigel connections*, 15 February 2013, accessed on June 2016,



BNP PARIBAS
INVESTMENT PARTNERS

The asset manager for a changing world

Food

How are today's eating trends and regulations driving company prospects?

Martin Barrow

Head of Footprinting, Carbon Trust



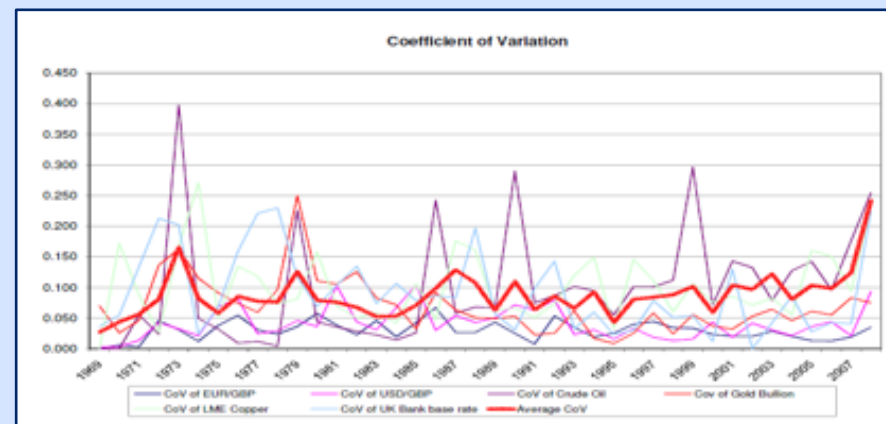
A 'new normal' brings new challenges

We live in a resource-constrained world



Rising/volatile commodity prices

Increased volatility and vulnerability



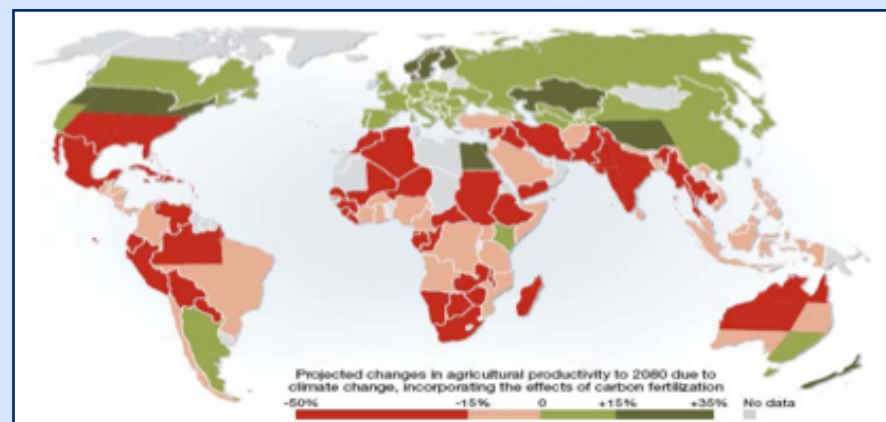
Now considered the 'new normal'

Understand risks in the supply chain



Create visibility beyond tier one suppliers

Crop yield changes due to climate change



Food efficiency needs to double

Increasing scrutiny on businesses to take action



Emerging trends for leading corporates

- Understanding breakdown of value chain impacts and potentially changes over time.
- Supply chain sustainability strategy.
- Internal carbon pricing.
- 100% renewable energy commitments.
- Science-based targets.
- Risk mitigation and reduction strategies under different future scenarios.

Agriculture coming under increasing scrutiny

- Significance of agricultural emissions will increase over time as grids decarbonise.
- Was largely overlooked in international discussions, now seen as important to achieving future required levels.
- CDP is championing increased transparency.



Adaptation price impacts

Companies are evaluating probability and severity of risks related to climate change:

The direct impacts of climate change

The impact of mitigation actions taken by governments

The actions taken by customers to better position themselves

Top 10 global risks in terms of Impact

- 1 Water crises
- 2 Spread of infectious diseases
- 3 Weapons of mass destruction
- 4 Interstate conflict
- 5 Failure of climate-change adaptation
- 6 Energy price shock
- 7 Critical information infrastructure breakdown
- 8 Fiscal crises
- 9 Unemployment or underemployment
- 10 Biodiversity loss and ecosystem collapse

Source: WEF – 2015, Global Risks report

Communicating with and understanding consumers - to seek to influence behaviour

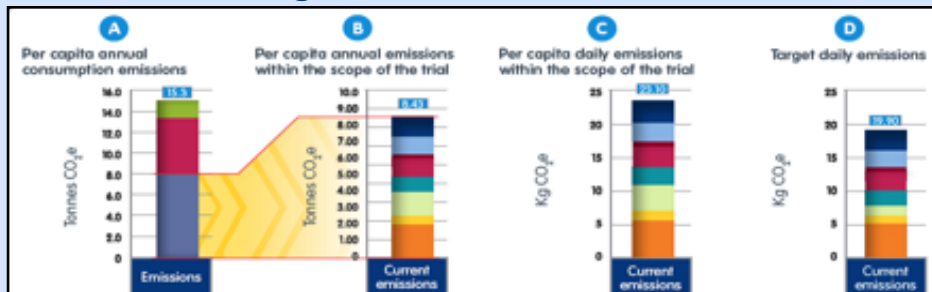


Understanding sustainable consumer behaviour

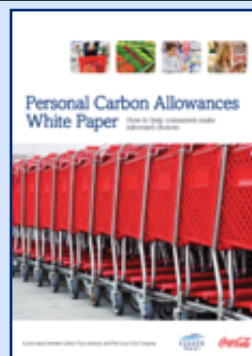
Communicating footprint results

World leading study contextualising environmental information in a 'Personal Carbon Allowance', to test where environmental labelling could be heading.

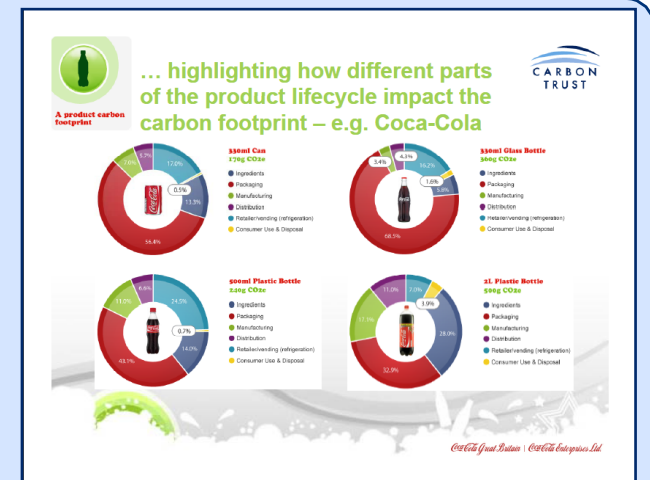
- Cross-section of public tested for 4 weeks.
- Calculations show participants consumption within 'Carbon guideline daily amounts'.
- Qualitative/quantitative research into consumer understanding and reaction to different formats.



Publishing a White Paper and engaging business and policy makers, positioned Coca-Cola and Carbon Trust as leaders in this field.



- Showing consumers footprint results in a visually interesting way.



Communicating a key driver - recycling

- Advertising campaign to increase recycling, based on footprinting results.
- Communications to political stakeholders.



Providing cattle farmers with simple guidance and a clear business case to achieve reductions



Irish state-funded organisation

Markets and promotes Irish produce worldwide

Remit for Quality Assurance and Food Safety

Measurement



Quality Assurance and Food Safety data



Sustainability metrics and national herd databases

90,000 farms

audited and received carbon footprint reports

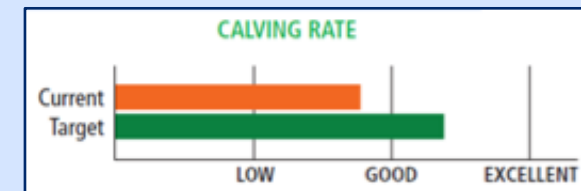
Simple Advice

Benchmarking performance to identify areas for improvement:

- Grazing season length
- Age @ first calving
- Calving interval
- Daily live weight gain
- Nitrogen fertiliser efficiency
- Manure management

Business Value

Financial benefit of moving to best practice



GHG change	€ benefit
-1.5%	+€576

... could help boost your farms profitability by €5,231 and decrease greenhouse gas emissions by 4%.

The case for protein diversity



White paper

Practical, Socially acceptable, Impactful

UK Diet today

Protein Diversity

Sustainable Diets

Accelerating the adoption of more sustainable eating patterns in the UK

Impacts of current UK average diet

	Social impact (health & wellbeing)	Economic impact (household food prices)	Environmental impact (climate, land & water)
Fresh meat			
Processed meat	Too much salt		
Dairy	Need more Calcium*		
Eggs			
Fish & seafood	Need more in our diet *		Avoid over-fishing*
Whole grains & pulses	Need more in our diet *		
Nuts & seeds	Need more in our diet *		
Tofu			Avoid deforestation †
Mycoprotein			
Insect protein			
Lab grown meat			

Key	Low impact	Medium impact	High impact	Unknown
-----	------------	---------------	-------------	---------

Understand risks in the supply chain

Menu

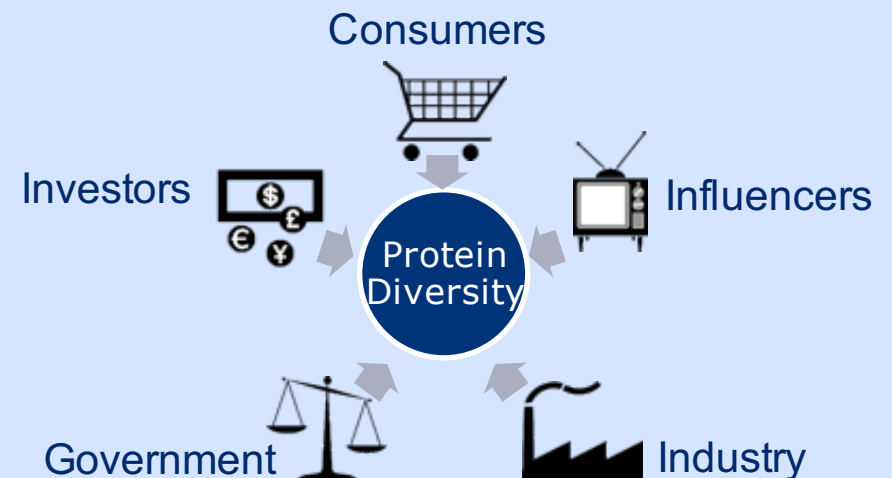
- livestock products, such as meat, dairy and eggs;
- fish and seafood
- plant-based protein-rich foods, such as grains, pulses, nuts and seeds;
- meat alternatives, such as tofu and mycoprotein
- future foods, including insect protein, algal protein and lab-grown meat

Greater diversity of protein sources towards healthier, lower environmental impact proteins would have positive sustainability outcomes



The health and wellbeing impact of eating too much or too little of a food type

Accelerating Protein Diversity requires action from



Innovation in food value chains



CALYSTA



- › FeedKind™: biogas to protein
- › Substitute for fishmeal and soya protein concentrate

Carbon Trust Analysis confirms:

- › Lower water footprint
- › 'Competitive' carbon footprint
- › De-coupled resource risk (land; fishmeal)



5m The Fish Site

News & Analysis Features Markets & Reports Knowledge Centre

News

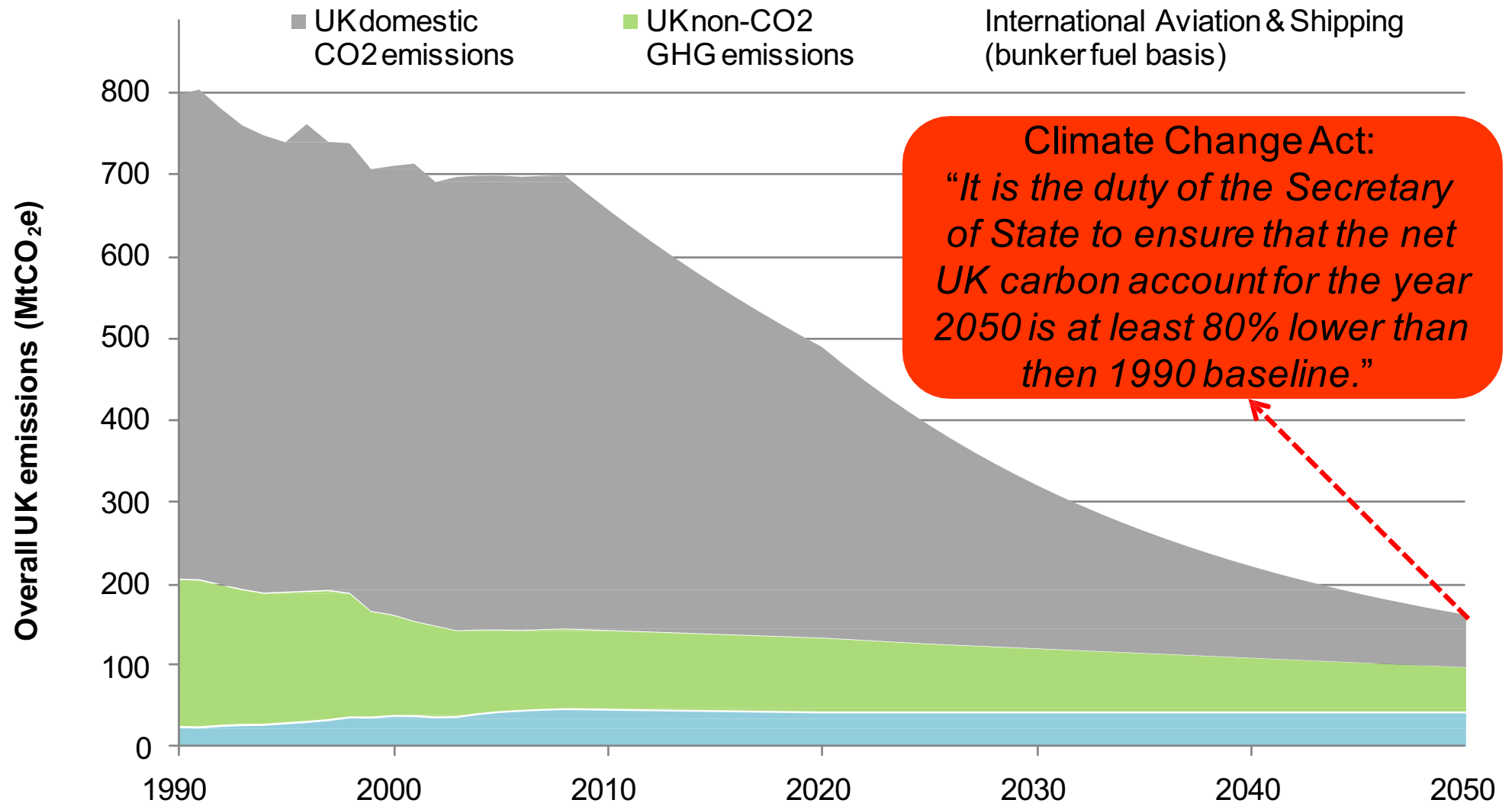


Calysta FeedKind Protein is Proven Sustainable Alternative to Conventional Fish Feeds

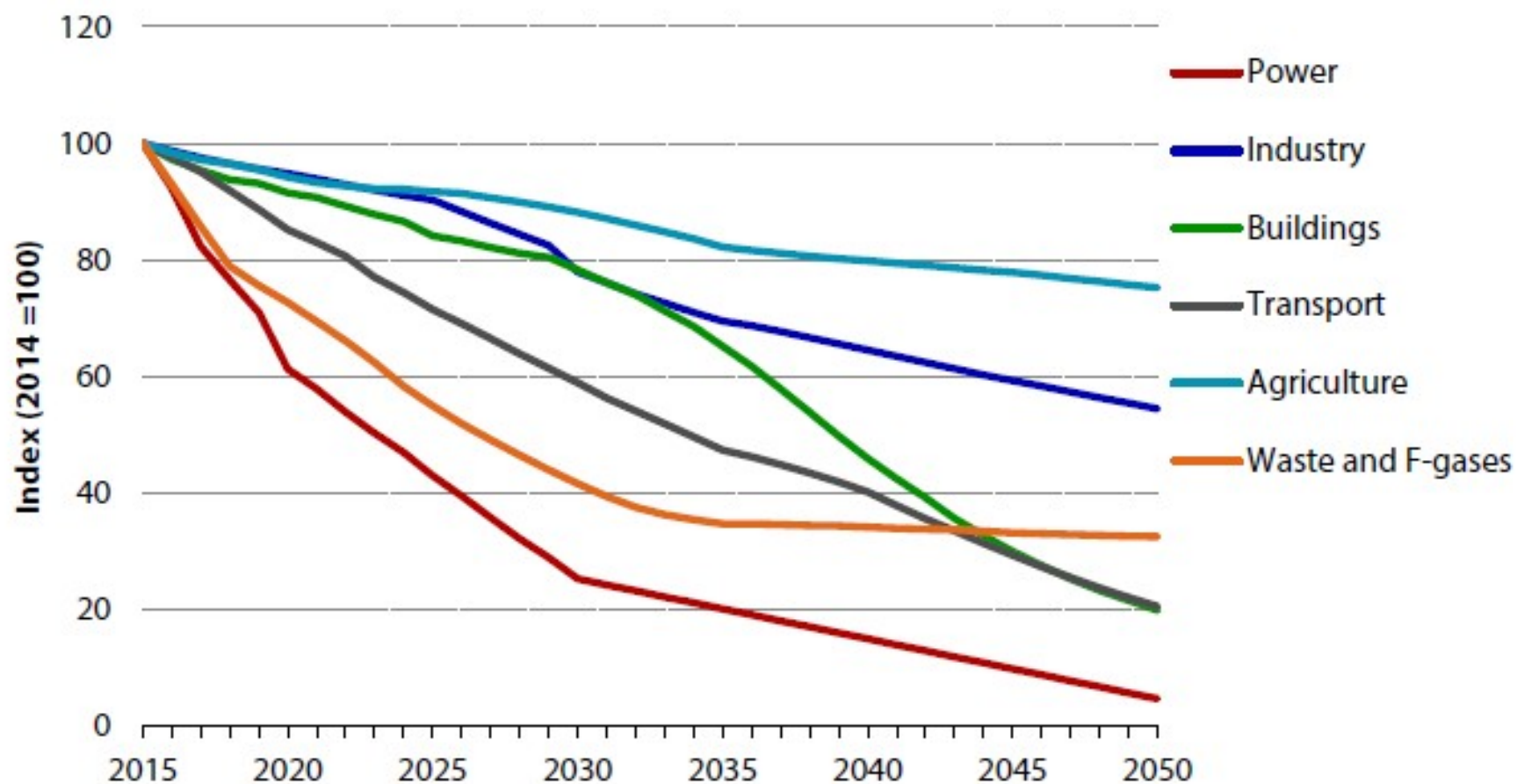
15 April 2016

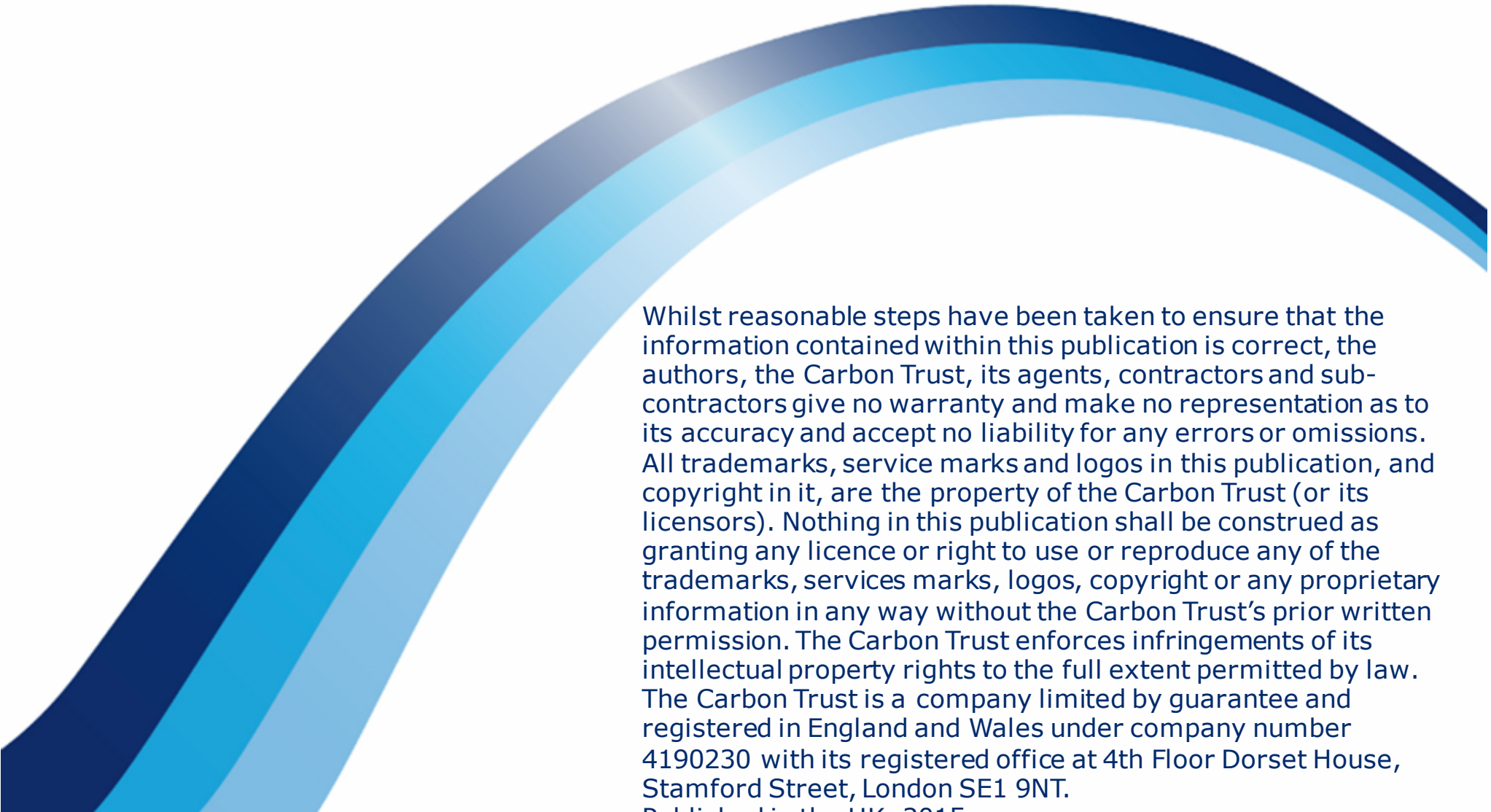
US - Leading sustainability advisor The Carbon Trust has assessed Calysta's FeedKind™ protein against a number of key sustainability metrics, finding that it nearly eliminates the need for two increasingly scarce resources - water and agricultural land - for production of fish feed for the aquaculture industry.

The 80% target is likely to require ~ 90% decrease in domestic energy CO₂ emissions, as challenges elsewhere even greater.



The relatively “smooth” aggregate progress masks different rates of progress in different sectors...





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Stream 2

Laying down pension fund ESG Red Lines: The Association of Member Nominated Trustees outlines what their fund managers' basic approach to corporate sustainability issues should be

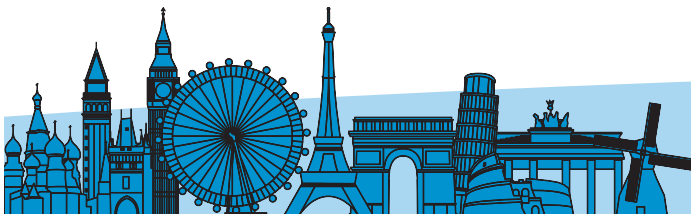
11:50 – 12:30

Ray Shepherd, *Member Nominated Trustee*, **The Institute of Cancer Research**

Peter Sparkes, AMNT/Trustee, **Thomas Cook DC**

Janice Turner, *Co Chair*, **AMNT**

Moderator: Neil Davies, *Associate*, **Investment Consulting Barnett Waddingham**



Networking Lunch

12:30 -13:30

