DOW JONES PRIVATE EQUITY CONFERENCE 2009
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16 SEPTEMBER 2009

Introduction

It is a great pleasure to speak to you today.

I am grateful to the organizers for inviting me and I wish to commend them for the courage to do so. After all, this may well be the first time that a UN bureaucrat has addressed the Private Equity community in such an important setting.

My sincere hope is that following our interaction, we will begin to see that Private Equity and the United Nations have some important common objectives – objectives that relate to the creation of a more sustainable and stable global economy.

At this point, you may be wondering what on earth the UN and Private Equity could possibly have in common? Isn't this the proverbial oil-and-water scenario? – the world's most global intergovernmental organization whose mission is peace, development and human rights; and Private Equity, the efficiency-driven offspring of modern capitalism whose focus – at least in the minds of many – is on sizing up market opportunities and restructuring business – the "art of financial performance", as it has been called.

One important answer came earlier this year when the Private Equity Council officially adopted a set of guidelines resulting from collaborative discussions with the UN-backed Principles for Responsible Investment – a network of some 550 institutional investors representing roughly $18 trillion in assets.

These guidelines, while not widely known or referenced at this early stage, represent a true milestone in many respects. And I wish to commend the Private Equity Council and its members on this important step.

In essence, these guidelines recognize that the management of environmental, social, and governance – or so-called "ESG" issues – can be material to business and asset performance and therefore should be considered and incorporated into both investment analysis as well as the management of the underlying asset. The guidelines make explicit reference to the UN Global Compact, which as some of you may know provides companies and their management teams with a strategic policy platform to manage ESG issues.

I will return to this connection in a moment, but wish to first provide a bit of context.

<u>Context</u>

I think we can all agree that we are in the midst of profound transformations. With the shadows of the Great Recession still looming in many places, it is clear that over three decades of deregulation have largely come to an end.

Meanwhile, the global economic center of growth is shifting to Asia, while at the same time the political will to sustain market openness is, unfortunately, weakening in many parts of the world. One of the greatest experiments ever – building a rules-based, open economy that has enabled hundreds of millions of people to lift themselves out of poverty, that ensures that technology and innovation diffuse rapidly around the globe, that connects cultures and people and that ultimately is our best bet to create a peaceful and prosperous world – hangs in the balance.

Finally, we are faced with a true systemic emergency – climate change, which threatens to disrupt societies and markets around the world, and if unaddressed could reduce global economic output by an estimated 20 percent by mid-century.

The stakes <u>could not</u> be higher.

At the same time, there is increasing consensus that today's global threats and challenges – be they related to the economic and financial upheaval, the climate crisis, or other urgent environmental and social

issues – are too large, interconnected and complex for any one sector to solve alone.

This is why the United Nations is beginning to reach out – to form new, and sometimes unlikely partnerships to address these challenges.

Collective action and collaboration is the order of the day.

<u>The UN's Transformation</u>

It may helpful to step back briefly in time to understand the radical nature of the change that has occurred within some parts of the UN – change that has brought the United Nations closer to the worlds of business and finance, and brought me to this conference today.

As recently as the late 1990s, indifference and mutual suspicion characterized the relationship between the UN and business, the result of the long decades of the Cold War. This began to change with the launch of the Global Compact ten years ago, when the UN started to reach out to business, inviting companies to align their operations with ten universal principles, covering human rights, workplace issues, the environment and anti-corruption.

The idea was that by embedding global markets in shared values, by offering opportunities for collective action through learning, dialogue and partnerships, greater sustainability for markets could be achieved while ensuring that the benefits of economic efficiency spread faster and wider. Business executives were asked to make the principles part of strategy and operations and to disclose progress made on an annual basis.

Let me be clear – this was <u>not</u> an exercise in philanthropy but rather a new management paradigm that sees ESG issues as integral to long-term business success. The UN, for its part, would offer collaboration, partnership opportunities and a neutral space for solution finding.

What started as an experiment, with only 47 companies present at its launch in July 2000, has grown into the world's largest voluntary corporate sustainability initiative with over 6,000 business participants and stakeholders from more than 130 countries.

The companies represent almost every conceivable industry and sector, and hail from both developed economies and emerging markets. Moreover, while the Global Compact includes some of the biggest public companies in the world, more than half of business participants are privately held, and include both large and small enterprises. Your firms no doubt have ownership interests in many of these.

Why are management teams joining the Global Compact – at the present rate of nearly 100 companies per month?

Certainly, the ethical imperative of addressing ESG issues remains as important today as it did ten years ago – some say more so given the recent crisis in markets and the related erosion of trust in business.

But questions of risk management, improving productivity, reducing costs and sizing new opportunities by making the Compact and its principles part of business strategy and operations have established themselves as additional and arguably far more potent drivers of the agenda.

Indeed, the business case for what we call corporate sustainability – that is, the management of ESG issues – is increasingly clear. As the authors of a major article on corporate sustainability argue in this month's Harvard Business Review: "In the future, only companies that make sustainability a goal will achieve competitive advantage".

We have countless examples of companies that are generating value-enhancing benefits – including securing new revenue streams; lowering operating costs; attracting the best talent; and generally enhancing their corporate and brand reputations.

And markets appear to be recognizing these new realities.

For instance, a recent study by RiskMetrics of the equity performance of our 70 top publicly traded companies in terms of their disclosure on sustainability practices found that the group has consistently outperformed the global market by an average of 7.3 percent since March 2007. In fact, the index beat the MSCI in <u>every</u> quarter during the past two years, including during the worst months of the crisis.

Similar studies by Goldman Sachs support the premise that effectively managing ESG issues can contribute to market out-performance.

Of course, we must keep in mind that the core goals of the UN and the private sector are different. But in today's interconnected world the imperative of market sustainability calls for collaboration and the private sector is an important part of the solution.

My central message to you today is that the United Nations increasingly understands this and in some quarters have developed capacities to partner, both with business and investors.

The UN and the private sector share common interests, including:

- **Building markets to advance development and reduce poverty;**
- **Investing in clean and efficient technologies to tackle climate change;**
- **Advancing good workplace practices through the supply chain; and**
- **Introducing good governance policies and anti-corruption measures.**

<u>The Principles for Responsible Investment</u>

With respect to investors, our work has centered on the Principles for Responsible Investment, co-launched by the Global Compact and our sister agency, UNEP FI, just over three years ago in partnership with institutional investors. Indeed, the PRI is today led and governed largely by institutional investors, all of whom are Limited Partners.

The rationale for launching the PRI included the following key observations:

- **ESG issues can be material to investors, especially over the long term. Investors who do not take these issues into account are putting the interests and returns of their beneficiaries at risk.**

- **Institutional investors, especially when working together, can have significant influence as owners and clients over companies,**

fund managers, consultants and brokers and can use this influence to encourage improvements in ESG performance by companies.

- **Three years ago there was no global framework in place to point investors in the right direction or to define this <u>new era</u> of Responsible Investment based on materiality, as compared to traditional SRI approaches.**

Negotiated and drafted by a group of institutional investors and other experts, the Principles for Responsible Investment were launched in April 2006 at a special event at the New York Stock Exchange. Covering areas such as investment policy, active ownership practices, collaboration and disclosure, the six core Principles are designed to place ESG considerations into the heart of investment analysis and decision-making.

Let me be clear that the PRI <u>is not</u> an SRI initiative in the sense of employing negative screens or taking value judgments on companies or industries. Likewise, the focus <u>is not</u> on narrow clean-tech or other such specialized social funds. Rather, PRI recognizes that incorporating ESG issues into investment analysis, and improving the management of ESG issues within all companies and assets in the portfolio, can help maximize long-term investment objectives – while, at the same time, aligning the investment community with larger societal goals. In other words: a double dividend.

As with the growth of the Global Compact, the PRI has surpassed our wildest expectations. The more than 550 signatories are divided roughly in half between asset owners and asset managers, with a third category of service providers.

Signatories to the PRI are demonstrating an unprecedented level of collaboration and partnership as they work together to encourage investee companies or potential investments to improve their ESG performance – for instance, by joining and implementing the Global Compact.

From its inception the PRI was designed to be relevant to all asset classes, which ultimately led to the discussions with the Private Equity community.

<u>Why Should Private Equity Care?</u>

Clearly, the Private Equity industry – be it related to buyout, mid-stage, or venture capital – is a major force in international finance and in driving business innovation.

In addition to being investors, you are also business managers and employers – with a vital stake, I would argue, with respect to the role of business in society. In many aspects, you are much closer to the fabric of economies and communities than your publicly traded peers.

For these and related reasons, I would suggest, society's expectations with respect to Private Equity will only increase.

And frankly, I believe Private Equity has an enormous opportunity to get out in front of the trends and demonstrate a new level of leadership – leadership that contributes both to your success as investor-managers, as well as to aligning your objectives with broader social goals – thereby building public trust in the industry.

Fixing firms, and creating long-term value, is your business. Yet, up until now, ESG considerations – especially with respect to environmental and social issues – have arguably not figured very prominently in your investment and management decisions. This is the prevailing view held by many Limited Partners in the PRI who feel that Private Equity managers give less regard to ESG risks and opportunities than public-equity fund managers.

Rather than reacting to trends and negative headlines, why not begin to seize a leadership position?

Allow me, please, to suggest the following:

- **As investment firms, embrace the new-era of "Responsible Investment", sign the PRI, and actively incorporate ESG issues into investment analysis and decision-making.** [The recent launch by the PRI of “Responsible Investment in Private Equity: A Guide for Limited Partners”. While this resource is focused on Limited Partners, it was developed by both LPs and GPs and indirectly offers guidance for GPs.]

- **As investor-managers, sign your portfolio companies to the Global Compact. As a voluntary initiative with a straightforward disclosure component, the Compact offers your firms a learning platform to develop, implement and report on sustainability policies and practices. And encourage your portfolio company managers to look at the list of companies that are already engaged in the Global Compact – and ask them whether they might be missing anything.**

- **Embrace more transparency. Opaque industries and companies become lightning rods for criticism – deserved and undeserved. The reporting dimension of the Global Compact offers one way of demonstrating transparency, but there are other avenues, including taking part in more public policy discussions on key ESG issues and becoming a more active member of the corporate responsibility community.**

I have one final suggestion. On 24-25 June of next year, we will be holding the UN Global Compact Leaders Summit – to coincide with our 10-year anniversary. The Summit, taking place here in New York, will feature business and government leaders from both developed and developing economies from around the world. I wish to invite you, leaders from the Private Equity community, to this event and to begin to consider the development of a deliverable or contribution to this Summit. This will be a historic opportunity for participants to share their work in the ESG space before a global audience of key decision-makers.

<u>Conclusion</u>

It is indeed a sign of the times that you invited me here today.

I feel strongly that we are in the midst of a historic convergence between the goals and interests of the United Nations, on the one hand, and those of business and finance on the other.

It is time to cast off old ideas and caricatures. I hope I have conveyed the transformation the UN has undergone in recent years and the initiatives we have pursued to engage new partners.

The good news for Private Equity is that these platforms now exist, and offer a range of immediate and longer-term benefits.

In the final analysis, we share a desire to create sustainable, stable, and inclusive markets. This is good for business, good for investment, and good for peace, security, and development.

Thank you.

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