

Henderson Sustainable & Responsible Investment (SRI) Advisory Committee

Commentary for 2008



Advisory Committee Members [from left to right]

Ram Gidoomal (Chair)

Adrian Henriques

Paul Hohnen

The pathway to sustainable and responsible patterns of investment presents a host of challenges and requires sometimes fine judgements. Henderson's SRI Advisory Committee (SRI AdCom) acts as an independent sounding-board to provide feedback on Henderson's SRI policies and practices, as well as provide guidance on specific issues and dilemmas. In so doing it attempts to reflect wider societal interests and perspectives, and thereby contribute to the sustainability and responsibility of Henderson's SRI funds. The Committee's public commentary provides an opportunity to communicate externally about our activities.

The Committee was involved in reflecting and commenting on a broad range of work that the SRI team undertook during the year. The two in-person meetings (in March and September) provided an opportunity to engage directly with team members - including Seb Beloe, who came on board as Head of SRI Research early in the year - and to interrogate specific parts of the investment process. This included reviewing the research and investment process and specifically commenting on efforts to integrate more fully SRI research and fund management, as well as considering the team's proposals for specific research projects during the year and providing suggestions on how to shape these effectively. One of these proposals was to engage more actively in the debate about the development of new coal-fired power generating capacity in the UK. The committee supported the SRI team's position of being sceptical of new coal capacity where this was being developed without carbon capture and storage technology and made some suggestions on how to communicate the team's position to policy makers in the UK.

The September meeting included the presentation of two research dilemmas focusing on the waste management sector and the 'efficiency' theme of the 'Industries of the Future' investment strategy. In both cases and more generally for this strategy, fine judgements are required in determining whether particular companies are suitable for investment. In the case of efficiency for example, decisions rest on the proportion of business linked to 'efficient' technologies, the scale of efficiency improvements delivered by these technologies and plans for further investment in and development of even more efficient technologies. For companies involved in manufacturing electrical lighting systems, the team adopts a case-by-case approach but uses a rule-of-thumb approach whereby at least 50% of the company's business should be explicitly focused on generating efficiency improvements for customers and that the scale of the efficiency improvements should exceed 30%. The Advisory Committee agreed that this was a reasonable approach in assessing companies for investment under the efficiency theme and offered some modest refinements to this as well as to criteria used to assess companies operating in the waste management sector.

In addition to the two formal meetings, the Advisory Committee also responded to a variety of ad hoc requests for input on key decisions the SRI team was making in the course of the year. These included sector reviews of both the UK banking and mining sectors as well as of the wording and interpretation of the exclusion criteria applying to the Henderson SRI funds. In all cases, the Advisory Committee broadly endorsed the approach being taken by the team, but also sought to raise additional issues or questions that were felt to be lacking in the proposed approach. In all cases the Henderson team engaged constructively with our suggestions and adopted the majority of proposed amendments. For example, in reviewing the exclusion criteria, the Committee felt that the criterion relating to chemicals could be strengthened by referencing specific lists of 'problem' chemicals (e.g. those listed in the Rotterdam Convention). Similarly, in considering mining companies, the Advisory Committee felt that the analysis undertaken by the team should give greater weight to the need for closed-loop management of metals (including reuse and recycling) in the assessment methodology than was initially the case.

Perhaps of most importance during the year was the growing scale and impact of the financial crisis and the effects that this is having on the asset management industry. This was also a recurring theme in the Advisory Committee's interactions with the SRI team. It is still of course unclear exactly how the financial crisis will play out and what the ultimate impact will be. What is clear however is that these issues will have a profound impact on the asset management industry over the short and medium term. SRI funds, including the Henderson funds, are we believe relatively well-placed to weather this storm. The fund invests for the long-term, identifying companies for investment that are both linked to long-term growth drivers associated with sustainable development and companies that actively manage social and environmental issues. We've also been pleased to hear that the Henderson SRI funds as a whole have continued to perform well against their benchmarks and have in all cases been net beneficiaries of new funds over the course of 2008. We've also been pleased to see Henderson as a whole underline its commitment to its SRI funds through its support for National Ethical Investment Week and in launching a new US mutual fund based on the Industries of the Future strategy.

2009 will undoubtedly bring significant additional challenges both for SRI funds in particular, but also for the economy as a whole. We continue to believe that the Henderson SRI funds are based upon an effective and systematic research process that seeks to identify hidden value associated with strong social and environmental performance. We believe that this approach is as important – if not more important – in times of economic hardship. The Advisory Committee looks forward to working with the Henderson SRI team to address these issues effectively and transparently over the course of 2009.

We will be losing Adrian Henriques who comes to the end of his term as a member of the Advisory Committee and we would like to express our thanks to him for his contribution. We also offer a warm welcome to Gwen Ruta who joins the Committee in January 2009. We very much look forward to Gwen's participation bringing with her new strong insights and experience from her time working as Vice President of Corporate Partnerships at the US environmental organization the Environmental Defense Fund.

Issued by Henderson Global Investors Limited (authorised and regulated by the Financial Services Authority, the UK financial services regulator).

Please read all scheme documents before investing. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser.

This document may not be reproduced in any form without the express permission of Henderson Global Investors and to the extent that it is passed on care must be taken to ensure that this reproduction is in a form which accurately reflects the information presented here. No responsibility or liability is accepted by Henderson Global Investors or by any of its directors for any action taken on the basis of the content of this document.

This document has been produced based on Henderson Global Investors' research and analysis and represents our house view. The information is made available to clients only incidentally. Unless otherwise indicated, the source for all data is Henderson Global Investors. Any reference to individual companies is purely for the purpose of illustration and should not be construed as a recommendation to buy or sell or advice in relation to any investment, legal or tax matters.

This document does not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase any investment, nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract for the same.

Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances.

Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 906355), Henderson Fund Management plc (reg. no. 2607112), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), Henderson Alternative Investment Advisor Limited (reg. no. 962757) and Henderson Equity Partners Limited (reg. no.2606646) (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE and authorised and regulated by the Financial Services Authority) provide investment products and services. Telephone calls may be recorded and monitored.