

# Journal of Sustainable Finance and Banking<sup>SM</sup>



“Explorations & Aspirations”

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## CEO's Letter on Sustainable Finance & Banking



**Erika Karp**  
Founder & Chief Executive Officer  
Cornerstone Capital Inc.

In this edition of the *Cornerstone Journal of Sustainable Finance & Banking* (JSFB), we consider the necessity of both “**Explorations & Aspirations**” in seeking strong risk-adjusted returns from across the capital markets in times marked by powerful forces of change. The former is essential, if we are to achieve the latter.

In recent weeks, investors have considered everything from a relatively uninspiring earnings reporting season and the dominance of polarizing forces in the political economy, to growth differentials in developing versus developed “markets and the “responsible” use of Pokémon Go. So here we explore subjects ranging from “smart contracts” in the blockchain to empowering investors with better measurement tools. And ultimately we hope to go beyond “sustainability” and move towards value creation and regeneration through investing.

An essential part of this process will be to leverage the power of the proxy as asset owners engage with corporations to have “**A Voice in the Boardroom.**” In Cornerstone’s new piece intended for investors who aspire to be engaged in the stewardship of their capital, John Wilson, Head of Corporate Governance, Engagement & Research, offers practical guidance to the process and major governance themes. We offer a snapshot of the report in this edition of the Journal, along with a link to the Executive Summary. John also spearheaded Cornerstone’s recent response to the US Securities and Exchange Commission’s (SEC) request for comment on its concept release “**Business and Financial Disclosure Required by Regulation S-K,**” laying out our aspirations for a pragmatic, principles-based approach to integrating ESG disclosure into corporate financial reporting.


Enhancing the ability of long-term investors to evaluate corporate performance thoroughly is a recurring theme in this edition of the JSFB. In our Enhanced Analytics section, both Michael Kinstlick of the **Sustainability Accounting Standards Board** (SASB) and Catherine Gordon of **SimpleLogic** offer cogent overviews of the importance of **integrated reporting** on material sustainability issues. Michael writes, “As billions express their aspirations to join the integrated global economy, we ... must set our sights higher still: ensuring that future economic growth is sustainable...” Felicitas Weber of Humanity United’s **KnowTheChain** project recounts the team’s important efforts to establish benchmarks that investors can use to understand how well companies are addressing the reputational risks of forced labor. By creating ways for investors to explore their concerns with companies, KnowTheChain aspires to motivate companies to take action and improve disclosures and practices.

We also explore complex issues requiring nuanced explanation: Contributor David Lepper of IPSA Capital explores the challenges ahead for **maritime finance**, a lesser-known alternative asset category, but one whose importance to global trade cannot be overstated. For those interesting in gaining an understanding of how **blockchain-based “smart contracts”** work,

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Chris Burniske of ARK Invest offers a comprehensive look at the current state of technology as well as a view into the promise it holds for “Accelerating Impact” in the future. Karla Canavan of Bunge discusses the ways in which scientists have begun to use **enzyme supplementation** to enhance the nutritional value of animal feed, and the work being done to explore their potential for combating human malnutrition. And our Virtual Attendance section recounts the highlights of a recent meeting on **forest ecosystems** and the role of the forestry community (including investors) to potentially address the impacts of climate change using the concept of a forest’s resilience.

In the “Open Source Excellence” section we draw insight from two firms that are taking action to create best-in-class partnerships with clients and their broader communities. **Discovery Ltd** takes a shared-value approach to its insurance product offerings, using “behavioral economics to translate positive behavior into immediate reward, which in turn inspires long-term positive behavior changes.” And **Goldcorp**, one of the world’s largest gold producers, aspires “to be a leader in finding innovative ways to create long-lasting social and economic benefits through every phase of the mining lifecycle.”

Lastly, Jon Lukomnik of the **Investor Responsibility Research Center** offers an aspirational Sustainable Editorial offering practical ideas for refocusing the capital markets to serve their true purpose: financing the real economy. 

My sincere regards,  
Erika

Erika Karp  
Founder and Chief Executive Officer

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## Enhanced Analytics

# Decision-making in a Context of Uncertainty – Why Investors Should Look at Forced Labor in Their Portfolios

*By Felicitas Weber, KnowTheChain Project Lead, Business & Human Rights Resource Centre*

Forced labor is a risk that can affect shareholders drastically, in light of increasing regulation, litigation, media and consumer attention. Take the case of Signal International, a US marine-services company, which went bankrupt following compensation payments to victims of forced labor –leading to a US\$70 million loss for two Alabama public pension funds that held shares in the company.<sup>1</sup>

Reputational risks of forced labor are particularly high in the supply chains of consumer-facing companies. In Malaysia, for example, nearly a quarter of workers employed in the production of electronic goods are working under conditions of forced labor<sup>2</sup>. Non consumer-facing companies may still come under scrutiny as business partners of consumer-facing companies. In May this year, US Customs and Border Protection seized imports from PureCircle, a Malaysia-based supplier of sweeteners to companies such as Coca-Cola, under a new law banning imports of products produced with forced labor. News of the seizure reduced PureCircle's market value by almost US\$100 million, and forced Coca-Cola to respond to the issue.<sup>3</sup>

The US Customs legislation is just the latest in a growing number of regulations on this issue. As many as 62% of companies in the MSCI ACWI Index will be subject to the UK Modern Slavery Act, the California Transparency in Supply Chains Act, or the proposed

Business Supply Chain Transparency on Trafficking and Slavery Act in the US.<sup>4</sup>

In order to make informed investment and active ownership decisions, investors need access to information on how well companies are addressing forced labor risks. However, the information provided by many companies is patchy at best. This is worrying considering the size of corporate supply chains. Global corporations impact millions of workers through their supply chains – for example, Apple alone reported that since 2008 its suppliers have trained over nine million workers.<sup>5</sup>



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Benchmarking companies can help fill this gap. KnowTheChain, an initiative of Humanity United, in partnership with Business & Human Rights Resource Centre, Sustainalytics and Verité, has ranked the policies and practices of 20 global information and communications technology (ICT) companies to address forced labor and human trafficking in their supply chains. This will be followed by sector benchmarks in the food and beverage, and apparel and footwear sectors later in 2016.

KnowTheChain has already led to increased corporate disclosure, supporting investors' decision-making. By engaging companies ahead of the ICT benchmark analysis, many companies increased their disclosure, and others are using the benchmark to evaluate gaps in their policies and practices. By creating a race to the top, KnowTheChain hopes to drive increased corporate transparency and action on forced labor over time. This allows companies to understand how

<sup>1</sup> ShareAction 2016 – "Investor briefing June 2016: Forced labour: What investors need to know"

<sup>2</sup> Verité 2014 – "Forced Labor in the Production of Electronic Goods in Malaysia: A Comprehensive Study of Scope and Characteristics"

<sup>3</sup> ShareAction 2016.

<sup>4</sup> MSCI (2015) – "Slaving away in hiding".

<sup>5</sup> Apple – Supplier responsibility. Accessed 12 July 2016.



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they are doing in comparison to peers, and provides investors information on, say, how IBM and Microsoft compare to each other (with 57/100 in the ICT index, Microsoft is scoring 12 points higher than IBM).

Benchmarking can influence companies in all regions. While Asian ICT companies on average scored lower than their Western peers, many responded during the engagement process and disclosed additional information. Benchmarking is also used in countries such as China to encourage cities to improve air and water quality.<sup>6</sup>


More specifically, investors can use the KnowTheChain benchmarks to:

- Identify which companies in their portfolio are taking appropriate steps to address risks and comply with legislation (and which don't);
- Identify company-specific gaps and opportunities for improvement;
- Understand which policies, processes and practices a company should have in place to address forced labor – including in areas such as recruitment practices, worker empowerment, and purchasing practices.

Investors themselves can also help accelerate change, and fill the information gap they are currently facing by engaging investee companies on their efforts to address forced labor in the supply chain.

With an average company score of 39/100 in the ICT benchmark, much improvement is still needed across the sector. Even among 20 of the largest global ICT companies, six either did not have a public supplier code of conduct in place, or the code did not require suppliers to adhere to international standards prohibiting forced labor.

That said, some companies are taking notable action. For example, Apple has ensured that more than US\$25 million in recruitment fees were paid back to supply chain workers. HP reduces high-risk purchasing practices by establishing multi-year agreements with its major suppliers. Its Foreign Migrant Worker Standard requires that supply chain workers are employed by the factories rather than agencies, reducing the risk of exploitation.

KnowTheChain's ICT benchmark demonstrated that across the sector, awareness of forced labor is already high. The benchmark can be a tool for investors to leverage this awareness, encourage companies to take action and improve disclosure and practices, and to make better decisions and safeguard the value of their investments by reducing the risk of exposure to forced labor. 

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**Felicitas Weber** is KnowTheChain Project Lead, Business & Human Rights Resource Centre. Prior to joining KnowTheChain in May 2016, she worked for the ESG Engagements team at the UN supported Principles for Responsible Investment (PRI). In her role, Felicitas was responsible for managing the PRI's investor-company engagements on social issues.

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<sup>6</sup> The New York Times: Edward Wong (7 July 2016): "China to Pillory, or Praise, Cities Based on Water Pollution".

## Upcoming Events

### Global ESG Calendar

Date/Time	Event	Location	Information
7.29.16 – 7.31.16	The 2016 Green Economics Institute Conference	Kellogg College, University of Oxford, Oxford, UK	<a href="http://www.greenecomonomics.org.uk">http://www.greenecomonomics.org.uk</a>
8.2.16	"Food Safety in Transition" – Webinar <i>Cornerstone Participating Event</i>	New York / online event	<a href="https://attendee.gotowebinar.com/register/260071159637268993">https://attendee.gotowebinar.com/register/260071159637268993</a>
8.31.16	The Women in Green Forum	Luxe Hotel, Los Angeles, CA	<a href="http://womeningreenforum.com">http://womeningreenforum.com</a>
9.13.16 – 9.16.16	Social Capital Markets Conference SOCAP16 <i>Cornerstone Participating Event</i>	Fort Mason Center, San Francisco, CA	<a href="http://www.socialcapitalmarkets.net">http://www.socialcapitalmarkets.net</a>
9.19.16 – 9.25.16	Climate Week	Various, New York City	<a href="http://www.climateweeknyc.org/">http://www.climateweeknyc.org/</a>
9.19.16 – 9.22.16	VERGE 2016 Conference	Convention Center, Santa Clara, CA	<a href="http://www.greenbiz.com/event/2016/09/19/verge-2016">http://www.greenbiz.com/event/2016/09/19/verge-2016</a>
9.21.16 – 9.23.16	The 2016 Food Tank Summit	Hyatt Regency Sacramento Sacramento, CA	<a href="http://foodtanksummit.com/sacramento">http://foodtanksummit.com/sacramento</a>
9.21.16 – 9.23.16	Yale Sustainability Leadership Forum – From Environment to Sustainability	Yale University, New Haven, CT	<a href="http://sustainability-forum.yale.edu">http://sustainability-forum.yale.edu</a>
9.26.16 – 9.28.16	Climate Chance – Climate Actors World Summit	Convention Centre, Nantes, France	<a href="http://www.climatechance2016.com/en">http://www.climatechance2016.com/en</a>
9.26.16 – 9.28.16	Corporate Renewables 2016 Conference	Westin Hotel, Washington DC	<a href="http://www.corporate-renewables.com">http://www.corporate-renewables.com</a>
9.26.16 – 9.28.16	Sustainable Brands '16	Amager Blvd. 70 Copenhagen, Denmark	<a href="http://events.sustainablebrands.com/sb16cph">http://events.sustainablebrands.com/sb16cph</a>
9.27.16 – 9.29.16	The 2016 SFI Annual Conference – Linking Forests to Communities	Hilton Hotel, Clearwater Beach, FL	<a href="http://www.sficonference.org">http://www.sficonference.org</a>
9.28.16 – 9.29.16	SEED Africa Symposium 2016 – From Innovation to Imitation	Safari Park Hotel, Nairobi, Kenya Africa	<a href="http://www.seed.uno/seedas16">http://www.seed.uno/seedas16</a>
10.9.16 – 10.12.16	Sustainatopia 2016 Conference – Boston	Hyatt Boston Harbor, Boston, MA	<a href="http://www.sustainatopia.com/boston2016">http://www.sustainatopia.com/boston2016</a>
10.15.16	Lauder Institute / Wharton Global Alumni <i>Cornerstone Speaking Event</i>	New York	<a href="http://alumni.lauder.wharton.upenn.edu/events/EventDetails.aspx?id=723060">http://alumni.lauder.wharton.upenn.edu/events/EventDetails.aspx?id=723060</a>
10.17.16 – 10.19.16	Esca Bona	Sheraton Austin Hotel at the Capitol, Austin, TX	<a href="http://www.escabona.com">http://www.escabona.com</a>
10.17.16	RIA Foundation and Endowment Forum Investing for Impact	Metro Convention Centre, Toronto, Canada	<a href="http://www.riaforum.ca">http://www.riaforum.ca</a>

# The Cornerstone Journal of Sustainable Finance & Banking<sup>SM</sup>

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<http://www.bloomberg.com/professional/blog/sustainability-the-iro/>

American Banker: "Shareholder Alignment is a Way to Add Value" – December 2015  
<http://www.americanbanker.com/bankthink/shareholder-alignment-is-the-way-to-add-value-1078490-1.html>

Impact Alpha webcast: Debut of the "Impact Voices" series featuring CCG's Erika Karp – November 2015  
<http://impactalpha.com/cornerstones-erika-karp-corporate-sustainability-corporate-excellence/>

Forbes: "Managing 'Stakeholder Interaction' For Better Business Strategy" – August 2015  
<http://www.forbes.com/sites/dinamedland/2015/08/16/managing-stakeholder-interaction-for-better-business-strategy/>

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<http://www.economistinsights.com/opinion/revisiting-wealth-nations-seas>

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<http://www.forbes.com/sites/85broads/2012/12/10/the-power-to-convene/>

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Wharton Magazine: "The Clients of my Clients....Sustainable Selling" by Erika Karp – July 2012  
[whartonmagazine.com/blog/sustaining-selling-success/](http://whartonmagazine.com/blog/sustaining-selling-success/)

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