

## Dow Jones Sustainability Indexes: Access to World Capital

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Por William Cox

The Dow Jones Sustainability Index (DJSI), founded in 1999, is perhaps the most influential sustainability metric worldwide. Sustainable Asset Management (SAM), the firm assessing the companies applying for membership in the DJSI, each year evaluates over 1.200 firms in 58 sectors on their answers to 100 questions relating to their sustainability performance. Currently 317 companies worldwide, including 7 from Brazil, are included in the DJSI. Companies are reassessed annually and face a new questionnaire each year of which about 20% of the points are adapted to new developments, such as the recent financial crisis.

With projections that 15% to 20% of the world's assets under management will be managed according to sustainable guidelines by 2015, sustainability data provided by DJSI and SAM have gained new importance in terms of their impact of free cash flows, and risk and return for investors. Since its inception, DJSI World, which is based on free float market cap, has increased by 31,66% (MSCI 25,92%) between January 2009 and January 2010. For 5 years ending January 2009, these numbers are 6,75% and 1,60%, respectively. And SAM data show that the 20% most sustainable companies outperformed their benchmarks over 10 years while the 20% least sustainable companies underperformed benchmarks over the same period.

The number of companies applying for DJSI membership has constantly increased from 469 in 1999 to 1.237 in 2009. The average score has improved from 27 to 48, and the weight of sector-specific questions has increased from 30% to 57%. SAM and Dow Jones are thinking to introduce a new emerging market DJSI later this or next year, which would include an important weighting of Brazilian assets. The current 2010 SAM DJSI questionnaire are giving more weight to risk management, process and innovation management.

Although only 7 Brazilian companies are in the DJSI World, a high proportion of these are world sector leaders—the highest category in the DJSI. CPFL, CEMIG and Itausa are world sector leaders. Banco Bradesco and Banco Itaú make it to “Gold Status”, the next category from the top.

As investors constantly seek new data for achieving higher returns for less risk, sustainability has become one of the hottest types of information for investors today. And the financial crisis has provided further impetus for this trend as investors see that a lot of data given by companies have little value in assessing their actual risks and predicting their probable future performance. Sustainability looks into a company's operations, looking at everything from its training programs to IT investments.

With more data on sustainable companies' performances, analysts are in a much better position to isolate sustainability performance both at an aggregate corporate level and project

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level. And only with such data are significant amounts of capital going to flow into sustainable investments. SAM, for example, identifies three sustainable drivers:

- 1) Risk premium on bonds and equity that impacts the weighted average cost of capital (WACC)
- 2) Return of invested cost of capital impacting free cash flows (FCF), and
- 3) Sales growth also impacting FCF's.

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