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Sudan divestment campaign moves on

Campaigners trying to persuade investors to sell shares in companies they say provide the funds which allow the Sudanese government to commit crimes against humanity have made a breakthrough, with one of America's largest pension funds committing to the cause. Steps taken by another other fund managers have been less clear.

By far the largest concern for campaigners is New York and Shanghai -listed PetroChina, the first company to reach a trillion dollar market capitalisation. Campaigners say that, through its parent company, China National Petroleum Corp, the money it pays the Arab-dominated government of Sudan finances a genocidal war against the non-Arab population of the western province of Darfur. Other companies targeted by campaigners include CNPC Hong Kong, Oil and Natural Gas Corporation, Sinopec, and PETRONAS. Since it began in early 2003 the conflict in Darfur has claimed an estimated 675,000 lives and has left 6m people displaced.

In late March TIAA-CREF, a pension fund for retired academics and medics, committed itself to sell its shares in companies operating in Sudan at the end of September if it couldn't convince them to take "positive and meaningful humanitarian steps and attempt to end genocide".

If one of the companies listed refuses to meet then TIAA-CREF said it would "divest promptly". It also promised to become a cheerleader for the campaign and encourage others "to follow our lead and increase pressure on target companies".

This was enough for the campaign [Investors Against Genocide \(IAG\)](#) to call off its plan to enter shareholder proposals at shareholder meetings of TIAA-CREF funds in July. In only July last year IAG had protested that TIAA-CREF denied its proposal room on the ballot.



Eric Cohen, divestment's advocate

Another to make a move towards the IAG position is index tracking fund specialist Vanguard, which outlined a policy on the issue in a [filing](#) to the Securities and Exchange Commission on March 10th.

It said that the company's trustees had directed Vanguard to implement a "formal procedure for regular reporting to the trustees on portfolio companies whose direct involvement in crimes against humanity or patterns of egregious abuses of human rights would warrant engagement or potential divestment." The same policy will apply to all of its 157 funds and

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News in brief

Swiss first

The first Swiss green property fund opened for investment this month, hoping to raise \$280m from institutional and other elite investors able to make the minimum subscription of 1,000 units corresponding to an investment of \$87,000



Korean index

The Korean government's productivity agency is planning to launch a sustainability index of companies chosen from among the country's largest 200, as part of its recently-conceived green growth strategy. Developed in concert with Dow Jones and sustainability specialists SAM, it is scheduled to launch this winter



Recovery log

The UK Sustainable Investment and Finance association (UKSIF) has created a blog tracking and commenting on the ongoing debate on how to build sustainability into the UK's economic recovery programme



Budget praised

This month's UK budget was welcomed as the "greenest ever" by Henderson, a UK-based asset manager, which likes the new commitment to reduce greenhouse gases by 34% by 2020, and extra help for offshore wind, climate change education and flood defences



Programme postponed

The Cambridge Leadership Programme has been forced to delay its inaugural Financing the Future forum because the financial crisis has reduced participation levels. But it hopes to restart at the end of the year



Emerging fund

First State Investments this month announced the launch of a fund aiming to cash in on growth in sustainable business in emerging markets by investing in six areas: renewable and cleaner energy, energy efficiency, waste and pollution management, water management, green consumer products and services, and sustainable development more broadly



would be “substantially identical” to the IAG proposal.

Vanguard’s policy was welcomed by IAG, “They have come a very long way since we first talked to them in 2007,” says Eric Cohen, chairman of IAG. Among the issues they had at the beginning was whether it is possible for an index tracking fund to exclude shares without compromising its ability to follow a benchmark index. Yet, despite Vanguard’s concessions, IAG is still submitting its proposal to shareholders of 30 Vanguard funds controlling \$597 billion, more than half of the assets it manages. One reason for sticking to the original plan is that it says that a subsequent SEC filing shows that Vanguard’s holding in PetroChina jumped from \$134m to \$140m, and that its interests in five other problem companies had also increased.

But this is not the only issue. Cohen denies that Vanguard’s policy is “substantially identical” to IAG’s proposal, as Vanguard says it is. “Their policy, as it is written, is that they have required Vanguard to report a list of companies for the board of trustees to consider. Our proposal does not say give a report, it says create procedures that will prevent holding such problem companies.” In the form submitted to Vanguard fund shareholders IAG’s resolution says, “In addition to preventing future investments in problem companies, the proposal calls for corrective action to address existing investments in problem companies. If the fund can effectively influence the problem company’s management, then this may be an appropriate action.”

Vanguard told Clear Profit that having drawn up a list of companies suspected of human rights violations, “They are reported to the funds’ boards for consideration. The trustees then apply their judgment to determine whether further action, such as engagement or divestment, is warranted. The process is ongoing, but to date, the trustees have determined that

no companies currently meet the standard that would warrant divestment.”

Cohen begs to differ, however, “Our shareholder proposal sets a standard about which companies will be excluded, and that is companies that substantially contribute to genocide or crimes against humanity. I think they do not have a standard. I think they are just having a discussion.”

And what are the prospects for the ballot? “We are very unlikely to win, but we will do well.” Last year he points out a similar resolution put to the shareholders of a range of Fidelity funds achieved a high of 31%, although he also admits Fidelity did nothing about it afterwards. “Stay tuned, though, the market is large and TIAA-CREF has ‘got with it’.” ■

US insurance regulators require climate disclosure

Large US insurance companies were **last month** legally required to tell industry regulators about the financial risk they face from climate change and how they might address them. It is the first mandatory disclosure requirement in the world.

Many argue that insurance companies need to adapt their risk-management models to avoid heavy losses from changing climatic conditions. They are also reckoned by some to have a duty to broach the issue of climate change with politicians and their customers.

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And, because all their policies are backed up by some form of investment, they also need to consider climate change -related issues in stock and bond selection.



Krajieski, welcomes the move

“We have been pushing for a disclosure requirement since 2006, when I testified before the US Climate Change Working Group, so the simple fact that this was approved is a major victory, because it was opposed by a number of insurance companies,” says Alexis Krajieski of F&C. “The original draft was revised somewhat in response to comments from the industry but, overall, we are still happy with the outcome.”

Under the new National Association of Insurance Commissioners (NAIC) rules insurance companies

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Research focus

A standard made to avoid standardisation

A new voluntary standard for corporate sustainability research agencies launched last month hoping to re-assure investors that reports are of a good quality.

Key elements of the audited assessment, known as the Voluntary Quality Standard (VQS), are a research organisations' integrity, independence, professional principles, quality management, continuous improvement, accountability and transparency, says Herwig Peeters, chairman of the Association of Independent Corporate Sustainability and Responsibility Research (AI-CSRR), which developed the standard. "We are not prescriptive. We are still allowing for diversity. We are not killing innovation," he says.

It has taken five years to develop. This, says Peeters, is "quite short" compared to other standards. The European Commission funded the project throughout. This back-seat approach was, perhaps, an indication of learning an important lesson from the difficulties it had when it rushed to legislate

to introduce eco-labelling. What came out of it is an "ISO-based but sector-adapted quality standard", according to Peeters.



"We are not killing innovation"

Herwig Peeters

From now on it will be funded by the research companies which want to achieve the standard. The professionalism of the "certification council", the final arbiter of the decision to award a certificate, will be sufficient to ensure audits are fair.

So far seven responsible investment research houses have the certificate: Ecodes, EIRIS, EthiFinance, GES, imug, Oekom, and Vigeo. Even some of this first batch had to change the way they did things to get through, says Peeters. "No-one

has failed the audit. But there were some groups which had to make corrective actions," he explains. Quality management was among of the issues which caused some difficulty.

And it is not over yet, "They will be re-tested after two years and the ones requiring multi-site audits are being audited every year."

The audit verifies statements made by an applicant in a lengthy questionnaire, known as a "transparency matrix". These will be published on the AI-CSRR site on the next two months, says Peeters, once technical problems of displaying so much information have been overcome. Each questionnaire consists of a ten-page spreadsheet, with each page containing around forty questions, making them suitable only for the needs of research buyers. In the future an abridged version suitable for the general public will be devised and put on the AI-CSRR site.

More certificates are likely to be handed out in the near future. The first among them are likely to be some of the nine founding members of AI CSRR which didn't receive one already. And then? "We have

Research releases

Gap analysis

31% of UK consumers think investors have a duty to ensure businesses behave responsibly, but only 2% think they succeed, according to a survey by AccountAbility. Two thirds thought businesses should be the ones to ensure they behave responsibly, while half that proportion thought they actually did



Finance failure

Finance has underperformed technology to become the worst-performing sector in managing environmental, social and governance risks, says investment research company EIRIS, which says only one in six companies in the sector are any good at it. The sector also showed the smallest improvement compared to the last time the survey took place in 2005



Climate openness

Climate change disclosure is an area where emerging market companies lag established good-reporting practices,

according to a study published by the SIRAN research network. Of the 40 companies surveyed, 18 were reckoned to have more than a moderate climate change risk



Emerging leaders

Australia's Colonial First State was the best at integrating environmental, social and governance issues into their mainstream emerging market equity funds, says a survey from the World Bank's commercial arm



Catholic concerns

85% of US Catholic institutional investors think active ownership has a positive impact on corporations. Human trafficking was included for the first time and proved to be one of the issues believers most cared about



Gender index

The IFC has commissioned the creation of a Gender Investment Index, selecting large and mid-cap

companies in which women are treated most equally in the workplace and elsewhere. The ultimate goal is to show gender equality is an important indicator of long-term financial performance



Money market boom

France's 13 self-proclaimed socially responsible money market funds were worth €6.3 billion at the end of last year, almost a third of the assets under management in all types of all responsible funds, according to research company Novethic. But they still accounted for just 5% of the market at the end of 2007



Building assessment

The UN Environment Programme last month issued a 67-page report outlining different sustainability assessment methods, with the aim of identifying common, core issues which such systems should address and how they might help investors



had a few calls from Canada, Asia and elsewhere,” says Peeters, “At this rate the number of certificated companies might double or triple in two year’s time.”

But the concept could spread more widely and be adopted by in-house research departments, says Peeters. And it might even become more influential still.

“If a government legislating on responsible investment needed to have a process-based standard which did not kill off innovation, I think this would be a very good starting point.” ■

Climate change

Bail out or buy in?

By Derek Parkinson

The storm that began blowing through the world economy last year has already claimed many high-profile casualties, and many of those still standing have switched their short-term priorities in a way barely conceivable just a short while ago.

For many companies it will be tempting to focus on simply staying afloat for the next year or so, and to view investment plans drafted before the downturn with scepticism. In this context plans to cut carbon emissions may well have been drained of their urgency, particularly where investment is needed for them to be realised.

The need to tackle a “wait and see” attitude to emissions reduction seems to have shaped a speech made by Director General Richard Lambert Speech at the CBI Climate Change Summit in December last year. “Volatile oil and share prices and much tighter credit conditions have led a string of Europe’s biggest companies to review their investment programmes,” he said.

Maintaining momentum

The economic crisis may also be pushing climate change down the

UK Government’s list of priorities, Lambert suggested. “Any loss of momentum would be disastrous. Targets aren’t getting any less stretching. In fact, the Climate Change Act has just lifted our carbon reduction target to 80% by 2050,” he said.

Pressing ahead with the transition to a low carbon economy is also one of the drivers for the UK to build a diverse energy mix, he said. Failing to pursue this objective “would come back to haunt us sooner rather than later. In all probability, the recovery will see another surge in oil prices and drive up the cost of energy for countries without a secure domestic supply,” Lambert said.

The barometer of business confidence produced each year by PricewaterhouseCoopers (PwC) reveals a business community reeling from the downturn. The Annual Global CEO Survey concludes that “CEOs around the world are retrenching, indeed many claim to be entering ‘survival mode.’”

“Regardless of how deep the recession is, we won’t make the kind of progress we need without government—policy is critical”

Andrew Pendleton, IPPR

In this context it is no surprise that dealing with climate change is failing to rise up the agenda for most CEOs. Indeed, the PwC research shows that CEOs who are “not very concerned” or “not at all concerned” about climate change in relation to the growth of their business has actually risen slightly, from 65% in 2008 to 74% in 2009. By contrast, CEOs who are “extremely concerned” by the impact of the downturn on their growth prospects has doubled over the same period, from 21% to 42%.

Counting the cost

So, overall what effect will the downturn have on emissions from business? “That’s a difficult one, partly because we don’t yet know how bad the downturn is going to be,” says Andrew Pendleton, Senior Research Fellow at the Institute for Public Policy Research (IPPR).

“A contraction in industrial output would mean lower emissions, but I suspect that over the medium term the downturn will be negative for climate change because companies will be less likely to put in the up-front investment needed to reduce their emissions. Lower industrial output might mask the problem. On the other hand it might buy us a couple of extra years to act, but overall I suspect it’s bad news” he says.

The companies least likely to put their emissions reduction efforts on hold are those that have made it a strategic issue led by their most senior people, suggests Emily Farnworth, Director of Corporate Engagement at The Climate Group, a coalition of governments and some of the world’s largest companies. “We’re working with leaders in this area, so in all cases senior management has signed of aggressive emissions reduction policies. They understand the business case—not just in terms of risk, but also the opportunities,” she says.

Although the finance sector was the first to feel the full force of the downturn, it is also among those with the clearest view of the strategic value of a low carbon business. “Some of the largest banks and insurance companies have signed up to huge commitments to reduce their own emissions. But they can also see this as an investment issue—companies that are doing well with managing their emissions, or are helping to solve the problems, are going to be a pretty good bet as a long-term investment,” she says.

Slim chance

Our economic woes undoubtedly gives governments more leverage over companies, particularly when public money is being used for bail-outs. "There is a slim area of opportunity certainly. Regardless of how deep the recession is, we won't make the kind of progress we need without government—policy is critical," says Pendleton.

"Governments have a powerful bargaining chip in public money, but they have to act decisively and clearly. Apart from any other reason they have to be clear in what they're doing because they have to explain to taxpayers why their money is being used to bail out industries," Pendleton says.

The UK government could learn from examples such as Germany and particularly the US, suggests Professor Steve Rayner of the Said Business School at Oxford University. "One of the significant commitments made by Obama is not just to support research and design work, but the demonstration and deployment of green energy," Rayner says.

"We can't make the reduction in emissions we need by efficiency measures alone—what we need is a technological transformation. What I mean by that is we have to bring down the cost of non-fossil fuels rapidly, and governments need to focus on sources of green energy that are between three and fifteen years away from being competitive. Those under three years will be picked up by venture capitalists, those further than fifteen years away will be too late," Rayner suggests.

Emissions trading schemes may encourage greater efficiency, but they will not provide the investment in green energy that we need, he says. This is because any scheme first has to establish a price for carbon that is reasonably stable and rising, and this has to offset the cost of fossil fuel before green energy becomes

even remotely attractive as an investment opportunity. And this has to happen before the research and design of new sources of green energy can even begin.

"It's got to be stimulated by very significant investments from governments. It's much quicker and the public will end up paying anyway."

Low Carbon Board Report, a publication aimed at directors of companies in all sectors with 250-plus employees. It provides a monthly analysis of key issues facing directors as they adapt their companies for the emerging low carbon economy. ■

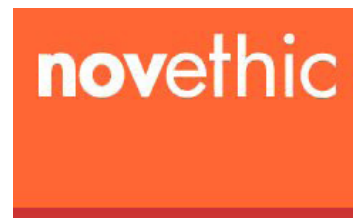
US insurance regulators require climate disclosure

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attracting annual premiums of \$500m or more will have to fill out a yearly Climate Risk Disclosure Survey. The first is due on May 1st 2010 and will be handed in to the commissioner presiding in the state where a company has its legal headquarters. The results will then be collated to provide a survey of the industry at a national level, which will be published on the NAIC web site.

US insurers have had a poor record on revealing climate change exposure with the percentage of responses to the voluntary Carbon Disclosure Project (CDP) survey only rising to match the cross-industry average of 69% last year. It was just 13% two years before. Even now, however, a recent report by US investor coalition Ceres [describes](#) the disclosures as "relatively superficial" and says only around half allow them to be made public when the average is 80%.

To any who might have seen the CDP survey as an adequate measure of the US industry's climate change disclosure performance, Ceres says, "the survey is only distributed to a small number of firms (26 received it in 2008 and 18 answered the questionnaire); the questions are not necessarily tailored to insurance



issues; and the response rates are still well below a hundred percent."

Might the idea of mandatory disclosure scheme spread to other countries? "I would love to see other jurisdictions follow suit, but I think that is a long shot given the varying regulatory frameworks outside the US. However, we are trying to do some work comparing global insurers to determine who is the most exposed to climate-linked catastrophes and how they are preparing for those," says Krajjeski.

The insurance industry is now waking up to the opportunities of climate change, even if it is still not keen to divulge what it take the risks to be. Last year there were more than 640 climate change-related insurance products and services available, 50% more than the year before. The products included protection for corporate boards against climate-related lawsuits and programmes to cover carbon capture and sequestration projects. ■

End notes

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