



SARASIN

SarSustainable

The newsletter of the Sarasin Group for investors in sustainability

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Dear Reader

While everyone waits with bated breath hoping that the situation in Japan does not escalate further, technicians and workers are doing everything in their power to prevent the impact of the Fukushima nuclear catastrophe from spreading. But the radiation leakages are still impossible to control. Current readings clearly demonstrate the scale of the catastrophe for both local residents and the environment. According to the nuclear facility's operators, high levels of radioactivity have been detected in the groundwater below the badly damaged nuclear power plant, and is seeping into the sea as well. The entire region within a 50 km radius of the nuclear power station will be unusable for generations to come.

This recent catastrophe is a dramatic illustration of how a non-sustainable approach to people and the environment can result in serious or even irreversible damage. At the same time society needs to reassess the economic value of nuclear power. It is time for sustainability to play a more prominent role in all our thoughts and actions.

Yours sincerely

Andreas Knörzer

Head of Sarasin Sustainable Investment

Sustainability of food & beverage companies:

“Will the seed bear fruit?”

According to United Nations estimates, the global population is set to rise to 8.9 billion people by the year 2050. This is equivalent to an increase of 47% compared to the level in 2000. Steep increases in the price of agricultural goods already reflect the scarcity of fresh water and fertile soil, as well as the competition with the biofuels industry for arable land. Given this backdrop, the food & beverage industry needs to adopt a more sustainable approach. In its latest sustainability study, Bank Sarasin highlights the most pressing problems and identifies the sustainability leaders.

Feeding the planet's booming population is one of the major challenges of the 21st century. Farmers need to find more sustainable ways of making the best use of their dwindling resources. As one of the biggest purchasers of agricultural goods, the food and beverage industry also has a vital interest in following that example. In the latest Sarasin study, “Food and sustainability: will the seed bear fruit?”, our sustainability analyst Gabriella Ries Hafner examines how the world's 15 biggest listed food companies approach central sustainability themes.

Industry frontrunners

The result: “Of the 15 food and drink companies assessed, the sustainability leaders were Danone, Unilever and Heinz – followed by Nestlé,” notes Gabriella Ries Hafner, summarising the findings of the study (see chart on p.2). But why just four out of 15 companies? “We don't just compare companies with each other, but also look at whether

the industry as a whole faces high sustainability risks,” explains Mrs Ries Hafner. “In high-risk industries such as chemicals, oil & gas and automobile manufacturers, as well as food & drink producers, the barrier to entry in the sustainable investment universe is proportionately higher.”



But what are the actual risks in question? “On the one hand the food industry is associated with substantial environmental impacts – for example through heavy water consumption and pesticide use, as well as deforestation. On the other hand it also presents numerous social risks such as working conditions in the production facilities of the companies themselves and their sup-

pliers. In industrialised countries in particular, there are also various diet-related health risks, such as obesity and diabetes. As a result, we invest only in companies that take a farsighted approach to such risks and achieve above-average sustainability ratings.”



Gabriella Ries Hafner,
Sarasin sustainability
analyst

Agricultural sector attracts the attention of market players –

sustainable investors on the hunt for more far-sighted investments

Soaring oil prices, poor harvests and commodities speculation have driven food prices to record highs, according to the Food and Agriculture Organization of the United Nations. The FAO food price index has now reached its highest level since it was first launched back in 1990.

There are several reasons for this. Firstly, the higher oil prices caused by civil unrest in the Arab world have been passed on to endusers including farmers. Secondly, major importers have responded to fears that the supply could be jeopardised by stockpiling agricultural raw materials in a bid to ride out this phase of political uncertainty, and this has inevitably fuelled the price hikes. In addition poor crop harvests and speculative trading have pushed prices for some agricultural products through the roof. Prices have rocketed especially for maize and wheat, but also for meat, dairy products, vegetable oils and sugar.

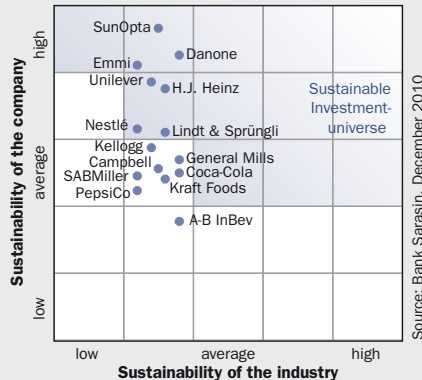
As a result many investors have turned their attention to agro funds. **However**, sustainably minded investors are not simply interested in making money from the price hikes in agricultural products. Instead they are looking for investment strategies that promote a more sustainable approach in the agricultural sector – such as more environmentally friendly procurement, fairer relations with agricultural producers and workers or a stronger focus on healthy food.

You can order copies of the Sarasin study **“Food and sustainability – Will the seed bear fruit?”** by phoning **+41 (0) 61 277 73 31** or download them from the Internet at **www.sarasin.ch/sustainability** (in the section “Publications”).

Sarasin sustainability study on the food & drink industry

The results:

Bank Sarasin’s sustainability ratings for food & drink producers



■ Danone, Unilever and Heinz, followed by Nestlé, are the most sustainable food com-

panies. Danone scores an above-average rating for all the major sustainability criteria, Unilever and Heinz follow close behind. Nestlé shows some strengths in promoting sustainably grown raw materials.

■ Despite good results, most companies still have a lot of ground to cover on the path towards sustainability. With Nestlé and Unilever, for example, one of the major areas for improvement is employment rights in their numerous production facilities in developing countries.

■ In the broad midfield of company rankings, very little progress has so far been achieved (with a few exceptions) in the major sustainability issues.

The challenges:

Health and nutrition: political pressure increases on food producers

Which products in a food company’s range are healthy and which have such a high fat and sugar content that they can contribute towards obesity, diabetes or cardiovascular disease? This is a key issue in Sarasin’s sustainability ratings for food companies. Not just the actual consumer has become far more health-conscious when purchasing products: state authorities are also starting to intervene more actively in view of the soaring public health costs.

Raw materials from sustainable sources: organic companies lead the way

The world’s leading food producers are the biggest purchasers of agricultural products, buying more than 10% of the world’s tea crop and between 15 and 20% of the coffee. The best Sarasin ratings are achieved by companies which purchase the bulk of their raw materials from organic sources and which have a clear strategy for improving the environmental and social standards of their raw material producers. The leading company is Canada’s SunOpta, one of the biggest providers of organic raw materials. With its closed-loop systems and the avoidance of problematic agrochemicals, organic farming provides solutions for some of the environmental problems associated with conventional farming.

Media campaigns on controversial issues can harm the brand image

Genetically modified foods, infant formula milk, bottled water: these are just some sources of potential conflict for the food & drinks industry. Companies have been advertising formula milk aggressively over the past decades. As a result, the proportion of mothers breastfeeding their newborn babies has fallen dramatically in Asia especially. With bottled water, the main areas of conflict are its environmental footprint compared with normal tap water and the privatisation of a public resource. Bank Sarasin therefore assesses how companies manage to balance the need for healthy food and enjoyment.

Poor working conditions, as reported for Nestlé and Unilever for example, can create reputational risks

Child labour and generally poor working conditions on cocoa plantations are the subject of repeated public criticism. So far, however, the working conditions in the food companies’ own production facilities have not yet attracted much attention. In some factories, for example, more than half the workforce does not have an employment contract and is working on a casual basis. Of the 15 food companies analysed, only Danone has signed a framework agreement with the international trade union IUF on globally applicable employment standards. So far Nestlé and Unilever have only held discussions in this respect.

From the Advisory Council for Sarasin Sustainability Funds:

Sustainability managers – more than just consultants and specialists

Sustainable investments need sustainable companies that they can invest in. A company's sustainability credentials are in turn heavily influenced by the professional approach it takes to sustainability management. Here sustainability managers are usually the key figures behind the company's sustainable development.

In addition to explicitly designated sustainability officers who generally work in areas such as CSR, Environment or Health & Safety, there are also a number of "implicit" sustainability managers, i.e. normal managers who push sustainable business practices in a professional way as part of their routine tasks.

Both explicit and implicit sustainability managers have to tackle a number of different issues such as climate protection, diversity, equal opportunities, reporting and supply chain management. Given the broad spectrum of themes and diverse challenges they have to deal with, these managers tend to jokingly refer to themselves as being a "Jack of all trades". This raises the question of what qualifications a sustainability manager needs to have.

Of the three key qualifications – specialist, methodical and personal skills – the first is the most important. This ranges from the ability to identify the strategic relevance of environmental and social themes through to possibilities of refining the corporate strategy and business model, and integrating environmental and social management systems into overall business operations. Analytical skills and in-depth understanding of strategic success factors, as well as the design and functionality of a business model, are particularly crucial for both implicit and explicit sustainability managers.

Not only do they need to have expert know-how in the area of corporate sustainability, but in-depth knowledge of business man-

agement theory in order to discuss effective initiatives in a qualified way with specialist departments and to come up with potential solutions to problems in many different corporate contexts. They not only require the usual management know-how,



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but need to come up with the right reasons. Far more than in the case of conventional management issues, there has to be a convincing argument for sustainability measures based on their commercial benefit. The manager also needs to have practical and negotiating skills to ensure that initiatives are successfully implemented.

“As agents of corporate sustainability, good sustainability managers – both explicit and implicit – are linchpins in networks and organisational development.”

It is impossible for a single individual to satisfy the all-encompassing, ambitious demands of sustainability management. What is required is effective collaboration with other team players.

Explicit sustainability managers are only successful if they manage to establish both an internal and external network, and are able to motivate and empower others as implicit sustainability managers to promote sustainability throughout the company in their particular sphere of influence. Because of this, good communication and networking skills, as well as “soft skills” are an important part of the job description. Sustainability managers need to coordinate environmental and social projects with key decision-makers and stakeholders who contribute to the company's success. Since corporate responsibility applies across the board, there are intersections with every department. This concerns aspects such as collaborating with the PR department on sustainability reporting, implementing sustainability innovations in the research and development department and identifying potential for increasing efficiency with product managers or evaluating market opportunities with marketing managers.

Challenges in the areas of reporting and communication – frequently one of the central tasks of explicit sustainability managers – include finding a compromise between the standard PR mantra to “Keep it simple and stupid” and providing objective identification and analysis of relationships, as well as finding a successful middle way in the prevention of “green-washing” and highlighting success stories as a source of motivation within the company. This also includes an open dialogue with sustainability analysts and investors, for example.

Assessment of nuclear energy in the wake of Fukushima: The current stance of leading experts corroborates the risk analysis performed by Bank Sarasin three years ago. It supports Bank Sarasin's decision to exclude nuclear power from its sustainability funds due to risk considerations.

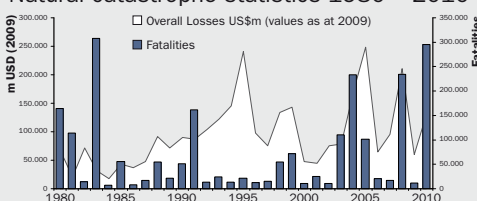
German Study Commission on "Growth, Prosperity, and Quality of Life" begins work: This cross-party body is working with experts to identify the role of growth in business and society, to develop a holistic indicator of wellbeing and progress, and to explore the possibilities and limits of decoupling growth, resource consumption and technological advances.

STOXX chooses Bank Sarasin for its sustainability research: In March, Bank Sarasin took over the research for the entire range of eight STOXX Sustainability indices.

Munich Re: an unusually high number of natural catastrophes in 2010. A glut of

natural catastrophes in 2010 caused huge losses and an exceptionally high number of fatalities. Of the total 950 natural catastrophes in 2010, 90% were caused by extreme weather events. Munich Re sees the high number of weather catastrophes and record temperature incidences as a further sign of ongoing climate change.

Natural catastrophe statistics 1980 – 2010



Source: Munich Re 2010

Farsight Award for Sarasin country study "The world in a dilemma": Bank Sarasin's study on the sustainability of sovereign bonds came out top among of 33 entries. The Farsight Award is an accolade for the best individual analysis by an institution in the field of investment research, in which traditional financial analysis is combined

with longer-term questions relating to the environment and corporate governance. Bank Sarasin was also overall winner in the Sustainable City Awards 2010/2011.

United Nations publishes UN guiding principles for business and human rights: The principles are practical guidelines for companies illustrating how UN obligations for human rights can be put into practice.

Praise and criticism for Germany's Sustainability Code for the business community: The Council for Sustainable Development's attempt to produce a code to promote sustainability on a practical level in the financial market has been well received. But opinions differ on how it should be implemented – especially the suggestion that the new Code should be linked to German company law.

Sustainable products and services at Bank Sarasin

Investment funds and certificates		
Equity funds	Mixed products	Bond funds
<ul style="list-style-type: none"> classic <ul style="list-style-type: none"> World Europe Switzerland USA theme <ul style="list-style-type: none"> Renewable energies / energy-efficiency Water Multi-theme Real estate Emerging Markets 	<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) 	<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	Mixed products	Bond funds
<ul style="list-style-type: none"> Switzerland World excluding Switzerland 	<ul style="list-style-type: none"> BVG Sustainability BVG Sustainability Income 	<ul style="list-style-type: none"> CHF bonds International bonds excluding Switzerland
Mandates		
Portfolio management for private clients in CHF, EUR, GBP and USD	Portfolio management for institutional investors (special funds amongst others)	Fund-based asset management in CHF, EUR, GBP and USD
<ul style="list-style-type: none"> Balanced Dynamic Defensive 	<ul style="list-style-type: none"> Equities Mixed Bonds 	<ul style="list-style-type: none"> Balanced Dynamic Equity Defensive
Advisory and co-management for institutional investors	Private Equity	Portfolio-Audits
<ul style="list-style-type: none"> Euro bond funds Mandates for various institutional clients 	<ul style="list-style-type: none"> new energies invest Ltd 	<ul style="list-style-type: none"> For private and institutional investors

Sarasin Sustainable Water Fund:

Water: a basic human right or a promising investment theme – or both?

At first glance, funds investing in water would by nature seem to be the right choice for sustainability investors. What more could one wish for an investment in a resource that is constantly replenished through a process of nature? Answer: the Sarasin Sustainable Water Fund, which also takes environmental and social aspects into consideration.

Water is the natural resource of the 21st-century. Although 70% of the Earth's surface is covered with water, only around 1% of this is freshwater, and much of this is already polluted. At the same time, the UN predicts that global consumption of drinking water will double over the next 30 years due to rapid population growth and higher living standards.

Advances urgently required – as long as they are sustainable!

According to UN forecasts, around USD 700-800 billion will be invested worldwide in the water infrastructure over the next two decades. The industry will also gain momentum from a wave of privatisation. "Most water utilities are still state controlled, but privatisation is set to continue," predicts Matthias Priebes, manager of the Sarasin Sustainable Water Fund. A substantial portion of the funds must come from the private sector, because public water utilities simply cannot raise such large sums. There are also some very attractive business opportunities for technology companies because of the need to make the water supply more efficient.

"This not only creates exceptionally attractive investment opportunities, but also significant potential for conflict," comments Priebes. "That's why sustainability analysis is so important for water investments in

particular." This is because there are many conglomerates which are not only active in the water industry, but also in undesirable lines of business. So, for example, the Sarasin fund manager does not invest in RWE, because it also operates nuclear power stations. Managers also assess how companies handle controversial projects, especially in the case of water supply privatisation or the construction of dams. A



"The population explosion, rising living standards and environmental pollution are making water the most precious natural resource there is."

Matthias Priebes, manager of the Sarasin Sustainable Water Fund

forward-looking attitude to the use of water as a precious resource, along with adherence to environmental and social criteria, is therefore vital.

The portfolio includes companies active in water supply and wastewater treatment, water technologies and water services as well as those developing water-saving products or using water more efficiently in their production processes. "We are interested in companies specialising in water-saving devices or processes, water meters that can charge on the basis of actual consumption, or innovative water treatment systems," Priebes adds.

Water is life: Facts about "blue gold"



- Without water there can be no life, and there is no substitute for water.
- Agriculture accounts for 70% of annual water consumption, compared with 22% for industry and 8% for private households.
- Almost 1 billion people have no access to clean drinking water; 2.6 billion have no access to sanitation.
- Global water demand is increasing by roughly 2% a year, a significantly faster rate than population growth.
- Water resources are distributed very unevenly across the planet. Asia, where some 70% of the world's population lives, only has 39% of the world's water resources. Overall, a third of the human race already lives in regions which at least occasionally suffer from water shortages.
- In developing and newly industrialised countries, the water infrastructure often needs to be built up almost from scratch. In industrialised nations, networks can be as much as 100 years old and many of them need modernising.
- As an investment theme, water affects many sectors, from the production of plant and equipment through to water supply, treatment and disposal, and technologies for more efficient water usage and the avoidance of water pollution.

Sarasin Sustainable Water Fund at a glance:

Category: global equities fund; invests in companies that contribute towards

Share class: for private investors: A

Swiss securities no.: 3570646

ISIN: LU0333595436

Costs: Front-end load: max. 5%*; Management fee: 2.00%*; Depositary-bank charges: max. 0.1%

Minimum investment: 1,000 Euro

Fund currency: Euro

Risk: Investors should bear in mind that this fund is theme-based and is not therefore so broadly diversified. In addition, investments in growth sectors carry comparatively high price risks.

“What we need is a price premium that rewards organic farming methods”

SarStainable: With growing demand for soy, the increasing amount of land used in its cultivation is attracting more criticism. What are the potential consequences?

Stefan Kausch (S.K.): Global demand for soy has doubled over the last 20 years to around 230 million tonnes. The FAO, the Food and Agriculture Organization of the United Nations, is forecasting a further 40% rise by 2020. This expansion of soy cultivation is happening mainly in South America, with enormous pressure on regions such as the Cerrado, one of the most ecologically important savannas in the world. The consequences are a loss of biodiverse ecosystems and conflicts over land usage rights.

Switzerland imports around 250,000 tonnes of soy per year. Where from, and why?

S. K.: 85% of this soy is used in animal feed. Because Brazil still plants non-GM soy, Switzerland buys its soy almost exclusively from there. Today, the expansion of soy cultivation mainly affects the Cerrado, which covers an area roughly the size of western Europe. The expansion of cultivation has already led to the loss of half of the Cerrado's land area. This causes the disappearance of flora and fauna and has a negative effect on the water balance, soil and climate.

Why is soy so prominent today?

S. K.: What is astonishing is that today we only import half as much feed as we did

35 years ago. What has changed is the importance attached to energy and protein-rich feed. Where cereal imports once dominated, today it is increasingly protein feeds such as soy that are imported. There are two main reasons for this. With the ban on bonemeal, demand for vegetable-based pro-



Stefan Kausch is coordinator of the Swiss Soy Network. This collection of trade associations, soy producers and retailers is pushing for all of Switzerland's soy imports to be produced in a sustainable manner.

tein feed rose sharply in the pig and poultry sectors. Since 1990 a move towards concentrated feed, including soy, has also been discernible in the dairy sector. Partly because of this, the average milk yield per cow has risen from 5,200 to 6,000 litres within a decade.

Swiss soy importers have been working for several years on developing standards for growing soybeans. What problem areas do these standards address?

S. K.: In 2004, the feed importer Fenaco – together with Coop and the WWF – es-

tablished the Basel Criteria for responsible soy cultivation. The Basel Criteria were developed in order to stem deforestation, to preserve areas with a high conservation value, to reduce the use of pesticides and to regulate land use rights. Today this initiative has developed into a globally based, multi-stakeholder process. At the Round Table on Responsible Soy (RTRS), the criteria for responsible soy cultivation were further developed by environmental organisations such as WWF International, corporations such as Syngenta and BP, and South American soy producers.

What are the aims of the Swiss Soy Network going forward?

S. K.: The Swiss Soy Network is seeking to raise its percentage of responsibly produced, GM-free soy in imports to 90% by 2014. In 2010, 60% of the soy imported by purchasers within the network already met these criteria. With this level of compliance, Switzerland is already a world leader. Although Switzerland is a very small player in the trading of soybeans, the network can act as a role model for other countries and organisations. The main thing is that producers should receive a higher price for adopting more environmentally friendly practices. Reducing environmental problems while at the same time maintaining profitability: this is the litmus test still facing the RTRS and other market players.

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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).