



With the Copenhagen Summit on the horizon, news, research and events from The London Accord and other organisations highlight how today's climate change issues, plus social and governance issues are tomorrow's key investment drivers. The London Accord adds value to the existing investment research process, working "towards better policies through shared investment research."

News

On The London Accord front:

Carbon bonds concept goes from strength to strength

Professor Lord Nicholas Stern, author of the groundbreaking report *Climate Change: the Stern Review* has been asked by the UK Government to prepare a paper on financing options to encourage more private sector investment in developing countries. The question is whether western countries are prepared to use public finance mechanisms in tandem with private sector investment to help mitigate the effects of climate change.

One of these options is index-linked carbon bonds. London Accord founding members, Professor Michael Mainelli and Jan-Peter Onstwedder proposers of index-linked carbon bonds consider this kind of bond could easily be issued by any government or multi-lateral agency without any need for a global initiative.

Talking to *SRI Briefings*, Onstwedder said the idea of index-linked carbon bonds has received "a very positive reception" from the Stern team. The team consists of participants drawn from academia, government and the business world. Indeed, the concept of index-linked carbon bonds has passed from "just being on the list" to one of the Stern team's seven main recommendations.

In essence, the idea of index-linked carbon bonds is that as investors cannot easily hedge emission target failure, low fossil fuel prices or low carbon price risks, this is where government bonds come in – by issuing debt whose interest rate is linked to these risks. This debt provides investors with a risk profile that mirrors their clean tech investment risk, allowing them to hedge against governments failing to deliver. An investor would invest in a low-carbon project

(either equity or debt), and simultaneously buy a proportion of index-linked government carbon bonds.

Onstwedder considers that the appeal of index-linked carbon bonds is twofold. Firstly "there is a real sense of government commitment", and secondly, it "transfers specific risk from the private to the public finance sector."

Although there is still some way to go in the development process, Onstwedder considers that following the publication of the paper in the near future a number of national treasuries are likely to enter into serious discussions on index-linked carbon bonds with private sector investors.

Meanwhile, the Aldersgate Group, a coalition of businesses and environmental groups, met and discussed the potential relevance of index-linked carbon bonds to their forthcoming paper on the UK's transition plan to a low carbon economy with Professor Mainelli.

For further information and discussion on index-linked carbon bonds visit the Wiki area at: www.london-accord.co.uk

Engaging with Copenhagen

With count down to the Copenhagen Summit firmly under way the media coverage of all things associated with climate change is likely to increase dramatically.

This is why The London Accord and the City of London Corporation in collaboration with CEAG, is producing a report examining some of the ways in which financial instruments can tackle climate change.

Amongst the subjects covered by this report will be Carbon Trading, Carbon Bonds and Forestry Bonds as well as energy efficiency and adaptation.

News from other organisations:

Economic cost of climate risks

Conversely, while Copenhagen is focused on achieving an equitable global deal on emissions reduction, climate change is already happening particularly for vulnerable developing countries where there is a need to build local adaptation strategies.

A new summary report, *Shaping Climate-Resilient Development*, based on the initial findings of a study by the Economics of Climate Adaptation Working Group (ECA) introduces a methodology to determine the risks climate change imposes on economies. The report considers that climate risks could cost countries up to 19% of their GDP by 2030, with developing countries the most vulnerable.

The report provides a set of tools for decision makers to adopt a tailored approach for estimating these costs based on local climate conditions and for building resilient economies.

The methodology was tested in localities within eight countries, the US, UK, China, India, Guyana, Mali, Samoa and Tanzania, which together represent a wide range of climate hazards, economic

The intention is to launch the report immediately prior to Copenhagen and try and engage decision makers who may not be aware that the financial services sector offers practical solutions for a post-Copenhagen world.

For further information on this project contact: sustainability@cityoflondon.gov.uk

impacts and development stages.

Overall findings from these country case studies show that easily identifiable and cost effective measures, such as sea barriers, better drainage or improved building regulations, could reduce potential economic losses from climate change for all, indeed most could deliver economic benefits far outweighing their costs.

ECA Working Group members are ClimateWorks Foundation, the European Commission's Global Environment Facility, McKinsey & Company, The Rockefeller Foundation, Standard Chartered Bank and Swiss Re.

For the full report visit: www.swissre.com

Corporate progress on climate challenges

Other organisations are also looking towards the UN Climate Change Summit in Copenhagen this December. Latest research from global responsible investment specialists EIRIS, focused on 300 of the world's biggest companies listed on the FTSE All World Index and examined the progress they have made over the past 12 months in their response to the challenges of climate change.

The research report, *Climate Change Compass: the Road to Copenhagen* found that just over one-third were failing to address the risks they face from climate change, although the quality of the management response to these issues has shown overall improvement.

The research found that:

- Over one-third of the companies analysed had a high/very high climate change impact; of these 33% failed to mitigate their climate change risk (down from 34% in 2008).
- Of companies with a high/very high climate change impact, 99% had a corporate-wide climate change commitment (compared to 84% in 2008), an improvement due to a number of drivers including increased investor activity.
- Nearly three-quarters of companies referenced the wider policy context by referring to international targets, regulations or the scientific imperative.

There are areas though where further progress can be achieved. "Board level responsibility and ownership of a company's response to climate change is crucial. Linking remuneration to performance in this area will help ensure companies remain focussed on these issues. Likewise the increased use of verification for GHG emissions data will provide investors with further reassurance on the reliability of the information published. These are key areas where investors should exert influence so as to help them minimise their risk," said Stephanie Maier, head of research at EIRIS.

Many large cap companies face significant climate change risks and opportunities, and investors must understand the impact these issues are likely to have on their portfolios and to integrate climate change into their engagement strategies or when exercising voting rights, considers EIRIS. The UN Climate Change Conference though may create significant opportunities for companies linked to the development of green stimulus packages or a clearer regulatory framework.

The report also considered the risks and opportunities arising from climate change for companies and their investors including:

- Regulatory – Copenhagen may bring about a number of changes in national and international legislation for reducing GHG emissions; potential environmental taxes and compliance costs must therefore be factored into company valuation.
- Market dynamics changing – higher and fluctuating energy costs, particularly impacting on energy intensive sectors, while changing consumer attitudes and demand patterns also open up opportunities for new products, technologies and markets.
- Changing weather patterns – security and cost of water and energy supplies, plus the physical risks of climate change, including asset damage as a result of extreme weather events all have cost implications.
- Reputational – employee, investor, customer and societal perceptions have an increasing impact on brand value.

“Board level responsibility and ownership of a company's response to climate change is crucial.”

Given these impacts it is increasingly viewed as an investor's fiduciary responsibility to integrate climate change considerations into investment strategy as outlined in the UNEP-FI Fiduciary II report (www.unepfi.org).

EIRIS considers that against the backdrop of the current global financial crisis with growing evidence of the significant physical impact of climate change, the outcome of the Copenhagen Conference will set the direction for a financial and policy framework for future climate change investment for governments, companies and investors.

For the full report visit: www.eiris.org

SRI award winners

EIRIS has been awarded top honours in this year's World Finance Awards. The awards created by World Finance Magazine are designed to identify industry leaders, individuals, teams and organisations representing the benchmark of achievement and best practice in the financial world. This year the awards highlighted socially responsible investments for the first time. A range of criteria was considered including the adoption of the UNPRI principles, meeting the environmental, social and governance demands of institutional investors and quality of research. Other criteria included innovation, originality and quality of products, as well as proof of market development and excellence in client representation.

Meanwhile, AXA Investment Managers, Henderson Global Investors, Insight Investment and Jupiter Asset Management have all received the Ethical Investment Association's (EIA) 2009 Transparency Awards. The awards recognise excellence in implementing the European SRI Transparency Guidelines, the leading pan-European tool for product providers to demonstrate their commitment to transparency on green and ethical issues.

The winners were announced at the EIA's Autumn Conference held in September.

UK product providers who are signatories to the Guidelines are ranked in the new EIA report *Know What You Own: Transparency by UK Green and Ethical Investment Funds after the Financial Crisis*. According to the report 85% of ethical investment advisers think that transparency is of even greater importance now than before the financial crisis.

For the full report and further information on the EIA visit: www.ethicalinvestment.org.uk

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:

Over-supplied carbon market?

CO2 prices have fallen by 60% since their July 2008 peak, hitting an all-time low of €8/t (US\$11/t). A deteriorating economic outlook has raised fears of another over-supplied phase in the EU carbon market. CA Cheuvreux sees a shortage of EU CO2 rights estimating that sharp production cuts will achieve only two-thirds of required CO2 emission reductions by 2012. However to cover the remaining deficit by 2012, EU groups will have enough cheap offset Kyoto credits, which should become a price benchmark in the short-term for EU CO2 rights. In contrast emission caps by 2020 are now set, unchanged and challenging.

CO2 Price: Rumours of My Death Have Been Exaggerated. Erwan Créhalet (CA Cheuvreux)

Governance reforms for banks

Bank bailout plans have created public pressure on governments to require changes to a corporate governance system revealing limits and failures during the current financial crisis. Given the objective of re-establishing public confidence and market trust, further political interference on governance reforms driven by social equity and risk control concerns are anticipated. CA Cheuvreux expects such initiatives to address weak remuneration systems, absence of transparency, lack of board expertise and accountability to ensure appropriate expertise to manage public-driven funding and risk control. Reform will be applied more universally and bank shareholders will face minority shareholder status with reduced rights.

Big Bang for Banks. Robert Walker (CA Cheuvreux)

US climate bill pressure

The US Congress is under pressure to design and pass a climate bill by end-2009, an unlikely prospect considers CA Cheuvreux. The threat of full auctioning has faded and all sectors, except transport fuels, are set to receive generous free allocations out to 2025, thereby preventing sectors such as steel, cement, chemicals and paper producers from facing significant CO2 costs. The carbon price signal to emerge from such a scheme is expected to remain under US\$20/t out to 2020. However, though encouraging the emissions reduction target defined by the US is considered much too weak by Europe and emerging countries.

US Climate Bill: "Born to be Mild". Erwan Créhalet (CA Cheuvreux)

A future green economy?

The recession could bring a major shift towards a green recovery and a new green economy with a combination of far reaching policies, benign technologies, greater efficiency for energy and raw materials usage, plus a reassessment of lifestyle and consumption choices. Such developments could generate employment, savings innovation and economic growth both for companies and globally. Energy efficiency should be the biggest beneficiary of the estimated €3 trillion/year carbon market. Caution however is required, depressed oil and carbon prices, longer payback periods, reluctance to make costly initial investments and an over-reliance on public policymaking and funding all pose threats.

Green New Deal (Societe Generale)

Building for efficiency

Globally buildings are responsible for 40% of primary energy use and have the biggest potential of any sector for greater energy and CO2 reduction, up to 80% using a range of conventional technologies. The global buildings sector is and is likely to continue to be hard hit by the recession and 2009/10e will present significant challenges for companies in the sector. Increasingly stringent regulations on buildings and energy efficiency should result in billions of new capital investments. Around €300-€400 billion in global public spending has been identified, for buildings and construction, the majority of which is efficiency-focused.

Green Buildings & Construction (Societe Generale)

Making transport greener

The transport sector is responsible for 14% of global CO2 emissions with road transport accounting for 75% and air transport for around 13%. Transport emissions are projected to increase to over 60% by 2030 from current global levels. A combined strategy of fuel efficient technologies, fuel switching, growth in public transport and strong policy frameworks could limit emissions growth to 10%. Public transport will be key and the €86 billion rail industry should benefit from solid and sustained growth in the medium to long-term. The auto sector needs to make huge efficiency improvements to meet stringent CO2 targets.

Green Transport (Societe Generale)

Focus on energy efficiency

Rising energy prices to mid-2008 were a key incentive to invest in energy efficiency measures. Since then with falling oil and gas prices and the recession economic incentive to invest in energy efficiency measures has diminished. Political targets however will focus attention on energy efficiency. Societe Generale examines the entire electrical chain from light bulbs to power plants identifying key beneficiaries. The Transmission & Distribution industry stands out as stimulus packages in the US, Europe and China has highlighted the power grid as a key area to make energy efficiency investments. Automation & Power Generation though will lose support.

Green Electrical Equipment (Societe Generale)

Greening data centres

The IT sector's CO2 emissions account for 1.3% of global emissions. Data centres are expected to account for up to 50% of IT budgets for some companies resulting in cost pressures. Green IT makes good business sense with huge cost savings for data centre-reliant companies with every €1 in energy savings driving up to €3-€8 in operational savings. Green data centre companies should be a major beneficiary. IT companies can play a crucial role as enablers for other sectors, notably buildings, logistics, power and transport. IT will be key for the development of the potential \$20 billion/year smart grid market.

Green IT (Societe Generale)

Sunshine ahead for renewables

2009 has been a challenging year for renewables, like most sectors severely affected by the credit crunch and global recession. Despite the crisis and slump in demand however there are several positive signals for renewables. First is the globally coordinated economic stimulus packages, with investment programmes for renewables around US\$180 billion, but there are uncertainties when they will become effective. Electricity utilities have sufficient funds to secure financing of renewables though. Sarasin sees uncertainties regarding national subsidy programmes for renewables, but the bank's long-term forecast for individual renewable technologies is positive with continuous market growth, compared with conventional energy sources.

Renewable Energies: Sunnier Times Ahead, Once Storms Have Cleared the Air. Dr. Matthias Fawer and Balazs Magyar (Sarasin)

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

Events

Conference and events presented by The London Accord and other organisations. Coming up:

London Accord events:

29 September: Real Time Club, London

Green Boggle – A Night of Green Tech with Prizes

Tuesday, 29 September, 18.00 – 21.45, National Liberal Club, Whitehall Place, London SW1A 2HE

Many believe that the next wave of technological investment not only will be, but should be, green tech – the application of many technologies to reduce environmental impact.

Green Boggle is a three part event:

- The finance of environmental transformation: The London Accord along with other contributors will present on how information & communications technology can help prevent environmental damage.

Continued on page 5

Continued from page 4

29 September: Real Time Club, London

- Investment opportunities: short presentations from three active investment opportunities from Beer & Partners, a leading venture capital and business angel investment firm.
- Green Bourse game: run by Z/Yen Group, the City of London's leading think-tank with prizes for those teams "who best get to grips with markets, technology and finance."

Presentations will be made by Professor Michael Mainelli, Angus Milne, three green tech entrepreneurs and Mark Yeandle.

Hosted by the Real Time Club in association with The London Accord, Z/Yen Group and Beer & Partners

For event and ticket information contact: <http://realtimeclub.eventbrite.com/>

15 October: The London Accord, London

Climate Change – New Financial Products and Indices

Thursday, 15 October, 14.30 – 17.45, Museum of London, 150 London Wall, London EC2Y 5HN

The London Accord Autumn Conference will consider the development of new financial products and indices in response to climate change issues, featuring a keynote address and two expert panels from The London Accord.

Co-Chairmen: Professor Michael Mainelli, Z/Yen Group and Jan-Peter Onstwedder, Head of Portfolio & Risk, 3i

Hosted by the City of London Corporation, Gresham College, Securities & Investment Institute, Tomorrow's Company, UKSIF the Sustainable Investment & Finance Association, and the Z/Yen Group

Events being held by other organisations:

19 November: ECCR, London

The Future of Banking: Ethical & Sustainable?

Thursday, 19 November, 16.30 – 18.15, Friends House (Small Meeting House), 173 Euston Road, London NW1 2BJ

The banking crisis has receded and a degree of stability has returned to the system. Lessons about excessive risk-taking have been learned, or have they? Is our banking system ethical, sustainable and back on solid ground or are more radical changes required?

The Ecumenical Council for Corporate Responsibility's 2009 open debate will explore these questions with a panel of expert speakers.

Entrance is free but registration by email is preferred. For registration contact: miles.litvinoff@eccr.org.uk

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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