



Measuring Intangibles

**SAM's Corporate Sustainability
Assessment Methodology**

The cover depicts a theodolite, a high-precision surveying instrument, indispensable to engineering, construction and mining applications. As a highly engineered surveying tool used to measure corporate sustainability, SAM's Corporate Sustainability Assessment (CSA) has become the theodolite of Sustainability Investing. Today, many companies use the CSA as a precision instrument to identify gaps and initiate improvements to their own corporate sustainability practices.

Cover image of theodolite courtesy of
Leica Geosystems AG, Heerbrugg, Switzerland.

SAM White Paper
Corporate Sustainability Assessment Methodology
Measuring Intangibles
05/2012
SAM Sustainable Asset Management AG

Focus on Financial Materiality

“SAM’s rules-based assessment methodology pursues a best-in-class approach, which allows us to focus on financially material sector-specific sustainability issues that have a link to superior long-term financial performance. By using pre-defined question and criteria weights, we ensure consistency and objectivity in translating company answers into sustainability scores.”

Christopher Greenwald, PhD, Head of Sustainability Application & Operations



As an investment boutique focused exclusively on sustainability investing, SAM has always believed that financial analysis is incomplete if it ignores material extra-financial factors. Sustainability trends such as resource scarcity, climate change or an aging population continuously reshape a company’s competitive environment. SAM is convinced that companies that can adapt to such challenges through innovation, quality and productivity enhance their ability to generate long-term shareholder value. For this reason, SAM developed the annual [Corporate Sustainability Assessment \(CSA\)](#) in 1999 in order to identify companies that are better equipped to recognize and respond to emerging sustainability opportunities and challenges presented by global and industry trends.

SAM pursues a truly integrated approach to analyzing sustainability performance, meaning that its equity analysts focus on ensuring that the assess-

ment’s sustainability criteria are financially material. Not only does this make the results of the CSA assessment particularly relevant for investors, but it also helps companies to focus on sustainability issues that are more directly linked to their success as a business.

SAM’s approach is also unique in that it is based on information provided by the companies directly through the online questionnaire. This allows SAM to analyze sustainability at a much deeper level than frameworks based on public disclosure alone.

SAM is often asked how the CSA works and how a company’s Total Sustainability Score is calculated. This paper seeks to offer some insights into how the [questionnaire](#) is structured, how the score is calculated, and by using examples from three different sectors, how specific questions can have an impact on a company’s Total Sustainability Score.

A Structured Approach

Each year, SAM invites the world's largest 2,500 publicly traded companies, measured by free-float market capitalization based on the Dow Jones Global Total Stock Market Index¹, to participate in the annual CSA. An industry-specific questionnaire featuring approximately 80–120 questions (depending on the industry) on financially relevant economic, environmental and social factors is the starting point

for SAM's annual assessment. Because this information is also integrated into financial analysis for asset management products, SAM focuses on sustainability factors that can have an impact on companies' long-term value creation potential. Based on the sustainability data collected through the CSA, SAM identifies companies that are more likely to outperform as a result of their adoption of sustainability best practices.

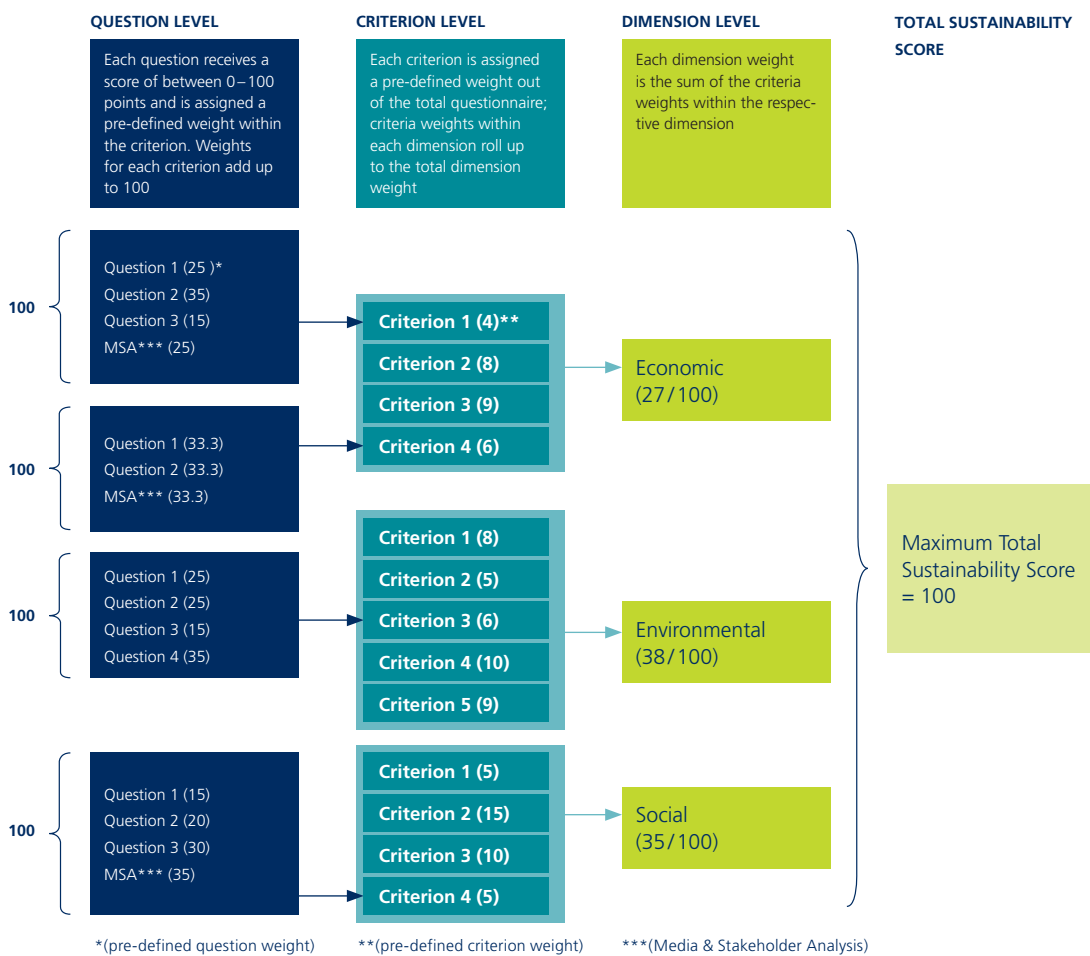
- Since 1999, SAM has been conducting the annual Corporate Sustainability Assessment (CSA), which serves as the framework for measuring corporate sustainability performance and forms the research backbone for the construction of the [Dow Jones Sustainability Indexes \(DJSI\)](#)
- The world's largest 2,500 publicly traded companies are invited to participate in SAM's CSA for possible inclusion in the Dow Jones Sustainability World Index (DJSI World)¹
- 58 industries are analyzed using industry-specific questionnaires
- Companies are evaluated based on a range of financially relevant sustainability criteria covering the economic, environmental and social dimensions
- Companies receive a Total Sustainability Score between 0–100 and are ranked against other companies in their industry
- The top 10%² of companies within each industry are selected for inclusion in the DJSI World
- The DJSI identify sustainability leaders across all industries, enabling investors to track their performance and integrate sustainability considerations into their portfolios

¹Additional companies are invited for the regional Dow Jones Sustainability indexes, totaling approximately 3,200 companies.

²The threshold for inclusion in the regional and local indexes will vary.

The CSA is designed to capture both general and industry-specific criteria covering the economic, environmental and social dimensions. Each of the three dimensions consists of, on average 6–10 criteria, and each criterion can contain between 2–10 questions, totaling approximately 80–120 questions, depending on the sector. Each criterion is worth up to 100 points, and is assigned a weight (percentage) of the total questionnaire. The criteria within each dimension roll up to the dimension weight. For each company, a Total Sustainability Score of up to 100 points is calculated based on the pre-defined weights established for each question and criterion. Figure 1 offers an overview of the general structure of the CSA.

Figure 1: Structure of the SAM Corporate Sustainability Assessment



Question, criteria, and dimension weights provided in the diagram above are for illustrative purposes only. The actual number of questions, criteria and their corresponding weights will vary from industry to industry.

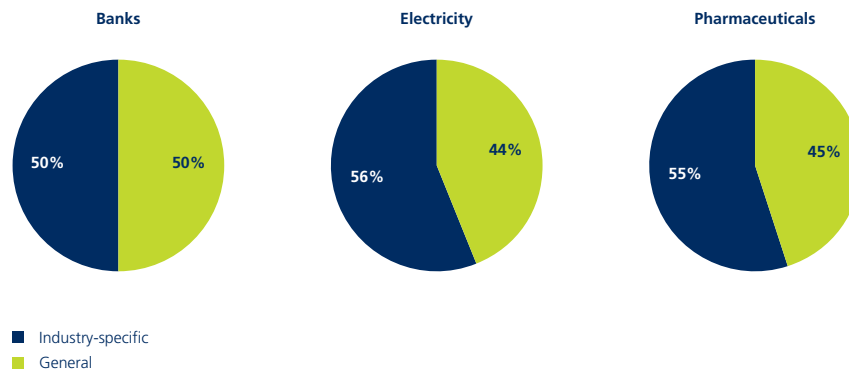
A Comprehensive Analysis with an Industry-specific Focus

Based on major global sustainability challenges identified by SAM's analysts, general criteria relating to standard management practices and performance measures such as Corporate Governance, Human Capital Development and Risk & Crisis Management are defined and applied to each of the 58 sectors. The general criteria account for approximately 40–50% of the assessment, depending on the sector.

At least 50% of the questionnaire covers industry-specific risks and opportunities that focus on economic, environmental and social challenges and trends that are particularly relevant to companies within that industry. This focus on industry-specific criteria reflects SAM's conviction that sector-specific

sustainability opportunities and risks play a key role in a company's long-term success and allows SAM to compare companies against their own peers in order to identify sustainability leaders. For instance, a manufacturing company's management of its exposures to climate change risks cannot be compared to a bank's response to climate change. Therefore, for industries with complex supply chains and logistics, the assessment focuses on evaluating their efforts to manage carbon emissions, whereas for financial services providers, the assessment focuses on whether companies address climate change through their financial products or by offering innovative funding schemes that encourage a transition towards a low-carbon economy.

Figure 2: General versus Industry-Specific Weights



Criteria and weights are based on the 2011 CSA for the Banking, Electricity and Pharmaceutical sectors and are provided for illustrative purposes only. Criteria and weights will differ for other sectors. Specific criteria and their corresponding weights can vary from year to year.

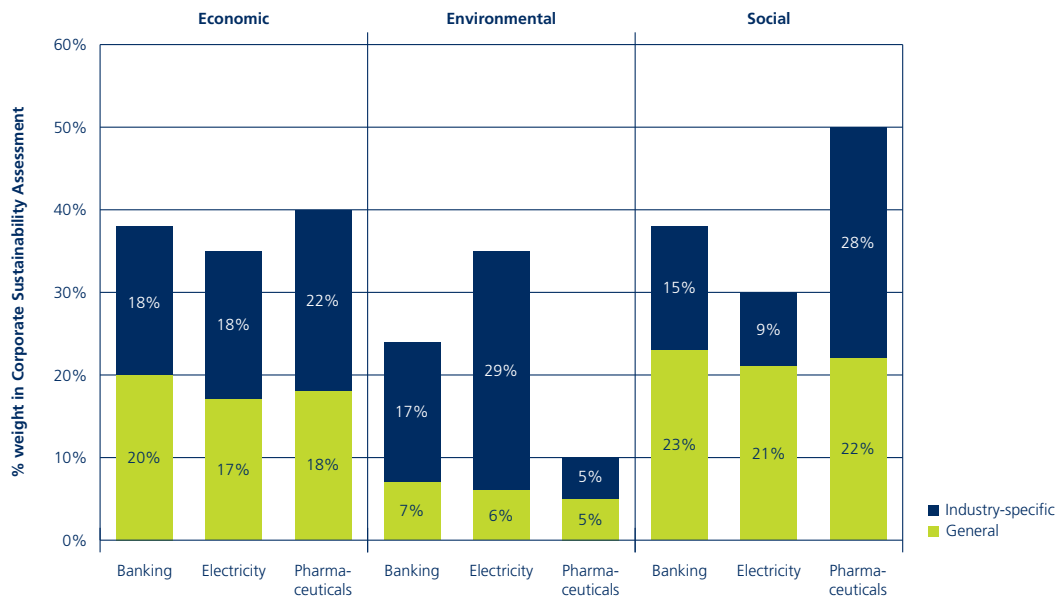
The relative weights of the economic, environmental and social dimension of the questionnaire vary by industry. For example, as shown in Figure 3, the environmental dimension warrants a higher weighting in the Electricity sector than in the Banking or Pharmaceutical sectors.

Criteria within the questionnaire will vary from industry to industry to reflect sector-specific drivers, as shown in Figure 4, which provides a comparison of the criteria applied to the Banking, Electricity and Pharmaceutical sectors.

Moreover, certain criteria – even when applied to more than one industry – can have different weights

within the CSA. For example, the Banking, Electricity and Pharmaceutical sectors each contain the “Occupational Health & Safety” criterion within the social dimension of their respective questionnaires, but the relative weight assigned to Occupational Health & Safety is 5%, 4%, and 2%, respectively. These differences stem from SAM research analysts’ fundamental bottom-up analysis of each industry. Furthermore, the same criterion, when applied to different sectors, may contain a slightly different set of questions to reflect industry-specific issues.

Figure 3: General versus Industry-specific Weights by Dimension



Criteria and weights are based on the 2011 CSA for the Banking, Electricity and Pharmaceutical sectors and are provided for illustrative purposes only. Criteria and weights will differ for other sectors. Specific criteria and their corresponding weights for subsequent years may change.

Figure 4: Comparison of criteria and relative dimension weights for the Banking, Electricity and Pharmaceutical sectors

	Banking	Electricity	Pharmaceuticals	
Economic Dimension				
Anti-crime policy/measures	X			industry-specific
Brand Management	X			industry-specific
Codes of Conduct/Compliance/Corruption & Bribery	X	X	X	general
Corporate Governance	X	X	X	general
Customer Relationship Management	X	X	X	industry-specific
Innovation Management			X	industry-specific
Market Opportunities		X		industry-specific
Marketing Practices			X	industry-specific
Price Risk Management		X		industry-specific
Research & Development			X	industry-specific
Risk & Crisis Management	X	X	X	general
Stakeholder Engagement	X			industry-specific
Scorecards/Measurement Systems		X		industry-specific
Total Economic Dimension Weight	38%	35%	40%	
Environmental Dimension				
Biodiversity		X		industry-specific
Business Opportunities Financial Services/Products	X			industry-specific
Business Risks Large Projects / Export Finance	X			industry-specific
Climate Change Governance	X			industry-specific
Climate Strategy		X	X	industry-specific
Electricity Generation		X		industry-specific
Environmental Footprint	X			industry-specific
Environmental Policy/Management System	X	X	X	general
Environmental Reporting	X	X	X	general
Operational Eco-Efficiency		X	X	industry-specific
Transmission & Distribution		X		industry-specific
Water-Related Risks		X		industry-specific
Total Environmental Dimension Weight	24%	35%	10%	
Social Dimension				
Addressing Cost Burden			X	industry-specific
Bioethics			X	industry-specific
Corporate Citizenship and Philanthropy	X	X	X	general
Controversial Issues, Dilemmas in lending/financing	X			industry-specific
Financial Inclusion/Capacity Building	X			industry-specific
Health Outcome Contribution			X	industry-specific
Human Capital Development	X	X	X	general
Labor Practice Indicators	X	X	X	general
Occupational Health & Safety	5%	4%	2%	industry-specific
Social Reporting	X	X	X	general
Stakeholder Engagement		X	X	industry-specific
Standards for Suppliers	X		X	industry-specific
Strategy to Improve Access to Drugs or Products			X	industry-specific
Talent Attraction & Retention	X	X	X	general
Total Social Dimension Weight	38%	30%	50%	

Criteria and weights are based on the 2011 CSA for the Banking, Electricity and Pharmaceutical sectors and are provided for illustrative purposes only. Criteria and weights will differ for other sectors. Specific criteria and their corresponding weights for subsequent years may change.

What is SAM Looking for?

In line with SAM's conviction that material non-financial factors contribute to better informed investment decisions, the methodology focuses on long-term sustainability factors that are relevant to each industry, material to the company's financial performance and under-researched in conventional financial analysis.

Within each criterion, SAM looks for evidence of a company's awareness of sustainability issues and for indications that it has implemented strategies to address them. SAM also evaluates the company's progress in implementing such strategies as well as the quality of its reporting on these issues. Therefore, the questions within each criterion are structured to capture and evaluate the following elements:

1. awareness of the importance of these factors to its financial success
2. determination of the potential financial impact (i.e. materiality) of its exposure to sustainability factors
3. implementation of strategies to manage these sustainability risks or to capitalize on related opportunities in a manner that is consistent with its business models
4. measurement of results in relation to stated KPIs in order to evaluate the effectiveness of its sustainability strategy
5. validation or external audit of stated results
6. transparent communication of its corporate sustainability strategies and extent to which stated targets have been met.

This framework for evaluating corporate sustainability performance enables SAM to develop a more robust understanding of a company's quality of management.

Scoring the Questions

The questionnaire is designed to ensure objectivity by limiting qualitative answers through predefined multiple-choice questions in which each potential answer is assigned a number of points between 0–100. For questions in which qualitative answers are allowed, SAM analysts evaluate the response using a predefined appraisal method, and convert the response into a quantitative score. In addition, companies must

submit documentation to support the answers they have provided. For many questions, companies will only receive the maximum score for the question if they have provided adequate supporting material. In the following pages, we provide examples of specific questions from two different industries, and show how a company's response to these questions has an impact on the Total Sustainability Score.

Example 1: Pharmaceuticals

Question	Please indicate your company's approaches to improve accessibility of drugs in both developing and developed countries. Please provide supporting documents.
Question Points	0–100
Question weight within criterion	50%
Criterion	Strategy to improve access to drugs or products
Dimension	Social
SAM Rationale	Underprivileged patients are often unable to buy medicine to treat or cure their diseases due to financial constraints. This is often the case in developing countries, and is now becoming a growing concern in developed countries. As a serious social challenge that requires attention from healthcare providers, some pharmaceutical companies are tackling this issue by implementing programs to provide these patients with improved access to medicine. Such initiatives help to improve the company's credibility, build corporate and product brands and increase market penetration of their products and services.

Possible Answers	Number of Points Awarded
A) list of potential approaches (company can check all that apply)	0–100 (depending on which approaches have been selected)
B) not applicable	A question that has been marked "Not Applicable" will not be scored and the weight of the question will be equally redistributed across the other questions within the same criterion, only if the analyst agrees that the question does not apply to the company's business model. This option is only granted in exceptional cases.
C) not known	0

Assuming the company receives 50 points for its response to this question, its score will be calculated as follows:

Number of Points Received (between 0 - 100) 50	X	Question Weight (within the criterion) 50/100 = 0.50	X	Criterion Weight (within questionnaire) 3/100 = 0.03	=	Question Score = 0.75 of Total Sustainability Score
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Example 2: Banking

Question	Which of the following qualitative and assurance aspects does your company's on-line financial service/system platform cover? Please provide or attach supporting documents.
Question Points	0–100
Question weight within criterion	15%
Criterion	Customer Relationship Management
Dimension	Economic
SAM Rationale	Strong relationships with customers lead to increased customer satisfaction and loyalty. An important component of customer satisfaction is privacy and security. Internal on-line customer relationship management tools can provide important customer data, allowing the company to target specific customer groups and develop specific products, ultimately strengthening the relationship. Further, customers are increasingly demanding on-line services and convenient, reliable remote access to their accounts to accommodate their more flexible work arrangements and hectic lifestyles. Therefore, companies must ensure that they have implemented appropriate controls to prevent fraud, identity theft, attacks (hacking), and safeguard customer privacy. Guaranteeing a secure on-line environment reduces risks arising from the misuse of sensitive customer data and is crucial to maintaining customer trust.

Possible Answers	Number of Points Awarded
A) list of potential approaches (company can check all that apply)	0–100 (depending on which approaches have been selected)
B) not applicable	A question that has been marked "Not Applicable" will not be scored and the weight of the question will be equally redistributed across the other questions within the same criterion, only if the analyst agrees that the question does not apply to the company's business model. This option is only granted in exceptional cases.
C) No such procedures / Not known	0

Assuming the company receives 67 points for its response to this question, its score will be calculated as follows:

Number of Points Received (between 0–100) 67	X	Question Weight (within the criterion) 15/100 = 0.15	X	Criterion Weight (within questionnaire) 6/100 = 0.06	=	Question Score = 0.60 of Total Sustainability Score
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CALCULATING THE TOTAL SUSTAINABILITY SCORE:

Total Sustainability Score = \sum (Number of Question points received x Question Weight x Criterion Weight)

A company's Total Sustainability Score at the highest aggregated level is the sum of all Question Scores. Each company receives a Total Sustainability Score ranging from 0–100. Once the Total Scores have been calculated, companies within the same industry are ranked against their peers in order to

determine which companies are eligible for inclusion in the Dow Jones Sustainability Indexes (DJSI). In addition, the 58 sectors roll up into 19 global supersectors, and the top scoring company from each is named the Supersector Leader and is profiled on the DJSI website.

Media and Stakeholder Analysis

An integral component of the Corporate Sustainability Assessment is the ongoing monitoring of media and stakeholder commentaries and other publicly available information from consumer organizations, NGOs, governments or international organizations to identify companies' involvement and response to environmental, economic and social crisis situations that may have a damaging effect on their reputation and core business.

Throughout the year, SAM monitors news coverage of companies in the universe on a daily basis using media stories compiled and pre-screened by RepRisk, a leading provider of media monitoring tools. News stories covered by the Media and Stakeholder Analysis (MSA) include a range of issues such as economic crime or corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents or environmental disasters.

An MSA "case" is created if a company has been the subject of a specific allegation that can harm its repu-

tation, resulting in financial consequences ranging from lost business, lost customers and declining sales, to liabilities, litigation or fines. Such a case therefore requires a reaction from the company in order to address the issue and minimize the negative impact of the crisis. In order to evaluate the quality of the company's response to the situation, SAM continues to monitor news flow related to the incident until it has been resolved, which in some cases may take over a year.

The MSA is built into the corporate sustainability assessment. For selected criteria within the questionnaire, pre-defined weights have been set aside for potential MSA cases that may arise during the year. The specific weight assigned to the MSA component will vary by criterion and from industry to industry, depending on the materiality of the potential impact on the company.

The chart in Figure 5 provides an overview of how a specific MSA case is identified, evaluated and integrated into the CSA.

Figure 5: Overview of MSA Process: From Identification to Resolution



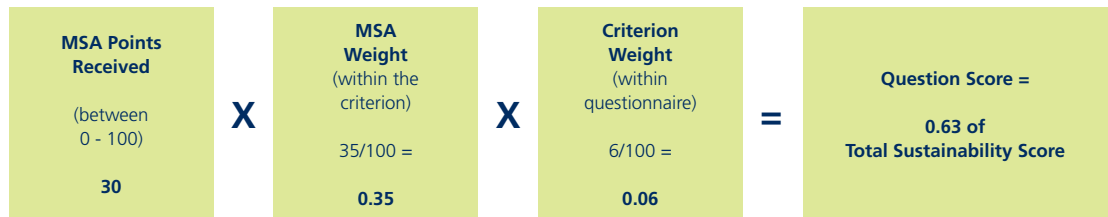
The hypothetical MSA example has been provided for illustrative purposes only and does not reflect an actual MSA case or outcome. Criteria weights and MSA scores have been arbitrarily applied and are used for illustrative purposes only and do not reflect the actual weights in the questionnaire. The weight of the MSA component within selected criteria will vary from industry to industry, and may change from year to year.

CALCULATION OF THE MSA SCORE FOR A SPECIFIC CASE:

Based on the example outlined in Figure 5, Bank X receives an MSA Score of 30/100. This score is then applied to the weight that has been allotted to the

MSA component of the "Codes of Conduct / Compliance/ Corruption & Bribery" criterion, as shown in Figure 6.

Figure 6: Calculation of MSA Score



The same scoring process is applied to all other criteria that have been linked to the MSA case in question. If no MSA cases have been identified during the course of the year, then the company will receive the full 100 points allotted to the MSA component for each criterion, and will have no negative impact on its total score.

The results of the MSA can reduce a company's Total Sustainability Score and thus affect its inclusion in any of the DJSI Indexes. In addition, severe incidents and breaches that cast strong doubts on a company's procedures and ability to handle the

situation can be escalated to the DJSI Index Design Committee by the analyst. During the course of the MSA evaluation, the analyst may contact companies to clarify any open points that may arise from the MSA case, thus allowing the analyst to include the company's responses when making a recommendation to the DJSI Index Design Committee. The Committee consists of two SAM representatives and two Dow Jones representatives and meets on a monthly basis. Following a thorough analysis, the DJSI Index Design Committee may decide to change a company's eligibility immediately, regardless of the company's Total Sustainability Score.

Updating the Questionnaire – Raising the Bar

Each year following the announcement of the DJSI components, the CSA is reviewed and adjustments are made to the questions and their relative weights in order to capture new sustainability issues that are expected to have an impact on companies' competitive landscape. Overall responsibility for updating the questionnaire and ensuring the assessment process runs smoothly lies with SAM Research. Within the Research team, specific responsibilities are assigned to the SAM analysts and the Sustainability Operations team, respectively.

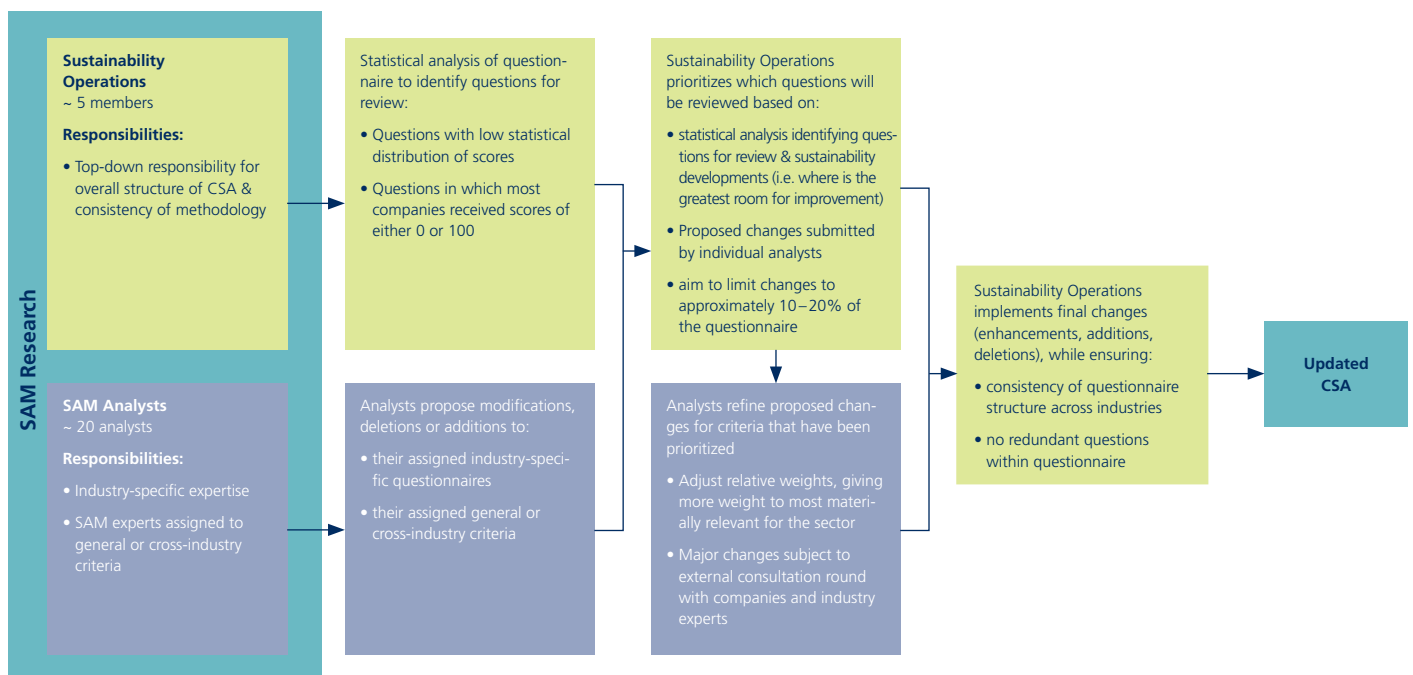
Analysts are assigned to specific industries and draw upon knowledge gained through their participation in industry conferences, roundtable discussions with industry organizations, as well as direct contacts with companies throughout the course of the year in order to determine which industry-specific criteria warrant a review. As a general rule, analysts rely on their financial expertise to determine which sustainability

opportunities and challenges are most likely to have an impact on a company's financial performance.

In addition, specialized analysts are assigned general and cross-industry criteria such as Supply Chain Management, Occupational Health & Safety and Corporate Governance. These analysts are responsible for staying informed on sustainability developments related to their assigned criteria and ensuring that the questions connected to the specific topic are also current. During the annual methodology review process, analysts can propose adjustments to weights, as well as additions or deletions of specific questions.

In parallel, the Sustainability Operations team, which is responsible for ensuring overall consistency of the CSA methodology, conducts a statistical analysis of companies' scores to identify questions that merit further review. Questions in which all (or almost all) companies received 100 or 0 points, or questions that

Figure 7: Updating the CSA



have a very low statistical distribution of scores are subject to further discussion. This analysis provides SAM with an indication of which questions may be outdated, which corporate sustainability practices have been widely adopted by companies, or which

ones may need to be refined in order to more adequately distinguish the leaders from the laggards.

An overview of the methodology review process is provided in Figures 7.

External Verification

Information provided in the questionnaire is verified for accuracy by crosschecking companies' answers with the supporting documentation they have provided, checking publicly available information, and by verifying a company's track record on crisis management with media and stakeholder reports.

In addition, to ensure quality and objectivity of the CSA, independent third party Deloitte conducts an external audit of the assessment process each year.

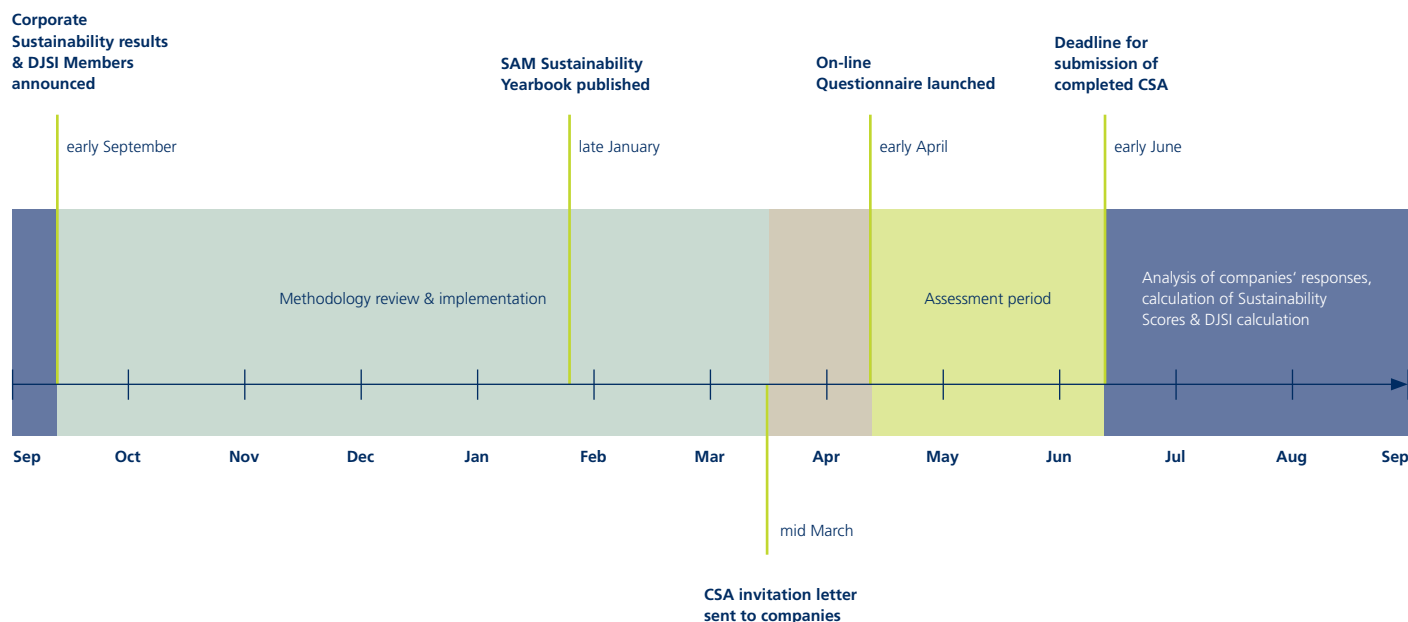
SAM Sustainability Yearbook

In addition to determining the components of the DJSI, SAM uses the results of the CSA to determine the companies that are eligible for inclusion in The Sustainability Yearbook – a reference guide to the world's sustainability leaders.

The Sustainability Yearbook provides extensive qualitative analysis highlighting current and future challenges shaping the competitive landscape for each of the 58 industries. In addition, The Sustainability Yearbook contains statistical information indicating the total number of companies assessed for each sector, as well as the average and top scores at the dimension level.

Annual Milestones

Figure 8: Timeline of CSA Process



Conclusions: The Benefits of Measuring Intangibles

Investors' demand for long-term oriented strategies that integrate economic, environmental and social criteria within their portfolios is expected to grow – even more so after the recent financial crisis exposed significant risks associated with short-termism. As investors seek to invest in companies with a superior business model and attractive long-term potential, their stock selection decisions will increasingly be influenced by sustainability considerations.

The results of the Corporate Sustainability Assessment are a suitable proxy for quantifying the value of a firm's intangible assets, leading to better informed investment decisions. By using sector-specific criteria to identify sustainability leaders that are likely to outperform in the long-run, SAM's best-in-class approach creates a vibrant competition among companies within the same sector inclusion in the DJSI while accelerating the momentum toward sustainability across all industries.

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FOCUS

SAM focuses exclusively on exploiting sustainability insights to generate attractive long-term investment returns.

METHODOLOGY

SAM is one of the market leaders when it comes to integrating financial and sustainability insights into a structured investment process.

Our research underpins the globally recognized Dow Jones Sustainability Indexes (DJSI).

DATABASE

SAM maintains one of the largest proprietary databases for corporate sustainability – a database that forms an integral part of our investment process.

EXPERIENCE

SAM has been one of the pioneers in Sustainability Investing since 1995.

PEOPLE

SAM maintains a unique, cross-disciplinary research team combining leading-edge financial analytical skills with in-house technology and scientific know-how. Additionally, SAM is supported by an unparalleled global sustainability network.

member of **ROBECO**

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