



## **The Natural Value Initiative: an investor perspective**

Sagarika Chatterjee, Governance & Sustainable Investment, F&C  
29<sup>th</sup> November 2010

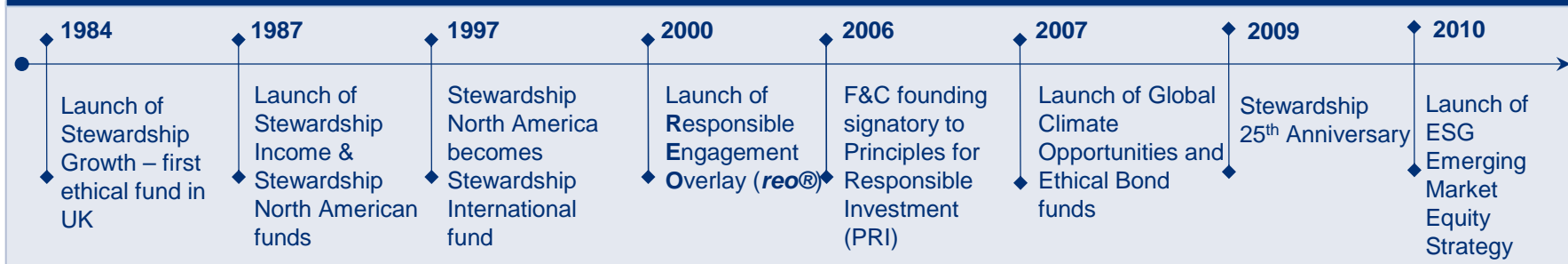
# F&C - Who We Are

## 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...



\* As at 31<sup>st</sup> 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 30<sup>th</sup> 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?

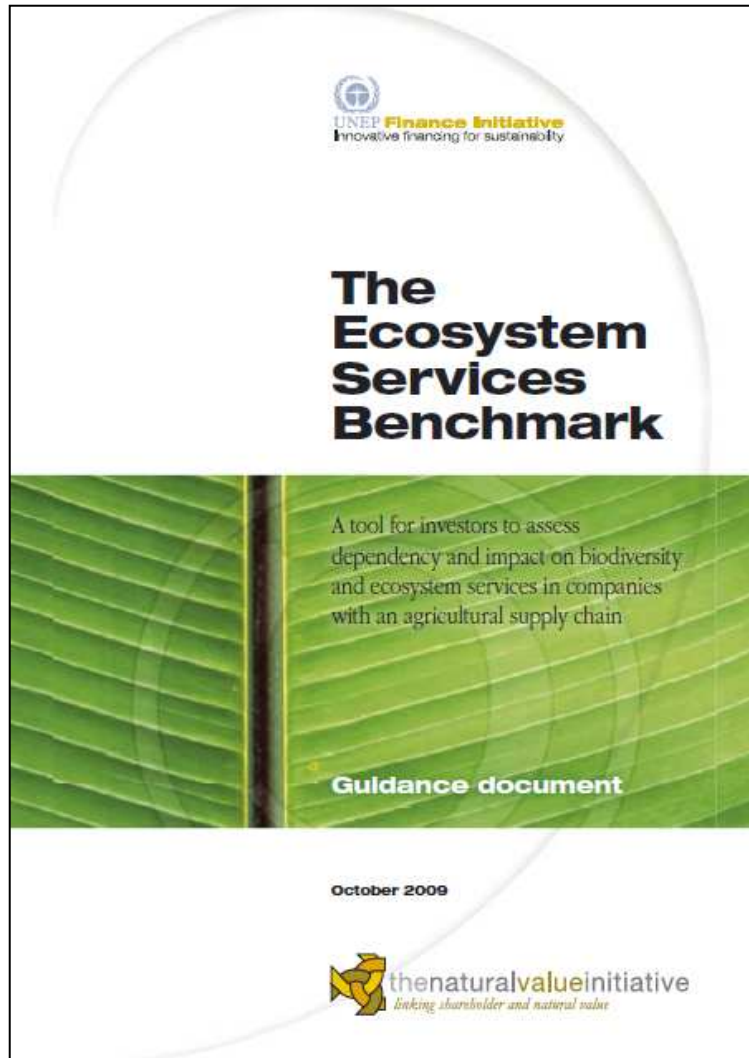


## Typical investor questions for companies

- **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



Producers	Retailers	Processors
Açúcar Guarani	Ahold	Cadbury plc
Bunge	Carrefour	Dean Foods
COSAN	<b>M&amp;S</b>	Groupe Danone
Grupo André Maggi	Sainsbury's	Hain Celestial
SLC Agricola	Tesco	Nestlé
<b>United Plantations</b>	Wal-Mart	Parmalat Brazil
	Woolworths	Sadia
		<b>Unilever</b>
Tobacco	Beverage	
Alliance one International	The Coca-Cola Company	
<b>British American Tobacco</b>	Diageo plc	
Imperial Tobacco Group	<b>Foster's Group</b>	
Philip Morris International	Heineken	
	PepsiCo	
	<b>SABMiller</b>	

# 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