

Corporate Financial Drivers and Implications

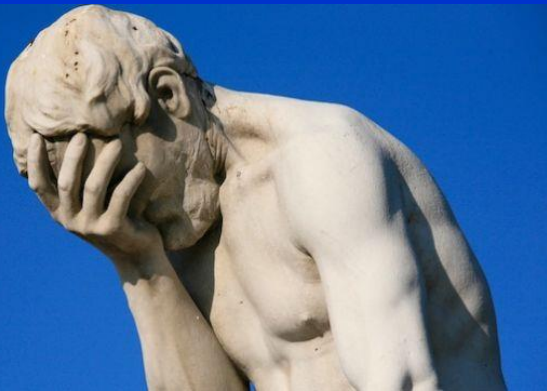
The background of the slide features a close-up, slightly blurred image of an abacus. The abacus has dark, spherical beads on light-colored wooden rods. A large, dark blue arrow with a white outline points from the left towards the right, partially overlapping the abacus and the text below.

Beyond Compliance

Heidi King
GE Capital

Comments are my own.

Mistakes are mine.



Key points



- Compliance is not enough
- Increasing pressure from
 - Investors
 - Regulators
 - Lenders and lessors
 - and others
- Diverse parties want transparency on a mix of issues
- Expectation are not clear

Corporate Sustainability

Corporate Responsibility

Environmental Social and Governance
(ESG)

Sustainability

What do they mean, exactly?

ROBECOSAM

We are Sustainability Investing



Methodology ▾

Solut

ia ▾

EIRIS

Empowering Responsible Investment



SUSTAINALYTICS

CSRHUB®

Sustainability management tools

Sustainability Services > Methodology > Measuring Intangibles

Measuring Intangibles

A structured approach with a focus on financial materiality

RobecoSAM pursues a **truly integrated approach to analyzing sustainability**




Sustainability at GE

Sustainability means aligning our business strategy to meet societal needs, while minimizing environmental impact and advancing social development.

[Learn More →](#)



At GE, we solve problems for customers and find solutions that make things better for society, the environment and the economy.

sustainability.com/how-ge-works/sustainability-at-ge/



Building Things That Matter

\$17B

Spent on Ecomagination R&D between 2005 and 2015

[Performance Data →](#)

Rough definitions

- **Environmental** How does a company perform as a steward of the natural environment?
- **Social** How does a company manage relationships with its employees, suppliers, customers and the communities where it operates?
- **Governance** How does the company's leadership operate, including executive pay, audits and internal controls, and shareholder rights?
- **Sustainability** How does the company meeting the needs of the present without compromising the future?

Investors :
rational
or idealistic?

Investor focus on environmental and social risks

- Sustainability:
 - Direct environmental and social risk
 - Legislation and regulation
 - Legal and reputational risk
- Socially Responsible Investors
 - Diverse but very specific interests
- Governance
 - How do you manage these issues?

Multiple .orgs emerging to advocate sustainability investing

UKSIF

UKSIF
UK Sustainable Investment
and Finance Association

UK Sustainable Investment &
Finance Association.

MORE

Eurosif

Eurosif

The European Sustainable
Investment Forum.

MORE

RIA Canada

RIA
Responsible Investment Association

Responsible Investment
Association Canada.

MORE

VBDO

VBDO

Dutch Association of Investors
for Sustainable Development.

MORE

GLOBAL SUSTAINABLE INVESTMENT ALLIANCE  **GSIA**

Sustainability-oriented investments quickly growing in popularity with assets worth *trillions* of dollars



Exchanges at Goldman Sachs

THE NEW BOTTOM LINE: ESG INVESTING

Hugh Lawson, Global Head, ESG and Impact Investing
Goldman Sachs Asset Management

Jake Siewert, Global Head, Corporate Communications

Institute for Sustainable Investing

“For us at Morgan Stanley, it is abundantly clear that the solutions to global challenges can only achieve the required scale if they can attract a critical mass of private capital. To this end, we’ve established the Morgan Stanley Institute for Sustainable Investing to lead work

with our clients, and with academic institutions to help mobilize capital to enterprises, via global markets and the investors who drive them.”

James P. Gorman, Chairman and CEO, Morgan Stanley

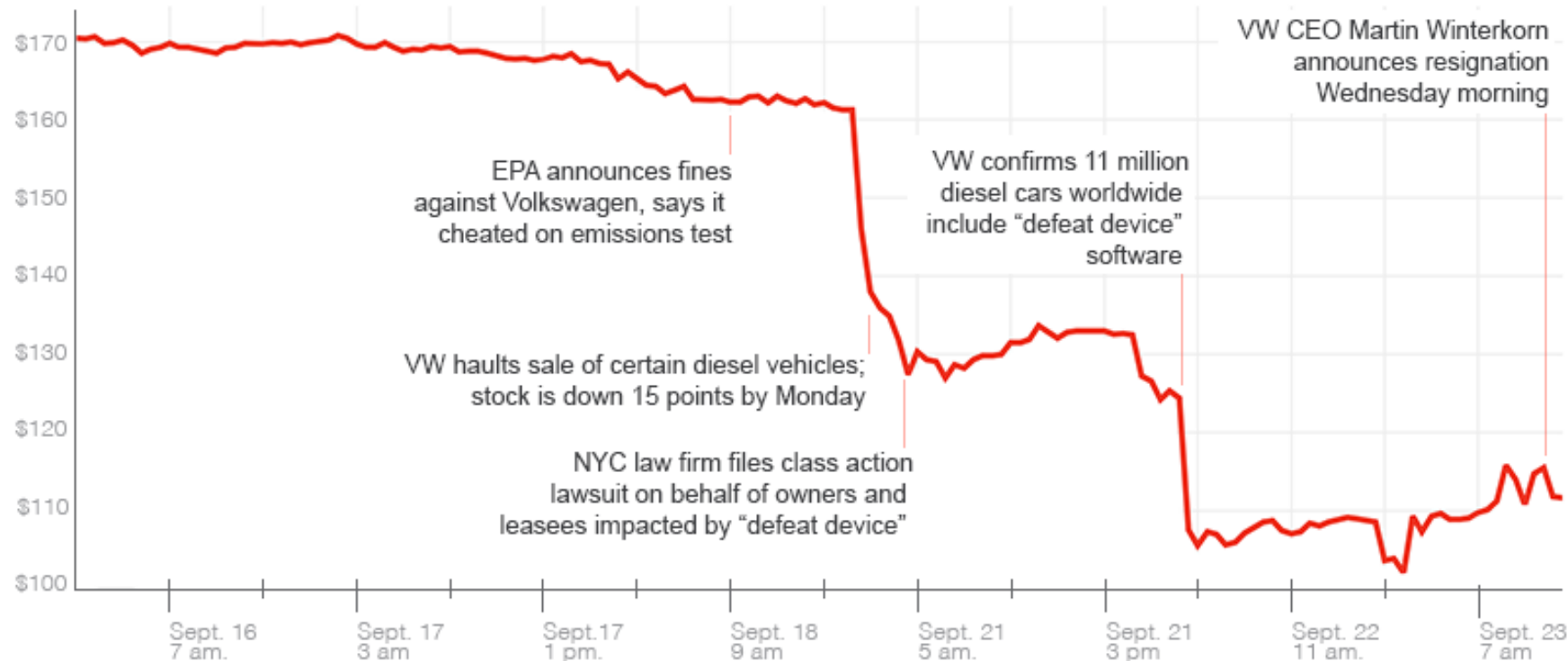
Morgan Stanley

Ticker	Mutual Fund	Fund Type	Inception Month	(US\$ millions)	YTD %	Avg %	Avg %	Avg %	Avg %	Rtn %	Fee %	Ratio %	Std Dev	Benchmark Used
CSIEX	Calvert Equity Portfolio A	Equity Large Cap	8/1987	\$2233.32M	3.37	8.57	10.11	13.76	7.35	3.68	0.61	1.12	11.48	S&P 500 Composite Total Return
CSECX	Calvert Equity Portfolio C	Equity Large Cap	3/1994	\$2233.32M	2.78	7.73	9.29	12.92	6.55	2.91	0.61	1.86	11.46	S&P 500 Composite Total Return
CEYIX	Calvert E										0.61	0.63	11.49	S&P 500 Composite Total Return
CIEYX	Calvert E										0.61	0.82	11.48	S&P 500 Composite Total Return
CGAEX	Calvert G Fund A										0.95	1.85	17.32	Ardour Gbl Alternative Energy
CGACX	Calvert G Fund C										0.95	2.85	17.36	Ardour Gbl Alternative Energy
CAEIX	Calvert Global Energy Solutions Fund I	Int'l Global	5/2007	\$95.24M	-2.91	8.76	-3.06	3.68	--	-2.71	0.95	1.4	17.26	Ardour Gbl Alternative Energy
CGAYX														Alternative
CFWAX														Global
CFWCX	Calvert Global Water Fund C	Int'l Global	9/2008	\$439.59M	15.12	18.28	1.47	10.02	--	-13.33	0.9	2.33	15.47	S-network Global Water TR USD
CFWIX	Calvert Global Water Fund I	Int'l Global	1/2014	\$439.59M	16.12	19.68	--	--	--	-12.3	0.9	1.29	15.5	S-Network Global Water TR USD
CFWYX	Calvert Global Water Fund Y	Int'l Global	9/2008	\$439.59M	15.97	19.51	2.53	11.26	--	-12.46	0.9	1.49	15.46	S-Network Global Water TR USD
CGAFX	Calvert Green Bond Fund A	Bond (Fixed Inc)	10/2013	\$69.78M	5.88	5.2	--	--	--	-0.26	0.3	0.88	2.02	Barclays Capital US Aggregate Bond



The Forum for Sustainable and Responsible Investment now tracks 208 funds

Investors' reaction to Volkswagen emissions saga



Source: Bloomberg

Stacy Jones, Fortune



Source: Bloomberg.com "Volkswagen Stock Chart Is Looking Like BP's After Oil Spill" Oct 7, 2015

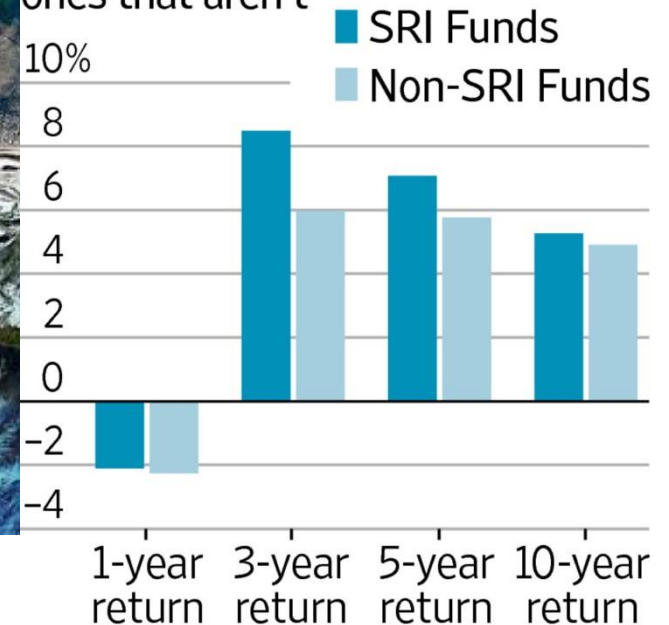
'Sustainable Investing' Goes Mainstream

Do-good investing took a step forward in 2015, with Wall Street ramping up interest



Competitive Returns

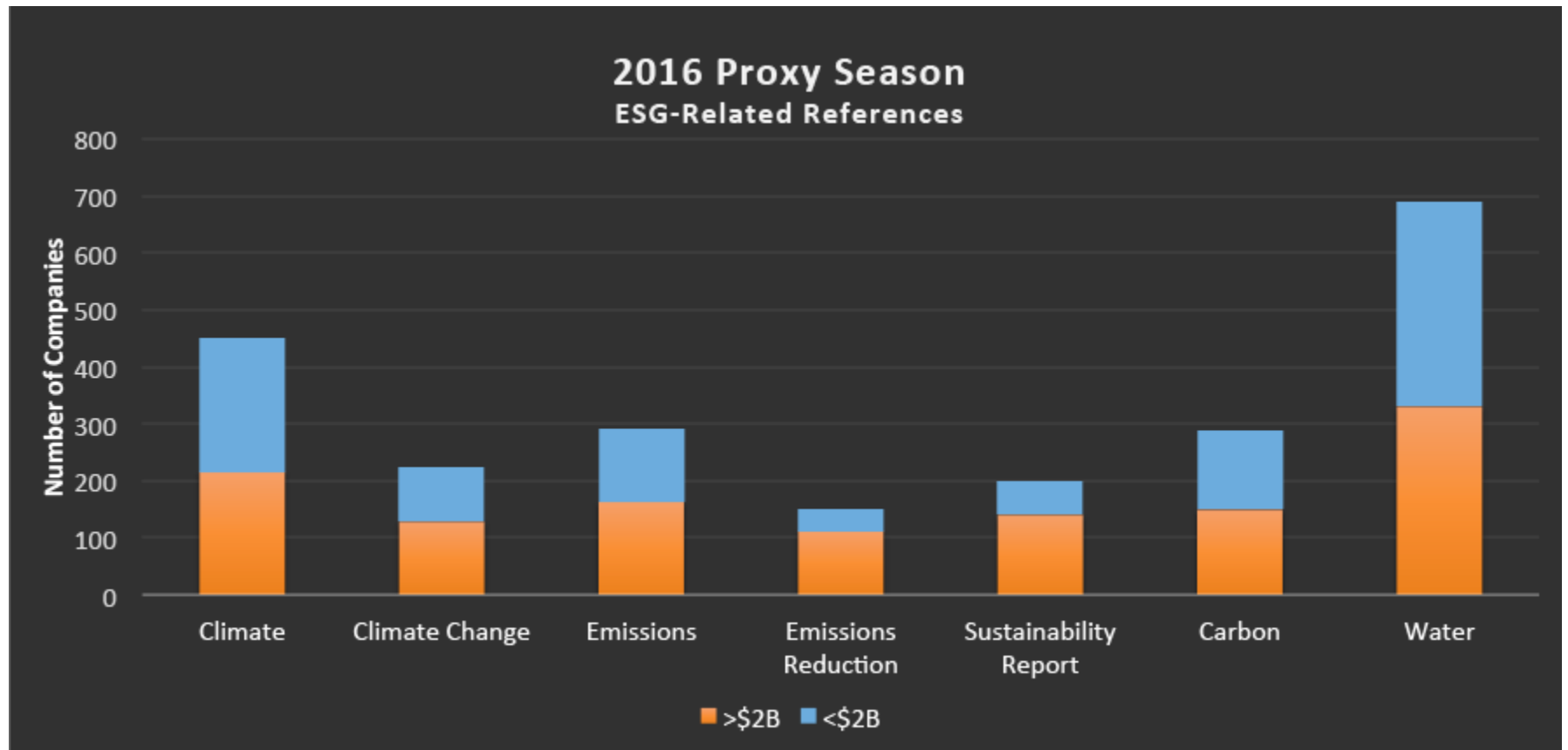
Performance of 'sustainable' (or SRI) mutual funds versus ones that aren't



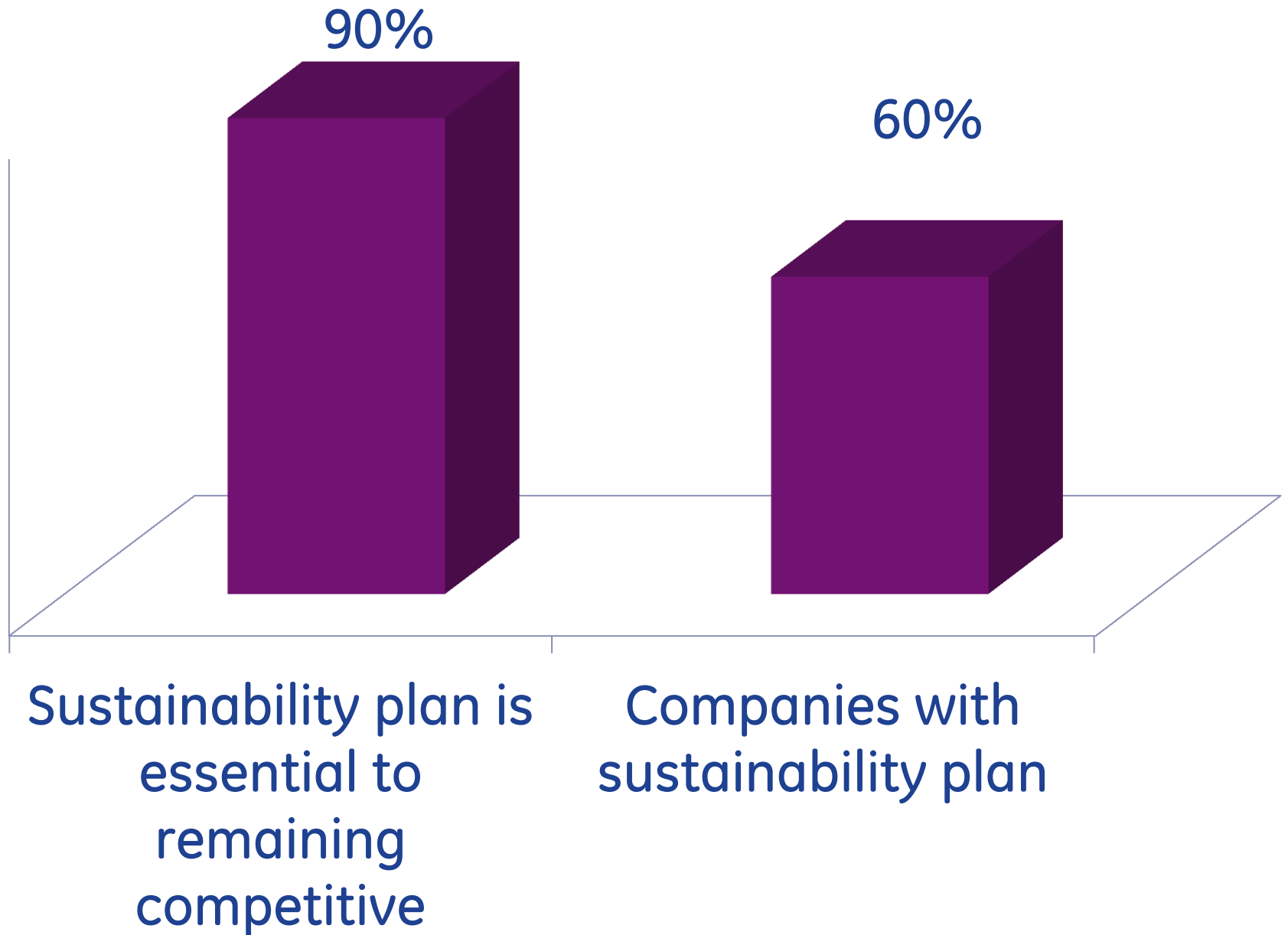
Source: © 2015 Morningstar, Inc.

THE WALL STREET JOURNAL.

Environmental and sustainable governance in 40 percent of 2016 shareholder resolutions



Source: Sustainable Investing Institute and Alpha-sense.com



Source: "Investing for a Sustainable Future"
by MIT Sloan Management and The Boston Consulting Group, May 2016

Sustainability Accounting Standards Board



- SASB is reviewing provisional standards in 2016
- Stakeholder consultation
- Investor Advisory Group

“...it stands to reason that small- and mid-cap companies may see increased investor pressure in these areas.”

– Deloitte 2016 proxy season debrief

Regulators :

Trying to address the
information gap

Brief history of US Sustainability Disclosure:

Mid 1970s: SEC adopts the framework for reporting of Corporate Sustainability

- Requires that business description includes material effects of environmental protection laws

2010: SEC adds a forward-looking Management Discussion and Analysis, and also a Risk Factors discussion

2010: SEC interpretive release seeks discussion of Climate Change legislation and regulation, business and market impacts, and physical impacts.

2010: Dodd-Frank Act seeks disclosure of conflict minerals, resource extraction payments, mine safety, and CEO/median employee pay-ratios.



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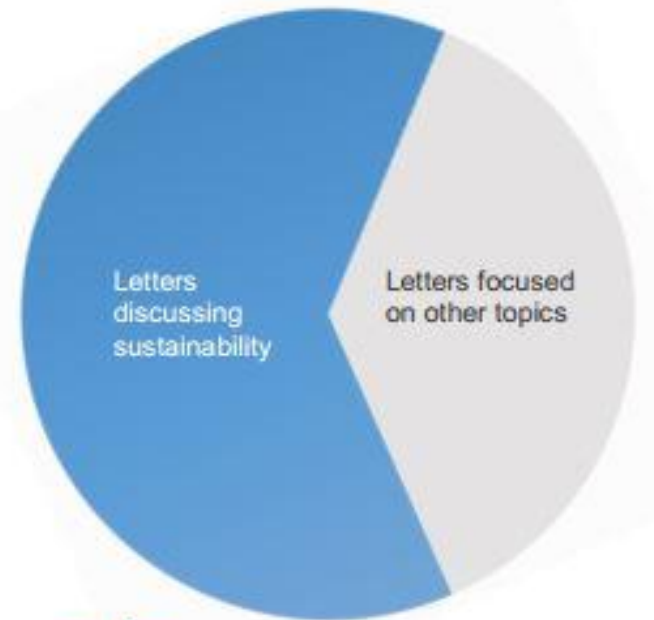
Press Release

SEC Seeks Public Comment on Disclosure Requirements Relating to Management, Security Holders and Corporate Governance Matters

FOR IMMEDIATE RELEASE
2016-169

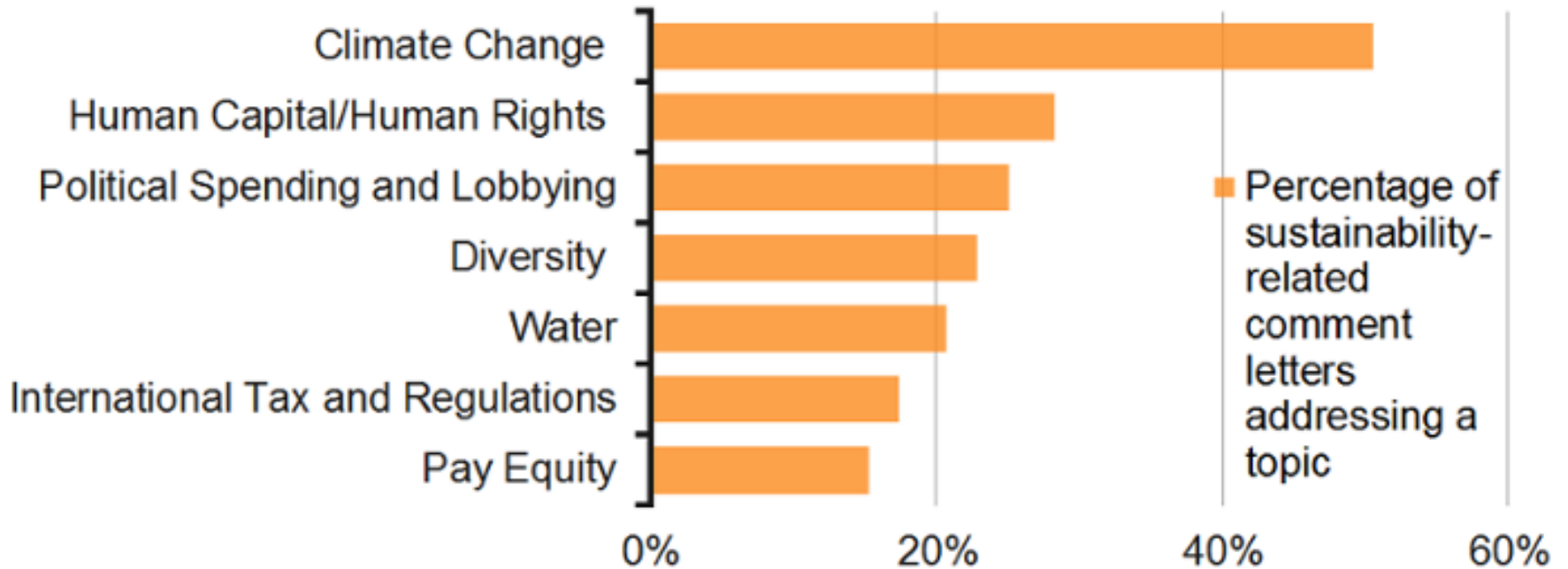
Washington D.C., Aug. 25, 2016 — The Securities and Exchange Commission today announced that it is seeking public comment on disclosure requirements in Subpart 400 of Regulation S-K, including those relating to management, certain security holders, and corporate governance matters.

Sustainability discussed in most comments 80% supporting more disclosure



...2/3 of non-form comment letters discuss sustainability disclosures

Securities and Exchange Commission Disclosure Effectiveness Initiative



Source: SASB, SEC Comment Letters

BloombergBriefs.com

Voluntary principles supported by the United Nations: Principles for Responsible Investment

... encourage companies to embed in their strategies and operations a set of universal principles in the areas of human rights, labor standards, the environment and anti-corruption.

Making Global Goals Local Business

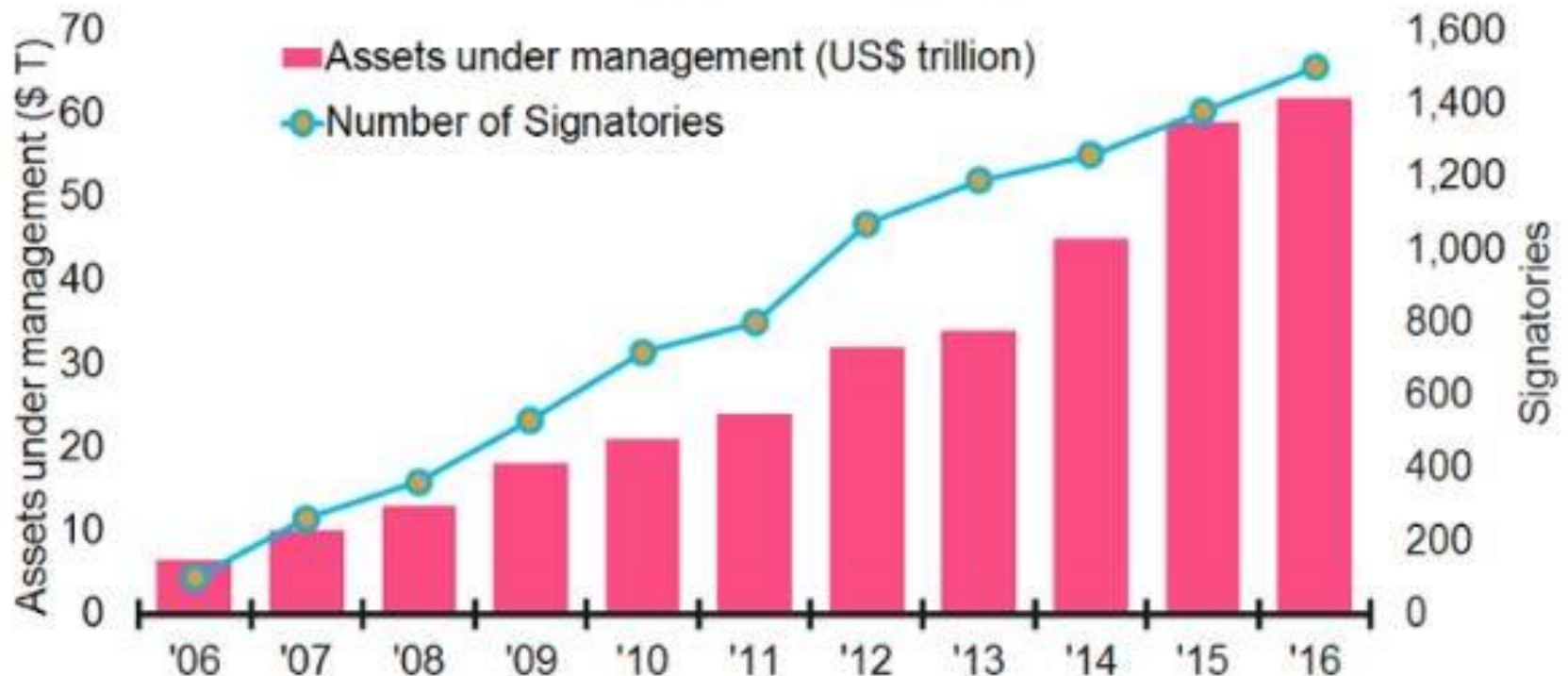
The UN Global Compact's multi-year strategy to drive business awareness and action in support of achieving the SDGs by 2030

The Sustainable Development Goals provide a powerful aspiration for improving our world – laying out where we collectively need to go and how to get there.



UN-supported Principles of Responsible Investment Disclosure Effectiveness Initiative

Responsible Investors Keep Signing Up



Source: PRI (Data by end of April in each year)

BloombergBriefs.com

Signatories with the UN-supported Principles of Responsible Investment agree to support certain guidelines for incorporating environmental, social and governance factors into their investment holdings.



Global Reporting Initiative

GRI STANDARDS

Download the GRI Sustainability Reporting Standards here



REPORT SERVICES

All the guidance, support and resources you need to start reporting



GRI GOLD COMMUNITY

Join us! Shape the future of sustainability and reporting



NEWS

Keep up-to-date with the latest GRI and sustainability news



GLOBAL STRATEGIC ALLIANCES



“As ESG initiatives have proliferated, allegations of materially false and misleading ESG statements have begun to emerge in consumer and investor litigation. This litigation underscores the need for companies to establish and carry out comprehensive, companywide measures to ensure the accuracy and consistency of its ESG statements, and to proactively address any potential liability or litigation risks..”

— Sara K. Orr and Bart J. Kempf, Latham & Watkins LLP “

Lenders

also consider issues
“beyond compliance”



Lenders frequently assess current and future environmental and social issues

- Could the issues hurt the credit quality?
- Could asset value be diminished?
- Potential direct liability to the financial company?
- Will the investment harm the financial company's reputation?

ESG standards are adopted throughout the financial sector



About Wells Fargo > Corporate Social Responsibility > Environmen

Environmental Sustainability

Lenders are keenly aware of the impact of public objections, NGOs complaints, challenges to permits

Los Angeles Times

Regulators detail Exide battery plant closure after decades of pollution



ACTION ▾ ABOUT JO

We Just Shut Down an LNG Facility

By Anthony Rogers-Wright

#PortAmbrose, All Our Energy, Exxon, Fracking, Governor Cuomo, Keystone XL, LNG, port ambrose, Sane Energy Project

Comments Off

409

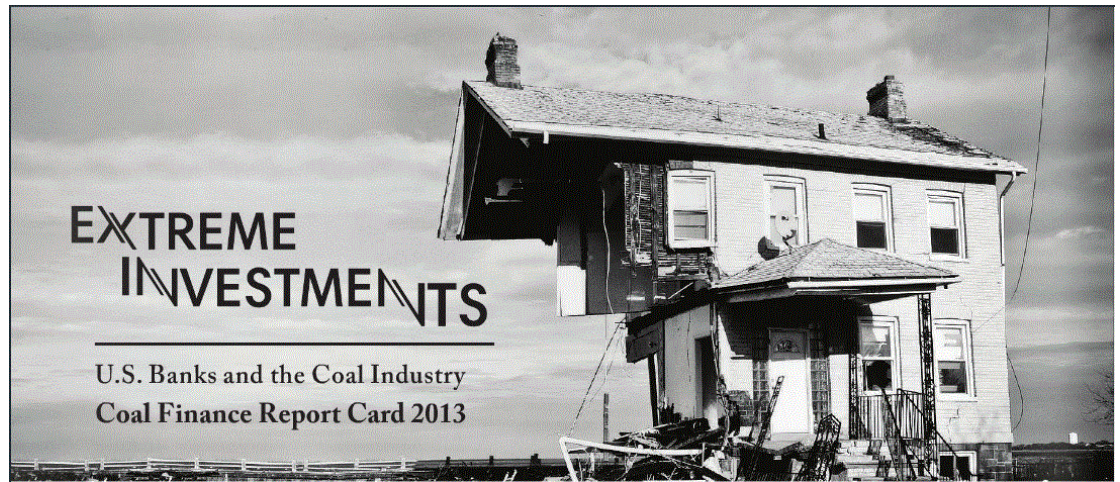
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BREAKING: This afternoon New York Governor Andrew Cuomo announced that he is rejecting the application by Liberty Natural Gas, LLC to construct the Port Ambrose Liquefied Natural Gas (LNG) facility off the coasts of Long Island and Far Rockaway, New York. The veto of the application is a major victory for environmental activists who have been fighting this dangerous project for years. Groups including Environmental Action, Sane Energy Project, Catskill Mountainkeeper and Food and Water Watch hailed the announcement as a major victory and a direct blow to the fracking industry.

Reputational Risk



- Non-governmental organizations increasingly pressure lenders
 - Rainforest Action Network
 - China's GreenWatch
 - BankTrack.org
 - Sierra Club

**“Lending Sustainably Will Help Future-Proof
Businesses - And Make Banks Stronger, Too”**

-- Mike Scott, Forbes Contributor

Implications

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Compliance is no longer enough.

External stakeholders have increased expectations that companies will be transparent about their environmental social governance and sustainability story... and punish those that don't do it well.

In the absence of clear guidance, proactive is better than reactive.

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In the absence of clear guidance, proactive is better than reactive.

You've got to tell your story.



imagination at work