

Board Oversight of Sustainability Issues

Webinar: Review of Research Findings and Q&A

Tuesday, April 29, 2014 at 1:00pm ET

**Investor Responsibility Research Center Institute &
Sustainable Investments Institute**

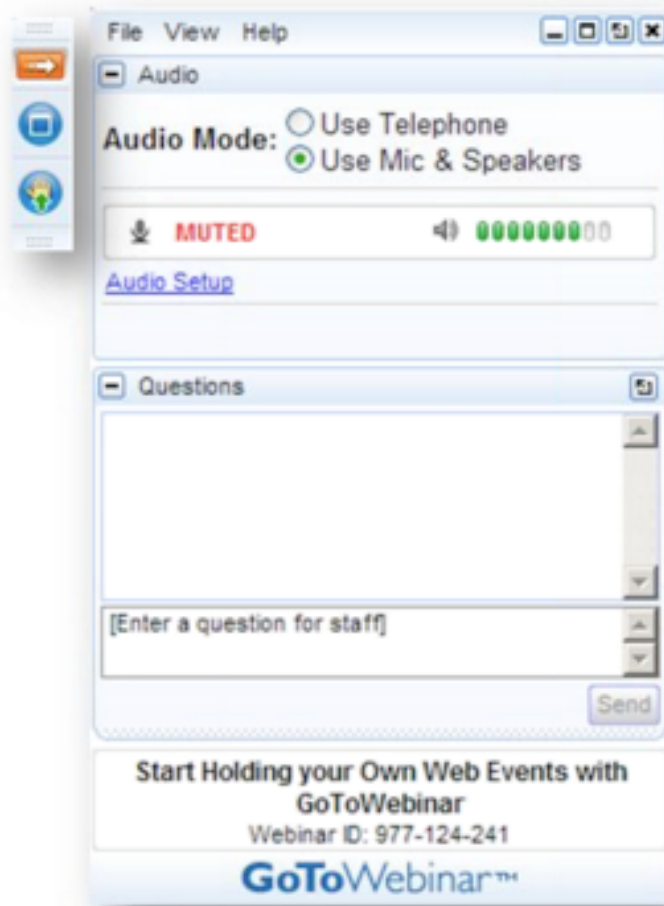


Agenda

- Introductions
- Research Review
- IRRCi Perspective
- Q&A



Webinar Logistics



- Attendees in listen only mode.
- Questions encouraged. Type using the “Question” function, and we will answer following report overview.
- You will receive email with link to replay of this session.
- This report and all others available at www.irrcinstitute.org
- Share info on social media. Find us at @irrcresearch, @si2news, #irrcresearch
- Audio issues during webinar, please call contact GoToWebinar @ 1-800-263-6317.

Speakers



Peter DeSimone

Report Author; Cofounder & Deputy Director
Si2



Jon Lukomnik

Executive Director
IRRCi

About IRRCi



- Not-for-profit established in 2005.
- Funds, disseminates research on range of issues at intersection of corporate responsibility, investors informational needs.
- Examines the capital market context that impacts how investors and companies make decisions.
- Sponsors annual research award.
- Five Year Impact report now available.
- All research available at no charge.



Selected IRRCi Research

- *Board Oversight of Sustainability Issues*
- *Defining Engagement: An Update on the Evolving Relationship Between Shareholders, Directors and Executives*
- *Integrated Financial and Sustainability Reporting in the United States*
- *Growing Traction For Environmental & Social Shareholder Proposals*
- *Controlled Companies in the Standard and Poor's 1500: A Ten Year Performance and Risk Review*
- *Executive Superstars, Peer Groups and Over-Compensation*
- *Environmental, Social and Governance Investing by College and University Endowments in the United States*
- *Voting Decisions at US Mutual Funds: How Investors Really Use Proxy Advisors*
- *Discovering Shale Gas: An Investor Guide to Hydraulic Fracturing*
- *Finding Common Ground on Metrics that Matter*
- *Mergers and Acquisitions and the Universal Investor*

About Sustainable Investments Institute (Si2)



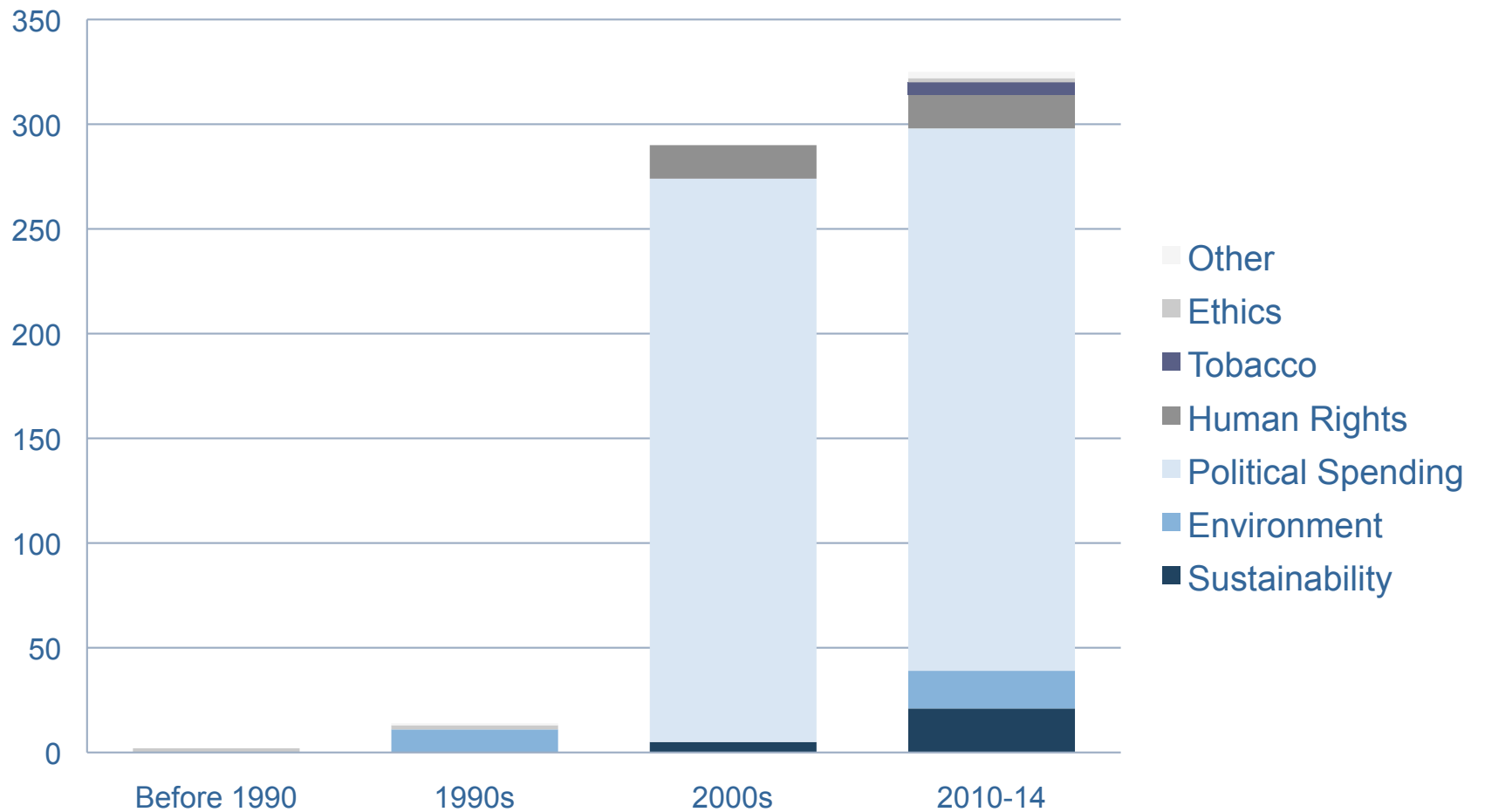
- Founded in 2009
- In-depth briefing papers on key sustainability issues for investors
- Impartial proxy research and analysis
- Proxy season forecasts and recaps
- Guideline development
- Data sales
- Research on emerging areas of interest in the field of sustainable and responsible investing
- Analysts average more than 20 years of experience in sustainable investment research
- Clients include public pension funds, college and university endowments, foundations and SRI funds

Survey Method

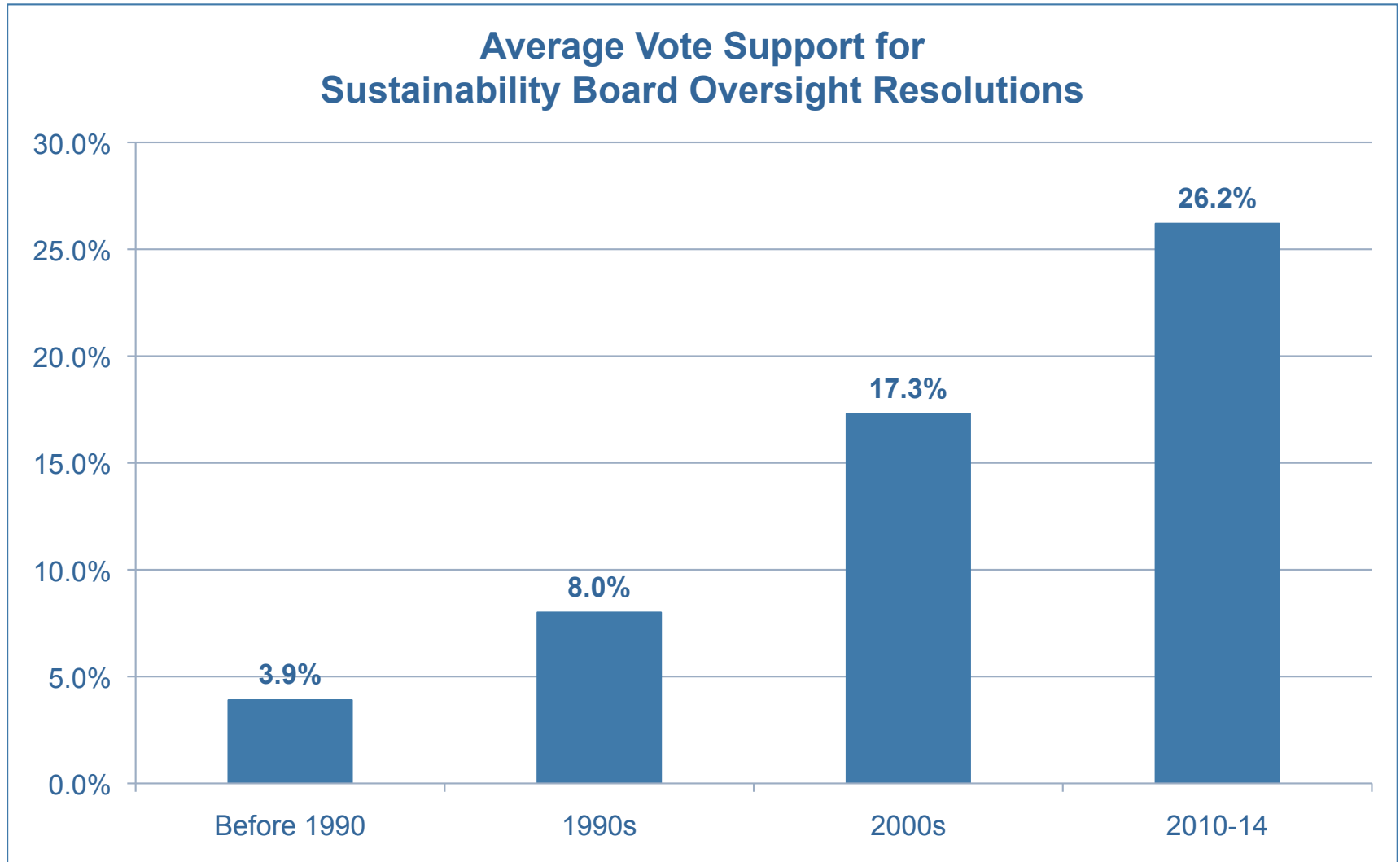
- **Universe:** S&P 500
- **Documents:** Board Committee Charters and Sustainability Reporting
- **Industry classifications:** Global Industrial Classification System (GICS)
- **Issues:** Environmental and Social, no Governance or Ethics
- **Data points:** Committee, issues, independence standard, expertise, advisors, industry, revenues, net income and sustainability reporting practices.

Shareholder Proposal Trends

U.S. Shareholder Proposals on Sustainability Board Oversight

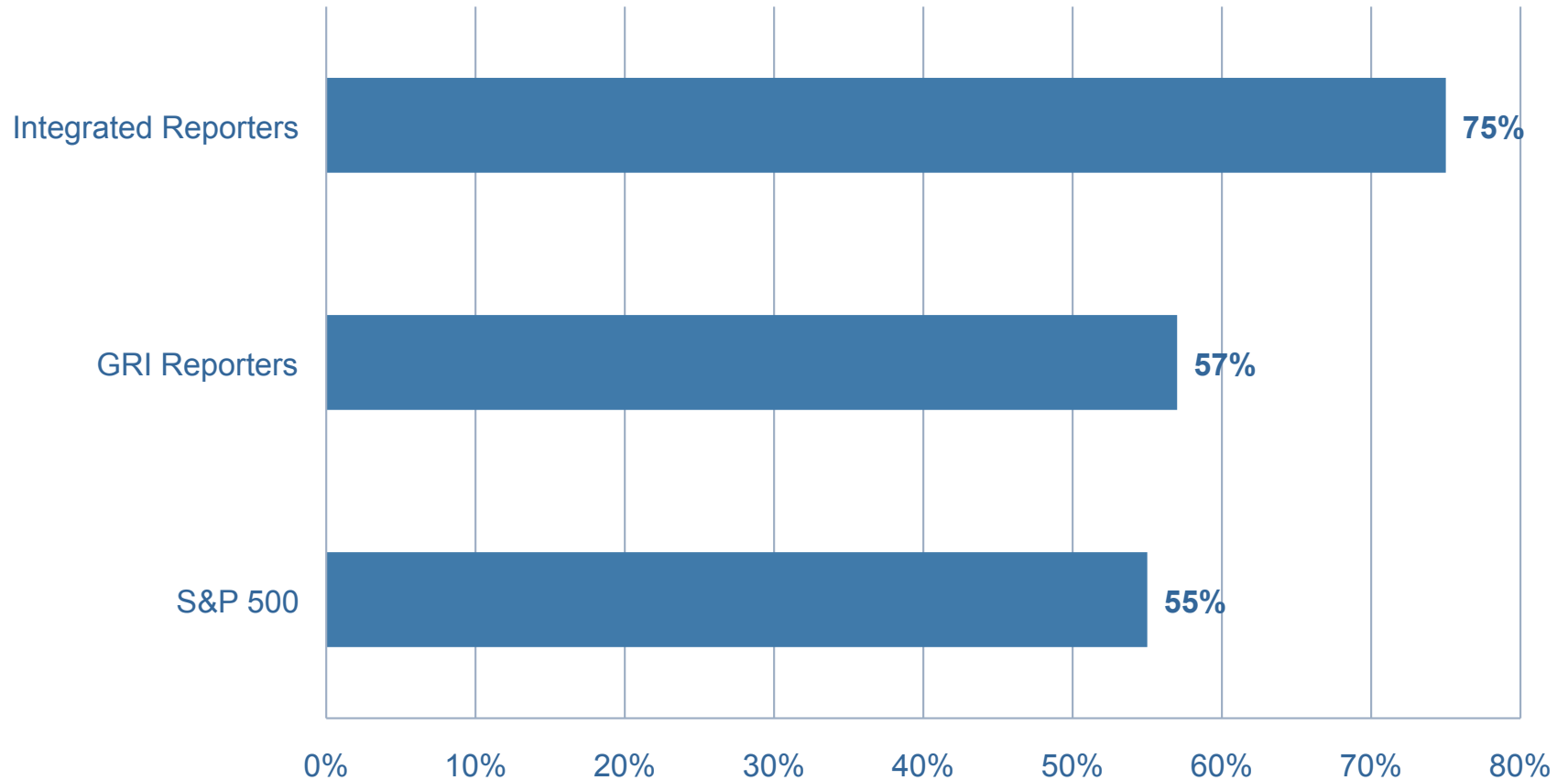


Shareholder Proposal Trends



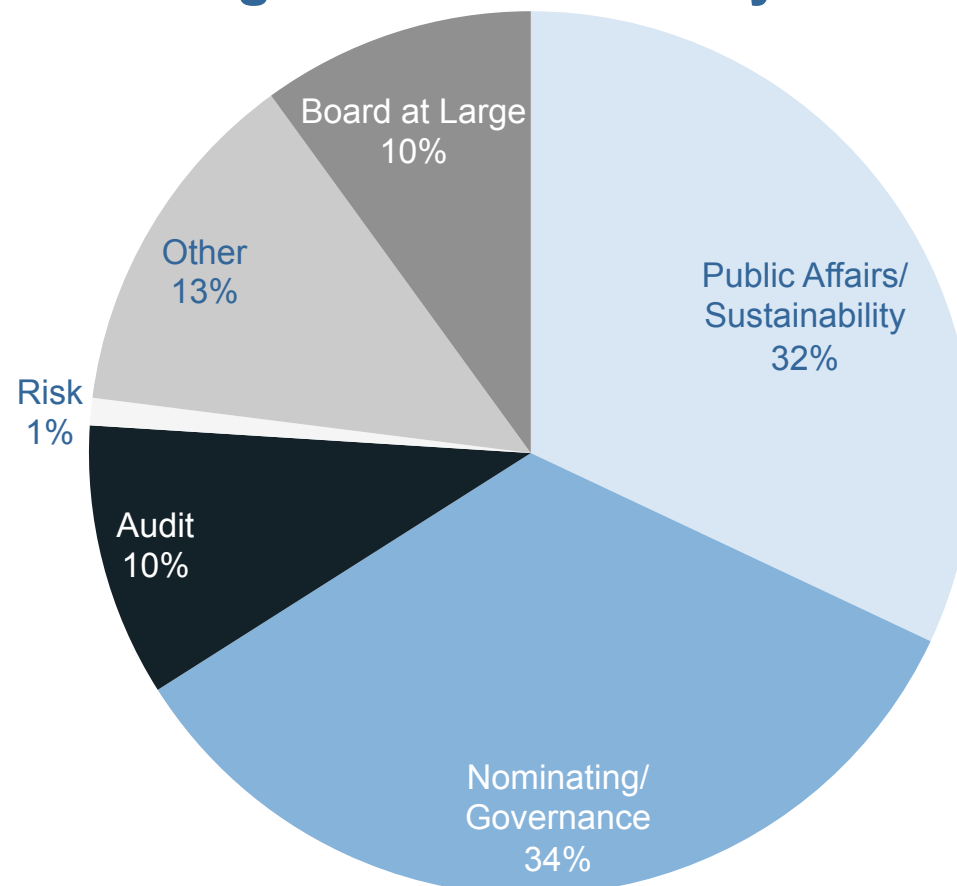
Reporting Standards

Percentage of Cohort with Board Oversight of Sustainability Issues



Committee Choice

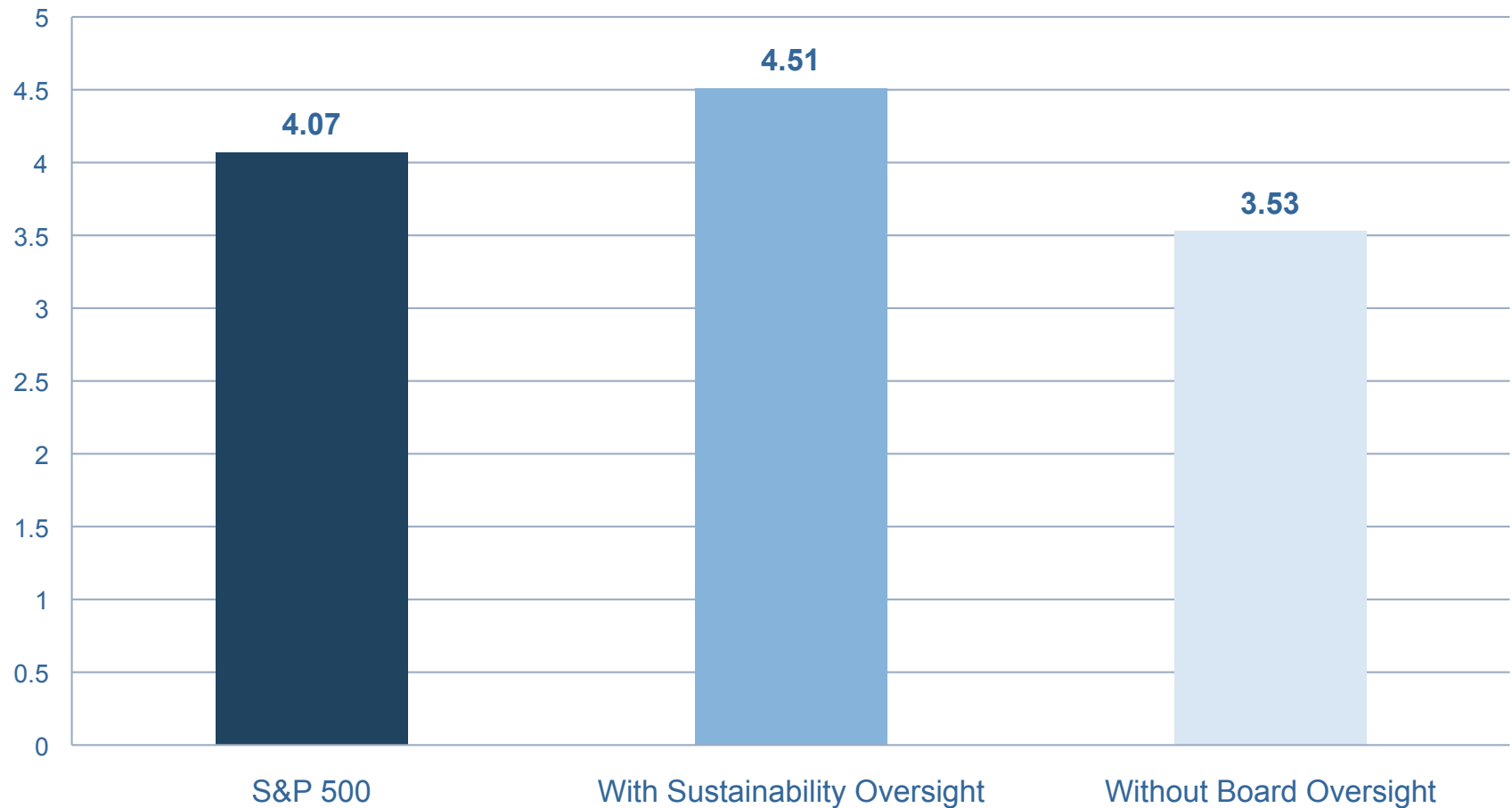
Board Committees Charged with Oversight of Sustainability Issues



Percentages are of the subgroup of 277 companies with board oversight of sustainability issues.

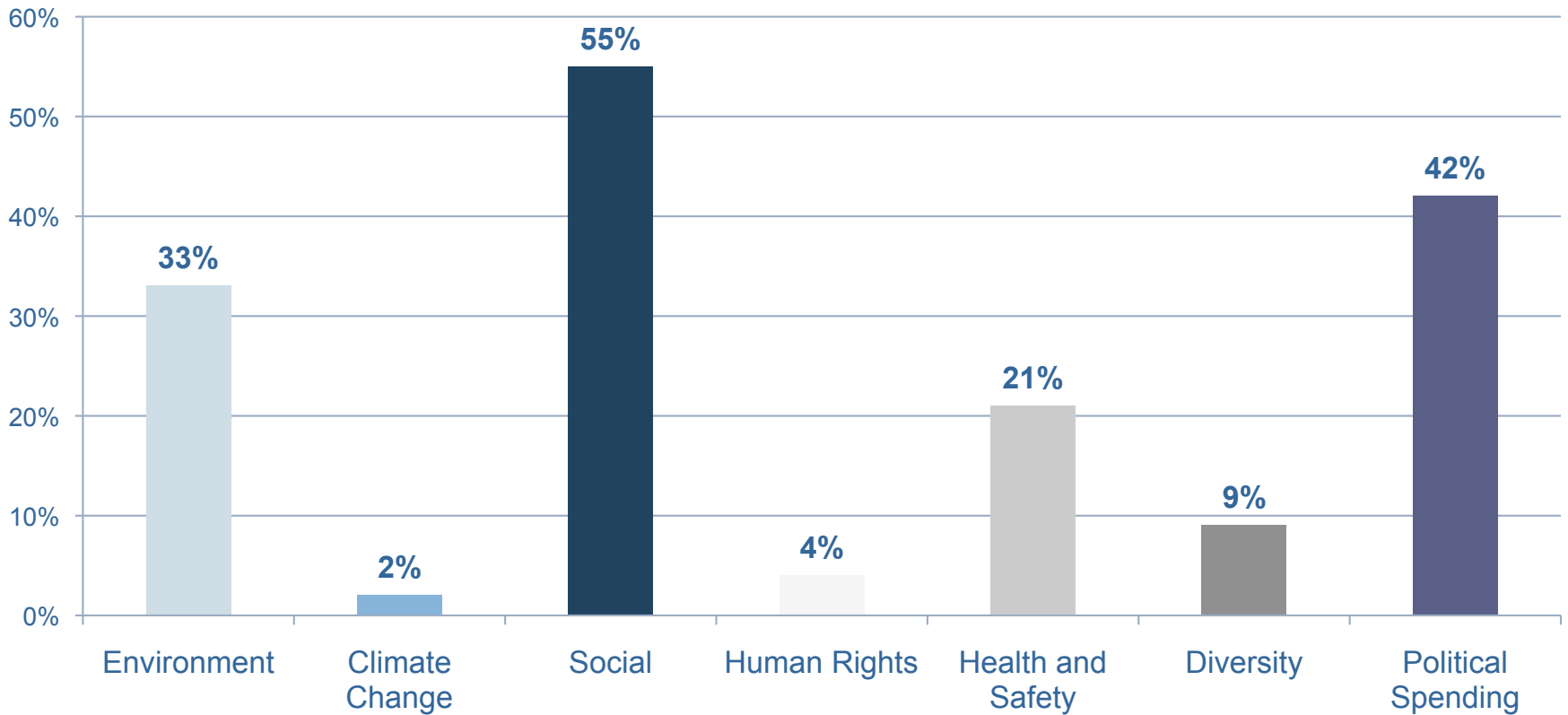
Number of Committees

Average Number of Board Committees



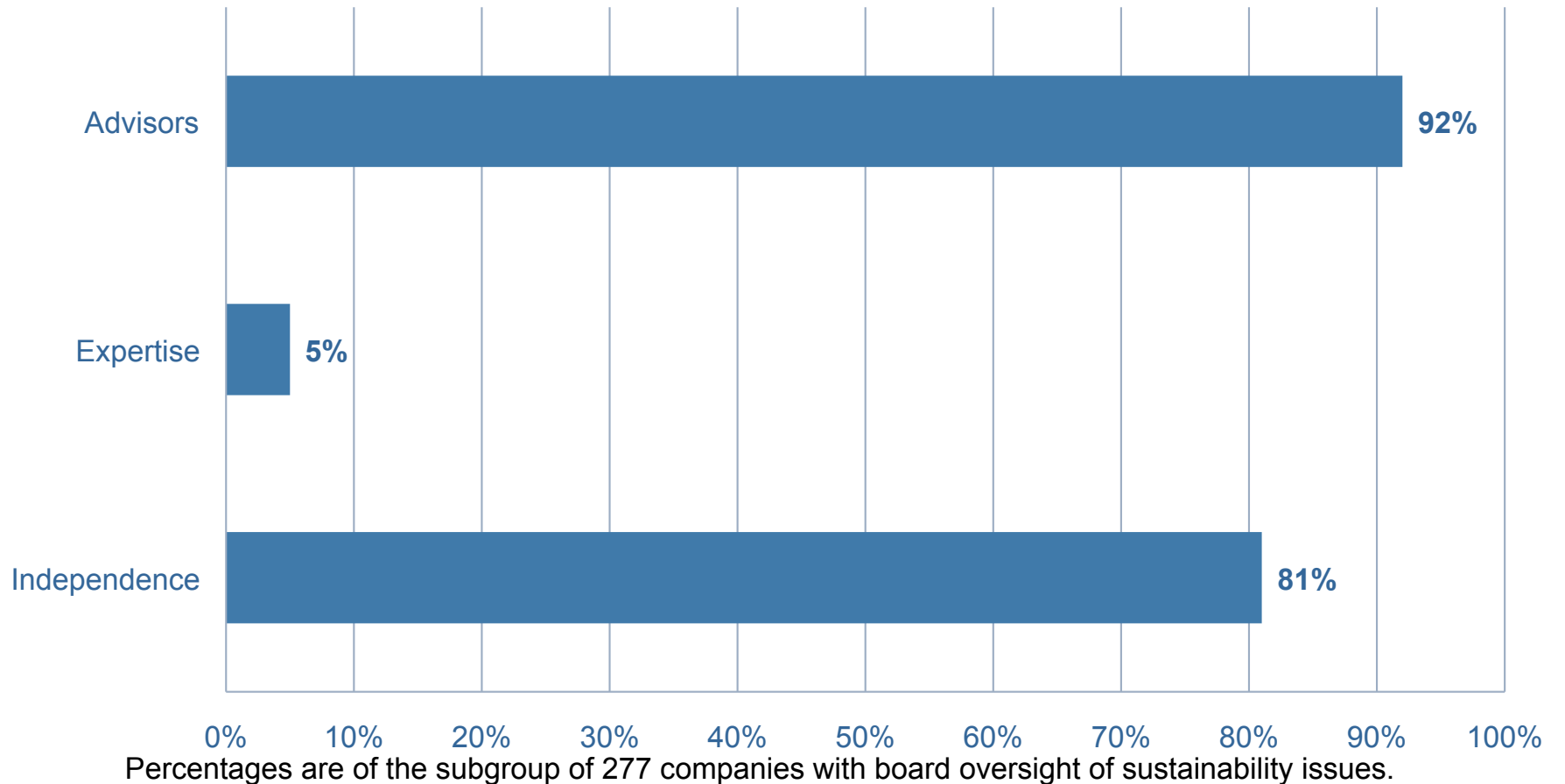
Issues

Sustainability Topics Chosen for Board Oversight



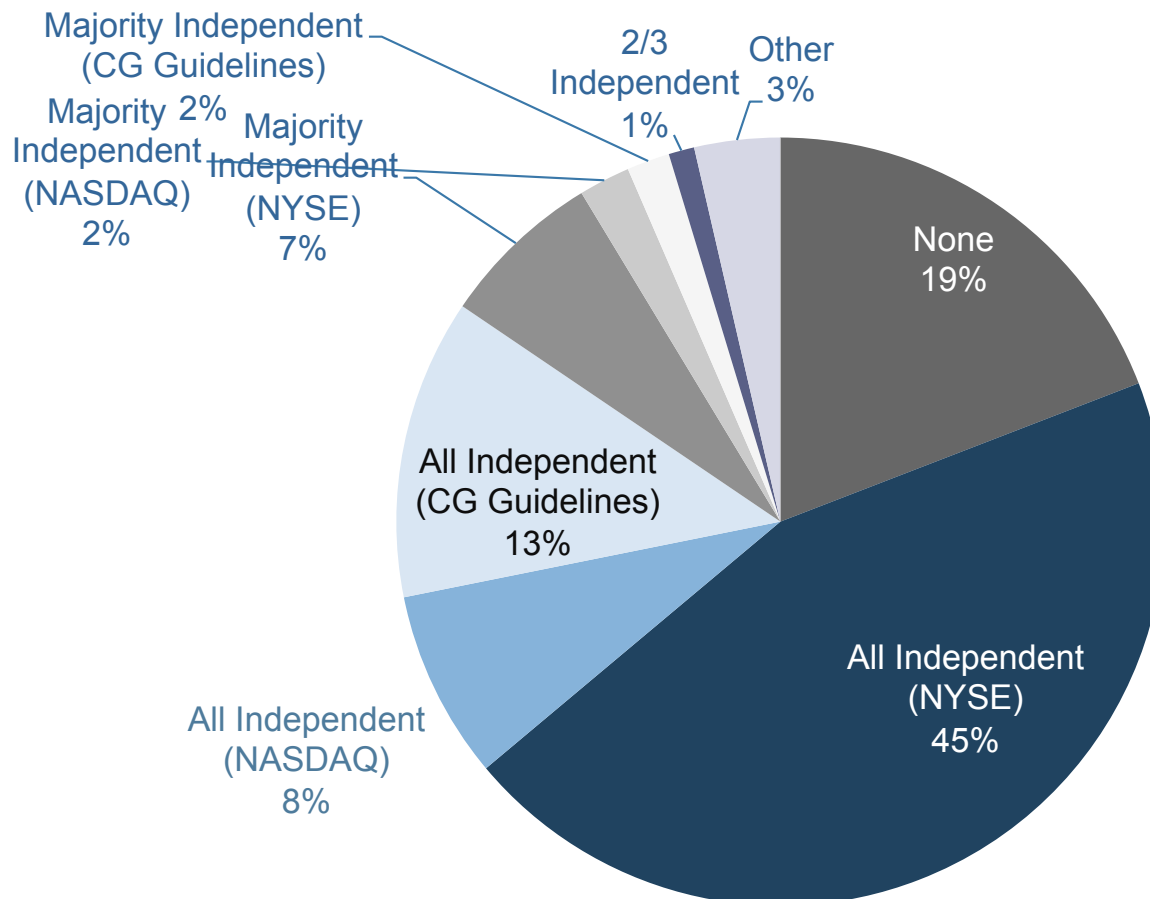
Committee Features

Committee Features of Companies with Board Oversight of Sustainability Issues



Independence Definitions

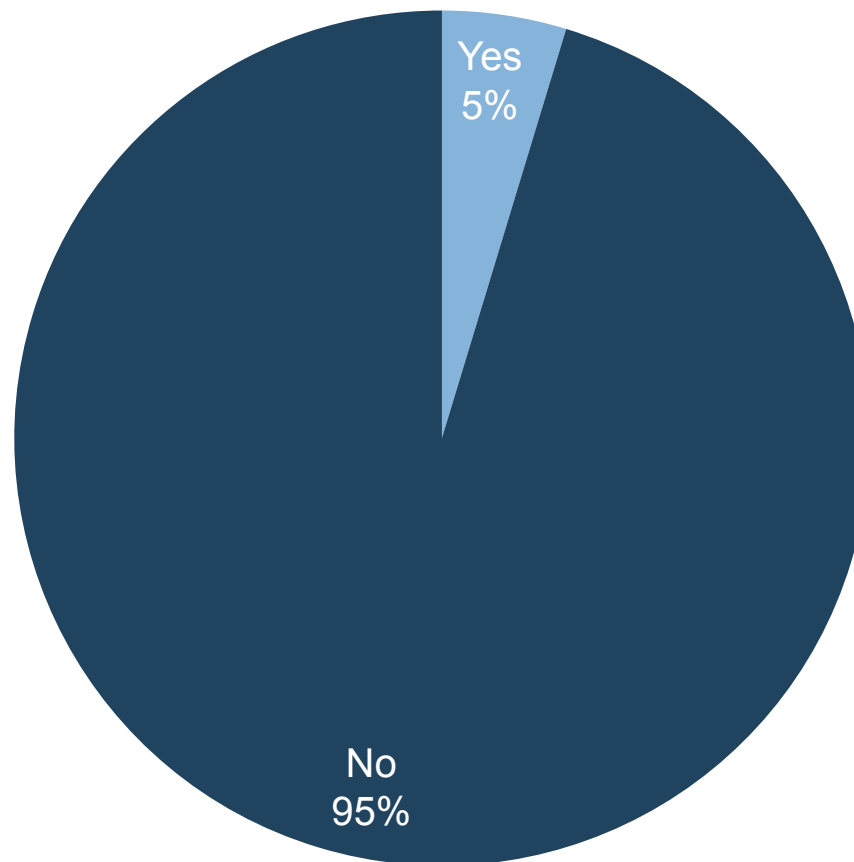
Independence Definitions for Companies with Board Oversight of Sustainability Issues



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Expertise

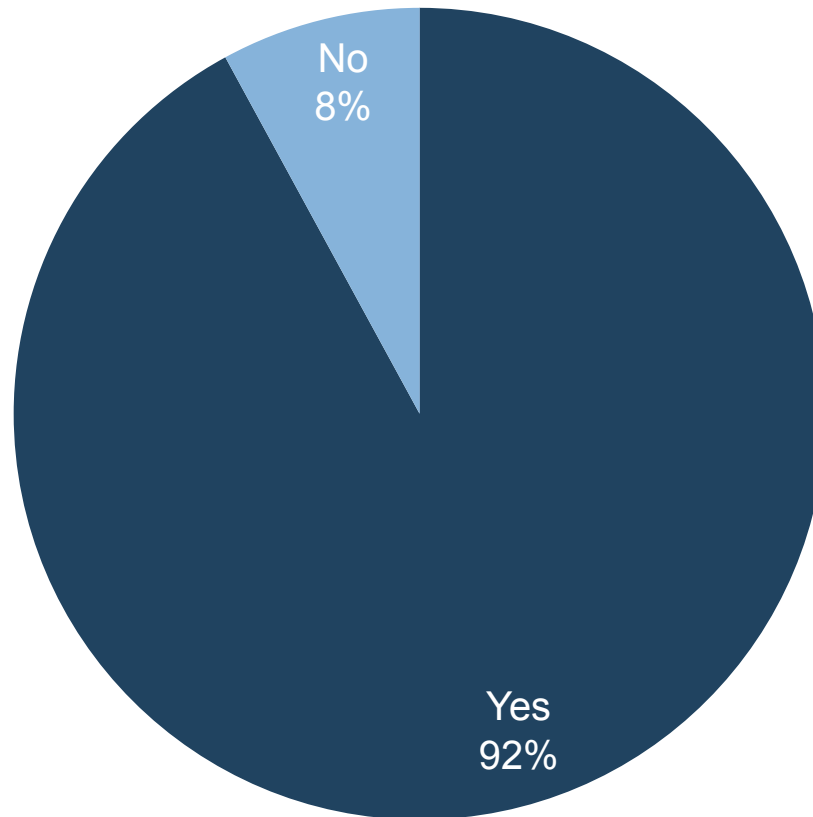
Sustainability Expertise Standards for Committee Members



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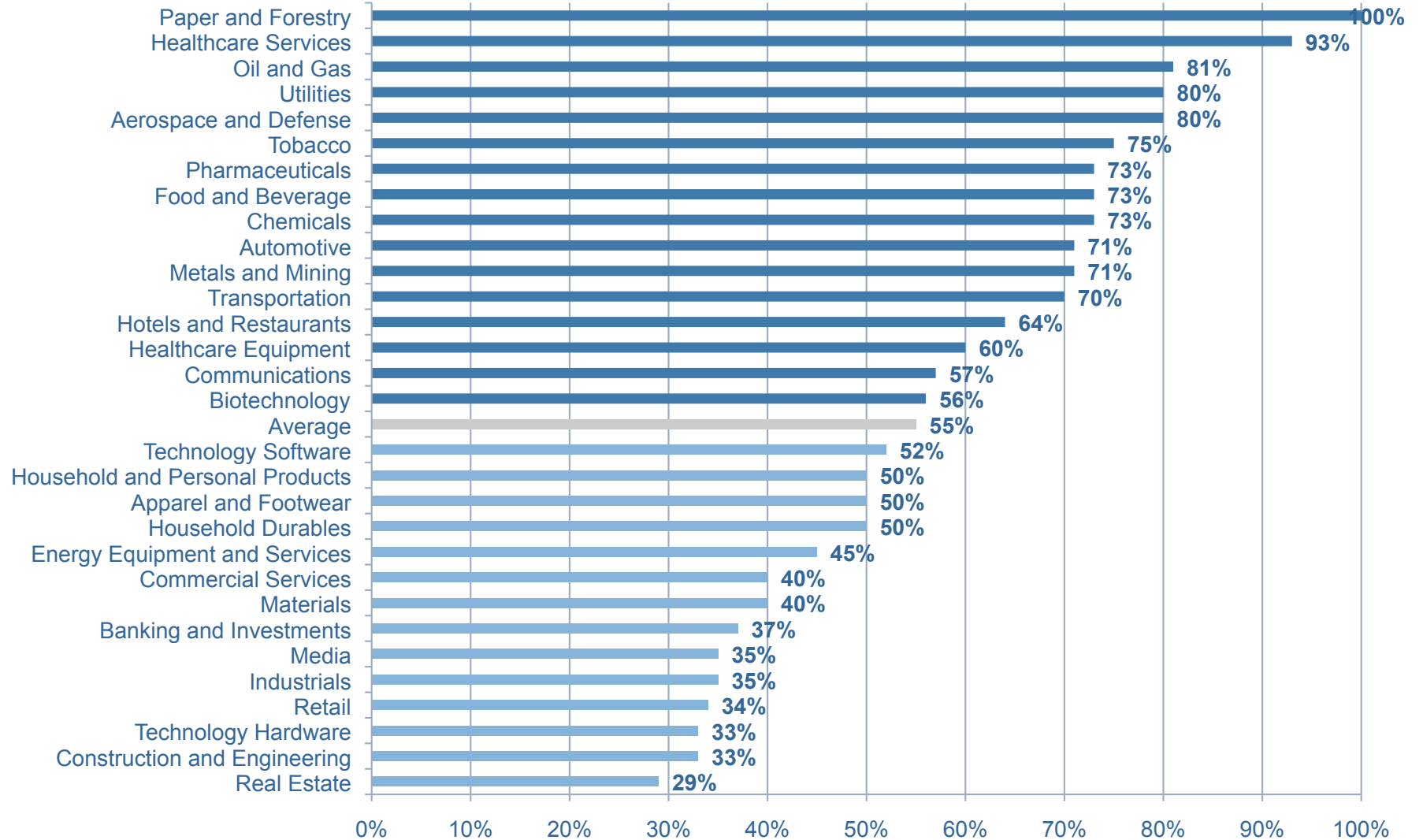
Advisors

Ability to Hire Outside Counsel, Advisors and Experts



Percentages are of the subgroup of 277 companies with board oversight of sustainability issues.

Industry Trends



Industry Trends by Issue

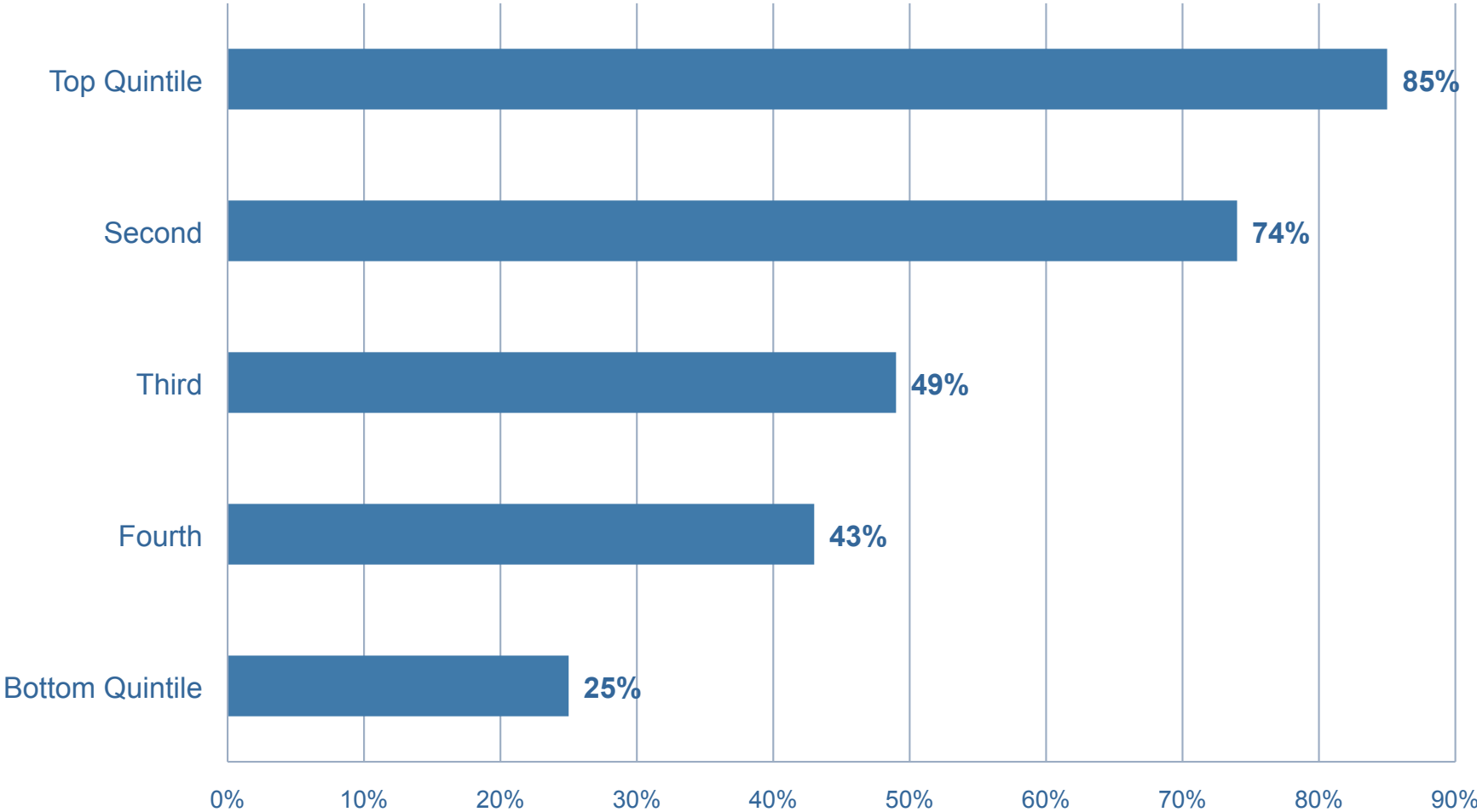
Issue	S&P 500	Top Industry/ies	Bottom Industry/ies
Environment	33%	Paper and Forestry (100%)	Commercial Services and Tobacco (0%)
Climate Change	2%	Automotive (14%) Household Durables (10%) Hotels and Restaurants (7%) Utilities (7%) Oil and Gas (3%) Banking and Investments (2%) Technology Hardware (2%)	All others (0%)

Industry Trends by Issue

Issue	S&P 500	Top Industry/ies	Bottom Industry/ies
Social	55%	Paper and Forestry (100%)	Real Estate (29%)
Human Rights	4%	Apparel and Footwear (33%) Materials (20%) Metals and Mining (14%) Food and Beverage (13%) Media (12%) Aerospace and Defense (10%) Household Durables (10%) Banking and Investments (7%) Industrials (5%) Technology Hardware (5%) Retail (3%) Technology Software (3%)	All others (0%)
Health and Safety	21%	Paper and Forestry (100%)	Apparel and Footwear; Media; Retail; Technology Software; and Tobacco (0%)
Diversity	9%	Paper and Forestry (33%)	Apparel and Footwear; Biotechnology; Energy Equipment/Services; Industrials; Materials; Pharmaceuticals; Real Estate; Retail; and Tobacco (0%)
Political Spending	42%	Aerospace and Defense and Healthcare Services (80%)	Materials (0%)

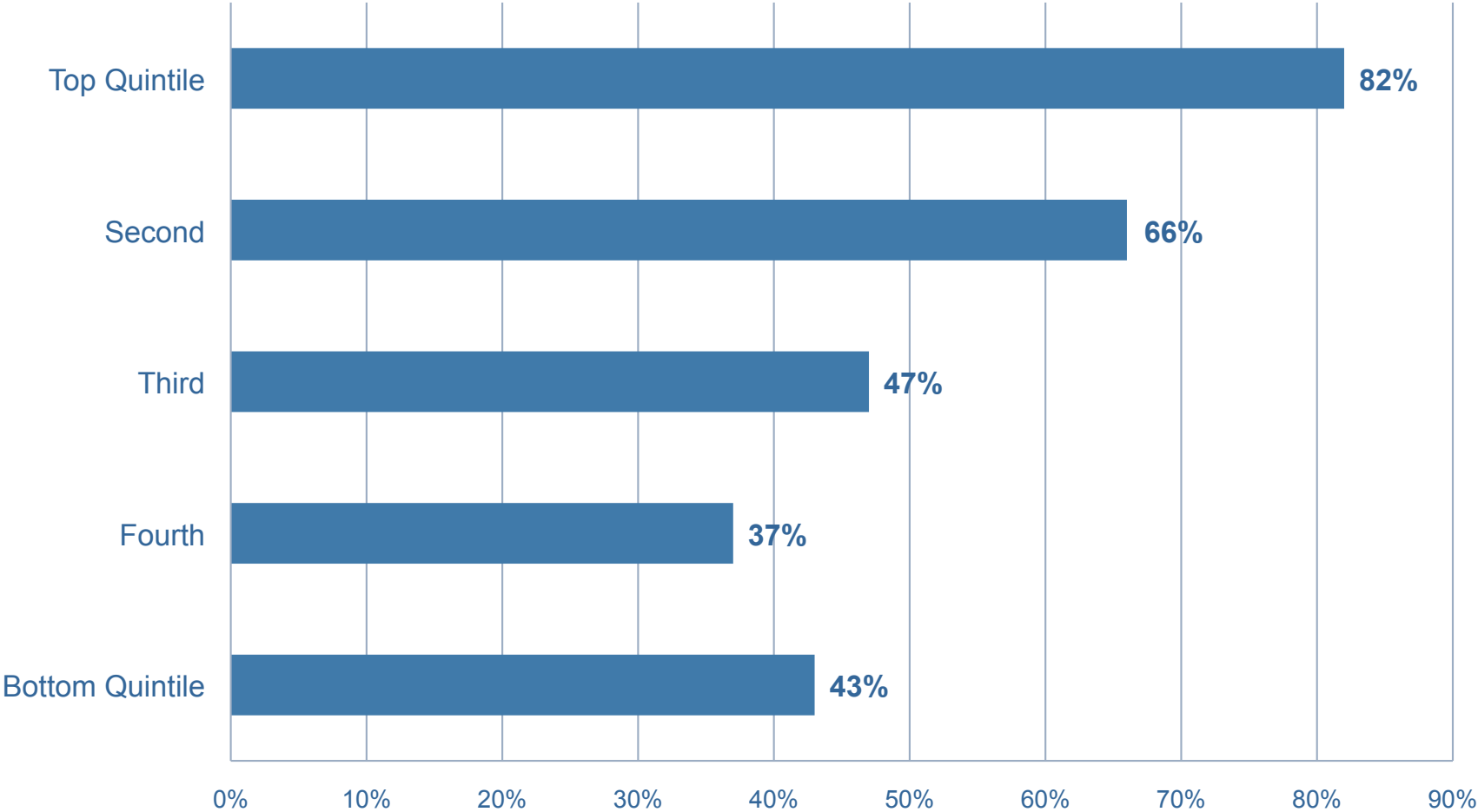
Revenue

Sustainability Board Oversight Trends by Revenue



Net Income

Sustainability Board Oversight Trends by Net Income



Future Research

- Time Series
- Smaller Companies
- Non-U.S. Companies
- Sustainability Performance
- Financial Performance
- Member Expertise

From the IRRCi Viewpoint

The Glass is Half Full

- 55.4% of S&P 500 companies have board oversight of some environmental and/or social issues.
- Reflects growing understanding among directors and executives of financial risks and opportunities of sustainability and the importance of long-term corporate planning



From the IRRCi Viewpoint

The Glass is Half Empty

- Even for those companies with board oversight, it appears to be fairly narrow
- For those who do not: What the heck are the other half of the companies thinking?
- Disconnect with the population of the world:
 - 84% of people believe a company “can take specific actions that both increase profits and improve the economic and social conditions in the world in which it operates.” (2014 Edelman trust barometer)

Questions?



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