ENHANCING INVESTOR ENGAGEMENT

A practical guide for investor relations teams to engage on the drivers of sustainable value

By the A4S Chief Financial Officer Leadership Network

THE PRINCE'S CHARITIES

ACCOUNTING FOR SUSTAINABILITY

THE A4S CFO LEADERSHIP NETWORK

The **Prince's Accounting for Sustainability Project (A4S)** was established by HRH The Prince of Wales in 2004 to convene senior leaders in the finance, accounting and investor communities to catalyse a fundamental shift towards resilient business models and a sustainable economy.

The **A4S Chief Financial Officer Leadership Network** was launched by HRH The Prince of Wales at St James's Palace in December 2013. The Network brings together a group of leading CFOs from large European businesses seeking to embed the management of environmental and social issues into business processes and strategy. We believe it is the first grouping of its kind globally.

The Network has worked on a number of projects during 2014 including looking at ways to engage investors on the drivers of sustainable business value, the subject of this guide. The outputs from all of the projects are available on the A4S website www.accountingforsustainability.org.

The project team would value feedback on this guide from other organisations working in this area. Please send any comments to: accountingforsustainability@royal.gsx.gov.uk.

NETWORK MEMBERS

The following CFOs were Network members during 2014:

Scott Longhurst Anglian Water

Lucinda Bell British Land

Evelyn Bourke Bupa

Carol Fairweather Burberry Group*

Pierre-André Terisse (co-chair) Danone*

Alan Stewart / Paul Friston Marks and Spencer*

Andrew Bonfield National Grid

Susan Davy Pennon Group (South West Water)

Rolf-Dieter Schwalb Royal DSM*

John Rogers (co-chair) Sainsbury's*

Gregor Alexander SSE

John Lelliott The Crown Estate

Jean-Marc Huët Unilever*

Russ Houlden United Utilities Group

Richard Mayfield Walmart EMEA (Ex Asda CFO)

Liz Barber Yorkshire Water

*These companies are members of the Network's investor engagement project.

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"We feel that there remains a gulf between the importance placed on understanding how sustainability trends are shaping corporate value by companies and the interest in these issues from their investors"

INTRODUCTION FROM THE A4S CFO LEADERSHIP NETWORK

Sustainability is fundamental to the success of business. Issues such as water scarcity, natural resource constraints, climate change and labour conditions in the supply chain are already impacting our businesses. That impact will only increase.

We believe that, by finding ways to respond to sustainability trends in our business model and strategy - we will gain competitive advantage, generate growth opportunities, reduce costs and manage risks.

We believe that our investors should be interested in these drivers and our response too.

However, we feel that there remains a gulf between the importance placed on understanding how sustainability trends are shaping corporate value by companies and the interest in these issues from their investors. We are not alone in this belief. How many of us have thought, "I have just held over 50 roadshows with my investors and haven't been asked a single question on how sustainability issues are impacting my business."

In response, it is easy just to avoid the topic and focus only on the financials. We suspect many of us have been guilty of this. However, we feel that there must be more that we could do to engage our investors effectively on these issues. If we are convinced that sustainability matters, won't they be too?

We have therefore sought to develop a practical guide to assist companies as they seek to engage investors on their individual business models for creating long term value. We have focused specifically on the actions companies need to take. We have sought the views of many players from across our investment value chain as input, and we very much hope that the output will also be of use to those in the investor community who want to move the debate beyond the short term.

We have focused initial efforts on the equity markets – in itself a huge subject. Our future programme will extend this work to cover debt, banking and corporate finance – ultimately seeking to look at our full range of interactions with the capital markets.

For those who are reading the guide with a view to changing the quality of their investor discussions, we look forward to receiving your feedback so that we can learn together how to communicate the long term investment case to our shareholders.

John Rogers, CFO, Sainsbury's and
Pierre-André Terisse, CFO, Danone

Co-chairs of the CFO Leadership Network

FOREWORD

This practical guide is the result of a series of interviews with companies, asset owners, asset managers, sell-side analysts, corporate brokers and other participants in the investment value chain. Between April and July 2014, we held a series of one-to-one interviews, roundtables and wider discussions to gain insights into how different people within the investment chain currently integrate considerations around long term performance and sustainable business models into their investment process, and what companies could do differently to engage on these issues more effectively.

All who contributed to the project had strong views and shared their experience and insights freely and constructively. We have then tried to bring them together into a straight-forward guide which will help those working at the interface between companies and investors as they seek to ensure that the investment case is constructed and communicated well.

The guide falls into two main sections:

- The first section outlines the pre-requisites for successful engagement with investors in the long term. A company needs to integrate long term thinking into its strategy and internal decision making to have a credible platform from which to communicate.
- The second section then gets into the practical details to consider when putting together the communication plan and the content.

I would join John and Pierre-André in thanking all of those who have contributed to this work. For those who are reading the guide with a view to changing the quality of their investor discussions, we wish you well and we look forward to receiving your feedback and experience so that we can learn together how to communicate the long term investment case to our shareholders.

Roger Seabrook, Investor Relations, Unilever

Chair of the A4S investor engagement project

INTRODUCTION

WHY ENGAGE INVESTORS AROUND SUSTAINABILITY?

More and more companies see sustainability issues as being fundamental to the success of their business. If you think it matters to your business, so will many of your investors. However, at the moment investors say that companies are failing to communicate effectively on why sustainability matters.

One of the clearest insights is from a recent Accenture / UN Global Compact survey[1] of over 100 investors and 1,000 corporate CEOs which found that, although 88% of investors saw sustainability as a route to competitive advantage, companies were not communicating this effectively. For example:

- 57% of corporate CEOs said they were able to set out their strategy for seizing opportunities presented by sustainability; when asked the same question of the companies in which they invest, just 8% of investors believed this to be the case.
- 38% of CEOs believed they were able to accurately quantify the business value of their sustainability initiatives – but just 7% of investors agreed.

If a company is to create value for shareholders, customers, employees and society in both the short and long term, it needs to attract investors who have confidence in their business model, strategy, key resource needs and the main risk factors, so that they are willing to provide the capital needed for it to achieve its aims.

With this in mind it is worth noting that:

1. **Sustainability matters. A growing body of research suggests that there is a correlation between sustainability practices and performance.**

   As an example, recent research was published by the University of Oxford Smith School and Arabesque Asset Management which found that:

   - 90% of relevant studies suggest that sound sustainability standards lower cost of capital.
   - 88% of research suggests a correlation between strong environmental, social and governance (ESG) practices and better operational performance.
   - 80% of studies show that stock price is positively correlated with good sustainability practices.

2. **Those investors who do take sustainability issues seriously tend to be those that invest for the long term. Integrating sustainability into business decisions may therefore increase the long term orientation of your shareholder base.**

   For example, recent research by Harvard Business School's Professor George Serafeim suggests a link between integration and attracting long term investors[2].

WHAT DO WE MEAN BY SUSTAINABLE BUSINESS?

For us, a sustainable business is one that delivers financial returns in the short and long term in a way that generates positive value for society and operates within environmental constraints.

Growing macro sustainability trends such as demographic shifts, resource constraints and climate change, coupled with higher stakeholder expectations on business and an increasing ability for people to unite around issues of concern, are starting to have a profound impact on the operating environment for businesses, presenting both risks and opportunities to respond. Examples of some of the key trends impacting business over the coming decades, many of which are interconnected, are summarised below.

Rapid population change and urbanisation

The world's population is predicted to rise from 7 billion in 2011 to between 8.3 and 10.9 billion in 2050[3]. Coupled with growth of the global middle class by almost 3 billion by 2050[4], this will result in large scale increases in resource consumption. At the same time, there is an increase in the percentage of people living in urban areas from 54% today to 66% in 2050 – an extra 2.5 billion people – putting additional strain on resources and available land[5]. Youth unemployment coupled with an ageing population remains a pressing global challenge. Between 2000 and 2050, the proportion of the world's population over 60 years will double from around 11% to 22% with significant consequences for pensions and healthcare costs[6].

Increasing resource constraints

With the global population growing at a rate of approximately 80 million people a year, by 2030 it is estimated that the world will need 30% more water, 50% more energy and 50% more food[7]. In many cases, our ability to meet these needs is severely constrained by an already stressed natural environment.

Climate change

The Intergovernmental Panel on Climate Change predicts that we are on a path to a 3.7°C to 4.8°C warmer climate by 2100 compared to pre-industrial times (circa 1800), while many governments and scientists agree that the world needs to keep below an average global temperature rise of 2°C to avoid dangerous climate change[8].

Changing weather patterns

Rising global temperatures and greater volatility of weather patterns are leading to more frequent heat waves, droughts, floods and other extreme weather events. In 2013, extreme weather events were behind $37bn of the world's $45bn disaster-related insured losses[9].

Growing connectedness

The rise of internet coverage and social media is placing organisations under increasing scrutiny from society leading to new transparency and responsibility benchmarks.

For more information on the kinds of risks and opportunities impacting businesses and how to respond, see the "Managing future uncertainty: an introduction to integrating risks resulting from macro sustainability trends into business decision-making" by the A4S CFO Leadership Network.

Sceptics say

"My investors never ask me about sustainability issues..."

"When I talk about our corporate responsibility activities, heads go down and the phones come out..."

Our challenge to you...

"Have you ever tried to explain why sustainability is commercially relevant?"

"Are you listening to the buy-side or the sell-side? Are they listening to the ultimate owners of the capital?"

"Have you integrated the discussion throughout your investment case, linked to the strategy and commercial outcomes, and given a convincing explanation of how it all fits together?"

PRE-REQUISITES

What needs to be in place first if you are going to convince your investors that sustainability matters?

If you don't believe that environmental and social issues are relevant to the commercial success of your business, why would your investors? One of the key messages we heard from the investors we have spoken to is that they aren't convinced that companies really think sustainability issues matter to their business success.

Before launching into investor communications on sustainability, thought needs to be given to how integrated it really is into how the business is run. The investor relations team won't be able to put these pre-requisites in place, but can work with their CFO and others in the company to make sure steps are taken, and investors are engaged in that process.

INTEGRATING SUSTAINABILITY INTO HOW THE BUSINESS IS RUN

There are a number of areas that provide a clear signal in terms of how serious you are – and are clear giveaways if sustainability is not a core part of how you run the business.

Key questions to ask yourself when considering how integrated sustainability is into your business, are on the right.

KEY QUESTIONS TO ASK YOURSELF

A How sustainable is your business model?

B Do you have an integrated strategy?

C Is sustainability integrated into your governance arrangements?

D How is it reflected in remuneration?

E What targets and performance measures do you use for regular management and external reporting?

For more detail on why these questions matter and areas to think about, read on.

A) SUSTAINABLE BUSINESS MODEL

Understand how natural, social, human and financial capital underpins your business model, now and into the future.

Why does it matter?

- All businesses rely on a range of resources and relationships. Analysing the link between these different types of 'capital' and the business model helps to draw out how sustainability issues are relevant
- Investors are interested in issues that will impact the sustainability of the business model. Providing this analysis helps to provide a concrete focus for discussions
- The costs of inaction are potentially material - from locking-in future risks to intangible costs around reputational risk

Areas to think about

- Assess whether there are sustainability-related trends, for example natural resource constraints, price increases or supply chain insecurity that will impact your business model – what value you create and how
- Consider what outcomes and impacts arise from your business model and how these will effect your business, for example in terms of licence to operate
- Think about disruptive risks that arise from sustainability issues

FURTHER READING

"Managing future uncertainty: an introduction to integrating risks resulting from macro sustainability trends into business decision-making"
A4S CFO Leadership Network

"Business Models: Back to Basics"
PwC

ROYAL DSM

Transitioning towards a sustainable business model

Fifteen years ago, we began to refocus our operations onto a much more sustainable and responsible footing in response to sustainability megatrends that we felt presented a significant opportunity – and threat if we didn't respond. We have moved away from fossil fuel based petro chemical businesses and turned to health, nutrition and materials sciences.

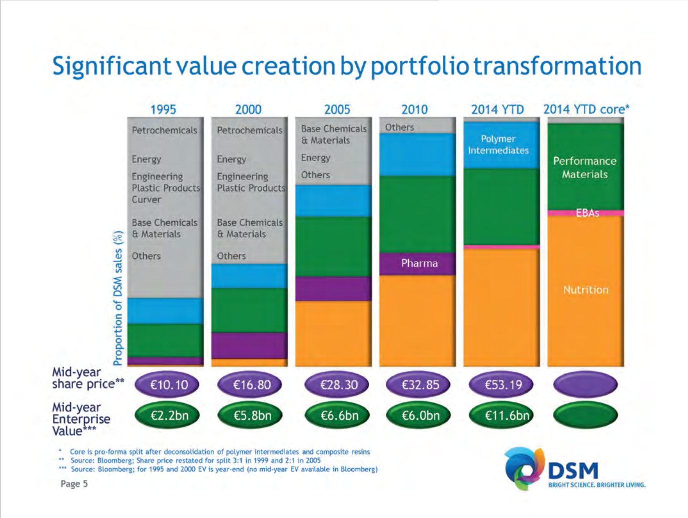
At the heart of our mission is the core value of sustainability and a commitment to helping create a more sustainable world. As part of our 2010-2015 strategy, the company has taken sustainability to the next level. In addition to fulfilling our own responsibilities towards society, we have successfully developed sustainability as a strategic growth driver.

For us, sustainability is a key differentiator and value driver in our markets. We are uniquely positioned to capitalise on the many opportunities this presents across the value chain. As an integral part of the company's operations, strategic actions and decisions, sustainability guides the activities of our global business groups. They are charged with continuously developing innovative science-based products and solutions that contribute to a brighter future for people, while helping to increase our profitability.

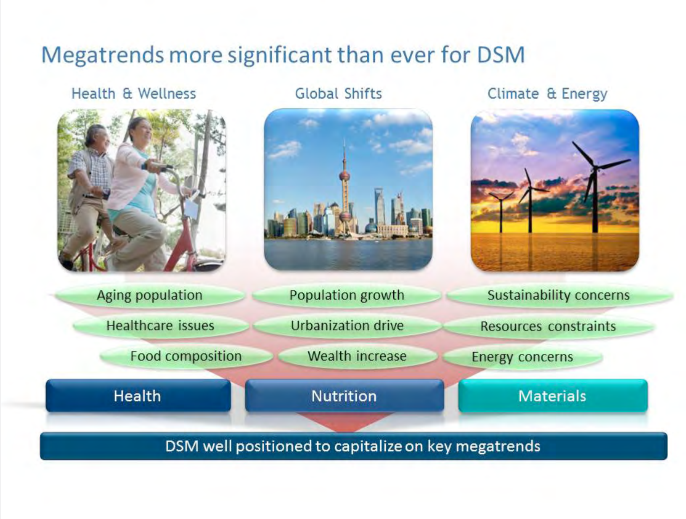
In order to have commitment from shareholders for this business model, DSM had to focus on those investors who take the long term view.

DSM'S BUSINESS MODEL TRANSFORMATION

Extracts from 2014 Capital Markets Day Analyst presentation



MEGATRENDS DRIVING MORE SIGNIFICANT THAN EVER



B) INTEGRATE INTO STRATEGY

Develop a single, integrated strategy instead of separate business and sustainability strategies.

Why does it matter?

- Reinforces relevance to core business activities
- Highlights links between commercial and sustainability outcomes

Areas to think about

- Driving business growth in the long term
- Reducing costs and making supply chains robust and adaptable
- Managing risks associated with availability of key resources and the expectations from wider society

FURTHER READING

"The Performance Frontier: Innovating for a Sustainable Strategy"

Harvard Business Review

UNILEVER

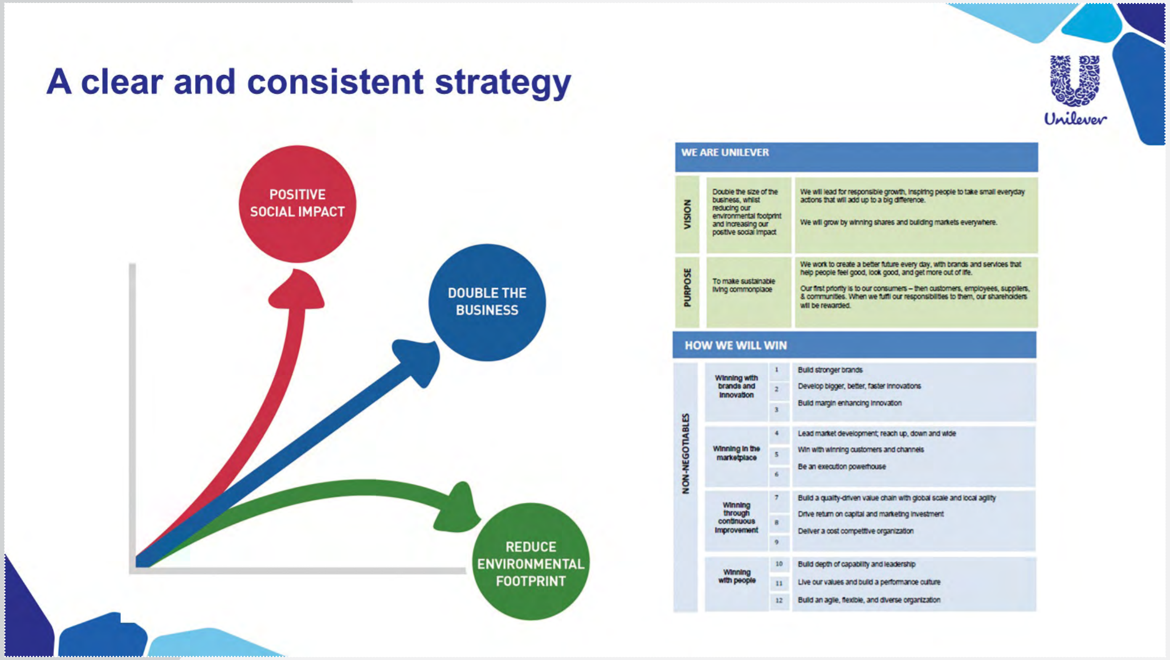
What does an integrated strategy look like?

We call our business strategy document 'The Compass', since it sets out a constant path for Unilever for the long term. The Compass lays out our ambitious purpose and vision:

- Purpose: "to make sustainable living commonplace"
- Vision: "to double the size of the business, whilst reducing our environmental footprint and increasing our positive social impact"

UNILEVER'S INTEGRATED STRATEGY

Extract from 2014 investor introduction to Unilever presentation



C) INTEGRATED GOVERNANCE

Integrate sustainability into governance arrangements.

Why does it matter?

- Sets a clear tone from the top

Areas to think about

- Board and senior management advocacy around relevance of sustainability to the business
- Board oversight of the company's integrated strategy
- Sustainability considerations integrated into all Board committees (e.g. audit, nominating, remuneration, etc.)
- Sustainability integrated into roles and responsibilities throughout the organisation
- Integrated reporting used by Board and management to measure process

D) REMUNERATION

Modify executive remuneration schemes to include specific sustainability-related targets linked to the company's strategy which are appropriate, quantified and assurable.

Why does it matter?

- Provides the right incentives for long term, sustainable action
- Sends a clear signal that the business is serious about the long term agenda

Areas to think about

- Adopt a mix of long term and short term targets related to the creation and successful delivery of sustainable business models
- Find robust, transparent long term measures and engage investors early to gain buy-in on rationale and benefits from adoption

ABI

Good practice guidelines – the ABI Principles of Remuneration

The Association of British Insurers 2013 guidelines on remuneration state the following in relation to integration of sustainability issues into remuneration:

"Boards of Directors are appointed by shareholders to run companies and act in their interests. They have a fiduciary duty to act in the best interests of their shareholders when determining remuneration. It is their responsibility to promote the long-term success of the company, taking into account the interests of employees, suppliers, customers, community, the environment and society."

"Remuneration committees may consider non-financial performance criteria in variable remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational objectives. ESG measures should only be used if they are material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained."

FURTHER READING

"Integrated Governance, A New Model of Governance for Sustainability"

UNEP-Finance Initiative Asset Management Working Group

FURTHER READING

"ABI Principles of Remuneration"

Association of British Insurers

ROYAL DSM

Integrating sustainability targets into short and long term remuneration – DSM's approach

The objective of our remuneration policy is to attract, motivate and retain qualified and expert individuals that the company needs in order to achieve our strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognising the interests of our stakeholders. Our remuneration policy reflects a balance between the interests of our main stakeholders as well as a balance between the company's short term and long term strategy. As a result, the structure of the remuneration package for the Managing Board is designed to balance short term operational performance with the medium and long term objective of creating sustainable value within the company, while taking into account the interests of its stakeholders. We strive for a high performance in the field of sustainability and aim to maintain a good balance between economic gains, respect for people and concern for the environment in line with our values and business principles as reflected in the DSM Code of Business Conduct.

In order to ensure our investors were on board, we went through a process of engagement and communication to make sure that they were comfortable that our sustainability targets were robust and aligned with our strategic objectives, for example, ECO+ product launches.

EXTRACT FROM DSM'S FACT BOOK 2014

50% of DSM's short term and long term incentives are related to sustainability targets - all aligned with the company's strategic priorities

	Element	Vehicle	Performance Targets & Measure		Target Pay-out (% of ABS)
Fixed	100% Base Salary	Cash	N/A		100%
Variable	50% Short Term Incentive *	Cash	Financial	• EBITDA (before exceptional items) • Gross free cash flow • Organic net sales growth	10% 7.5% 7.5%
			Sustainability & Individual	• ECO+ products • Safety • Employee Engagement index • Individual	5% 5% 5% 10%
			Threshold	• Minimum performance threshold for STI payout set by Supervisory Board	
	100% Long Term Incentive	Performance Shares	Financial	• TSR (relative) • ROCE	25% 25%
			Sustainability	• Greenhouse gas emissions reduction • Energy Efficiency Improvement	25% 25%

* STI deferral into shares:

- Up to 50% of actual bonus pay-out for a 3-year period, split between mandatory (25%) and voluntary (25%).
- The Supervisory Board can match the total STI deferral with shares (on a one for one basis) linked to realization of performance measures over the same 3-year period.

E) TARGETS, SCORECARDS AND PERFORMANCE MEASUREMENT

Focus on a few significant KPIs linked to value drivers and integrate within internal and external reporting, with clear targets to drive performance.

Why does it matter?

- Measurement and performance management will drive action
- Having a few key sustainability measures with business relevance gives a clear signal about focus and what management sees as important
- Targets and performance measures underpin remuneration

Areas to think about

- Link sustainability KPIs to strategy, risk and remuneration
- Integrate KPIs within scorecards, target setting and performance management
- Ensure targets are "SMART"
- Invest to improve the maturity of non-financial metrics over time

FURTHER READING

"The Value Driver Model: A tool for communicating the business value of sustainability"

UN Global Compact and UN Principles for Responsible Investment

DANONE

Setting an ambitious target and integrating into business decisions

We introduced a new Nature Division in 2008. Reporting directly to the company's CFO, the Division is applying financial disciplines to the way environmental data is measured and managed. KPIs on projects now always include environmental measures. We worked with SAP, the software provider, to expand the group's financial management system to include monthly carbon footprint data at an individual product level.

Thanks to this tool, carbon reduction has been included as key criteria of the incentive scheme programme for executives, enabling us to foster performance in this area. This has been key to us exceeding our ambitious target for carbon intensity reduction (37% reduction from 2007 to 2013, vs a 30% target).

"The whole idea was to put nature at the heart of the business" says Laura Palmeiro, former Vice-President of Finance for the Nature Division. *"With a common KPI and a solid measurement tool, we have been able to identify many areas for enhanced efficiency and productivity. This will also help us manage increasing rules and legislation regarding climate change in the future, and build a clear reputational advantage."*

In 2012, we exceeded our original target (30% reduction) and our current goal is to pursue efforts up to a 50% reduction by 2020.

DANONE'S TARGET SETTING

Extracts from 2012 results presentation and 2013 results press release


PRESS RELEASE

DANONE

2013 Full-Year Results

February 20, 2014

Reduction of carbon footprint

Danone products depend to a large extent on natural ecosystems. It is thus in the Group's best interest to make care for the environment an integral part of its business activities.

Since carbon footprint is a global indicator that reflects a wide range of environmental criteria, Danone has committed to reducing the carbon intensity[1] of its products very significantly over the past several years. As a result of action plans deployed to this end, the Group reduced its carbon intensity[1] by -37.4%[2] from 2008 to 2013.

[1] Grams of $C0_2$ per kilo of product sold

[2] Based on constant scope of consolidation, excluding Unimilk, and on emissions under Danone's *direct responsibility (packaging, industrial activities, logistics and end of life)*

WHERE TO START?

Overarching principles to help guide you

Once you have started to put the fundamentals in place, then you can develop the narrative for investors and begin to share it with them.

Based on the interviews and advice from the wide range of market participants who contributed to our work, we have developed a few simple principles which will help ensure that your efforts are effective.

The basic rules are the same as those for any communication with investors. While the time horizon can be longer than some companies typically discuss with the markets, and it can be harder to demonstrate the link between investment and return, the same can be said of investment in talent and in building strong brands, so this should not be seen as an entirely new challenge.

However, the fact that we were not able to find many companies whose investors believe are already doing it well, shows that we still have a long way to go.

We have developed a set of overarching principles which can help guide how you can communicate and interact with your investors.

1. **Link to strategy:** Build communications around the long term corporate strategy.
2. **Provide context:** Quantify external drivers.
3. **Have a long term focus:** Put short term results in the context of long term goals.
4. **Adopt a commercial tone:** Link sustainability to revenue growth, cost reduction, risk management or retention of key people.
5. **Integrate:** Integrate sustainability throughout all communications, not as a standalone section.
6. **Be consistent:** Be consistent year-on-year and across different communications.
7. **Use standards:** Use recognised standards to report sustainability performance and get external assurance for the key metrics.

Each of these principles is explored in more detail over the following pages.

Things to avoid

1. Over-exaggerating the risks or benefits
2. Only talking about the benefits of a sustainable strategy – if there are costs, you need to show that you are tracking the associated investments and being clear what trade-offs you are making and why

1) LINK TO STRATEGY

Build communications around the long term corporate strategy

If you have integrated sustainability into your strategy, it provides a hook to show relevance and how your business is differentiated from competitors. You can then use your integrated strategy to focus the conversation on the issues that are fundamental to the business's ongoing performance, rather than short term 'noise'.

Actions

- Communicate why a longer term, focused, sustainable strategy matters
- Re-enforce the strategy within all relevant presentations and communications
- Describe a compelling business case for pursuing your sustainable strategy
- Ensure there is strong, consistent and repeated advocacy of your sustainable strategy by senior management
- Show how you have built a trusted brand based on your sustainable strategy
- Link targets and KPIs to the strategy

2) PROVIDE CONTEXT

Quantify external drivers

There are few businesses which won't be impacted by major environmental and social trends over the coming decades – whether growth of the middle class and changing consumer demands, climate change and natural disaster risk, or population growth and natural resource constraints. The more that you are able to quantify the consequences of these trends for your business, the more your investors will be able to respond.

Actions

- Show how sustainability 'mega-trends' will impact future growth, costs and risk profile
- Demonstrate how your strategy is responding to these trends
- Provide analysis of how you are positioned now and in the future using external data where available

3) HAVE A LONG TERM FOCUS

Put short term results in the context of long term goals

Sustainability issues can impact performance in the short term, but are likely to be particularly material in the long term. Bringing communications back to the long term and away from the last quarter's performance helps focus discussion on the issues that you see as relevant to the business fundamentals.

Actions

- Create a better balance between short term and longer term items in your regular reporting
- Report longer term metrics with appropriate frequency
- Put short term issues into the context of longer term strategy, external drivers and context – what are the trends and how will they impact your business? Don't focus on the last quarter in isolation
- Focus on what the long term investors / buy-side want, not what short term oriented investors and the sell-side ask for
- Work to find credible and comparable long term performance measures that can help shift the focus away from short term indicators, building the evidence base to achieve credibility
- Demonstrate progress over time – include short term sustainability measures and milestones to demonstrate you are on track

4) ADOPT A COMMERCIAL TONE

Link sustainability to revenue growth, cost reduction, risk management or retention of key people

To get your investors to take sustainability issues seriously, you need to communicate relevance to the bottom line. Some investors will care about your corporate responsibility activities, but some won't.

Actions

- Demonstrate that sustainability issues are key business drivers
- Explain what you are doing, why you are doing it and what the commercial impacts are
- Provide the numbers to back up what you are saying
- Where financial benefits are hard to quantify, look at other ways to draw the link back to the business, e.g. risk mitigation or building customer loyalty, with evidence to support it
- Only report what matters – don't present sustainability information that you can't link back to the strategy and business model

ROYAL DSM

Adopting a commercial tone – ECO+ programme for eco-premium products driving sales at DSM

Extract from 2014 Capital Markets Day Analyst presentation

In 2009, DSM began with its ECO+ programme as a means to measure the added value of our products that offer a superior performance and lower eco-footprint than competing mainstream products over their entire life cycle.

The ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use, to potential re-use and end-of-life disposal. ECO+ solutions, in short, create more societal value with less environmental impact.
They are also good for the bottom line.

In 2010, DSM's strategy 'DSM in Motion: driving focused growth' set out clear global targets for ECO+ products by 2015. These targets were, at least 80% of its innovation pipeline and 50% of running sales (34% in 2010) to consist of ECO+ products. In fact, in 2014, DSM reached 95% of its innovation pipeline consisting of ECO+ solutions and already accounted for 45% of running sales.

From a commercial perspective, ECO+ is also proving to be a real business growth driver since ECO+ products are on average more profitable than non-ECO+ products.

Sustainability is a strong business driver

- YTD Q3 2014 ECO+ sales above 45%
- Well on track towards 2015 aspiration of 50%
- More than 90% of DSM's innovation pipeline is ECO+, strongly driving a greener portfolio
- ECO+ sales have grown - 10% per year since 2010
- ECO+ sales have significantly higher contribution margins versus non ECO+ sales
- People+: DSM are at the forefront of a new methodology to measure impact of products on people's lives, creating credibility and transparency

MARKS AND SPENCER

Adopting a commercial tone – how M&S have quantified the benefits and cost savings from Plan A

Our sustainability programme, Plan A, delivered £145m of net benefits to the business in 2013/14 and £465m since its launch in 2007. As a result of its implementation, we have generated significant savings from activities to reduce energy, packaging, water, carrier bag use and waste. These cost savings are re-invested back into business growth.

We have strong governance over the implementation of Plan A to monitor the benefits it provides. The costs and benefits of all 100 Plan A commitments are measured by finance teams in each business area to generate the corporate figure which is also checked by our Internal Assurance team. The credibility of these figures has in turn provided us with the confidence that we are doing the right thing and inspired us to work harder to build the business case further.

The desire for strong governance was twofold. Internally, to ensure that a major business initiative that touched every part of the business was being delivered effectively and efficiently. Externally to underpin the robust, independently assured reporting of our claims and demonstrate to others that a responsible business could be a profitable one too.

5) INTEGRATE

Integrate sustainability throughout all communications, not as a standalone section

If sustainability issues and your company's response to them are integrated into discussions and communications with your investors, it will be much easier to demonstrate convincingly how they are relevant to the business. Presenting a standalone sustainability or corporate responsibility section leaves it to your investors to try and work out the connections and suggests that you don't really see sustainability issues as business critical.

Actions

- Integrate sustainability into discussions on strategy, business model, governance, risks and performance
- Weave sustainability into all investor communications (press releases, press interviews, website, presentations, interim and annual reports, etc.) in an integrated way, linking back to value drivers, strategy and commercial outcomes
- Integrate the good and the bad
- Adopt an Integrated Reporting approach for your annual report, presentations and other communications

INTEGRATED REPORTING – AN OVERARCHING FRAMEWORK

The concept of Integrated Reporting is catching on fast. The UK's recent Strategy Report requirements draw on the principles of Integrated Reporting, as do the European Union's recent non-financial disclosure requirements. In 2013, the International Integrated Reporting Council (IIRC), the international body bringing together financial and sustainability standard setters, regulators, investors and companies, published its International Integrated Reporting Framework after global consultation and input from its pilot programme of over 100 companies and 50 investors. The Framework provides guidance on communicating how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

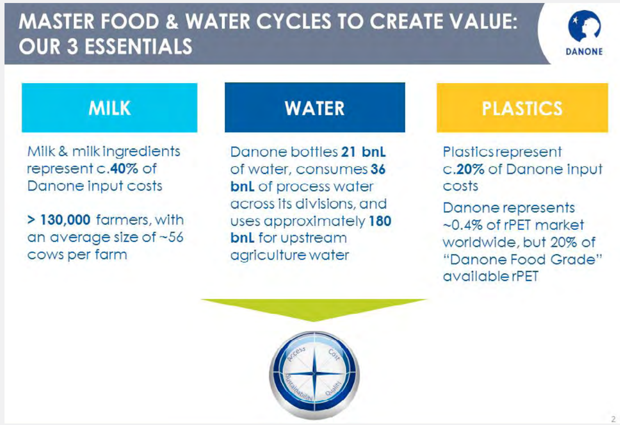
DANONE

Highlighting the materiality of sustainability drivers in investor presentations

The company mission of "Bringing health through food to the maximum number of people" has been driving the strategy of the group since 2006. This includes an analysis of how major sustainability trends such as nutrition and agriculture are key to grow further our business in a profitable and sustainable way. We are starting to incorporate this messaging into our investor presentations, putting numbers to the trends and highlighting materiality to the business wherever we can, to help our investors understand how these risks and opportunities are fundamental to our business model and value. We have also participated in the IIRC's pilot programme since its launch in 2011, helping to develop and test the International Integrated Reporting Framework.

INTEGRATING SUSTAINABILITY WITHIN DANONE'S INVESTOR PRESENTATIONS

Extract from New York Investor Seminar 2014



6) BE CONSISTENT

Be consistent year-on-year and across different communications

Setting a long term, sustainable strategy and sticking to it is a clear signal that management are confident and in control, particularly when measures used to report against the strategy are also consistent and can demonstrate progress made.

Actions

- Set out your long term integrated strategy and stick to it
- Once you have decided on specific performance measures which are material and insightful, be consistent year-on-year, whatever the results
- Ensure that messages are consistent across different communications. It is easy to spot inconsistencies with digital access

7) USE STANDARDS

Use recognised standards to report sustainability performance and get external assurance for the key metrics

A lack of comparable, standardised performance information across companies was repeatedly cited as a barrier to investors integrating sustainability issues into their analysis. Companies who want their investors to take their sustainability performance into account should support efforts to adopt international standards.

Actions

Use recognised sustainability standards to report performance whenever possible. There are two main sustainability accounting standards:

- The Global Reporting Initiative is the most widely used reporting standard and provides definitions for a wide range of social, environmental and economic indicators that companies can reference
- The US-based Sustainability Accounting Standards Board is defining material KPIs on a sector-by-sector basis specifically aimed at investors

CAUTION!

Reporting standards provide a good basis for performance reporting, but as with financial reporting standards, they don't necessarily provide a good basis for communicating to investors. Use standards to make sure material sustainability performance data is provided in a standardised way, but differentiate through business relevant measures as part of your overall story.

Sustainability reporting standards – rapid growth in reporting but little consistency

Based on KPMG research, 71% of the 4,100[10] companies surveyed are doing sustainability reporting, with 78% of them using the Global Reporting Initiative guidelines as the reference standard, and 51% including corporate responsibility information in their annual report.

However, using Bloomberg data, recent research by Corporate Knights Capital, sponsored by Aviva, Standard & Poor's Ratings Services and ACCA, found that only 3% of the world's 4,609 large listed companies disclosed all seven 'first generation'[11] basic sustainability indicators in 2012.

In part, the difference can be explained by low disclosure rates found by Corporate Knights Capital on US-based stock exchanges, which form a significantly higher percentage of the sample relative to the KPMG study.

APPLYING THE PRINCIPLES

How can I integrate into investor relations activities?

Think about how to apply the principles across all activities that the investor relations team undertakes. Examples of how to do this are set out over the next three pages, broken down into the following areas:

- **People**
- **Digital**
- **Presentations and reports**
- **Quarterly updates and analyst calls**
- **Investor relations strategy and operations**

Suggestions have been split between those that are quick and easy to do, and those that will take more time.

PEOPLE

Quick and easy

- Speak to your corporate responsibility or sustainability team – help them understand the kind of insights you need and get them to help you understand how sustainability impacts performance
- Speak to a range of representatives from your investor base on both the buy and sell sides to find out what they would be interested in
- Engage with the financial media on the long term trends driving the business outside the results period

In the long run

- Brief your Board, senior management, divisional heads and all your investor relations colleagues so that they are confident to talk about the sustainability agenda without support from the corporate responsibility team. Ultimately, every representative from the business should be able to speak credibly about why sustainability is relevant – including those who might meet your investors during site visits

DIGITAL

Quick and easy

- Put all investor relevant information, including that relating to sustainability, in one place to make it easy for investors to find
- For businesses that have not yet integrated sustainability issues throughout all communications, put a link to sustainability information on the investor relations page
- Include five year trend data for all key financial and sustainability performance measures alongside one another
- If already ‘tweeting’ financial results, ‘tweet’ sustainability results too

In the long run

- Include relevant sustainability information through all elements of the investor relations website including:
  - Corporate governance
  - Investment case
  - Reporting and presentations
  - Press releases

PRESENTATIONS AND REPORTS

Quick and easy

- Include your integrated strategy in all presentations and reports
- Embed sustainability into your standard investor relations pack and presentation materials
- Include five year trend data for all key financial and sustainability performance measures alongside one another

In the long run

- Build convincing sustainability activities and case studies into all presentations and reports
- Adopt Integrated Reporting principles for presentations and annual reports
- Apply an appropriate level of audit to sustainability information as you would with financial information

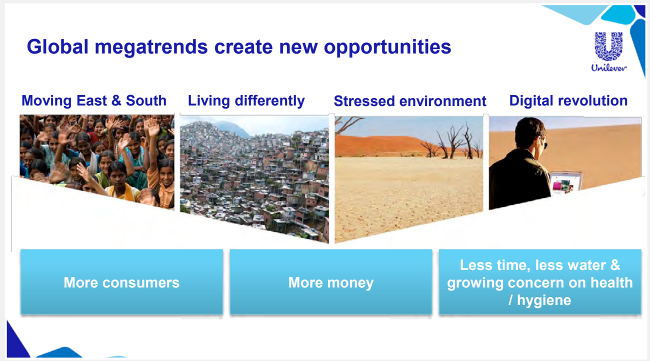
UNILEVER

Integrated presentation setting out current performance and future opportunities

At the beginning of roadshow presentations, we include a focus on strategy and business model to set the discussion in the context of our purpose and long term focus. We have used the “Winning today, Winning tomorrow” theme to break down the discussion and explain how we are positioning the business to take advantage of, and reduce risks arising from, global sustainability megatrends.

UNILEVER’S “WINNING TODAY, WINNING TOMORROW” PRESENTATION

[Extracts from Investor Roadshow Presentation 2014]



QUARTERLY UPDATES AND ANALYST CALLS

Quick and easy

- If you are permitted by regulators, re-balance your quarterly reporting disclosures to put more emphasis on long term performance and less on the short term
- Integrate sustainability measures of performance into quarterly statements
- Use the strategic framework to put the focus on longer term performance and value creation

In the long run

- Consider stopping quarterly reporting altogether – or providing significantly less information

QUARTERLY REPORTING AND INTERIM MANAGEMENT STATEMENTS – TO STOP OR NOT?

From November 2015, companies listed in European Union markets will no longer be required to produce interim management statements. For companies in the UK, early adoption will be permitted from November 2014.

Benefits

On the surface, stopping quarterly reporting is very appealing. It uses up huge amounts of management time, frequently on issues that are not relevant to the long term performance of the company and not relevant for most shareholders. Ceasing quarterly reporting could reduce short term pressure on companies, creating an environment which supports more ambitious and innovative projects in the long term interest of the company and all its stakeholders. It reduces the opportunity for trading around results announcements and may therefore result in less share price volatility over time.

Challenges

Quarterly updates provide an opportunity to tell the company's own story rather than letting the media and sell-side invent their own. This is particularly true for retailers and other sectors where third party providers publish sales data. Further, if a company knows that analyst consensus views on earnings are out of sync with expectations, they may be required to make an unscheduled announcement under security regulations to correct the market. Even if this is not required, there is likely to be increased share price volatility if results at the six month period are not in line with expectations.

How to overcome the challenges

As a first step, reduce the volume of information provided as part of quarterly updates, always setting in the long term context and providing lead indicators around future performance, for example long term sustainability metrics. Make sure that you engage your investors early to get their buy-in for what you are planning to do, and make sure that your Board is on side and supports the change.

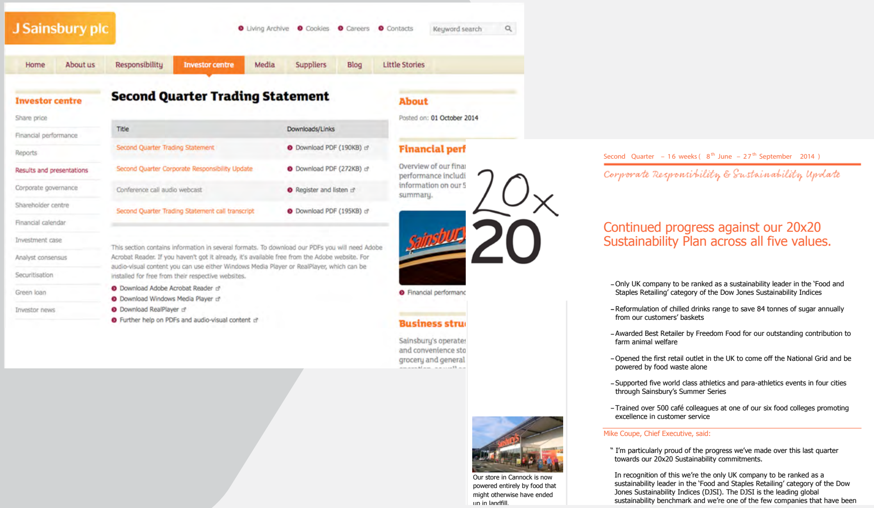
SAINSBURY'S

Providing a quarterly Corporate Responsibility update alongside the quarterly trading update

We publish a Corporate Responsibility update alongside each quarterly trading update. All published information, including sustainability information, is subject to internal verification before it is announced. We make sure that the update is easily accessible to our investors by placing it on the quarterly update section of our investor web pages.

SAINSBURY'S QUARTERLY UPDATES – CORPORATE RESPONSIBILITY ALONGSIDE TRADING RESULTS

Extracts from Sainsbury's investor centre and second quarter update



BURBERRY

Reducing the volume of quarterly reporting

We sell products to the end consumer through both retail (including digital) and wholesale channels and also have licensing agreements in Japan and globally. We report on revenue four times and profits twice annually and have a March year end. Historically, revenue for all channels and all regions had been reported in all four trading updates and revenue by product division at the First and Second Half Trading Updates. Retail increased over time to represent 75% of revenue in FY2013. In order to improve the understanding of key business trends, we modified our disclosure with effect from FY 2014:

- In our First and Third Quarter Trading Updates, we now report retail revenue only.
- In our First and Second Half Trading Updates, we now report:
  - Revenue by channel (retail, wholesale and licensing); and,
  - Retail / wholesale revenue by region and by product division.
- We continue to update retail, wholesale and licensing guidance in all Trading Updates as previously.

We took appropriate advice while making the decision to change our disclosure and also gave notice to investors and analysts of the planned change ahead of time. Including commentary on the change in the Second Half Trading Update (April 2013) with the first statement under the new disclosure the First Quarter Trading Update for FY2104 (July 2013).

INVESTOR RELATIONS STRATEGY AND OPERATIONS

Use your investor relations strategy to attract the investors that you want and who share your vision for the company.

Quick and easy

- Hold senior management strategy calls with analysts and investors outside quarterly updates
- Ensure appropriate levels of management access for investors who are focused on the long term value of the business
- Invite sustainability specialists on the investor side to key management meetings
- Make good use of investor and management time by bringing together like-minded investors to explore issues relevant to the long term in more depth
- Ensure communications are consistent

In the long run

- Consider not doing a quarterly update call
- Focus investor relations efforts on longer term focused investors:
  - Prioritise access to senior management and presence at investor events
  - Build long term relations at CIO as well as portfolio manager levels
  - Prioritise sell-side analysts who have a longer term focus and put short term issues into context
  - Hold investor meetings and analyst calls ensuring the participation of those asset managers and analysts who are focused on the long term
  - When your chairman holds investor meetings, make sure that you cover your approach to integrated governance

UNILEVER

Developing long term relationships

We have explicitly focused on building strong relationships with long term investors who engage beyond the short term quarterly results cycle. While it is not easy to prove cause and effect, it is interesting that of the top 50 investors in Unilever, around 75% have held shares continuously for more than 8 years.

MARKS AND SPENCER

Holding investor meetings with business representatives

Twice a year, we invite those investors interested in our sustainable business activities to meet with the company representatives. These events are not only attended by Plan A management and Investor Relations, but also the representatives of our two business areas, General Merchandise and Food, who are Plan A sponsors and technical leads for their business. Investors always comment on how this gives them an opportunity to drill further down into specific areas. One investor said *"It is refreshing to also see managers who really understand their business areas and can talk very eloquently about how sustainability issues fit into these both at a very technical level, but also more strategically."*

BUILDING A LONG TERM INVESTOR BASE

What can you do to attract investors who care about the long term?

Short termism is frequently cited as a barrier to sustainability, consistent with the discussions we have had. One of the suggestions arising that has sparked a lot of debate and some very strong reactions, both in favour and against, is whether or not to increase the incentive for shareholders to focus on a company's long term performance through loyalty dividends. Some commentators suggest that this approach will help to reduce market churn, reduce costs to ultimate beneficiaries, increase holding periods and focus on the long term, including sustainability. For others, however, including many of us, the idea of differential treatment for different shareholders makes us feel extremely uncomfortable and is not something we would want to implement.

Based on our discussions with investors, research and our own experience, the idea also did not receive a lot of support from institutional investors, although a small number were supportive of the idea. In France, it is commonplace to offer loyalty dividends, however, in practice many companies find that institutional shareholders do not register, because they are not convinced that the cost and restrictions of registration outweigh the additional dividends received. Nevertheless, companies thinking of exploring these ideas may be able to learn from DSM's experiences described here, or consider alternative ways to engage.

ROYAL DSM

Introduction of loyalty dividend stranded on resistance of institutional shareholders

In 2006, we proposed that long term shareholders, who held shares for at least three years, should be entitled to a 30% loyalty bonus over the average dividend for that period, and 10% a year after.

The idea behind the proposal was to encourage long term ownership by rewarding loyalty and, that through the registration needed to be eligible for the loyalty dividend, we would know our shareholders, allowing better communication with them.

The proposal met unexpectedly fierce resistance from institutional asset managers, claiming that it would lead to a discrimination between shareholders and would reduce liquidity in the stock.

Following legal procedures against the proposal and seeing that the majority of the institutional asset managers were against it, we decided to abandon the proposal.

MARKS AND SPENCER

An alternative way to engage long term investors – an investor on the M&S Plan A Advisory Board

An important part of our Plan A governance is our external Advisory Board. The Plan A Advisory Board meets the CEO and executive team twice a year to advise on key strategic elements of Plan A. It draws its members from a wide range of stakeholders including CEOs of NGOs and Sustainable Business membership organisations as well as a representative from our Non-executive Directors. Crucially, the Chief Investment Officer from one of our top shareholders sits on the Advisory Board providing an investor's perspective on the importance of sustainable change and their expectations on how value should be created in the future.

WALK THE TALK: CORPORATE PENSION FUNDS

How can you engage with your own pension plan?

Companies can start to effect change by engaging with their own pension funds – whether defined benefit or defined contribution. Asset owners – at the start of the investment chain – are frequently cited as driving a short term focus across the rest of the market.

Why

- A growing body of research shows a correlation between companies with higher sustainability scores and operational performance. In addition, such companies are less risky, have lower cost of debt and equity, and can outperform less sustainable stocks, especially over long time horizons[12]
- Corporate pension funds often rely on the parent company for financial liquidity providing a direct incentive for your company to engage with your pension funds on improving their performance
- Organisations can face a strong reputational risk if their pension fund is found to be investing in opposition to the company's values and sustainability strategy

DEFINED BENEFIT SCHEMES

Engage with your trustees and Chief Investment Officer about the business case for sustainability and how they can reflect this in their investment philosophy.

Actions

Quick and easy

- Make a clear business case for sustainability as it relates to the company as a whole and for pension fund returns
- Focus engagement on sympathetic trustees and those most engaged with the company and its sustainability policies

In the longer run

- Encourage the pension fund to select investment managers who act as responsible investors and hold them to account for adhering to the fund's own policy and expectations. For example, ask questions around integration of sustainability into portfolio management as part of the tendering process
- Encourage the pension fund to consider altering remuneration policies of asset managers to incorporate sustainability targets and shift away from short term performance metrics

WHAT DOES GOOD LOOK LIKE?

According to the UN Principles for Responsible Investment, pension funds should:

- Include environmental, social and governance (ESG) integration and engagement requirements in requests for proposals to asset managers; and
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long term horizons when appropriate).

These measures were highlighted as essential to drive a greater focus on long term issues and sustainability by recent UNEP-FI Asset Management Working Group research.

DEFINED CONTRIBUTION SCHEMES

Quick and easy

- Have at least one socially responsible investment fund option
- Make sure the default option reflects best practice around sustainable and responsible investing

In the longer run

- Integrate sustainability criteria into the pension fund provider selection process
- Ensure that sustainability is integrated across all elements of the fund choices available so that they are suitable for all employees

Engage your employees

- Use sustainability to engage employees around the pension fund
- Make it easy for employees to engage with their fund and have a voice around sustainable investment options
- Provide employees with access to information relating to the financial relevance of sustainability issues and their potential impact on long term profits and risk reduction

IS FIDUCIARY RESPONSIBILITY A BARRIER? LAWYERS SAY IT IS NOT...

Fiduciary duty is frequently given as a reason for not taking sustainability factors into account, despite research, for example the well-known 2005 Freshfields report[13] for the UNEP-FI's Asset Management Working Group, which concluded that ESG consideration by pension funds is not only voluntarily permitted but legally required, if (i) it could reasonably be believed "to be subject of clear consensus amongst beneficiaries" or (ii) the ESG consideration is expected to have a positive effect on financial performance.

In the UK, Professor John Kay's July 2012 Review of UK Equity Markets and Long Term Decision Making identified widespread concern about how fiduciary duties were interpreted in the context of investment. In particular, some stakeholders felt:

- it was not clear who in the investment chain was subject to fiduciary duties and what those duties were;
- their fiduciary duties required them to maximise returns over a short time scale, precluding consideration of long term factors which might impact on company performance; and,
- their obligations were entirely defined and limited to their contractual obligations or required no more than a duty of care.

As a result, the UK Law Commission[14] was asked to review the legal concept of fiduciary duty as applied to investment to address uncertainties and misunderstandings on the part of trustees and their advisers.

Their report concludes that:

1) Trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or environmental, social or governance issues are financially material they should take them into account.

2) Whilst the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be taken into account. We conclude that the law permits trustees to make investment decisions that are based on non-financial factors, provided that:
   - they have good reason to think that scheme members share the concern; and,
   - there is no risk of significant financial detriment to the fund.

UNILEVER

How has Unilever approached integration of sustainability into its pension arrangements? Perspectives from Mark Walker, Chief Investment Officer, Unilever Pension Funds

Unilever has 80 funded pension plans in 45 countries and there was a clear opportunity to create a consistent sustainability approach across some €21bn of pension assets. Whilst trustee groups were at different stages in developing environmental, social and governance (ESG) / sustainability strategies, Unilever's internal investment company helped to align better the corporate sustainability vision with trustee policy and to build synergies across multiple trustee groups. Some of the key trustee groups were surveyed to gather views on issues such as ESG risks, opportunities and long termism. Risks and / or opportunities were considered across financial, non-financial and reputational factors.

The sustainable investments journey has only really started in earnest in the last few years but already there have been some significant steps taken:

- **Information:** portfolio screening across equities and bonds to assess ESG factors and trends leading to, amongst other things, more powerful discussions with external fund managers
- **Responsible investment:** the largest Unilever pension funds and asset pooling vehicles have appointed Hermes Equity Ownership Services to ensure a focus on engagement and voting within portfolios
- **Principles for Responsible Investment:** becoming one of a small group of corporate pension fund signatories after gaining support from Unilever's largest pension fund trustee Groups
- **Providers:** more formal integration of ESG factors into fund manager selection and monitoring policies

There will still be many steps and actions along the way plus, no doubt, a few disagreements and controversial issues to address! However, with a supportive sponsoring employer and engaged trustees with eyes on a broad range of risks, opportunities and long term value creation, there is clear alignment of interests on the positive impact of being more sustainable investors on behalf of pension plan beneficiaries.

MARKS AND SPENCER

Engaging with our pension fund leads to adoption of ESG principles, aligned with the company's sustainability strategy

In line with our Plan A strategy, we have engaged with our pension fund to help it assess the relevance of environmental, social and governance (ESG) factors to enable integration.

Following this engagement, the pension fund:

- is now a member of the UN Principles for Responsible Investment;
- has a Statement of Investment Principles that includes a commitment to consider ESG risks and opportunities in its investment process;
- has a voting policy with regard to shareholder resolutions in investee companies which requires active voting with respect to ESG factors; and,
- actively engages with investee companies regarding ESG issues.

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TOP 10 TAKEAWAY MESSAGES

1. Put sustainability at the heart of strategy (if you don't believe it, nor will your investors!)
2. Be clear why sustainability matters to your business
3. Embed sustainability into how you do business
4. Set targets and report against them
5. Reward management for long term success
6. Focus Investor Relations efforts on long term investors
7. Work with your corporate pension funds (they are investors too)
8. Make your communications long term focused
9. Work to increase proportion of longer term shareholders on the share register
10. Stick to it - be consistent!