



## Getting Risk Right

Risk Management Conference

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## Agenda

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- Definition of risk
- Evolution of ESG
- ESG integration → Risk Mitigation
  - From investment side
  - From company side
- Outcomes
- Topical issues
- Q&A

## Definition of risk

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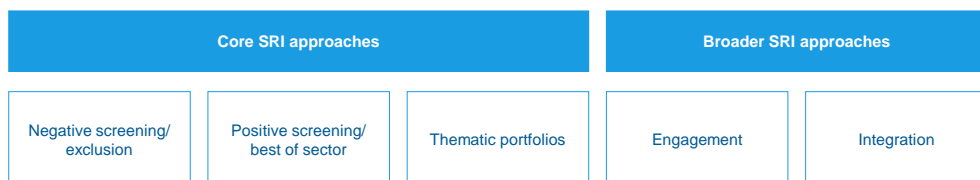
- The probability of exposure to danger, harm or loss
- Degree of vulnerability in a specific area that can be avoided by taking pre-emptive action
- The probability that an actual return on an investment will be lower than the expected return  
<http://www.businessdictionary.com/definition/risk.html#ixzz379iqWjrA>
- The probability of exposure to danger, harm or loss which is linked with an opportunity for enhancement

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## The evolution of approaches to SRI

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- The **UNPRI** sets a framework for investment houses with regards to ESG issues and is leading to the 'mainstreaming' of SRI
- Negative screens:
  - Abortion, alcohol, animal testing, gambling, HR, labour, military, nuclear, pornography, tobacco, weapons
- Positive screens:
  - Community involvement, labour, environment, sustainable forestry
- Thematic funds:
  - Wind-farm funds, solar energy, environmentally friendly funds, funds focusing on CO2 emissions, labour-friendly funds
  - MRI – Mission Related Investing

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## ESG integration → Risk mitigation

From the investment management perspective

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### Process

- Screen company for SRI funds
- Conduct risk analysis on company (bottom up) on ESG risks / opportunities
- Write ESG report
- Engage with company
- Highlight risks to equity teams

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## ESG integration → Risk mitigation

Point 2 – Conducting risk analysis (from the investment side)

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- Awareness / understanding of ESG risks and opportunities inherent in the sector and an understanding of the business in general
- Take a practical look at the group's
  - overall business
  - policies
  - ESG structure
  - ESG oversight / responsibility
  - Areas of concern (from screening)
- Look to see what the company has highlighted as its own risks (varies widely)

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## ESG integration → Risk mitigation

Point 2 – Conducting risk analysis (from the investment side) – cont'd

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- Engage the company, preferably face to face
  - Discuss Nexis / overlap between what they identify and what we identify as risks
  - Discuss validity of each risk
  - Associate each risk with related opportunity (if not already done by the company)
  - Identify targets, goals (where appropriate) = mitigation
  - Encourage the company to re-assess risks
  - Align exec pay to risk mitigation

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## ESG integration → Risk mitigation

From the company perspective

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### Process

- MEASURE -- Conduct risk analysis on business operations
  - Internally, with 3<sup>rd</sup> party consultant
  - Internally, alone – based on major revenue streams
  - Determine which are greatest risks – plot this on matrix
- SET GOALS -- Determine where the group wants to be
- ANALYSE – Measure difference between where the group is and where it wants to be
- DEVISE PLAN – set targets / plan for attaining goals
- REPORT – communicate internally and externally on risk analysis, results, goals and plan
- REPEAT PROCESS

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## Outcomes

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- Adidas
- EOG Resources
- Shell
- BP
- Tiffany's

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## Topical issues

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- Reporting – integrated or stand alone?
- Long-termism
  - Remuneration of fund managers tends to be short term oriented
  - Quarterly reporting
- Benchmarking
  - Definition of benchmark
  - Appropriateness with ESG integration
  - Chasing markets
- Tracker funds
  - Lower up front cost – but lower longer term cost?
- Tobacco/carbon free portfolios
  - Tobacco free
  - Carbon free
  - These mean an exit from engagement with the company

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## Q & A

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