Keynote Address
Ethical Behavior and Private Equity

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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
UN & Business/Finance: New Era of Collaboration

Environment
Anti-Corruption
Sustainable Development
Human Rights
Working Conditions

Security & Poverty Reduction

Business & Finance

Growth & Returns

Globalization: Deepening Interdependencies

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
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

The Ten Principles

Human Rights

Business should support and respect the protection of international human rights within their sphere of influence; and

make sure they are not complicit in human rights abuses.

Labor

Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;

the elimination of all forms of forced and compulsory labor;

the effective abolition of child labor;

the elimination of discrimination in respect of employment and occupation.

Environment

Business should support a precautionary approach to environmental challenges;

undertake initiatives to promote greater environmental responsibility;

encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Business should work against all forms of corruption, including extortion and bribery.
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
UN Global Compact: Around the World

The Business Case: Sustaining Growth and Mitigating Risks

Exposure to ESG Issues
- Human Rights
- Workplace
- Environment
- Corruption
- Community Issues

CSR Engagement
- Strategy, Policy, Management Systems

Transmission Factors
- Litigation and regulatory risks
- Operational risks
- Reputation and brands
- Operational efficiency
- Innovation
- Access to new/existing markets
- Access to knowledge and skills
- Access to key resources

Financial Value Drivers
- Risk premiums
- Costs
- Revenues
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
“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”

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

Growth in PRI signatories and AUM

Number of signatories

AUM ($Trillion)

United Nations Global Compact
“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

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
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

Thank You

www.unglobalcompact.org