



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

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Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- Corporate Citizenship,
- Corporate Responsibility,
- Corporate Sustainability,
- Community Affairs, and
- Sustainable Investing.

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“PROOF OF CONCEPT” FOR SUSTAINABLE INVESTING? Barron’s Weighs In With Inaugural List of Top 100 Sustainable Companies

*We’re thinking -
Dramatic “Proof
of Concept” for
Sustainable
Investing?*



The Influential Barron’s Publication Continues Its Focus on Sustainable Investing, Names the Inaugural Roster of “The Top 100 Sustainable Companies — Big Corporations With The Best ESG Policies Have Been Beating the Stock Market.”

Barron’s, owned by the **Dow Jones** organization, has long been one of the most influential, best-read of investor-focused publications (in both print and digital formats).

In October 2017, the editors published the first of an ongoing series of articles that focused on ESG performance and sustainable investing, making these points:

- *Barron’s* editors plan to cover this burgeoning style of investing on a more regular basis. A lot of possible content that was developed was left on the cutting room floor for the first round of coverage, the editors noted.
- Says *Barron’s* of its start of more in-depth coverage of Sustainable Investing: “We are only in Version 1.0 of sustainable investing. 2.0 (now underway) is where ESG is not a separate category but a natural part of active management.
- And — given the corporate scandals of recent days (such as the scandals at **Wells Fargo, Equifax, Chipotle, Volkswagen, Valeant Pharmaceuticals**), “it is clear that focus on companies with good ESG policies is the pathway to greater returns for investors.”

The current issue of Barron’s (dated February 5th) has a feature article and comprehensive charting with this cover description: “The Top 100



Sustainable Companies – Big Corporations With the Best ESG Policies Have Been Beating the Market.”

We should consider this as a Proof of Concept approach: The S&P 500® Index Companies returned 22% for the year 2017 – and Barron’s Top 100 Sustainable Companies average return was 29%.

The companies were ranked in five categories considering 300 performance indicators.

*Barron’s editors asked **Calvert Research and Management** (now operating as a unit of **Eaton Vance**), to develop the inaugural list of the 100 top U.S. companies from the universe of 1,000 largest publicly-held companies by market value, all of them headquartered in the United States.*

Calvert analysts looked at 300 performance indicators that were provided by three key data and analytics providers:

- Sustainalytics,
- Institutional Shareholder Services (ISS)
- and Thomson Reuters ASSET4 unit.

(Note that each of these have a different approach to assembling data and adding their perspectives to what the data is saying as well as other in-depth analysis of the individual corporations as well as their industries and sectors.)

Five Main Categories Considered

- Shareholders
- Employees
- Customers
- “Planet”
- Community

Specific ESG Sub-Category Items Considered in the “Shareholders” Category

- the company’s accounting policies and board structure (the “G”);
- employee workplace diversity and labor relations (G and S);
- customer, business ethics and product safety (G and S);
- planet (G and E);
- community (G and S);
- GHG emissions (G and E);
- human rights and supply chain (G, E and S).



We can say here that “good governance” (the “G” in the ESG framework for investors’ consideration and the analysts’ calculations and perspectives shared) is broadly defined by shareholders — and clearly includes the “S” and “E” performance indicators, not the formerly-narrow definitions of governance.

Senior managers and board members should take notice of this.

For example, in 2019 the **Securities & Exchange Commission** (SEC) sent notice to corporate boards that “risk” assessment and continuing oversight were part of the boardroom duties.

Shortly after, the risks and opportunities posed by “**climate change**” (carefully worded, not focused on “global warming” which is more politically-charged) was part of the boardroom oversight and even strategy-setting duties.

Analytic firms picked up on this immediately and so “risk” and “ESG performance” are closely aligned by third-party firms performing ESG analysis.

Every company was ranked by **Calvert**, from 1-to-100, including even those firms manufacturing weapons. (These firms are usually excluded from other indexes and best-of lists, and a number of third-party recognitions. Note that **RobecoSAM** does not exclude such companies but looks carefully to determine “best-in-class” for their inclusion in **DJSI Indexes**.)

Materiality is key in the Barron’s rankings: the analysts adjusted the weighting of each category for how material it was for each industry.

(An example: “planet” is more material for chip makers using water in manufacturing, vs. water for banking institutions — each company is weighted in this way.)

The Top 100 list has each company’s weighted score and other information and is organized by sector and categories; the complete list and information about the methodology is found at Barron’s.com.

The Top 5 Companies in the Overall Ranking

- **Cisco Systems** (CSCO)
- **salesforce.com** (CRM)
- **Best Buy** (BBY)
- **Intuit** (INTU)
- **HP** (HPQ)

The 100 Roster Categories

- The Most Sustainable Consumer Discretionary Companies (**Best Buy** is at #1)
- The Most Sustainable Financials (**Northern Trust** is #1 in its category) – Barron’s notes that there are few banks in the Top 100. Exceptions: **PNC Financial Services Group** #23 overall) and **State Street** (#49).



- The Most Sustainable Industrials (**Oshkosh** is ranked #1 in its category)
- The Most Sustainable Tech Outfits (**Cisco** is at the top)

Familiar companies' names in the roster include **Adobe Systems, Colgate-Palmolive, PepsiCo, Deere, UPS, Target, Kellogg, Apple, and Henry Schein.**

Singled out for comments in the **Barron's** feature are experts in corporate governance, "E" and "S" trends, and sustainability. commenting on the dominant ESG trends:

- **John Wilson**, Cornerstone Capital Group;
- **John Streur**, CEO of Calvert Research & Management;
- Calvert Analyst **Chris Madden**;
- **Paul Smith**, CEO of CFA Institute;
- **Jon Hale**, Head of Sustainability Research at Morningstar (which now rates mutual funds for their sustainable investing practices).

The heads of the five top-ranked companies are also quoted.

Calvert CEO John Streur noted: "This list gives people insight into companies addressing future risks and into the quality of management."



Top-ranked **Cisco** is an example of the quality of management and management of risk: The company reduced Scope 1 and 2 GHG emissions by 41% since 2007 and gets 80% of its electricity from renewable sources.

The February 5 cover story is a featured report by **Leslie P. Norton**, along with a chart of the Top 100 Companies. She writes:

"...Barron's offers our first ranking of the most sustainable companies in the U.S. We have always aimed to provide information about what keenly interests investors - and what affects investment risk and performance..."

And..." what began as an expression of values ("SRI") is finding wider currency as good corporate practices..."

The complete list of the top companies is at Barron's com. (The issue is dated February 5, 2018)



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In the feature article, there were key points made that help to make the investing case for managers inside public companies, especially those not on the Top 100 roster (but their investment peers and industry competitors are):

- More U.S. investors are signing on to the **United Nations** guidelines for incorporating ESG criteria in their investment decision-making. (Such as the **Principles for Responsible Investing** – the **PRI**.)
- The point that the **G&A Institute** team regularly makes in conversations with corporate managers is that the public profile that a company presents, including its sustainability and responsibility efforts (or lack of), is a “mosaic,” and not a singular “picture”. Today, the approach of the *Barron's* editors and their colleagues at Calvert Research and Management in assembling the inaugural Top 100 bear this out. (See note on G&A at end.)

As they report, the editors asked Calvert (one of the pioneering companies in creating sustainability indexes) to look at performance indicators from three important data and perspectives providers:

- Institutional Shareholder Services
- Thomson Reuters ASSET4 (delivered via the Eikon platform)
- Sustainalytics (used for Morningstar ratings of sustainable mutual funds).

Each have their own approach to assembling data and in some cases delivering perspectives.

ISS just *today* announced the launch of their proprietary “E” and “S” “**QualityScores**,” which supplement the long-standing “G” (Governance) scores provided to the ISS roster of influential investment clients (fiduciaries).



Clorox (CLX) on the list at #9, is profiled as “one of America’s greenest companies,” and its CEO (**Benno Dorer**) is quoted: “As a CEO, I don’t think I can be credible without walking the talk. At the end of the day, the company’s commitment to sustainability starts with the CEO.” He rides the San Francisco BART rail system to work each day, too!

Barron's drew readers’ attention to the **Larry Fink** letter (**BlackRock's** chief’s letter, CEO-to-CEO) calling on public companies to have a “purpose” that serves society as well as shareholders.



And, what began as a values investing approach is now (in the view of the editors) finding wider currency as good corporate practices.

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G&A Institute has a comprehensive, fine-tuned proprietary approach to assist corporate clients in understanding and responding to third-party inquiries in this new “mosaic” environment.

We help companies develop effective best practices in their sustainability disclosure and reporting.

There is no “one best way” to disclose and report by cherry-picking one or two information requests or selection of a single framework (for reporting) if a company wants to excel in building a public, world-class sustainability profile that signals “leadership”.

For information, connect with EVP Louis Coppola at: lcoppola@ga-institute.com

In-Depth Information

We prepared a comprehensive management brief as an early “heads up” on *Barron’s* sustainable coverage in October 2017 for our “G&A Institute’s To the Point!” web platform. There’s more information for you there.

Here is the

link: <https://ga-institute.com/to-the-point/the-authoritative-barrons-magazine-now-sets-the-pace-sustainable-investing-is-a-powerful-force-in-todays-capital-markets-so-say-the-editors/>

There is also information about the ISS approach to “E” and “S” as well as “G” scoring

here: <https://ga-institute.com/to-the-point/the-universe-of-esg-rankers-serving-institutional-investor-clients-expands-to-include-a-significant-player-institutional-shareholder-services-iss/>