

Sustainable living

One of the key tenets of Socially Responsible Investing is that it makes good business sense for companies to actively consider social and environmental factors in their business models. Companies responding to sustainability trends can benefit from new legislation and cost savings, and by attracting employees and customers.



An illustration of this link between sustainability and corporate success is that many companies are now adapting their business models to benefit from the growing body of environmental legislation favouring sectors such as renewable energy, recycling and water management.

Australian company CDS Technologies (a company the AMP Sustainable Future Australian Share Fund invests in) provides an example. With its successful stormwater filter product, CDS's share price rose over 35% in 2003. Their stormwater product is in worldwide demand due to legislation including: USA EPA Stormwater Regulations, European 'Water Framework Directive' and the Victorian Government's 'Smartwater' initiative.

Cost savings

Companies are also finding that sustainability can generate cost savings. Companies can save money and resources by adopting smarter practices in their operations. Encouraged by initiatives such as the Australian Greenhouse Challenge and SEDA's Energy Smart program, companies have found that they can manage energy use and building design in such a manner to save energy and money.

Considering sustainability opportunities at home

While the benefits of business sustainability are clear, embracing these issues at home can also make good financial sense. Some of the most innovative and technologically savvy

products have been launched in the field of sustainability. To make a contribution in this area AMP Capital Investors has created a web page with links to a range of tips and insights in the area of sustainable living. Topics covered include energy, water, house design and fuel efficiency. Some useful tips include:

Energy

- Select lower wattage globes for your home or office and you can reduce green house emissions by 30-80 percent. For further reductions you can install sensors that switch lights off automatically according to time of day, movement or pre-set timers.
- Install Energy Star® on your office desktop computers, photocopier, printer and fax machine and save about \$35 per computer each year.
- Consider choosing a green energy product from over 17 providers Australia wide. Around 75,000 customers across Australia have chosen Green Power products, including close to 3000 businesses. As a result of the growing demand for Green Power, over 150 new approved renewable energy projects have been installed in Australia since 1997.

Water

- Install an AAA-rated showerhead or fit a flow restricting valve to existing shower heads to reduce the amount of water delivered. Saving up to \$20 per person per year, these devices can cut water delivery from the shower in half without affecting shower quality.

House design

- Careful planning of your garden is the key to saving water. Group plants with similar watering needs in specific areas for more efficient watering and install a trigger nozzle on all your hoses.
- When replacing windows in an existing home, choose the most efficient windows for your climate to reduce energy bills, particularly in colder climates.

Fuel efficiency

- Keep an eye out for Hybrid Electric Vehicles (HEVs). HEVs combine an internal combustion engine, a battery and electric motor, resulting in twice the fuel economy of conventional vehicles and 80% less emissions. HEVs can be used for personal and commercial transportation.

For further tips and insights into sustainable living please visit our new web page with useful links on www.ampcapital.com.au

Stock story

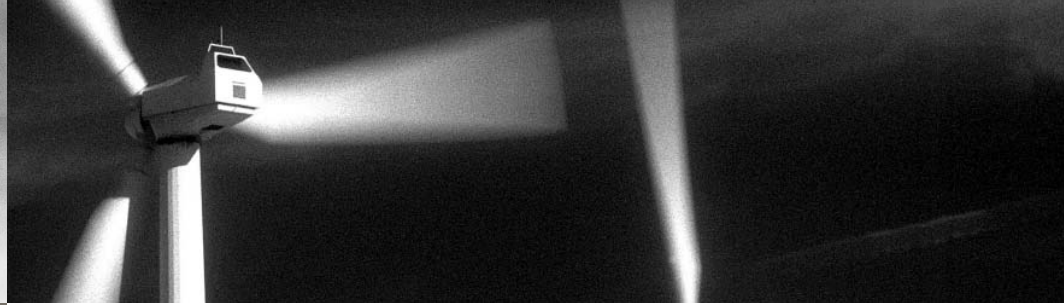
A key focus of our Sustainable Funds team is to identify emerging companies within 'Industries of the Future', such as renewable energy and water management companies. Solar Energy Systems (SES) fits firmly into this category. We spotted the company's SRI credentials early on, becoming a foundation investor following its float on the stock exchange three years ago.

As the growing demand for clean air, water and efficient energy sources continues to increase, SES provide responsible 'green energy' sources that are efficient, reliable, cheap to run and provide power and water to remote locations. Their first established product was the Sun Mill Solar Pump, a product which helps provide water to isolated areas away from electricity grids. SES have since capitalised on the technology underpinning the success of the Sun Mill Solar Pump, developing a new range of sustainable energy solutions. These recent developments include:

- Solar Flow Water Purification, which delivers quality drinking water to isolated and Indigenous communities and remote outposts, through the use of a solar run water pump system;
- Remote Area Power Supply systems, which use solar energy to provide free power involving very low maintenance; and
- Grid Feed Solar Systems, which help to reduce power bills by generating solar power. The system also increases the value of a residence and has a positive environmental impact.

After success in the harsh Australian environment, SES is looking to establish these eco-friendly products internationally, including China and throughout the Pacific. Recently SES was named the Sustainable Small Company of the Year at the Ethical Investor Awards. We are delighted that SES is now obtaining broader recognition for their innovative work, helping to provide clean water and energy solutions to the world.

We are overweight SES stock and given its strong performance over 2003, up nearly 300%, the stock has boosted the performance of the Sustainable Future Australian Share Fund over the year. We continue to hold a positive view on the stock and are happy to maintain this overweight position over the short to medium term.



Constructive engagement update

Our Sustainable Funds teams engage with companies to encourage better environmental and social performance. Companies we engage with are not necessarily approved for investment in our Sustainable Future Funds.

Australia

Focusing on corporate governance

Many companies held their Annual General Meetings (AGMs) during the December quarter and we voted on all resolutions. We voted against a number of Board and Executive remuneration packages, including the proposed remuneration package put forward at the News Corporation AGM. We also discussed a number of governance issues with companies and other stakeholders. We spoke to the CEO and Chairman of the Commonwealth Bank about a Wilderness Society sponsored resolution concerning the bank's disclosure of how it manages environmental risk. As a result of these discussions, we decided to support the resolution.

On a broader note, we completed our study on the state of corporate governance within Australian companies. The results of the study will soon be posted on our website.

Searching out Industries of the Future

The December quarter was a busy one for new companies listing on the ASX. Many were Industries of the Future companies in the biotechnology and healthcare sectors. While these companies did not meet our investment criteria we will continue to track their progress.

Coal seam methane has the potential to provide significant quantities of natural gas and alleviate the need for coal mining. We currently invest in Origin Energy, which has a significant involvement in Queensland Coal Seam Methane.

Contributing to the Sustainability Agenda

Over the quarter the team has been actively contributing to the broad Sustainability Agenda. Dr Ian Woods (Senior Research Analyst) presented at the Annual Minerals Council Sustainability Conference on Managing Climate Change Risk. Along with Sarah Kim (Research Analyst), Ian discussed our Nuclear Fuel Cycle Position Paper (now available on our website) with Ian Hore-Lacy of the Uranium Information Centre.

Michael Anderson (Director of Australian Equities and Head of Sustainable Funds) spoke to Philanthropy Australia and discussed industry issues such as company merging legislation and corporate governance.

Meeting companies

Visiting companies is critical to our understanding of a company while also providing a good opportunity to raise sustainability issues. During the quarter, Michael Murray visited Corporate Express, McPhersons, Home Leisure and Gale Pacific in Australia and Ansell, Gribbles and ITL in Malaysia. Sarah Kim also visited a number of emerging companies in Queensland including GrainCorp, Queensland Cotton and Australian Agricultural Company. Ian Woods also had discussions with BHP Billiton on a number of issues including the implementation of the Health Safety and Environment Committee management standards.

Company name change and Demerger

In December 2003 AMP Henderson Global Investors Demerged from its UK counterpart Henderson Global Investors, changing its name to AMP Capital Investors.

Following the demerger, Henderson Global Investors continue to manage the Sustainable Future International Share Fund.

In addition to management of the Funds, AMP Capital will continue to work closely with our UK counterparts on research and the engagement of international corporations on issues of sustainability.

International

Encouraging good practice in the world's largest infrastructure project

Monitoring of the gas and oil industry continued this quarter, with a focus on the construction and operation of BP's Baku-Tbilisi-Ceyhan oil pipeline. Concerns have been raised regarding the social, ethical and environmental standards of the construction. More serious issues have been presented regarding human rights, community impacts, environment management and pipelining security. Environmental organisations have also filed complaints alleging a breach of the Organisation for Economic Co-operation and Development (OECD) guidelines. The Henderson UK SRI team attended a meeting with BP in September, and is still seeking clarification on its commitments on critical issues.

Ensuring sustainable practices in the furniture trade

Tesco had their WWF membership terminated after importing garden furniture from Vietnam made from illegally logged timber. The company admitted there had been a failure of compliance with its forestry policy. As part of a new forestry policy, Tesco will now only buy garden furniture that has been approved by the Tropical Forest Trust (TFT). The Henderson UK SRI team also encouraged the company to improve its SRI practices by increasing its forestry commitments to help rebuild company reputation.

Gender pay engagement

The Henderson UK SRI team conducted an engagement program with 20 of the top 100 companies, focusing on those with a risk of unequal pay packages, particularly those in the financial and professional sectors. The aim was to gain a better understanding of how they are tackling equal pay and whether they have, or intend to, conduct an equal pay audit. After many months, 45% of companies either have conducted or planned an audit in the near future.

US and UK investors join forces on corporate governance

In September, Henderson brought together leading investors from the UK and the US to explore ways to monitor corporate governance. The result was that all members agreed to work closely together to press individual companies to improve their practices and influence corporate governance standards on to other organisations. The UK SRI team will step up its corporate governance dialogue with companies, alongside its detailed SRI research and routine financial analysis.



what's new?

Our latest SRI research has shown that for the period to 30 September 2003, the SRI median manager outperformed the S&P/ASX 200 over one, two, three and five year periods.

Returns in part were boosted by the competitive returns of small companies and growth stocks in 2003 - stocks which are typically identified as part of the SRI screening process. The relatively poor performance for the first six months of 2003 of gambling company Aristocrat (down 70.1%) and winemaker Southcorp (down 36.5%) may also have boosted performance, as both companies are excluded from most SRI funds.

The longer term results over three and five years and the consistency of returns also point to the links between social and environmental credentials and financial performance.

Profile

Mark Wootton – Director of the Poola Foundation

Can you provide some background on the Poola Foundation? The Poola Foundation is a charitable organisation and was established in 1995 to raise awareness of environment and justice issues through grants to projects that educate, inspire and demonstrate 'socially responsible' solutions. Specifically, we are interested in projects which work to achieve outcomes in the 'twin' areas of environment, land use and sustainability and social justice, human rights and peace initiatives.



You have taken quite a broad approach to socially responsible investment. Could you provide some insights?

All the Foundation's funds are invested ethically using both a 'positive outcomes index' and a 'negative screen' – an investment philosophy which compliments the Foundation's broad 'socially responsible' goals. Investments include: cash – bank bills offered by community banks; property – residential and commercial properties with a green focus including the '60L' green building in Carlton, Victoria and a large sustainable agriculture project in Western Victoria; venture capital – a difficult area but there are some standout examples such as Quantum Technology; and shares – based on our ethical investment guidelines.

The '60L' property is an interesting project. What makes it different to traditional commercial property?

The 60L Green Building (pictured above and left) is a commercially viable example of a low environmental impact office building. The total project cost was 5% above that of a non-green building of a comparative standard. It is fully leased, with an ever-growing waiting list. Yields are above average for inner city Melbourne. Tenants enjoy a high quality and healthy workplace while using less than a third of the electricity and less than 10% of the water of a typical building of the same size and function. We were very fortunate to win a range of industry awards for the building, not least the Victorian Premier's 2003 Sustainable Business Award.



Tracking the research

'Seeking out good corporate practice'

Your say

What is the Sustainable Future Funds exposure to smaller companies?

Our Sustainable Future Funds, due in part to their targeting of emerging companies within 'Industries of the Future', have a tendency toward a higher holding within the small companies sector.

For example, as at 31 December 2003 20.6% of the Sustainable Future Australian Share Fund's portfolio was in companies outside the top 100 by market capitalisation, well above its benchmark the S&P/ASX 200 Accumulation Index which had 6% exposure to ex-top 100 companies.

Henderson's SRI team in the UK also maintained a small-cap bias within the Sustainable Future International Share Fund which was 9.3% overweight companies with a market cap below \$5 billion, compared to the Morgan Stanley Capital Index.

'Industries of the Future' that our Sustainable Future Funds have significant exposure to include water and waste management, renewable energy, healthcare and mass transport. Examples of Australian small companies in these sectors include Solar Energy Systems, which is the smallest company in the Australian Fund with a market capitalisation of just \$7 million (we profile this company on page two), renewable energy company Novera and waste water management company CDS Technologies.

This significant exposure to small companies has played a part in the excellent returns generated by the Sustainable Future Australian Share Fund in 2003. The S&P/ASX Small Ordinaries Accumulation Index, a broad measure of the performance of smaller companies, returned 32.3% over the 2003 calendar year, well ahead of the S&P/ASX 200 which returned 14.6% over the same period.

Australia

Company research – real estate, consumer discretionary and material sectors

Companies assessed this quarter included Lend Lease and the Ten Network. We also researched companies such as Nuplex Industries, Sanford Limited, Fletcher Building, The Warehouse Group and Carter Holt Harvey.

Strategic research – Australian SRI performance

Our strategic research focus this quarter was on SRI performance in Australia (refer to the What's New section). We also produced a paper outlining why our Sustainable Future Australian Share Fund is a top-quartile performer. 'The Mays Report', which we were a major contributor to, was also launched by the Federal Environment Minister in late September. A copy of the report can be found at www.deh.gov.au/industry/finance/publications/index.html.

International

Henderson's UK SRI team researched 85 companies during the quarter. Some of the standouts approved for investment included:

- **Bioprogress (UK)** – The company's principle product is the XGel film system, a substitute for gelatine, which is less costly to produce. Recently approved by the Food and Drug Administration, the UK SRI team considers the company an industry of the future in the health, safety and nutritional segments.
- **Intercontinental Hotels Group (UK)** – The company operates hotels and distributes soft drinks. It has a well-structured corporate responsibility policy, which complies with the Combined Code for Corporate Governance.
- **Kidde plc (UK)** – Kidde provides a wide range of fire safety products, systems and services covering detection, protection, prevention and fire fighting. The UK SRI team considers Kidde an industry of the future in health, safety and nutrition.
- **Munters AB (Sweden)** – The company is a world leader in humidity control products including fire damage restoration and air-cooling. They have a public environmental policy outlining their commitment to environmentally friendly product design and the environmental impact of their operations.
- **Svenska Handelsbanken (SHB) (Sweden)** – SHB is a bank with 552 branches in Sweden and Scandinavia. It has developed strong guidelines to manage corporate responsibility issues and does not conduct business with any country that has poor human rights issues.
- **Tellabs (USA)** – Tellabs manufactures and markets products offering bandwidth management solutions to improve communications efficiency. In 2002, Business Ethics magazine awarded the business a corporate citizen award, the first in customer service. Tellabs has an international environmental policy and is committed to making diversity a core part of their employee culture.



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Sustainable Future Funds

The Sustainable Future Funds are a family of three SRI funds available to Australian investors: the Sustainable Future Australian Share Fund, Sustainable Future International Share Fund and Sustainable Future Balanced Growth Fund. The overall objective of these funds 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 or by contacting your adviser. Please note that you can subscribe to this newsletter on-line through our website.