

## "What's New in Sustainability?"

### June 2009 Newsletter

Several new and significant developments through the month of May that increase attention on [Environmental Governance](#):

- [Access to Capital](#) – 84% of surveyed investors consider ESG factors, perceive link between ESG performance and quality of management
- [Reporting Trends](#) – More companies beginning to identify and disclose ESG risk
- [Investor Coalitions](#) – Shareholder pressure leads to increased carbon disclosure in energy sector; growing pressure on the construction sector
- [Ratings, Rankings & Indices](#) – Opportunities for recognition in utilities and restaurant sectors
- [Sustainability Regulations](#) – EPA invests in GHG registry

#### Upcoming Event:

[Action for Sustainable America](#) - September 14 – 15 – New York – Mike Wallace will be presenting at the conference on effective stakeholder engagement. (Wallace Partners subscribers are eligible for 20% discount by entering the code "wallace20".).

#### Recent Publication:

Wallace Partners, in collaboration with the [Center for Maximum Potential Building Systems](#) and the [Global Health and Safety Initiative](#) recently published "[The Eco-Health Footprint: A Guide to Managing Your Organization's Impact on Public Health and the Environment](#)", a 30-page report which explains the business case for measuring environmental impacts; explains technical issues concisely relating to carbon, energy, water, waste, toxics and buildings. This report is part of an ongoing effort within the healthcare industry to understand, measure and manage the industry's footprint, including its supply chain. Please contact us if you would like a copy of this study.

[Modern Due Diligence: Opportunities and Challenges in the Green Economy](#) – American Bar Association (ABA) Environmental Disclosure Newsletter

### Access to Capital

#### 84% of Investors Consider ESG Factors; View ESG as an Indicator of Good Management and Governance

A recent study by Thomson Reuters found that 84 percent of buy-side investors interviewed evaluate environmental and social (ESG) criteria to some degree before making investment decisions.

Most of the respondents that favor positive ESG criteria when making an investment see good ESG principles as related to the quality of management. The [report](#) cited an income value investor who noted:

"I will not buy a company if I do not like management. Most of the time good management will have good ESG."

Another surveyed investor stated:

"[ESG] goes along with management in my mind and how management conducts themselves. You do not want to be invested in a company that does not have good corporate governance and does not have the environment in mind."

## **TD Asset Management: Sustainability Investing Policy for *All* Operations**

TD Asset Management, an investment management firm with over \$134 billion in assets under management, recently issued a [Sustainable Investing Policy](#) that will incorporate ESG factors into investment-decision making in all of its investment mandates.

## **Carbon Exposure of the S&P 500 Calculated**

A new [study](#) entitled "Carbon Risks and Opportunities in the S&P 500" analyzes the potential financial implications of applying a carbon price to global emissions for companies listed on the S&P 500.

The analysis compares companies and sectors on absolute emissions and carbon intensity, as well the potential carbon costs relative to revenue and earnings before interest, tax, depreciation and amortization (EBITDA). Jon Lukomnik, program director of the IRRIC Institute, which commissioned the study, noted:

"The cost of carbon emissions [is] not reflected in the financial statements of companies. The report suggests that some companies and investors could be caught off guard. Two-thirds of S&P 500 companies have inadequate greenhouse gas emissions disclosures. Investors would be wise to watch closely as the Congress continues its consideration of the American Clean Energy and Security Act of 2009. The legislation is considered highly complex, and could have profound, long-lasting impacts on company balance sheets."

## **Growing Interest in Climate Change Investments; Pension Funds Leading the Way**

Developed by HSBC in Britain, the [Climate Change Market Index](#) has been getting noticed by investors who are starting to seek companies making climate-change related products. Kevin Bourne, managing director of equities in HSBC's global banking and markets unit, noted:

"The big pension funds are beginning to invest in climate change and that will inspire more growth in this sector."

## **Consumers Purchasing More "Green" Products**

A new [study](#) found that - since the recession began - there has been an increase in "green" purchasing among consumers in the United States, UK, and Japan. The report predicts continued interest in products with "green" attributes.

Another recent [study](#) by the Grocery Manufacturers Association found that 54 percent of consumers consider sustainability in their buying decisions.

## **Major Utilities Announce Supplier Requirements to be Included in RFPs**

The Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA) [announced](#) a set of voluntary environmental standards for suppliers which Alliance members may include in requests for proposals to suppliers. The standard consists of a five-step framework that offers tips on business practices and reporting, and will help businesses improve environmental performance. EUISSCA [members](#) include American Electric Power, National Grid, Southern Company and several others.

## **Reporting Trends**

### **Companies Increasingly Disclosing ESG/Sustainability Risks**

A recent Harvard Business [article](#) noted some new and major ESG disclosures among large, high profile companies, which include:

- American Electric Power's sustainability report that details its environmental and social performance,
- Coca-Cola's recent 10-K filing outlined water scarcity risks and how those risks will likely be exacerbated by climate change, and
- National Grid's public disclosure on how the firm is linking executive pay to greenhouse gas reduction goals.

### **Identification of ESG Risk Among Companies Has Nearly Doubled since 2005**

Additionally, a recent [report](#) found a nearly two-fold increase in the identification of ESG risk among companies in the FTSE All World Developed Index between 2005 and 2008.

The report analyzed the ESG practices from 2005-2008 of companies in the following four categories:

- Board responsibility,
- Risk management systems,
- Identification of ESG risks, and
- Potential liabilities and opportunities.

Key findings included:

- #1 - The strongest area of performance was identification of ESG risk, with 76.2% of companies achieving at least 50% of the possible score in 2008. (Only 48.2% achieved at least 50% in 2005.)
- #2 - The weakest response by companies was in the area of disclosing liabilities or opportunities related to ESG risks.
- #3 - The industry sector analysis found that the financial sector had the weakest performance.

### **Users Have Difficulty Finding, Understanding Online Sustainability Reporting**

While most companies provide sustainability information on their websites, a recent report from The Global Reporting Initiative (GRI) [found](#) that users often have a difficult time finding sustainability information (due to website placement) and understanding sustainability information (due to diverse and inconsistent terminology).

In seeking to define the primary source of sustainability reporting used by companies, the report found that:

- 82.5% had a link on their homepage to a sustainability section,
- 30% of organizations provided a link directly from their homepage,
- 40% of companies included all their GRI information in their primary source of reporting, and
- 20% combined their primary source of reporting with annual reports to provide GRI information.

The report also found that 50% of the companies convey their reporting through the use of the PDF file type, which does not allow public engagement and online communication.

## **Investor Coalitions**

### **Shareholder Pressure Leads to Increased Carbon Disclosure**

Chevron agreed to voluntarily track its products' carbon contents as a coalition of shareholders led by Interfaith Center on Corporate Responsibility (ICCR) representing over 100B in capital withdrew their [resolution](#). Chevron's decision comes in the wake of growing shareholder support to climate change-related shareholder resolutions in the energy sector:

- 52% of shareholders at Idaho Power voted in favor of the company establishing greenhouse gas emissions reduction goals and report on its strategy to meet its targets.
- Over 30% of ConocoPhillips shareholders voted to make the company account for the potential environmental damage created by its Canadian tar sands development.
- Nearly 46 percent of Massey Energy's shareholders recently voted in favor of a climate change resolution.

Additionally, Home Depot has been the target of a [shareholder resolution](#), filed by the \$20 billion Connecticut Retirement Plans and Trust Funds, asking that Home Depot address their carbon footprint and report findings and progress to shareholders. The resolution also was supported by advisory firm RiskMetrics Group (RMG) and other investors in the \$7 trillion Investor Network on Climate Risk. While the resolution did not pass, these shareholders [plan](#) to engage in continued dialogue with Home Depot and are looking at other firms in the construction sector as well.

### **Climate Disclosure Standards Board (CDSB) Announces Proposed Framework**

The Climate Disclosure Standards Board (CDSB) recently released a standard procedure for companies to follow when reporting climate change data. The proposed [framework](#), supported by coalitions such as the Carbon Disclosure Project (CDP) and Ceres, aims to improve reporting in areas such as greenhouse gas emissions.

### **Investors, Insurance Firms and Environmental Groups: Climate Risks Not Adequately Addressed**

Flood-hazard maps, zoning laws, building codes and insurance rates in the United States do not accurately reflect the risk of climate change to coastal cities, a [report](#) published by the Heinz Center and Ceres found. The report was backed by Travelers and Fireman's Fund, Calvert Investments, the Nature Conservancy and other groups.

Sharlene Leurig, who manages the insurance program at Ceres, said storms in recent years had caused such immense economic losses along the coasts that many insurance companies had limited or even halted underwriting there.

Given that half of Americans live in coastal counties, "that is not a sustainable business plan," Ms. Leurig said, adding, "They are stepping away from a sizable portion of their business."

## **Ratings, Rankings, & Indices**

### **GreenSeal Develops Ecolabeling for Restaurants**

GreenSeal [announced](#) the development of the GS-46 Environmental Standard for Restaurants and Foodservices. The new standard is based on life-cycle research, involving a comprehensive evaluation of the sources of environmental impacts including food, energy and water use and waste.

### **Top 48 Energy and Utilities Ranked Based on Sustainability**

The Roberts Environmental Center of Claremont McKenna College (CMC) released a [study](#) that analyzed the top 48 U.S. energy and utilities corporations on the 2008 Fortune 1000 list. Using the Pacific Sustainability Index (PSI), researchers scored companies based on the reporting, intent, and performance of environmental and social sustainability efforts.

### **UK's 60 Best "Green Companies" 2009 Announced**

The Sunday Times released its second annual [list](#) of the 60 best "green companies" in the UK. Companies are ranked more heavily on environmental performance, which accounts for 70 percent of the final ranking.

### **New Global Sustainability Fund Launched**

TD Waterhouse [launched](#) the TDAM Global Sustainability Mutual Fund for institutional investors that include companies recognized for their leadership in sustainability. Companies will be selected primarily from the [Dow Jones Sustainability World Index](#).

### **Low Carbon Fund-of-Funds Created**

Osmosis Capital, a London-based fund manager, has launched a new low carbon [fund-of-funds](#) with approximately 300M under management. An estimated 500 funds operating in renewable energy and other low carbon technologies have been identified globally with 100 likely contenders for investment.

## **Sustainability Regulations**

### **EPA Invests in GHG Registry; EPA, DOE Announces Environmental and Energy Budgets**

The Environmental Protection Agency (EPA) and the Department of Energy (DOE) have released details of their [budget](#) plans for the 2010 fiscal year, which highlights the Obama administration's commitment to a "green" economy. The EPA's 2010 budget includes \$17 million in greenhouse gas (GHG) [registry](#) investment.

### **Plan for Dividing Carbon Allowances in the U.S. Announced**

An [agreement](#) between the leaders of the House Energy and Commerce Committee regarding the proposed allowance allocations has been reached with the goal "to assist industry in the transition to clean energy economy and to spur energy efficiency".

### **Over 10,000 Small Businesses Announce Support for Climate and Energy Bill**

Over 10,000 small business leaders nationwide have [joined](#) Business for Innovative Climate and Energy Policy (BICEP) and the U.S. Climate Action Partnership (USCAP) – two leading coalitions of large

companies such as Nike, Starbucks and Sun Microsystems – to announce support for passing federal environmental legislation in the United States.

## **U.S. Cities: High Emphasis on Sustainability; Plans to Reduce Emissions in 5-10 Years**

A new [report](#) from Living Cities, a collaboration of 21 of the world's largest foundations and financial institutions, found that 80 percent of the cities studied listed sustainability as one of their top-five priorities, and more than 75 percent of the cities already have a sustainability program in place or are in the developmental stages to reduce overall greenhouse gases. These cities usually set a goal to reduce total emissions by 10 to 20 percent in the next five to 10 years.

### **Wallace Partners Upcoming Events**

Wallace Partners is actively speaking on environmental governance and sustainability in the coming months. We invite you to join us at the following upcoming events:

1. [Action for Sustainable America](#) – September 14 – 15 – New York, Mike Wallace will be presenting at the conference on effective stakeholder engagement. **(Wallace Partners subscribers are eligible for 20% discount by entering the code “wallace20”).**