

REPORTING TODAY

Innovest shares insights

In this issue, we speak with Hewson Baltzell, President and cofounder of Innovest Strategic Value Advisors, on the growing use of environmental, social, and governance (ESG) analysis in company valuation.

FCR: Innovest was founded in 1995; what are the differences then and now in the uptake and use of ESG analysis by mainstream investors?

HB: We founded Innovest to provide actionable research on extrafinancial issues to mainstream investors. Although there were firms at the time that focused on socially responsible investment, they were primarily focused on “negative screening”. From the start, Innovest has focused on the “sustainability” issues that could have an impact on the medium- to long-term value of the company. Our rating system helps investors identify the companies that deliver the goods and services demanded by the modern economy in the most environmentally efficient and socially equitable way relative to their same-sector peers.

Uptake and use of our work can be seen in our very hard-won client list, which, if we do say so ourselves, is a collection of blue-chip international financial institutions that collectively manage over \$7 trillion in assets.

FCR: Do you find that ESG issues are discussed more frequently during, for example, financial presentations?

HB: Overall, there is much more focus on ESG issues now than there was ten years ago. One only need open the *New Yorker* to see how companies are marketing themselves as being active on such issues. We have seen that focus is still “scandal-oriented”, as demonstrated by investors’ concern about governance following Enron. Focus is also partly dependent on the regulatory environment. The passing of Sarbanes-Oxley

obviously required the focus of CEOs. More recently, high oil prices have put more focus on energy efficiency issues, as have state-level initiatives to regulate CO₂, such as the coalition of northeastern states and the [recent efforts in California](#).

However, only slowly have these issues worked their way into financial presentations. The sell-side financial analysts were very slow on the uptake, arguing that although ESG issues might be relevant over the long term, they did not come into play within an analytical time frame of 6 to 18 months. That is where Innovest comes in—to show investors how extrafinancial information is relevant all the time.

FCR: You research the risks and opportunities related to issues such as climate change, nanotechnology, and GMOs. How responsive are investors to your analyses?

HB: Investors are certainly becoming more responsive. This can be seen not only in our growing client list, but also in the types of services that our clients are requesting. Clients are taking a step beyond “compliance-oriented research” and are really evaluating how our extrafinancial analysis can affect their portfolios. They are beginning to experiment, and, as a result, we have seen significant growth in our Consulting, Engagement and Asset-Management Sub-Advisory practice.

As for additional issues, water is already a key one but will be more so in the future. Also, while energy efficiency and carbon have long been considered high-priority in some circles, I see these issues, and their subsequent opportunities, becoming of increasing interest to investors. The [Carbon Disclosure Project](#) is one example. We are also tracking nanotechnology and RFID, which could have extraordinary potential, particularly when environmental, health, and social concerns are managed appropriately.

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NEW AND NOTEWORTHY

UNEPFI links ESG issues to financial value

The United Nations Environment Programme Finance Initiative’s new report, entitled [Show me the Money](#), explores how ten leading investment banks are incorporating environmental, social, and governance factors into their research and analysis. The report’s aim is to unequivocally demonstrate the material role ESG issues play in investment performance.

Corporate responsibility reporting is on the rise

A [SIRAN analysis](#) of the S&P 100 reveals that 79% of index companies now report on corporate responsibility performance on their websites, and a third produce reports based on the GRI Guidelines. Several large corporations, including GE and Time Warner, issued reports for the first time in 2005.

SAM issues Sustainability Yearbook

SAM, in partnership with PricewaterhouseCoopers, has published its annual sustainability assessment of more than 1,200 companies. The 2006 yearbook, summarized in an online [executive summary](#), evaluates sustainability trends and performance across 58 sectors.

ANNOUNCEMENTS

Reporting awards call for submissions

The Ceres-ACCA North American Awards for Sustainability Reporting 2006 have issued their [annual call for submissions](#). The deadline is October 27, 2006.

REPORT REVIEWS

Each month, we evaluate a corporate responsibility report for [Ethical Corporation](#) magazine. Here are our most recent reviews:

- > [SAS Group Sustainability Report](#)
- > [Walmart de México 2005 Social Responsibility Report](#)
- > [Merck 2005 Corporate Responsibility Report](#)

Innovest interview

FCR: What advice would you give to companies wanting to communicate ESG performance, especially to shareholders?

HB: Good question. Luckily there are more and more resources out there to help. To start, companies should:

- Figure out the key issues relevant to your company and sector—you can't cover all of the issues or respond to all potential stakeholders—pick the most important
- For priority issues, find key performance indicators—the [GRI Guidelines](#) and Innovest's Sector Reports can help
- Measure these indicators, and provide a time series so that trends are apparent
- Walk the talk—be very careful that you can back up any claims you make from the PR side with real performance

FCR: Is there anything else you would like to share with our readers?

HB: Society in general and business in particular have some real challenges ahead of them. The pressure that population growth and our lifestyle preferences put on our natural resources is unsustainable. I believe that with these challenges comes an opportunity, and even a responsibility, on the part of the developing world to figure out a system whereby we can supply services and goods more efficiently, particularly to more of the people at the bottom of the pyramid. The businesses that can be the first to market with sustainable solutions to some of society's more pressing concerns will reap the rewards. I for one am eager to be a part of it all.

[Innovest Strategic Value Advisors](#) is an investment research and advisory firm specializing in analyzing companies' performance on environmental, social, and strategic governance issues, with a particular focus on their impact on competitiveness, profitability, and share price performance.

Summer conferences track hot topics in CR communication

Two July conferences convened communications experts and reporting specialists to share strategies, best practices, and war stories related to corporate responsibility communications.

Melcrum's 3rd Annual North American Conference on Corporate Responsibility Communication and Reporting

stressed the vital importance of stakeholder input in the reporting process. Veteran reporters discussed the organizational value generated by the reporting process and highlighted the need to expand communications beyond the report release. Speakers from Calvert Group and F&C Asset Management detailed the information that analysts value most—and put to bed the notion that a feel-good listing of philanthropic initiatives is sufficient to demonstrate a company's status as a responsible corporate citizen.

The Ethical Corporation conference on communicating corporate values to consumers

proved an excellent forum for addressing many of the gray areas surrounding corporate responsibility. Keynotes by, among others, Seventh Generation CEO Jeffrey Hollender; Merck VP of Corporate Communications David Ruth, and Organic Valley CEO George Siemon effectively made the point that corporate responsibility is not an all-or-nothing proposition but rather a constant evolution in an increasingly complex world.

Key takeaways included the following:

- More consumers want to do business with responsible companies but are often skeptical and can detect greenwash. Transparency is thus critical to a company's ability to attract customers.
- Companies should use integrated communications, including branding and marketing, to effectively communicate corporate responsibility to consumers.

GRI Board approves new guidelines

The Global Reporting Initiative's board of directors has approved the new **G3 Guidelines**, setting the stage for a ceremonial unveiling during the [October 2006 G3 conference](#). The approval concludes a two-year consultation process to update the 2002 GRI Guidelines. The new guidelines reflect a stronger emphasis on reporting principles, materiality, quantitative disclosure, and stakeholder involvement.

Revised Equator Principles released

The Equator Principles, voluntary standards that set forth best practice in managing social and environmental risk with regard to project financing, have been [revised](#). The revision extends the scope of coverage and requires more robust nonfinancial analysis. The [new version](#) was released on July 6, 2006.

ISAE 3000 insufficient for ESG assurance

Based on [recent research](#), the European Federation of Accountants (FEE) has determined that the assurance standard used by the International Federation of Accountants, [ISAE 3000](#), is too general to provide adequate guidance for assuring non-financial reports. FEE is calling for a more specific international standard to be developed.

