



SARASIN

# SarStainable

The newsletter of the Sarasin Group for investors in sustainability

Spring 2010



Dear Reader

The housing market was the epicentre of the economic tsunami. After markets hit a low point, they are now starting to rally again. Nothing has happened during the past crisis to change the fact that real estate is an important long-term component of financial investment. At the end of the day, real estate – which is actually the world's biggest asset class – is essentially an investment that holds its value, as long as it is managed in a responsible manner. According to the latest surveys, it seems that more attention needs to be paid to the analysis of real estate investments. Sustainability aspects are becoming increasingly important here. We think this trend is justified: it is especially important to take into account environmental and social developments and criteria for long-term investments such as real estate, where the investment horizon could stretch over several years or even decades. In this edition of SarStainable you can find out what makes sustainable property investments particularly attractive.

We hope you enjoy reading our newsletter

Andreas Knörzer

Head of Sarasin Sustainable Investment

## Property of the future: environmentally friendly and energy-efficient

**High energy efficiency and sustainable construction techniques are becoming an important quality feature for property. Given the inevitability of higher energy prices and the growing urgency of the debate on global warming, the sustainability aspects of buildings have been drawn into the public and political spotlight. Investors have now also become more aware of the attractions of sustainable properties.**

Nowadays more and more developers are planning buildings that meet both financial and environmental criteria, which seem to score well with investors. One reason for this is that energy consumption regulations are due to be tightened up. Sustainable construction methods are therefore a key factor in determining the property's value. In short, it's a good idea for investors to include sustainability criteria in their investment decisions.

Buildings currently consume a third of the world's primary energy sources. Sustainable construction or refurbishment therefore pays off for the environment and – in the mid-term at least – for property owners as well in the form of lower costs. But is sustainability equally rewarding for financial investors? A one-off increase in planning costs and the additional expense of innovative technology and materials are offset by lower running costs. Sustainable buildings command higher rents and higher market prices. The shares of listed property companies with a

good sustainability strategy show a better than average performance. Recent studies also show that buildings accredited to sustainability standards enjoy premiums of up to 16% in their rental and purchase prices compared with those without a certificate,

and their occupancy rates are also higher. On the cost side, the higher expenses are typically recouped over a period of 10 to 20 years.

Even if numerous environmental accreditation systems exist for buildings, these are hardly suited to investors. "One critical point, for example, is the fact that many instruments do not cover the types of use that are particularly

interesting for investors or do not pay sufficient attention to property management," explains Klaus Kaempf, sustainability expert and author of the Sarasin report 'Sustainable real estate – Investing in bricks and mortar'. Bank Sarasin has therefore developed its own system for assessing the sustainability profile of buildings and real estate companies.



## Sustainable properties are worthwhile

### Manageable payback periods:

→ Investments in sustainable buildings are for the most part cost-efficient, even given the current level of energy prices. The payback periods are typically between 10 and 20 years.

### Tenants and buyers prefer sustainable buildings:

→ Surveys show that sustainable properties have higher occupancy rates and that their rental costs are also between 3% and 12% higher than traditional buildings. Buildings with sustainability certificates command a price premium of between 11% and 16% compared with traditional buildings.

### Older buildings hold enormous potential:

→ Existing buildings require on average roughly three to four times as much energy as new buildings constructed to modern standards. Improving the energy footprint of old buildings could significantly reduce their energy consumption.

### Key role to play in global climate protection:

→ Buildings are the biggest end consumers of energy. Buildings account for 36% of global end-user energy consumption and 40% of primary energy consumption, and are responsible for about a quarter of all man-made greenhouse gases. The EU aims to reduce energy consumption and greenhouse gases by around 5% simply by tightening up the relevant legislation on buildings.

### Good prospects:

→ After the crisis has dragged on for three years, pushing down property prices by around a third, signs are now emerging of a recovery in the US housing market. Property prices appear to have bottomed out in other countries as well.

If you would like a copy of the Sarasin report **“Sustainable real estate – Investing in bricks and mortar”**, please phone **+41 (0) 61 277 73 31**

# Property in the portfolio

Investments in real estate undoubtedly belong in any well-diversified portfolio. But what's the best way to invest in property in practical terms? Since managing a diversi-

fied property portfolio requires specialist skills and a relatively high injection of capital, the following solutions are available to investors:

Type of investment	Rating
<b>Buying shares of real estate companies</b>	<ul style="list-style-type: none"> <li>Companies primarily active in the fields of construction, owning and developing real estate</li> <li>The risk/return profile of shares in real estate companies is similar to other equities</li> <li>Not pure exposure to real estate; further development also depends on company-specific factors and stock market performance</li> </ul>
<b>Equity funds focusing on real estate companies</b>	<ul style="list-style-type: none"> <li>Diversified and actively managed portfolio containing shares of real estate companies</li> <li>Managed as an in-house fund</li> <li>Daily trading or liquidity of investment</li> </ul>
<b>Real estate funds</b>	<ul style="list-style-type: none"> <li>Real estate funds invest in property, occasionally financed by external capital</li> <li>Managed as an in-house fund, property valued by external experts</li> <li>Although real estate funds are less risky than equities, they are more volatile than bonds</li> <li>Daily trading or liquidity of investment</li> </ul>

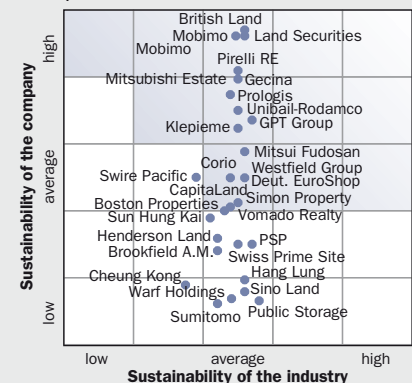
## Sarasin report: Sustainability of real estate companies

In virtually no other industry do sustainability ratings vary as much as for real estate companies. This is the finding of Bank Sarasin's latest report: 'Sustainable real estate – Investing in bricks and mortar'. Our analysts scrutinised 160 real estate companies in 17 countries – and gave 64 of them a sustainability rating. Land Securities, British Land and Liberty International have by far the best sustainability profiles. These British companies have embraced the concept of sustainability at a relatively early stage and have already achieved significant progress. Among the Asian companies, Mitsubishi Estate has an above-average sustainability rating. Many of the US and

Asian companies still have a lot of catching up to do, however.

### Sarasin Sustainability-Matrix®

Valuation of large listed property companies



## British Land: a sustainability leader

British Land has formulated both environmental and social goals which are implemented through detailed action plans. All new office buildings have to comply with the BREEAM Excellent Standard. In the early stages of building projects, British Land consults with local residents and other interest groups. When building on greenfield sites, the company also places particular importance on good public transport connections. British Land's climate protec-

tion strategy includes reducing energy consumption and using renewable energy sources. This applies not only to buildings used by the company itself, but also to the premises it rents out. In situations where the company is unable to exert a direct influence, it supports tenants in climate protection measures. The company's fleet of vehicles is also included in the climate protection concept. Any unavoidable greenhouse gas emissions are offset.

# Building on a sustainable foundation



**Jakes Ferguson**

Fund manager of Sarasin Sustainable Equity – Real Estate Global

Sustainability is becoming increasingly important for property investors. Bank Sarasin spotted this trend early and responded by launching the world's first fund to invest in the shares of property companies: Sarasin Sustainable Equity – Real Estate Global.

“For the first time, Sarasin Sustainable Equity – Real Estate Global gives investors the opportunity to invest exclusively in the shares of sustainable real estate companies that are already facing up to the industry challenges of the future and therefore play a pioneering role in realising and managing sustainable properties,” says Sarasin fund manager Jakes Ferguson. On the one hand investors in Sarasin Sustainable Equity – Real Estate Global participate in an investment theme that is clearly focused on the future and which has so far not been taken up by the investor community at large. On the other hand, the fund allows private and institutional investors convenient access to an attractive investment segment where bank Sarasin has many years of expertise.

“The fund is particularly appealing to investors looking to benefit from the boom in sustainable buildings and from the excellent returns promised by their segment,

while at the same time helping to contribute to a more sustainable future,” explains Jakes Ferguson.

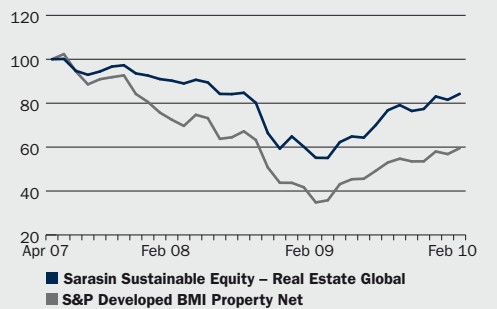
The fund invests in an internationally diversified selection of listed shares and equity securities of companies working primarily in the real estate sector. The focus is on companies whose activity involves the acquisition, development and use of land, or companies that own land and buildings as a vehicle for generating income. This also includes closed REITs (Real Estate Investment Trusts) or other comparable property management companies.

In order to qualify for the fund, investment candidates must first go through an extensive rating process. “Here it is crucial that companies address sustainability issues in an active and forward-looking way in their business policy, and clearly communicate this”, explains Ferguson. “Certification and a commitment to complying with internationally recognised standards help to improve the credibility of these companies,” comments Ferguson. If the shares also look attractive from a financial

perspective, the fund manager then puts together a portfolio that is optimised to produce the required risk/return profile.

After a challenging year in 2008, the fund generated a return of 28.07% in 2009 (status: 31.12.2009).

**Net performance (in EUR) as at 31.12.2009\***



Bank Sarasin expects that the reversal of fortunes in the property market will turn out to be sustainable and therefore anticipates attractive return potential for the Sarasin Sustainable Equity – Real Estate Global Fund.

**Fund facts at a glance:**

Fund name	Sarasin Sustainable Equity – Real Estate Global
Category	Equity funds
Swiss security no.	2 950 143
ISIN code	LU0288928376
Launch date	2 April 2007**
Benchmark	S&P Developed BMI Property TR Index
Fund currency	Euro
Dividend method	reinvested
Management fee	1.50% p. a. + performance bonus

**Top-ten positions**

Company	Weight	Company	Weight
Simon Property Group	4.78%	Boston Properties	4.31%
Vornado Realty Trust	4.75%	Mitsui Fudosan	4.28%
Digital Realty Trust	4.63%	Prologis	4.14%
Mitsubishi Estate	4.45%	Westfield Group Stapled	4.12%
Unibail Holding	4.32%	AMB Property	4.07%

\* Past performance is no guarantee of future performance.  
 \*\* Change of the strategy in July 2009, since then managed according to our sustainability criteria; new benchmark since 10.07.2009; before 3m EUR Libor + 3%

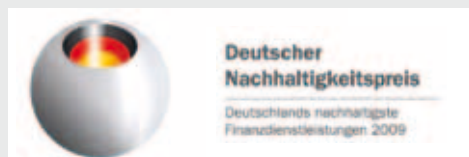
# Bank Sarasin: pulling in the awards

Bank Sarasin's leading position in sustainable investments once again attracted several awards. We view these awards both as public acclaim and a further incentive to continue developing our products and services in the field of sustainable investments.



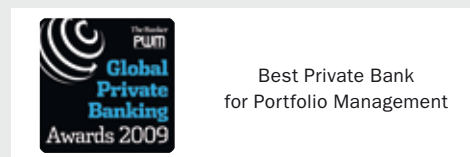
## "Best Research House/Consultant in Environmental Social Governance"

The specialist pension fund magazine Investment & Pensions Europe (IPE) and the Triple Bottom Line Investing Group (TBLI Group) have named Bank Sarasin as the "Best Research House/Consultant". In the renowned Environmental Social Governance Leaders Award, the jury honoured Bank Sarasin's excellent performance in taking sustainability and corporate governance aspects into consideration in their investment research and advisory process.



## "Germany's most sustainable financial services"

At the German Sustainability Award 2009, Bank Sarasin AG won a prize in the category "Germany's most sustainable financial service provider". The jury picked out Bank Sarasin from a field of 300 companies as the provider that implements sustainability management in the most exemplary fashion.



## "Best Private Bank for Portfolio Management" and "Best Private Bank for Innovation"

The two leading Private Banking journals, The Banker and Professional Wealth Management, singled out Bank Sarasin as the "Best Private Bank for Portfolio Management" and "Best Private Bank for Innovation".

# Sustainable products and services

Investment funds and certificates		
<b>Equity funds</b> <ul style="list-style-type: none"> <li>Funds on the theme of renewable energies and energy-efficiency</li> <li>Funds on the theme of water</li> <li>Multi-theme sustainability funds (umbrella funds)</li> <li>World funds</li> <li>Europe funds</li> <li>Funds for French investors</li> </ul>	<b>Mixed products</b> <ul style="list-style-type: none"> <li>Mixed funds with a neutral asset structure</li> <li>Mixed funds with a defensive asset structure</li> <li>Multi-theme sustainability funds (fund of funds)</li> </ul>	<b>Bond funds</b> <ul style="list-style-type: none"> <li>Euro bond funds</li> <li>European bond funds</li> </ul>
<b>Sarasin investment certificates</b> <ul style="list-style-type: none"> <li>On sustainable indices</li> <li>On specific sustainability themes (water, construction, solar energy)</li> </ul>		
Pension solutions for Swiss clients		
<b>Equity funds</b> <ul style="list-style-type: none"> <li>Sustainable Swiss equities</li> <li>Sustainable equities, world excluding Switzerland</li> </ul>	<b>Mixed products</b> <ul style="list-style-type: none"> <li>BVG Sustainability</li> <li>BVG Sustainability Income</li> </ul>	<b>Bond funds</b> <ul style="list-style-type: none"> <li>Sustainable CHF bonds</li> <li>Sustainable international bonds excluding Switzerland</li> </ul>
Mandates		
<b>Portfolio management for private clients in CHF and EUR</b> <ul style="list-style-type: none"> <li>Balanced</li> <li>Dynamic</li> <li>Defensive</li> </ul>	<b>Portfolio management for institutional investors (special funds amongst others)</b> <ul style="list-style-type: none"> <li>Equities</li> <li>Mixed</li> <li>Bonds</li> </ul>	<b>Fund-based asset management in CHF and EUR</b> <ul style="list-style-type: none"> <li>Balanced</li> <li>Dynamic</li> <li>Equity</li> <li>Defensive</li> </ul>
<b>Advice and co-management for institutional investors</b> <ul style="list-style-type: none"> <li>Euro bond funds</li> <li>Mandates for various institutional clients</li> </ul>	<b>Private Equity</b> <ul style="list-style-type: none"> <li>new energies invest Ltd</li> </ul>	<b>Portfolio-Audits</b> <ul style="list-style-type: none"> <li>For private and institutional investors</li> </ul>



**Prof. Dr. Volker Hoffmann** is Professor of Sustainability and Technology at the Swiss Federal Institute of Technology (ETH), Zurich. His fields of research include business strategies for climate change, with a focus on investment and innovation.

**“Financial markets have realised that it is in their own interests to identify climate-related risks and put a price on them.”**

## From the Advisory Council for Sarasin Sustainability Funds: Copenhagen – no reason to delay!

The Copenhagen climate conference in December 2009 was something of an anti-climax as far as the supporters of sustainable development are concerned. The “Copenhagen Accord” did at least set the goal of limiting any rise in global temperature to 2°C, and called for industrialised nations to fix targets for cutting emissions, while poorer countries are supposed to announce measures for reducing their emissions. However, this agreement was not made binding by the Conference, but simply “taken note of”. Given the uncertain legal implications going forward, many companies are therefore asking themselves the question: Should initiatives to reduce greenhouse gas emissions be put on hold until all industrialised nations commit to reduction targets, to ensure a “level playing field” on the markets?

Certainly not! As far as the natural sciences / economics angle goes, the facts are quite clear: Climate change is a manmade phenomenon, and global temperatures must be prevented from rising by more than 2°C in order to avoid catastrophic consequences. To this end, emissions need to be cut quickly and significantly (see the reports by the Intergovernmental Panel on Climate Change). The longer the cuts in emissions are delayed, the quicker they will need to be applied in future in order to be able to meet the 2°C target. This would make the measures to reduce emissions far more expensive, however, as there would be less time for a “controlled transition” and less consideration could be given to the criteria of economic efficiency if the time pressure is too great (see the Stern report on climate change).

Since this analysis is initially focused on the macroeconomic level, it might actually be in the interests of some companies to try and benefit for as long as possible from

the old, less stringent climate regulations. From a national economic perspective, however, there are a number of reasons for taking a proactive approach to reducing emissions:

Even in the absence of a global agreement, countries or groups of countries such as Switzerland or the EU will tighten up their environmental regulations, as they have recognised the importance of global climate change. Through their unilateral efforts, they will increase pressure on their international negotiating partners and at the same time make themselves less dependent on fossil fuels. Furthermore, climate change remains a pressing problem in the minds of the general public. Companies that fail to take this problem seriously enough are likely to suffer damage to their reputation (as shown by the demonstrations against coal-fired power stations in Germany). The public perception will, in the mid-term at least, also have an impact on purchasing decisions as end-users demand more environmentally friendly products and companies work to reduce the CO<sub>2</sub> intensity along their supply chain. Ultimately financial markets have also realised that it is in their own interests to identify climate-related risks in business models and to put a price on them as well (see the Carbon Disclosure Project, [www.cdproject.net](http://www.cdproject.net)).

Opportunities therefore arise for companies to gain a competitive advantage if they integrate climate change into their strategic planning and tackle it in a proactive way. Like their shareholders, companies should however not just concentrate on the financial risks, but also on the opportunities, as there is really no alternative to rapid and significant emission reductions – whatever the outcome of Copenhagen!



If you would like a copy of the Sarasin report **“Solar industry – The first green shoots of recovery”**, please phone **+41 (0) 61 277 73 31**

**Solar energy – The first green shoots of recovery:** After stagnating last year, the solar industry is expected to stage a marked

recovery in 2010, according to the Sarasin Sustainability study ‘Solar industry 2009 – the first green shoots of recovery’. The study analyses the market trends, technologies and companies active in the solar industry. The focus is on the three segments concentrating solar power (CSP), photovoltaics (PV) and solar thermal energy.

**www.sarasin.ch**

**Increase in sustainability mandates:** 89% of investment consultants expect to receive more mandates in the field of sustainability and good corporate governance. This was the conclusion of a study published by the European Social Investment Forum (Eurosif).

**www.eurosif.org**

**Thomson Reuters and Riskmetrics acquire research institutes specialising in sustainability:** The takeover of Asset4 by Thomson Reuters and the acquisition of In-ovest and KLN by Riskmetrics proves that sustainability is steadily becoming a hot topic throughout the financial services industry. In order to defend themselves more effectively against the growing competition, the two Swiss sustainability agencies INrate and Centre Info have also emerged.

In addition, Bloomberg has announced it will stop publishing sustainability data on its information platform.

**Lessons from the financial crisis:** Bank regulation – bonus payments – investor protection: These and many other themes are covered in the Eurosif report on banks. This report, which was produced in collaboration with CA Cheuvreux, describes the challenges facing European banks in the areas of ecology, society and corporate governance. The authors also propose a number of instruments which investors and regulators could use in order to promote a more sustainable banking industry.

**www.eurosif.org**

**Sustainability and good performance:** Most of the academic studies examined show a positive correlation between the observance of environmental, social & governance (ESG) standards and companies’ financial performance. This is backed up by the findings of the recent report from the consultants Mercer ‘Shedding Light on Responsible Investment: Approaches, Returns and Impacts’.

**www.mercer.com/ri**

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