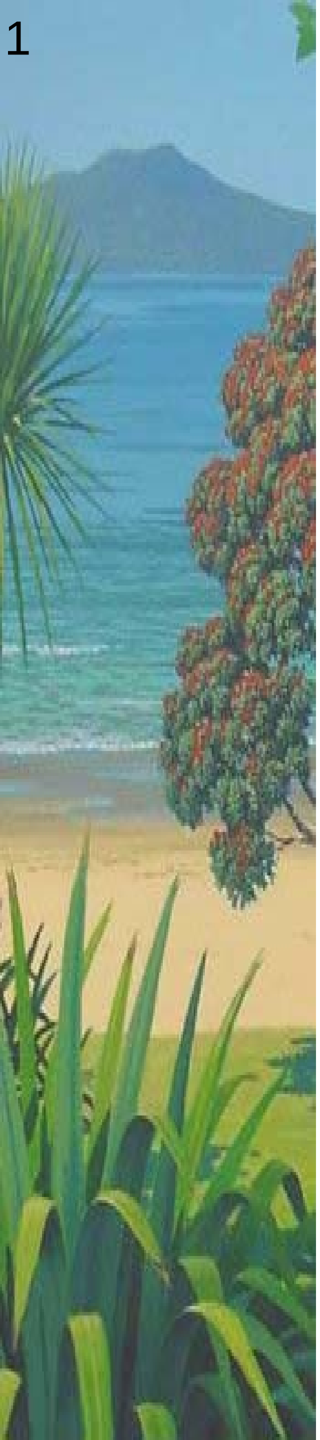
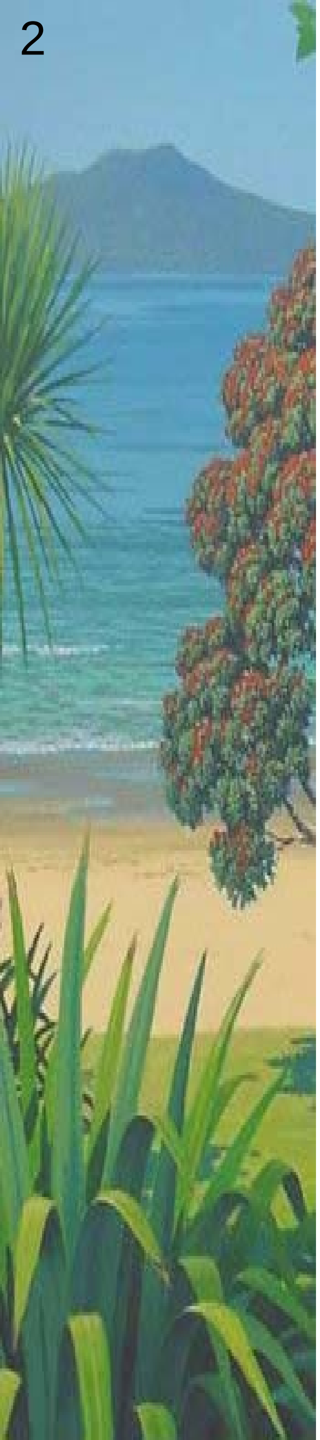


CSRI

Transitions to Sustainable Investment

Dr Robert Howell
December 2010



Introduction

- Investors seek financial system that adequately identifies risk and gives fair protection and return.

- During last few years international financial system has shown to be fraudulent and corrupt.

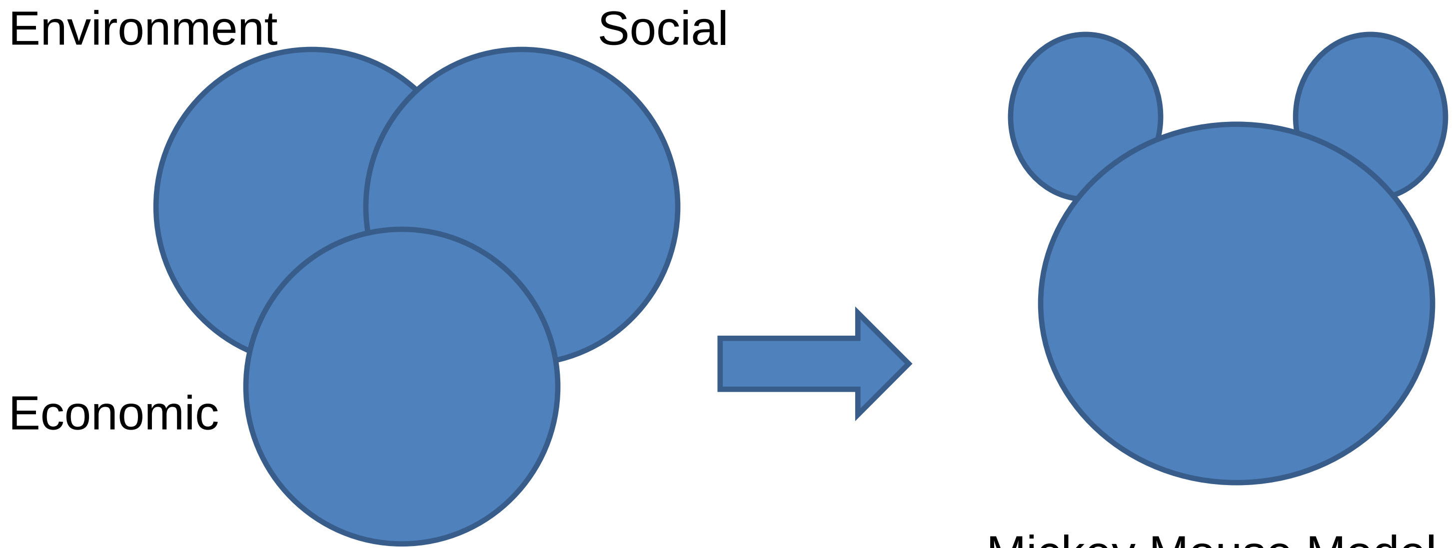
- Regulation not adequate to deal with ecological degradation

- Need to use SANZ global drivers for risk

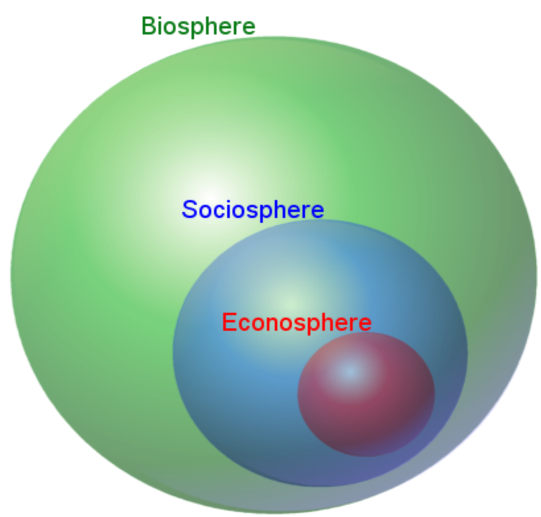
- SRI and SWF do not meet these criteria

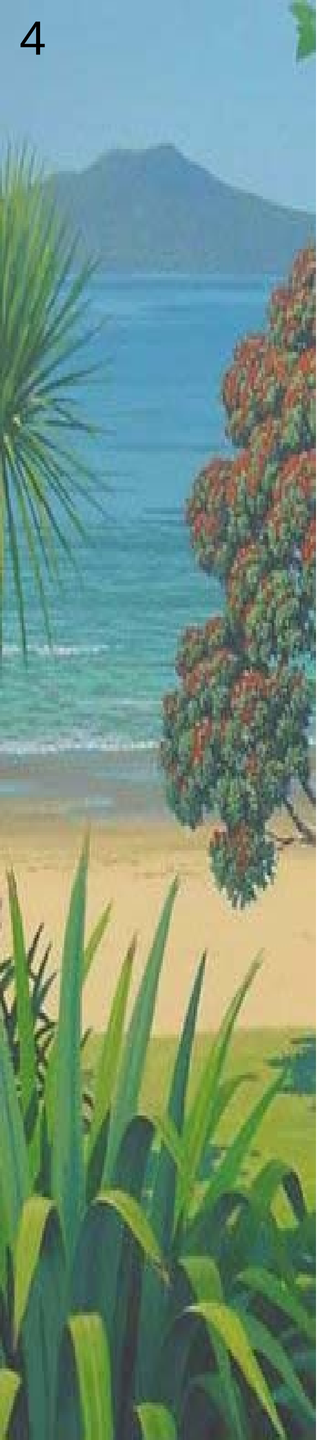
- Lessons from case studies: Portfolio21, HSBC Bank

Weak / Strong Sustainability



Mickey Mouse Model of Triple Bottom Line



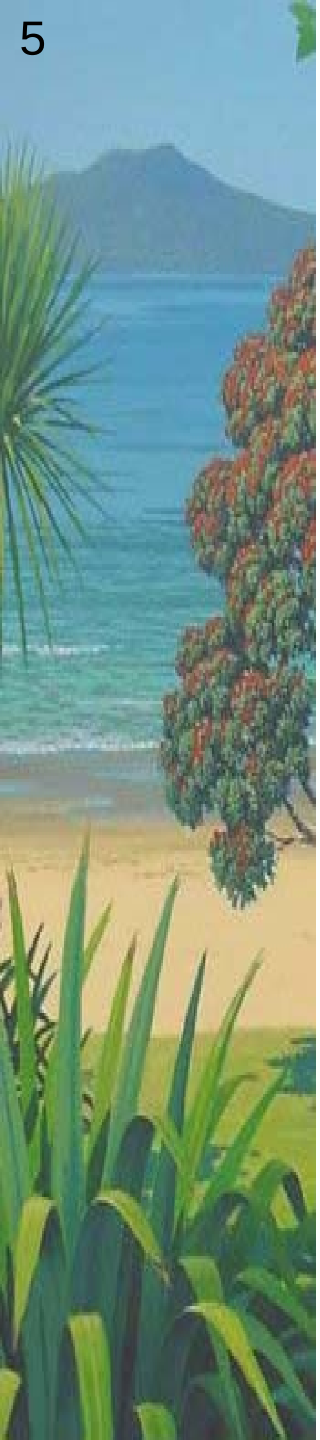


Weak / Strong Sustainability

- Weak sustainability: economic, social and environmental factors are considered (TBL)

- Strong sustainability: the resilience and capacity of ecological systems to support human life is necessary

- Change in values: from utilitarianism and a version of the Lockean social contract, to notions like equity and integrity that cover both human-human and human-Earth relations

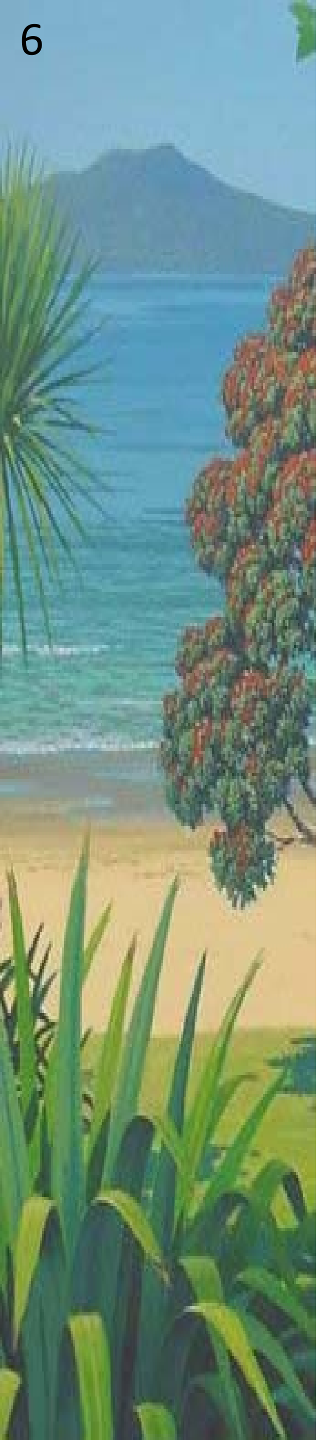


Inadequate Reform Proposals

- The majority of international standards and benchmarks are inadequate

- The SRI model has criteria so loose that it permits unethical behaviour and investment that contributes to ecological degradation

- UN principles for climate change, and the UN PRI are based on weak sustainability. Equator principles are inadequate.



Europe

Core [3.4%]

Ethical exclusion

Best in Class

Other Positive Screens

Subtotal € 511 bill 19%

Broad [14.2%]

Simple *

Engagement

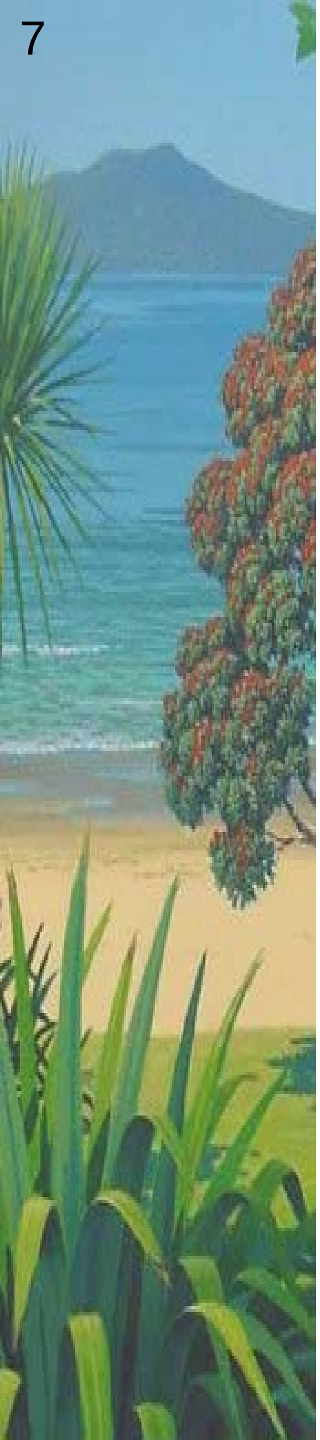
Integration

Sub Total € 2154 bill 81%

Total € 2.665 trill

[17.6% of European Asset Management Industry]

**Simple = Weapons €656, Norms based €402, Tobacco €17.5*

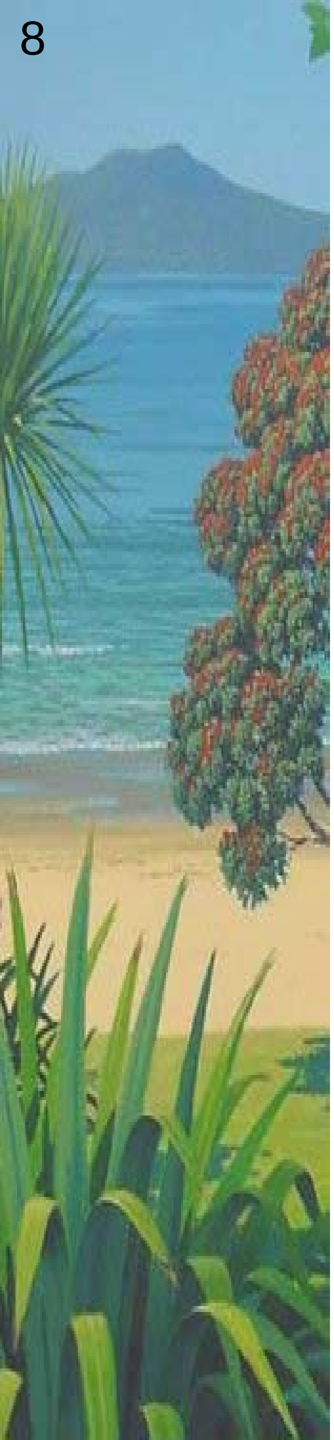


USA

Social Investment Forum USA

11% of $27.1 trillion under professional management is SRI (2007)

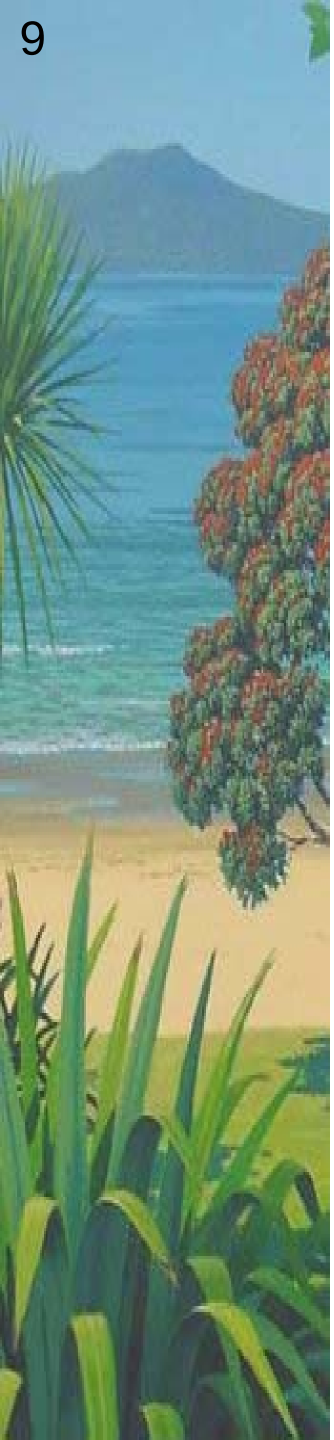
Tobacco 88%,
alcohol 75%,
gambling 23%
(2005 study)



Sovereign Wealth Funds

UAE Abu Dhabi	627	Oil
Norway (12%)	471	Oil
Saudi Arabia	415	Oil
China (SAFE Inv Cpy)	347	
China (China Inv Corp)	332	
Singapore (Govt S Inv Corp)	247	
China HK (HK Monetary Auth)	227	
Kuwait (K Inv Auth)	203	Oil
China (National Soc Security)	146	
Russia (National Welfare Fd)	142	Oil
Singapore (Temasek)	133	
Libya (L Inv Auth)	70	Oil
Qatar (Q Inv Auth)	65	Oil
Australia	59	
Total Oil & Gas (58%)		$2,288
Total (billions)		$3,969

SWF = 2% of traded securities (2008)



Sovereign Wealth Funds

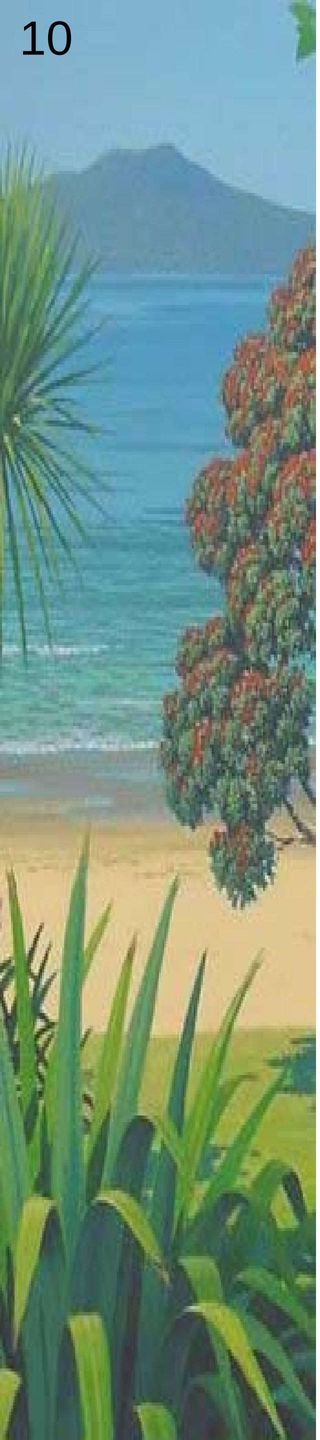
- Norway has a Council of Ethics that applies the ethical criteria given to it by the Norwegian Parliament.

- The clause ‘severe environmental damage’ meant that it excluded Rio Tinto because of the Freeport mine in West Papua.

- It does not exclude companies involved in Canadian tar sands extraction (they are a major contributor to Canada’s GG emissions).

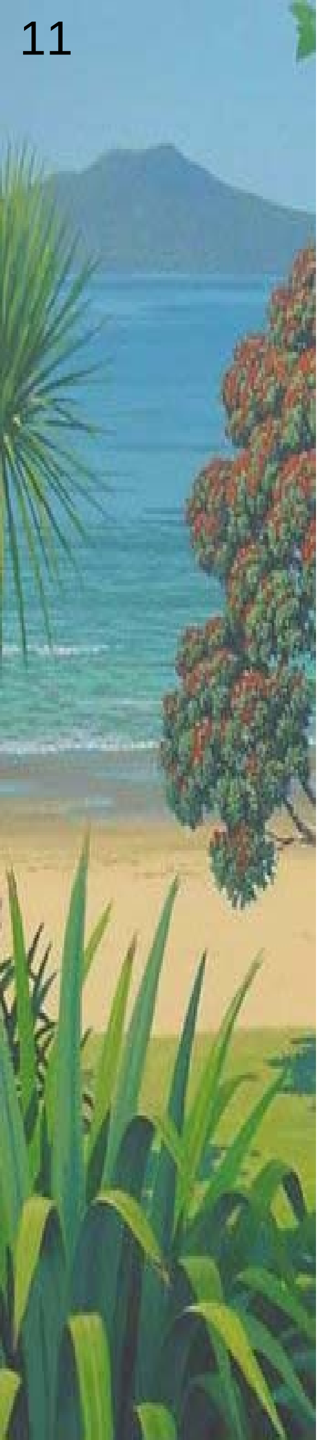
- China’s SWF total $1052 (27%).

- China’s SAFE is invested in Rio Tinto.



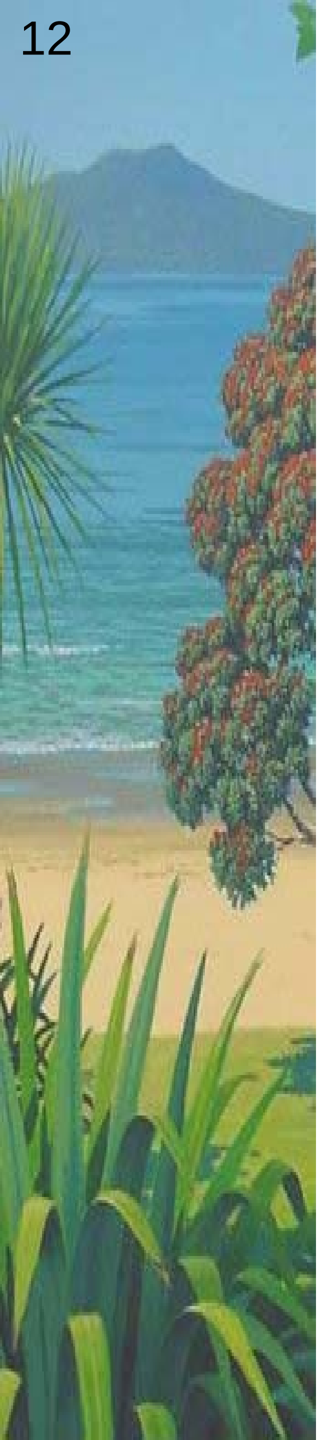
Global Drivers - SANZ

- population growth
- climate change
- price rises in hydrocarbon (oil, coal, natural gas)
- water
- food
- air and water-borne toxins
- geopolitical shifts and disruptions
- wide swings in economic activity
- advances in technology



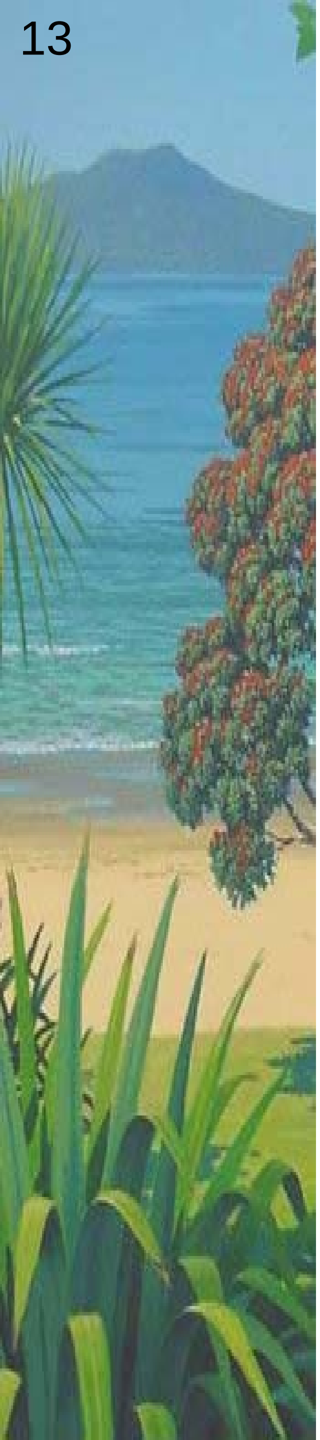
Global Drivers - SANZ

- There will be complex interactions between all of these change drivers
- All are subject to uncertainty about timing and magnitude
- Changes will be outside the range of prior human experience in terms of magnitude, speed of arrival, and simultaneity



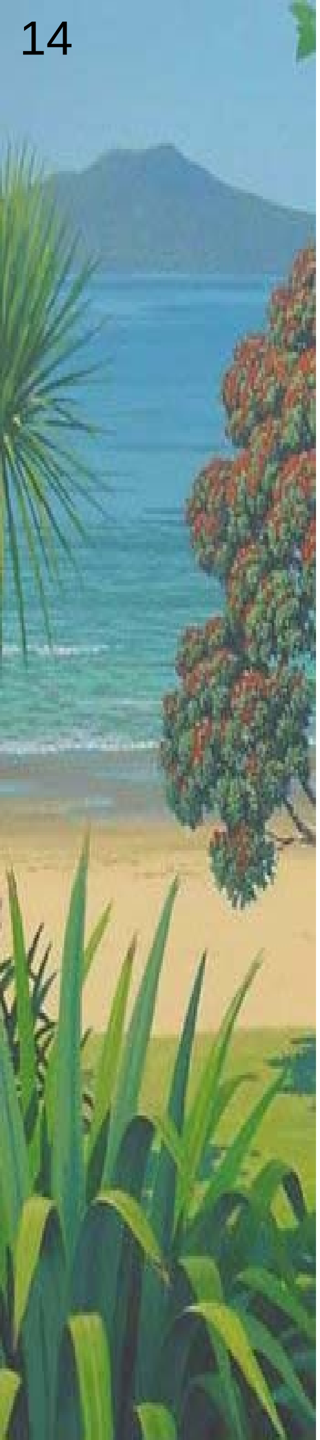
Investment Criteria

- Investing in a smaller number of companies
- Taking a larger stake
- A longer-term perspective will be taken
- How aware management is of the major global drivers
- How they are incorporating these into their strategic plans
- Companies have calculated their ecological impact
- Daly formulae or Natural Step



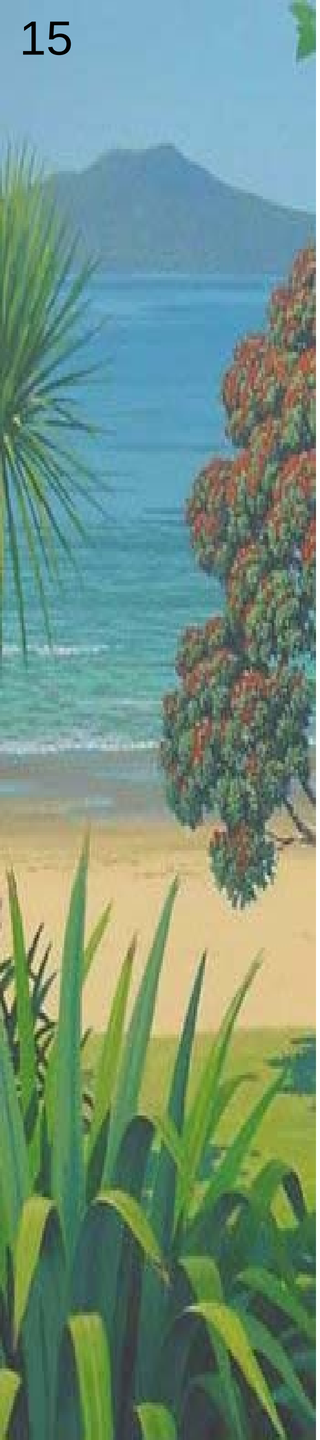
Case Studies: Portfolio21

- Portfolio21 is based in Oregon, USA
- $322 million in assets in 105 companies ☺
- Philosophy is based on ecological economic principles (Natural Step) ☺
- Risk analysis takes into account SANZ global drivers ☺
- Recognise that there are no truly sustainable companies ☺
- Actively engages ☺
- Use of UN standards ☹
- Very transparent ☺



Case Studies: HSBC

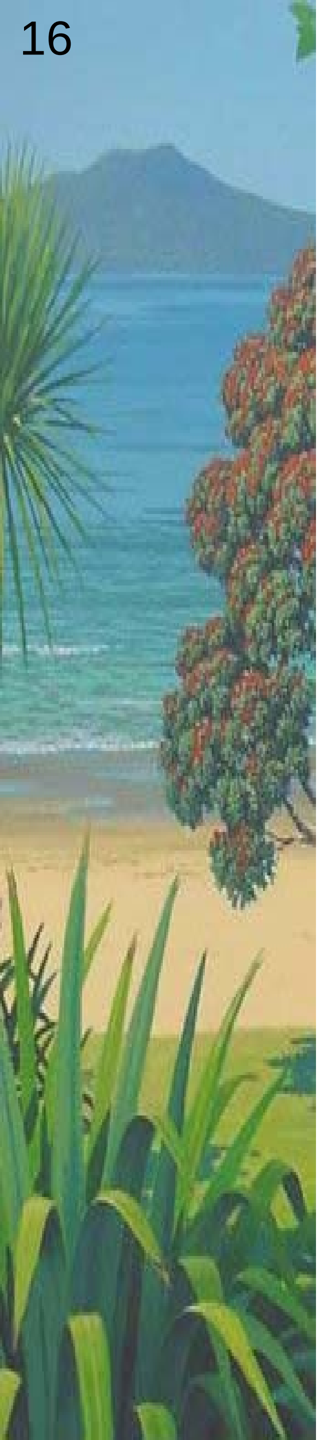
- HSBC is one of the largest banking and financial services organisations in the world
- market capitalisation of US$114 billion and assets of US$2,527b
- HSBC has around 9,500 offices and 325,000 employees in 86 countries and territories



Case Studies: HSBC

HSBC Holdings	92
Bank of Montreal	87
Simon Property Group	86
Hammerson	84
Allianz	83
Australia and New Zealand Banking Group	82
National Australia Bank	82
Commonwealth Bank of Australia	81
Aviva	80
Lloyds Banking Group	80
Westpac Banking	80
Allstate	79

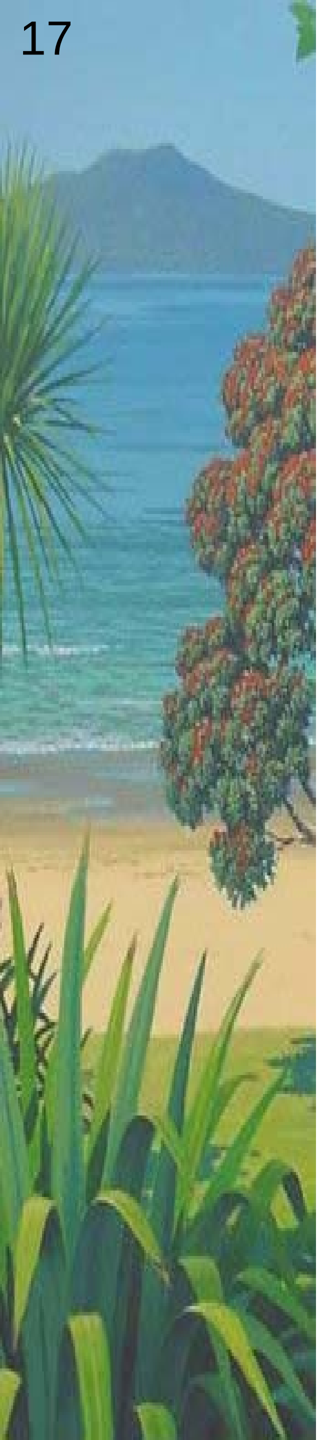
Financials on the Carbon Disclosure Project



Case Studies: HSBC

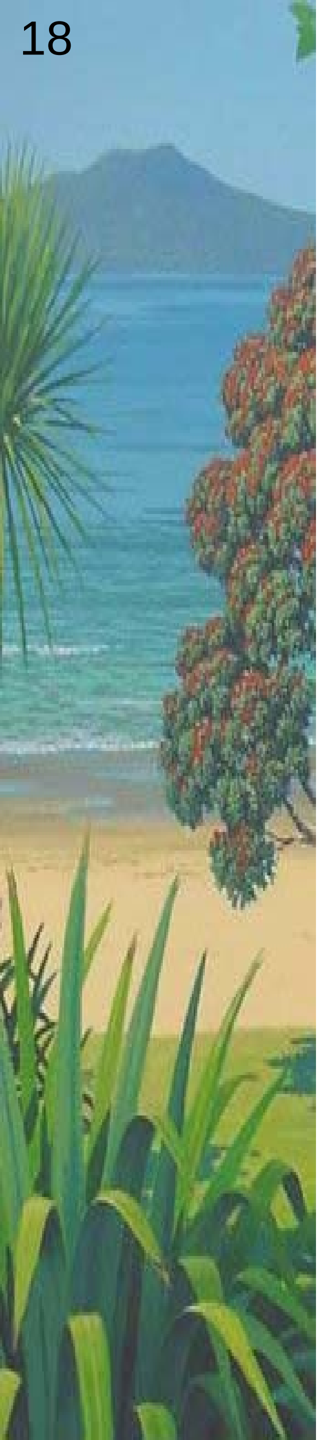
- setting up research teams ☺
- partnering with NGOs ☺
- committing to Climate Principles

  (Low carbon not defined) ☺ ☹
- establishing a Climate Change Benchmark Index ☺
- mitigation now is not sufficient - adaptation is required, particularly for developing countries ☺



Case Studies: HSBC Policy

- Chemicals ☹
- Defence ☺
- Energy ☹
- Forest Land and Forest Products ☺
- Freshwater Infrastructure ☹
- Mining and Metals ☹



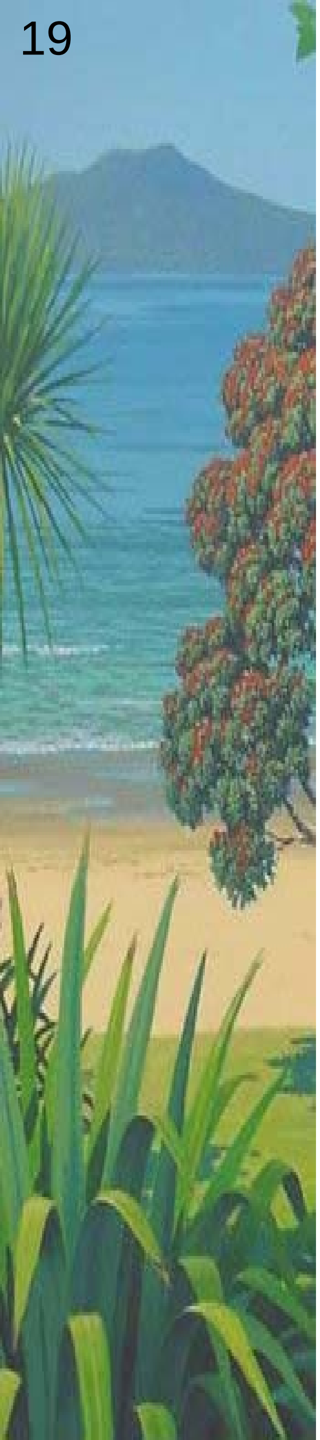
Ceres survey of 40 major banks

- 16 US and 24 non-US = 60% market capitalisation

- Only 14 banks have adopted risk management policies or lending procedures that address climate change in a systematic way

- Only a half-dozen banks calculating carbon risk in their loan portfolios

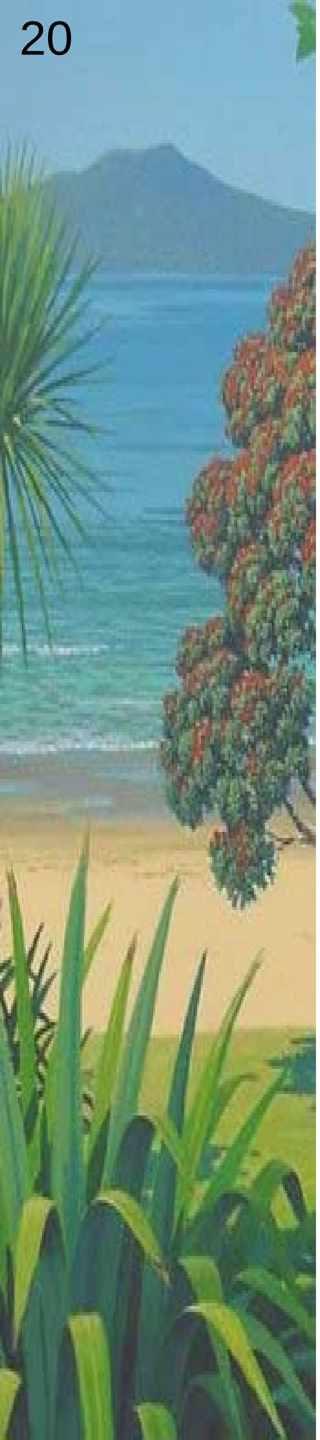
- No bank has set a policy to avoid investments in carbon-intensive projects such as coal-fired power plants.



Banktrack: *Close the Gap*

0 = no policy; 1= voluntary; 2= vague, no commitments 3= half of essential elements 4 = essential; 5= essential +

	0s	***1s***	***2s***	***3s***	***4s***
ANZ	5,	10,	3		
Commonwealth	10,	8			
HSBC	2,	13,	1,	1,	1
ING	4,	9,	3,	2	
National Australia (BNZ)	9,	7,	2		
Rabobank	2,	5,	9,	2	
Westpac	6,	9			



Role for Governments

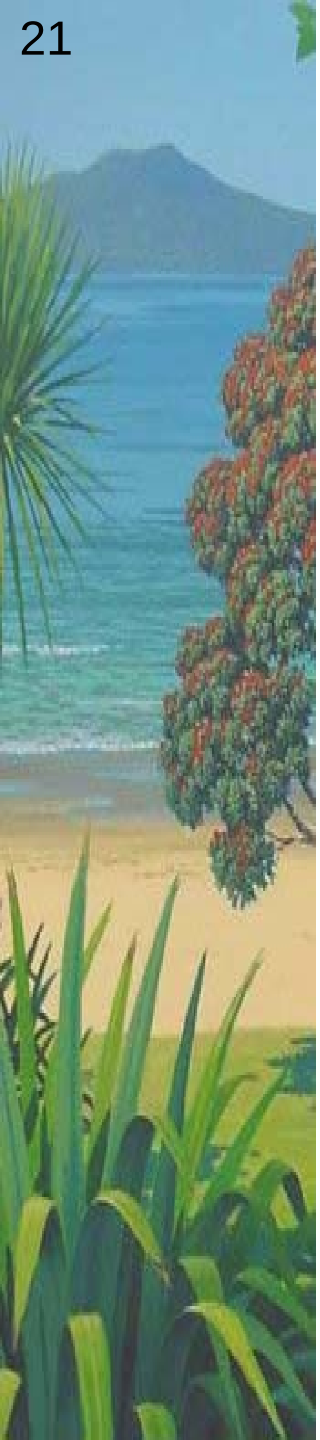
- Stern said 2% of GDP is needed, $1.244 trill (2008). (USA spends 4.8% of GDP on wars.)

- Need to consider states that are dysfunctional, weak/ corrupt legal systems, or opposed to active policies, where multinationals (esp oil, gas, coal) have captured govts, and distorted markets through govt subsidies.

- Market will not address assistance needed for developing countries (est $160 bill pa)

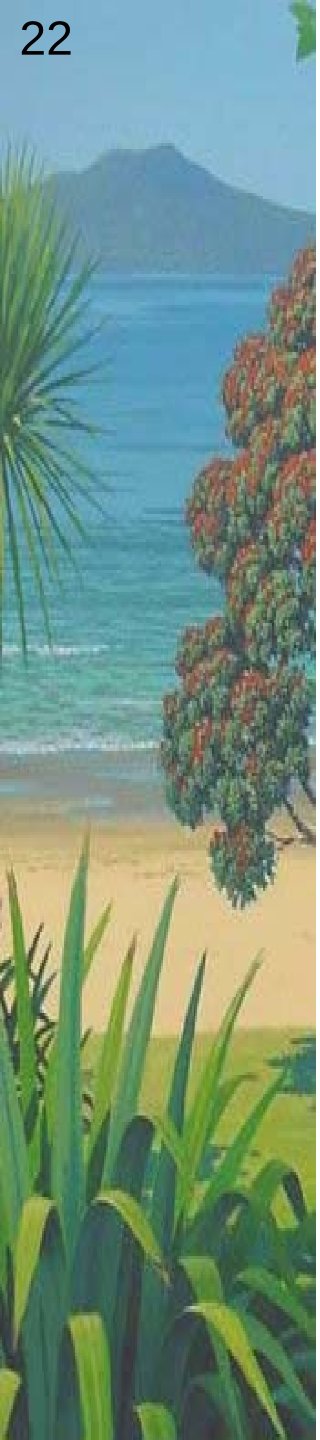
- Green Investment Bank Commission – identified market failures and barriers to investment in UK to low carbon economy and recommended Green Investment Bank.

- Ineffective international decision making process.



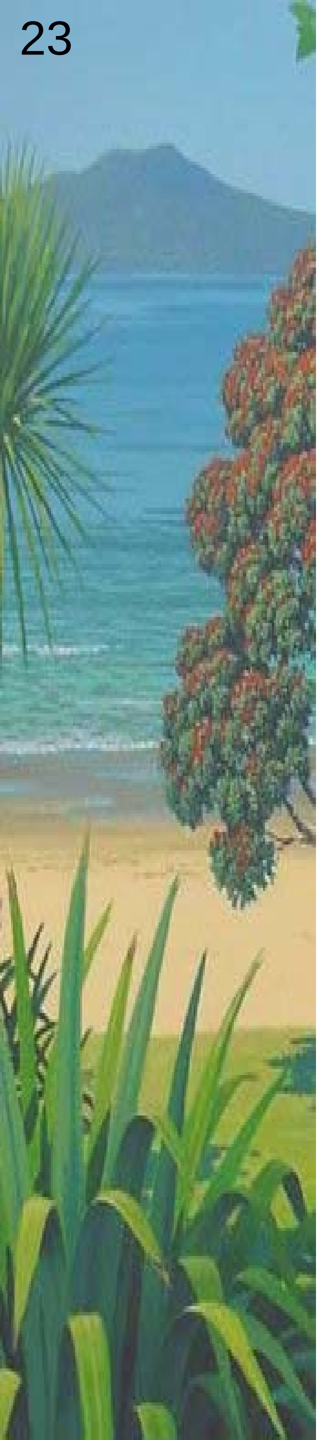
Transition to Sustainable Investment

- Calculating social and environmental impact is not sufficient. Need to include nature of financial system.
- Definition of sustainability needs to be strong.
- SRI and SWF are part of the problem.
- Majority of international principles, standards, benchmarks, guidelines are inadequate.
- Governments have important role to play, although international decision making processes are flawed.



Transition to Sustainable Investment

- Portfolio21 provides useful model for selection, operating, monitoring and reporting criteria and processes for individuals and funds.
- Banks are not doing enough and they are not doing it quickly enough.
- Governments need to be more active. Especially connecting their values with their investments. Norway is a good example.
- The NGO/civil society sector is a mixed bag. Religions should be doing more.
- Many investment funds joined together to influence the South African regime to change from apartheid.

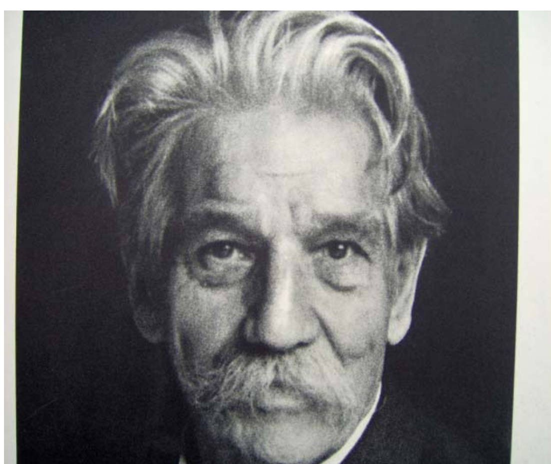


Transition to Sustainable Investment

Preserving our planet is more difficult because we need to change our economic system from exploitation of Earth to living within its capacities to support life. Need to move from an ethic of utilitarianism, where the Earth is seen for man's utility.

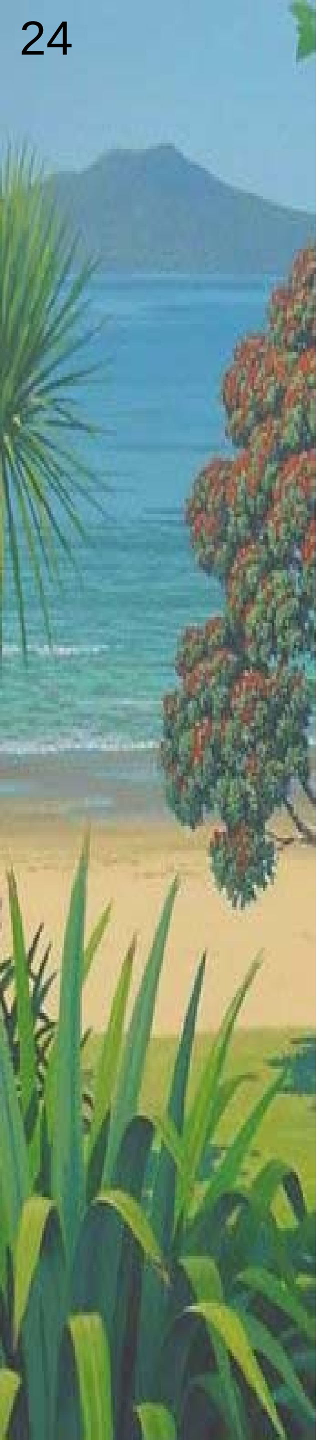
Schweitzer: ***Out of My Life and Thought***

The great fault of ethics hitherto is that they deal only with relations of man to man. A man is ethical only when all life is sacred to him, that of plants and animals as well as his fellow man. We need a universal ethic of feeling responsible in an ever-widening sphere for all that lives: the ethic of reverence for life.



Aldo Leopold : ***A Sand County Almanac***

A thing is right when it tends to preserve the integrity, stability and beauty of the biotic community



Transition to Sustainable Investment

CSRI

www.csri.org.nz

rhowellnz@gmail.com