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**UNEP FI**  
**Asset Management Working Group Review**  
**and Observations**

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# UNEP FI Asset Management Working Group

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- Mission

- Embed environmental, social and governance (ESG) thinking and action within financial institutions and across capital markets
- Advance the integration of ESG factors into the investment management process

- A strategic alliance, representing US \$3 trillion in AUM

- ABN AMRO Banco Real Brasil
- Acuity Investment Management
- AIG Investments
- BNP Paribas Asset Management
- Calvert Group
- ClearBridge Advisors
- Eurizon Capital
- Groupama Asset Management
- Henderson Global Investors
- Hermes Pensions Management
- HSBC Investments
- Mitsubishi UFJ Trust & Banking
- Morley Fund Management
- Nikko Asset Management
- Pax World Management
- RCM

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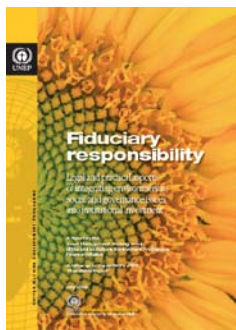
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- AMWG was formed in 2003
  - At that time, there was little recognition of the materiality of ESG issues among mainstream research institutions
- Past work:
  - 2004: **Materiality Report** featured sell-side analysis on the importance of ESG issues to the valuation of securities in their sector.
    - Conclusions supported the business case for ESG investing
  - 2005: **Freshfields Report** commissioned to provide a legal opinion on where the responsibility for ESG lies within the investment chain
    - Concluded that the consideration of ESG factors is firmly grounded within the bounds of fiduciary duty
  - 2006: **Materiality II Report** broadened the work on financial materiality, encompassing more sectors and methodologies.
    - Conclusions supported the findings of the first Materiality report and highlighted greater depth of analysis in ESG issues
  - 2007:
    - **Private Banking Report**: examined the opportunity for ESG investments in the private banking domain with a focus on High Net Worth individuals
    - **Pension Fund Report**: examined how pension funds were approaching the integration of ESG considerations.
    - **Performance**: featured influential and award-winning studies examining the relationship between ESG factors and fund or share-price performance from the academic and brokerage community

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## Recent Reports:



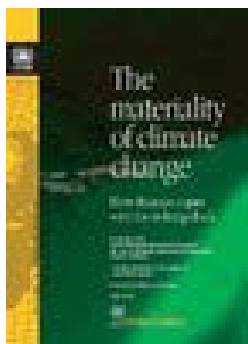
– **Fiduciary II**: A follow-on to the 2005 Freshfields report that provides a legal roadmap for fiduciaries looking for concrete steps to operationalise their commitment to responsible investment.

– Key Legal Findings:

- Necessary to embed ESG in investment management contracts & statements of investment principles;
- Periodic ESG-inclusive reporting by asset managers;
- Longer-term assessment of asset managers' performance, linked to long-term incentives ;
- Consultants and asset managers have professional duty to proactively raise ESG within advice and services to asset owners; failure presents: 'very real risk that they could be sued for negligence on the ground that they failed to discharge their professional duty';
- ESG integration is an economic assessment and valuation tool to improve investment analysis and decision-making from a risk-return framework (not traditional negatively screened ethical approaches)

– **Materiality III**: The third report in the materiality series focused exclusively on climate change

- Provides a comprehensive review of key financial analyst research on climate change in order to accelerate the integration of climate change risks and opportunities into fundamental financial analysis and practice.

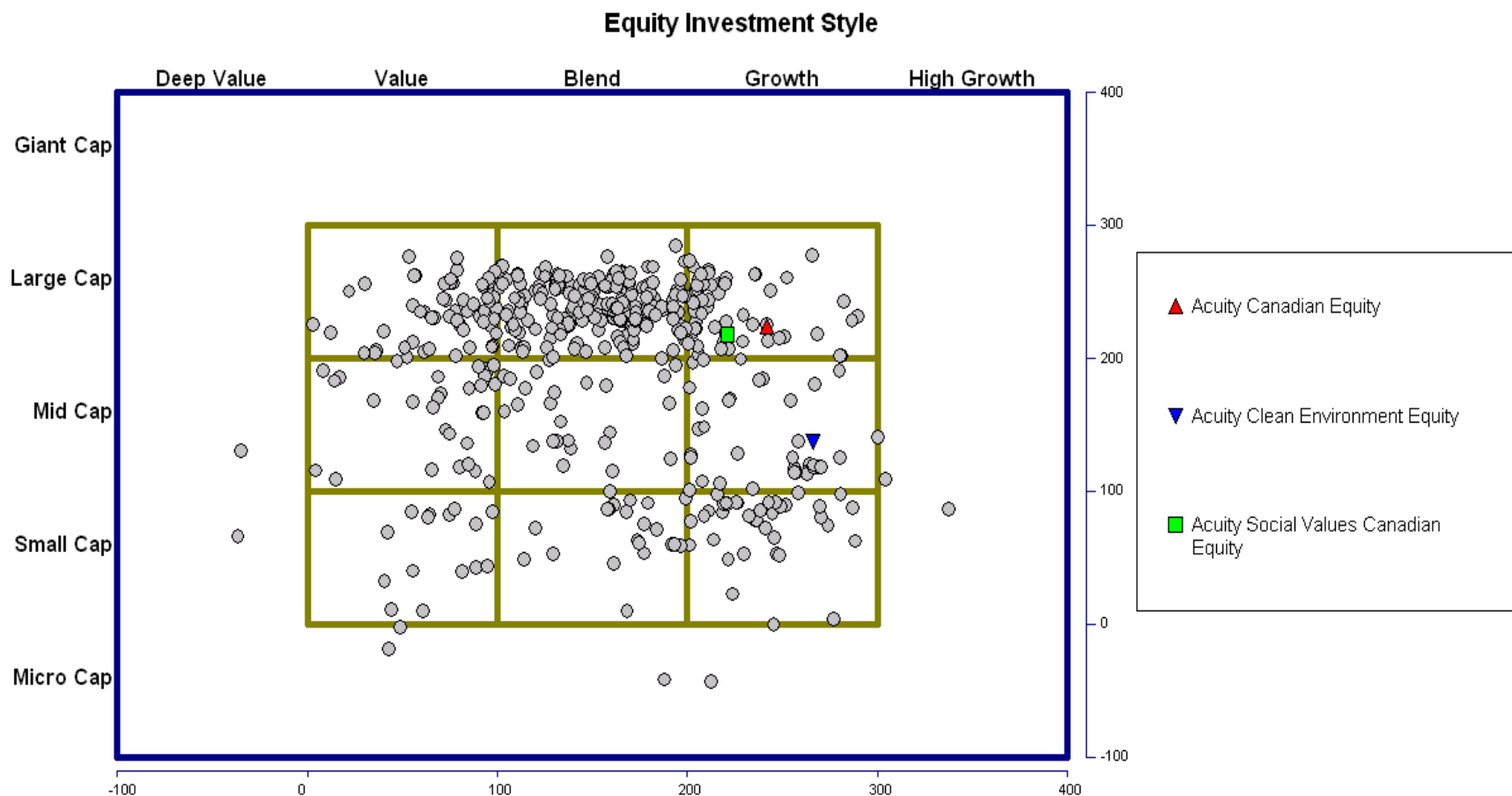


# ESG Integration In Practice – Observations

*Further progress will require a better understanding of investment objectives*

	Public Equity Objectives	Time Frame	Strategy	Role of Fundamentals	Value of Engagement / ESG analysis
<b>Owners</b>	Risk Mitigation in relation to obligations	Long Term: multi year - indefinite	Buy and hold Value bias Index+Active Large cap	Variable	High
<b>Investors</b>	Relative Annual Return	Medium Term: monthly – yearly	Active Value/Core/ Growth All cap	Critical	Context specific
<b>Traders</b>	Absolute Return	Short Term: hourly – weekly	Active Momentum/ hedge Liquid	Some – none	None

# ESG Integration In Practice – Observations



*Investment Approach Matters - Acuity for instance, is an active growth manager*

# ESG Integration In Practice - Observations

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- ESG approaches – is there really a ‘right’ one?
  - Negative Screening: will always be relevant for mission based investors
  - Best-in-class: very common – perhaps too much so?
  - Thematic: easily understood by mainstream (Eg. renewables, water etc.) but very little commitment yet in Canada
  
- Emerging approaches
  - Integration: most dependant on unique skill set
  - ESG momentum: should it be any different then earnings momentum?
  - Long/short: pair trading etc.
  
- ESG Research and Analysis – Post the crisis
  - Social roots: social research - did it make a difference?
  - Outsourcing research: who has ownership for decisions?
  - Proprietary approaches: how much should be shared?
  - ESG data: quality and availability
    - the ‘Bloomberg’ test – and moving beyond

# Acuity Overview

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- Founded in 1990, Acuity is a discretionary investment management firm that offers a full array of clearly differentiated, value-added solutions and mandates
  - Launched one of the world's first environmentally focused strategies in 1991
- In house ESG expertise with investment decision making responsibilities
- Ownership Structure: Private Firm; Partners own 100%; Partners are all active with Acuity
- Assets Under Management: \$7.3 billion at September 30, 2009
  - ESG assets under management: \$832 million
- Acuity has a long history of leadership on ESG issues:
  - Acuity has participated as a member of the United Nations Environment Program Asset Management Working Group since 2003
  - Acuity is a signatory to the UNEP Finance Initiative
  - Acuity is a founding member of the Social Investment Organization, a national non-profit organization dedicated to the advancement of socially responsible investing in Canada
  - In 2003, Acuity was awarded the Globe Foundation's inaugural Capital Markets Award for Sustainable Investing and Banking
  - Member of the Canadian Coalition for Good Governance
  - Advisor to Environment Canada and Coalition for Environmental Cooperation
  - Signatory to the Carbon Disclosure Project

# Acuity's Commitment to ESG Integration

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- Create internal expertise
  - Integrate ESG analysis within sector silos: accomplished by hiring financial professionals with financial and scientific/technical experience
  - Provide cross sector support: Director of Sustainability Research coordinates ESG research across various sectors and the ESG team is an expert resource for the entire Investment Committee
  
- Ensure fundamental research reflects ESG issues
  - Acuity's search for proprietary advantage incorporates ESG themes where applicable
  
- Provide Senior level support
  - Company founded on ESG platform (Clean Environment Fund Family)
  - Director of Sustainability Research is a member of the Investment Committee
  
- Seek out Independent Research
  - Acuity's Scientific Advisory Council, composed of prominent external environmental and business professionals, provides input on sector-specific issues
  - Third party social research supplements internal analysis
  
- Move the industry bar forward
  - Take part in leading global initiatives (UNEP AMWG etc); Avoid 'grandstanding' or 'green washing' activities