

# Trucost plc

Simon Thomas  
Chief Executive

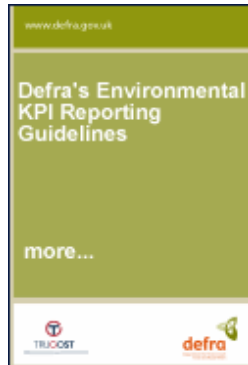
Frankfurt, August 2007

# About Trucost



- Environmental research company founded in 2000
- Largest and most comprehensive database of environmental disclosures and reporting
- Data is standardised to enable comparison of companies and funds
- Data is in quantity and financial term
  - Enables cross-comparison between companies, sectors and geographies
  - Enables improved dialogue between companies, investors & other stakeholders

# About Trucost



- Environmental data on 4,000 companies including those that do not report
- Trucost research matches investment universe: FTSE All Share, Russell 1000, MSCI Europe, Nikkei 225, ASX 200, MSCI All World Developed
- Authors of the UK Government's Guidelines on Environmental reporting
- Coverage includes emerging markets companies
- Winner of The Sustainability City Awards 2006/7

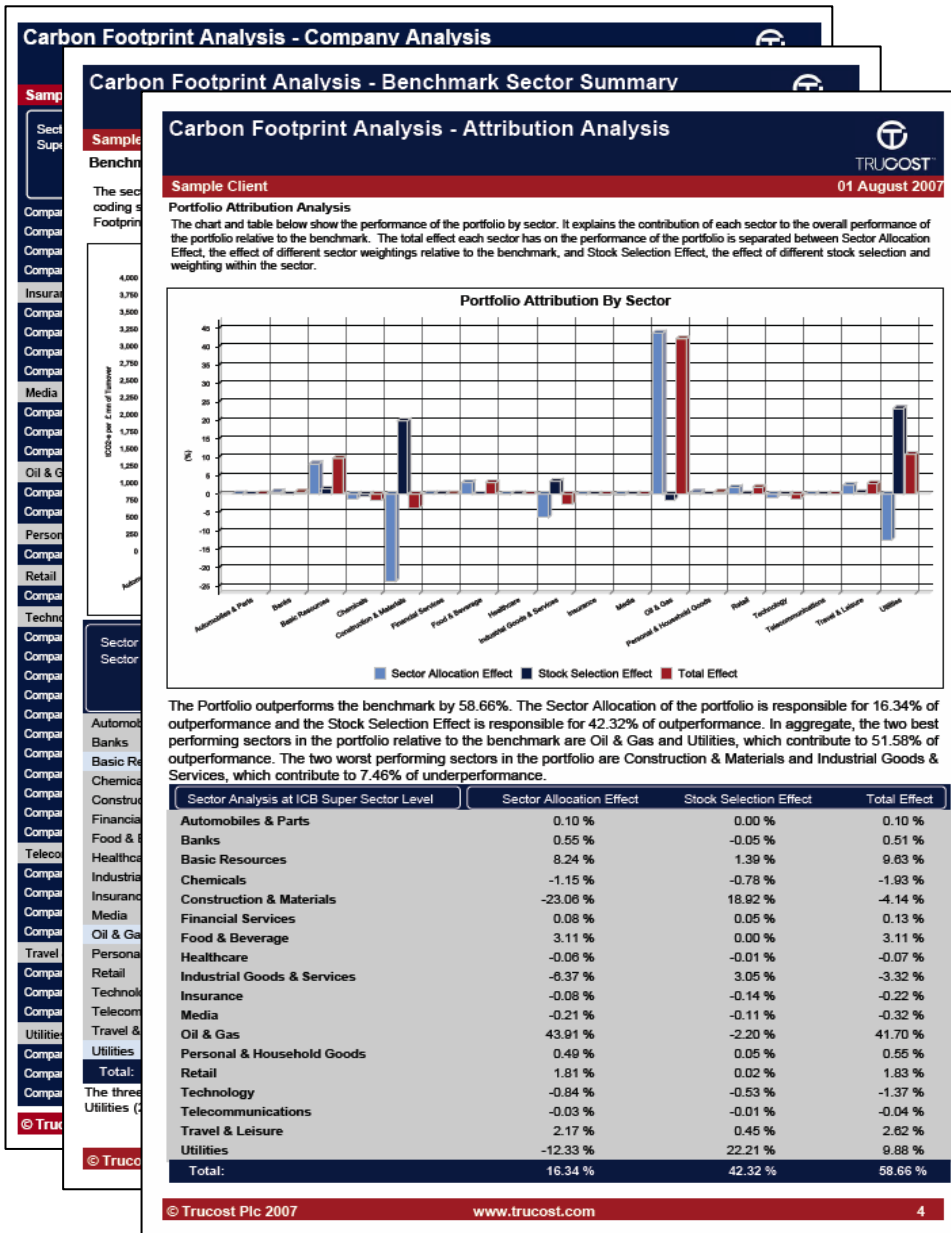
# How clients are using Trucost analysis



- Reporting to clients
- Understanding environmental risk in financial terms across investments
- Marketing low impact funds
- Incorporating environmental data into the investment process
- Managing and measuring focused engagement programmes
- Assessing regulatory exposure
- Conducting peer group analysis to understand relative positioning of companies
- Launching 'green' structured products



# Carbon Footprint



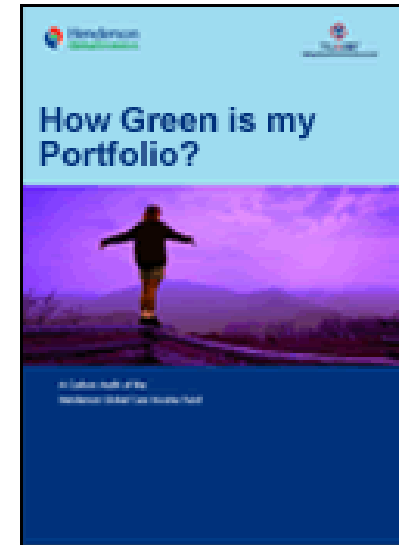
- Measure carbon emissions of company including direct suppliers
- Assign to portfolio according to size of holding
- Measure carbon footprint per (£) million invested
- Analyse sector breakdown and compare to benchmark
- Attribution Analysis: isolate effects of sector selection and stock selection

# Case Study: Henderson Global Investors



## Annual Carbon Audits

- 2005: First time the carbon intensity of a UK investment portfolio has been measured
- Henderson able to quantify how their portfolio compares environmentally to its benchmark
- Audits of Global Care Income Fund and Industries of the Future Fund carried out annually
- <http://www.trucost.com/henderson.html>



## French state reserve pension fund

- **Environmental Footprint analysis of combined global equities**
- **First report of its kind in Europe**
- **Analysis by**
  - **Environmental impact**
  - **Geographic region**
  - **Sector classification**
  - **Mandate**
  - **Disclosure**

# Case Study: Environment Agency Pension Fund



## **“Measuring the Environmental Footprint of our investments:**

We have undertaken Environmental Footprint analysis using Trucost’s methodology for each of our active equity funds against their respective benchmarks.

We have evaluated the environmental impact of our combined equity holdings compared to the benchmark, the MSCI World Developed Countries Index.

In 2007, the Fund’s Environmental Footprint for combined active equities is 14.0% better than the benchmark.

This is the first time that a UK pension fund has publicly measured and reported the impact of its global equity holdings in this way.”

[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)

# Carbon Counts: Ranking of UK Investment Funds



- In 2006, Trucost produced the first annual Carbon Footprint Ranking of UK Investment Funds
- Made possible due to quantitative nature of Trucost data
- Most but not all SRI funds have a lower Carbon Footprint than mainstream funds
- Some mainstream funds perform very well
- There is no correlation between Carbon Footprint and financial performance

# Ranking of UK Investment Funds

**Table 1: Trucost Carbon Footprint Ranking of UK Investment Funds - All Funds in Study, No.1 June 2006**

Fund	Rank	CARBON FOOTPRINT (CO2e (CO2e tonnes/Market Value £m))	Market Value (m£)	CO2e tonnes
Scottish Widows Investment Partnership UK & Income ICVC - Environmental Investor	1	337	210	70,987
Scottish Widows Investment Partnership UK & Income ICVC - Ethical Fund	2	446	49	21,872
Norwich Union Sustainable Future ICVC - UK Growth Fund	3	548	69	36,646
Lazard Investment Funds - UK Alpha Fund	4	856	840	415,406
F&C Stewardship Investment Funds ICVC-Stewardship Growth	5	694	670	458,662
CIS Sustainable Leaders Trust	6	697	118	82,000
Henderson Global Care Funds - Henderson Global Care Income	7	729	113	81,217
Aberforth Smaller Companies Trust PLC	8	819	470	385,172
Standard Life Investment Co. ICVC - UK Ethical Fund	9	881	75	65,188
Schroder UK Alpha Plus Fund	10	889	506	449,791
Equator Investment Funds ICVC-United Kingdom Equity Fund	11	915	1,524	1,371,822
Halifax UK Inv. Funds ICVC-UK Growth	12	961	3,033	2,771,898
Scottish Widows Investment Partnership UK & Income ICVC - UK Equity Income Fund	13	963	842	787,031
Threadneedle Investment Funds-UK Institutional Fund	14	965	3,033	2,918,676
INVESCO Perpetual UK Inv. Ser-Income & Growth	15	984	900	874,317
Edinburgh Investment Trust plc	16	1,040	1,222	1,257,758
Woodwich UK Stockmarket Fund	17	1,057	723	752,183
Fidelity Institutional Funds - UK Fund	18	1,065	2,201	2,293,631
Jupiter Environmental Income Fund	19	1,067	29	29,084
Gartmore Invsmt Fds Series III - Gartmore UK Index Fund	20	1,067	517	547,775
Legal & General UK Index Trust	21	1,087	3,393	3,556,066
F&C Investment Fund ICVC-FTSE All-Share Tracker Fund	22	1,088	460	487,595
Legal & General (Barclays) General Trust	23	1,089	558	594,199
Halifax UK Inv. Funds ICVC-UK FTSE All-Share Index Tracking	24	1,092	1,388	1,475,809
Virgin UK Index Tracking Trust	25	1,094	2,100	2,235,853
Scottish Widows Investment Partnership Tracker & Specialist ICVC - UK All Share Tracker	26	1,097	704	753,624
Norwich Union Investment Funds ICVC-UK Index Tracking Fund	27	1,098	443	474,621
Nationwide Tracker Fund	28	1,099	593	634,436
HSEB Index Tracker Investment Funds - FTSE All-Share Index	29	1,099	773	826,451
Merrill Lynch UK Dynamic Fund	30	1,100	588	632,908
CIS UK Growth Trust	31	1,109	1,568	1,692,035
Scottish Widows Investment Partnership UK & Income ICVC - UK Growth Fund	32	1,113	2,390	2,609,085
Scottish Life UK Equity Trust	33	1,125	1,842	2,006,155
FTSE AllShare		1,133		
FTSE350		1,138		
Halifax UK Inv. Funds ICVC-UK Equity Income	34	1,196	1,108	1,298,055
Prudential UK Growth Trust	35	1,200	2,273	2,723,815
Legal & General Equity Trust	36	1,236	526	642,911
Family Asset Trust	37	1,248	458	565,186
F&C Stewardship Investment Funds ICVC-Stewardship Income	38	1,343	198	257,532
Gartmore Invsmt Fds Series II - Gartmore UK Growth Fund	39	1,433	401	575,024
Old Mutual Investment Company - Old Mutual Ethical Fund	40	1,434	12	17,584
Standard Life UK Equity General Trust	41	1,462	2,061	2,970,199
Threadneedle Investment Funds-UK Fund	42	1,463	1,346	1,946,394
Jupiter Income Trust	43	1,632	2,436	3,894,522
AXA UK Investment Company ICVC - UK Equity Income Fund	44	1,719	1,004	1,726,708
<b>AVERAGE</b>		<b>1,059</b>	<b>1,036</b>	<b>1,142,452</b>
<b>TOTAL</b>			<b>45,567</b>	<b>50,267,883</b>

# Carbon Counts 2007



Key Data: Best in Category				
Category	Fund	Carbon Footprint per £1 mn Invested	Fund Size (mn)	Rank Overall
SRI	Prudential Ethical Trust	169	23	1
Growth	F&C UK Mid Cap 1 Acc	228	41	4
Income	JOHCM UK Equity Income GBP Acc Retail	315	413	18
FTSE All Share Tracker	AXA UK Tracker	674	73	112
FTSE 100 Tracker	Scottish Widows UK Tracker A Acc	730	567	134

## SRI Results

Portfolio Name	Rank	Carbon Footprint per £1 mn Invested	Fund Size (mn)	Rank Overall
Prudential Ethical Trust*	1	169	23	1
AXA Ethical Acc R*	2	173	54	2
Sovereign Ethical*	3	185	40	3
Norwich Sustainable Future UK Growth SC	4	234	93	6
Scottish Widows Environmental Investor A Acc	5	250	249	9
Scottish Widows Ethical A Acc	6	294	66	17
Aegon Ethical Equity Acc	7	378	123	27
Henderson - Global Care Income Fund <sup>o</sup>	8	398	118	31
F&C Stewardship Growth 1 Inc	9	457	878	43
Baillie Gifford British ex-Tobacco Equity B	10	505	6	55
Aberdeen Ethical Engagement UK A Acc*	11	544	11	72
F&C UK Ethical 2 Acc	12	663	25	107
FTSE ALL SHARE EX.INV.TRUSTS		680		
FTSE 350 EX.INV.TRUSTS		692		
FTSE 100		750		
CIS Sustainable Leaders Trust*	13	845	155	159
Standard Life Inv UK Ethical Ret Acc*	14	856	114	160
Jupiter Environmental Income Acc* <sup>s</sup>	15	1,046	48	179

- Carbon Counts 2007 extended analysis from 44 funds to 185 UK Investment funds

- The most carbon intensive fund has a footprint almost 10 times the least carbon intensive fund

- No correlation between the Carbon Footprint of funds and financial performance or fund size

# Carbon Optimisation Strategies using Trucost data



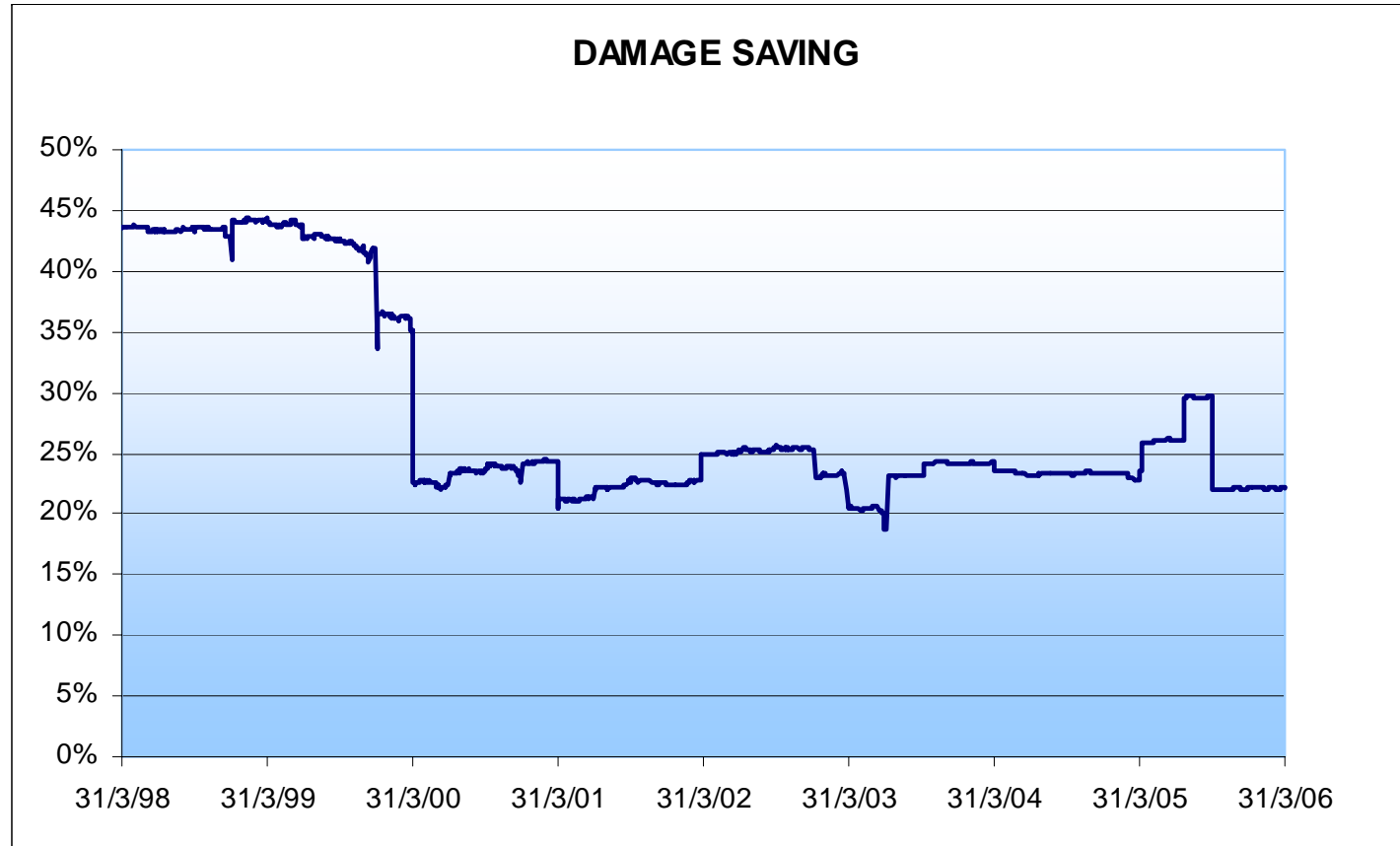
- Reward companies with lower emissions compared to sector peers
  - Carbon has a cost and is therefore a risk that must be minimised
  - External costs such as carbon will increasingly be internalised affecting a company's ability to maintain consistent growth:
    - Natural resources becoming more expensive
    - Governments imposing regulations, penalties and further restrictions. e.g. UK Landfill Tax, UK Aggregate Levy and the EU Emissions Trading Scheme (Polluter Pays principle), e.g. Aviation sector
  - Decreasing carbon liability will increase a company's margins
- Full Stock Universe
  - Without employing a negative screening strategy by excluding high-impact or outperforming sectors such as oil and gas, mining and utilities

# Carbon Optimised Tracker



- Sector Neutral
- No negative screening on stock universe
- Tilts toward less carbon intensive stocks within a sector
- Market capitalisation and sector neutrality maintained to avoid size and sector bias
- Independent backtest covering 8 years

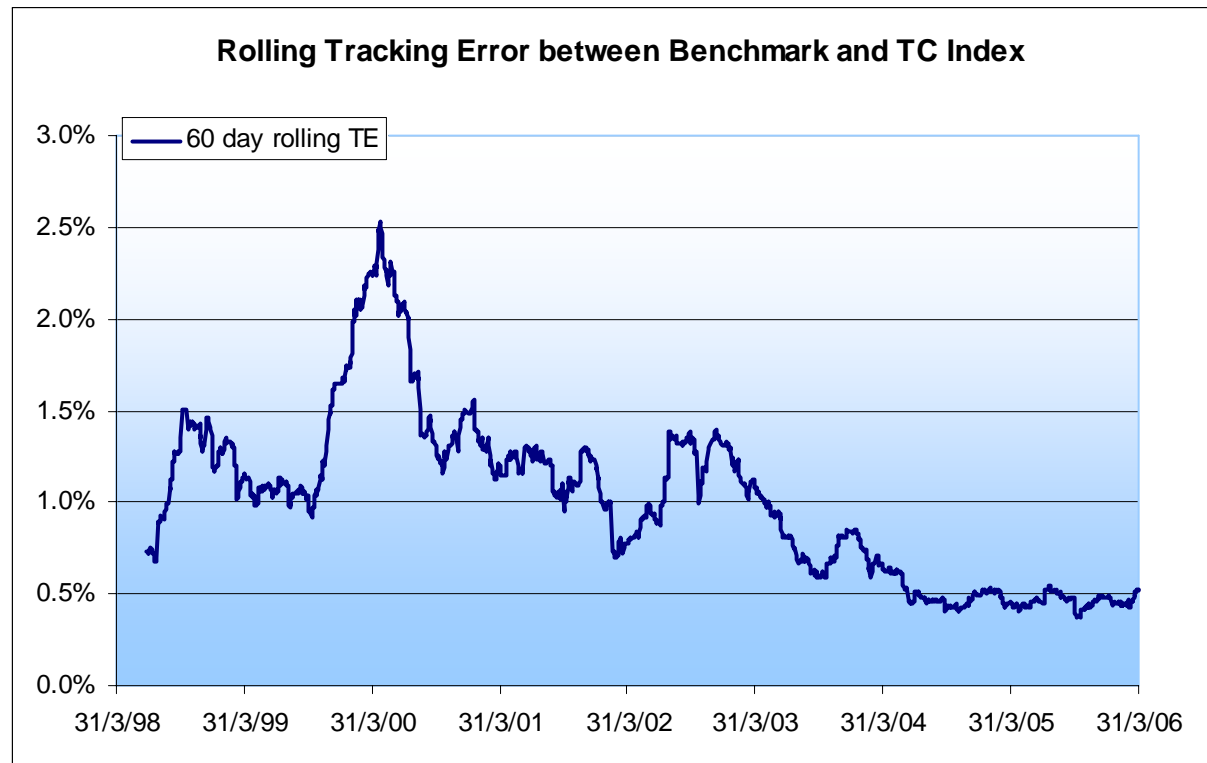
# Results: Damage Saving



- The Trucost Index continually maintains a substantial reduction in CO2 as compared to the FTSE 350
- The average CO2 saving from 2000 is between 20-25%

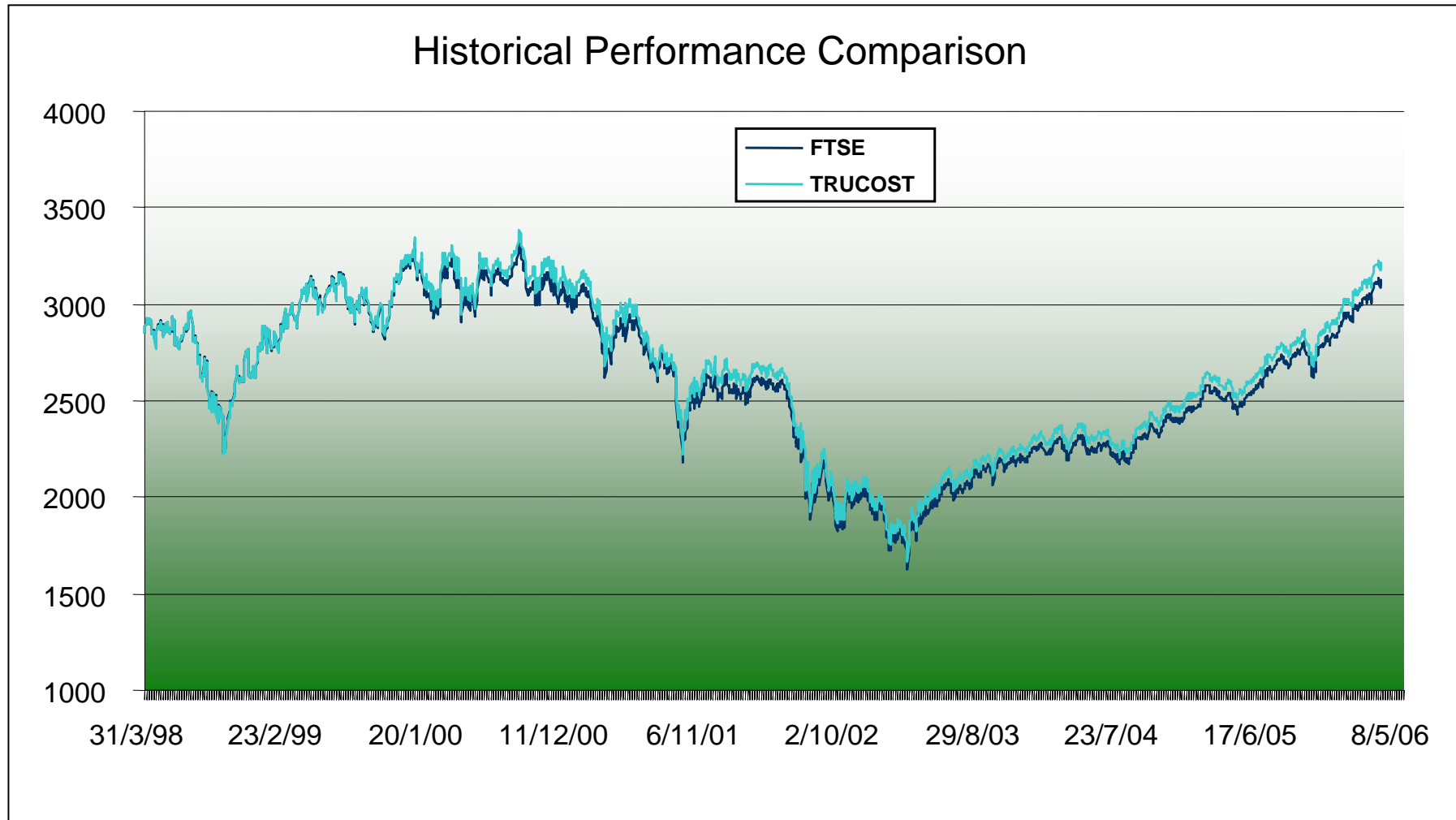
# Results: Tracking Error

- Tilt towards less carbon intensive stocks within a sector
- Tracking Error over 8 years below 1.5% (annualised)
- In recent years, this Tracking Error has been below 1% (annualised)



Increase in Damage saving around May 2000 is an effect caused by a large volume of CO2 'leaving' the benchmark index when RWE (a German energy company) acquired part of NPR, thus removing the large CO2 volume from the UK index. The increase in Tracking Error shown above is believed to be a real effect caused by the Trucost index rapidly outperforming the benchmark.

# Results: Performance



## Volatility and Returns match the index because no sectors are excluded

The graph shows the daily performance of the reconstructed FTSE350 benchmark and the tilted Trucost index rebased to the value of the FTSE350 by applying the ratio of the real FTSE to the calculated one. This additional divisor is applied symmetrically to the Trucost index.

# Carbon Optimisation of existing strategies



- Possible to use Trucost data to 'green' existing strategies
- Holdings data cross-referenced against Trucost's database
- Carbon efficient companies over-weighted and carbon inefficient companies under-weighted
- Sector weightings and stock universe maintained
- Using year-end holdings data for a growth fund analysed in Carbon Counts 2007 Trucost was able to reduce the fund's Carbon Footprint by 21%

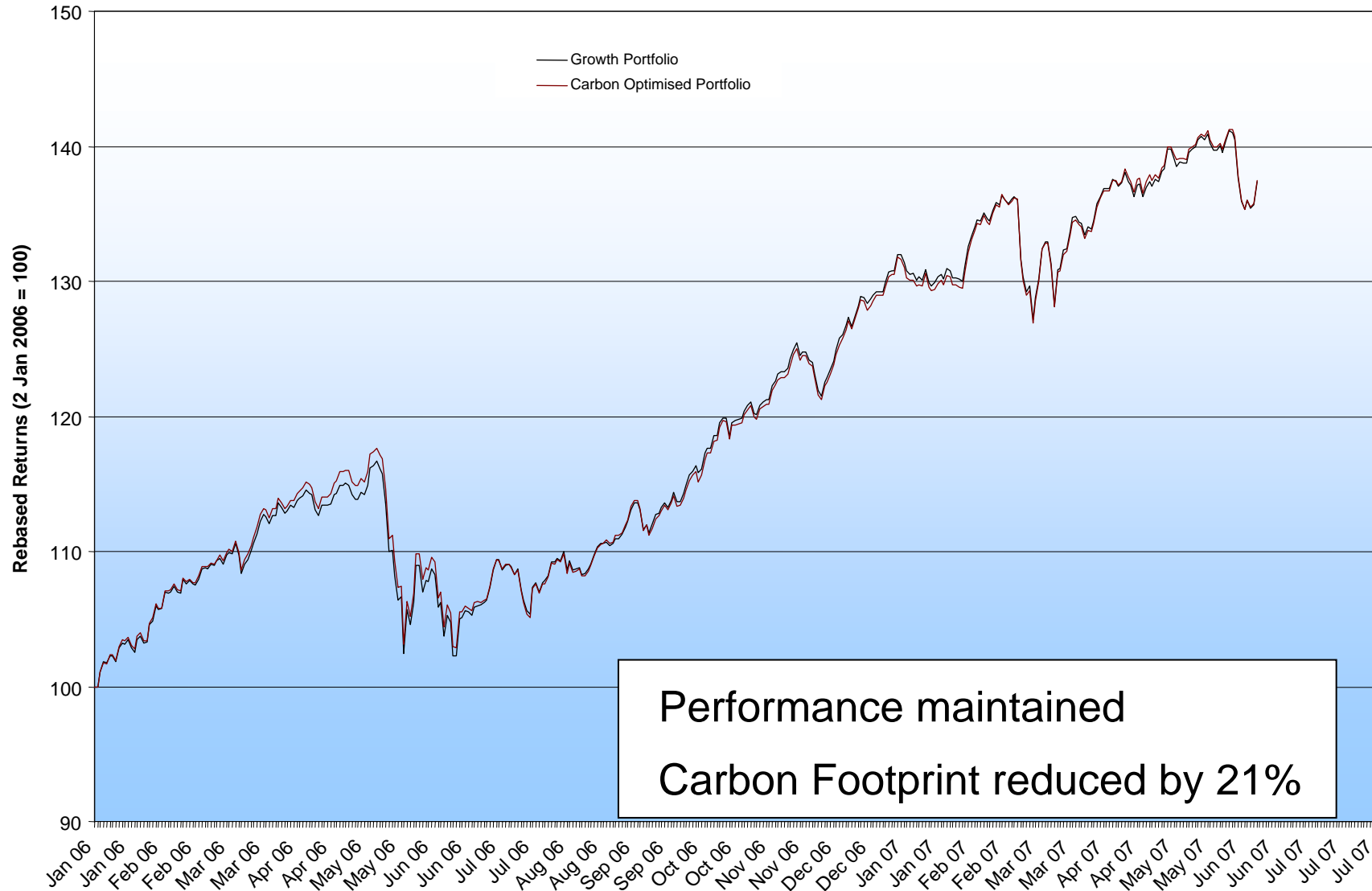
# GLG Partners Environment Fund



- **GLG launched an Environment Fund at the start of March**
- **Fund selects greenest companies from its \$1.5bn European Equity strategy**
- **GLG uses Trucost to provide data for a 'green filter' used to help select stocks for the fund**
- **The environmental fund would have produced annualised returns of 27.62 per cent after fees, in the past three years, against the 26.44 per cent annualised rise from the European equity fund.**

"Our strategy focuses principally on those companies that, in addition to meeting GLG's very strict stock selection criteria, also have a lighter environmental footprint"

# Growth Strategy – Performance



# Conclusion

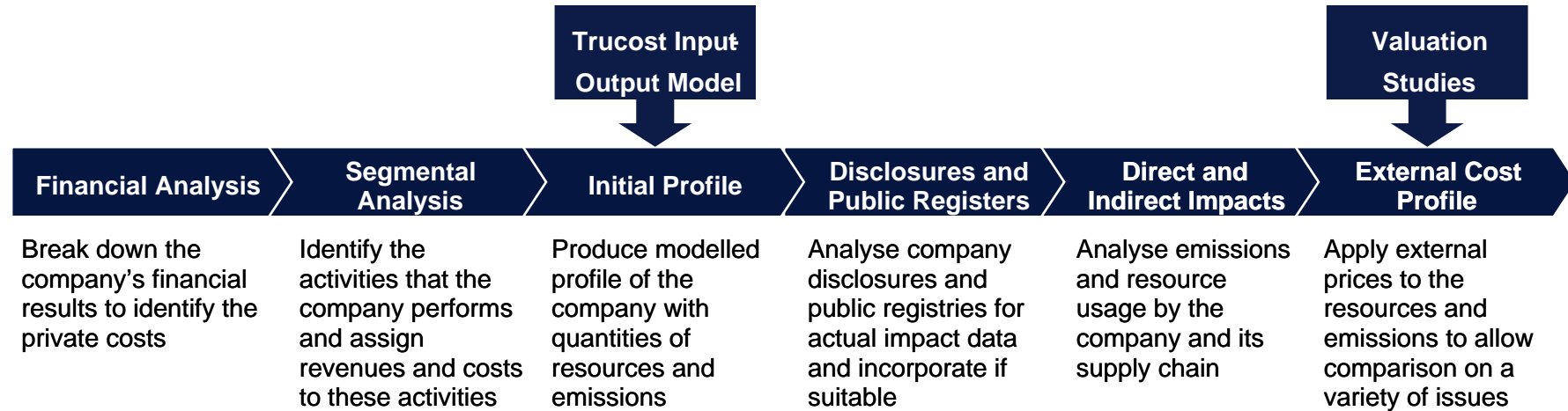


- Trucost 'Carbon Optimisation' fund strategy
- Trucost Methodology can 'green' an existing strategy
- Reduce Carbon Impact of a Fund Without Sacrificing Performance
- Enable carbon intensity plays in sectors such as utilities or aviation
- Exclusionary screen based on environmental performance or disclosure

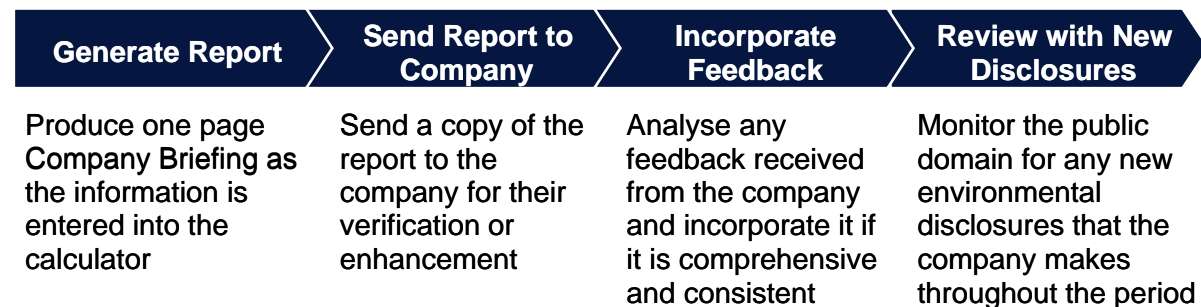
# Appendix



# Trucost Evaluation



## Company Verification Process



# Testimonials



"Hermes has been a long standing advocate of good corporate governance and believes that active engagement with companies creates long-term value. We have a legitimate interest in the management of environmental risk of the companies in which we invest and Trucost gives us the basis for effective engagement on these issues."

**Colin Melvin, Head of Corporate Governance, Hermes Investment Managers**

"The interest being shown in Trucost's research helps to show the speed at which the climate change debate is moving."

**Jane Ambachtsheer, Mercer Investment Consulting**

"The kind of numbers that Trucost provides could help alert mainstream fund r importance of environmental issues for shareholder value. This approach coul which have been assessing environmental performance for years, to focus mc rather than qualitative judgments about companies."

**Ronnie Lim, Head of Socially Responsible Investment Strategy, Morley Fund Management**

# Testimonials



"I think Trucost is ... one very good way by which one can actually calculate the overall, wider impact ... of company activities, and I would strongly commend it. Trucost ... is an excellent system. This (system) can give companies and investors a real indication of just how sustainable a business is."

**Rt Hon Michael Meacher MP, Former Minister for the Environment**



"Trucost's ability to dig out the data about the environmental consequences of production is absolutely second to none anywhere in the globe."

**David Pitt-Watson, Chief Executive, Hermes Focus Asset Management Ltd**

"The Trucost study is one of the best indicators we have of the growing interest amongst clients and their agents to gauge carbon intensity levels."

**Raj Thamotheram, Director of Responsible Investments at AXA Investment Managers Ltd**

# Trucost Advisory Panel



Trucost has built an Advisory Panel to assist and support it in the development of the methodology. The panel comprises leading academics in the field of economics and the environment

**Dr. Robert Costanza  
(Advisory Panel  
Coordinator)**

Gund Professor of Ecological Economics and Director of the Gund Institute of Ecological Economics at the University of Vermont, co-founder of the International Society for Ecological Economics, and chief editor of the Society's journal, *Ecological Economics*

**Dr Robert U. Ayres**

Emeritus Professor at INSEAD, Fontainebleau, France, visiting Professor at Chalmers University, Gothenburg, Sweden, and Adjunct Professor of Mineral Economics at Pennsylvania State University

**Dr Stephen Farber**

Professor in the Graduate School of Public and Urban Affairs & International Development and Director of Environmental Policy Studies at the University of Pittsburgh

**Dr Robert Goodland**

Independent Environmental Commissioner, for the EIR, a World Mining Commission, for the UN World Summit on Sustainable Development 2002. He is advising H.E. Emil Salim, Chairman of the Summit's PrepCom. Previously Environmental Advisor to the World Bank for 25 years

**Dr Glenn-Marie Lange**

Senior Research Scientist, Institute of Economic Analysis, Robert F. Wagner Graduate School of Public Service at New York University

**Dr Robert Repetto**

Professor in Economics of Sustainable Development, Yale School of Forestry and Environmental Studies

**Dr Hamid Sabourian**

Reader in Economics and Fellow of King's College, University of Cambridge

**Dr. Kerry Turner CBE**

Director of CSERGE and a Professor in the School of Environmental Sciences at the University of East Anglia (UEA)

**Dr Peter Victor**

Professor of Environmental Studies at York University, Toronto. He was Dean of the Faculty until June 2001. Previously the Assistant Deputy Minister of the Environmental Sciences and Standards Division with the Ontario Ministry of Environment and Energy

## **For more information please contact:**

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