

Colonial First State Global Asset Management

An abstract graphic on the left side of the slide, consisting of a complex, multi-layered geometric pattern of blue lines and dots, resembling a stylized 'X' or a series of overlapping planes.

# Sustainable Investment: The Emergence of sustainability as a mainstream investment issue

9 October 2008

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Head of Sustainability and  
Responsible Investment

# Presentation outline



- ➔ Define sustainable investment within the context of the United Nations Principles for Responsible Investment
- ➔ The business case for 'mainstreaming' ESG
- ➔ What we have done to October 2008
- ➔ One of our 'best practice' case studies: Global listed infrastructure

# Defining Sustainability



*Sustainability issues are Environmental, Social and Governance issues that have the potential to materially impact long term shareholder returns.*

*Sustainability issues typically impact growth and risk*

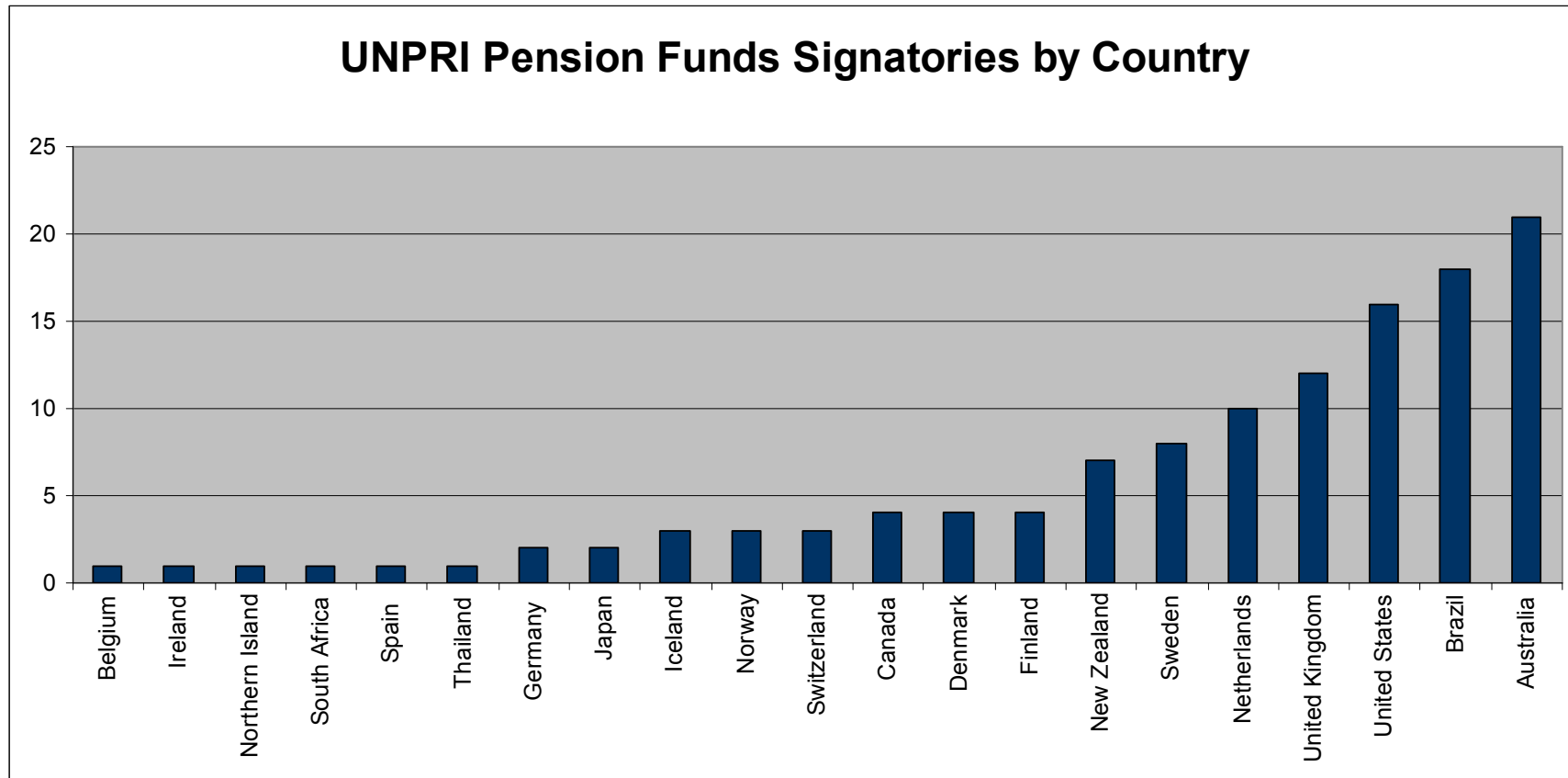
*Sustainability as an investment issue NOT SRI, NOT ETHICAL INVESTING!!*

# The Principles

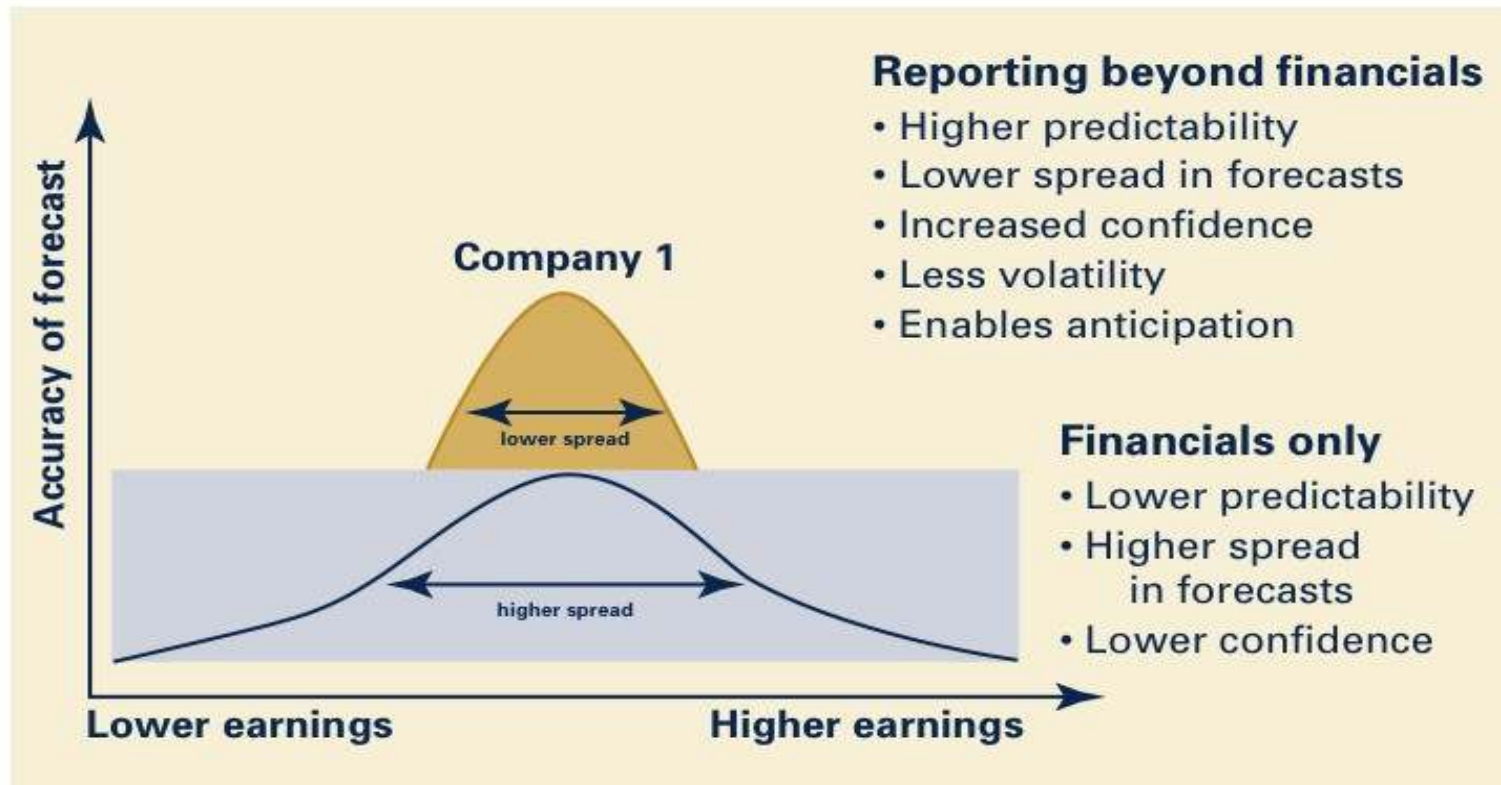


1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance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

# Starting to translate into action!



# The business case: Better investment decisions



Source: World Watch Issue 1 2004, PwC; Schroders, Kirchoff Consultants, 2005



# Responding to the 'carbon challenge'

Friday 2 June 2006 • w

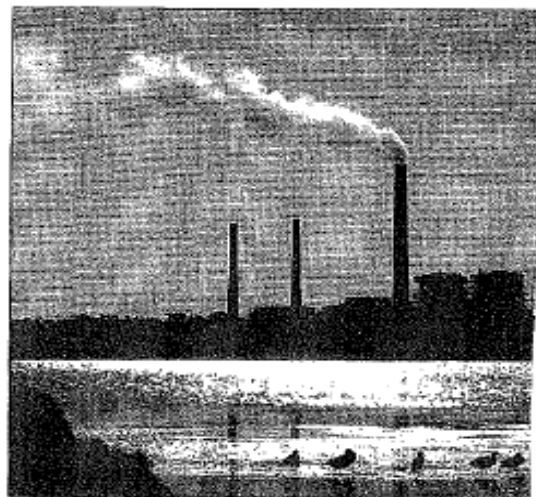
## Climate change a hot topic for big money

Fiona Buffini

Australia's 100 largest listed companies have until the end of June to say how they plan to deal with climate change, or risk lower valuations by some of their biggest investors.

About 46 companies have already disclosed their greenhouse gas emissions and reduction strategies to the Carbon Disclosure Project, which represents 211 investors with \$31 trillion under management.

The project was extended to Australian companies for the first



The Carbon Disclosure Project has \$31 trillion of muscle. Photo: GLEI

that really drove shareholder value.

In another sign that

Welsh, the chairman of Investor Group on Climate Change

## Climate change can affect all sectors of the economy

The effects of likely carbon-constraining business regulations on companies will be felt in shareholder value, writes **Bob Welsh**.

CLIMATE change is the greatest environmental sustainability challenge facing society. It is not a new phenomenon. It has been occurring naturally for

scientists is that the increase in average temperatures should be constrained to no more than 2 degrees above pre-industrial revolution levels

cannot easily be mitigated through diversification

Superannuation funds are exposed because, as long-term investors, they are more or less permanent part-owners of a broad selection of companies across all industries, economies and markets

To help tackle the risk of climate change, a group of institutional investors headed

## Climate change expert 'underestimated' threat

Ashleigh IINADEQ

Christian Kerr

CLIMATE change expert Nicholas says he underestimated the threat of global warming in his watershed report to the British Treasury in 2006.

His comments echo Ross Garnaut's warning in his interim report for the Government on climate change in February that the world is moving

Global

8 April 2008

## Carbon Emissions

Getting tighter: why the Phase-2 cap is even tougher than it looks

BY JOHN BREUSCH

The 2007 ETI  
ETS em

## Climate change 'overarches all': PM

Industry Focus

18 April 2008 | 36 pages

## A Carbon Crunch is Coming

Counting Corporate Climate Change Commitments

... responses from all parts of the world of 'credit crunch'

# Possible impacts: What are the variables?

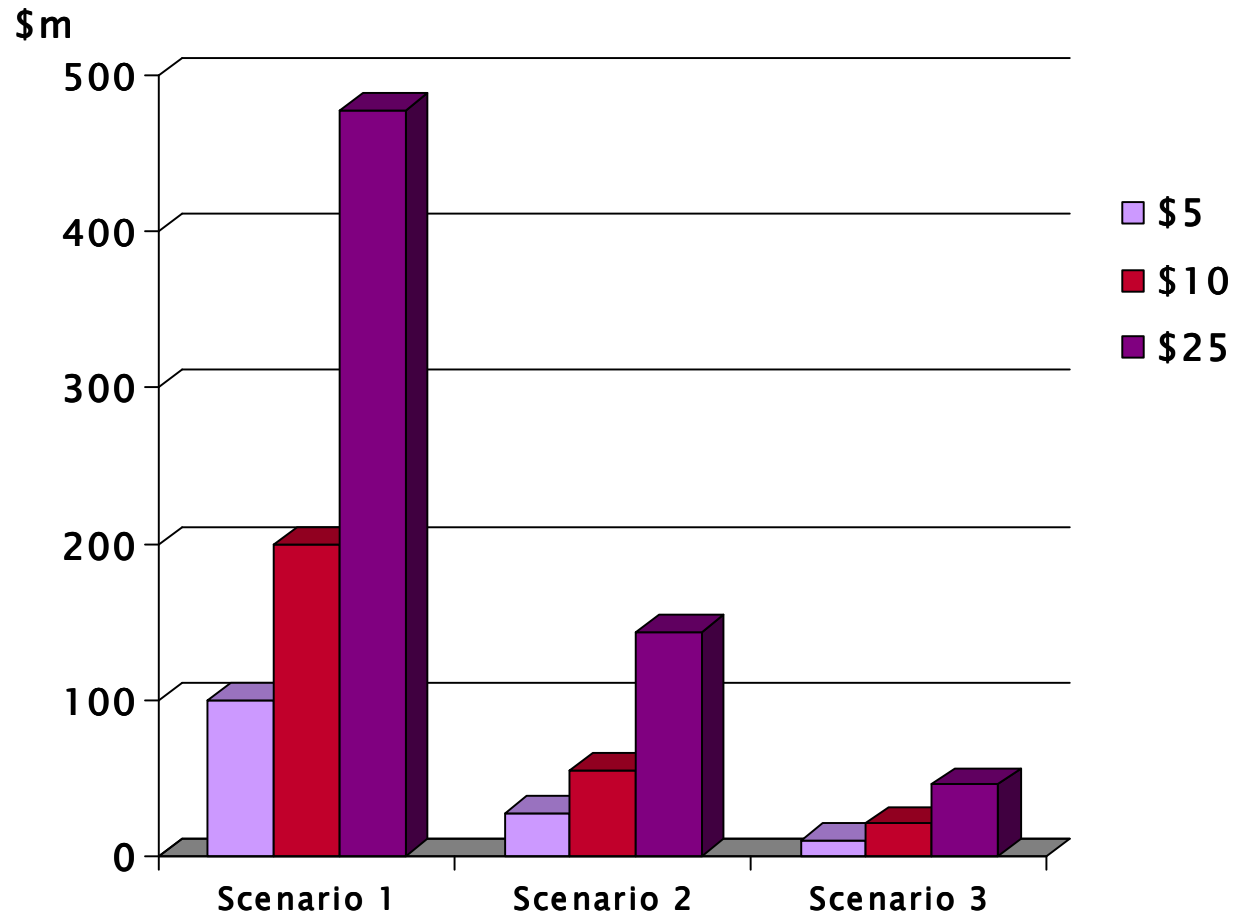


## Investor Group on Climate Change Analysis

Possible Scenarios			
	Emissions covered	Permit Allocation	
1	100%	100% auctioned	
2	Process emissions excluded	100% auctioned	
3	100%	90% free	



# Impact of carbon price – Total cost to steel sector



# Also opportunities: Power station of the future?



.....Perhaps some issues with harnessing



# Responsible Investment

– *our journey to October '08*



- ➔ Signatory to the United Nations Principles for Responsible Investment since 1 March 2007
- ➔ A commitment to integrate a consideration of Environmental, Social and Governance (ESG) factors across all asset classes
- ➔ Key motivating factors include:
  - Belief that ESG issues are material investment issues
  - Many ESG issues already being considered: PRI provides the framework and focus
  - Alignment with client interests
  - Senior management commitment
  - ‘Human capital’ benefits

# Responsible Investment

– *our journey to October '08*



- ➔ Strong governance process in place to support integration including:
  - RI Steering Committee and two implementation committees with internal reporting requirements (listed equities and unlisted assets)
  - Responsible Investment (RI) policy statement
  - ESG voting and engagement policy
  - Detailed governance reporting
  - Climate Change position statement
  - First Australian fund manager to release a PRI implementation report
  - Dedicated Head of Sustainability and Responsible Investment, Head of Property Sustainability and Sustainability Manager
- ➔ A number of initiatives to support our efforts including:



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**CARBON DISCLOSURE PROJECT**





# Case study: Global Listed Infrastructure



- Qualitative Rating of each company consists of five categories:
  - Industry
  - Management
  - Financial
  - Regulation
  - Sustainability
  - Equity flows
  
- Sustainability accounts for 15% of our Qualitative score
  
- Within Sustainability, each company receives a score of 5 to 1 for Environment, Social and Governance

# How they rate companies on ESG

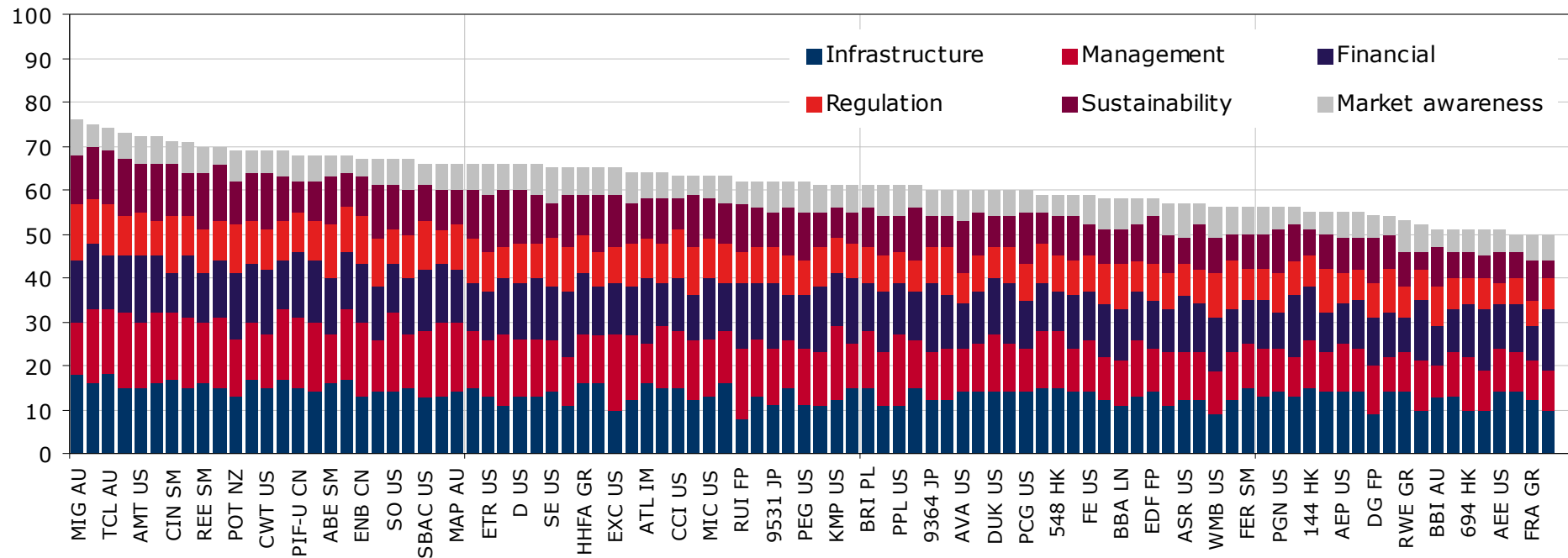


- Scores based on questioning during company meetings, review historic track record, management KPIs, Innovest and other various external surveys
- Further to Innovest the team use various external bodies to cross-check and validate our analysis, including:
  - ISS' Corporate Governance Quotient
  - Governance Matrix International
  - Audit Integrity's Most Trustworthy Companies
  - The United Nations Global Compact
  - Davos 100 Most Sustainable Companies
  - Corporate Responsibility Officer (CRO) '100 Best Corporate Citizens'
  - Dow Jones Sustainability Index
  - J.D. Power Customer Surveys
  - American Customer Satisfaction Index
  - Reputation Institute

# Case study: Global Listed Infrastructure

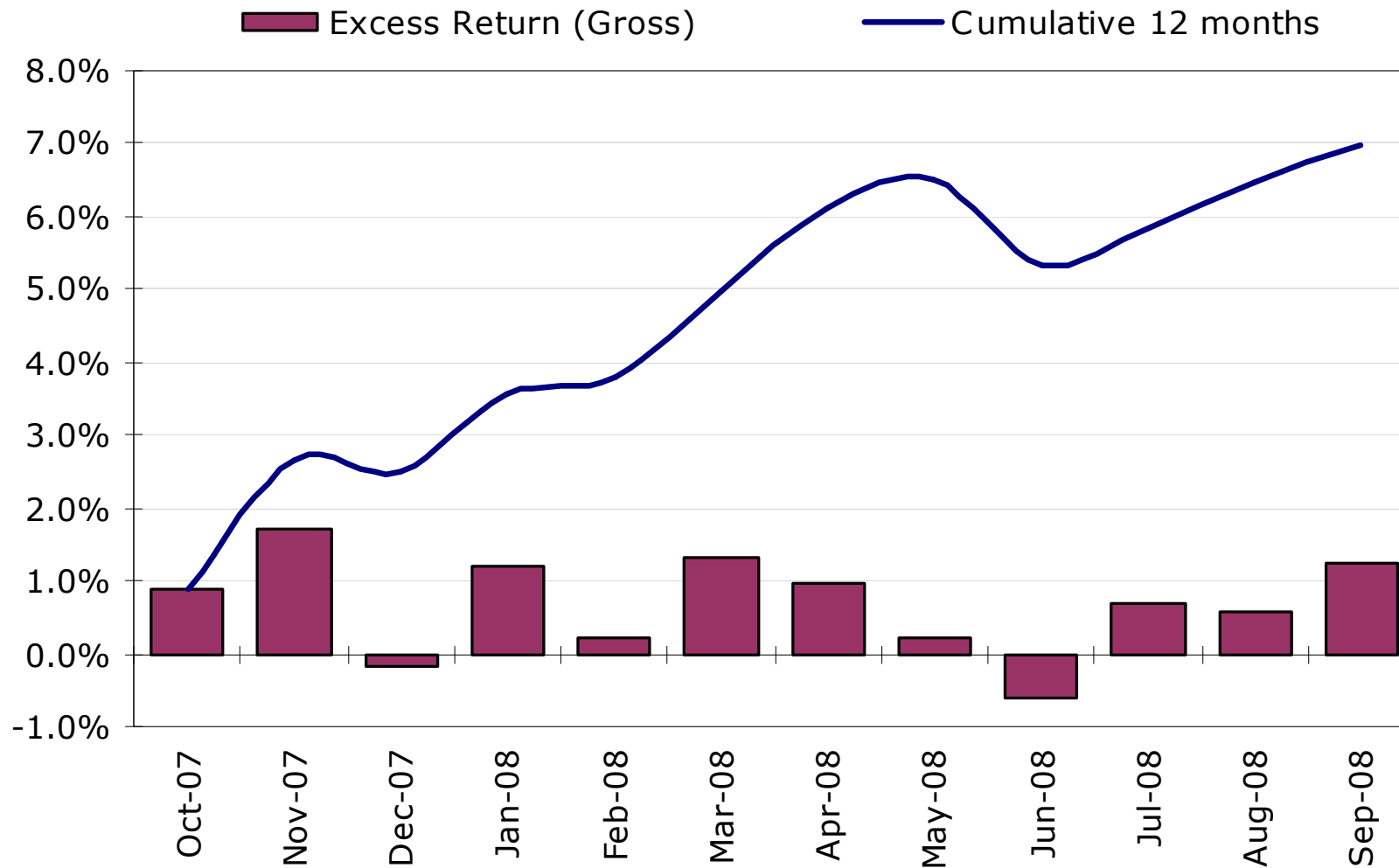


## Qualitative Rankings



Source: CFS Research

# CFS GLIS Performance vs Benchmark



# Conclusion



- ➔ Sustainability issues are now recognised as mainstream investment issues
- ➔ The business case has been accepted
- ➔ Companies will need to more proactively communicate with the market on their ESG performance



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