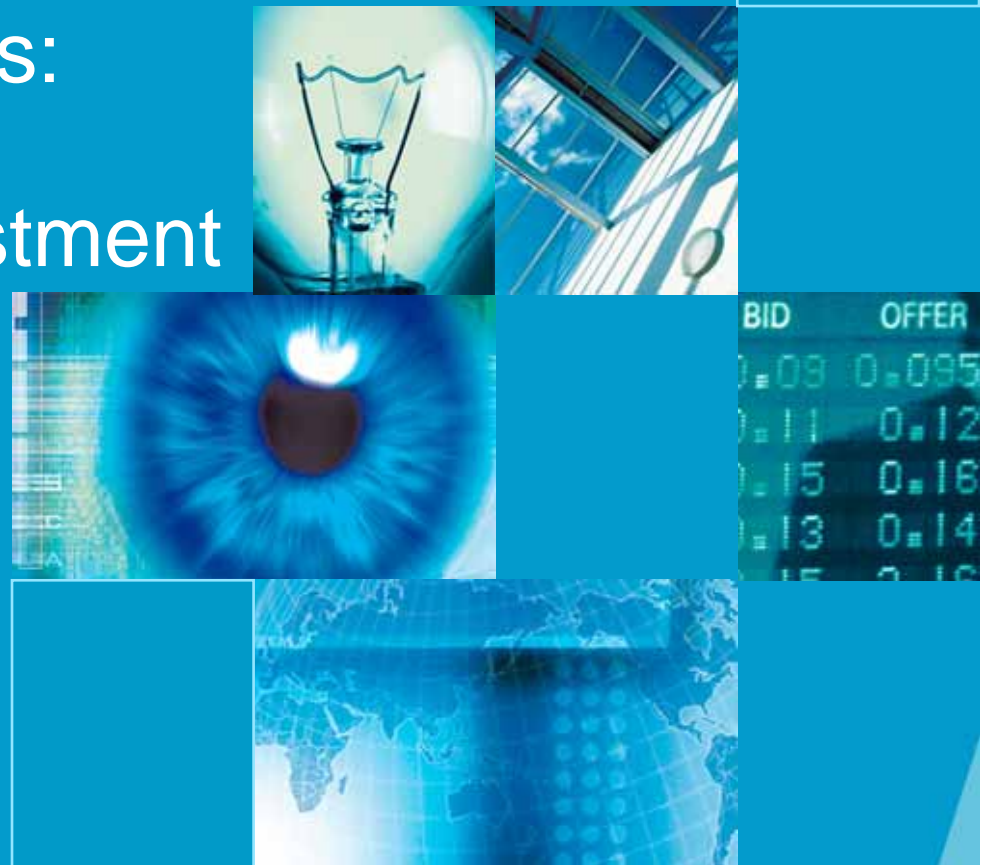


# Investment in Forests: An Institutional Investment Perspective

Katoomba, Ruschlikon 2003

Mark Campanale  
Henderson Global Investors



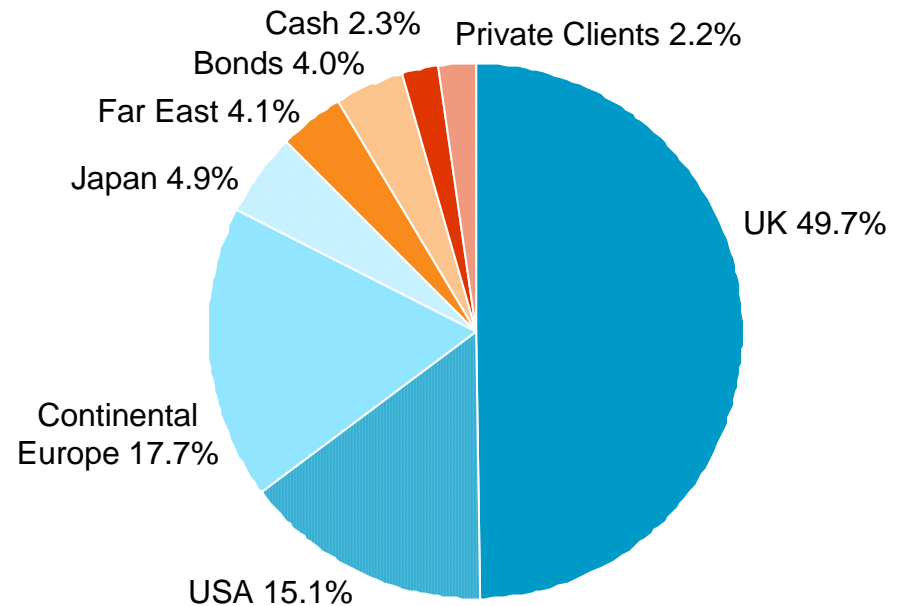
# Agenda

- What is socially responsible investment?
- How fast is it growing?
- What is the relevance of 'responsible investment' to the forestry sector?
- What are the issues facing equity investors today in the forestry sector?

# SRI at Henderson

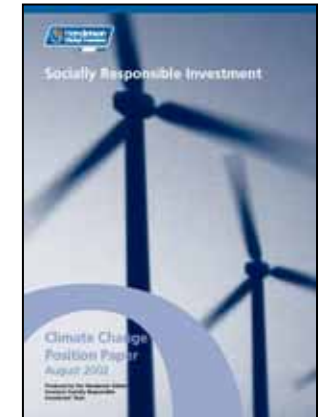
- Managing SRI Mandates since 1977
- Experienced team of 10 managing £1.3 billion globally through 19 SRI funds
- Recognised expertise and global commitment to SRI (Mistra Report)
- Winners of USS Competition for long-term investors, 2003

**£1.3 billion SRI assets managed globally**



Source: Henderson Global Investors  
Note: Funds under management as at 30 June 2003

# Communicating sustainability - from Henderson



# What is socially responsible investment?

- Satisfying the aspirations of investors **financially**, whilst putting **values** back into the investment process
- Encouraging a **responsible** shareholder democracy culture
- Recognising that companies are **accountable** to investors
- Acknowledging that investors can **encourage** companies to become ecologically aware or socially responsible

# Social responsibility – a normal investment issue

- In the 21st century, it is important to understand not just the profits a company makes, but *how* it makes them
- Value of intangible assets: Reputation, Brand, Intellectual capital, Culture, and relationships with employees, suppliers and communities
- Social responsibility (SR) issues increasingly critical for long-term shareholder value
- Social responsibility probably one of the last areas of unmanaged risk in financial markets and investment competence therefore crucial

# Business risk - identifying new threats

## GM investors told to sell their shares

Paul Brown  
and John Vidal

Europe's biggest bank has advised the world's largest investors to sell their shares in leading companies involved in the development of genetically modified organisms because consumers do not want to buy their products.

In a report sent to several thousand of the world's large institutional investors, including British pension funds, Deutsche Bank says that "growing negative sentiment" is creating problems for the leading companies, including Monsanto and Novartis.

"We note that Monsanto has spent more than \$1.5m (£1m) to persuade English consumers of the rectitude of their position, but alas, to no avail. Monsanto is little match for Prince Charles, an anti-GMO advocate, when it comes to sensitivity for the English people's desires," says the report.

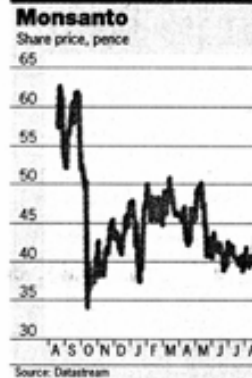
"More broadly speaking, it appears the food companies,

"Domestic concerns regarding ag-biotechnology are clearly on the rise. For the most part, though, it has not gotten the attention of the ordinary US citizen, but when it does — look out."

Deutsche Bank's first research report, dated May 21 and entitled *GMOs Are Dead*, said: "We predict that GMOs, once perceived as a bull case for this sector, will now be perceived as a pariah."

The message is a scary one — increasingly, GMOs are, or in our opinion, becoming a liability to farmers," it adds. Non-GMO grains were already gaining a premium price which would, if the trend continued, far outweigh any economic benefit in growing GMOs.

The latest report, published last month under the heading *Ag Biotech: Thanks, But No Thanks*, says: "GMOs are being demonised by their opponents. What food manufacturer will 'take a bullet' for GMO corn in the face of such



party because its pension fund has large investments in two leading GM companies, AstraZeneca and Novartis, both of which are reportedly considering selling their GM divisions after years of heavy investments but few returns.

Following European uproar over the crops, there has been a significant official cooling in the US. The US government

and the biotech industry are preparing for a consumer and media backlash and the agriculture secretary, Dan Glickman, has told companies not to take consumers for granted.

The report coincides with growing official unease about claims made for GM crops. With the market for GM in Europe contracting as food processors turn their back on the products, Mr Glickman warned farmers they could be left with unwanted crops, and that small farmers could become "serfs on the land".

Recent US government research has shown that GM crops of maize, soya and cotton do not automatically produce greater yields or lower use of pesticides.

Sue Mayer of Genewatch said: "This shows the global impact of the concerns of pressure groups on this issue."

Latest news and background on  
GMOs on the Guardian network at  
[www.newsunlimited.co.uk](http://www.newsunlimited.co.uk)

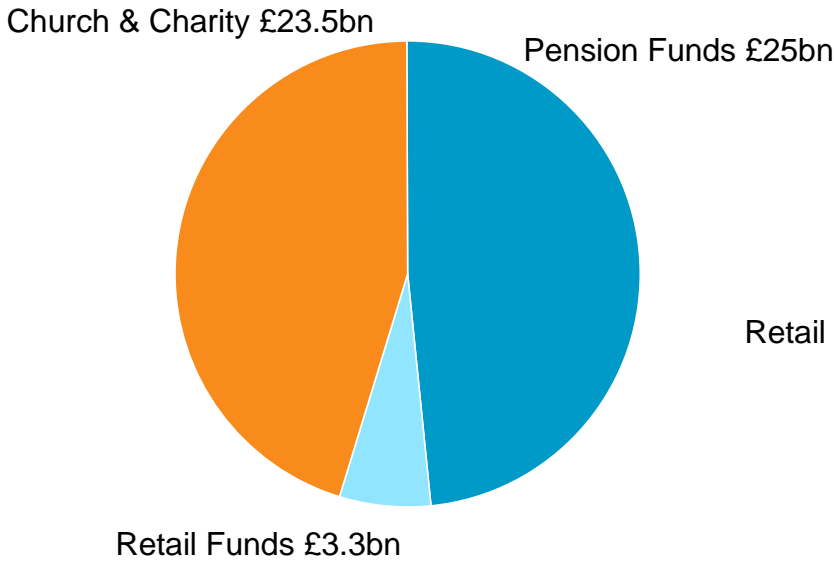
# SRI in the context of EU pensions reform

- Driven by legislative and political momentum in UK, France, GER and notably Sweden - real laws are being passed
- Varying expressions of consumer demand: Disclosure in UK and Germany, more specific SRI rules in Sweden and Australia
- Driven by consumer demand and awareness, political will
- Debate in EU for pan -European SRI rules for Occupational Pension schemes

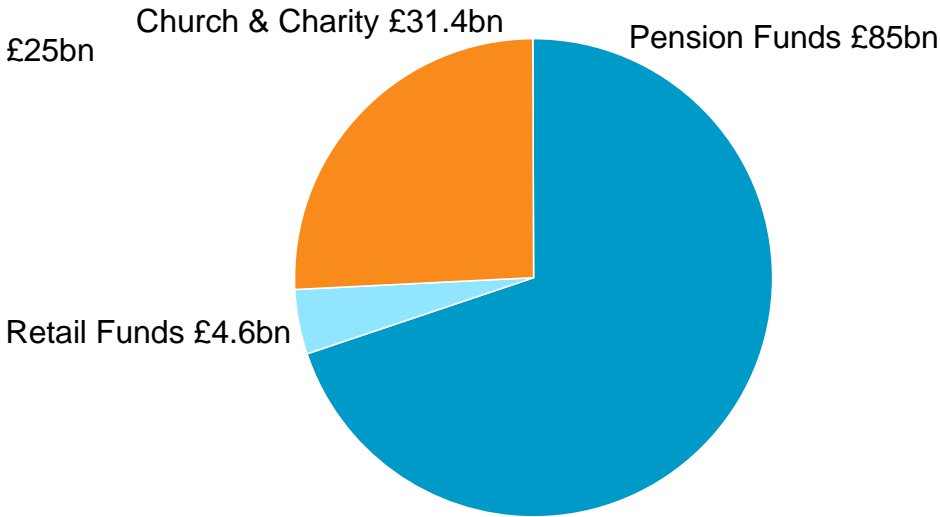


# Growth of SRI / engagement around Europe - the UK

**“SRI” funds in UK:1999 - total:  
£51.7bn**



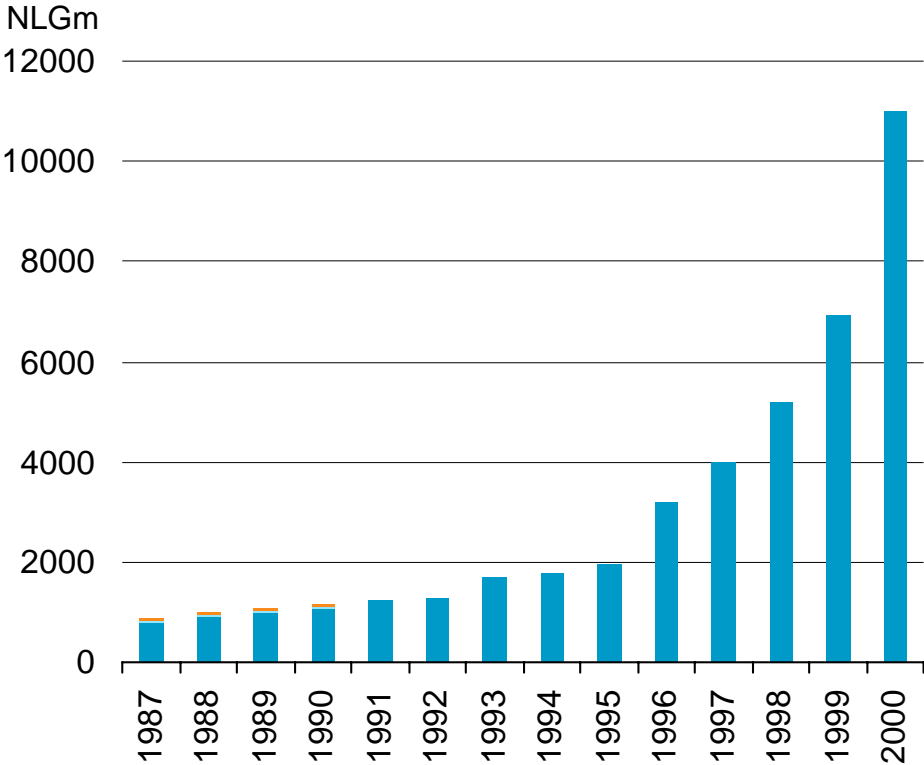
**“SRI” funds in UK:2001 -total:  
£121bn**



Source: Russell Sparkes, 2002

# SRI savings and investments in the Netherlands

- SRI in NL second only to the UK
- Assets grown to >€4.5bn (3.7%) although this will be greater if institutional included
- Growth spurred by GID (Green Investment Directive), which exempts qualifying investments from income tax



Source: VBDO

# The Swedish example

- Highly developed culture of social welfare
- Recent Pensions reforms in place
- AP Fonden offers member choice in DC/ super type arrangements
- SRI principles seen as central to strategy
- Recent activity of AP7 Fund in human rights

**“Investment activities shall take environmental and ethical considerations into account without lowering the overall objective of a high return “**

***Swedish National Pension Funds  
Government bill***

# SRI performance - research findings

**“Measured over short periods ( one or two years) the risk adjusted performance is able to deviate materially from... a conventional approach”**

***ABN AMRO***

**“excluded industries do not contribute much to the level of risk”**

***Commerzbank 04.2002***

**“..at worst, stock selection using social screens has no negative financial performance and, at best, has a measurable positive impact”**

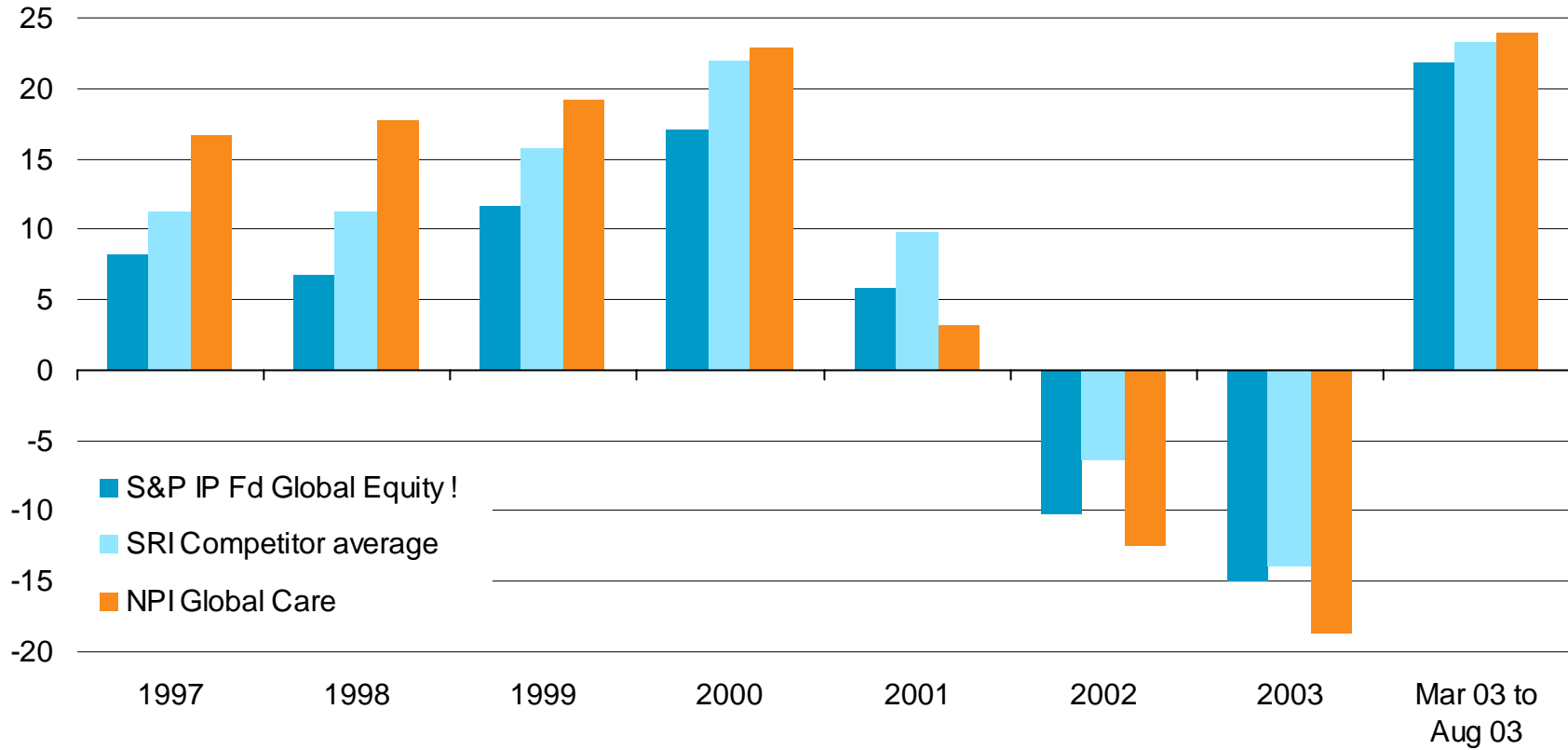
***MISTRA, 10.2001***

**“ the balance of empirical evidence supports the view that SRI has not led to a long term risk adjusted under-performance versus a conventional approach”**

***ABN AMRO 09.2001***

# Pension Global Care

Rolling 3 year performance annualised to 31 August 2003



Source: Micropal, bid to bid, gross income  
Note: 31.03.03 to 31.08.03 data column is not annualised

# Shareholder activism

- Institutions increasingly willing to be 'active' shareholders over CSR factors, issues not just about executive pay or corporate governance
- In UK, working collaboratively on issues from climate change, human rights, access to medicines in the developing world, large dams and forest issues
- Initiatives such as The Equator Principles, IFC, UNEP Finance Initiative, ASRiA, London Sustainable Investment Principles and the World Economic Forum are all focusing on 'responsible finance.'

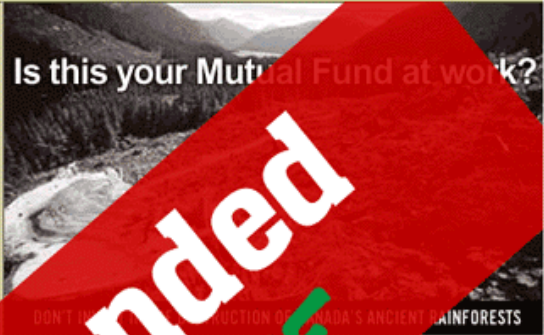
# Forests - an agenda for responsible finance

- Focus on lending practices of large banks - ABN Amro guidelines
- Engagement over FSC with listed companies
- Focus on single issues - sourcing of timber by importers & distributors
- Real issue, however, is the behaviour of listed forestry 'pure plays'
- To date, Great Bear Rainforest is best example of 'successful' financial pressure over the issue of clear-cutting conservation-value forests

### Investing in the Future

If you are like most Canadian investors, you are probably simply handing over your hard-earned wages to your mutual fund company, to invest in your name, while you know precious little about where or how your dollars are being used.

Would it trouble you to find out that your money, invested in good faith, may be contributing to the clearcutting of our ancient forests? [more>>](#)



### Why is the Great Bear Rainforest so important?

On the west coast of Canada, between high alpine mountains and the Pacific Ocean, lies the Great Bear Rainforest. This ancient forest is home to thousands of species of plants, birds and animals, 1000 year old cedar trees, 60 metre Sitka spruce as tall as 25-story high buildings, and this rare white Spirit Bear which exists nowhere else on earth. Rich salmon streams weave through valley bottoms providing food for magnificent creatures such as orcas, black bears, grizzlies and eagles. [more>>](#)

DON'T INVEST IN THE DESTRUCTION OF CANADA'S ANCIENT RAINFORESTS

Companies contributing to rainforest destruction. You help fund them through your Mutual Funds

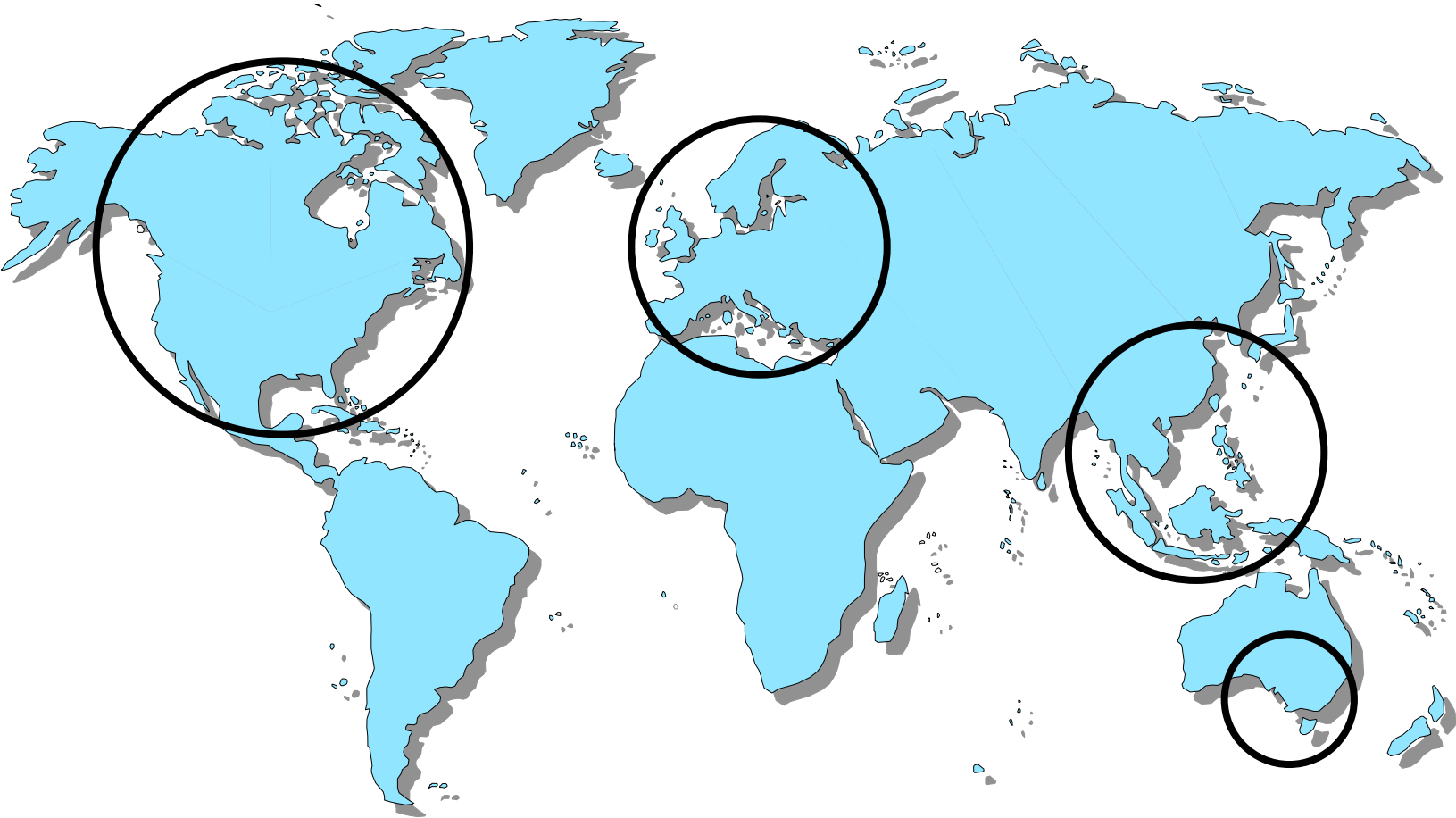




# Listed forestry companies : what we don't know

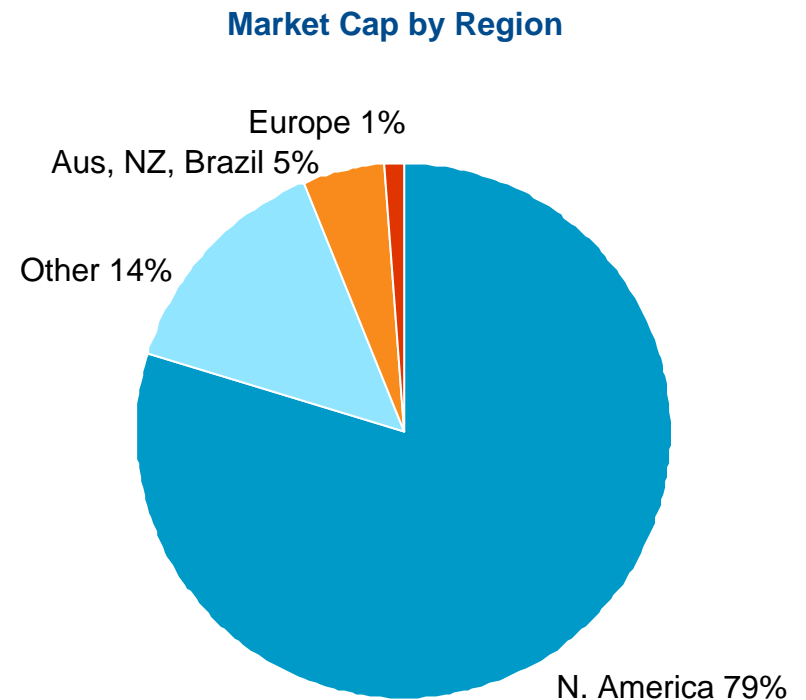
- How much of the world's unprotected forest is listed?
- Which companies own frontier forests?
- What is the current forest depletion rate and to what extent is this conversion to plantation?
- How much illegal logging is involved?
- Which banks are financing this? Are they European or US based?
- Which UK pension funds/investors own these businesses?
- How are these companies regulated?

# Location of listed timber & pulp paper companies



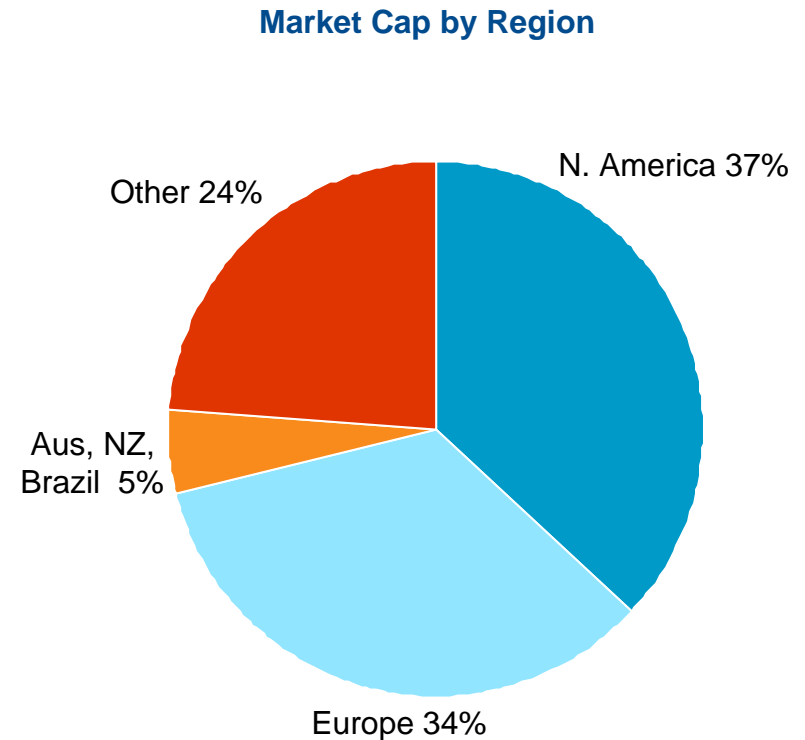
# Total market capitalisation - global forestry sector

Market cap US\$m as at 29.08.03	
North America	21,025
Europe	392
Australia, NZ, Brazil	1,212
Other	3,823
World	\$26,452



# Total market capitalisation - paper sector

Market cap US\$ as at 29.08.03	
North America	53,031
Europe	48,390
Aus, NZ, Brazil	6,685
Other	34,903
World	\$143,009



# The race to 'list' forests

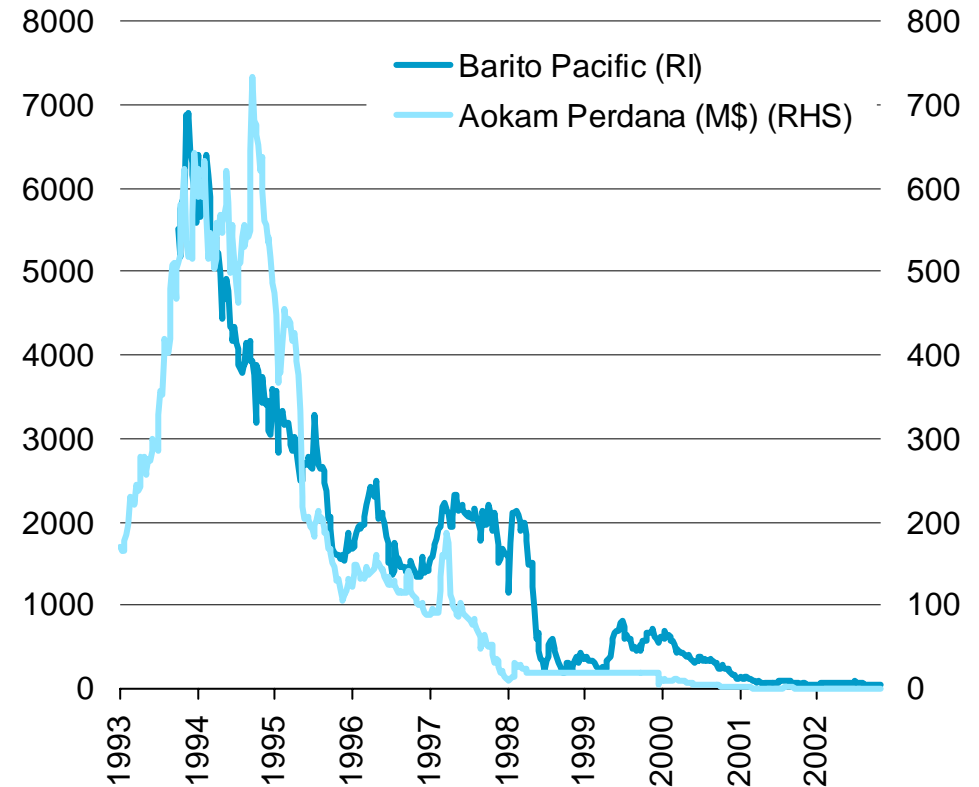
- Rapid listing of forests, primarily in South East Asia
- Collapse of sector
- Massive investor losses
- Lets look quickly at the sequence of events...

# Concession comparison: uncut forests

Company Name	Location	Logged	Commercial	Virgin
Golden Pharos	Malaysia	0%	0%	100%
Mentiga	Malaysia	40%	30%	30%
Advance Synergies	Papua New G	40%	30%	30%
Berjaya Group	Solomon Islands	40%	30%	30%
CASH	Indonesia	0%	0%	100%
D Realty	Papua New G	40%	30%	30%
L & G	Papua New G	0%	0%	100%
United Wood	Vanuatu	40%	30%	30%
Kumpulan Emas	Solomon Islands	40%	30%	30%

# Barito Pacific & Aokam Collapse

- Two popular timber stocks collapse
- Difficult period for forestry investment in the region
- How will this sector be refinanced
- What's the long term ecological impact



# Collapsing values - 95% loss over 10 years

	31.12.93	29.10.02	Loss in value (US\$m)
Aokam Perdana Bhd. Susp - 25/09/02	1310.63	1.32	
Idris Hydraulic Mal.	1642.07	8.11	
Pan Pacific Asia	126.95	3.05	
Berjaya Group	612.64	59.06	
Golden Pharos	129.92	11	
Kumpulan Emas	190.57	49.58	
U-Wood Holdings	131.85	8.51	
Khong Guan Flour	23.94	7.64	
Lingui Development	936.93	141.15	
CHG Industries	157.2	2.33	
Glenealy Plantations	356.21	51.61	
Damansara Realty	160.87	17.49	
Ayer Hitam Planting	213.01	55.16	
Ekran	811.32	40.14	
Mechmar Corp.	156.03	19.3	
Barito Pacific Timber	4243.93	6.84	
Mentiga	210.19	2.17	
Advance Synergy	768.21	35.11	
Land & General	1005.58	39.61	
MGR	123.05	3.17	
Minho (M)	269.04	12.14	
	<b>13580.14</b>	<b>574.49</b>	<b>13005.65</b>



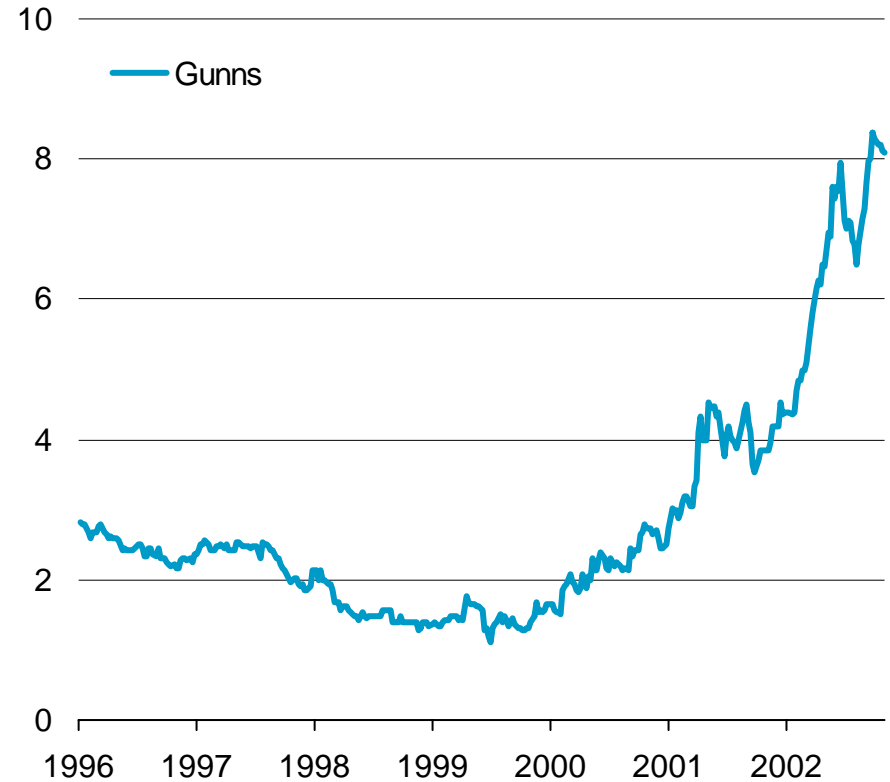
## Listed forestry companies in 2003: non-US players

Name	Location	Size In World	Mkt Cap
Gunns	Australia	6th	\$644 mn
Jilin Forest	China	15th	\$283 mn
Lingui Dev	Malaysia	18th	\$170 mn
Fujian Yongan	China	19th	\$148 mn
Yunnan Jinggu	China	24th	\$108 mn
Lion Forest	Malaysia	29th	\$89 mn

67 listed companies have a total market capitalisation of \$26 billion as 29.08.03

# Gunns Australia - a top performer

- From old growth to plantation - is there an ecological cost?
- Major shareholder campaign organised by The Wilderness Society - banks and investors confronted



# Sustainable forestry - Tasmania 2002



# Challenges for the future

- Complete assessment of global listed forestry sector - extent of ownership and forestry management practices - is any of it illegal?
- For European and US equity investors to understand what they own
- Assess extent to which equity investors are encouraging entry into frontier forests/natural forests
- To look at the listing rules frameworks for global forests

### **House view**

This document has been produced based on Henderson Global Investors' research and analysis and represents our house view.

Please remember that past performance is not necessarily a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, and therefore investors may not get back the amount originally invested.

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