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The conference was a gathering of international delegates from the banking, insurance and asset management sectors, many of whom are leading the world in addressing environmental and social challenges from the perspective of the financial services sector.

The theme of the conference was "Awareness to Action", with the focus on moving beyond understanding towards tangible actions that will make a difference.

Keynote speakers at the conference included Rt Hon. Michael Moore, the former Director-General of the World Trade Organisation and former Prime Minister of New Zealand who spoke about the need to address global poverty and its connection with addressing environmental issues. "The biggest threat to the environment is poverty", he said.

Day 2 of the conference opened with Steve Gibbs from ARIA giving the inaugural presentation of the slideshow "Enlightened Self-Interest", prepared by Louise O'Halloran of the Responsible Investment Association (formerly the Ethical Investment Association). The slideshow outlined the some key global challenges such as climate change, waste water, oil, obesity, AIDS and the role of the pharmaceutical industry, corporate fraud, product safety, fair trade and the rise of the internet and civil society activism. Steve then outlined the case for institutional investors "getting on board" about key environmental and social issues in managing their investments. The slideshow was very well received and we hope to have Steve present the slideshow to ACSI members in the near future.

The session also had international speakers discussing the hallmarks of good active ownership, engagement and responsible investment analysis.

**ACSI AGM**  
**Monday 19 November 2007**

**5.00pm - Cbus Boardroom** at Level 28, Casselden Place, 2 Lonsdale Street, Melbourne, Victoria

**6.30pm - Dinner at Oyster Restaurant**, 35 Little Bourke Street Melbourne.

**RSVP by 15 November 2007** for AGM and dinner, to [cpanagiotopoulos@mail.ifs.net.au](mailto:cpanagiotopoulos@mail.ifs.net.au). The cost for the dinner is \$55 per person.

**UNITED NATIONS ENVIRONMENT PROGRAM FINANCE INITIATIVE (UNEP FI) GLOBAL ROUNDTABLE, MELBOURNE**

On 24 and 25 October 2007, Phil Spathis and Meredith Squires attended the United Nations Environment Program Finance Initiative Global Roundtable in Melbourne.

The conference also included sessions on:

- Financing Ecosystem Services
- Climate Change and Investment
- Green Hedge Funds
- Water and Finance
- The role of the Finance Sector in Human Rights
- The Carbon Markets
- Sustainability Reporting

A number of key reports were also launch at the conference, details of which are outlined below.

**CARBON DISCLOSURE PROJECT REPORT 2007 (CDP 5): AUSTRALIA AND NEW ZEALAND**

Paul Dickinson, CEO of the Carbon Disclosure Project (CDP) spoke about the findings of this year's worldwide CDP. He discussed the increasing acceptance and participation by companies across the world: some large multinationals, such as Wal-Mart, Tesco and Nestle, are now also sending the CDP questionnaire to their suppliers and requesting that their suppliers also participate.

The CDP 5 questionnaire asked companies to comment on climate change risks and opportunities, strategies that companies have to manage those risks and opportunities, reduction targets, greenhouse gas emissions accounting and climate change governance.

The 2007 Australian and New Zealand Carbon Disclosure Project report was launched at the Roundtable.

Some key findings of the Australian report were:

**Response rate**

- The number of Australian and New Zealand companies responding to the Carbon Disclosure Project increased by 19% from last year's response, from 64 to 76.

- There is a noticeable size bias in the number of companies responding, with 74% (by number) of ASX 50 companies responding, with only 54% for mid-cap companies.
- The response rate was significantly higher from companies with greater exposure to climate change risk, either through emissions intensity, exposure to physical impacts or vulnerability to supply chain exposure.

**Risks**

- Nearly all ASX 100 and NZX 50 companies that responded to CDP5 (97%) identified climate change as presenting some commercial risk to their business.
- Similarly, 97% of respondents identified regulatory response to climate change as posing some risk to their business. The most commonly described regulatory risk was emissions trading. The report notes that company responses demonstrate a growth in the level of awareness and understanding of regulatory risks over the past 12 months.
- The extent to which companies demonstrated they understood the commercial and regulatory risks, as well as the degree to which they had assessed the financial implications for their business, varied considerably.
- All ASX 50 and NZX 50 companies that responded to the questionnaire identified physical impacts as presenting some risks. Many companies distinguished between physical risks of climate change that would impact the business directly and those that would impact the company through its supply chain or from customer demand. However, the report states that most companies discussed how physical risks might affect their business in only a general way, and some respondents also failed to clearly communicate how the

company was mitigating or adapting to the physical risks of climate change.

- Companies operating in sectors that are exposed to physical risks of climate change (such as property, food and beverage) or are vulnerable to greenhouse or physical risks through their customer base (such as banking, insurance and mining) showed the highest understanding and assessment of physical risks and their financial implications. Compared with last year, the responses showed that companies had an increased awareness of the physical risks of climate change that are relevant to their business.
- The majority of companies across the ASX 100 and NZX50 also identified "other" risks, such a shift in consumer attitude and demand associated with climate change, damage to reputation and difficulty in attracting investment where greenhouse gas emissions or the impacts of climate change not effectively managed.

### Opportunities

- 89% of ASX 100 and NZX 50 companies that completed the CDP questionnaire indicated that climate change presented commercial opportunities for their business. Over 50% described opportunities for the company, actions undertaken to develop those opportunities and how opportunities generate financial return, increased sales or other benefit to the company. Companies and sectors identified as greenhouse intensive demonstrated a consistently higher understanding and development of opportunities.

### Governance and Strategy

- In relation to strategy, planning and governance, most companies responding to the CDP 5 questionnaire (97%) had established or are in the

process of establishing a climate change strategy. However, only a relatively small proportion of respondents (12%) provided evidence of a comprehensive strategy.

- The report commented "there was often a differential between the extent to which companies demonstrated understanding of the risks and opportunities in the extent to which they articulate their efforts to address these."

### Conclusion

- In conclusion, the report noted "Analysis of Australian and New Zealand company responses to the CDP 5 provides mixed messages for investors. While some responses demonstrated that companies are aware of and managing climate change risks, as well as actively pursuing opportunities, other responses clearly indicated the need for improvement, in terms of both the level of understanding and management of climate change and also how these elements are articulate to investors. Compared to CDP 4 there was a marked increase in the level of response from companies that had previously demonstrated no awareness or understanding of climate change risks and opportunities and had no strategies, programs or governance structures in place to address climate change. However, there did not appear to be a commensurate progress in the level of responses from more aware companies, particularly in terms of their ability to articulate the financial implications of climate change for their businesses."

A copy of the 2007 Australian and New Zealand CDP report and the 2007 Global CDP Reports can be downloaded from:  
<http://www.igcc.org.au/> or  
<http://www.cdproject.net/cdp5reports.asp>

### **“DEMYSTIFYING RESPONSIBLE INVESTMENT PERFORMANCE: A REVIEW OF KEY ACADEMIC AND BROKER A RESEARCH ON ESG FACTORS.”**

In this report, Mercer and the Asset Management Working Group of UNEP FI examined twenty academic and ten broker studies on the link between ESG factors and investment performance at both the companies/stock and fund/portfolio level.

In relation to the academic studies, the report found: “Of the twenty studies reviewed, ten showed evidence of a positive relationship between ESG factors and portfolio performance, seven reported a neutral effect and three a negative association. The results vary depending on the research methods used, and some of the studies still refer to a relatively short sample period that makes statistical analysis difficult to interpret. Also worth noting is that there is some confusion within the academic community regarding whether SRI should be a style of its own. While the results vary depending on the factor being studied, the region and the sample period, the evidence suggests that there does not appear to be a performance penalty from taking ESG factors into account in the portfolio management process.”

For the broker studies, the report noted: “While brokers usually measure ex post that ‘good’ companies have an above-average performance, it is still very difficult to find a clear link between share price volatility, the ability to generate cash flow, or sales growth on the one hand; and good human resource management, use of efficient environmental management systems or the ability to mitigate climate change risks on the other hand. This is not surprising - ESG factors have not yet been analysed long enough and in sufficient detail to allow greater comparability and to identify more distinct linkages with traditional financial criteria. Moreover, ESG factors have not yet been fully taken into account and pricing by many investors.”

The report suggests that there are important reasons to look at ESG factors more closely. “In summary, there is already explicit evidence and acknowledgement of the materiality of ESG factors and its influence in driving business strategy. Addressing ESG factors appears to be currently centred on improving risk management, mainly for large caps. The opportunity side is largely viewed through a thematic lens, mainly for small and mid- caps, with a primary focus on environmental aspects, or the E. Meanwhile, it seems that the S and the G are labelled under compliance check. This is why there is a vital need for research that aggregates ESG, and links it with compliance, risk and opportunity. We believe that there will be increasing demand for this type of research which, in turn, will facilitate the integration of ESG factors into investment analysis and decision-making.”

A copy of the report can be downloaded at: <http://www.unepfi.org/>

### **WATER RELATED RISKS: A SET OF INDICATIVE GUIDELINES FOR WATER-RELATED RISKS AND AN OVERVIEW OF EMERGING OPPORTUNITIES FOR FINANCIAL INSTITUTIONS.**

These guidelines, which were prepared for UNEP FI by Dr Olivia Jensen and Dr Ceema Namazie, aim to highlight “that water is a multi-dimensional risk issue that financial professionals must begin to understand and integrate into their decision-making processes.” The guidelines provide:

- indicative tools for financial institutions to review their portfolio exposure to water-related risks through their clients and investments,
- a methodology for integrating the guidelines into existing due diligence processes, and
- a review of existing practice for financial institutions faced with water risks and opportunities.

The report has guidelines for project financiers, corporate financiers and asset managers, as well as a discussion of sector-specific risks and mitigants for the agriculture, forestry and logging, mining and metals, power generation, oil & gas, general manufacturing, chemicals and pharmaceuticals, infrastructure, tourism and water supply / treatment sectors.

**RESPONSIBLE PROPERTY INVESTMENT:  
RESPONSIBLE PROPERTY INVESTING: WHAT THE  
LEADERS ARE DOING**

This new CEO briefing highlights emerging opportunities in responsible property investment. UNEP FI will publish the full report in January 2008.

A copy of the CEO briefing can be downloaded at: [www.unepfi.org](http://www.unepfi.org)

**HUMAN RIGHTS GUIDANCE TOOL FOR THE  
FINANCIAL SECTOR**

The UNEP FI Human Rights Stream launched the pilot of its online Human Rights Guidance Tool for the Financial Sector. The tool is currently undergoing a six-month pilot phase and will be refined during the pilot process.

The tool, which will be open for all UNEP FI signatories to use, "provides practical guidance designed to assist frontline business and client officers in the lending and investment community. It is industry sector-specific, including background information on international standards and issues of relevance to different cultures and geographies and poses key questions to assist in impact assessment".

More information can be found at: [www.unepfi.org](http://www.unepfi.org)

**UN PRI IN PERSON ASIA-PACIFIC  
MEETING, MELBOURNE**

On Friday, 26 October, Phil Spathis and Meredith Squires, together with a number of

delegates from ACSI member funds and other UN PRI signatories, attended the first Asia-Pacific meeting of UN PRI signatories.

Topics discussed at the conference included:

- An overview of the UN PRI in the Asia-Pacific region
- First steps in integration
- First steps on engagement
- The UN Global Compact
- The Investor Group on Climate Change.

Phil Spathis spoke at the engagement session, and highlighted ACSI members' engagement activities, including an outline of the News Corporation case.

Meredith Squires then attended the first meeting of the UN PRI Asia-Pacific Working Group, of which ACSI is now a member.

**INVESTMENT PERFORMANCE AND THE  
"S" FACTOR**

Two recent studies have found a link between good performance on two "S" factors - workplace health and safety and investment returns - and company performance.

A report by Goldman Sachs JB Were found a link between good workplace health and safety and good investment returns, while a survey by Towers Perrin of 40 global companies over a three-year period, found a link between employee motivation and company financial performance.

The Goldman Sachs JB Were study found that over the period from November 2004 to October 2007, companies that did not adequately manage workplace health and safety issues underperformed those who did. For a copy of the media release, please visit: <http://www.gsibw.com/?p=MediaReleases>

The Towers Perrin study found that: "Firms with the highest percentage of engaged employees collectively increased operating



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income 19% and earnings per share 28% year to year. Those companies with the lowest percentage of engaged employees showed year-to-year declines of 33% in operating income and 11% in earnings per share.

In a related study over a longer time horizon (three years), the firms with the highest levels of employee engagement achieved a 3.7% increase in operating margins, while those with the lowest levels of engagement suffered a drop of 2%."

More information about the Towers Perrin study can be found at:  
<http://www.towersperrin.com/gws>

### **RESEARCH CONCLUDES THAT AWARDING EXCESSIVE STOCK OPTION GRANTS TO CEOs ENCOURAGES DESTRUCTIVE RISK TAKING AND INCREASES VOLATILITY**

An article by Floyd Norris in the New York Times reports that a study examining 950 companies from 1994 to 2000 has found that companies whose chiefs got more than half their compensation in stock options were far more likely to take risks in more and bigger acquisitions and somewhat more likely to spend heavily on research and equipment.

However, the New York Times reports that the risks they took were often poor ones. "The more that a C.E.O. is paid in stock options, the more extreme the firm's subsequent performance, and the greater the likelihood that the extreme performance will be a big loss rather than a big gain," the study's authors report.

The report notes: "It appears that executives who have a lot of options with exercise prices far below the current market price - and thus would lose value if the stock price fell - make better decisions. 'It tends to impose a more balanced view of risk,' Professor Sanders said. 'It is your own money you are betting with, not just somebody else's.'"

The full New York Times articles can be viewed at:

<http://query.nytimes.com/gst/fullpage.html?res=9B04E7D71339F931A25753C1A9619C8B63&n=Top/News/Business/Columns/Floyd%20Norris>

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This newsletter is correct to the best of our knowledge and belief at the time of going to press. It is, however, written as a general guide so it is recommended that specific professional advice is sought before any action is taken