

# Trends in Sustainability and Update on the RobecoSAM CSA Methodology

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São Paulo, February 14<sup>th</sup>, 2019



## Agenda

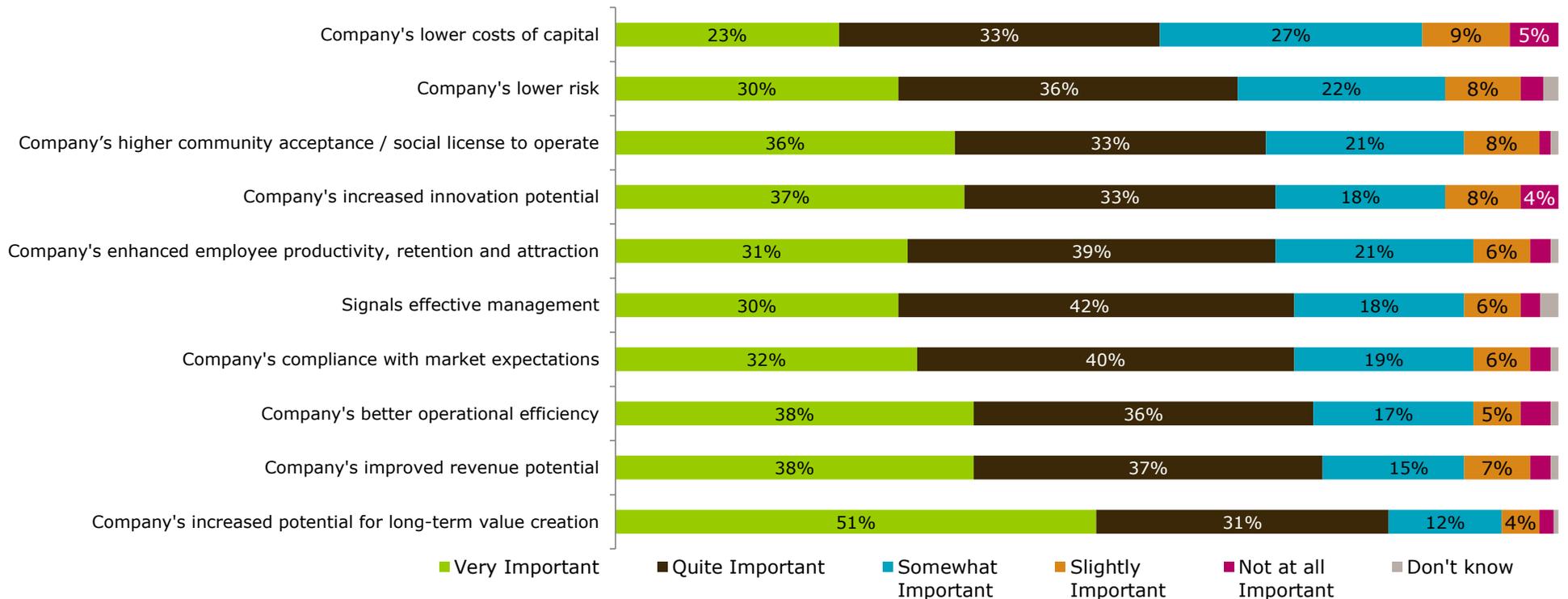
- Importance of Transparency
- Reputation and Controversies:  
Updated RobecoSAM Media &  
Stakeholder Analysis (MSA)
- Key Changes in the RobecoSAM  
Corporate Sustainability Assessment



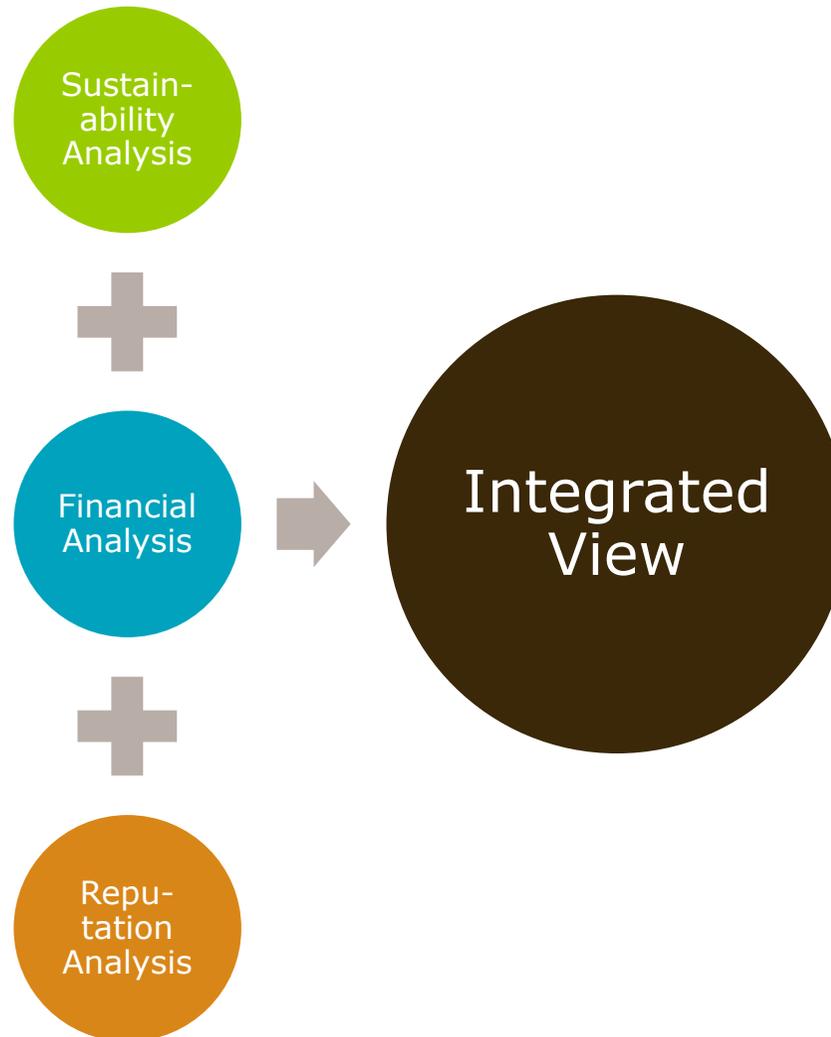
# Importance of Sustainability Performance for Investors

## Investors care about good sustainability performance for many reasons

Why is a company's good sustainability performance important to your firm when making investment decisions?



## Better Informed Investment Decisions



## Different Perspectives on Reporting on Material Sustainability Aspects



# Reporting Transparency of Companies from Brazil: Degree of Transparency

## Background

In 2018, RobecoSAM increased the number of questions for which public information is required to score any points. These questions are referred to as “public questions.”

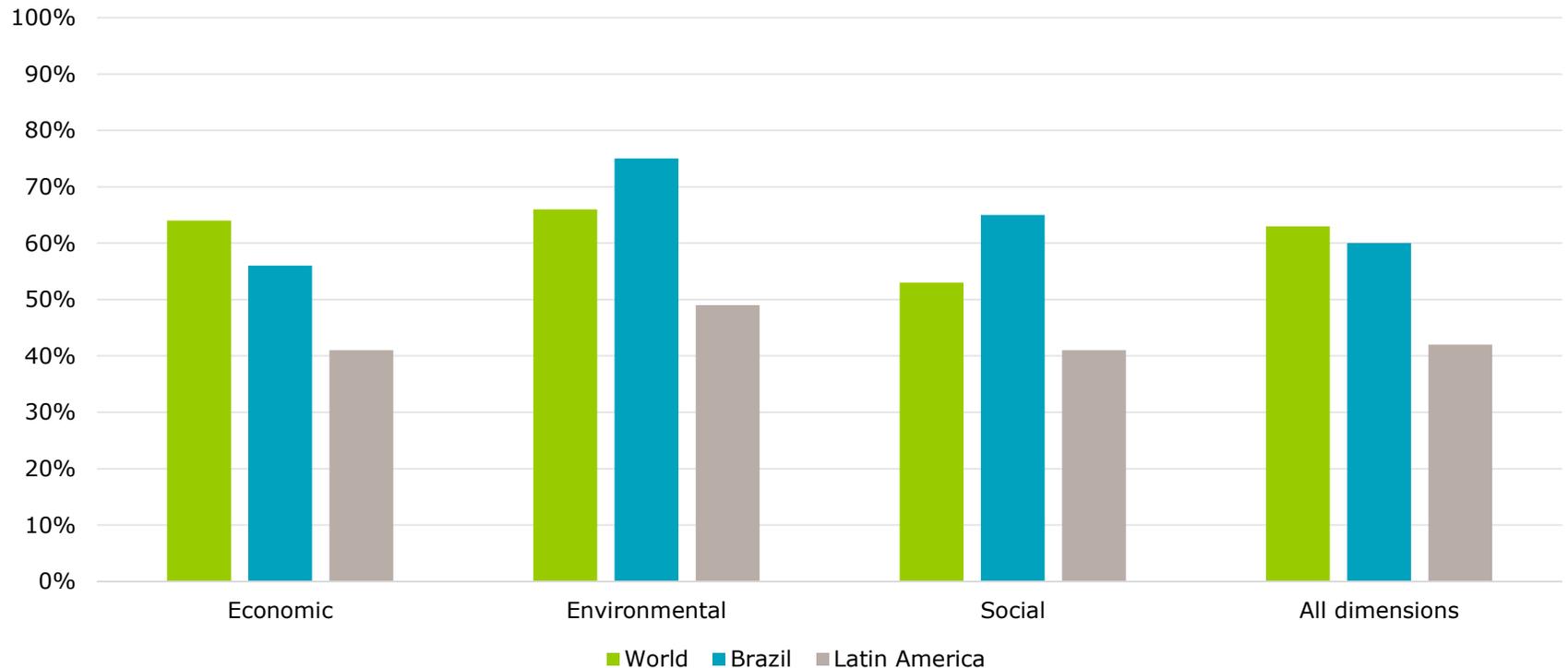
Dimension	Number of Questions Requiring Public Reporting	Degree of Transparency		
		World Average	Latin America Average	Brazil Average
Economic	25	64%	41%	56%
Environmental	7	66%	49%	75%
Social	6	53%	41%	65%
All dimensions	38	63%	42%	60%

## How to Read the Table?

The *Degree of Transparency* shows the percentage of applicable questions for which at least some public information was available and relevant for scoring.

# Reporting Transparency in Brazil

## Degree of Transparency



The *Degree of Transparency* shows the percentage of applicable questions for which at least some public information was available and relevant for scoring.

Universe (number of companies): World 2094 companies / Brazil 35 companies

# Reporting Transparency of Companies from Brazil: Transparency Score

## Background

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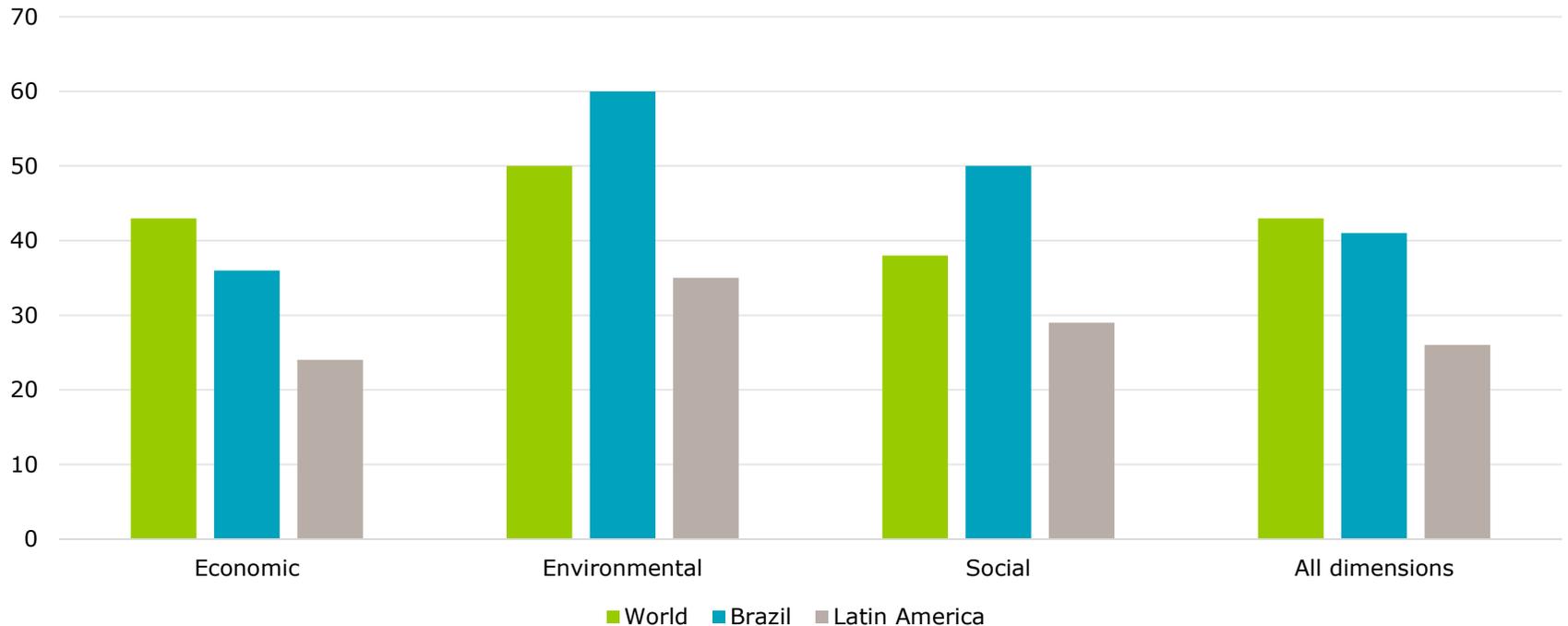
Dimension	Number of Questions Requiring Public Reporting	Transparency Score		
		World Average	Latin America Average	Brazil Average
Economic	25	43	24	36
Environmental	7	50	35	60
Social	6	38	29	50
All dimensions	38	43	26	41

## How to Read the Table?

The *Transparency Score* shows the average score in all applicable questions requiring public information.

# Reporting Transparency in Brazil

## Transparency Score



The *Transparency Score* shows the average score in all applicable questions requiring public information.

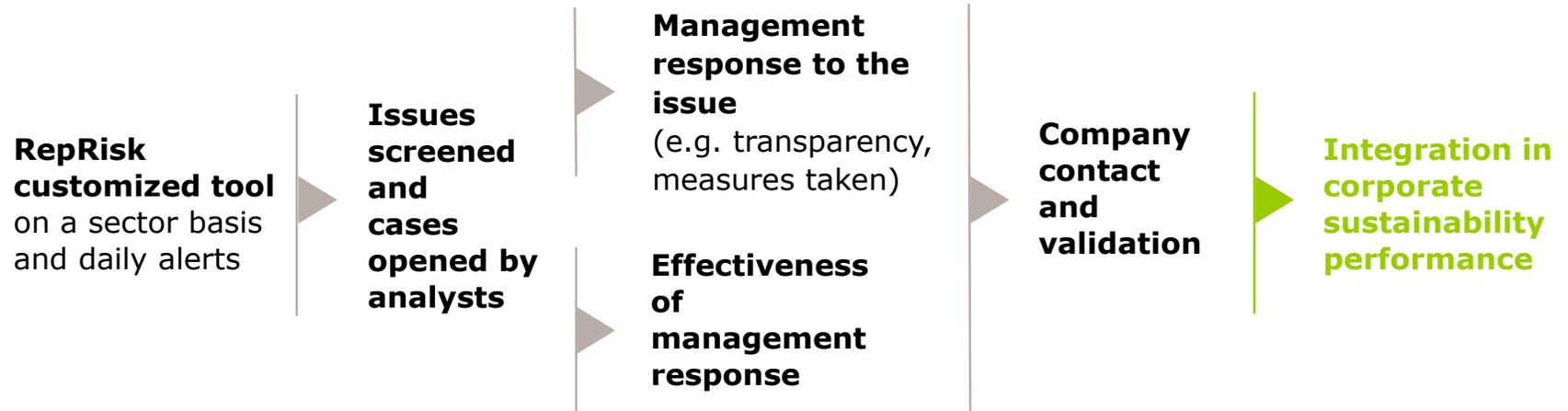
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## Media & Stakeholder Analysis (MSA)



- MSA helps to verify a company's involvement and management of critical economic, social and environmental issues or crisis situations
- MSA cases emerge when there are significant contradictions with sustainability criteria
- Cases must be **financially material**, and there must be direct and credible **evidence of management failure**
- Assessment of cases considers the case and the **management response to the issue**
- When an MSA case occurs, an **MSA multiplier** is assigned to the relevant CSA criterion or criteria

## Changes to the Previous MSA Methodology

### Introduction of the MSA multiplier(s)

- When an MSA case occurs, an MSA multiplier is assigned to the relevant CSA criterion or criteria
- The MSA multiplier is expressed in percentage terms and varies depending on the severity of the MSA case
- Severe MSA cases apply higher multipliers leading to lower criterion scores



Compared to the previous MSA methodology, **high severity cases now have an even larger impact** on companies relative to minor cases

### No Positive Score Contributions of MSA questions

- The MSA no longer “positively” contributes to criterion scores and the total sustainability score
- The MSA question weight is now set to zero and its weight is redistributed among the other questions of the criterion
- Because this impacts ALL companies, percentile ranks remain comparable



The 2018 CSA **scores are lower** in some areas compared to the absolute 2017 CSA scores, but **percentile ranks remain comparable** to previous years. **Year-on-Year comparison of scores facilitated in online Benchmarking Database** by applying the 2018 methodology also to 2017 assessment results.

Source: RobecoSAM MSA Guidebook (2018)  
<http://www.robecosam.com/images/methodology-guidebook-external-msa-2018-web.pdf>

## Steps in the MSA Analysis

Once an MSA case is identified, the case is assessed to determine its impact on the company's score. Two main factors are considered in the case evaluation: the impact on the company and how the company has addressed the issue by taking measures to minimize the negative impact of the crisis and avoid a future recurrence of such incidents.

### Case Impact Rating

**The impact rating is determined by taking into account a number of factors, including:**

- Extent and frequency of breaches of the law or company policies
- Interruptions to company operations
- Dismissals or prison sentences linked to the issue
- Involvement of executive management and governance failure
- Financial impact of fines, settlements and other costs
- Impact on the company's reputation

### Company Response Rating

**The company response rating is determined by two main factors:**

**Company Communication:**

- Existence of public communication on the issue and/or a comprehensive reply to the RobecoSAM MSA request for information

**Evaluation of the measures taken by the company in response to the issue:**

- Effectiveness of the measures taken by the company to address the issue's immediate consequences and minimize the likelihood of the issue's future reoccurrence
- Timing of the measures
- Public reporting on the measures

## From MSA Analysis to MSA Score and Multiplier

**First step:** The company's response to **the MSA case is scored** on the basis of public communication by the company on the issue and evaluation of measures taken by the company in response to the issue

Company Response Rating, Impact Rating	Major	Medium	Minor
No communication	0	40	70
Communication – no, or partial measures	10	50	
Communication – appropriate measures	20		80
Communication – appropriate public measures	30	60	

**Second step:** The MSA score will be **translated into an MSA multiplier**, which will be applied to the affected criteria.

MSA Score	Multiplier (%)
0	80
10	75
20	70
30	65
40 or higher	60

## Use of the New MSA Multiplier in the Calculation of Criteria Scores

Formula:

$$\text{Criterion Score without MSA} \times \left[ \frac{\text{MSA Score}}{100} \times \text{Multiplier} + 1 - \text{Multiplier} \right] = \text{Final Criterion Score}$$

Example 1: Major case, no company response = severe impact

$$\text{Criterion score without MSA: 80} \times \left[ \frac{\text{MSA Score: 0}}{100} \times \text{Multiplier: 0.8} + 0.2 \right] = \text{Final Criterion Score: 16}$$

Example 2: Minor case, very good company response = low impact

$$\text{Criterion score without MSA: 80} \times \left[ \frac{\text{MSA Score: 80}}{100} \times \text{Multiplier: 0.6} + 0.4 \right] = \text{Final Criterion Score: 70.4}$$

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## Assessment 2018 – Assessment Criteria Changes

<b>Criteria</b>	<b>Key Changes Compared to 2017</b>
<b>Corporate Governance</b>	In line with current research, four questions have been added to this criterion and the entire criterion has been updated with regards to public reporting. Companies are now requested to report on Management Ownership and Management Ownership Requirements in a separate question, as well as on the Executive Compensation Success Metrics and the Alignment with Long-Term Performance.
<b>Policy Influence</b>	RobecoSAM evaluates the amount of money companies are allocating to legislative, political and public discourse, contributions to political campaigns, lobbying expenditures and contributions to trade associations and other tax-exempt groups organizations whose primary role is to create or influence public policy, legislation and regulations both directly and indirectly. The question on Largest Contributions and Expenditures has been updated.
<b>Tax Strategy</b>	A new question called Effective Tax Rate has been added, and the question on Tax Strategy has been updated.
<b>Climate Strategy</b>	In line with current research, a new question called Scenario Analysis has been added to this criterion in 28 industries and four questions have undergone change in terms of layout structure.
<b>Operational Eco-Efficiency</b>	A new aspect has been added in the OEE layout for all the questions. Public Reporting on the emission and consumption data is now expected.
<b>Talent Attraction &amp; Retention</b>	A new aspect has been added in Trend of Employee which is Public Reporting for the results of employee engagement survey or an alternative approach.
<b>Occupational Health and Safety</b>	A new public reporting aspect has been added in six questions.

## Assessment 2019: Changes

### **Energy Mix – Oil & Gas Upstream and Integrated (OGX)**

Oil & Gas production and reserves are still the key drivers for value creation and future earnings (share price performance) in the Oil & Gas sector. At the same time, fossil fuel companies need to decarbonize their business model in the long run, and investors have already started to divest from certain activities (e.g. oil sands) in this sector. With these questions, RobecoSAM assesses the sustainability of the business models of oil and gas companies in both the short and the long term, focusing on the current production mix, reserves mix, and investments in cleaner energy alternatives.

#### **Questions:**

- Oil & Gas Production;
- Oil & Gas Reserves;
- Oil sands & Fossil Fuel Exposure;
- Finding & Development and Production Cost;
- Renewable Energy Production

## Assessment 2019: Changes

### **Raw Material Sourcing – BVG Beverages, FDR Food & Staples Retailing, FOA Food Products, TOB Tobacco**

Food and beverage companies rely on stable high-quality agricultural raw materials including fresh water in their supply chain. It is therefore in their long-term interest to maintain stable supplier relations and promote sustainable agriculture. Agricultural raw materials, and in particular freshwater resources, are often limited and there is local competition between industry, agriculture, and private households to access these resources. RobecoSAM's questions focus on how companies are managing these competing interests and the extent to which they work with their suppliers to promote sustainable agriculture.

#### **Questions:**

- Guidelines and Standards for Agricultural Commodities;
- Certification of Agricultural Raw Materials.

## Assessment 2019: Changes

### **Information Security, Cybersecurity & System Availability**

Due to the current trend of digitization, including but not limited to cloud computing, online market places and payments, etc., it is crucial that access to network, IT systems and data is assured at all times. As a result, lower than agreed upon system performance or service disruptions can result in higher costs and reputational risk for companies. The main risks stem from technical failure, human error, malicious attacks, weather events, natural disasters or terrorist attacks. Managing such risks, including contingency plans, is crucial to ensuring business continuity.

#### **Questions:**

- Information Security / Cybersecurity Governance;
- Security Measures;
- Process and Infrastructure;
- Information Security / Cybersecurity Breaches

***This criterion was added to a larger number of industries compared to 2018***

## Assessment 2019: Changes

### Privacy Protection

Networked data and globalized corporate activities require careful handling. Insufficient database and network protection, unclear management of personal information and vague database access rules could expose companies to large risks in case of personal data leakage and misuse, or unauthorized access. For companies to avoid legal costs, reputational risk, and exclusion from certain activities, a company-wide privacy policy is paramount. RobecoSAM's questions focus on the coverage of the company's privacy policy and the mechanism in place to ensure the policy's effective implementation.

### Questions:

- Privacy Policy: Systems/Procedures;
- Customers' Information;
- Use of Customer Data;
- Breaches of Customer Privacy: Complaints.

***This criterion was added to a larger number of industries compared to 2018***

## Contact us in case of questions



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