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“Precision”
With this month’s issue of *The Cornerstone Journal of Sustainable Finance and Banking (JSFB)* we turn to a theme of “Precision” as many investors position themselves for the summer season. This positioning is no easy task given the complexity associated with everything from the divergence in central bank policies, the shifting competitive landscape in various sectors (e.g. the Technology sector with Google’s foray into autonomous cars and “buy buttons”), an improving economic growth profile in Europe despite a continuation of the Greek drama, and a US political battle being fought on many fronts with the Transpacific Partnership trade agreement in the crosshairs. All of that said, small victories such as the precise US Delta Force strike at the financial infrastructure of ISIS can allow for some optimism ahead.

We also argue that optimism can be drawn from the progress being made by the world’s private sector as leading companies seek to scale best practices around their environmental, social and governance (ESG) initiatives. Combining “profit with purpose” can help chart a precision course towards long-term shareholder value creation. To that end, in the “Featured Domain” this month, we take this opportunity to ask “What is corporate sustainability?” Simply stated, it’s the same as “corporate excellence,” but over the very long term. Does a company seek to drive shareholder value by working towards a more regenerative and inclusive economic model which fosters prosperity and ultimately profitability? Is this vision precisely articulated and operationalized from the very bottom to the very top of the organization? And, at the very top, in the Boardroom, are there true "Stewards of Corporate Legacy" sitting at the table?

Certainly, with the attention being given to the issue of proxy access by shareholders—namely, whether shareholders attempting to influence Board composition by nominating board members—it would seem there is ample investor concern about the quality of some corporate boards. But as John Wilson, Cornerstone’s Head of Corporate Governance, Engagement and Research highlights in his Q&A on proxy access, there are enough questions about the effectiveness of proxy access to make it an imprecise tool in effecting change.

**PepsiCo** is working hard to continuously innovate with precision to drive top-line and bottom-line growth. In 2007 they launched an initiative to transform their R&D function by adopting a rigorously science-based approach, expanding the focus of their work from simply focusing on taste to incorporating expertise in disciplines such as agronomy, exercise physiology, endocrinology, computer modeling and 3D printing technology, among other fields. Their laser focus on executing their strategy is an effort to make PepsiCo an innovation thought leader.

Identifying and executing a precisely honed strategy is also what sets the **Forté Foundation** apart from many other organizations focused on the advancement of women in business. In our “**Accelerating Impact**” section this month, Forté identifies inflection points in women’s careers and intervenes at these precise
moments to improve their chances of success. Forté tailors its mentoring and other programs to the different stages in one’s career, and works closely with its corporate sponsors in designing relevant curricula.

Innovation can infuse the most basic issues in running an organization—such as managing utility costs. Garrett Kephart and Barry Gordon of consulting firm Point B highlight how taking a strategic view of utility cost management could unlock significant savings for the healthcare industry as it continues transforming its business model to operate more efficiently—potentially enabling more funding to flow to critical research projects. We cite two examples of recent advances in medical research that have been driven by, and in turn are driving, advances in the precision of scientific knowledge and targeting of medical treatments: the use of “precision medical management” of chronic autoimmune and inflammatory diseases such as rheumatoid arthritis and lupus, as described by Mary K. Crow, M.D., of the Hospital for Special Surgery; and the early promise of precision treatments in the diagnosis and, in time, treatment of Alzheimer’s Disease, as described by Melissa Stevens and LaTese Briggs of FasterCures/The Milken Institute.

In keeping with the rise of “precision” as a theme driving progress across many aspects of the economy and social landscape, comes increased need for ways in which to measure that progress (or lack thereof). In our “Enhanced Analytics” section we feature recent work done on the topics of measuring the impact of neighborhoods on social mobility; gaining greater precision in measuring the outcomes for society and shareholders from impact investing; and using the concept of Project Portfolio Optimization to measure the direct and “hard-to-quantify” financial impact of various initiatives.

Last but certainly not least, in discussing topics such as corporate excellence/sustainability, strides in science toward greater precision, and how to measure their progress, language matters. In this month’s “Sustainable Editorial,” Kathee Rebernak, CEO of corporate advisory firm Framework LLC, asserts that “by deconstructing concepts and ideas into precise terms, companies and investors can begin speaking the same language, get to what matters, and derive value from addressing it.”

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Market Summary

Overview

With earnings season in the rear-view mirror, the global investment narrative remains largely unchanged. Major market indices marched higher in May amid an improving global economic backdrop. Equity bulls continue to drive the market, sparking familiar debate around market valuations and investor sentiment. Market participants appear to be taking solace in the increasing prospect of a delayed Fed rate hike and the recent round of positive Eurozone economic data. Meanwhile, negotiations between Greece and its creditors remain as tenuous as ever, and the slowing Chinese economy is dampening the global demand outlook.

In the US, both the S&P 500 and the Dow Jones Industrial Average hit new all-time highs, as investors welcomed the lukewarm economic data, which showed signs of improvement but were not strong enough to warrant a June rate hike. The NAHB Housing Market Index dropped from 56 in April to 53 in May. Despite the slight dip, this is a nine-point increase from last May’s reading of 45. Also, the ISM manufacturing index registered 51.5 in April, unchanged from the reading in March. While this marks the 28th consecutive month of expansion in the manufacturing sector, the level is low due to contracting inventories and slowing deliveries from suppliers. Despite the unexpectedly weak job gains in March, the April jobs report revealed the economy added 223,000 new positions, in line with the consensus estimate of 228,000. According to the same report, the unemployment rate ticked down to 5.4%, the lowest since May 2008. While hiring was decent, wage growth in the US remained modest and the Fed is likely to keep interest rates lower for longer.

In Europe, economic recovery is gathering strength. The Eurozone output grew 0.4% in the first quarter of 2015. Spain and France, whose economies had been among the more troubled, grew by 0.9% and 0.6%, respectively. For one thing, household expenditures have perked up thanks to the sharp fall in energy prices last year; for another, exports have been bolstered by the weakened euro, resulting from the European Central Bank’s (ECB) adoption of quantitative easing (QE). However, risks remain: oil prices have partially recovered, and the sustained effectiveness of the ECB’s QE program remains a question. Moreover, debt payments continue to loom over Greece, and the impact of a potential Greek default or exit is largely unknown.

In the UK, David Cameron’s Conservative Party won an unexpected absolute majority in the House of Commons. The British sterling, stocks and government bonds all rallied as the Tories’ clear victory ended investors’ fear of the greater market uncertainty a coalition government might create. However, though Mr. Cameron is likely to pursue policies generally supportive of long-term growth, he has also promised voters a referendum on the UK’s membership in the EU, which could lead to political instability.

Elsewhere in developed markets, after a slight pullback from the 15-year peak last month, Japan’s benchmark Nikkei returned to a new high on the back of better-than-expected GDP data. Boosted by strong private consumption and higher capital spending and inventories, the Japanese economy grew at an annualized rate of 2.4% in the first quarter of 2015, compared to economists’ forecast of 1.5%.

In emerging markets, China released a slew of economic data affirming a slowdown, despite several rounds of monetary stimulus since last November. Growth in fixed-asset investment and industrial output remained weak, and inflation and new bank lending stayed low. In response, Chinese equity investors cheered the prospect of further easing, and continued to divorce their expectations from economic fundamentals.

On a one-month trailing basis, the MSCI World Index (a developed market proxy) outperformed the MSCI Emerging Markets Index by approximately 1.4%,
narrowing the YTD relative underperformance to 2.2%. Large cap equities outperformed their small cap counterparts by 1.9%, narrowing their YTD relative underperformance to 0.8%. From a sector perspective, cyclicals outperformed defensives. In the MSCI ACWI (broad index for both developed and emerging equities), materials and information technology outperformed, while energy and consumer staples lagged.

Thus far, 476 of the S&P 500 companies published first quarter earnings results, approximately 71% of which posted earnings surprise, slightly below the prior quarter’s result of 74%. Topline results are less impressive, however, with 47% of the companies posting a positive surprise relative to 56% in the prior quarter.

Andy Zheng contributed to this article.
### Market Summary

#### Market and Global Sector Performance

**MARKET / INDEX PERFORMANCE**

*As of 05/20/2015 (local currency)*

<table>
<thead>
<tr>
<th>Index</th>
<th>T1M (%)</th>
<th>T3M (%)</th>
<th>YTD (%)</th>
<th>2015 P/E</th>
<th>2015 P/B</th>
<th>Div. Yield</th>
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<td>2015 P/B</td>
<td>Div. Yield</td>
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Source: Bloomberg, Barclays. Equity Returns: All returns represent total return for stated period. Dividends and coupons are not included in the DAX and BOVESPA indices. Bond Returns: All returns represent total return for the stated period. Index characteristics: P/E, P/B, and Dividend Yield are based on Bloomberg consensus estimates for the stated period.
MSCI ACWI SECTOR PERFORMANCE

As of 5/20/2015

1 Month Price Return (%)

YTD Price Return (%)

Source: Bloomberg. Sector returns are based on GICS methodology. MSCI ACWI is a free-float weighted equity index that includes both emerging and developed world markets.

US EQUITY STYLE PERFORMANCE

Style box returns are based on Russell Indices with the exception of the Large-Cap Blend box, which reflects the S&P 500 Index. All values are cumulative total return for the stated period including the reinvestment of dividends. The index used from left to right, top to bottom are: Russell 1000 Value Index, S&P 500 Index, Russell 1000 Growth Index, Russell Midcap Value Index, Russell Midcap Index, Russell Midcap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index.

Source: Bloomberg
## SECTOR SNAPSHOT – TOP 5 COMPANIES BY MARKET CAP

As of 5/20/2015

<table>
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<tr>
<th>Company name</th>
<th>Ticker</th>
<th>Industry</th>
<th>Mkt Cap (US$ Bn)</th>
<th>Price (Local)</th>
<th>Total Return YTD % (local)</th>
<th>P/E 2015E</th>
<th>EV/EBITDA 2015E</th>
<th>Div Yield % 2015E</th>
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<td>Toyota Motor Corp</td>
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<td>Nestle</td>
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SECTOR SNAPSHO – TOP 5 COMPANIES BY MARKET CAP (CONTINUED)

As of 5/20/2015

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Industry</th>
<th>Mkt Cap (US$ Bn)</th>
<th>Price (Local)</th>
<th>Total Return YTD % (local)</th>
<th>P/E 2015E</th>
<th>EV/EBITDA 2015E</th>
<th>Div Yield % 2015E</th>
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<tr>
<td><strong>Health Care</strong></td>
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<tr>
<td>Johnson &amp; Johnson</td>
<td>JNJ</td>
<td>Pharmaceuticals</td>
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<td>-0.2</td>
<td>16.9</td>
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<td>2.9</td>
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<td>Novartis AG</td>
<td>NOVN.VX</td>
<td>Pharmaceuticals</td>
<td>277.4</td>
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<td>2.7</td>
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<td>Roche Holdings</td>
<td>ROG.VX</td>
<td>Pharmaceuticals</td>
<td>254.8</td>
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<td>Pharmaceuticals</td>
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<td>60.46</td>
<td>7.3</td>
<td>17.6</td>
<td>12.6</td>
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<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>Industrial Conglomerates</td>
<td>278.5</td>
<td>27.64</td>
<td>10.4</td>
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<td>13.3</td>
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<td>UTX</td>
<td>Aerospace &amp; Defense</td>
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<td><strong>Info Tech</strong></td>
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<tr>
<td>Apple</td>
<td>AAPL</td>
<td>Technology Hardware, Storage &amp; Software</td>
<td>749.3</td>
<td>130.06</td>
<td>18.8</td>
<td>14.5</td>
<td>7.5</td>
<td>1.6</td>
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<td>Microsoft Corp</td>
<td>MSFT</td>
<td></td>
<td>384.9</td>
<td>47.58</td>
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<td>18.7</td>
<td>10.0</td>
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<td>GOOGL</td>
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<td>19.4</td>
<td>10.6</td>
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<td>Facebook</td>
<td>FB</td>
<td>Internet Software &amp; Services</td>
<td>226.2</td>
<td>80.55</td>
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<td>Internet Software &amp; Services</td>
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<td>32.8</td>
<td>24.8</td>
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<tr>
<td><strong>Materials</strong></td>
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<td></td>
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<tr>
<td>BHP Billiton Ltd</td>
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<td>Metals &amp; Mining</td>
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<td>29.14</td>
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<td>8.8</td>
<td>3.2</td>
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<td>Saudi Basic Ind.</td>
<td>SABIC.AB</td>
<td>Chemicals</td>
<td>83.9</td>
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<td>7.9</td>
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<td>70.66</td>
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<td>10.3</td>
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## SECTOR SNAPSHOT – TOP 5 COMPANIES BY MARKET CAP (CONTINUED)

As of 5/20/2015

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<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Industry</th>
<th>Mkt Cap (US$ Bn)</th>
<th>Price (Local)</th>
<th>Total Return YTD % (local)</th>
<th>P/E 2015E</th>
<th>EV/EBITDA 2015E</th>
<th>Div Yield % 2015E</th>
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<tr>
<td><strong>Telecom</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>China Mobile</td>
<td>941.HK</td>
<td>Wireless Telecommunication Ser</td>
<td>273.6</td>
<td>103.60</td>
<td>14.5</td>
<td>15.4</td>
<td>5.1</td>
<td>2.8</td>
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<tr>
<td>Verizon</td>
<td>VZ</td>
<td>Diversified Telecommunication</td>
<td>202.7</td>
<td>49.69</td>
<td>8.7</td>
<td>13.0</td>
<td>6.8</td>
<td>4.4</td>
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<td>AT&amp;T</td>
<td>T</td>
<td>Diversified Telecommunication</td>
<td>179.8</td>
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<td>6.5</td>
<td>5.4</td>
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<td>Deutsche Telekom</td>
<td>DTE GR</td>
<td>Diversified Telecommunication</td>
<td>85.5</td>
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<td>23.7</td>
<td>7.1</td>
<td>2.9</td>
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<td><strong>Utilities</strong></td>
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<td>Duke Energy</td>
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<td>Electric Utilities</td>
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<td>10.1</td>
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<tr>
<td>National Grid</td>
<td>NG/ LN</td>
<td>Multi-Utilities</td>
<td>52.5</td>
<td>903.30</td>
<td>-1.6</td>
<td>16.3</td>
<td>10.4</td>
<td>5.2</td>
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<td>GDF Suez</td>
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<td>5.4</td>
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<td>EDF.FP</td>
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<td>4.9</td>
<td>5.4</td>
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<td>Electric Utilities</td>
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<td>-2.8</td>
<td>18.1</td>
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<td>3.0</td>
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Source: Bloomberg. The securities in each sector represent the largest companies by market cap in the MSCI ACWI in their respective sectors. Sector classification is based on GICS methodology. Equity characteristics: P/E, EV/EBITDA and Dividend Yield are based on Bloomberg consensus estimates for stated period.

### GDP / CONSUMER PRICE INFLATION / RATES

<table>
<thead>
<tr>
<th>Region/Countries</th>
<th>Real GDP (% YoY)</th>
<th>CPI (% YoY)</th>
<th>Official Rates</th>
<th>Long Rates</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.4</td>
<td>2.5</td>
<td>2.8</td>
<td>1.6</td>
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<tr>
<td>Euro Area</td>
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<td>1.5</td>
<td>1.7</td>
<td>0.4</td>
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<tr>
<td>Japan</td>
<td>0.2</td>
<td>0.9</td>
<td>1.4</td>
<td>2.7</td>
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<tr>
<td>UK</td>
<td>2.6</td>
<td>2.5</td>
<td>2.4</td>
<td>2.7</td>
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<tr>
<td>Australia</td>
<td>2.7</td>
<td>2.3</td>
<td>3.0</td>
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<td>China</td>
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<td>Brazil</td>
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<td>-1.0</td>
<td>1.2</td>
<td>6.2</td>
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<td><strong>India</strong></td>
<td>5.4</td>
<td>7.4</td>
<td>7.7</td>
<td>6.4</td>
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Source: Bloomberg. Estimates are composite of Bloomberg contributor estimates.

*Italicized text represents actual data.

** India fiscal year runs to March 31.

### MONETARY POLICY

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<th></th>
<th>May-15</th>
<th>Nov-14</th>
<th>May-14</th>
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<tr>
<td>Monetary Base growth (YoY)</td>
<td>2.1%</td>
<td>3.3%</td>
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<tr>
<td>M-2 growth (YoY)</td>
<td>5.7%</td>
<td>5.9%</td>
<td>6.4%</td>
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<tr>
<td>Money multiplier (M-2/mon base)</td>
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<tr>
<td>Velocity of money (GDP/M-2)</td>
<td>1.50</td>
<td>1.54</td>
<td>1.58</td>
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Source: Federal Reserve Bank of St. Louis
### ESG DISCLOSURE SCORES OF LARGEST ECONOMIES BY 2014 GDP

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<th>Rank</th>
<th>Country</th>
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<th>Environ</th>
<th>Social</th>
<th>Governance</th>
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<td>17.6</td>
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<td>China</td>
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<td>10.5</td>
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<td>3.</td>
<td>Japan</td>
<td>21.0</td>
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<td>20.9</td>
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<td>4.</td>
<td>Germany</td>
<td>26.8</td>
<td>32.5</td>
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### HIGHEST ESG DISCLOSURE SCORES

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Global Market Strategy Research
Regional and Sector Strategy: Monthly Update

By Michael Geraghty, Global Markets Strategist, Cornerstone Capital Group

- **It's Still about Cyclicality** — We are now underweight the most cyclically sensitive sectors: Industrials, Materials, Energy. While we upgrade the CEEMEA region to Neutral from Underweight — in large part because of an improved earnings outlook — this likely reflects a modest rebound in oil prices, which remain 40% below year-ago levels.

- **Downgrade Industrials to Underweight from Neutral** — The earnings outlook for Industrials has weakened further, at the same time that the sector’s relative valuation has become less attractive.

- **Upgrade the CEEMEA region to Neutral from Underweight** — Likely reflecting a modest rebound in oil prices, the earnings outlook of the CEEMEA region (26% Russia) has improved after over two years of deteriorating earnings momentum. Relative valuations have also become more attractive, likely reflecting an easing in geopolitical tensions. However, renewed weakness in the price of oil and/or a resumption in geopolitical tensions could quickly change the outlook for the region.

Summary of report originally published on May 4, 2015.

*Michael Geraghty is the Global Markets Strategist for Cornerstone Capital Group. He has over three decades of experience in the financial services industry including working as an investment strategist at UBS and Citi.*
**Featured Domain**

**CorporateLegacy.net**

*By Erika Karp, Founder & CEO, Cornerstone Capital Group*

*Each month in the Cornerstone Journal of Sustainable Finance & Banking (JSFB), we will offer thoughts on a “Featured Domain,” which is selected from our proprietary “Sustainable Domain Bank.” The Cornerstone “Sustainable Domain Bank” contains 2,000+ addresses on the Internet, which are an articulation of business processes, business practices and aspirations for a more regenerative form of capitalism. Many of these domain names have the potential to be developed into business plans reflecting a robust interpretation of sustainable capitalism and finance. In particular, each “Sustainable Domain” captures a principle, or reflects a value inherent in the systematic understanding of the Environmental, Social and Governance (ESG) imperatives facing businesses and the economy today. Each Domain is intended to facilitate dialogue across functions and sectors of the capital markets; and each is available for collaborative partnership, purchase or transfer should it have particular appeal to Cornerstone clients and colleagues.*

What is “Corporate Sustainability”? Simply stated, it’s the same as “Corporate Excellence” but over the very long term. Over the very long term, does the company consider the value of all the capital it deploys in pursuit of its stated mission? Does the company consider the returns on the investments made in terms of the financial capital, human capital, and natural capital engaged in its business? Does the company balance the demands of shareholders, employees and customers in a synergistic cycle while recognizing and articulating the trade-offs that inevitably exist? Does the company seek to drive shareholder value by working towards a more regenerative and inclusive economic model which fosters prosperity and ultimately profitability? And, does the company have offer a level of transparency that allows investors to see into its priorities and values? Is this vision consistently articulated and operationalized from the very bottom to the very top of the organization? And at the very top, in the Boardroom, are there true "Stewards of Corporate Legacy" sitting at the table?

In considering the role of the Board of Directors in “corporate sustainability” initiatives, along with the critical tasks of framing and navigating the landscape of risk and opportunity, investors will look for a group that is tending and governing an enduring, relevant, resilient, profitable entity.... An entity that encourages transparency, consistency, accountability, and foresight; all supported by sensible incentive and succession structures. Investors will want to somehow get comfort that there is constructive debate around the pivotal strategic and even operational issues affecting the company. And, investors would hope for a Board with heightened perspective on the macroeconomic environment in which the company operates. Is there a proactive search to recognize shifting dynamics in the markets which give the company its very license to operate?

To that end, a highly functioning Board would embrace its role in helping to foster a culture of innovation and trust; a culture that promotes creativity and productivity in an evolving world. This would also imply a greater likelihood of aligning the company with investors who are confident in the...
oversight of their capital. Further, to effectively address the capital markets and translate the “language of sustainability” to the language of business and finance, there must be an understanding of the current macro environment... an unprecedented environment of confluence in a post financial crisis world.

In terms of this unprecedented environment, there are a number of factors driving the demand for an understanding of the principles of “sustainable finance and investing.” Not only is there a level of regulatory scrutiny and complexity which the world has never seen, but there has been a deterioration of the trust in the capitalist system and its leaders. Arguably, there is an inverse relationship between trust in the system and the level of transparency demanded of the private sector. While it may be quite difficult to get transparency into the functioning of the Board room, it is reasonable to assess whether or not Directors and Executives are attuned to the shifting dynamics in the capital markets.

From the standpoint of an investor who is primarily interested in the long-term economic and profit outcomes of the company, it is reasonable to assess the understanding by Directors of the confluence of factors including the following; the establishment of standards for disclosure in financial reports of material environmental, social and governance (ESG) metrics; the engagement and interaction of asset owners, asset managers, investment banks, NGOs, accountants, exchanges, regulators, and consultants around “sustainability”; the fact that enhanced analytics in the form of big data is turning noise into predictive insight; the extent to which social media is driving an acceleration of extreme transparency and immediacy; the demands of a new generation of investors with the $50T intergenerational wealth transfer at hand over the coming decades. In other words, the business imperative for “corporate sustainability” is at hand. The time has come for the emergence of the new “Stewards of Corporate Legacy”...Those who understand that “corporate sustainability” is simply “corporate excellence” over the long term.

Erika Karp is the Founder & Chief Executive Officer of Cornerstone Capital Group.
Corporate Governance
Proxy Access: A Core Shareholder Right or the Latest Corporate Governance Fad? A Q&A Primer

By John K.S. Wilson, Head of Corporate Governance, Engagement & Research, Cornerstone Capital Group

The 2010 Dodd-Frank financial reform law required all companies to provide proxy access to shareholders, but the implementation of this rule has been tied up in court. A small number of companies have moved ahead, and this proxy season roughly 40 companies have made “proxy access” available to shareholders. Meanwhile, the New York City Pension System filed proxy access requests to 75 companies in May. Below we provide some background on the issue, in the form of responses to questions we’re frequently asked.

<table>
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<th>Questions</th>
<th>Answers</th>
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<tr>
<td>I know there have been debates between companies and some shareholders about something called “Proxy Access.” What is this all about?</td>
<td>Proxy Access allows a company’s shareholders to nominate director candidates directly to boards of directors, and to have their nominees appear on the company ballot. At each company annual meeting, shareholders would have the right to choose between a company’s nominees and properly nominated shareholder nominees. Under most versions of proxy access, a shareholder or group of shareholders must own a minimum amount of equity in the company for a certain length of time to be eligible to nominate director candidates.</td>
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<td>Why would shareholders want to nominate directors to boards?</td>
<td>Directors play a critical role in corporate governance. They are responsible for overseeing management and ensuring that company strategies and operations serve the interests of shareholders. To do their jobs properly, directors need to be independent and qualified to challenge management’s views, ask hard questions, or change corporate strategy or executive personnel when necessary. Certain shareholders who monitor boards closely have raised concerns that some directors, whether because of specific ties to management or because they have worked closely with management for too long, may not be in a position to exert independent judgment. In the past, some companies appointed directors lacking relevant qualifications, allowing management to act without robust oversight, often to the detriment of shareholders. The goal of proxy access is to improve corporate performance by holding boards more accountable to shareholders. Some investor advocates believe that the power to nominate director candidates to boards is a basic shareholder right.</td>
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<td>How do directors get on boards right now?</td>
<td>Every company Board of Directors appoints a Nominating and Governance Committee from among its members that, among other responsibilities,</td>
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selects director nominees. These nominees are approved by the full board, and then submitted to the shareholders for a vote at the annual meeting. Most shareholders do not attend annual meetings, but vote by sending in proxy ballots ahead of time.

At most meetings, the company’s nominees run unopposed and are elected overwhelmingly. Most companies require directors to receive a majority vote to be guaranteed appointment, though most company by-laws also allow the board discretion to appoint directors who receive less than a majority vote. Other companies use procedures that guarantee appointment of all of the company’s nominees in normal circumstances regardless of the vote.

The 2010 Dodd-Frank financial reform law did require all companies to provide proxy access to shareholders, but the implementation of this rule has been tied up in court. For all intents and purposes, it is up to each individual company and its shareholders to decide whether to adopt proxy access.

<table>
<thead>
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<th>That doesn't sound very democratic.</th>
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<td>Shareholders do have the right under state law to nominate directors to challenge company nominees, but they have to send out their own ballot to every shareholder. This process is called a “proxy contest” and it is very expensive and time consuming, while for most diversified shareholders exposure to any one company is minimal. Aside from a few dedicated “activist” managers who own large stakes in a small number of companies that they hope to improve through activism, most shareholders do not consider proxy contests worth the expense and effort. Proxy contests actually succeed fairly often when they happen, and activist shareholders point to research indicating that they are able to improve company performance by removing underperforming directors. Still, in practice, it is rare for a company’s nominee to be rejected by shareholders.</td>
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<th>Proxy Access sounds like a no-brainer. Are there any good reasons not to support it?</th>
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<td>In general, it would not be a good thing for contested director elections to become routine. Most companies carefully select a group of directors who possess a specific mix of skills and talents and work well together. Companies benefit from consistency in the boardroom (but not too much consistency), and some companies claim that dissident directors can disrupt boardroom dynamics and make it difficult for the board to function. Moreover, Edward B. Rock and Marcel Kahan, two academics usually sympathetic to activist shareholders, have argued that proxy access would have little impact because the cost and restrictions of proxy access make it</td>
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a less appealing way to change the makeup of boards than more traditional strategies, including proxy contests and “vote-no” campaigns.¹

Nevertheless, many supporters of proxy access argue that this right is important because it increases the likelihood that boards will pay attention to shareholder concerns to avoid being challenged on a ballot, not because large numbers of directors will actually be replaced.

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### Have many companies allow this? Do investors care?

As of May 2015, according to the Council of Institutional Investors, about 40 companies have voluntarily allowed some form of proxy access. About 13 companies received proxy access proposals in 2014.

Shareholder support for proxy access has been mixed. Overall, approximately half of all proxy access proposals pass. In general, shareholder support is higher when there are existing governance concerns at companies, and when the form of proxy access being proposed places significant limits on the power of shareholders to nominate directors. The most widely supported proposal would limit proxy access to groups of shareholders that have held 3% of shares for at least three years. While this threshold may not seem high, it may be difficult to achieve for large, broadly held companies where few shareholders hold even 1% of the company.

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### What should I be paying attention to?

This year, the most significant effort to promote Proxy Access comes from The New York City Pension System, which has filed Proxy Access proposals with 75 companies. In previous years, companies chosen to receive access proposals because of general governance or performance concerns. New York City selected these companies based on specific concerns about specific priority issue areas: climate change, diversity, and CEO compensation. When the complete results become available during the summer of 2015, it will become clear whether shareholders are willing to support proxy access proposals as a means of addressing these kinds of concerns.

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*John K.S. Wilson* is the Head of Corporate Governance, Engagement & Research at Cornerstone Capital Group. Previously, he was Director of Corporate Governance for TIAA-CREF, where he oversaw the voting of proxies at CREF’s 8,000 portfolio companies and engaged in dialogue with corporate boards and management to promote sustainability and good corporate governance.

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As the largest food and beverage company in North America, and one of the biggest in the world, PepsiCo is continuously innovating with precision to drive top-line and bottom-line growth. And over the course of the past decade, we have done just that.

To be sure, for decades we delighted consumers, managed the company judiciously, and were rewarded with sustainable business growth. However, by the early 2000’s, technology accelerated the pace of change. The modern consumer expected companies to deliver products that were functionally differentiated. To accomplish this would require an R&D organization grounded in deep consumer insight, unmatched product design, and new scientific and technological capabilities.

Accordingly, inside PepsiCo R&D, we knew we needed to shape the business environment in which we operated rather than simply react to it. So beginning in 2007, we resolved to help transform our company and our food and beverage portfolio by broadening it. We pledged to evolve from a “Go-do” R&D function that simply executes product line extensions to a “Go-to” global R&D function that, with exacting precision, delivers new innovative products and new categories; a “Go-to” function that with precision provides consumers great taste, more nutrition, and offerings with less added sugar, salt and fat; a “Go-to” function that shareholders recognize as contributing to our company’s top-line growth, resulting from the precision of our R&D strategy. Here’s how we did it:

We adopted a new, more rigorously science-based, research direction. An R&D function that was for decades focused almost exclusively on the consumer’s taste experience began to focus on the consumer’s entire body (i.e., overall biology) and preference drivers (i.e., taste, aroma, texture, convenience) to deliver the right product offerings.

This evolution resulted in an expanded, more diversified portfolio featuring our traditional “Fun for You” products such as Pepsi, Lay’s, Mountain Dew, and Doritos; “Better for You” products such as Baked Lay’s, Diet Pepsi, and Stacy’s pita chips; and “Good for You” products such as Quaker, Tropicana, Trop50 (with 50% less sugar and calories than regular juice), Tropicana Farmstand (a fruit and veggie juice offering that provides one serving of fruit and veggie with each serving), Naked Juice and Smoothies, Naked Nutmilk, Naked Coconut Water, Gatorade (which includes protein shakes and bars) and Sabra hummus, to name a few.

We imported new thinking into PepsiCo R&D. New people with new ideas and capabilities—experts in disciplines such as agronomy, computational biology, computer modeling, exercise physiology, endocrinology, fluidics, metabolomics, and rheology, among others.
Here are two examples of the type of precision R&D innovation that comes to life at PepsiCo:

- First, at our Gatorade Sports Science Institute, we’re studying new and innovative ways to help athletes improve performance through proper hydration and nutrition. We accomplish this by using science to garner deep consumer insight into how athletes’ bodies expend and replenish energy. For example, we conduct “sweat tests,” measuring an athlete’s body weight before and after a workout—as well as amount of fluids consumed during the workout—to determine how much fluid was lost, and how much liquid will be required to replenish the body and optimize performance. Breathing tests measure both an athlete’s current performance and future potential. Additional tests measure peripheral vision, reaction time and hand-eye coordination. These insights in turn enable us to create functionally-advantaged products—among them our new Gatorade Smart Bottle.

- Second, we fortified our nutrition credentials further with new innovation across our Quaker portfolio. The introduction of our Real Medleys products in 2012 contemporized the brand. Quaker’s offerings include Real Medleys hot cereals in convenient cups, ready-to-eat cereal, instant Oatmeal with 50% less sugar, Quick three-minute steel cut oatmeal (down from 30 minutes cooking time), Real Medleys Super Grains, Quaker Protein Instant Oatmeal, and Quaker chews and breakfast bars.

We created a new structure, evolving from a decentralized organization to a globally aligned, flexible, responsive one. This meant expanding from a North America-focused R&D operation to a geographically diverse organization with R&D centers of excellence in Asia, Europe, and Latin America, in addition to North America. For a company that had for decades innovated almost exclusively from America and exported abroad, this marked a new era of creativity and collaboration with our PepsiCo colleagues on a global scale, with new product innovation just as likely to occur in Beaumont Park, UK, or Dubai or Shanghai as in Plano, Texas or Valhalla, New York (the US R&D hubs for snacks and beverages, respectively).

This new structure helped us migrate from “products” to “platforms.” In other words, we could now build a “new global chassis” at any R&D facility and then quickly export it, supporting PepsiCo operations worldwide to customize a food or beverage innovation to satisfy local tastes market-by-market. This combination of global offerings made locally relevant we call our “Glo-Cal” strategy—and it has served us tremendously well.
We did this with great success with Ruffles Deep Ridged potato chips. After listening to consumers, we learned there was a consumer base looking for a heartier and deeper ridged potato chip.

That’s why in 2012 we launched Deep Ridged potato chips in the US. Now available in 25 countries in just three years, Deep Ridged quickly established itself as “The crunch enjoyed around the world.” These chips were no mere “line extension.” Instead, Deep Ridged represents the pinnacle of precision innovation at PepsiCo. The potato chip fundamentally re-imagined: a chip discovered via deep consumer insight; a chip guided in its development by culinary science and art to appeal to local palates in 25 countries; and a chip developed using 3D printing technology, computer modeling, and proprietary slicing technologies.

We embraced next-generation engineering excellence. PepsiCo R&D is re-inventing the soda fountain, having worked collaboratively with its internal business partners to match the latest technology and design concepts with consumers’ rapidly changing preferences for customization when drawing soft drinks from fountains. The result: PepsiCo’s Spire, which provides nearly limitless flavor combos and an entirely new consumer experience in the hands—or, more accurately, at the fingertips—of the consumer.

We formulated a new strategy. Then, with rigor and precision, we executed against it. The result: our investments in R&D at PepsiCo—up more than 35% since 2011—unleashed innovation, creating a competitive “advantage gap” for the company that widens as the company continues to innovate and re-invest. Consider:

- Our growing nutrition offerings today account for approximately 20% of our net revenue.
- We had ten of the top 50 new food and beverage products introduced in North America in 2014. This up from 9 of the top 50 in 2013.
- A number of our recent product introductions, like Tostitos Cantina, Mountain Dew Kickstart and Pure Leaf, generated double-digit estimated annual retail sales growth in 2014 after achieving more than $100 million in their launch year. One noteworthy highlight: Mountain Dew Kickstart is today nearly a $300MM brand. A mid-calorie, carbonated soft drink with 5% juice (80 calories per 16 oz.), Mountain Dew Kickstart was designed for consumers looking for a pick-me-up in the morning and evening. We recently innovated further by introducing Mountain Dew Kickstart with coconut water and 10% juice (60 calories per 12 oz.)
- Our innovation successes enhance our relationship with retail customers, too: With Taco Bell, we collaborated to create Doritos Locos Tacos, a brand that translated into a billion dollars in sales for Taco Bell the first
Likewise, in 2014, PepsiCo was named 7-Eleven “innovation partner of the year” and PepsiCo captured the Walmart US “Supplier of the Year” award in the Total Food and Beverage category.

- Today we have 22 billion-dollar brands in our portfolio. This is the direct result of our constant, never-ending process of innovation. In fact, we’ve grown the number of billion-dollar brands by nearly 30% since 2006. We have another 40+ brands in our portfolio that generate $250 million to $1 billion in estimated annual retail sales, creating attractive opportunities for continued innovation and growth across the portfolio. Many of these 22 billion-dollar brands are iconic, category-leading brands that have been consumer favorites in the marketplace for years—and that is by design. We don’t rest solely on the equity of those brands; our R&D teams are constantly innovating and transforming to stay ahead of consumer trends.

As a result of our self-disruption, R&D is reinventing PepsiCo from the inside. Innovation is now generating 9% of net revenue at PepsiCo (up from 7% in 2012). More than ever, PepsiCo’s Global R&D organization is helping drive PepsiCo’s business by providing unrivaled technical skills and capabilities to offer more enjoyable and nutritious foods and beverages to more people, in more places, engendering more trust worldwide.

An academy R&D organization, we enlist experts to drive science, technology and innovation thought leadership. Working with strategic precision and in partnership with our PepsiCo business partners, Global R&D is delivering on today’s business and market priorities as well as the sustainable growth opportunities of tomorrow.
Sustainability and resource productivity have emerged as finance priorities for a growing number of large businesses.¹ However, this trend has lagged in many US health systems, even though it is estimated that sustainability efforts could save the industry more than $15 billion over 10 years.²

Cost containment is critical for a resource-intensive industry in the midst of significant transformation. A typical hospital campus can have up to $1 billion in operating expenses, of which roughly 1%, or $10 million, are utility costs (e.g., energy, water and waste).³ For a hospital operating at a 1% margin, a 30% utility cost reduction would be significant, translating to a nearly 15% increase in margin.⁴

CFOs, however, often do not have available and transparent information about their utilities and they often perceive this function as basic operations maintenance. Achieving a strategic view of utility management can help bridge this gap by elevating energy and natural resources as strategic assets that should inform C-suite decision-making.

Industry Transformation
The healthcare industry has undergone more change in the past five years than it has since Medicare launched in 1965. With the recent growth in service demand caused by healthcare reform, three major trends are compelling healthcare leaders to focus on strategic cost containment and identify opportunities to run their systems more efficiently:

- **Provider consolidation:** Significant regional healthcare system consolidation is a nationwide trend; 63% of community hospitals are now part of a health system.⁵ Strategically managing operational cost centers across multiple regional facilities is an increasing challenge of these widening healthcare systems.

- **Value-based reimbursement:** With self-insured employers accounting for 60% of national insurer membership at Aetna and Cigna, pressure is on to shift to value-based reimbursement. At Aetna, 28% of payments to doctors and hospitals are tied to some type of value-based contract, with

¹ “Sustainability: Why CFOs are driving savings and strategy.” Deloitte University Press. 2012.
³ Derived from 2013 financial statements for the University of Washington Medical Center and Virginia Mason Medical Center.
⁴ Margin calculations are based on revenue less expenses before and after estimated reduction of utility costs as a percentage of total expenses.
⁵ AHA TrendWatch Chartbook 2014. Table 2.1: Number of Community Hospitals: 1992 – 2012.
a target of 50% by 2018.\textsuperscript{6} This transition is likely to reduce high-cost inpatient utilization, constraining revenues and applying downward pressure on operating margins.

- **Consumer Cost-Shifting:** High-deductible plans have increased dramatically in recent years, with enrollment growing 15% annually since 2011.\textsuperscript{7} High deductibles are driving down volumes as patients seek to save money by avoiding health services.

**The Information Gap between Operational and Financial Leadership**

In this chaotic and cost-conscious environment, CFOs need better data on both the positive implications and the risks utilities can have for the bottom line.

Many health systems have designated a Chief Sustainability Officer (CSO) who is responsible for measuring and evaluating energy and natural resource consumption. However, CSO accountability is often operational, mid-level and siloed – with no direct line to Finance. As a result, it’s not uncommon for CSOs to develop their sustainability strategies isolated from key contextual business drivers, many of which have a direct and substantial impact on future utility consumption patterns and cash flows.

A complete view of utility management can bridge the information asymmetries that exist in many health systems between those responsible for managing utility costs (Operations) and those with the budget purview and decision-making authority to drive catalytic change (Finance).

**A Strategic View of Utility Management**

A strategic view of utility management can translate and elevate the business importance of energy and resources for the CFO. In order to best articulate the business case for utility management, CSOs should:

- **Analyze:** Examine and consolidate available operational and capital expense data to construct enterprise utility budgets, identify gaps, inefficiencies, best practices, and utility management project opportunities.

- **Engage:** Engage the finance department early to build buy-in and to landscape market trends and business drivers that will impact future energy, water, and waste consumption patterns.

- **Synthesize:** Evaluate an array of long-term options to address utility expense volatility with prescriptive analytics.

- **Plan:** Create a long-term strategic roadmap with an agile program execution model, including ‘proof of concept’ pilot projects and key performance indicators (KPIs) that tie energy, water, and waste to financial and operational performance.

- **Automate:** Centralize and automate utility management operational functions by streamlining reoccurring processes like bill payment, analysis, and reporting.

- **Optimize:** Explore value of optimizing utility transactions (OpEx and CapEx) via a Utility Money Management Account that stabilizes utility cash flow volatility and reduces payback periods for key projects.\textsuperscript{8}

Garrett Kephart is Practice Leader, Sustainability & Resource Productivity and Barry Gordon is Principal, Business Intelligence and Analytics, at Point B, Inc.

Point B, Inc. helps organizations form, execute, and thrive, offering integrated capabilities including Management Consulting and Venture Investment and Advisory.

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\textsuperscript{6} “Where healthcare is now on march to value-based pay.” Modern Healthcare. January 2015.

Given the remarkable businesswomen surrounding you today, would you believe that women still aren’t adequately represented in MBA programs?

It’s unfortunately true. Fifteen years ago, Catalyst and the University of Michigan researched why this is the case. They discovered myths and misperceptions women have about business school and business careers that inspired us to launch the Forté Foundation. Since 2001, we’ve worked to drive greater gender balance in business schools—and increase the number of women business leaders overall.

Precision is the perfect term to describe our approach. Forté identifies inflection points in women’s careers and intervenes at these precise moments to improve their chances of success. In turn, we guide women into rewarding business opportunities; motivate and prepare them to pursue business education; introduce women to influencers; and spotlight role models with fulfilling business careers.

Female MBA enrollment has risen from 28% to 34% since we began our work, and we’ve educated more than 25,000 women about MBA programs through our Forté Forums. By engaging women individually across career stages, we empower our 65,000 members in partnership with our consortium of top business schools and employers. This progress motivates me, but now we’re fearlessly focused on accelerating it.

A Closer Look at How Precision Drives Progress—By Career Stage and Industry

Thankfully, businesswomen today are inspired by countless trailblazers. What we’ve learned—and what guides Forté’s work—is that women also want clear roadmaps that illustrate ways they can take action once inspired.

Forté identifies tailored steps our members can take to advance their careers as college students, pre-MBAs and MBA students, and professionals. No one climbs a ladder by crossing their fingers.
Within career stages, we research gaps that remain over time, and take a prescriptive approach to building programming that helps address them. For example, Forté’s partner schools shared that some women’s applications to MBA programs weren’t strong enough—or, they would start the process and drop out. In response, we asked women what guidance, resources and feedback would help, and created Forté’s MBBALaunch for Women. This customized program provides a peer group in their city, recent MBA graduates as coaches and “office hours” with admissions experts. Now, more than 400 additional women a year are submitting successful applications to top business schools.

Within specific industries, we’re also exploring ways to make a distinct impact—and we’re having great success within the world of finance. Many of the world’s top financial firms sponsor Forté, so we ask what they experience when they interview women candidates for positions. Over the years, they’ve shared that women often weren’t as prepared as men, so the industry needed innovative new ways to help level the playing field.

Forté leveraged these insights and launched a curriculum to prepare high-performing women for financial careers. Since hosting our first Financial Services Fast Track conference in 2008, we’ve educated more than 600 top MBA women about endless industry career options and introduced them to employers, professionals and peers who can help them enter, and thrive in, the sector. Research about select participant classes reveals 60% were subsequently employed in financial services or corporate finance, and 40% in consulting, consumer packaged goods, entrepreneurship, or technology. To further scale what has become a best practice, earlier this month, Forté hosted our first-ever College Fast Track to Finance conference. We exposed top undergraduate women to an industry and network full of career possibilities—from the start of their careers.

Fueled by continued feedback from partner schools and companies, we’re moving more women away from the margin and helping them become top MBA and job candidates.

**How Can You Help?**

As business leaders interested in sustainability, you likely already sponsor women in your organization—but you can do more. Mentor a college woman considering a business career. Share your career story by speaking at a women’s business event or contributing to an online article. Consider a financial gift to fund initiatives that help women succeed. Your support is precisely what businesswomen, and organizations like ours, need to realize the tremendous potential surrounding us.

Elissa Sangster is the Executive Director of Forté Foundation, and brings to the role extensive knowledge of issues affecting women’s abilities to seek, prepare for and attain business leadership positions, drawn from her prior experience as Assistant Dean and Director of the MBA Program at the McCombs School of Business at the University of Texas at Austin.
Precision medicine has attracted great attention in oncology, and rightly so. Sophisticated research studies have defined the errors in chemical pathways that transform healthy cells to tumor cells, driving the discovery of targeted therapies that, in some cases, have resulted in dramatic cures. Advances in treating patients with the chronic autoimmune and inflammatory diseases that our rheumatologists see at Hospital for Special Surgery (HSS), however, have come more slowly. But the daily interactions among our clinicians and researchers, along with the dedication of our highly engaged patients, have provided an ideal environment for gaining new knowledge about the biology of these challenging diseases, and this distinctive integrated approach plays a critical role in progress toward important scientific discoveries. Research is now underway to define the relevant molecular pathways that confer distinct clinical features in each patient, and we are collaborating with experts in drug development to translate knowledge gained from our studies into more targeted treatment for patients.

Rheumatologists at HSS have a long history of partnering with patients to study their diseases and improve the lives of future generations of patients. Rheumatoid arthritis (RA) and systemic lupus erythematosus (lupus) are two relatively common, severe autoimmune diseases that are a focus of care and research at our institution. RA and lupus are chronic and life-altering conditions – they cause severe disability, affect one’s quality of life, and are associated with increased risk of early death. These disorders entail distinct flaws in the function and regulation of the immune system, leading to inflammation that damages tissues. In addition, the course of both diseases is difficult to predict and, particularly in patients with lupus, the disease manifests differently from patient to patient. The heterogeneity of disease features suggests that knowledge of an individual’s biology will ultimately offer precision approaches to patient management.

At HSS, physician scientists and rheumatologists work together to identify patients for participation in our research studies and to collect long-term clinical and biologic data as the disease activity waxes and wanes. This information will help us to better predict the course of disease, and identify biomarkers of disease activity and new therapeutic targets. Our ultimate goal is to use this knowledge to predict and prevent disease flares, or even to identify those at risk of disease in order to prevent its development. The trick is to understand
Mary K. Crow, M.D., is Physician-in-Chief and Chair of the Department of Medicine at Hospital for Special Surgery and is Chief of the Division of Rheumatology at HSS and NewYork-Presbyterian/Weill Cornell Medical Center. She is also Director of the Autoimmunity and Inflammation Research Program and Co-Director of the Mary Kirkland Center for Lupus Research at HSS. Dr. Crow holds the Benjamin M. Rosen Chair in Immunology and Inflammation Research at HSS and is the Joseph P. Routh Professor of Rheumatic Diseases in Medicine at Weill Cornell Medical College.

For questions or to learn how you can help advance this important work, please contact:

Jessica Kovac, Senior Director, Department of Medicine, Hospital for Special Surgery (646) 714-6273 or KovacJ@HSS.edu

Alessandra Garber, Development Director, Hospital for Special Surgery 212-774-2881 or GarberA@hss.edu

the underlying genetics and biology of the individual patient, as genetics, environmental triggers and chance conspire to alter the immune system in a slightly different manner in every patient with RA or lupus. If we are successful in unravelling the underlying biology in individuals or groups of patients with similar disease mechanisms, we can apply this knowledge to treat each patient with the most appropriate and effective medications.

In 2014, HSS was named a participating center in the National Institutes of Health Accelerating Medicines Partnership Program, a public-private partnership developed to transform the current model for identifying and validating the most promising biological targets for the development of new drugs and diagnostics. Our investigators have made important contributions to understanding how inflammatory mediators contribute to disease through the so-called Jak-STAT molecular pathway. The knowledge generated from this research has provided support for development of oral Jak inhibitors that are now approved for treatment of patients with RA. (Jak is an acronym for “Janus kinases”, or small proteins involved in intracellular signaling that trigger inflammatory immune system responses).

Lupus research at HSS also has relevance to understanding and improving treatments for many other diseases. The clinical features of lupus affect nearly all organ systems, and virtually all components of the immune system behave abnormally. In general, patients with lupus develop many features consistent with what is seen in chronic viral infections, although no virus has been identified as an etiologic agent. Our longitudinal patient data registries and detailed molecular studies have identified the type I interferon pathway as central to the disease and the complement pathway as a key mechanism that contributes to tissue damage and the poor pregnancy outcomes that lupus patients can experience. Additional molecular pathways active in some patients have been identified, and it is the unique combination of pathways implicated in a given patient that informs our thinking about optimal approaches for treatment of each individual. HSS laboratory studies are providing the groundwork for our pharmaceutical industry partners to extend our observations toward new drug development.

Precision medical management of RA and lupus are still in the future, but we believe the approach being taken by HSS rheumatologists will lead the way to availability of more effective therapies and more rational targeting of available therapies based on an individual patient’s biology. We are excited to be participants in providing that future for our patients.
Accelerating Impact
Improving ‘Return on Philanthropy’ to Fight Alzheimer’s

By Melissa Stevens, Executive Director, and LaTese Briggs, PhD, Director, Philanthropy Advisory Service, FasterCures/The Milken Institute

Consider that with more than 10,000 known diseases affecting our world today, there are treatments available for only 500 of them. Philanthropy accounts for just about 3 percent of all medical research investment made annually in the US, but it can have an outsized impact if deployed using smart, and precise, giving strategies to invest in high-risk biomedical research with the potential to make significant impact on medical innovation.

The Growing Field of Precision Medicine

Medical advances such as the mapping of the human genome have revolutionized research, and the field of “precision medicine” allows doctors and patients to make informed decisions about treatments targeted specifically to address a patient’s individual molecular profile. In other words, precision medicine means getting the right medicine to the right patient at the right time.

The field of precision medicine gained attention earlier this year when President Barack Obama announced the Precision Medicine Initiative, which aims to revolutionize medicine and generate the scientific evidence needed to move the concept of precision medicine into everyday clinical practice. In addition to cancer, medical advances from precision medicine have shown promise for neuroscience, including Alzheimer’s disease, one of the greatest health challenges of our time.

The Challenge of Alzheimer’s

Alzheimer’s disease is a neurodegenerative disease that severely impairs memory, cognition, and a person’s ability to conduct common daily activities. It is the sixth leading cause of death in the United States, claiming the lives of more than 500,000 people in the US each year. Currently, more than five million Americans are living with Alzheimer’s disease. The economic impact of the disease is significant, costing the United States $214 billion in 2014 and on pace to escalate to more than $1 trillion over the next four decades. In fact, it was estimated in 2010 that Alzheimer’s disease and dementia generally cost our global economy over $600 billion, which was about 1% of our global GDP.

There is no cure for Alzheimer’s disease, and currently the three therapies approved by the US Food and Drug Administration treat the symptoms but do not modify the disease to cure or slow it down. According to a study in Scientific American, Alzheimer’s drugs have a 99.6% failure rate, compared with 81% for cancer. New and effective treatment options are desperately needed.

The Promise of Precision Treatments

Philanthropy plays a key role in developing treatments for Alzheimer’s disease. As part of its Philanthropy Advisory Service, a program that offers families and foundations resources and insights to help maximize the return on their philanthropy, we at the Milken Institute undertook a project to understand the state of Alzheimer’s science -- unmet needs, research roadblocks, and promising opportunities for philanthropy -- to accelerate the
efforts to find a cure. With input from over a dozen leading Alzheimer’s experts, we created “Alzheimer’s Disease: A Giving Smarter Guide to Accelerate Development of New Therapies.”

One exciting opportunity related to precision medicine is the development of a new preclinical drug screening model, termed “Alzheimer’s in a Dish,” developed by Dr. Rudolph Tanzi of Massachusetts General Hospital. This technology could help researchers better understand how an experimental therapy will work before it’s ever tried in humans, thereby avoiding costly and time-consuming clinical trials for non-efficacious treatments.

Using a small skin biopsy from an Alzheimer’s patient to form stem cells, researchers can program these cells to evolve into neurons – the brain cells most impacted by Alzheimer’s disease. These neurons are then grown in a special 3D matrix gel that maintains the key pathological features of the disease. This is important because many of the cellular and animal models historically used to study Alzheimer’s do not adequately simulate human Alzheimer’s pathology.

The 3D matrix of neurons can then be used to screen a pharmacopeia of approved drugs to identify agents that may be effective in the original patient as well as in other Alzheimer’s patients with similar disease signatures. If successful, the approach can be automated and scaled to investigate a wider array of patients with other Alzheimer’s disease signatures. The approach represents a much-needed departure from traditional drug development strategies, and capitalizes on emerging genetic, pharmacologic, and imaging technology.

The PAS team has identified other important and exciting opportunities where philanthropy can play an outsized role in finding a cure for Alzheimer’s disease, including:

- identifying new druggable molecular targets,
- developing reliable biomarkers that signal presence and progression of disease,
- promoting collaboration among researchers,
- funding young investigators,
- increasing public awareness about the opportunities for research, and
- advocating for public policy that invests in cures.

Precision medicine has opened the door to new ways to conduct research. By investing in promising therapies in a precise manner, philanthropy can play an important role in seizing the opportunities that this growing field of medical research has provided. The targeted approach of precision medicine, combined with targeted funding, will result in the greatest return on philanthropy for Alzheimer’s disease and other conditions that urgently need effective treatments.

Melissa Stevens is executive director of the Milken Institute Philanthropy Advisory Service, which provides resources and insights to foundations and philanthropists to build high-impact philanthropy portfolios across medical research, education, and public health.

LaTese Briggs, PhD, is the director of the Philanthropy Advisory Service at the Milken Institute and oversees the medical research portfolio. Briggs previously served as a pharmaceutical market analyst for Decision Resources, a Boston-based research and consulting firm serving the biopharmaceutical industry.
Urban sociology has long focused on the dynamics of neighborhoods and how they affect people’s lives. Poor neighborhoods are expected to negatively affect their residents’ social mobility potential and future income expectations, but also their health, marriage and education prospects. However, the income causality has been hard to prove quantitatively.

For example, the Moving to Opportunity initiative (MTO), led by the Department of Housing and Urban Development in 1994, aimed to help people out of poverty by moving them to better neighborhoods. It was expected that children of families benefiting from this policy would fare better on the social mobility ladder. However, the numbers didn’t clearly support this thesis.1 Does this mean that local context doesn’t matter when fighting poverty and inequality?

Armed with new ideas as to how to interpret the definitive results of the MTO experiment, but also with a much wider sample study of five million individuals in the US over 17 years, two economists from Harvard, Raj Chetty and Nathaniel Hendren, have proved sociologists right. The two studies they led show that neighborhoods do affect intergenerational mobility through childhood exposure effects.2 In essence, moving children under 13 to lower-poverty neighborhood improves their future earnings, therefore reducing the intergenerational persistence of poverty and generating positive returns for tax payers.

Why is it important to be able to measure this? We have previously discussed the negative effects of poverty and income inequality on markets and economic growth, both in a flagship research report3 and in the pages of this journal.4 Being able to devise effective policies and strategies to reduce poverty and enhance social mobility is essential for future prosperity. Bringing hard evidence and precision to measures of social impact is a key element of this strategy.

Non-financial aspects of socio-economic development are often difficult, even impossible to quantify. The deeper social dynamics at work in a local community that spur or hinder development are complex: they involve schools, infrastructure and local amenities, but also cultural norms, crime,

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3 http://cornerstonecapinc.com/2014/11/income-inequality-market-mechanism-or-market-failure/
health standards etc. Taking into account all these items, quantitative and qualitative, would certainly be ambitious.

This complexity of variables, together with the long-term nature of socio-economic development, made it difficult to draw immediate conclusions in the MTO case, and to measure the effectiveness of impact investing overall. The virtuous circle of investing with a social purpose, and collecting the wider benefits of socio-economic development, can take time to settle. This is one of the reasons why studies measuring impact on behalf of businesses can take several years.5

However, patience is not the only challenge in measuring comprehensive impact: Precision is another. In structuring a study, it is critical to choose accurately among the myriad of potential variables that could be material to the expected outcome. What probably changed the interpretation of the MTO experiment by the Harvard team was the hypothesis that what matters is the length and the timeliness of exposure to a good neighborhood. They found that children who moved as toddlers clearly benefited from the policy. The net present value of the extra earnings over the long term for a child who moved at 8 years old are estimated at $99,000.6 Where this matters from the government standpoint is that such individuals are also future taxpayers, and with better economic opportunities come increased tax revenues. A similar logic can be applied to a private impact investment: people pulled out of poverty are more involved in the economy, both as providers and as consumers.

Precision and materiality in the choice of variables are fundamental for determining the real outcomes in any socio-economic impact assessment. The added value of the two Harvard studies is proving, with precise economic measures, the sociologists’ thesis that neighborhoods matter for individual socio-economic outcomes.7 It also highlights the added value to the study of Economics itself to venture beyond its traditional borders, and find inspiration in other disciplines such as Sociology.8

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5 Examples are, the SFO wage experiment in 2000, or the impact study by Unilever in South Africa in 2005. See our report on income inequality for details and references.
6 See the analysis here: http://www.nytimes.com/2015/05/05/upshot/why-the-new-research-on-mobility-matters-an-economists-view.html

Margarita Pirovska, PhD, is the Policy & Sustainability Analyst at Cornerstone Capital Group. She has over 12 years of experience in international energy markets and sustainable business, working for GDF SUEZ, the International Energy Agency, and Gaz de France. Margarita has a Ph.D. in Economic Science from the University Paris Dauphine, a Master’s in Industrial Organization and a BA in Applied Economics.
The premise of impact investing is that particular investments offer positive impact to society and appropriate risk-adjusted returns to investors. But are we precise enough about the impacts to society and those to shareholders to choose among different impact investments and be clear about our own expectations of the amount of societal impact?

The hypothesis here is that there are important lessons for impact investors in the experience of operating companies on understanding both the:

- Value to society from a business, project, initiative, or investment; and,
- Value to investors from their socioeconomic and environmental strategies (See “Applying Multi-Attribute Utility Analysis in Sustainability Valuation” in this issue).

There is a lot of great activity among leading impact investors to better understand the nature and scale of those impacts. Examples include the IRIS metrics of the Global Impact Investor Network (GIIN), B Impact Assessments, lots of custom analysis particularly in Base of the Pyramid impact investing, and others. We pay homage to this work and want to cross-pollinate it with the operating experience of companies.

Let’s start with some principles for good impact assessment. There a natural progression from action to impact as shown in Figure 1, below.

The first principle is that the analysis should go as far along this progression as possible, with the knowledge that getting to impact isn’t always possible given access to data and management as well as the level of effort required.

Second, an impact assessment should be complete, which means looking at:

- Direct, indirect and induced impacts;
- Whole value chains and lifecycles; and,
- Full ranges of positive and negative impacts with no “cherry picking” only desirable impacts.

![Figure 1: Progression from Action to Impact](source: PwC)
So what topics are “in bounds?” It’s a pretty broad range. Figure 2 lays out a framework called Total Impact Measuring & Monitoring (TIMM) as applied to operating companies, business units, facilities, initiatives and specific projects. Just like “impact investing” has various names depending on the specifics, there are several names applied to this type of analysis: environmental profit and loss, natural capital, ecosystem services, societal return on investment, and others depending on the topics covered.

**Figure 2: Total Impact Measuring & Monitoring Framework**

Third, impacts come in so many forms that it’s impossible to compare the meaning of different impacts without putting them into a single monetary term which enables an understanding of real tradeoffs among impacts that are pervasive. The conversion to monetary terms uses market prices, abatement costs, and economics of societal costs and benefits to generate transparent estimates of value to society.

This final point has significant implications that are unfamiliar. For example, a small quantity of water in Eastern Africa has more value to society than a larger quantity of water in Canada. Measuring acre feet of consumptive use of water only get one so far. But that’s only the start. With monetary quantification of unlike impacts, the assessment can illuminate tradeoffs and identify priority impacts for improvement. The point is not to simply pick the option that produces the most value to society, but to understand real tradeoffs in quantitative terms.
For more on these methods, see the PwC’s *Total Impact Measurement* publication. At the highest level, the steps are to identify those affected, measure impact drivers, quantify outputs and changes, and value the outcomes or changes in human well-being.

This may all sound fairly intimidating to an impact investor. Where are the accepted analytical frameworks? Where would we get all the data one would want to do this? How could we do this analysis across a whole portfolio of companies or fixed income holdings?

Recently, we’ve begun exploring how the framework may be of value to impact investors. The quantification we’ve accomplished in corporate analysis, still feels pretty far off.

Is this useful to impact investors? Obviously, this is a lot of work for an operating company and impact investors typically have less access to the necessary information. But we believe the following elements are useful to impact investors:

- Seek completeness in the types of impacts to consider;
- No cherry-picking only favorable impacts and ignoring negative ones;
- Focus on the underlying theory of change, consequence maps that connect the actions to the outcomes and impacts; and,
- Be explicit about tradeoffs and seek enough quantification.
Enhanced Analytics
Applying Multi-Attribute Utility Analysis (MUA) in Sustainability Valuation

By Donna Coallier, Partner, US Valuations Practice, PwC

Each year during the forecasting and budgeting season, sustainability officers face a common finance request: Please indicate the return on investment (ROI) of the projects in your portfolio. This value information is then factored into funding plans for the next year and beyond.

Some finance teams substitute other value-based measures for ROI, such as net present value (NPV), or discounted cash flow (DCF) analysis. But the story is the same: The strategic benefits of environmental, social, governance (ESG), or other hard-to-quantify (H2Q) initiatives are often hard to measure in value-based terms, and as a result, can sometimes be underfunded or passed over completely. Measuring H2Q benefits in value-based terms and applying portfolio optimization techniques enables organizations to better align H2Q funding decisions with strategy and maximize shareholder value.

Well-disciplined finance functions employ rigorous, value-based tools such as ROI in financial planning and performance measurement. But even these rigorous tools can ignore key, difficult-to-measure value drivers. For example, how do you measure the ROI of increasing employee engagement, or decreasing environmental risk?

Difficult-to-measure value contributions from sound risk management processes, reduced environment impact, worker health & safety improvements, or other corporate responsibility programs are often omitted from value-based analyses. As a result, these elements are often handled on the side—qualitatively. Inefficient or irrational project funding decisions like those described in Table 1 are often used instead of measured, quantitative, value-based assessments.

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<thead>
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<th>Table 1: Sub-Optimal Decisionmaking</th>
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<td><strong>Internal politicking</strong></td>
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<td><strong>Best packaging</strong></td>
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<td><strong>Indexed spending</strong></td>
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<td><strong>Pro rata spend cuts</strong></td>
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<td><strong>ROI hurdles</strong></td>
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Source: PwC

Project Portfolio Optimization (PPO) is a value-based process that measures the direct and H2Q, or indirect, financial impact of various sustainability projects. PPO helps to align project portfolio funding with corporate strategy.

An indirect valuation method furnishes a better approach: translate the benefits of H2Q into monetary terms, without over-reliance on sometimes expensive and potentially misaligned statistical data or regression analysis. How, then, are these H2Q sustainability benefits monetized? How does this approach fit into the shareholder value framework?

The answer lies in a methodology called multi-attribute utility analysis (MUA). MUA was formalized by Keeney and Raiffa’s work in 1976, and is deeply rooted in von Neumann and Morgenstern’s seminal work on utility theory—one of the cornerstones of modern microeconomics. It has been widely adopted by government agencies for public policy decisions.

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1 Keeney, R. & H. Raiffa (1976), *Decisions with Multiple Objectives: Preferences and Value Tradeoffs*

2 von Neumann, J. & O. Morgenstern (1953), *Theory of Games and Economic Behavior*
which often require trade-offs between competing, non-financial objectives.

Instead of attempting to quantify benefits directly in cash-flow terms, MUA measures the impact of sustainability initiatives against specific performance metrics for each aspect of an organization’s strategic objectives. Trade-off models can then be used to obtain a total impact in monetary terms.

With a value model in place, key performance indicators help track the non-financial impact of various initiatives, and then, even more importantly, translate that impact into monetary terms. This is a key differentiator from alternative methods such as balanced scorecards or strategic alignment, and a requirement in assessing meaningful benefit-to-cost ratios and putting all initiatives on a level playfield when making funding decisions.

PPO uses MUA to measure total value or ROI — including both direct and indirect drivers — total value measurement. Armed with total value and taking into account project dependencies, PPO’s optimization feature helps to align the budgeting and planning process with strategy and drive better performance.

Donna Coallier is a Partner in PwC’s US Valuations Practice. Donna provides valuation and financial reporting advice to her clients, focusing on strategic value analytics. She is well versed in M&A, joint ventures, and other transactions as well as value analytics covering topics such as capital and funding decisions and sustainability valuation.

**Figure 2: Optimized Spend Analysis**

**Efficient frontier:** "What combination of funding choices produces the most total value for our budget?"

Source: PwC
Sustainable Editorial

The Value of Deconstruction

By Kathee Rebernak, CEO, Framework LLC

Language shapes thought and perception. By deconstructing concepts and ideas into precise terms, companies and investors can begin speaking the same language, get to what matters, and derive value from addressing it.

While in a meeting recently with members of the top management team of an iconic US company (which we’ll call “IconCorp”), I mentioned, as I often do, that investors increasingly consider companies’ performance on environmental, social, and governance (ESG) issues in making investment decisions. The comment was based, in part, on the growth in the number of signatories to the UN Principles of Responsible Investment in recent years, the increasing amounts of money being managed by investment professionals who (say they're) considering ESG factors in their investment process, and the growth in the number of shareholder resolutions over the past several years on issues such as board diversity, reporting on greenhouse gas emissions, and disclosure of lobbying spend and topics.

The response from one IconCorp executive was swift and dismissive. “We meet with our top investors regularly, and they never ask us about these issues.”

The conversation with IconCorp executives is illustrative of dozens, maybe hundreds, of similar conversations I’ve had in the twelve years I’ve been advising companies on integrating ESG considerations into business strategy and decision-making. Even given the increased focus on issues commonly included among the big umbrella of ESG—climate risk, human rights and supply-chain risk, board and management diversity, executive compensation, lobbying disclosures—we still hear from people in companies that investors never ask about ESG issues. The implication: ESG issues must not matter.

In this particular case, five of the ten firms having the largest holdings in IconCorp, and representing more than USD8.5 billion in shareholdings and more than USD10 trillion in combined AUM as of December 31, 2014, were signatories of the UN Principles for Responsible Investment. The largest of these (which we’ll call Big Investor) publicly reports that it 1) integrates ESG considerations into its investment process for 100 percent of its actively managed listed equities, and 2) engages with companies on ESG issues where there is a connection between the issue and financial risk.

So if IconCorp management hears no questions about ESG issues, it’s likely not that IconCorp has none worthy of discussion, but that Big Investor is asking about specific issues, business issues, material issues, without uttering a single E, S, or G.

Likewise, ESG analysts in some large financial institutions, hired specifically to help portfolio managers and analysts understand and integrate ESG factors into their analysis and investment strategy, run into language issues with in their own teams and often encounter reluctance to engage. Once they strip away the labels—the E, S, and G—and move to a discussion of specific issues and areas of risk, they find they’re examining many of the same issues: corruption in emerging markets, for example, or executive compensation structures, or the vesting of the CEO and board chair positions in one person.

1 http://www.unpri.org/news/pri-fact-sheet/
3 http://www.proxymonitor.org/Forms/reports_findings.aspx;
http://www.ceres.org/investor-network/resolutions;
http://www.iccr.org/corporate-engagements
What’s tripping us up is almost always the language.

Language has incredible power to influence thought, and vice versa. Research conducted by Lera Boroditsky, an assistant professor of psychology at Stanford University and a cognitive linguistics expert, shows how culture and language can dramatically impact perception and thought around concepts such as time, space, color, and even the characteristics of inanimate objects. It’s not an illogical leap to conclude that calling an effort corporate social responsibility, or sustainability, or citizenship, will dramatically impact the attention and resources dedicated to the effort or the perception of its value to a given stakeholder group, say, investors.

So in seeking to connect one idea to another, to persuade, and to understand, our language must be carefully wrought, our words chosen with pristine precision. And our society, in devaluing language, is leaving billions on the table. Some people, whether CEOs, CFOs, IROs, or PMs, hear “CSR”, “ESG”, or “sustainability”, and immediately tune out; those terms are not part of their language. But once they see the specific issues involved as risks or opportunities—once the idea is deconstructed and the fuzzy terms translated into the concrete language of business—the “why” of addressing those issues begins to become clear.

When we’re meeting with executives, having been approached to develop a “sustainability strategy” or a “corporate responsibility roadmap”, we begin the conversation with a level set to elicit understanding of why we’re there and what we’re talking about and to make sure we’re all pulling in the same direction. We ask: what do you mean when you refer to [sustainability, corporate responsibility, CSR]? What activities, risks and opportunities does the term call up? Why did you choose that term and how attached to it are you?

Then we deconstruct the idea. We lay out the issues of concern to stakeholders and draw the connection between those issues and business risk, or opportunity, as the case may be.

It’s when we move them away from their chosen term and start to talk about specific issues—often in terms of risk—that it begins to click. They get that managing energy consumption effectively not only lowers costs but can improve reputation. They begin to see the bottom-line impacts of maintaining a culture that either attracts talent or drives it away.

And if the time is right, they begin to understand that what they’ve been seeing as a nice-but-not-necessary program or a way to placate a few customers can actually be a business management approach that has the potential to generate long-term value for a broad range of stakeholders—including, ultimately, investors.

Now we’re talking.

Kathee Rebernak is the Founder and CEO of Framework LLC. A former commercial-litigation attorney whose clients included NationsBank (now Bank of America), the Federal Deposit Insurance Corporation, and the Resolution Trust Corporation, Kathee advises global corporations on corporate strategy, managing for sustainability, and communicating corporate performance.

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“...The normal greeting in Kuuk Thaayorre is ‘Where are you going?’ and the answer should be something like ‘South-southeast, in the middle distance.’ If you don’t know which way you’re facing, you can’t even get past ‘Hello.’”

--Lera Boroditsky, Associate Professor of Psychology, Stanford University

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# Upcoming Events

## Global ESG Calendar

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<td>5.31.15 – 6.2.15</td>
<td>2015 RIA Conference</td>
<td>Banff Centre Banff, Alberta</td>
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<td>6.1.15 – 6.4.15</td>
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<td>6.2.15 – 6.3.15</td>
<td>RI Europe 2015</td>
<td>London, United Kingdom</td>
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Please complete the information for each additional subscriber.

| Name |  |
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| Subscription Type |  |
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