

# The Nedbank Green Index

Investing for the future

25 October 2011



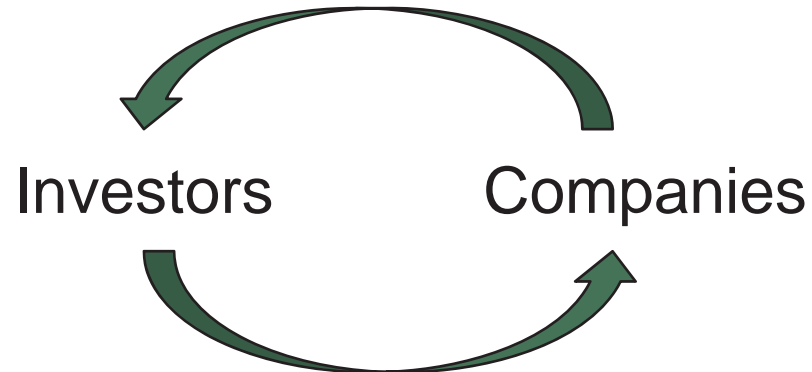
MAKE THINGS HAPPEN

**NEDBANK | CAPITAL**

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# Roadmap

- What is happening internationally around environmentally sustainable investment?
- What are the local trends?
- **Nedbank Green Index – methodology, performance and rationale?**
- Case studies of local top performers in the Nedbank Green index
- International evidence
- Concluding thoughts – tying it all together



# World Trends in the Investment Universe

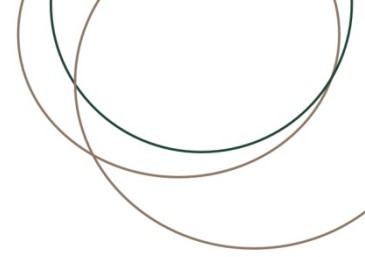
- Currently the UN PRI has 920 signatories with approximately US\$ 30 trillion AUM
- From 1999 to 2010, the number of sustainability indices being offered by members of the World Federation of Exchanges increased **from 2 to more than 50**
- As of July 2011, the Carbon Disclosure Project has **551** financial institutions as signatories with **US\$71 trillion AUM**, worldwide
- According to Eurosif (European Sustainable Investment Forum), as of 7 December 2010, sustainable investment in emerging markets topped **\$300bn**

## Where South Africa is on the Journey

- In the latest report on emerging markets, Eurosif has identified **South Africa as a pre-eminent destination** for sustainable investment, with transparent reporting and above-average integration of social issues. Such a perception can only be enhanced by companies adopting the King III injunction to produce **integrated annual reports**
- As of July 2011, there are 26 local asset managers who are signatories to the **United Nations Principles of Responsible Investment**
- On the 19<sup>th</sup> July 2011, the **Code for Responsible Investing in South Africa (CRISA)** was launched. CRISA is a South Africa-specific voluntary code, modelled on the United Nations Principles of Responsible Investment
- The latest revision of **Regulation 28** requires that investors take into account any factor which could materially affect an investment “including factors of an environmental, social and governance (ESG) character”
- BUT the JSE SRI Index remains the sole index benchmarking any form of responsible investment. While a step in the right direction, the SRI index has been criticised for being **neither black nor green enough**

# The Nedbank Green Index

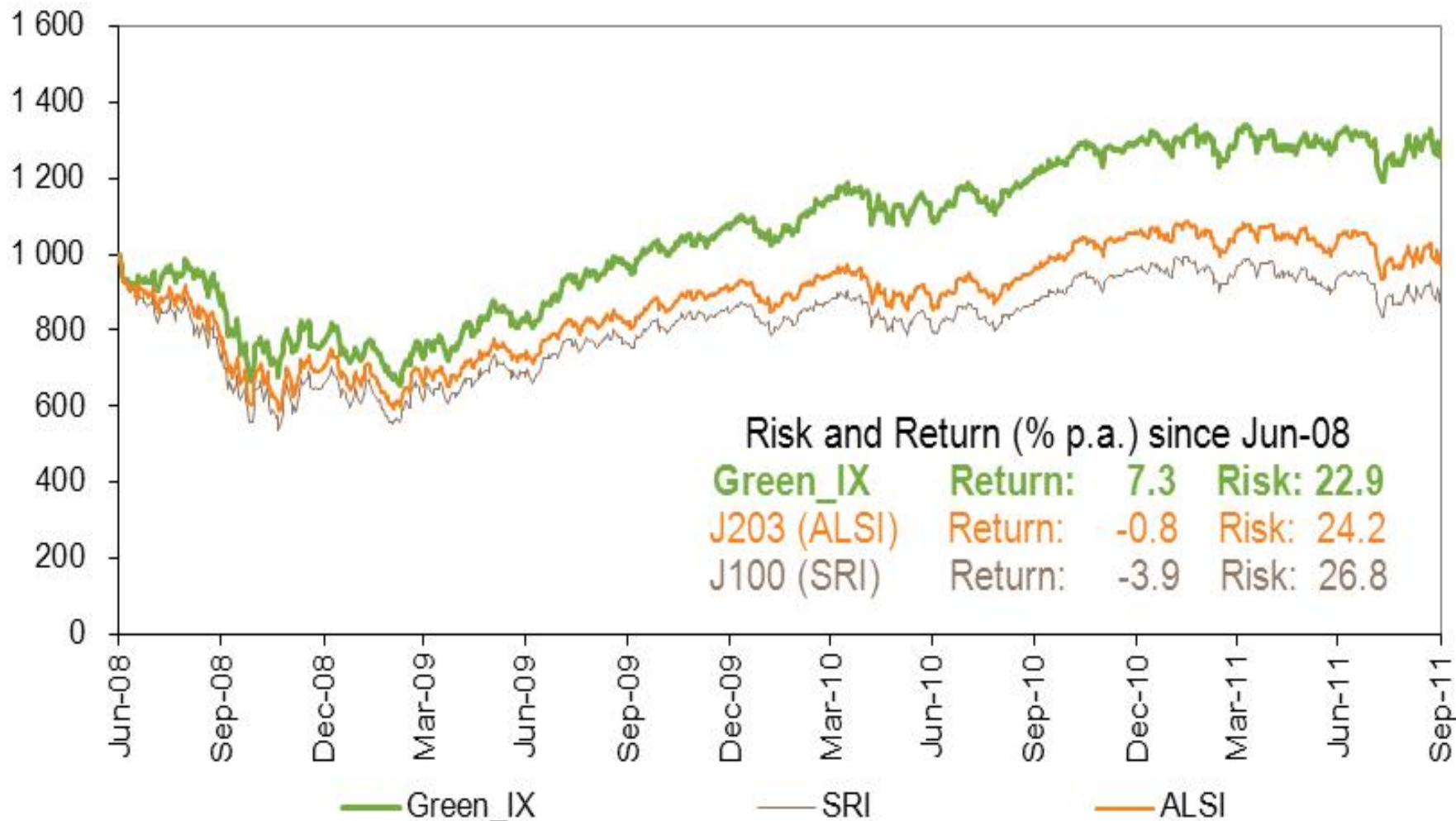
- Nedbank, known as the Green Bank, saw an opportunity to provide investors, both Institutional and Retail, with an investment tool to allow them to trade their convictions
- The Nedbank Green Index selects and weights constituents from the 100 largest companies listed on the JSE, based on their **environmental credentials and liquidity criteria**
- The primary source for the environmental credentials is the **Carbon Disclosure Project** where disclosure scores are used for constituent selection and performance scores are used to increase the weightings of higher-performing companies. Companies that have projects registered with the **Clean Development Mechanism** receive an additional weight “kicker”



A UNEP FI/UNISA survey of  
“The State of Responsible Investing  
in South Africa” found that the  
**single greatest barrier**

to adoption of responsible investing in SA is the **belief** that **responsible investing results in underperformance.**

# Performance: Nedbank Green Index v ALSI & SRI

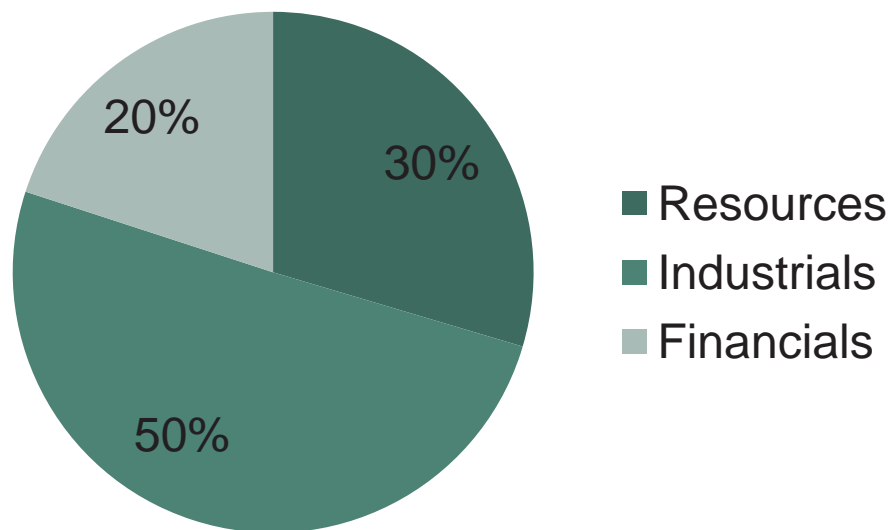


# Benefits of Nedbank Green Index

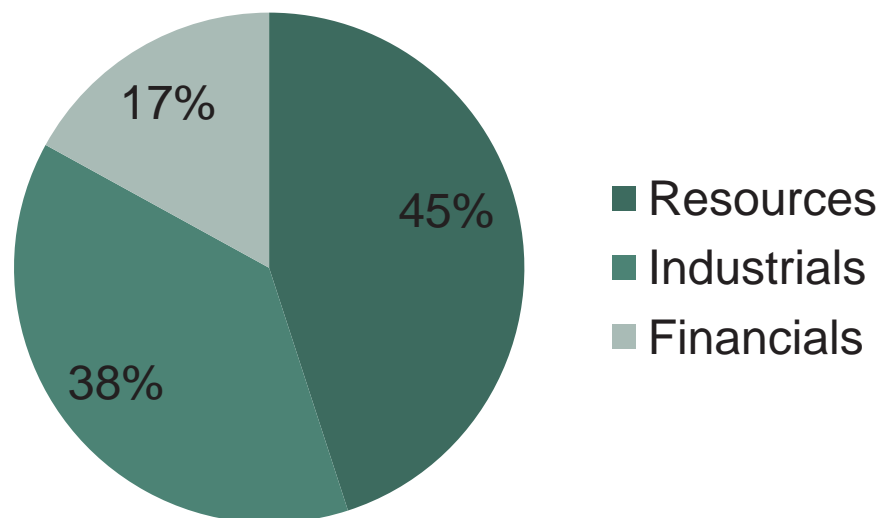
- Market diversification
- Sector breakdown closer to that of the economy as a whole
- Comparable liquidity and volatility to common local benchmarks
- **An investment tool that allows investors to trade their convictions and incentives companies to adopt green business principles**

# Sector Breakdown: Nedbank Green Index v Top40

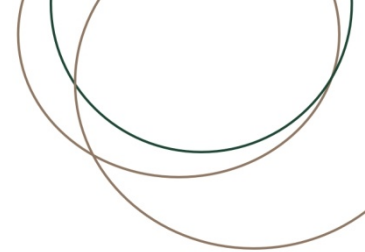
## Nedbank Green Index



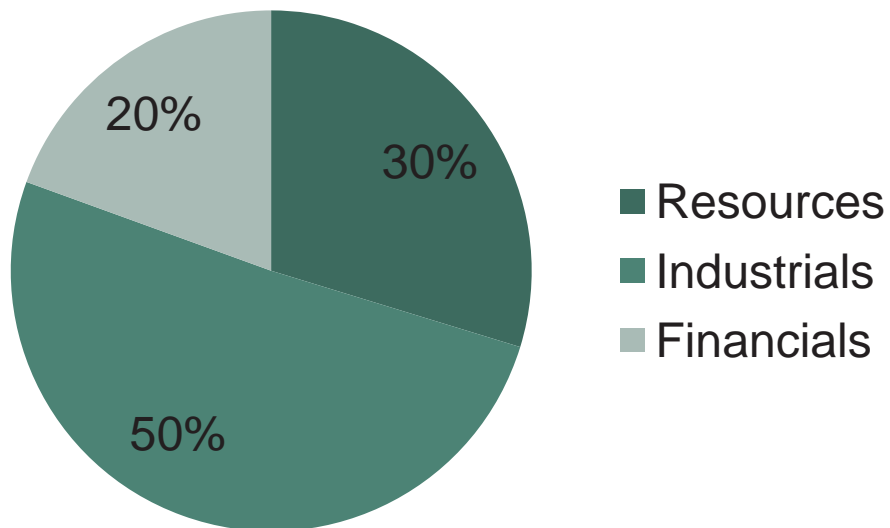
## Top40



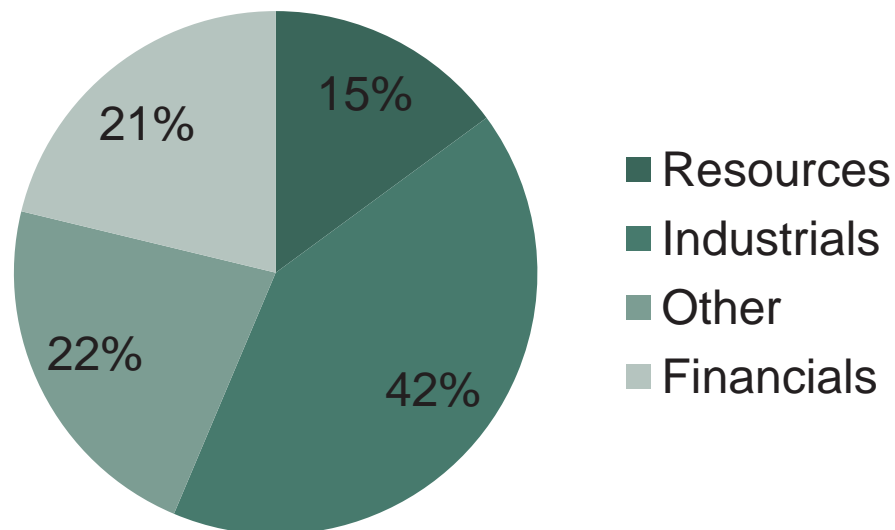
# Sector Breakdown: Nedbank Green Index v Economy



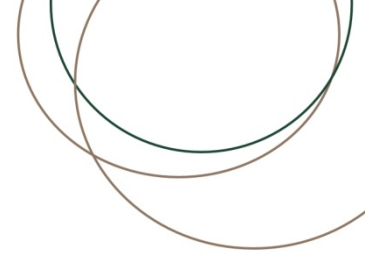
## Nedbank Green Index



## SA Economy

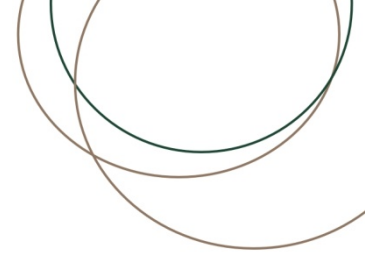


# Findings from the Nedbank Green Index



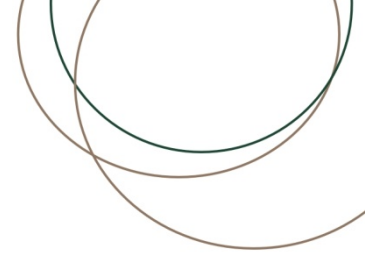
- **Being environmentally responsible does not have to come at a cost in performance.** From June 2008 to the present, the Nedbank Green Index has outperformed the market (ALSI) by more than 30%.
- **Managing environmental risks and opportunities affects financial outcomes.** In particular, climate change will result in a radically different operating environment for companies – both from a regulatory and physical perspective. Companies that prepare themselves to take hold of the opportunities presented by these changes should be better positioned for the future.
- **Investing in companies with strong environmental credentials incentivises companies to behave responsibly and allow investors to act on their environmental convictions.** Both the recently launched Code for Responsible Investing in South Africa (“CRISA”) and the redrafted Regulation 28 for Pension Funds encourage investors to take environmental considerations into account in their investment decisions. The Nedbank Green Index provides a benchmarking and passive investment tool for this purpose.

# International Findings



- **Environmental sustainability is increasingly prominent and mainstream amongst global investors.**
- **Global evidence for indices based on carbon and climate change awareness outperforming the market:** According to PwC, companies in both the Carbon Disclosure Leadership Index and the Carbon Performance Leadership Index generated approximately double the average total return of the Global 500 Index (between Jan 2005 and May 2011).
- From its inception in 2005, the Global 100 Most Sustainable Corporations has outperformed its benchmark (MSCI All Country World Index) by more than 16% to December 31<sup>st</sup>, 2010 (source: Innovest Strategic Value Advisors).
- Companies focussed on sustainability outperformed their peers (measured against industry benchmarks) by 15% during the financial crisis (source: Green Winners: The performance of sustainability focussed companies in the Financial Crisis, AT Kearney, February 2009).
- Since its inception in June 2007 – end2010, the **GS Sustain Focus List** has outperformed the MSCI All Country World Index by 38.5% on an equally weighted basis.

# Investing in the Nedbank Green Index

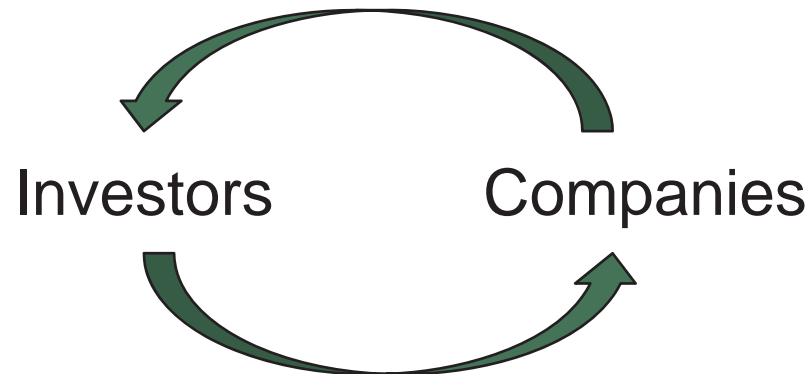


- Segregated mandates:
  - This can be implemented immediately:
    - Set up a ring-fenced portfolio with NedGroup Securities
    - Sign an investment mandate with NedGroup Securities to manage the portfolio in order to track the Nedbank Green Index
  - Cost structure will mimic that of an ETF
- BettaBeta Green ETF:
  - The “BGreen” ETF is expected to launch by the end of 2011
  - The ETF will be listed on the exchange, providing liquidity and transparency to a wide range of investors

\*A segregated mandate can be rolled into the ETF at no additional cost to the Investor.

# Concluding Thoughts

- Local and international evidence suggest that companies that are more aware of risks and opportunities in the Green Economy are out performing their peers
- Investors, as the allocators of Capital, play a vital role in ensuring that the correct incentives are in place for corporations to change their behaviour to be more sustainable
- Incentives such as incorporating Green Selection Criteria in investor's overall stock picking process means those companies with Green Awareness and Strategies will benefit in the form of a stronger share price, further encouraging investors to invest in these companies



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