SAVING YOUR SAVINGS?

NATIONAL ETHICAL INVESTMENT WEEK
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Looking at some threats to your savings from the sustainability challenges facing companies

MSCI
ESG Research

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UK Sustainable Investment and Finance Association

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WHO OWNS THE WORLD'S BIG COMPANIES?

IT'S PROBABLY YOU!

Most of us are saving in one way or another, often through pension schemes or life insurance. By 2015 most adults in work in the UK will have had the chance to join a pension scheme partly paid for by the Government.

Our savings are frequently used to buy shares in well-known British and international companies. This is good. It means those companies have money to employ people, to build factories and shops, and to develop new products and new technologies.

So we're all savers and we should all care how the companies we own operate. Why?

Some of us may worry particularly because of our beliefs and values, but we should all be concerned since, if the companies act badly, we, their owners, lose out. This guide looks at some of the risks to our savings stemming from the ways that companies use scarce resources like water, or produce goods that damage health, or pollute the environment.

The key equation is this: if companies behave irresponsibly their reputation, sales and profits will suffer and their owners – us – will lose money.

We have some examples to help you think and, on the following pages, some summaries of deeper questions.

Burning carbon. Some scientists think we can only burn 565,000,000,000 more tons of carbon if we are to avoid serious climate change. The 100 largest listed oil, coal and gas companies own more than that alone - 745,000,000,000 tons. So they can't burn all the carbon they own. What is an oil company share worth if it can't sell all its oil? No one really knows. See page 6 for regulatory threats.

Food. Agricultural output has more or less coped with population growth, in part because of increased use of fertilisers. But the key ingredient of fertiliser, phosphate, is facing supply pressure. Peak production may occur as soon as 2030. What does this mean for companies that have to buy fertiliser to grow food? How profitable will food companies be as it gets harder to produce food?

Tax. Companies should pay the the legally set level of tax, but as recent events show some try very hard to circumvent this. This has clearly damaged the reputations of companies like Google and Starbucks and that will have hurt their sales, and perhaps the price of the shares we own. Companies need to act with integrity.

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OBESITY: THE EMERGING REGULATORY RESPONSE

Obesity kills and is preventable. This has massive implications for heath spending: it is hard to see how Governments can afford to let health spending soar on avoidable illness. Companies that don't recognise the risks in their current products and start to produce healthier versions may see their share prices fall. The graphic shows which countries have obesity rates of above or below 30%. The boxes outline how Governments have or are moving to intervene in food production and sales. What will intervention mean for companies?

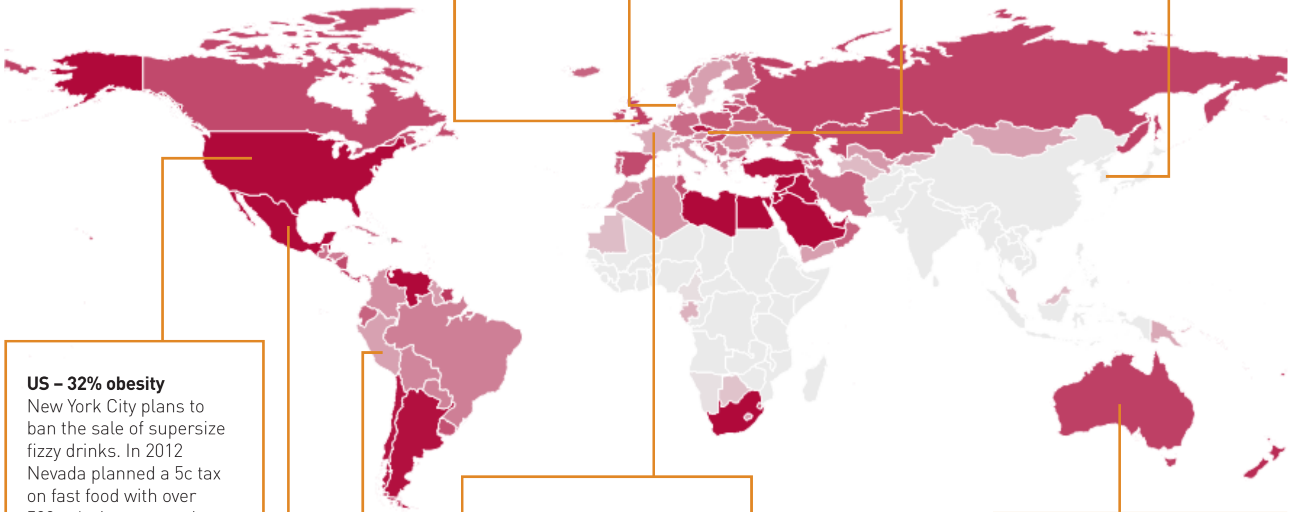
Source: MSCI ESG Research 2013

UK – 25% obesity
This year the Academy of Royal Colleges recommended a 20% tax on sugary drinks, a ban on junk food adverts before 9pm and a new power to councils to limit the number of fast food shops near schools.

Denmark – 16.2% obesity
A fat tax was introduced (and then repealed) on any food with more than 2.3% fat.

Hungary – 25% obesity
Introduced a tax in 2011 on food with 'too much' salt, sugar or fat.

Japan – 4.5%
A 2008 law sets limits on male and female waist size. People who break the limits are offered advice and counselling, but firms who employ too many people who break the rules are fined.



US – 32% obesity
New York City plans to ban the sale of supersize fizzy drinks. In 2012 Nevada planned a 5c tax on fast food with over 500 calories per portion. A nationwide regulation on calorie labelling on restaurant menus was proposed in 2012.

France – 16% obesity
A tax was introduced in 2012 on all soft drinks except low calorie and no sugar added. A proposed tax on palm oil use was rejected in 2012.

Australia – 25% obesity
This year health experts have called on the government to introduce tough regulations on junk food.

Peru – 16% obesity
In 2012 the health minister proposed a tax on foods with high fat, salt or sugar content.

Mexico – 33% obesity
Sales of junk food, sugary fruit juices and fizzy drinks in schools were banned in 2010.

Obesity Rates (WHO, 2008)
- >30%
- <10%

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WATER

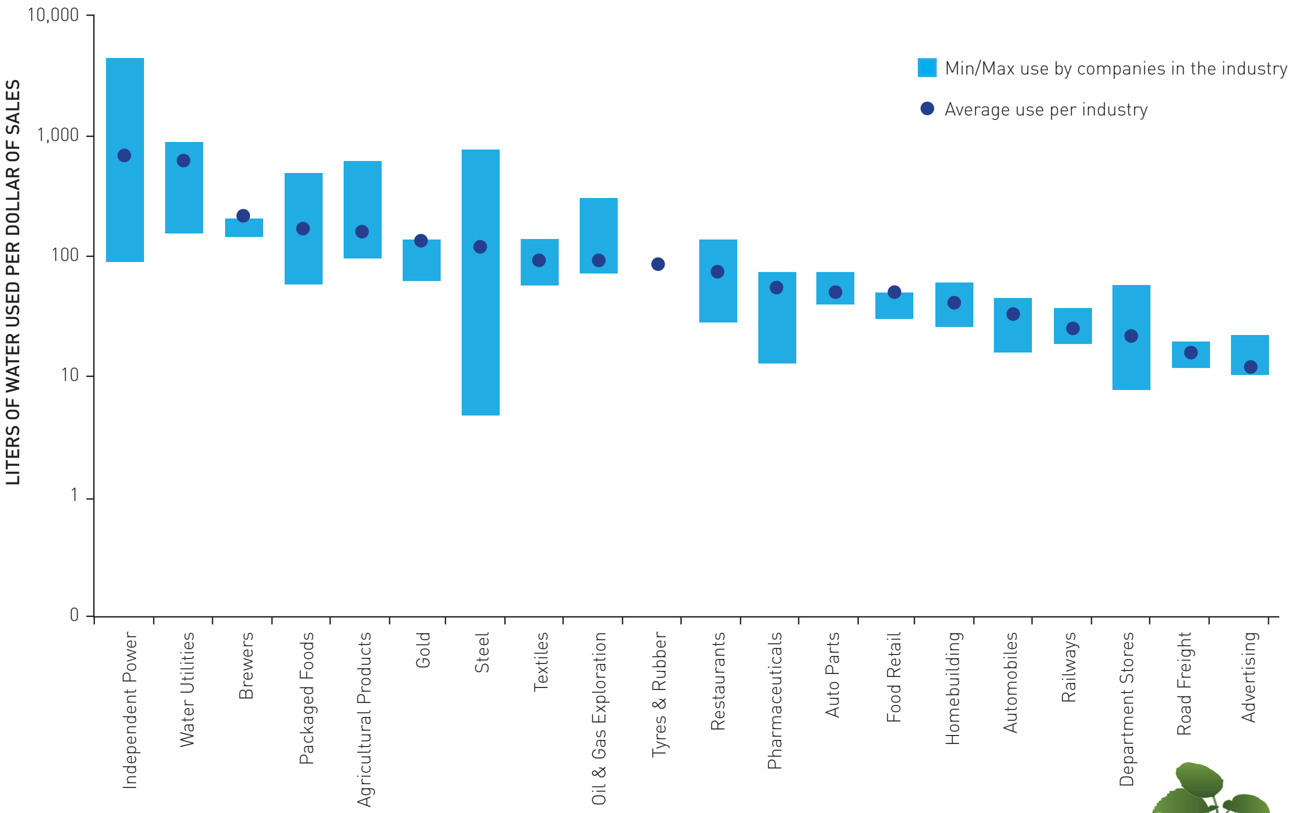
Access to clean water is a basic human right. Water stress, driven in part by industry use, affects many countries. Producing goods uses vast quantities of water: it takes 11,000 litres to make a pair of jeans and 400,000 to make a car. Industry will have to play a leading part in reducing water use.

MSCI ESG Research has measured water use by industry and some examples are shown in the graph alongside. For each sector we show the average, and the highest and lowest from among the companies in each sector.

As the map on the next page shows, some industries are concentrated in areas of severe water shortage. MSCI runs the MSCI World Index, which captures large and mid cap companies across 24 developed market countries, and the MSCI USA Investable Market Index (IMI), which captures large, mid, and small cap companies of the US market. The text boxes on the next page highlight some industries concentrated in areas of water stress. How will companies cope?

Source: MSCI ESG Research 2013

WATER USE PER DOLLAR OF SALES FOR KEY INDUSTRIES



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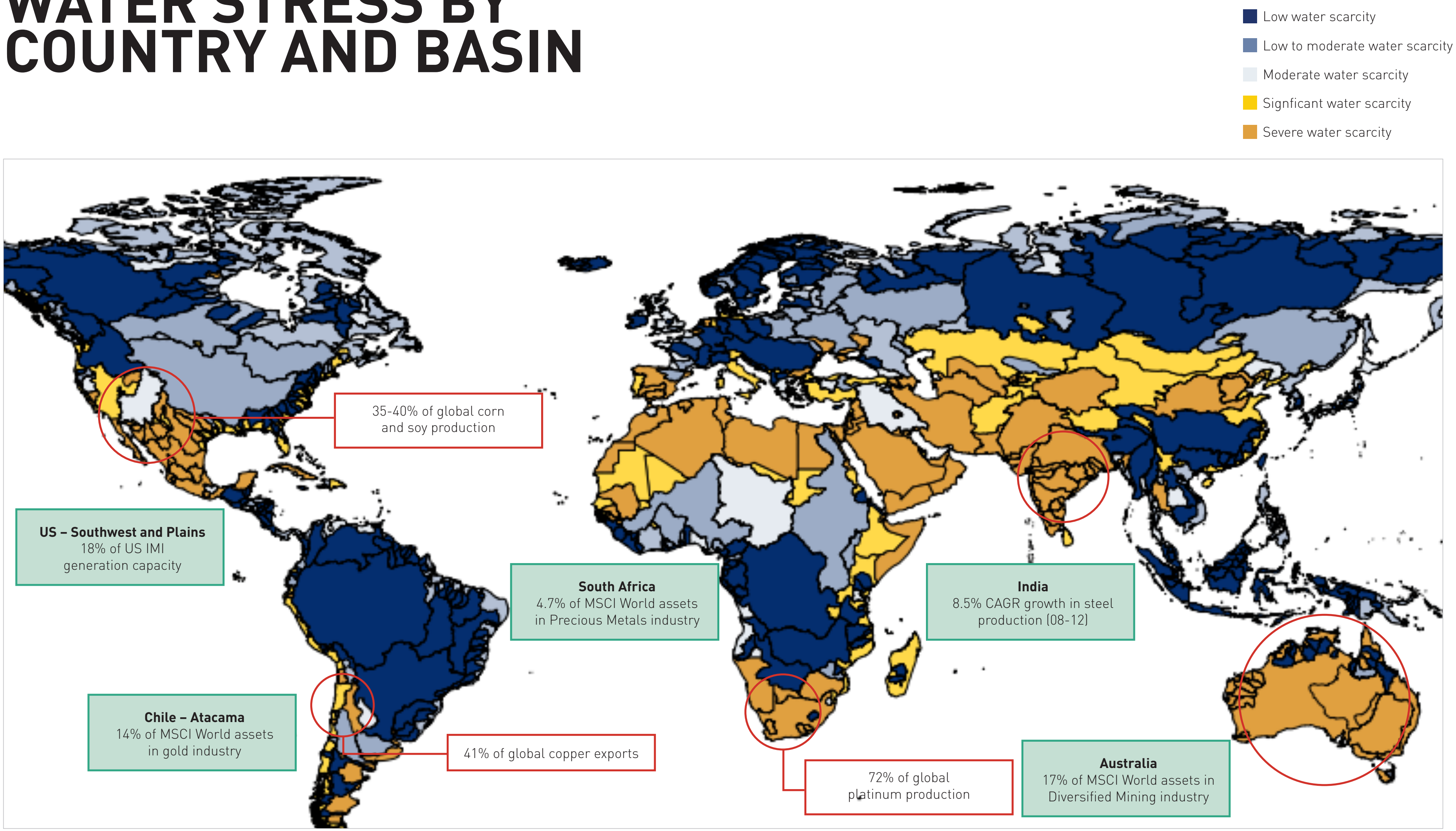
WATER STRESS BY COUNTRY AND BASIN



Source: MSCI ESG Research 2013

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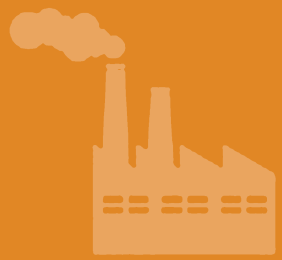
GREENHOUSE GASES



Greenhouse gases (GHG) such as CO_2 and methane play a key role in warming the climate. Over the past three years average total GHG emissions have been increasing, especially among large-emissions industries such as Oil & Gas, Utilities, and Airlines. The increases are due to business growth, higher levels of activity and production, and changes in energy sources or the mix of products and technologies.

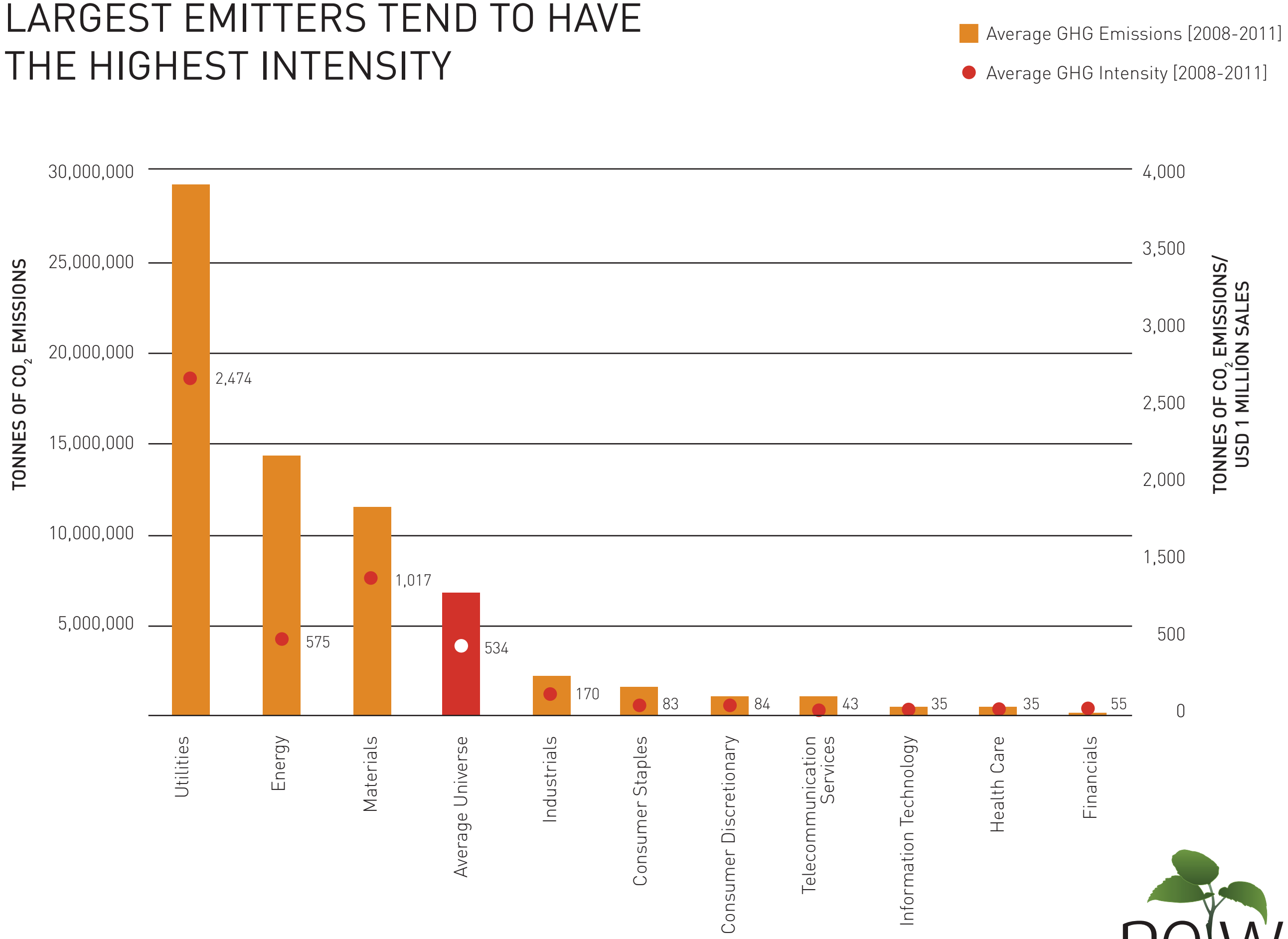
CO_2 emissions can be measured in 3 ways:

- **Scope 1** are the direct emissions from a company's operations
- **Scope 2** are indirect emissions, such as those from purchased electricity
- **Scope 3** are emissions from outside the firm, for example customers transporting purchased goods to their premises

The graph shows how much CO_2 various industries emit under scopes 1 and 2, and how much CO_2 each industry generates for a million dollars of sales.

Source: MSCI ESG Research 2013

LARGE DISPARITY BETWEEN SECTORS – LARGEST EMITTERS TEND TO HAVE THE HIGHEST INTENSITY



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CARBON REGULATION

Many people focus on controlling carbon as a key way of managing environmental risk. Successive inter-governmental talks have not delivered a clear plan for effective GHG emissions reductions globally. Despite setbacks in the policy arena and disappointing results from attempts to set up carbon markets, continuing carbon reduction plans and proposed regulations represent a real threat to firms exposed to producing or burning carbon.

Other threats to operations include:

- An increasingly regulated operating environment to reduce injury and pollution
- Higher costs of production due to accessing resources through fracking shale and drilling offshore
- Reputational risks related to growing awareness amongst stakeholders around the impacts of climate change

The map alongside shows MSCI ESG Research's view of the state of regulation in each country and the text boxes add further information.

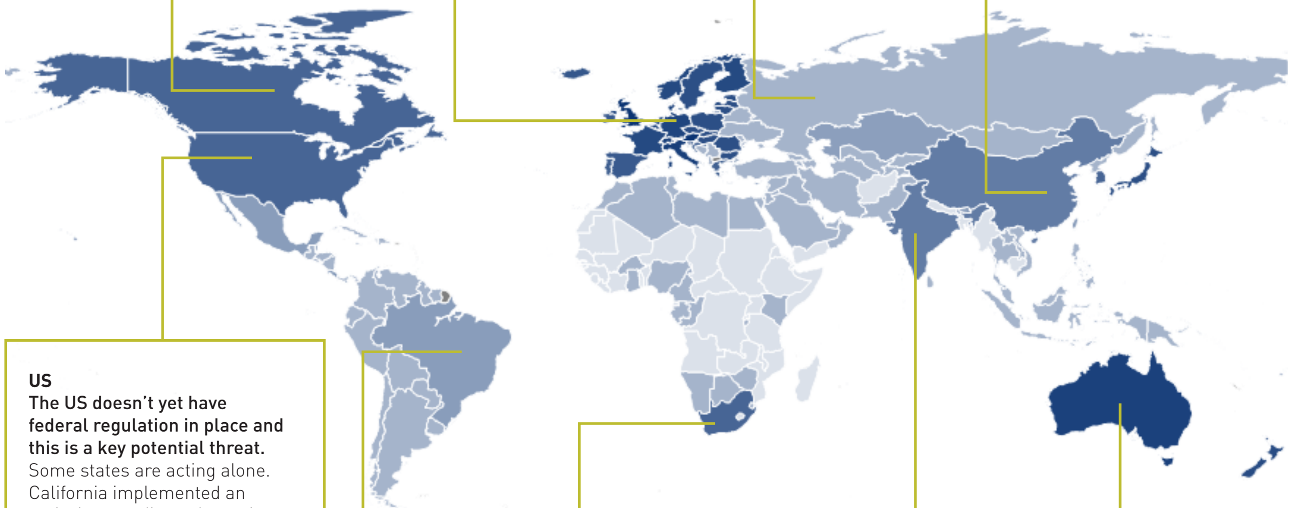
Source: MSCI ESG Research 2013

Canada
Canada withdrew from the Kyoto protocol at the end of 2011. In 2013, the State Government in Alberta proposed the 40/40 plan under which the oil and gas industry will reduce carbon emissions intensity by 40% by 2040 or face a $c 40 fine per ton if they don't comply.

Europe
Europe has had an emissions trading scheme since 2005 which covers more than 11,000 companies and factories responsible for nearly half the EUs CO_2 emissions. A subject firm must produce less than its CO_2 allocation or buy emission credits to cover an excess. The scheme has not worked well as yet, but the EU plans to link to other schemes "to form the backbone of a global carbon market".

Russia
Russia withdrew from the Kyoto Protocol in December 2012. There is no evidence of its continued commitment to the previous target or declaration of a revised target.

China
Emissions trading schemes (ETS) are being launched throughout 2013 on a pilot scale in five cities (Beijing, Tianjin, Shanghai, Chongqing, Shenzhen) and Guangdong and Hubei provinces, and it has been proposed to expand it nationwide by 2015. In May 2013, regulators were thought to be considering the impact of introducing a cap on absolute carbon emissions in the next five-year plan (2016-2020).



US
The US doesn't yet have federal regulation in place and this is a key potential threat. Some states are acting alone. California implemented an emissions trading scheme in January 2013 covering factories, generators, electricity importers and CO_2 producers.

Brazil
No specific Energy Efficiency or GHG regulation. But some actions include programmes in the following sectors – forestry, agriculture, energy efficiency, biofuels, and hydro-electricity.

South Africa
Proposes to introduce a carbon tax at around $16 per ton of carbon. However, the proposal includes a 60 percent tax-free threshold for all large emitters "to minimize adverse impacts on industry competitiveness and effectively manage the transition to a low-carbon economy."

India
"Perform, achieve, trade" was introduced in 2011 as part of the National Action Plan on climate change. It is a market based mechanism aimed at improving the energy efficiency of 9 high energy intensity sectors.

Australia
Australia introduced a tax of A$23 per ton on the 500 largest GHG emitters in 2012. The proceeds were to reduce income tax and boost pensions. The winners of the 2013 election have pledged to scrap the tax.

- Most stringent regulations, continued strengthening
- Some current regulations, imminent strengthening
- Some current regulations, long term regulations likely
- No current or imminent regulations

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WHAT CAN YOU DO?

There are several things you can do to understand what is being done with your money in order to ensure your savings don't make things worse and are less exposed to losing value.

1) Work with an Independent Financial Adviser to review your investments. Members of the Ethical Investment Association are committed to helping their clients invest their money the way they want **http://ethicalinvestment.org.uk/**

2) There is a variety of resources for those administering charity or faith group funds on the NEIW website. For example 44 Christian denominations have formed the Church Investors group at **http://www.churchinvestorsgroup.org.uk/**
and charities have formed CRIN at
http://www.shareaction.org.uk/Charityinvestment

There are infographics for both groups at
http://neiw.org/charities-churches/charities-resources/charity-infographic/
and **http://neiw.org/money-doing-good**

3) Look at how the fund manager that manages your savings considers environmental, social and governance issues. Go to your manager's web site and search on "ESG" or "SRI" or "Responsible Investing"

4) Write to the Trustees or HR department of your company pension scheme and ask how they consider environmental, social and governance issues

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