

Being a Responsible Investor doesn't damage your wealth

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Being a Responsible Investor doesn't have to damage your wealth

1. Why has Responsible Investment become an investment topic?

- Mega trends that are changing the world
- Mini trends that are shaping the investment system
- Evolution of Responsible Investment

2. Where are we now ... and the writing on the wall?

- What do managers think?
- Is this translating into behavioural change?

3. Case study: Principles for Responsible Investment

1. Why has Responsible Investment become an investment topic?

Mega trends that are changing the world

- Continued globalisation
- Major demographic considerations
- Widespread adoption of capitalism
- Increasing pressures on natural resources
- Environmental issues are of increasing concern to corporations, society and governments

What are the implications for investors?

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Mini trends that are shaping the global investment industry

- Corporations
- Sell-side research community
- Investment managers
- Major public (and corporate) pension funds
- Investment managers and end asset owners

Players in each part of the investment chain are beginning to respond

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The investment response: Evolution of responsible investment

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- Phase 1: Ethical Screening**
- Avoidance of investment in targeted companies, industries or countries. Results in narrowed investment portfolio choices.
- Phase 2: Risk Management**
- Companies with environmentally & socially irresponsible activities are under-weighted. Companies over-weighted if demonstrate responsible leadership. In theory, downside risk can be reduced. Does not systematically avoid companies or sectors.
- Phase 3: Source of Alpha**
- Superior environmental, social and corporate governance (ESG) performance is considered a source of alpha for RI investors. Analysis of ESG factors provides opportunity to outperform traditional investors who lack it.

Implications on risk and return?

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2. Where are we now... ... and the writing on the wall?

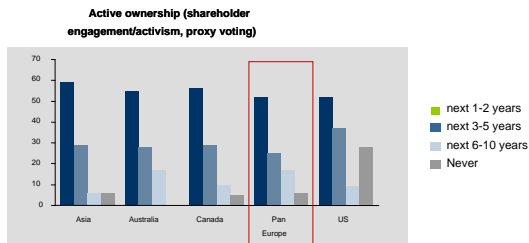
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What do investment managers think?

Our 2005 *Fearless Forecast* surveyed over 200 investment managers worldwide, and asked them to predict in which time frame active ownership and the integration of environmental, social and corporate governance (ESG) analysis "**will become a common component of mainstream investing?**"

Source: 2005 Fearless Forecast. See www.maccapty.com for full findings.
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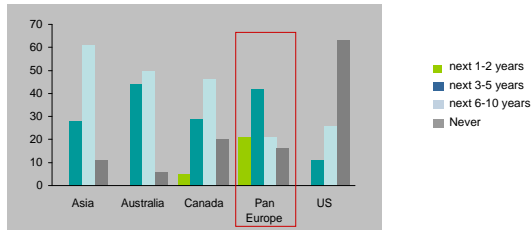
What do investment managers think?



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What do investment managers think?

The integration of social/environmental corporate performance indicators



Source: 2005 Fearless Forecast. See www.morganCI.com for full findings.

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Fearless Forecast 2006 surveyed >150 investment managers worldwide

We asked them:

- if they anticipated a rise in demand from clients for analysis of ESG factors over 2006 and the following 3 years
- whether clients will want ESG analysis integrated into mainstream investment strategies or into new, specialist investment strategies built on ESG analysis
- to indicate the extent to which a set of (named) ESG factors are important to an economic risk/return perspective, in 2006 and over the next 5 years

Source: 2006 Fearless Forecast. See www.morganCI.com for full findings.

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Fearless Forecast 2006

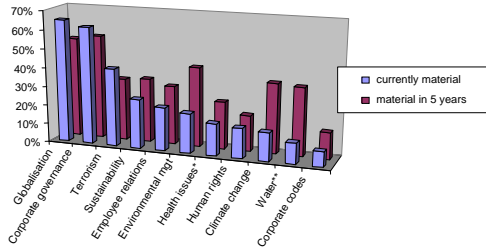
Findings:

- Almost 40% anticipate a rise in demand from clients for integration of ESG factors in 3 years
- Proportion of managers expecting increased client demand for the integration of ESG analysis into mainstream investment processes is 13% in coming year and 38% over the next 3 years (European managers were most bullish)
- Similar figures for the proportion of managers anticipating an increased in demand for specialist investment strategies built on analysis of ESG issues.

Source: 2006 Fearless Forecast. See www.morganCI.com for full findings.

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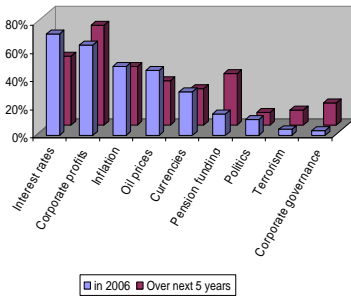
When asked to rate whether certain ESG factors are financially material:



Source: 2006 Fearless Forecast. See www.actuaries.org.uk for full findings.
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How does this compare with others factors?

- BUT relative to the impact of interest rates and the price of oil on financial performance, ESG issues remain low impact



Source: 2006 Fearless Forecast. See www.actuaries.org.uk for full findings.

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Is this translating into behavioral change?

- Capacity of investment managers to integrate active ownership and ESG issues into the investment decision making process

	Voting and engagement on CG	Voting and engagement on ES	Integration of ESG
++	37	10	13
+	37	40	33
=	20	33	33
-	10	17	20

- Unsurprisingly, processes for CG most established
- Integration of ESG still in its early stages
- Feedback from managers suggests that they are ready to respond further, awaiting signals from their clients

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3. Case Study: Principles for Responsible Investment



Practical framework for investors

- Aim: provides a framework for investors that believe that ESG issues can impact financial performance and want to take steps to ensure these issues are integrated into the investment process.
- Developed by 20 of the world's largest pension funds in 12 countries, representing \$1.7 trillion
- Funds from UK and Continental Europe, Scandinavia, US, Canada, Brazil, Thailand, Australia
- Mixture of public and private funds as well as a major re-insurance company and a foundation
- Investor group is formed of *asset owners*, not fund managers
- Launched on 27th April 2006, over 30 investors have signed these Principles, representing over £4 trillion in assets



The 6 Principles

We will:

1. incorporate ESG issues into investment analysis and decision-making processes.
2. be active owners and incorporate ESG issues into our ownership policies and practices.
3. seek appropriate disclosure on ESG issues by the entities in which we invest.
4. promote acceptance and implementation of the Principles within the investment industry.
5. work together to enhance our effectiveness in implementing these Principles.
6. each report on our activities and progress towards implementing the Principles.



Signatories as at May 2006

- ABP Netherlands
- AP2 Sweden
- BT Pension Scheme UK
- Caisse de dépôt et placement du Québec
- CalPERS USA
- Canada Pension Plan IB
- Catholic Superannuation Fund Australia
- CDC France
- Christian Super Australia
- CIA, Switzerland
- Comité syndical national de retraite Bâtirente Canada
- Connecticut Retirement Plans & Trust funds
- ERAP, France
- Folksam Sweden
- FRR, France
- General Board of Pension and Health Benefits of the United Methodist Church
- Gov't Employees Pension Fund South Africa
- Government Pension Fund Thailand
- Kikkoman Corporation Pension Scheme Japan
- Mennonite Mutual Aid USA
- Munich Re Germany
- Nathan Cummings Foundation USA
- National Pensions Reserve Fund of Ireland
- NYC Employees Retirement System
- NY State and Local Retirement System
- New Zealand Superannuation Fund
- Norwegian Government Pension Fund
- PGGM Netherlands
- PME Netherlands
- PREVI Brazil
- Storebrand Norway
- Teachers' Retirement System of City of NY
- United Nations Joint Staff Pension Fund
- Universities Superannuation Scheme UK

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