Known knowns, Known unknowns & Unknown unknowns

Sustainable Business:

What makes a sustainable business ORGANISATION?

August 2010
Fish notice water last

sustainability = sustainable development = progress with risk/costs controlled

www.gapminder.org - dollar street
Sustainable Development of the Organisation

Sustainable Development is a *whole of system* concept:

Your Organisation in the context of *everything* else
Mudmap for children – what about organisations?

This in turn suggests that indicators incorporate a number of technical (and potentially contradictory) properties:

- they are formulated in consultation with children
- they measure positive achievement of ‘the good life’
- they are consistently measured through time
- they are comparable with measures used elsewhere
- they are easy to understand.

Adherence to these political and technical principles suggests the need for widespread consultation, not least with children and young people themselves. This report could be seen as part of this process of consultation. In the following sections we explore in detail wellbeing in philosophy and social theory, applied approaches to children’s and young people’s SEWB, and the linkages between them.

*Figure 1: From concepts to indicators*
Everything else shapes your value creation capabilities

Global Sustainability Trends

**Economic**
- Regulations
- Access to Capital
- Access to Information
- Disintermediation
- Innovation speed
- Ageing Infrastructure
- …

**Environmental**
- Climate Change
- Scarcity of natural resources
- Access to natural resources
- Soil, water and air pollution
- Biodiversity
- …

**Social**
- Population growth
- Ageing population
- Scarcity of skilled workforce
- Urbanization
- Healthcare costs
- …

Impact on value chains within / across sectors

Framework for SAM Corporate Sustainability Assessment

Source: SAM Research
Global financial services - "Sustainability - The way forward", January 2010
Have a good overview of your organisation.....

**Economic Criteria**
- Corporate governance
- Risk & crisis management
- Customer relationship management
- etc.

**Environmental Criteria**
- Operational eco-efficiency
- Climate strategy
- Product stewardship
- etc.

**Social Criteria**
- Human capital development
- Stakeholder engagement
- Supply chain management
- etc.

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- Revenues
- Costs
- Investments
- Earnings
- Invested Capital
- Return on Invested Capital
- Capital Structure
- Cost of Capital
- Weighted Ave. Cost of Capital

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SAM Fair Value

Global financial services - "Sustainability - The way forward", January 2010
Outperformance from Sustainability

- SAM’s sustainability data predictive power for stock-selection, reflected in the positive information ratio (0.5) of the portfolio consisting of sustainability leaders
- Added value generated by selecting sustainability leaders and avoiding sustainability laggards
- Value creation consistent and stable for the entire time period
Seize opportunity & minimise risk

Corporate sustainability ...

... is a business approach to create long-term shareholder value by seizing the opportunities and managing the risks that stem from sustainability trends and challenges.

Sustainability investing ...

... is a long-term investment approach that integrates economic, environmental, and social considerations in the selection and retention of investments.

→ The aim of sustainability investing is creating alpha
Performance Vanguard Sustainable Leaders International Fund

Inception November 2001, performance up to December 2009

Inception
p.a.

Gross Fund Performance
MSCI ex Australia
Excess Return

Inception November 2001, performance up to December 2009

-14%
-12%
-10%
-8%
-6%
-4%
-2%
0%
2%
4%
12 mths
2 Years
p.a.
3 Years
p.a.
4 Years
p.a.
5 Years
p.a.
6 Years
p.a.
7 Years
p.a.
8 Years
p.a.

Gross Fund Performance
MSCI ex Australia
Excess Return

Inception
p.a.
Global financial services: Restoring trust paramount to value creation

• Leadership, integrity
• Corporate strategy based on multi-stakeholder approach
• Balance between financial innovation, profit and risks
• Accountability for direct & indirect impact of business
• Key relational capital:
  • Customer
  • Employees
  • Society
Global financial services – Key characteristics of leaders

- Leading Global financial services recognize corporate sustainability as guiding business principle
- Global financial services in Australia started earlier than peers in integrating sustainability into their core business processes
- Multi-stakeholder engagement crucial to corporate strategy
Global financial services – Majority lagging

Regional average of total corporate sustainability score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100

*graph showing the regional average and maximum scores for sustainability in financial services across Australia, Asia, Europe, North America, and South America.*
Global financial services: Restoring confidence paramount

Business case financial services (selected criteria out of 22 criteria)

Challenges

- Leadership, integrity
- Corporate strategy based on multi-stakeholder approach
- Accountability for direct & indirect impact of business
- Relational capital:
  - Customer
  - Employees
  - Society

Quantifying preparedness

- Codes of conduct, compliance
- Customer relationship management
- Climate change governance
- Environmental/climate change related financial products
- Talent attraction & retention
- Code of ethics in investments
Global financial services – Top 10 in of corporate sustainability

As of December 2009: Australia: 6%, Asia: 33%, Europe: 35%, North America: 33%, South America 3%
Based on SAM sustainability assessment 2009; out of 208 companies, in alphabetical order

- Australia & New Zealand Banking Group (leading company)
- Banco Bilbao Vizcaya Argentaria
- Banco Bradesco
- Banco Santander
- Barclays
- Credit Suisse Group
- Itau Unibanco Holding
- National Australia Bank
- Nedbank Group
- Westpac Banking
Codes of conduct – Australia and South America leading

Regional average score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100
Codes of conduct: Reporting on adherence

Majority of companies not reporting publicly on breaches

% of companies within a region

Source: SAM sustainability assessment data 2009
Codes of conduct: Reporting on adherence in practice

ANZ Banking Group’s approach

In 2008 there were 525 serious breaches of the ANZ Code of Conduct across the Group. These mainly related to breaches of 'Abiding by the law and this code' and more specifically for breaching the ANZ Email and Internet Policy. The outcomes of these breaches were:

- 97 exonerated/no action
- 65 counselled
- 167 reprimands
- 38 resignations
- 147 dismissals
- 2 suspended
- 2 mutual separation
- 5 performance improvement
- 1 agreement to improve
- 1 training

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<th>Breaches of code of conduct</th>
<th>2008</th>
<th>2007</th>
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<td>Australia</td>
<td>251</td>
<td>282</td>
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<tr>
<td>New Zealand</td>
<td>66</td>
<td>135</td>
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<td>-</td>
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<tr>
<td>Other</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>525</td>
<td>417</td>
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</table>

Source: anz.com
Customer Relationship Management: Asia, North America lagging

Regional average score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100
Why customer relationship matters

Customer Experience: The cost of a poor customer experience is both significant and quantifiable.

What if only 22% of your customers had a poor experience? For this bank, it meant a potential loss of $3.56M

The high cost of poor customer experience

Example:
38,200 households
Annual bank profit: $18,500,000
Avg. profit per HH: $431.94

The Economics of Customer Experience:
As a percentage total customer base:
9.6% Defect = [$1.58M]
12.0% At Risk = [$1.98M]
21.6% [3.56M]

22% Poor Customer Experience
2% Complain

78% Positive Customer Experience
98% Of Customers Do Not Complain

34% At Risk [Issue not resolved]
38% Resolved
28% Defect
43% Typically Defect
56% Are at Risk [Decline in Wallet Share]

Source: Differentiating Your Bank From the Competition, Michael Hinshaw Managing Partner, MCorp, 2006
Customer relationship management – key characteristics of leading companies

• Independent department in charge of customer complaints
• Focus on customer complaints handling
• Taking complaints as input for product enhancement
• Measures for customer in distressed situations, e.g. due to severe economic conditions, natural catastrophes
• Integrated CRM systems, i.e. independent of contact point – best service delivered to customer
Climate change governance – Leading companies in Australia

Regional average score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100
Climate change governance – South America advanced

Historical comparison only for banks

Climate Change Governance
Regional average of 73 companies 2007 - 2009

Source: SAM sustainability data 2007 - 2009
Climate change governance - Key characteristics of leading companies

- Management framework, e.g. member of executive management responsible to promote climate change, regular review of climate strategy.

- Fundamental research related to climate change, e.g. estimates on costs to mitigate, adapt to climate change at company, sector level.

- Climate change aspects integrated in risk management tools, such as:
  - Due diligence processes impacting pricing.
  - Integration in company, valuation.
  - Sensitivity analysis of lending/investment portfolios related to carbon, water.

- Database/information system on carbon credit price, extreme weather events, tools to evaluate carbon exposure.
Regional average score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100

- Australia: 6%
- Asia: 33%
- Europe: 35%
- North America: 33%
- South America: 3%
Talent attraction & retention – Focus on non-financial metrics

Source: SAM sustainability assessment data 2009
Areas covered – GMO addressed in Australia, Europe

Source: SAM sustainability assessment data 2009
Code of ethics in investment/financing decisions

Regional average score, based on SAM sustainability assessment data 2009; number of companies 208 (banks & diversified financial services); maximum score = 100

[Bar chart showing regional average scores for Australia, Asia, Europe, North America, and South America.]
Global financial services: The sustainable way forward – Trustworthy & fair business partner

- Demonstrate leadership and integrity
- Balance between financial innovation, profit and risks
- Corporate strategy based on multi-stakeholder approach
- Accountability for direct & indirect impact of business
- Strong relationship with:
  - Customer
  - Employees
  - Society
Building for the Future –
with the Credit Suisse Minergie Mortgage

Climate change has become one of our greatest challenges. This is why sustainability considerations are becoming more and more important whenever anything new is created nowadays.

Credit Suisse committed to effective climate protection at a very early stage: It was the first major Swiss corporation to operate on a carbon-neutral basis. All new building work is thus carried out in strict compliance with Minergie standards. And, whenever possible, the same goal is pursued in renovations. For the same reason, we also offer a special range of mortgages to help you finance your Minergie projects, regardless of whether you are planning a purchase or a new building.

A Standard for the Future
Minergie, Minergie-P and Minergie-Eco are quality labels for new and renovated properties. All three standards denote more living comfort and less energy consumption; each of them sets different requirements for the construction methods. For example, they define the insulation factor for the building envelope, the type of air renewal (comfort ventilation), the overall...
Innovation in Agri-business

Case Study: Greenhouse horticulture, from bulk energy user to energy supplier!

The greenhouse horticultural sector is traditionally known as a bulk user of energy. But the sector is very busy putting an end to this. Through innovative technical solutions, greenhouses can be transformed from energy users to energy suppliers. In this transformation process, Rabobank can fulfil the role of catalyst.

Other case studies include:

* Financial services and human rights
* Climate compensation credit card: an innovative combination
* Sustainable development of the housing market.

Source: www.rabobank.com
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