

Risk and Reward: Protecting or Enhancing Investments with Regards to Climate Change

Opportunities in Environmental Markets Post Copenhagen

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Copenhagen Impact on Environmental Markets

- ① **Failure to secure new binding treaty.** This has had a significant impact on carbon trading, with the timeframes for national and international markets unclear.
- ② **But, emerging markets and the US, now engaged** in process, and making commitments to curb their emissions
- ③ **Variable performance of different environmental market sectors** over the last 6 months
- ④ **The underlying market drivers have not changed,** and the long term prospects are extremely strong.

Emerging Markets Are Now Engaged

- **Chinese Premier, Wen Jiabao on China's 40-45% cut in carbon intensity from 2005 to 2020:**
"To reduce carbon dioxide emissions on such a large scale will require tremendous efforts. Our target will be mandated into China's mid- and long-term plan for national economic and social development to ensure that its implementation is subject to the law. Whatever outcome this conference may produce, we will be fully committed to achieving and even exceeding the target."
- **Brazilian President Luiz Inácio Lula da Silva:** "We approved through the National Congress that Brazil, until 2020, will reduce greenhouse gas emissions between 36.1% and 38.9%. We will spend US\$ 166 billion until 2020, equivalent to US\$ 16 billion a year. This is not an easy task, but it was necessary to define those measures to show the world that, just with words and bargains, we would not reach a solution."
- **Indian Prime Minister, Manmohan Singh:** "Since we are among the countries most infected by climate change we have adopted an ambitious national action plan. We are committed to time-bound outcomes that will increase the energy efficiency of our economy and the share of clean energy in our energy mix. All this will require considerable resources. We have undertaken to do what we can with our own resources. We will do more if there is global support in financial resources and technology transfer."

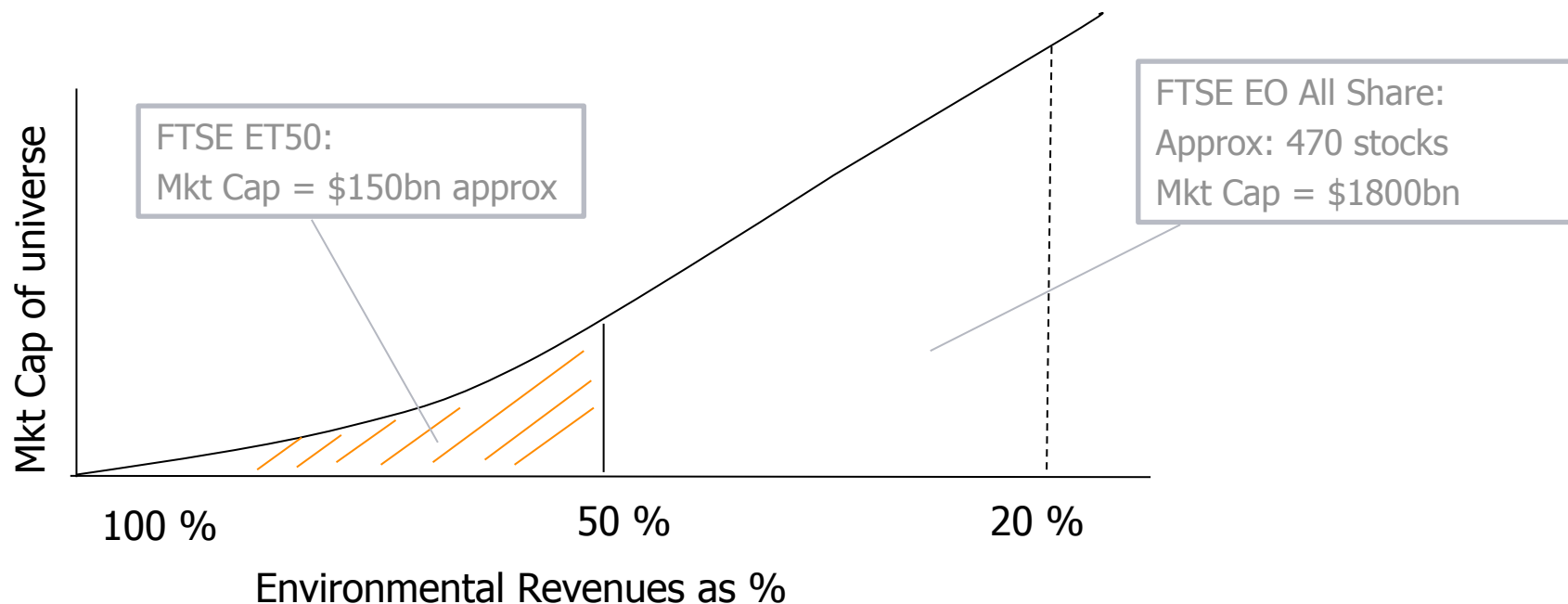
Environmental Sectors: Performance and Trends

Index	Relative Performance to FTSE Global All Cap			Absolute performance		
	6 Months	1 year	5 years	6 Months	1 year	5 years
FTSE EO Water Technology Index	-0.1	5.7	28.9	8.4	64.6	56.6
FTSE EO Energy Efficiency Index	6.3	23.5	29.4	14.7	82.4	57.1
FTSE EO Renewable and Alternative Energy Index	-15.6	-33.7	14.5	-7.1	25.2	42.2
FTSE EO Waste and Pollution Control Technology Index	0.4	-2.1	17.2	8.8	56.9	44.9

- **Strong outperformance over 5 years** from all sectors, but divergence recently
- **Renewables** have underperformed recently – capital intensive and pressure from dropping gas prices
- **Energy Efficiency** shown very strong performance – national green stimulus spending and national efficiency regulations
- **Water infrastructure & tech** - low volatility and solid returns
- **Waste and pollution control** – tracked closely to wider equity market, (waste weaker, and pollution control stronger)

Accessing the theme in a low risk manner

- Diversification and the challenge of picking winners
- Exposure vs volatility
- Widening the investment pool

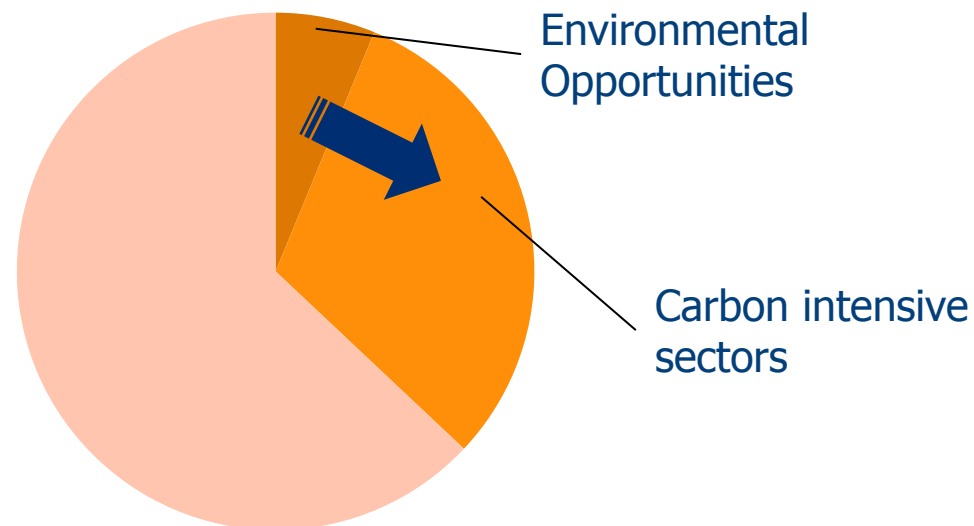


Making Allocations into Environmental Technology

Equity allocation:
increasing the wedge

Annual revenue generated by environmental markets is estimated to be US\$500 billion and is expected to grow 12-15% p.a. over the next five years

Source: Impax Asset Management



Global Picture:

FTSE Global All Cap	= \$28.9 trn
Carbon Intensive Sectors	= \$8.9 trn (31%)
FTSE EO All Share	= \$1.8 trn (6%)

(Note that figures are after free float adjustments)

Source: FTSE

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