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Global Market Strategy

Regional and Sector Strategy: Monthly Update
Michael Geraghty ... p. 13

Japan's Corporate Governance Reform: Powerful Driver of Earnings Growth
Michael Geraghty... p. 14

Global Sector Research

Are YieldCos Looking After Their Investors?
Sebastian Vanderzeil, Michael Shavel ... p. 15

"Legitimacy" in the Banking Sector
Michael Shavel, with Robert D. Lamb, PhD, & Diane Glossman, CFA, Cornerstone Capital Group Global Advisory Council ... p. 16

Regional Imperatives

Managing Chaos: Legitimacy and Institutional Revision in Argentina
Delfina Lopez Freijido, Miguel Ferreyra de Bone, Acrux Partners ... p. 24

Reimagining the Private Sector Role Post-Conflict and in Anti-Terrorism
Andrew MacLeod, Kings College London ... p. 26

Enhanced Analytics

Ordering the Unknown
Katherine Collins, Honeybee Capital ... p. 29

Accelerating Impact

Health as a Business Tool
Shahnaz Radjy, The Vitality Group, Daniel Malan, University of Stellenbosch Business School ... p. 31

Food, Farms and Forests: The Chaos of Fear and High Expectations
Julie Lerner, PanXchange ... p. 33

Philanthropy, Markets and Transparency
Bradford K. Smith, The Foundation Center ... p. 36

Sustainable Editorial

A Call for Chaos
Steven Nelson, The Calhoun School ... p. 39

Ordered Chaos in Learning
Babur Habib, Entrepreneur ... p. 41

Understanding Natural Order and Environmental Chaos via Photography
Alexandra Garcia, Int'l League of Conservation Photographers ... p. 43

CEO's Letter on Sustainable Finance & Banking

Erika Karp
Founder & Chief Executive Officer
Cornerstone Capital Inc.

This month in the "**Cornerstone Journal of Sustainable Finance & Banking**" (JSFB), we ponder the complexity and volatility which has led to an extraordinarily challenging start to 2016. It's been a season of extremes. Over just a few weeks, global investors have weathered China macro concerns, a commodities price rout buffeting the entire emerging markets complex, a theatrical US Presidential political scene, and a summer-like early winter in the northeastern US which suddenly gave way to bitter-cold and blizzard conditions. Further, the markets are digesting the trajectory of US monetary policy normalization, turmoil in corporate bond markets, and a shifting geopolitical landscape that includes the immediate imperatives of fighting ISIS and the ongoing work to mitigate and adapt to climate change.

In considering the breadth and magnitude of such challenges, we applaud efforts to bring humanity back to the fight for progress. The unusual diplomatic outreach by India's Modi to Pakistan's Sharif shows that creativity and resolve can work to trump fear. True leadership can fight the status quo. And **order** can come from **chaos**.

But such change doesn't come quickly. So global investors with the insight and resolve to take the long-term view and to selectively, consistently, and methodically put money to work to craft effective investment strategies and portfolios that advance real progress can take look to the pragmatism of Henry Kissinger, who has said that ***"Order must be cultivated; it cannot be imposed."***

This juxtaposition of **Order and Chaos** is the theme for this edition of the JSFB. To drive a transformation towards inclusive and regenerative global growth, the capital markets must harness pure creative energy. This is the subject Katherine Collins of Honeybee Capital addresses in an "**Enhanced Analytics"** article about the aspiration to capture the "unknown unknowns" in our modeling of potential future exogenous shocks to business … by way of artist M.C. Escher: "We adore chaos because we love to produce order."

This desire to produce order is perhaps most tangible in our approach to overarching geopolitical challenges. In our **Regional Imperatives** section, we offer the example of Argentina's efforts to restore an orderly business environment that encourages investment and economic progress without sacrificing stability for all constituents of the economy. This timely piece by Acrux Partners is complemented by a cogent argument presented by Cornerstone Board member Andrew MacLeod to prioritize economic restructuring in the war on terror both post-crisis and in developed countries.

In the more tactical management arena, "**Accelerating Impact"** contributors Shahnaz Radjy of The Vitality Group and Daniel Malan of University of Stellenbosch recognize that a holistic consideration of human capital as a part of the 'order of business' results in better outcomes. Jill

Lerner, CEO of PanXchange, explains that sometimes, establishing order requires tremendous patience and a willingness to accept and value small advancements equally to big wins. And as laid out by Foundation Center's Bradford K. Smith, the battle for order and common sense in applying all development resources, including philanthropy, requires transparency to optimize efficiency and efficacy.

Lastly, in an ironic reflection of current volatility in both the global markets and the local weather, we hear from important voices in our "**Sustainable Editorial"** section flipping the concepts of order and chaos. Both Steven Nelson of The Calhoun School and Babur Habib, an entrepreneur focused on K-12 learning, argue in favor of deconstructing our current approach to education in favor of more self-directed and, arguably, more successful outcomes. Alexandra Garcia of the International League of Conservation Photographers highlights the critical role of imagery, rather than words, in furthering our understanding of our natural world's critical value in supporting human life … and order.

My sincere regards,
Erika

Erika Karp
Founder and Chief Executive Officer

Table of Contents

CEO's Letter on Sustainable Finance & Banking		2
Market Summary		
Overview		5
Market & Global Sector Performance, Monetary Policy & ESG Data		6
Global Market Strategy		
Regional and Sector Strategy: Monthly Update	Michael Geraghty, Global Markets Strategist *Cornerstone Capital Group*	13
Japan's Corporate Governance Reform: Powerful Driver of Earnings Growth	Michael Geraghty, Global Markets Strategist *Cornerstone Capital Group*	14
Global Sector Research		
Are YieldCos Looking After Their Investors?	Sebastian Vanderzeil, Research Analyst Michael Shavel, Global Thematic Analyst Andy Zheng, Research Associate *Cornerstone Capital Group*	15
"Legitimacy" in the Banking Sector	Michael Shavel, Global Thematic Analyst *Cornerstone Capital Group* Robert D. Lamb, PhD, Diane Glossman, CFA, *Cornerstone Capital Group Global Advisory Council*	16
Regional Imperatives		
Managing Chaos: Legitimacy and Institutional Revision in Argentina	Delfina Lopez Freijido, Co-founder & Associate Director Miguel Ferreyra de Bone, Advisor, *Acrux Partners*	24
Reimagining the Private Sector Role Post-Conflict and in Anti-Terrorism	Andrew MacLeod, Visiting Professor *Kings College London*	26
Enhanced Analytics		
Ordering the Unknown	Katherine Collins, Founder & CEO, *Honeybee Capital*	29
Accelerating Impact		
Health as a Business Tool	Shahnaz Radjy, Senior Communications Specialist *The Vitality Group* Daniel Malan, Director of the Centre for Corporate Governance in Africa, *University of Stellenbosch Business School*	31
Food, Farms, Forests: The Chaos of Fear and High Expectations	Julie Lerner, Founder & CEO, *PanXchange*	33
Philanthropy, Markets and Transparency	Bradford K. Smith, President, *The Foundation Center*	36
Sustainable Editorial		
A Call for Chaos	Steven Nelson, Head of School, *The Calhoun School*	39
Ordered Chaos in Learning	Babur Habib, *Entrepreneur*	41
Understanding Natural Order and Environmental Chaos Via Photography	Alexandra Garcia, Executive Director, *International League of Conservation Photographers*	43

Upcoming Events: Global ESG Calendar	45	**Cornerstone Capital Group Team**	49
JSFB Subscription Form	46	**Important Disclosures**	52

Global Sector Research

"Legitimacy" in the Banking Sector

By Michael Shavel, Global Thematic Analyst, Cornerstone Capital Group, Robert D. Lamb, PhD, and Diane Glossman, CFA, members of Cornerstone Capital Group's Global Advisory Council

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In January 2015, we published a report introducing a framework to enable analysis of the "legitimacy" of an institution by understanding its relationships with stakeholders. We used the banking sector as our test case given the recency of the Global Financial Crisis, but the framework can be applied to any industry or institution. Given this edition's focus on "Order and Chaos," we felt it would be relevant to revisit our previous work. This article is an excerpt from the report.

Summary

Earnings and valuation uncertainty - In a post Global Financial Crisis world, investors are questioning long-term earnings and valuation prospects for the banking sector. Tougher regulation, particularly on capital, liquidity and structure, are exerting pressure on the traditional banking business and clouding the outlook for investors.

A new framework – To better understand an evolving banking landscape, we offer a new framework based on the concept of "legitimacy". Our framework is designed to help investors assess the quality of an institution's relationships, as they convey a willingness to continue to engage with a bank – whether as a customer, shareholder, regulator, employee or community member.

Structure and application – We discuss the key elements of "legitimacy" and outline the steps and structure of the framework. We then provide an illustrative example where we assess the relationship between 1) Wells Fargo's (WFC) corporate officers and non-management employees and 2) Wells Fargo and its consumer lending clients.

Investment implications – We believe that assessing "legitimacy", or the quality of a bank's relationships with key stakeholders, enhances investors' analysis of factors that influence that bank's valuation. Our legitimacy framework is not limited to the banking sector and can be applied broadly across other sectors and industries.

Background & Introduction to Legitimacy

While investors typically analyze a variety of financial statements and ratios to determine the relative attractiveness of a sector and individual institutions within it, starting from a different viewpoint may illuminate an otherwise less obvious set of opportunities. In this instance, it is the theory of legitimacy.

In a report titled *Rethinking Legitimacy and Illegitimacy – A New Approach to Assessing Support and Opposition across Disciplines*, Robert D. Lamb

analyzes the concepts of legitimacy[1] and illegitimacy, discusses issues involved in measuring them in the real world, and introduces a new framework for assessing them in situations where the sources and dynamics of support of opposition need to be better understood. [2]

The legitimacy framework, developed by Lamb and published by Rowman & Littlefield and the Center for Strategic and International Studies (CSIS), originates in Lamb's interest in understanding how gangs in Medellin, Colombia governed different neighborhoods. He examines legitimacy and governance where the unit of analysis is a gang instead of a state, and he studies how that affects the patterns of violence in particular neighborhoods. To address this, he designs a general framework that can be applied not just to gangs in Colombia, but to any number of situations where the dynamics of support, opposition and authority needed to be understood.

Lamb's legitimacy framework is particularly interesting for investors given the need to understand the nature of a company's stakeholders. Assessing legitimacy is helpful for – and in many cases similar to – assessing an organization's governance structure. With this in mind, the legitimacy framework is helpful in understanding companies and the sources of friction in their business relationships. The focus of this report is on the global banking sector due to the reputational damage incurred in the Global Financial Crisis, but the framework isn't sector specific. With modest modifications, it can be applied broadly across other sectors.

On the surface, it is easy to contemplate how detrimental regulatory fights, shareholder suits, high employee turnover, and poor client retention impact a particular bank's earnings and returns. It would be virtually impossible to miss the differences in standard deviation of these two metrics over a five or ten year period – just eyeballing a long list of banks for business mix and credit acumen. Conducting a detailed analysis that involves quantifying the impact of each of these issues, however, is more difficult.

The legitimacy framework isn't a silver bullet, but it does provide a way to begin the discussion. It is based on the quality of an institution's relationships, as they convey a willingness to continue to engage with that bank – whether as a customer, shareholder, regulator, employee or community member. A bank with low quality stakeholder relationships may face more opposition and friction, and therefore more costs to overcome, than one with strong relationships.

Relationships and Long Run Costs

Relationships matter to the long-term profitability of any business. Strong customer relationships and stable supplier relationships save on costs of finding new customers and suppliers. A sour relationship with regulators can put an individual company under greater scrutiny or an entire sector at risk of more

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[1] Legitimacy, according to many fields of study and practice, is something that induces voluntary support. It is therefore an important intellectual resource for decision makers. Because it cannot be observed, however, measuring and assessing legitimacy is difficult.

[2] Robert D. Lamb, *Rethinking Legitimacy and Illegitimacy: A New Framework for Assessing Support and Opposition across Disciplines* (Washington, D.C.: CSIS and Rowman & Littlefield, May 2014), available at http://www.csis.org/publications.

public oversight, increasing costs of doing business. Low worker morale harms productivity and increases turnover, recruitment and training costs. A greater degree of trust between businesses translates into lower costs for monitoring and enforcing business deals. A company with a reputation for harming the environment or local communities is likely to find opposition when expanding into new communities, or might face lawsuits stemming from past harms. Such risks can affect a company's valuation in a future public offering or private sale. Strong stakeholder relationships can keep a business stable during inevitable rough periods.

These observations apply to the global banking sector as well as any other. Banking has long faced challenges with confidence and trust among its stakeholders, though this problem was magnified by the Global Financial Crisis. In the United States, for example, confidence in the banking sector declined by half after 2008, from 41% to 21 %, recovering to 26% only in 2013, still less than half its 2004 peak. Retail, investment, and commercial banks worldwide have faced similar reputational problems. Risky behaviors and perceptions of breached trust have led to bank closures, tighter regulation, and in some countries prison time for executives.

One should not overstate the case. There is little hard evidence, beyond anecdotes, that poor relationships lead to poor returns on investment. Even banks with serious reputational problems can make money for their investors. However, a bank that manages stakeholder relationships particularly well might, all else equal, have a long-run financial advantage over its competitors. Harmful corporate behavior can trigger opposition from key stakeholders, needlessly increasing costs by having to defend lawsuits, pay fines, sell off assets, and rebrand. Poor relationship management can cost money that could otherwise be capitalized. And corporate leaders capable of managing complex stakeholder relations successfully might well be better managers overall.

For investors, assessing the state of a bank's stakeholder relationships can help identify potential sources of opposition — and therefore potential costs and risks — as well as potential sources of stability. This information can be useful when deciding which banks have a more promising long-term outlook, all else equal.

The application of legitimacy to investing may be new, but legitimacy has been a topic of study for political theorists, sociologists, psychologists, anthropologists, and military historians for almost as long as those disciplines have existed. It is strongly associated with stability, because when people believe something has legitimacy they tend to voluntarily support it, morally and materially. But because legitimacy is not something that can be easily observed, measuring it has always been a challenge. It is our belief, however, that Lamb's framework overcomes some of the challenges of previous attempts.

Assessing Support and Opposition

It is sufficient to define legitimacy concisely as a "worthiness of support," as judged by a particular population (called "referees"). When something is considered legitimate, support is offered voluntarily. Having legitimacy,

therefore, means support does not need to be purchased or coerced. That, in turn, reduces costs associated with sustaining one's operations. By contrast, illegitimacy is a "worthiness of opposition" that tends to trigger resistance and thereby increase transaction and friction costs.

To see how these ideas apply to the banking sector, consider two fictional retail banks. Trusty Bank has loyal investors, a reputation for excellent customer service, high employee morale and low turnover, a history of cooperating with regulators and auditors, and good relations with community leaders in the neighborhoods its branches serve. Its policies are transparent, it keeps promises and complies with laws and regulations, its managers and staff treat people fairly and with respect, and it is responsive to questions and complaints it receives.

By contrast, Infidelity Bank has faced shareholder lawsuits, consumer complaints, high staff turnover, failed audits, legal fines, and community protests. Its policies are opaque, its staff are occasionally deceptive (at times illegally so), its employees are rude to each other, they discriminate against some of their customers, and the bank is generally unresponsive to complaints unless compelled by legal action or media pressure.

All else equal, which company is better managed? Which is likely to end up spending more money than necessary on legal fees, customer retention, marketing, staff recruitment and training, public relations, scandal management, arbitration, legal settlements, or fines? Which can be trusted to maximize shareholder value with minimal oversight?

In reality, the contrast between how different banks manage relationships with different stakeholders is not usually so stark. Some have happy customers but miserable employees while others face supportive regulators but hostile communities. Their relationships with each stakeholder group might be complicated: investors who make money but feel disrespected, or customers who are pleased with frontline service providers but infuriated by the company's policies. Even within stakeholder groups there is likely to be a diversity of experience as well. A lower-income community might feel customer service is worse in their branch than it is in a more upscale neighborhood. The relationship with state regulators might be different from that with federal regulators. And individual stakeholders might like everything about the bank except one aspect — unethical behavior in a single division, or a perception that executive compensation and bonuses are excessive — that overshadows everything else and damages the relationship.

Using the framework in *Rethinking Legitimacy and Illegitimacy*, these complicated relationships can be assessed in a way that untangles stakeholder attitudes and behaviors that are likely to be costly to the bank in the long run – a potential drag on earnings or a threat to stability – from those that are beneficial and costless.

After identifying the bank to assess, the first step is to identify the particular stakeholder group whose relationship with the bank one wants to better

understand. These could be customers, employees, regulators, investors, community members or activists.

Each relationship then needs to be broken down into three levels and five dimensions. The three levels are individual belief, group behavior, and the bank as a whole.

- ***Belief.*** The first level measures the beliefs, opinions, or attitudes of individual stakeholders, usually through surveys, focus groups, or interviews. What are their perceptions of the bank?

- ***Behavior.*** The second level measures the behaviors of the stakeholder group, using existing data, observation, and documentation. How do they act toward the bank?

- ***Bank.*** The third level measures objective features of the bank, also using data, observation, and documentation but in some cases surveys, focus groups, and interviews of bank representatives as well. What does the bank do, and what is it like?

At each level, indicators for each of the following five dimensions must be identified:

- ***Predictable.*** Can the bank be relied upon to do what it says and what people expect it to do? Is it transparent in how it operates? Are its commitments credible? [NOTE: Here it is necessary to identify the expectations, commitments, etc. that are most relevant to the banking sector specifically, i.e., those that, if not met, could adversely affect the relationship in the future. This is different for every sector.]

- ***Justifiable.*** Does the bank act in ways that are consistent with the values of its stakeholders and the broader society in which it operates? Is its behavior consistent with its own values? [NOTE: Not all stakeholder and societal values are relevant to the analysis. Investors who care only about profits will value the bank's governance differently from investors who care about social concerns. Therefore, it's necessary to identify a few key values, the violation of which would be damaging.]

- ***Equitable.*** Does the bank treat all stakeholders fairly? Are differences in treatment justified by differences in the stakeholders? [NOTE: In some situations, acting fairly toward certain groups could damage the bank's relationship with a majority or elites; this analysis does not necessarily need to assume that liberal values are correct, only that it's necessary to study relevant stakeholders in depth and in context.]

- ***Accessible.*** Do the stakeholders have a reliable way to communicate with the bank, resolve issues, and influence operations or policies (at a level appropriate to their position)? [NOTE: Again, it is necessary to identify relevant indicators: accessible customer service is probably important while customer access to many corporate governance decisions is probably not. Similarly, the board need not have access to decisions about day-to-day operations barring a unique circumstance.]

- ***Respectful.*** Does the bank treat the stakeholders with dignity and respect? [NOTE: Here is where cultural understanding is completely necessary.]

The risk of resistance or opposition to a bank's operations tends to be higher the more the bank acts toward its stakeholders in ways that are unpredictable, unjustifiable, inequitable, inaccessible, or disrespectful. Studying these five dimensions across three levels, therefore, makes it possible to uncover potential sources of risk resulting from poor relationships.

Consistency between dimensions and across levels indicates the presence of legitimacy. If individuals say they consider the bank equitable and behave in ways that reflect such a belief (i.e., referring others in their community), and if the bank itself seems to treat its customers equitably, then there is little reason to be concerned the bank might be at risk, for example, of a discrimination lawsuit (this does not eliminate the risk of frivolous lawsuits, however). Inconsistency, by contrast, identifies a trouble spot. For instance, if individual customers say the bank is accessible but rarely call customer service to resolve an issue, then further investigation may be warranted. Perhaps on-hold times at the call center are unpredictable and occasionally excessive (i.e., the bank is accessible but unpredictable). In itself, that is not a reason to fear a risk to long-term stability. But it does suggest a potential trouble spot that is worth exploring further to determine if a competitive disadvantage exists.

A systematic assessment of the strength and sources of support or opposition can be as simple as a quick study of the five dimensions at the bank level or as comprehensive as an in-depth analysis of the bank's relationships with all stakeholder groups. The choice depends on the time and resources available to the investor conducting the assessment. The *Rethinking Legitimacy* framework describes four types of assessments that can be made:

- ***Rapid.*** This method uses only the bank-level indicators for the five dimensions. First, for each of the five dimensions, an investor should identify a set of indicators relevant to this bank's relationship to the stakeholder group in question. The predictable indicator might include a look at expectations for timeliness, which are likely to differ from country to country. A culture whose religion forbids the charging of interest will have different justifiable indicators than others who have no such prohibitions. Then, using those research methods that are feasible, measure the indicators. Does extended observation suggest that managers treat employees equitably and respectfully? Do interviews with investors suggest they have some say over decisions they care about?

  For those indicators deemed relevant, it is necessary to identify whether the bank's performance on each is generally positive, negative, or neutral. (An even more sophisticated look would also determine whether they are improving or deteriorating.) The resulting analysis provides a useful and quickly generated qualitative picture of the bank's relationship with one particular stakeholder group. Any negative indicators, or inconsistencies between indicators, suggest potential problem spots that are worth exploring in greater depth.

- ***Multilevel.*** A multilevel assessment begins with a rapid assessment, but then adds the other two levels to the analysis: group behavior and individual belief. Just as in the rapid assessment, a set of indicators needs to be identified for each dimension at each level. Indicators for individual beliefs are reasonably straightforward — and measuring them is not more complicated than standard opinion surveys or interview methods. Group behaviors take a little more work, because it is necessary to think through what types of behavior would imply an underlying belief.

  If employees don't believe they are appreciated by management, they might tell that to an interviewer (a belief indicator) and a high turnover rate might also be evident (a behavior indicator). This suggests a problem. On the other hand, if employees tell the interviewer they are appreciated by management in the face of high turnover, there is a disconnect between belief and action, and that also suggests a problem worth exploring. Again, negative indicators and inconsistency between indicators (across dimensions and across levels) both suggest potential problem spots. (A simpler multilevel assessment reviews indicators for general support or opposition at just the three levels, without breaking them out by dimensions; see tables on pages 9 & 10).

- ***Bilateral.*** A bilateral assessment offers a deeper level of analysis. In effect, it takes a multilevel assessment and reverses the actors, under the conclusion in *Rethinking Legitimacy* that legitimacy is a two-way street. In addition to studying, for instance, investors' beliefs about the bank, their behaviors toward the bank, and the bank's objective treatment of investors, this assessment studies the bank officials' beliefs about the investors, their behaviors toward the investors, and the investor's objective treatment of the bank's officials.

  There is some obvious overlap in indicators here. But this bilateral approach offers a much more detailed picture of the relationship and identifies some potential problem spots that might not be identified in a simple multilateral assessment. One side might have positive feelings about the other side, but the feeling might not be mutual. That is problematic not only because there is a negative indicator but also because one side seems oblivious to the problem, which is itself a potential problem.

- ***Comprehensive.*** Finally, a comprehensive assessment is a bilateral assessment that is repeated for the rest of the bank's stakeholders. If the multilevel or bilateral assessment focused on the bank's relationship with regulators, then a comprehensive assessment would do the same analysis of the bank's relationships with customers, employees, the community, relevant activists, regulators, and whatever other group whose relationship could complicate the bank's current or future operations.

  Each of these four approaches is more labor-intensive than the previous: a multilevel assessment is about three times as labor-intensive as a rapid assessment; a bilateral assessment twice as labor-intensive as a multilevel; and a comprehensive assessment four or five times as labor-intensive as a bilateral assessment. A mix is possible; for example, one can do a rapid

assessment for more than one stakeholder group. And for many assessments, it might not be necessary (or possible) to do a comprehensive assessment. The amount of time and resources available limits how much can be done. The risk, however, is that the simpler methods have fewer layers of validation and are therefore more subject to investor bias.

Potential for Additional Applications

[In our original report, we applied] our legitimacy framework to the global banking sector in light of the reputational damage incurred by the Global Financial Crisis, but the framework has applications beyond banking. Indeed, our framework can be employed by investors across sectors to evaluate a company's intangible assets. As noted in our *ESG Essentials – A Guide for Investors* report, intangible assets constitute a larger proportion of market value than in the past, and this shift from tangible assets to intangible assets introduces more variability and uncertainty into the assessment of overall value to shareholders.

As investors address this issue, they would be keen to consider the legitimacy framework in evaluating intangible assets – specifically those that are dependent on a company's relationships with stakeholders. Customer relationships, brand names, corporate reputation and management quality are examples of intangible assets that can add or detract significant value based on the perception of legitimacy or illegitimacy, and investors must understand what drives these perceptions.

Directly quantifying the impact of legitimacy is not the goal. Instead, our legitimacy framework will enable investors to identify companies with a stronger capacity to manage relationships and greater prospects for long-term stability.

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Robert D. Lamb, PhD, *is an expert on governance, international development, and conflict with an emphasis on analysis of intangibles, complex crises, informal processes, and hybrid political and economic systems. He is a nonresident senior fellow at the Center for Strategic and International Studies, where he previously directed the Program on Crisis, Conflict, and Cooperation, and is a nonresident research scholar at the Center for International and Security Studies at the University of Maryland.*

Diane Glossman, CFA, *spent 25 years as an investment analyst, working on both the buy- and sell-sides. Over the course of her career, she covered all aspects of banking and financial services industries, with research distinguished by it's in depth coverage of banking technology and the international operations of US banks (visiting banks in over 60 countries).*

Reimagining the Private Sector Role Post-Conflict and in Anti-Terrorism

By Andrew MacLeod, Visiting Professor, Kings College London

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Imagine if the post-war recovery in Iraq had been implemented differently. Imagine if Iraq had been reconstructed successful? Would Syria look different today — would the Islamic State even exist? Would the terrorist threat be lessened?

It's the Economy…

These questions highlight the old adage used by Bill Clinton, "It's the economy, stupid." It is a fundamental truth often ignored in the public debate on how to tackle geopolitical instability: Economic development is key to post-war recovery and the return of stability to economies. The same applies for general development efforts. And private sector involvement is essential to economic development; it is the main driver of poverty alleviation.

When looking at capital flows from OECD to non-OECD economies, over half the capital flows pass through the private sector, around a third through remittances, and the balance through official aid and philanthropy.

Even though the private sector is the key driver of growth — so critical to stability — it plays little role in post-conflict recovery or development planning. Perhaps ironically, the smallest set of stakeholders — aid and philanthropy groups — is often seen as the main driver of reconstruction and granted a big seat at the planning table.

It is time to change the balance of importance given to aid and private sector stakeholders and to recognise where the key engine of growth is.

Distorted Expectations

Time frames in post-war recovery and reconstruction seem to have been distorted recently too, and should likewise be changed.

Consider this: When did the last Allied soldiers leave Germany after World War II? Answer: They haven't. When did the last Allied soldiers leave Japan after World War II? Answer: They haven't.

In Germany and Japan, the commitment to rebuilding and reconstruction, integration into the world economy, and defense against aggressors (read the Cold War) lasted three generations.

When did the last peacekeepers leave Bosnia? Answer: They haven't. Western support for peace-building, reconstruction and recovery in Bosnia has already lasted a generation, with no end in sight.

So why were Western powers so foolhardy as to think that troops could walk in and out of Iraq and Afghanistan successfully in less than a generation, let alone three generations? Why do some people even now think Western powers could get in and out of Syria in a mere five or ten years?

Why have these recent foreign policy efforts not included an active involvement of the private sector in *long-term* economic planning to bring order from the post-conflict chaos? Capital provision through banks, employment through frontier extractive industries, and the creation of additional economic activity through retail and services were all absent from post-war planning.

Why do many activists think the private sector is the enemy in poverty alleviation and look only to the non-profit sector for solutions?

Imagine if the negative impression many activists have of the private sector were turned around in recognition of the private sector's role in post-conflict reconstruction, or indeed generalized poverty alleviation through employment. How would businesses' relationships with local and international communities (and their own staffs) change? Would this be a 'win-win' where communities and corporations would both be better off both in the developed and less-developed world?

Imagine if corporations, non-profit and government agencies worked more in alignment. Would aid impact be increased and poverty be alleviated more effectively if government and non-profit interventions led to more effective long-term investment?

The truth is though the private sector is already active in job creation, poverty alleviation and post conflict reconstruction — it is just that they are not given credit for it. Activists see profit as "evil" rather than an enabler of growth, and therefore do not see how the not-for-profit sector should enable well-regulated private sector investment.

Nestlé has been active for many years improving nutrition — and yes expanding its markets. BASF has been helping farm productivity — and expanding its markets. Agco, through brands such as Massey Ferguson, has a specific small farmer product offering aimed at sub-Saharan Africa which sees small-scale farmer productivity improvements — and market expansion for Agco.

Surely a more sensible approach is for the for-profit and not-for-profit sectors work together based on their comparative advantages?

Imagine if the not-for-profit world and the aid sector concentrate on improving legal systems, anti-corruption processes and governance, and counted private sector job creation as a success?

A More Sensible Approach

Think of terrorist attacks over the past few years. Most radical extremist attacks in Western countries have been home-grown. This is where the majority of effort should be placed. At home. But how and where?

A recently publicized MI5 report confirms that most of these home-grown terrorists have not been particularly pious religious fanatics, have often been new converts to religion and come from many different demographics. Religion, according to MI5, is not the major factor. The one common thread in extremist attacks in the West is that home-grown terrorists almost always come from low-paying working-class backgrounds.

MI5 recognizes that ISIS has been a master manipulator of this disenfranchisement that victory in the home-war is more about economics than religion, and indeed that pious religious followers are allies against extremism, not an enemy.

Can the private sector play a role here too?

Since the release of Michael Porter and Mark Krammer's articles raising the profile of 'Creating Shared Value' (CSV) as a concept, more companies are beginning to realize the benefit to profit and asset valuation with a more holistic understand of community relations beyond "Corporate Social Responsibility." But have the benefits that come from this thinking been maximized?

Both the UK and Australian Governments have recently released reports calling for better alignment between the private sector, aid community and non-profit sector in foreign aid interventions—without fully realizing the same principles can be applied in their own economies. Equally, some leading NGOs are setting aside past antipathy towards the private sector, instead searching for collaborative partnerships.

Can Shared Value thinking be used as a framework for private sector involvement both in post-conflict planning and as a critical tool in lifting people from poverty and reducing the temptation to turn to extremism? Can this opportunity be married with long-term thinking to change the way policy makers address some of the great challenges of this generation?

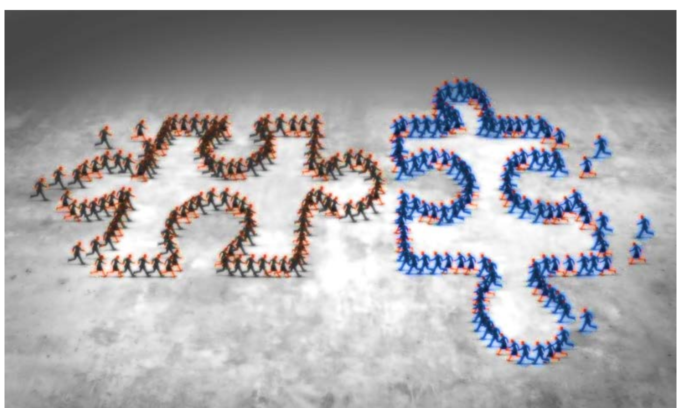
Kings College London recognizes these gaps and opportunities in post-conflict, post-disaster and general development settings, and is looking to build on Porter's and Krammer's work. Kings is establishing a consortium of academics, corporate innovators, engaged foundations and policy experts to lead global thinking around building on shared value and to promote further uptake among the business community. Perhaps our way of thinking will lead to a "new order" in how we address these challenges.

Andrew MacLeod *is a former high-level UN official who has in the past negotiated humanitarian access guarantees with fundamentalist and conservative Islamic groups. He is a visiting professor to Kings College London and an Executive Board member of Cornerstone Capital.*

Accelerating Impact

Health as a Business Tool

By Shahnaz Radjy, The Vitality Group, and Daniel Malan, University of Stellenbosch Business School



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Human capital is at the heart of most successful businesses, yet at a time when New Year's resolutions abound on an individual level — with a majority being health and well-being focused as many of us strive to eat better, exercise more, stop smoking, etc. — too many companies are focused on business as usual as well as how to improve their bottom line, and do not link employee health and well-being with corporate performance. New research suggests this is short-sighted.

Three studies recently published in the Journal of Occupational and Environmental Medicine (JOEM) by workplace health experts including Ray Fabius, Ron Goetzel, and Ron Loeppke among others, found that companies investing in employee health outperformed their S&P 500 peers by 7-16% per year over more than a decade. These companies were identified based on their receiving evidence-based awards such as the C. Everett Koop Award or the American College of Occupational and Environmental Medicine (ACOEM) Corporate Health Achievement Award, as well as scoring highly on the HERO self-assessment.

The JOEM studies do not prove cause and effect but do confirm a link between best-in-class workplace health programs and improved stock performance. What does this mean, practically speaking? That investing in evidence-based employee health programs is not a bad allocation of resources, and may be a useful proxy for other highly effective business practices as well as good governance.

It also means that boards of directors, shareholders, and investors may have a vested interest in starting to ask questions about employee health and well-being. Companies willing to be transparent about how they are managing their human capital — including identifying and dealing with material risks not limited to occupational safety and health but extending to current day trends such as obesity, diabetes, and cancer — are most likely doing more and better, building a culture of health both within their corporate walls and beyond.

McKesson Corporation – one of the 2015 recipients of the C. Everett Koop Award – conducted analyses on their employee health data with a researcher at Harvard University, demonstrating that:

- In three years, engaged adult participants increased activity levels by 92%.
- Employees who were "medium engaged" or "highly engaged" in the workplace health and well-being program spent between $916 and $1,238 less on medical expenses per employee in 2014 than did "low engaged"

employees in 2012 and 2013. This led to overall savings of $4.7 million in medical costs for McKesson.

- Employees self-reported that their on-the-job performance increased from 81.7% in 2012 to 85.3% in 2014. When this increase is converted into dollars using a conservative salary-conversion method, total savings was nearly $7 million each in 2013 and 2014.

Connecting the dots, this means that investing in employee health and well-being programs has the potential to reduce healthcare costs and increase productivity.

Learning from the environmental movement and the work of the Carbon Disclosure Project as an example, one way to catalyze such transparency is for companies to start voluntarily reporting on employee health (beyond occupational safety and health). This will encourage a shift from seeing healthcare costs as something to manage in a silo to understanding that investing in employee health promotion and chronic disease prevention is a way to tackle the issue upstream. The report "Reporting on Health: A Roadmap for Investors, Companies, and Reporting Platforms" is a step in that direction, providing specific indicators that corporate leaders, investors, and hopefully also existing integrated reporting platforms such as the IIRC, GRI, or SASB, can build on.

Investors, shareholders, board members or corporate leaders understand that taking care of themselves as individuals is necessary to perform optimally and achieve personal goals. Recognizing that health is a cornerstone of good business means that employee health and well-being is also something to ask about and invest in professionally.

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Upcoming Events

Global ESG Calendar

Date/Time	Event	Location	Information
1.20.16 – 1.23.16	The Annual EcoFarm Conference	Asilomar Conference Grounds Pacific Cove, CA	http://www.eco-farm.org
1.20.16 – 1.23.16	World Economic Forum – Annual Meeting	Davos, Switzerland	http://www.weforum.org/events/world-economic-forum-annual-meeting-2016
1.25.16 – 1.27.16	Cleantech Forum – San Francisco	Parc 55 Hotel San Francisco, CA	http://events.cleantech.com/cleantech-forum-sf
1.25.16 – 1.27.16	Ecotourism and Sustainable Conference – ESTC America	University of South Florida Tampa, FL	http://www.ecotourismconference.org
1.27.16	2016 Investor Summit on Climate Risk, "Advancing the Clean Trillion"	United Nations New York, NY	http://www.ceres.org/investor-network/investor-summit/agenda
2.1.16 – 2.5.16	Education for Sustainability, Transformative Learning and the Earth Charter	San Jose Costa Rica	http://bit.ly/earthcharterfeb2016
2.9.16 – 2.11.16	Wind Power Finance and Investment Summit	Ranch Bernardo Inn San Diego, CA	http://www.infocastinc.com/events/wind-finance-investment
2.18.16 – 2.19.16	Net Positive – Energy and Water Conference	Manchester Grand Hyatt San Diego, CA	http://www.netpositiveconference.org
2.20.16 – 2.22.16	Wisdom 2.0 Conference	Marriot Marquis Hotel San Francisco, CA	http://www.wisdom2conference.com
2.23.16 – 2.25.16	GreenBiz Forum 2016	JW Marriott Camelback Inn Resort & Spa Scottsdale, AZ	http://www.greenbiz.com/event/2016/02/23/greenbiz-forum-2016
3.2.16 – 3.4.16	GLOBE 2016 – International Environmental Business Summit *Cornerstone Speaking Event*	Vancouver, BC Canada	www.globeseries.com
3.8.16 – 3.9.16	The 11th Annual Women's Leadership Conference	Hyatt Regency Hotel Rosebank, Johannesburg South Africa	http://welead.co.za/womans-leadership-conference
3.14.16	The 15th Annual Wall Street Green Summit *Cornerstone Speaking Event*	Columbia University Club New York, NY	http://www.wsgts.com
3.15.16 – 3.16.16	2016 Women's Empowerment Principles Annual Event *Cornerstone Speaking Event*	United Nations New York, NY	http://weprinciples.org/Site/
3.22.16	3rd Geneva Summit on Sustainable Finance	International Conference Centre Geneva, Switzerland	http://www.geneva-summit-on-sustainable-finance.ch
3.30.16 – 3.31.16	*2nd Annual ESG, SRI & Impact Investing Summit* *Cornerstone Speaking Event*	Princeton Club, New York, NY	https://www.frallc.com/calendar.aspx#

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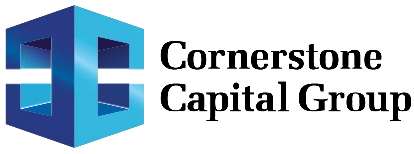

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