



The New World Order of
Private Equity

The Federal Reserve System's Private Equity Merchant Banking Knowledge Center presents
Tenth Annual Private Equity Conference • July 20 – 22, 2010

Keynote Address
Ethical Behavior and Private Equity

Georg Kell
United Nations Global Compact

**The UN Global Compact
Business Leadership in the 21st Century**

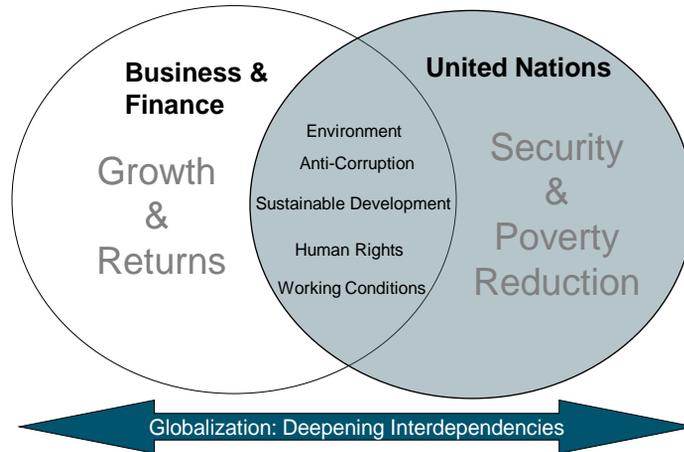
The New World Order of Private Equity
Federal Reserve Bank of Chicago
20-22 July 2010



United Nations Global Compact



UN & Business/Finance: New Era of Collaboration



United Nations Global Compact

Some Lessons From Financial-Economic Crisis

- Importance of Long-Term Horizons
- New Paradigm in Global Risk Management Required
Financial and Extra-Financial Issues ("ESG")
- Voluntary and Regulatory Efforts Both Needed



United Nations Global Compact

UN Global Compact: Overview

- Mission: “Inclusive, Sustainable Global Markets”
- Focus: Advancing “Corporate Sustainability”
- Integration of Extra-Financial Issues Into Business Strategy
- Based on 10 Principles in Extra-Financial Terms
- CEO and Board Leadership Initiative



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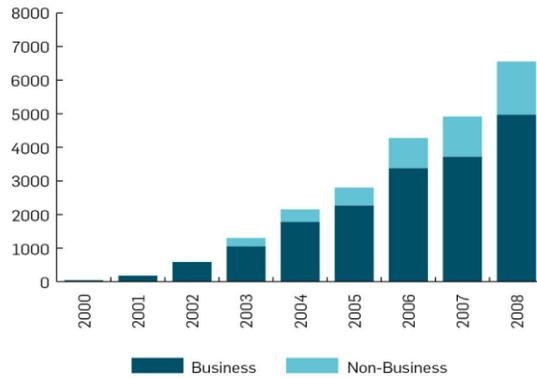
The Ten Principles

Human Rights	<p>Business should support and respect the protection of international human rights within their sphere of influence; and</p> <p>make sure they are not complicit in human rights abuses.</p>
Labor	<p>Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>the elimination of all forms of forced and compulsory labor;</p> <p>the effective abolition of child labor;</p> <p>the elimination of discrimination in respect of employment and occupation.</p>
Environment	<p>Business should support a precautionary approach to environmental challenges;</p> <p>undertake initiatives to promote greater environmental responsibility;</p> <p>encourage the development and diffusion of environmentally friendly technologies.</p>
Anti-Corruption	<p>Business should work against all forms of corruption, including extortion and bribery.</p>



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Total Global Compact signatories



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UN Global Compact: How It Works

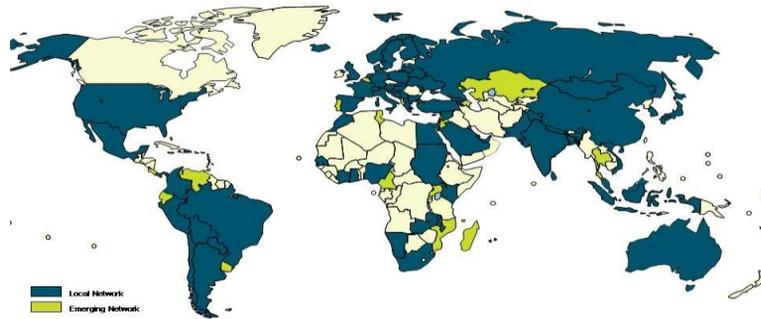
- CEO/Board Commitment
- Embed 10 Principles Into Corporate Strategy and Operations
- Engage in UN Global Compact “Country Networks”
- Disclosure: “Communication on Progress”

Delisting Provision



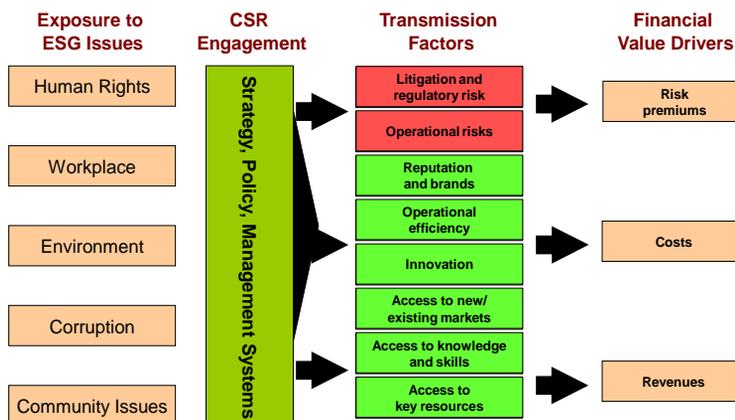
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UN Global Compact: Around the World



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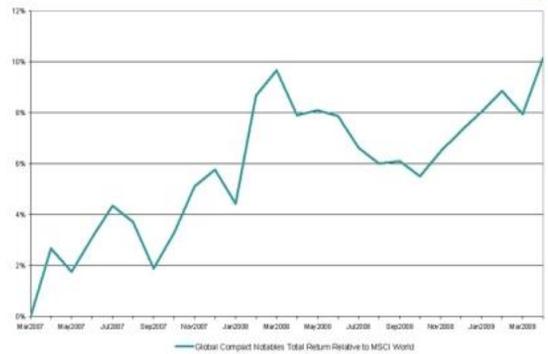
The Business Case: Sustaining Growth and Mitigating Risks



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UN Global Compact Notables Total Return vs. MSCI World Index

Performance as of March 31, 2009



Source: RiskMetrics Group



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The New “Responsible Investment” Movement

- Recognizes Materiality of “ESG” Issues – Not Traditional “SRI”
- Relevant to All Asset Classes – Public Equity, Private Equity, Other
- Focus: Improving ESG Performance of Investee Company



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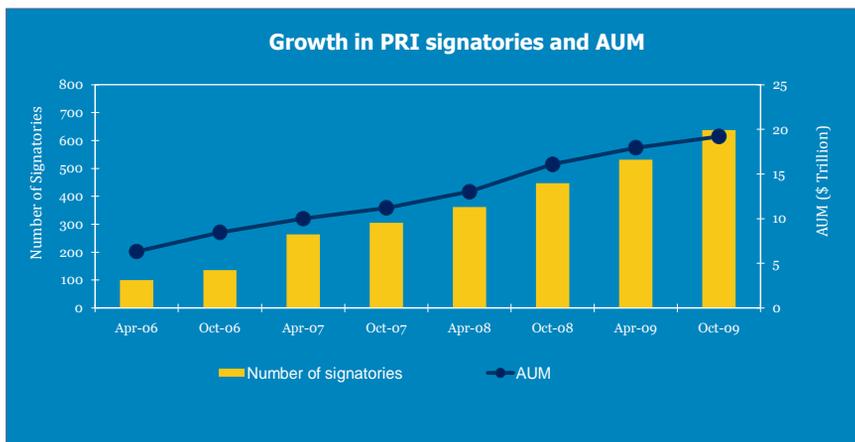
“The Principles for Responsible Investment” Initiative

- Launched in April 2006 by UN Global Compact and UNEP FI
- Commitment by Institutional Investors to Incorporate ESG Factors
 - Via investment mandates by asset owners
 - Engagement with investee companies (e.g., UNGC)
- Led by Asset Owners (Limited Partners)
- Being Introduced to Private Equity
 - Private Equity Council’s “ESG Guidelines”



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Principles for Responsible Investment Over 700 signatories, US\$ 20 trillion AUM



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“Sustainability Movement”: Case for Private Equity

- Improve Performance of Investee Companies
- Respond to New Requirements/Expectations of LPs
- Build Trust in Private Equity With Global Stakeholders
 - *Investors*
 - *Governments*
 - *General Public*
 - *Business Partners*
 - *Labor*



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News Tools to Improve ESG Business Performance

- UNGC Management Model (with Deloitte)
- Environmental Stewardship Strategy
- Anti-Corruption Policy Framework
- Supply Chain Implementation Guide
- Boardroom Performance Guide



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Suggested Next Steps for Private Equity

- As investors, Join the Principles for Responsible Investment

www.unpri.org

- As General Partners, sign portfolio companies to UNGC

www.unglobalcompact.org

- Engage in Global “Sustainability” Dialogues and Discussion



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Thank You

www.unglobalcompact.org



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