

Sustainable

SAM Sustainable Asset Management

Presentation for:
2nd Biennial ISIN Meeting
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**Building Support For Sustainable Management Systems:
Why Do Organizations Need Sustainability Indicators and
How Are They Using Them?**

March 2003

SAM
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SAM Sustainable Asset Management

Pioneer and Leader – Exclusively specialised in Sustainability

- Independent Asset Management Company
- Exclusively focused on Sustainable Asset Management
- One of the world's largest and most experienced Sustainability Research Teams (20 Analysts)
- Sustainability Database covering companies worldwide
- Products: institutional and private asset management mandates, investment funds, investment companies, private equity
- Cooperation with Dow Jones Indexes – Launched the world's first global sustainability index (Dow Jones Sustainability Index) in 1999; Extended the European subset by launching the DJSI STOXX in September 2001

Conclusions

- **Sustainability investing contributes to stable environmental systems by directing financial capital to companies that contribute to sustainable development (financing change)**
- **It is in the interest of corporations to lead and direct change.**

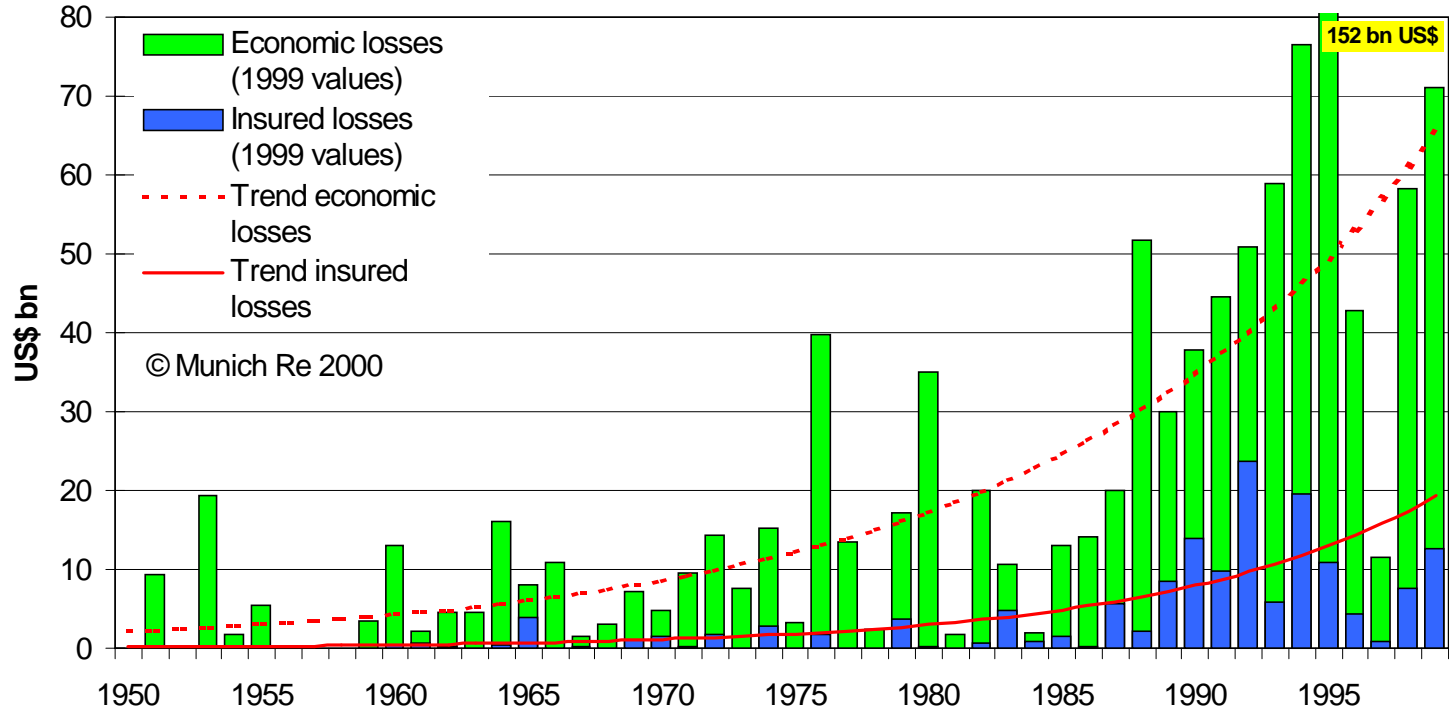
Corporate Stability is under threat...

Ecosystems are threatened and being depleted

- Most companies currently have a degenerative relationship with the ecosystem (i.e. they deplete rather than build up the ecosystem's ability to continue to provide services)
- Ecological disturbances: greenhouse effect, air, water, rain forest, ozone, etc.
- ➡ Costs of environmental catastrophes are increasing:
 - Losses due to natural disasters doubled each decade
 - Natural disasters caused by climate change could cost 150 bio. USD a year within next ten years (UNEP report, October 2002)
 - Floods in Germany in July 2002:
 - Estimated cost of 25 – 30 bio Euro
 - 10 bio Euro of public subsidies promised
 - Increased tax burden by 7 bio Euro
 - Impact on German governmental elections

Climate change

Losses due to Natural Disasters 1950-1999



Source: Munich Reinsurance

Social tensions lead to exponentially growing costs of doing business

- Global transportation costs increased by USD 75 bio. per year (1-3%) (Source: OECD)
- 1.8 million jobs in the USA were lost in the aftermath of Sept 11 and insurers covered USD ~40 bio. in losses
- Negative impact of fear and pessimism on global economy is approx USD 1'000 bio. (Source: Nefiodow)
- In countries heavily affected by HIV/AIDS companies report declines in productivity caused by increased absenteeism, staff turnover, and lower morale (Source: Global Business Coalition HIV/AIDS)
- Iraqi invasion could cost USD ~120 bio. (optimistic scenario) and USD 1.6 trillion (worst case scenario) (Source: Prof. Nordhaus, Yale University in The Economist, Nov. 30, 2002)

Economic instabilities

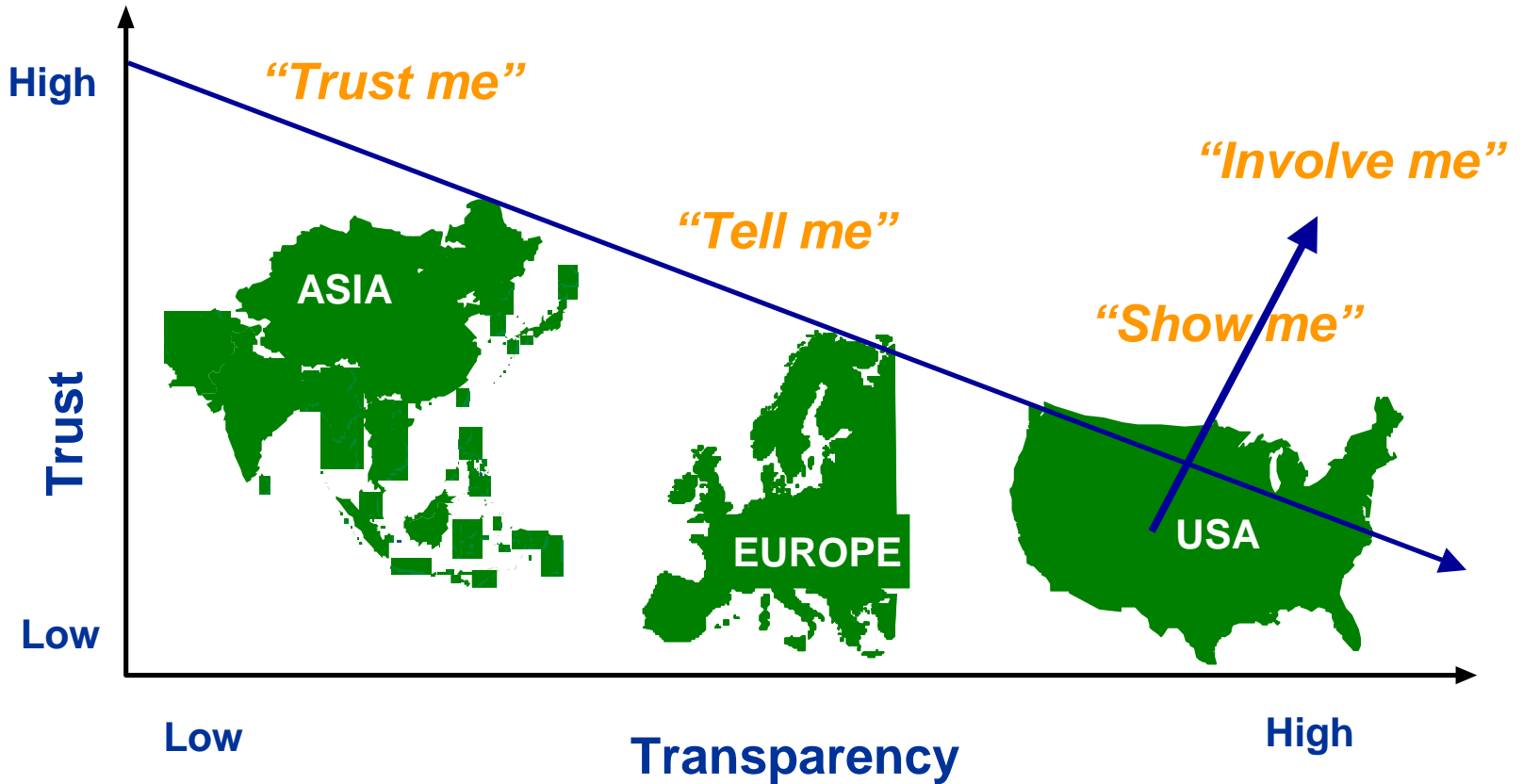
- Losses due to corporate scandals in US amount to USD ~35 bio. (Source: Brookings Institute, Washington)
- Investor's confidence has been devastated helping to prolong the longest and deepest bear market since the WWII.
- In Germany:
 - More than 50% of the population believes that corporations do not contribute positively to solve global problems;
 - Greater trust is given to German government administrations and the German Post
- Major damages are becoming larger and larger:
 - Major incidents causing up to 50 million USD in damages were considered spectacular in late sixties
 - Fire at a plastics facility in Pasadena, CA in 1992 caused damages to significantly surpass the one-billion USD limit
 - September 11 caused a loss amount tenfold of the one in Pasadena only ten years earlier



Transparency changes how business is done

Sustainability: Transparency

A critical success factor for corporations



Source: Shell International/SAM

Sustainability: Transparency

A critical success factor for corporations

The screenshot shows a Microsoft Internet Explorer browser window displaying a Google search for "nike". The search results page is visible, featuring the Nike logo and several search results. Three orange warning triangles with exclamation marks are overlaid on the page, highlighting specific search results. The first triangle is over the "Welcome to NikeEz" result, the second is over the "Boycott Nike Home Page" result, and the third is over the "NikeWatch: Are Nike factories sweatshops which exploit workers..." result. The browser's address bar shows "http://www.google.ch/search?q=nike&btnG=Suche".

Sustainability: Reputation and Brand

„Just because your actions are legal, doesn't mean your actions are legitimate“

The case ‚Brent Spar‘ in 1995



- Massive protests in Europe, boycotts of service stations
- 50 Shell service stations damaged in Germany, two fire-bombed and one raked with bullets
- Shell's final decommissioning project figure was around £60 mn from an original estimate of £21.5 mn

Shell - Lesson learned:

“We must be more open and transparent. In controversial matters, good science and regulatory compliance aren't enough. We must interest and inform people, and we must explain complex issues, but simply.”

“Credibility”: A new market regulator

- New media and telecommunication technologies increase transparency – providing stakeholders with new communication platforms
- Stakeholders of civil society (NGO's) will decide on confrontation or co-operation
- Stakeholder dialogue and co-operation are new tools to assure credibility
- Respecting laws and regulations as well as accounting principles will not be enough
- Credibility is essential for corporations but also for NGO's
- Business in co-operation with civil society will increasingly contribute to solve global challenges (Private-public-partnerships)

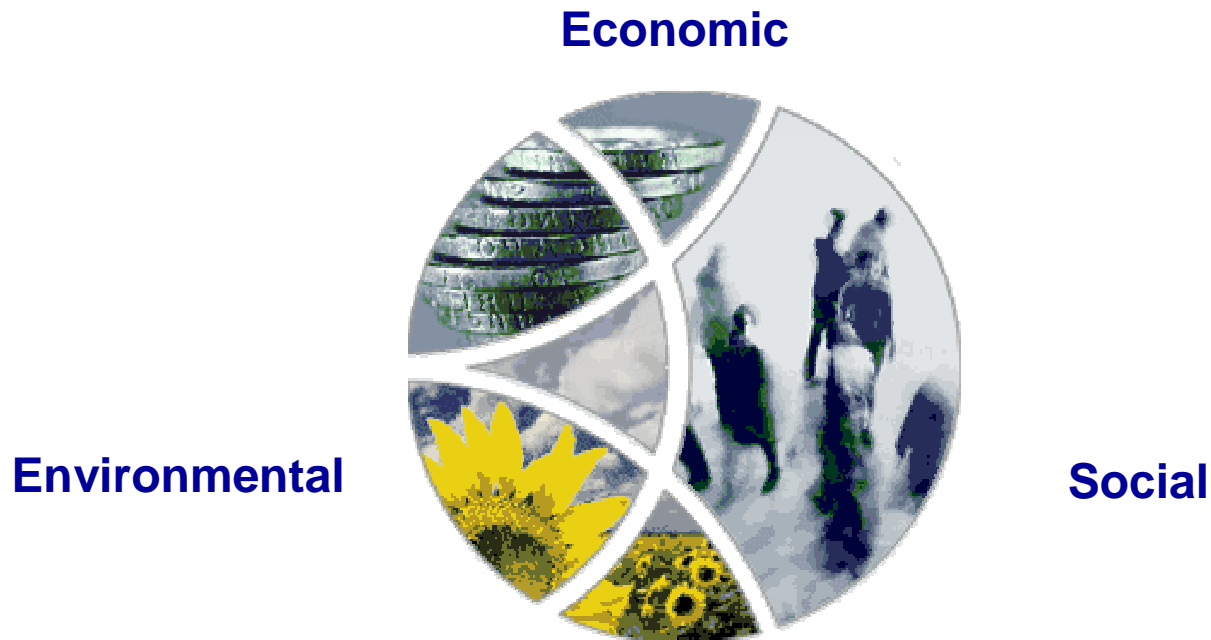
How can sustainability investing contribute?

Defines Corporate Sustainability

It ensures a company's ability to create value

Corporate sustainability ...

... is a business approach to create long term shareholder value by embracing **opportunities** and managing **risks** deriving from economic, environmental and social developments.



Sustainability Investing: Key Questions

Increasing interest of investors in the impacts Sustainability has on capital markets

Key Questions:

- Which corporations will profit most from Sustainability trends?
- Which corporations lose?
- Where are the investment opportunities of tomorrow?

Sustainable Asset Management analyzes these questions and:

- Invests in visionary and sustainable management
- Focuses on future-oriented trends and technologies
- Complements existing financial valuation methodologies
- Assesses not only „hard“ but also „soft“ factors
- Considers reputation, crisis and environmental management etc.
- Identifies successful investment opportunities

Sustainability: Trends

Sustainability trends set the framework for sustainable investments

Social - Cultural Trends

Transparency

Healthy living

Better living standards

Rich / poor gap

Equal rights

Fair trade

Environmental Trends

Ecological risk awareness

Pollution and waste

Global Warming

Population growth

Scarcity of Natural Resources

Loss of bio-diversity

Economic Trends

Technological Change & Innovation

Shorter Product life-cycles

Speed & Flexibility

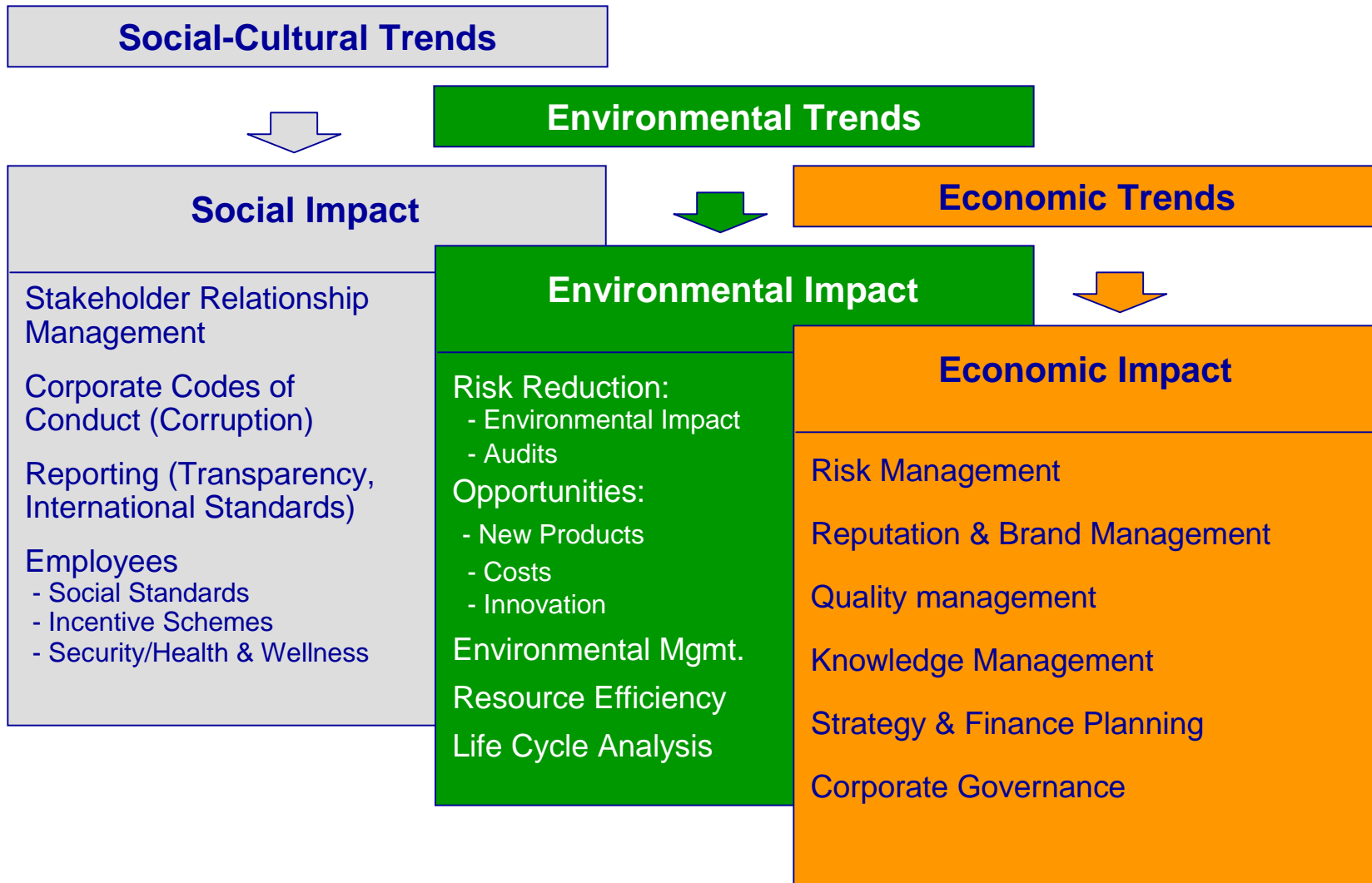
Life-long learning

Intellectual capital

Virtual living and working

Sustainability: Trends

... And their impact on a company's business approach



Corporate Sustainability Leaders Outperform

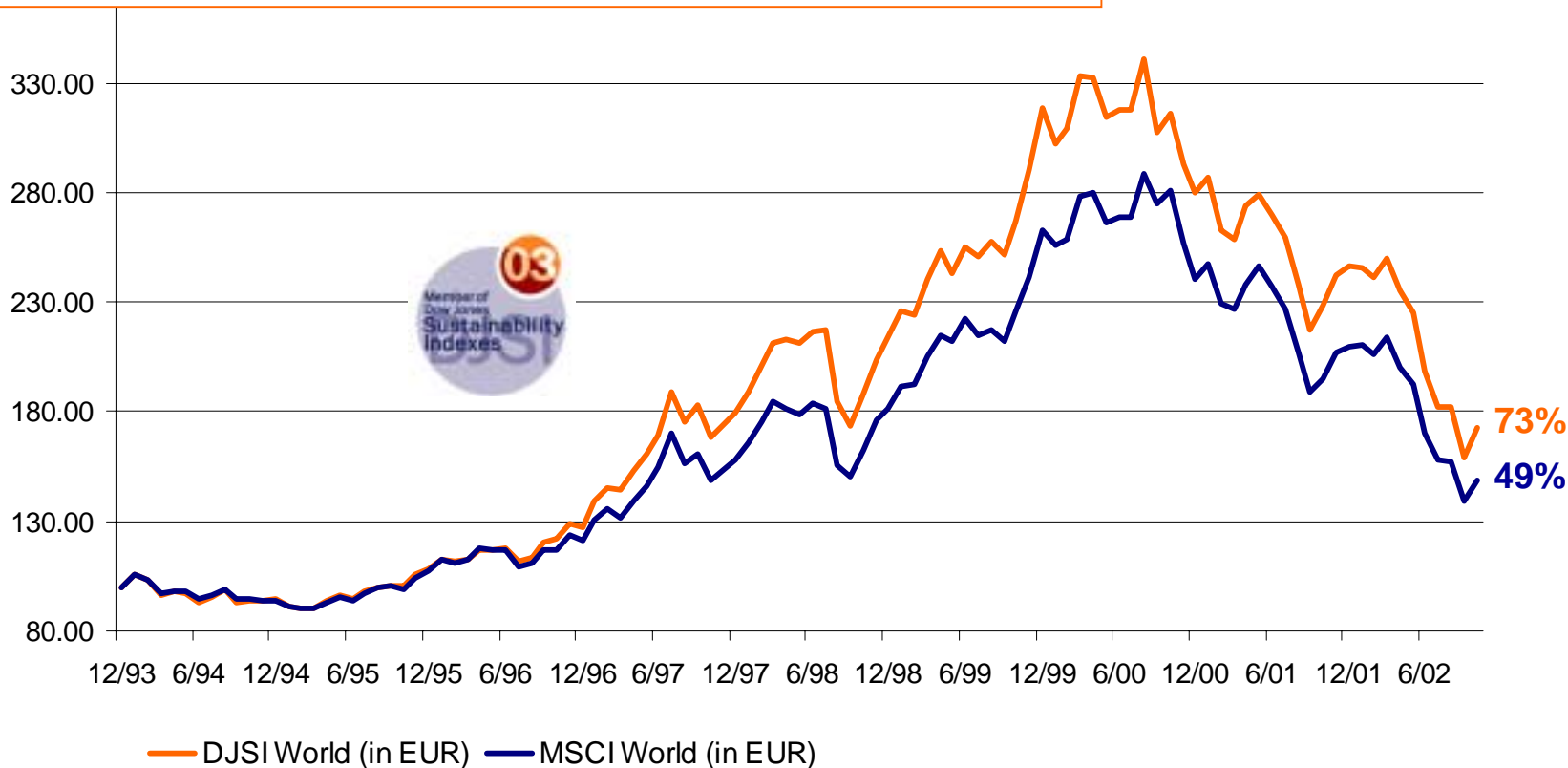
Members of the Dow Jones Sustainability Indexes

DJSI World / MSCI World:

Correlation: 0.9769 **Tracking Error: 3.98%**

DJSI Volatility: 18.36% **MSCI Volatility: 17.30%**

(December 1993 - October 2002, Euro, Price Index)



Clients of SAM Indexes

40 Licensees in 14 countries...



Proud to be Corporate Sustainability Leaders

http://www2.shell.com/home/Framework?siteId=howe&PC=6FC2=6FC3=%2Fres%2Fpages%2Ftopstories%2Freports_2002_launched_1204_0009.html&PC=6FC3=

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The Shell Report and Annual Reports published today

12 April 2002

The Royal Dutch/Shell Group of Companies publishes the 2001 Parent Company Annual Reports and its fifth Shell Report today. The Shell Report provides more evidence than ever before that the Group is strengthening its business case for sustainable development - providing products the customers want, meeting high environmental and safety standards and acting on strong principles.

Key points from the 2001 independently-verified Shell Report:

- The Shell brand is top or second in motorists' preference in 40 out of 52 major countries surveyed.
- Shell has already cut its greenhouse gases by 10% relative to 1990 - the Kyoto baseline year.
- Best ever safety record - accidents have gone down by a third in the last five years.
- Shell maintains its 20-year policy of no political donations.
- Shell is the top-ranked energy company in the Dow Jones Sustainability Index.

"The Shell Report is one of the most visible demonstrations of our ongoing commitment to contribute to sustainable development," said Philip Watts, Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group. "The Shell Report makes it easy for everyone who is interested in Shell to see what we are doing to fulfil that commitment. It also enables us to explain in detail why our commitment to contributing to sustainable development makes good business sense today and will enable Shell to meet society's expectations tomorrow - ensuring our long-term success."

Two-and-a-half million copies of the summary Shell Report in 22 languages are being distributed around the world today, along with the Annual Report.

The Shell Report describes the 'engines' that are driving Shell to improve its performance: the Business Principles, which include the Group's no bribes and no political donations policies; and the seven sustainable development principles: generating robust profitability, delivering value to customers, protecting the environment, managing resources, respecting and safeguarding people, benefiting communities, and working with stakeholders.

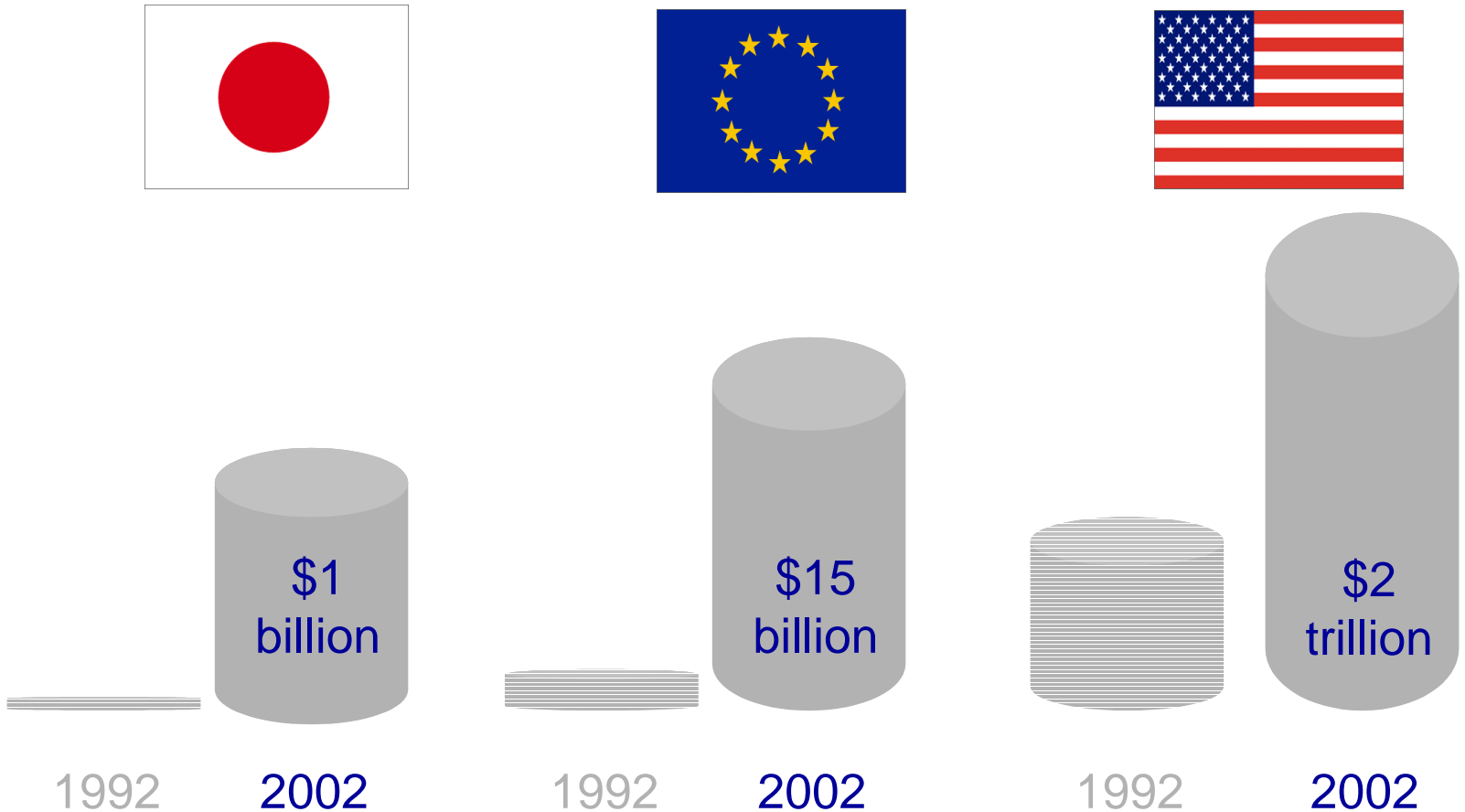
Some of the 2001 results are:

- Shell achieved its second-highest earnings.
- The Group remains on track towards meeting its target to reduce greenhouse gas emissions to 10% below 1990 levels by the end of 2002. Greenhouse gas emissions rose slightly in 2001 as a result of increased production and the earlier-than-expected gas 'breakthrough' in a Gabon oilfield.
- Progress continues to be made towards diversity targets, including 20% of senior executives being women by 2008.
- Further improvements in the robustness of global assurance processes; in 131 countries Shell's General Business Principles are now explicitly a part of pre-contract discussions with contractors; 100 contracts were terminated due to incompatibility with Shell's principles.

„Shell is the top ranked energy company in the Dow Jones Sustainability Index“.

Growth in Social Responsible/Sustainability Funds

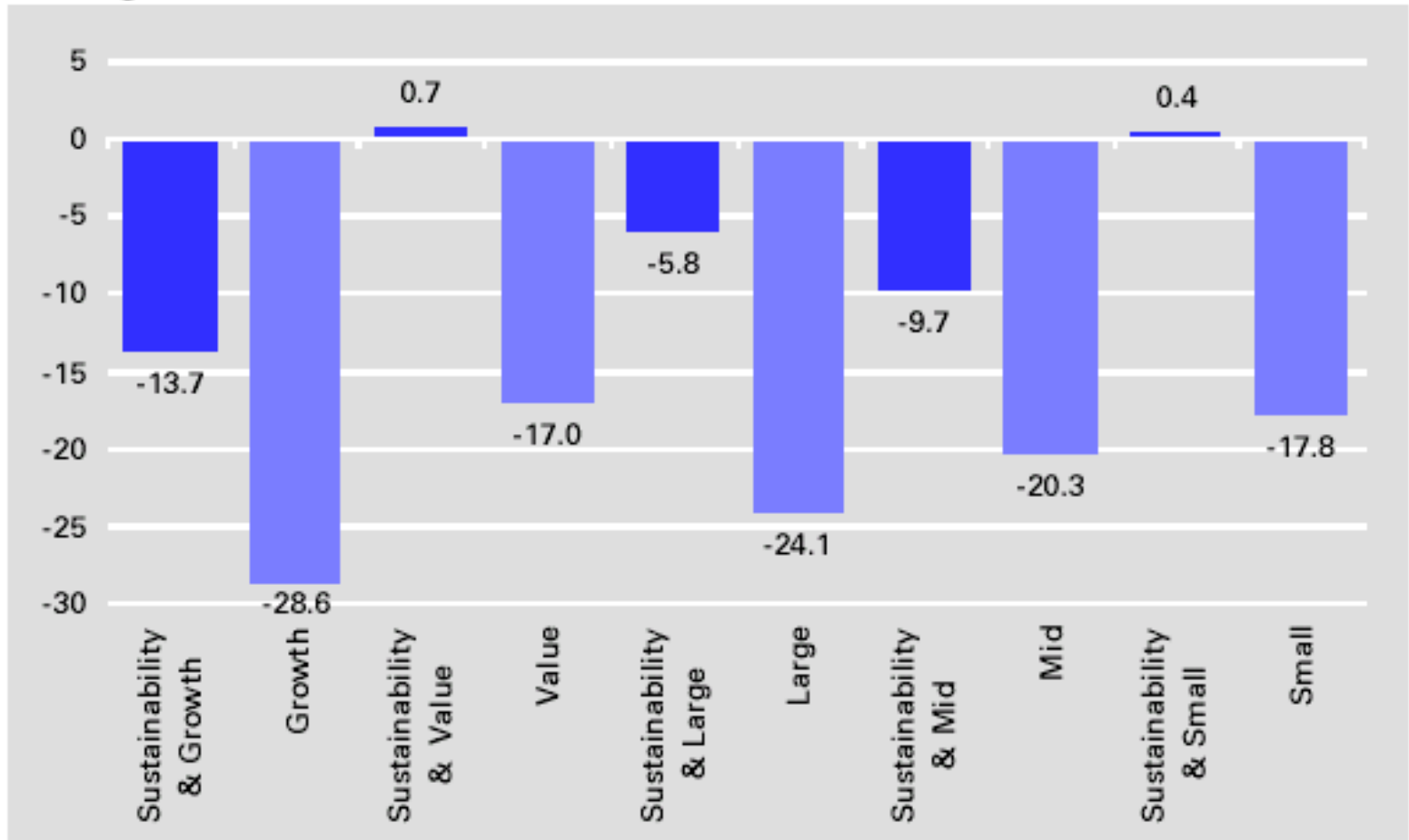
Since Rio...



Volume in SRI is expected to grow at sustained speed

Sustainability: Adds Value to Investing

(average total return 1.1.1999 – 28.10.2002 in %)



Source WestLB Panmure, Datastream

Sustainability: In a Regulatory Context

... Increasing legal obligation for open disclosure of investments according to sustainability criteria

- UK, France and Germany: Disclosure regulation for pension funds, similar laws being discussed in Belgium
- Australia: Disclosure regulation for all super funds and fund managers
- Switzerland: Swiss Federal Social Security awarded a 300mn USD mandate to invest according to the Dow Jones Sustainability Indexes, largest of its kind worldwide.
- Launch of the Dow Jones Sustainability Index (DJSI) in September 1999. Currently, the DJSI has 40 licensees in 14 countries. Approximately 1.9 bn USD assets under management are invested according to the DJSI.
- Launch of the DJSI STOXX as a Benchmark for European Sustainability Portfolios in October 2001

Sustainability investing is based on the hypothesis that...

- **successful investment** depends on ...
- identifying investment opportunities which can provide a **good return**. This in turn depends on ...
- a **vigorous population of enterprises/investment targets** which depends on ...
- a healthy and **vibrant macro economy**, which depends on ...
- a **healthy civil society** which is ultimately reliant on ...
- a **sustainable planet**.



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