

# Sustainable Finance

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**K.E.Y.  
PLATFORM  
2014** April 23 – 24, 2014  
Conrad Seoul, Korea



# CONTEXT

# Growing awareness of global sustainability challenges

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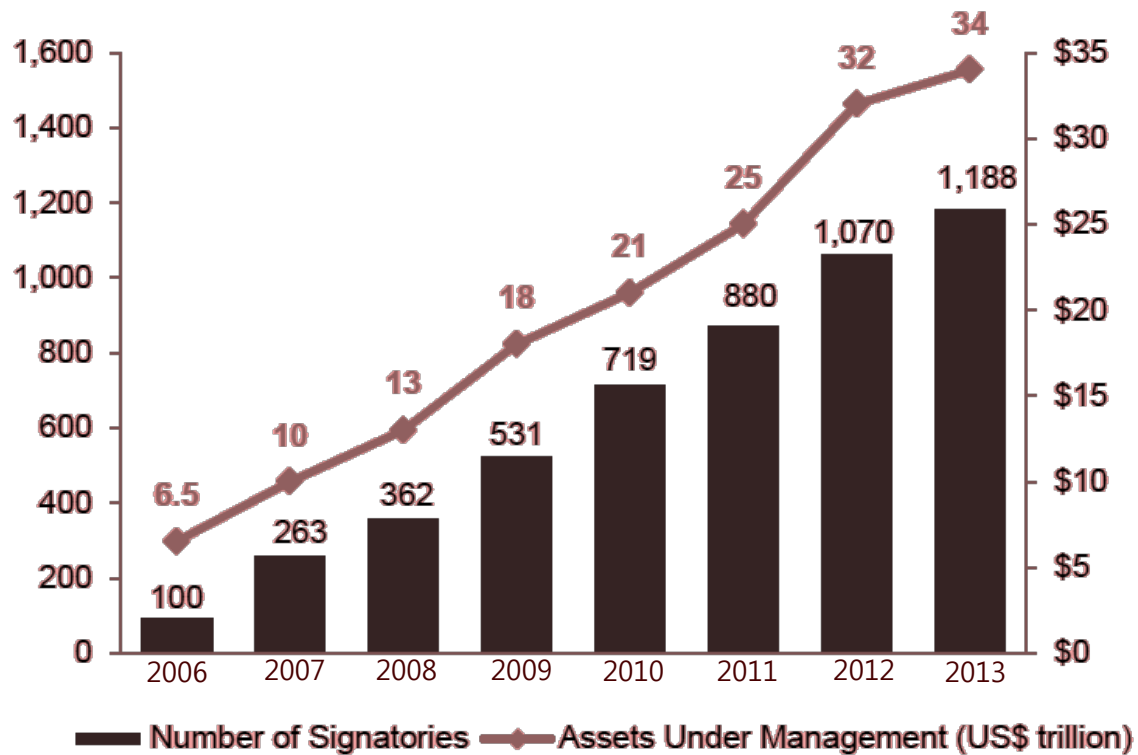


Rank	2014 Global Risks of Highest Concern
1	Fiscal crisis in key economies
2	Structurally high unemployment/underemployment
3	Water crises
4	Severe income disparity
5	Failure of climate change mitigation and adaptation
6	Greater incidence of extreme weather events (e.g., floods, storms, fires)
7	Global governance failure
8	Food crises
9	Failure of major financial mechanism/institution
10	Profound political and social instability

[http://www3.weforum.org/docs/WEF\\_GlobalRisks\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf)

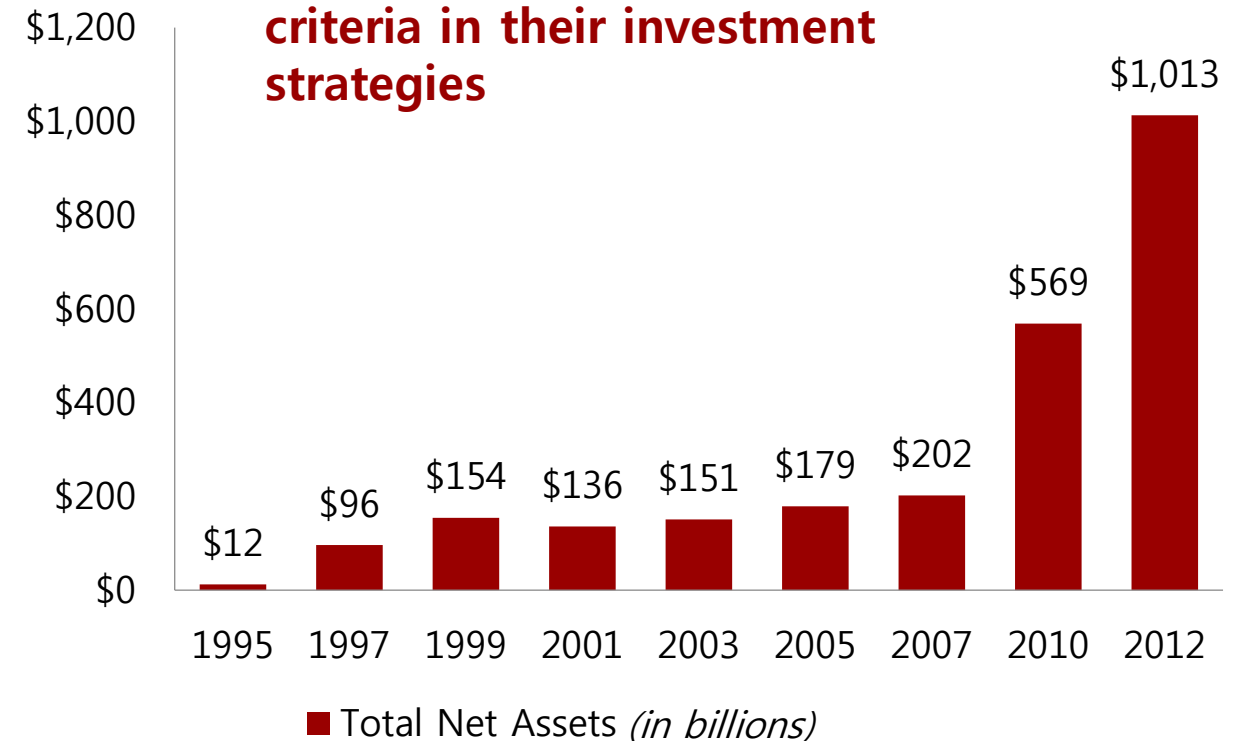
# Clear trends

## UN Principles for Responsible Investment



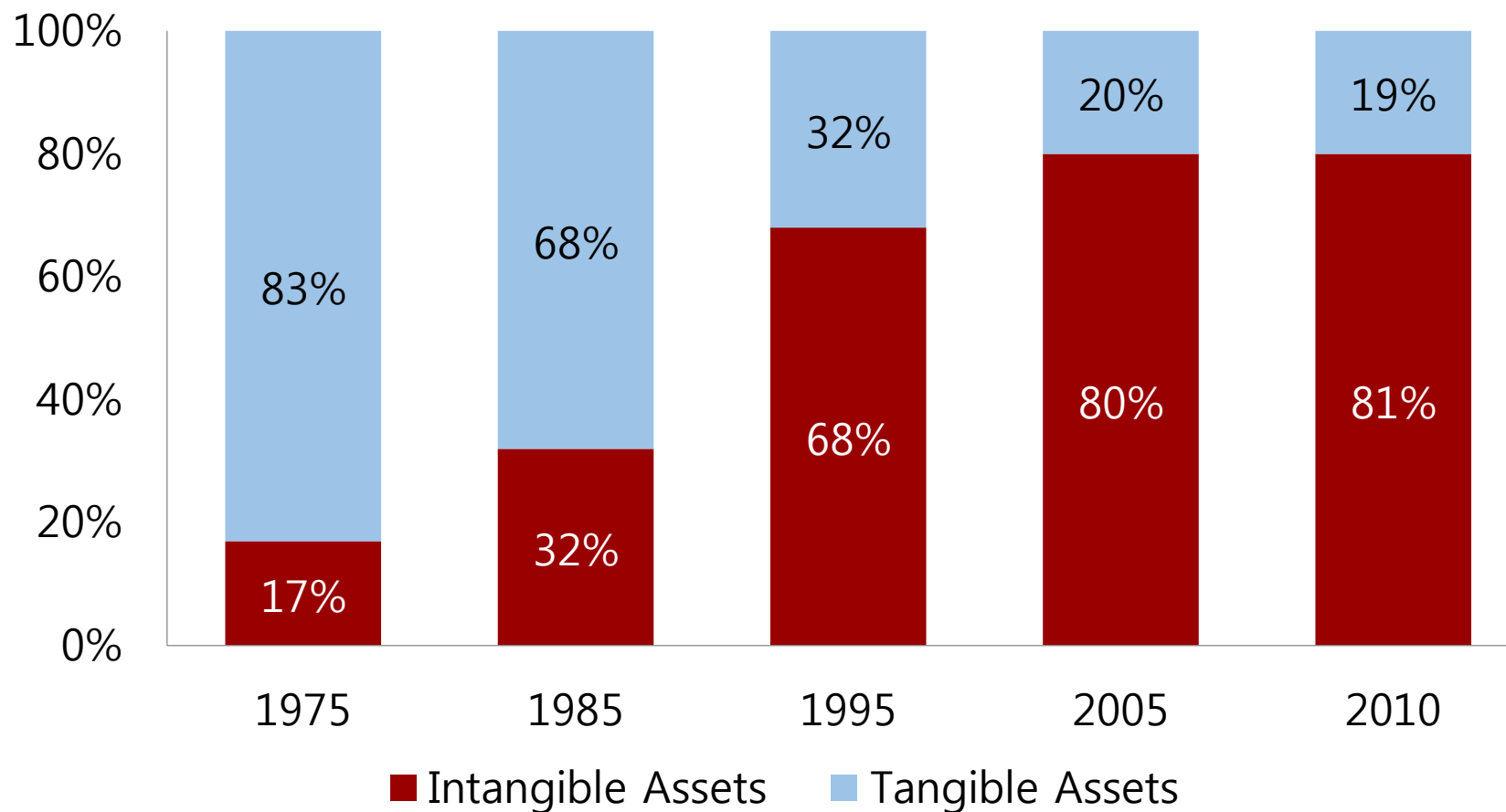
<http://www.unpri.org/about-pri/about-pri/>

## US Funds incorporating Environment, Social, and Governance ("ESG") criteria in their investment strategies



# Intangible Value makes up an increasing proportion of company value

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# BLOOMBERG LP & ESG

# What is ESG?

- Environment, Social, and Governance
  - For Bloomberg LP: Company-level data
- Stands for a flexible concept
  - “non-financial data”
- Related to other broad ideas:
  - Socially Responsible Investment (“SRI”)
  - Triple-Bottom Line
  - Shared Value (Porter/Kramer)
  - Corporate Social Responsibility (“CSR”)
  - Corporate Citizenship
  - “social license to operate”

## Why do investors care?

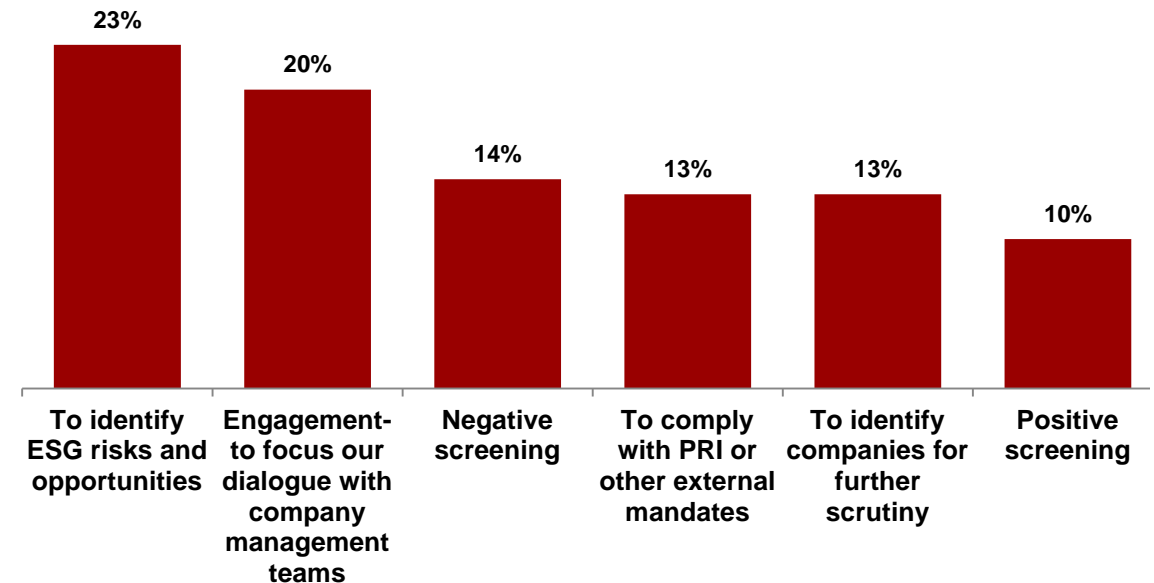
- Tells us something about intangible value
- Tells us about risk and profitability
- Tells us something about a company's long-term future

# ESG integration in investment strategy spans a wide spectrum

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## Main Role of ESG Research in Investment Process





# ESG Data Encompasses a Wide Variety of Information

Analyze Equity Security Menu FA

\$ ↑ 97.86 +1.14 T97.85 / 97.86N 11x337  
At 18:40 d Vol 9,610,713 0 97.49T H 98.055T L 96.74D Val 937.616M

96) Actions 97) Output 98) Settings 99) Feedback Financial Analysis

Periods 10) Annuals Currency USD

1) Key Stats 2) I/S 3) B/S 4) C/F 5) Ratios 6) Segments 7) Add 8) ESG 9) Custom 10) Shared

11) Overview 12) Environmental 13) Social 14) Governance 15) Exec & Dir Comp 16) ESG Ratios 17) CDP

In Millions of USD except Per Share

	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
12 Months Ending	2012-12-31	2011-12-31	2010-12-31	2009-12-31	2008-12-31	2007-12-31
ESG Disclosure Score	58.51	58.51	58.51	54.36	51.04	51.04
Environmental						
Environmental Disclosure Score	52.07	52.07	52.07	48.76	42.15	42.15
Total GHG Emissions	146,000.0	150,000.0	147,000.0	143,000.0	--	--
NOx Emissions	140.0	140.0	120.0	130.0	150.0	160.0
SO2 Emissions	130.0	130.0	140.0	160.0	190.0	210.0
Total Energy Consumption	416,666.7	430,555.5	408,777.8	405,638.9	416,666.7	430,555.5
Hazardous Waste	2,000.0	1,900.0	1,300.0	800.0	400.0	168.0
Environmental Fines #	80	65	83	--	--	--
Environmental Fines \$	2.4	1.3	11.0	--	--	--
Social						
Social Disclosure Score	62.50	62.50	62.50	53.13	53.13	53.13
Number of Employees	76,900	82,100	83,600	80,700	79,900	80,800
% Women in Workforce	28.00	28.00	26.00	26.00	25.00	25.00
% Women in Mgt	16.00	18.00	14.00	13.00	12.00	12.00
% Minorities in Workforce	24.00	28.00	32.00	--	--	--
% Minorities in Mgt	16.00	18.00	21.00	--	--	--

All data is collected from publicly disclosed sources

- Regulatory Filings
- CSR Reports
- Any public document
- (Typically not 3<sup>rd</sup> party data)

# ESG Data Encompasses a Wide Variety of Information

1) Key Stats	2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom	10) Shared
11) Overview	12) Environmental	13) Social	14) Governance	15) Exec & Dir Comp	16) ESG Ratios	17) CDP			

## "E"

- GHG Scope 1-3
- Energy Consumption
- Hazardous Waste
- Environmental Fines
- Policies:
  - Energy Efficiency
  - Green Building
  - Waste Reduction
  - Climate Change
  - Water Policy

## "S"

- % Women in Workforce
- Fatalities and Accidents
- Community Spending
- Policies:
  - Health & Safety
  - Human Rights
  - Anti-Bribery
  - UN Global Compact

## "G"

- Size of Board
- # Independent Directors
- CEO Duality
- Board Diversity
- # Board Meetings
- Committees:
  - Audit
  - Compensation
  - Nominations
- Poison Pill
- Say-on-Pay voting

## Exec Comp

- Compensation paid to Execs & Directors
  - Salaries
  - Bonuses
  - Stocks/Options
  - Pensions

# ESG Data Enables Analytics and Peer Benchmarking

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2) Backtest

As Of 04/14/2014

Screening Criteria

31) Exchanges 32) Sectors 33) Country of Domicile

34) Indices 35) Portfolios/Monitors 45) More Categories

Add Criteria

<Type screening criteria and select

Selected Screening Criteria

Security Universe

51) Trading Status: Active

52) Security Attributes: Show Primary

53) Sectors (BICS): Oil Gas & Coal

54) Latest FY GHG Scope 2 < Relative

55) Latest FY Human Rights Policy =

56) Click here to add screening criteria

Short Name

GLENCORE XSTRATA

TOTAL SA

Source Document

RES

IPS

OS

PREF

ETRO

OURCES

IL

RO

RG

ER LTD

consistent with the human rights philosophy expressed in the Universal Declaration of Human Rights and the International Labor Organization Declaration on Fundamental Principles and Rights at Work. The position also states our commitment to participate in the Voluntary Principles on Security and Human Rights.

Management Systems

This table provides a concise view of the business practices, processes and tools we use to implement our human rights position. For additional detail on the processes and tools noted in the table see the section on Integration of Sustainability into Business Processes.

Human Rights Due Diligence

Focus Area

Management Systems

Impact Assessment

The company has performed a high-level human rights risk assessment (by country) of its global operations using externally provided human rights risk assessment tools to identify countries of focus for deeper level evaluation of potential human rights issues. Key areas include: security and human rights; land use/relocation; indigenous issues and rights; company and supplier labor standards; access to water; and vulnerable groups.

Environmental and Social Impact Assessments (ESIAs) assess human rights

Close

# ESG Data Enables Analytics and Peer Benchmarking

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**Bloomberg Environmental, Social and Governance Risk Scorecard**

Company:  Consolidated? ☐ Y Index: BE500 BLOOMBERG EUROPEAN 500

Help Compensation Analysis Level Of Pay Analysis

Company Ticker:

\*Note: All other compensation is not always the sum of the following items

Total Salaries Paid	
Total Bonuses	
Total Salaries & Bonuses	
Total Stock Awards Given	
Total Option Awards Given	
Total Other Compensation Paid	
All Other Compensation	
Total Compensation Paid	
% of Non Cash Portion of Compensation	
% Perquisites + Other Benefits Portion of Comp	
Avg Employee Salary	
Avg Executive Pay	
Executive and Employee Pay Multiple	
1 Year Revenue Growth	
3 Year Revenue Growth	
5 Year Revenue Growth	
1Yr YoY Avg Exec Comp Chg	
3Yr YoY Avg Exec Comp Chg	
5Yr YoY Avg Exec Comp Chg	
1 Year Revenue Growth Pay Gap	
3 Year Revenue Growth Pay Gap	
5 Year Revenue Growth Pay Gap	

Level Percentile: 0%

Company Ticker:  Company Name:

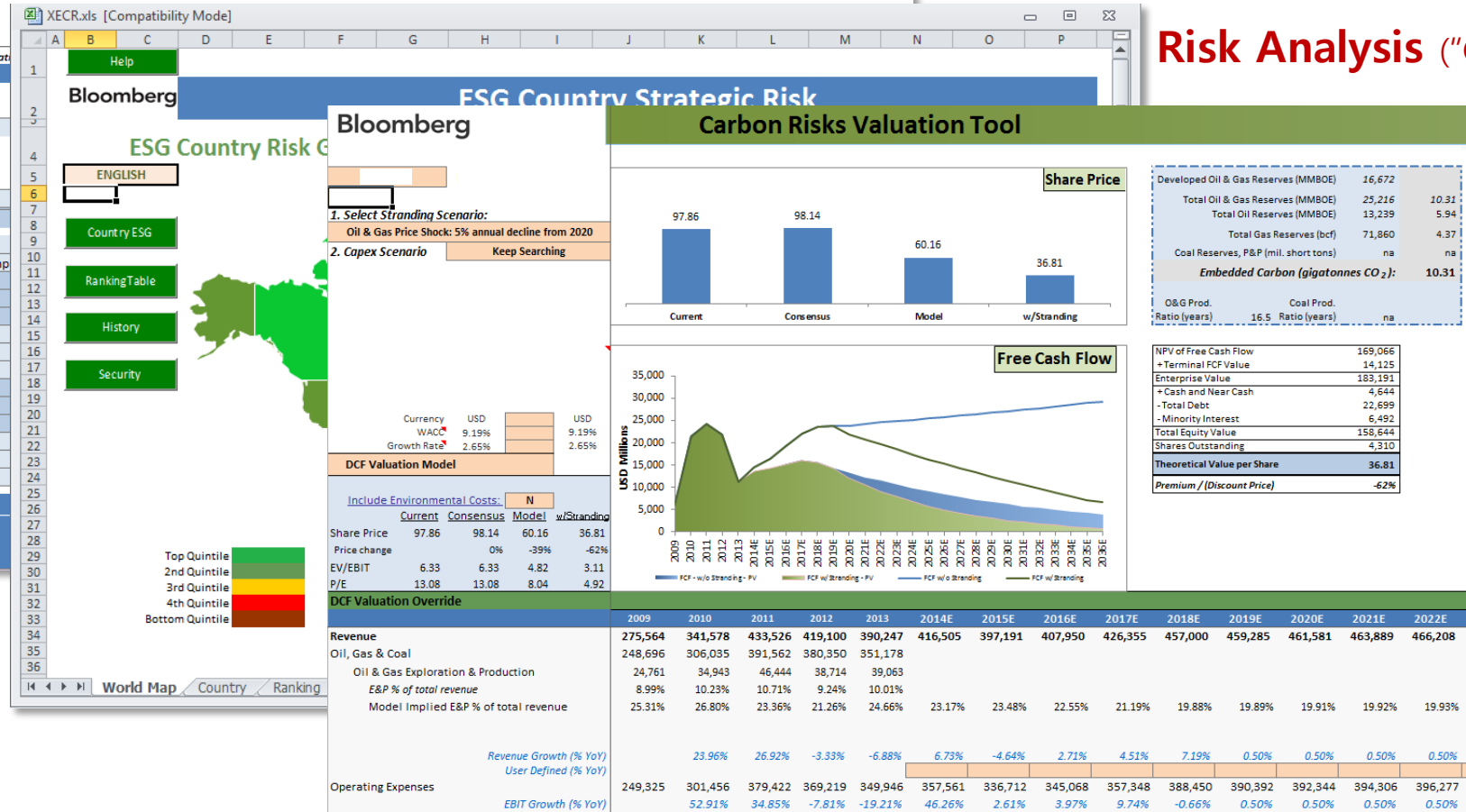
World Map Country Ranking

**ESG Scoring** ("ESG Scorecard")

**Compensation Analysis** ("Exec Comp Analyzer")

**Risk Analysis** ("Country Risk Analyzer")

**Asset Stranding**  
("Carbon Risk Valuation Tool")

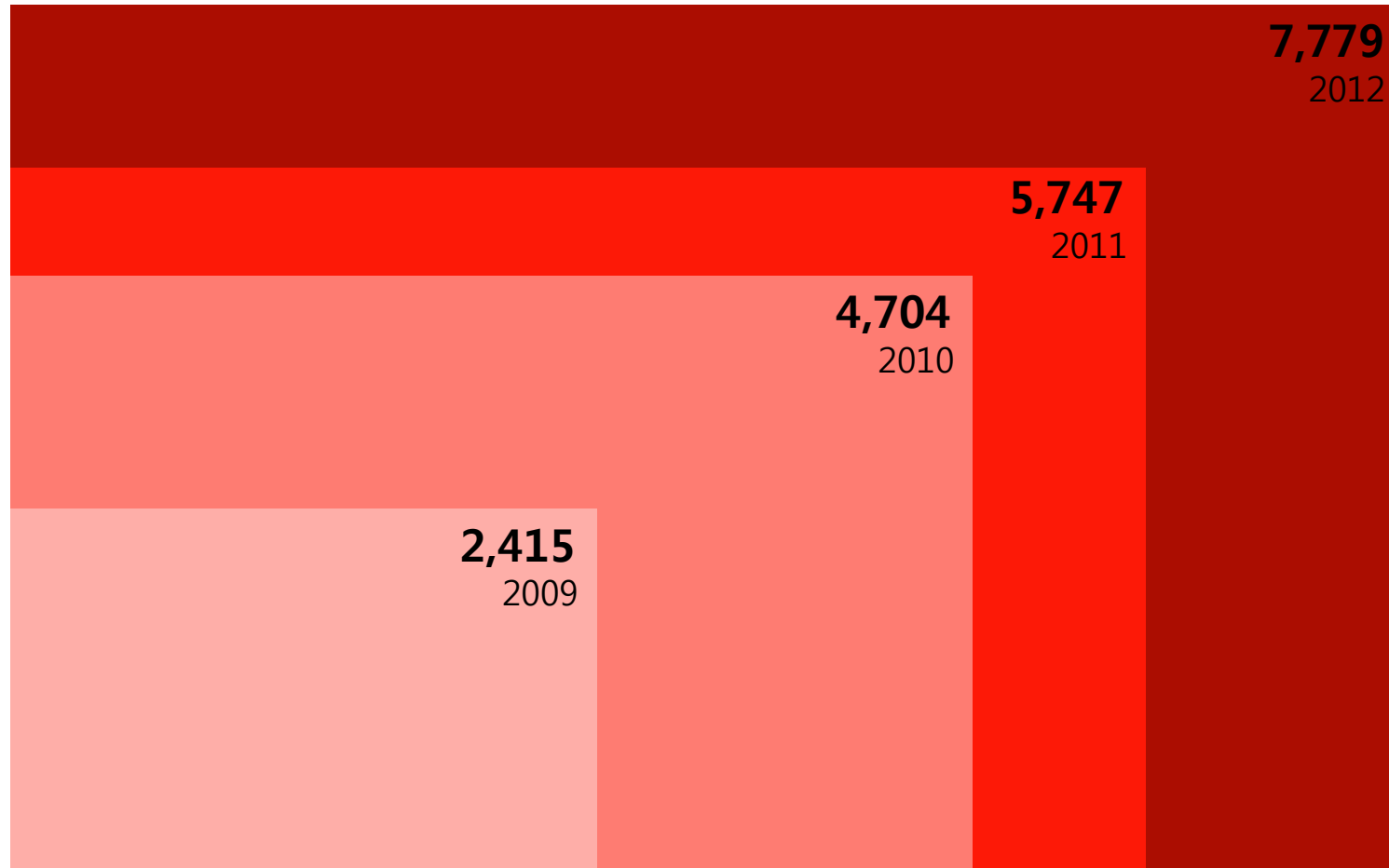


# ESG Data Use is Steadily Increasing

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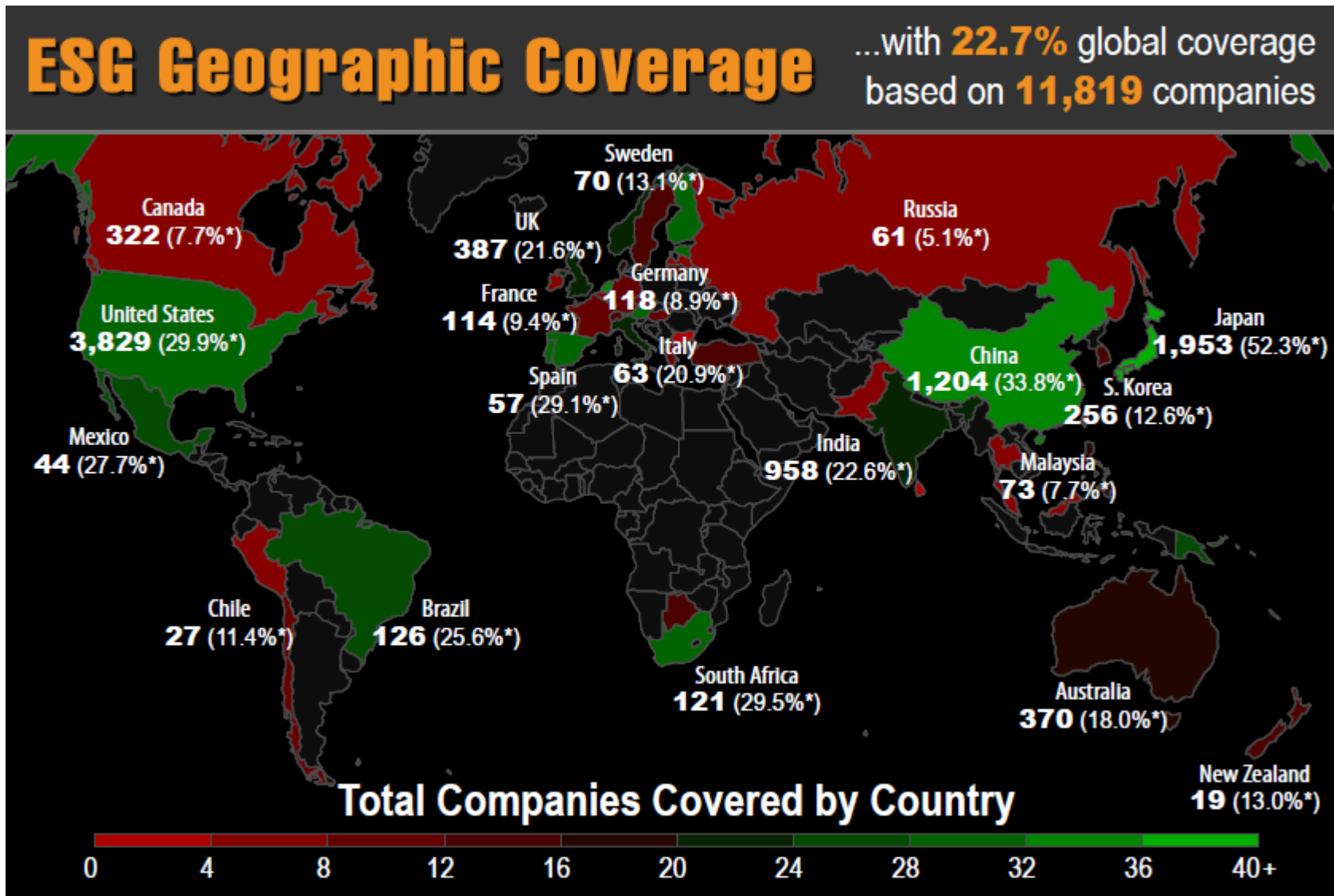
## Number of Customers Using ESG Data

Number of Unique Users



**47.7% Average  
Annual Growth**

# Wide Geographic Coverage of ESG Information



# SUSTAINABLE FINANCE



# In the future, markets must take into account a wider variety of factors

## Current State

- 7 Billion People
- 10-fold increase in wealth of global middle class
- Infinite consumption
- Finite resources
- Increasing emissions burden on our air and water



## Future State

- Humanity's ecological footprint 30% larger than planet's carrying capacity
- Continued reliance on unsustainable fossil fuels
- Borrowing against the future (fishing/forestry)
- Need to properly price environmental services

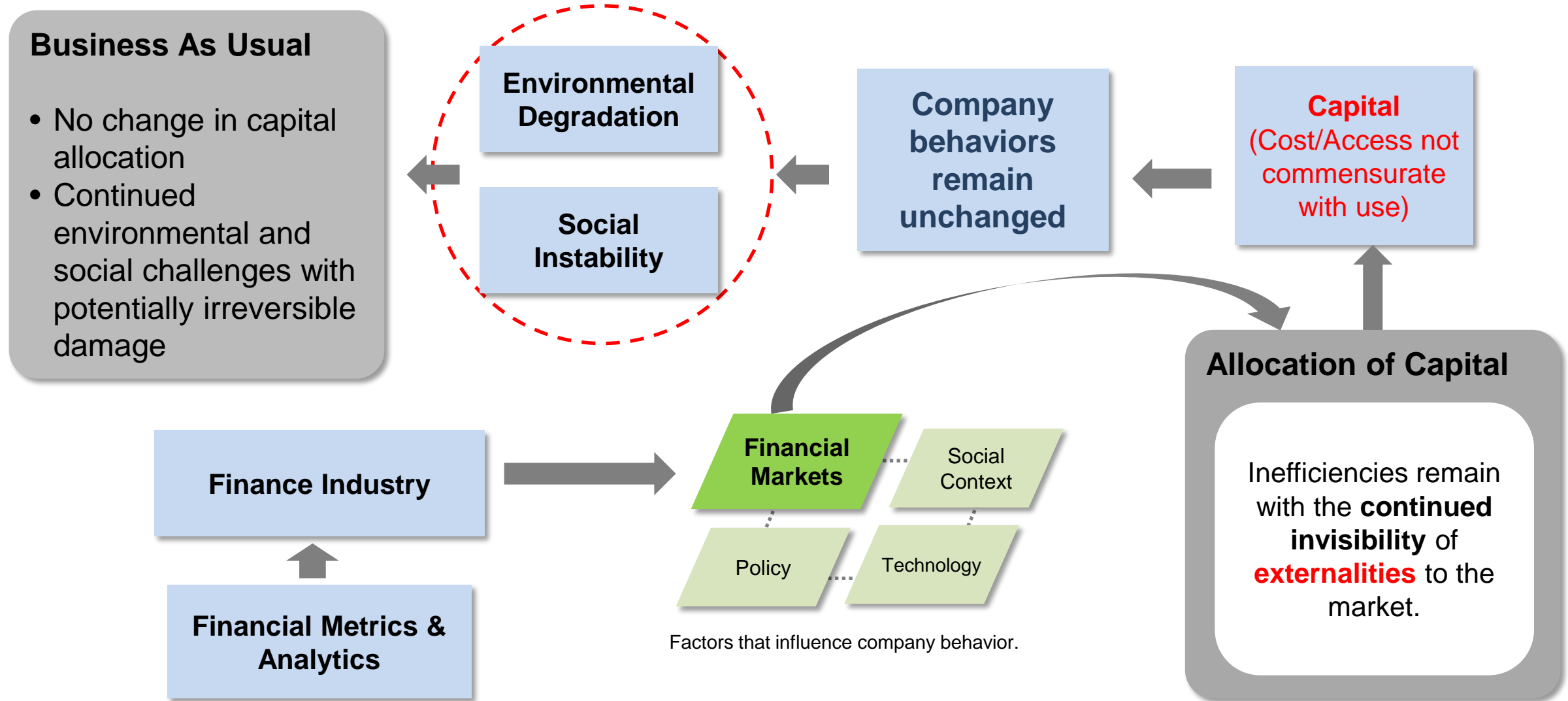
**Today's  
markets are  
not able to  
manage the  
Future State.**

**Why?**

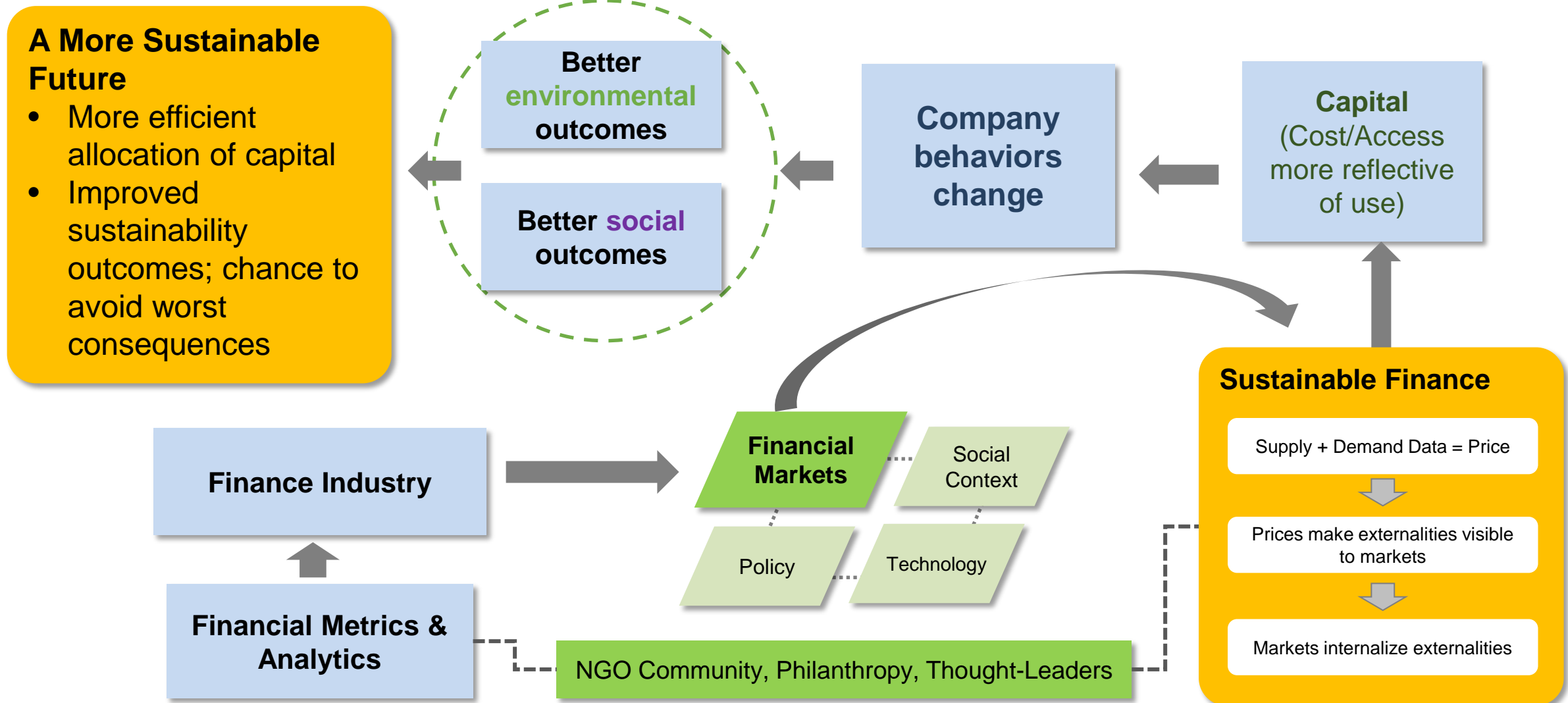
**Externalities**



# Today, externalities are invisible to the markets; they are not taken into account



# With the right information, capital markets can internalize externalities

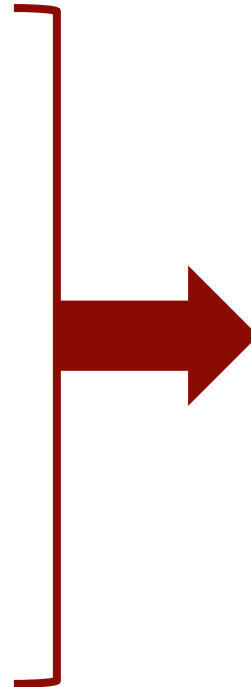


# Bloomberg as a case study of sustainable business integration

**Planet**  
(Operations)

**Product**  
(Business)

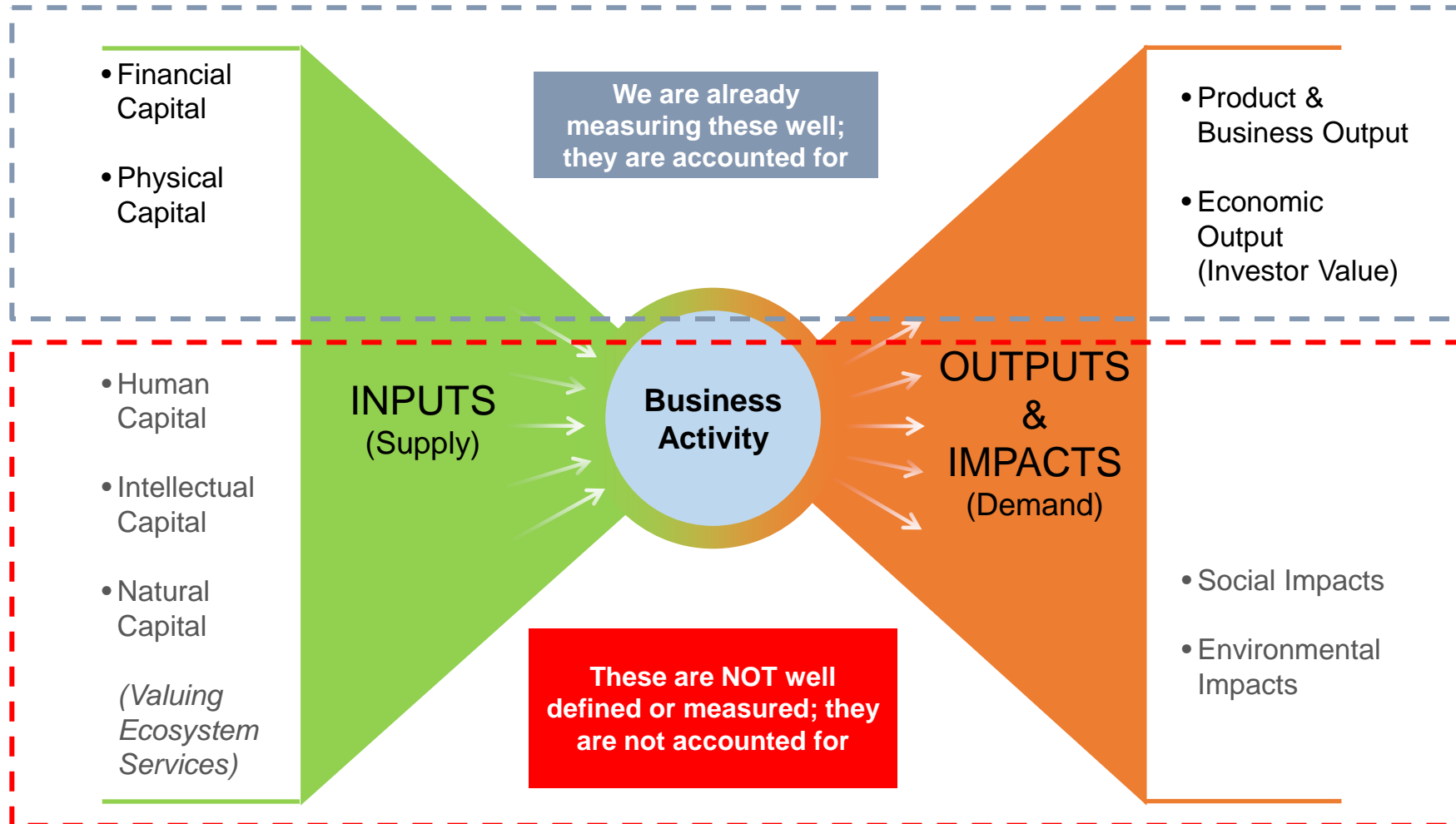
**People**  
(Citizenship)



## Sustainable Finance Program

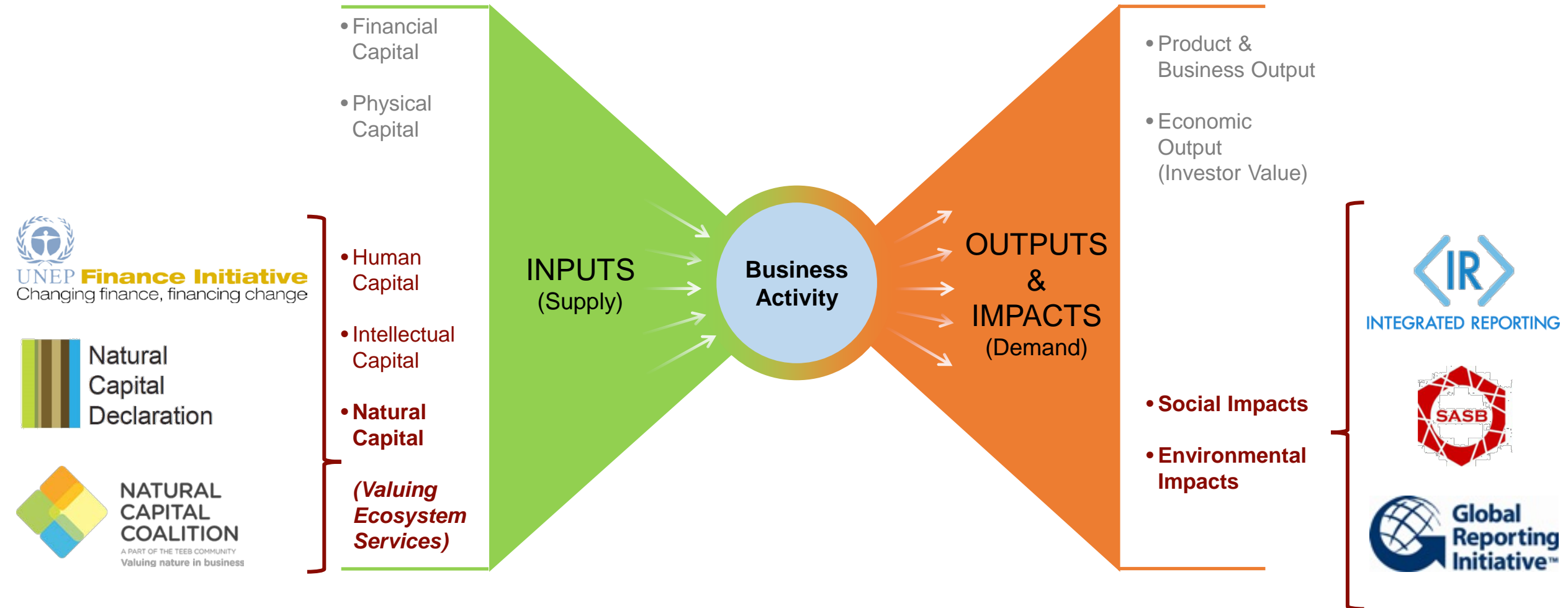
- Focused on data/analytics
- Strategic deployment of philanthropic resources
- Deep engagement with external partners (NGOs)

# We currently do not have standardized ways to measure externalities



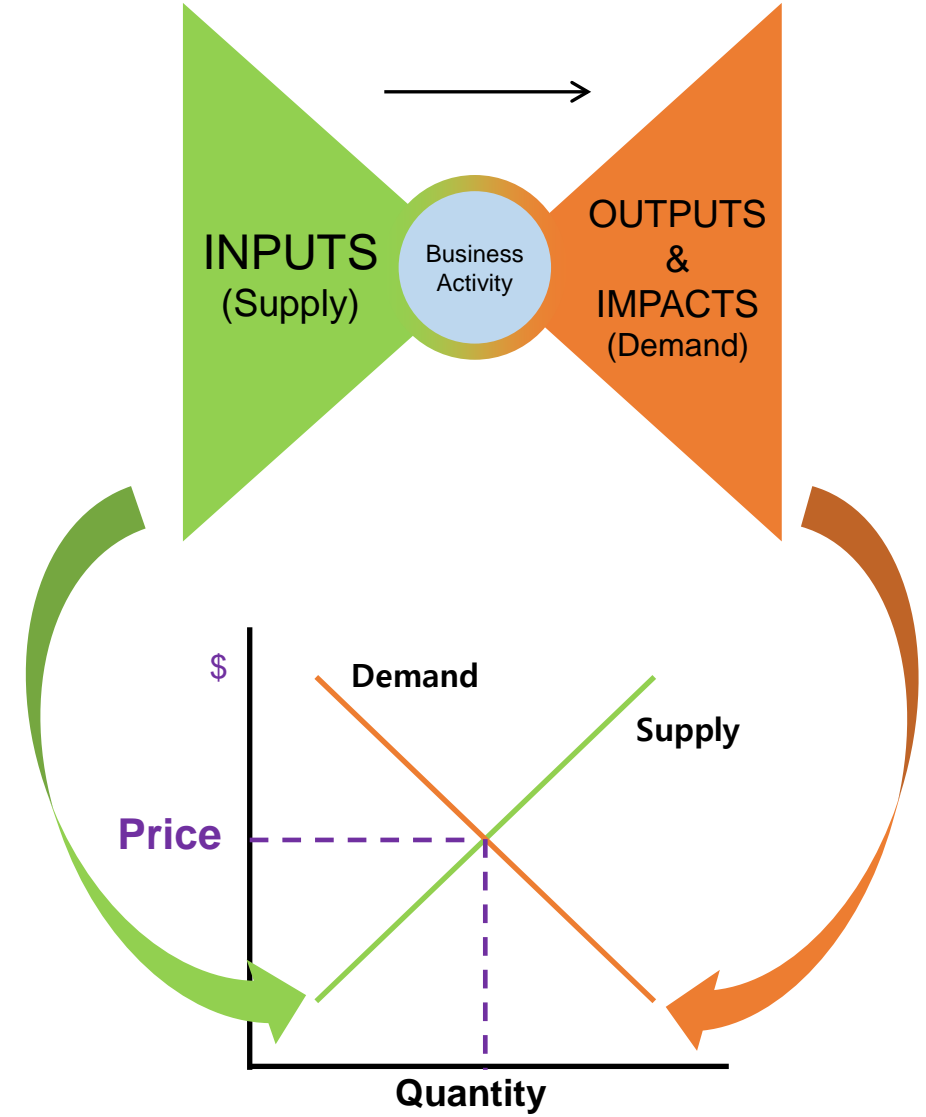
# We're using our philanthropy to support development of standardized metrics

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# Standardizing allows for benchmarking and will eventually help price externalities

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# The future is not so far away...

## Corporate Reporting

- Sustainability as a material aspect of company performance
- Measuring externalities

## ESG Integration in Investment

- Longer-term view
- Impact Investing

## Risk Management

- Stranded Assets
- Country Risk
- Supply-Chain Management

## New Business Models

- Stakeholder-driven value creation (not just shareholder)
- War for Talent and social mission

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For more information, please see our article,  
"Integrating Sustainability Into Capital Markets:  
Bloomberg LP and ESG's Quantitative Legitimacy"  
in the *Journal of Applied Corporate Finance*,  
"Investors and Sustainability," Vol. 25, No. 3,  
Summer 2013.