



ECPI GLOBAL CLIMATE CHANGE EQUITY INDEX

The Index offers investors exposure to companies that are best placed to seize the opportunities presented by the challenge of climate change. Selected firms operate in sectors identified as playing a key role in meeting that challenge, and have the highest ECPI ESG ratings in their industries

DECEMBER 2011

BACKGROUND: CLIMATE CHANGE

CLIMATE CHANGE

Carbon dioxide and other gases -- known collectively as the greenhouse gases [1] -- warm the Earth's surface naturally by trapping solar heat inside the atmosphere. To some degree, this is a good thing: the process helps make our planet habitable. But by burning fossil fuels such as coal, gas and oil, and clearing forests, humans have dramatically increased the amount of carbon dioxide in the Earth's atmosphere.

As a result, temperatures are rising. This era of global warming "is unlikely to be entirely natural in origin", according to the Intergovernmental Panel on Climate Change (IPCC) [2]. "The balance of evidence," it says, "suggests a discernible human influence on the global climate".

SOURCES OF EMISSIONS

By absorbing and re-emitting infrared radiation from the sun, manmade greenhouse gas emissions are a major cause of climate change.

In 2000, carbon dioxide (CO₂) represented 77% of total greenhouse gas emissions, with methane (CH₄) accounting for 14% and nitrous oxide (N₂O) 8%. Of those emissions, electricity and heat generation contributed 22%, transport 13%, manufacturing and construction 11%, other fuel combustion 11%, agriculture 14%, changes in land use 18% and waste 4% [3].

EFFECTS

The impact of climate change is already being felt. Glaciers are melting, plants and animals are being forced from their habitat, and the frequency of severe storms and droughts around the world is increasing.

The number of Category 4 and 5 hurricanes has almost doubled over the last 30 years, for instance. Heat waves, too, will become more frequent and more intense and wildfires will occur more often.

The loss of shelf ice in Greenland and Antarctica could see global sea levels rise by more than 20-ft, devastating coastal areas around the world. With the flow of ice from glaciers in Greenland more than doubling over the past decade, the Arctic Ocean could be ice-free in summer by 2050. [4] Malaria, meanwhile, has already spread to higher altitudes in places like the Colombian Andes, 7,000-ft above sea level, according to the World Health Organization.

RESPONSE

We can and must respond to the threats posed by climate change. Doing so will encourage economic growth, spurring activity across a range of industries. The need to increase our energy capacity, for one thing, while at the same time reducing our dependence on hydrocarbons, will trigger radical restructuring in the years ahead. That so called energy revolution may itself fuel economic growth.[5]

New regulations and standards issued by governments or international bodies -- along with other forms of incentive and taxation -- will play a key role in the scale and timing of any change.

While some companies face potential risks associated with climate change -- from heightened regulation or impairment of property to loss of revenues or reputation -- firms and industries most vulnerable to negative effects are also best positioned to benefit from any regulatory changes that take place.

Investors need to put the nexus of climate change policies and energy scarcity at the heart of their asset-allocation.

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CONSTITUENTS SELECTION

SELECTION PROCESS

ECPI aims to select those stocks with the most to gain from the opportunities presented by the challenge of climate change.

To do that, we've identified the direct or indirect costs and revenues most likely to benefit from climate change. Naturally, ECPI has focused on the sectors where such effects are likely to be felt strongest.

Once selected, ECPI has applied its ESG Rating Methodology and traditional liquidity criteria to these sectors, to build a liquid and hedgeable investment tool.

The Global Climate Change Equity Index benefits from all ECPI traditional advertising/publication tools and becomes another ideal candidate for direct and derivative investment.

Effects on company income:

- Additional turnover on existing products / services
- Additional turnover from new products/services
- Lower costs
- Expectation of future additional turnover on the basis of stronger competitive advantage
- Expectation of lower future costs on the basis of a better position to respond to new regulation and/or customers' behavior

Sector Selection

In line with the aforementioned income effects, we've identified eight industries which could benefit most from the opportunities inherent in climate change, owing to their link with relevant products and processes (i.e. they deliver improved energy efficiency, and/or develop renewable/low-carbon energy sources and processing).

Those sectors are:

- Buildings & Advanced materials
- Energy Efficiency
- Renewable & Alternative Energy
- Transportation
- Financial
- Waste Management
- Water Treatment
- Utilities

Liquidity Criteria

ECPI has then applied the following liquidity filters to create an investable and hedgeable Index:

- Minimum market capitalization: EUR 500 mio
- Minimum 6-month average trading volume: EUR 10 mio

Maximum sector concentration: 20%

ESG Test

ECPI has screened candidate companies according to their ESG (Environmental, Social, and Governance) rating, as defined by the ECPI ESG Rating Methodology.

Utilizing ECPI's research team's analytical skills, the ESG rating is designed to single out the companies holding the most unexpressed intangible value among those exposed to the chosen climate change-sensitive sectors.

Consensus Test

With the aim of including at least four stocks from each selected sector, ECPI has lastly applied a consensus filter excluding any companies that received more than 30% sell recommendations in the previous 12 months. (Source: Bloomberg recommendations page ANR <GO>).

Finally, stocks were selected in order of decreasing market capitalization.

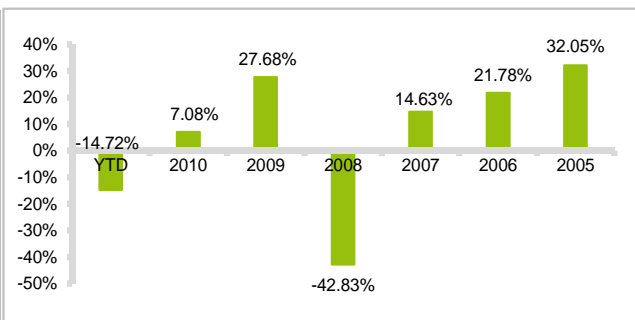
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KEY CLIMATE-DRIVEN CHANGES AND THEIR IMPACT ON INDUSTRY SECTORS

	NEW REGULATION	NEW HUMAN BEHAVIOUR	DEMAND FOR NEW PRODUCTS	MORE DEMAND FOR EXISTING PRODUCTS	OTHER FACTORS DRIVING DEMAND
Renewable & Alternative Energy	<ul style="list-style-type: none"> - Require more use of alternative sources - Lower cost of alternative sources (e.g. incentives) raises cost of traditional sources 	<ul style="list-style-type: none"> - Energy-saving habits as a result of rising awareness of climate change, increased concern over its consequences and new regulation 	<ul style="list-style-type: none"> - Increased demand as a consequence of regulations and behaviour changes 	<ul style="list-style-type: none"> Increased Sales 	<ul style="list-style-type: none"> - Geopolitical risk - Pollution - Future shortages of natural resources - Demographic growth, urbanization, industrialization (strong positive correlation between manufacturing value added per capita and water treatment per capita)
Water Treatment	<ul style="list-style-type: none"> - Stimulate recycling activity - Lower cost for water management (e.g. incentives) 	<ul style="list-style-type: none"> - Increased energy saving and environmental care 	<ul style="list-style-type: none"> - New technology and treatments - Wide market (one billion people lack access to safe drinking water) 	<ul style="list-style-type: none"> Increased Sales 	
Energy Efficiency	<ul style="list-style-type: none"> - Raise efficiency standards and requirements (e.g. construction workplace) - Raise of non-compliance penalties 	<ul style="list-style-type: none"> - New habits, encouraged by media testimonials, pressure groups 	<ul style="list-style-type: none"> - New technology (smart components and products) 	<ul style="list-style-type: none"> Increased Sales 	
Transportation	<ul style="list-style-type: none"> - Raise of carbon emissions control, offer incentives for eco-fuels. - Limit/regulate traditional fuel engine 	<ul style="list-style-type: none"> - Increased energy saving and environmental care 	<ul style="list-style-type: none"> - New technology (hybrid cars), clean fuels, reduced fuel consumption 	<ul style="list-style-type: none"> Increased Sales 	
Waste Disposal	<ul style="list-style-type: none"> - Raise compliance standards for pure landfill 	<ul style="list-style-type: none"> - Increased energy saving and environmental care (recycling) 	<ul style="list-style-type: none"> - New technology, power generation 	<ul style="list-style-type: none"> Increased Sales 	
Utilities	<ul style="list-style-type: none"> - Require more use of alternative sources 	<ul style="list-style-type: none"> - Increased energy saving and environmental care 	<ul style="list-style-type: none"> - Increased demand as a consequence of regulations and behaviour changes 	<ul style="list-style-type: none"> Increased Sales 	
Financial		<ul style="list-style-type: none"> - Risk Management, climate modelling and research 	<ul style="list-style-type: none"> - New demand for emission trading, specialized insurance and financial products 	<ul style="list-style-type: none"> Increased Sales 	<ul style="list-style-type: none"> - Direct investment in climate change activities

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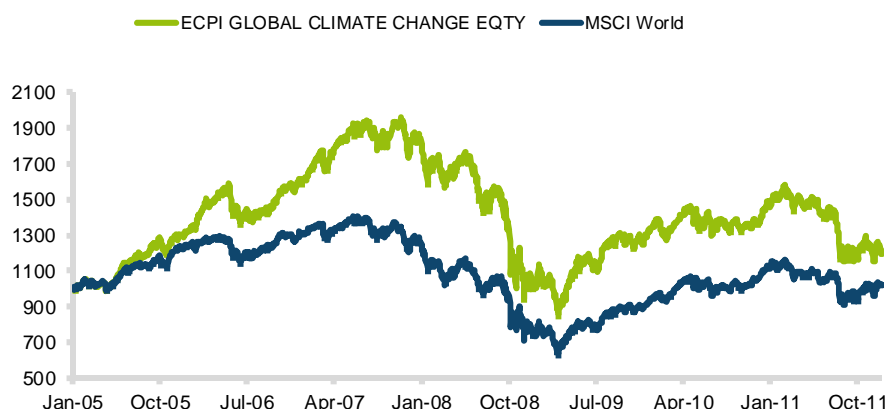
Number of Constituents	40
Eligibility Monitoring	Daily
Constituent Weights	Equal
Index Rebalancing Frequency	Annual
Currency of Calculation	EURO
Constituents Minimum Market Cap	EUR 500 mio
Minimum 6-months ADV	10 mio USD
Average Market Cap (EUR bio)	19.52
Largest Market Cap (EUR bio)	140.27
Smallest Market Cap (EUR bio)	0.49
Highest Index Value (since 2003)	3087.16
Lowest Value (since 2003)	871.64



Average	Annualized Volatility
Since 2003	18.55%

Fundamental Analysis	P/E Trailing	P/E Projected	P/B	P/S	P/CF	Dividend Yield
	17.15	15.22	1.41	0.69	6.84	1.87

Country	
CANADA	3.42%
DENMARK	1.64%
FINLAND	2.50%
FRANCE	6.06%
ITALY	1.44%
JAPAN	13.78%
SPAIN	8.89%
SWITZERLAND	2.70%
UNITED KINGDOM	12.39%
UNITED STATES	47.19%



Sector	
Consumer, Cyclical	16.57%
Consumer, Non-cyclical	2.65%
Energy	2.80%
Financial	12.04%
Industrial	44.71%
Technology	5.26%
Utilities	15.97%

Index Summary			
Asset Class	Equity	Bond	Alternative
Investment Objective	Beta	Alpha	Income
Constituents	Large Caps	Medium Caps	Small Caps
Screening	Positive	Negative	Both
Bias	Geographical	Industry	Quantitative

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DEFINITIONS

P/E trailing: Current price/index earnings. Index earnings are calculated by summing up the trailing 12 months EPS before XO items of the member companies multiplied by the shares in the index and divided by the index divisor. US and Canada: calculated using trailing 12 month diluted EPS from continuous operations of each member.

P/E projected: Current price/index projected earnings. Index projected earnings are calculated by summing all members' best EPS in FY1 multiplied by shares in the index and divided by the index divisor.

P/B: Current price/index weighted book value. Index weighted book value is calculated by summing up current book value per share of the member companies, multiplied by the shares in the index and divided by the index divisor.

P/S: Current price/index sales. Index sales are calculated by summing up all trailing 12 month sales per share, multiplied by shares in the index and divided by the index divisor.

P/CF: Current price/index cash flow. Index cash flow is calculated by summing up the trailing 12 month cash flow per share of the member companies, multiplied by the shares in the index and divided by the index divisor.

Dividend Yield: Index dividend/current price. Index dividend is calculated by taking the sum of all members' last 12 month dividends, multiplied by shares in the index and divided by the index divisor. Market convention dividends use gross dividends except for Australia, New Zealand, and the United Kingdom, which use net.

Fundamental Data Source: Bloomberg

REFERENCES

- [1] A gas, such as water vapour, carbon dioxide, methane, chlorofluorocarbons (CFCs) and hydro-chlorofluorocarbons (HCFCs), that absorbs and re-emits infrared radiation, warming the earth's surface and contributing to climate change (UNEP, 1998).
- [2] The Intergovernmental Panel on Climate Change (IPCC) has been established by WMO and UNEP to assess scientific, technical and socio-economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation.
- [3] Data from World Resources Institute, Climate Analysis Indicators Tool
- [4] 'Feeling the Heat', David Bjerklie, TIME magazine, March 2006.
- [5] Barclays Capital, Equity Gilt Study 2007, Chapter 1
Goldman Sachs, Climate Change as a Catalyst for Competitive Advantage (Dec. 2006)

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