

# Market Views

07.12.2009

## Threadneedle SRI Team Comments on the Climate Change Summit in Copenhagen 7<sup>th</sup> to 18<sup>th</sup> December 2009

The Climate Change summit in Copenhagen has brought with it much hope of a united world and global collaboration in tackling one of the most challenging issues facing the world today. This is unprecedented and in many ways we are standing at a crossroads. Will leaders be able to push through a global response; this time including the US and China and find a compromise which will allow further development in emerging markets as well as sustaining the standard of living in developed countries? It has been over 20 years since “Our Common Future” was published by the UN laying the groundwork of sustainable development and how we should aim to ‘meet the needs of the present without compromising the ability of future generations to meet their own needs’.

There is significant pressure in the international arena from industry, NGOs, the scientific community and the public as the impacts of climate change increasingly have local effects on individuals and businesses. ‘Climate migrants’, or people fleeing their home countries due to climatic changes, are a growing issue and new generations are increasingly drawn to pursuing education and work in sustainability linked areas. The impacts of climate change are diverse and unpredictable, including flooding, drought, change in monsoon patterns, crop failure, and rising cost of insurance. We are only just beginning to understand how this will affect us and future generations. In 2006, Lord Nicholas Stern estimated that approximately 1% of global GDP would need to be spent immediately, to reach the scientifically recommended limits of CO2 emissions to stabilise at 450-500ppm by 2020. Current levels are approximately 385ppm and with a concerted effort it is still possible to reach recommended limits. Due to inaction since 2006, Lord Stern now estimates that the cost of achieving this is closer to 2% of global GDP. Similarly, the United Nations Framework Convention on Climate Change (UNFCCC) has estimated that on a global level, between £44 and £63bn must be spent annually until 2030. Numbers like these seem small when compared to global bailouts of failing banks.

The same stakeholder groups also push for economic growth, energy, food and water security, all under the label of sustainable development. These, sometimes competing issues, suggest that compromises must be made and a global agreement at Copenhagen might be difficult to reach. Whilst we believe a broad global commitment will be reached, a binding commitment is unlikely, meaning talks will continue into 2010. Ultimately a binding global commitment is crucial due to the cross-boundary nature of environmental pollution. Market mechanisms that

establish a cost of environmental pollution are crucial, as markets cannot indefinitely fail to price in the cost of environmental degradation.

As investors we can see regional efforts having increasingly significant implications for business strategy and, consequently, stock selection. On a long term view, we have incorporated climate change as part of our investment process under the integration of environmental, social and governance (ESG) criteria. We continue to monitor efforts at Copenhagen, with particular interest in renewable energy, energy efficient technology and buildings, as well as infrastructure development and public transport.

**- ENDS -**

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**About Threadneedle**

Threadneedle was founded in 1994. It actively manages £48.4 bn\* of assets providing investment solutions for pension schemes, insurers, private investors, corporations, mutual funds and affiliate group companies. (US\$79.6bn, £56.7bn). Source: Threadneedle, as at 30.06.09.

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Threadneedle has been involved in the Sustainable and Responsible Investment (SRI) field since 1998 and we believe that well governed companies are better positioned to outperform over time. We run several SRI oriented mandates but also have a focus on integration of environmental, social and governance (ESG) analysis into the investment process, across asset classes and benefiting all funds. The analysis of ESG factors is incorporated into the stock selection process to identify associated risks and opportunities. We continuously work to quantify and measure as well as attribute the real financial returns or even the environmental and social returns, and communicate our work to fund managers and analysts across investment desks.

The SRI team engages in research at company, sector and thematic levels, looking at micro as well as macro level variables. This gives a unique mix of views and data that are broadly circulated to the wider investment desk, across equity and fixed income assets. This strategy has resulted in substantial dialogue between the SRI analysts and fund managers and comes across as a differentiating factor for Threadneedle as its SRI team sits on the main investment floor, keeping their analysis relevant and facilitating interaction. The SRI team thus works as ESG consultants across the department making this integration a continually evolving process and involving a cultural change of the investment decision-making process.

In 2009, Threadneedle received two SRI recognitions, being voted 'Best UK ESG Asset Manager' by the World Finance Magazine and was also ranked fourth in Thomson Reuters Extel SRI and Sustainability survey.

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