Summary Report of the Private Event

Corporate Responsibility:
Creating Value Added for Investors, Investees and Society

Thursday, 24 January 2013
Davos / Switzerland

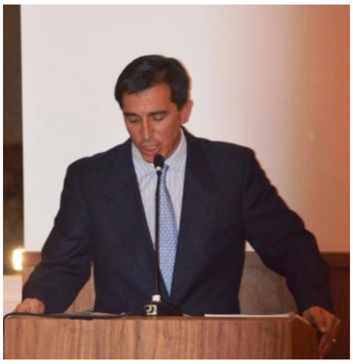
Co-hosted and supported by:

Background

Since 2008 Fondation Guilé hosts private events at the World Economic Forum Annual Meeting in Davos. These dialogues aim at discussing ways to further strengthen the United Nations Global Compact and to ensure the initiative's continued relevance as the leading corporate citizenship movement.

At this 6th private event, organized together with de Pury Pictet Turretini, Nestlé and Siemens, the theme of "Corporate Responsibility: Creating Value Added for Investors, Investees and Society" was discussed with investors, company representatives and other interested stakeholders.

Guilé Engagement Funds – Philosophy and Operation



Régis Burrus, Chairman of Fondation Guilé, opened the dinner event by giving a very brief introduction to the foundation. He followed this by mentioning a few results derived from the IFOP (French Institute of Public Opinion) regarding capitalism and the importance of "*companies acting responsibly not only to shareholders but also to the society and to communicate transparently the commitments taken by them*", before handing the stage over to Melchoir de Muralt, Partner of de Pury Pictet Turretini and Board Member of Fondation Guilé. Mr de Muralt's main topic of discussion was how to appreciate shared value from an investor's perspective, following his overview of de Pury Pictet Turretini and of the Guilé Engagement Fund. Whilst referring to the latter, Mr de Muralt states that:

> "… *the concept of the fund is that we want to invest in good companies, with long term sustainable strategies, good valuation, but we would like as well to really be a responsible shareholder, voting our shares and engaging in the constructive dialogue, years after years, alongside the 10 principles of UN Global Compact.*"

> *"The [Guilé European Engagement] fund did outperform its benchmark by more than 10%, by more than 2% per year, proving that by selecting good companies that are strongly engaged with UNGC, we can really deliver performance."*

He goes on to explain how he thinks that this fund is an interesting prototype of what could become the long term relationship between investors and companies, before letting Thomas Streiff (Head of the Guilé Engagement Team) give a brief overview of the methodology used. Mr Streiff summarizes the approach by stating that they assess "*the companies with regards to how comprehensively they report about their sustainability and in particular the implementation of the UNGC principles*", clarifying that they "*only analyze the information that the companies actively communicates or releases, we are not looking at the performance, we only want to see how they communicate the integration*". Following this brief overview, Mr Streiff comments on the more technical side of the process, by briefly explaining the spider graph incorporating all 10 principles that is utilized and how the results are set against benchmarks, enabling the portfolio companies to evaluate and perceive their results in a more comprehensive and objective manner. Lastly, he states that the number of companies who have called and asked for an evaluation of the information that they have released has significantly increased in the last few years.

With this, Mr de Muralt concludes by highlighting the need of defining clear industry specific KPIs on ESG, and challenged the companies present about their own pension fund, bringing into question whether their investment process was aligned with their own sustainability strategy. He also brought into question whether they vote their shares, give specific instruction to their portfolio managers on sustainability issues or engage with other portfolio companies.

Business Case for Corporate Responsibility – Companies' View

Mrs Wan Ling Martello, CFO of Nestlé, gave a brief speech regarding Nestlé's CR implementation and the underlying rationales and expected benefits. She claims that the mission of Nestlé is above all

> "… *relentlessly focused on creating shareholder value for our investors but to do that we also understand that we need to create value for society at large because to ensure long-term sustainability and success as a company we need to do what's right for society as a whole.*"

Mrs Martello shifts the discussion towards the three areas in which Nestlé focuses on when it comes to creating shared value. These three being nutrition, water and rural development, which were determined by analyzing their value chain and realizing that they were the areas of greatest potential for shared value creation.

> *"We believe that for long-term business success you need to have sustainable societies or communities in which to operate… we call this creating shared value."*

> "*In the last few years we have seen an increased number of investors who have incorporated ESG in their investment decisions, and why is this… because in the long run… for companies to have enduring prosperity very much depends heavily on the careful management of natural resources, to have social cohesion, very high standards of governance*."

Mrs Martello concludes by claiming that Nestlé's ambition "*is to produce tasty food and beverages that also have the best ESG impact.*"

Mr Schneider, the moderator of the event, welcomes Mrs Barbara Kux, Member of the Board of Siemens, who discusses the same topic from Siemens' perspective. She addresses four key messages stating:

> "*Firstly, we are living in times of large crises in all areas: politics, economics, and natural catastrophes but also and most importantly in sustainability. These crises are large due to their complexity, the accelerated speed of IT and their global scope. The largest one is clearly the crisis of sustainability.*"

She claims that such a crisis consists of two elements. The first element is the fact that these major challenges and crises are only met with temporary or quick fixes, not with sustainable solutions. The second element highlights our usage of natural resources, which has amounted to unprecedented levels.

> *"On August 22, 2012, we exceeded the planet's ability to regenerate its natural resources and absorb the waste."*

> "*Secondly, we also live in times of unprecedented opportunities. They are great, they are there and it is up to us to exploit them.*"

> "*Thirdly, corporate responsibility and sustainability can become core of a company's business model.*"

Mrs Kux illustrates how this can be realized by using Siemens as an example, claiming that since 2008, sustainability has become a substantial business opportunity, one that the company values highly. The starting point has been when founder Werner von Siemens said: "*I won't sell the future for short-term profit".* Siemens has clear sustainability targets ("*What gets measured gets done*"), a clear sustainability structure (including a Sustainability Board, a Sustainability Office, a Sustainability Regional Network, and a Sustainability Advisory Board) and a program with the following three pillars: "Business Opportunities", "Walk the Talk" and "Stakeholder Engagement".

> "*Fourthly, corporate responsibility and sustainability pay. Concrete results have to be achieved and can be achieved.*"

Again, using Siemens to illustrate the last point, Mrs Kux discusses the increase of environmental portfolio revenue from 2008-2012, as well as highlighting the fact that Siemens customers have reduced their CO_2 emissions by 332 Million tons in 2012. She follows by offering a vast array of positive, successful and encouraging examples to the audience. She also refers to a recent study of Deutsche Bank that showed that sustainable companies have lower cost of capital as the market recognizes that they are lower risk and rewards them accordingly. The conclusion of the study is that "*analysis should be built into the investment processes of every serious investor and into the corporate strategy of every company that cares about shareholder value*".

Finally, Mrs Kux concludes by saying that in such a rather grey world we need to focus our attention on the optimistic times ahead, specifically on the opportunities that companies like Siemens can exploit. She believes that if all Global Fortune 500 companies followed their same green path, the world would be greener and more sustainable. She encourages everyone to keep up their enthusiasm and to take such positive messages back to their respective companies and teams, and then quotes Ralph Waldo Emerson, by saying "*nothing great was ever achieved without enthusiasm*".

Business Case for Corporate Responsibility – the Multi-stakeholder View

James Gifford, Executive Director of UN PRI, begins his statement by claiming that ten years ago the literature on socially responsible investment was equivocal and it was this United Nations' backed initiative which coined the term ESG, combining the letters for pragmatic reasons as "*the governance crowd had a head start on the E and S crowd so we thought if we put it all together… we will actually leverage the momentum of the corporate governance crowd, bring in the E and S and go along as a happy family*". He claims that the people from corporate governance were outraged as they believed E and S issues to be completely irrelevant, and only the issues they spoke of were material. However, affirming that "*what we've shown over the last few years is clear evidence that ESG issues have been and are material, the only question is are you a smart enough firm manager to known which ones will be material and to be able to develop a strategy based on that.*"

> *"The question isn't whether these issues are material or not, or whether they allow you to outperform. The question is which issues in which sectors in which parts of the cycle and in which times will be material."*

Mr Gifford identifies some of the research that he believes to be the most significant, clearly stating that all the studies found that ESG issues are very much material, but that each person present needs to try and see how they might be material for their own company's portfolio. He goes on to quote from a study that found that

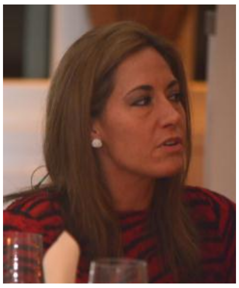
> "*high sustainability companies significantly outperform their counterparts over the long term… companies with high ESG scores are found to have less company specific risk and organizations with better ESG ratings are found to have lower cost of debt and higher credit ratings.*"

He quotes Elroy Dimson's recent research who found that "*shareholder engagement on ESG issues can lead to clear outperformance, recorded at 4%*[1]". Nevertheless, Mr Gifford makes it clear that "*successful ESG strategies require significant human expertise. You can't just dabble in ESG and in shareholder engagement and expect to outperform*", thus stressing the fact that companies need to hire professionals and get serious about it in order to be able to build that expertise.

Mr Schneider then asks him what would be the biggest opportunity or the biggest challenge in mainstreaming of corporate responsibility to which he answers that the

[1] Elroy Dimson, Oguzhan Karakas, and Xi Li, 2012. Active Ownership

biggest opportunity "*is in fixed income and the biggest challenges are systemic issues*". He believes that investor's voices should be heard more within the UN and in governmental circles, and so encourages them to send positive messages for long term policy makers.



Following him, Mrs Ann Haugh, Chief-of-Staff Zurich Insurance Group, goes on to focus on how performance on corporate social responsibility can facilitate or hinder a company's life. Identifying their core values as teamwork, integrity, excellence, customer centricity and sustainable value creation, Mrs Haugh explains how they developed a Zurich commitment that is an expression of their values and the way in which they live up to those values every day to the key stakeholders: the customers, employees, shareholders and communities in which they live and operate.

> "*We exist for a reason. We have a competency that is quite technical, one in which we have a tremendous amount of knowledge around risk factors… However, it is not enough to share that knowledge with our customers so we started sharing it with the communities in which we operate and have tried to make a sustainable difference for the future for the world in which we live.*"

> "*We are fortunate to have our Zurich foundation in which we have financial investment, but it's more than that, it's a platform by which we can support many of our emerging countries and the areas in which we are less developed relative to community programs and resilient efforts to allow our employees to find opportunities to share and leverage their skills so that they have the opportunity to give back.*"

When asked the same question as Mr Gifford, Mrs Haugh answers that "*the opportunity is to be able to provide this type of activity and support communities that are less fortunate especially in times of tragedy where we have the skills and the capabilities but perhaps not in those areas. So for me the challenge is being able to be there when we are needed and to move as quickly as we can.*"

Taking the stage next was Mr Nandu Nandkishore, EVP for Asia, Oceania, ME and Africa of Nestlé. He claims that companies are only around for the same amount of time as Nestlé, 150 years to be precise, "*if people trust you and feel a sense of engagement with your brand*". The trust and engagement that Nestlé built over the 150 years has been built on a few foundations, most notably "*compliance with the corporate business principles, which in our case are modeled on the UNGC*". Alongside compliance, the company also needs to be sustainable in what it does, environmentally and socially, and on top of this comes the concept of sustainably creating shared value.

He goes on to recall three very moving stories of how Nestlé was able to integrate itself into impoverished countries with regards to nutrition, water and rural development, and how it managed to produce profits for their shareholders and at the same time, for the community in which they were operating. With its commitment to rural development and the extensive engagement with farmers, Nestlé managed to build a close relationship to those communities, so close that in one instance he recalled that in Indonesia the company farmers risked their lives to protect the factory by those rioting at the time.

> *"The only way to sustainably create shared value over the long term for your shareholders is if you at the same time create value for the society in which you operate."*

The last speaker prior to the moderated discussion was Mrs Kux who briefly commented on the fact that from the speeches it was increasingly evident that companies were really starting to embrace corporate responsibility, embracing it as part of the mainstream business rather than a side venture. With regards to the question Mr Schneider also posed the other participants, Mrs Kux replies that

> "*two next steps that should be taken, or opportunities to be seized, are reporting, though not just financial reporting as financial data is history, whereas sustainability data is the future… and the second is the investment community, the drive by the investors.*"

A comment to which Mr Nandkishore responds by stating that Nestlé did exactly that, by making their financial and sustainable KPIs of equal importance.

Moderated discussion among participants

Following the aforementioned inputs, a moderated discussion among the participants ensued, beginning with a question posed by Mr Schneider: How do you see the business case for corporate responsibility and how do you build the opportunities to actually exploit that? This was answered by Mrs Pasha Bakhitar, managing partner at Willow Impact Investors, who states that what their company does is invest in small businesses during the early phases and try to "*inverse the formula by instilling in these young businesses the ESG and CSR type criteria*". As they invest in many emerging markets, specifically in east Africa, in which people have no consideration for such discussions or issues, their "*objective is to create an ecosystem of young businesses who already integrate these metrics from the start.*"

Mr Schneider then asked whether Mr Georg Kell, Executive Director of the UNGC, could enlighten the participants on where UNGC envisions to go, who started off by explaining that according to him, corporate sustainability is still a minority. Despite being a global movement that is not spreading far and deep into the emerging world, Mr Kell is still concerned at the fact that it remains, for the time being, a minority movement and has not yet reached its tipping point, with still a long way to go. Therefore, he argues that priority number one should be to get people to follow the movement and ensure to lead it well. Secondly, he claims that the shared value concept was immensely beneficial as "*it opened up the new perspective of share investment, so that value creation can be done by more than one company*", a concept that had been wrongly politicized in the US.

Subsequently, Mr de Muralt addresses the room and claims that "*we are among the few investors who are reading your sustainability reports from page 1 to page 253, and I would like to have you answer for whom you publish those reports: for the communities, for customers, for employees? So as investors, we would appreciate more comprehensive reporting that would help us value your shared value*". Following up on this, Mr Nandkishore states that

> "…*the ultimate objective of everything we do is to build trust… Today more and more consumers want to know the brand behind the company from which they buy, so we tell them stories on packaging, advertising, our websites and reports… Reports that we also share with governments, opinion leaders and stakeholders so it also affects the regulatory climate towards Nestlé and helps create the overall value perception.*"

"Nobody will get motivated by the idea of maximizing shareholder value… If you want to run a business like a shark the only people you will attract are sharks… Look at what happened to the investment banks that did exactly that."

One of the closing comments was made by Mr Paul Collier, Professor at the University of Oxford, who claims that it was "*obvious that a company is defined by the people it recruits*", going on to explain that while it is true that people get attracted to good company, they inevitable then grow with the company, and that is what Mr Collier believes corporate responsibility has done: it has allowed people to be proud of their teams and their companies, giving them the feeling that they are accomplishing something greater and beyond their own company

To close the discussion, Ernst Brugger, (Member of the Executive Committee of Fondation Guilé), gave a brief summary by highlighting four key points that were raised; first, trust is fundamental and is in itself a very powerful economic value; second, there should be the integration of sustainability principles; third, there should be the integration of ESG; and lastly, there is a positive correlation between sustainability and investment performance. Finally, he claimed that while "*there is morality in it and there is ethics in it, those are not the main ingredients of corporate responsibility. The main ingredient is making lasting sustainable business.*"

Annex I: Agenda of Private Event 2013

Corporate Responsibility:
Creating Value Added for Investors, Investees and Society

Thursday, 24 January 2013, 19.30 – 22.00
Waldhotel Davos / Davos Platz, Switzerland

19.00	**Arrival of participants, cocktails**
19.30	**Welcome Address** – Régis Burrus, Chairman, Fondation Guilé
19.35	**Guilé Engagement Funds – Philosophy and Operation** – Melchior de Muralt, Partner, de Pury Pictet Turrettini and Board Member, Fondation Guilé
19.45	**First Course**
20.00	**Business Case for Corporate Responsibility – Companies' View** 2 short inputs of max. 10 minutes each explaining the key elements of company's CR implementation and underlying rationales/expected benefits – Ms. Wan Ling Martello, CFO, Nestlé – Ms. Barbara Kux, Member of the Managing Board, Siemens
20.20	**Second Course**
20.45	**Business Case for Corporate Responsibility – the Multi-stakeholder View** Panel discussion with – James Gifford, Executive Director, UN PRI (confirmed) – Ms Ann Haugh Group, Chief-of-Staff, Zurich Insurance Group, (invited) – Ms Barbara Kux, Member of the Managing Board, Siemens (confirmed) – Nandu Nandkishore, EVP for Asia, Oceania, ME and Africa , Nestlé (confirmed) Moderation: André Schneider, Member of the Board, Fondation Guilé
21.30	**Dessert and Plenary Discussion**
22.00	**Official end of the event**

Annex II: List of participants*

LAST NAME	FIRST NAME	ORGANIZATION
Ader	Jill	EGON ZEHNDER INTERNATIONAL
Aeschi	Thomas	CANTON OF ZUG
Bacchus	James	UNIVERSITY OF INTERNATIONAL BUSINESS AND ECONOMICS
Bakhtiar	Pasha	WILLOW IMPACT INVESTORS
Benoit-Godet	Stéphane	BILAN
Bresch	David	SWISS REINSURANCE COMPANY LTD
Brugger	Ernst	FONDATION GUILÉ
Brunke	Bernd	ROLAND BERGER STRATEGY CONSULTANTS
Burrus	Régis	FONDATION GUILÉ
Busch	Christian	LONDON SCHOOL OF ECONOMICS INNOVATION LAB
Christensen	Tomas	UNITED NATIONS GLOBAL COMPACT
Collier	Paul	UNIVERSITY OF OXFORD
Dahinden	Martin	DEZA
de Muralt	Melchoir	PURY PICTET TURRETTINI & CIE SA
Flückiger	Yves	UNIVERSITY OF GENEVA
Gäumann	Andrea	FONDATION GUILÉ
Gifford	James	PRINCIPLES FOR RESPONSIBLE INVESTMENT
Haugh	Ann	ZURICH INSURANCE GROUP
Heuberger	Renat	SOUTH POLE CARBON
Hoffmann	André S.	MASSELLAZ SA
Kell	Georg	UNITED NATIONS GLOBAL COMPACT
Kux	Barbara	SIEMENS AG
Labelle	Huguette	TRANSPARENCY INTERNATIONAL
Louven	Alexandra	HANDELSBLATT
Martello	Wan Ling	NESTLÉ
Maurer	Peter	ICRC
Mehra	Priya	UNITED NATIONS OFFICE OF PARTNERSHIPS
Nandkishore	Nandu	NESTLÉ
Niedermaier	Oliver	TAU INVESTMENT MANAGEMENT
Pan	Pan	LGT VENTURE PHILANTHROPY
Peter	Felicitas	FORUM FOR ACTIVE PHILANTHROPY
Reuther	Bernd	REUTHER FINANCE & CONSULTING AG
Schneider	André	GLOBAL ADVISORY
Streiff	Thomas	FONDATION GUILÉ
Tschofen	Gaby	BARRY CALLEBAUT
Vittori	Jean-Marc	LES ECHOS
Voute	Janet	NESTLÉ
Yung	Katy	STERLING PRIVATE MANAGEMENT LIMITED

* excluding additional guests of participants