

Corporate Governance

Session 11: Socially Responsible Investment Mallin - Chp. 7

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Course Plan

Dates	Topic
1) 01.09.23	Introduction to CG and fundamentals - Please Read the ENRON Case
2) 08.09.23	Enron & Theoretical Aspects of CG
3) 15.09.25	Historical Developments of CG Codes
4) 22.09.23	BL Week: Please Read Ethics of Compensation & Guardian Article
5) 29.09.23	Directors and Board Structure
6) 06.10.23	Directors Performance and Remuneration
7) 13.10.22	CG in Mergers and Acquisitions
8) 20.10.23	BL Week: Please Read Hebei Dawu Case Study
9) 27.10.23	Family Business Governance
10) 03.11.23	The Role of Institutional Investors
11) 10.11.23	Socially Responsible Investments
12) 17.11.23	CG in Continental Europe
13) 24.11.23	CG in Central and Eastern Europe
<i>14) 01.12.23</i>	<i>Exam Prep, Mock Exam and Final Questions</i>

I. Introduction

- Institutional Investment has increased rapidly throughout the last 30 years
- Awareness for the social/environmental/ethical dimension of investment has increased in the last decade
- social standards have become part of corporate governance

II. Historical Origin

- Quakers and Methodists: investment of funds without compromising religious principles
=> avoidance of investment in companies involved in gambling, alcohol or tobacco production, or war machinery
 - related principles in other Christian groups and Islam
 - US religious groups have been among the most prominent advocates of SRI
 - 1971: Creation of the World Pax Fund (exclusion of all companies profiting from the Vietnam War)
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II. Historical Origin

- 1980: creation of several funds excluding companies doing business with South Africa
 - 1983: establishment of Ethical Investment Research Service (EIRIS)
 - 1990: creation of several environmentally oriented funds (Jupiter Ecology Fund)
 - 2000: corporate scandals lead to more attention for SRI
 - FTSE4Good
 - European Sustainable and Responsible Investment Forum
 - UN Principles for Responsible Investment
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III. Historical Origin

- UN Principles for Responsible Investment
 - We will incorporate ESG (environmental, social, and CG) issues into investment analysis and decision-making processes.
 - We will be active owners and incorporate ESG issues into our ownership policies and practices.
 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.
 - We will promote acceptance and implementation of the Principles within the investment industry.
 - We will work together to enhance our effectiveness in implementing the Principles.
 - We will each report on our activities and progress towards implementing the principles.

II. Historical Origin

- Recently, shift from concerns and exclusion of investments connected to “dirty money” to deployment of capital to address major societal changes (**sustainable investing**):
 - renewable, alternative energies
 - waste management
 - telecommunications
 - health services

II. Historical Origin

- Potential difference between socially responsible investment and sustainable investing:
 - SRI:
 - concerned with the societal consequences of business
 - highly subjective (what values are applied, what stakeholder or areas are considered?)
 - defensive (avoidance of specific investments)
 - SI:
 - sustainably managed enterprises are better able to create long-term value
 - measurable financial return
 - offensive: seeing societal challenges as business opportunity
 - but: specific problems might be unaddressed or overlooked

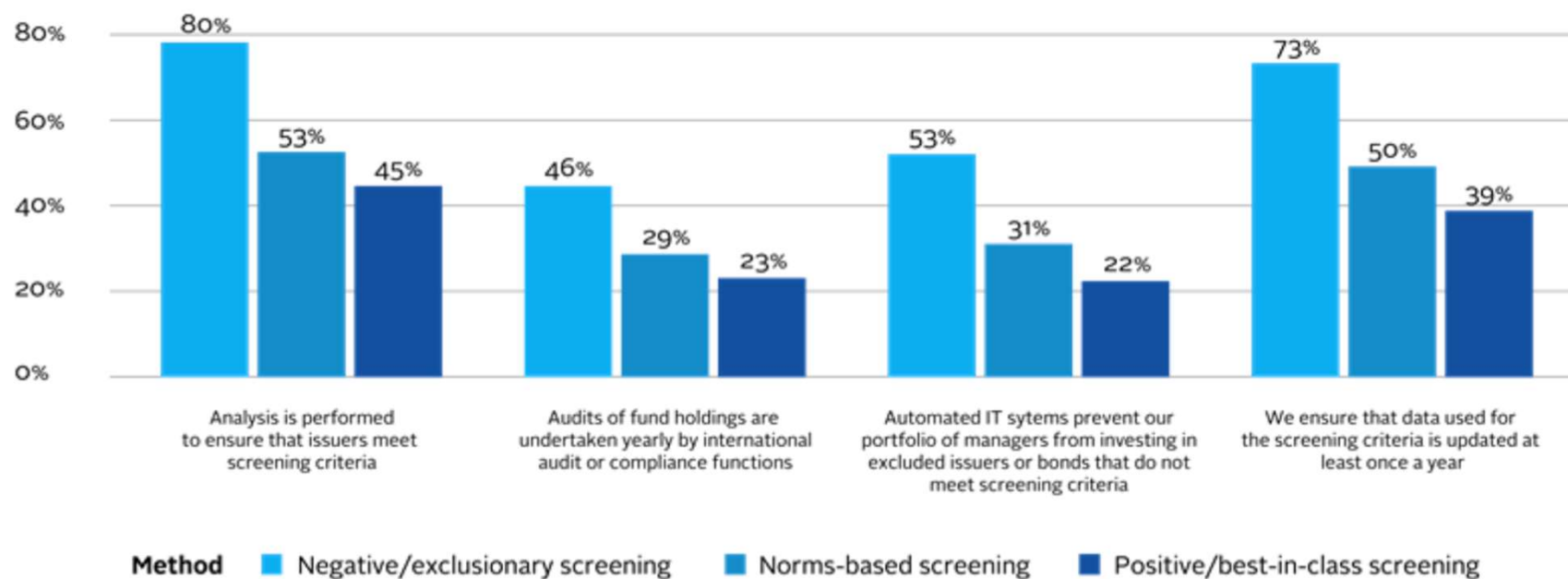
III. Types of SRI Analysis and Practice

- **Negative Screening:**
 - elimination of companies that are engaged in what are seen as unethical or harmful business practices from portfolios:
 - Number of areas targeted by SRI:
 - tobacco: 88%
 - alcohol: 75%
 - gambling: 23%
 - risk: unbalanced, one-sided portfolios
 - SRI funds outperformed the market in the 1990s, but not after the turn of the millennium
 - **norms-based screening** as specific form: exclusion of companies that do not adhere to certain norms, e.g., the UN Global Compact

III. Types of SRI Analysis and Practice

- **Positive Screening:**
 - selection of investments which suit social, environmental, or ethical criteria best
 - often, a triple-bottom-line approach is applied
 - **best-in-class screening** as specific form
 - often positive and negative screening are combined
- **Indices and Initiatives:**
 - Dow Jones Sustainability Index
 - FTSE4Good
 - unique: BOVESPA Social Stock Exchange
- **Shareholder Activism and Proxy Voting**

Safeguards by asset class (percentage of signatories, 2019 only)



<https://www.unpri.org/pri-blog/the-evolution-of-screening-from-sin-to-sophistication/5899.article>

III. Types of SRI Analysis and Practice

Dow Jones Sustainability™ Eurozone Index
Fact Sheet

Top Components

Company	Country	ISIN/Ticker	Industry	Supersector	Float Factor	Adjusted Weight (%)
TOTAL SA	France	FR0000120271	Oil & Gas	Oil & Gas	1.00	6.53%
Banco Santander SA	Spain	ES0113900J37	Financials	Banks	1.00	4.58%
Siemens AG	Germany	DE0007236101	Industrials	Industrial Goods & Services	0.90	4.56%
BASF SE	Germany	DE000BASF111	Basic Materials	Chemicals	1.00	4.29%
Allianz SE	Germany	DE0008404005	Financials	Insurance	1.00	3.45%
SAP AG	Germany	DE0007164600	Technology	Technology	0.77	3.34%
Telefonica SA	Spain	ES0178430E18	Telecommunications	Telecommunications	0.89	3.21%
ENI SpA	Italy	IT0003132476	Oil & Gas	Oil & Gas	0.74	3.06%
Unilever NV	Netherlands	NL0000009355	Consumer Goods	Food & Beverage	1.00	3.05%
Banco Bilbao Vizcaya Argentaria SA	Spain	ES0113211835	Financials	Banks	1.00	3.05%

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III. Types of SRI Analysis and Practice

Top Components

Company	Country	ISIN/Ticker	Industry	Supersector	Float Factor	Adjusted Weight (%)
Nestle SA Reg	Switzerland	CH0038863350	Consumer Goods	Food & Beverage	1.00	6.37%
Roche Hldgs AG Ptg Genus	Switzerland	CH0012032048	Health Care	Health Care	1.00	4.56%
TOTAL SA	France	FR0000120271	Oil & Gas	Oil & Gas	1.00	3.35%
British American Tobacco Plc	United Kingdom	GB0002875804	Consumer Goods	Personal & Household Goods	0.92	3.01%
GlaxoSmithKline	United Kingdom	GB0009252882	Health Care	Health Care	0.91	2.71%
Sanofi-Aventis	France	FR0000120578	Health Care	Health Care	0.91	2.57%
SAP SE	Germany	DE0007164600	Technology	Technology	0.80	2.44%
BASF SE	Germany	DE000BASF111	Basic Materials	Chemicals	1.00	2.28%
Unilever NV	Netherlands	NL0000009355	Consumer Goods	Personal & Household Goods	1.00	2.02%
Allianz SE	Germany	DE0008404005	Financials	Insurance	1.00	2.01%

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Top 10 Constituents By Index Weight 2019

CONSTITUENT	SYMBOL	SECTOR*
Nestle SA Reg	NESN	Consumer Staples
Novartis AG Reg	NOVN	Health Care
Roche Hldgs AG Ptg Genus	ROG	Health Care
TOTAL SA	FP	Energy
SAP SE	SAP	Information Technology
GlaxoSmithKline	GSK	Health Care
AstraZeneca Plc	AZN	Health Care
Unilever NV	UNA	Consumer Staples
Diageo Plc	DGE	Consumer Staples
British American Tobacco Plc	BATS	Consumer Staples

*Based on GICS® sectors

Discussion Questions

Discuss the difference between SRI and SI

Discuss critically what SRI is.

**HERZLICHEN DANK FÜR
IHRE AUFMERKSAMKEIT**