



# The bar keeps rising for corporate sustainability

## Advance

SUSTAINABILITY INVESTING IN FOCUS | JANUARY 2013

> 6

Roderick Munsters  
in conversation:  
how sustainable are  
Dutch pension funds?

---

> 10

Shell: cleaning up  
in Nigeria

---

# Nothing to grouse about



Finnish timber & paper company UPM is acting to protect vulnerable bird habitats. By making this a key element of its global biodiversity program, it is clear that the group's forest management goes beyond wood sourcing.

UPM owns 650 hectares of the Llandegla forest in Wales, home

to the black grouse. Back in 1997, when only 126 male grouse were spotted in the area, the bird was in danger of extinction. But as part of the Wales Black Grouse Recovery Project, UPM has implemented measures to protect display sites during the mating season and to preserve woodland edges and moorlands—the bird's preferred

habitat. UPM's partners in the Black Grouse Recovery Project are the RSPB and the Countryside Council for Wales.

Yearly monitoring has shown annual increases in the black grouse population, exceeding the local Biodiversity Action Plan targets.

### 4 Highlights

A webcast examining the financial importance of sustainability and Vervoer's Martine Menko on why there's nothing moral about ESG

### 5 Transparency is key to building a sustainable soy supply chain

Why more transparency is needed to dispel some misunderstandings about the industry

### 6 The search for sustainable returns

Roderick Munsters, Robeco's CEO, discusses his new book on sustainability investing in which he interviews the managers of 12 Dutch pension funds

### 8 Cover article: the bar keeps rising for corporate sustainability

The tenth edition of RobecoSAM's Sustainability Yearbook suggests that corporates must meet ever-higher standards

### 10 Engagement case study

Cleaning up its act: Shell in Nigeria

### 11 Are companies that do not report on sustainability less attractive?

A report from the ICGN dinner debate

### 12 Q&A with the Rotterdam Voedselbank's Clara Sies

How Robeco helps to distribute food to the city's needy

## SAM becomes RobecoSAM

This edition of Advance is the first to be published by RobecoSAM—the sustainability investing specialist within the Robeco group. The new RobecoSAM brand reflects the evolution of the relationship between the two companies since Robeco acquired SAM in 2007. In addition, Robeco's engagement and voting activities have been integrated into RobecoSAM's range of investment solutions and services. This move is recognition of the intensified collaboration between our sustainability specialists in Zurich and Rotterdam. Together, we are jointly pursuing a single objective: to offer our clients a comprehensive service and product offering in the sustainability investing space. In line with the Robeco group's strategic ambition of being recognized as a leader in the field, Advance will continue to drive the sustainability agenda by delivering a rich mix of content that covers the full range of sustainability investing activities carried out by RobecoSAM and Robeco.

MICHAEL BALDINGER, CEO ROBECOSAM



## Why small changes can be beautiful

Does engaging with companies really make a difference? For sure, sometimes we achieve transformational shifts. But sometimes only modest change happens. Then it can feel that dialogues with corporates aren't worth the effort. But I believe that both kinds of change are valuable.

Look at how even small differences can transform people's lives. Electricity is a basic necessity. Yet according to the International Energy Agency, 1.3 billion people don't have access to it. Not being connected to the grid means living in a house that is lit by dangerous kerosene lamps, which give off carbon dioxide. Even so, such conditions can have their positive aspects. Such as when they inspire creative individuals to come up with innovative solutions.

Consider the 'liters of light' project launched in Manila by social entrepreneur Illac Diaz. It provides the city's poorest inhabitants with free lighting. Water-filled plastic bottles are fitted into corrugated roofs, allowing sunlight to filter in. This type of small-scale initiative can have huge consequences. Light makes it possible for the poor to read, thereby helping to fight illiteracy. Furthermore, reducing kerosene lamp use helps the environment.

I am involved in corporate engagement projects and know that it can take companies years to implement change. Sometimes you can't help feeling that it is a drop in the ocean. But I'm certain that exchanging ideas constructively with companies about ways to make their businesses more sustainable does have an effect, no matter how small it may initially appear to be. The Dutch singer and musician Bram Vermeulen got this just right: by moving just a single pebble in a river, you can change its course forever.

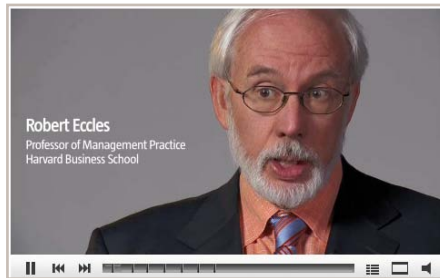
ERIK BREEN, HEAD OF GOVERNANCE AND ACTIVE OWNERSHIP

## Seven views on sustainability

Why do investors lag behind companies in recognizing the financial importance of sustainability?

RobecoSAM recently asked a distinguished group of company executives, institutional investors, scholars, and representatives from the UN PRI and World Business Council for Sustainable Development (WBCSD) to share their thoughts on corporate sustainability.

In this webcast, "Recognizing the Financial Importance of Sustainability", seven speakers—including Harvard Business School's Professor Robert Eccles and Peter Bakker, president of the WBCSD—discuss how they believe companies and investors can work together to promote the integration of sustainability into investment decisions.



> [Visit RobecoSAM's website](#) to see what they had to say.

### "There's nothing moral about ESG"

Martine Menko, Investment Officer at Vervoer, the pension fund for the Dutch transport sector, couldn't have been clearer: "There is nothing ethical or morally uplifting about ESG integration," she told the fifth annual ESG Europe conference, which took place in Amsterdam in October.

The theme of the 2012 event, which was organized by responsible-investor.com and sponsored by Robeco, was Business Critical Sustainability.

> [Click here](#) to read more about Ms. Menko's take on ESG integration and to find out about the event's other key takeaways. Discover why exclusion is not always the best option, and why sustainability experts need to stop using their own private language.

Just **15%**  
of global  
emissions

are covered by the recently extended Kyoto Protocol. When will the US, China and India commit to binding targets?

# Transparency is key to building a sustainable soy supply chain

Thanks to its versatility and advances in agricultural practices, soy's popularity has spread across the globe. Jürgen Siemer and Danielle Essink argue that more transparency is needed to dispel some misunderstandings about the industry.

Soy-fed meat, condiments, meat & dairy substitutes: our supermarkets are filled with a myriad of products made from the unassuming little legume known as the soybean. To meet demand for such widespread use, the soy industry has turned to agricultural practices that have troubled some consumers and market participants.

As a result, the wonder bean has gained a reputation as an environmental problem child. Media reports, particularly those focusing on agribusiness in Latin America, associate the soybean with deforestation, loss of biodiversity, groundwater depletion, greenhouse-gas emissions and a score of other problems.

## Public mistrust of new technologies based on misunderstanding

But it is a reputation that is not fully warranted. As Jürgen Siemer, Senior Analyst covering food producers & farms for RobecoSAM's asset management strategies, points out, much of the criticism results from a misunderstanding of the technology involved.

In fact, the risks do not stem from either the plant itself or its cultivation. "Rather, the problems are connected to the advancement of commercial agriculture into less-developed, less-regulated areas," he says.

That is because to cultivate soybeans in these new regions, farmers have opted for genetically modified seed varieties, large-scale agricultural machinery and the application of chemical fertilizers and crop-protection chemicals. Such methods have played important roles in soy's success. But the question remains whether they will be sustainable over the long-run.

The main concern, according to Siemer, is the development of a soy monoculture. That poses a risk to sustained growth. But he is confident that industry initiatives will help to address this challenge.

For now though, he favors companies along the soy value chain that have diversified their operations. This could mean developing a broader pool of soybean seed varieties better

adapted to specific climates or increasing the use of crop rotation. Siemer highlights a second important characteristic. "As investors, we focus on producers that we consider to be the most transparent," he explains. "Producers need to be more transparent about their practices in order to dispel the misconceptions surrounding soy."

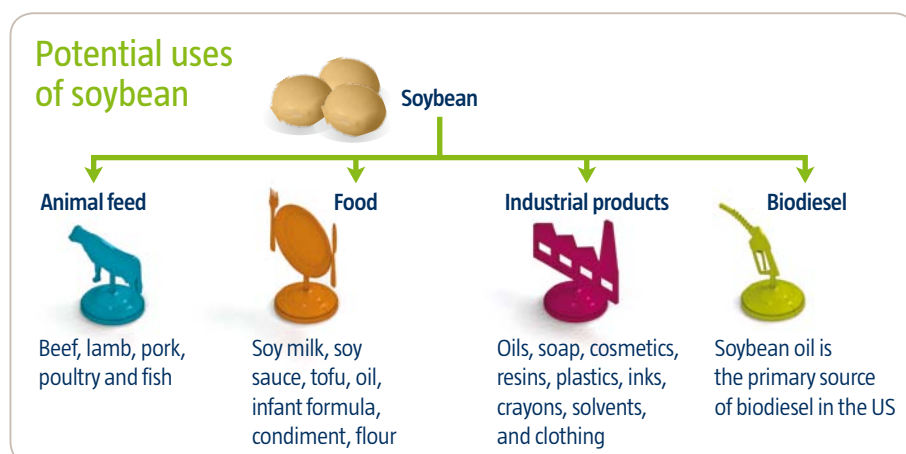
## Transparency on implementing strategies is vital

Transparency is also a crucial issue for Danielle Essink, Senior Engagement Specialist at RobecoSAM. Because environmental and social issues pose reputational, operational and legal risks for companies along the soy value chain, she has initiated dialogues with companies in the industry based on an analysis of their response to these risks.

With some companies, there is little evidence that they are implementing strategies that deal with the issues in the soy segment. But Essink believes the problem can be a lack of transparency, rather than that they aren't doing anything. "Our dialogue with companies aims to reveal the extent to which active management of the social and environmental risks in their supply chains is not matched by effective communication of their efforts," she explains.

She adds that companies may have adopted sustainable business practices without becoming members of organizations such as the Round Table on Responsible Soy. "More general policies relating to labor rights along the entire supply chain can adequately address some of the social risks associated with soy production," she says.

Essink concludes that it is up to every participant in the soy market to encourage its partners to be transparent about all of their risk management practices. "In those circumstances, the soy supply chain can be attractive for any investor looking for lucrative, sustainable revenue streams," she says.



# 'The search for sustainable returns'

**RODERICK MUNSTERS ON THE STATE OF SUSTAINABILITY  
INVESTING IN THE NETHERLANDS**

---

Roderick Munsters, Robeco's CEO, has published a book on sustainability investing based on interviews with the managers of 12 Dutch pension funds. What did he discover?

**What motivated you to write a book on the search for sustainable returns?**

It was a combination of an advanced interest in the subject, policymaking that has led to limited progress in this area in recent years and the conviction that sustainable investing will be a *sine qua non* within a decade. What struck me most was the interviewees' desire to continue to develop sustainability policies and practices.

**After completing the interviews, how do you view the state of sustainability investing in the Netherlands?**

Dutch pension funds are ahead of the average pension fund around the world. The main issue that many pension funds currently face is low coverage ratios, which have resulted from the low level of interest rates. Combined with the short-term focus of policymakers and regulators, this issue is preventing many pension funds from embracing a sustainable, long-term view. It is not only crucial that sustainable investing is perceived as important, but also that our industry makes urgent progress in implementing it more comprehensively.

**Many interviewees state that the 2007 investigation by Dutch TV program Zembra of pension funds' investments in cluster ammunitions triggered their sustainability investing activities. Do passive investors need a similar wake-up call?**

I doubt whether there will be a similar wake-up call for passive investors, who simply want to "buy the market" at low cost. That said, it is possible that the exercise of voting rights will grow. And maybe passive investors will start using benchmarks that, while remaining mainstream, are more sustainable.

**How do you see the relationship between fiduciary duty and sustainability investing?**

It involves both an attractive risk/return profile on investments and a long-term view—and by "long-term", I mean across multiple generations.

**The interviewees stress that conviction and leadership from pension-fund board members are required to give a boost to sustainability investing? Do you agree?**

Yes, that is important. It requires conviction and leadership for pension fund trustees to take steps to incorporate sustainability more deeply in their investment processes, especially in the current environment. Low interest rates and the resulting low coverage ratios are serious headwinds.

**'What is really required to give sustainability investing a shot in the arm is an increase in interest rates.'**

In my view, short-term issues such as coverage ratios are receiving too much attention. This is understandable, given the financial impact they have on pension funds' participants. However, it is also important that policymaking doesn't ignore longer-term interests. What is really required to give sustainability investing a shot in the arm is an increase in interest rates, which would help coverage ratios to improve and should thus refocus attention, allowing pension board members to give more

**'Short-term issues such as coverage ratios are receiving too much attention.'**

time to sustainability investing. However, this will probably take some time.

**When do you expect sustainability investing to become a mainstream activity? What will this mean for returns?**

From a global perspective, it will take many years to move from lip service to true application. This will provide ample opportunity to improve the long-term risk/return profile of investment portfolios. This is also an opportunity for Dutch pension funds to regain the trust of their participants.

**Sustainability investing isn't just hype then?**

No. Sustainability investing is here to stay. Robeco will remain dedicated to the cause.

To order a free copy of Roderick Munsters' book, "The search for sustainable returns: pension fund managers in conversation with Robeco", please send an email to [Searchforsustainablereturns@robeco.com](mailto:Searchforsustainablereturns@robeco.com)



# The bar keeps rising for corporate sustainability

Corporate attitudes to sustainability have changed dramatically over the last decade. At the same time, sustainability assessments have adapted to this transformed landscape. But the process is not over: companies have no choice but to keep on upping their game.

**'Today, corporate governance is of central importance for companies and investors alike.'**

Edoardo Gai

Gabriela Grab Hartmann is RobecoSAM's Deputy Head of Research. Edoardo Gai is Head of Sustainability Services at RobecoSAM.

In January, the Sustainability Yearbook was published for the tenth time. Gabriela Grab Hartmann notes that after a decade of research and dialogue with companies, the landscape has altered irrevocably. "When we published the first Sustainability Yearbook, sustainability was still a somewhat neglected issue," she says. In the decade since 2004, though, companies have made tremendous progress in recognizing the financial benefits of including sustainability as a core component in their corporate strategies.

Accordingly, the participation rate in RobecoSAM's corporate sustainability assessment (CSA), on which the Sustainability Yearbook is based, has risen over the past decade. So have the sustainability scores of the companies taking

part. As a result, it is increasingly difficult to distinguish sustainability leaders from laggards.

Consider corporate governance. "Ten years ago, we were among the first investors to put a spotlight on corporate governance. Today, it is of central importance for companies and investors alike, particularly in the light of the various scandals recently," notes Edoardo Gai.

## Companies must keep improving to get into the Yearbook

In fact, so great are the strides that companies have made that they have to keep upping their game to stand out from their industry peers to make it into the Yearbook. But there's more to it than simply adopting new sustainability practices. Corporates will also have to link the results of their sustainability strategies to their financial performance. "Companies will be expected to communicate the financial benefit of their sustainability strategy," says Hartmann. The bar continues to be raised.

This ongoing progress in companies' sustainability performance means that





## Supply chain management: the new frontier of corporate sustainability

Companies should look beyond their own operations to understand the full economic, environmental and social impact of their business activities

As globalization and specialization intensify, companies outsource more and more of their production and services. But with increased outsourcing, companies face a new challenge: to manage reputational risks and corporate social responsibilities in their supply chains.

Supply chain management has traditionally focused on social risks such as working conditions, child labor and minimum wages. More recently, the concept has expanded to include a broader range of economic, environmental and social issues across the entire value chain. This means that a company's supply chain management strategy must increasingly consider suppliers' capacity to innovate, retain talent and mitigate risks. But it doesn't stop there: effective supply chain management is also about capturing opportunities.

Both companies and investors are beginning to recognize the value of well-managed supply chains. For the 2012 Corporate Sustainability Assessment, RobecoSAM introduced an enhanced framework for assessing companies' supply chain management practices. In the latest edition of The Sustainability Yearbook, sustainability analyst Ida Karlsson presents the new framework. She highlights some of RobecoSAM's key findings about companies' approach to supply chain management.

RobecoSAM's analysts are constantly in search of ways to refine the CSA methodology to capture new sustainability factors that can influence a company's financial performance. Over the years, RobecoSAM has added criteria to the CSA in areas such as innovation management, water-related risks, climate-change policies and, most recently, supply-chain management (see box).

### 'Companies will have to communicate the financial benefit of their sustainability strategy.'

Gabriela Grab Hartmann

#### Emerging markets are embracing sustainability

Another development since 2004 has been the spread of sustainability around the globe. "Interest in our assessment has grown considerably in every region," notes Hartmann.

Moreover, the performance gap between companies based in Europe and those in regions such as North America and the emerging markets has narrowed. "South Korea is a country whose companies have shown remarkable improvement in their sustainability performance, mirroring the country's own sustained economic development in recent years," adds Gai.

As emerging markets in Asia, Latin America and Africa gain economic importance, investors are increasingly interested in how corporate sustainability is applied in these regions. "We will continue to increase the number of

emerging markets-based companies covered by our assessment," notes Gai.

Clearly, sustainability is now at the top of corporate agendas. Despite the extraordinary progress since the first Sustainability Yearbook was published in 2004, there is still plenty to be excited about for the next decade.

**> [Click here to download The Sustainability Yearbook to find out which companies are this year's sustainability leaders](#)**

# Cleaning up its act: Shell in Nigeria

**9-13**

million barrels

oil spilt in Niger delta from Shell's operations, according to Amnesty International

**70%**

of spills caused by sabotage, says Shell

**USD 8** billion

Shell's infrastructure investment to halt flaring

Pollution and gas flaring are two issues linked to Shell in Nigeria. Senior Engagement Specialist Sylvia van Waveren reports on a visit to the company's operations in the Niger delta.

## The case against Shell

The Niger delta is one of the world's most polluted places. Amnesty International says that between nine and 13 million barrels of oil have spilt there as a result of Royal Dutch Shell's operations in the past 50 years. The main factors have been oil-pipe corrosion, poor infrastructure maintenance, leaks during processing, human error, oil theft and vandalism. The region also suffers from the effects of gas flaring—burning gas produced in the petroleum-extraction process—because of a lack of infrastructure to use the gas.

## Shell's response

In its defense, Shell points to sabotage as the main cause of the spills. Moreover, the company is leading talks with the Nigerian government

to set up a USD 1 billion fund to clean up the delta. One complicating factor is that Shell operates in Nigeria via a joint venture majority owned by the government and in which it only has a 30% stake. It thus has limited power to enact change.

## What did we find?

Visiting the region, we were struck by the complexity of the problems Shell faces. Huge quantities of oil have polluted the delta for decades. It will take years to clean it fully. Besides, Nigeria is intensely corrupt. Well-organized gangs steal large amounts of oil, damaging infrastructure in the process. They have no regard for the environment: the result is frequent spills.

## The good news

But there is good news. First, Shell's gas flaring is as good as over, thanks to investments of billions of dollars in infrastructure. Second, the company is committed to cleaning up the direct leaks from its pipes. Third, it is improving its transparency regarding its clean-up efforts. Still, Shell can do more to accept its responsibility for both the positive and negative impacts of its operations. In sum, Shell has an opportunity to continue to improve its communication on Nigeria, given the progress we saw on the ground.

> [Click here](#) to read Sylvia's full report

---

# Are companies that do not report on sustainability less attractive?

Senior investment professionals from four of Europe's largest asset managers recently debated the motion that 'companies that do not report on material ESG factors are less attractive to institutional investors.' The conclusion was that, although ESG reporting is still in its early stages, its importance is bound to increase.

In reality, all four speakers at the International Corporate Governance Network's (ICGN) debate are ardent proponents of ESG reporting. But two of them—Angelien Kemna, CEO at APG Asset Management, and David Pitt-Watson, former Chairman of Hermes Focus Asset Management—had to argue against the motion and convince the audience that investors are not interested in ESG reporting. The other two debaters—Philippe Zaouati, deputy CEO at Natixis Asset Management, and Roderick Munsters, Robeco CEO—supported the motion, making the case that investors are increasingly looking for ESG reporting at corporates.

## Against the motion: no correlation between corporate returns and ESG reporting

Arguing against the motion, Angelien Kemna stated that there was no correlation between a company's returns and ESG reporting. In fact, the five companies with the highest returns in APG's portfolio did not report on ESG factors. In contrast, the five companies with the highest score on ESG reporting had recorded negative returns.

## Against the motion: companies are not valued higher

David Pitt-Watson agreed that there was no evidence of a link between ESG reporting and valuation. If there were a correlation, hedge funds would short companies that do not report on ESG and go long on those that do. None of



the 1,200 hedge funds started in the UK in 2012 pursued this strategy.

## For the motion: pension funds want more than returns alone

Philippe Zaouati suggested that more and more pension funds looked beyond mere financial returns. He therefore expected companies reporting on ESG to be valued higher in the future. After all, they provide greater transparency on how they deal with risks and opportunities related to long-term trends such as climate change.

## For the motion: non-sustainable investors are less attractive

Roderick Munsters reversed the proposition. After all, companies were ahead of investors

in the field of ESG integration. Corporates such as Unilever are committed to a long-term sustainable growth path and are looking for long-term investors sharing their views.

## Conclusion: ESG reporting still in its infancy but set to increase

The debate, which was hosted by Robeco and took place in Rotterdam on 3 December, reiterated that the relationship between ESG reporting and valuation is not yet evident. However, global trends such as climate change and resource scarcity are bound to make the movement towards ESG integration and increased ESG disclosure irreversible.



‘The Voedselbank provides 3,200 boxes of food a week for those in Rotterdam living below the poverty line.’

CLARA SIES, CHAIRMAN,  
ROTTERDAM VOEDSELBANK

Born in Amsterdam in 1952, Clara Sies has been married to Sjaak Sies for over 41 years. As the chairwoman of the Rotterdam Voedselbank (foodbank) she is responsible for all PR and communication activities. A mother of five, and grandmother of six, she is also an avid member of an amateur theater group.  
> [Find out more](#) about the Voedselbank (Dutch only)

**Rotterdam Voedselbank, the food bank, and Robeco, the asset manager: what’s the fit?**

In Robeco’s philosophy, people are important. Robeco feels that it can only be successful if its employees are involved in its ambitions and key values. Robeco supports WorkMate, the project that is active in the Netherlands’ Randstad in bringing together volunteer projects and volunteers from the private sector, by offering its employees one day a year of paid leave for community service as a volunteer. In 2012, approximately 30 employees volunteered to work at the Voedselbank. They help to pack the food that is donated by retailers and food distributors.

**How is the Voedselbank run?**

We depend fully on volunteers for all our activities, while the food is donated by a variety of food producers and suppliers. Food that would otherwise have been wasted now gets eaten.

**How much food do you distribute?**

The Voedselbank provides 3,200 boxes of food a week for those in Rotterdam living below the poverty line.

**How does the Voedselbank see Robeco?**

We feel that Robeco is aware of its roots in Rotterdam and relates to society in this city. We are happy to see that Robeco is aware of the issues around poverty in our society, and that it takes responsibility, both through its essential role in providing volunteers and by making donations.

**What does the future of the Voedselbank/Robeco relationship look like?**

The Voedselbank hopes for a continuing exchange of experiences and connections with Robeco as a strong partner in its network in order to help out wherever it can. Our shared role in Rotterdam’s society is of great value.

**Important Information**

This document has been issued by Robeco Institutional Asset Management B.V. (trade register number: 24123167), which has a license of the Netherlands Authority of the Financial Markets in Amsterdam, and RobecoSAM AG (trade register number: CH-020.3.025.346-2), which has a license of the Swiss Financial Market Supervisory Authority FINMA in Berne. Robeco’s engagement process starts with thematic research by an external consultant focusing on companies within a specific sector. Chinese walls exist between Robeco’s engagement activities and RobecoSAM’s activities related to the RobecoSAM questionnaire. These Chinese walls ensure that confidential information from the RobecoSAM questionnaire will not be used for Robeco’s engagement activities. The details given on this page do not constitute an offer. They are given for information purposes only. No liability is assumed for the correctness and accuracy of the details given. Copyright © 2013 RobecoSAM – all rights reserved.

**Robeco**

Coolsingel 120, 3011 AG Rotterdam, The Netherlands  
editors-advance@robeco.nl,  
<http://www.robeco.com/professionals/insights/sustainability-investing/index.jsp>

**RobecoSAM**

Josefstrasse 218, 8005 Zurich, Switzerland  
info@robecosam.com, www.robecosam.com