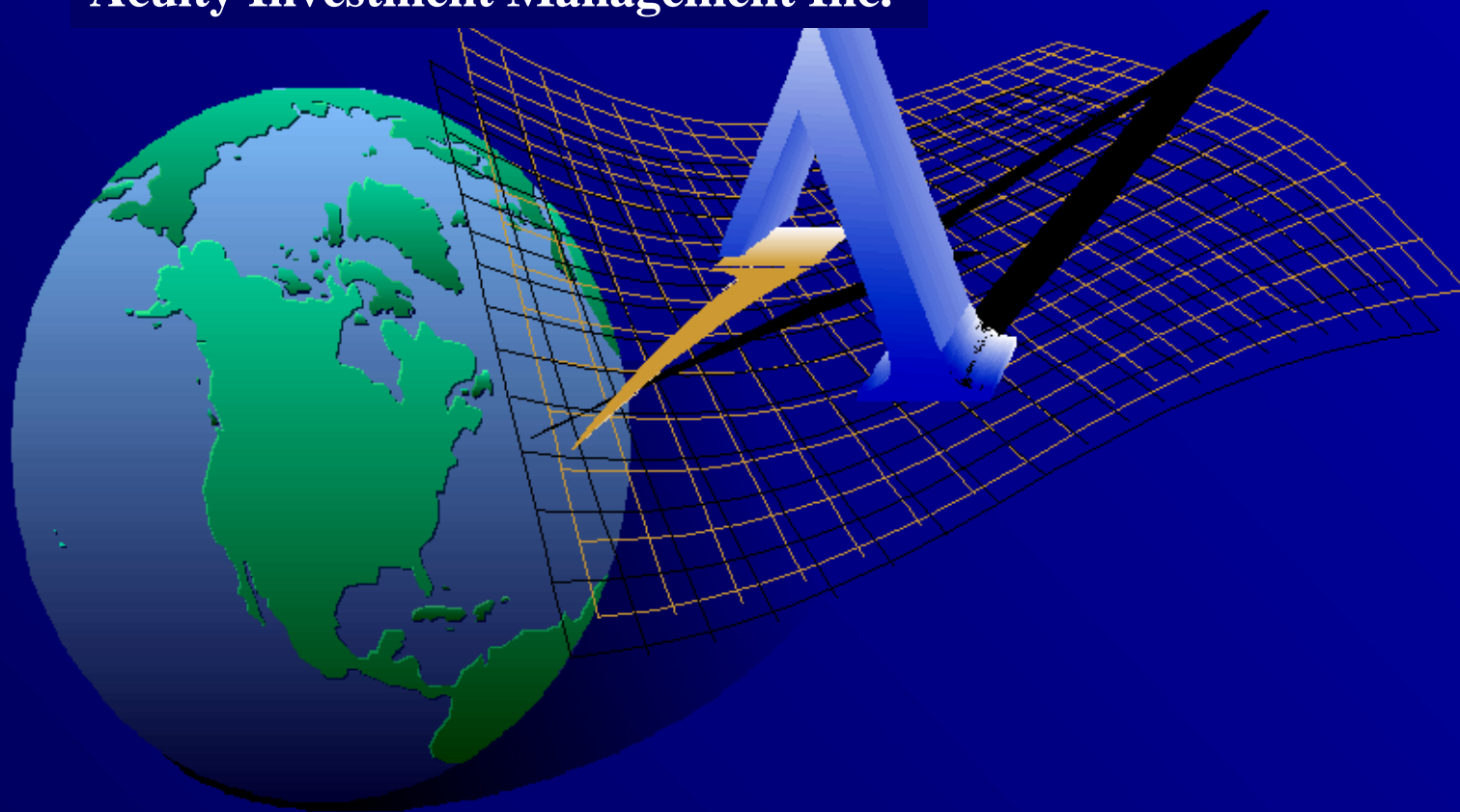


ACUITY

Acuity Investment Management Inc.



SIO
June, 2005

Background on Acuity

- Acuity was founded in 1990.
 - ❖ Currently manage \$6B on behalf of institutional and retail clients
- investment team with science and business backgrounds – in-house technical/sustainability knowledge
- SRI Industry involvement:
 - ❖ advisor to United Nations Environment Program financial initiative
 - ❖ advisor to Environment Canada's Capital Markets initiative
 - ❖ recipient of Globe Foundations inaugural Capital Markets award for Sustainable Investment and Banking.

Can SRI add Alpha?

Key Points

- ESG issues can be material to equity valuations
- Magnitude of issue and Relevance to investment decision must be determined
- Alpha may come from unexpected strategies....

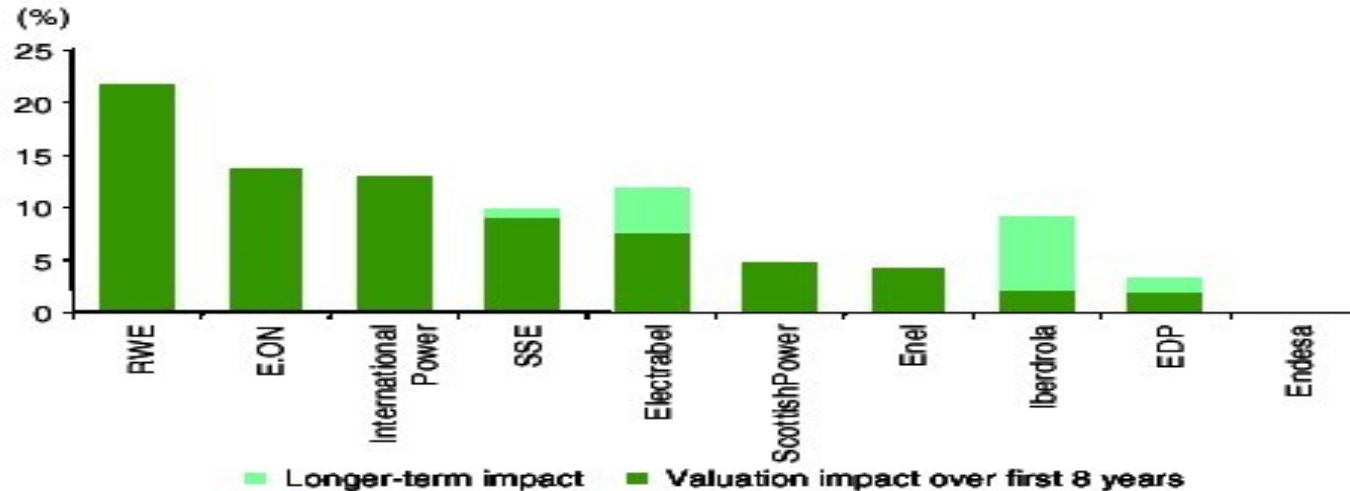
***Materiality* has been established**

Materiality

- UN Report* developed by an advisory group composed of 12 asset managers including Citigroup, Group AMA, Storebrand, Nikko Asset Management, Acuity
 - ❖ Based on research from 9 brokerage firms (including Goldman Sachs, UBS, Deutsche Bank) in a number of sectors
 - ❖ No ‘ethical’ bias given to the sell-side analysts
 - ❖ General conclusion:
 - “Environmental, social and corporate governance issues affect long-term shareholder value. In some cases those effects may be profound.”

Materiality

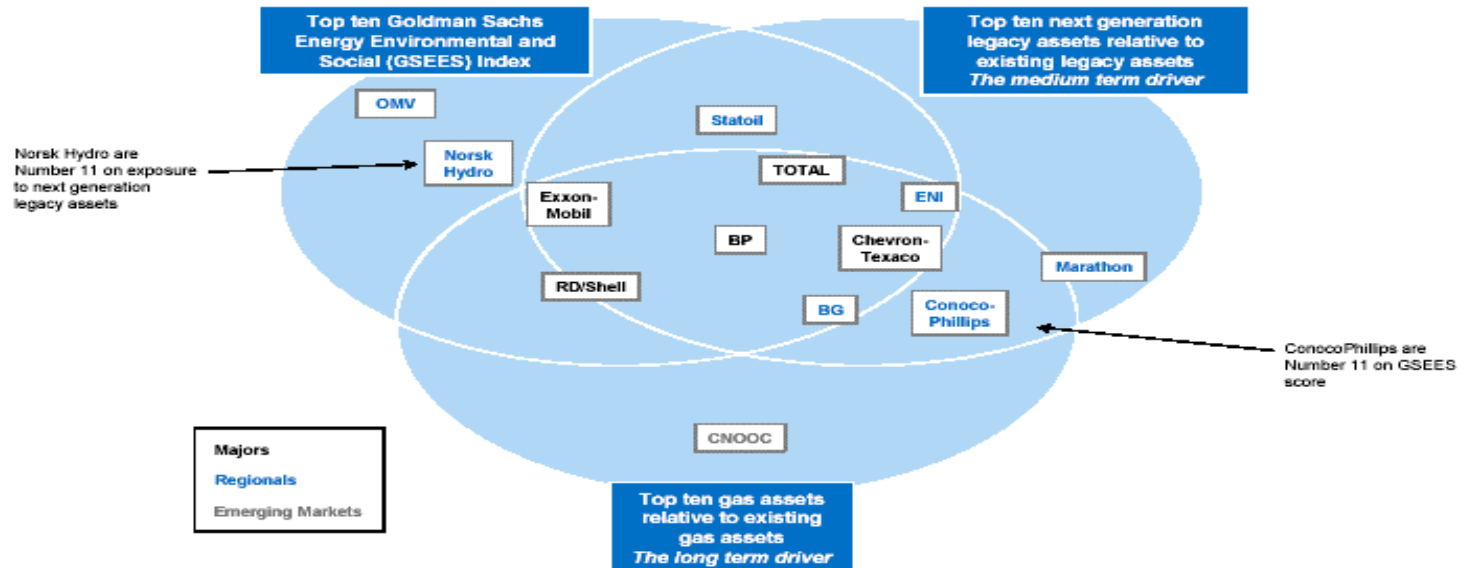
Valuation impact of CO₂ trading as percent of market capitalisation



Source: DrKW Equity research estimates

- Dresdner Kleinwort Wasserstein report on European energy utilities found a significant positive impact for most companies due to creation of a European carbon emissions trading market.
- The relative impact varied from under 5% to as high as 20% depending on the company's technology positioning and ability to pass through costs

Materiality



Source: Company data, Goldman Sachs Research estimates.

- Goldman Sachs European Oil and Gas team concluded:
- “The companies with the best social and environmental track record, as measured by the GSEES Index, dominate the next generation legacy assets. In an increasingly complex world, we believe such issues are part of the relative quality of overall management performance needed to compete successfully.”

Magnitude and relevance are what matters

Magnitude and Relevance: Kyoto and the Oil Sands

- Coming clean:
 - ❖ Major issues for oil sands: labour costs, processing efficiency commodity prices, power supply and refining capacity.
 - ❖ Government has capped the credit market at \$15 – will not result in an efficient market but provides emitters a cost cap
- *Magnitude: \$.10-.50/bbl on op costs of \$12-15?*
- *Relevance: strategic - has little investment relevance for the short to medium term but will increase in importance over time*

Magnitude and Relevance: Sulphur

Regulators are moving to limit sulphur emissions:

- ❖ Coal plants (Energy sector)
- ❖ Gas and diesel vehicles and trucks (Automotive sector)
- ❖ Refiners (Oil and Gas)
- *Magnitude: Meeting targets requires massive capital expenditures*
- *Relevance:*
 - ❖ *Issue is a key driver for some industries*
 - ❖ *Company positioning on this issue can drive short and long term share price movement*
- Managers who are not on top of similar themes will simply 'underperform'

How can SRI criteria add 'Alpha'

- Relevant to:
 - ❖ Fundamental stock selection (picking 'better' companies)
 - ❖ Identifying industry trends early
 - ❖ Risk mitigation (avoiding 'blow ups')
 - ❖ Generally mid to long term – sometimes short

- Not generally relevant to:
 - ❖ Top down economic analysis
 - ❖ Sector rotation
 - ❖ Technical analysis
 - ❖ Momentum strategies

Potential Strategies

- Common Strategies
 - ❖ Overweighting highly ranked performers
 - ❖ Forcing the laggards to change – shareholder resolutions
- Uncommon Strategies
 - ❖ Buying the laggards who are ‘catching on’
 - ❖ Modeling ‘themes’ (sulphur)
 - ❖ Shorting companies where SRI performance already ‘priced in’

Summary

- Potential for materiality of ESG issues has been established
- Interpretation is critical – magnitude and relevance
- Alpha is dependant on manager’s integration of the issues – not on simply applying ‘screens’