

# ESG Rating and Value Creation: the Financial Sector

Aldo Bonati, Head Research Dept.  
16 February 2010

# Integrating ESG into Investment Processes is a Wise Choice for Investors

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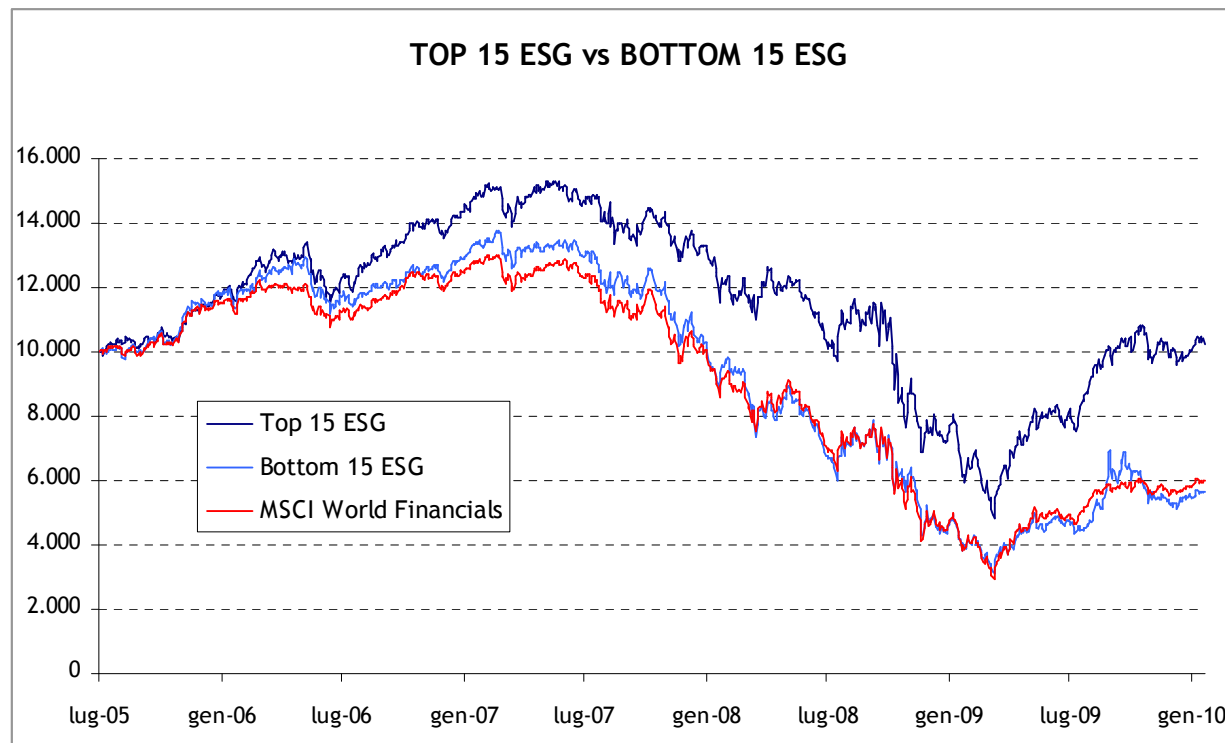
- ESG (Environmental, Social and Governance) indicators can help investors gain access to a broad range of potentially crucial information about the risk/revenue profile of their investment targets.
- Companies in the financial sector have non-financial ESG-related risks and opportunities that need to be factored in by investors to obtain higher risk-adjusted returns over the long run.
- ECPI's work in the area of ESG research and ratings is meant to complement the financial dimension:

**A test of ECPI ESG Ratings applied to financial companies shows results supporting the value of ESG integration**

# Integrating ESG Factors into Investment Decisions Boosts Returns: +45,51%

A test of financial companies in the ECPI database shows the effectiveness of ESG integration:

- Reference universe: global financial companies in ECPI database in the period Jul 2005 - Jan 2010.
- Issuers ranked from highest to lowest according to ECPI ESG Ratings and broken down into 2 groups: Top 15 ESG vs Bottom 15 ESG (equal weight portfolios).
- Yearly rebalancing to reflect rating movements.



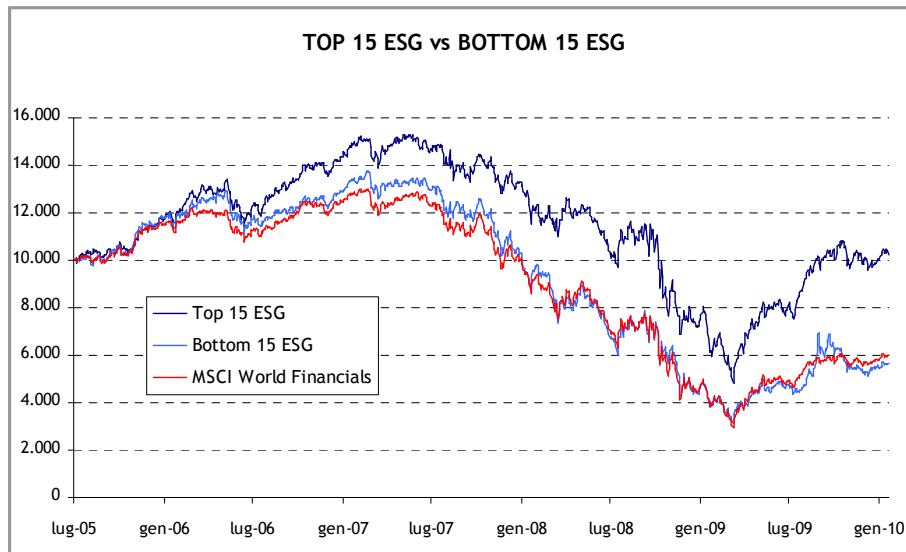
SOURCE: Datastream data, ECPI Database. Data as of 20/01/2010

**+45,51%**  
Top 15 ESG  
vs  
Bottom 15 ESG

# Integrating ESG Factors into Investment Decisions Makes a Difference

CASE STUDY: Investment of € 10,000 in July 2005; no fees, no transaction costs

- Top 15 ESG as of 20 January 2010: € 10.211,12
- Bottom 15 ESG as of 20 January 2010: € 5.659,83
- MSCI World Financials as of 20 January 2010: € 5.987,24



	Delta performance	Delta volatilità
YTD	-1,70%	-0,94%
1 Y	24,60%	-9,83%
2 Y	24,39%	-7,46%
3 Y	26,53%	-6,03%
4 Y	38,19%	-4,86%
Since Jul 2005	45,513%	-4,58%

SOURCE: Datastream data, ECPI Database. Data as of 20/01/2010.

	MSCI World Financials*	
	Rendimento cumulato	Volatilità
YTD	3,15%	12,06%
1 Y	49,65%	33,02%
2 Y	-30,50%	38,91%
3 Y	-53,27%	33,19%
4 Y	-46,37%	29,24%
Since July 2005	-40,13%	27,61%

+ 42,24%  
Top 15 ESG  
vs  
MSCI World  
Financials

	Top 15 ESG	
	Rendimento cumulato	Volatilità
YTD	1,52%	14,51%
1 Y	64,64%	33,30%
2 Y	-11,49%	37,78%
3 Y	-31,34%	32,34%
4 Y	-11,84%	28,97%
Since July 2005	2,11%	27,41%

+ 45,51%  
Top 15 ESG  
vs  
Bottom 15 ESG

	Bottom 15 ESG	
	Rendimento cumulato	Volatilità
YTD	3,22%	15,45%
1 Y	40,04%	43,13%
2 Y	-35,88%	45,24%
3 Y	-57,87%	38,37%
4 Y	-50,03%	33,83%
Since July 2005	-43,40%	31,99%



# Financial Companies Need to Address ESG Factors to Obtain Sustainable Returns

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- There is a multitude of non-financial aspects that a financial institution needs to take into account in order to ensure a sustainable future for itself and its share/bondholders.

Such factors can help it to reduce its current or future risks, or to unlock new revenue opportunities.

- The key ESG aspects for financial institutions are:

## **INNOVATION AND TRANSPARENCY**

Simple products, transparent sales practices, transparency on links with related parties, incentives systems aligned to offer value to clients, innovative IT and distribution solutions, development of employees' skills, development of a web strategy (e.g. smartphones, iPhone).

## **CORPORATE GOVERNANCE AND REMUNERATION SYSTEM**

Separation of duties within BoD, Committees, Remuneration gap between Top Management and company average, Incentive systems linked to mid-term results (e.g. 3 years).

- Environment-related businesses are set to gain a growing foothold in the global economy: it is crucial to develop environmental risk management skills to guide financing/investment decisions.

# Institutions Best Equipped to Tackle the Evolving Economic Landscape Can Gain a Competitive Advantage

The market is attentive to the ESG credentials of financial institutions - upcoming legislation will force companies to adapt.

**FT.com** **In depth**  
FINANCIAL TIMES FT Home > In depth > Bank bonuses

**Bank bonuses**

**Bosch chief criticises banks over bonuses**  
By Daniel Schäfer in Frankfurt  
Published: January 27 2010 21:19 | Last updated: January 27 2010 21:22

Franz Fehrenbach, one of Germany's most influential industrialists, added fire to the global debate over tighter regulation of banks by hitting out at large institutions and said he would stop doing business with those that maximise **bonuses**.

**Bank bonuses**

**Barclays to defer bonuses**  
By Patrick Jenkins and David Oakley in London and Tom Breithwaite in Washington  
Published: January 22 2010 23:47 | Last updated: January 22 2010 23:47

**Bank bonuses**

**HSBC chairman hits at big bonuses**  
By Patrick Jenkins, Banking Editor  
Published: January 25 2010 23:26 | Last updated: January 25 2010 23:26

**Bank bonuses**

**Call for funds to be stricter on bank pay**  
By Patrick Jenkins and Kate Burgess  
Published: February 2 2010 23:10 | Last updated: February 2 2010 23:10

**Bank bonuses**

**BofA to spread bonuses over three years**  
By Greg Farrell in New York  
Published: February 2 2010 18:34 | Last updated: February 2 2010 18:34

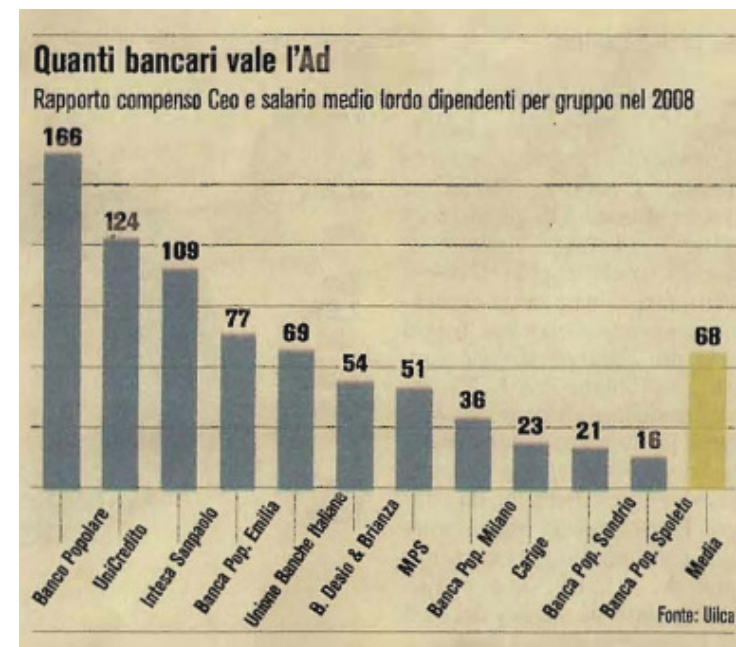
**Bank bonuses**

**Swedbank scraps 2009 bonuses**  
By Andrew Ward in Stockholm  
Published: January 27 2010 14:31 | Last updated: January 27 2010 18:11

6 **Attualità** PLUS24 - Il Sole 24 Ore  
Sabato 23 Gennaio 2010

Banche e manager/1. Dopo la grande secca del 2008

## Gli utili calano, i maxibonus no



SOURCE: Financial Times 22nd Jan to 2nd Feb 2010; PLUS- Il Sole 24ORE 23rd Jan 2010

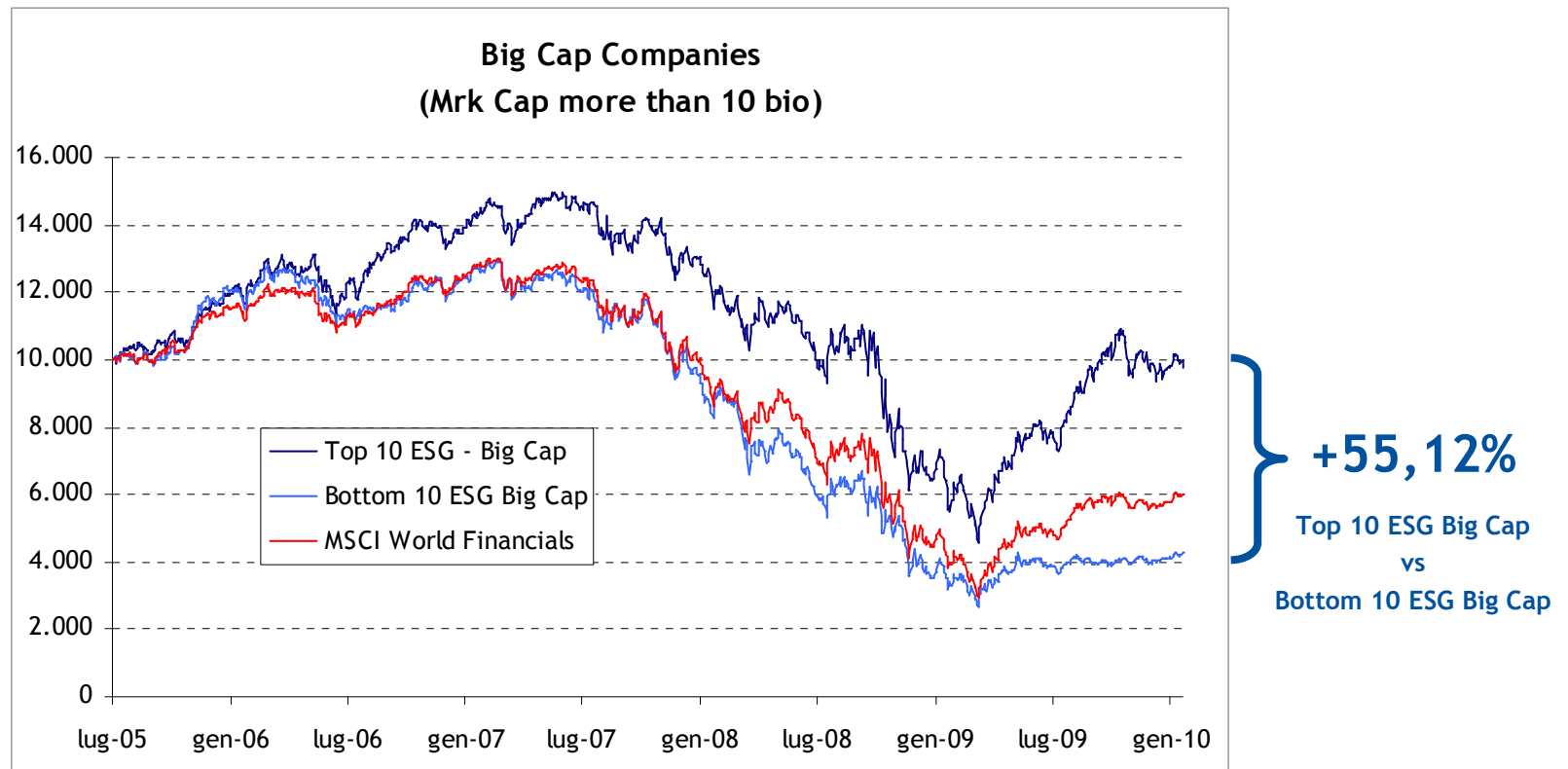
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# Appendix

# The Value of ESG Holds for Financial Big Caps: +55,12%

The test confirms the effectiveness of ESG integration for most capitalized financial companies (> EUR 10 bio):

- Reference universe : global financial companies in the ECPI database in the period Jul 2005 - Jan 2010; mkt cap > EUR 10 bio.
- Issuers ranked from highest to lowest according to ECPI ESG Ratings and broken down into 2 groups: Top 10 ESG vs Bottom 10 ESG (equal weight portfolios).
- Yearly rebalancing to reflect rating movements.



SOURCE: Datastream, ECPI Database. Data as of 20/01/2010



# ECPI - Mittel Group Is a Leading Provider of ESG Rating and Indices

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- ECPI is a leading provider of sustainability research, rating and indices active since 1997.

It is part of Mittel Group, a Milan-listed financial company which provides both capital and segregated freedom of action for ECPI's research activities.

- A unique package of ESG (Environmental, Social, Governance) products:

- Research and Ratings

ECPI proprietary screening methodologies are applied to both traditional and alternative asset classes and have evolved after a decade of work, resulting in a flexible tool for clients.

- **ESG Methodology** to rate corporate and government issuers
    - **MARS® Methodology** to rate alternative strategies
    - **MICROS® Methodology** to rate microfinance institutions

- Indices

ECPI constructs sustainable and thematic investable indices to help integrate sustainability analysis in investment decisions and identify fundamental performance-driving factors.

ECPI Indices are available across all asset classes and distributed through all major data vendors, providing optimal accessibility.

# The ECPI Approach to ESG

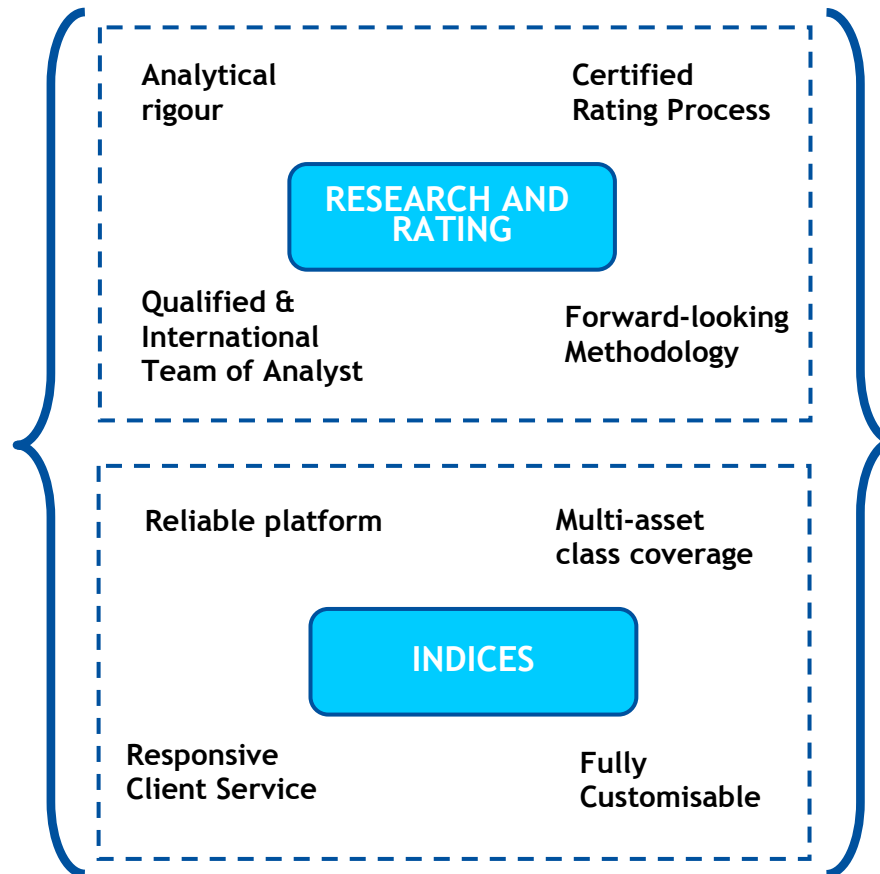
## Why ESG?

To reap the benefits of extra-financial analysis:

- Risk mitigation, including Default Risk Reduction; Regulatory risk; Reputational risk
- Non-financial performance drivers
- Operational due-diligence and counterparty risk reduction (alternatives)

## How ESG?

### ECPI



## ECPI Services

PRODUCT INNOVATION

CLIENTS' ADVISORY

ESG INTEGRATION

# ECPI's Company Analysis Covers All Issues Related to ESG & Sustainability

The covered topics are compliant with both the Principles of UN Global Compact and the UN PRI

Management system	Community relations	Markets	Employees	Environment	Products and Production process
Executives compensation	Human rights	Supply chain management	Health & Safety	Environmental impact	Controversial products and services
Shareholders rights	Impact on local communities	Anticompetitive practices	Compensation policy/ Labour conditions	Pollution	Health & Safety
Activity in controversial countries		Marketing practices	Freedom of association	Waste management	
		Sales practices	Forced labour	Animal treatment	
		Corruption & Bribery	Child labour		
			Diversity management (race, gender, disabilities)		
Compliance with international standards					
Compliance with national legislation					

The analysis also assesses a Company's involvement in controversial sectors (e.g. contraceptives, pornography, military etc.)



# ECPI's Government Analysis Covers All Issues Related to ESG & Sustainability

Environmental & Ecosystem Health	Social Aspects	Governance Aspects
Air pollution	Civil liberties	Corruption
Water	Political Rights	Ease of doing business
Biodiversity	Death Penalty	Democracy
Forestry		Competition and economic freedom
Fishery		
Agriculture		
Climate change		
Compliance with international norms and conventions to protect the environment, human and labour rights		

# ECPI Sustainability Index Family Is the Widest in the Market

## Beta Indices

ECPI Beta Indices have been designed to have a high correlation with "mainstream/traditional" market benchmarks, with a sustainability screen.

Beta Indices	Equity	<ul style="list-style-type: none"> <li>Ethical Index Euro</li> <li>Ethical Index EMU</li> <li>Ethical Index Global</li> </ul>
	Fixed Income	<ul style="list-style-type: none"> <li>Ethical Index Euro Govt</li> <li>Ethical Index Global Govt</li> <li>Ethical Index Global Agency &amp; Supr</li> <li>Ethical Index Euro Corporate</li> <li>Ethical Index Euro Agency &amp; Supr</li> <li>Ethical Index Global Composite</li> <li>Ethical Index Euro Composite</li> <li>Ethical Index Euro Corporate Liquid</li> </ul>
	Bias	<ul style="list-style-type: none"> <li>Ethical Index Euro Tradable</li> <li>Ethical Index Global Tradable</li> <li>Global Top 30 Dividend Yield</li> <li>Global Top 25 Ethical</li> <li>Ethical Index Top Ethical DY</li> </ul>
	Emerging Markets	<ul style="list-style-type: none"> <li>Emerging Markets Equity</li> <li>Emerging Markets Bond</li> </ul>

## Alpha Indices

ECPI Alpha indices have been designed to outperform the comparable "traditional" reference market.

Alpha Indices	Equity	<ul style="list-style-type: none"> <li>Global Alpha Equity 40</li> <li>Global Alpha Equity 100</li> <li>Us Alpha 30 Equity</li> </ul>
	Bias	<ul style="list-style-type: none"> <li>Alpha Top Dividend Yield</li> <li>Global Renewable Energy Equity</li> <li>Global Commodities Equity</li> <li>Global Climate Change Equity</li> <li>Global Eco &amp; Ethical Equity</li> <li>Asian Infrastructures Equity</li> <li>Global ESG Alpha Equity</li> <li>Longevity Winners Equity</li> <li>Global Blue Gold Equity</li> <li>Global Carbon Equity</li> <li>Global Agriculture Equity</li> </ul>
	Hedge Funds	<ul style="list-style-type: none"> <li>ART Sustainable</li> <li>DBX Equity Select Alpha</li> </ul>
	Real Estate	<ul style="list-style-type: none"> <li>Europe Alpha Property Equity</li> <li>Global Eco Real Estate &amp; Building</li> </ul>

# ECPI Enjoys a Leading Position in ESG Advisory

## ECPI International Advisory Board

**Dr. V. Raghunathan**

*CEO, GMRV Foundation, (India)*

**Mr. Ulrich Weiss**

*Former Deutsche Bank Italy Country Manager and Former Member of Deutsche Bank Board of Managing Directors (Germany)*

**Brother Jean Paul Muller**

*Former Head of the Don Bosco Mission (Germany)*

**Avv. Alessandra Perrazzelli**

*Head of International Affairs, IntesaSanPaolo Bank*

## ECPI affiliations



Signatory of the PRI



Member of the US Interfaith Center of Corporate Responsibility



Member of the European Social Investment Forum



Member of the Italian Social Investment Forum



Member of the Association of the Luxembourg Fund Industry

# Contacts

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**Index Dept.**  
Luxembourg  
5, Rue Goëthe  
L-1637 Luxembourg  
Tel +352 26 845633  
Fax +352 26 845634



**Research Dept.**  
Milan  
Piazza Diaz, 7  
20123 Milan, Italy  
Tel +39 02 7214 11  
Fax +39 02 72141616

[www.ecpindices.com](http://www.ecpindices.com)

**Bloomberg: ECPS <GO>**

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# Per maggiori informazioni su ECPI

Un libro recentemente pubblicato da EGEA costituisce un utile riferimento per maggiori informazioni sull'evoluzione di ECPI, sul suo approccio e sul tipo di attività svolta:

**“INVESTIMENTI SOSTENIBILI Integrare analisi tradizionale e indicatori non finanziari: i casi ECPI e GS SUSTAIN”**

A cura di Lucilla Tealdi  
Edizioni EGEA

The screenshot shows the Egea website interface. At the top, there is a navigation bar with links like 'CHI SIAMO', 'OFFERTA', 'DOVE SIAMO', 'CONTATTI', 'DICONO DI NOI', 'CONDIZIONI ACQUISTO', and 'CARRELLO >>'. The main content area is divided into several sections:

- Ricerca libri:** A search bar with options for 'Titolo' and 'Autore', and a 'Ricerca FullText' section.
- Scheda prodotto:** Details for the book 'INVESTIMENTI SOSTENIBILI' by EGEA, including ISBN/EAN, price (€ 20,00), and a 'Compra' button.
- Edizioni Egea:** A list of publications and digital content, including 'Riviste Egea' and 'Egea Campus'.
- Contenuto:** A detailed description of the book's focus on sustainable investment and ESG factors.
- Download links:** 'Introduzione' (376 Kb) and 'Indice' (194 Kb) with 'Scarica' buttons.
- Libreria Egea:** A sidebar with categories like 'Novità', 'Anticipazioni', 'Promozioni', 'Convenzioni', 'Servizi', and 'Non solo Libri'.
- News:** A section with recent news items, including 'Obama e il mondo post-americano' and 'Egea a Fa' la cosa giusta!'.