



SARASIN

SarStainable

The newsletter of the Sarasin Group for investors in sustainability

Autumn 2010



Dear Reader

In the last few years the emergence of a new global economic order has quickened its pace. While the sovereign debts of many industrial nations virtually doubled overnight due to the financial crisis, emerging countries are now seen as models of budgetary discipline. And as far as growth is concerned, the high-growth nations such as China, India, Brazil continue to stride ahead.

However, the impressive momentum shown by the emerging countries should not blind investors to the flipside of growth: environmental pollution, inhuman working conditions and democratic deficits are problem areas that increasingly inhibit economic development.

In this issue of SarStainable we explain why a rigorous sustainability analysis is essential to avoid risks in emerging countries and exploit opportunities.

We hope you enjoy reading this edition.
Kind regards

Andreas Knörzer
Head of Sarasin Sustainable Investment

Environmentally and socially responsible behaviour creates value-added – especially in emerging market countries

Emerging market countries are attractive for sustainability-oriented investors: the strong pace of economic growth in these countries helps bring about a reduction in poverty and generally sustainable development, whilst at the same time promising attractive returns. Although the sustainability orientation of many companies is still relatively weak, there are pioneers, which take environmental and social issues seriously and so are better equipped to face the challenges of the future.

Until recently, sustainability issues seemed to play at best a secondary role in emerging markets. Today, though, sustainability is rapidly gaining importance in view of dwindling resources, higher environmental standards imposed by governments and growing consumer demand for safe products manufactured using environmentally and socially responsible methods.

Sustainability becomes a growth-defining factor

In China, for example, after two decades of runaway growth, it would appear that environmental awareness and socially responsible behaviour are becoming growth-defining factors. The Chinese authorities have announced that environmental laws are to be tightened up, corresponding taxes will be levied and water and energy prices will be increased in order to encourage more prudent consumption. Another interesting development is the strengthening of the role of non-governmental organisations

(NGOs) in China. In 2009, two environmental tribunals upheld complaints by a Chinese NGO for the first time.

A new investment approach is called for

Against this backdrop, investors too must re-think their strategy. On the one hand it is increasingly apparent that companies with a

poor sustainability record carry higher risks in this new climate. On the other hand, these altered conditions present opportunities in fields such as renewable energy, environmental technology or organic foods. The theme is also finding support in the capital markets thanks to the “Green Securities” policy, which requires listed companies to publish certain environmental information.

In addition, a green IPO directive has been put into effect, which stipulates that companies from especially polluting sectors must be inspected by the state environmental authority prior to their listing.





Andreas Holzer, sustainability analyst and author of the Sarasin report “Emerging Sustainability – Sustainability analysis of emerging market companies”

Opportunities and risks for sustainable investors

Opportunities:

Reducing poverty and conflict potential:

→ The ascendancy of emerging markets is helping to reduce the global wealth gap. The per capita GDP of emerging countries averages UDS 10,000 – a quarter of the level of the industrial nations. However, their economies are now growing around twice as fast. The growth of the emerging market countries can be seen as contributing to a more harmonious world and hence to more sustainable development on a global scale.

Prospect of attractive returns:

→ Over the last ten years the stock market performance of emerging market countries has been significantly better than that of the industrial nations. Over the next five years the IMF forecasts growth rates of around 6% p.a. – including 9.6% for China and 7.5% for India.

Development of a domestic market brings more robust growth:

→ As a result of dynamic economic performance, not only export-oriented companies are worth focusing on: more and more companies are benefiting from rising domestic demand and the development of infrastructure.

Risks:

High volatility:

→ The performance of share indices has been far more volatile in emerging countries than in the developed markets.

High export-dependence:

→ Emerging countries depend relatively heavily on the performance of the global economy.

Crisis-sensitivity:

→ The industrial sector is dominant in emerging countries. This results in greater sensitivity to crises.

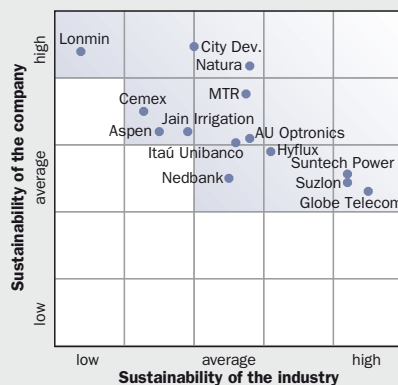
Sustainable companies in emerging markets:

Growth pearls with reduced risks

The dynamic economic growth of emerging countries offers investors attractive potential returns, but also carries higher risks in view of the over-use of natural resources and social and societal problems. Therefore the companies of greatest interest for investors are those which actively search for ways of meeting sustainability standards. This is the conclusion of the Sarasin report: “Emerging Sustainability – Sustainability analysis of emerging market companies”. In preparing this report, Bank Sarasin analysed some 360 companies from emerging countries. Around a third of the companies had average to high ratings. Not surprisingly, the fraction in developed countries is somewhat higher, at a little over half.

Even in emerging market countries, sustainability-oriented investors can find plenty of companies to invest in:

Examples

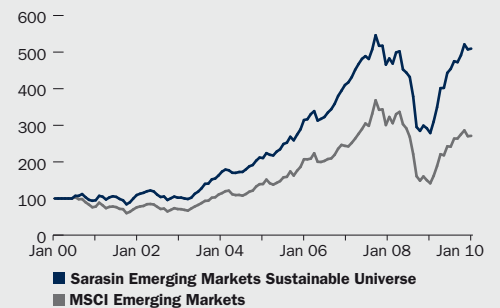


“We see clear signs that environmental and social concerns are quickly gaining importance in emerging market countries,” says Andreas Holzer, sustainability analyst and author of the study. “Governments are

introducing tougher laws on environmental protection, resources are becoming more expensive and consumers in emerging markets are also increasingly opting for safer and greener products. Given this backdrop, progressive companies have significant competitive advantages.”

The report also confirms that sustainability is rewarded by the stock market: whereas the MSCI Emerging Markets Index has risen by 171% in the last ten years, the portfolio of emerging market shares rated by Sarasin as sustainable has risen by 409%* based on a backtesting. In view of the growing importance of environmental and social risks and the opportunities associated with sustainable development in emerging market countries, it is safe to assume that companies committed to sustainability will be able to avoid certain risks and to seize particularly rewarding opportunities in the future.

Sustainable companies outperform



*Companies classed as sustainable by Bank Sarasin, monthly update, status on 26 February 2010. The launch of Sarasin Sustainable Equity – Global Emerging Markets occurred after this, but due to legal regulations its performance data may only be published a year after the fund's inception.

In short:

- Emerging countries are moving towards a phase of more responsible growth.
- As they lag behind there is an urgent need to catch up in environmental protection. This trend will be driven by appropriate changes in legislation and consumer behaviour. A stronger focus by investors on the opportunities and risks associated with sustainability therefore creates advantages and provides a competitive edge.
- Companies now have to meet stricter environmental and social requirements.
- By delivering environmentally and socially responsible products and services, pioneers of sustainability are able to achieve competitive advantages.
- Investors should therefore include environmental, social and governance aspects in their investment decisions.

Sarasin Sustainable Equity – Global Emerging Markets:

Successful and sustainable investment in emerging markets

In emerging market countries, a responsible attitude towards the environment and towards people is increasingly becoming a growth-defining factor. The emerging markets of Asia, Latin America, Eastern Europe and Africa have recovered from the economic crisis far more quickly than industrialised nations. Furthermore, rising living standards, population growth and lively investment activity suggest that these countries will continue to generate a substantial portion of global growth in the future. In short, emerging countries are the markets of the future. However, strikes provoked by inhuman working conditions, stricter environmental standards and growing shortages of natural resources show that the days when growth could be achieved on the back of irresponsible business practices are numbered.

Sarasin Sustainable Equity – Global Emerging Markets is an equity fund that enables investors to invest in the shares of companies committed to sustainable business practices. Only stocks with good financial prospects which have undergone a rigorous sustainability analysis to ensure that they meet a wide range of environmental and social criteria are admitted to the portfolio. This means investors are only exposed to stocks that offer lower potential risks

coupled with attractive potential returns. The special features of the fund include a quantitative investment process supported by key statistical ratios and the strategy of maintaining an equal weighting of selected stocks. The purpose of this is to ensure systematic and disciplined exposure to the growth potential of invested titles, irrespective of short-term market developments.

Fund facts at a glance:

Fund name:	Sarasin Sustainable Equity – Global Emerging Markets
Category:	Luxembourg equity fund
Swiss securities no.:	10 974 731
ISIN:	LU0485309743
Benchmark index:	MSCI Emerging Markets
Management fee:	1.75% p.a. + bonus (10% of outperformance of benchmark index)
Fund currency:	US dollar
Risk class:	5

Sustainable products and services

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

“Environmental and social problems are making people in emerging markets more aware of the need for sustainable development”

How do you assess the level of sustainability in emerging countries?

Marcos Vaz: Owing to the challenging social and environmental problems facing developing countries, people in these regions are more aware of the necessity of sustainable development than in developed countries. To give an example: at the Union for Ethical Bio Trade (UEBT) conference organised by Natura last May, we presented the results of the 2010 Biodiversity Barometer study. The study shows that Brazilians' awareness of biodiversity is well above that of Americans and Europeans, for example. 94% of Brazilians interviewed had already heard of the term “biodiversity”. Of those people, 47% defined it correctly. In the US and Europe, this number was much lower: 60% had heard the term before and only 37% gave a precise definition. It is important to realise that in emerging countries the challenges may be substantial, but so too is the number of opportunities that can be generated and taken advantage of.

What are the main challenges in emerging countries?

Marcos Vaz: To develop a model capable of reconciling economic growth with positive social development and the efficient use of natural resources. Governments still need to invest in sustainable development, while civil society (NGOs, companies etc.) also has to become mobilised in order to create an environment that encourages sustainable entrepreneurship.

What have been the main challenges at Natura?

Marcos Vaz: Our main challenge is still to perfect the combined management of economic, social and environmental aspects in all company processes. We want to reduce greenhouse gas emissions by 33% by 2011, taking 2006 levels as a basis, and to neutralize emissions in all our processes and activities, from the extraction of natural resources through to the creation

of the end product. Natura is striving to replace mineral-based, non-renewable raw materials with plant-based, sustainable raw materials sourced from local Brazilian species, in order to promote biodiversity and support the development of the local supplier communities. One measure we use is the plant source index, which is a measure of the percentage of plant-based raw materials used in our products. Currently, our plant source index is around 78%.

What were the main sustainability achievements and cornerstones at Natura in the last years?

Marcos Vaz: Natura is widely recognized not just in Brazil but worldwide for its constant efforts to incorporate sustainability into its day-to-day business. Our commitment to the environment is marked by the belief that the long-term success of our business model inevitably rests on the steady reduction of our direct and indirect environmental impacts. In 2009, there were important developments in our environmental performance: we published our Sustainable Use of Biodiversity and Traditional Knowledge policies (plant knowledge passed on by local tribes and communities); we reached a 5.2% reduction in the emission of greenhouse gases (GHG); we expanded the percentage of renewable raw materials in our formulas to 79.2% and made advances in the development of low-impact packaging.

In what way do you intend to improve sustainability at Natura in the future?

Marcos Vaz: We know we still have a long way to go and each year we take on new economic, social and environmental commitments. Our pledges for 2010 include tackling climate change, the protection of the Amazon basin, biodiversity, education, the impact of our products and the quality of our stakeholder relations. Full details can be found in our annual report (www.natura.net/relatorio).



Marcos Vaz is Sustainability Director at Natura Cosmetics (Brazil). He oversees sustainability management at corporate level and the sustainable use of biodiversity. He is also vice-president of the board of the Union for Ethical Bio Trade (UEBT), a non-profit association that promotes the “Sourcing with Respect” of ingredients linked to biodiversity.



Heike Leitschuh is the founder of the Frankfurt-based consultancy Fair Wirschaften. As an author, consultant and moderator for sustainable development, she specialises above all in corporate sustainability and stakeholder dialogue.
www.fairwirtschaften.de

From the Advisory Council for Sarasin Sustainability Funds: Can something good come out of the tragedy? Deepwater Horizon and peak oil

If there is one thing I have learned in life, it is that every cloud has a silver lining. But can that be true of something so dreadful as the spillage of millions of litres of oil, escaping freely into the Gulf of Mexico week after week? Can anything good come out of this tragedy for humans, animals and nature? It may well be so, because now there is a chance that we will take the action so urgently needed sooner than would have been possible without this accident – abandoning oil in favour of renewable energies. After all, Deep Water Horizon and the helplessness of an energy giant such as BP demonstrated not only to Americans, but also the whole world, that our prosperity and lifestyle are largely based on a substance – oil – which has now become so scarce that it has to be extracted under conditions that are frankly unmanageable. Clearly this is the kind of accident that we cannot afford, but, even with the best precautions possible, can happen nevertheless. The question is not how it could have happened or who is to blame and how can it be avoided in the future. More important is the realisation that the energy companies, in their deep-sea drilling activities, have ventured into areas beyond their technological capabilities.

What is the sensible thing to do when one realises that one is not up to the job? “Leave it alone!” Experts believe it may be some years before the oil companies are capable of carrying out deep-sea drilling operations safely. Therefore a moratorium should be imposed for more than just a few months.

However, this is not the real point I am trying to make. “Peak oil” – that is to say,

the point at which oil production reaches its maximum and then diminishes, at times falling short of demand – now seems to have been reached. This is why the oil companies are so keen to get at the reserves. Unfortunately they are located in inaccessible and environmentally sensitive areas: under the sea bed, in forests, in Antarctica. Few are saying it openly, but the truth is: giving up fossil fuels is an urgent necessity, not just because of climate concerns, but also and increasingly for economic reasons. Using up the last of our oil – and also gas – reserves is getting ever more expensive and the risks are becoming ever greater.

So at some point people might say, with the benefit of hindsight, that the 2010 disaster in the Gulf of Mexico helped speed up the energy revolution. Of course, things may turn out differently: fear of the ending of the petroleum age may also lead to (economically) irrational excesses. For now, though, I am hoping for the optimistic outcome.

I would just like to add one final thought: even converting one hundred percent of the global energy supply to renewable energies would not solve all our problems. Even then, the resources of our planet would still remain terribly overstretched, since the world economy is geared to growth. But unchecked material growth is incompatible with sustainability. So the real challenge still stands before us: developing a resource-light lifestyle in a resource-light economy – not so much a technological revolution as a revolution in the way we think and behave, in our very social fabric.

News



Disaster raises awareness of risks of oil production:

The explosion on the Deepwater Horizon drilling rig at the end of April marked the start of the biggest oil disaster of all time. It is estimated that over 780 million litres of crude oil spilled into the sea. The catastrophe highlighted the risks associated with oil production, particularly from non-conventional sources. As well as prompting a re-evaluation of the risks, we can also expect the disaster to give a further boost to alternative energies and energy-efficiency measures.

No BP shares in Sarasin sustainability funds:

The oil catastrophe is also a disaster for funds which only pick stocks according to the so-called “best-in-class” approach. These funds also choose the relatively most sustainable stocks in polluting sectors, and BP is such a company – a case of “the short-sighted leading the blind”. Thanks to the additional best-of-classes rule applied by Sarasin, the

requirements for companies in the oil industry are particularly stringent, so that BP never qualified for sustainable Sarasin investment products in the first place.

Greater transparency in emerging markets:

Bank Sarasin has signed up to the Emerging Market Disclosure Project (EMPD). The aim is to motivate large companies from emerging market countries to improve their reporting on working conditions and the environment. The focus is on the publication of targets and reporting according to the standards of the Global Reporting Initiative (GRI). The EMPD is backed by bodies including the US Social Investment Forum and the UN Principles for Responsible Investment.

www.socialinvest.org

Which companies have good strategies for efficient use of water?

The new CDP Water Disclosure Initiative calls upon large companies in water-intensive sectors to publish the risks to their business posed by water scarcity and their strategies for dealing with them. The project is sponsored by 79 institutional investors, including Bank Sarasin, which will use the information in its investment decisions.

www.cdproject.net/water-disclosure

Sustainable investment in Switzerland on a growth trend – Bank Sarasin is market leader:

Thanks to strong growth in 2009,

the Swiss market for sustainable investments has broken a new volume record of CHF 34.1 billion. With a market share of 30%, Bank Sarasin is far and away the market leader in this segment. Particularly encouraging is the surge in demand for purely sustainable asset management. The number of private client mandates at Sarasin grew by 64% in 2009, with the associated volume increasing by as much as 117%.

More information on the sustainability of companies:

Various organisations have recently published proposals for key performance indicators (KPIs) for measuring the sustainability performance and sustainability risks of companies.

www.effas-esg.com

www.sd-m.de

www.responsible-investor.com

Chinese workers flex their muscles:

Following a number of suicides and protests among the workforce of the world’s largest iPhone manufacturer, Foxconn, car manufacturers such as Honda, Hyundai and Nissan are now facing a wave of strikes. Experts see this as the beginning of an irreversible trend, which will be further inflamed by the growing labour shortage. In this climate, companies with progressive policies on working conditions have a competitive advantage.

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The documentation relating to the investment funds contained in this newsletter which are incorporated either under Luxembourg or German law, including the prospectus, the simplified prospectuses, the annual and the semi-annual reports, can be obtained free of charge from the information agent in Germany (see above), the paying agent and representative in Austria (Erste Bank der oesterreichischen Sparkassen AG, Graben 21, 1010 Vienna), and the paying agent and representative in Switzerland (see above).