

Beyond Copenhagen - Climate Change Opportunities & Challenges

**Tuesday November 17th
Law Society**

Outline

- Highlight opportunities for retail and institutional investors
- Explore key climate change challenges
- Examine options for how to construct the 'perfect' climate change fund
- Our response: the EIRIS Climate change toolkit for investors

Changing climate shifting retail investors

- **Evolving expectations** - 59% of UK consumers want financial institutions to prioritise climate change and take part in 'reforming the old' and 'building with the new'
- **Lack of choice** – small number of funds available which climate change funds
- **Opportunities for out-performance**

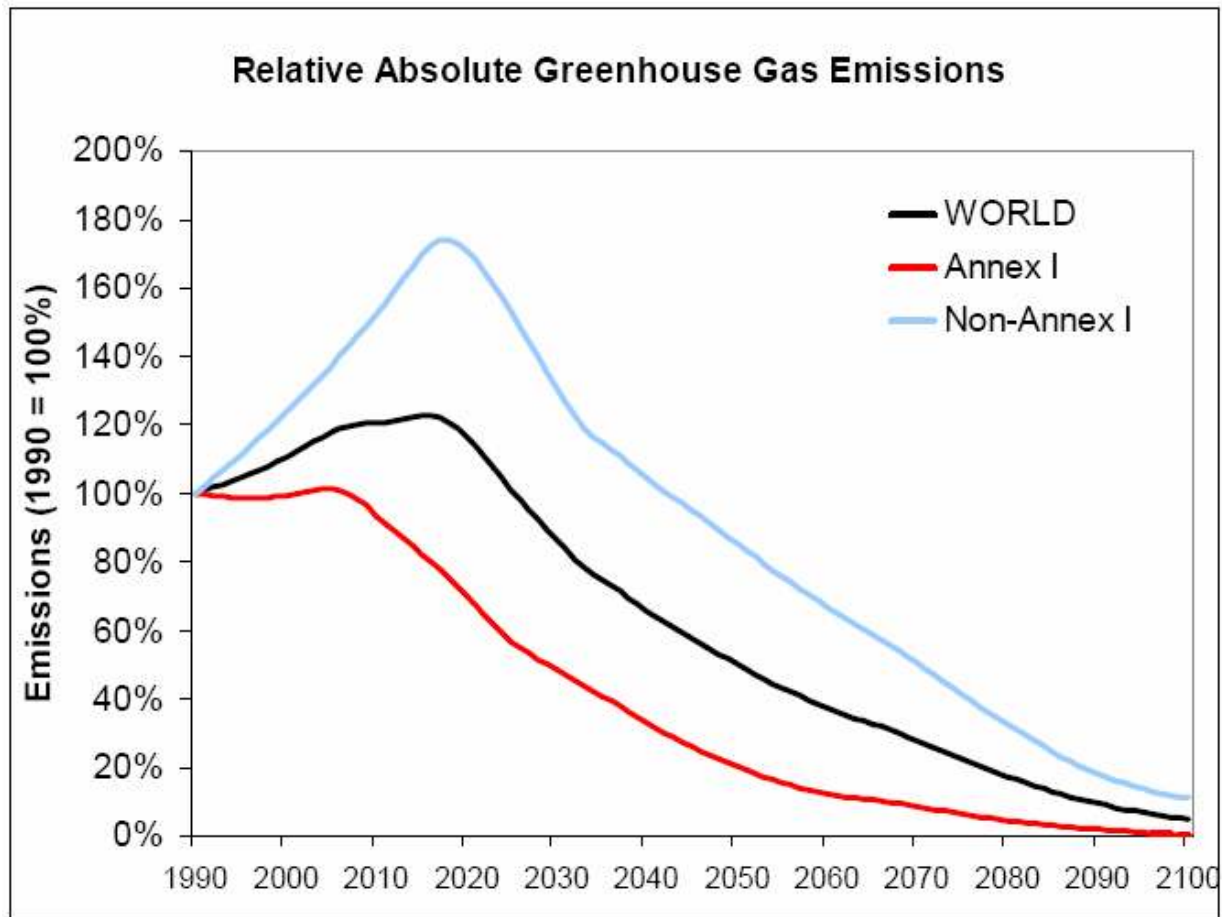
Priority for institutional investors

- Assets significantly at risk – key challenge for companies and the economy
- Profitable "solutions" investment opportunities
- Fiduciary duty - engagement designed to reduce systemic risk and re-examination of valuation models where relevant

Climate change challenges

- The hard road ahead
- The rising price of carbon
- Current state of play
- Disclosure

The hard road ahead



The rising price of carbon

- National & international targets e.g. EU 20/20/20
- Carbon pricing

	2008A	2009f	2010f	2011f	2012f	LT (fcst)
EUA (EUR/tCO ₂)	22	12	15	18	23	30
CER (EUR/tCO _{2e})	17	10	13.5	16	21	20

EUA stands for European Allowance (EU CO₂ right)

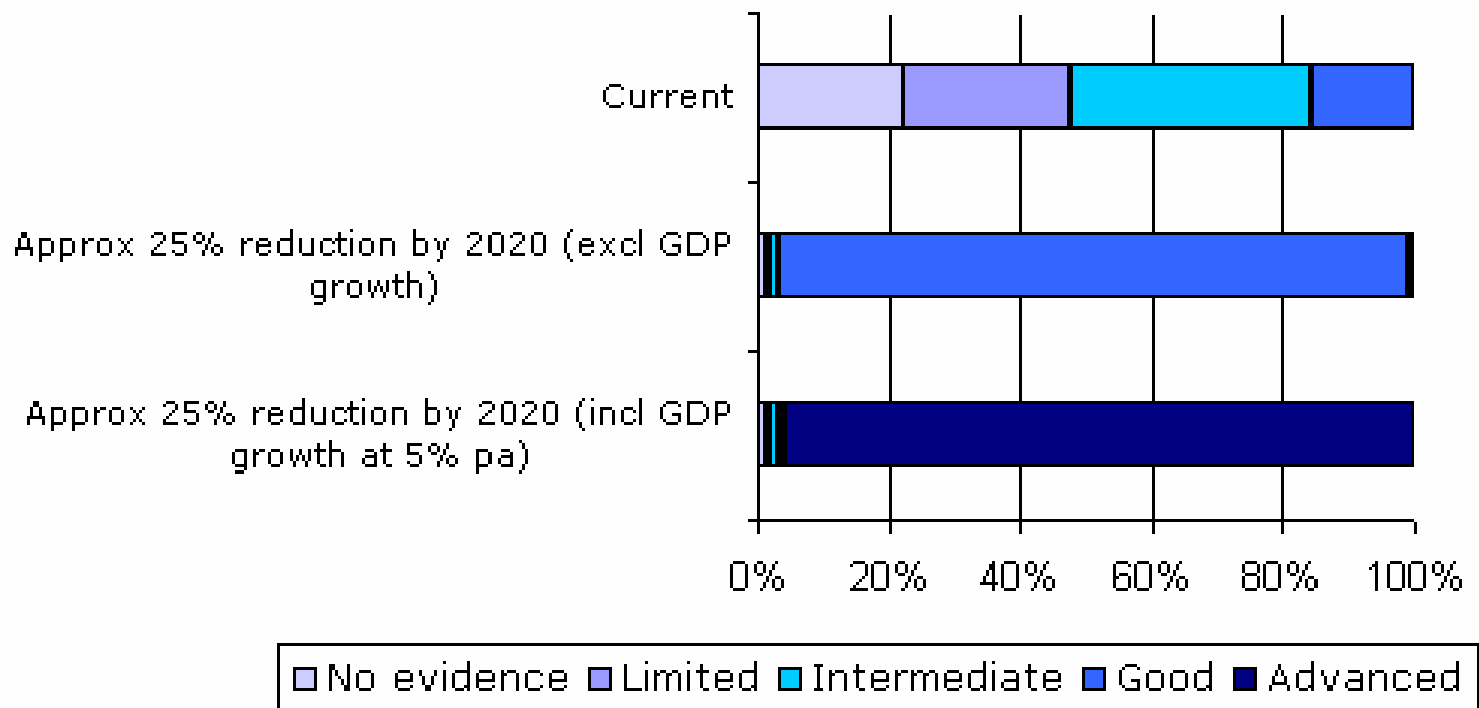
CER for Certified Emission Reduction (Kyoto offset carbon credits)

Source: Chevreux

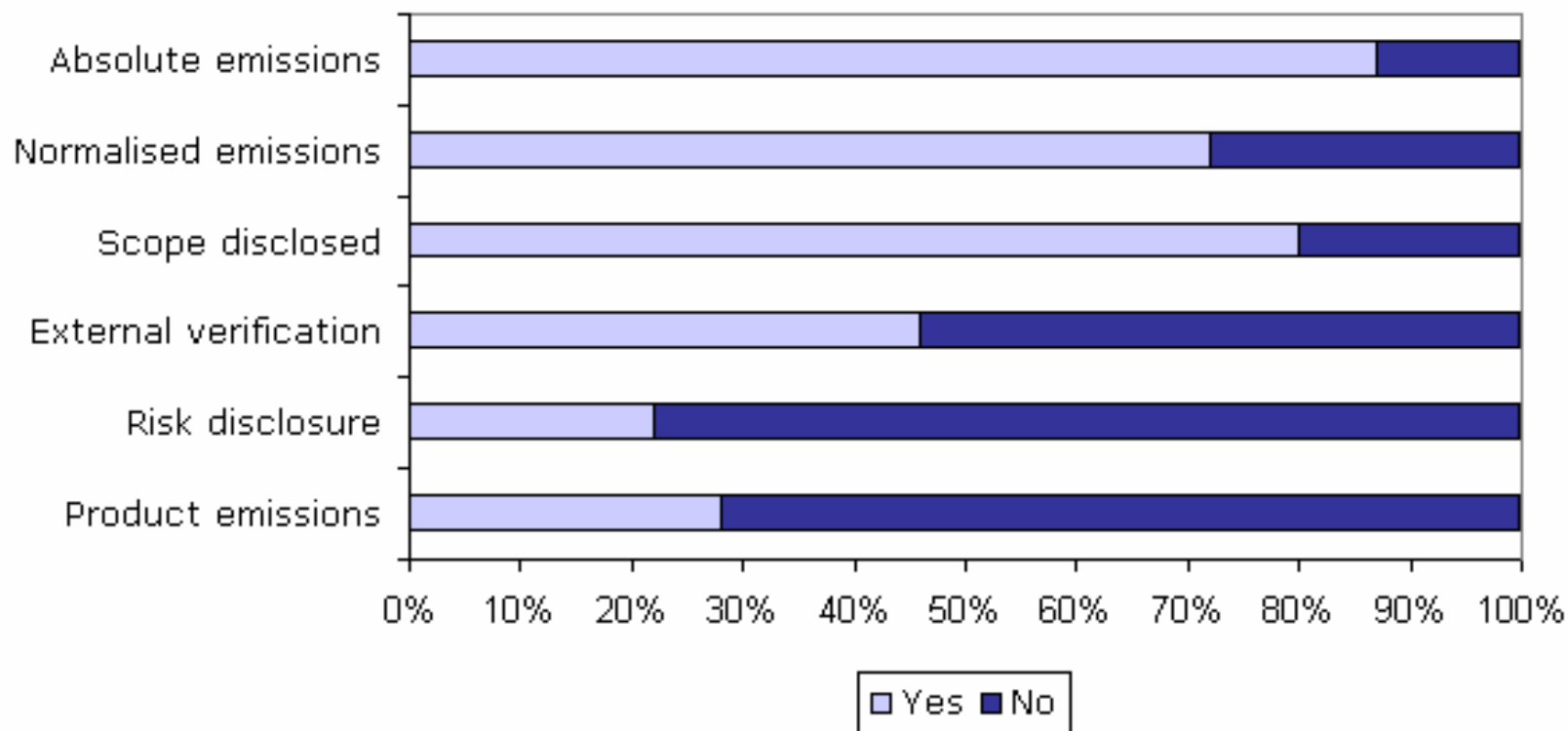
- Carbon taxation

The current state of play

Company responses required to achieve IPCC reductions



Disclosure challenges



Looks good but caution required!

Investor solutions

- The 'perfect' climate change fund
- Climate change 'solution' companies
- The EIRIS Climate change Toolkit
 - Carbon Profile
 - Carbon Risk Factor
 - Carbon Engager

The 'Perfect' Climate Change Fund?

- **New economy** companies likely to benefit from the transition to a low carbon economy
- **Old economy** companies with an effective strategy in response to climate change
- An **Engagement** program to encourage improvements in disclosure, performance

Climate Change 'Solutions' firms

- Drawn from the FTSE AWD Index
- Subset of larger group of firms delivering 'environmental solutions'
- Includes in addition to climate change, Waste, water scarcity and environmental advice
- Based on turnover thresholds (10-90%)

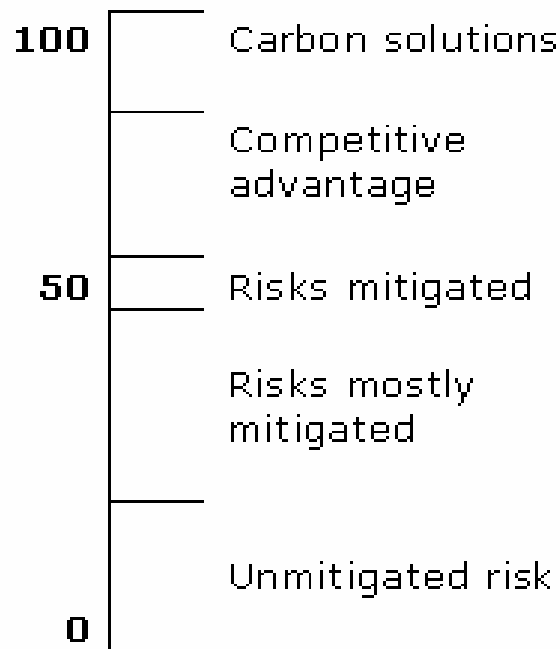
Climate Change Solutions firms include...

- **Renewable and alternative energies**
- **Energy management and energy efficiency**
- **Sustainable transport**
- **Climate change technologies**
- **Financial services**
- **Renewable energy**
- **Alternative energy**
- **Public transport**

EIRIS Climate Change Toolkit

- **Carbon Risk Factor**
 - Quantify a company's climate change risk
- **Carbon Profile**
 - risk in portfolios vs. a reference benchmark
- **Carbon Engager**
 - with portfolio companies to reduce climate-change related risks

Carbon Risk Factor



- Score for each company on a scale from zero to 100
- Below 50 considered **unmitigated risk**
- Above 50 risk is considered **mitigated**
- Above 75 considered a **'carbon solutions company'**

Carbon Profile

European Sustainable Development Fund

This carbon profile is designed to help a European fund manager to understand the quantitative climate change impacts of the holdings of their fund and provide an analysis of the relative carbon performance of the portfolio.

The benchmark selected for this comparison is the Dow Jones Eurostoxx 50.

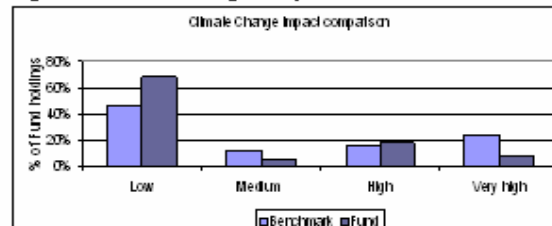
How is Carbon Performance calculated?

EIRIS' climate change performance analysis is based on a combination of **(1) Impact Assessment** and **(2) Management Response**. **Climate Change Impact** is based on a companies':

- Business activities (% turnover derived from carbon intensive activities)
- Direct Emissions (from operations and production facilities)
- Indirect emissions (supply chains)
- Product emissions (associated with products or services)

Each sector is assigned to one of four categories: very high, high, medium or low climate change impact based on their direct, indirect and product emissions.* The table below illustrates the distribution of companies by carbon impact in this fund vs. its benchmark.

Fig. 1 Climate Change Impact



This scale is then combined with the impact assessment to produce a 'Carbon Risk Factor'.

The Carbon risk factor assesses each company's climate change performance on a 100 point scale.

The average weighted score of the portfolio will reflect the extent to which the fund is investing in the companies of lower carbon intensity and also those that are managing their risks. ■

Table 1. Performance overview

	Fund	DJ Eurostoxx 50
Total value (Euros m)	276628	1723251
Carbon performance	48.57	46.23
Carbon out performance	2.34	
Sector allocation	2.04	
Company allocation	0.3	

Table 1 above illustrates the fund's total carbon performance relative to the selected benchmark. The fund has a lower carbon impact than the benchmark (26% of its holdings are in high & very high impact sectors relative to 41% in the benchmark). The overall market cap weighted out-performance of these holdings is 2.34 points better than the benchmark.*


Carbon Engager

- Carbon Engager reports
- **identifies high priority companies & issues** for engagement
- **Supports active ownership**
- **Monitor progress over time**

Carbon Engager Categories

- **Opportunity Maximisers** - Best practice companies
- **Issues Managed** - Good Practice
- **First Steppers** - Some engagement with the issue
- **Non-Starters** - No climate change strategy
- **Poor Disclosers**
- **Laggards** - Bottom quartile performance for their sector

Lonza customised profile



Lonza
Based on Carbon Engager policy

Profile generated on: 20 Feb 2009

Overall results and score

Best Positive: ✓✓, Worst Negative: None	
Result: (see key)	Issue managed
Raw Score	2
	2

Carbon Engagement

Climate change	*****
✓✓ Good response to climate change (high impact)	2
Good climate change disclosure (high impact)	0
sub-total:	2

Business Details

Country: Switzerland
Sector: Pharmaceuticals & Biotechnology
SEDOL: 7333378

Main Activities
Lonza Group AG (LONZAGROUP). The Company's principal activities are the development and production of complex pharmaceutical value-added organic chemical intermediates, which are supplied to the pharmaceutical and agrochemical industries. Additionally, the Company is active in the exclusive custom manufacturing for life science companies and also manufactures biocides, polymers and additives. It is also involved in the generation and distribution of hydroelectric power mainly to industrial customers. Organic Fine & Performance Chemicals accounted for 42.4% of 2006 revenues; Exclusion Synthesis & Biotechnology, 37.6%, Polymer Intermediates, 21.6%, and Others, 7.3% [Annual report, 31/12/2006] [Company website, 17/09/2007]

Company website: www.lonza.com

Sector Issues
Lonza is part of the FTSE Pharmaceuticals & Biotechnology sector. Sector specific social, environmental and other ethical (SEE) issues that arise in this sector (but which may apply to every Company) include:

- Access to Medicine & Intellectual Property Rights - Large drug companies

Carbon Engagement assessment

Conclusions

- Company performance **lags significantly** in terms of climate change performance
- Investors need to **adopt strategies to factor in the impact of climate change** and secure financial returns
- EIRIS Climate Change toolkit provides **analytical tools** to identify risk, measure impact and understand how well companies are responding.

Thank you!

For further details on the
**EIRIS Climate Change Toolkit or
other EIRIS research**

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