

# And the winner is... Microfinance

Mike Murray, Senior Portfolio Manager, Sustainable Alpha Team at AMP Capital Investors Limited ('AMP Capital Investors') reflects on the growing recognition of Microfinance and Nobel Peace Prize Laureate 2006 winners Grameen Bank and Muhammad Yunus.

Having spent three weeks working at Grameen Bank in Bangladesh during 2003 and following the recent announcement of this year's Nobel Peace Prize Laureate, I was reminded that the Bank and its founder, Muhammad Yunus, were last year awarded the Nobel Peace Prize Laureate for their efforts to create economic and social development from the grassroots level.



Mike Murray pictured with Muhammad Yunus in 2003

## What is Microfinance?

Microfinance, also known as microcredit or micro-lending, refers to the process by which a bank can target lending to needy groups of individuals who otherwise might not qualify for credit. Typically, loans are small to begin with and are deployed to purchase an income producing asset such as a cow, rice paddy or sewing machine.

## Grameen Bank

Grameen Bank started in 1976 when Muhammad Yunus first noted the way the poor's inability to access credit played a major part in keeping them in a state of poverty. After first lending money out of his own pocket to local village entrepreneurs, he set about trying to demonstrate that poor people, with the right support, could successfully repay loans of small amounts. Today Grameen is a household name in Bangladesh, where it has disbursed over \$US 6bn, as well as spawning a number of replica organisations in other countries.

## How does Microfinance Work?

One of the key innovations of Grameen Bank was the finding that making loans available on a group basis encourages a sense of shared responsibility for repayment. Although not contractually bound, Grameen members understand that there is an obligation to assist other members of their group if they are unable to repay monies owed. Additionally, Grameen develops a closer relationship with its borrowers than traditional banks, advising them on how to deploy their loans, conducting weekly progress meetings and running a number programs for social betterment alongside its banking activities. Interestingly, the vast majority of successful loan applicants are women, on whom the burden of poverty often falls hardest in developing countries.

## How Successful has Microfinance Been?

Compared to mainstream banks, Grameen is extraordinary in that it has managed to achieve a successful repayment rate of over 98% whilst lending to borrowers who would normally be considered high risk.

According to Grameen, there has been a sharp reduction in the number of its members living below the poverty line, 20% compared to 56% for non Grameen bank members in Bangladesh. In addition, lending money to people to set up their own enterprises has led to a shift away from agricultural wage labour, which has had an indirect positive effect on the general conditions of employment wages for many workers.

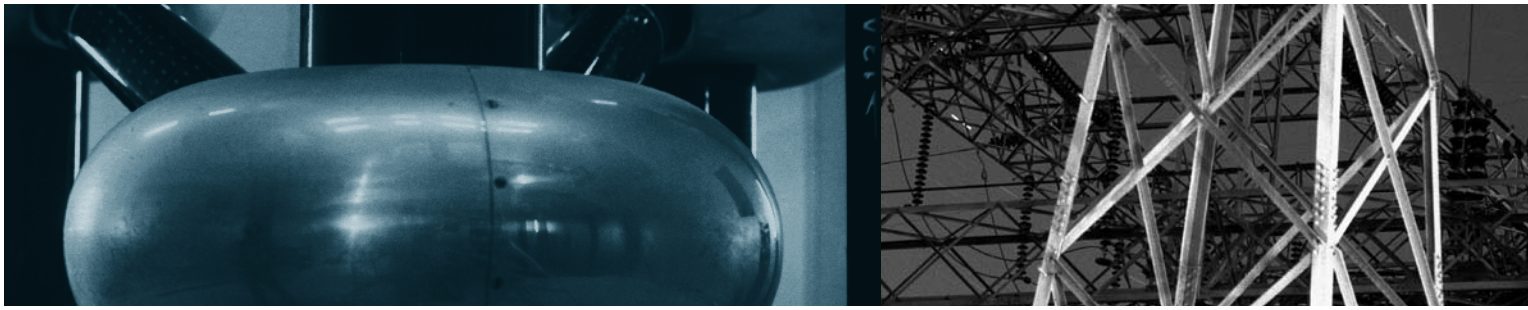
Such has been the success of microcredit in alleviating poverty, that the UN declared 2005 the international year of microcredit.

## What is the Link between Sustainable Investing and Microfinance?

In common with the Sustainable Alpha Team, microfinance programs invest money in a sustainable manner whilst still paying attention to financial profitability. In the coming years it seems likely that microfinance organisations will increasingly look towards sustainability oriented funds to finance their projects due to their shared interest in achieving socially and financially sustainable outcomes. Perhaps one day there might even be an entire stock exchange devoted to sustainable forms of capital!

## How to Find Out More

There is a wealth of information on the internet concerning microfinance and the admirable growth of Grameen Bank ([www.grameen-info.org](http://www.grameen-info.org)).



## AMP Capital corporate governance

Private equity is widely recognised as both a constructive financing tool, and also a valid investment alternative for investors seeking uncorrelated returns. But in spite of these recognised benefits, private equity has recently been the subject of significant media attention, prompting many questions about this form of investment. Whilst the AMP Capital Sustainable Share Fund does not invest in private equity, AMP Capital Investors considers the merits of investing in both listed equities and unlisted private equities and any governance issues related with such investments. AMP Capital Investors has already commented on this type of investment in its AMP Capital Corporate Governance Report published in August 2007 and available on-line at <http://www.ampcapital.com.au/institutions/governance.asp>.

AMP Capital Investors believes the adoption of high standards of corporate governance and social responsibility will support company avoidance of potential damage to earnings and reputation, and should

enhance and protect the long-term wealth creation prospects of shareholders. AMP Capital Investors' corporate governance activity seeks to monitor the integrity of the companies in which we invest our clients' money, and thus reduce the risk of corporate mismanagement and failure.

Additionally, good governance aims to protect the rights of all shareholders by encouraging companies to reduce the potential for conflicts of interest.

AMP Capital Investors expects the recent media scrutiny of the role and behaviour of private equity will serve to remind market participants of the recognised principles of good governance. In our opinion the key responses to the highlighted governance challenges are:

**Conflicts of interest:** Boards and management should avoid conflicts of interest. Where this is not possible, boards and management should carefully and transparently manage the potential conflict.

**Board composition:** Boards should comprise a majority of independent directors to

reduce the potential for conflict in interest, and facilitate a more effective review of management performance.

**Remuneration structures:** Boards are encouraged to structure their remuneration arrangements to be aligned with the long-term interests of shareholders. As such, companies must be careful that the terms of their incentive programs do not encourage behaviour that may deliver significant personal gains to board members or management, at the expense of shareholders.

**Level playing field:** Boards must ensure shareholder access to information is timely and equal, to facilitate informed and fair decision-making.

**Integrity:** Integrity amongst board members and company management is paramount. This ensures that executives and decision-makers will act in the best interests of shareholders at all times.

As always, we suggest that investors must remain vigilant on these issues.



## profile

### David Boyle, BEc, Assistant Portfolio Manager/Analyst

David Boyle joined the AMP Capital Investors Sustainable Alpha Team in June 2007, following his completion of AMP Capital Investors Graduate Program. David's interest in sustainable investment arises from his existing knowledge of traditional valuation methods and the application of the concepts of intangible company value to those methods in the investment process. Over his 18 months with AMP Capital Investors, David has worked in the Investment Analytics, Value Plus, and Fixed Interest and Currency teams. This experience has given David a broad knowledge of the wider investment environment and insights into different methods of asset valuation and research.

David holds a Bachelor of Economics degree from Australian National University, majoring in Micro/Macro theory and Finance. In addition, David enjoyed a year in Seoul, Korea, taking part in an intensive Korean language course at Yonsei University. He also spent three months employed as an English teacher in regional China between academic years. David is currently enrolled in Level 3 of the CFA program, to further his education in equity valuation, financial statement analysis and portfolio management. David is a welcome addition to the AMP Capital Investors' Sustainable Alpha Team, with responsibilities including stock analysis, portfolio management and the development and maintenance of management systems.



# stock story

## Nomad Building Solutions

### Research and engagement

The investment process within the AMP Capital Investors Sustainable Alpha Team is backed by rigorous research into growth drivers from sustainability issues at the industry level; and into risk exposure from company specific environmental, social and governance issues. A feature of our value proposition is the full understanding of company value that arises from our process which integrates tangible financial analysis with this often intangible extra-financial research. During the past 6 months, we have completed industry specific research on the Building Materials, Industrial Manufacturers, Forestry and Packaging, and Chemicals sectors and we have also commenced research on the Retail, and Steel sectors.

On the engagement front, we have been active with the following company visits:

- **Corporate responsibility:** Nick Edgerton attended a site tour to Tassal's facilities in Tasmania examining the full production process from cradle to packaging and transport, examining environmental and safety management issues. While in Tasmania, Nick visited a forestry plantation site with Great Southern to consider environmental and safety issues. Karin Halliday and Nick then attended the Australian Council of Superannuation Investors conference on Company Licence to Operate. And Mike Murray and Nick met with ResMed to discuss the voluntary recall of some of its product.
- **Workplace:** Will Riggall went on a site tour of a number of mining services companies in Queensland looking at occupational health and safety and human capital management issues. He also toured an Austar call centre on the Gold Coast to investigate human capital management practices. Nick Edgerton presented to an Australian Human Resources Institute special interest group on valuing human capital management and also spoke with Cochlear about employee relationships and workplace agreements.
- **Climate Change:** Dr Ian Woods spoke at the launch of VicSuper's report by Trucost on carbon exposure in the ASX200. Ian also addressed Engineers Australia on factoring climate change risk into infrastructure; to Environment Business Australia on an institutional investors perspective on the Emissions Trading Scheme and also to the Property Council on the climate change issues facing the property sector. Ian presented to the Australian Bankers Association on climate change issues for banks and the finance sector. Nick Edgerton spoke with Qantas about the potential implications of the proposed inclusion of aviation in the EU emissions trading scheme.
- **Sustainability:** Nick Edgerton presented at a Property Council seminar on sustainable investment and attended the Enhanced Analytics Initiative seminar hosted by UniSuper.
- **Corporate governance:** Karin Halliday and Michael Anderson launched the August edition of the AMP Capital Corporate Governance Report, which commented on private equity and its implications for governance as briefly profiled in this newsletter.
- **Environmental performance:** Nick Edgerton met with the Wilderness Society to discuss environmental issues in Tasmania.
- **Reporting and disclosure:** Nick Edgerton took part in the Transurban Stakeholder Consultation meeting to discuss sustainability reporting. Dr Ian Woods spoke with consultants for Zinifex on Sustainability reporting and met with Boral to provide feedback on its sustainability report. Ian also attended BHP's annual stakeholder dialogue with a focus on its sustainability report and climate change performance.

The Fund invests in Nomad Building Solutions Limited (NOD), a company that specialises in the manufacture, delivery and installation of modular buildings for mid to large scale projects in the resources, oil and gas, construction, industrial and leisure sectors. The resources boom in Western Australia and Queensland has led to significant pressure for housing both temporary, e.g. for construction camps, and more permanent accommodation, such as the significant expansion at Port Headland. NOD, which is based in Perth, Western Australia and has operations in Wacol, Queensland, believes it is well positioned to take advantage of the growing demand for new accommodation arising from the mining boom.

The expectations from this type of accommodation have come a long way from the traditional 'donga' that has been typical of many older mining camps and towns around the country. The new accommodation needs to meet higher standards of comfort for residents and also higher building safety and environmental standards.

As with many businesses in the booming mining states of Western Australia and Queensland, NOD must manage the rising cost of raw materials and labour, as well as maintain the skill levels of its workforce. As with other construction companies, safety is a key issue and the Sustainable Alpha Team was encouraged that NOD was recently awarded a silver award from Worksafe WA for workplace innovation which involved a newly designed working at heights restraint system.

# performance

The AMP Capital Australian Sustainable Share Fund (the 'Fund') has outperformed the performance benchmark for the Fund, being the S&P/ASX 200 Accumulation Index in each year since its inception by 1.33% per annum\*. In the period since inception to 31 August 2007, the Fund returned 16.10% compared to the ASX 200 benchmark return of 14.77%. Key sectors adding value to the Fund over the year included the Materials, Pharmaceutical/Biotechnology and Insurance sectors.

The integrated fertiliser business, Incitec Pivot, has continued to perform, contributing strongly to the Fund's performance on the back of industry rationalisation and increasing fertiliser prices. Within the healthcare sector CSL, Vision Systems, and Mayne Pharmaceuticals, all part of our Industries of the Future theme, contributed to the Fund's growth. BHP Billiton shares also continue to add value on the back of record profit results, high commodity prices and capital management initiatives. Other key contributions to the Fund's performance came from overweights in Henderson Group, Nomad Building Solutions, QBE Insurance and OneSteel Limited.

Looking to the future, the Fund maintains overweight positions in Industries of the Future stocks such as Pharmaxis, a company involved in the research, development and commercialisation of therapeutic products to improve the clinical management of chronic respiratory and autoimmune diseases; and B&B Wind, specialists in wind farms across North America, Asia Pacific and Europe.

On the negative side, the Fund's overweight in energy stocks such as Woodside Petroleum and Roc Oil, which suffered declines as the oil price fell away in the later part of 2006, detracted from the Fund's performance. And industrial company, Boom Logistics, which failed to meet profit expectations also detracted from the Fund's performance. As the Fund has been underweight in Woolworths shares at a time when Woolworths has increased its market share relative to the underperforming Coles Group, Fund performance has been negatively impacted.

Looking ahead, in line with the objective of the Fund to provide investors with competitive returns using our Sustainable Alpha investment process, we will continue to seek out mainstream leaders and companies with a sustainable growth outlook.

	3 mnths	1 year	2 years	3 years	4 years	5 years	Inception
Fund	0.55%	27.64%	26.96%	27.08%	25.00%	21.65%	16.10%
ASX 200	0.14%	27.08%	23.62%	25.88%	23.34%	19.90%	14.77%
Relative	0.41%	0.56%	3.34%	1.20%	1.66%	1.75%	1.33%

Performance of the wholesale units in the AMP Capital Sustainable Share Fund (formerly known as the AMP Capital Sustainable Future Australian Share Fund) issued to wholesale investors only since Fund inception on 20 March 2001 to 31 August 2007 (after fees and costs).

# news

A valuable new web portal on sustainable commercial property - *Your Building* (<http://www.yourbuilding.org>) – was launched by Project Leader Dr Tony Stapledon on 28 September this year. The Your Building web portal is the key online Australian resource about sustainable commercial buildings. It provides information for all those involved across the building life cycle – from investors, owners, and occupiers to developers, builders, designers and facility managers. Your Building is a collaborative project of the Cooperative Research Centre for Construction Innovation, the Australian Greenhouse Office, and the Australian Sustainable Built Environment Council, the peak body of industry and research organisations concerned with sustainability of the built environment. The portal includes a piece on sustainable investment by Nick Edgerton of the AMP Capital Investors Sustainable Alpha Team at: <http://www.yourbuilding.org/display/yb/n+investor+perspective+on+sustainability+and+commercial+buildings>.

Recently, two Super Funds held events to promote meaningful discussion and action in sustainable investment. First, UniSuper held a seminar highlighting the Enhanced Analytics Initiative (<http://www.enhanced-analytics.com>) as a tool to promote better sell-side (broker) research and to address factors driving better business performance. Second, VicSuper launched its report (authored by Trucost, <http://www.vicsuper.com.au>) on the carbon footprint and disclosure of the ASX200. The report explains how and why investors, as owners of the world's largest corporations, are contributing to climate change, and may be exposed to associated risks.

## Other news:

- In May, the Prime Minister's Task Group on Emissions Trading reported with its recommendation for a carbon trading scheme in Australia by 2012. Following this report, the Coalition Government has joined the Labor Government in committing to a scheme.
- In June, the Ethical Investment Association voted to change its name to the Responsible Investment Association Australasia, reflecting the evolution of sustainability-based investment approaches over time.
- In July, AMP CEO Andrew Mohl announced the commitment to reduce AMP's carbon footprint, and offset AMP's carbon emissions from the start of 2007.
- In October, the Investor Group on Climate Change (<http://www.igcc.org.au>) launched the Australia and New Zealand edition of the Carbon Disclosure Project. This year's call for disclosure of carbon emissions and risk was comprised from institutional investors with combined assets of US\$41 trillion under management.

## 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](http://www.ampcapital.com.au/sustainable)

Important note: Investors should consider the product disclosure statement available from AMP Capital Investors Limited (ABN 59 001 777 591) for the Sustainable Share Fund before making any decision regarding the Fund. Neither AMP Capital Investors, 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 document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, 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 document 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 document, and seek professional advice, having regard to the investor's objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided.