



Best investor in ESG **The Environment Agency**

Big steps to a smaller footprint

The Environment Agency may be confined to operating within the UK, where it is responsible, but its influence extends much further, and its pension fund is the perfect means. "We have a responsible investment strategy that seeks to exploit the relationship between good environmental management and long-term sustainable business," says the agency.

"Consistent with this, we believe financially material issues such as climate change are important and will increasingly affect company performance," it adds.

To ensure it constantly meets this aim, it uses an environmental overlay strategy across each aspect of its scheme's operations, not least its investment activities. "This strategy includes specific requirements for each asset class and means we can identify those managers that integrate environmental risk assessment into their investment decision-making and monitor both financial and environmental performance."

In practice it works like this:

- **Global public equity.** "Managers investing in stocks look for the top companies in their field using financial measures and ESG criteria," says the agency.
- **Global private equity.** "Our managers will only invest in companies that have pledged to act in a responsible manner. They invest approximately 30% of their resources in environmental technology funds," it adds.
- **Emerging markets equity.** Here, the agency employs an outside research provider to identify companies or funds with poor or leading sustainability practices which informs investment decisions.
- **UK Property.** Every year, the agency's managers carry out an environmental survey of all funds and its portfolio includes Igloo Regeneration – a specialist regeneration property fund.
- **Global bonds.** "Our bond manager uses an ESG research company, to apply best-in-class principles in investment decision-making," the agency explains.

ACTIVE ENGAGEMENT

To complement its investment strategy, the Environment Agency's governance rules require it to ensure it gets involved in the companies it invests in through its invest-

ment managers and other external service providers. "We undertake around 800 engagements a year. Fund managers push for better disclosure, governance, social and environmental issues and we dispose of shares in companies that do not meet our expectations," it says. "We use our votes to support the development of policies and report on greenhouse gases, sustainability, waste and water use. Last year we directly voted on 80 environmental resolutions worldwide. We also work collaboratively with our managers in undertaking SRI research," it continues.

INDELIBLE MARK

The Environment Agency is keen to point out how it is leaving its mark by paradoxically reducing it. "We use tools such as environmental footprinting that can establish how ESG issues affect investment decisions. The footprint for each equity manager in relation to our scheme is compiled by allocating a proportion of the environmental impact of each company relative to the amount of stock that is held. Similarly, we have evaluated the environmental impact of our combined active equity holdings using the MSCI World Developed Countries Index as a benchmark. Since 2006 we have reduced our environmental footprint so that we are now 22% below the benchmark."

Highlights and achievements

The Environment Agency has long stood out as running a pension scheme that adheres to a strictly ESG-based investment strategy – rather than pay mere lip service to its principles. This is an investor that ensures ESG and SRI criteria govern every aspect of its operations and it continues to demand its investment managers engage actively on its behalf so that these principles extend way beyond its own territory. The Environment Agency has always been at the forefront of ethical pension scheme investing, and its work during 2009 will ensure it remains at the top for some time to come.

Best asset manager investing in ESG **SAM Sustainable Asset Management**

Leading by example

SAM began life as an independent investment boutique focusing exclusively on sustainability investing and has since grown to become one of the world's leading institutions in this field. "Since we were established in 1995, we have focused on identifying, interpreting and quantifying sustainability factors and integrating them into our investment process," says the company. Amid challenging market conditions following the financial crisis, SAM has continued to reinforce its role as a thought leader and innovator. "We continue to build the investment case for sustainability investing, encouraging a more long term approach to investing, through collaboration with numerous industry peers and research institutions."

OPEN SPACE FOR DEBATE

In January 2009, SAM hosted the first annual SAM Forum. "This brought together over 100 leaders from the fields of asset management, commerce and non-governmental organisations with the goal of analysing key sustainability trends that will shape future industries and financial markets," says SAM. "Among the highlights of the event, was a discussion led by Nobel Peace Prize winner Rajendra Pachauri on sustainability forecasts over the next 10 years. By connecting key decision-makers among asset owners and asset managers, the SAM Forum serves as a platform for establishing a global community of thought leaders and practitioners of sustainability investing in order to launch initiatives with the overall goal of making financial markets more sustainable," it explains.

PARTNERS FOR A BETTER FUTURE

True to its promise, SAM's activities during 2009 are characterised by a series of highly respectable and well-conceived joint ventures. "We have continued throughout the year to collaborate on empirical research with the publication of

Highlights and achievements

SAM, the specialist sustainable investment manager, has been at the forefront of its field since it was founded fourteen years ago.

SAM understands it will reach further and influence more by joining forces with other prominent ESG organisations, and 2009 was once again highlighted by its pursuit of the best partnerships to ensure the best exchange of ideas. To further this concept, it now runs a successful annual ESG forum providing an extensive ESG and SRI platform.

SAM's achievements are destined to become enshrined in ESG best practice and the way the UN PRI singles it out time after time reinforces this point.

white papers on sustainability investing, including a jointly published comprehensive study with ETH Zurich and ZHAW on banking and climate change which examines how banks respond to the challenges and opportunities of climate change in their governance, operations, and core business," it begins.

EXPANDING INVESTMENT RANGE

"Next we continued to launch innovative investment strategies. In partnership with London-based Gatehouse Bank, a specialist in Islamic finance, we expanded our range of global investment strategies with the launch of the first ever Shariah-compliant water-focused investment strategy in July. An additional development was the transfer of Robeco's Cleantech private equity activities from Rotterdam to SAM, expanding our research capabilities and broadening our range of sustainability strategies to include more asset classes. Investee companies and funds must commit to adopting a series of ESG best practices, thus encouraging sustainable corporate behaviour," it continues.

CLEAR LEADER

This year was also marked by SAM's continued position as an industry leader in ESG integration. "In the individual results released by the UN Principles for Responsible Investment (UN PRI), SAM was ranked in the first quartile with regard to Principle 1, requiring signatories to incorporate environmental, social, and corporate governance into investment analysis and decision-making processes which was voted the most difficult principle to implement," SAM says.

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