



UNEP FI Biodiversity and Ecosystem Services Workstream

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5th April 2007**

Expect excellence

F&C
Investments

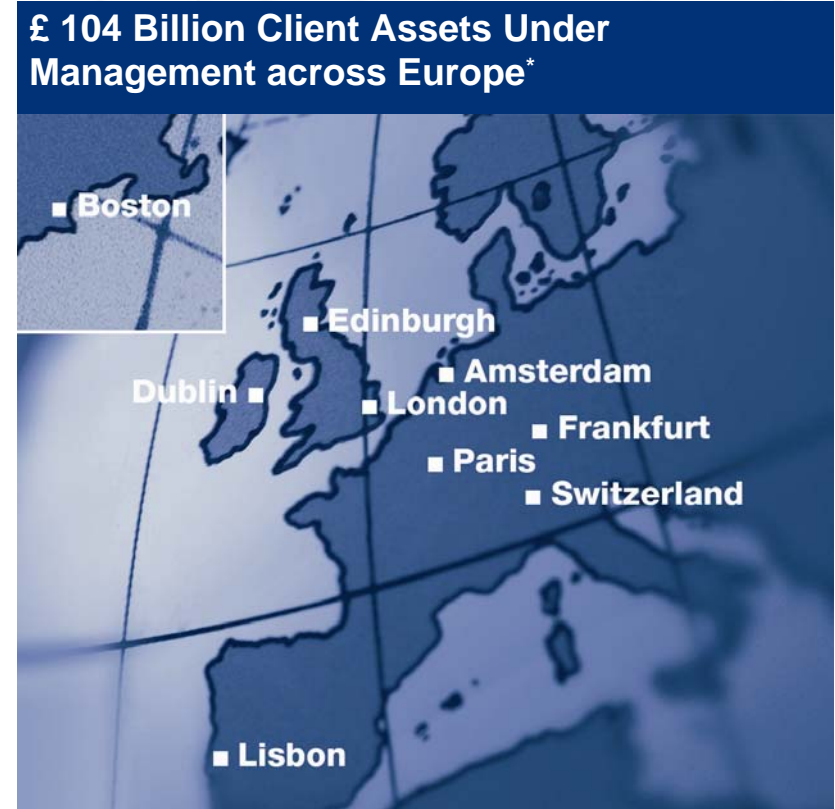
Agenda

- Section I Introduction
- Section II F&C's approach to biodiversity
- Section III How effective are the current tools?
- Section IV What needs to change?
- Section V What tools would be useful?

Overview of F&C Management Limited

Europe's partner of choice

- We are a leading provider of investment solutions
- We are one of Europe's top twenty asset managers*
- We offer a wide range of tailored investment and servicing solutions
- Market leader in Governance and Sustainable Investment
- Market leader launching world first investment trust

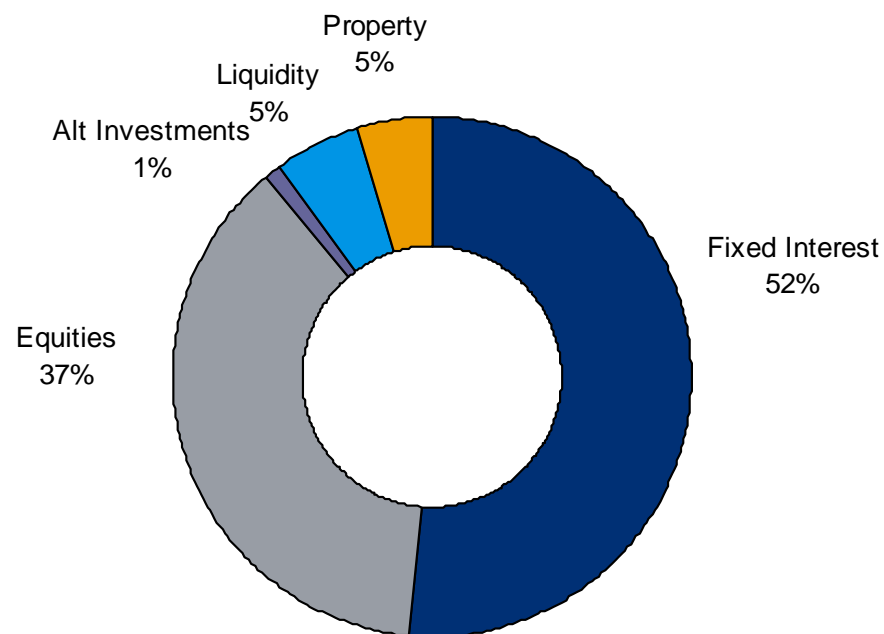


*Source: F&C Management Limited, as at 31/12/06

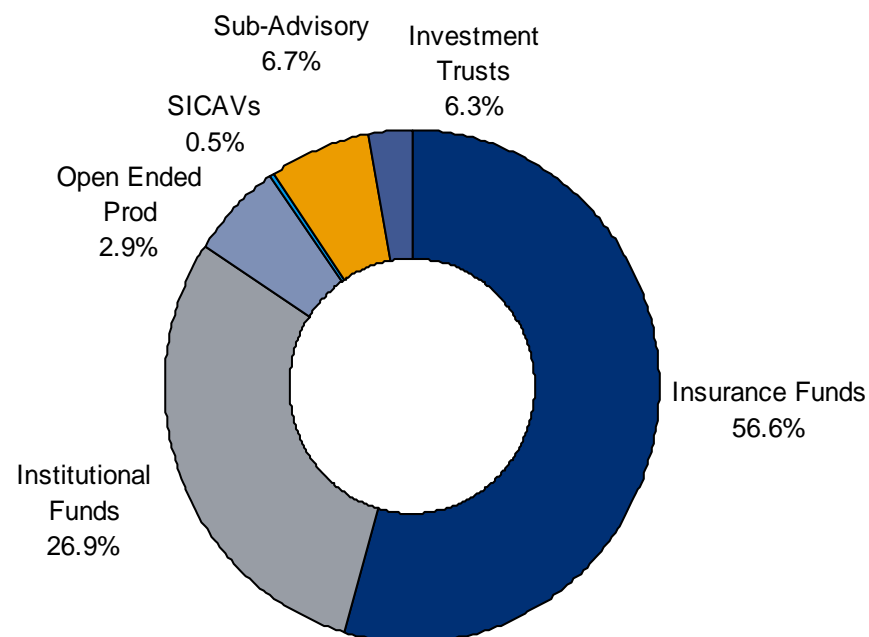
Overview of F&C Management Limited

F&C has a balanced asset and client mix

By Asset Class
AUM as at 31/12/06



By Product/ Client Type
AUM as at 31/12/06



31/12/06 AUM: £104 billion

Source: F&C Management Limited

F&C's research on biodiversity: publications

▪Palm oil

New risks in old supply chains: Where does your palm oil come from? December 2003

▪Extractives

Extractive Industries and Biodiversity: A Survey, February 2004

▪Materiality

Is biodiversity a material risk for companies? An assessment of the exposure of FTSE sectors to biodiversity risk, September 2004

▪Principles for Responsible Investment

Incorporation of ESG issues into investment processes, February 2007

*Source: F&C Asset Management plc, as at 31/12/06

High-risk sectors

Red zone	Amber zone	Green zone
High-risk sectors: Most companies exposed to risks; Risks likely to be significant	Medium-risk sectors: Some companies exposed to risks; Risks may be significant	Lower-risk sectors: Risks variable and significance unknown
Construction & Building Materials	Beverages	Aerospace & Defence
Electricity	Chemicals	Automobiles & Parts
Food & Drug Retailers	Financial Services	Diversified Industrials
Food Producers & Processors	General Retailers	Electronic & Electrical Equipment
Forestry & Paper	Household Goods & textiles	Engineering & Machinery
Leisure & Hotels	Personal Care & Household Products	Health
Mining	Pharmaceuticals & Biotech	Information & technology Hardware
Oil & Gas	Support Services	Media & Entertainment
Utilities	Tobacco	Software & Computer Services
	Transport	Steel & Other Metals
		Telecom Services

Categories of risk

Access to land	[case study: Rio Tinto]
Reputation	[case study: Marks & Spencer]
Access to capital	[case study: Barclays]
Access to markets	[case study: Travis Perkins]
Security of supply	[case study: Unilever]
Relations with regulators	[case study: Carillion]
Liabilities	[case study: BP]

Sectors most at risk

- Construction & Building Materials
- Food Producers & Processors
- Forestry & Paper
- Leisure & Hotels

Company performance: FTSE 100

Red-zone sectors	Substantive & consistent action	Understanding & awareness	Other
Construction & Building Materials	Hanson	Wolseley	
Electricity	Scottish & Southern Scottish Power		
Food & Drug Retailers		Sainsbury's	Morrison Tesco
Food Producers & Processors	Unilever	Cadbury Schweppes	Associated British Foods
Forestry & Paper			[DS Smith]
Leisure & Hotels		Whitbread	Carnival Enterprise Inns Hilton, Intercontinental, William Hill
Mining	Anglo American Rio Tinto	BHP Billiton	Antofagasta
Oil & Gas	BG Group BP, Shell		
Utilities	Severn Trent United Utilities	National Grid Transco	Centrica

F&C research: materiality of biodiversity

- Biodiversity is a material risk to certain companies in certain sectors
- It is difficult to put a precise financial value on the risks
but where such values can be ascribed, they are often significant
- Companies need to investigate and manage biodiversity-related risks
- Integration of biodiversity-related risks into financial analysis is challenging

What does F&C expect from companies?

- **Assess** whether risks are material
- If so, adopt and **publish specific biodiversity policies** or statements
- Implement a process to **manage** these risks, including:
 - those arising directly from activities of the company
 - those arising indirectly from activities of the company, including supply chains and the impact of secondary development
 - those that may threaten their business as a result of the mismanagement of biodiversity by others.
- **Integrate** with existing risk management systems and set performance targets
- **Report**

How does F&C integrate biodiversity into financial analysis?

▪ Key biodiversity-related issues

- Access to land e.g. construction, extraction
- Sustainability of supply
- Growth in consumer interest in sustainable products
- Relations with regulators

▪ F&C's priority sectors

- Oil & Gas
- Mining
- Food retail
- Biofuels

*Source: F&C Asset Management plc, as at 31/12/06

How material is biodiversity?

- Intuitively material:
 - Some good examples
 - Company statements
- However, generally little immediate cause-effect
- Relatively little financial evidence
- But: financial evidence is compelling
 - There is a clear link to shareholder value***

*Source: F&C Asset Management plc, as at 31/12/06

Case study of materiality: ABP

Dibden Bay proposed for port development

Area of high biodiversity value

Permission refused by Department of Transport

Specifically cited 'environmental impact on...internationally protected sites'

Share price immediately dropped 12%

Company wrote off £44.9 million in development costs

profits pre-tax and write-offs £65.2 million

annual turnover £252 million

[source: Financial Times; ABP; Department of Transport]

Case study of materiality [source: ABP]



How effective are current tools for biodiversity?

- What guidelines and tools are available to F&C?

- How do we use them?

GRI

EW

EBI

GSI Index

FFI benchmark

MA

VBDO quick-scan

BITC/BiE

*Source: F&C Asset Management plc, as at 31/12/06

Why is biodiversity not factored into valuation systematically?

“First of all, we don’t understand the science”

“It’s harder to quantify”

“It’s not as serious as climate change”

*“I think **it’s human psychology to ignore gradual change** (like the frog in the saucepan), but to react strongly to sudden changes.”*

*“**We’re starting to look at it** – particularly with organics and biofuels”*

“...a tiny critter can stop a \$12bn mine”

*“**Blimey – that’s a tricky one...** if we have a moment of inspiration I’ll let you know”*

Is there a breakdown in communication?

Environmental community

World leaders, government

Scientists

Companies

Brokers, fund managers and buy-side analysts

What needs to change for the City to take biodiversity seriously?

- Substantial change needed in the visible risks and opportunities
- Significant disasters, with financial consequences
- Mass media and political attention to ecosystem services
- Government incentives for managing ecosystem services
- A value needs to be attached to ecosystem services
- Trading in ecosystem services

What tools would be useful for factoring ecosystem services into financial analysis?

- Mapping of ecosystem services risks against company performance
- Sector-specific and company-specific studies
- Relationship needs to be built with sell-side research
- Clear links needed to performance
- Alerts on current issues needed
- A change in language

Thoughts for moving forwards...

“Human history is a race between education and catastrophe” – HG Wells

Summary

- Better tools are needed to integrate biodiversity into financial analysis
- “Education” of the buy-side is key to supply from the sell-side

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