

ACEEE/CEE National Symposium

Washington, DC, April 15, 2003

Innovest

Strategic Value Advisors, Inc.

Investors' Perspective: Financial and Reputational Benefits of Superior Environmental and Energy Management

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SRI in the U.S.



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- *14 of 18 SRI funds with over \$100 million in assets earned top scores from Morningstar and/or Lipper Analytical Services in 2002*
- *Morningstar gives 33.3% of SRI funds top scores versus 32.5% for all mutual funds*
- *SRI assets grew by 3% in the first six months of 2002, while other assets under professional management fell by 10%*
- *SRI assets total \$2.3 trillion, up from \$150 billion in 1995, representing nearly 12% of U.S. assets*



Changing Viewpoint:

- ***Traditional view: Fiduciary responsibility to maximize returns precludes SRI***
- ***Most academic and business studies show a positive correlation between environmental and stock market performance***
- ***Correlation exists because environmental performance is an excellent proxy for management quality***
- ***Management quality is a leading determinate of stock market performance***

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Changing Viewpoint:

- ***Environment and social issues represent one of the most complex challenges facing management***
- ***High level of technical, market and regulatory uncertainty***
- ***Many complex issues, stakeholders and non-financial measures to address***
- ***Success in this high complexity area implies ability to excel in other business areas, and thereby earn superior returns***

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Sustainability Issues

Impact the Bottom Line



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- *Aventis – Starlink Corn*
- *Union Carbide – Bhopal*
- *Exxon – Valdez*
- *Sandoz – Pollution of the Rhine*
- *Royal Dutch/Shell – Brent Spar, Nigeria*
- *Nike – “Sweatshops”*
- *Monsanto – Genetically Modified Foods*
- *Ford – Bridgestone tire recall on “Explorer”*
- *Norsk Hydro – Utkal Project in India*
- *ABB - Bakkun dam in Malaysia*
- *GE – PCB in the Hudson River*
- *Elf Aquitaine – Erika tanker wreckage*

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Uncovering Hidden Value



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Intangible Value Drivers



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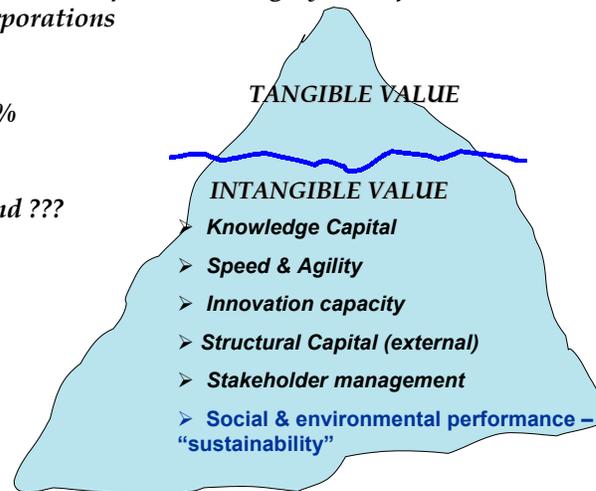
- In 1930, intangible value represented roughly 30% of the market value of major corporations



- In 2000 it was 85%



- In 2010 and beyond ???



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Key Drivers of Sustainability Investing:

- Growing dissatisfaction with traditional securities and valuation analysis, in the wake of the Enron and WorldCom scandals, among others.
- European pension reforms placing greater emphasis on socially and environmentally responsible investment and greater disclosure to investors, eg. U.K., France, Netherlands, Switzerland, Sweden, Germany.
- Increasing pressure from NGO's and other external stakeholders, armed with better and faster company information.
- Broadening interpretation of fiduciary requirements by public and corporate pension funds to include sustainability issues.

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Key Drivers of Sustainability Investing:

- Growing institutional shareholder activism on sustainability issues, and therefore growing demand for supporting company research.
- Rapidly changing consumer/investor demographics – baby boom bulge of younger consumers and investors with greater environmental and social consciousness.
- Tightening global, regional, and domestic regulatory pressures, e.g. Kyoto Protocol; new E.U. directives, U.S. clean air regulations.
- Growing CEO/CFO awareness of the competitive and financial benefits of sustainability.

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Deteriorating Environmental Conditions

Every major environmental system is in decline (World Watch Institute, State of the World):

- ✦ *50% of Forests cleared*
- ✦ *50% of wetlands gone*
- ✦ *Accelerating biodiversity losses*
- ✦ *Global warming exacerbated by greenhouse gas emissions*
- ✦ *Topsoil erosion, salination of soil, and aquifer depletion ongoing*
- ✦ *Every major ocean fishery at its limit or in decline*
- ✦ *Ozone layer thinning ongoing*
- ✦ *Coral reefs in decline*

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Deteriorating Environmental Conditions

- ✦ ***The State of the Earth's natural ecosystems has declined by 33% since 1970 (Living Planet Index).***
- ✦ ***The ecological pressure of humanity on the Earth has increased by about 50% since 1970 (Ecological Footprint Index).***
- ✦ ***Humanity's demands on nature exceed the capacity of the Earth to provide resources and assimilate waste by at least 30% (WWF, Living Planet Report).***
- ✦ ***As a result, the Earth's natural capital is being depleted. This is the ultimate cause of the decline in the world's forests, freshwater and marine ecosystems.***

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Implications for Corporations and Investors

- ✦ ***Greater incorporation of externalities into prices through taxes, regulations, fees and other means.***
- ✦ ***Increasing pressure to minimize negative environmental and social impacts and accept ongoing responsibility for products.***
- ✦ ***Growing demands to consider second and third-order impacts on society -- systems thinking.***
- ✦ ***Greatly increased complexity for management.***
- ✦ ***Sustainability is the largest challenge ever faced by business.***

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Major Obstacles to Providing Accurate Analysis

High Complexity -- Identifying, quantifying and attributing environmental impacts is difficult

Poor Data Quality -- Data is often lagged, missing, inaccurate and biased

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Company Overview



Equity Research

- **Specialist equity research provider that caters to both socially responsible and mainstream investment markets**
- **Innovest Strategic Value Advisors was founded in 1995 and is headquartered in New York, with offices in London, Paris and Toronto**

Products & Services

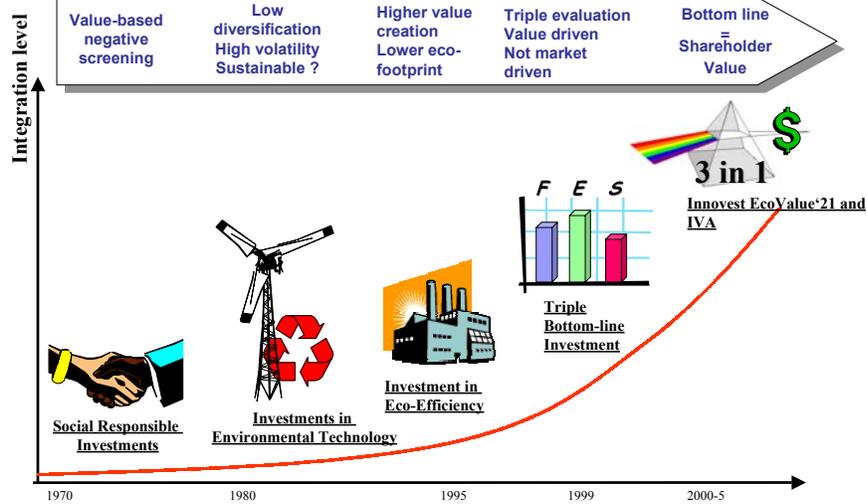
- **EV 21[®] Company Report - Assessment & rating of environmental performance**
- **VA[™] Company Report - Assessment & rating of social performance**
- **Sector Reports - Cover key intangible industry factors**
- **Sub Advisory Management - Product development with strategic clients**
- **Engagement Services**

Coverage

- **1,700 global stocks across all sectors, comprising:**
 - **S&P 500**
 - **EURO TOP 300**
 - **FTSE 350**
 - **200 Asia-Pacific stocks**

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The SRI Market Evolution



EcoValue'21 Overlay



Multi-factor **EcoValue'21** algorithms integrate over 60 key data points, including:

Historical Contingent Liabilities:

- Superfund
- State and hazardous waste sites
- RCRA
- Toxic torts

Operating Risk Exposure:

- Toxic emissions
- Product risk liabilities
- Hazardous waste disposal
- Waste discharges
- Supply chain management risk

Sustainability Risk:

- Energy intensity and efficiency
- Resource use efficiency and intensity
- Product life-cycle durability and recyclability
- Exposure to shifts in consumer values
- Social/community "license to operate"



Strategic Management Capacity:

- Strategic corporate governance capability
- Environmental management systems strength
- Environmental audit/accounting capacity
- Social issues performance
- Supply chain management
- Stakeholder relations

Sustainable Profit Opportunities:

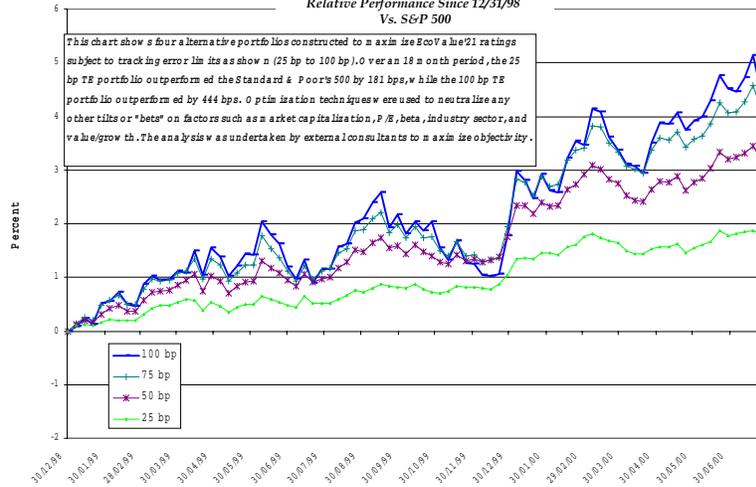
- ability to profit from environmentally and socially - driven industry and market trends

EcoValue'21: Time Series Evaluation



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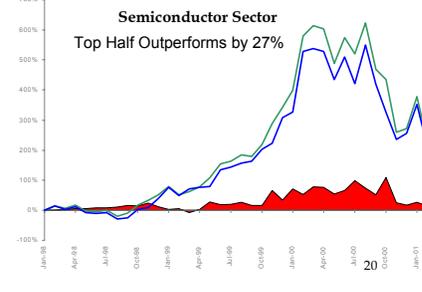
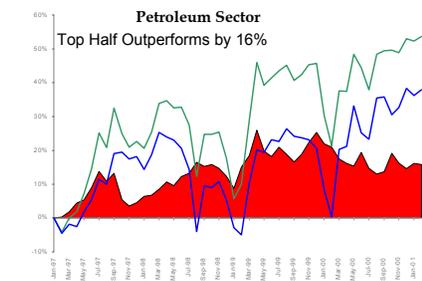
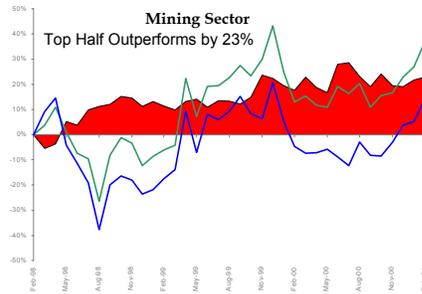
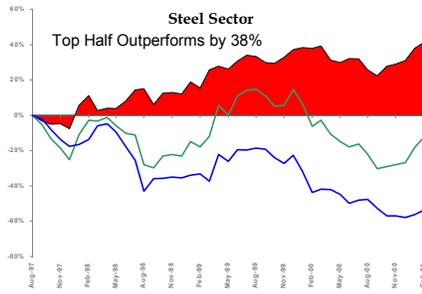
EcoValue'21: Time Series Evaluation
Relative Performance Since 12/31/98
Vs. S&P 500



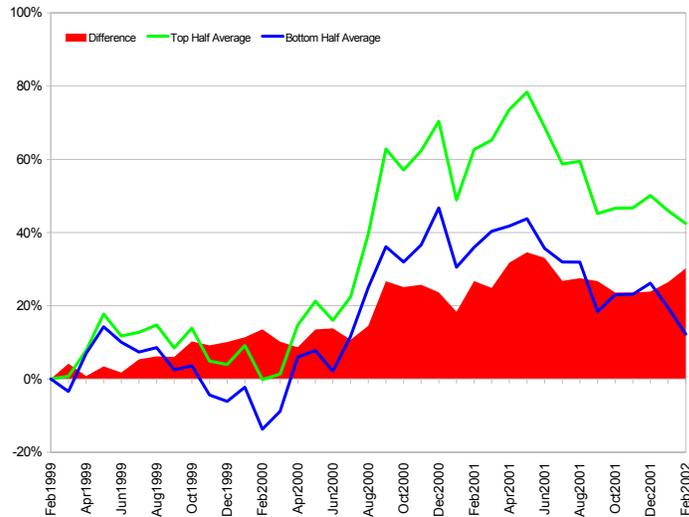
Alpha Generation



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Electric Utilities



Financial Clients



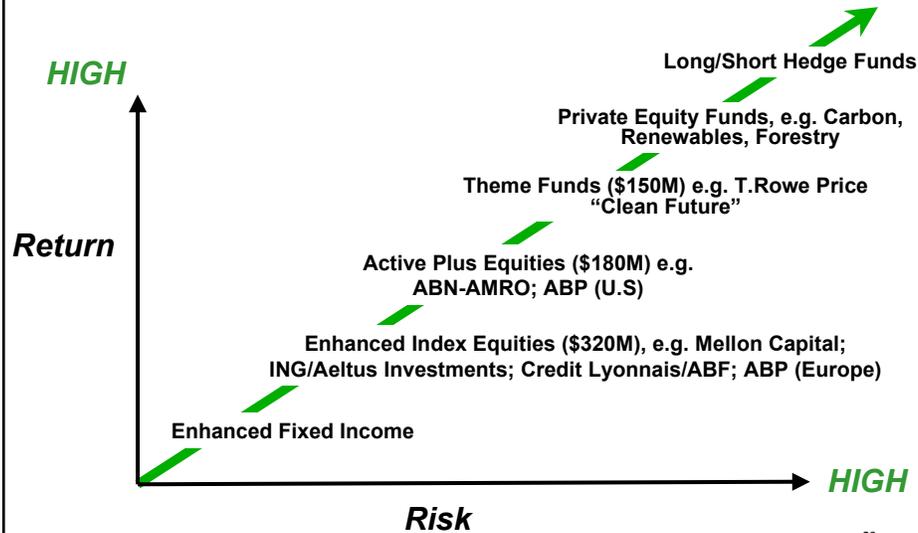
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- ABN-AMRO Asset Management
- ABP Investments
- Bank Sarasin
- Barclays Global Investors
- Brown Brothers Harriman
- CalPERS
- Chase Manhattan Bank
- Credit Suisse
- Daiwa Securities
- Dreyfus Investment Advisors
- Fidelity Investments
- Friends, Ivory & Sime
- Frontier Capital Management
- Glenmede Trust
- IBK Capital Corp.
- ING Bank
- John A. Levin & Co.
- Lehman Brothers
- Lombard Odier & Cie
- Mellon Capital Management
- Mellon Equity
- Neuberger Berman
- Rockefeller & Co.
- Schroders Investment Management
- Societe Generale
- SNS Asset Management
- State Street Global Advisors
- T. Rowe Price
- Wellington Management
- World Bank
- Zurich Scudder

Product Options



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Innovest Client Funds



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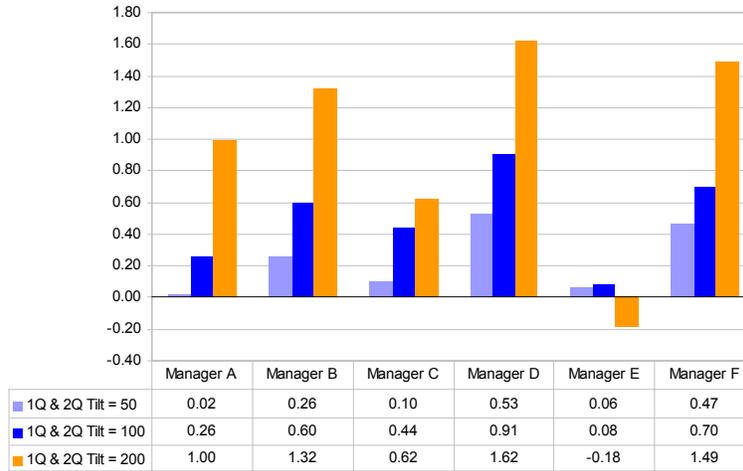
Strategy	Partner	Inception	Fund Size	Alpha
Global Active	ABN-AMRO	5/2000	\$75M	150 bps
U.S. Enhanced Index	Mellon Capital	2/2000	\$30M	60 bps
Global Active	T. Rowe Price	5/2001	\$160M	200 bps
U.S. Active	ABP	8/2001	\$100M	200 bps
Pan-Europe Enhanced Index	ABP	8/2001	\$100M	100 bps
Global Enhanced Index	ABF/Credit Lyonnais	2/2002	\$50M	80 bps
U.S. Enhanced Index	Aeltus/ING	3/2002	\$150M	120 bps

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ABP - Innovest Tracking Funds



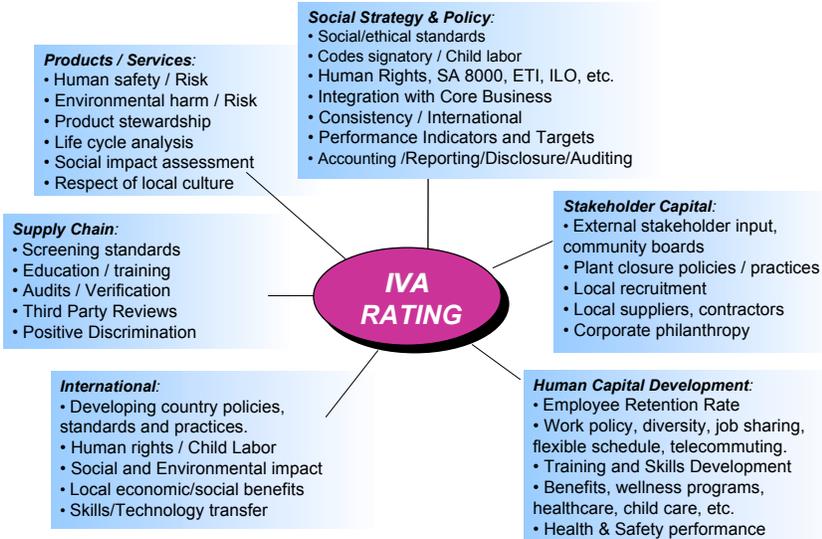
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Intangible Value Assessment



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IVA Profile

Innovest Strategic Value Advisors Intangible Value Assessment

Method: **TietoEnator Oy**
 Company: **TietoEnator Oy**
 Ticker Symbol: **TEV**
 Industrial Sector: **Software**
 Rating: **AAA**
 Basis: **17 of 18 companies**
 Analysts: **Aled Jones**

Intangible value comprises a growing percentage of market capitalization. Innovest's IVA™ ratings analyze relative corporate performance on intangible value drivers related to sustainability. By assessing different risks typically not identified by traditional equity analysts, IVA™ ratings uncover hidden value potential for investors.

COMPANY OVERVIEW

TietoEnator Oy (hereafter "TietoEnator" or "the company"), formerly known as Tieto Corporation Oy, provides IT services such as consulting, system development and integration, operation and support, product development and software services to businesses in Europe, the USA, Russia and China. Operations are divided into the following business areas: Finance, Services, Public Sector, Process & Manufacturing.



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INDUSTRY DRIVING FORCES

- The business objectives of a company such as TietoEnator are relatively simple: deepen expertise in existing markets, such as the Nordic region, and adopt or develop new solutions as an entered into new and emerging markets. Central to this strategy is the ability to attract and retain high quality employees – the core asset of software and consultancy companies. TietoEnator realizes this and is focused on becoming the first choice employer in its sector, by fostering an open and motivating workplace environment.
- From a sustainability perspective, there is very little done along the supply chain in the IT software and services sector. Typically, companies in this sector consider themselves as "low impact", doing as they do with information ("bits and bytes") which has no physical impact, and thus limits the environmental burden of these companies. However, European companies such as TietoEnator may be affected in the future by developments in EU policy on corporate social responsibility (CSR) and disclosure requirements for companies on social and environmental aspects of their business activities.

KEY ISSUES FOR STRATEGIC INVESTORS

Reputational Risk: As TietoEnator expands into new and emerging markets exposure to labour- and client-related (industry-dependent) risks will increase. As this exposure increases, TietoEnator will need to develop policies, at least on a basic level, to address possible concerns from within its shareholders and other stakeholders.

Sustainable Governance: The lack of board-level commitment to broad sustainability CSR issues will



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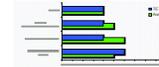
Innovest Strategic Value Advisors Intangible Value Assessment

Page 2

need to be addressed as these issues become a more mainstream business concern, in the long term, and as TietoEnator's exposure to risks increases in the short- to medium-term. The company would do well to anticipate this at a strategic level rather than taking a more reactive stance. History has shown that this latter approach can be very costly – both in terms of strategic (brand/reputational) costs as well as in the more direct costs related to retroactively developing e.g. policies and procedures to mitigate unwanted attention in unexpected social and/or environmental risks.

INTANGIBLE VALUE DRIVERS

SUSTAINABLE GOVERNANCE



Strategy: TietoEnator does not address environmental and social concerns at a strategic level. Considering that the company has no major environmental or social impacts that is not a particular concern at present. However, as TietoEnator's global business expands, the company will become increasingly exposed to potential risks over: Emerging Market: action, bribery, and so on, such company management will need to become more aware of these issues.

Strategic Capability/Responsiveness: The lack of board-level capacity on general sustainability issues could make it difficult for TietoEnator to adapt to emerging trends in corporate disclosure on CSR issues. For example, as it expands globally, exposure to clients with operations in politically or environmentally sensitive areas may increase. Management level awareness of social and environmental trends would enable TietoEnator to anticipate possible questions or criticism from within its wider stakeholders, and thus limit reputational risks that could arise from this. However, at present, the strategic capability is lacking.

Strategic Implementation: Policies, reporting and performance indicators highlighting social and environmental concerns are non-existent at TietoEnator. As discussed in the previous two sections, this is most

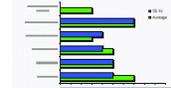
likely due to the lack of strategic focus on sustainability. The development of policies addressing the wider issue of sustainability and/or corporate social responsibility (CSR) may come with time, but at present there appears to be little driving this inside the company.

Traditional Governance Factors: TietoEnator sets out its corporate governance arrangements in its latest annual report (2012). The company has a nine-member board, consisting of eight directors (all male) and two employee representatives (both female). Gender diversity at the highest level is clearly lacking.

The company also has a management group, comprised of 12 members (only one of whom is female), none of whom have responsibility for a particular area of the business. The positions of Chairman of the board and company President/CEO are separate.

As discussed above, there is currently no person responsible for CSR issues, at either board- or management-level. However, if and when TietoEnator is exposed to potential labour-related risks (the most likely risk area) posed by entry into emerging markets, the HR function should be able to address these issues e.g. ensuring equal application of company labour policies, benefits etc.

HUMAN CAPITAL



Recruitment/Retention Strategies: TietoEnator has approximately 10,000 employees in various locations around the world, although 67% are based in Finland (55%) and Sweden (12%). Over the last two years, the gender ratio of the workforce has remained steady at 65% male and 35% female – for the IT sector, which tends to be male-dominated, this is not exceptional. Still, TietoEnator does not state its position on equal opportunities or the recruitment of minority groups, either in its Scandinavian or overseas operations. Employee turnover, typically high in this sector,

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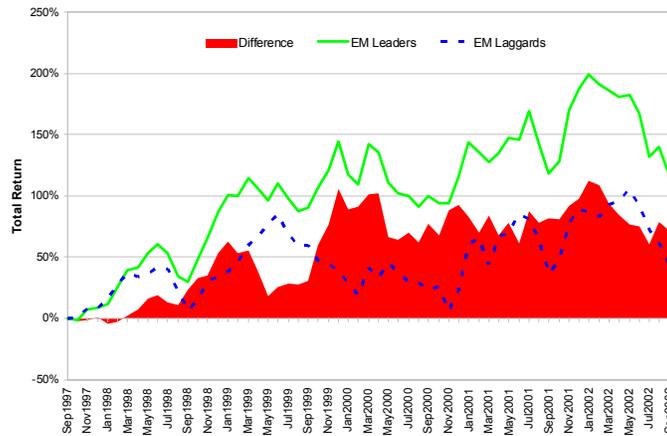
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Retail Merchandising Companies

Ticker	Company	Rank	Rating	Score
LOW	Lowe's Companies Inc	1	AAA	1632
COST	Costco Wholesale Corporation	2	AAA	1458
S	Sears, Roebuck and Company	3	AA	1321
TGT	Target Corporation	4	AA	1292
WMT	Wal-Mart Stores, Inc.	5	A	1163
HD	Home Depot Inc.	6	BBB	978
BLI	Big Lots, Inc.	7	BBB	893
FD	Federated Department Stores	8	BB	671
KSS	Kohls Corporation	9	B	586
JCP	JC Penney	10	CCC	340
MAY	May Department Stores	11	CCC	296
BBY	Best Buy Company	12	CCC	259



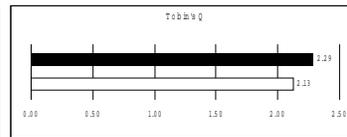
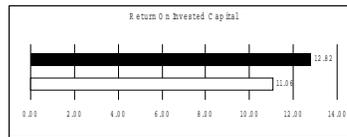
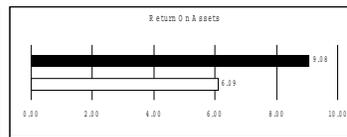
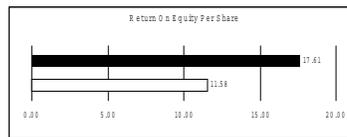
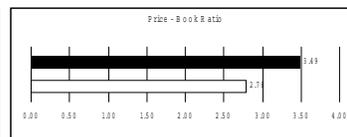
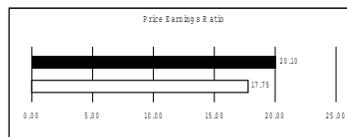
Stock Market Performance: Energy Management Leaders vs. Laggards



Financial Performance: Energy Management Leaders vs. Laggards

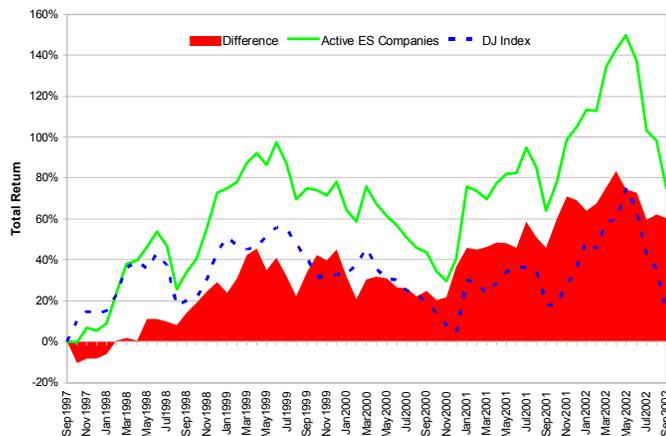
■ Leaders

□ Laggards





Retail ENERGY STAR Active Companies vs. Broad Line Retail Index



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The Business Case for Energy Management in the Retail Merchandising Sector

- **Reduced Operating Costs**
- **Increased Productivity and Sales**
- **Reduced Regulatory Exposure**
- **Reduced Vulnerability to Energy Price Fluctuations**
- **Enhanced Public Image**
- **Enhanced Reputation within the Financial Community as a Well Managed Company**
- **Enhanced Appeal to Socially Responsible Investors**
- **Market Opportunity for Energy Efficient Product Sales**

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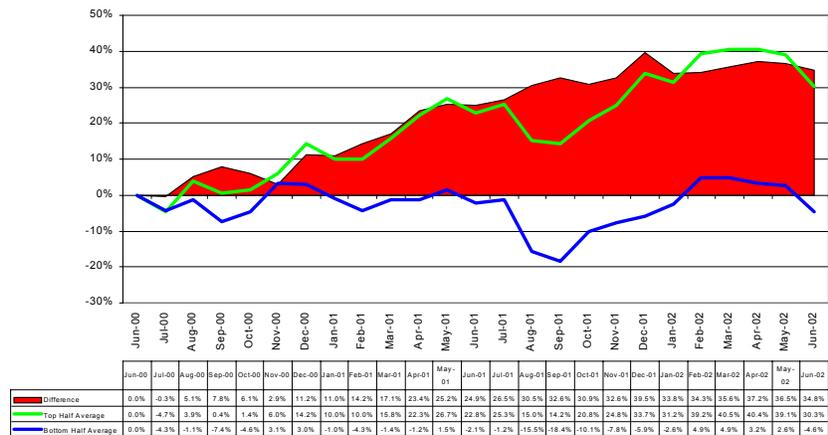


REIT Sector Energy Efficiency Ratings

Ticker	Company	Energy Rating Matrix			
		Score	Relative Score	Rating	Rank
ARI	Arden Realty	1804	6.0	AAA	1
EOP	Equity Office Properties	1658	5.4	AAA	2
TZH	TrizecHahn Corp.	1490	4.7	AA	3
LQI	La Quinta Corp.	1447	4.5	AA	4
CLI	Mack-Cali Realty Corp.	1405	4.4	AA	5
HOT	Starwood Hotels & Resorts	1220	3.6	A	6
FCH	FelCor Lodging Trust	1191	3.5	A	7
RA	Reckson Associates Realty	1177	3.4	BBB	8
HMT	Host Marriott	979	2.6	BBB	9
BXP	Boston Properties	975	2.6	BBB	10
HW	Highwoods Properties	538	0.8	CCC	11
DRE	Duke Realty Corp.	345	0.0	CCC	12
AVG	Average	1424	3.5	A	

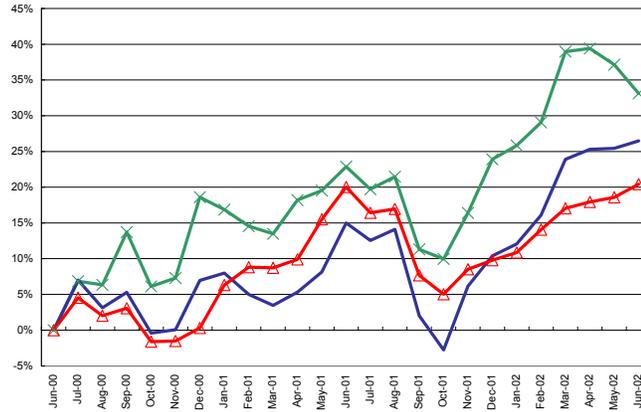


**Stock Market Performance of
Top Half vs. Bottom Half REITs**





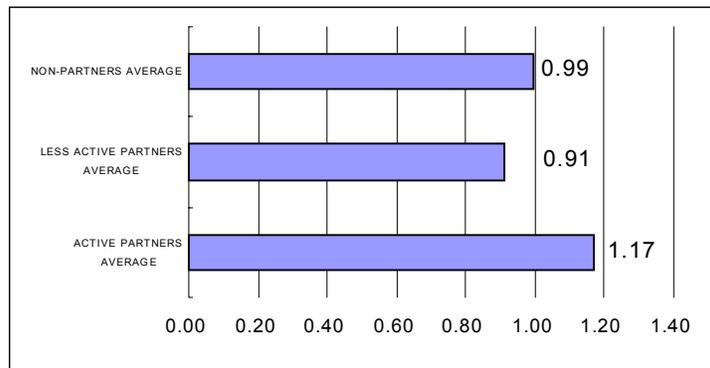
Stock Market Performance of ENERGY STAR Active vs. Inactive vs. Non-active REITs



	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02
Active Partners	0.0%	6.8%	3.1%	13.7%	6.1%	7.3%	18.6%	16.9%	14.6%	13.5%	18.2%	19.6%	22.9%	19.7%	21.5%	11.3%	10.0%	16.4%	23.9%	25.8%	29.1%	39.0%	37.1%	33.1%	35.0%
Less Active Partners	0.0%	7.0%	3.1%	5.3%	0.4%	0.1%	7.0%	8.0%	5.0%	3.9%	5.3%	8.2%	15.0%	12.5%	14.1%	2.0%	-2.8%	6.2%	10.4%	12.1%	16.1%	23.9%	25.3%	25.4%	26.5%
Nonpartners	0.0%	4.5%	2.0%	3.1%	-1.6%	-1.5%	0.3%	6.3%	8.8%	8.7%	9.9%	15.5%	20.0%	16.4%	17.0%	7.7%	5.0%	8.5%	9.8%	10.9%	14.1%	17.0%	17.9%	18.6%	20.4%



Tobin's Q Performance of ENERGY STAR Active vs. Inactive vs. Non-active REITs





Business Case - REITs

- Reduced Operating Costs
- Enhanced Property Values
- Increased Productivity and Potential Labor Cost Savings
- Enhanced Tenant/Guest Satisfaction
- Improved Image as a Responsible Corporate Citizen
- Enhanced Image as a Well-Managed Company
- Greater Appeal to Socially-Responsible Investors

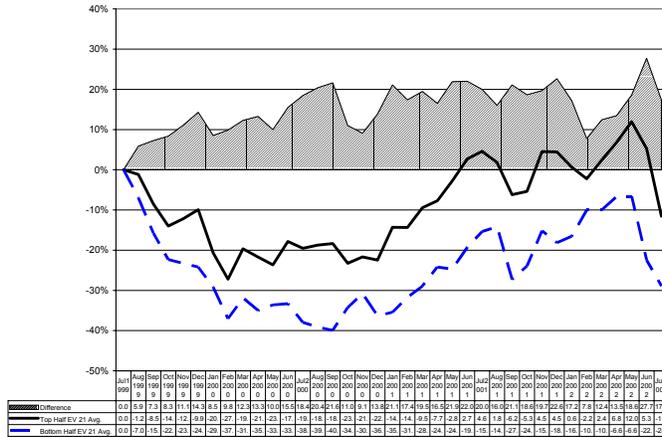


Retail Food Sector Energy Efficiency Ratings

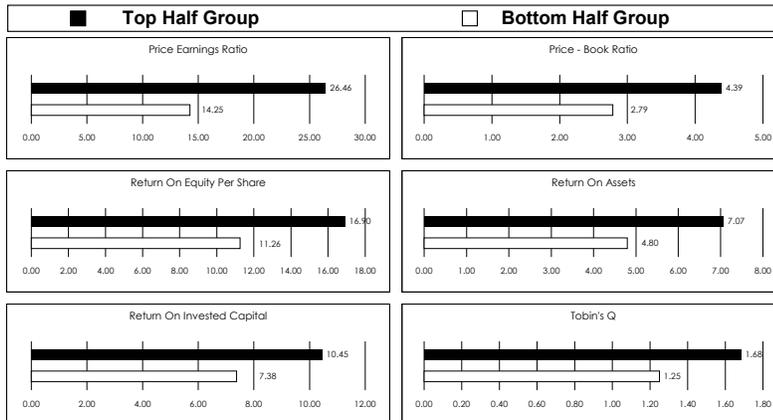
Ticker	Company	Energy Rating Matrix			
		Score	Relative Score	Rating	Rank
SBRY.L	J. SAINSBURY PLC	1572	6.0	AAA	1
AHLN	AHOLD NV- ADR	1519	5.7	AAA	2
ABS	ALBERTSON'S INC.	1496	5.6	AAA	3
DELB	EST. DELHAIZE	1477	5.5	AAA	4
OATS	WILD OATS MARKETS, INC	1156	3.9	A	5
WFMI	WHOLE FOODS MARKET, INC.	1063	3.5	A	6
SWY	SAFEWAY INC.	995	3.2	BBB	7
GAP	GREAT ATLANTIC & PACIFIC	994	3.2	BBB	8
SVU	SUPERVALU INC.	799	2.2	BB	9
WIN	WINN-DIXIE INC.	772	2.1	BB	10
KR	KROGER CO. (THE)	395	0.2	CCC	11
RDK	RUDDICK CORP.	353	0.0	CCC	12
AVG	Average	1049	3.4	BBB	



Stock Market Performance of Top Half vs. Bottom Half Food Companies

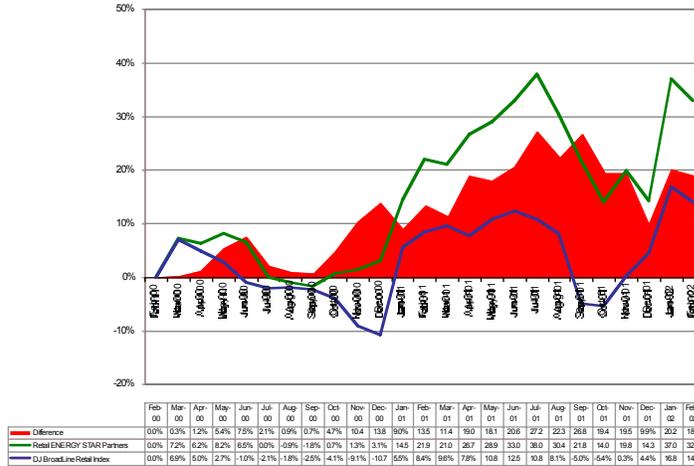


Financial Performance of Top Half vs. Bottom Half Food Companies





ENERGY STAR Companies vs. Broadline Index



Business Case - Retail Food

- **Reduced Costs**
- **Increased Productivity and Sales**
- **Reduced Regulatory Exposure**
- **Reduced Vulnerability to Energy Price Fluctuations**
- **Improved Image as a Responsible Corporate Citizen**
- **Enhanced Image as a Well-Managed Company**
- **Greater Appeal to Socially-Responsible Investors**

Obstacles To SRI



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- *Belief that SRI funds underperform non-SRI funds.*
- *Belief that SRI is a style of investing (e.g., value, growth, etc.) rather than a discipline that can be applied to all styles.*
- *Belief that SRI may violate fiduciary responsibility by considering non-financial issues.*
- *Lack of analyst experience in assessing complex environmental and social issues.*
- *Some fiduciaries assume their investments already are socially-responsible.*
- *Belief that SRI must be adopted all at once, rather than phased in over time.*
- *Ambiguity about the definition and objectives of SRI.*

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Benefits of Innovest Research for Institutional Investors



INNOVEST
Strategic Value Advisors

<i>Risk</i>	<i>Identifies hidden risk and opportunity factors</i>
<i>Returns</i>	<i>Can generate consistent excess returns at comparable or lower volatility</i>
<i>Strategy</i>	<i>Aligns investment strategy with stakeholders' social and environmental concerns</i>
<i>Reputation</i>	<i>Enhances institution's reputation with internal and external stakeholders</i>
<i>Regulation</i>	<i>Meets emerging fiduciary requirements - e.g. new UK, Swedish, German, French, Swiss pension regulations</i>
<i>Trends</i>	<i>Positions investors well to anticipate other significant investment trends in future</i>

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Innovest
Competitive Advantages



I N N O V E S T
Strategic Value Advisors

**Research
Methodology**

Proprietary risk algorithms; weightings driven by empirical stock market research and risk models, developed with companies including Morgan Stanley, Mellon Capital and PWC

Brand

Number one global brand based on external independent assessments:

- MISTRA, Screening of Screening Companies, 2001
- Dames and Moore, Rating Organisations - What is their impact on corporate sustainable strategy?, 2001
- ERM, Rating the Rating Agencies, 2001

Performance

A total of \$1 billion under management; sub-advisory investment management has created outperformance across all seven funds

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Innovest
Competitive Advantages



I N N O V E S T
Strategic Value Advisors

Research Quality

Analysts are sector specialists; real time and published information sources, media searches (RBB, Bloomberg, Factiva) and excellent relations directly with companies

**Access to
Companies**

Analysts supplement third party information through meetings held directly with appropriate company senior executives; an ongoing dialogue is maintained with companies

**Sector
Knowledge**

Superior industry and sector knowledge and credibility; 20+ sector reports; all analysts specialise in sectors; key note speakers at mainstream industry events - World Economic Forum, World Minerals Summit

Directors

Board of Directors includes industry figures such as former CEO of TAA-CREF, former Chairman of Royal Dutch Shell and senior executive of Citibank

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