

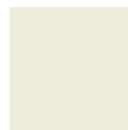
On Corporate Strategy: Role of Corporate Environmental & Social Governance as Drivers to Company Stock Value Growth

Presented at the TNC Board Members Meeting
São Paulo, 05/05/2010

Jose Antonio Chaves

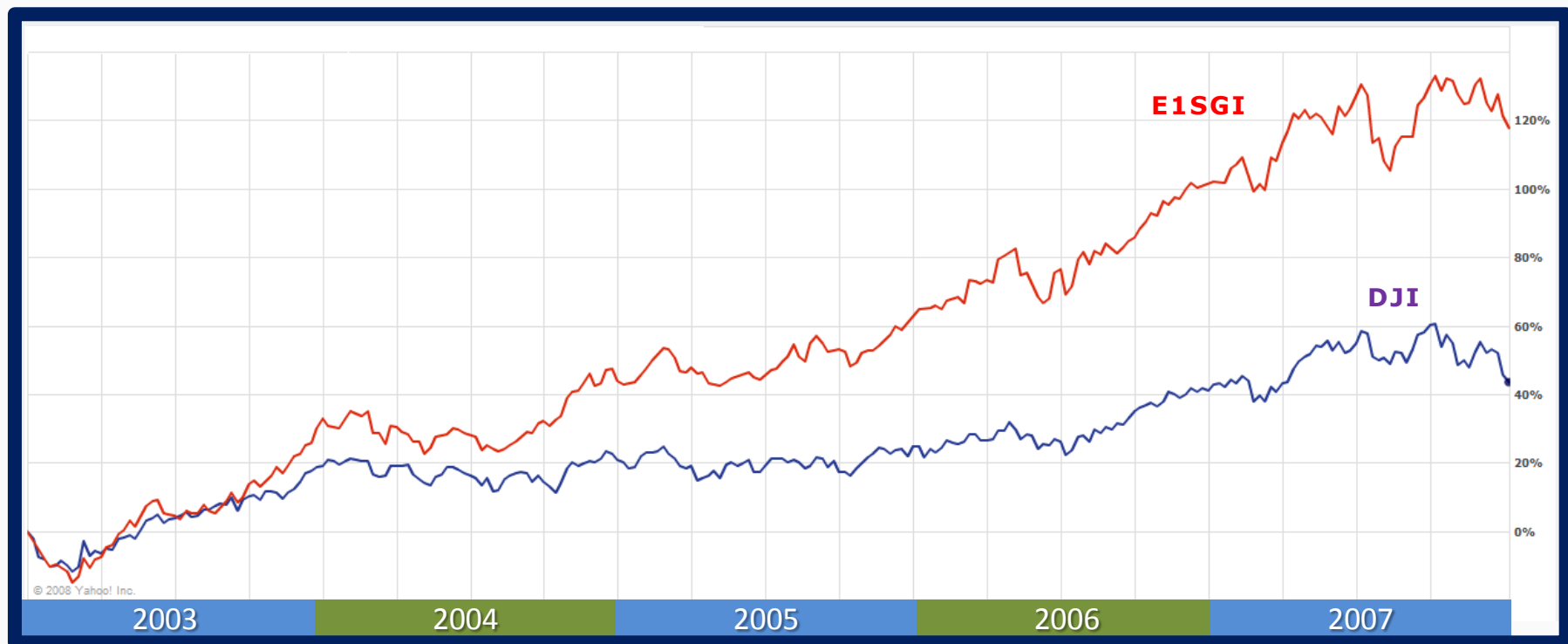
Professor at Fundação Dom Cabral
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Chair of the Committee of Sustainability and Corporate Responsibility at
The Regional Council of Business Administration, MG, Brazil

PINHEIRO NETO
ADVOGADOS



Institutional Supporting

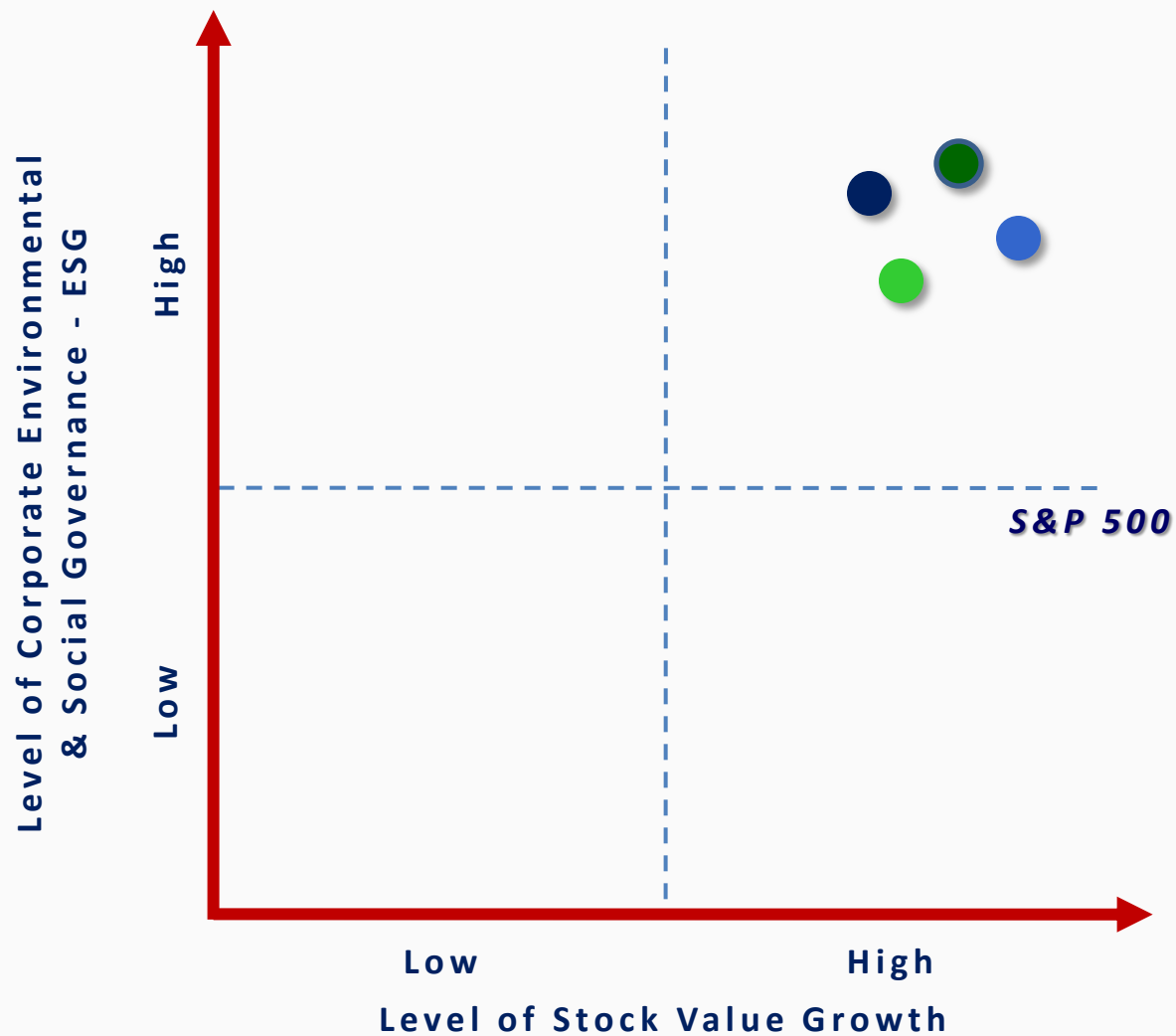
Empirical evidences that ESG policies and strategies can influence Companies Stock Growth



Dow Jones Sustainability Europe Composite Index **versus** Dow Jones Industrial Average Index

Source: Yahoo! Finance

Research Main Objective



Targeted Industries



**Selected from Industry 20th
Largest Listed Companies by
Market Capitalization**

**First Quartile Companies
Ranked by Last Five-Year
Stock Growth %**

Iron & Steel Industry

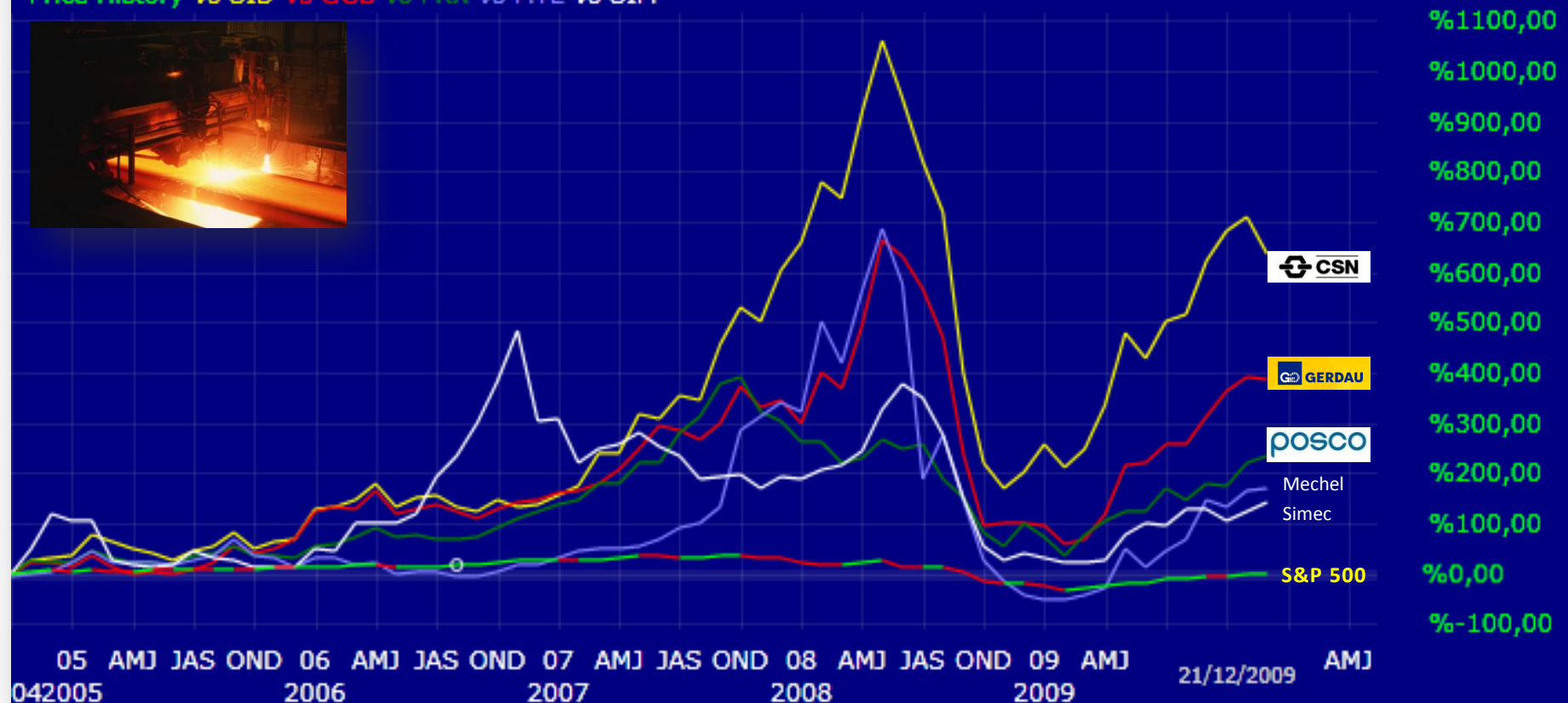
Leaders Stock Price Growth (%)

SP-500 (Standard & Poors 500)

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Price History vs SID vs GGB vs PKX vs MTL vs SIM



Source: FreeStockCharts.com interactive platform

Metal & Mining Industry

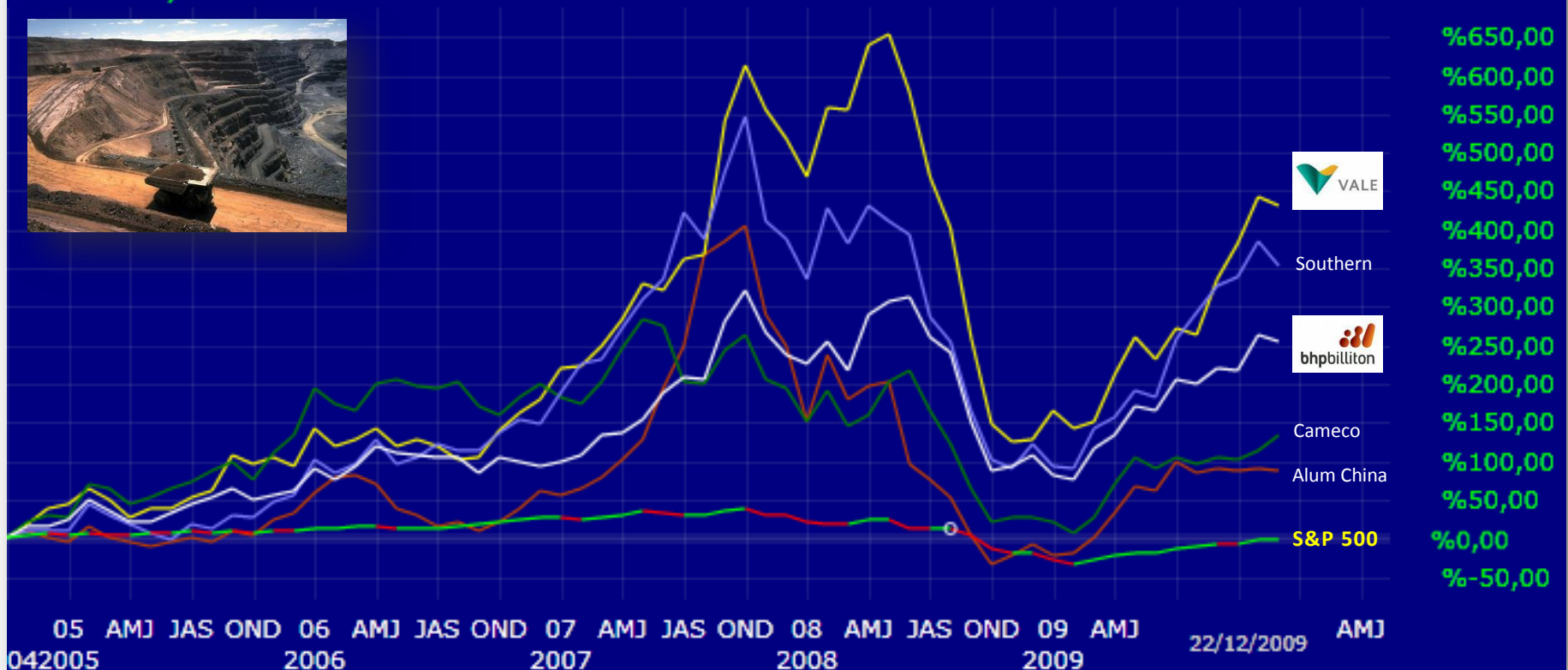
Leaders Stock Price Growth (%)

SP-500 (Standard & Poors 500)

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Price History vs ACH vs VALE vs CCJ vs PCU vs BHP



Source: FreeStockCharts.com interactive platform

Electric Utilities Industry

Leaders Stock Price Growth (%)

SP-500 (Standard & Poors 500)

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RE vs ENI vs EOC vs CIG



Source: FreeStockCharts.com interactive platform

Oil & Gas Integrated Industry

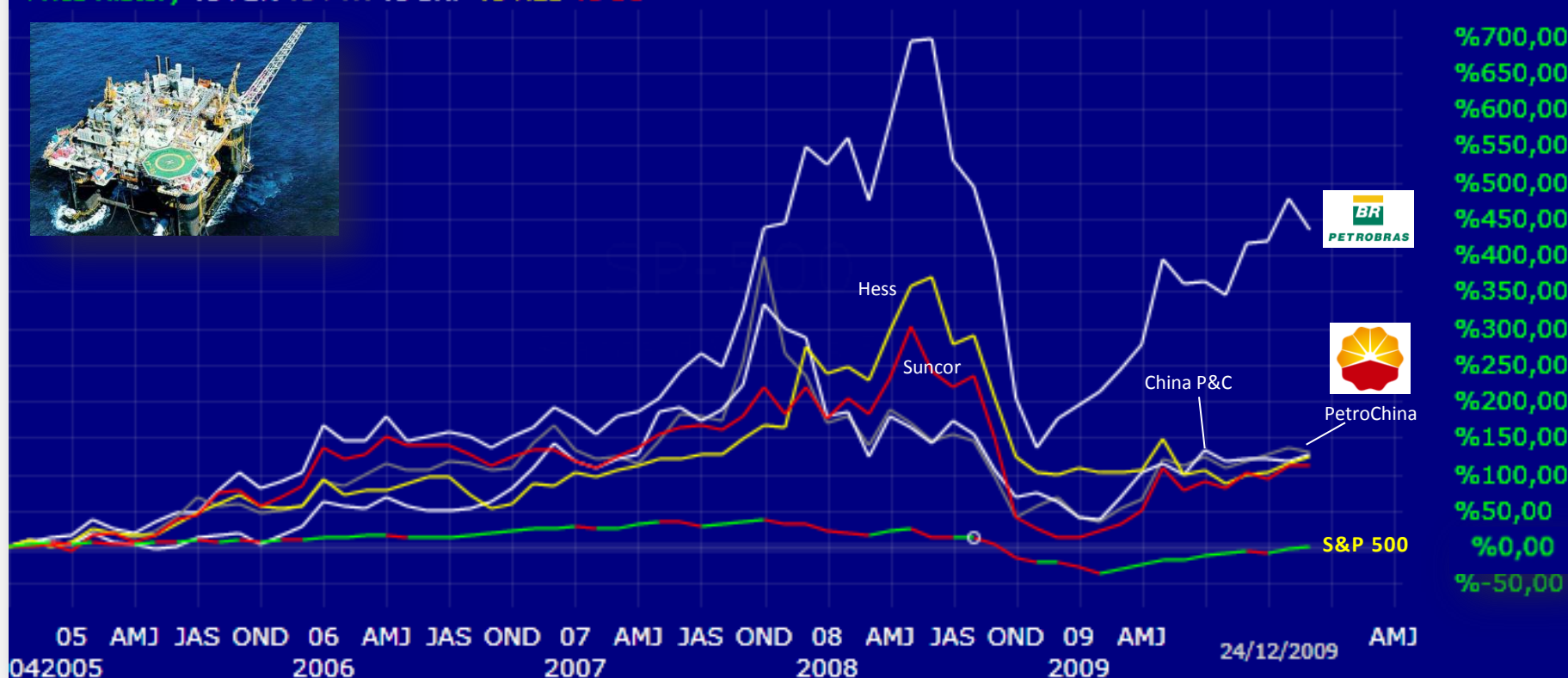
Leaders Stock Price Growth (%)

SP-500 (Standard & Poors 500)

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Price History vs PBR vs PTR vs SNP vs HES vs SU



Source: FreeStockCharts.com interactive platform

Early Findings

From credible ESG Surveys Consolidation

McKinsey&Company



BCG

THE BOSTON CONSULTING GROUP



Findings from ESG Surveys Consolidation

Some companies does not understand what sustainability is

Making sustainability work is the very challenge

Semiotic communication misleading sustainability understanding

There is a visible gap between the sustainability strategy (when it exists) and its execution

Managers at all levels don't know about:

The correlations between sustainability risk and financial performance

How to track sustainability value from where it is created

How it sustainability initiatives are converted into shareholder value

How to measure return on sustainability strategy

Early Findings from the Research

Provided by Morphological Analysis

From the internal Perspective

From the external perspective

Knowing a Sustainable Company from Looking Within

Managers at all level consider sustainability initiatives as part of their job;

Corporate strategy includes ESG goals and makes money from that;

Sustainability goals are detailed, quantified and monitored;

Sustainability performance is attached to financial performance;

Managers are rewarded for their sustainability performance;

Changing management terminology: accountability, environmental accounting, shareholder engagement; water and carbon footprint; etc.;

Company regularly partners with outside stakeholders;

New products originated from environmental and social initiatives.

Knowing a Sustainable Company from the External Perspective

Improve and enhance accountability, transparency and investor trust;

Evolve risk-management to a corporate sustainability-risk perspective;

Develop new sources of competitive advantage in the entire value-chain
by differentiation, from innovating in ESG product and service development;

Assure capital markets prime access by ESG achieving standards;

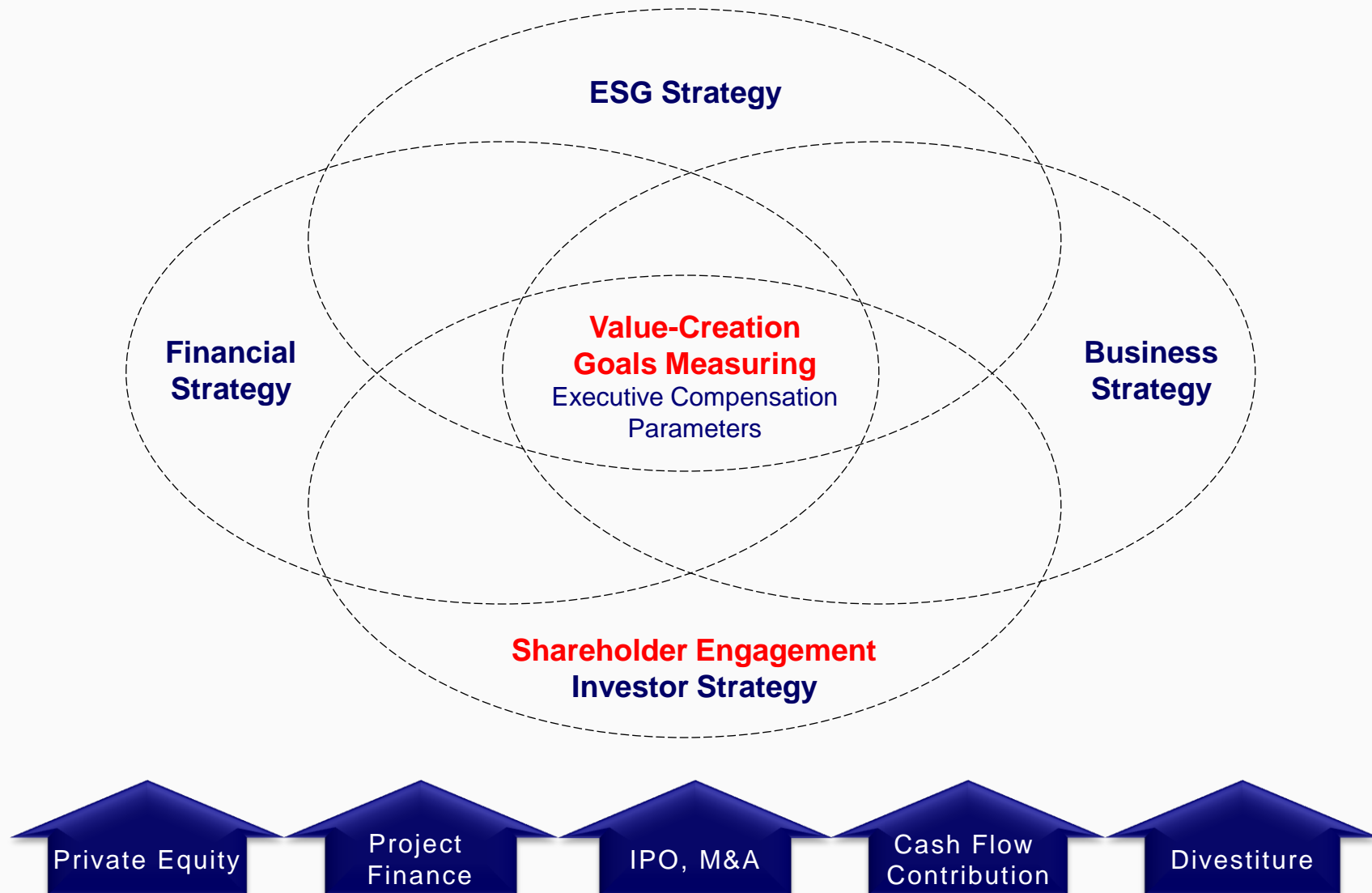
Outperform shareholder's ROSS – Return on Sustainability Strategy;

Create visible, measurable, reportable ESG value for all stakeholders;

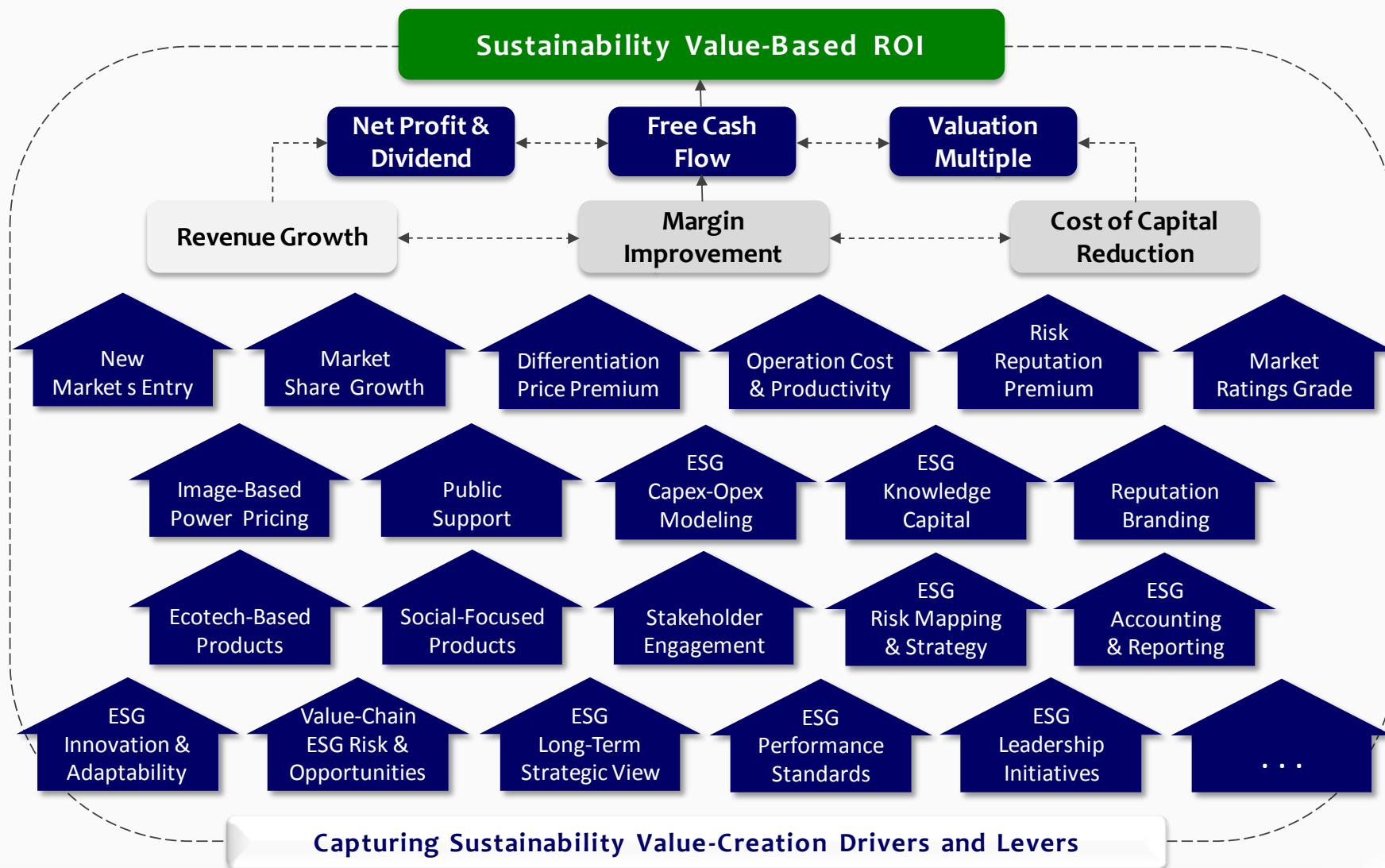
Measure ESG reputation in terms of cost of capital, exports revenue, etc;

Institutional shareholders are engaged in company's environment-social governance.

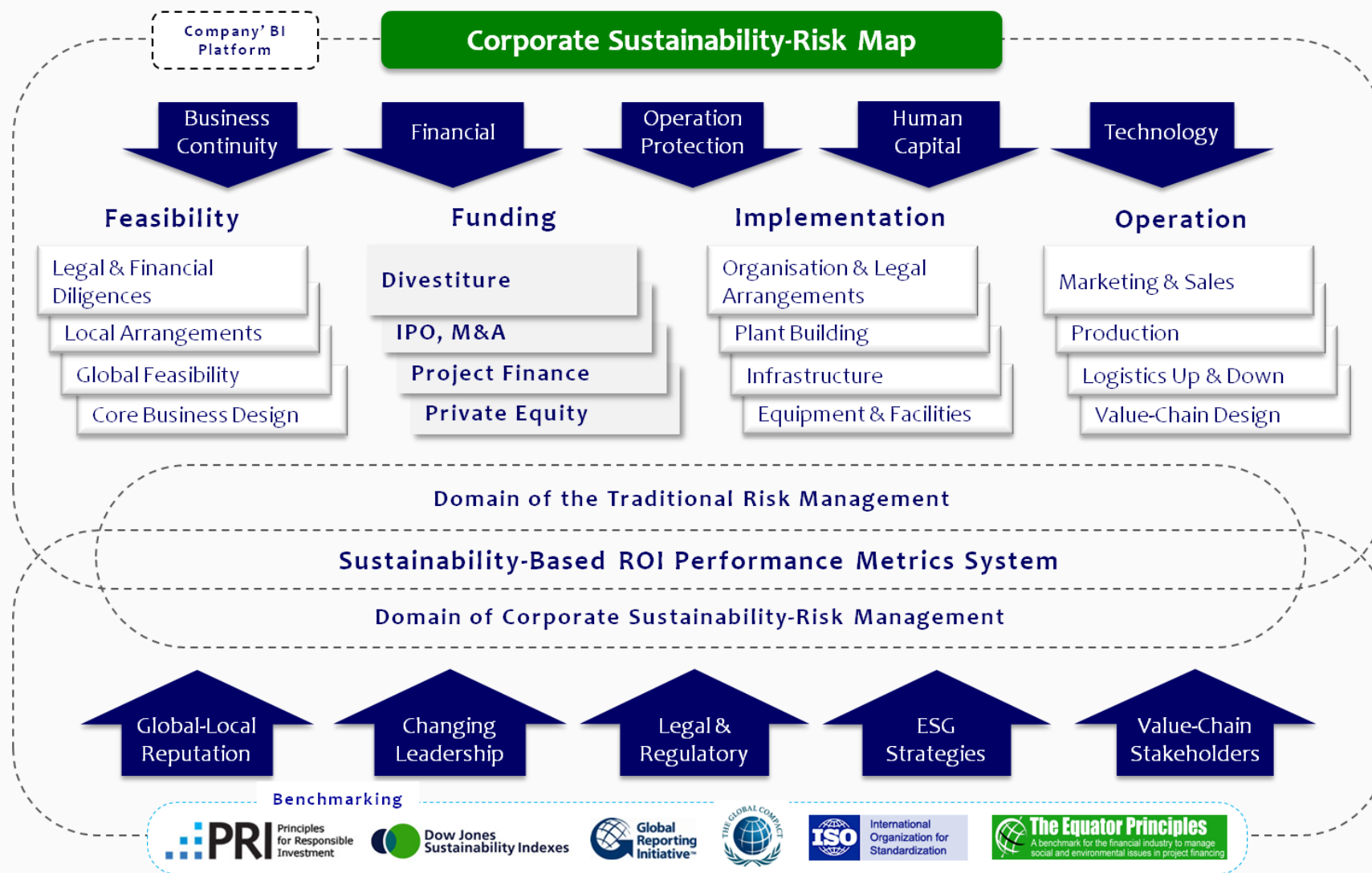
Research Perspective: Sustainability Value-Based Strategy



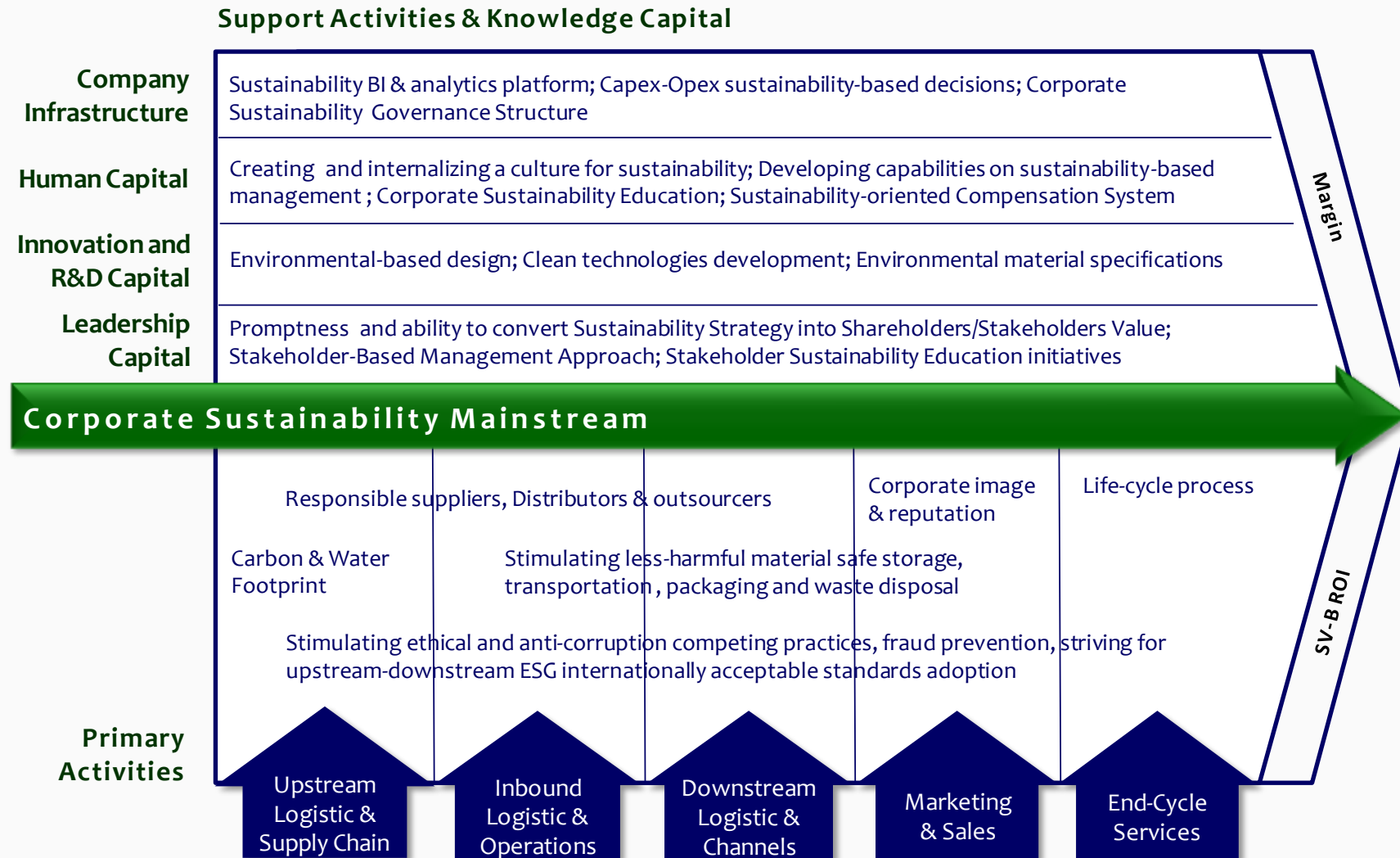
Return on Sustainability Strategy Framework



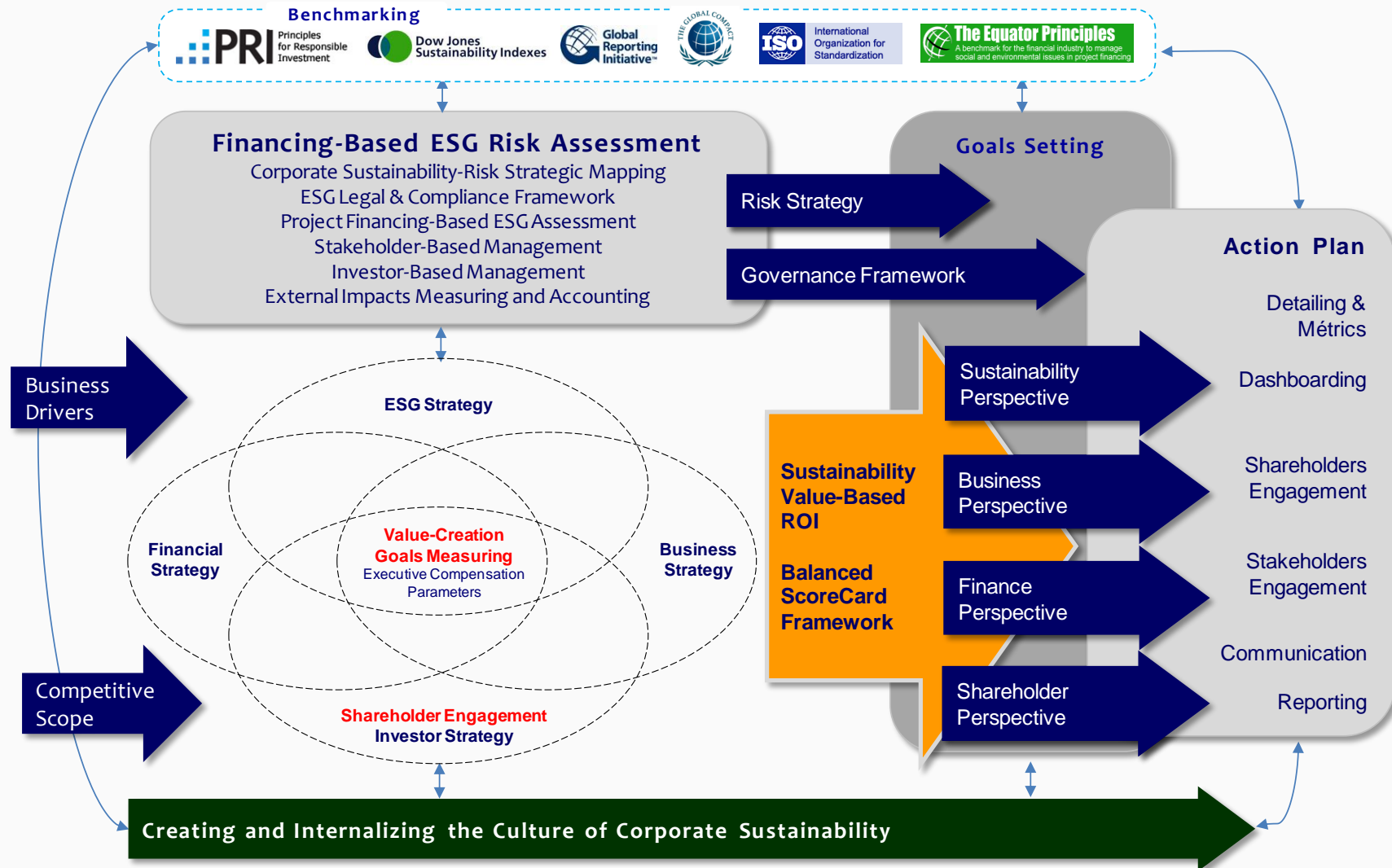
Corporate Sustainability-Risk Framework



Value-Chain Sources of Sustainability Advantages



Corporate Sustainability Strategy Framework



Responsible Investment Paradigm



PRI



United Nations Principles for Responsible Investment

We will incorporate ESG issues into investment analysis and decision-making processes

We will be active owners and incorporate ESG issues into our ownership policies and practices

We will seek appropriate disclosure on ESG issues by the entities in which we invest

We will promote acceptance and implementation of the Principles within the investment industry

We will work together to enhance our effectiveness in implementing the Principles

We will each report on our activities and progress towards implementing the Principles

Shareholder Engagement



To Improve Investee's Sustainability Governance

Findings from the FDC

The Centre for Sustainability and Corporate Responsibility



The Sustainability Challenge and the Corporate Strategy Planning of Brazilian Companies

2009's Research

FDC's Next Research

**Shareholder Engagement Effectiveness:
The Best Practices on Environmental & Social
Governance in the Investee Companies.**

**Targeted Public:
Pension Funds and its Investee Companies.**



Thank you!

Jose Antonio Chaves

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