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On the eve of the Copenhagen Summit, news, research and events from The London Accord and other organisations highlight how finance and investment interact with wide ranging policies on environmental, social and governance issues. The London Accord increases the social value of existing investment research processes, adding value by enhancing policy recommendations.

News .....

On The London Accord front:

Climate change: new financial products and indices

The London Accord, the world's largest cooperative investment research programme into environmental, social and governance issues, held its autumn conference in October. The conference, hosted by the City of London Corporation, Gresham College, Securities & Investment Institute, Tomorrow's Company, UKSIF and the Z/Yen Group, focused on the opportunities for new financial products and indices in an era of climate change.

In his opening remarks, Paul Sizeland, Director of Economic Development, City of London Corporation, said that although financial institutions are under close scrutiny at the moment, it is important to remember that these institutions touch every aspect of our lives, linking through to broader societal issues of which nothing is more important than climate change.

With these words in mind the conference centred on a keynote speech delivered by Nick Robins, Head of HSBC Climate Change Centre of Excellence, describing the innovations in climate change financial products and services.

Innovations

In the face of the current financial crisis increasing attention is being paid to responsible investment on the part of investors. Nick Robins though considered there was a need to strengthen the equity base, and estimated that a minimum of US$1,304 billion of annual investment would be required to 2050 if CO2 emissions were to be lowered.

According to research by *New Energy Finance*, there is US$14 billion invested in climate change products and services and although private equity in the field of sustainability was down 3% this year there are new asset opportunities. Nick Robins described the HSBC Climate Change Index, which consists of 65,000 stocks from around the world and has a market cap of US$50 million. Moreover in the bond market there may be opportunities for replacing existing debt with 'green' bonds for example or by front-loading public spending proposals, or securitising clean energy revenues or hedging policy risk with index-linked bonds. There is also growth in specialist funds for renewables or waste. The World Economic Forum has proposed a suite of public-private low carbon infrastructure bonds, Challenge Funds and Cornerstone Funds.

The role of the public sector was also considered. Many leading investors are looking to have a dialogue with governments to solve climate change problems. The 'green stimulus' initiative has highlighted the importance of public finance, 15% of the US$3 trillion for this initiative has been earmarked for climate issues, with East Asia accounting for two-thirds of this. Public finance innovation is needed though, which may come from public-private partnerships as UNEP and other organisations enter the public arena. There is also a need for international co-operation on standards for sectors such as buildings, energy efficiency and the carbon markets.

Indices: carbon, biodiversity

Panelists: David Harris, FTSE Group; Joaquim de Lima, HSBC; Neil McIndoe, Trucost; and Stéphane Voisin, Crédit Agricole Cheuvreux covered a number of major issues including:

- Definitions in the field of carbon technology/biodiversity are difficult but crucial – what counts as clean tech for example? Lack of definitions creates market confusion.
- The investment characteristics of environmental technology sectors differ but diversification is crucial because due to rapid market change there is no certainty who will be the winners in the long-term.
- The market for climate change solutions is expanding but investors need to determine whether climate change indices will provide investment opportunities in the clean tech sector.
- Opportunities exist to build indices, for example the financial impact of carbon footprints could generate new indices and structured products, while carbon credits could lead to innovative financial solutions.

Products: bonds and more

Panelists: Martin Berg, Bank of America Merrill Lynch; Jan-Peter Onstwedder, 3i; and Mike Wilkins, Standard & Poor's looked at further implications including:

- Public-private partnerships should help finance new products. Public policy commitment though and its risk of political change are key factors for investor consideration.
- Investors must understand risk and reward, for example they cannot hedge against changing government policy, but could use index-linked carbon bonds as a hedge against this risk.
- Private sector financing would be attractive for the carbon markets.
- The introduction of cap and trade in the US and other countries such as Australia and South Korea is one of the most important developments in the carbon markets and it is a possibility that in the future multinational cap and trade may be introduced.

Summary remarks

The conference generated wide-ranging discussion identifying the challenges and opportunities for the development of new financial products and indices in a time of climate change:

Beyond the Copenhagen Summit in December therefore there is a need to:

- Deepen equity participation in the sector,
- Realise the potential of bonds as a financing source,
- Explore the viability of public-private partnerships,
- Introduce greater innovation to counter market short-termism,
- Build market resilience ahead of climate shocks,
- Define technology sectors within carbon and biodiversity fields to deliver greater clarity and transparency for investment opportunities,
- Develop investment portfolio tools across technology sectors.

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

New member

Announced at the autumn conference by Nick Robins, HSBC has become the latest member of The London Accord community.

Calculating Copenhagen

The London Accord has now published three "tools" for members available on the website - http://www.london-accord.co.uk/index.php?option=com_tcmodel&Itemid=131. The most important tool is a "price impact calculator" that allows users to enter a reduction scenario of their choosing, price elasticity and technological improvement. From these variables the calculator produces a range of likely price changes to electricity, gasoline, diesel and jet fuel costs. The price impact calculator allows people to see how agreements at Copenhagen might affect direct business costs. The two other tools are a carbon footprint calculator that permits users to see how their specific business costs, e.g. accommodation charges, might be affected and an investment return calculator that shows financial payback from low carbon investments.

Investment opportunities for a low carbon world: a review

In an era of heightened awareness about climate change issues and their impact on the national and global environment and economies, there is now an increasing focus on the deployment of renewable technologies as the world moves towards a low carbon agenda. The publication of *Investment Opportunities for a Low Carbon World*, **edited by Will Oulton, Director of Responsible Investment at FTSE Group is therefore most timely.**

Under Oulton's editorship key contributions from leading experts in the fields of finance, environmental technology and international policy clarifies and highlights the available investment opportunities in low carbon technologies to a wide audience of institutional and retail investors, fund managers, business developers, technology companies and policy makers.

Detailed descriptions of the development of a number of clean technology industries and their products and services are provided together with in-depth analyses of market growth and prospects, financial metrics, leading players, and investment risks and opportunities presented in three main sections:

- Environmental and low carbon technologies – wind, solar, water, geothermal and biomass sectors.
- Investment approaches, products and markets – how investors can identify, analyse and track company performance in environmental markets.
- Regulation, incentives, investor and company case studies – assesses investment and development strategies in low carbon and environmental technologies with case studies from major industry players.

The focus is on those low carbon technologies currently most approachable to investor opportunity. Although many of these technologies are still fledgling industries there are nevertheless well managed businesses within these, with often cutting edge products and services, which will benefit from shareholder capital from those investors who have an interest in long-term sustainable investment.

Of interest to London Accord members is a key chapter on the portfolio approach to climate change investment and policy, by Professor Michael Mainelli, James Palmer and Liang Shi.

Investment Opportunities for a Low Carbon World, edited by Will Oulton London; GMB Publishing, 2009 ISBN 978-1-84673-147-1

News from other organisations:

HNWI and responsible investing

Ninety percent of wealth managers say responsible investment portfolios have performed the same or better than other investments this year, according to a new report *Responsible Investment and Wealth Management: Opportunities for the Future,* **investigating high net worth individuals' (HNWI) perceptions of responsible investment and its implementation across the wealth management industry.**

The report, written by responsible investment specialists EIRIS, identified a growing awareness of environmental, social and governance issues amongst HNWI and found that the financial crisis has had a positive effect on the views wealth managers take towards responsible investment.

Over half of wealth managers researched reported that the current financial situation had lead to the taking of governance issues and a potentially tighter regulatory framework into account within client portfolios.

"Client retention is increasingly a challenge and wealth managers can improve retention rates and gain a competitive advantage by responding to the increasing numbers of HNWI who are expressing an interest in responsible investment," said Victoria Woodbridge, Senior Client Relationship Manager at EIRIS.

The report also found that:

- Wealth managers identified a lack of clarity and information on performance as a key barrier to implementing bespoke responsible investment solutions for their clients.
- Most HNWI interest in responsible investment is from the entrepreneurial community.
- HNWI are increasingly moving between wealth managers making client retention challenging.
- 70% of wealth managers' clients perceive a clear link between their philanthropic activity and investing in line with their philanthropic goals.

This third yearly report on the subject identified an increased demand for responsible investment, demonstrated by the 588 signatories currently signed up to the UNPRI, representing funds under management of around US$18 trillion. Concerns surrounding issues like climate change and child labour have now become integral to the social landscape and the report analyses the extent to which these and other issues are being addressed in the construction of investment portfolios.

With many HNWI now looking to mitigate risk and focus on long-term goals, the research identified "a growing number of investors seeking to understand responsible sustainable investment and the value of screened portfolios." Wealth managers must recognise this interest and put in place the necessary investment and screening options to cater for any of a client's ethical or investment requirements.

It is significant that responsible investment has grown in recent years to include positive and negative screening elements, risk mitigation and 'best of sector' approaches. The research shows that in the future HNWI expect to gain a better understanding "of what their money is achieving and using responsible investment ensures that clients' investment activities support rather than undermine their philanthropic aims."

The report was published in association with WealthBriefing and Kleinwort Benson. For further information visit: www.wealthbriefing.com

Differing approaches to climate change investment

Although the majority of fund managers regard climate change as an important investment issue, they are prevented from taking action by short-term analysis and "lack of demand" from pension funds and other clients, according to new research from FairPensions which campaigns for UK pension funds and fund managers to adopt responsible investment practices.

The report *Preparing for the Storm? UK Fund Managers and the Risks & Opportunities of Climate Change* found that 83% of respondents cited the current low carbon price as a barrier to incorporating climate change into investment decisions, several referring to the "imbalance between the relatively short-term horizons of mainstream investment analysis and the relatively long-term nature of the material business impacts of climate change." Others (56%) cited lack of client demand as a barrier to managing climate change.

Fund managers took differing approaches to climate change issues but the main split was between those taking the view that all economic sectors would be affected and acting accordingly and those who thought that carbon emissions were only material and relevant for some sectors and therefore took more limited action.

Furthermore, 59% did not report, at all or only at clients' requests, on climate change risks and opportunities. FairPensions considers this provides a strong argument that pension funds and other clients should request this information to ensure their interests are being promoted and that the UK government should consider making planned emissions reporting guidelines applicable to fund managers' portfolio emissions "given the public interest in whether the sector is (financially and environmentally) sustainable."

The research however revealed a strong appetite amongst fund managers for:

- Regulations requiring investee companies to report emissions (86%);
- Reducing emissions (72%);
- Being subject to stock exchange listing rules requiring disclosure of climate related risks (78%).

"Climate change and the regulatory efforts to reduce are now certain to have serious impacts on companies and their investors. Our research shows that there is good practice by some fund managers and interest from enlightened asset owners ... but fund managers' clients and their advisors need to be assertive about their interests and be aware that all fund managers are not the same," said Duncan Exley, Director of Campaigns at FairPensions.

For further information visit: www.fairpensions.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 investment research reports that are now not commercially sensitive. If firms have any such 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:**

Europe's companies face up to carbon issues

European companies seem prepared to face carbon regulation and even tend to recognise new business opportunities. The Europe 300 companies sample demonstrates high standards in disclosure quality and response rate: 82%. These companies have a strong awareness of risks associated with climate change and have integrated this into their strategy. Performance emissions reduction plans reveal encouraging signs with proactive plans for low-carbon investment and energy efficiency measures. Action plans are backed by substantial investments. However there are further improvements to be achieved to allow for a comprehensive and specific analysis of climate-change related risks borne by different economic sectors.

Europe 300: Carbon Disclosure Project 2009 (CA Cheuvreux)

Strengthening financial regulation

Changing regulatory structure in the global financial sector is underway in the wake of the G20's decision in April to establish the Financial Stability Board (FSB) as the world's first overarching financial regulator. The FSB's mandate is to restore trust by strengthening financial regulation but lack of regulatory and punitive powers seriously weakens its regulatory abilities. The G20 has mandated the FSB to implement the compensation principles for 'systemically significant' financial institutions, but Cheuvreux considers these principles insufficiently detailed to discourage the short-term focus of incentive schemes. Basel II may prove more useful here when it comes to pay restraint.

Corporate Governance: Regulating the Financial Landscape. Joachim Müller and Jean-Baptiste Bellon (CA Cheuvreux)

Australian ETS proposal

The Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS) failed to pass a Senate vote, but the Government has indicated its intention to re-submit the proposal for an Australian ETS before December's Copenhagen Climate Summit. In Deutsche Bank's view the proposed CPRS would be "technically superior" to the EU-ETS in key areas. The scheme would initially cover around 75% of the country's GHG emissions (compared with only 45% for the EU-ETS), with power generation, industry, and transport included from the start. The scheme would create significant demand for CERs over 2011-20, thereby limiting Australian carbon prices while boosting global emissions-reduction efforts.

Aussie Carbon Rules. Mark C. Lewis and Isabelle Curien (Deutsche Bank AG/London)

Improving vehicle energy efficiency

Changes triggered by tightening global regulations require automakers to improve vehicle energy efficiency. Consumers are also demanding smaller vehicles due to tax incentives and government stimulus plans. Cheuvreux estimates European regulation will bring total regional auto emissions down 8% by 2020 and expects continuous progress on efficiency in internal combustion engine vehicles as the first stage for meeting European requirements by 2015, with an eventual gradual shift towards plug-in hybrids and full electric vehicles. These technologies will represent 4% of European sales by 2015 and up to 20% by 2020. Emerging countries, particularly China are showing keen interest in these technologies.

Green Cars: Electrify Me! Cécile Lamotte (CA Cheuvreux)

Assessing future energy strategies

Electricity companies must assess the risks and opportunities arising from climate change and take essential action to reduce emissions. A revolution in energy generation, supply and demand is needed with companies taking an integrated approach through the optimisation of existing infrastructure assets, systems and information; growth of existing capabilities; and acceleration of emerging technologies to a commercial scale. The current financial crisis is driving many companies to overhaul their business models. The successful electricity companies of the future will be those taking climate change impact into account today and developing adaptive strategies and actions to manage the business risk.

Building Business Resilience to Inevitable Climate Change. Carbon Disclosure Project Report: Global Electric Utilities (Acclimatise)

Smart grids

Smart grids – electricity grids that utilise IT to control electricity flows – are attracting attention as one of the key features of the US economic stimulus package. They are likely to be indispensible for the mass introduction of renewable electricity sources whose outputs are heavily impacted by factors such as weather conditions. The focus is on electricity buffers, which facilitate matching of electricity supply and demand; examples include pumped-storage hydroelectricity and storage cells. Going forward smart grids could become an integrating energy network allowing more firms to participate in such green initiatives facilitating the spread of clean technology.

Smart Grids – Core Infrastructure for Low-Carbon Societies. Hanako Mizuguchi and Hiroyasu Sato (Daiwa Institute of Research)

Green revolution

The current financial crisis could trigger a greater emphasis on sustainability in social and industrial structures around the globe. Daiwa focuses on this scenario looking at the climate and energy policies of various countries and the changing investment opportunities. Included are verification of the technologies and necessary funds required for addressing global warming, considerations concerning the inflow of money into green funds and potential premiums for clean tech players. Green New Deal strategies for Japan, China, South Korea, the US and Europe is surveyed with green tech industries and major players.

Green Industrial Revolution Gaining Momentum. Hanako Mizuguchi and Yoko Monoe (Daiwa Institute of Research)

Asia's sustainable energy sector

The issue of climate change, one of Asia's environmental problems is analysed with a focus on the trend of CO2 emission reduction in the power generation industry. Industry trends in Asian countries are studied with analysis of China's wind and nuclear industries looking at market scale and growth rates. Daiwa expects related companies to gain significant benefits from the expansion of China's huge domestic market led by the PRC Government's energy policy and considers these companies would also improve their global positions in the long-term.

Asia Energy Sector. Taiki Kaji (Daiwa Institute of Research)

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

Japan to benefit from clean tech investment

Japan has made a bold pledge that the country will reduce greenhouse gas emissions by 25% from the 1990 level over the medium-term. Due to budgetary constraints however the first such measures are likely to involve a cap-and-trade system of emissions trading. Daiwa considers it will be some time before firms shift investment away from energy-saving technologies back to boosting capacity and therefore the proposed emissions trading scheme and other global warming initiatives should provide "a tailwind to investment" in clean technologies over the near term. The focus is on firms installing energy-savings technologies or providing advice on reducing consumption.

Firms Likely to Benefit from Increased Investment in Clean Tech. Hanako Mizuguchi (Daiwa Institute of Research)

Events …..

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

London Accord events:

30 November: Environmental Finance, London

Environmental Investments Forum

Monday, 30 November, 08.45 – 17.20, America Square Conference Centre, 1 America Square, 17 Crosswall, London EC3N 2LB

A series of panel discussions and roundtables will enable delegates to be involved in debating all the issues surrounding investment opportunities in the environmental markets.

The keynote speaker will be James Cameron, Vice-Chair & Executive Director, Climate Change Capital.

Professor Michael Mainelli, Z/Yen Group, Nick Robins, HSBC, Joe Berry Impax Asset Management and James Vaccaro, Triodos Bank will be speaking with other top-level investment specialists and experts from industry and government.

For further information visit: www.environmental-finance.com and to book contact: conferences@environmental-finance.com

Events being held by other organisations:

04 December: Cineforum, London

Climate Change: The Road to Ecotopia

Friday, 04 December, 09.00 – 18.30, Wallacespace, 22 Duke's Road, London WC1H 9PN

Held on the eve of the Copenhagen Climate Summit, the Cineforum is a co-creation event including leading climate specialists, corporates, environmentalists, scientists and policy makers from around the world creating "a sustainable, fair and ecologically sound vision of the future" to be captured as a film called *Designing Ecotopia*.

Fair Knowledge is convenor of this event in association with Tomorrow's Company and the Presidential Climate Change Action Project.

For further information visit: www.cineforum.co.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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