

# Sustainable Investing



September 2009

"We believe that for a company to have a sustainable business model it must demonstrate ethical and environmentally responsible behaviour, have mutually beneficial business relationships, be able to attract and retain quality staff and make a positive contribution to the wider community."

ING Investment Management

Sustainable investing focuses on the long term sustainability of a company's business model and profits. It avoids companies that are fundamentally involved in activities or practices that are harmful to the environment, community, or employees as well as companies with poor corporate governance practices.

Companies' sustainability track record is an excellent proxy and leading indicator for the overall quality of their strategic management. However, sustainability factors can be complex, difficult to research, and often 'below the radar' of mainstream analysts. This creates mispricing opportunities and allows an information advantage for investors who follow sustainability principles.

Intangibles are making up a greater proportion of companies' value. Environmental, social and governance (ESG) practices are a key component of this intangible value.

With growing recognition and widespread interest in sustainability factors such as climate change, work behaviours and corporate management practices, ING Investment Management (INGIM) believes sustainable screening will eventually become part of mainstream investment methodology for investors and contribute to improved corporate practices over time.

## Our Approach to Sustainable Investing

INGIM combines its stock selection skills with sustainability research via RiskMetrics with the aim of delivering solid long term investment results that are both socially responsible and profitable to investors.

### Investment Process

#### Identify Model Portfolio

INGIM applies a proprietary valuation system to establish a universe of investible securities. Each stock in this universe is then ranked, based on a number of quantitative and qualitative factors, to establish a Model Portfolio of stocks. This Model Portfolio is then used as the starting point for the construction of a Sustainable Australian Equities Portfolio.

#### Sustainability Assessment

Companies within the Model Portfolio are given a sustainability rating within their industry sector by RiskMetrics on the basis of their assessment against environmental, social and corporate governance (ESG) criteria. Companies that score poorly on sustainability credentials are removed from the Model Portfolio. Excluded industries generally tend to be those with a high exposure to weapons, gambling, tobacco, pornography and animal fur.

#### Identify Replacements for Excluded Stocks

INGIM will identify suitable replacements for the excluded stocks. This can be done in two ways: i) Find a suitable replacement (within the same industry sector) from the universe of investible securities or ii) increase exposure to a company already identified in the Model Portfolio that meets sustainability criteria. These replacements are selected on the basis of their overall investment potential. Companies will not be considered for inclusion on the basis of their sustainability features if they are not considered investment grade (ie. meet appropriate financial measures).

#### Portfolio Construction

Replacement stocks are combined with the stocks that passed initial screening to construct a portfolio that retains the preferred Australian equities investment characteristics and rates highly on sustainability criteria. Once the portfolio is constructed INGIM's equity analysts maintain an integrity check of financial and sustainability criteria to ensure the stock retains its status and eligibility for the portfolio. This integrity check also involves reviewing performance attribution, portfolio style, portfolio risk, and cross-checking process signals versus portfolio holdings.

## The Sustainability Rating Process

#### RiskMetrics Research Criteria

RiskMetrics rates more than 2000 publicly traded companies from the world's major stock exchanges. Their ratings process and subsequent company profiles evaluate corporate performance in four strategic areas: Environment, Strategic Governance, Stakeholder Capital and Human Capital.

The Intangible Value Assessment (IVA™) Model is specifically designed to address over 120 performance indicators in order to establish a company sustainability rating.

RiskMetrics' rating methodology consists of a five stage process which starts with an assessment of individual companies against each metric and assigning a score of 0 - 10 (with 10 indicating 'best in class'). Industry specific weights are applied to generate four sub-factor scores with Innovest's proprietary system combining all scores to generate an aggregate figure for each company.

## Sustainable Investment Process

### Model Portfolio

- Equities research & analysis by INGIM
- Rank stocks according proprietary valuation system
- Establish Model Portfolio of stocks

### Sustainability Assessment

- Sustainability assessment by RiskMetrics
- Remove stocks that do not meet assessment criteria

### Identify Replacements

- Identify suitable replacement stocks
- Ensure replacements meet INGIM investment credentials

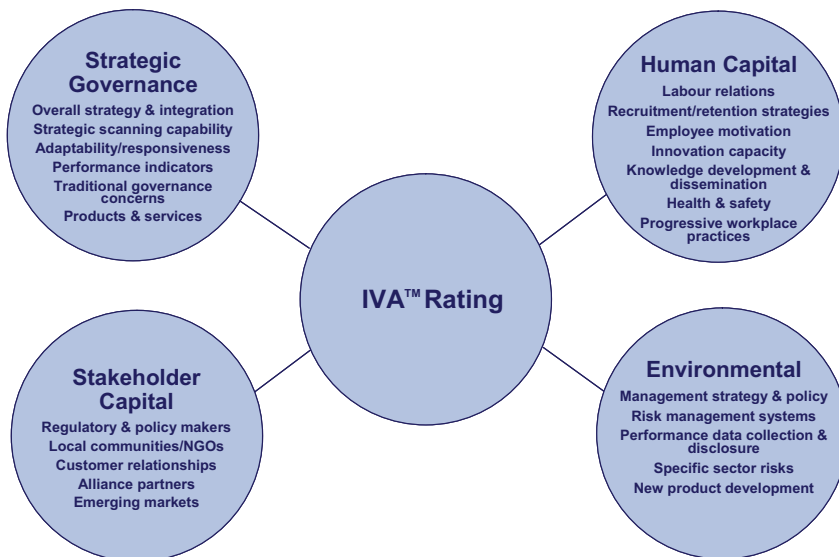
### Portfolio Construction

- Implement sustainable portfolio
- Ongoing integrity check - financial & sustainability

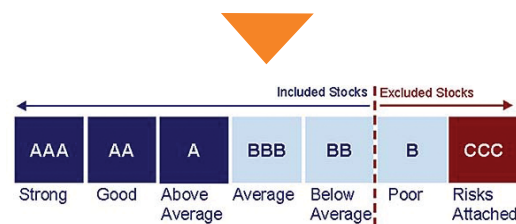
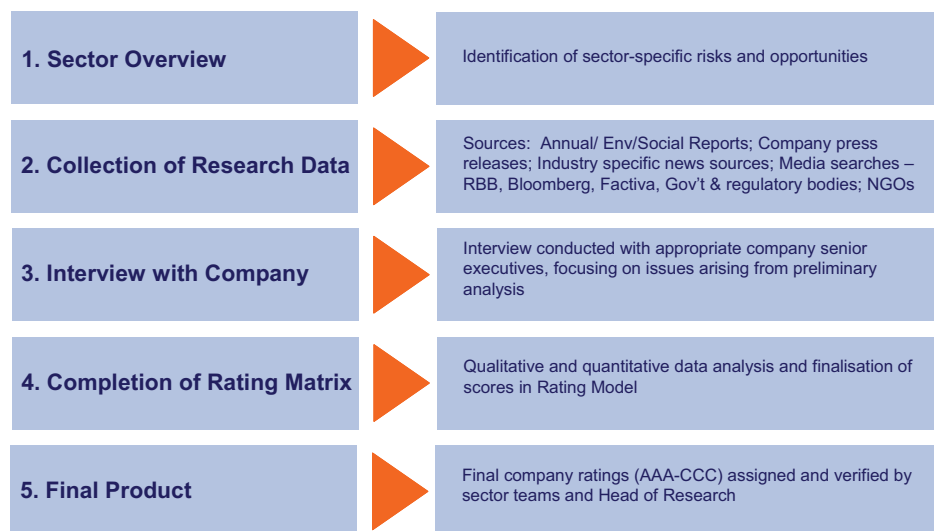
### The Merits of Sustainable Investing

- Strategic Alignment - aligns investment strategy with investors' social and environmental concerns.
- Alpha Generation - can generate consistent excess returns by helping investors identify companies with superior management.
- Risk Control - identifies hidden risk factors and provides returns at comparable or lower levels of risk.
- Fiduciary Benefits - meets global fiduciary requirements as there can be no suggestion that you are sacrificing returns.

### Extensive Rating Criteria



### Consistent Robust Process



The final output is the allocation of a company rating from AAA to CCC to each company based on an aggregate score relative to sector peers. INGIM's sustainability process automatically excludes any companies rated B or lower.



## Key Features

- Applies INGIM's Australian Equities stock selection skills and experience.
- Uses sustainability ratings criteria from one of the world's largest and most respected sustainability research firms.
- Creates a portfolio that provides strong exposure to positive analyst ratings, favourable quantitative characteristics, sustainability credentials, and an optimal risk/return trade-off.
- Delivers performance targets consistent with Australian Equities market exposure.

## About INGIM

ING Investment Management (INGIM) is the specialist global investment arm of ING Group, one of the leading financial services companies in the world, and is amongst the largest asset managers globally. In Australia, INGIM also has a strong presence, with specialist investment teams managing a broad spectrum of asset classes.

INGIM's Australian Equities team comprises 20 investment professionals who actively manage a range of Australian equities strategies. INGIM's Sustainable Australian Equities process benefits from the team's stock selection and portfolio management skills. The portfolio is built from a proprietary multi-factor screening process, backed by fundamental and quantitative analysis as well as sophisticated portfolio construction and risk management tools.

## About RiskMetrics

RiskMetrics is a leading global provider of risk management and corporate governance services to participants in the global financial markets. RiskMetrics rate more than 2,000 companies globally<sup>1</sup>, including all constituents of the S&P/ASX 200 Index. The rating process is underpinned by proprietary, sector-specific risk algorithms, factor weightings driven by empirical stock market research and risk models.

RiskMetrics Group acquired Innovent Strategic Value Advisors in February 2009. Innovent is an internationally recognised investment research and advisory firm specialising in analysing companies' performance on environmental, social, and strategic governance issues, with a particular focus on their impact on competitiveness, profitability, and share price performance. INGIM appointed Innovent in January 2006 following a review of sustainability researchers in the Australian marketplace. Key reasons for their appointment included their performance focus; their high quality research process that includes in-depth company interviews; and their global coverage. Seventeen out of the top 30 global asset managers in the world use Innovent research.

Innovent has been ranked as the No.1 global provider of "non-traditional" investment research in 2006 and 2007 by the Thomson Extel survey of over 180 major institutional investors. Innovent has also been ranked as the No.1 Sustainable Investment Research House and Consultancy in the world by Investments & Pensions Europe in 2007 and 2008.

<sup>1</sup> as at June 2009

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## INVESTMENT MANAGEMENT



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