



# Innovest

STRATEGIC VALUE ADVISORS

## The Green Dividend for Business and Investors. Seeing Green for Going Green

May 8, 2008

Innovest Uncovering  
Hidden Value for  
Strategic Investors

New York

Paris

Toronto

London

San Francisco

Sydney

Tokyo

- All investment analysis seeks to anticipate **future** competitive trends, risks, and opportunities.
- Conventional securities analysis typically ignores or under weights 3 critical drivers of **future** profitability and value potential:
  - Quality of Strategic Management
  - Corporate Agility/Adaptability
  - Sustainability of Competitive Advantage
- Companies' performance on environmental, social, and governance issues is an increasingly potent proxy and leading indicator for **all three** drivers.
- *What's More:*
- Macro-level secular factors will increase the “sustainability premium” significantly over the next 3-5+ years.

# . . . And Will Add Even More Alpha in Future

## 6 Key Drivers

- Tightening global, regional, and domestic regulatory pressures – eg. Kyoto Protocol, U.K., European pension reforms, US Clean Air Act
- Globalization and intensification of industrial competition and investment into emerging markets; greater social/environmental risk
- Tougher requirements for disclosure of “non-financial” risks for both companies and institutional investors (eg. Sarbanes-Oxley, SEC, European pension regulations)
- Changing consumer & investor demographics: Greater sensitivity to social/environmental issues
- Growing stakeholder pressures: Increased transparency, quality, and velocity of company information, plus greater credibility for NGO’s
- Expanded purview of fiduciary responsibility to include social, environmental, and governance issues, plus a growing capacity and inclination for institutional investor shareholder activism

# The “Iceberg” balance sheet



Financial Capital 30%

Intangible Capital 70%

## Sustainable Governance

- Strategy
- Capability/ Adaptability
- Traditional governance practices

## Eco-Value

- Quality of environmental management
- Environmental risks & Eco-efficiency
- Strategic profit opportunities

## Human Capital

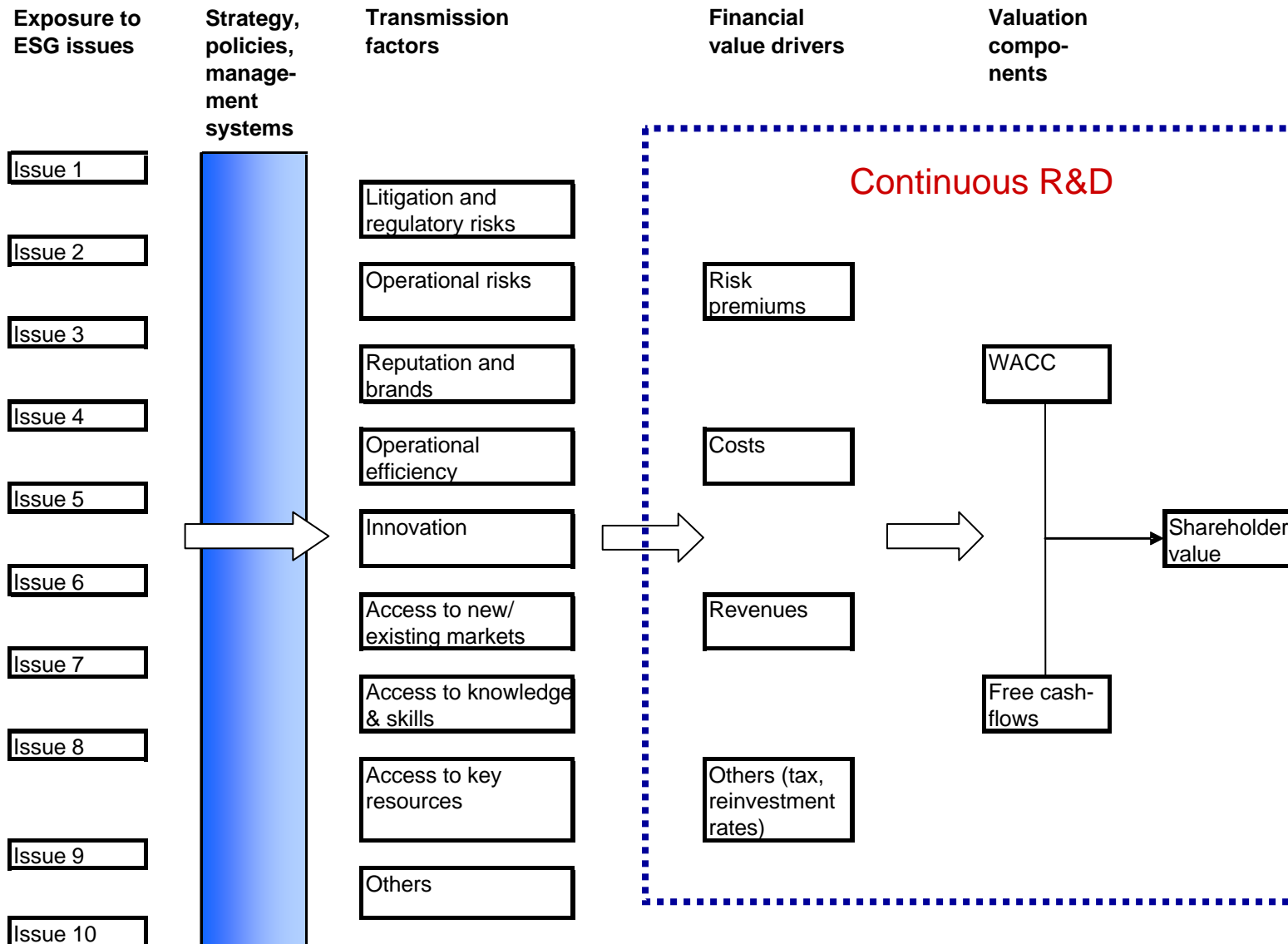
- Recruitment retention strategies
- Employee motivation
- Labor relations
- Innovation capacity
- Knowledge Development & Dissemination
- Health & Safety
- Progressive workplace practices

## Stakeholder Capital

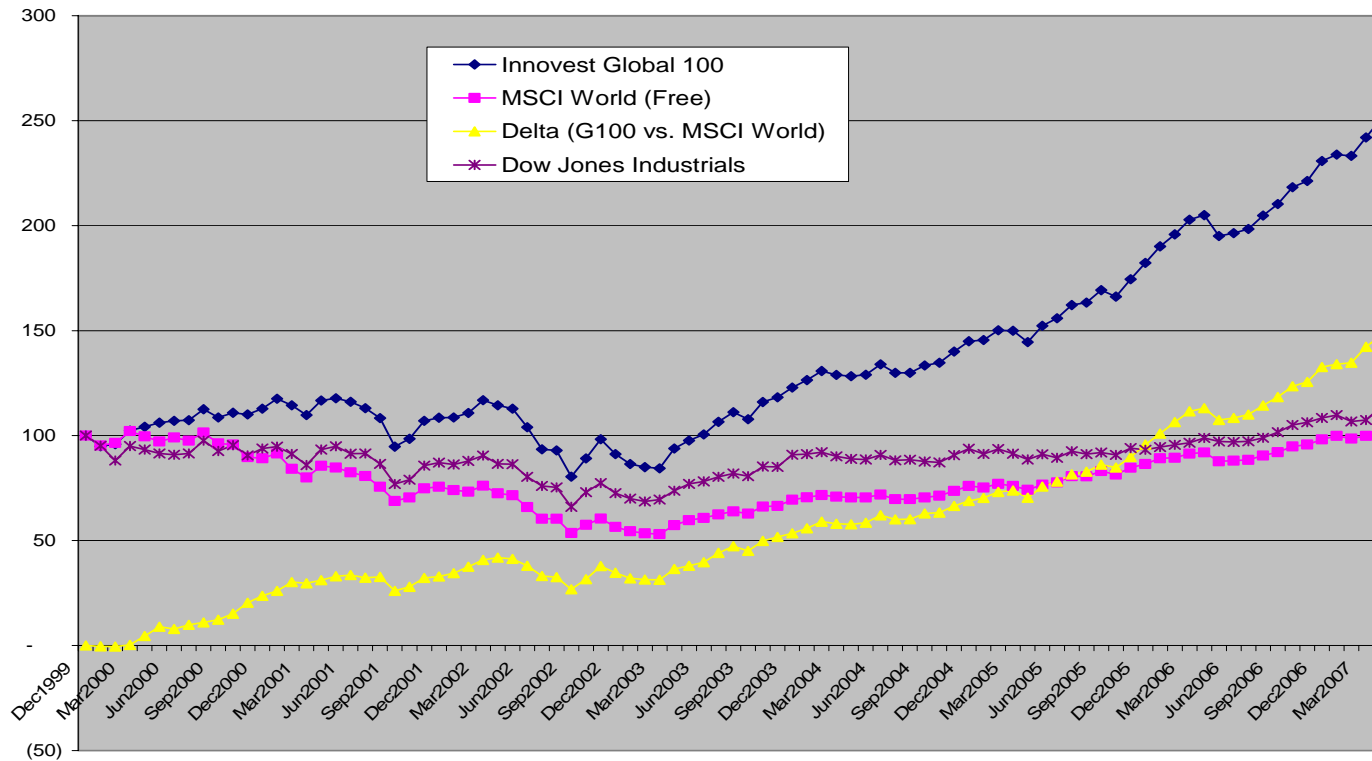
- Regulators & Policymakers
- Local communities
- NGOs
- Customer relationships
- Alliance partners
- Supply chain
- Social benefits of products & services

## Four Key Intangible Value Drivers

# Intangible Value Assessment Framework



# Innovest Global100 index: World's Most Sustainable Companies



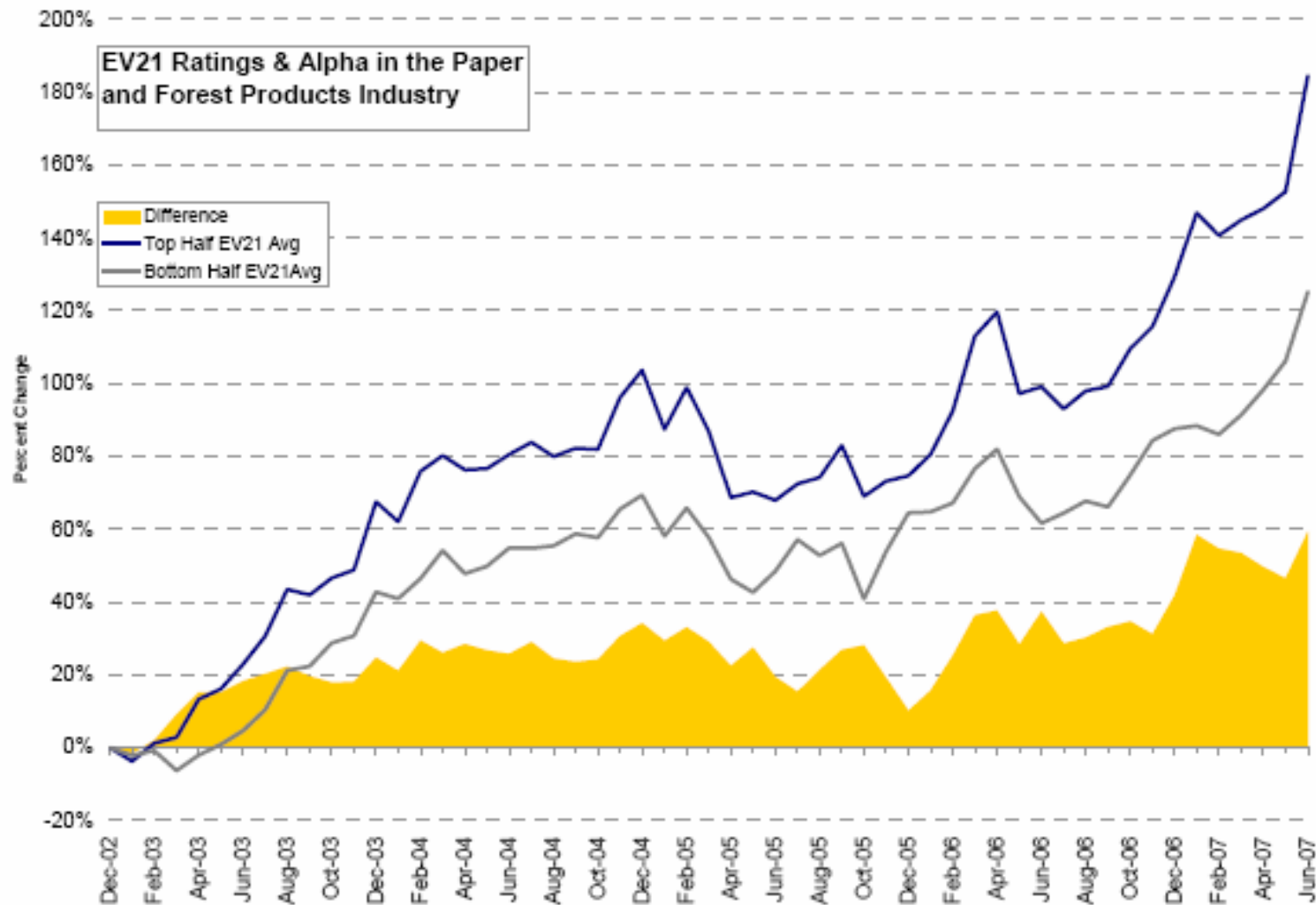
	MSCI free	2007 Global 100	Outperformance
1 year	12.0%	22.2%	10.2%
3 year	46.2%	95.4%	49.2%
5 year	42.2%	119.1%	76.9%

## Methodology

We constructed a portfolio using the 2007 Global 100 companies' stocks, and backtested it over the period running from 1 January 2000 to 30 April 2007. The portfolio was rebalanced on a quarterly basis to avoid excessive individual stock weights usually resulting from a large appreciation or depreciation in stock price. This process was repeated for the entire duration of our study, in effect continually equal-weighting all the stocks. For comments/questions on this study, please contact Innovest.

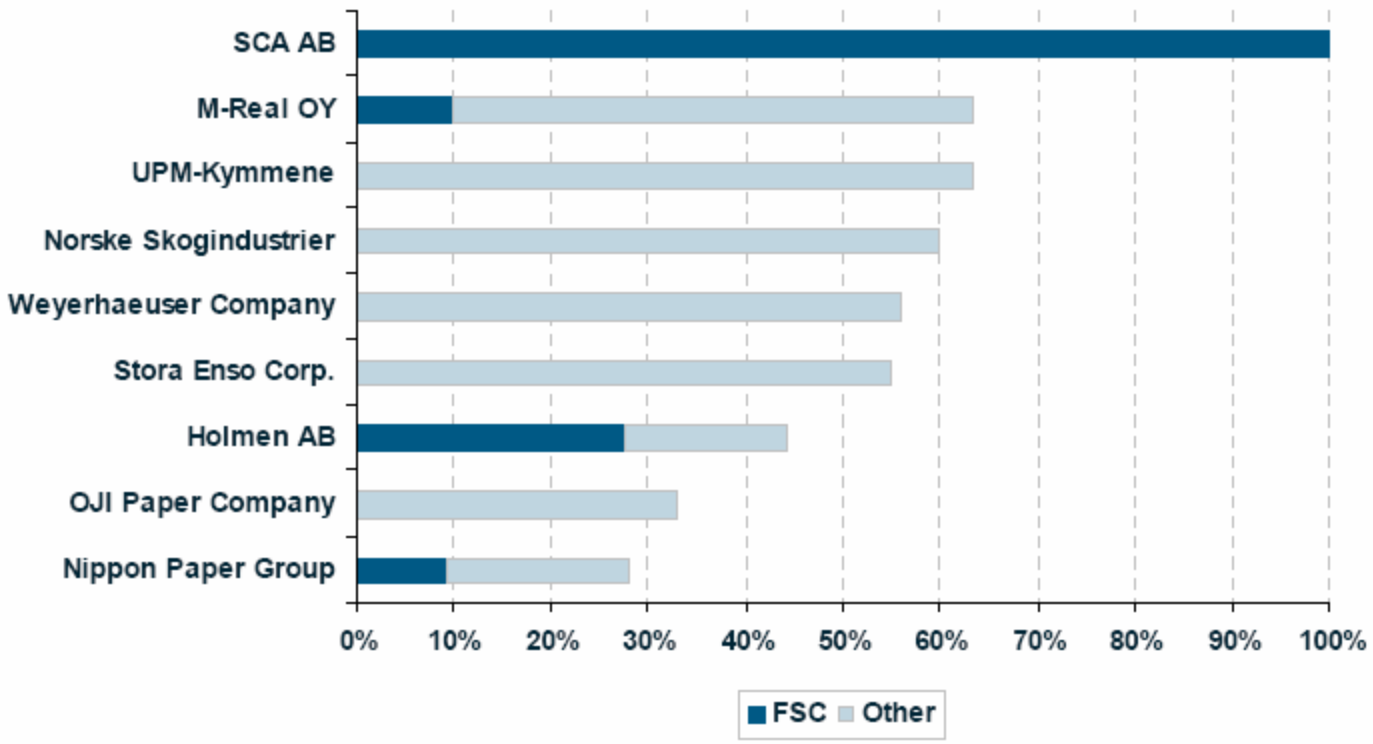
# Paper & Forest Products Industry

**Paper & Forest Products Industry – 5 year returns  
60% out-performance for environmental leaders vs. laggards**



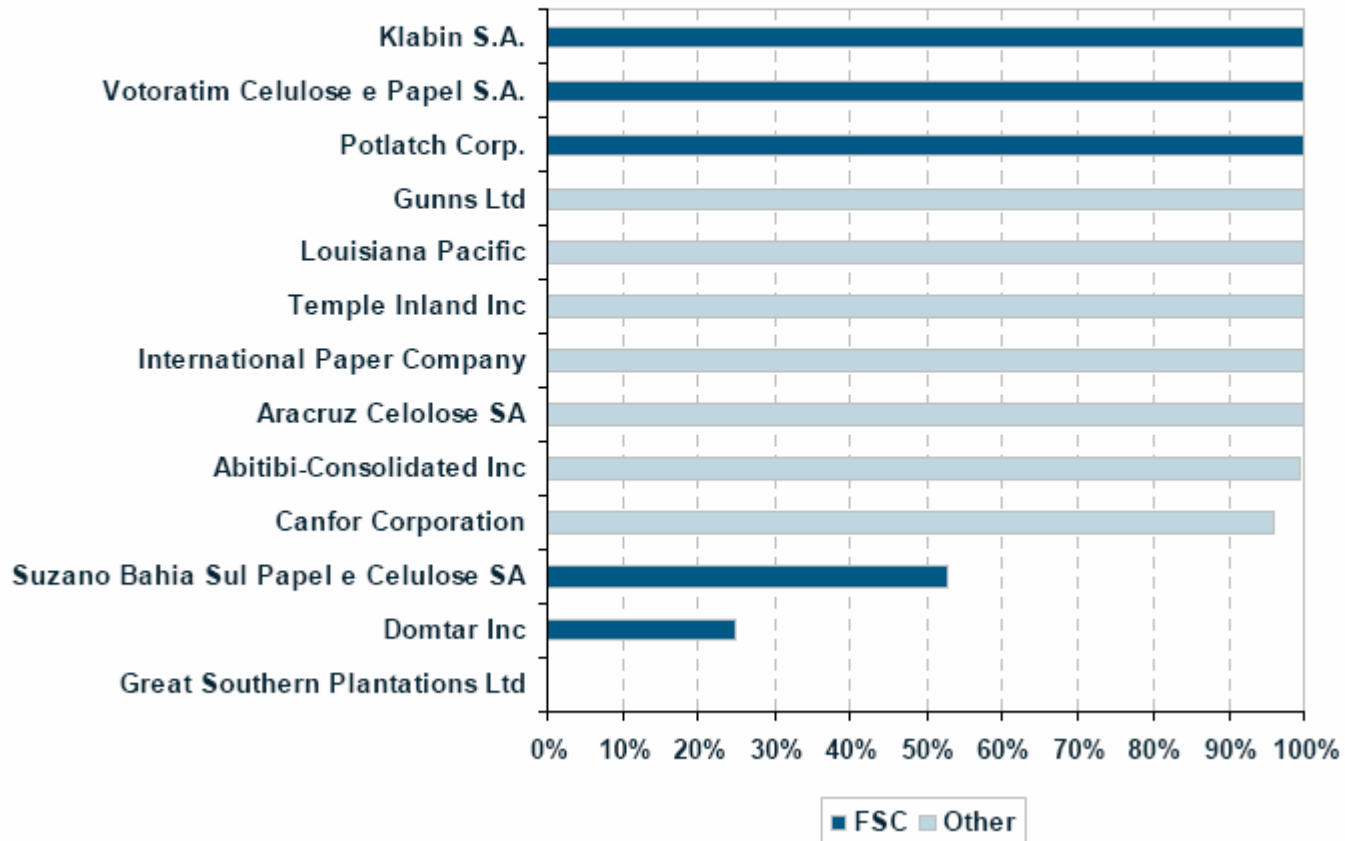
# Certified SFM wood

FIGURE 12 Percentage of certified wood delivered to mills<sup>7</sup>



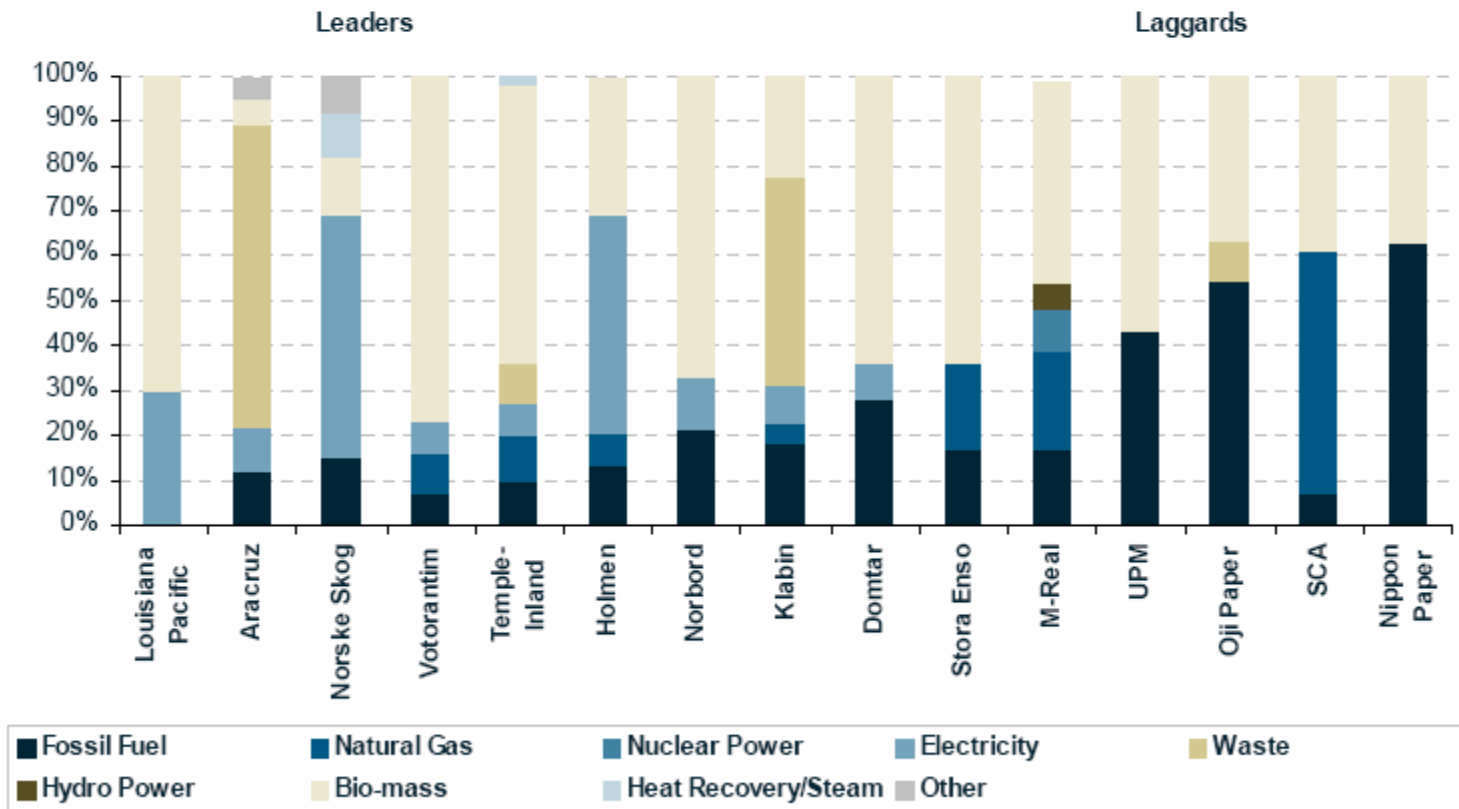
# Sustainable Forest Management ranking

FIGURE 13 Percentage certified owned or managed forestland<sup>8</sup>



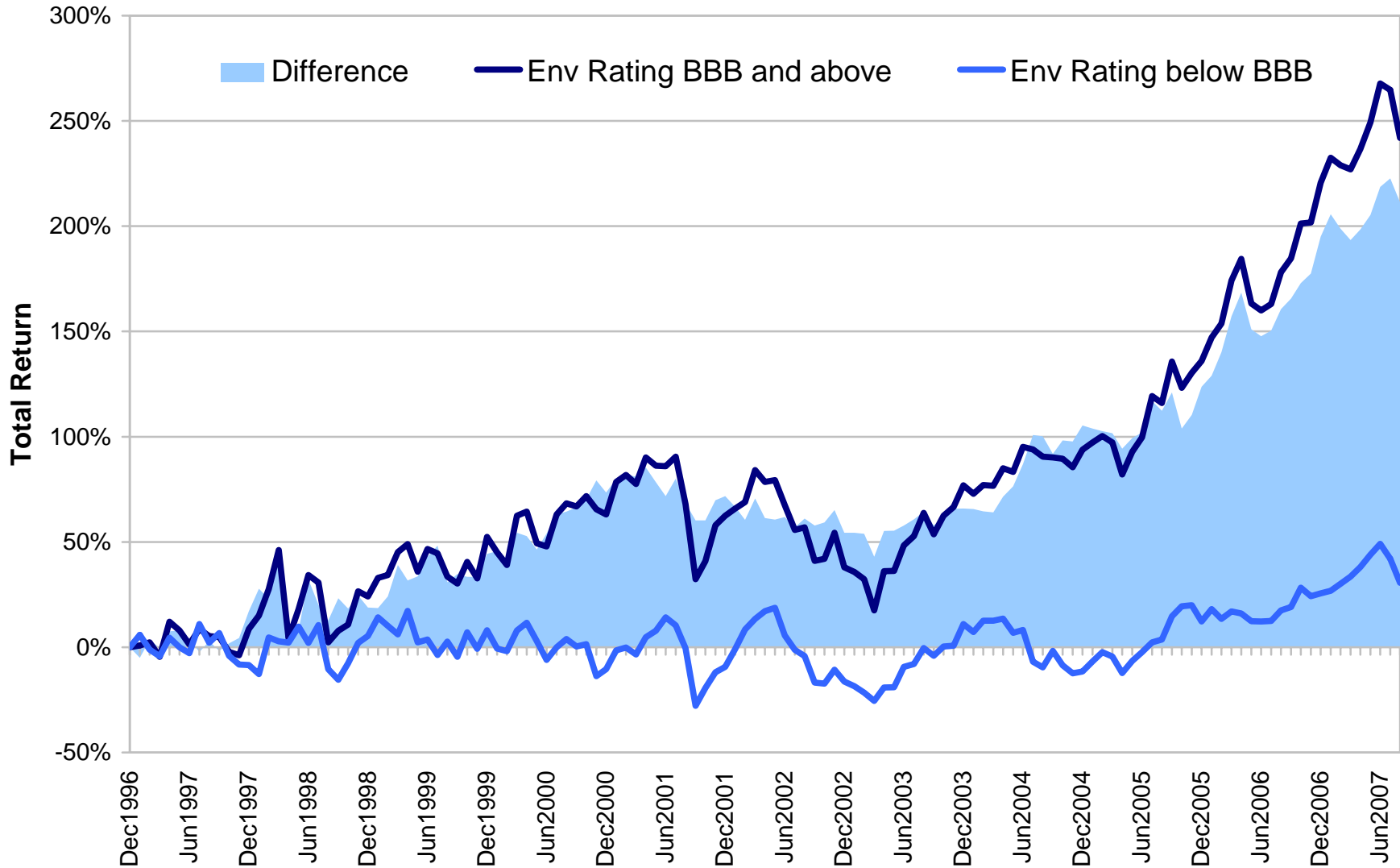
# Ranking by Fuel Usage Type

FIGURE 16 Company fuel usage by type<sup>12</sup>, 2006



# Environmental Performance & Shareprice Performance

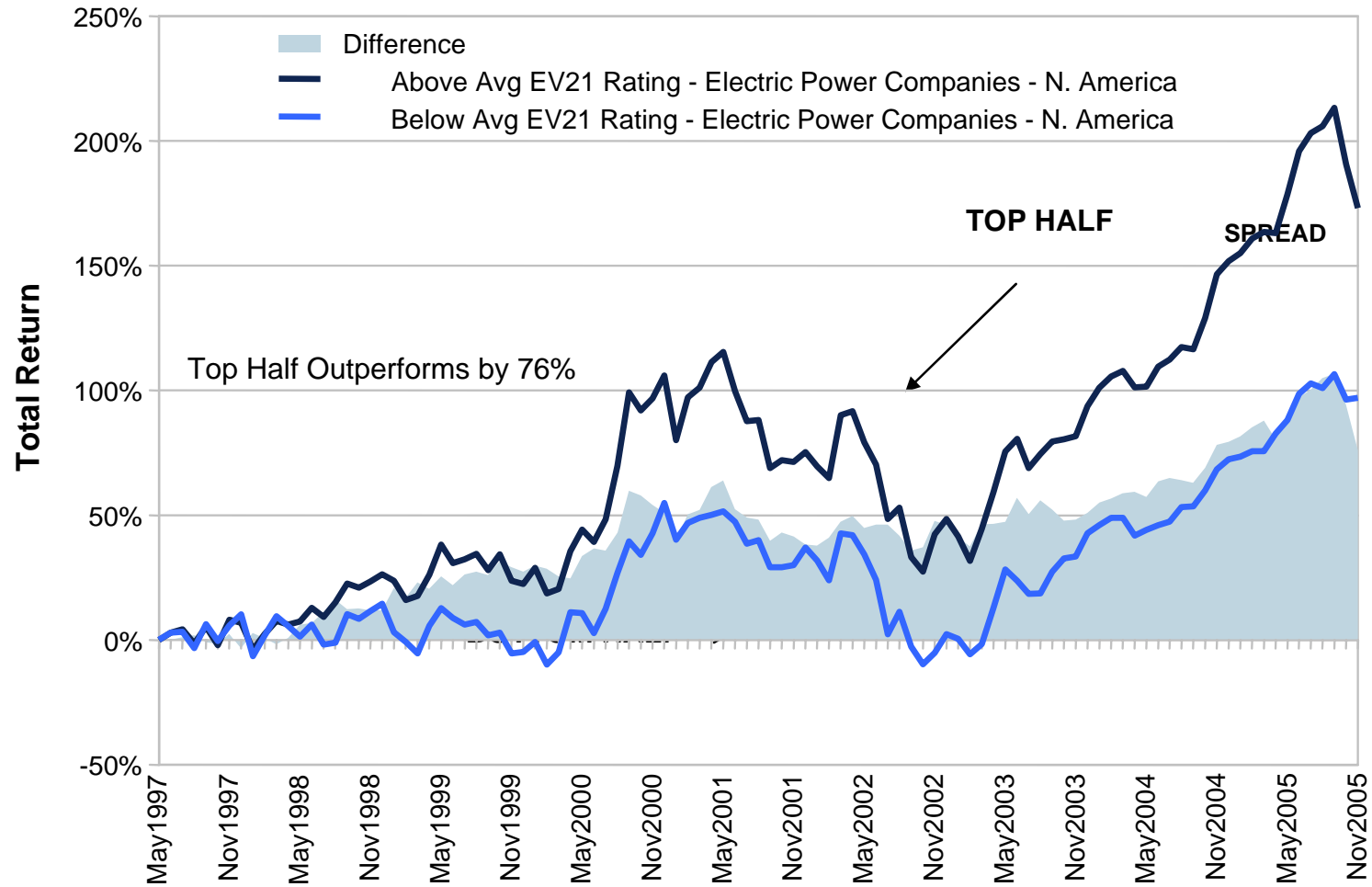
**Automobile Sector - 10 year return.  
210% outperformance (Dec 96 - Jun 07)**



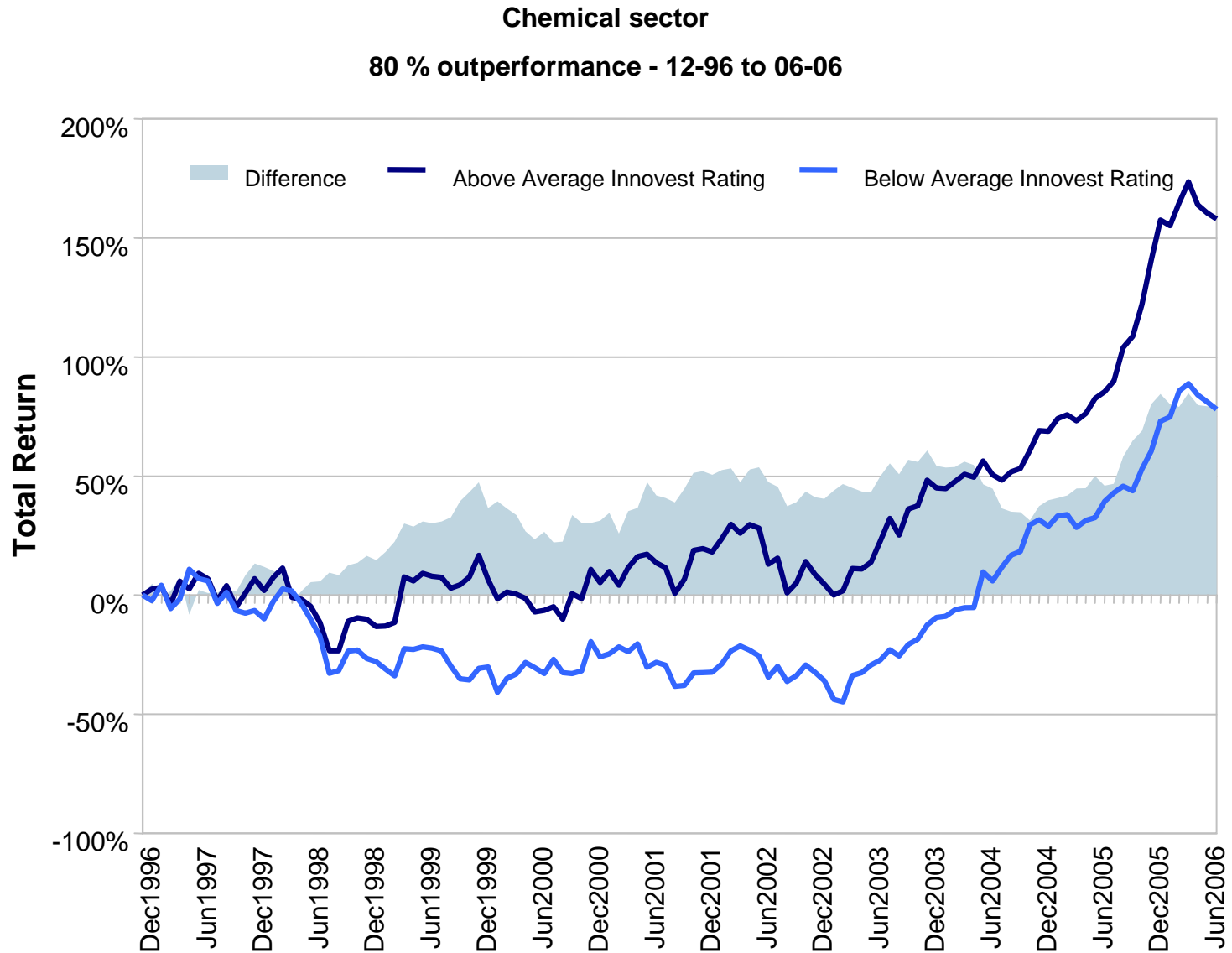
# Correlation to shareprice performance: Electric Power Industry (N. America)

## Electric Power Companies sector – EcoValue '21

76 % outperformance - 7 years (05-97 to 11-05)



# Innovest Ratings correlation to shareprice performance



## For further information

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