

RobecoSAM Methodology Changes Webcast

Zurich, 22 March 2016



Agenda

- **Introduction**

(Manjit Jus, Head of Sustainability Application & Operations)

- **2016 Methodology Review & Changes**

(Christopher Greenwald, Head of SI Research &
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- **Other Changes, DJSI Timeline 2016**

(Manjit Jus, Head of Sustainability Application & Operations)

- **Q&A**

2016 Methodology Changes

Methodology Review 2016

Main focus of the methodology development in 2016

- Materiality review of criteria
 - Reducing the overall number of criteria in each industry
 - Focus on financial relevance of questions & criteria
- Strengthening existing criteria based on feedback received from companies
- Addressing new sustainability trends

Major Methodology Changes in 2016

- Materiality (all industries)
- Labor Practice Indicators & Human Rights (all industries)
- Impact Measurement & Valuation (selected industries)
- Brand Management (selected industries)
- Information Security & Cybesecurity (selected industries)

Materiality

Materiality

For 2016, we have made changes to the “Materiality” questions from “Social & Environmental Reporting.” Now, there is a combined, single, criterion in the Economic Dimension, called “Materiality.”

- Added to all industries
- New questions in this criterion are:
 - Material Issues
 - Materiality Disclosure
- Goals of this change are:
 - Focus on **top three material issues**, regardless if they are environmental, social or even economic
 - More **explicit link of material issues** to the business drivers, impact and link to management compensation
 - Clearer link between material issues and **long-term targets**

Environmental & Social Reporting criteria

The other questions in Environmental & Social Reporting criteria will remain.

Materiality – Material Issues

RobecoSAM asks companies to report their top three material issues, as identified through its materiality analysis process.

For each material issue, the following is required:

- **Description of issue and category of issue**
 - Focus on the issues that are most linked to the business case
- **Business case / rationale**
 - Description of the business importance of the issue
- **How this issue impacts your business (cost / revenue / risk)**
- **Strategies to address this issue (strategy / products / initiatives)**
 - Explanation of primary measures taken or products that address the issue
- **Long term target / metric for measuring progress on this issue**
 - Longer than 3 years, and should be specific and measurable
- **Is the target / metric used for determining executive compensation?**

Materiality – Material Issues

Example of how this question could be answered:

Material Issue 1	
Material Issue	Business Ethics Reducing corruption & bribery, breaches of code of conduct, potential legal actions and fines from non-compliance
Business case / rationale	Legal actions and fines for non-compliance, reputational damage, loss of license to operate
How does this issue impact your business (cost / revenue / risk)?	Risk
What are your primary strategies / products to address this issue?	Investments into improving internal compliance systems, third-party verification of compliance systems, additional training of employees
Do you have a long-term target or metric to measure progress on this issue? Please specify this target or metric if available:	Number of annual reported compliance issues. Reduction of annual compliance issues by 75% by 2020.
Please specify the year for the long-term target	2020
Is your material issue, metric or target used for determining executive compensation?	Yes, senior managers, including Chief Compliance Officer has variable compensation related to this target.

Materiality – Materiality Disclosure

This question assesses whether or not companies are publicly disclosing a materiality framework and analysis

Materiality analysis:

- The process should be well described
- The issues should be clearly defined
- Issues should be prioritized
- Description of stakeholders should be included

Progress on targets and metrics:

- Publicly reported targets related to the most material issues

Expectations

- *Reporting can be provided in annual report, sustainability report or on the website – scoring is based on the nature of the disclosure not where it is reported*

Labor Practice Indicators & Human Rights

Labor Practice Indicators & Human Rights

Questions have been replaced in “Labor Practice Indicators and Human Rights” to address company commitment to human rights in line with UN Guiding Principles on Business and Human Rights

- Applied to all industries

The new questions:

- Human Rights Commitment
- Human Rights Due Diligence
- Human Rights Assessment
- Human Rights Disclosure

Benefits:

- Previous questions asked about the Ruggie Framework and company awareness of potential human rights issues in operations
- The four replacement questions focus on alignment with the UN Guiding Principles on Business & Human Rights
- The questions also reflect recent development in reporting frameworks

Labor Practice Indicators & Human Rights

Question: Human Rights Commitment

- RobecoSAM asks whether companies have a policy for commitments to human rights in line with the UNGP
- We also ask what business activities this covers

Expectations

- *The policy needs to be clearly defined, company-specific and company-wide*
The policy should cover the company's business activities and relationships

Question: Human Rights Due Diligence

- RobecoSAM asks companies what due diligence process they have in place for assessing potential impacts on human rights, and the aspects it covers
- There is an option for companies which are developing a due diligence process but which has not yet been implemented

Expectations

- *Provide supporting documentation outlining the process. This is especially important for assessing processes in development for current status and expected completion date*

Labor Practice Indicators & Human Rights

Question: Human Rights Assessment

- RobecoSAM asks to what extent companies have identified potential areas of human rights risks, and whether mitigation plans are in place to address these. We also ask about vulnerable groups that have been identified in connection with these human rights risks

Expectations

- *Supporting evidence needs to be provided, covering the extent of assessment conducted, risks identified, and risks managed through mitigation plans*

Question: Human Rights Disclosure

- RobecoSAM asks to what extent companies are reporting on their human rights commitments

Expectations

- *Publicly available human rights policy, and description of due diligence process, human rights issues, identified vulnerable groups, number of sites with mitigation plans, and any remediation actions*

Impact Measurement & Valuation

Impact Measurement & Valuation

Corporate Social Responsibility has progressed, and companies are increasingly measuring their impact

For 2016, this will be applied to a select set of industries, including:

- Consumer Discretionary
- Materials & Energy
- Food & Beverage

Two topics covered are:

- Business Programs for Social Needs
- Impact Valuation

Benefits:

- Reflects developments by leading companies in managing social programs and measuring broader set of impacts

Impact Measurement & Valuation

RobecoSAM asks companies if they have created programs generating business value through addressing social needs, and both metrics and reporting

Question: Business Programs for Social Needs

- RobecoSAM asks whether a company has developed a systematic approach to business programs for social needs

Expectations

- *Describe programs that provide both business benefits and address social needs*
-

Question: Measuring Social Benefits

- RobecoSAM asks how companies have developed metrics to measure the social benefits of their programs to address social needs

Expectations

- *Describe measures and units used to track progress in meeting social needs and provide some supporting information*
-

Question: Disclosure of Programs for Social Needs

- RobecoSAM asks companies the extent to which they communicate on these

Expectations

- *Reference or link to recent information in the public domain*

Impact Measurement & Valuation

RobecoSAM asks if companies identify and value externalities that are currently not reflected in financial accounting but may affect business drivers

Question: Impact Valuation

- RobecoSAM asks whether or not a valuation method is currently being used or whether one is in development

Expectations

- *Supporting documentation confirming measurement and valuation and, for programs in development, clear definition of status and timeline*
-

Question: Valuation Type

- RobecoSAM asks about the type of valuation program being used

Expectations

- *Classification of whether the approach includes monetary, quantitative (non-monetary) or qualitative measures*
-

Question: Valuation Disclosure

- RobecoSAM asks to which extent companies are publically reporting on their measurement and valuation methodologies

Expectations

- *Reference or link to recent information in the public domain*

Brand Management

Brand Management

The Brand Management criterion has been updated in collaboration with Interbrand, a global brand consultancy.

- New brand questions have been applied to consumer-oriented industries, including: Airlines, Automobiles, Household Products, Retail.
- Benefits of these changes are:
 - Previous methodology focused on brand spending, use of specific performance metrics and trend in stakeholder perception
 - The new methodology focuses on how companies position their brands and use sustainability as a differentiating factor

Brand Management

Question: Brand Values

Focus on the relevance of brand values in targeting customer groups, and the overall consistency of brand values reflected in corporate sustainability initiatives

Question: Brand Strategy and Sustainability Strategy

This question evaluates the commitment to external and internal clarity about what the brand stands for and how the brand strategy and sustainability are internally aligned

Question: Brand Management Metrics

This question evaluates the internal commitment to support and sustain the brand's strength through incentives and performance-related metrics (but without specifying which metrics should be used)

Information Security & Cybersecurity

Information Security & Cybersecurity

A new criterion on information security and cybersecurity has been developed to address this emerging business issue

- New questions have been applied to a selected set of industries:
 - BNK Banks, FBN Diversified Financial Services & Capital Markets
 - ELC Electric Utilities, GAS Gas Utilities, MUW Multi & Water Utilities
 - PUB Media, CSV Diversified Consumer Services, FDR Food & Staples Retailing

Benefits:

- Focus on how well companies are prepared to prevent major incidents and if they can react appropriately
- Learning from experience of Customer Relationship Management
- Focus on financial impact of incidents

Information Security & Cybersecurity

Question: Information Security / Cybersecurity Strategy and Governance

This question focuses on whether or not companies are aware of information security / cybersecurity risks at the highest level of management and if they are being addressed strategically.

Question: Responsibilities & Employees

This question focuses on resources for implementing strategy

Question: Processes & Infrastructure

This question focuses on processes & measures for implementation

Question: Information Security / Cybersecurity Breaches

This question focuses on how many security breaches have occurred in the past years and the financial impacts of these breaches

Other Methodology Changes in 2016

Other Methodology Changes in 2016

The main other methodology changes in 2016 include:

- **Oil & Gas:** Split of questionnaire into two questionnaires:
 - OGX – Oil & Gas Integrated and Upstream
 - OGR – Oil & Gas Refining & Marketing
 - Split of questionnaire reflects different sustainability challenges and allows for better direct comparison of peers
- **Pharmaceuticals:** Alignment to **Access to Medicine** questionnaire
- **Utilities:** Changes to **Market Opportunities** criterion
- **Innovation Management:** Reduction of questions & complexity

Scoring Methodology

Operational Eco- Efficiency

Operational Eco-Efficiency & Trend Questions

Goal: Assess relative performance/ progress over time

- Data consistency across 3 or 4 years is therefore essential
- Normalized trend data is scored
- Ensure that data provided is comparable and that any changes are explained in comment box

Coverage:

- This can be used to adjust past figures if the latest data is more complete
- If the scope of the data has expanded, past coverage should be lower
- Scope should be 80% and above in order to be considered covering the full company
- The coverage should correspond to the type of denominator relevant in the industry

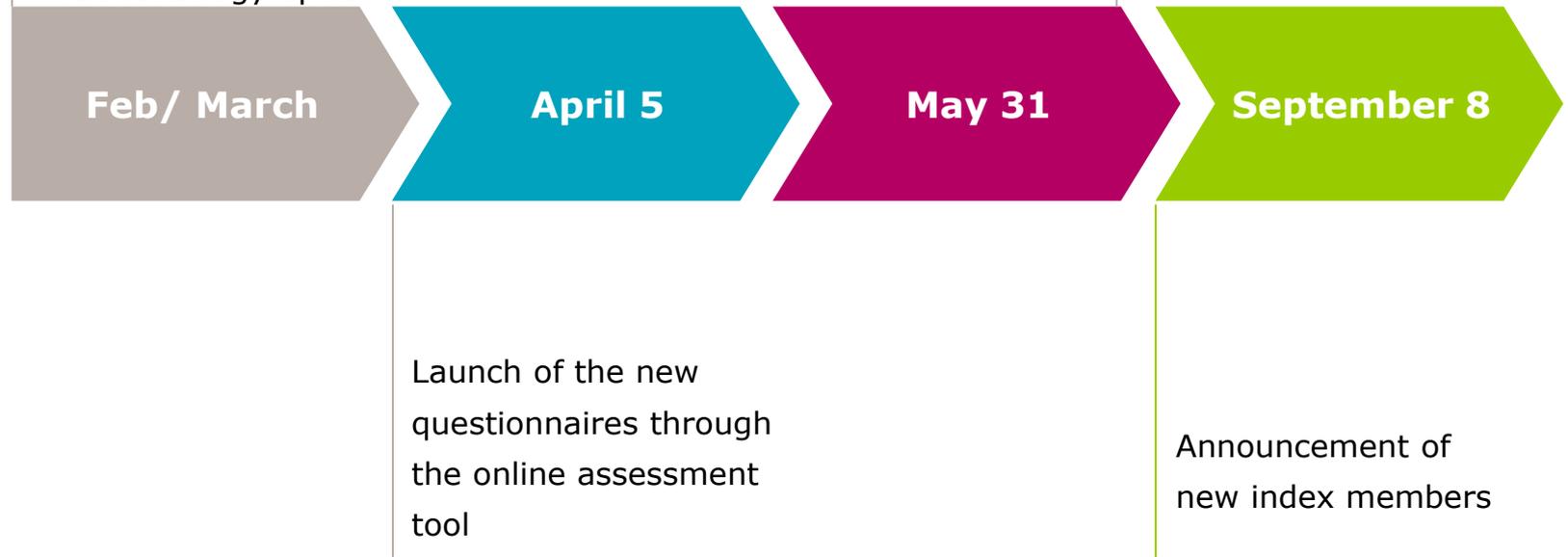
Targets:

- Targets provided should be annual (progress towards long-term targets should be measured annually)
- Targets can be reset as a result of organizational changes
- Companies are credited for having a target, and for managing progress against a realistic target requiring progress over time

Key Dates 2016

Key Dates 2016

- Information update with draft versions of key methodology changes
- Official invitations sent out to all eligible companies
- Webcasts on major methodology updates
- Official deadline for submitting completed questionnaires



Questions?

For further questions contact the DJSI Helpline and refer to our Corporate Sustainability Assessment Companion:

https://assessments.robecosam.com/documents/RobecoSAM_CSA_Companion.pdf

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