

sustainable news

Lots has happened in the last nine months in climate change discussion, much of which, if one relies on the popular press, raises questions about the basis of the climate change science and the direction of international and national politics in addressing climate change. So, how do these developments stack up in terms of advancing action on climate change?

In the scientific domain, two events have been used to question the integrity of the climate change science and the process of analysing climate change science.

The first controversy relates to the claim in the IPCC Fourth Assessment report that, referencing a WWF report, the likelihood of the Himalayan glaciers disappearing by 2035 and perhaps sooner was very high. While 2035 is not the cornerstone of conclusions about the potential impacts of climate change the presence of the poorly substantiated claim about glaciers disappearing by 2035 has been used by some to question the whole basis of the IPCC report and climate change science. Moreover, it does not reflect the basis or the integrity of either the underlying science or the vast majority of the material referenced in the Fourth Assessment report, with the majority relying on peer reviewed scientific research.

Contrary to the view put by some that IPCC predictions exaggerate the potential impacts of climate change, measurements of impacts, such as CO₂ levels in the atmosphere, sea level rise and arctic sea-ice extent suggest that predictions in the 2007 IPCC report underestimate the rate of climate change the world is experiencing.

The second controversy, "Climategate", involved the work undertaken by University of East Anglia's Climatic Research Unit (CRU) and allegations of selective use of climate data and interference with the peer review process to prevent dissenting views being put forward in scientific papers. Independent reviews are currently being undertaken to consider the validity and seriousness of these allegations. With many other researchers and research groups contributing to our understanding of climate change science and impacts, the findings should not raise fundamental questions about the scientific basis for climate change or the predicted future impacts.

Unfortunately, both of these incidents have been used by some to cast doubt on the whole basis of climate change. We believe there is no scientific evidence that proves the fundamental science for global warming is wrong.

At the international policy level, many hoped for a lot of action from the Copenhagen talks, where countries and world leaders came together to discuss where to head in 2012, which is the end of the first commitment period of the Kyoto Protocol. Many hoped for binding emission reduction commitments from both developed and developing countries. Many came away disappointed with both the outcome (no binding reduction targets) and the processes for international negotiation on such an important international issue.

In reality, binding reduction targets for both developed and developing countries was unrealistic. For example, the greenhouse gas per capita in 2000, for a person in Australia was more than six times that of a person in China and nearly eighteen times that of a person in India. It is not surprising that developing countries were not prepared to accept absolute emission reduction cuts.

As a result of Copenhagen, over 70 countries, which cover 80% of global emissions, have put forward climate change commitments for 2020. This includes the major emitters, such as China and India which have proposed reductions in emission intensity (Tonnes CO₂/GDP) by 40-45% and 20-25% respectively. All developed countries, including Australia and the US, have put forward absolute emission reduction cuts. These commitments will not be enough to mitigate the worst predicted impacts of climate change but they are an important step forward.

It is at the Australian domestic level where things have gone backwards. After numerous government reviews and discussion papers and extensive consultation, lobbying and a good deal of horse trading, there was bipartisan support for an emissions trading scheme (ETS). The compromise reflected the political reality and at least provided a framework that would establish a carbon price in the Australian economy and set the regulatory environment that would allow investment to transition to be less greenhouse intensive. Unfortunately, after a leadership spill in the Federal Opposition, this bipartisan support for an ETS is no more and Australian investors face continued regulatory uncertainty.

The pace at which the world and Australia is moving on climate change sometimes appears glacial at best and going backwards at worst and certainly not fast enough to address all the negative impacts of climate change. For our planet and future generations' sake, we need to be resilient and continue to assert the need to address a difficult but truly global problem.



Profile



Will Riggall
BA, BCom, CFA
Senior Portfolio Manager
Sustainable Funds

Will Riggall joined the team in 2004 after completing the AMP Capital Investors graduate program within the Listed Assets area of AMP Capital. Throughout that time he developed his understanding of the market through rotations in Strategy, Bonds and Currency, and Equities.

Now settled in the Sustainable Funds Team, Will has a broad range of responsibilities across a range of sectors including Media, Retail, Capital Goods and Utility/Infrastructure sectors. In the process of researching companies Will spends a significant amount of time meeting with management and assessing companies using both financial and ESG metrics.

With responsibility for people-centric sectors such as mining services and retail, issues such as supply chain management, safety and workplace relations are often paramount in the investment process and have provided great insight into creating value for unit holders.

Will recently spent time researching the Media sector in the UK and USA. He returned with insights into the future of media in Australia and the competitive environment.

Outside work Will enjoys spending time with his family, which includes his young daughter. Hailing from Melbourne, Will enjoys all things sports-related, especially supporting his beloved AFL team Hawthorn.

Remuneration – the big issue of 2009 AGMs

When the Global Financial Crisis began to take hold in 2008, shareholders were for the first time able to observe how incentive schemes behaved in a downturn. In some cases shareholders, who for years had been happy for executives to receive a share of boom-time profits, discovered that in reality ‘pay and performance’ at many companies had only been ‘aligned’ on the upside – and ‘at risk’ pay had never really been ‘at risk’ at all.

After years of generally voting in support of remuneration reports, there is now evidence that an increasing number of shareholders have begun to question the appropriateness of pay structures. Between 2007 and the onset of the GFC in 2008 there was a 38% increase in the number of Remuneration Reports that received a significant ‘against’ vote (i.e. greater than 20%) and preliminary statistics for the 2009 AGM season show this protest vote appears to have remained at high levels.

Since their introduction in 2005, AMP Capital has voted against many Remuneration Reports (during 2009, AMP Capital submitted votes on 288 remuneration reports, supporting 180 (63%) of them). It has been our view that where remuneration is concerned, alignment between the interests of shareholders and management is key. As such, it is vital appropriate performance hurdles be set. Incentives should ideally be designed to reward future superior performance with a clear link to appropriate relative benchmarks which are challenging and the achievement of which genuinely reflects an improved competitiveness of the company.

Given the widespread interest in remuneration, it is useful to examine the factors of greatest concern to shareholders. In the 2009 proxy season, four Top 300 companies received ‘a greater than 50%’ vote against the adoption of their remuneration reports.

The significant protest votes at Downer EDI, Energy Developments, NRW Holdings and St Barbara Mines reflect dissatisfaction with regard to various factors, including:

1. Lack of alignment: demonstrated by significant increases in fixed pay and the payment of large termination payments, bonuses and/or retention grants – at a time when company profits and/or share prices fell. Incentive structures appeared to reward average (or under) performance by being subject to performance hurdles that have been set too low or require only continued service.

2. ‘At risk’ pay not being truly ‘at risk’: demonstrated by companies re-setting (lowering) performance hurdles or allowing re-testing against previously unattained hurdles.

3. Poor disclosure: demonstrated by a lack of clarity around both short-term and long-term performance hurdles – thus making it difficult for shareholders to determine whether they are sufficiently challenging or aligned.

4. In addition, there has been the ‘surprise’ factor: This year, more than ever before, shareholders have been subjected to a range of ‘nasty’ surprises. Company remuneration reports have revealed a range of unexpected substantial and unexplained pay rises, exceedingly generous termination payments and/or ‘retention’ grants. Many of these bore little resemblance to previously reported (and previously approved) incentive and termination structures.

AMP Capital is committed to actively encouraging good corporate governance in the companies in which it invests. Whilst our lodgement of proxy votes has an impact on governance, we believe the letters we write to companies and our meetings with company directors are a more constructive and successful form of shareholder activism.

The December 2009 AMP Capital Corporate Governance Report provides more detail on this issue from Karin Halliday, Corporate Governance Manager
www.ampcapital.com.au/about-us/corporate-responsibility/corporate-governance.asp

Research and Engagement

Our sustainable investment process requires an understanding of both sustainability growth drivers at an industry level, and environmental, social and governance risks at the company level. The value proposition of the AMP Capital Investors Sustainable Alpha Team (SALT) derives from a full understanding of company value through our process which integrates tangible financial analysis with the more intangible extra-financial research. In delivering this value proposition during the past 6 months SALT has completed industry specific research on the retail and telecommunications sectors.

SALT has continued its constructive engagement as part of the investment process and as part of our value proposition to investors. Some engagement highlights with companies and industry were on the following topics:

Climate Change: Ian Woods presented at the launch of the Carbon Disclosure Project 2009 report. Will Riggall discussed water and transport efficiency with Woolworths Ltd while visiting a Woolworths distribution centre. Michael Murray discussed the implementation of carbon abatement technology with Orica Limited.

Corporate Responsibility: Nick Edgerton participated in a panel discussion at the Green Cities 2010 conference. Nick presented at the NZ Green Building Summit on sustainability and outperformance in the property sector. Nick met with The Warehouse Group and discussed sustainability and strategy, people management, culture, and the ethical supply chain. Nick and David Boyle met with ING Office Fund to discuss its approach to sustainability in its office portfolio. David Boyle discussed corporate responsibility and energy efficiency with Australand Property Group.

Reporting and disclosure: Ian Woods presented about the non-financial reporting needs for investors at an Ernst and Young non-financial reporting event. Ian met with Origin Energy to provide feedback on its sustainability reporting. Nick Edgerton met with Stockland to provide feedback on its report.

Corporate Governance: Karin Halliday and Ian Woods met with AWE Ltd and Wesfarmers Ltd to discuss remuneration and risk management. Karin and Nick Edgerton met with the Chairman of AWB Ltd and discussed remuneration and cultural change.

Human Capital Management: Ian Woods met with Westpac to discuss workplace culture.

Occupational Health and Safety (OHS): Will Riggall visited Coles (Wesfarmers Ltd) Head Office and a distribution centre and a Woolworths Ltd distribution centre and discussed the implementation of Chain of Responsibility regulations and safety in the truck freight industry. Michael Murray discussed OHS and skills shortages with Skilled Group Ltd.



Pacific Brands Limited

Pacific Brands Limited (PBG) manufactures, sources, markets, and sells consumer lifestyle brands across underwear, socks, hosiery, sleepwear, intimate apparel, footwear, bed linen, bedding accessories, bedding, carpet underlay, foams, corporate uniforms, workwear, streetwear, lifestyle apparel and sporting goods. All products are sold predominantly in Australia and the Asia Pacific region.

PBG also markets and distributes underwear, intimates, footwear, workwear and bed linen in the UK, US, and Europe. PBG owns or is licensed to distribute many recognisable brands in Australia and New Zealand including Bonds, Dunlop, King Gee, Slazenger, Stubbies, Hush Puppies, Sheridan and Sleepmaker.

Last year, rationalisation of domestic manufacturing by PBG generated media coverage, and it is useful to examine how PBG managed its people through this change, and how it managed the other risks associated with this change to their operations.

As part of the staff redundancies, PBG worked with relevant unions in Australia and New Zealand on a re-skilling program, providing \$3,000 of training for every employee and paid leave to do the training. PBG supplier operations in Asia are some of the best in class with respect to working conditions and environmental impact. As an illustration of the company's belief that social compliance is good for commercial returns, PBG is the first Australian signatory to the Ethical Trading Initiative and it has conducted a baseline workplace audit all of its 1000 suppliers. PBG has executive and Board level support for continuous improvement in this area.

Note: AMP Capital Investors is not making any recommendation or warranty about the performance of shares in PBG.

News

The front page story in this newsletter profiles the big news over the past 6 months: the Conference of Parties meeting at Copenhagen. While the meeting failed to deliver a binding post-Kyoto treaty, it has resulted in a commitment to reduce carbon emissions by approximately 80% of emitters (by country). Australia is one of the countries to submit a commitment, although it is no closer to a carbon price signal for the economy.

The United Nations Principles for Responsible Investment (UNPRI), which now represents institutional investor assets of \$20 trillion, has announced that it will launch a public policy network to lobby regulators and policy makers. This continues the diversification by UNPRI last year with the launch of its Academic Network.

Angus Dennis, Senior Investment Specialist Sustainable Alpha and Responsible Investment Leaders at AMP Capital Investors, has found that clean technology funds are increasingly being considered by investors worldwide. These funds provide specialist access to companies involved with technology which is benefitting from strong environmental growth drivers linked to government, corporate and household initiatives in the space. Major areas of focus include renewable power, energy efficiency and environmental services.

In terms of current activity, government stimulus packages across the globe have specifically targeted funding towards clean tech initiatives, which is adding further investment opportunity. At the same time government policy is trending in its support for these initiatives, but formalisation of more

carbon markets beyond Europe, in the wake of Copenhagen, will certainly assist some proposed business models.

The focus on clean technology is also increasingly topical with institutional investors. This has been supported by a growing pool of funds (particularly in listed shares) with a track record of taking environmental, social and governance issues into account, together with many funds signing up to the United Nations Principles for Responsible Investment

To date, and particularly in listed markets, the clean technology theme is still most evident in global markets. While there are some larger leading Australian companies in select industries sectors (e.g. waste and recycling), we are still yet to establish a broad clean tech industry with significant investment depth.

Performance

The AMP Capital Sustainable Share Fund (the "Fund") has outperformed its benchmark of the S&P/ASX200 Accumulation Index by an annualised rate of 0.64% since its inception in February 2001 to the end of March 2010. Over this period, the Fund has returned 9.59% pa (after tax and fees) compared to its benchmark return of 8.94% pa.

The re-rating of the market that began in mid March 2009 slowed from September, and the ASX200 became stuck in a range, awaiting evidence that an anticipated strong earnings recovery will indeed occur. In this environment, the sectoral and thematic drivers that dominated the previous year faded, and contributors to the performance of the fund were more stock specific.

The top contributor over this period was Virgin Blue. The fund took a position in the stock at the capital raising in July, and

continued to add through the year as the company exhibited strongly improving operational momentum and was also supported by an attractive valuation. Another top contributor was medical device manufacturer ResMed. The stock outperformed the market after delivering increased sales and market share in the US. Also, the imminent launch of new generation product will help deliver growth over the medium term.

Detracting from performance over the last six months was an overweight position in CSR, which had its demerger plans blocked by the Federal Court, and an underweight position in AXA, which was subject during that time to a takeover offer from AMP and then National Australia Bank.

Looking ahead, the Fund will continue to apply the Sustainable Alpha Process to search for investments that are offering

superior return and risk characteristics that provide a sustainable growth outlook consistent with the Fund's style.

To March 2010	Fund	Benchmark	Difference
3 Months	1.56%	1.36%	0.20%
1 Year	42.69%	41.71%	0.98%
2 Years	-0.54%	-0.06%	-0.48%
3 Years	-3.52%	-2.44%	-1.08%
4 Years	2.30%	3.12%	-0.82%
5 Years	7.83%	8.06%	-0.23%
7 Years	13.05%	12.52%	0.53%
Since Inception	9.59%	8.94%	0.64%

Important note regarding the AMP Capital Sustainable Share Fund
AMP Capital Investors Limited (ABN 59 001 777 591, AFSL 232 497) ("AMP Capital") is the responsible entity for the AMP Capital Sustainable Share Fund. To invest in any AMP Capital Sustainable Share Fund ("Fund") investors must obtain the Fund's current Product Disclosure Statement ("PDS"), from AMP Capital. The PDS contains important information about investing in the Fund and it's important investors read the PDS before making any decision whether to acquire, or continue to hold, units in the Fund. Past performance is not a reliable indicator of future performance.

AMP Capital Sustainable Share Fund

The AMP Capital Sustainable Share Fund is available to Australian investors. The overall objective of the Fund is to deliver superior returns to our clients by investing in companies that contribute to, benefit from and best adapt to the shift to an environmentally sustainable and socially responsible global economy.

Further information can be found on our website www.ampcapital.com.au/sustainable

Neither AMP Capital, nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this newsletter. While every care has been taken in the preparation of this newsletter, AMP Capital Investors makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. This newsletter has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this newsletter, and seek professional advice, having regard to the investor's objectives, financial situation and needs. Past performance is not a reliable indicator of future performance.