

With The London Accord, the City of London Corporation has created the first 'open source' resource covering areas where finance and investment interact with policies on environmental, social or ethical issues, enabling investors to analyse investment implications, identify opportunities and manage risk in long-term portfolios. This resource is also of huge interest to those in the wider society who wish to explore sustainable, market-based solutions to these issues.

News

On The London Accord front:

Bridging the City and society

Every year, the City's financial institutions produce hundreds of cutting edge research reports, covering topics as diverse as malaria, HIV/AIDS, corruption, armed conflict, governance, obesity, longevity, genetic modification, access to medicines, pandemics, water scarcity, cropland, fish and living space. The purpose of this research is to identify new investment opportunities and to manage risk in long-term portfolios such as pension funds and insurance.

The Enhanced Analytics Initiative estimated that there might be up to 3,000 such reports produced annually, and this year 300 of them were rated as outstanding. However, this investment research is produced for a tiny audience (generally less than a couple of hundred individuals) and has a very short commercial shelf life (almost never more than three months) before it is lost.

The contents of these reports are of extreme interest to politicians, decision makers, academics and members of the public who wish to explore sustainable, market-based solutions to these problems and issues.

Today's extra-financial and social issues are also tomorrow's key investment drivers. A good example of how rapidly 'fringe' issues become core to investment is climate change and the carbon markets. The financial services industry largely absent from the public climate change debate has been producing research on this subject for some time that could have aided policymakers.

The London Accord was initiated by the City of London Corporation in May 2005 in partnership with a consortium of organisations including; BP, Reuters, Z/Yen Group, Forum for the Future and Gresham College. The project was the largest single collaborative research project ever undertaken in the City.

The first phase of the project sought to capture the City's thinking on climate. The resulting publication formed a substantial report containing over £7 million (US\$10 million) worth of contributions from 19 organisations based in six countries.

"This 'blueprint' for decision makers has secured the City of London's position as the world leader in cutting edge innovation on enhanced analytics, carbon finance and clean-tech," said Simon Mills principal policy officer, sustainable development at

Investing in a low carbon world

Investment opportunities for a low carbon world, edited by Will Oulton and published by GMB Publishing, is an important new book featuring key contributions and papers from several London Accord members, including Alice Chapple, Dr. Matthias Fawer, Zoe Knight and Mark Thompson

Due for publication in early 2009, the book is aimed at the global investment community outlining the fast growing and dynamic low carbon technologies and the methods and opportunities available to invest in them. Environmental and low carbon technologies and sectors are covered together with the measurement tools, investment vehicles and markets available to investors. Issues affecting market outlook for investors, from regulatory issues to the impact of climate change, are also addressed.

the City of London Corporation.

"Due to the enthusiastic reception the Accord received from policymakers in the UK, EU, North America and Asia, the consensus amongst the original participants is that The London Accord increases the social value of the existing investment research process and adds value for the authors and their firms by enhancing policy recommendations," Mills continued.

The next phase of the project will seek to meet this challenge, by allowing firms to reuse/recycle their existing investment research for the common good, thus capturing the world's highest quality investment research and making it available, free of charge, to anyone who wishes to see it.

To this end The London Accord website will remain "open access", and as further research is added to it, it is hoped, said Mills, that over time it will grow to become the world's most important repository of this type of research.

"The City of London Corporation believes that The London Accord provides a bridge between the City and society, which will assist financial services to act as an efficient engine for growth. We hope that the second phase of this project will cement the City of London's reputation as the leading centre for long-term planning and innovation in the financial services arena, and ultimately will facilitate the creation of better public policy," said Mills.

Simon Mills has been head of sustainable development for the City of London since 2000, with a role focusing on sustainable finance, climate change, environmental planning, management systems and policy development. He sits on the steering groups of a number of pan-London and national organisations (www.cityoflondon.gov.uk).

Additionally, *Investment opportunities for a low carbon world* will be officially launched at The London Accord Conference in March 2009, where chapters will be featured in greater detail with opportunities to hear from individual authors (see page 4).

For further information about this title contact:
sdennehy@gmbpublishing.com

Corporate ESG failings pose investor risks ...

The key environmental, social and governance (ESG) risks and opportunities to companies identified by the United Nations Global Compact concerning human rights, supply chain labour standards, environment and anti-corruption are explored in a new report from the global responsible investment specialist EIRIS.

The state of responsible business in 2008: implications for PRI signatories reveals that the current global financial crisis underlines the need for more sophisticated risk management, greater transparency and more active engagement with companies.

The United Nations Principles for Responsible Investment (UN PRI) promotes the incorporation of ESG factors into investment risk analysis. Complimenting the UN Global Compact, the PRI is a successful initiative for raising the profile of ESG issues amongst investors. Investors with US\$15 trillion of assets under management have now signed up to the PRI. Included is a commitment by investors to incorporate ESG factors into their investment analysis, and which enables investors to share knowledge and develop effective engagement approaches.

The report reveals that 80% of companies listed on the FTSE All World Developed Index face significant unmanaged ESG risk and highlights the challenges these risks present to UN PRI signatories and other investors – a key point considering the growing view amongst investment professionals that ESG issues can affect the performance of investment portfolios. These challenges are:

- Climate change – high impact sectors such as oil & gas account for over half of total global greenhouse gas emissions, but only 10% of companies operating globally in such sectors have adopted a good or advanced response to climate change risk. To meaningfully address climate change companies need to significantly reduce their carbon emissions.

... As investor responsibility assessed

Although some fund managers have improved their management of the risks presented by ESG issues there is a wide gap between the best and worst performers, with environmental and social risks relatively neglected, according to new research from FairPensions.

FairPensions, which campaigns for UK pension funds and fund managers to adopt responsible investment practices, assessed 30 of the biggest fund managers operating in the UK. Researchers analysed the resources, activity and evidence of success that fund managers can show in relation to ESG risks and opportunities. Public accountability on these issues was also measured.

Top performers included F&C (100%), Insight (86%), Hermes and Aviva (83%). Those at the bottom of the league table were Credit Suisse, Invesco and Artemis. Those fund managers surveyed this year and in 2007 showed marked improvement, with engagement scores rising 22% and transparency scores 25% according to the findings. Anecdotal evidence suggested increased demand from pension funds and other clients was a factor in this development.

There was strong evidence though that many fund managers' management of ESG issues is limited to governance issues only: although 22 fund managers provided evidence of attempts to bring about change in company ESG practices, only eight did so when the question was limited to environmental and social issues.

- Human rights - about 25% of companies face high exposure to risk in this area, but only 10% of these have adopted good practices to manage human rights and supply chain labour standards.

- Environment – over 50% of high impact companies demonstrated a good management response, but many face unmitigated environmental risks particularly in North America and Asia ex-Japan.

- Bribery and corruption - only 10% of high-risk companies manage their bribery risks to a good standard.

Based on the results of the EIRIS research the report gives recommendations aimed at assisting investors considering ESG issues:

- Integrate ESG risk into the investment strategy;
- Engage with companies and other key stakeholders to improve company performance;
- Improve corporate disclosure levels;
- Support the work of the PRI, its benefits and obligations.

“The global financial crisis underlines the crucial need for a more sophisticated understanding of risk management. A growing number of investors are recognising that ESG factors are key to protecting shareholder values and mitigating risks,” said Peter Webster, executive director of EIRIS at the launch of the report.

For the full report visit the EIRIS website at: www.eiris.org

The research found strong correlation between signatories of the UN PRI and performance on ESG analysis and engagement: 75% of the fund managers in the top half of the league table are UN PRI signatories, compared to less than one-fifth in the bottom half.

Set against a background of growing interest in the role of the financial services industry, the findings raise the question of regulation. The fact, for example, that only eight of the 30 fund managers surveyed revealed their full voting record strengthens the argument for the government to use its reserve power to make voting disclosure mandatory, considers FairPensions.

“The need to look beyond quarterly results is something we have all become acutely aware of in recent months. It is good to see that fund managers are increasingly assessing long-term risks, but some we examined continue to perform very poorly indeed on this area of risk management,” said Catherine Howarth, chief executive of FairPensions.

For the full report: *Investor responsibility? Performance and accountability on 'extra-financial' risks by UK fund managers*, visit www.fairpensions.org.uk

National Ethical Investment Week 2009 announced

The second National Ethical Investment Week (NEIW09) has been announced by UKSIF for the 17-23 May 2009, building on the success of this year's inaugural event.

The success of NEIW08 showed there is substantial support for a week focusing on green and ethical investment. The 2009 event will provide increased support for independent financial advisers (IFAs) enabling them to advise interested clients and benefit from the increased profile for green and ethical investment.

An in-depth evaluation of NEIW08 carried out in June by UKSIF highlighted the key achievements:

- Widespread endorsement for an annual event from industry leaders, advisers, journalists and NEIW sponsors.
- Breadth of coverage gained by IFAs, NGOs and other participants, who earned a third of total media coverage

achieved, highlighting that the "Fairtrade Fortnight" model could work for organisations pursuing their own PR initiatives.

- Significant brand recognition for the logo, which will be used again in 2009.

"National Ethical Investment Week 2009 will connect green and ethical investing with the bigger picture, not only in terms of environmental and social issues, but also in terms of sound financial approaches. Now, more than ever, it makes sense to focus on investment strategies that are sustainable in the long-term," said Penny Shepherd chief executive of UKSIF.

For further information visit: www.neiw.org/media-centre

Research

Investment research reports have a short shelf life and a small audience within the financial services industry yet there is additional value to be gained by sharing this research appropriately with a wider community as the research produced covers a variety of topics of interest to industry, NGOs, policymakers and politicians alike.

The London Accord increases the social value of the existing investment research process, adding value for the authors and their firms by enhancing policy recommendations. In this light the London Accord is keen to see greater participation from the financial services community in the sharing of research in the ESG sphere and welcomes new input.

For the full reports visit The London Accord website: www.london-accord.co.uk.

This issue highlights:

Efficient buildings – still some way to go

This challenging report, part of Crédit Agricole Cheuvreux's (CAC) *Lean Way* series explores "a gold mine of energy savings" in the building sector. Although this sector consumes the most energy and emits the biggest amount of CO2 of any, nevertheless this is the sector with the greatest leverage to combat energy waste.

Although not subject to the European Emission Trading Scheme, the building sector could become the centre of attention as EU member states seek easy areas to help meet emission reduction targets.

The building renovation market considers CAC, has not reached its expected potential in spite of a wide range of favourable factors promoting energy efficiency and encouraging renovation. These factors are:

- High energy prices;
- Regulations that impose stricter standards and assist households to carry out thermal retrofitting through tax credits, low-interest loans and market-based tools;
- A series of available and proven technologies with an acceptable price and return on investment.

From €20 billion (US\$25 billion) currently, the market is set to grow to €60 billion per annum in Europe by 2050 in order to efficiently renovate all existing buildings and meet Kyoto Protocol commitments.

There are remaining hurdles holding the market back though. With the spread of the credit crunch affecting the new residential

building sector in some European countries combined with the announced economic slowdown, companies are back to major cycles constraints after years of buoyant market trends, warns CAC. Despite a strong growth rate for innovative energy efficient products, each player is likely to be subject to the market conditions of the regions in which it operates.

Growth trends will prove to be very mixed in Europe depending on countries, end-markets and penetration rates. Labour shortages and lack of building skills are further factors curbing growth in this sector.

Although ultimately high energy prices, tougher regulations and emerging technologies should increase the attractiveness of reducing building sector emissions, the report concludes that building energy savings is not yet an investment theme for "despite the apparent appeal of this theme, the timing is not favourable for the formation of a premium for insulation and heating equipment companies compared to their other building material peers." For this to occur positive signals are required, such as direct public investments or market recovery, considers CAC.

The lean way: efficient buildings. Stéphane Voisin and others (Crédit Agricole Cheuvreux).

Events

Looking ahead conferences and presentations associated with The London Accord are already being planned.

For further information visit: www.london-accord.co.uk/events

Coming up:

24 March 2009: The London Accord, London

Investment Opportunities For A Low Carbon World - The London Accord 2009

Tuesday, 24 March 2009, 13:30 - 18:30, Guildhall, City Marketing Suite, Basinghall Street, London EC2P 2EJ

The London Accord is the world's largest cooperative investment research programme into environmental, social and governance issues, particularly climate change. Founded in 2005, The London Accord releases investment research to policymakers and the public in order to help promote saner policy-formulation on issues that involve finance. This is the second year that the Securities & Investment Institute hosts The London Accord's annual conference where some of the key research papers will be presented and discussed.

The agenda is:

13:30 - 14:00 - Coffee and reception

14:00 - 14:30 - Will Oulton: FTSE - investment opportunities for a low carbon world

14:30 - 14:45 - Discussion

14:45 - 15:30 - Panel: investment opportunities

15:30 - 16:00 - Coffee

16:00 - 17:15 - Panel: investment implications of a low carbon world


17:15 - 17:30 - Professor Michael Mainelli, Z/Yen Group: London Accord 2009

17:30 - 18:30 - Reception

Panelists will include London Accord participants drawn from Merrill Lynch, Bank Sarasin, Credit Suisse, Credit Agricole Cheuvreux, CanaccordAdams, Glitnir, WestLB, Herbert Smith and Forum for the Future, among others.

Produced in association with City of London Corporation, Gresham College and Z/Yen Group Limited.

The London Accord



A wider audience for your research? SRI Briefings and The London Accord welcome quality research and events listings from industry analysts, professional bodies and institutions in the sustainable investment field.

Contact: Editor, SRI Briefings at: sdrury@srib.co.uk or visit: www.srib.co.uk

Interested in exploring participation and funding The London Accord?

Contact: Professor Michael Mainelli, Z/Yen Group at: michael_mainelli@zyen.com