

Responsible Investment

Special Topic: Ecosystem Services – Where's the discussion?

This report builds on a brief survey undertaken by Schroders ahead of the World Forum on Enterprise and the Environment's meeting in June 2011. We asked 14 Chief Economists whether they integrated the value of ecosystem service decline into their medium and long-term economic forecasts and what were the challenges in doing so.

The rationale for doing so comes from the various predictions that:

- Global population will be 30% bigger than today by 2050
- The Global economy will be 3 times bigger than today
- We currently need 1.5 planets to meet society's demands for resources and the absorption of our emissions. Projected out to 2050 we will need 3 planets.

The response from the Chief Economists was underwhelming, perhaps due to the challenges involved in putting an economic value on ecosystem services, perhaps due to this subject being relatively new or perhaps due to other reasons.

We believe that the integration of ecosystem service valuation into economic forecasting will facilitate client demands for the integration of Environmental, Social and Governance issues into the investment process. This report delves into population growth forecasts, economic forecasts the failure of technology to improve efficiency and hence reduce the impacts of population and economic growth on the planet and the fact that the ecosystem services, in their various guises, are being unsustainably impacted by current models of growth. We hope that this report will help to act as a tool for engaging investors and economists on their assumptions of future growth predictions.

If you would like the full version of the report, please contact your Client Services Director

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Engagement and Voting Issues

Shareholder Resolutions

We voted on two shareholder resolutions this quarter, which covered internet fragmentation and the establishment of Board level oversight of environmental practices.

Engagement Activity

Consumer Discretionary

Auto components

Michelin

We met the CFO of Michelin, predominantly to discuss business strategy from a financial perspective. However we took the opportunity to question the company on the impacts that new legislation (focussing on safety, noise and greenhouse gas emissions) will have on product demand, pricing and competition from tier 2 suppliers. We also questioned the company about supply chain management issues and asked it to improve its disclosure on auditing of suppliers. Finally we asked about the future growth projections of 4% compound annual growth out to 2020 for the vehicle fleet and whether this could be supported given the current rate of ecosystem decline. We have also asked for more information on how it is implementing its code of ethics in China. In general though, the company has good transparency with regards to corporate responsibility, and has a historical track record in developing more environmentally efficient tyres.

Internet & Catalog Retail

Experian

We held a conference call to discuss data security risks to the business. The company was quite reassuring in demonstrating its commitment to data safety, which is core to its business activities, and this is done through sector leading data codes, process and procedures, as well as physical safety systems. Experian acknowledges that breach of data security is a risk to its business so that it needs to be on top of it. A remaining concern worth highlighting is that legislation varies from one country to another and Experian usually complies with local laws only - so data risk will, most likely, come from countries where regulations are less stringent.

Consumer Staples

Beverages

Diageo

We attended an investor meeting with Diageo's CEO to discuss the latest results. As he was ostensibly talking about business opportunities and challenges in new markets, it was an opportunity to ask Paul Walsh about the management of the risks of operating in water scarce regions. The main risks are in Africa and Walsh noted that production in Ghana was impacted last year due to water shortages. A key challenge for Diageo is that it cannot predict severe droughts and the Government could stop water supply in extreme situations, and give priority access, consequently Diageo pursues a strategy of engagement work with local governments in regions where it operates. The mitigation strategy also includes extensive geological work before Diageo invests in a region (e.g. project in Ethiopia).

Food & Staples Retailing

Tesco

Tesco gave investors an update of its environmental and corporate responsibility programmes. It has revealed details of its water strategy and the work it has initiated with suppliers to reduce water consumption, focusing on regions where water is a risk and on water management opportunities. With regards to Climate Change, Tesco is now focusing on its supply chain: it is in the process of building a 'knowledge hub' for suppliers to share best practice information on. We also discussed food safety and how Tesco's experience in quality and safety management is a competitive advantage in China, though there remains the challenge of tackling cultural issues and imposing strict processes.

Food Products

China Yurun Food Group

We met the company to discuss the pork contamination scandal which severely hit the share price in September. The company believes it was not defensive enough against media when the story was disseminated. China Yurun had increased its testing controls

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following food safety incident last March (checking 100% of hogs vs. 30-50% in the beginning of the year; this safety process has added incremental cost [7 Rmb per hog]). Quality management systems are ISO certified and China Yurun also complies with the US food safety standards HACCP. It would stop relationships with any farmers who present a quality or safety issue. Hog farming is a very fragmented market in China so it believes it can easily switch to other suppliers. This however does not help China Yurun build and strengthen relationships with hog farmers or raise the industry standards, a message we have passed on to the company. The company agrees that a focus on quality standards will be crucial although it talks a lot about PR and building its relationship with the media community rather than supply chain programmes.

CSM

CSM presented its integrated approach to sustainability. It is focussed on addressing consumer sustainability trends, improving operational efficiency and implementing sustainable supply-chain systems. The other side of the sustainability strategy is the development of a 4th generation bioplastic division, focusing on sustainably and socially acceptable production. Raw material sourcing and inflation are the most obvious risks to the business that sustainability programmes aim to mitigate.

Household Products

Henkel

The company provided an update on its sustainability strategy which seems to evolve towards the ambitious goal of decoupling business growth from environmental footprint. The company has over-achieved its 2012 targets already and is now focusing on sustainable innovation, addressing products' life-cycle footprints, engaging consumers on their use of products and partnering with suppliers to deliver sustainable supply chains, so it aligns its business goals to the global sustainability challenges. The new strategy is based on creating additional value: +30% efficiency by 2015 (efficiency includes product efficacy, social progress and reduced environmental footprint), this could be an area to watch and monitor as it could really add value to the business.

Personal Products

L'Oreal

L'Oreal remains committed to its ambitious sustainable development programme, and keeps developing further the scope and depth of its initiatives. It is, however, difficult to articulate the benefits of the sustainability initiatives to the business growth and profitability. L'Oréal Consumers are not deeply interested in sustainability and there is no ambition from L'Oréal to become a manufacturer of sustainable products. However we must recognise that it has best-in-class management systems in place to help address potential reputational risks, prepare for future sustainability market trends (ensuring it has minimum sustainability know-how in place) and that it demonstrates high quality sustainability management.

Energy

Energy Equipment & Services

BP

We attended a seminar on safety as the company wished to update investors on safety and operational risk (S&OR) management since it started the revamping of its safety systems. BP is working to centralise and standardise the group's processes and systems to ensure that there is 'one BP way to work', slowly unifying the mix of cultures and practices it has inherited from acquisitions. The company is rapidly building out its capabilities in the area of S&OR and has recruited an additional 175 individuals in this area (taking the total number up to 500), with a further 160 in active recruitment. BP's performance reporting remains poor however. We believe this is where there is room for improvement, in terms of increasing transparency and improving group wide (including JV) HSE reporting.

Oil, Gas & Consumable Fuels

Neste Oil

We met the Head of Sustainability and HSSE to discuss sustainability of the biofuel business model. Although this biofuel can be made from any renewable feedstock, palm oil has represented 50% of the feedstock pool of which 43% is RSPO certified, although Neste ensures 100% of its supply is 'sustainable', according to its internal sustainable

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sourcing systems. One of the key aspects of this sustainable sourcing policy is that Nestle does not buy palm oil on spot markets but directly from suppliers it has selected. The company is investing in R&D with the view of using waste, algae and microbial oil and other alternative feedstocks.

Royal Dutch Shell

We met with Shell to discuss shale gas operations and how the company addresses environmental challenges associated with the use of the fracturing technology. As the company criticised environmental studies which have been done on the carbon footprint of shale gas fracturing and drilling, we suggested Shell share its own carbon footprint analysis of shale gas extraction. Shell says it is working with the Environmental Defence Fund (an American environmental organisation) on the measurement of its shale gas carbon footprint, the output of which we are hoping will bring more data to assess carbon profile of hydraulic fracturing.

Financials

Commercial Banks

Lloyds Banking Group

Lloyds updated investors on its new sustainability programme trying to demonstrate that this was adding value to the company. However the bank focuses on community programmes and it has failed in demonstrating the links of these projects to the actual business performance. Lloyds' sustainability programme lacks focus on responsible lending which should be the priority given it is its core activity and in light of the reputational issues that banks (including Lloyds) have experienced in the last couple of years.

Commercial Banks

RBS

A slightly disappointing meeting as little progress has been achieved on the recommendations we made last year. The team was rather unconvincing, despite true changes happening within the group. RBS is addressing its reputational issues, developing services to small companies and third sector organisations, and implementing an ESG risk management system. Employee management has also been an area of focus, though employee satisfaction indicators are poor and, in general, there is poor disclosure on human capital management indicators. We are hoping to see further progress on these issues and improved reporting next year.

Commercial Banks

Standard Chartered

We met the bank's CEO of Wholesale banking. Standard Chartered is the sector ESG leader so the objective was more to understand how sustainability principles fit into banking activities rather than challenging it on ESG risks. Mike Rees explained the principles and values which drive the business: humility; longevity of the client relationship; the responsible way of doing business; and the basics of banking, which is the strength of the balance sheet. These values are fully embedded in the way operations are managed. This means staff are trained in this way of doing business and their performance is measured against these core values. This is a key differentiator and the company believes it will help sustain the performance of the business over the long term.

Real Estate

Stockland

We met with MD, Matthew Quinn, and the IR to discuss Stockland's strategy and understanding of how sustainability fits into its business. Quinn noted that Stockland was looking to move away from the management and development of offices, because there is a risk that large swathes of office buildings will become obsolete and the economics of retrofitting "green" do not add up. Rather, Stockland is looking to move its focus to residential "communities" and retirement developments. In residential, Quinn believes that Stockland has a key competitive advantage because it approaches the problem holistically, trying to understand what makes people move somewhere and what will make them stay there. Stockland has been trying to develop a new set of wellbeing indicators and pays particular attention to referrals. Management suggested that Stockland's ability to create lasting communities was a clear competitive advantage allowing faster sales, higher occupancy rates and better access to government. Stockland also has exposure to

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retirement homes, where it believes that it has a durable competitive advantage and is clearly exposed to a long term demographic trend.

Consumer Durables and Apparel

Aerospace & Defence

EADS

We met EADS to discuss the development of its corporate responsibility programme. Efficiency has always been a driver for the design and development of its products (fuel costs can be around 25% of the operating costs of an airliner), and so it was no surprise that the company has set itself long term environmental performance targets for its product ranges. The inclusion of aviation within the EU Emissions Trading Scheme is unlikely to have a negative impact on sales, with any impact being a potential increase in fleet replacement cycles by customers (as the key cost is fuel price volatility not carbon cost). We questioned the company about the potential impact of engineer shortages on its workforce, the company recognises this as an issue, but believes the initiatives it has put in place to determine skill shortage areas will be sufficient. Overall the company provided reassurance that it is managing its ESG risks and opportunities effectively, but with the price of crude trading at 60% above its 10 year average, the wider concern about Airbus's future may be the ability of its customers to continue to provide an economically competitive airline service, and maintain demand for EADS products.

Construction & Engineering

Acciona

This was the first time that we had engaged with Acciona and we met the Sustainability Manager to discuss the company's approach to sustainability. Whilst the company is classified as an infrastructure construction company its profits mostly arise from the renewables business it operates, which has been actively developed over the last seven years. We discussed the impact of austerity programmes on support for renewables, the company doesn't believe it is negatively exposed to this because in Spain this only applies to new capacity, and in other countries Acciona has long term private contracts, guaranteeing the price. Acciona also operates hydro-power projects in Spain, which it doesn't believe are exposed to decreasing water availability due to their proximity to the Pyrenees. It is in an on-going debate with politicians over the acceptance of desalination plants in southern Spain versus a politically high profile project to transport water from north to south Spain, but it is also seeing global opportunities in water and is branching out to different industries (working with mining companies to supply water). Acciona has clearly recognised the market opportunities in reducing greenhouse gas emissions and from the growing issue of water scarcity around the world as well as acknowledging the need to manage environmental and social exposures in its own business.

Industrial Conglomerates

Mitsui & Co

Mitsui & Co was identified by MSCI as having poor ESG performance. The company is a trading company and has exposure to numerous different industries (e.g. iron & steel, chemicals, energy, food and retail) and as such will face a large variety of environmental and social risks and opportunities. The company produces a substantial sustainability report, but this is a collection of case studies. We have therefore requested that the company undertake a full ESG risk analysis for each business sector, in order to develop group wide targets and performance indicators and that it report against these in future reports.

Machinery

Bodycote

Bodycote receives a low rating from MSCI, however, we believe that this is an instance where MSCI's methodology is incorrect. While ostensibly Bodycote is very energy intensive and does not have a huge amount of disclosure, this does not mean that it has poor ESG performance. The key takeaway was the idea that through size and operational excellence Bodycote is able to operate more efficiently than its peers, utilising less energy and the advantage of scale. This means that by outsourcing in house metallurgy operations businesses can lower costs and CO₂ emissions. In the long term a high price of carbon, and higher energy prices, stand to benefit Bodycote, because these provide further incentives to businesses to outsource metallurgy operations.

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Senior

We visited CEO, Mark Rollins, and Group HSE Manager, James Pomery, at Senior's group offices in Rickmansworth. The discussion provided valuable insight into the demand drivers for Senior's products and the efforts that have been made within the company to improve efficiency. From a product point of view demand is driven by fuel efficiency, for the avionics division, and emissions/fuel efficiency, for the flexonics division. On a group level it was interesting to hear the CEO discuss the fact that some "sustainability" investments had economic paybacks consistent with the group's cost of capital but that others would certainly not meet this requirement, though they might contribute in a more holistic manner, i.e. improving working environment, safety and environmental impact. One of the investments which has achieved consistent economic payback has been the investment in closed loop water recycling systems in water scarce areas, hinting that we may begin to see a more economic pricing of water.

Information Technology

Internet Software & Services

Tencent Holding

We have attempted to discuss ESG issues with Tencent Holding on a couple of occasions. We hoped to discuss Sustainability reporting, environmental management systems, the energy efficiency of datacentres, data privacy and security, and human capital management. Although Tencent welcomed our request in first instance, it hasn't replied to us regarding these specific issues.

Materials

Chemicals

Air Liquide

We met Air Liquide to discuss operational efficiency and opportunities for its products going forward. Given that industrial gases is a mature industry there is little scope for revolutionary developments, however there are opportunities for marginal efficiency gains, (e.g. 1% pa), which will be increasingly significant as fuel prices rise. The company was positive on the future of Carbon Capture and Sequestration, although acknowledged that it will be slow. It was also positive on hydrogen fuel cells, though the cost needs to come down to be commercially viable, thus Air Liquide is developing niche markets to develop expertise. It was also suggested that capex in developing economies is focussing on world class manufacturing, which means increased demand for industrial gases and improving operational efficiency, which is good for Air Liquide and positive for the environment.

Airgas

We contacted Airgas in order to gain a greater understanding of how sustainability is integrated into its operations, encourage greater disclosure and request greater clarity on attempts to mitigate rising energy and fuel prices. Airgas suggested that one of its primary focuses is on attempting to maximise cost effectiveness of energy efficiency, both by making its plants as efficient as possible and by further rationalising the way in which its distribution trucks get Airgas's products to its customers. We still feel that Airgas could benefit from disclosing this information in an organised manner, rather than on an *ad hoc* basis and that it could improve the clarity with which it demonstrates that it places efficiency at the forefront of its operational considerations.

Tessengerlo

We met the IR at Tessenderlo in order to discuss the general business strategy and the place of sustainability within that. Tessenderlo has recently carried out an analysis of its business areas and has identified the operations which it believes are exposed to strong long term trends (i.e. resource scarcity and globalisation) and those which are operating in more mature markets. It has decided to run its mature operations for cash, or divest if the price is right, and reinvest most of the money into the two strongest growth businesses: Kerley, and Gelatin & Akiolis. Both of these businesses share the characteristic that they essentially operate on the waste from other industries, which Tessenderlo gets for free or negative cost and they both generate significant return on capital, have low capex requirements and have inputs that are essentially free. Tessenderlo is confident that these two business models are applicable across the globe and that they will exhibit faster

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growth than the rest of its operations, consequently they should come to represent a significantly greater percentage of revenues than the current 25%, over the next 5 years.

Construction Materials

AMEC

AMEC is essentially an Oil & Gas consultancy and outsourcer. Consequently it has positive exposure to the trends demanding more energy for society in the long term, alongside a certain level of expertise in renewables and clean tech. As a consultancy the main ESG risk to AMEC is its people, as it has no real assets or operations, just the ability to sell intellectual property. Consequently the group head of HR was at great pains to inform investors that AMEC has managed to avoid the trap that had beset other extractives, i.e. not investing enough in the bull times and cutting too hard in the bear. The real risk, we believe, is the heavy exposure to carbon intensive oil sands, while AMEC may be able to extract them more efficiently than its peers the question remains should they be being extracted at all, and will they really represent a long term opportunity?

Imtech

We met Imtech's IR in order to discuss its business strategy and how sustainability fits within this. The 2015 strategy has increased Imtech's emphasis on energy services and efficiency. Imtech suggested that it would be possible to meet EU emissions reduction targets based on our current levels of technology and highlighted that about half of the achievable reduction in energy consumption for any given site would come from improved technology and the other half from better management of energy. It was also noted that while environmental performance and corporate reputation were becoming bigger drivers in how projects were carried out the key remains the payback period and whether projects are economically viable. Imtech also emphasised the trend towards greater demands for ESG data from clients, pushing the corporates forwards to improve their reporting and performance. While "green" projects currently only represent about 25% of revenues Imtech believe that demand for these services will grow faster than for other technical services and that there are also opportunities for cross selling from the more traditional services that it provides.

Toto

Whilst this meeting predominately focussed on financial considerations, and the more general global strategy, it was interesting to note that there were a number of mentions of key green products and strategies. Toto suggested that 70% of its products sold in Japan, and 57% worldwide, could be classified as green and that this represented a key selling point when comparing its products with those of competitors. Part of the strategy to create a viable business in Europe is based on trying to offer products that minimise water use and cut CO₂. Toto is, it appears, a business that has integrated ESG at its core and uses this as one of its key differentiators versus its peers.

Metals & Mining

Antofagasta

Our conversation with Antofagasta primarily focussed on energy efficiency and security and licence to operate. Energy costs represent around 20% of Antofagasta's cash expenditure (13% of this is electricity) and Chile has introduced legislation which means that 20% of electricity production in 2020 will have to be from renewables, this is likely to mean that prices will rise further in Chile. Consequently Antofagasta has begun to look into a number of projects to meet this challenge: solar and wind farms are likely to come online in the next year; while exploration of the prospects of geothermal energy and underground coal gasification are further away. There is a clear economic imperative for Antofagasta to invest and it should be able to improve its energy security, and reduce the carbon intensity of its electricity consumption. The loss of the licence for the Reko Diq project in Pakistan has served to highlight two risks that Antofagasta has historically been insulated from, but which will be much more significant it pursues international expansion: Resource Nationalisation, and local licence to operate. The CFO acknowledged that there were certainly lessons that could be learnt from the experience in Pakistan, and there are currently no significant plans for international expansion.

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Bekaert

We met Bekaert's IR in order to discuss the general strategy of the group and how sustainability can fit within that. The level of disclosure is relatively poor. However, Bekaert suggested that it has only recently begun to collect and collate the appropriate data and it is unwilling to present incomplete or inconsistent data. Currently 25% of revenues are derived from "green" products, lighter wires for tyres and PV cells. There is an expectation that these products will experience a higher demand growth than other products. Bekaert also discussed the importance of looking at efficiency investments in a holistic sense, i.e. understanding what the real controllable costs are in an operation and how best to minimise them. Bekaert stands to benefit from higher technological demands placed on the products that it produces, consequently the greater specifications required of wire, e.g. lighter for the same strength, should benefit Bekaert, and its technical superiority, over its peers.

Rio Tinto

Rio Tinto is fairly proficient when it comes to integrating sustainability into its business model. Its primary focus appears to be on maintaining its social licence to operate, i.e. the focus of its other sustainability operations is to meet the desires of the local community and comply with local legislation. While this approach is clearly pragmatic from a business point of view, we feel that it may mean that Rio Tinto misses some opportunities to use its leverage as a global leader to push innovation in climate change projects. It was interesting to note that Rio views the principal non operational challenge as the threat of governments trying to renegotiate contracts. In a sense this is actually positive from an ESG perspective because it forces Rio to articulate exactly what its mines brings to the local community and region, beyond simply taxes into government coffers.

Paper & Forest Products

Svenska Cellulosa

SCA's forest ownership should stand in good stead over the medium to long term as forest assets are recognised for their value as carbon sinks as well as a source of biofuel. However there is also the risk of higher temperatures causing tree death (2011 saw an increase in felling due to higher temperatures increasing tree deaths) as well as increased infestation. SCA is actively managing this through a selective breeding programme. It is also actively managing water scarcity and pollution concerns in its global mill portfolio. In addition it is positively exposed to demographic trends such as the increase in demand for incontinence products, due to an aging population (and increased obesity), and menstrual products due to growing markets in the developing world. Overall the company appears positively exposed to environmental and social drivers and has good management systems in place.

Telecommunication Services

Diversified Telecommunication Services

Telenet

This was the first time Telenet was presenting to investors on its sustainability program which is meant to be embedded into the main strategy of the business. Two key areas of work are the building of the company's reputation, which is monitored through internal KPIs, and the contribution to the low-carbon society, through information technology. Interestingly, sustainability credentials such as the carbon neutral target do bring business opportunities as Government and other RFPs take this into account in the selection of service providers. Despite giving a positive signal, Telenet's sustainability programme is in its early days and we would like to see it better demonstrate the links to business performance.

Utilities

Electric Utilities

EDF

EDF is predominantly an European electricity generator (primarily nuclear power though it does have exposure to fossil-fuel powered generation and renewables). We discussed the issues around nuclear plant management and development: the company's plans are

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being held up in the UK due to politics, and it needs to see a firm carbon price floor to support any construction plans, in addition (in the UK), it said that construction on any new plants will need to begin within the next couple of years, otherwise the supply-demand equation will become imbalanced. Since the French droughts EDF has developed an integrated water management strategy to use the hydro power plant reservoirs to help nuclear power plants should river levels be too warm or too low, as well as buying portable cooling towers. EDF is involved in demand side projects, but these are driven by regulatory requirements. Overall the company is less exposed to climate mitigation initiatives than others in the sector, it has taken steps to adapt to climate change already, and the main risk comes from the social acceptance of nuclear power.

National Grid Group

National Grid was providing an update on its Corporate responsibility programme. NG has little direct exposure to climate change legislation, given its small gas fired generating capacity, but as the transmitter and distributor in the UK, and parts of the US, its networks are exposed to the necessities of adapting to the physical changes that climate change will bring as well as the need to connect alternative sources to the grid. It was clearly able to demonstrate that it has a long term strategy in place to meet these challenges. In addition we discussed the issue of engineer shortage, which NG views as a business critical area, it is developing programmes to increase interest in engineering from an early age, but it remains to be seen if these will generate an increase in graduates, especially at a time when demand for engineering skills is increasing. Overall the company has maintained a proactive and comprehensive approach to managing future environmental and social challenges to its revenue streams and cost base.

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Engagement Review

This section reviews what action has occurred based on suggestions for change we made in Q4 2010. There are four possible results: 'Achieved, Almost, Some Change and No Change'.

Company	Suggestion for Change	Result
Consumer Discretionary		
Auto Components		
GKN	We requested greater disclosure across the board and a greater incorporation of sustainability into the businesses values.	Some Change. A review in Q4 2011 of the website and the sustainability section in the 2010 AR&A showed that there does appear to be good data disclosure at the operational level, but the company doesn't appear to understand the longer term issues that may affect its business and therefore it hasn't set a strategy to respond to these (e.g. targets). We therefore rate this as some change, but would expect to see the establishment and clear identification of key ESG issues through the value chain for this to improve further.
Consumer Staples		
Personal Products		
Shiseido	A general improvement in data disclosure across all aspects of ESG, as almost nothing available currently.	No change. In 2011, the company remains very weak in ESG disclosure. Some of the CSR additional documents are published in Japanese only.
Energy		
Energy Equipment & Services		
Statoil	Greater disclosure of information for operations outside of Norway.	Some change. On its website the company discloses environmental impact assessments of its international projects however environmental data available is mainly for Norwegian sites.
Financials		
Commercial Banks		
Lloyds Banking Group	We requested that the company look in more detail into issues of Gender Diversity, and related trends, and that it disclose information relating to employee turnover and absenteeism.	Some change. The meeting with the company in Q4 2011 shows some improvement in disclosure on Diversity and Inclusion however there is no data on employee turnover and absenteeism- something the company said that it would focus on going forwards.
RBS	Report a KPI dashboard, which is currently lacking in the report and that it reports on progress of the Customer Charter (after one year of implementation).	No change. We met the company in Q4 2011 and it still fails providing the requested KPIs. It reaffirmed its commitment to move in this direction.
Healthcare		
Healthcare Equipment & Supplies		
Fresenius	We requested greater transparency and disclosure on ESG issues.	No change. There is no evidence that Fresenius is reporting anything more than it has previously.
Getinge	We requested greater disclosure on HCM indicators and more comprehensive environmental reporting.	Some Change. HCM indicators are essentially the same but there has been a significant improvement in Environmental disclosure and reporting.
Industrials		
Aerospace & Defence		

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BAE Systems	We requested greater consistency in the metrics used for HCM and environmental data. We also asked for improvements in disclosure and transparency.	Some Change. There has been improved consistency in BAE's reporting. However, there has been no real improvement in the quality of the disclosure.
Machinery Weir Group	Improve disclosure across the board.	Some change. There is clear evidence that Weir has started to disclose more data, e.g. it now discloses CO2 emissions and LTA's, however it is still somewhat below best practice in terms of the quality of disclosure. It could disclose more comprehensive information regarding targets, nature of accidents and human capital data.
Materials		
Construction Materials Carillion	Improve reporting on employee turnover and absenteeism.	Some change. The employee turnover rate is now disclosed, 9.1% vs. a 10% target, but there remains no absenteeism disclosure.

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Additional Activities:

Involvement with Industry Bodies

CDP - We spoke on the topic of “Carbon Mitigation investment opportunities” on a Carbon Disclosure Project webinar.

UKSIF - We attended and shared viewpoints on animal welfare related topics in a UKSIF seminar.

UNPRI - We participated in the UNPRI’s Fixed Income Working group conference call which is exploring how to integrate ESG issues into sovereign bond and company debt issues.

Seminars & Meetings

CA Cheuvreux on Airlines in the ETS – We were interested in improving our understanding of the implications for airlines of joining the ETS.

Chinese Markets - The CLSA analyst team presented their work on Chinese markets and discussed recent work on Chinese farmers and an analysis of the Chinese Oil and Gas industry

Ecosystem Services - We attended a seminar by Fauna and Flora International which aimed to explore the links between Ecosystem Service Risk and the Extractive Sector. Sadly it didn’t provide much in terms of how to value ecosystem services into economic forecasting.

ESG Demand - We spoke on the topic of institutional investor demand for ESG at the Envirotech & Clean Energy Investor Summit.

Global Finance - We were asked to participate in a lunch organised by ZYen consultancy entitled “Long finance: Big questions that might get the financial system working again”. The intention of the lunch was a general discussion, though it was clear that there were some participants who were keener to talk than to listen. We provided some input on the failure of GDP to measure natural capital decline and the need to have this recognised within long term modelling.

Global Food - We met with Professor Charles Godfray from Oxford University who presented his work on the global food challenge: “the Future of Food and Farming: Challenges and choices for global sustainability”, a report which was carried out in the context of the UK Government’s Foresight Project on global food security.

FairPensions Seminar - We attended a seminar hosted by FairPensions on the subject “Wealth Across the Generations”. Whilst the seminar was interesting it failed to discuss sustainability which we raised during the questioning opportunity, we also sought the views of the speakers on including other measures of success within quarterly and annual pension fund performance reports (e.g. portfolio carbon profile versus the benchmark).

GMOs – We arranged this conference call in order to better understand the scientific evidence behind the risks associated with GMOs.

Natural Gas Vehicles – We participated in a seminar discussing the potential for Natural Gas vehicles, as a replacement for vehicles powered by oil based fuels.

Nuclear Energy - We attended a seminar entitled “Nuclear – The real cost, safety and demand outlook in Europe, US and China” which was being given by an expert from the World Nuclear Agency.

Rio “Earth Summit” Preparation - We participated in an event ahead of the 2012 Earth Summit being held in Rio in June. The event looked at the various investor initiatives designed to increase a focus on natural capital valuation within the investment industry.

Shale Gas - We attended a meeting with Dr Howarth from Cornell University to hear and discuss the findings of his report on the environmental impacts of shale gas drilling.

Shale Gas Health & Safety - We met with Bank of America Merrill Lynch SRI Equity Strategy team who presented their work on HSE risks of the emerging shale gas industry.

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Shipping & Offshore CSR Forum – We attended the forum which provided an outline, and discussion, of how the Shipping industry might incorporate sustainability into its business model.

Sustainable Fishing - Responsible research hosted a seminar discussing “The Future of Fish”. The subject matter covered the impacts of industrial fishing, models for sustainable fisheries and the current state of the world’s fisheries.

Sustainable Supply Chains - We attended a Conference on Sustainable Supply Chains covering issues such as water footprint in beverage industry and labour conditions in clothing retail sourcing