

This New Year issue covers news, research and events from The London Accord and other organisations working in areas where finance and investment interact with policies on environmental, social and ethical issues. The London Accord has created the first 'open source' resource enabling investors to manage risk and research opportunities in these areas. At the same time the resource has serious interest for those in the wider society seeking to explore sustainable, market-based solutions.

News

FTSE expands environmental opportunities indices

A consequence of climate change and its expected effects on the future of the global economy is increased expectation that environmental markets, including environmental technologies, will provide attractive and sustainable investment opportunities for global investors. FTSE Group, the global index provider has recognised this trend. In 2007 FTSE partnered with specialist environmental investment company Impax Group to develop a range of indices that cover environmental markets.

A recent development has been the expansion of the FTSE Environmental Opportunities Index Series, with the addition of nine new indices.

The FTSE Environmental Opportunities Index Series measures the performance of global companies with significant involvement in environmental business activities, including renewable & alternative energy, energy efficiency, water technology, and waste & pollution control. The series requires companies to have at least 20% of their business derived from environmental markets and technologies.

"The idea behind this launch is to provide a range of indices which identify those companies that are adapting their business models to exploit the growing low carbon economy," said Will Oulton, head of responsible investment at FTSE Group.

Taking the issue of water for example, which is emerging as one of the key socio-political and environmental issues. "It is currently estimated that over US\$4.5 trillion is needed to address water infrastructure over the next 20 years. At present the world market for water-related business is roughly estimated at US\$400 billion and is

predicted to grow by 1000% over the next two decades. It is clear that there is a need for long-term investment in the sector, including investment in water management, distribution, treatment services and technologies," continued Oulton.

FTSE considers indices a key tool for investors increasingly recognising the impact that climate change and environmental issues can have on the long-term value of their portfolios. "By providing well constructed and transparent indices, such as the Environmental Opportunities Index Series, growing numbers of global investors can benefit from a means to identify, manage and gain exposure to the emerging low carbon technology sectors," said Oulton.

The FTSE Environmental Opportunities indices are part of FTSE's broader Environmental Markets Index Series, including the FTSE ET50 index, which tracks the performance of the world's biggest environmental technology companies. These indices offer investors a comprehensive set of performance measurement tools by which they can track environmental markets.

For further information visit: www.ftse.com/media_centre

Corporate South Africa responds to HIV/AIDS

The corporate response to HIV/AIDS from the biggest companies listed on the Johannesburg Stock Exchange (JSE) is the focus of recent research by the global responsible investment specialist EIRIS.

Positive corporate responses to HIV/AIDS: a snapshot of large cap South African companies provides an overview of the impact of HIV/AIDS on businesses and discusses the various steps being taken towards the establishment of a comprehensive strategy covering awareness, prevention and treatment programmes for employees and the wider community.

Globally, the rate of HIV infection continues to rise with 7.7 million new infections recorded in 2007. In sub-Saharan Africa rates of infection are noticeably high, South Africa alone experienced an 18% rise in infection rates in 2007.

As part of a wider programme covering emerging market research and working with the JSE the report analyses the corporate response to HIV/AIDS of the large cap companies listed on the FTSE/JSE Top 40 Index.

The research highlights encouraging developments into the way South African companies are tackling HIV. These include increased access to effective treatment, education and prevention programmes.

Key findings include:

- Over 90% of companies provide employee access to effective treatment and prevention programmes.
- Over 70% of companies provide HIV/AIDS prevention and treatment programmes to local communities.

- The mining and financial sectors have the most advanced HIV/AIDS strategies.
- However, while companies perform well on HIV/AIDS strategy, performance on training is weaker.

Additionally, the report also outlines key steps investors can take to encourage other companies to tackle the risks associated with HIV/AIDS. These include:

- Engaging with companies in other countries where HIV/AIDS is a risk.
- Encouraging companies to engage with broader stakeholders, including government, NGOs, industry bodies and their supply chains to enhance and share best practice.
- Engaging with South African small- and mid-cap companies beyond the Top 40.

"Corporate best practice on HIV/AIDS is a continually evolving field. It is really encouraging to see South African companies invest in awareness, prevention and treatment programmes for employees and the community at large," said Stephanie Maier, head of research at EIRIS.

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

Research

Investment research reports have a short shelf life and a small audience within the financial services community yet there is added value in sharing this research appropriately with a wider community, as the research produced covers a variety of topics of interest to industry, NGOs, policy-makers 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. The City of London Corporation, in cooperation with London Accord participants leads this 'open source' research project and shares this resource with society.

The London Accord encourages participants to share new environmental, social or governance (ESG) investment research reports that are now not commercially sensitive. If firms have any ESG reports they would like to donate, please contact Professor Michael Mainelli, Z/Yen Group at: michael_mainelli@zyen.com

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

ETS and aviation – generating efficiency

A report on the effect on aviation of the EU emissions trading scheme (ETS) is timely. Under the framework, from 2012 all airlines arriving and departing from the EU will be regulated and will need to pay for their CO2 emissions.

Merrill Lynch considers that the scheme "should serve as a blueprint that will be replicated through other regions as carbon trading becomes more widespread."

The EU's forceful proposals are considered credible to generate efficiencies designed to reduce CO2. In 2012 airlines will be given the majority of allowances for free, but must pay for some. However the combination of rising fuel costs and recession raises questions about whether emissions trading is needed to reduce aviation carbon emissions in the short-term, as some current players are forced to leave the industry.

Merrill Lynch estimates the potential cost of ETS to the industry at around €3 billion (US\$4 billion) per annum, but on a per passenger basis thinks the scheme is not too onerous

considering there is "a high likelihood" that airlines will pass most of the costs on to passengers.

ETS however may well also have ramifications for the aerospace and aero-engine sectors. The demand for new wide-bodied aircraft is set to remain strong beyond 2012 as they offer 20% fuel efficiency gains as opposed to the old generation of aircraft. There has also been recent increased demand for narrow body engines technology upgrades. Merrill Lynch however sees "limited incremental demand for new narrow body aircraft orders."

Aviation in EU ETS: an incentive for efficiency. Zoe Knight, Celine Fornaro and Samantha Gleave (Merrill Lynch).

Sustainability and share performance

A large-scale statistical analysis by Bank Sarasin of sustainability ratings for European and US companies provides further impetus to the debate on links between share price performance and sustainability measures.

In a new report Bank Sarasin in cooperation with the Center for Corporate Responsibility & Sustainability, University of Zurich and other organisations provides an opportunity to "take stock of the opinions and the latest findings on the correlation between sustainability and share performance." The report updates and expands on a first report published in 2002.

Bank Sarasin tackles head on the contention that sustainable investment must harm either portfolio performance by limiting diversification or company performance by increasing costs.

The report concludes that:

- Sustainability does not have a negative impact on the financial performance of share portfolios. This considers Bank Sarasin challenges the widely held opinion that applying a sustainability filter actually restricts the optimal selection of investible stocks and therefore has a negative effect on the risk/return profile

of sustainable portfolios. It also disproves the argument that environmental and social initiatives adopted voluntarily by companies are incompatible with market rules and can destroy value.

- Sustainability tends to have a positive impact on share performance in certain cases. Bank Sarasin considers that interdependence has increased in recent years, presumably because of the growing importance of the themes of energy and climate protection. Additionally, empirical studies are based on data from the past, but in future "we expect an increase in the relevance not only of energy and climate protection, but also other environmental and social themes in politics, society and commerce. This will further strengthen the growing links between sustainability and financial parameters."

Sustainability and share performance – a long running debate revisited. Dr Eckhard Plinke (Bank Sarasin).

Agricultural commodities remain attractive

While "commodity super-cycle" price forecasts are shelved at the moment a generation of under-investment in agriculture means that crop prices should continue to reflect "peak grain" new entry costs for at least another decade. "This should allow the lowest cost agri-producers with access to working capital to make exceptional returns with high visibility into the medium-term," considers new London Accord member SP Angel.

Commodity prices, including agricultural, have suffered over the past few months as the global economic slowdown has led to concerns over on-going demand levels.

SP Angel notes that the global agricultural reserve margin (stocks-to-use level) has fallen to the critical 15% level, leaving the adequate supply of produce very vulnerable to adverse weather

conditions. A return to the historic 25% reserve margin over the next 15 years will require the habilitation (or rehabilitation) of around 140 million hectares (10% of total current arable land), implying global investment requirements of the order of US\$230 billion over the next 15 years.

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Agricultural commodities remain attractive

The scale of investment required, during a period of scarce and expensive capital, will combine with other high start-up costs and transport bottlenecks to keep agricultural commodity prices relatively high to the medium-term.

SP Angel concludes that:

- There should be attractive margins to be made for lowest cost producers with access to adequately priced working capital.
- But, while this factor has been efficiently priced into land values in most countries, this is not yet the case in Russia or Ukraine, where

SP Angel's Agricultural Commodity Model reveals quality arable land should be valued at around US\$3,500/hectare compared to current market prices of around US\$1,500/hectare.

Make hay (even while the sun doesn't shine). Jason Goddard and Terrel Moore (SP Angel).

Climate finance – business and the community

The business case for climate change adaptation undertaken by companies in co-operation with local communities and stakeholders is explored in a discussion paper from risk management consultants Acclimatise and Synergy working with the UK Department for International Development, Barclays, HSBC and Forum for the Future.

The discussion paper *Climate finance, business and community: the benefits of co-operation*, was released at the United Nations Framework Convention on Climate Change (UNFCCC COP14) in Poznan, December 2008. The paper builds on earlier work undertaken with Barclays and The London Accord project.

The aim is to stimulate discussion on the reasons why it is so critical for businesses to take climate change seriously, to identify key actions and to highlight how these actions can be designed in collaboration with local communities and stakeholders to improve their adaptive capacity.

Feedback will shape the development of a more in-depth report, due for publication in Spring 2009, focusing on five diverse sectors

vulnerable to climate change. These cover: long-lived fixed assets; chemicals and pharmaceuticals; fossil fuel and renewable power generation – supply and generation; and tourism.

The authors would welcome feedback on this discussion paper and on the merits of undertaking a second phase, which would consider other sectors. **Contact: John Firth, chief executive officer of Acclimatise. Email: j.firth@acclimatise.uk.com**

Climate finance, business and community: the benefits of co-operation (Acclimatise and Synergy).

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

Events

A busy few months are ahead with conferences and events presented by The London Accord and other organisations. Coming up:

London Accord events:

24 March: The London Accord, London

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

Tuesday, 24 March, 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.

29 January: City of London Corporation/The London Accord, London

Forests, Carbon & Finance Breakfast Meeting

Thursday, 29 January, 08:00 for 08:45 – 11:45, Guildhall Marketing Suite, Guildhall, Basinghall Street, London EC2P 2EJ

Chair: Professor Michael Mainelli, Z/Yen

Hosted by: The City of London Corporation in association with The London Accord, Gresham College and Z/Yen Group

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29 January: City of London Corporation/The London Accord, London

A key finding of the City of London's London Accord initiative (www.london-accord.co.uk) has been that forestation and avoided deforestation are crucial themes for investors given society's increasing willingness to pay to avoid climate change. Uncertainties surrounding forestry abatement, costs and returns affect portfolio selection, even if a portfolio does not contain direct investment in forestation or avoided deforestation. Interaction with wider issues, such as pressures on land use, water, biodiversity, sustainable forestry management or indigenous peoples' rights, makes forestry a complex investment. More mundane financial issues such as yield, transaction cost and liquidity are hardly straightforward either.

The City of London is hosting a discussion morning on forestry finance bringing together investment managers, insurers, investment researchers, brokerages and forestry experts. The aim of the discussion is to highlight some of the issues, establish connections among the participants and explore what the City of London or The London Accord might if anything, do.

The format of the morning is a keynote address with questions and two discussion panels:

- 08:00 to 08:30 - Buffet Breakfast
 - 08:45 to 09:00 - Greetings: Professor Michael Mainelli
 - 09:00 to 09:05 - Opening Address: Impediments To Forestry Finance
 - 09:05 to 09:15 - Q&A
 - 09:30 to 10:15 - Panel: Forests & Carbon
 - 10:15 to 10:45 - Roundtable discussions: Bottlenecks
 - Is forestry alone a good asset class?
 - How important are carbon credits?
 - How important is sustainable management?
 - How important is easy entry/exit of investment?
 - 10:45 to 11:30 - Panel: Forests & Finance
 - 11:30 to 11:45 - Open discussion: What might/should be done? Next steps?
- Close

Events being held by other organisations:

30 April: Global Policy Institute, London

London and The New Financial Order

Thursday, 30 April, Bloomberg Centre, London

A major conference will take place at the Bloomberg Centre to explore how London reshapes itself to once more attain a leading position as a global financial centre. This will be a participative and must attend event for senior executives and those involved in developing a new strategy to break through the present financial crisis.

Key European and US speakers will be from government, academia, regulators, the sovereign wealth funds, with others from finance, industry and the media.

For more information, updates and to register your interest, visit: www.global-policy.com

25 February: Economist Conferences, London

The 2009 Sustainability Summit: A New Climate Change – Responsible and Effective Carbon Footprint Across Borders

Wednesday, 25 February, The Dorchester, 53 Park Lane, London W1K 1QA

This one-day conference (www.thesustainabilitysummit.com) considers the leadership qualities and systemic solutions required for companies to deliver solid financial, social and environmental results.

Issues explored include: the business response to climate change; adapting business models to reduce carbon intensity; sustainability and company valuation; carbon trading; and the implementation of low-carbon technologies and products.

For further information contact: customerserviceuk@economist.com

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



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