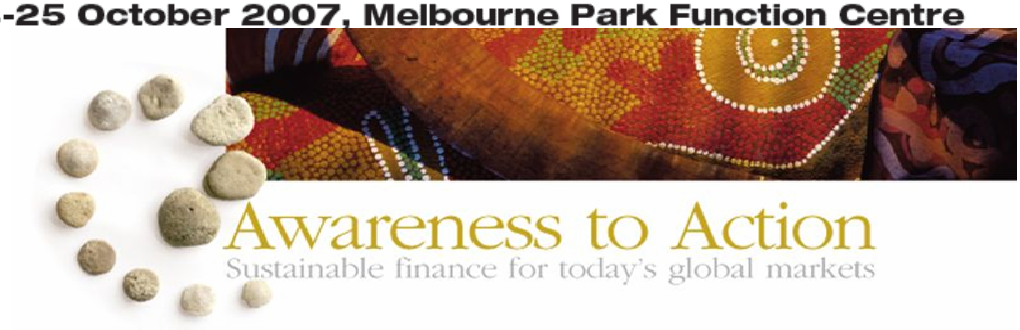
UNEP FI Global Roundtable

24-25 October 2007, Melbourne Park Function Centre



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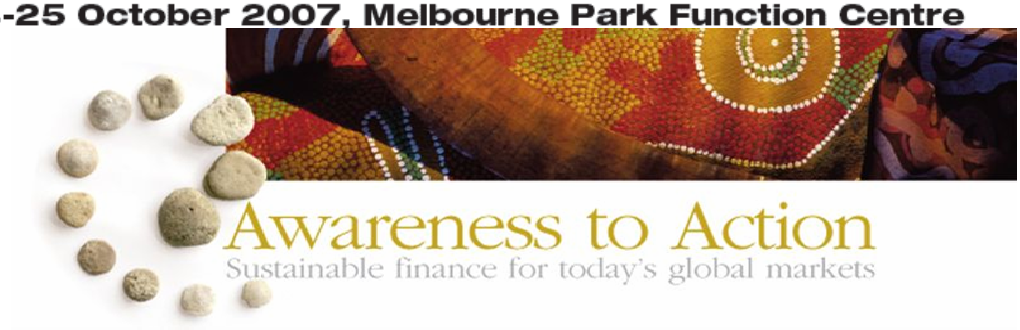


1. "Awareness to Action"

Financial institutions and investors controlling trillions of dollars can transform future markets and help to mitigate the global environmental crisis if they back the ideas, technologies and companies that are in the vanguard of sustainable development.

That was the principal message conveyed to delegates attending the *"Awareness to Action"* Roundtable, staged by the United Nations Environment Programme Finance Initiative (UNEP FI) in Melbourne on 24 – 25 October 2007.

It has been 15 years since 28 banks gathered in New York to sign a United Nations Environment Programme commitment to good environmental management. Since then, the commitment between UNEP and those original 28 banks had grown into a unique public-private partnership with over 170 banks, insurers and asset managers from 44 countries, known as UNEP FI.

2. Meeting in Melbourne

Melbourne was chosen as the site for the Roundtable because Australian financial institutions have been at the forefront of integrating sustainability aspects into financial products and services over a number of years. EPA Victoria, a UNEP FI partner based in Melbourne, has coordinated Australasian UNEP FI activities since 2000. In the last few years, the growth of signatories from the Asia Pacific region has been increasing at the fastest rate of any of the regions around the world. In 2004, financial institutions from the Asia Pacific constituted 12 percent of all UNEP FI signatories; in 2007 the number stood at 30 percent. Staging the Roundtable in Melbourne allowed UNEP FI to raise its profile in the region, and attract a large number of delegates from Asia-Pacific countries.

This increase in membership is tangible evidence of how financial institutions in the Asia-Pacific region are increasingly eager to learn how they can learn more about, and adopt, sustainable finance principles.

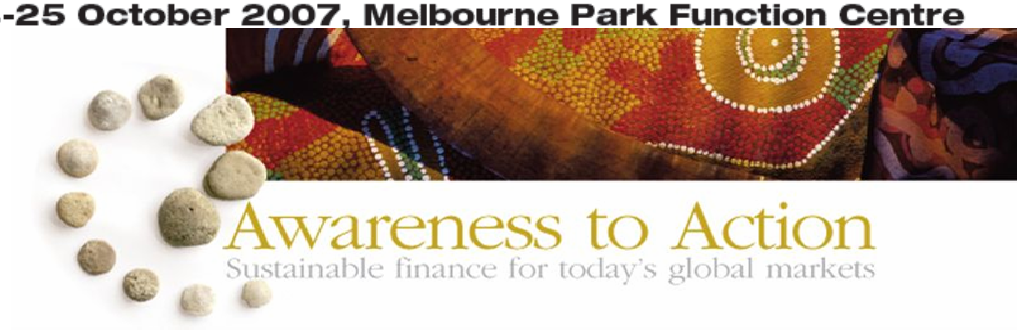
3. Attendance and Speakers

The Roundtable's working sessions in Melbourne attracted more than 450 delegates – almost 300 from Australia, and over 170 delegates from 34 overseas countries.

Over two days, delegates had the option to attend any of four plenary sessions, 20 workshops and a number of product and report launches.

Speakers were drawn from all areas of the financial services community, and included:

- **The Rt. Hon. Michael Moore**, Former Director-General World Trade Organisation and Former Prime Minister of New Zealand,



- **Rachel Kyte**, Director, Environment & Social Development Department, International Finance Corporation,
- **Steve Gibbs**, CEO, Australian Reward Investment Alliance,
- **Leo Johnson**, Co-founder and Partner, Sustainable Finance,
- **James Cameron**, Founding Partner, Climate Change Capital and Chairman, Carbon Disclosure Project, and
- **Dr Matthew Kiernan**, Founder and CEO of Innovest.

Other distinguished attendees included **Renjie Li**, President of the Industrial Bank of China; **Michael Hawker**, CEO, Insurance Australia Group and **Nobuyuki Hirano**, Director of the Bank of Tokyo Mitsubishi UFJ.

4. Challenges

The Roundtable's discussion addressed many of the world's environmental degradation issues – most notably climate change – and confirmed that dealing with these issues through Sustainable Development initiatives and Responsible Investment is the great moral, social, financial and economic imperative of our times.

The Roundtable reached general agreement that, although an increasing number of companies are now converting their awareness of sustainable development into action, UNEP FI's greatest ongoing challenge is the mainstreaming of the sustainable development ethos across the broad spectrum of the financial services and interconnected capital markets community.

UNEP FI affirmed a commitment to assist financial institutions to move from awareness of sustainable development into an action phase, whereby financial institutions need to adopt innovative financing for sustainability through the introduction of Environmental, Social and Governance (ESG) principles into their day-to-day business practices.

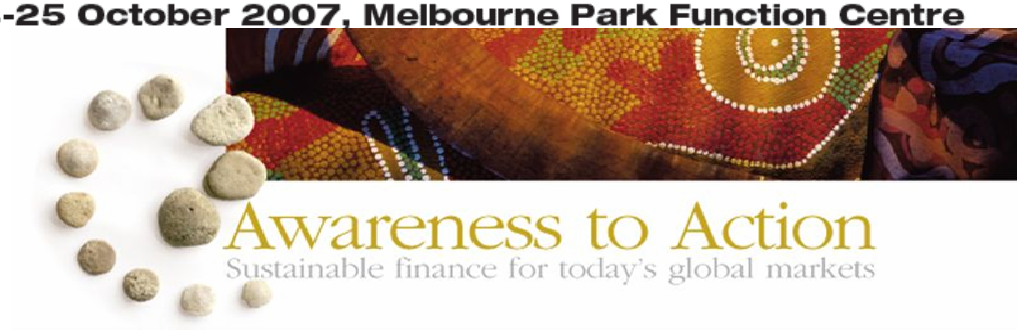
5. Roundtable Highlights

Highlights from the Roundtable's various sessions and workshops include:

5.1 Demystifying Responsible Investment Performance – A Review of Key Academic and Broker Research on ESG Factors, a significant, joint report of the UNEP FI Asset Management Working Group and Mercer.

The report revealed that the idea that responsible investment leads only to underperformance is a misconception and that various factors such as managerial skill, investment style and time period are all integral to investment performance.

Evidence suggests there appears to be no detrimental effect on performance from taking ESG factors into account in the investment management process, and that the performance of an investment portfolio can usually be improved.



According to Jane Ambachtsheer, Principal, Global Head of Responsible Investment – Mercer's Consulting Business, the report showed that the investment community was taking first steps towards making ESG considerations more mainstream.

For ESG issues to be truly incorporated into mainstream finance, they must relate directly to investment returns. The challenge is to communicate the urgency of the issue to the asset manager – every sector could be affected by climate change or carbon risk – which is why research and feedback from the sales side is so important.

5.2. A Changing World

The Roundtable heard an overview of the powerful mega-trends of society that are rapidly becoming the deep roots of business risk and prosperity. These trends are presenting amazing new business opportunities, according to Steve Gibbs, CEO of the Australian Reward Investment Alliance.

Discussing the 10 mega trends that are already dominating the 21st century, Mr. Gibbs said that population growth meant the planet was "hitting its limits". The next century would be defined as the century of resource scarcity – a scarcity of clean air, clean water and arable land to grow food, trees and fuels.

Several keynote speakers identified an urgent need to price these natural resources, both to encourage more sustainable consumption and to avoid waste.

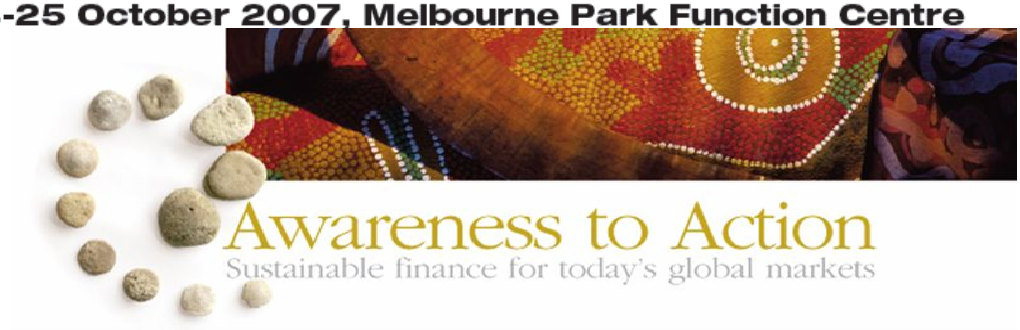
Some of the mega trends confronting investors, include climate change, water shortages, the rise in pandemics, the end of cheap oil, product safety in emerging nations, and the scarcity of all natural resources in the face of a ballooning population.

5.3 Defence of Globalisation and Free Markets

In his keynote address at the Awareness to Action plenary session, the Rt. Hon. Mike Moore, Former Director General of the World Trade Organisation and Former Prime Minister of New Zealand, nominated globalisation and free markets as twin bulwarks of sustainable development.

He offered both a spirited defence of "that much abused word" globalisation and a plea to "stand staunch in favour of those market mechanisms which have delivered so much to us in the last 50 years".

Mr. Moore pointed out that the last 50 years have been the most successful in human experience. And the last 10 years have produced more global growth than any other decade in human history. Life expectancy has increased by 20 years and infant mortality rates have dropped by two-thirds.



Other indicators of the success of development, in terms of the value of competition and the free market system were:

- South Korea's GDP per capita did not reach $100 until 1963 – since then, life expectancy has risen from 54 years to 73 years
- Burma and Thailand had equal incomes in 1945 – Thailand is now 25 times richer than Burma
- 30 years ago, Ghana's income equalled South Korea's – now South Korea's income equals Portugal's
- 20 years ago, China was self-sufficient in oil; it will soon be the world's largest importer.

Warning that some Europeans and Americans are dusting off the old protectionist speeches they made against Japan in the 1970s, Mr. Moore said that smart leaders are encouraging sustainable development by linking their countries into a global supply chain "and everyone is winning."

Mr Moore argued for the freeing up of trade curbs by domestic giants by exposing them to competition. Closed domestic markets are more likely to harbour monopolies than open ones. "It's the absence of competitors, not size, that gives companies power. Open markets make life difficult for cosy, crony capitalists with businesses purchasing privileges from politicians against the interests of workers and consumers".

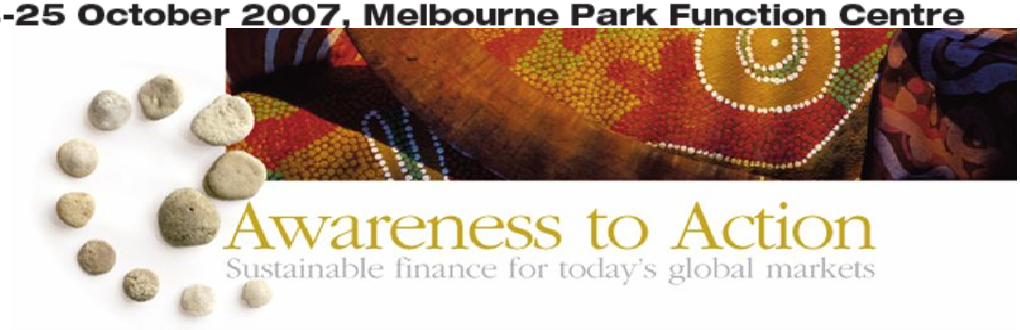
Mr. Moore said that trade-distorting, environment-destroying subsidies needed to be attacked. He argued subsidies are the enemy of sustainable development. Fishing subsidies, for example, amount to $30 billion to $34 billion annually. They encourage inefficient, energy-costly over-catching and support fishing fleets which suck up species in places that would not be profitable without such subsidies. Subsidies account for about 25 percent of worldwide fishing revenue.

5.4 Emerging Markets

The Roundtable heard that more than 3 billion people live in emerging markets – many without access to basic financial services.

Chris Wells from ABN Amro Banco Real, identified two lessons from emerging markets:

- there are definitely financial risks in emerging markets and often these stem from environmental risks, and
- there is a high rate of co-incidence between companies with environmental problems and those with financial problems.



On the positive side, first movers in emerging markets are also poised to gain long term branding benefits, with carbon emissions trading a major opportunity for the financial sector.
There is a wealth of opportunities in emerging markets around the world. For example, in South Africa, there are great opportunities in renewable energy. The country has great potential for solar power, yet 95 percent of its current power still comes from coal.

5.5 Environment and Climate Change
From around the world, the Roundtable heard real examples of how UNEP FI signatories are turning awareness of sustainable development into action.

The Japan Bank for International Cooperation has responded to climate change by increasing investment in cross-border transactions, particularly those in emerging markets.

In the United States, the number of banks offering green mortgages tripled after its government made climate emissions commitments in 2006.

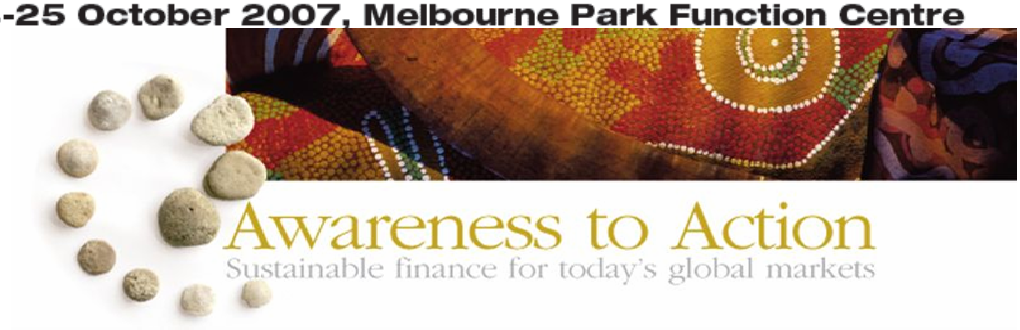
The Industrial Bank of China has recently launched an Energy Efficiency Finance Program to provide financing for enterprises and projects that save energy and protect the environment.

The Roundtable explored the disconnect between the longer-term issue of climate change compared with the short-term focus that a lot of asset managers take. There remains a challenge to get asset owners and asset managers to take climate change into account.

Roundtable participants agreed that the investment community needs to look at how longer-term climate change will impact investment portfolios and strategic asset allocation.

Keynote speakers from the host nation indicated that while Australian customers wanted to support the environment, they weren't yet all prepared to do so at premium costs.

5.6 Human Rights
The Roundtable heard that free markets and sustainable development are essential for the preservation of human rights. The financial sector has great influence in this area, because the lenders of money have the power to deny loans to those who would infringe human rights.



Speaking on a video-link, Mary Robinson, former President of Ireland and UN High Commissioner for Human Rights, said businesses have a key role to play in ensuring appropriate human rights standards are maintained.

Roundtable participants agreed that the finance sector, with clients covering a broad range of sectors, has a great deal of influence – including the power to prevent corruption, which goes hand-in-hand with human rights abuse.

It was noted that financial institutions themselves are not immune from reputational risk derived from human rights abuse, since they can be linked indirectly through the actions of their clients.

An online toolkit developed by UNEP FI, launched at the Roundtable, provides front-line lenders with the tools to identify potential human rights risks. The toolkit provides guidance and information on specific sectors such as child labour in the textile sector, while highlighting relevant laws, standards and initiatives.

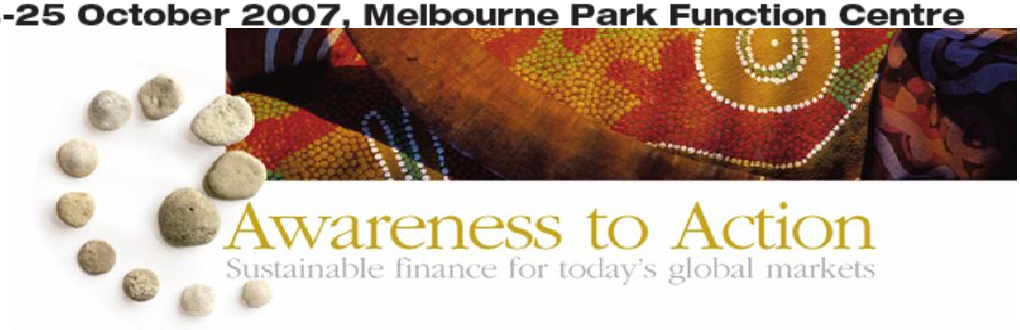
6. Key Outcomes

In his summing up of the final Plenary Session, **Martin Hancock**, outgoing Chair of the UNEP Finance Initiative, said, "the current business-as-usual model is definitely not an option. In the two days of this Roundtable, we have taken some long strides in the journey from Awareness to Action, but we have got a lot further to go".

The Chair of the UNEP FI nominated four key conference outcomes:

First, the 2007 Roundtable clearly demonstrated the transition from "Awareness to Action" of sustainable development. The Carbon Disclosure Project Report, the Demystifying Responsible Investment Report and the new Responsible Investment slide show were not just information – they will all play a valuable role in transforming the way financial institutions think and hopefully do business, and how our global financial and capital markets work.

Second, the extensive range of sustainability issues that financial institutions now face from different parts of the world, and are expected to understand and deal with, are a tremendous challenge. Working groups within the UNEP FI are working exceedingly hard to address these challenges. UNEP FI has actually raised the bar and UNEP FI will continue to provide leadership on sustainability issues for the finance sector. It will empower its members with the means to identify and address those environmental and social risks and opportunities in their operations. In short, UNEP FI can help its members deal with this complexity through the development and provision of practical and pragmatic guidance, as well as specific training courses.



Third, the UNEP Finance Initiative enjoys a very unique positioning, which greatly assists it to promote sustainable development and bring about desired financial and environmental reforms. It has a foot in both the multilateral world that is the United Nations, and another within the financial services sector and capital markets community. This allows the UNEP Finance Initiative to see early-emerging developments and priorities in public policy that will affect the operating context for financial institutions worldwide. Whether this occurs in the environmental or social areas, it provides a critical early insight into coming changes and is a unique advantage of the UNEP FI partnership.

Fourth, the vibrancy of the UNEP FI Regional Task Forces network is tremendous, especially in Africa, Central and Eastern Europe, Latin America, North America and certainly Asia, which accounts for about 30 percent of UNEP FI's membership now. This indicates the growing interest and importance of sustainable finance and responsible investment worldwide. However, it is clear that different regions have a variety of challenges and sustainability priorities. Future investment in, and support for, the regional task forces is critical to the overall growth and future success of UNEP FI.

7. Priorities

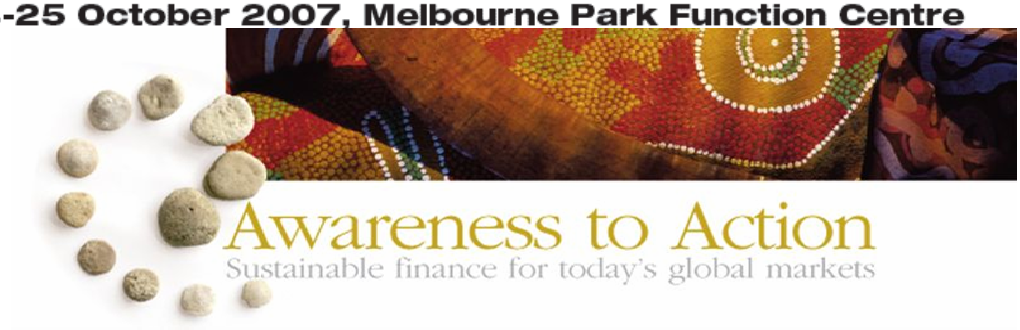
The speed with which people have signed up to the UNEP FI's Principles of Responsible Investing is an indicator that the financial services community is indeed moving into an action phase.

The next stage is for UNEP FI to help develop the metrics, the processes, and the procedures to embed those principles into the fund managers' and pension fund managers' operations.

UNEP FI in 2007 has a membership of more than 170 global financial institutions, all with different sets of problems. For example, clean water and water scarcity is not a problem in Europe. In Australia and parts of Africa, it is a recurring problem.

UNEP FI must now take all the different elements from its global membership and develop a program that, ideally, helps everybody. It must take into consideration all of the work streams, develop more tools, more capacity building and outreach to other regions that are experiencing particular environmental "hot spots". This will facilitate the entire world finance community coming together to consider how a global environmental and social agenda might be put in place.

UNEP FI will also work with emerging regions.
"China does not need external pressures to tell them they have environmental problems, " says Martin Hancock. "UNEP FI could have a key role to play in helping to solve those problems.



"I hope that institutions like the Industrial Bank of China, which has just joined UNEP FI, will increase its understanding of environmental issues in China, draw up action plans and use UNEP FI's tools and expertise to help solve the country's environmental problems.

"I believe that by working together we can actually effect change. But it's only by increasing UNEP FI membership that we can do that. As I have often said, sustainability is not a spectator activity."

"Unless we can bring the Chinese on board, and lots of other regions, like the Middle East, then we are not going to solve the problem".

Stressing the need for UNEP FI to engage more closely with financial services institutions, Mr. Hancock said that there should be greater interaction and interplay between the Secretariat and the banking sector "because we've all got a lot to learn from each other".

8. Release of GEO 4

The release in New York of the United Nations Global Environment Outlook – 4 Report (GEO 4) on the final day of the Roundtable gave added emphasis and urgency to UNEP FI's agenda.

The report – recognised as the most authoritative report card on the health of the planet – revealed unprecedented ecological damage worldwide, and warned that water, land, plants, animals, fish and air are all in "inexorable decline".

9. The Way Forward

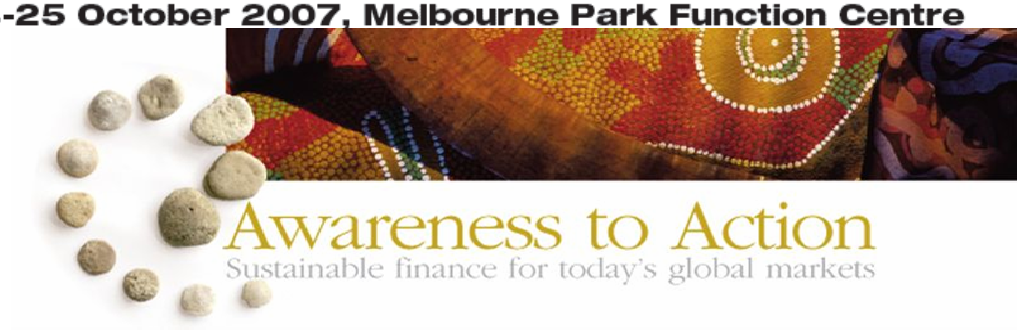
Participants in the Roundtable's many workshops identified many problems for sustainable finance – and some solutions - on the way forward.

Reliable data – and more of it - is one of the keys to sustainable finance. And open and transparent markets are needed for sustainable finance markets.

Delegates agreed that the goal for ESG is not to create a new investment discipline, but to improve the quality of an investment decision that already exists.

The Roundtable heard that insurance companies are experts in pricing risk. However, the challenge for the insurance sector is to drive the monetisation of risks – to bring forward future risks in terms of today's dollars.

Another issue discussed was that of ecosystems and that markets do not generally value the service provided by ecosystems. Many speakers argued government assistance is needed to create institutions that would enable transactions in environmental services to take place.



On the issue of carbon trading, in 2007 it is relatively invisible in the economic system and therefore invisible to the investment decision. In a practical sense, it was said that the level of emission is irrelevant – it is the price that is relevant. Roundtable participants said that the debate would be simplified if there was a significant cost of carbon, which would avoid all the time presently spent philosophising about the issue.

10. Future Role of UNEP FI

In the words of **Achim Steiner**, Executive Director of the United Nations Environment Program:

"We cannot underestimate the influence of financial services and the potential impact of the world's most powerful private institutions on delivering a more intelligent management of the environment and its nature-based assets".

"Climate change is one area where UNEP FI has taken a leading role, launching the first global statement by the financial services sector on climate change on World Environment Day".

"In the coming years, the sector will be judged on how its core business rolls out financial products that allocate capital and fully integrate environmental and social factors."

"Along with other UN efforts, UNEP stands ready to work with banks, insurers and investment companies to make sustainable development the key to long-lasting and future success".

The next UNEP FI Global Roundtable will be held in Africa in 2009.