



News, research and events from The London Accord and other organisations highlight issues where finance and investment interact with environmental, social and ethical policies to produce sustainable market-based solutions. With this aim The London Accord is working “towards better policies through shared investment research.”

News

On The London Accord front:

Investment opportunities for a low carbon world

The London Accord is the world's largest cooperative investment research programme into environmental, social and governance issues, particularly climate change. Held in March, The London Accord's annual conference hosted by the Securities & Investment Institute and The City of London Corporation, and co-sponsored by Gresham College and Z/Yen Group focused on investment opportunities for a low carbon world.

The aim of the conference was to highlight issues around environmental markets, assessing global trends and investment implications. The conference centred on a keynote speech delivered by Will Oulton, Director, Responsible Investment, FTSE Group followed by two discussion panels.

Also at the conference, a new book was launched. Edited by Will Oulton, *Investment opportunities for a low carbon world* features key contributions and papers from several London Accord members.

Keynote

Will Oulton described climate change as one of the key drivers of interest in environmental markets with others including energy security and supply, population growth, water scarcity, economic development, ecosystem degradation plus political and regulatory initiatives related to CO₂. Regardless of current financial market conditions these macro socio-political drivers are not going to fade away.

Environmental markets are defined as companies involved in sectors such as renewable and alternative energy, pollution control, and water infrastructure and technologies. They provide products and services offering solutions to environmental problems or that improve the efficiency of natural resource usage. The US for example under the new Obama Administration has made a commitment to low carbon energy, with US\$31 billion to be allocated over 10 years, plus US\$75 billion to be committed to climate themes, over half to be spent in 2009/10.

There are challenges though as public awareness surrounding low carbon issues tends to be ahead of the majority of pension trustees and their advisors. The need however to be part of the solution requires clarity about the opportunities available for low carbon investments. There is “a strong case for investors to engage with the policy community to ensure that policymakers get the policy details right.”

Panel: contrasting different low carbon investments

Panelists Gerrit-Jan Brunink, Triodos; Bruce Duguid, Carbon Trust; Dr Nick Goddard, Technical & Strategic Investment; David Harris FTSE Group; and Jan-Peter Onstwedder, 3i covered a number of major issues including:

- Environmental markets are still fairly new so uncertainties remain for investors in picking prospective winners in early stage technologies.
- Market definitions are key.

- There is the need for portfolio diversification and a risk-based approach by investors.

Panel: wider investment implications of a low carbon world

Panelists Martin Berg, Merrill Lynch; Kirsty Hamilton, Chatham House; Louise Moore, Herbert Smith; and Jennifer Walmsley, Hermes looked at wider implications including:

- Pension funds take a long-term view of risks; climate change is one of the risks needing to be factored in when investing in a carbon-constrained future.
- Investors need to consider regulation and the influence of geopolitical, infrastructure and policy issues.
- There are investment opportunities out there though with panelists citing agriculture, land-use, forestation and energy efficiency as areas of interest.

Summary remarks

The conference generated wide-ranging discussion identifying the challenges and opportunities affecting low carbon investments:

- Although there is currently a global energy deficit there is long-term support both at government level and in the wider world for low carbon markets.
- Policy makers must include scientists when formulating low carbon policies.
- The question of incentives and subsidies – environmental markets are perceived to rely on these substantially for early growth, which can have an impact on investors.
- Existing technologies can be applied to the development of clean technologies particularly in the area of energy efficiency.
- There is a new generation (especially a younger generation) of informed public opinion on climate change and a view that investors are behind the curve of public opinion – there is a need to create greater awareness of the issues involved amongst the investment community.
- Nevertheless, interest is growing amongst institutional investors and pension funds into climate change issues with a corresponding push for developing regulations, standards and greater transparency.
- Above all there is optimism – there are serious signals from the world community, particularly the US to make an immense effort to reach a solution to the impact of global warming at the UN Climate Conference in Copenhagen in December.

For more information visit: www.london-accord.co.uk

New UK law on emissions

In a recent bulletin, (17 March 2009) London Accord member Herbert Smith assessed the revised design and operation of the UK Government's Carbon Reduction Commitment (CRC) looking at the practical measures businesses should now be taking. CRC is a mandatory emissions trading scheme due to commence in April 2010 and will apply to a wide range of public and private sector organisations.

For further information visit: www.herbertsmith.com

Forests, carbon and finance

Forestation and avoided deforestation are crucial themes for investors given society's increasing willingness to pay to avoid climate change. The City of London hosted a symposium in January on forestry finance bringing together investment managers, insurers, investment researchers, brokerages and forestry experts. The aim was to highlight issues, associated with forestation and avoided deforestation as a means of tackling climate change; to establish connections among the participants; and explore what, if anything the City of London or The London Accord might do. The symposium centred on two discussion panels and was held under Chatham House rules:

Forests and carbon panel

The London Accord identified forestry as a key area for those investment portfolios concerned with tackling climate change, but three principle questions remain:

- Is afforestation an effective method of carbon sequestration?
- Is forestry an expensive mitigation option?
- How can the complex issues associated with forestry such as leakage, insurance, or indigenous peoples, be resolved?

Issues covered:

- Valuation of forests is creating challenges. Carbon is an important part of the jigsaw in finding a solution to deforestation, but other factors, such as eco-system services, biodiversity and local capacity building projects should also be considered.
- The voluntary market may play an important role but is currently a very small contributor.
- NGOs have a right to lead debate, but they also have a responsibility to assist in finding practical solutions. Some NGOs are already engaged in this.
- Property rights are crucial to forest protection - both in terms of land rights and rights to carbon.
- Governance and risk issues must be addressed if private sector capital is to be part of the solution.
- Land use/management issues are also key if deforestation is to be slowed.

Forests and finance panel

The opening panel presentation suggested:

- Strong evidence of capital markets activity around sustainable land use.
- Global policymakers innovating to encourage private sector investors to enter.
- New alliances between banks and NGOs and eco-financiers.
- Forestry and sustainable land use funds being marketed.
- Certified sustainable forestry now seen as normal.
- Increasing discussion of carbon and ecosystems as part of the investment proposition.

Issues covered:

- Forests hold potential as long-term investment vehicles for pension funds and insurers. It is important to show investors that not investing in forests presents a greater risk than doing so.
- Government money could be used to underwrite credit used in forest investment.
- Further research is required in appropriate risk management vehicles (such as yield insurance and weather derivatives) in order to underwrite forest carbon.

Concluding remarks

The symposium was considered extremely helpful in identifying the many issues that affect investment in forestry. A number of points stand out:

- Private sector investment of significant scale, US\$50 billion to US\$150 billion annually was discussed – it is probably the only way that forests will be preserved or extended.
- Long-term investment means that forests must generate income for both investors and indigenous peoples – standing forests must have value.
- Forestry is currently an attractive investment when conditions are right, but this remains very local, not yet at scale.
- Investors need 'clean' rights - uncertain land rights, forestry rights and contract enforcement impede investment - sometimes exacerbated and sometimes ameliorated by NGO activities.
- Sustainable forestry management, and the associated certification schemes, may have a major role to play in encouraging investment.
- An active carbon credit market for forestry would be an added fillip, but is not essential.
- An active credit market for biodiversity would be an added fillip, but is not essential and definitely a complex area.
- Insurance may play a larger future role in helping to structure long-term investment.
- More research could usefully inform investors, particularly on the long-term risk/reward of managing forests, and on the science behind carbon sequestration in forests both globally and locally.

For a full summary of the symposium visit:
www.london-accord.co.uk

New member/supporter

Daiwa Institute of Research has become the latest member of The London Accord community, along with new supporter Hermes.

News from other organisations:

Emerging market companies catch up on ESG issues

Corporate responsibility, usually viewed as the preserve of companies operating in developed economies is gaining ground in emerging markets, according to a new report *Review of ESG practices in 40 large emerging market companies*, published by the Sustainable Investment Research Analyst Network (SIRAN), a working group of the Social Investment Forum (SIF).

In partnership with global sustainable investment specialists EIRIS, SIRAN assessed 40 leading companies in 10 emerging markets against key environmental, social and governance (ESG) criteria including indicators on board practices, bribery, human rights, supply chain labour standards, health & safety issues, climate change, environment and biodiversity.

Countries assessed included Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, Russia, South Africa and South Korea.

The report analyses how the largest corporates in developing economic markets are addressing at least some of these issues, highlighting the risks and opportunities these present to investors in emerging markets.

Key findings include:

- Progress - most companies showed evidence of addressing at least some ESG issues, highlighting opportunities for investors to encourage further progress by engaging with companies to seek better corporate disclosure.
- Best performers – overall South African and Brazilian companies consistently had the highest assessments. One possible reason is that their local stock exchanges have each launched a responsible investment index.
- Climate change - by sector, disclosure related to climate change was strongest amongst companies in the resource sector, though half of the 12 resource companies assessed had no evidence of climate change disclosure.
- Human rights - 93% of companies assessed on this issue received only a 'limited' grade for their human rights policies.

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.

It would be of major assistance to The London Accord for more core 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:

Carbon market crisis

Despite severe disruptions to gas supplies occasioned by the Russian/Ukraine dispute over supply prices coupled with the coldest winter weather conditions across the EU for 20 years, EU Allowances (EUAs) prices actually fell. This has raised fears that prices could come under real pressure when temperatures and gas supplies normalise.

Ordinarily such events would support EUAs by raising gas prices relative to coal prices prompting fuel switching to coal from gas. This has not happened consequently prices fell by 8% at the beginning of 2009. This situation confirms Deutsche Bank's view that macro-economic factors are behind this fall. The EU economy has been steadily weakening since the late summer of 2008, and the situation has been underlined by worsening economic data from Germany and the UK plus a very gloomy Economic Sentiment Index from the European Commission.

Deutsche Bank estimates that 2009 ETS (EU emissions trading scheme) emissions will be 10% lower than 2007 and is consistent with the forecasted 2%-3% contraction in the GDP of the EU's biggest economies in 2009.

No companies achieved a higher grade for their human rights systems or reporting.

- Health & safety - all but two of the 12 companies in the resource sector, where health and safety is a major concern, showed some evidence of policies in this area.
- Bribery – most companies publicly disclosed some kind of anti-bribery policy. However, a majority did not have a clear anti-bribery scheme nor showed evidence of reporting on their anti-bribery initiatives and only disclosed limited details of their management systems and performance.
- Board governance - over 80% disclosed directors' remuneration, and 70% separated the positions of board chair and CEO, but fewer than half had boards where one-third of the directors were independent.

Increasingly international corporate responsibility initiatives are focusing on emerging markets. The Emerging Markets Disclosure Project, an international initiative spearheaded by SIF has surveyed the state of sustainability reporting in several emerging markets and has a sign-on statement for investors to encourage emerging market companies to improve sustainability reporting.

"This report demonstrates that the demand for corporate responsibility and disclosure is truly global, and that companies in emerging markets are beginning to respond and, in some cases, leading the way. Socially responsible investors should take to heart the report's call for thoughtful dialogue with emerging market companies," said Meg Voorhes, research director of SIF.

For further information visit: www.siran.org

Healthy food key for growth

Healthy food will continue to be a key growth engine for Europe, triggered by the converging interests of consumers worried about health concerns and ageing populations, member states with growing healthcare costs and companies with higher margins.

In response to these concerns food manufacturing companies have been moving ahead by broadening their nutritional product ranges and developing health speciality and functional foods. This in turn has opened up a wide field of research where R&D has become key for companies looking to build competitive advantage within the sector.

All this has created a sustainable environment favourable to the rapid growth of the market. Based on a broad definition of healthy food, this market is estimated at nearly €300 billion (US\$383 billion), according to Cheuvreux.

There are difficulties still to overcome though with regards to market consolidation one of which is the question of implied risks. An insufficient scientific basis for health food claims and over use of the health/well-being argument in product offers have generated doubts on the part of consumers. It is crucial

therefore for companies “to accredit products by demonstrating their harmlessness and efficacy via clinical trials and to innovate in the manufacturing process in order to stabilise and protect ingredients,” considers Cheuvreux.

The implementation of European Regulation (EC) No.1924/2006 has now put limits on inappropriate health claims by requiring scientific proof. Health claims therefore need to be previously authorised and validated by the European Food Safety Authority.

Cheuvreux believes “that transparency and innovation will be key mitigating issues for potential liability,” considering that “litigation risks for the sector will depend on the findings of future clinical studies.”

Good food. (Crédit Agricole Cheuvreux)

Events

30 April: Global Policy Institute, London

The Future of the City of London

Thursday, 30 April, 09.00 – 17.00, Bloomberg Centre, City Gate House, 39-45 Finsbury Square, London EC2A 1PQ

Following the G20 meeting in London in early April this major conference will take place for City practitioners, financial decision and policy makers, business leaders and academics to consider the challenges and map out a future for London's financial and banking sectors. Major figures from finance, industry, academia and government will speak. Sessions will be interactive and participative.

Subjects covered will include:

- Overview of challenges and ideas for the future
- Banking and the needs of citizens and industry
- Regulation and governance
- Changes to global financial centres
- Sovereign wealth funds

For more information, updates and booking, visit: www.gpicongference.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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