



Environmental, Health and Safety Issues from an Investor's Viewpoint

Glen Yelton, Research Manager

Presentation to: East Tennessee Environmental Conference
March 11, 2009

- IW Financial is a leading provider of objective research and technology solutions that help financial professionals evaluate the environmental, social, and governance performance of companies.
- Headquartered in Portland, Maine
- Offices in:
 - Portland, ME
 - Johnson City, TN
 - Portland, OR
 - Washington, DC
- Similar firms include: RiskMetrics Group, KLD Research & Analytics, Jantzi Research, Asset4, Ethical Investment Research Service

- Recognizes that corporate responsibility and societal concerns are valid parts of investment decisions.
- Considers both the investor's financial needs and an investment's impact on society.
- Encourages corporations to improve their practices on environmental, social, and governance issues.
- Concepts are embodied in the United Nations' Principles for Responsible Investing adopted in 2006 (<http://www.unpri.org>)

(Data courtesy of the Social Investment Forum)

- Approaches deployed include:
 - Screening
 - Avoidance of companies engaged in practices of concern to the investing cohort
 - Shareholder Advocacy
 - Engagement with companies to further progress on issues of concern to the investing cohort
 - Community Investing
 - Direct investment in community organizations to encourage immediate impact

(Data courtesy of the Social Investment Forum)

- Encompasses an estimated \$2.71 trillion out of \$25.1 trillion in the U.S. investment marketplace today.
- From 2005 to 2007, social investing enjoyed a growth rate of 18%
- As of 2007, there were 260 socially screened mutual fund products in the US, with assets of \$201.8 billion
- SRI firms and funds have seem similar impacts from the current economic crisis as have mainstream firms

(Data courtesy of the Social Investment Forum)

- Personal or institutional set of values
 - Are issues of concern being addressed?
 - Is the investment appropriate?
- Evaluation of investment risk
 - What will be the impact on shareholder value?

- Water Use
- Energy Use
- CO2 Emissions
- SOx/NOx Emissions
- Toxic Release Inventory
- Chemical Spills
- Waste Management
- Hazardous Materials Management
- Resource Rehabilitation
- Carbon Offsets
- Conservation Programs
- Policies

Occupational:

- Physical Hazards
- Chemical Hazards
- Biological Hazards
- Radiological Hazards
- EMS Systems
- Policies

Community

- Water Quality
- Transportation Safety
- Notification Systems
- Emergency Preparedness and Response
- Policies

Example: ExxonMobil

- March 24, 1989
- 10.8 million U.S. gallons of oil
- Eventually covered 11,000 square miles
- Led to the deaths of up to an estimated 500,000 seabirds, 1000 sea otters, 300 harbour seals, 250 bald eagles, 22 orcas
- Extensive media coverage

The ExxonMobil logo is displayed in a large, bold, red font. The word "Exxon" is written in a stylized font where the 'X' is formed by two overlapping 'X' shapes. The word "Mobil" is written in a standard, bold, sans-serif font.



Media images of
oil spill impact

ExxonMobil



Example: ExxonMobil

- Share price declined 7.7% in subsequent 3 wk period
- Initial punitive and compensatory damages awarded: >\$5 billion
- Most recent punitive and compensatory damages total: @ \$1 billion (still under appeal)
- ExxonMobil spent >\$2 billion on clean-up and >\$1 billion to settle related civil and criminal charges

The ExxonMobil logo is displayed in a large, bold, red font. The word "Exxon" is written in a stylized font where the 'X' is formed by two overlapping diagonal lines. The word "Mobil" is written in a standard, bold, sans-serif font. The entire logo is centered horizontally on the right side of the slide.

- Company website
- The Big Money [from Slate.com]
(<http://www.thebigmoney.com/tools/socially-responsible-investing>)
- Know What You Own [mutual fund holdings]
(http://www.calvert.com/sri_knowWhatYouOwn.html)
- Corporate Register (<http://www.corporateregister.com>)
- Carbon Disclosure Project (<http://www.cdproject.net>)
- U.S. Environmental Protection Agency Envirofacts
(<http://www.epa.gov/enviro/>)
- ESG Research Providers

- Products
 - Separately Managed Accounts
 - Mutual Funds
 - Index-driven Products
 - Alternative Investments

- Approaches
 - Exclusionary Screening
 - Threshold Screening
 - Best in Class Evaluation

RATINGS KEY
 100 ██████████ — BEST 1 ██████████ — WORST 🚩 — FLAGGED COMPANY ?

▶ Printer-Friendly Page ▶ Export Ratings

COMPANY	SYMBOL	FLAG	RATING	NOTES
Burlington Northern Santa Fe Corp.	BNI		96 ██████████	▶ NOTES
El Paso Corporation	EP		87 ██████████	▶ NOTES
Avon Products, Inc.	AVP		81 ██████████	▶ NOTES
Vector Group Ltd	VGR	🚩 Tobacco manufacturing	74 ██████████	▶ NOTES
Pfizer Inc.	PFE		73 ██████████	▶ NOTES
Smith & Wesson Holding Corporation	SWHC	🚩 Firearms or ammunition manufacturing	69 ██████████	▶ NOTES
Monsanto Co.	MON		65 ██████████	▶ NOTES
Constellation Brands Inc	STZ	🚩 Alcohol manufacturing/wholesale revenue	59 ██████████	▶ NOTES
Kroger Co.	KR		53 ██████████	▶ NOTES
Dover Corp.	DOV		50 ██████████	▶ NOTES
General Dynamics Corp.	GD	🚩 Conventional weapons contracting revenue, Nuclear weapons contracting revenue	36 ██████████	▶ NOTES

Perception

SRI negatively impacts financial performance

Investment strategies are limited

SRI doesn't really have an impact

SRI is an all or nothing proposition that requires a huge commitment. It must be applied across the entire investment portfolio

Reality

Flexible implementation strategies make it possible to achieve market rate returns and potentially reduce risk

SRI can be customized and applied across all strategies, although not in exactly the same way

SRI has multiple potential positive impacts

SRI can be implemented piecemeal or incrementally – through a particular investment strategy or on a percentage of the overall portfolio and increased over time

A growing body of evidence suggests that factors commonly incorporated in socially responsible investing can impact shareholder value and help limit risk in a portfolio.

UNEP Finance Initiative *“Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing*

UBS Valuation & Accounting Group *“Why try to Quantify the Unquantifiable?”*

Goldman Sachs, *“US Portfolio Strategy Report”*

Hill & Knowlton, *Annual “Return on Reputation” Reports*

Mercer & UNEP *“Demystifying Responsible Investment Performance”*

PricewaterhouseCoopers *“The Food, Beverage, and Consumer products Industry – Achieving superior Financial Performance in a Challenging Economy”*

- Global Reporting Initiative (<http://www.globalreporting.org>)
- Ceres (<http://www.ceres.org>)
- Carbon Disclosure Project (<http://www.cdproject.net>)
- Extractive Industries Transparency Initiative (<http://www.eitransparency.org>)
- Responsible Care (<http://www.responsiblecare.org>)
- ISO 14000 (<http://www.iso.org>)

Positive Recognition: Examples



IW Financial is a leading provider of environmental, social, and governance (ESG) research, analytics and consulting services. The firm applies extensive investment industry and ESG experience to develop solutions for investors and managers.

Glen Yelton
Research Manager
423-926-0375
glenyelton@iwfinancial.com