



An Investor Perspective on Carbon Intensity and Energy Efficiency

Phil Preston

Director, Seacliff Consulting Pty Limited

Presentation to EEO Workshop, Brisbane, 5 May 2009

Disclaimer

This presentation has been produced by Seacliff Consulting Pty Limited (Seacliff) for the purpose of facilitating discussion about broad investment issues and the relevance of energy efficiency in the investment process. Information presented in this report is opinion and not a statement of fact. It is intended to be illustrative and not a firm recommendation for action. Seacliff has used reasonable professional care in the preparation of this presentation and gives no guarantee as to the accuracy or completeness of the information. Any person viewing the presentation releases and indemnifies Seacliff from any liability whatsoever.

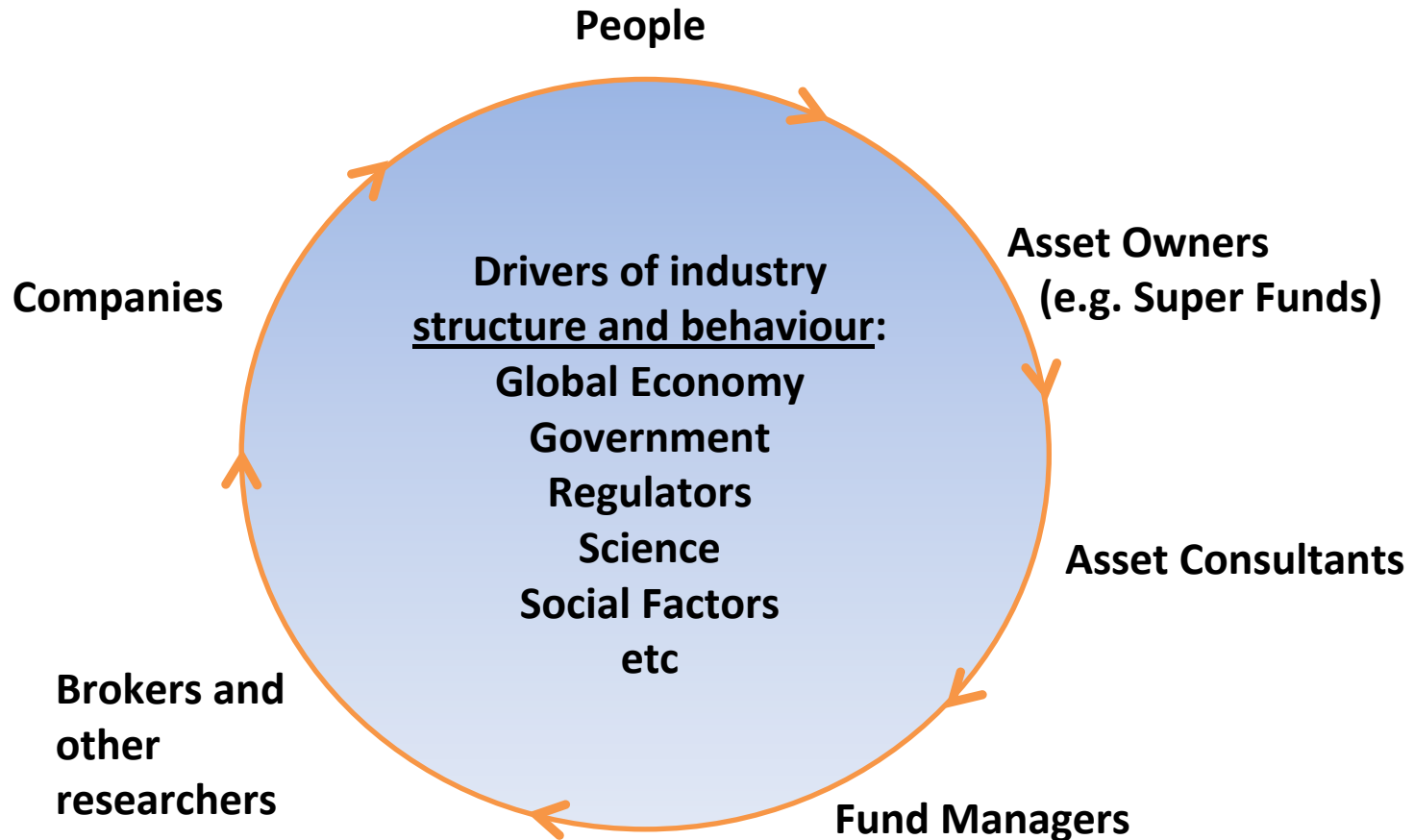
Why Would Investors Care?

- Superannuation and other investment funds focus on investment risk and return:
 - The risk of individual companies
 - Getting the best overall return for the risk taken
- They are very concerned about...
 - Being exposed to poor companies and sectors
 - Having too much exposure to any company, sector or source of risk
 - Looking silly relative to their peers!

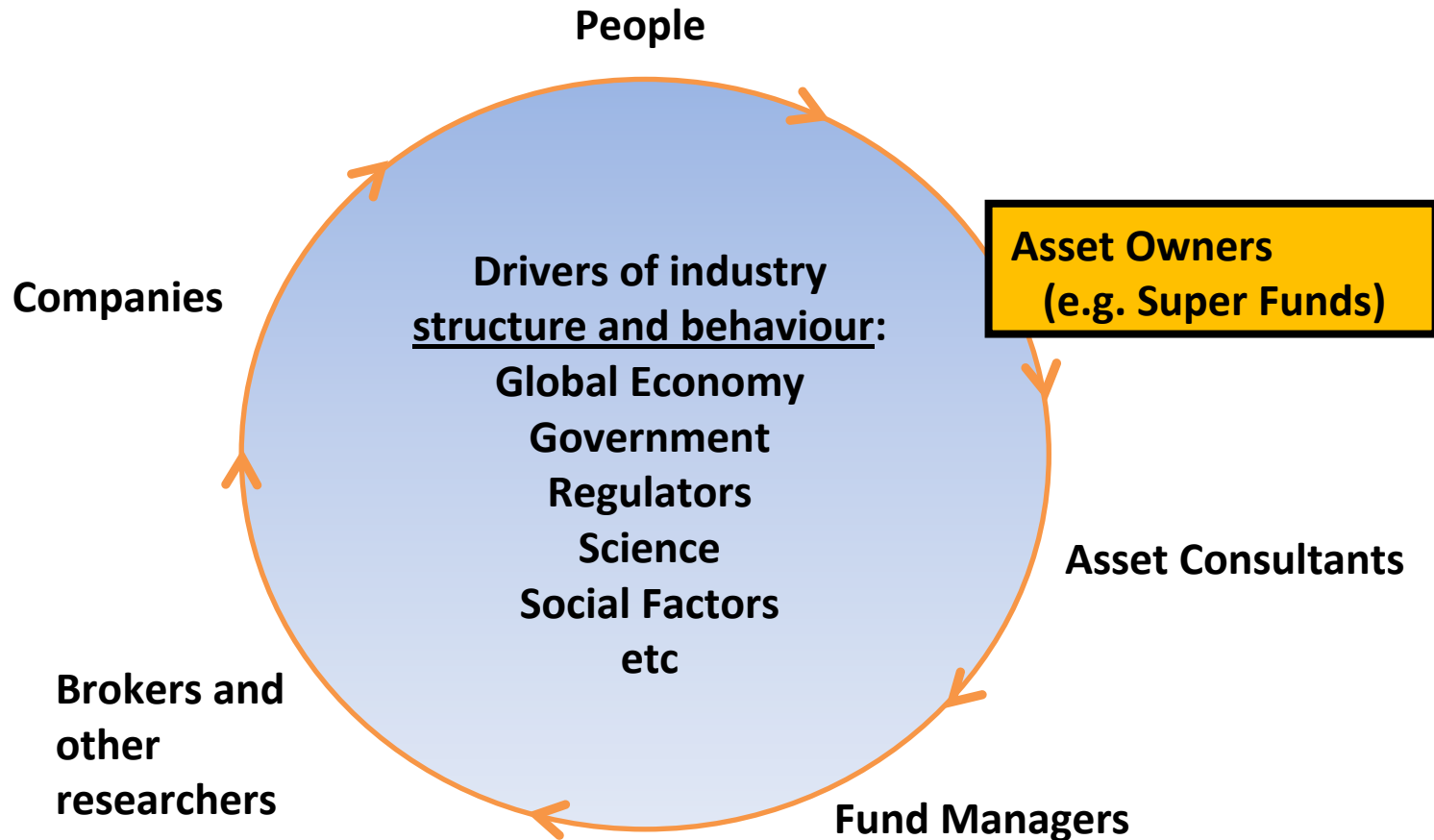
Market Forces – ‘Perfect Storm’

1. Climate change
 - More *uncertainty* in general means more *uncertain* investment returns
 - Increased focus on **environmental** risk
2. Global financial crisis
 - Accelerating the focus on **social** and **governance** risks
3. Trend towards “Responsible Investment”
 - Investors ramping up skills in environmental, social and governance (**ESG**) risk assessment
 - USD 18 trillion of funds have signed up to ‘UN PRI’

Investment Industry Structure



Investment Industry Structure



Asset Owners

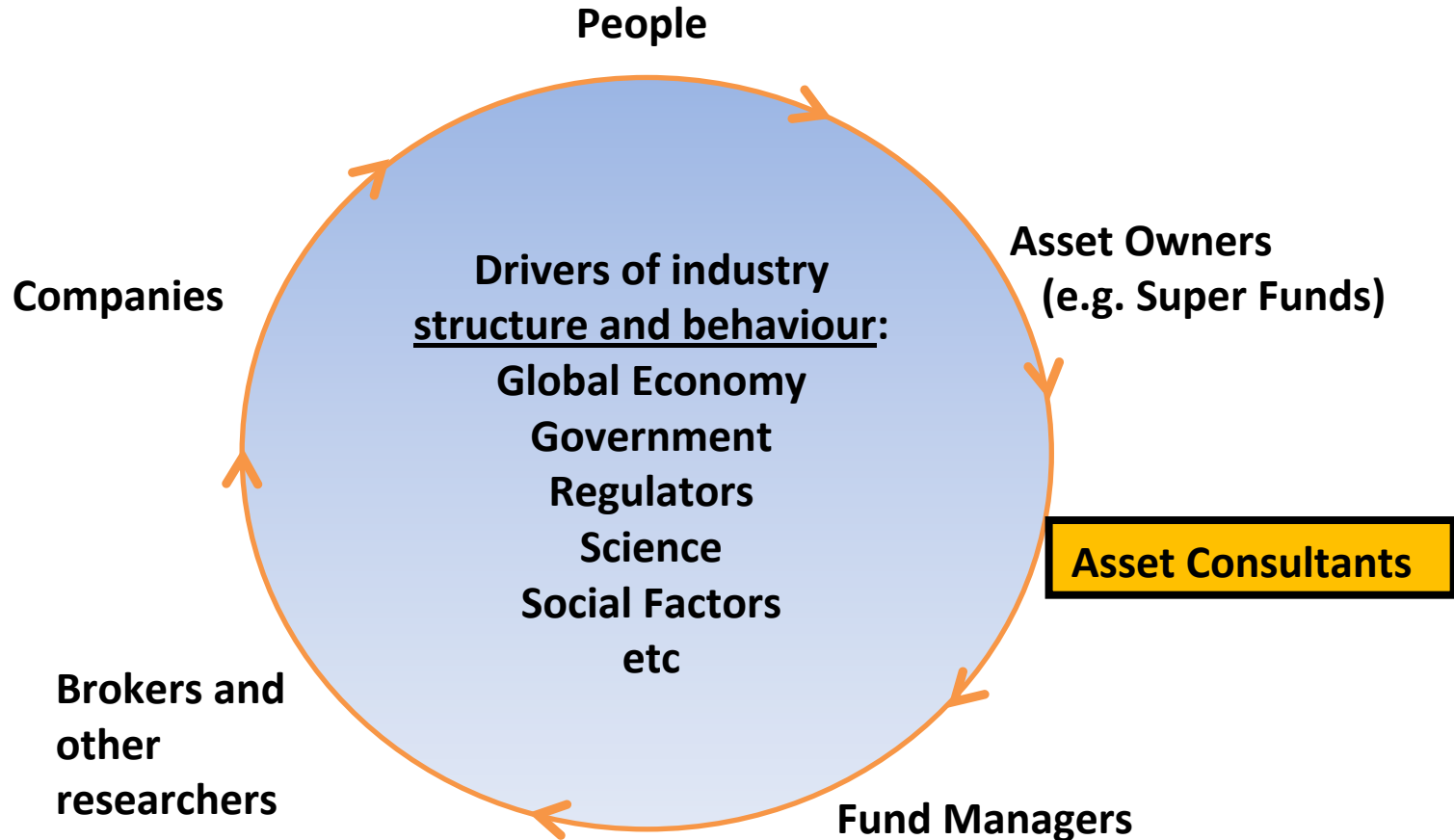
- Adopting and implementing “Responsible Investment” because of:
 - Rapid emergence of climate change as a risk
 - Seeking investment performance edge
 - Fiduciary duties
 - Aligning investment horizon with fund members
- Energy efficiency is an ‘operating’ issue for companies - but is closely linked to rapidly emerging sources of risk

“I believe that ESG factors should be incorporated into the investment decision-making process of superannuation trustees. For this reason, I recently wrote to APRA, requesting that it review its guidance to superannuation funds to take greater account of ESG issues in their investment practices.”

Senator the Hon Nick Sherry

Superannuation Lawyers Conference, 27 Feb 2009

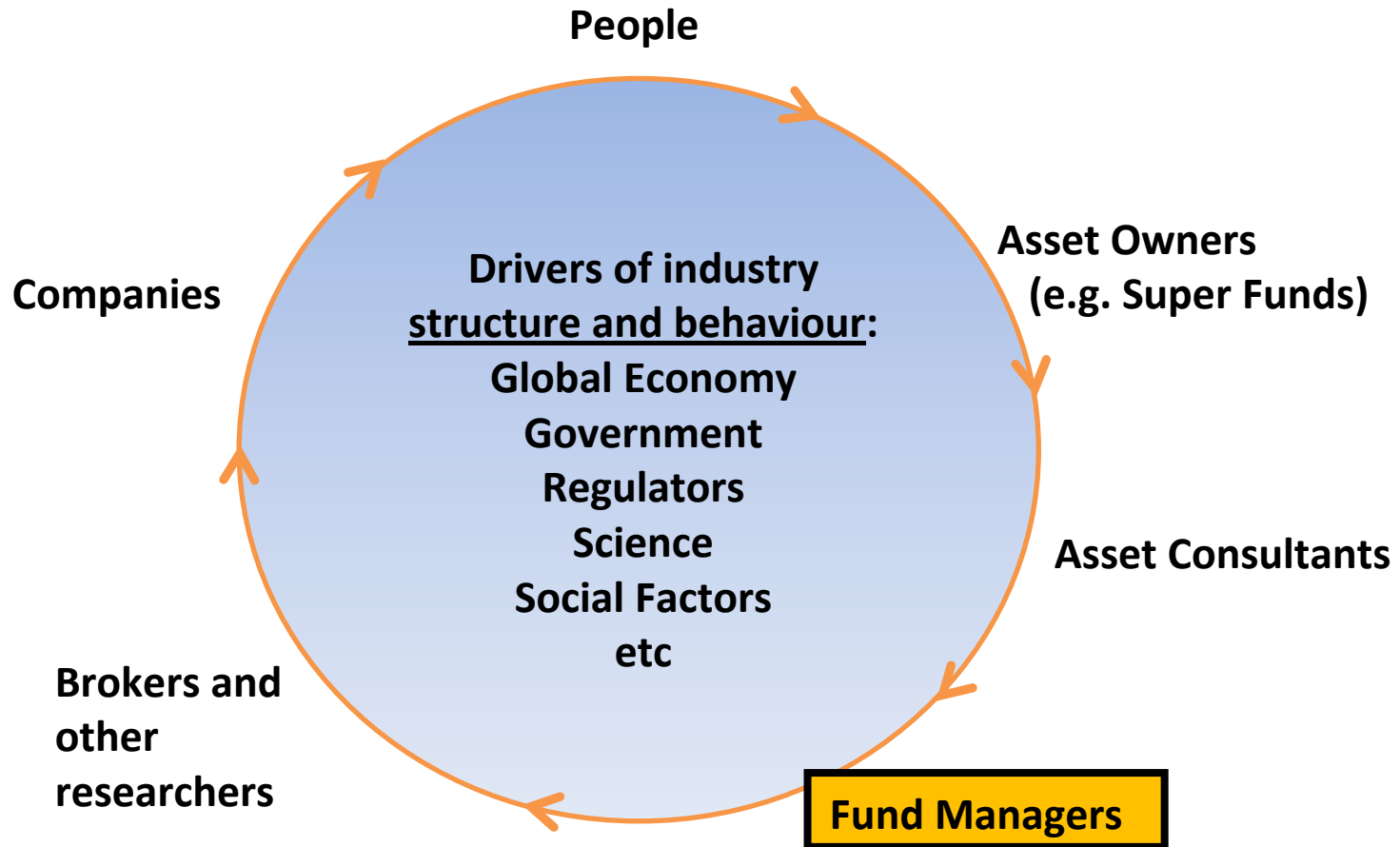
Investment Industry Structure



Asset Consultants

- The key advisers to Asset Owners with respect to opinions about fund managers
- Leading consulting firms now doing formal evaluation of fund manager capabilities in “Responsible Investment” field
- The leading Asset Owners are incorporating ESG criteria into fund manager selection

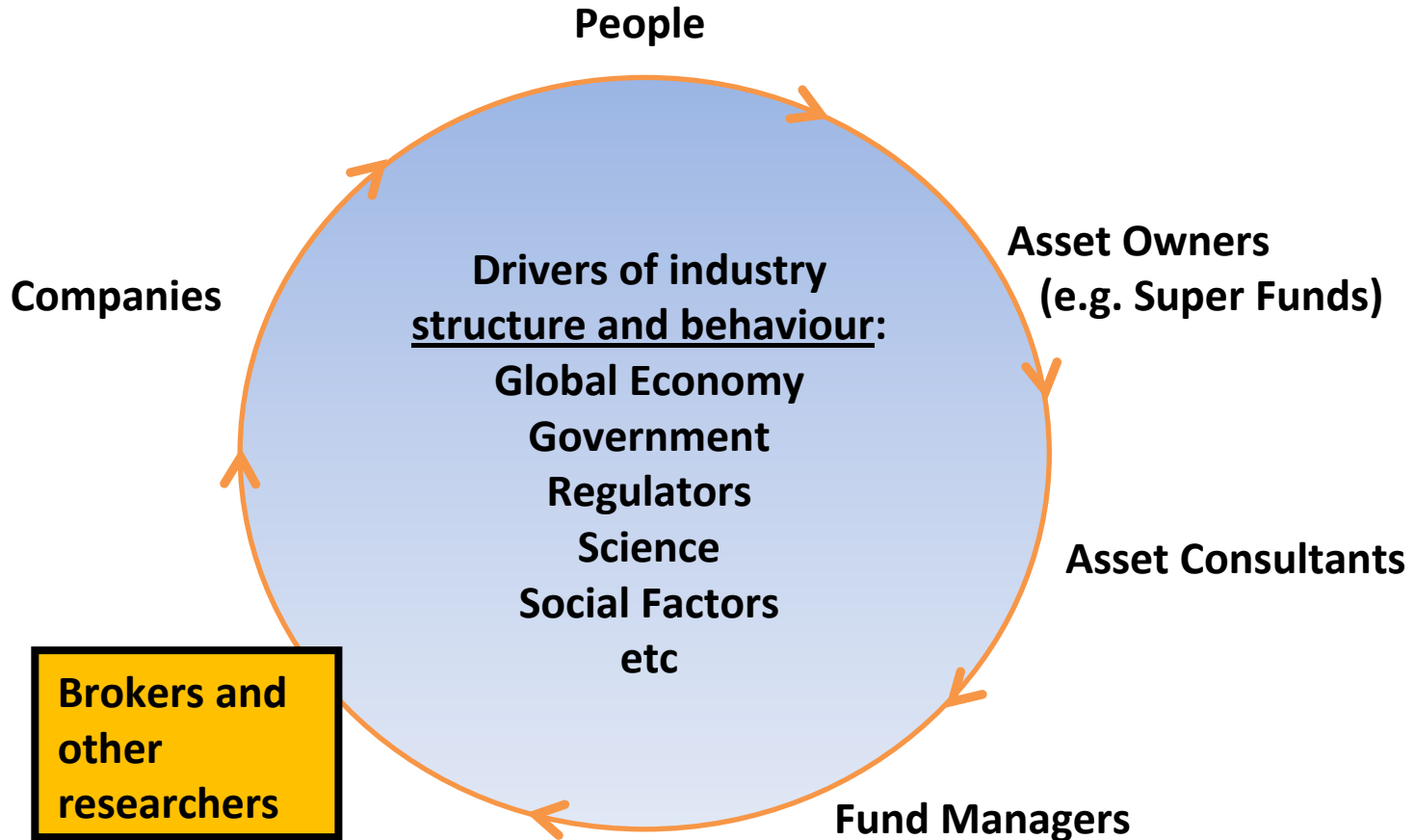
Investment Industry Structure



Fund Managers

- Hands-on investment decision-makers
- Constantly evaluating company prospects
- Ramping up ESG assessment capability
- Companies who focus on ESG as a strategic issue often viewed more favourably
- Pressuring their supply chain (brokers and companies) for improved analysis and disclosure

Investment Industry Structure



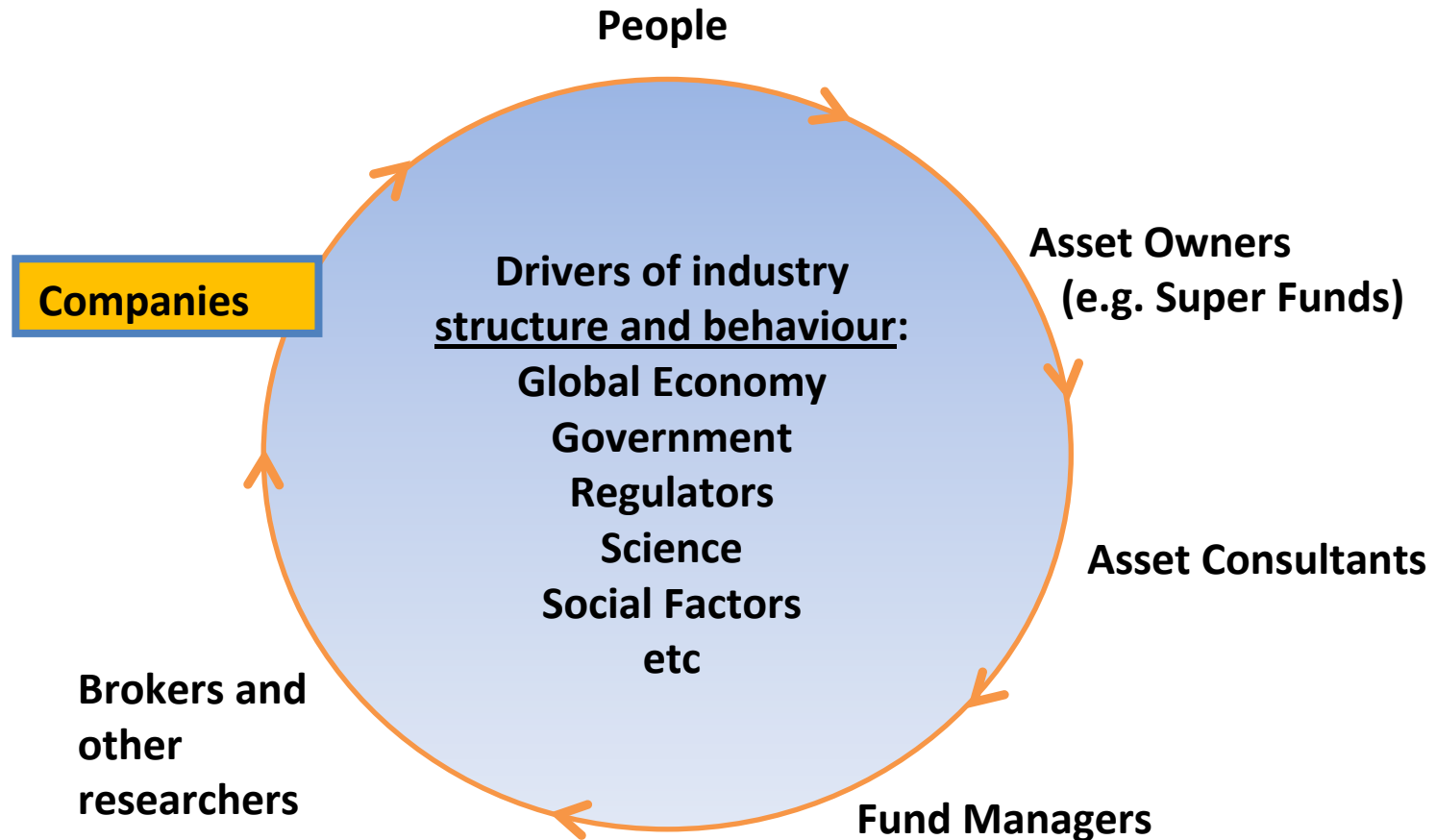
Brokers and Other Researchers

- Detailed research and financial models
 - Utilising data from publicly disclosed reports such as CDP, EEO etc (eg. Citibank report)
- Being driven by fund managers (brokerage)
- Specialised ESG research providers emerging
 - Riskmetrics / Innovest, ACSI, Regnan etc
 - An analyst recently noted BHP, Origin and IAG as examples of strong sustainability practitioners
- Skill level is increasingly rapidly

Brokers and Other Researchers

- With respect to energy usage, skilled analysts will focus on:
 - Transparency and disclosure
 - The response as a management quality indicator
 - Strategic versus compliance-based responses
 - Realistic expectations
 - Materiality of the issue and projected savings
- EEO reports provide good information for analysts investigating energy cost
 - Think about delivering information in a user friendly way

Investment Industry Structure



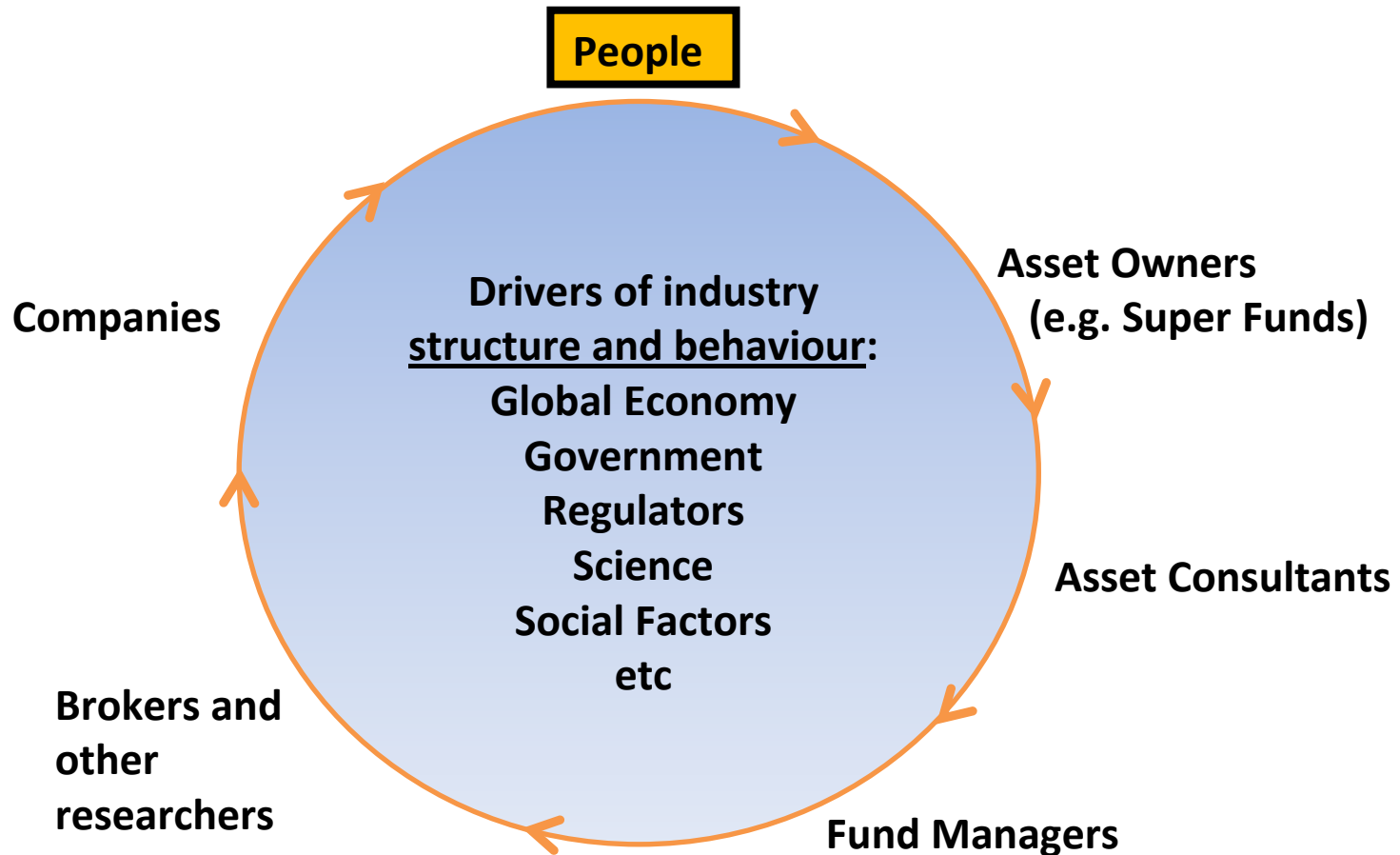
Companies

- Some view ESG as a strategic issue
 - Eg. Energy companies diversifying asset portfolios
- Some see it as a nuisance
 - Running the risk of losing competitive advantage
- Companies who take ESG seriously will be better placed (eg. ‘cost of capital’)
- Companies will be coming under more pressure to report / disclose on ESG activities

Challenges For Companies

- Recognising ESG as a strategic issue
- Developing internal strategy
- Communicating clearly and coherently
- Interfacing with investors, brokers, fund managers and specialised researchers
- Utilise reporting frameworks to head off survey fatigue

... because it's all about people



Summary

- ESG = environmental, social and governance
- A 'perfect storm' has lifted ESG prominence
- Investors are figuring out how to understand and manage these risks
- The investor supply chain is driving change for companies
- Those companies who are on top of the issues and progressing will be rewarded