



In this New Year issue news, research and events from The London Accord and other organisations highlight how current social and environmental issues remain 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:

China renewable energy powers ahead

China's renewable energy industry is growing fast according to London Accord supporters, Beijing-based Mint Research which provides market intelligence on investment and acquisition opportunities in the country's renewable energy and clean tech sectors.

In 2009 China launched a US\$600 billion stimulus package partly dedicated to new energy development including solar power installations, says Radomir Tylecote, Partner at Mint Research.

China manufactures 40% of the world's solar photovoltaic panels and while most is for export, new incentives and tariffs appear poised to launch a boom in the domestic market with technology improvements triggering price falls.

Arising out of the economic stimulus package, a number of provinces have established their own programmes and there are two national incentives, the Golden Sun and Solar Roofs programmes.

There are concerns though for investors in the country's solar power industry, considers Tylecote, which is still over-capacity in domestic manufacturing. "There are promising shares for the well-informed investor nonetheless. A good distribution network – and a politically well-connected business – is making the difference."

With wind power, China's rapid development in this industry is globally unprecedented, considers Tristan Edmondson, Partner at Mint Research. The government has promised a US\$265 billion investment to achieve a renewable energy target of 15% by 2020, excluding hydro power. Wind is China's second largest renewable energy source and the country is now the world's fourth largest provider of wind energy.

China's government is driving the development of the industry and for foreign companies trying to understand the domestic market "predicting the trajectory of policy development is hard and has dissuaded many from entering," considers Edmondson. "Foreign turbine firms already working in China are helping to build a strong industry." Indeed domestic wind turbine companies are now reaching the stage where they will soon be able to sell in overseas markets.

*For further information and the full articles visit:
www.mintresearch.cn*

News from other organisations:

Workers' rights unprotected in global supply chains

New research from ESG research provider EIRIS has identified breaches of the International Labour Organisation's (ILO) conventions on child labour, forced labour, trade union rights and equal opportunities in the supply chains of some of the world's largest companies.

Based on EIRIS' Convention Watch research, the report *A Risky Business? Managing Core Labour Standards in Company Supply Chains* found that 45% of companies analysed had no policy or management systems in place to protect labour standards in their supply chain and also failed to report on the issue.

The EIRIS Convention Watch supply chain criteria covers cases where companies have been accused of breaching the spirit of ILO conventions.

Some companies though, appear to be responding to pressure from investors, NGOs and consumers on supply chain labour standards. Of the developed world's large and mid-cap companies 13% were assessed by EIRIS as high or medium risk for supply chain labour standards, 66% of those companies were from the consumer industry.

The consumer industry demonstrates not only the most advanced response to breaches themselves, but is also the most likely to have been accused of such breaches and to have responded to these allegations.

The report findings reveal a number of key issues:

- Products having the greatest risk of poor labour standards associated with their manufacture include toys, clothing, footwear, consumer electronics and some agricultural products.
- North American and European companies are the most likely to have been accused of breaching labour standards.
- 90% of European and 70% of North American companies are rated as 'good' or 'intermediate' in their response to allegations of breaches of labour standards in their supply chains.

- Consumer industry companies are the most likely to have been accused of breaching labour standards in their supply chains.
- The consumer industry also has the most advanced response to such allegations, with almost 40% of such responses being assessed by EIRIS as 'good' and none assessed as having 'no evidence' of a response.

Breaching supply chain labour standards represents a risk to investors as it can affect company value and performance. The research enables investors to identify companies at risk of breaching core labour standards in their supply chain, with recommendations and suggestions on engaging with companies to reduce risk and improve performance.

The report also identifies those countries and industries at greatest risk, examines stakeholder concerns, the implications for investors and management best practice.

"To reduce the risk of breaching ILO standards companies should link their management systems for supply chain labour standards with their internal procurement systems but very few are doing this," said Dawn McLaren, report author and Head of Consumer Goods & Services Research at EIRIS, "Companies are getting better at providing information on initiatives they have in place to protect labour standards in their supply chains. But more information is needed on what they uncover ... this will help investors gain a better understanding of supply chain risk and enable them to track improvements in this area."

For further information visit: 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.

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

Building for a green recovery

Globally governments are facing the effects of economic downturn, energy security and climate change but since January 2009 they have responded by allocating over US\$470 billion in fiscal stimulus to climate change investment, leveraging a total of US\$980 billion consistent with a low-carbon economy. China and the US are in the vanguard, driving investment in key infrastructure notably water, grids, rail, buildings and renewables. HSBC considers the first phase of 'green stimulus' has ended with attention focussing on stimulus impact and its effectiveness in building a low-carbon recovery with a second instalment expected in the run-up to the Copenhagen Summit.

Building a Green Recovery. Nick Robins, Robert Clover and Charanjit Singh (HSBC)

Assessing ESG risks

The current economic crisis has pushed both the role and influence of hidden risks embedded in investment portfolios to the forefront. This needs to be accompanied by a move towards objective views of long-term risk from ESG perspectives. Societe Generale introduces the SRI Navigator a set of quantitative and objective indicators to reliably assess exposure to hidden risk factors. The assessment system includes traditional financial metrics plus geographic exposures of sales, assets and income as key metrics for long-term risk analysis. The Navigator covers all industrial sectors around the globe using the DJ Stoxx 1800 as the benchmark.

The SRI Navigator (Methodology). Valéry Lucas-Leclin, Sarbjit Nahal, Yannick Ouaknine and Marie-Gabrielle Lannegrace (Societe Generale)

EUA outlook

Despite continuing weak macroeconomic outlook, the 2013 shortfall could support EUAs. Deutsche Bank has downgraded estimates for 2009-12, but Phase-3 forecasts remain unchanged. There may be some selling of industrial companies' EUA surpluses and some speculative selling of EUAs ahead of 2010 quota allocations short-term, but no repeat of Q1 2009. Power generators, particularly German generators, will be selling increasing amounts of electricity forward into 2013 and with the first 2013 EUAs not being auctioned until probably Q3 2011; means German generators must hedge 2013 carbon exposure via the purchase of Phase-2 EUAs in turn supporting prices across the curve.

The Crying of Lot 2013: Phase-3 Auctions and the EUA Price Outlook. Mark C. Lewis and Isabelle Curien (Deutsche Bank AG/London)

Microfinance remains positive

Microfinance institutions (MFIs) will be affected by the global financial crisis. Private equity valuations for MFIs have varied widely, but publicly listed Low-Income Finance Institutions have outperformed traditional banks. Investors however should not value MFIs in the same way as with traditional banks. Book value and earnings multiples are the most widely used valuation tools but the residual income method is also recommended. Transaction value and net income growth are the main valuation drivers. Larger MFIs especially with diversified funding sources are best positioned to manage the crisis. The long-term outlook for equity investment in the microfinance sector is positive.

Shedding Light on Microfinance Equity Valuation: Past and Present. Nick O'Donohoe, Frederic Rozeira de Mariz, Elizabeth Littlefield, Xavier Reille and Christoph Kneiding (J.P. Morgan/CGAP - Consultative Group to Assist the Poor)

Innovative financing for climate change

If Copenhagen is to succeed Kyoto it is essential policymakers send clear, strong signals of their commitment. A huge investment in clean technology is needed to prevent global warming, but given the scale of investment required plus deteriorating public finances in many countries it is only by leveraging private sector capital that the challenge can be met. Innovative financing techniques are required and the report looks at several financing structures which could be harnessed to assist in the fight against climate change. The role of 'trade' in cap-and-trade is considered along with index-linked carbon bonds, forest-backed bonds and weather derivatives.

Delivering Copenhagen: the Role of the City's Financial Services Sector in Supporting Action on Climate Change. (City of London, Consilience Energy Advisory Group and The London Accord)

Investors discuss the credibility of sustainability and carbon reports

On 17 November 2009 Smart Sustainability (part of Carbon Smart Ltd.) hosted a workshop for investors to discuss the credibility of current sustainability and carbon reporting. This workshop is part of Smart Sustainability's research project to benchmark the credibility of reporting in the FTSE350.

For more information about the research project and to access the workshop results click here. The research results will be launched at 18.00 – 20.30 on the 24th March at the BAT Headquarters, Temple Place, London WC2R 2PG including leading speakers from Smart Sustainability and the FTSE100.

For further information contact: esther.rodriguez@smartsustainability.co.uk

Events

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

London Accord events:

01 February: Gresham College, London

Long Finance Conference

Monday, 01 February, 11.45 – 14.30, The Willis Building, 51 Lime Street, London EC3M 7DQ

Long Finance is an initiative begun in 2007 to establish a World Centre of Thinking on Long-Term Finance. This is the second event Gresham College has co-hosted, where learning from the sister Long Now organisation and its 10,000 Year Clock Project will be explored. A series of panel discussions will enable delegates to be involved in debating all the issues surrounding Long Finance.

Participants include Professor Michael Mainelli, Z/Yen Group; Professor Sir Roderick Floud, Gresham College; Edward Bonham Carter of Jupiter; the musician Brian Eno; Stewart Brand of the Whole Earth Catalog; Bernard Lietaer who co-created the ECU and many others all examining "how would we know when our financial system is working?"

Hosted by Gresham College, Chartered Institute for Securities & Investment, Willis and Z/Yen Group.

Free admission but reservations are required. For further information visit: www.gresham.ac.uk

18 May: The London Accord, London

Climate Change – Structuring Cleantech Investment: London Accord Spring Conference and Reception

Tuesday, 18 May, 14.30 – 17.30, Reception 17.30 – 18.30, Museum of London, 150 London Wall, London EC2Y 5HN

The London Accord Spring Conference will consider the developments surrounding carbon monitoring, reporting and investment plus cleantech investment vehicles and securitisation in response to climate change issues. A keynote address and two expert panel sessions will be featured.

Keynote speaker will be Jason Langley, Axa Investment Management.

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

For further information visit: www.london-accord.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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