

# VONTOBEL

## Vontobel's ESG integration approach - adding value for clients and companies

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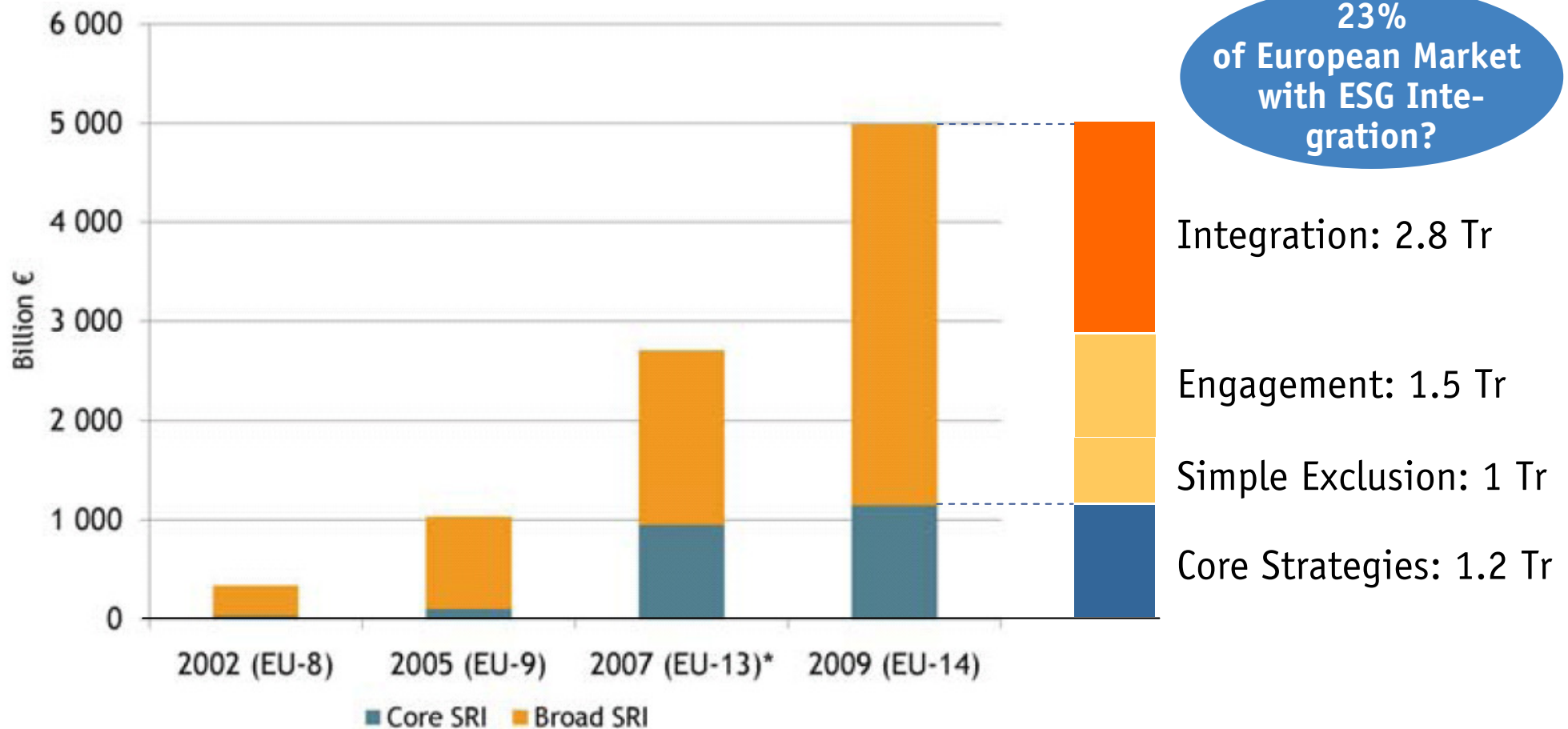
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# Integration as a buzzword

## Integration



Source: Eurosif European SRI Survey, 2010

\* Re-calculated according to the 2010 Core SRI definition.

Note: Market data coverage is evolving. 8 countries were covered in 2002, 9 in 2005, 13 in 2007 and 14 in 2009.

## Why Integration at Vontobel Asset Management?

- We believe in Sustainability as a performance driver: approach for all equities products
- Get financial analysts involved in ESG (they know their companies better than external rating agencies)
- Looking for a way to focus our resources on interesting stocks
- No restriction to investment universe
- More flexibility to react to new information

# Responsible investing – A strategic commitment rooted in Vontobel culture

## Anchored in Corporate Culture

- 10 Sustainability Principles
- CEO heads Sustainability Committee
- 9.8 %\* group profit given as dividends & donations to charitable foundations
- Vontobel Group is climate neutral and has a climate strategy in place
- Vontobel rated as 'sustainable' by INrate



## Supporting Sustainability initiatives

- Member of different Sustainable Investment Forums:
  - FNG
  - ASrIA
  - Forum per la Fin. Sostenibile
- Member of "The Sustainability Forum" (Head of Vontobel AM is President of TSF)



## Direct company engagement

- Signatory of the United Nations "Principles for Responsible Investment" aimed at fostering engagement practices
- Company management systematically approached with specific sustainability-related issues
- Cooperation with voting & engagement partner



\*2010

# We adopt an investment approach integrating both financial and sustainability perspectives

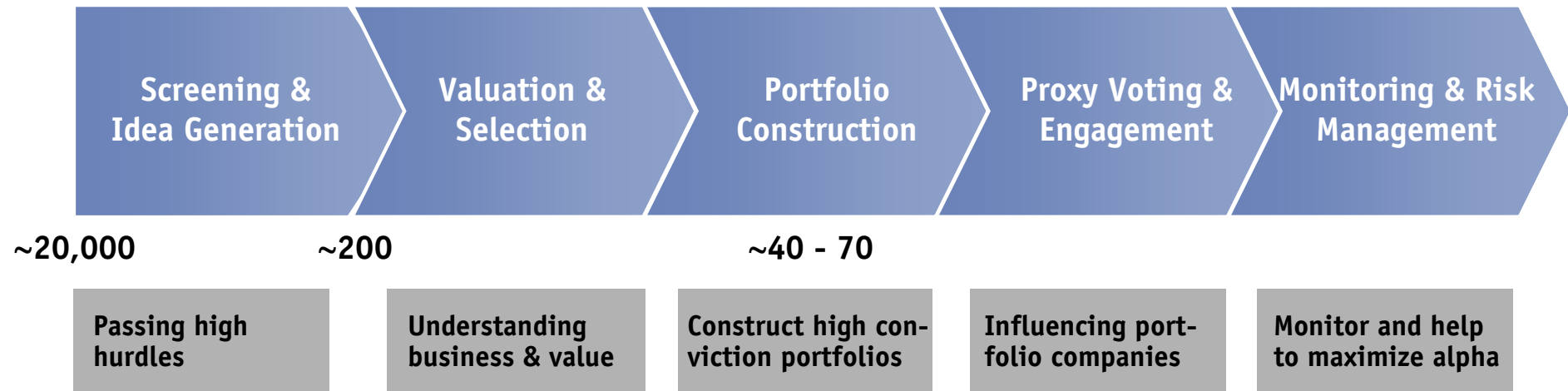
## Global Responsibility Investment Philosophy



- Bottom-up investment with long-term horizon
- Identification of undervalued companies based on long term cash flow forecasts
- Sustainability criteria are a part of our fundamental and intrinsic value analysis
- Assessment of sustainability helps identify investment opportunities, reduce risks and contributes to alpha generation

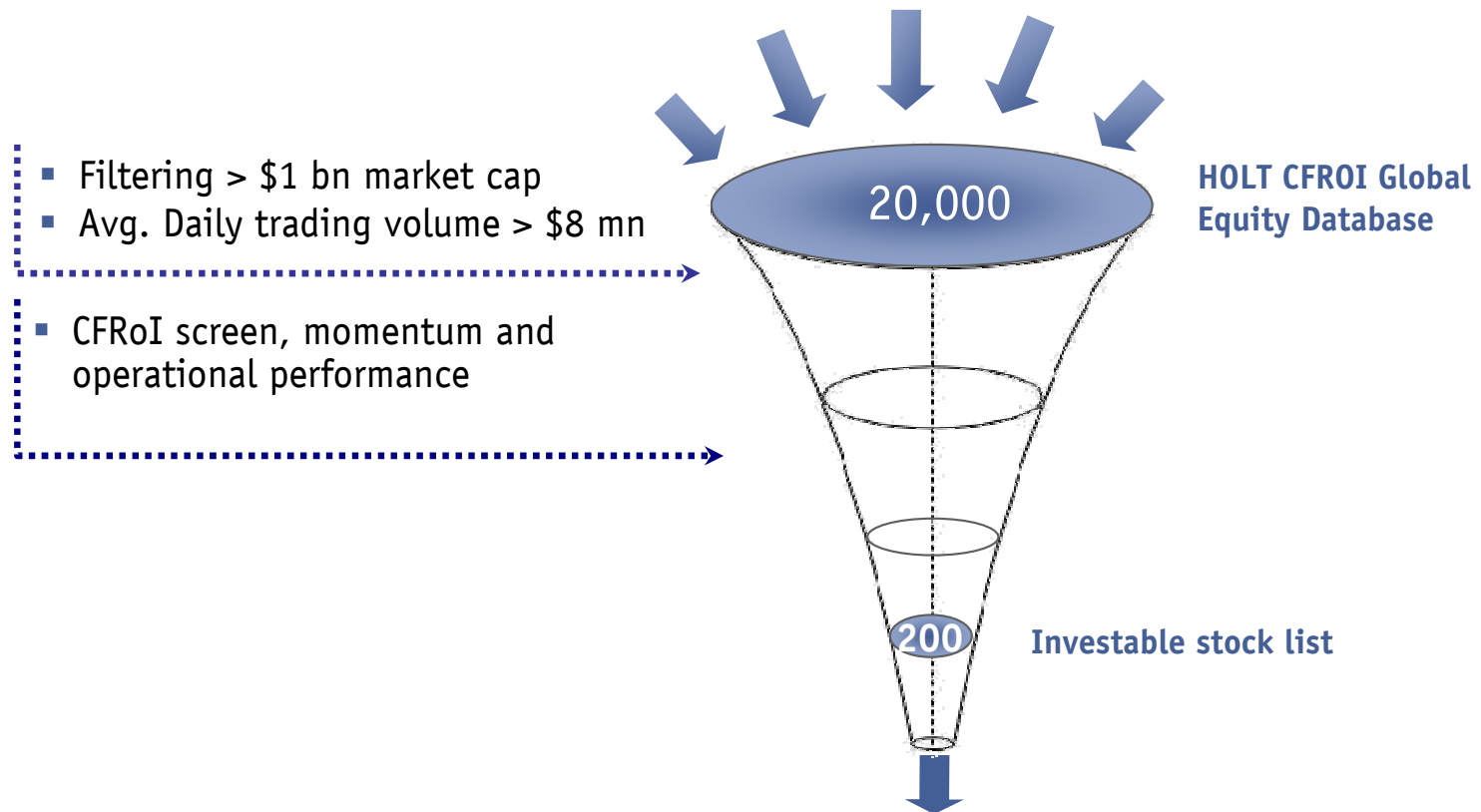
# Investment approach

Process is anchored to bottom-up proprietary research



# Screening ensures that analysts focus their research effort and generate best investment ideas

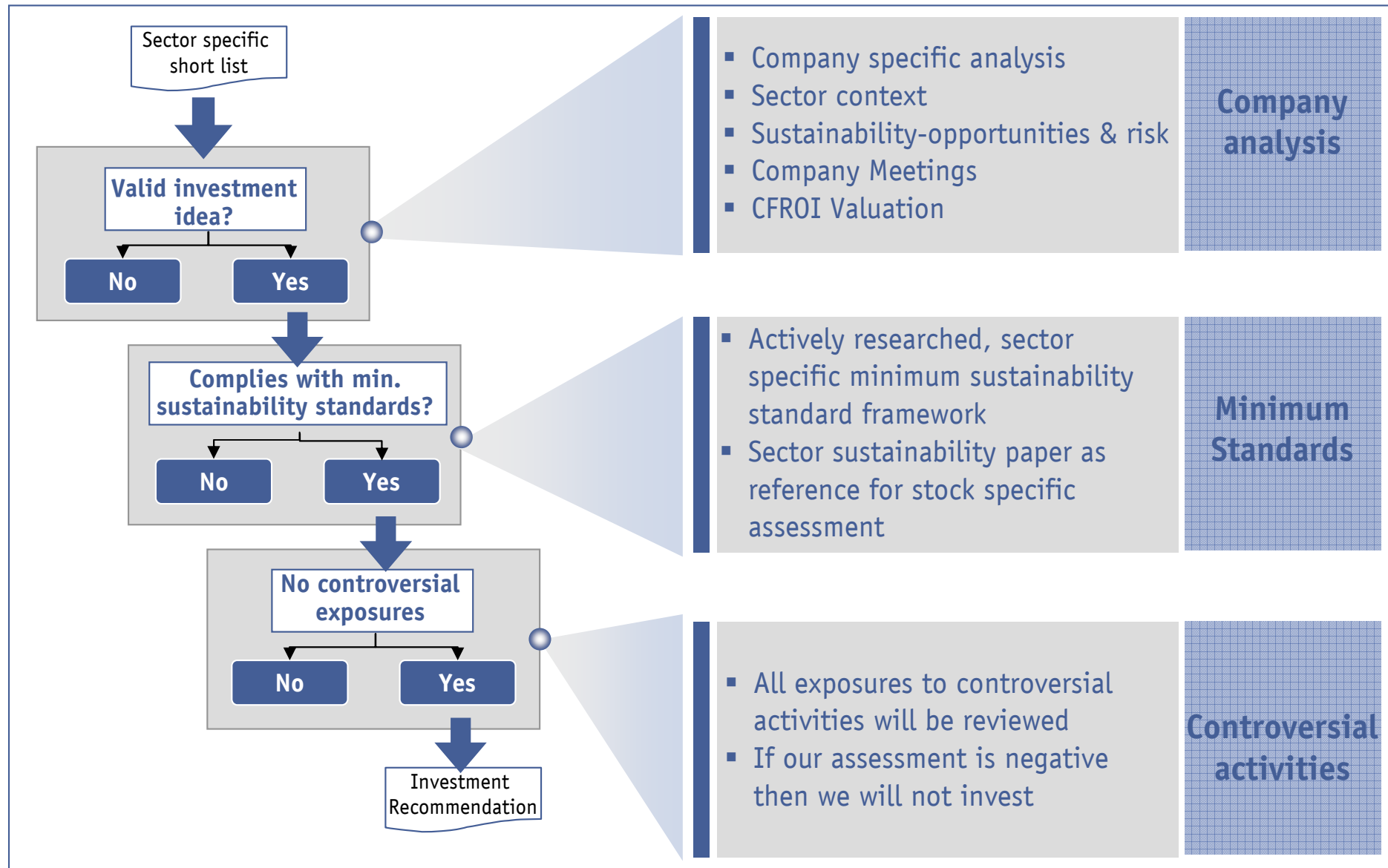
## Screening & Idea Generation



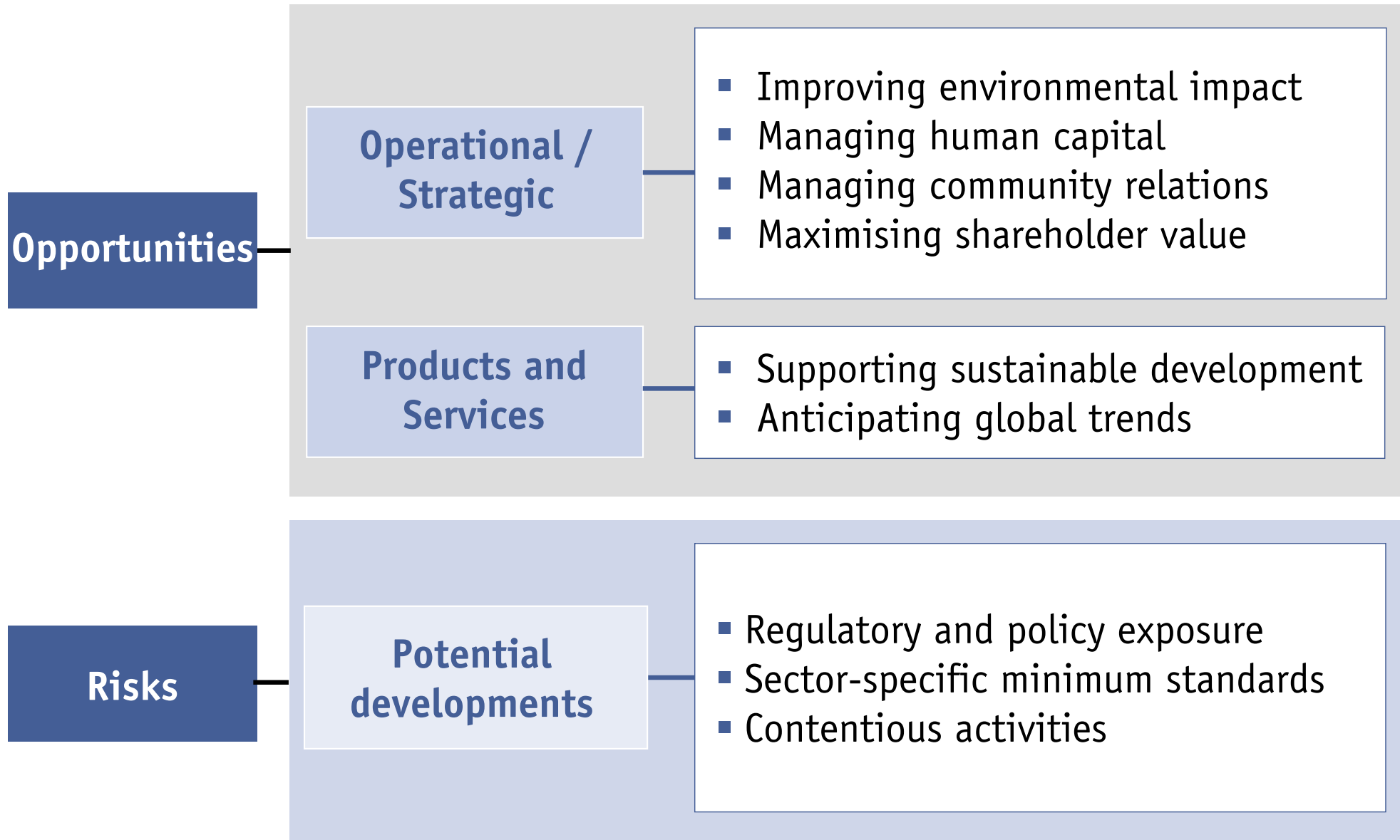
# Encompassing Sector Papers as a basis for ESG Integration

	Energy	Materials	Indus- trials	Cons. Discret.	Cons. Staples	Health Care	Finan- cials	IT	Tele- com	Utili- ties
Introduction					<p><b>Sector Paper – Consumer Staples</b> 20-09-2010 Integrating material sustainability &amp; financial issues relevant to the consumer staples sector Bank Vontobel AG, Gotthardstrasse 43, CH-8022 Zurich</p> <p><b>Summary</b></p> <p>The consumer staples sector is characterized by high innovation cycles, strong margin pressure and a globally spread out supply chain. It is important for companies to closely monitor costs, control their suppliers in order to guarantee product safety and show constant innovation in growing areas such as companies' capabilities opportunities for</p> <ul style="list-style-type: none"> <li>An important beverage consumer</li> <li>Marketing going beyond offering fulfil the opportunity</li> <li>Supply chain standard procedure safety risk</li> <li>Consumption emission climate change their client</li> </ul> <p>In the consumer invest in companies</p> <ul style="list-style-type: none"> <li>The regulatory premature by appropriate to increase threat of will not in Alcohol in a response beverage amongst marketing</li> </ul> <p><b>1. Introduction</b></p> <p>The consumer staples (alcoholic, tobacco)</p>					
Main Risks and Opportunities					<p><b>Sector Paper – Mining</b> 20-09-2010 Integrating material sustainability &amp; financial issues relevant to the mining sector Bank Vontobel AG, Gotthardstrasse 43, CH-8022 Zurich</p> <p><b>Summary</b></p> <p>Mining projects are extremely costly and long-term oriented. Growing resource consumption, together with ageing mines and increasing resource scarcity, drove the prosperous past years for the large players that dominate the industry. Capital spending increased strongly as well, with more projects being located in challenging settings and potentially problematic regimes. Such challenges together with the costs and scale of projects lead to an increased focus on efficient &amp; smooth processes. The following issues will affect mining companies' capacity to create returns and will present a risk to some of them and result in opportunities for others:</p> <ul style="list-style-type: none"> <li>Resource-management skills (i.e. energy, water, staff) and operational efficiency are becoming critical profit-drivers.</li> <li>Heightened attention is put on worker's health and safety as well as community relations to avoid project interruptions.</li> <li>Investors and regulators penalize firms with falling anti-corruption measurements as concentrated capital flows in problematic countries threaten to corrupt regimes.</li> </ul> <p>In the mining sector, we see the following critical issues and define the way we invest in companies involved in them.</p> <ul style="list-style-type: none"> <li>Infringements of human rights and labour standards are not only shunned on ethical grounds, in the long term they go against economic logic. For this reason we expect companies to have a strong human rights policy and to have systems in place which guarantee their enforcement.</li> <li>Mining often generates highly concentrated capital flows in countries with low democratic standards which fuels corruption. Companies should therefore have well-defined and executed anti-corruption policies in place.</li> </ul> <p>Thus, we look for firms with systematically applied systems to support environmental performance, health &amp; safety and social impacts, and strong governance structures.</p> <p><b>1. Introduction into the mining sector</b></p> <p>The mining sector includes firms engaged in exploring, mining, refining, smelting, producing and selling products related to precious- / non-precious metals (e.g. gold, platinum / iron, steel, aluminium) and minerals (e.g. salt, borate, phosphate rock). Prominent firms involved include BHP Billiton, Xstrata, Rio Tinto, Barrick Gold and Freeport-McMoRan.</p> <p>As greenfield mining projects are typically extremely costly and lengthy (5-10 years), the industry is highly capital intensive, and therefore is dominated by consolidation and large firms, most of which operate internationally and are publicly listed. Some smaller firms are active in the exploration field (and are potential takeover targets).</p> <p>With emerging markets' resource consumption increasing, driven largely by demand from China, and reserves of several mining products reaching depletion at a determinable point in time, demand for mining products remains generally strong. In addition, the high proportion of valuable minerals (low grade ore) is declining due to ageing mines. Commodity prices and production growth are the principal drivers of the pricing of metals and mining companies, as the</p>					
ESG Minimum Standards										
Controversial Issues										
Questions to companies										

# Selection and Valuation Overview



## Sustainability provides perspective on opportunities and risks





# Example: ESG Minimum Standard Framework for Bayer

## Environment

## Social

## Governance

Environment			Social			Governance		
Criteria	Comment	Score	Criteria	Comment	Score	Criteria	Comment	Score
<b>Environmental Management System:</b> A systematic approach to environmental management, including policies, targets and integration of environmental considerations in managerial processes and systems and reporting.	Broad implementation of safety and health management system	10	<b>Employees:</b> Fair compensation & training Health & safety policies Policy for the retention & attraction of best people Non discrimination (women, minorities, disabled) Minimum labour disputes Freedom of association	100% of locations are covered by a health and safety management system.	5	<b>Board Independence:</b> - Majority of independent directors in board - Independent directors in remuneration-, nomination-, audit committees - Board performance evaluation - Independent auditors	In Germany, audits, nominations and remunerations are handled by a supervisory board independent of executive managers.	10
<b>Operational Eco-Efficiency:</b> Comprehensive, group-wide reporting on related developments: water, energy, materials, recycling, waste generation, emissions.	Group-wide implementation of a strategy for addressing climate change and related sector-specific risks. Reports of energy consumption, greenhouse gas emissions, waste generation and disposal	5	<b>Clinical trials and access to medicines</b> Community investment: programs to provide access to health to low income populations. Ethics in R&D: control of outsourced trials, best practice in developing countries.	The company has implemented relevant measures to increase Access to Medicines in developing countries.	5	<b>Shareholder rights:</b> - No voting rights restrictions - Balanced shareholder structure - Procedures for anti-takeover protection	There are no limitations on voting rights, ie, one share entitles the holder to one vote.	10
<b>Life Cycle Management System:</b> Product life cycle assessment: raw materials, manufacturing, packaging, distribution, use, disposal and other environmental considerations Potential environmental impact of products	Strong measures regarding product safety (Product stewardship)	5	<b>Misleading marketing</b> Advertising: use of approved promotional material. Product safety: transparency of clinical trials results	Bayer states that it follows the 'Ethical Criteria for Medicinal Drug Promotion' published by the WHO, the corresponding codes of conduct drawn up by the international pharmaceutical association IFPMA, and national codes of conduct. In the field of crop protection, the company states that Bayer CropScience observes the 'International Code of Conduct on the Distribution and Use of Pesticides' supported by the FAO and WHO.	5	<b>Executive remuneration:</b> Transparency & justifiable levels of executive compensation Executive compensation models linked to ESG performance and decided by an independent committee (long term models of preference)	Compensation for executive board members is disclosed on an individual basis and sub-divided according to fixed amounts, variable performance-related components and long-term incentive components.	5
<b>Aggregated E. S.</b>	Any 'F' score	6.7			5.0			8.3
<b>Sector weight in</b>		40%			40%			20%
<b>Total Minimum</b>	criteria scores <i>[automated formula]</i> Note: Any 'F' score fails the entire rating.							6.3

Score acc. to performance: 0-10

Weight per section

Total: 5 as minimum

## Input from various specialised research partners



- Facts and data from research partners are relevant input to our research process
- We do not automatically take research partners' rating to come to our decision
- Internal resources assess, question and complement external ratings

# Collaboration with Hermes EOS for systematic voting and engagement research, execution and reporting

## Voting

- Assess upcoming voting options at AGMs (e.g. “Publish CSR report”, “elect XY Board member”)
- Provide research and voting recommendations (For / Against / Abstain) that support investors’ financial and sustainability interests
- Execute votes and provide reporting

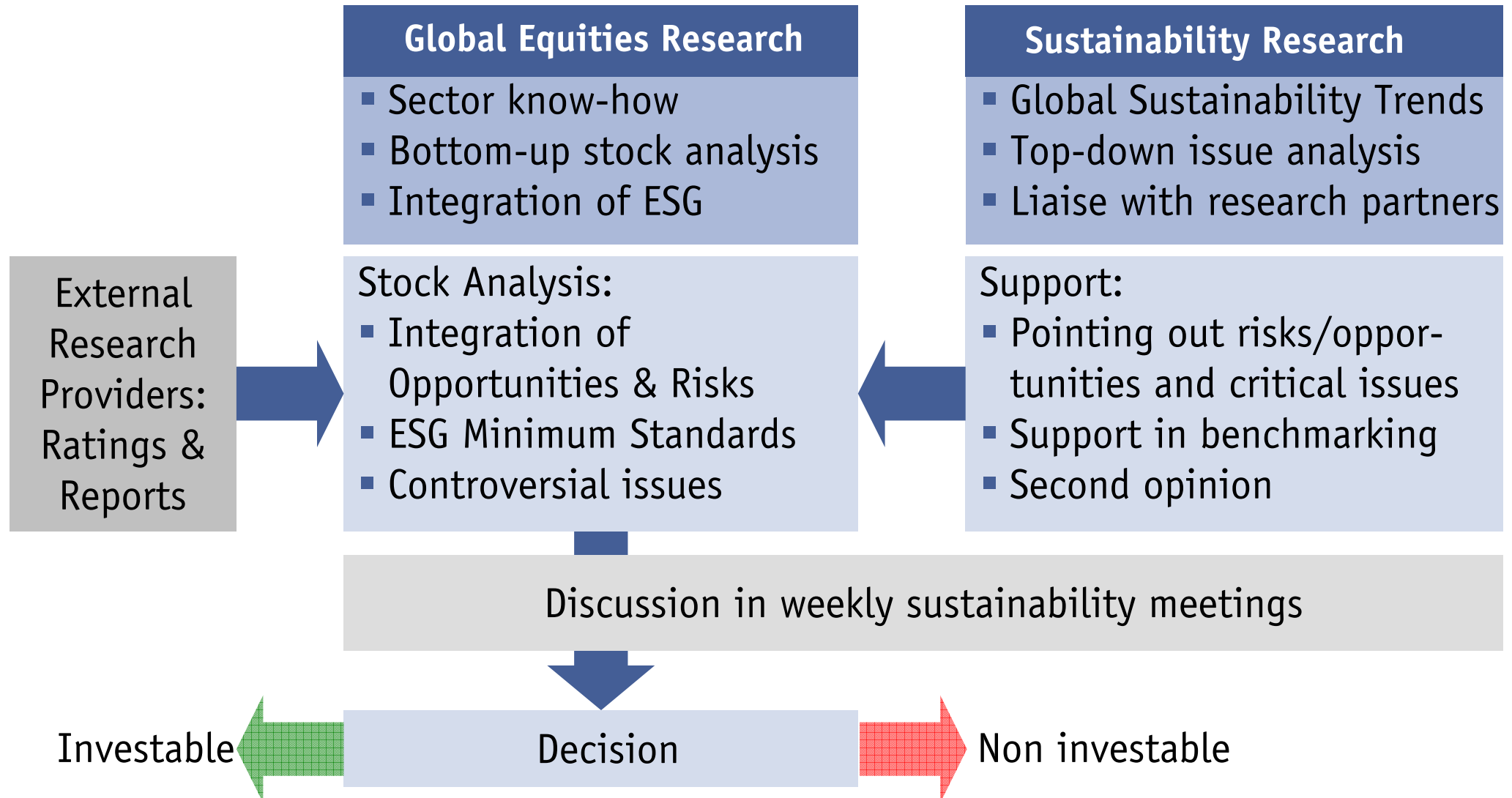
## Engagement

- Identify controversial financial or sustainability issues
- Engage in a dialogue with management
- Report on issues, dialogues, achievements

ViewPoint Voting System		HERMES	VONTOBEL
Company XY - Annual Meeting 2011	Recommendation	Decision	
Accounts and Reports	For		
Allocation of Profits/Dividends	For		
Election of Directors	Split		
Elect ZHANG Hui	For		
Elect WU Jianguo	Against		
Directors' Fees	For		
Appointment of Auditor and Authority to Set Fees	For		
Authority to Issue Shares w/o Preemptive Rights	Against		



# Cooperation of Financial and Sustainability Analysts



# Case study: Chevron

Analysis by Financial Analyst:

- Valuation ok
- Sustainability: B (below average)



Analysis by Sustainability Analyst:

- Reporting ok and improving
- Systems inadequate for risks
- Human rights issues



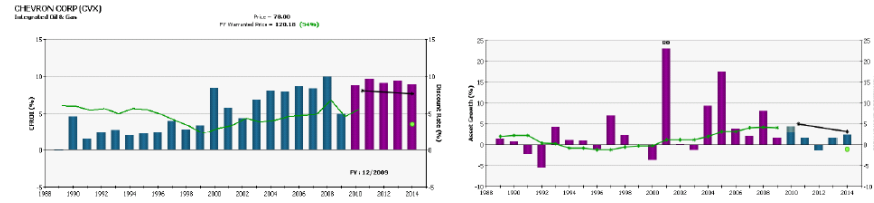
Discussion in Sustainability Meeting:

- Removal from focus list



Feb. 15. 2011: Chevron fined \$8bn. for polluting Ecuador's Amazon

## Valuation Case:



The target price of \$120 implies a gradual ramp up of Cash Flow Return On Investment (CFROI) to 9%. The price target is derived from a discounted cash flow based HOLT model using a forecasting period of 5 years, with 5 years average normalised sales growth of 6%, normalised Ebitda margins around 16% and a real discount rate of 5.6%.

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**Sustainability Report**

Chevron, USA  
Oil & Gas

Vontobel Asset Management

**Summary:** As one of the largest Oil & Gas companies active in many countries, Chevron faces a variety of ESG risks that it increasingly addresses yet doesn't seem to be willing to really mitigate

### Sustainability Analyst Statement

An group-wide environmental management system is in place and limited reporting on environmental indicators

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**Global Equities Focus List**

Vontobel Asset Management  
Buy Side Research

<b>CHEVRON CORP</b>		Sector: Energy	
September 9, 2010		Analyst: Martha Travers Veress	
CVX US Equity		Conviction Level (1-5)*: 3	
Currency:	USD	ISIN	US1667641005
Market Cap (mn):	155'318	Initiation Date:	September 9, 2010
Current Price:	77	Initiation Price:	77
52-Week High:	83	Target Price:	120
52-Week Low:	67	12M Expected Return:	55%

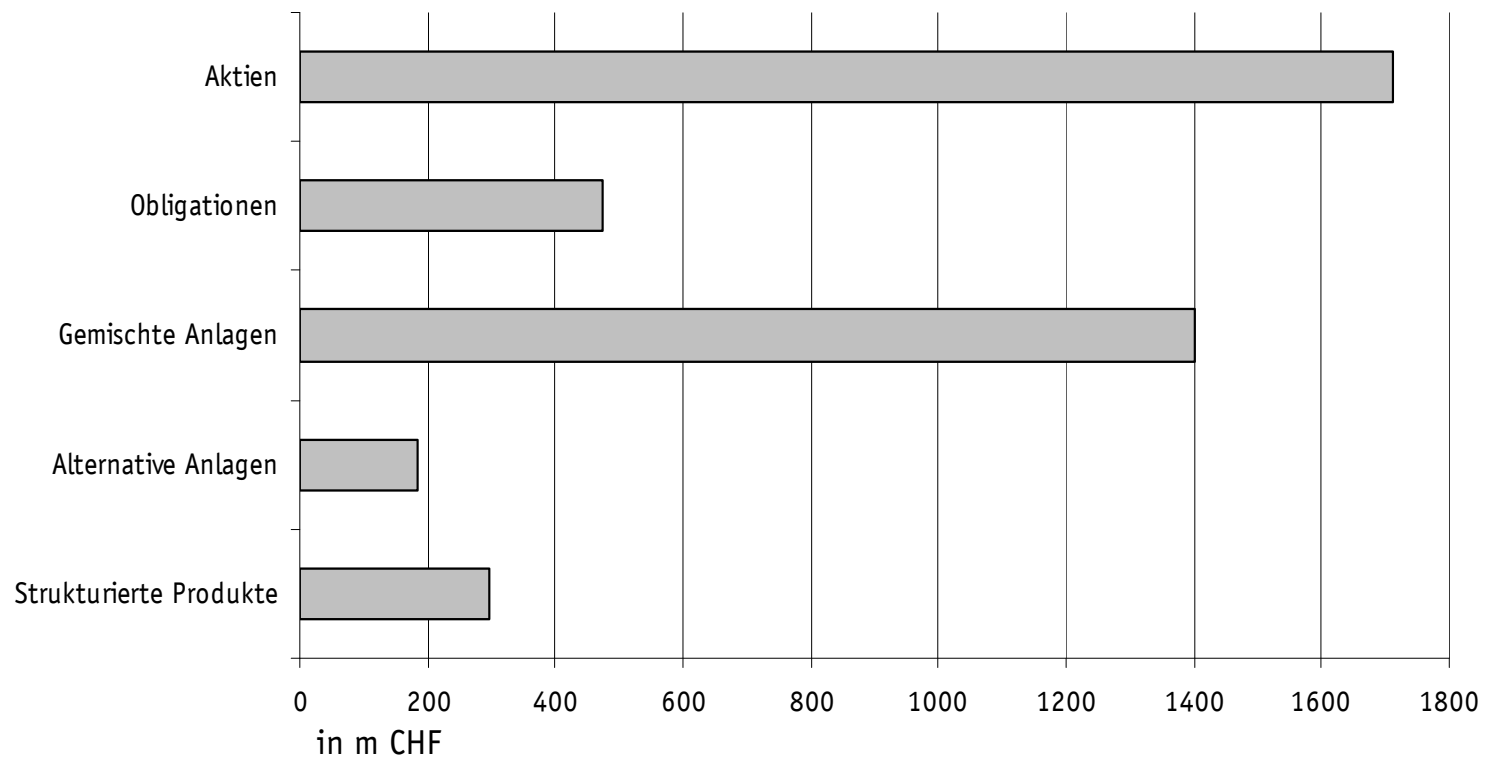
\* Lowest conviction: 1; highest conviction: 5

**We recommend removal from the Focus List**



# Vontobel with long-standing experience in responsible investing - sustainable funds since 2001

➔ 8.4% of Vontobel Asset Management AUM are sustainable



All Vontobel Global Responsibility funds have been awarded the „transparent“ logo of Eurosif

## Conclusion



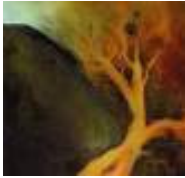



- Integration approach with key success factors:
  - Explicitly integrated into the investment process
  - Sustainability analysis conducted by equity analysts and integrated into financial assumptions
  - In-house Sustainability Research team
  - Voting and engagement process
- Performance and sustainability can be attained
- Sustainability integration provides perspective on opportunity and risk, and will impact stock selection and portfolio construction



# Appendix

# Vontobel Product Overview

## Vontobel Global Responsibility Equity Funds

	 	 <b>US</b>	 <b>Asia ex. Japan</b>	 <b>EU</b>	 <b>Inter- national</b>
<b>Portfolio-Manager</b>		Andy Nigg	Stephen Tong	Alan Niederer	Steve Triantafilidis
<b># stocks fund</b>		30-60	40-70	30-60	40-70
<b>Inception date</b>		17.11.2008	17.11.2008	17.11.2008	01.09.2010
<b>Currency</b>		USD/EUR	USD/EUR	EUR	USD
<b>Benchmark</b>		S&P 500 - TR	MSCI AC Asia (ex Japan) net TR USD	MSCI Europe Index TR net	MSCI World TR
<b>Management-Fee (Base)</b>		1.5%	1.65%	1.5%	1.5%
<b>Bloomberg Ticker (Base)</b>		VONGLUA LX	VONASIA LX	VONGLRA LX	VGRIEIU LX
<b>ISIN (Base)</b>		LU0384407051	LU0384409180	LU0384406673	LU0384408968