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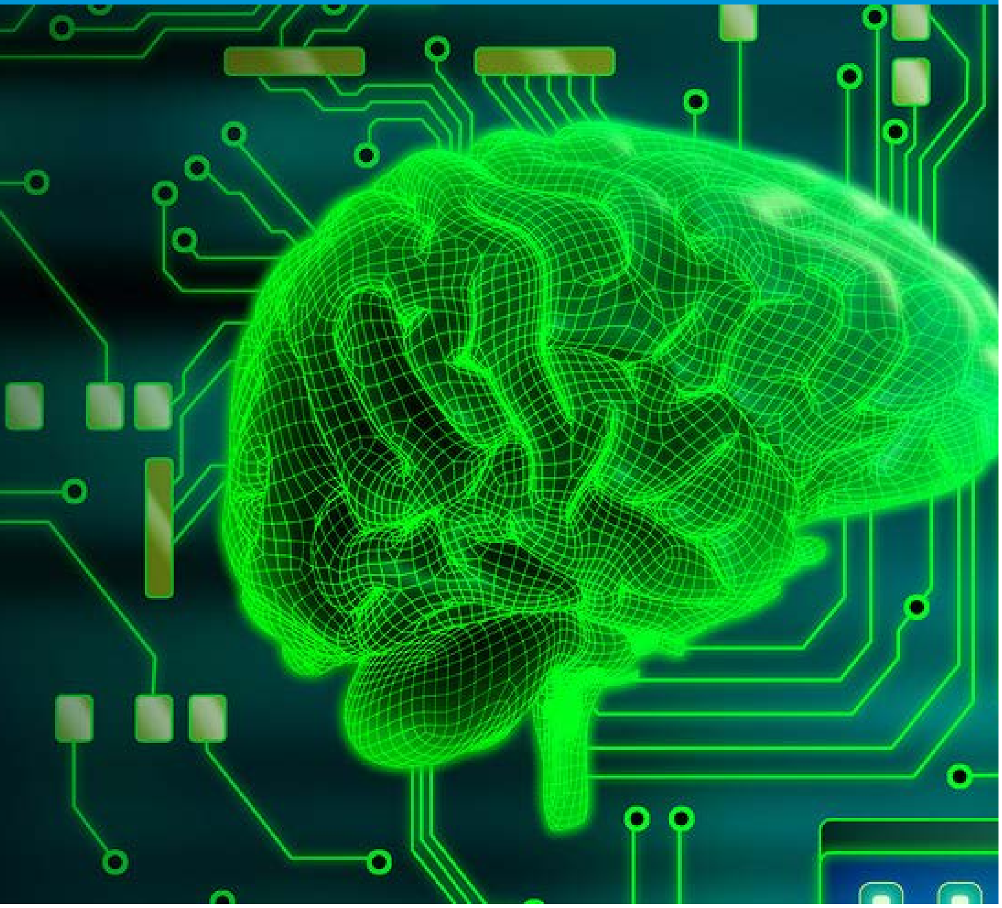

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Featured Domain:

"The New Financial Literacy.com"

Companies Mentioned in this Issue:

Westinghouse Air Brake Technologies, Bristol Meyers Squibb, Eli Lilly, Novartis, Pfizer, Merck, GlaxoSmithkline, Apollo, Devry and Strayer.

Cornerstone Capital Group

CEOs Letter on Sustainable Finance & Banking

Erika Karp
Founder and Chief Executive Officer of Cornerstone Capital Inc. and Former Head of Global Sector Research at UBS Investment Bank

This month in the **"Cornerstone Journal of Sustainable Finance & Banking" (JSFB)** we note the extent to which global markets **learn** ever more about dark pools, securities order routing and execution, t he impact of a selective default in Argentina, central bankers' views on the role of monetary policy in maintaining financial stability, and tax inversions. At the same time, we witness solid earnings and share price performance in the face of intense geopolitical conflict around the Ukraine and the Middle East. All of this, along with news of some surprising corporate initiatives (e.g., Facebook's psychological user experiments) and corporate alliances (e.g., IBM and Apple), was met with impressive equanimity by the markets. That said, we still have much to **learn** about the durability of both the global economic recovery and the market rally, which is also being fueled in recent months by M&A activity.

Speaking of **"Learning"**, which is the theme of this month's JSFB, we highlight a note from Cornerstone's Global Market Strategist Michael Geraghty, who has learned that when we see an increase in the momentum of downward earnings revisions in the Consumer Discretionary sector, it may be optimal to tactically move from a cyclical to a rather more defensive position – and so we move from an overweight to neutral in that sector. While among cyclicals we are overweight IT, we remain underweight in both Energy and Materials.

Michael is a strategist who tends to challenge his assumptions and test his beliefs . . . a critical characteristic for investors who want to reduce the risk of "**confirmation bias**" in the investment process. In a piece this month, Cornerstone Analyst Mike Shavel argues that this tendency to favor information that confirms existing beliefs and biases can be better identified and better managed through the systematic evaluation of Environmental, Social and Governance (ESG) factors in the analytic process. Attention to these factors may raise flags and inconsistencies that represent avenues for further inquiry. Mike comments further on one particular avenue of inquiry in our "Sustainable Standout" this month. Here we summarize a report from George Serafeim and Gabriel Karageorgiou of KKS Advisors and the Generation Foundation, which addresses the debate around regular **Earnings Guidance.** The bottom line is that despite popular belief, the perceived benefits of offering the guidance (information symmetry, visibility...) don't appear to outweigh the associated costs (short-termism).

Moving from market action to **Corporate Governance** this month, we feature notes from John Wilson, Cornerstone's Head of Corporate Governance, Engagement & Research, and Jonas Kron and Susan Baker of Trillium Asset Management. Jonas and Susan offer an explicit example of extremely productive collaborative shareholder engagement (Westinghouse Airbrake Technologies, WAB) as it relates to "Boards of Directors keeping Diversity in Focus." John then goes on to articulate what we can learn about governance practices in response to shareholder input. Engagement, as a distinctive form of dialogue between shareholder and company, is not based on specifics of business strategy. Rather, the dialogues are intended to understand governance policies and practices that frame business decision-making. Questions about accountability, compensation, and social responsibility allow investors to learn how to unlock the "black box" of confidential shareholder engagement and better inform their investment decisions.

In this **"Learning"** edition of the JSFB, our **"Enhanced Analytics"** section highlights the ability of investors to continuously be **"Learning from Diapers."** Jim Fava, a true industry leader in the field, articulates how we can use "**Life Cycle Assessment (LCA) as an Investment Risk Mitigation Tool."** Jim reminds us of the garbage barge debacle of almost thirty years ago, and how it led enterprising businesses to move dramatically towards better recycling efforts. But, in the course of that learning, the extent of the complexities of choosing between cloth and disposable diapers demanded a life cycle perspective on impact. The world has continued to get more complex; and the benefits of LCA are increasingly compelling. Before leaving this section of the JSFB, we also highlight a piece from John Hoeppner of Mission Measurement. Here John offers an analytical approach to allowing consumer-facing companies like restaurants and grocery stores, to truly understand their differentiated positioning in the eyes of their customers. **Quantifying the nuances of consumer preferences** may prove to challenge conventional wisdom and then offer deeply predictive insights for corporate (and investor) resource allocation decisions.

This month we also offer a number of **"Featured Editorials"** which serve to as examples of business practices and initiatives that can drive profit with purpose. In the long run, as Cindy Motz is "Teaching Sustainability Through Story, Song and Stomach," as Matt Greenfield and Tom Vander Ark argue for "Foundations Investing in Education Venture Funds," as Michelle Demers of Boundless shows how we are "Measuring Impact in Ed Tech," and as John Schaetzl supports the Vitality Institute work on "Investing in Prevention of Disease," we believe beyond the shadow of a doubt that there must be investments made in "Learning" if we are to maximize the potential of capitalism and corporate profitability.

Further in this JSFB, we "Learn to Feed a Nation" with Bangladesh's Nasreen Awal highlighting how to promote self-reliance in that nation's food supply. We also learn from Susan Hunt Stevens, Founder & CEO of WeSpire, how the world's leading corporations can build "Purpose-Driven Programs to address the challenge of Employee Engagement"; and we learn how CEO Mike Brady of Greyston Bakery Inc. celebrates the possibilities of embracing the whole employee population of a community. As we consider these examples, Maryann Calendrille brings the pertinent reminder that "books represent what's best about the human imagination: our ability to create, question and dream."

Finally this month, in the Cornerstone "Featured Domain" we embrace **"The New Financial Literacy.com"** as Bloomberg LP's Michael Marinello and I argue that, over the course of history, mankind has learned to use our tools in ever more productive ways to enhance prosperity. We have come to a turning point with regard to the understanding of how the tool we call “money” is used for its best and highest purpose. For earning and investing money, we can now embrace the “new financial literacy” which implies a more conscious understanding of the environmental, social and governance (ESG) factors associated with its use. We leave the JSFB this month with simple questions: “Who is managing your money?” and “Are your investments and your resources being deployed by executives who are well versed in the new tools of finance?”

My sincere regards,
Erika

Erika Karp
Chief Executive Officer

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Featured Domain

TheNewFinancialLiteracy.com

By Erika Karp, Founder & CEO, Cornerstone Capital Inc. and Michael Marinello, Head of Global Communications for Innovation, Technology and Sustainability at Bloomberg LP

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.

Money. Ever since the Code of Hammurabi was created around 1760 BC, money has served as a unit of account, a store of value, a medium of exchange for civil society. Today money is THE tool with which people go about the critical business of life on earth. Money used as a tool, rather than a barter system, can offer greater efficiency, convenience, clarity and prosperity as good tools generally do.

Throughout history, we have evolved our tools to serve our most pivotal needs. In the capital markets "financial literacy" is our understanding of how to use the very special tool which we call money.

In this article we assert that the time has come to embrace "TheNewFinancialLiteracy.com" and better use the information and insights available to unlock the true power of money. We are within reach of having a better understanding of how money works in the world, how it can be earned, and how it can be invested for the future and for positive returns to all forms of capital . . . financial, human and natural.

The New Financial Literacy implies an understanding of the true costs and benefits, to a broad group of stakeholders, of utilizing the tool of money in business and commerce. For both individuals and institutions,

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public and private, for profit and not, it implies a systematic analysis of the environmental, social and governance (ESG) factors that need to be considered in allocating resources and evaluating risk-adjusted returns.

It means embracing the understanding that the rapid nature of technological advances impacts everything we do. In turn, it forces us to constantly rethink the future because practices and processes that worked five years ago, and work today, may be outdated tomorrow. Embracing this concept also means that we are aware of the fact that what doesn't exist today, might be the norm further down the road.

Without "The New Financial Literacy", there is simply no way to make fully informed and effective investment decisions. In fact, in the next generation of capitalism where information, transparency, collaboration and purpose come together, we will be able to better harness the tool of money. Therefore, we can underscore the message that there need be no dichotomy between what is good for business versus what is good for society. And we can be certain that there is no conflict between long-term competitive financial returns and efforts to address massive societal needs for better education, nutrition, healthcare, infrastructure and renewable energy.

The new financial literacy becomes even more important when you consider recent research showing that the market value of the companies making up the S&P 500 deviates significantly from their book value. This "value gap" research indicates that physical and financial accountable assets reflected on a company's balance sheet comprises less than 20% of their true value. Intangible assets include things like intellectual property and "brand value" but accounting rules do not acknowledge this shift in the valuation of companies. With the impact of intangible assets growing, accounting rules need to keep pace to ensure investors understand the full picture.

So, the questions we pose to those who invest the world's capital and run the world's corporations and institutions is this: "Are we financially literate?" Do we know the pivotal questions to ask by industry, country and company so we can truly evaluate the real economic outcomes of our investment decisions? If not, we may lose out to those with a more complete understanding of "The New Financial Literacy."

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Michael Marinello *is Head of Global Communications for Innovation, Technology and Sustainability at Bloomberg LP and an Adviser to the C40 Cities Climate Leadership Group (C40)*

Global Sector Research

Reframing the Conversation on Industrial Energy Efficiency

By Mark D. Wolf, Erika Fitch Benson, Dain Lee, Gabriela Koloffon Valdez[1]

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It seems that climate change is in the news almost daily and stakeholders on all sides are seeking greater accountability. But we haven't begun to scratch the surface when it comes to energy. Annually, an estimated $180 billion[2] in operational energy efficiency improvements is being left on the table by the U.S. industrial sector.

For example, when just one Nissan plant implemented measures to improve energy efficiency by 7.2%, the company saved $1.2 million in costs and 250 billion BTU annually. The investment required to reduce expenses was $331K, only 28% of the payback. Further, under a U.S. Department of Energy pilot program (in which Nissan took part), participating industrial companies achieved on average:

- Annual savings of $87,000 to $984,000 using no-cost or low-cost operational measures
- Paybacks of 1 year or sooner in facilities with annual energy costs > $3 million
- Paybacks of less than 2 years in facilities with annual energy costs > $1.5 million
- 10% reduction in energy costs within 18 months
- 6% to 25% improvement in energy performance over three years across industries

Energy efficiency seems like a no-brainer for a sector of the economy that consumes about 30% of the total U.S. energy diet. European industrial manufacturers are ahead on the number of energy efficiency programs underway using the ISO 50001 standard[3]. As of 2014, only one percent of ISO 50001 globally certified firms are in the U.S. Clearly, domestic industrial firms are not embracing the opportunity to operate more sustainably and efficiently in their energy usage.

A graduate student team from Columbia University was tasked by the Natural Resources Defense Council (NRDC) to research more effective

[1] Mark Wolf obtained an M.S. Sustainability Management and Erika Fitch Benson, Dain Lee and Gabriela Koloffon Valdez obtained a Masters in International Affairs from Columbia University, May 2014. The research was conducted in fulfillment of degree requirements on behalf of the Natural Resources Defense Council. Prof. Adam Hinge served as the academic advisor. The full report is available here.

[2] Source: McKinsey estimate.

[3] ISO 50001 - This International Standards Organization 2011 management standard system aims to help organizations continually reduce their energy use, and therefore their energy costs and their greenhouse gas (GHG) emissions. It specifies the requirements for establishing, implementing, maintaining and improving an energy management system, whose purpose is to enable an organization to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy security, energy use and consumption.

Mark D. Wolf *earned an M.S. Sustainability Management from Columbia University.*
Erika Fitch Benson, Dain Lee and Gabriela Koloffon Valdez *earned a Masters in International Affairs from Columbia University.*

ways of increasing the scope of energy efficiency improvements in the U.S. industrial sector. Our aim: to significantly capitalize on the $180 billion opportunity and reduce associated greenhouse gas (GHG) emissions from a business-as-usual approach.

The findings are indeed actionable. Jim Ruggiero, Director Energy Procurement, National Gypsum Co., who was among those interviewed for the study said, "National Gypsum runs lean in terms of corporate staff and it was insightful to see how other companies are getting their wins with limited human resources . . . [this study] gave us an opportunity to refocus on these important money saving issues and as a direct result we reassigned some resources to focus on energy efficiency and measurement systems."

The research found, somewhat surprisingly, that the issue is less about finance and more about line-of-sight from the factory to the C-Suite. And it identified existing barriers to strategic energy management uptake within the industrial sector:

- Energy efficiency is not discussed using C-Suite language.
- Energy costs are seen as fixed costs, not investments nor a manageable expense.
- Energy efficiency is treated differently around the world. The U.S. firms that adopt ISO 50001 typically do so because of European mandates and incentives.
- The complexity of the current energy efficiency and energy management environment confuses and clutters the landscape and slows engagement.
- There are different requirements for certification across energy efficiency programs.
- Energy usage and efficiency management systems are not standardized.

A Continuum of Awareness

It is clear from our research that most of the engagement around energy efficiency is at the plant, not C-Suite, level. We identified a continuum of U.S. industrial awareness and engagement with energy usage and efficiency, including very different situations (ranging from the highest to the lowest). Highlights include:

- A company that has used energy management/measurement for a while and realized that their high level metrics did not give them what they needed to find the next 25% usage reduction to which the CEO publicly committed.

- Firms that do not have the manpower to engage with federal programs, or the expense of a dedicated employee(s) is too high for them to absorb.
- Local utility or government entities have worked with the firm aggressively to help make a new factory much more energy efficient, through rebates, incentives, tax breaks, etc. Energy efficiency is not seen much as a system, but as an ever expanding list of projects.
- Companies that have changed light bulbs and initiated some other improvements in HVAC/motors/compressors in past years, but unless they are able to provide a clear payback period of less than a year, they need to get incentives from utility/government to offset extra costs.
- And finally, companies who are always looking for opportunities to reduce costs because it helps them be more profitable, survive competition and respond to changing customer demands. However, they believe energy is a fixed cost.

While energy efficiency advocates (non-profits, government and to a lesser extent, utilities) have talked about energy efficiency in terms of financial payback and the environmental impact, the C-Suite tends to think in terms of ROI and are often most concerned with risk management and operational excellence.

Thus, the current communication and message efforts of energy efficiency advocates are not aligned with C-Suite interests.

What Needs to Change?

Absent a cap-and-trade system, it is clear that U.S. experts must start using the language and planning cycles of business in their discussions. Risk management, operational excellence, and brand reputation are business imperatives for a CEO, while energy efficiency is not. At the CFO level, the focus is on income statement metrics and risks to operational performance, of which energy efficiency is perceived to be a relatively small part (even though energy cost is often a significant expense).

We believe that there is a great need to reframe the energy efficiency conversation. This can best be accomplished through proactive communications and strategies that embrace other members of the energy efficiency universe. By highlighting case histories in language that C-Suite and other decision makers see as relevant to their roles, we can accelerate progress on operational performance improvement and energy supply risk reduction.

Specifically, we think a more compelling and relevant message must be made to the C-Suite proving the merits of greater efficiency as a business imperative. It means moving beyond arguments centered on payback and environmental benefits and talking frankly about the business risks of rising future energy prices, future carbon regulations, or supply disruptions (due to natural disasters, environmental degradation, political upheaval or some combination of the above).

Lastly, we believe that picking one existing program that aligns with business interests offers a way to get both non-profits and manufacturers more focused on taking action. The landscape is cluttered and there is confusion about all the different programs available. We identified Energy Star as the strongest and most well-known brand for energy efficiency solutions in the industrial sector. Introduced in 1992 by the U.S. Environmental Protection Agency, Energy Star Buildings & Plants is the oldest and most well-known certification process among U.S. strategic energy management programs. Energy Star Buildings & Plants certification in the industrial sector has been responsible for "saving more than $9 billion and preventing nearly 120 million metric tons of greenhouse gas (GHG) emissions from entering our atmosphere." Therefore, we believe this is the one program that should be leveraged heavily as it offers the largest foundation upon which to build.

No matter your vantage point — whether the plant floor or corner office — the financial stakes are measurable ($180 billion annually, with only a third required as a one-time investment) and the savings to the environment in terms of GHG emissions is equivalent to taking all U.S. vehicles off the road for four months.

The benefits are clear, it is time to change the conversation!

The Cornerstone Journal of Sustainable Finance & Banking℠

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