

The **co-operative** asset management

RESPONSIBLE INVESTING a natural response for insurers

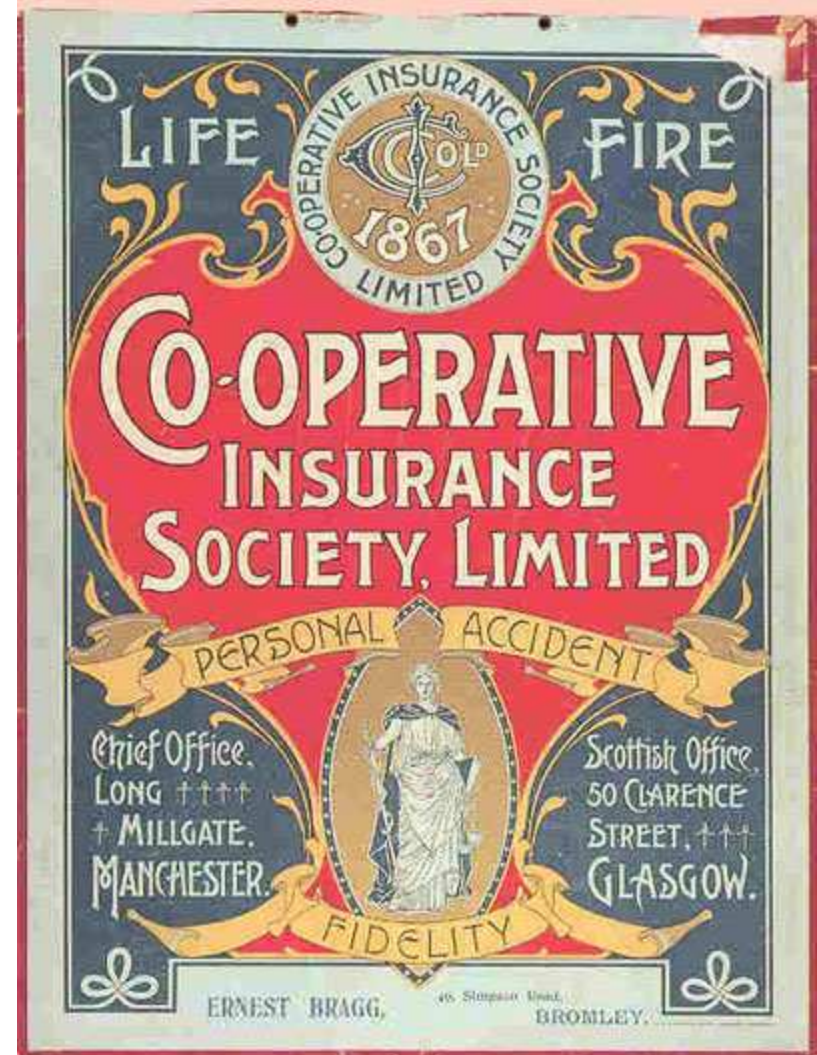
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Insurance and Co-operation

- Origins of modern 'co-operation' aligned with principle of insurance: spreading risk
- Insurers (especially Life) need to meet their long-term obligations
- UK: insurers own 20% of the stock market
- A long-term approach to ownership needed, not speculation
- Insurers and the insured have an interest in encouraging:
 - a) good corporate behaviour
 - b) sustainable enterprise to solve the risks of the future.



New hazards, same principles

Insurance industry facing compounded, more complex risks:

- Climate change
- Political instability, terrorism
- Changing demographics, health patterns
- Cataclysmic volatility in financial markets
- A more fluid, interdependent world, in short: globalisation.

But risks are also opportunities for those who are able:

“Fail to prepare, prepare to fail.”

- Insurers at the forefront of modelling climate risk
- Risks need solutions: e.g. who will insure against carbon capture & storage & nuclear risk?
- Emerging markets – insuring the whole world

The co-operative asset management



GREEN ECONOMIC STIMULUS PLANS (as at July 31 2009)

Green fund % of total stimulus

- South Korea 79%
- EU 64%
- China 34%
- Australia 21%
- France 18%

The Co-operative Asset Management

- The Co-operative Asset Management carries out the fund management activities of The Co-operative Financial Services, regulated by the FSA
- Approx. £18 billion AUM including 300,000 investors in unit trust range
- Co-operative ownership structure & long-standing socially responsible tradition.
- Fully integrate Environmental, Social & Governance (ESG) issues throughout the investment process
- Ethical Engagement Policy launched following customer consultation in 2005, applied to all funds under management



Environmental, Social, Governance strategies

- Engagement
 - Lifting governance and CSR standards
 - Targeting underperformance
 - Achieving social goals
- Screening
 - Negative
 - Positive/ thematic
- Integration
 - ESG research fundamental input into stock selection
 - Builds on engagement and screening

Market place –engagement for better companies

Driving improvements at First Group

- Labour problems at US subsidiaries & Governance appeared aloof from problem
- Company missing public school bus contracts
- Stakeholder coalition engaged with First and filed a shareholder resolution
- Led to better HR practices and management



HSBC logs off from primary forest

- A bank's sustainability is measured in projects it funds, not how many office lights it switches off
- HSBC touted green credentials but supporting a controversial Malaysian logger in breach of HSBC's green policies
- We engaged with HSBC over 2 years. HSBC exiting relationships where own engagement on environmental standards has failed to produce action



Responsible Investment - still divisive?

Terry Smith, the chairman of Collins Stewart, has lashed out at shareholders like The Co-operative Asset Management who complain about uncapped bonuses and demand “platitudes” on environmental commitments and other such “tosh”. Financial Times

“What do you have to do to upset your City shareholders these days?”

iSoft’s annual shareholders’ meeting should have been a riot. ... Yet only one institutional shareholder – **The Co-operative Asset Management** – summoned the will to question the directors in public about any aspect of this corporate mess.”

Guardian

“And he can go and f*** himself. He can stick his bloody share certificate right where the sun don’t shine, as far as I’m concerned.”

Alan Sugar on Ian Jones – The

Sunday Times

The City has traditionally regarded activist shareholders as mavericks... Suddenly, the oddballs who dared to question Royal Bank of Scotland's pursuit of ABN Amro, for example, didn't look quite so weird.

The Independent

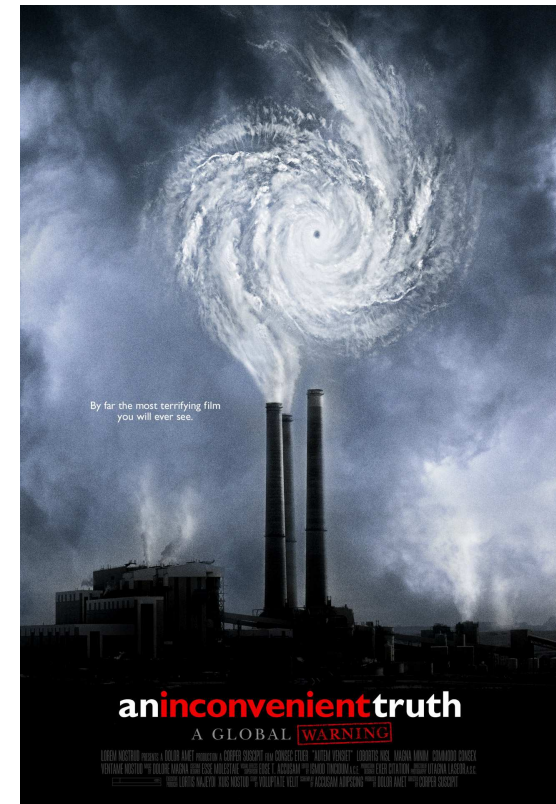
“TCAM is certainly at the leading edge in terms of ethical engagement and corporate governance, and deserves great credit for putting its policies into effective action.” *Miles Templeman, Director General of Institute of Directors - Financial Times*

And then the whole world changed

Global meltdown
caused by failures in:
Corporate governance
Business ethics



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Perfect crisis for a
Green New Deal?

Insurance and SRI: natural bedfellows

Good for...

- the marketplace
- long-term investment performance
- Well-being of society

Word of caution

- Insurance all about spreading risk: insurers are '**universal** investors'
- Not at liberty to **exclude** controversial activities unless customer mandated
- We offer screened products but Life fund invests in defence, tobacco etc.
- Insurers must achieve right **balance between risk and reward** for customers even though some find certain investments unpalatable
- SRI no longer about exclusion and avoidance but active engagement and investment in the future – and the **law** in the UK **supports** the inclusion of Environment, Social and Governance as **material** to investment ***performance!***

Advice: be realistic. Start from principle that insurers invest to make money & spread risk. Investment in markets not vehicle for competing moralities but integrating ESG does make for more sustainable world.