

Investing in the Future

Autumn 2008



NEIW reflections:

A review of the UK's first National Ethical Investment Week

Investing in efficiency:

How to make money and save the planet

Investing for the long-term:

Does anyone actually *invest* in the stockmarket anymore?

Welcome



“As many of our readers will be aware, 2008 has proved to be a very turbulent time in the financial markets. In this Autumn edition of our ‘Investing in the Future’ newsletter we reflect on the

importance of **long-term investing** in helping to improve corporate performance on key social and environmental issues (page 6).

The traumas experienced by the financial markets are also likely to contribute to a tougher economic climate in the months ahead. Tim Dieppe explains why he believes companies enabling greater energy and resource **efficiency** will be well-placed to thrive in this type of market (pages 4-5).

Finally, we also report on our wider research and company engagement covering some of the successes we have had in influencing companies to adopt more progressive approaches on key sustainability issues.

As always, we strongly welcome your thoughts and feedback. ”

George Latham
Head of SRI Funds

How to contact us

Henderson welcomes your views on the issues covered in this newsletter. You can contact us by email: sri@henderson.com or in writing to: **SRI Team**, Henderson Global Investors, 4 Broadgate, London EC2M 2DA.

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News Bites

Henderson awarded for leadership on SRI transparency

In line with our commitment to openness and transparency, in May, the SRI team published the latest ‘Statement of Commitment’ as part of the European Social Investment Forum’s Transparency Guidelines.¹ We were the first UK fund manager to qualify for use of the new logo, and in September, our leadership and commitment was recognised with a gold award by the Ethical Investment Association (EIA). Read the Statement on our website, www.henderson.com/sri

Tim Dieppe recognised for investment excellence

Following on from his listing by Citywire as one of Britain’s top 100 fund managers of 2007 in March, Tim Dieppe has now received an ‘A’ rating by Citywire. This puts him in the top 20% of fund managers. Meanwhile, George Latham, Manager of the Managed and UK Income funds received an ‘AA’ Citywire rating putting him in the top 10% of Fund Managers. Congratulations Tim and George!

SRI fund annual reviews published

During June, the SRI annual reviews for the Industries of the Future, and Global Care UK Income funds were published. Visit www.henderson.com/sri to read the commentary in full.

SRI funds continue to lower their carbon footprint

The latest carbon audits for the Industries of the Future and Global Care UK Income funds show that the volume of greenhouse gases emitted per £1 million invested fell again in 2007 for the third and fourth time respectively with both funds consistently outperforming their benchmarks. Read the reports at www.henderson.com/sri

Henderson’s property investments audit the sustainability of the UK property portfolio

Having adopted a Responsible Property Investment policy earlier this year, in July Henderson’s property team completed an independent review of the sustainability risks and opportunities of eight property funds in its UK portfolio. This illustrates Henderson’s continuing commitment to responsible practices. Read the press release by logging on to www.henderson.com/sri

¹ For more information see http://www.eurosif.org/publications/european_sri_transparency_guidelines

A review of the UK's first National Ethical Investment Week



Henderson's CEO Roger Yates (second left) at the NEIW Parliamentary reception in May

The UK's first National Ethical Investment Week (NEIW) took place in May aiming to raise awareness of ethical, sustainable and responsible investment (SRI) in the UK. As a lead sponsor, we were heavily involved during the week in organising and presenting at various events with organisations as diverse as the Association of Independent Financial Advisors (AIFA), Skandia, and Oxfam. Visit our website for more details, as well as the NEIW website at www.neiw.org.

The highlight of the week was a Parliamentary reception in the House of Commons at which Henderson's CEO, Roger Yates, addressed MPs commenting that "This week is an opportunity to provide a clearer picture of what ethical investing is all about, as well as a chance to shatter some of the myths that some investors might still be clinging to."

Also speaking at the NEIW reception was Pensions Minister Mike O'Brien QC MP, who said "It is a bold initiative. It marks the beginning of a serious national conversation on how investors can use their money to make society better. And it proves to people that they have a choice to make a difference to the lives of millions around the globe."

Overall the week attracted significant interest from the media with over 100 articles in magazines, newspapers and on the

world-wide web, creating opportunities for nearly 38 million people to learn about ethical investment.

Reflecting on Henderson's involvement in the NEIW initiative, George Latham, Head of SRI Funds said: "Henderson is proud to have sponsored NEIW. We have seen how interest and support for ethical investments is growing among independent financial advisors (IFAs) and the general public, who recognise that these funds can be a competitive investment proposition."

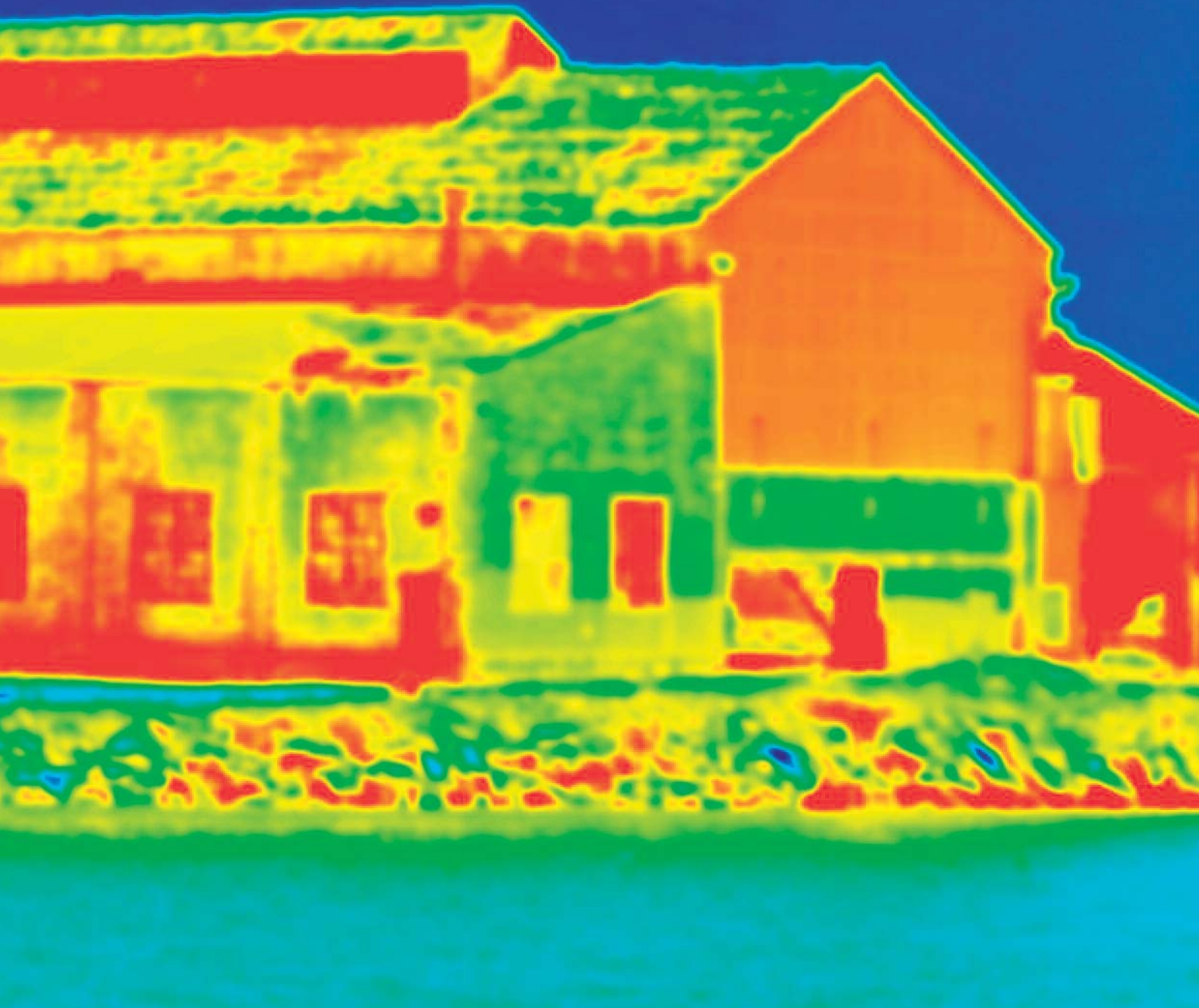
Given the success of NEIW 2008, plans are now under way for NEIW 2009.

Henderson's SRI client survey results

As part of NEIW, we conducted a client survey to learn more about the attitudes of Henderson's SRI fund clients. Thank you to all those who responded, and as promised, we have made a total donation of £660 to Friends of the Earth, Greenpeace and WWF.

The results from the survey found that:

- All survey respondents report that they make at least one lifestyle choice that is consistent with SRI – the most popular being household recycling activities.
- The primary reason for respondents to choose an SRI fund was because they wanted to influence businesses to bring about positive change.
- Over 75% of people stated they were happy with their SRI investment returns.
- Over 95% of respondents said they would continue to invest in SRI going forward.



Infrared imaging showing variation in heat loss from a building

Investing in efficiency: How to make money and save the planet

There is a saying that goes “there’s no such thing as a free lunch”, but is that really true? Tim Dieppe, Director of SRI funds, explains why there is growth opportunities in energy and resource efficiency activities.



For too long the curse of cheap oil and electricity has dictated the way we consume energy. Manufacturers have almost entirely ignored energy use except in those portable

electronic devices where battery life is a concern. Otherwise the focus has been entirely on functionality, to the extent that TV sets and other electronic devices offer a 'standby' mode, allowing users the convenience of remaining seated when switching on their TV, but at the price of massively increasing the overall energy consumption of these devices.

Prompted by sharp rises in oil and electricity prices, and combined with the looming threat of global warming, the days when energy efficiency was ignored by product developers are now coming to an end. Driven by cost and climate concerns, consumers, corporations, and governments are now placing energy efficiency high on their respective agendas. Indeed, tough questions are now being asked about the level of inaction. A recent MEP report for example made the assertion that *"both the Commission and member-state governments have been guilty of a serious dereliction of duty over the implementation of energy-efficiency legislation."*¹ In addressing these concerns one can be sure that regulation will follow, but even today in these chastened times consumers and corporations can already realise significant cost savings by embracing more efficient energy and resource use.

As sustainable and responsible investment fund managers, these efforts to improve efficiency provide a range of exciting investment opportunities. The double benefit of providing solutions for climate change and reducing costs mean that some companies are well placed to provide sustainable returns to their shareholders.

A genuine free lunch?

What is not widely recognised today is that the cheapest way to cut carbon emissions by far is to implement efficiency measures to reduce energy consumption. In fact, efficiency measures are so cheap that in many cases you actually get paid to adopt them because the expected payback is greater than the initial capital outlay.

As much as 80% of the energy we produce is lost before it gets to your plug in the wall. Therefore savings from reducing energy consumption at point of use have a multiplier effect in terms of total energy consumption saved. The International Energy Agency (IEA) estimates that one additional dollar spent on more efficient electrical equipment, appliances and buildings would do away with the need to spend two more dollars on electricity infrastructure. The IEA also recommends that the adoption of only a dozen policies would result in a reduction of 40% in CO2 emissions by 2030. Seven of these policies involve energy efficiency.

Companies that fit the "efficiency" theme in Hendersons SRI funds cover a range of technologies from loft installation to more efficient electrical motors. **Delta Electronics**, has a sizeable global market share of power supply units for PCs and other products that support efforts to conserve energy. The efficiency opportunity is compelling - a 1% improvement in their power supply units can save the equivalent of one nuclear power plant's production of electricity.

Similarly, **Itron** is a US company that manufactures automatic meters which help measure the usage of electricity, gas or water, and can be read without sending someone knocking on your door to crawl under the stairs. **Johnson Controls** (also based in the US) has a building efficiency business advising corporations how to reduce their energy bills. In Ireland, **Kingspan** produces insulation panels for the building and construction industry.

As the world embarks on its fight against climate change, the first place to start is to ensure that we are using our energy as efficiently as possible. There is a clear investment opportunity in the many efficiency initiatives around the world and the products that are being developed to meet this demand. Many of these are already saving money for their customers, lowering emissions for the planet and also paying out healthy dividends for their investors. Investing in solution providers who offer to save money for their customers makes sound business sense in every way.

¹ Chevreux Sector Report Europe: The lean way: efficient buildings. April 2008

Does anyone actually *invest* in the stockmarket anymore?



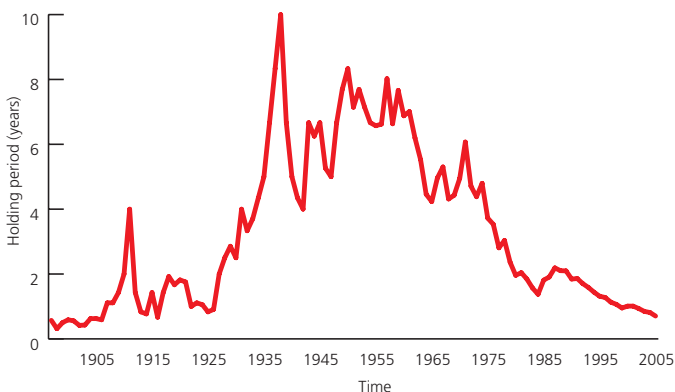
George Latham, Head of SRI Funds, reflects on the need to focus on long-term investing.

The world is speeding up. I recently returned from five days out of the office on holiday to find 1400 unread emails – ten years ago we didn't even have voicemail, let alone email. We have undergone an explosion in the amount of information that we receive and process in the financial world. More than ever a fund manager has to sift through piles of 'white noise' in order to find the pieces of information that are really relevant to his/her decision making.

Along with the increasing velocity in information flow, the reporting cycle in the investment world has sped up and become more intense. In retail markets monthly data is produced in great detail, and institutional investors often meet with their clients to analyse each quarter's performance numbers.

Together, these factors have led to an increasingly short term approach among investors in how stocks are bought and sold. The average holding period for a stock on the New York Stock Exchange in the 1950s/1960s was seven to eight years, now it is just nine months!

Average holding period of the New York Stock Exchange



Source: Société Générale, April 2008

This trend is illogical, especially when thinking about the needs of the end consumer and the nature of their investment. Whether a private client investing for his or her own future, a pension fund or a charity, clients usually invest with a time horizon that spans many years if not decades; when planning for a retirement income, school fees, or for future grant income for a charity.

This short term approach is damaging to the underlying economy and corporate environment. As investors become more impatient for speedy returns, company management take their lead from these signals and run their businesses to deliver short term profits. Investment in projects with a long lead time are de-emphasised in favour of those which will pay back quickly. This often means cutting costs to the point where the fabric of the business becomes damaged. Many of these factors were key contributors to creating the conditions that led to the banking and financial markets crisis that we have witnessed this year.

In the face of this powerful move towards myopia, Sustainable and Responsible Investment (SRI) strategies should stand out as approaches that embrace a long term investment agenda. There are a number of reasons why SRI and long-termism should be natural bedfellows:

- SRI investors are primarily interested in developing a deeper understanding of how the companies they invest in are managed over the long term, and how management can ensure that the growth profile and returns generated are sustainable over time.
- SRI investors often look at underlying structural themes and how these influence the direction and shape of future economic development, enabling investors to identify companies that are likely to succeed over time.
- Through active long term approaches, SRI investors are able to exercise stewardship over their holdings. Over time, managers can develop a deep understanding of an industry and a company's position within that, building a consistent relationship with company management.

Efforts are being made to encourage investors to take a longer-term perspective. Initiatives such as the Marathon Club provide guidance to institutional investors on how to integrate long-term issues into the selection of their investment manager. These should also be of interest to retail clients and advisors.

Ultimately, if long term managers can reclaim the market from the short term traders, then the potential effect on improved governance and corporate management could lead to higher valuations and better performance for the market and economy overall.

Engaging for Change

Research exploring social exclusion in the UK

The moral imperative to address social exclusion and its potential financial implications, has led the SRI team to take an active approach to these issues when evaluating companies for investment. The risks and opportunities associated with addressing social exclusion are especially important in those sectors offering critical public goods and services.

Our analysis showed that most companies are still taking a predominantly ad-hoc approach to addressing social exclusion with few companies adopting a more structured and strategic approach. Visit www.henderson.com/sri to read our briefing note.

Engaging with companies on carbon disclosure



Henderson has supported the Carbon Disclosure Project (CDP) since its launch in December 2000. In early 2008, the CDP made its sixth request to companies for information about their carbon management. The SRI team recently contacted 20 companies held in our funds with the objective being to encourage them to participate as they had yet to do so. Following our efforts, 13 of the 20 companies provided responses by the deadline including **Agilent Technologies*** [USA, Efficiency], **East Japan Railway*** [Japan, Sustainable Transport] and **Intertek Testing**** [UK, Safety].

UK banking sector review



The banking sector remains a highly controversial part of the UK economy targeted by campaigners on issues ranging from climate change and human rights to business ethics and banking charges. Most recently, the sector has been firmly in the spotlight due to the ongoing crisis spawned by sub-prime loans and the credit crunch.

We recently undertook a review of the banking sector to consider the performance of the main UK banks on an extensive range of social and environmental criteria. Based on this review we re-approved **Standard Chartered***** as the stand-out leader in the sector, followed by **HSBC*****, **HBOS***** and **Barclays*****. RBS and Lloyds TSB were considered to have an

inadequate approach to corporate responsibility and were not approved for investment in our retail funds. Given the controversial nature of the sector, we also consulted our independent advisory committee who supported our conclusions.

Corporate governance voting & engagement

- **Marks & Spencer***+** [UK]: In late March 2008, M&S announced changes to its Board and management team including news that the current Chairman would step down from 1st June 2008, and the current CEO, Sir Stuart Rose, would be appointed Executive Chairman until 2011. The appointment of an Executive CEO is a clear departure from the provisions of the UK Combined Code on corporate governance. At the company's AGM in July, we abstained from the vote to re-elect Sir Stuart Rose. The rationale is that whilst we do not want to remove him from the Board, we do not want to give unqualified support to the governance changes which go against our policy on best practice. Ultimately 22% of investors voted against his re-election, and 16% abstained.
- **Reed Elsevier**** [UK, Knowledge theme]: We have previously reported on our efforts to encourage Reed Elsevier to exit its business organising defence trade exhibitions. The company had indicated that it hoped to sell this business by the end of 2007. Although Reed did not meet this deadline, by May this year it did report that it had sold the rest of its defence trade exhibitions portfolio.
- **Suntech Power Holdings*** [USA, Cleaner Energy theme]: Suntech is a leading global Chinese solar company. During March, a media article was published in the US alleging that one of the company's silicon suppliers had been engaged in disposing of waste silicon in an unsafe manner. We promptly contacted the company to determine the validity of the allegations and to better understand how the company was managing the issue. We have since held a number of discussions with the management where we outlined our concerns and recommended some appropriate actions. The company has since agreed to our suggestions including that they insert corporate responsibility considerations into their supplier contracts, and that they establish a process to verify supplier compliance with Suntech's policies.

Note

- * These companies are not approved for investment in the Global Care UK Income fund
- ** Company is approved for investment in all funds
- *** Company is not approved for investment in Global Care Growth or Industries of the Future funds
- + Company was held in the Global Care UK Income fund at the time of the AGM

Responsible portfolio construction - it's happening at Henderson



Henderson SRI Funds

To capture true investment outperformance, managers need to take advantage of the long-term trends that will continue to drive markets forward.

Henderson Global Investors has considered what will be the key drivers of future investment opportunities and has identified ten 'Industries of the Future' themes. Each theme focuses on companies whose goods and services provide positive solutions to the world's sustainability challenge.

These 'Industries of the Future' cover companies operating in areas as wide and diverse as cleaner energy, water management, sustainable transport, efficiency, knowledge, health and quality of life.

Each of our investment themes offer strong growth potential and the diverse nature of the companies involved allows us to respond effectively to changing economic conditions.

For investors this is a time of unparalleled opportunity. Henderson can help you identify tomorrow's market leaders. To find out more about our SRI fund range built on firm foundations, visit www.henderson.com/sri

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