The Natural Value Initiative: an investor perspective

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F&C - Who We Are

Leading European Fund Manager

- European asset manager with £101bn* AUM
- London Stock Exchange listed
- 26 year history in ethical investment with > £3bn* AUM in ethical & themed funds
- Responsible engagement overlay reo® applied to > £75bn assets

A History of Innovation in Responsible Investment...

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1984</td>
<td>Launch of Stewardship Growth – first ethical fund in UK</td>
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<td>1987</td>
<td>Launch of Stewardship Income &amp; Stewardship North American funds</td>
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<td>1997</td>
<td>Stewardship North America becomes Stewardship International fund</td>
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<td>2000</td>
<td>Launch of Responsible Engagement Overlay (reo®)</td>
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<td>2006</td>
<td>F&amp;C founding signatory to Principles for Responsible Investment (PRI)</td>
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<td>2007</td>
<td>Launch of Global Climate Opportunities and Ethical Bond funds</td>
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<td>2009</td>
<td>Stewardship 25th Anniversary</td>
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<td>2010</td>
<td>Launch of ESG Emerging Market Equity Strategy</td>
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* As at 31st March 2010

Expect excellence
reo®: Existing Clients

reo® is applied to F&C’s assets under management and to £83 billion* of externally-managed funds on behalf of over 20 clients

* As at 30th June 2010. Source: F&C Management Limited
Companies will face major challenges related to nature

- 60% of ecosystems are being degraded or used unsustainably, including fisheries and freshwater supply. (The Millennium Ecosystem Assessment)

- The planet is heading for an ecological "credit crunch," as our demands on natural resources overreach what the Earth can sustain. (The Living Planet report)

- The costs to the global economy from biodiversity losses are greater than the current banking crisis, and in many cases are irreparable. (The Economics of Ecosystem Services and Biodiversity report)
Governments are responding to these trends

- New Intergovernmental Panel on Ecosystem Services and Biodiversity
- Nagoya Biodiversity summit commitments pave the way for action
- Action on forests (REDD) likely at Cancun
- Could public policies on ecosystem services and biodiversity affect companies in the next 5 years - or even sooner?
Leading companies are taking action to protect nature

- **Nestle**: new Responsible Sourcing Guidelines cover high conservation value forest areas, peatlands and forest areas of high carbon value

- **Unilever**: will halve the environmental footprint of its products by 2020, and publicly backed a moratorium on deforestation in Indonesia

- **Rio Tinto**: committed to “net positive impact” on biodiversity, and working on wetland credits, forest carbon opportunities and sustainable land use

- *Are other major extractives companies on top of these issues?*
Do these themes really affect investor value? Examples

Golden Agri Resources

- Contract with Unilever, Nestle and Kraft suspended due to deforestation
- Compensation and remedial action required for land cleared of forests between 2005-2007 (amount will be agreed shortly)

Rio Tinto

- Obtained permits for mineral sands mine in Madagascar - after ten years
- Madagascar could now become a World Heritage Site

Could investor dialogue contribute to resolving problems early on?
Will this theme really affect investor value?

Typical investor questions for companies

- Are ecosystem services and biodiversity drivers of value for this specific company?
- How does the company depend on and affect ecosystem services? What would weak/strong management mean for its strategy? What is the timeframe for these themes affecting the company?
- Is the company well-positioned for emerging trends, and to create and protect value?
- How is it managing risks and opportunities to ecosystem services and biodiversity, including regulatory and political risks?

- How can investors conduct robust sector and company-specific analysis for ecosystem services and biodiversity?
The Ecosystem Services Benchmark

- Natural Value Initiative benchmark of food, beverage and tobacco sector companies
- Assisted participant companies in developing good practice
- Enabled investors to evaluate company risks & opportunities associated with impacts and dependence on ecosystem services and biodiversity
### Companies benchmarked

<table>
<thead>
<tr>
<th>Producers</th>
<th>Retailers</th>
<th>Processors</th>
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<tbody>
<tr>
<td>Açúcar Guarani</td>
<td>Ahold</td>
<td>Cadbury plc</td>
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<tr>
<td>Bunge</td>
<td>Carrefour</td>
<td>Dean Foods</td>
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<tr>
<td>COSAN</td>
<td>M&amp;S</td>
<td>Groupe Danone</td>
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<td>Grupo André Maggi</td>
<td>Sainsbury’s</td>
<td>Hain Celestial</td>
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<tr>
<td>SLC Agricola</td>
<td>Tesco</td>
<td>Nestlé</td>
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<tr>
<td><strong>United Plantations</strong></td>
<td>Wal-Mart</td>
<td>Parmalat Brazil</td>
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<td></td>
<td>Woolworths</td>
<td>Sadia</td>
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<td></td>
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<td><strong>Unilever</strong></td>
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<tr>
<th>Tobacco</th>
<th>Beverage</th>
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<tbody>
<tr>
<td>Alliance one International</td>
<td>The Coca-Cola Company</td>
</tr>
<tr>
<td><strong>British American Tobacco</strong></td>
<td>Diageo plc</td>
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<tr>
<td>Imperial Tobacco Group</td>
<td><strong>Foster’s Group</strong></td>
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<tr>
<td>Philip Morris International</td>
<td>Heineken</td>
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<td>PepsiCo</td>
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<td><strong>SABMiller</strong></td>
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Key findings from Natural Value Initiative benchmark

- **Good practice identified**: Unilever

- **How did the sectors perform?**
  - Beverage sector outperformed others: average score over 50%
  - Tobacco sector weakest: average score under 40%

- **Which companies are best-in-class in their sector?**
  - Producers: United Plantations
  - Processors: Unilever
  - Tobacco: BAT
  - Beverages: SAB Miller/Foster’s
  - Retailers: M&S

*Unless prevented by regulation or specific client instruction in a small number of cases.*
How could investors use the NVI extractives benchmark?

- Understand good practice and how ecosystem services and biodiversity could affect extractives companies:
  - Value creation and protection
  - Key issues: biodiversity, water, natural hazard management, biofuels
  - Results could feed into analysis, sustainability funds and engagement

- Benefits of the Natural Value Initiative
  - Credible, in-depth benchmarking study
  - Methodology developed with extractives companies and experts
  - Companies and themes reflect investors’ priorities