

Sustainable & Responsible Investments @ Raiffeisen Capital Management

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Agenda

Sustainability essentials

Sustainability process @ RCM

Illustration of detailed sustainability analysis

Product offerings

Critical FAQs

Raiffeisen Capital Management

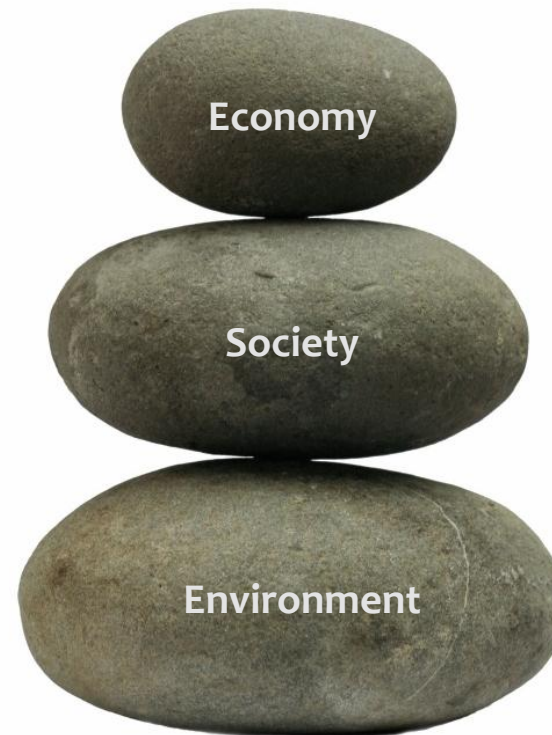
Sustainable Investment – Philosophy

- Enhanced information based on sustainability:
 - To **take into account extra-financial information** (ESG – Environmental, Social and Governance factors) leads to an enhanced data set compared to using traditional financial information for the analysis of companies and issuers only.
- Advanced Selection and risk reduction through sustainability:
 - **Ecological risks, stakeholder-related risks and governance risks** are **incorporated** into the investment process and thus improve the portfolio's risk profile. The focus lies on the sustainability and future viability of an investment.
- Stable returns through sustainability:
 - Long-term investment horizons and investing in companies and issuers with the highest sustainability scores leads to more **stable** and **at least equal returns** combined with lower volatility compared to traditional portfolios.

Definition of Sustainability

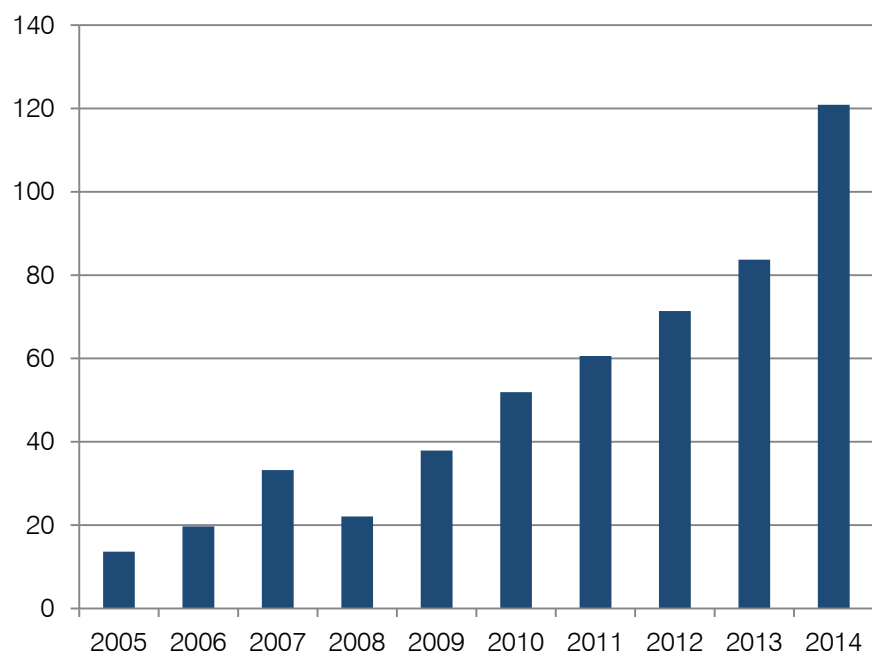
Sustainable Development is based on a fragile equilibrium of environment, society and economy. Unilateral preferences can lead to imbalances and a looming collapse of the whole system.

Raiffeisen Capital Management, 2013

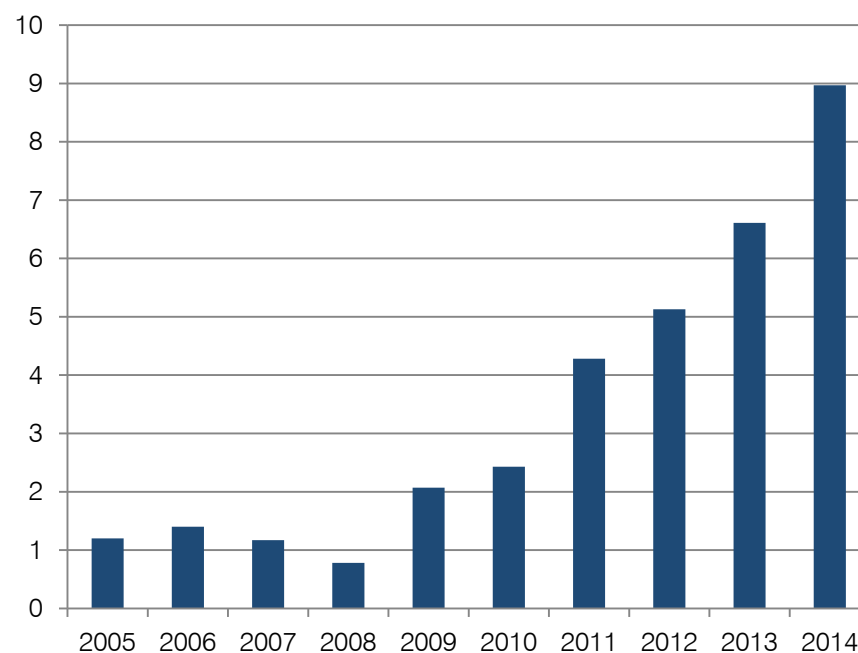


Market development – ESG Investments^{*)}

Germany,
Austria and Switzerland in (EUR bn)



Austria (EUR bn)



^{*)} ESG = Environment, Social, Governance

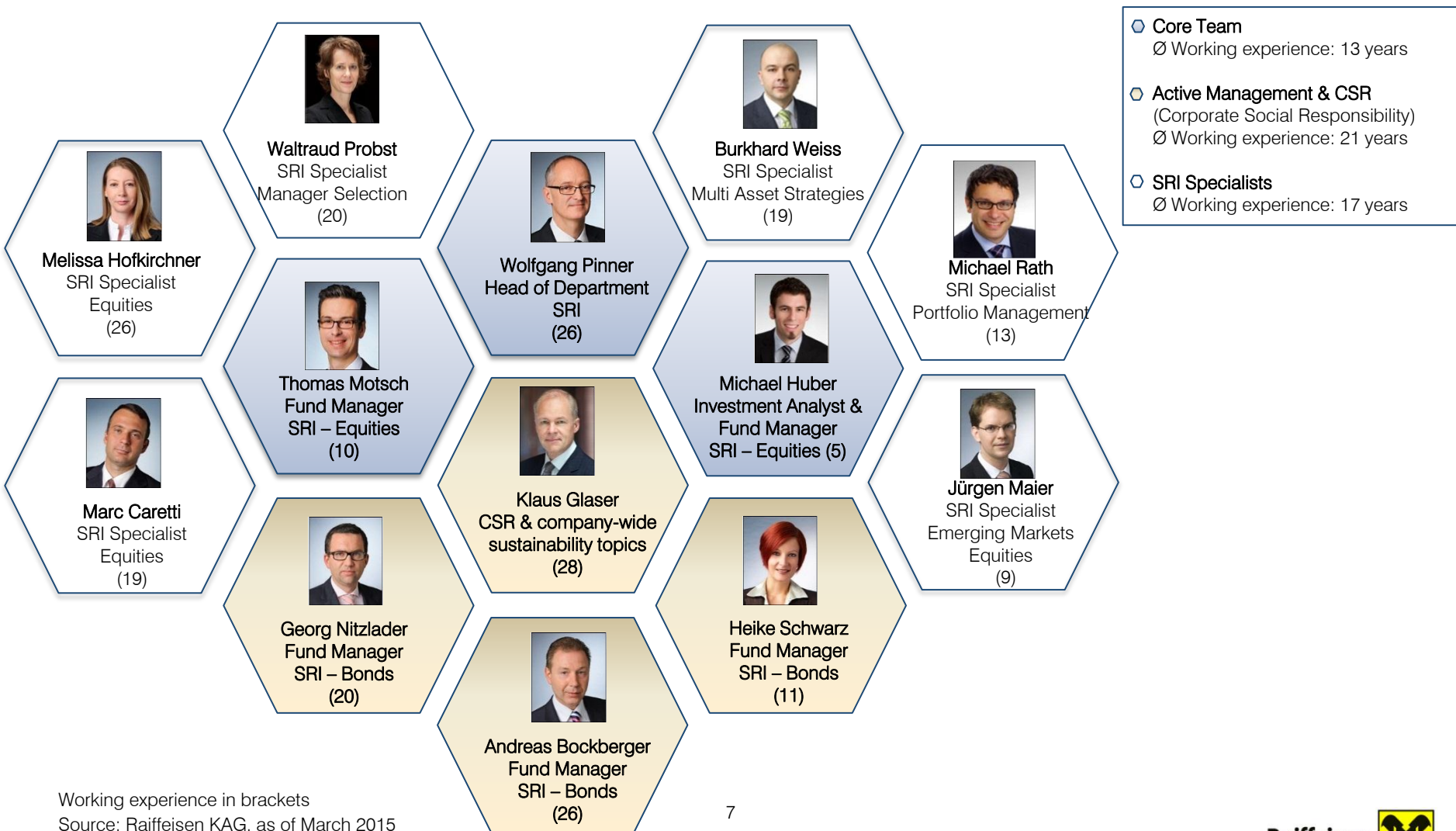
Source: FNG, 2015

Raiffeisen Capital Management

Sustainability on company level

- UN PRI: 
 - Raiffeisen Capital Management is a recent signatory of the UN PRI
=> further steps towards a higher level of sustainability have to be taken on a company level
- Minimum dimension of exclusions / integration:
 - Exclusion of food speculation (derivatives) – implemented
 - Exclusion of controversial weapons – implemented
- Project on sustainable corporate culture:
 - Cooperation with the sustainability management team of RZB

Sustainable & Responsible Investments (SRI)



Working experience in brackets

Source: Raiffeisen KAG, as of March 2015

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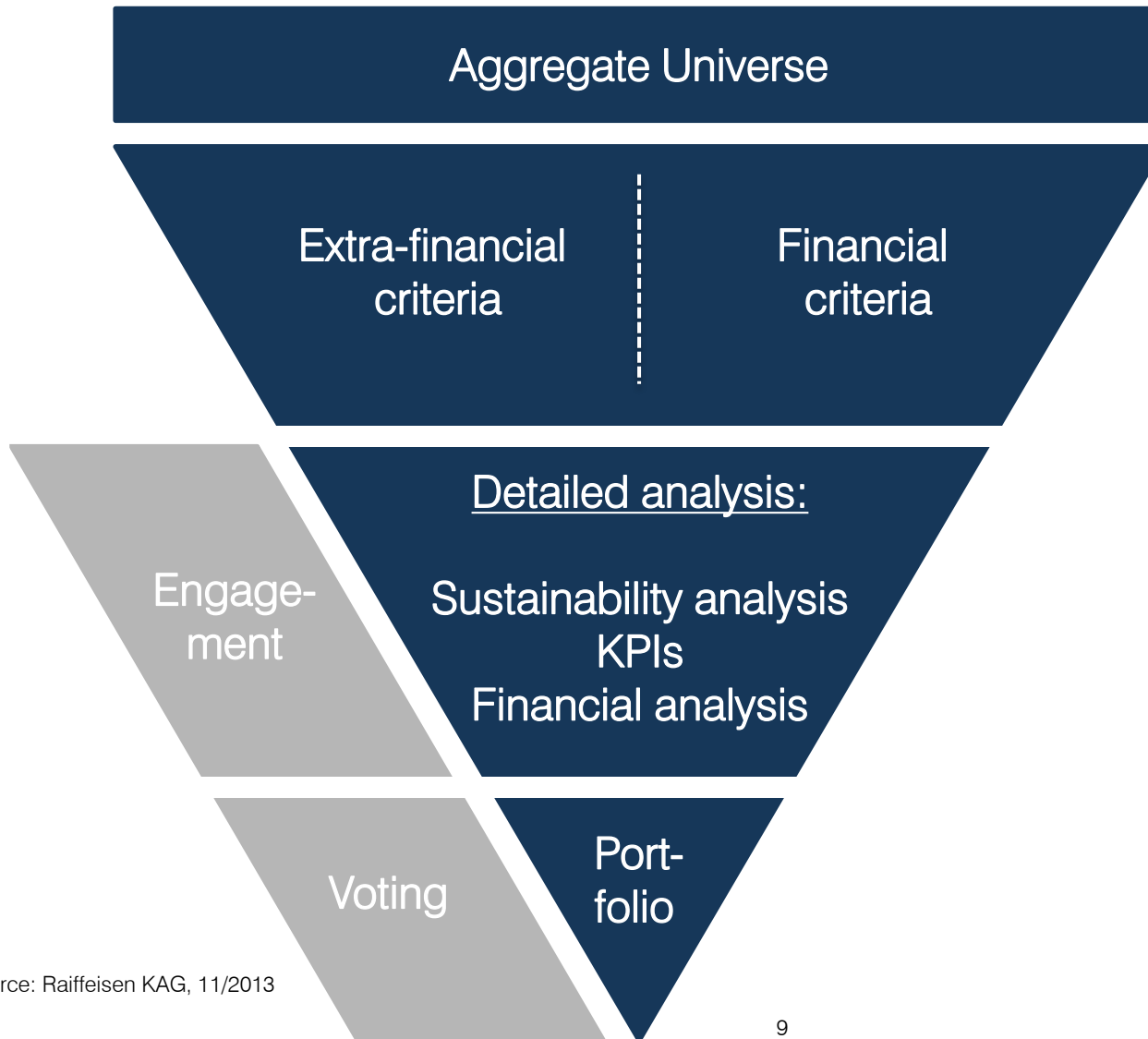
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Raiffeisen Capital Management sustainability approach



Source: Raiffeisen KAG, 11/2013



Exclusion criteria for companies

- Violation of human rights
- Violation of labour rights (according to ILO protocol)
- Employment of child labour
- Corruption
- Accounting Fraud
- Production or trading of nuclear energy, uranium or core components
- Production or trading of armaments
- Violation of other ethical principles^{*)}

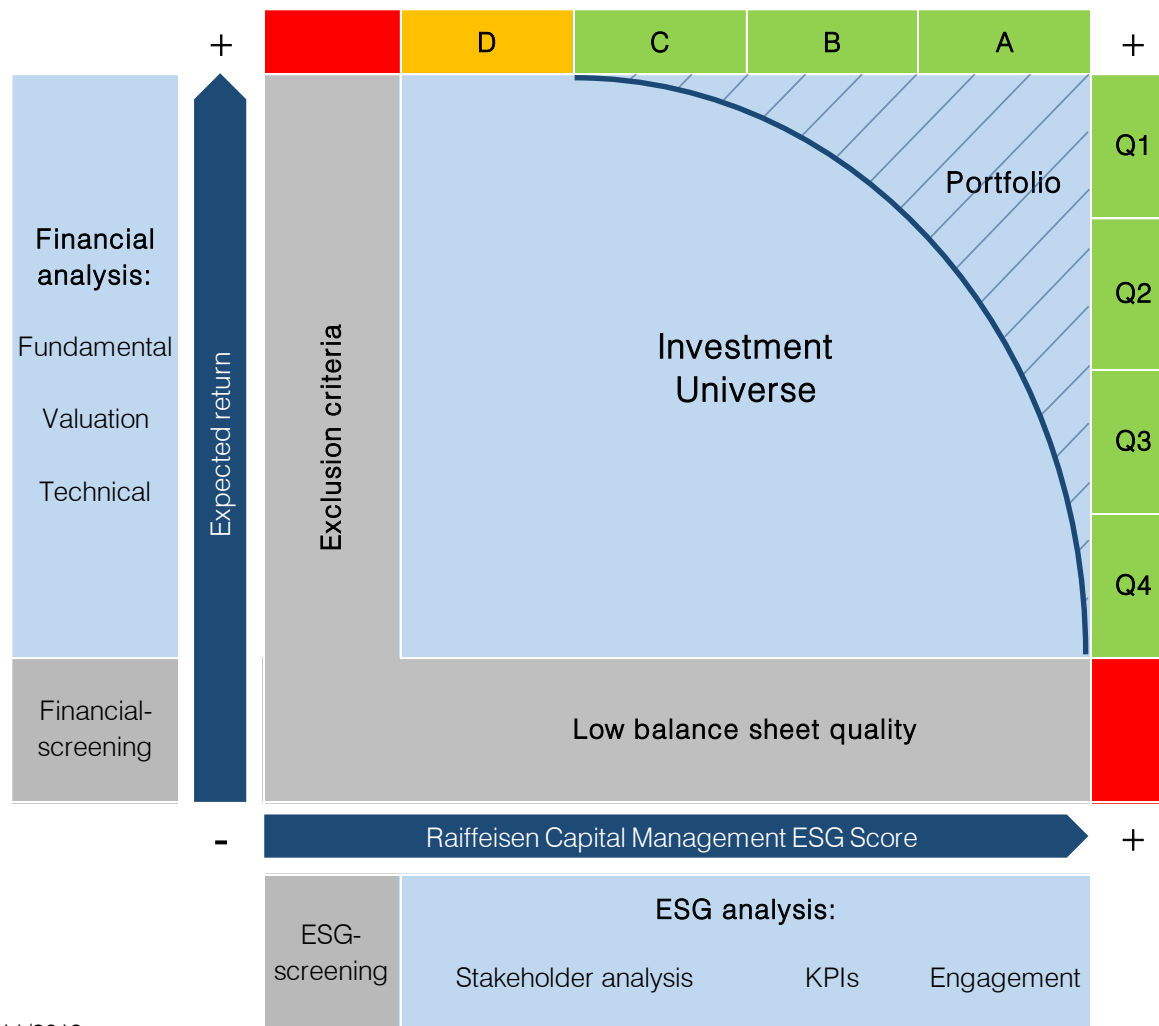
^{*)} abortion, alcohol, embryo research, gambling, green genetechnology, pornography, tobacco, animal testing for consumer goods

Exclusion criteria for countries



- Death penalty
- Authoritarian regimes
- Extraordinary low labour conditions
- Massive discrimination
- Lack in cooperation on money laundering
- Widespread employment of child labour
- Massive violation of human rights
- Massive violation of freedom of press and media
- Extraordinary high armaments expenditure

Raiffeisen Capital Management ESG Scorecard



Source: Raiffeisen KAG, 11/2013

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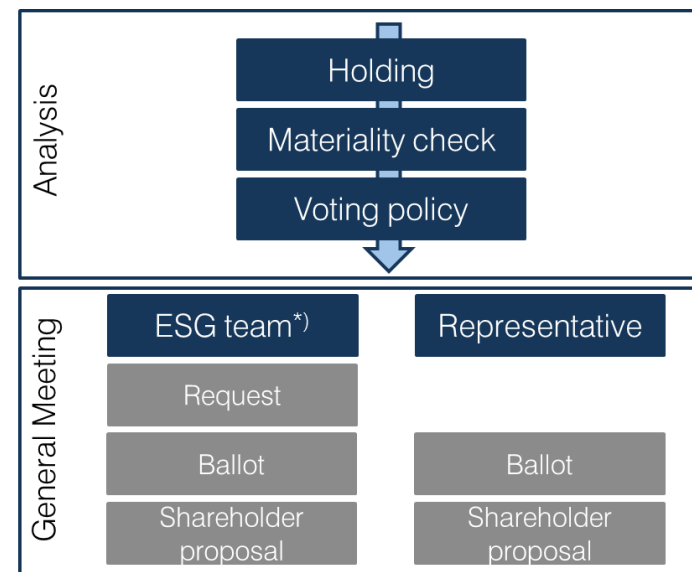


Engagement

- Engagement is regarded as a **dialogue between investor and company** on specific, often sustainability-related topics.
- As sustainability investors we are **active owners**, who want to get in touch and enter into a dialogue with companies. We try to **convince companies** of acting responsibly, i.e. acting in line with the interests of the economy, the society and the environment equally.
- Through our engagement efforts we aim to **generate added value** not only on a company level, but also on an environmental and society level.
- Our engagement strategy is based on an **engagement policy**.
- Engagement targets:
 - Make companies aware of ESG related deficits (*Mayr-Melnhof, Telekom Austria*)
 - Support companies' focus on sustainability (*Henkel, National Grid*)
 - Collect detailed information on current developments (*BP, Lonmin*)

Proxy Voting

- As sustainability investors we make **use** of the **voting rights** of our invested companies at the respective **annual general meetings**.
- We act according to **voting policies**, that are based on international best practice and local Corporate Governance Codes.
- In case of companies that do not respond to our engagement efforts, we reserve the possibility to **address the company representatives** in public at the **general meeting**.
- ESG-cornerstones concerning proxy voting:
 - Majority independent board
 - Executive compensation



Advantages of our sustainability approach

- ✓ Dedicated **sustainability team** with detailed **experience** and **know-how**, from the financial analysis aspect supported by dedicated **inhouse buy side analysts**
- ✓ Investment process combining **detailed sustainability analysis** with sustainable **key performance indicators** (KPIs)
- ✓ Various **engagement** and **voting** activities in Austria as well as on a global scale
- ✓ Multiple, first-class **sustainability research partners** (oekom research, MSCI ESG), as well as **proprietary research**
- ✓ **Combination** of **sustainability data** and **financial data** on each level of the investment process (instead of one-dimensional filter)
- ✓ Consideration of **ESG momentum**, ie how dynamic a company's sustainability performance develops
- ✓ Members of the sustainability team are **well-connected** with other sustainability investors, companies and networking groups

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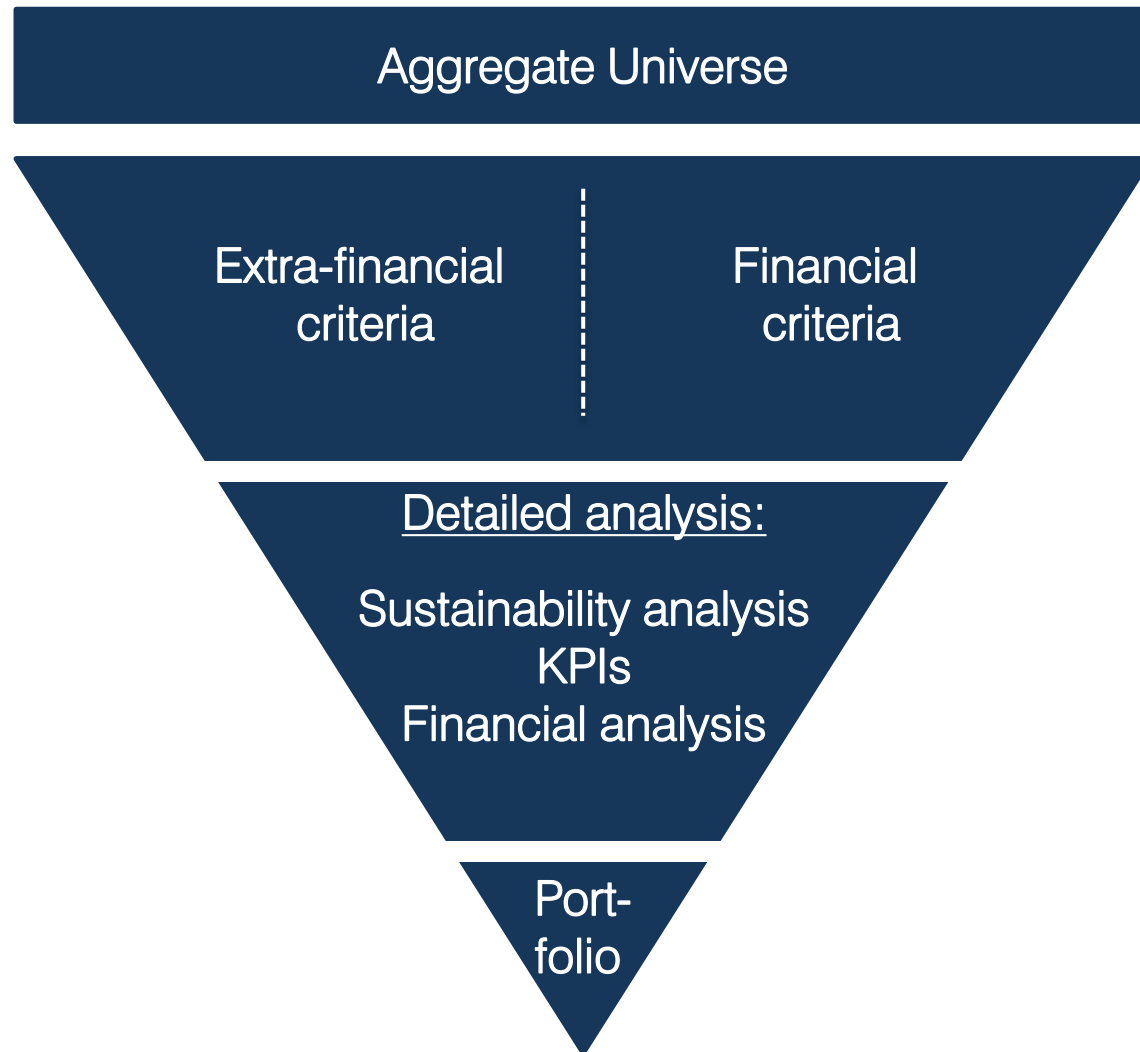
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Sector – Electrical Equipment

Schneider Electric



- Specialised in energy management and automation
- Based in Paris, 150.000 empl. worldwide
- Strategies in Smart Cities & Smart Grid
- Active in:
 - Energy management & infrastructure
 - Industrial solutions
 - IT & data centers
 - Building services engineering

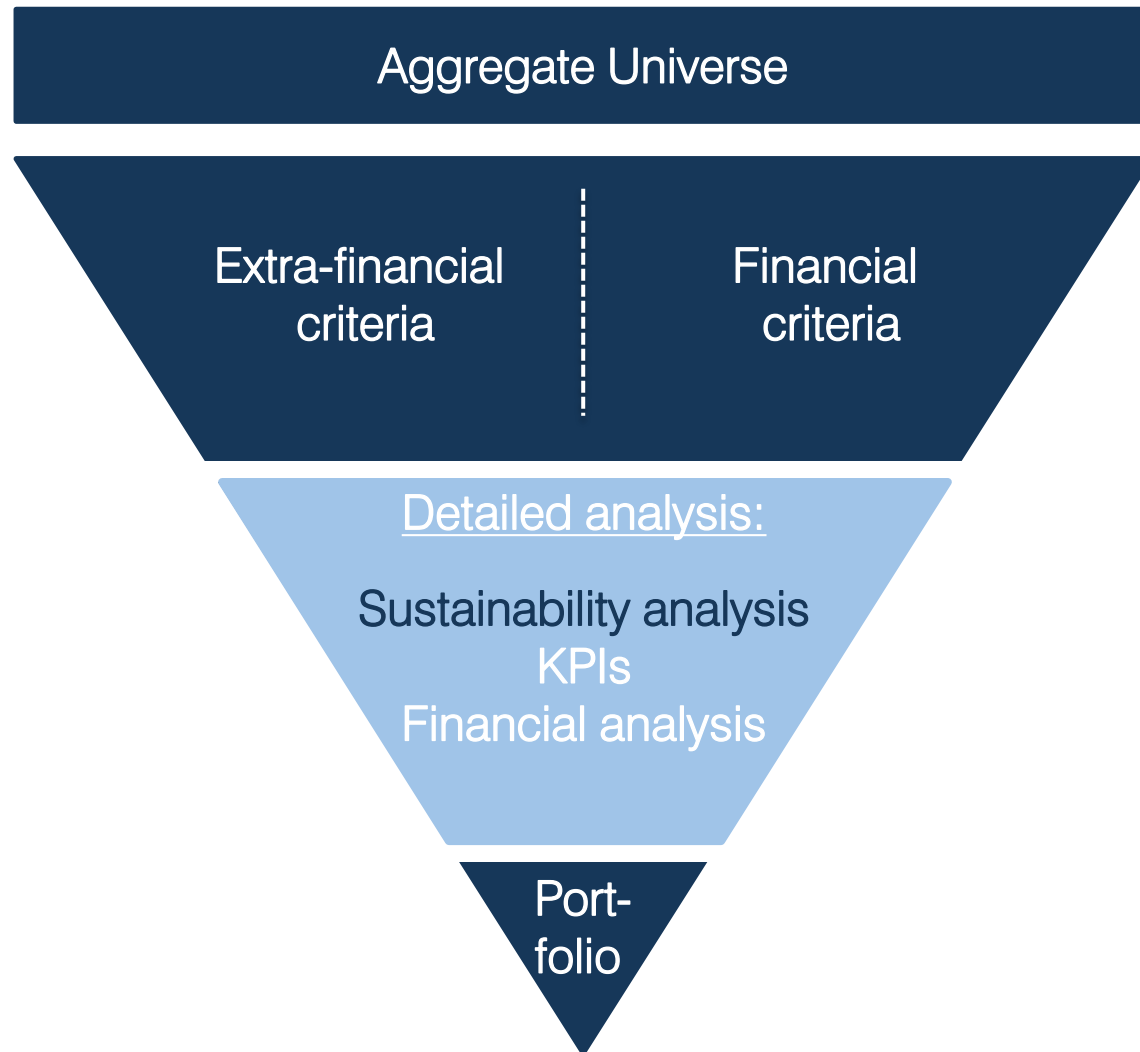
Emerson Electric



- Specialised in process management and automation
- Based in St. Louis (USA), 132.000 empl. worldwide
- Single sustainability initiatives, but no comprehensive strategy
- Active in:
 - Process management
 - Industrial automation
 - Network solutions
 - Air-conditioning technology
 - Building services engineering

Source: www.schneider-electric.de, www.emerson.com

Raiffeisen Capital Management sustainability approach



Source: Raiffeisen KAG, 11/2013

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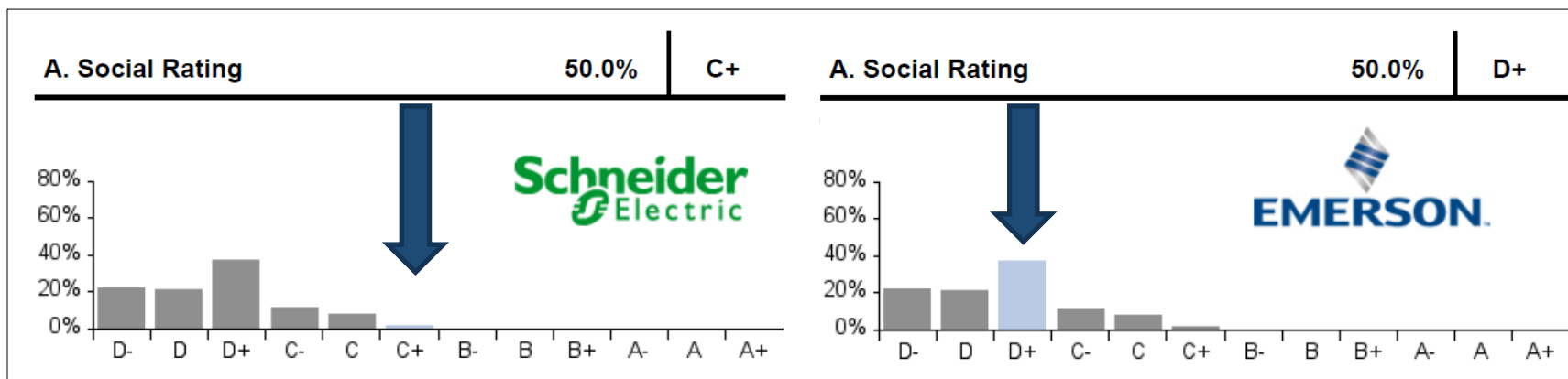
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Electrical Equipment – Stakeholder-Analysis (I)

Social Rating

Staff & Suppliers	Society & Product Responsibility	Corporate Governance & Business Ethics
Freedom of association	Human rights	Independence and effectiveness of the board
Work-life balance	Community involvement	Shareholder democracy
Employment safety	Governmental relations & public advocacy	Executive compensation
Pay and benefits	Stakeholder dialogue	Transparency on shareholder structure
Health and safety		
Equal opportunities		
Training and education		



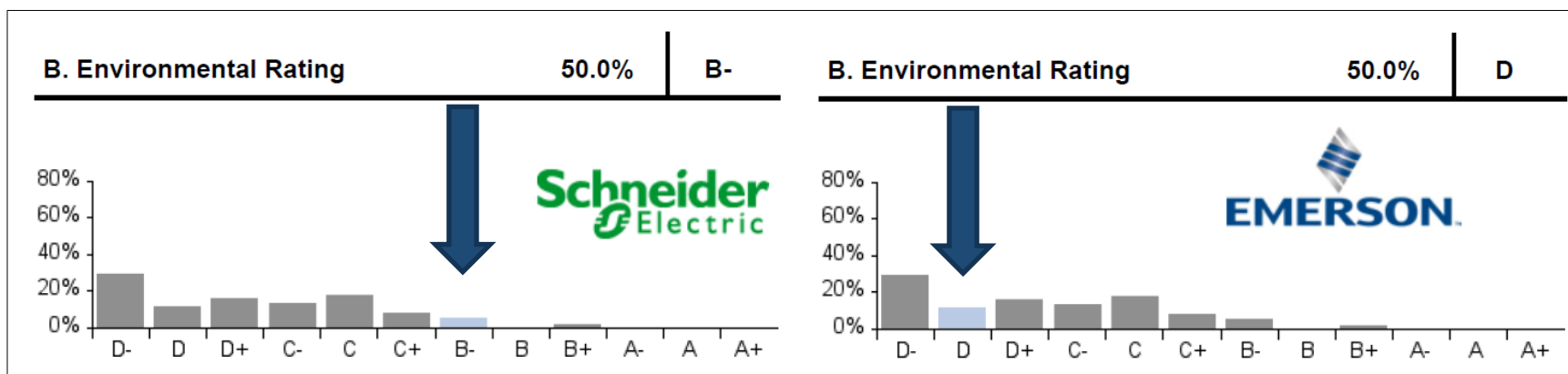
Source: oekom research, 2014



Electrical Equipment – Stakeholder-Analysis (II)

Environmental Rating

Environmental Management	Products & Services	Eco-Efficiency
Environmental policy	Hazardous substances	Energy use
Environmental management system	Energy efficiency of products	Water use
Environmental performance indicators	Recyclability and reuse	GHG emissions
Climate change strategy	packaging	Hazardous waste
Travel and transport		Non-hazardous waste



Source: oekom research, 2014

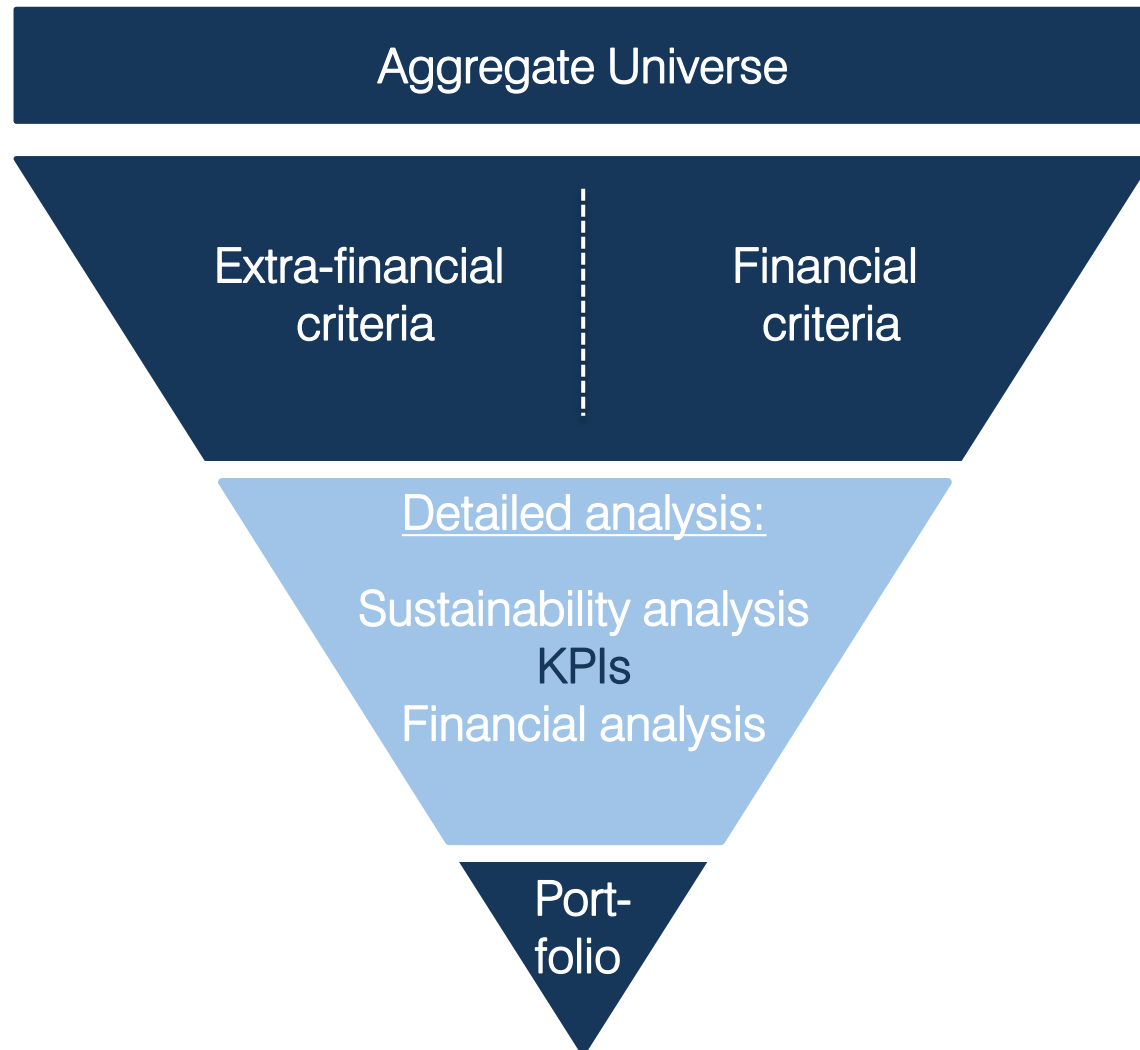
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Raiffeisen Capital Management sustainability approach

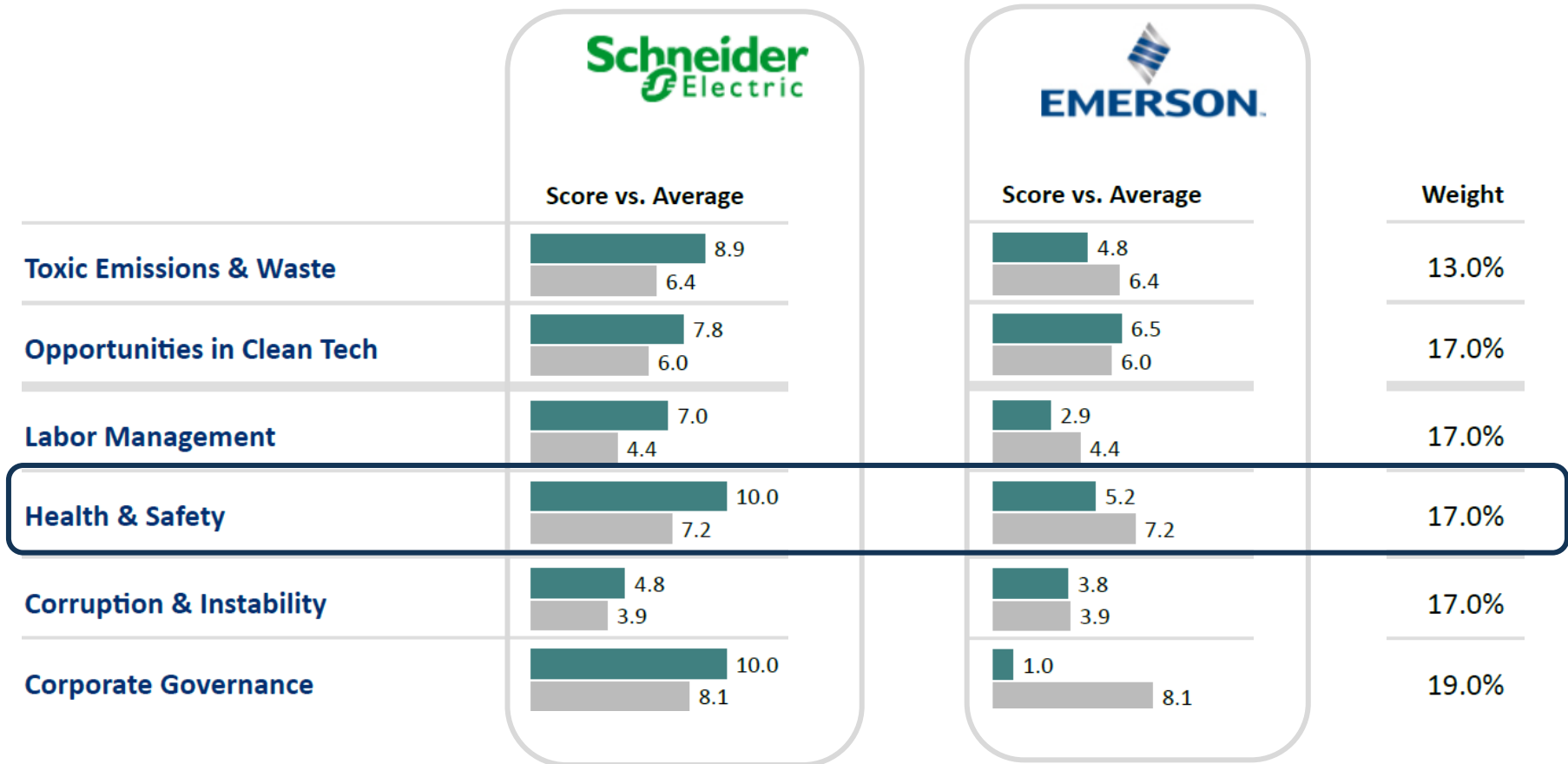


Source: Raiffeisen KAG, 11/2013

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Electrical Equipment – Key Performance Indicators (KPIs)



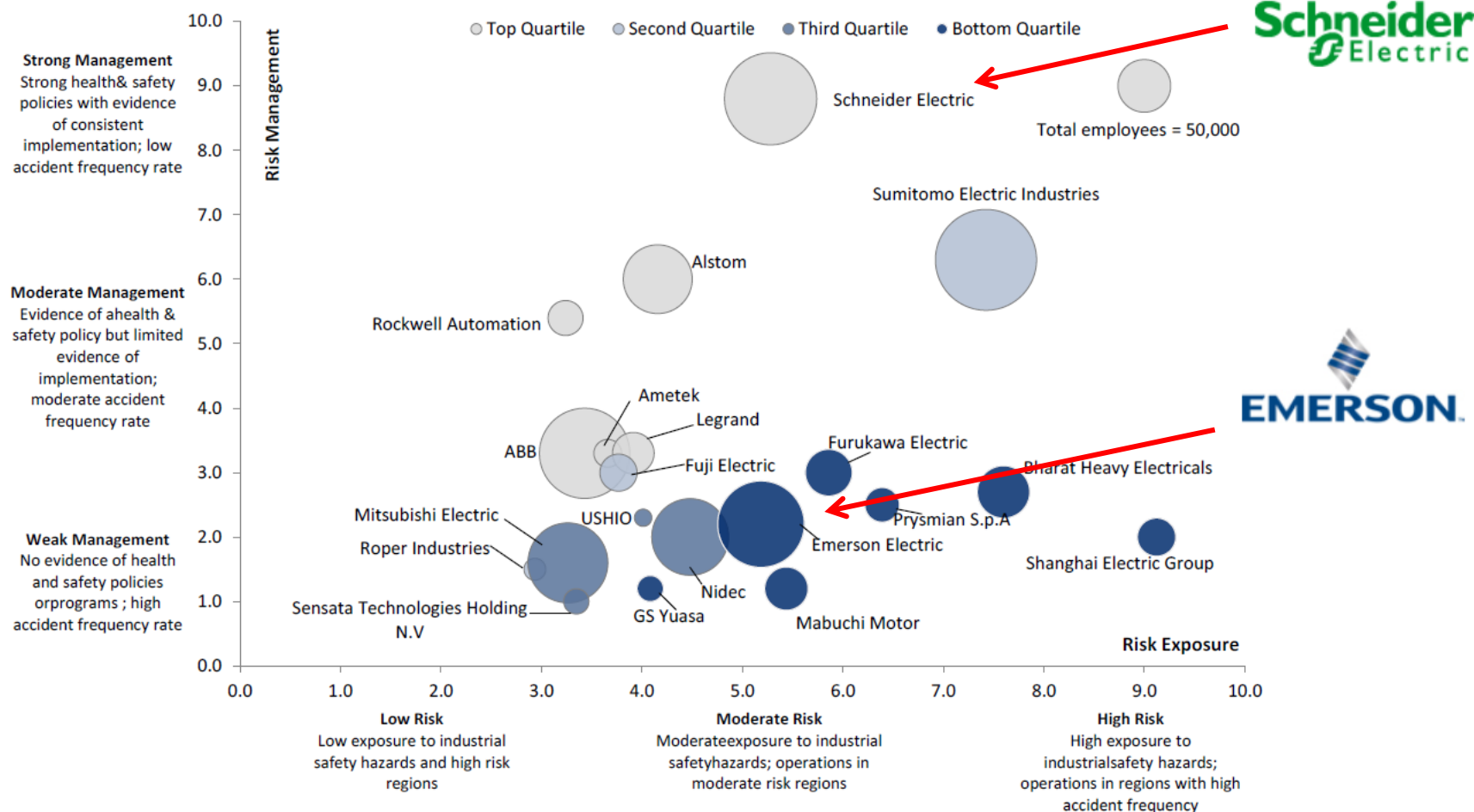
Source: MSCI ESG, 2014

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Electrical Equipment – KPI “Health & Safety”



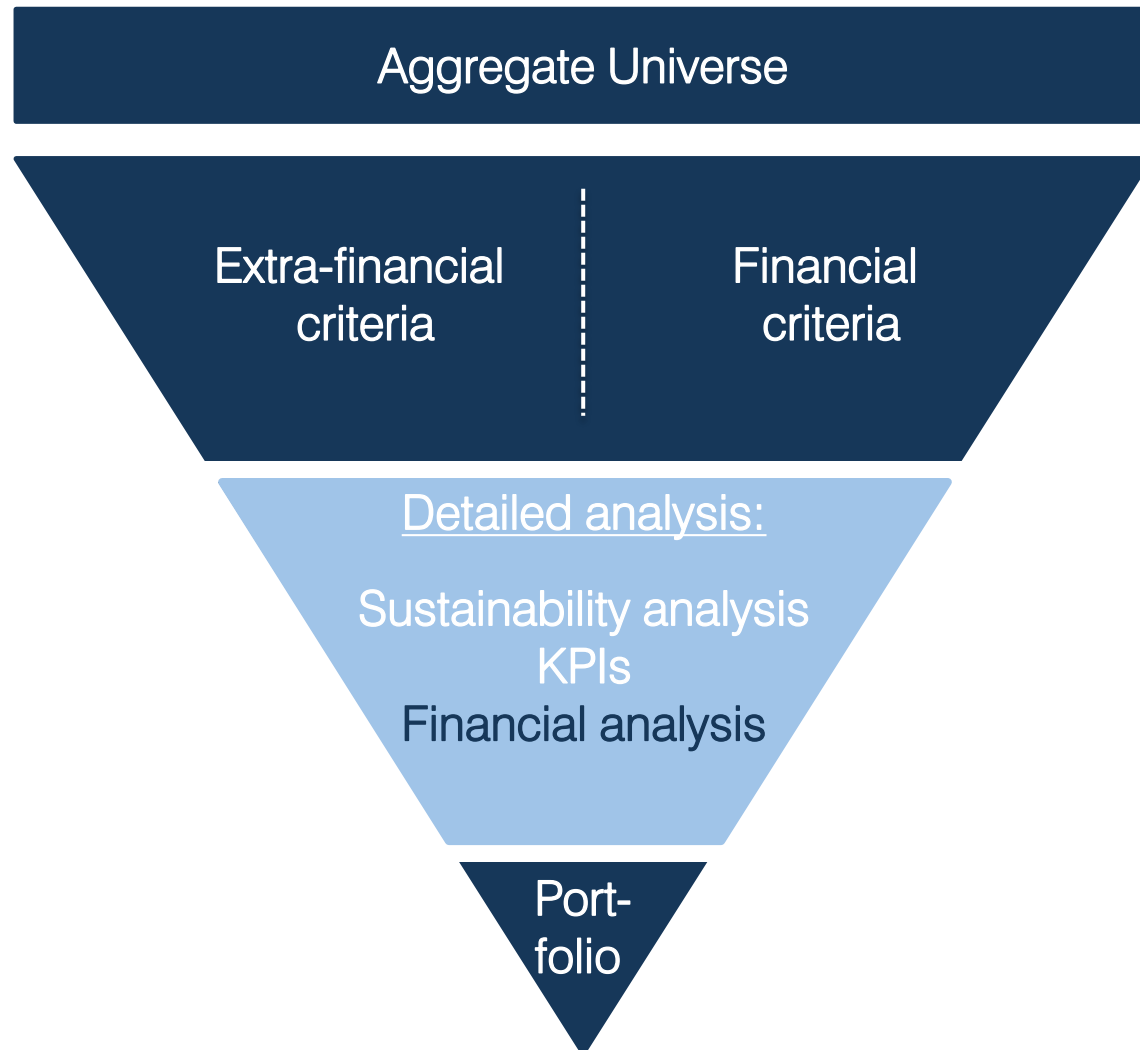
Source: MSCI ESG, 2014

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Electrical Equipment – Financial analysis



SU FP = Schneider Electric, EMR US = Emerson Electric

Source: Bloomberg Finance L.P., 05/2014

Performance (last 5 years)

Schneider Electric vs. Emerson Electric



Source: Bloomberg Finance L.P., 09/2014

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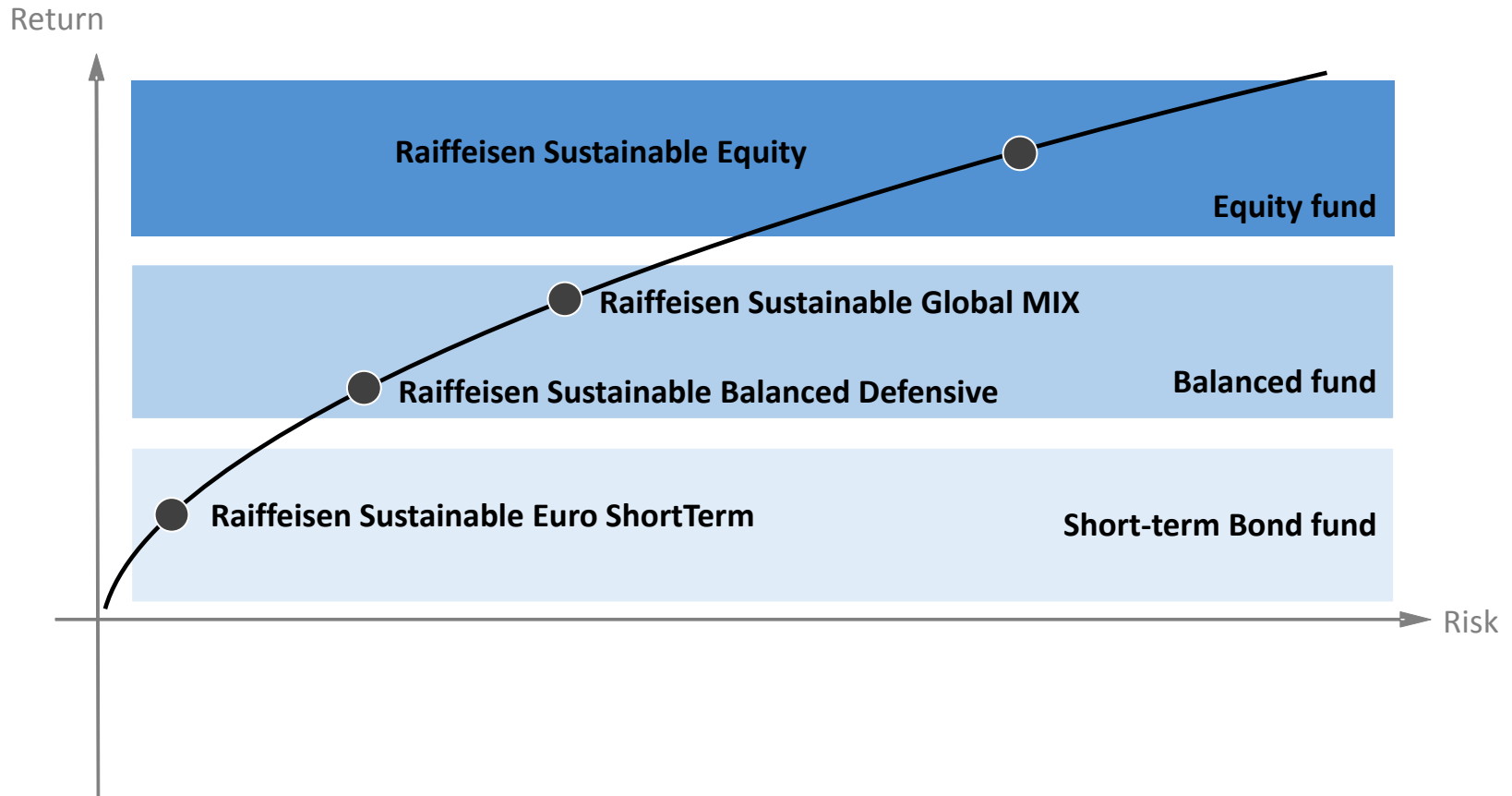
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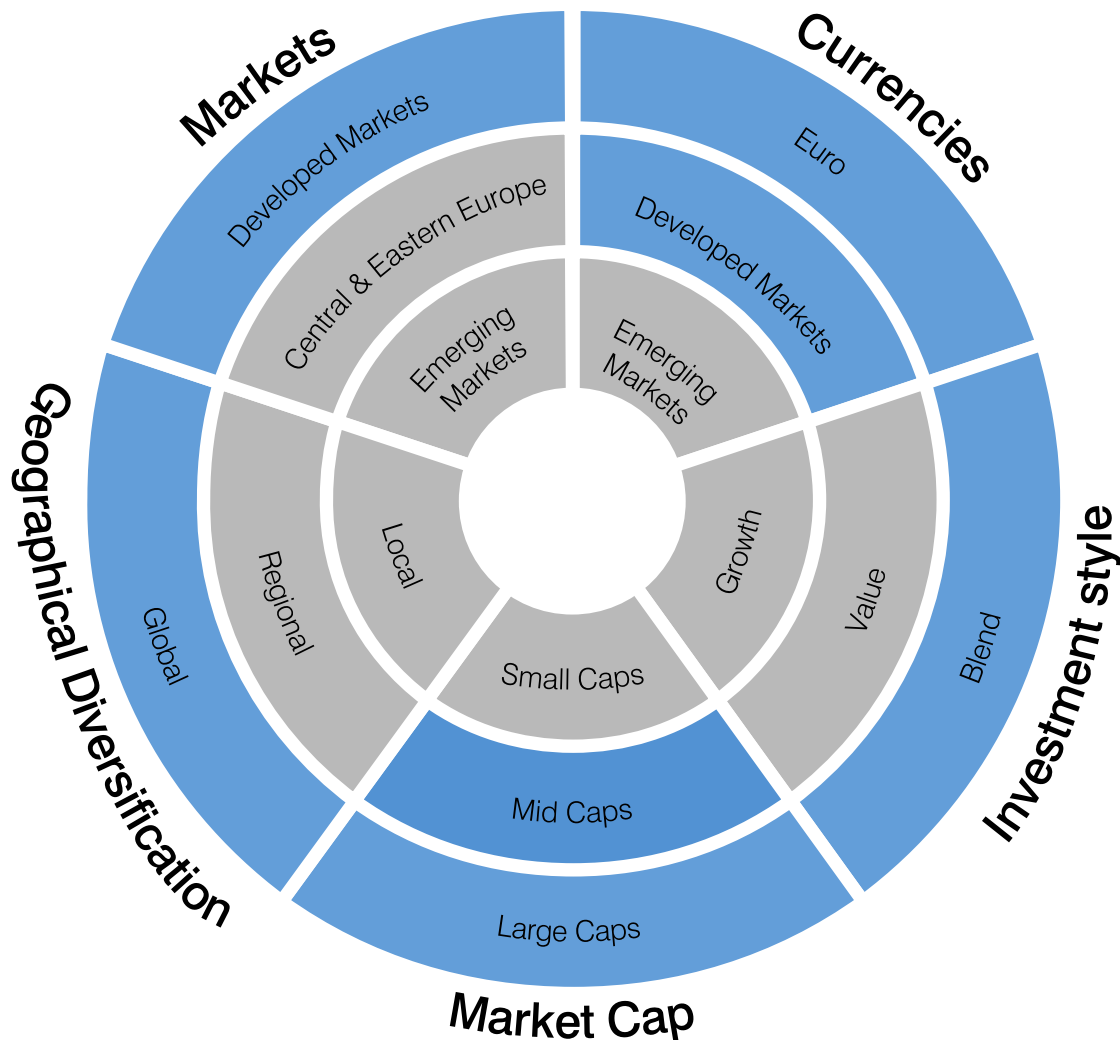
Product offerings

Critical FAQs

Range of SRI funds



Raiffeisen Sustainable Equity



applicable
 not applicable

Source: Raiffeisen KAG

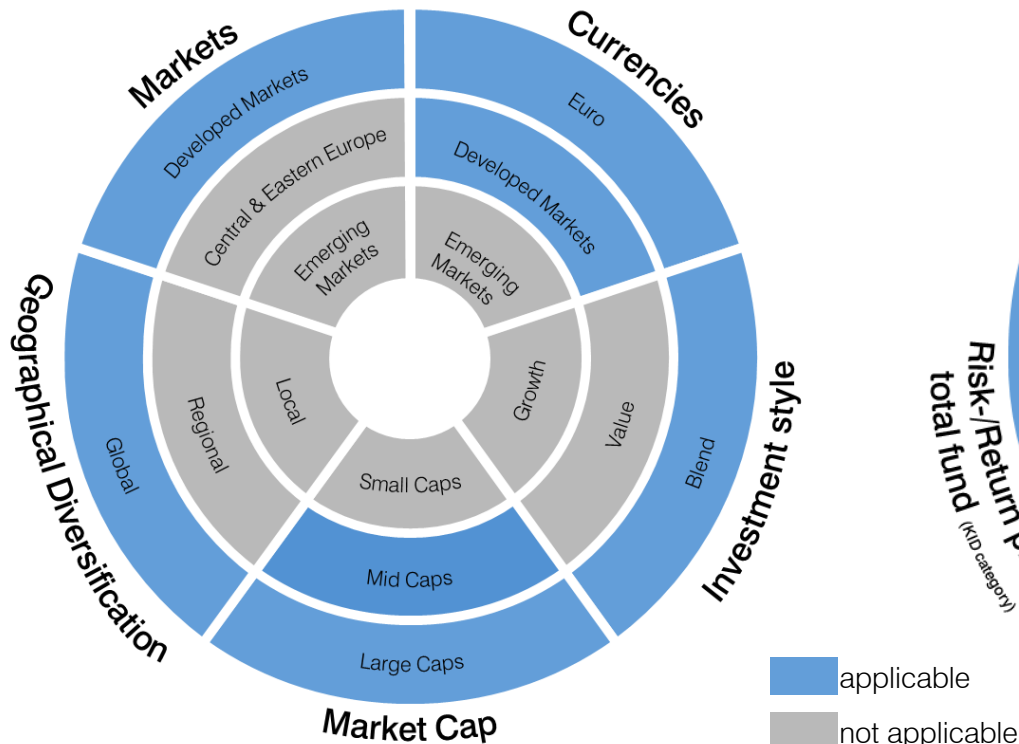
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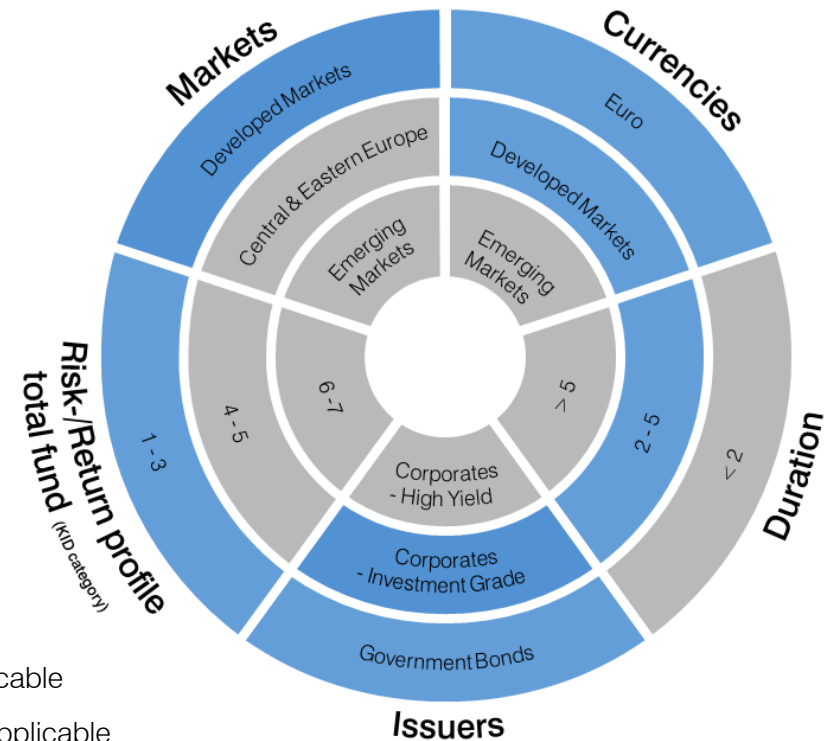
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Raiffeisen Sustainable Balanced fund defensive

Equities (ca. 20%)



Bonds (ca. 80%)



Source: Raiffeisen KAG

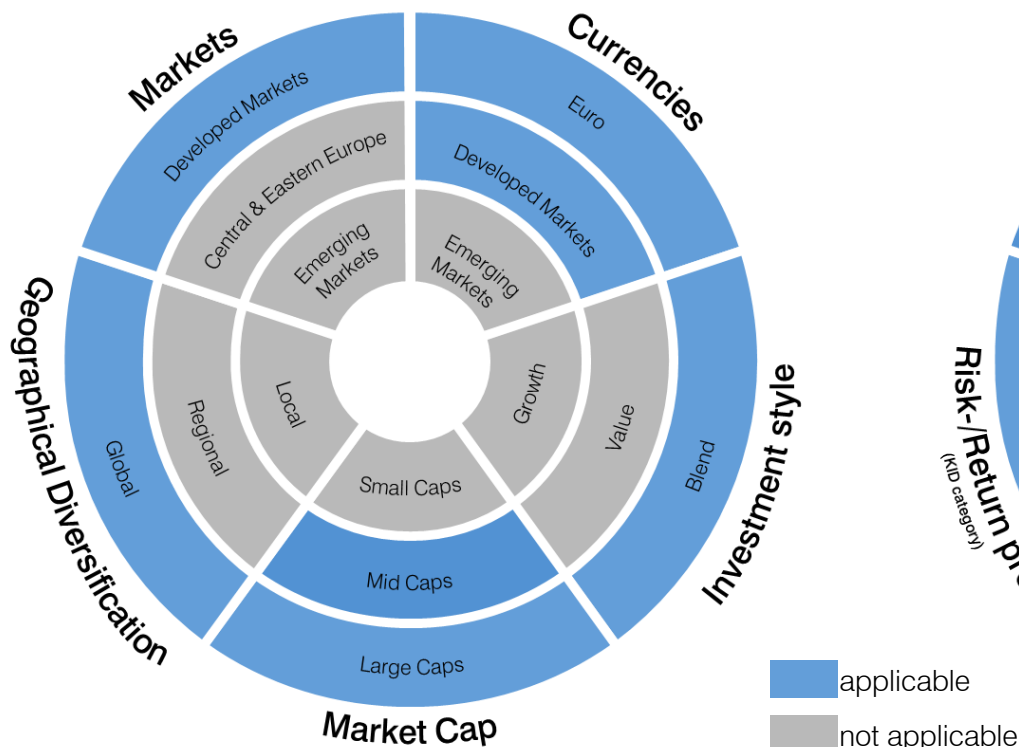
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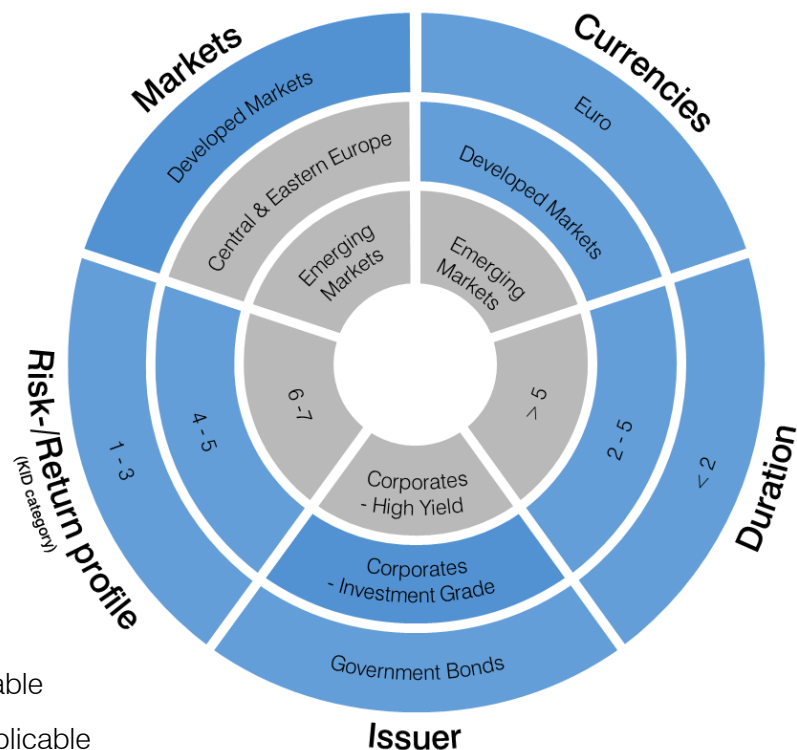
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Raiffeisen Sustainable Balanced Fund Dynamic

Equities (ca. 50%)



Bonds (ca. 50%)



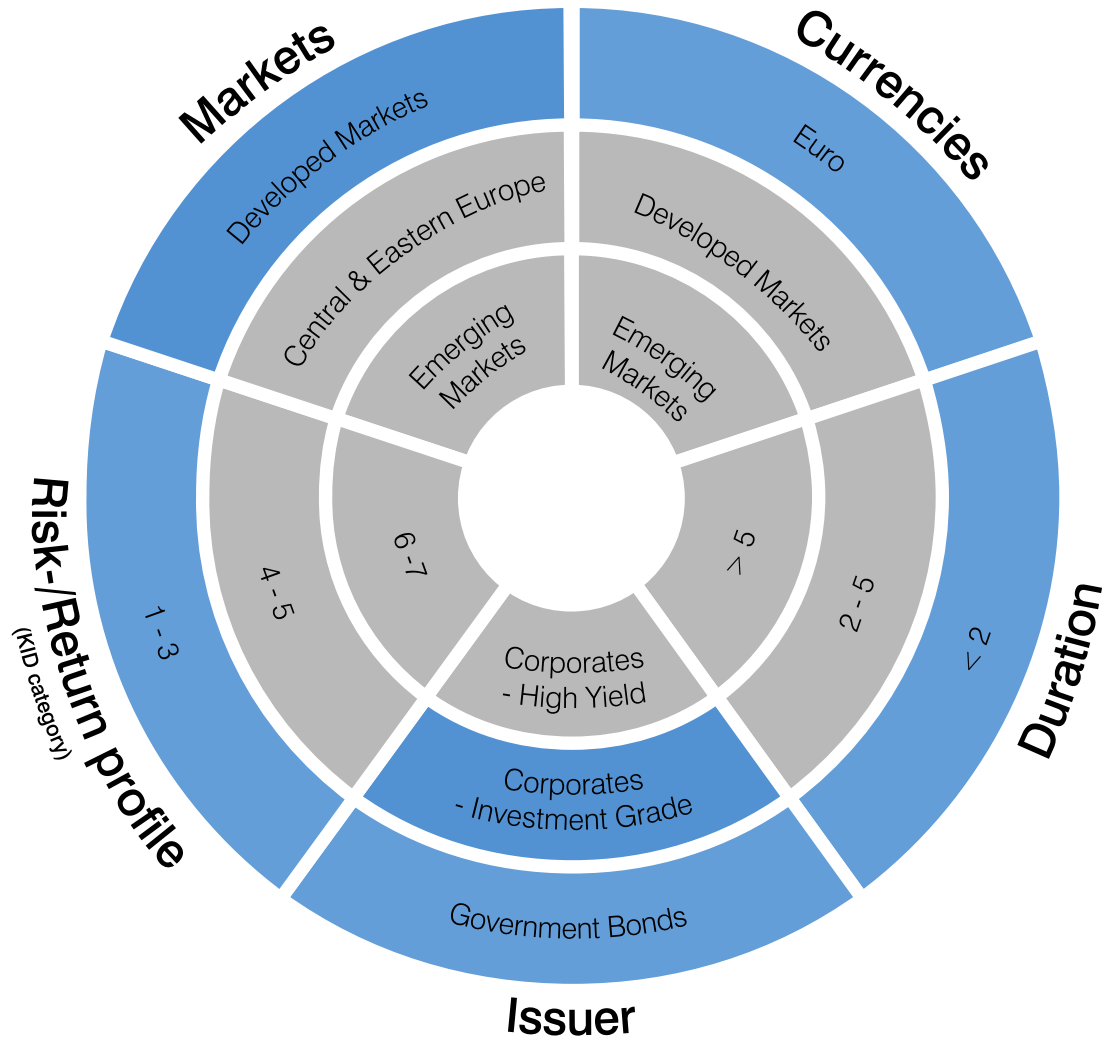
Source: Raiffeisen KAG

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Raiffeisen Sustainable Bond ShortTerm



Source: Raiffeisen KAG

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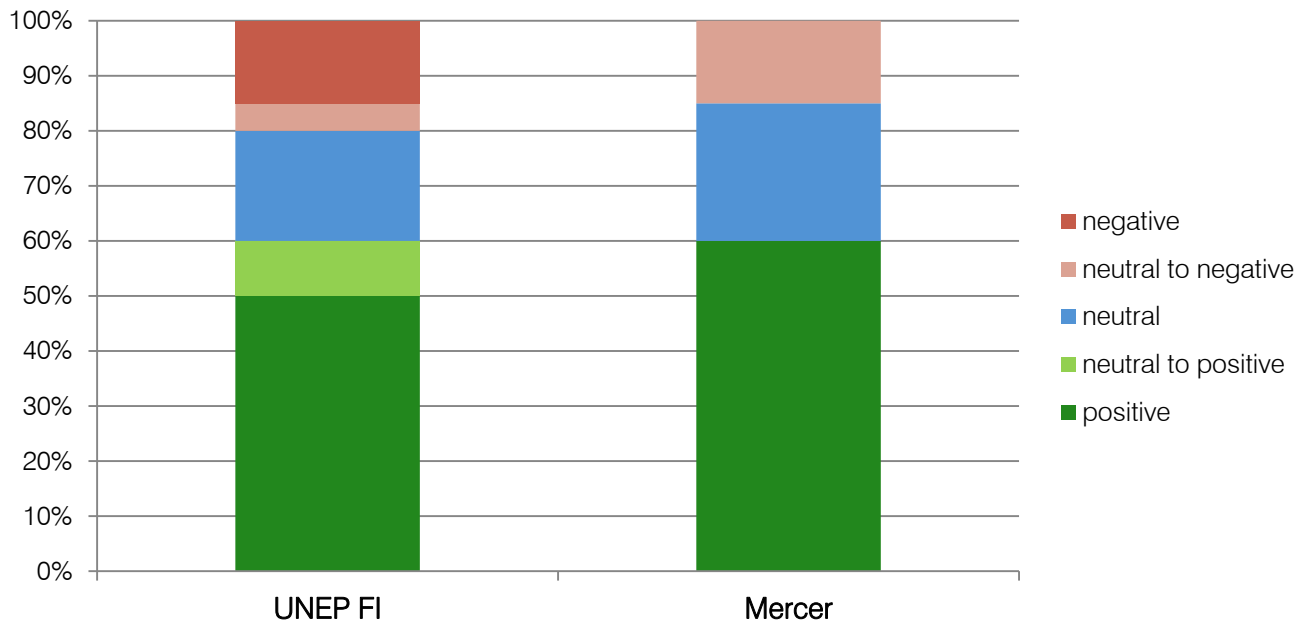
Product offerings

Critical FAQs

#1: Are Sustainable Investments profitable?

Answer: A lot of recent academic studies and the performance of SRI/ ESG based indices show that the expected return of sustainable investments does at least match the one of traditional products.

*Studies: UNEP FI („Demystifying Responsible Investment Performance“)
Mercer („Shedding Light on Responsible Investment“)*



Source: UNEP FI 2007, Mercer 2009



#2: How can one claim to be able to differentiate between good and bad?

Answer: This is not about good or bad, but about responsible and irresponsible. Accordingly, companies that violate working rights or human right are assessed as irresponsible and therefore excluded from investments.



"Folks, meet our new Executive V. P. for ad-hoc ethics."

Source: <http://doodlemeister.com/tag/ethics/> 29.09.2014

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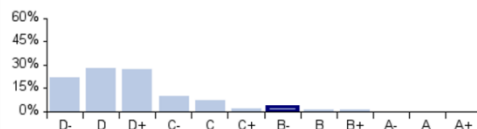


#3: How professional do ESG data providers work?

Answer: Research and rating agencies that provide data on sustainability, CSR and corporate governance have achieved high professional standards over the last decade. The provided data appears to be trustworthy and well researched.

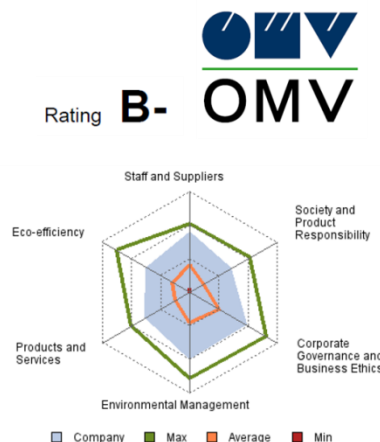
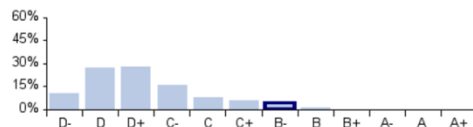
Environmental Rating

B. Environmental Rating 60.0% B-



Social Rating

A. Social Rating 40.0% B-



Leading research agencies like oekom research and MSCI ESG have received the ESG Leaders Award within the last years

Source: oekom research, 11/2013; www.tbllgroup.com

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#4: Aren't critical ESG-related issues already covered by the legal framework?

Answer: That is not necessarily the case. The legal framework covers clear breaches only, other claims of stakeholders are often not covered.



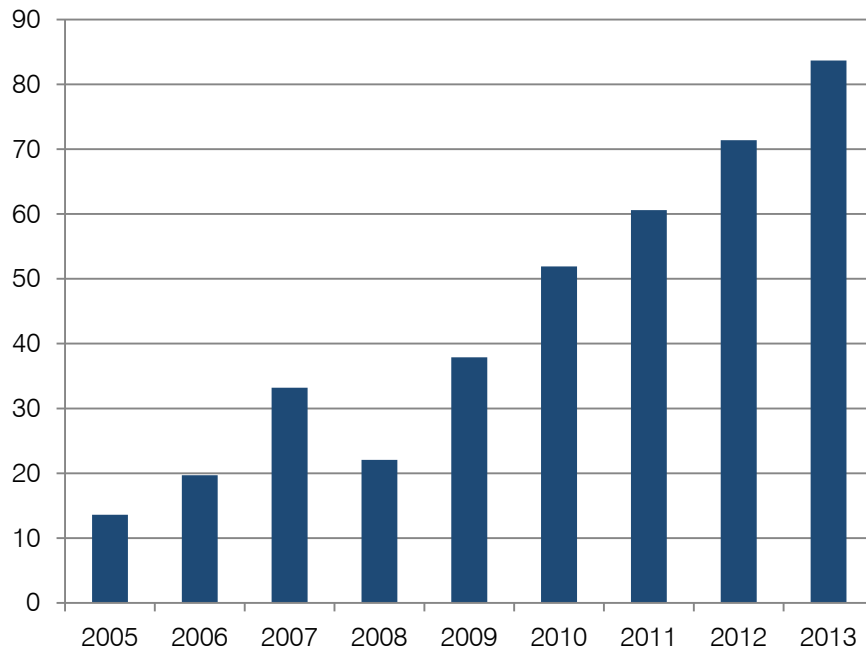
Source: <http://www.eoi.es/blogs/tatianacasquero/files/2012/05/Imagen-41.png> 09/014



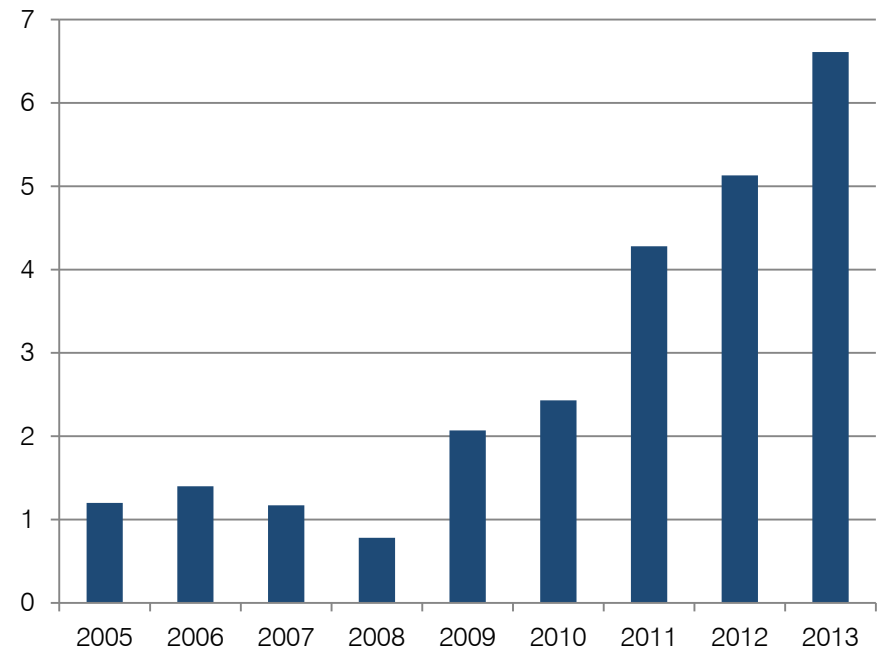
#5: Is SRI more than just a fad?

***Answer:** Sustainable and responsible investment is an investment style with growing importance. Considering environmental and stakeholder-related issues is a precondition for the assessment of the future viability of an investment.*

Assets managed according to SRI principles in Germany, Austria and Switzerland (EUR bn)



Assets managed according to SRI principles in Austria (EUR bn)

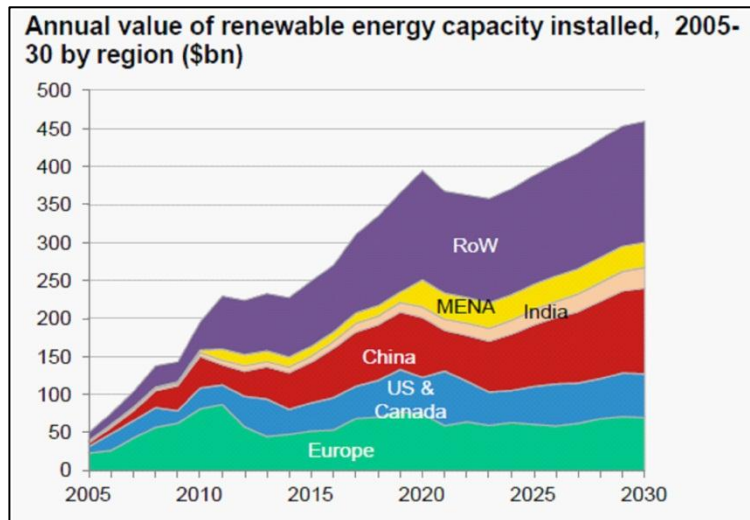


Source: FNG, 2013

#6: What role does the topic of renewable energy play in the field of sustainable investments?

Answer: Environmental topics make up a small fraction of the whole sustainability topic only. Relevant factors like human rights, labour rights, or corporate governance are not considered appropriately.

For this reason a well-diversified sustainability fund taking into account also environmental topics should be preferred.

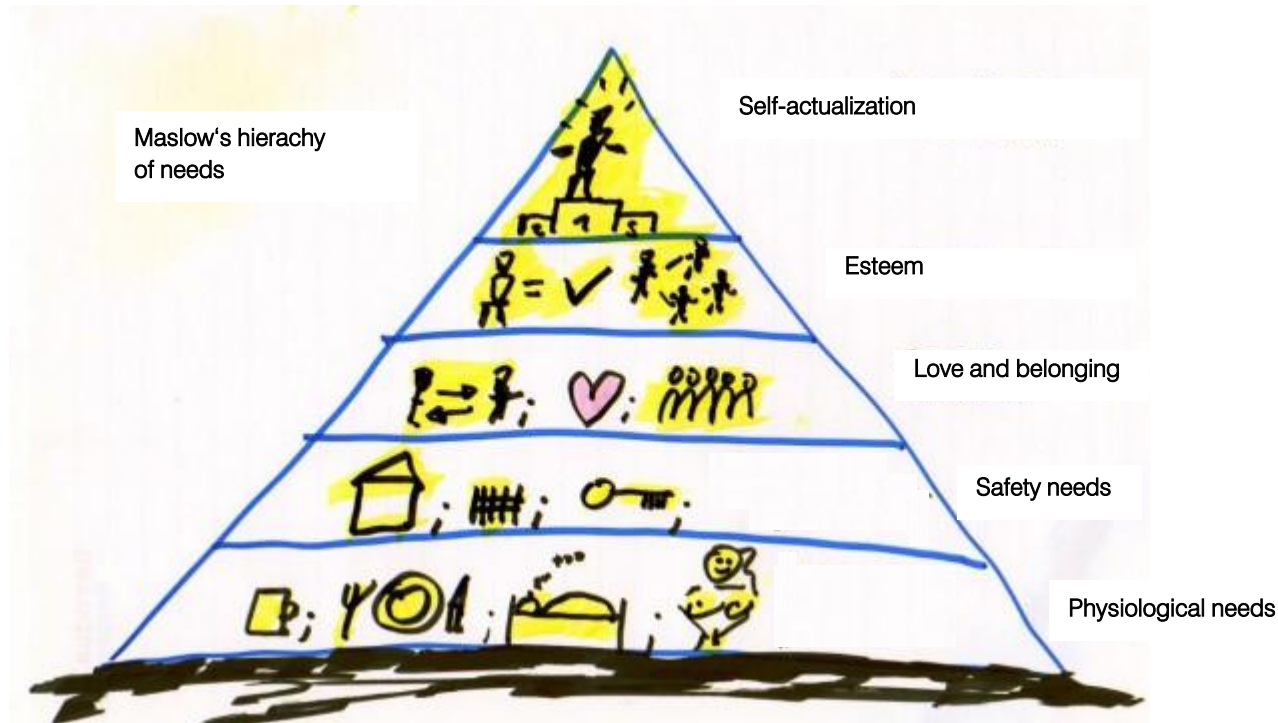


Source: Bloomberg Finance L.P., 03/2014
Bloomberg New Energy Finance



#7: In case of a severe recession, what happens to the topic of sustainability?

Answer: A severe economic crisis could eclipse sustainability related thinking. In the mid and long term there is no way around it, however.



Source: www.studienstrategie.de, 03/2014

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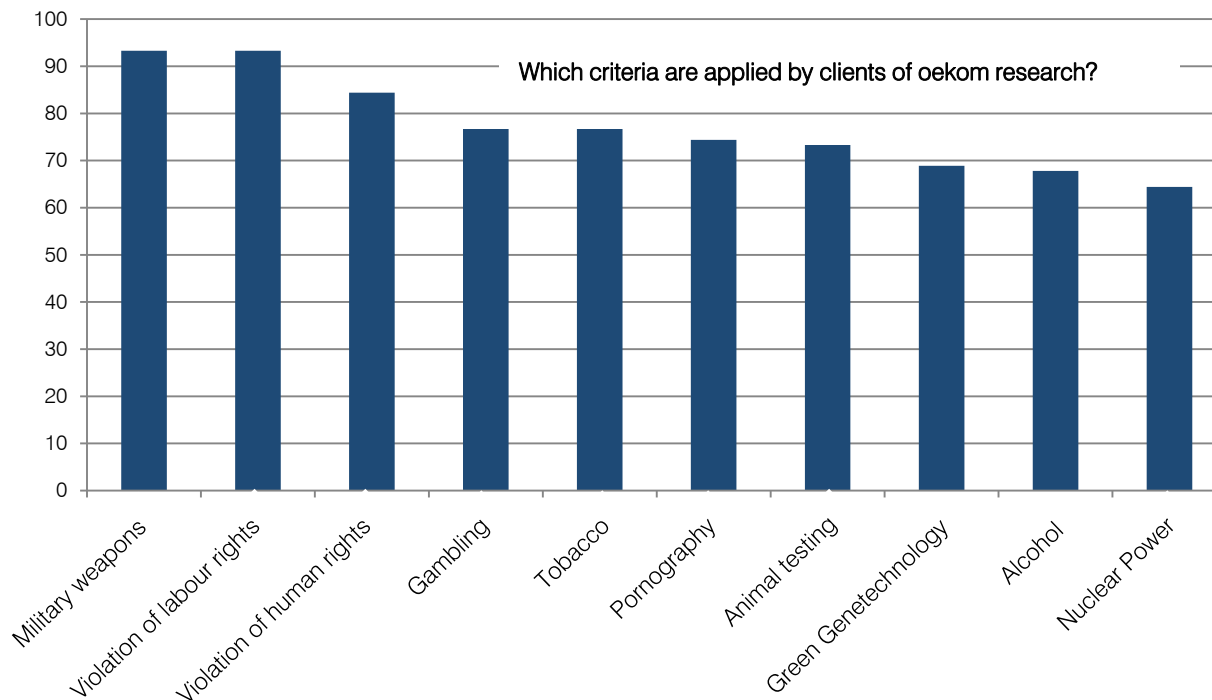
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#8: How subjective is sustainability investing?

Answer: The reproach of being subjective can be disproved by cooperating with several independent sustainability research agencies.

A remaining individual perspective is reflected in the wide range of products.



Source: oekom research, 2013

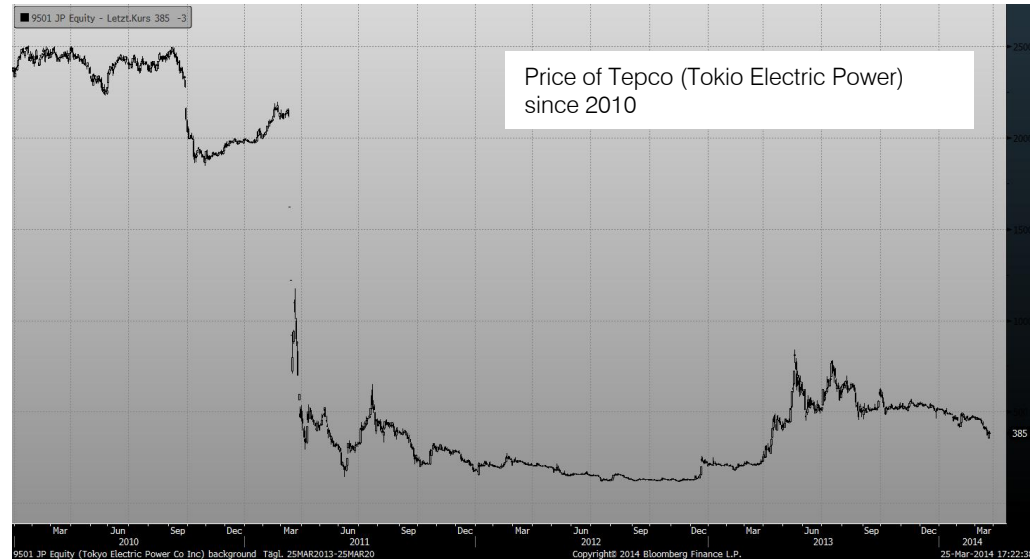


#9: Are exclusionary criteria weighing on the performance of sustainable investments?

Answer: Academic theory on financial markets would suggest such a statement, if exclusions had no tangible background. In reality, exclusionary criteria help to avoid risks, which could have a large financial impact, in case they materialize. Examples include the nuclear disaster in Japan or reputational risks for the textiles industry because of poor labour conditions in the supply chain.

Arguments against nuclear energy:

- Serious environmental damage through extraction, processing and transport of radioactive materials
- Potential military use and distribution of radioactive materials
- Unsolved problems concerning reprocessing and permanent disposal of nuclear waste
- Danger of accidents and terrorism



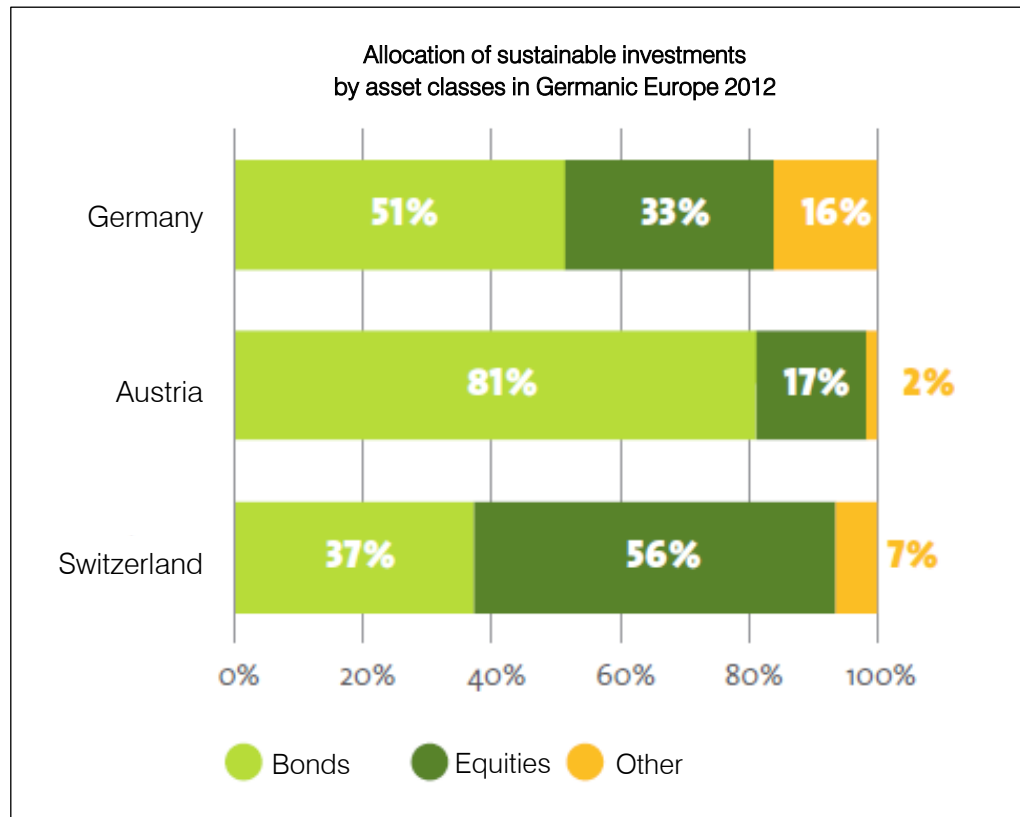
Source: Bloomberg Finance L.P., 03/2014

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#10: Can sustainability criteria be applied to all asset classes?

Answer: Sustainable investments originate from equity investors. By now, sustainable investments can be found in all asset classes. In Germanic Europe fixed-income investments prevail.



Source: FNG, 2013



#11: Where can I find a product's sustainability criteria?

Answer: Transparency is key for sustainable investments. Serious asset managers make public the applied sustainability criteria and have their products certified. Well-recognised certifications guarantee high levels of transparency and high sustainability standards.



Products certified with the Austrian Umweltzeichen guarantee high sustainability standards.



The European transparency logo is awarded to products only, if sustainability process and criteria are publicly available.

Source: www.umweltzeichen.at; www.eurosif.org

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#12: Are sustainable investments really able to change the world for the better?

Answer: Sustainable Investments can have an impact on companies and issuers supporting the efforts towards a more sustainable way of acting. Sustainability products often score higher when it comes to social or environmental ratios, e.g. carbon intensity.

The bottom line is the higher the volume of sustainable investments, the higher the impact those investments have.



Source: Raiffeisen KAG, 2014

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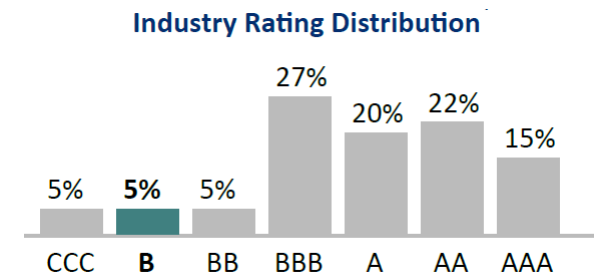
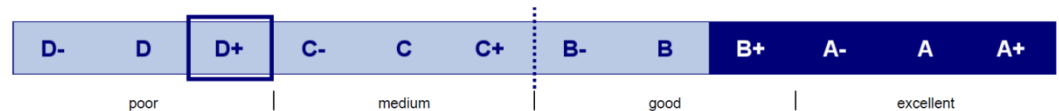
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#13: Do act companies that publish sustainability reports more sustainable than others?

Answer: Publishing a sustainability report is good evidence that a company is aware of its impact on environment and society.

Nonetheless many companies use such reports as a marketing tool only, but do not act responsibly in their daily business. Such behaviour is also referred to as „Green washing“. Examples include companies like Monsanto, Wal-Mart, or Halliburton, etc.



Source: Monsanto, oekom research, MSCI ESG, 2014

#14: How can it happen that sustainability funds invest into banks or oil companies?

Answer: How sustainable and responsible a company acts is not only dependent on its products. A sustainability rating also takes into account how responsible a company deals with its customers, suppliers, employees, or shareholders, but also how it deals with society and environment in general.

In almost every industry one can find companies that act in a responsible and sustainable way.

Example of sustainability criteria (extract):

Staff & Suppliers	Society & Product Responsibility	Corporate Governance & Business Ethics
Freedom of association	Human rights	Independence and effectiveness of board
Health and safety	Community involvement	Shareholder democracy
Employment safety	Governmental relations & public advocacy	Executive compensation
Pay and benefits	Stakeholder dialogue	Transparency on shareholder structure
Environmental Management	Products & Services	Eco-Efficiency
Environmental policy	Hazardous substances	Energy & water use
Environmental management system	Energy efficiency of products	GHG emissions
Environmental performance indicators	Recyclability and reuse	Hazardous waste
Climate change strategy	packaging	Non-hazardous waste

Source: oekom research, 2014

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