



MORLEY
Fund Management

Singapore Values – Value for Singapore ASrIA Seminar Sustainable and Responsible Investment

8th April 2002



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Socially Responsible Investment

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Maximise Investment Returns

Reduce Social and Environmental Risk

Maximise Investment Opportunities



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Philosophy

“As investors, we increasingly believe that good environmental and social practice is synonymous with good management of companies and, in turn, good share price performance.” Keith Jones, Managing Director of Morley



SRI Institutional Drivers

- **Review in 2000 of UK Pensions Act - disclosure required on SRI**
- **European trend to follow suit**
- **EU CSR Green Paper**
- **ABI Guidelines**



SRI goes Mainstream

- **2001 Survey of UK Public and Private sector funds**
 - **59% of funds surveyed representing assets totalling £235bn incorporate SRI factors**
 - **Only 4% of funds surveyed state that SRI factors are not taken into account**



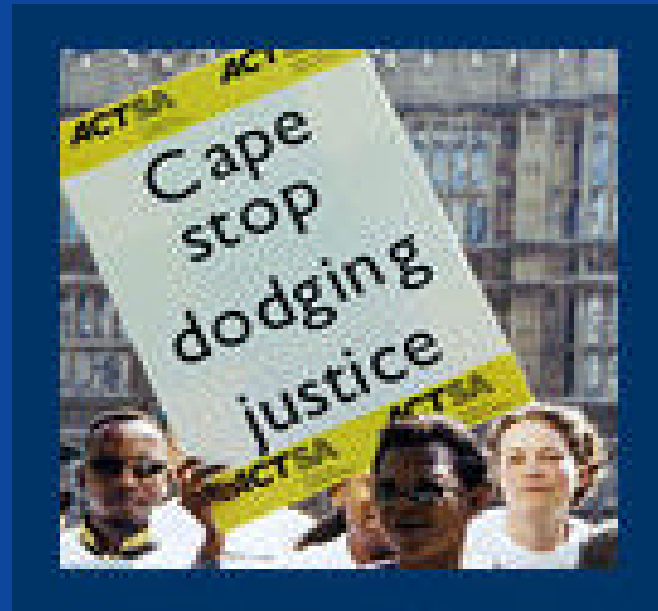
SRI Institutional Style

- **Focus:**
 - Shift to using shareholder pressure not divestment
 - encouraging companies to identify and report on risks
 - Implemented mainly through fund manager
- **But**
 - missing emphasis on investment opportunities



Paying the price for poor safety practices

- Compensation claims
- Damage to reputation
- 82% drop in share price





Intangibles contribute to Shareholder Value

- Reputation/brand (25% of world's financial wealth)*

"It takes 20 years to build a reputation and five minutes to ruin it"~

Warren Buffet

*Source: Interbrand September 2001

~Source: Economist March 2001



SRI Analysis

- Supports retail and institutional clients
- Proxy indicator of good management
- Engagement with companies as responsible owners
- New SRI commitments by fund managers but many lacking formal process



Shifting Focus

- **Greater focus on intangibles such as reputation and stakeholder relations**
- **Integration of SRI analysis with mainstream - where are the synergies?**
- **Testing the theory - CSR = Good Business**
e.g. Innovest, SERM, specialist funds and Indices



How We Rate Companies - Sustainability Matrix

Product	A	Vestas	GSK	Tanberg	Elekt	
	B	AT&T	CGNU	Vivendi	Reuters	
	C		Sony	Danske Bank		
	D	Henkel	Shell	BHP Billiton		
	E			BAT	Imperial Tobacco	
		1	2	3	4	5

Management Vision and Practice

Business Sustainability grading:

A: Core business is sustainability solution

E: Business is fundamentally in conflict with sustainable development

Management Vision & Strategy Grading:

1: Excellent - clear vision of sustainable development and actively working to achieve it

5: Poor - company lacks policies and processes to manage social and environmental responsibilities



Social Risk = Business risk

- Balance sheets **risks**
 - Operational **risks**
 - Capital cost **risks**
 - Business sustainability **risks**
 - Reputational **risks**
- asbestos
 - conflict
 - regulation
 - climate change
 - CSR, boycotts



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Insightful Investment

Conventional

Low Tech
Inefficient
Polluting

Energy



Water

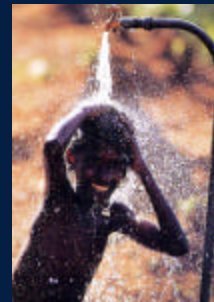


Waste



Alternative

Hi Tech
More efficient
Cleaner





Blinkered Investment

Risk of ignoring sustainable development

Asia Pulp and Paper (US\$ ADR)



Source: DATASTREAM 24/02/02



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Morley Corporate Engagement

- Own 2.7% of UK listed shares
- Industry-leading voting policy
- Aim: achieve superior returns

Top companies under pressure on environment

By Alex Skorecki

Public companies will come under increased pressure to focus on their impact on the environment following the announcement of a new policy by a leading UK fund manager.

Morley Fund Management, which manages £100bn of assets including the equivalent of 2.5 per cent of the UK stock market, will in future vote against the annual accounts of the top 100 companies unless they include an environmental report.

Morley, owned by CMO, the biggest UK insurer, says it will expect to see a "comp

committee, a successor to the Cadbury, Greenbury and Hampel corporate governance bodies. Turnbull introduced guidelines for risk management that extended to environmental risk.

Secondly, a new law has obliged pension funds to disclose in their annual reports whether they are taking into account environmental, social and ethical considerations when they make investments.

Pension funds in turn have put pressure on their fund managers to focus on environmental factors, not only

Financial Times April 2001



Requirements of a successful SRI Policy

- **Formalised Board commitment**
- **Applicable to all funds**
- **Integration with mainstream research and fund management**
- **Integration with the Corporate Governance**



The Future

- **SRI part of global CSR Policies**
- **Influencing mainstream investment decisions - underweight poor performers?**
- **Increasing pressure to disclose engagement activity**
- **Specialist funds continue to grow**



Notes

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Past performance is not a guide to the future.

The value of a fund and the income from it may go down as well as up, and the investor may not get back the original amount invested.

Where funds are invested in property, you may not be able to switch or cash in your investment when you want because property in the Fund may not always be readily saleable. If this is the case we may defer your request to switch or cash in your units. You should also bear in mind that the valuation of property is generally a matter of valuers' opinion rather than fact.

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