



SARASIN

SarStainable

The newsletter of the Sarasin Group for investors in sustainability

Winter 2011



Dear Readers

The world is urgently seeking solutions to the economic and financial crisis. It appears that this quest is taking up the entire intellectual resources of our politicians, business leaders and investors – as well as all of their time. All these efforts could yet prove futile, if those in positions of responsibility do not at the same time take account of the huge environmental challenges facing us. Climate change, energy and water scarcity coupled with the destruction of ecosystems demand the attention of the world's public just as much – if not more – than economic themes. These problems can only be solved if we succeed in decoupling growth from resource consumption. The current issue of SarStainable shows that many consumers are ready to follow this sustainable path. The more consumers demand organic foods, low-emission cars and renewable energies, the more companies will adapt their product range to meet these requirements, thus contributing to a greener global economy. It is down this path that the world must travel.

We wish you all the very best for 2011 and a prosperous new year on the stock market!

Yours sincerely

Andreas Knörzer

Head of Sarasin Sustainable Investment

“Go green” – consumers look for sustainable products

It is becoming increasingly vital for companies to offer environmentally and socially sustainable products. On the one hand, Greenpeace & Co. are keeping a constant watch, on the other, the group of consumers known as LOHAS (Lifestyle of Health and Sustainability) is gaining more market power. In other words, it is no longer moral superiority and self-denial that consumers are after, but quality, enjoyment, health, intrinsic value and lifestyle.

The readiness on the part of many consumers to make a contribution to environmental and climate protection has increased significantly. In contrast to their predecessors, however, the new eco-activists are consumer-friendly, technologically aware and generally well-disposed towards industry – at least as long as industry is not guilty of environmental and social transgressions. The LOHAS consumer group also knows how to apply its consumer power, and uses the Internet as a campaigning platform.

The pressure on consumer goods manufacturers is growing: Environmentally harmful behaviour can ruin a company's image

For example, when Greenpeace publicised the fact that rainforests were being cut down to provide palm oil for Nestlé's chocolate bars, so many supporters protested on the “Kit Kat” Facebook page that the food giant felt forced to take the page off line and that

it would no longer use palm oil or paper which relied on the destruction of rainforests.

The shift in demand towards green products, and the resulting benefits for corporate image, are encouraging more and more multinationals



to follow the “Go green” motto. For example, to promote collective action on more climate-friendly consumption, companies such as Deutsche Telekom, Henkel and the retailers Rewe and Tengelmann are taking part in PCF (Product Carbon Footprint) pilot projects. With scientific guidance from the Potsdam Institute for Climate Impact Research (PIK) and the Freiburg Eco-Institute, participants have gained extensive

know-how in measuring carbon footprints and in assessing their effects. The principal insight is that a published CO₂ footprint can heighten the awareness of private consumers in relation to climate-friendly consumption – provided that factors such as credibility, comparability and transparency of communication are guaranteed.



Eckhard Plinke, head of sustainability research at Bank Sarasin.

Up to now, sustainability has been a largely institutionalised topic. The international community has developed regulations under the umbrella of the United Nations, to which some states adhere more readily than others.

This extensive regulatory framework is directed towards national and supranational political bodies, to public institutions, associations and also to companies. However, the implementation of these environmental objectives decreed by policymakers must occur at the individual level. For this reason, in the real economy it is consumers and employees, and in the financial world the investors, who are the target groups for raising environmental awareness. Appropriate solutions are sought in conjunction with business.

US consumers discover their environmental conscience

While ecology and environmental protection have long found a strong resonance among consumers in Europe, other regions of the world have a lot of catching up to do. Particularly in the USA, the topic has been on the back burner until now. "The more an economy lags behind, the more environmentally and socially responsible behaviour pays off for a company and for investors", explains Eckhard Plinke, Head of Sarasin Sustainability Research. He continues: "In the last five years, for example, sustainable US stocks have outperformed the S&P 500 Index by 5.6 percentage points".

Sustainable US corporations with positive returns *

	2010	3 years	5 years
Sustainable US stocks	15.87	3.21	26.19
S&P 500 Index	15.06	-8.32	11.99

* Annual performance in %, reporting date 31/12/2010 (vielleicht kann man das noch aktualisieren). Sustainable US stocks according to the current Sarasin investment universe. Average across all shares, base is "last close total return", weighted by market capitalisation. In the universe covered by Sarasin Sustainable Investment, a total of 198 US securities are currently investable from a sustainability point of view.

Change of values as a consequence of the financial and economic crisis

The Green Bands Survey carried out by the consultancy firm Cohn + Wolfe demonstrates that US consumers are increasingly discovering their environmental conscience. The authors of the report conclude that the recent recession has generated increasing levels of scepticism and rising cynicism among US consumers. In parallel with this, a shift in values towards a humanitarian lifestyle, towards the consumption of organic foods and greater health awareness is discernible – in short, a shift towards sustainability.

... and yet it moves ...

Walmart's sustainability initiative has also caused a stir. Walmart is the largest retailer in the world, so far not exactly known as

a trailblazer in environmental and social issues. Following the overwhelming success of a sales promotion for articles produced to strict ecological criteria, Walmart concluded that it is possible to make a profit from consumers' green conscience. As a result, Walmart has developed a sustainability index in cooperation with universities and environmental organisations, specifying the environmental impact of each item.



To sum up: the USA has long since stirred from its slumber in relation to sustainability issues, although it is still not wide awake, and lags far behind European countries – as even former US President Bill Clinton critically observed at the Global Leadership Conference in Naples, Florida recently.

Potential for sustainability leaders in the USA

From the point of view of capital investors, there is considerable potential in the USA in relation to renewable energy sources, energy efficiency, the reduction of greenhouse gas emissions and buildings insulation. Companies active in these fields are set to find lucrative business opportunities for many years to come. Their stocks are therefore definitely worth considering.

“We need to learn to live off the earth’s interest, not from its capital. A foundation is a good example of this.”

The world is seeking a solution to the financial and economic crisis. Isn't there a danger that we may neglect the environmental challenges, the more we concern ourselves with economic problems?

The government stimulus packages for combating the economic crisis were a great opportunity to reconfigure national economies along more sustainable lines. Of the 3 trillion US dollars spent worldwide, estimates suggest that around 15 percent was spent in the “green sector”. In the USA alone it was more than 100 billion US dollars, in China as much as 200 billion dollars or more. Of course, we could have done more. In other words, the opportunity was only partially taken by national governments. At the end of the day, it is always a question of whether the glass is half full or half empty.

Are sustainability and financial markets contradictions in themselves, or are there points of linkage?

The pronounced opportunities within the financial sector for maximising short-term profits without considering the consequences, for example through leveraging, brought a number of banks to the brink of the abyss. That is the opposite of sustainability. The problem seems to lie in the fact that so many risks are accumulated due to the incentive and reward systems that it is not only the company itself that is ruined – whose function would normally be taken over by its competitors – but rather competitors within the sector can be taken down with it, because of the interdependence of companies within the industry.

An the end of the day, the politicians (in other words the tax payers) have to intervene to save the company. This invalidates the market economy’s sanction mechanism for punishing misconduct by a market participant – namely insolvency and an exit from the competitive market. In principle, the financial sector should have a particular interest in questions surrounding sustainability. Long-term loans to companies with barely sustainable business models or high environmental risks are more risky. On the

other hand, the number of investors wishing to put money into environmentally, socially and ethically acceptable assets is rising. However, I do detect a tendency for banks to increasingly take the subject seriously, and to try to integrate it into their investment processes.



The solicitor **Michael Dittrich** is the Head of Administration at the German Federal Foundation for Environment (DBU) in Osnabrück, and a member of the investment committee of DBU’s board of trustees. Founded in 1990, DBU is one of the largest foundations in Europe. It promotes exemplary, innovative projects in the field of environmental protection.

“In the 20 years of its existence, the German Federal Foundation for Environment has increased its endowment capital from its original level of 1.28 billion euros to its current level of 1.84 billion euros, and over the same period has supported around 7,700 environmental protection projects to the tune of 1.34 billion euros. This demonstrates that the instruments use to promote sustainable development can themselves be configured in a sustainable way. We need to learn to live off the Earth’s interest, not from its capital. A foundation is a good example of this.”

The danger of protectionism is present in the global economy. Is there room for this kind of regional thought and action in matters of climate policy, environmental protection and the repair of ecosystems?

In the short term one might take the view that it is sufficient if there is enough clean water, unpolluted earth, clean air and unspoilt countryside in one’s own country. Indeed, local and regional action is essential for keeping our environment intact. However, this will not solve our problems over the longer term. Pollutants in the water and the air do not respect national bor-

ders. The climate change that impacts on our lives is also caused to a substantial degree in other parts of the world, or leads to far worse consequences there than here. Many endangered species, which we must protect as a matter of great urgency, do not live in our corner of the globe. And then you have questions of migration, too. I believe that this insight now enjoys the support of a broad majority of people. However, we also saw in Copenhagen, and are seeing right now in Cancún, how difficult it is to arrive at workable results within the context of global climate change summits. The competing interests are indeed widely divergent. We wish to preserve our level of prosperity and others wish to achieve the level we currently enjoy. This means that even more resources will have to be consumed, if we do not succeed in raising efficiency levels. Increased efficiency, as described by Professor Ernst Ulrich von Weizsäcker in his book “Factor Five”, appears to me to be one of the most plausible solutions at the present time, if we wish to achieve prosperity for ever greater numbers of the world’s people without overloading the capacity of our ecosystems.

Some critics express the view that sustainable business primarily serves to soothe people’s green conscience. Do you see opportunities for measuring the long-term effects of sustainable business practices?

“Greenwashing” is a genuine problem. However, many companies are today engaging intensively and seriously with the sustainability of their business models, and making great progress in this area. Agencies that produce sustainability ratings use differentiated scoring models, so that today instruments are available for measuring sustainability and progress. However, there is of course scope for manoeuvre in terms of assessment. In addition, the processes must become more transparent. Forecasting models for long-term effects are difficult to establish for complex processes. We can already see this if we look at weather forecasting. But despite all the possible forecasting errors we must always be clear about one thing: it can never be wrong to

treat finite commodities and energy in an economical fashion. We only have one planet.

How well have sustainable investments held up during the crisis?

Market-wide sustainability indexes have performed no worse than their conventional benchmarks during the crisis. Over a ten-year period, the Dow Jones Sustainability index has performed practically in parallel with the MSCI World. A stronger focus on sustainability can even produce slightly better results in some cases. This is borne out, for example, in a study prepared for us this year by the Centre for European Economic Research (ZEW). Other analyses have come to similar conclusions. Therefore, if a little more sustainability in a capital investment does not lead to any loss of yield, there is in fact no reason to avoid considering this topic in a little more detail.

Environmental and climate policy is aimed primarily at institutional authorities, companies and administrative bodies. What can be done to bring these policies down

to the individual level? How can consumers and private investors be included in the process, so that they are more aware of environmental issues?

This can only occur by raising environmental awareness, particularly amongst children and young people. People who learn from an early age that the Earth is vulnerable and has to be protected will make the right decisions as adults. This is a key component of DBU's development work. In the case of private investors and their advisors, the provision of information is essential. Many people still believe that sustainability in investments means simply investing in wind or solar energy, with the attendant risks. Others believe that taking sustainability aspects into account inevitably leads to poorer returns.

What do you think of proposals to put a price tag on natural assets such as water, earth and air?

If the costs of natural assets were to be taken account of in the pricing of consumer goods, for example, there would indeed be

a greater incentive towards efficient use. But this is a complex process. If everyone wanted to live like the Americans, we would need five planet earths. At the same time, we want emerging market nations such as Brazil to retain their tropical rainforests, because biodiversity is an important existential question for us too. However, the people who live there wish to raise their living standards and improve their living conditions. What we require are international agreements which offer a fair and balanced settlement for all. They are also necessary to prevent the distortion of competition.

In China and the USA in particular, stronger environmental protection seems to be viewed primarily as a drain on the economy. How would you characterise the situation?

Even China has now recognised the importance of environmental protection for its future growth, and at the sub-national level the USA is moving more quickly towards sustainability than we in Europe appreciate.

Thank you for this interview.

Sustainable products and services at Bank Sarasin

Investment funds and certificates		
Equity funds	Mixed products	Bond funds
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)
Sarasin investment certificates <ul style="list-style-type: none"> ■ On sustainable indices ■ On specific sustainability themes (water, construction, solar energy) 		<ul style="list-style-type: none"> ■ Euro bonds ■ CHF bonds ■ European bond funds
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

Benefiting from the trend towards sustainability in the USA



In the United States, sustainability leaders have a major comparative advantage – particularly in the light of the political and social change heralded by Barack Obama's election to office. Bank Sarasin now offers Sarasin Sustainable Equity USA, for sustainable investors who wish to participate in the growth potential of US companies.

Until recently, the subject of sustainability was neither uppermost on the political agenda, nor particularly prevalent in public discourse in the United States. However, this has changed since Barack Obama became President. As part of its program to stimulate economic growth, the USA is currently spending around 110 billion US dollars on energy efficiency, renewable energies, CO₂ disposal and new electricity networks. At the same time, emission limits for cars are being tightened up, and energy-efficient buildings promoted. Previously, a number of US states had begun to implement their own reduction targets,

subsidy programmes and emissions trading systems, which even the new Republican majority in the House of Representatives cannot hold back.

“With this new fund, investors can benefit from the opportunities provided by the unprecedented package of measures aimed at breathing life into sustainable business in the USA,” explains Marco D’Orazio, fund manager at Sarasin Sustainable Equity USA.

In order for a stock to be considered for selection, the company must meet a range of stringent sustainability criteria. The selection of stocks takes place on the basis of the Sarasin sustainable investment universe, a fundamental analysis and a quantitative investment concept. The latter adjusts the title selection to suit current market developments, based on statistical criteria.

Through a combination of careful sustainability evaluation and a quantitative strategy, Bank Sarasin offers an attractive risk-return profile for investors wishing to participate in the US market's strong growth potential. In addition, Bank Sarasin's quantitative approach to investment has been employed successfully in relation to a large number of funds and asset management mandates over many years. Due to the increasing density of regulations in the USA, coupled with the planned tightening of US tax laws, investment funds are also particularly well suited to clients who wish to exit from direct investments in US stocks due to risk considerations, but who wish to remain invested indirectly in the US market / US companies.

Fund facts at a glance:

Fund name:	Sarasin Sustainable Equity USA
Fund category:	Equity fund
ISIN / securities number:	LU0526864581 / 11527444
Benchmark index:	S&P 500 NR
Administration fee*:	1.25%
Performance fee:	20% of outperformance over the benchmark
Fund currency:	US dollar
Risk class:	4

* The Bank and/or the fund distributor may receive or pay one-off or recurring compensations in connection with this product, details of which are freely available on request.

Good reasons for choosing the fund:

- Topics such as climate change, resource availability and demographic change are rapidly increasing in importance for companies' opportunity/risk profiles
- US consumers are increasingly demanding environmentally friendly and socially sustainable products
- Environmental and social issues are becoming increasingly important to companies, for example in order to avoid highly costly compensation claims
- The “litigation culture” leads to excessive compensation payments and damage to corporate image
- Increasing importance of sustainability in the USA since Barack Obama came to office
- 110 billion US dollars for renewable energies, energy efficiency, railways, power grids – hitherto only a portion of this has been disbursed
- More stringent environmental regulations are giving a competitive advantage to sustainability leaders
- Energy policy offers new incentives for renewable energies
- US companies lag behind their European counterparts in the implementation of sustainability principles
- Oil disaster in the Gulf of Mexico is forcing a search for new energy sources
- Rules-based investing can outperform stock market indices over the longer term, and avoid poor decisions resulting from forecast-based investment methods

Risks

- The investment may fluctuate in value and there is therefore no guarantee that the value of the portfolio at a specific point in time will be equivalent to the original amount of capital invested.
- As Sarasin Sustainable Equity – USA invests in equities, its performance is primarily influenced by company-specific factors and changes in the economic environment.
- If the investor's reference currency differs from the fund's investment currency, the investor will be exposed to currency risks.

News

Water scarcity becomes a hot topic in the boardroom:

This is borne out by a survey conducted by the Carbon Disclosure Project (CDP) of more than 300 of the world's largest companies. The CDP brings together 137 institutional investors with invested capital of 16 trillion US dollars. The aim of the survey was to create greater transparency in relation to how the world's leading companies handle water-related issues. Bank Sarasin is a founding signatory of the CDP.

www.cdproject.net



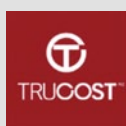
Falling CO₂ emissions despite greater demand for energy:

Due to the growing hunger for energy on the part of emerging market nations, the International Energy Agency (IEA) is forecasting a 36% increase in global demand for primary energy by 2035. Even if the proportion of renewable energy were to double, CO₂ emissions would rise by 21% compared with 2008 levels. At the same time, the IEA presents solutions which could achieve a 25% reduction in CO₂ emissions through a significantly higher proportion of renewable energy sources in electricity production, amongst other things.

Bank Sarasin recognised as the best sustainable asset manager:

Sarasin is at the top of its game, both in terms of wealth management as well as invest-

ment advice. That's the conclusion of the study "Wealth management on test – Who does sustainability best?" produced by the Fuchs Report. In the "Elite Report 2011 – The elite wealth managers", Bank Sarasin also received the highest grade possible, "summa cum laude". At the end of October, Bank Sarasin was awarded the honour "Best private bank for socially responsible investing" by the renowned industry magazines The Banker and Professional Wealth Management.



Environmental damage caused by human activity amounted to 11% of global GDP in 2008:

This is the conclusion of a study produced by London-based analysts Trucost, commissioned by the UN. More than one third of the costs are caused by 3000 leading corporations. The major culprits are the energy business, the oil and gas industry, mining companies, the food industry and the construction and commodities sectors.

www.trucost.co.uk



The Sarasin Water Fund receives the Climate Change Award 2010 at the UK Houses of Parliament:

The honours were awarded by the magazine Investment Week and the asset manager Holden & Partners.

New ISO Standard 26000 on corporate social responsibility comes into force:

ISO 26000 provides guidelines to compa-

nies on the assumption of social responsibility – for example in relation to the fair payment of suppliers, the prevention of child labour and environmental and social reporting. The standard stresses that companies must not only ensure compliance with the guidelines within their own company, but also the adherence of their suppliers.

www.iso.org

Consultation process on the "German Sustainability Code":

The Sustainability Code proposed by the German Council for Sustainable Development aims to make it easier for capital market participants to determine a company's sustainability performance, and lists 22 key points covering social, environmental and strategic requirements. In particular the Code requires that companies set measurable sustainability targets, and that their implementation is accompanied by management systems or key indicators. Providers of financial information such as Thomson Reuters or Bloomberg are already in the process of incorporating this type of data into their information systems.

www.nachhaltigkeitsrat.de

Sarasin sustainable investors were not invested in BP:

The background to this is the high sustainability ratings required for companies involved in highly exposed industries. Many other sustainability funds came under fire for their delay in selling off their BP shares.

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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).

