

FairPensions' Climate Change Questionnaire 2009

Name of Firm: **Henderson Global Investors**

Assets Under Management: £49.5 bn (as of 31st December 2008), of which £568.5m is invested on an SRI basis

Section A: Assessment of climate change as an investment issue

1. In your business, how important is climate change as a factor in investment research, decision making and engagement activities with companies?

- a) Very unimportant
- b) Unimportant
- c) Important
- d) Very important

2. With regard to question 1, and compared to 2007, has climate change become:

- a) Less important
- b) Unchanged from 2007
- c) More important

3. As a fund manager, which of these factors do you see as a barrier to incorporation of climate change risks/opportunities into investment analysis and decision making?

(please mark any that apply in priority order with 1 as the most significant barrier)

| | |
|---|---|
| a) lack of demand from clients | 2 |
| b) low current carbon price / difficulties in determining material financial impact | 1 |
| c) lack of regulatory requirements for investee companies | 4 |
| d) poor quality data on GHG emissions disclosed by firms | 3 |
| e) lack of regulatory requirements for investors | 5 |
| f) other - please specify | |

Please comment on barriers to integrating climate change into investment analysis and decision making:

The most significant barrier is the imbalance between the relatively short term time horizons of mainstream investment analysis and the relatively long term nature of the material business impacts of climate change. Where there is strong legislation (e.g. affecting electricity generators in the EU) the issue has become established as a material aspect of business strategy and performance.

4. As a business, would you welcome regulatory requirements on investee companies to report GHG emissions?

- a) Yes
- b) No

We do not currently have a formal corporate policy position on this issue. However, the SRI team has a position which would welcome regulatory requirements on investee companies to report GHG emissions, as the reality is that voluntary measures are not adequate.

5. As a business, would you welcome regulatory requirements on investee companies to reduce GHG emissions?

- a) Yes
- b) No

We do not currently have a formal corporate policy position on this issue though we have supported papers issued by the IIGCC that actively call for greater regulation on carbon emissions to ensure atmospheric concentrations of CO2 do not exceed 450ppm. In addition, the SRI team has a position which would welcome regulatory requirements on investee companies to reduce GHG emissions (depending on how these are implemented), as the reality is that voluntary measures are not adequate, especially given the urgency of the climate change challenge.

6. Do you (directly or through any collaborative initiatives) engage with government regarding regulation for companies and investors concerning GHG emission measurement, reporting and reduction responsibilities?

- a) Yes

Please specify if via membership of any collaborative initiatives:

IIGCC

CDP (signatory investor)

Henderson supported a letter that was sent to Gordon Brown on 13th November 2007, by the Aldersgate Group, as well as a letter to Hilary Benn and John Hutton on 9th October 2007, stating the need for a common carbon reporting standard

- <http://www.henderson.com/content/sri/publications/statementsletters/carbondisclosurelettergordonbrown.pdf>
- <http://www.henderson.com/content/sri/publications/statementsletters/carbondisclosureopenletterukgovt.pdf>

- b) No

Please comment on your firm's stance on the regulatory framework for companies:

The SRI team have formulated a position on the need to transition towards a low carbon economy. These have been summarised in various submissions by the team to the UK government public consultation on nuclear power (October 2007:

<http://www.henderson.com/content/sri/publications/consultationsubmissions/responsenuclearbuild.pdf>)

and renewable energy from October 2008:

<http://www.henderson.com/content/sri/publications/consultationsubmissions/responseukconsultationrenewableenergy.pdf>)

The SRI view is broadly as follows:

- There is a critical need to transition towards a low carbon economy - this requires the establishment of a sustainable; system of energy use and supply that will enable the UK to continue to develop economically whilst showing environmental leadership
- To achieve a low carbon economy, there is a need to reduce absolute carbon emissions
- The system needs to be based on a clear sustainable energy hierarchy which starts off with energy efficiency, followed by use of renewables. This will provide companies and investors with a clear signal of intent, and enable both to prioritise investment decisions

- The use of market-based instruments e.g. carbon trading, to promote the transition towards a low carbon economy should be considered as they may have a constructive role to play in mobilising the private sector to action in a speedier way than just command and control measures
- Transparency by companies on climate change is critical to enable investors to understand how companies are managing the risks and opportunities. Standardised reporting would be helpful
- Overall, the SRI fund's position is not about promoting more regulation per se, but focusing on 'smart' regulation.

7. As a business, would you welcome stock exchange listing rules which require companies to disclose on a comparable basis climate change related risks?

- a) Yes
- b) No

We do not currently have a formal corporate policy position on this issue.

Please comment on the relevance of listing requirements to achieving useful disclosure?

The SRI team acknowledges that although the requirement would help create a level playing field for listed companies in terms of their disclosure, the problem is that it would not apply to other companies e.g. private, where managing carbon is also an issue. Such measures could be considered should other approaches to promote carbon disclosure prove ineffective.

Section B: Use of climate change data

1. Does your firm request climate change related information (including data on emissions) from investee companies?

- a) In no sectors
- b) In a minority of sectors you invest in
- c) In a majority of sectors you invest in
- d) In all sectors

Please comment on which sectors and why:

- We request climate change information from all sectors via our involvement in the CDP. We directly contact companies where we have a significant shareholding (>1%) to encourage them to participate in the CDP or to provide a full response.
- We also conduct sector and issue analysis and engagement conducted as part of the annual SRI research programme and also as directed by the Henderson Responsible Investment Committee e.g. institutional investor project on climate change adaptation

Additionally, the SRI team proactively and explicitly request information from companies through:

- Our routine company research process, in which companies are assessed to determine whether they are suitable for SRI investment. The information is collected and requested (where it is not disclosed publicly) for companies where mitigation or adaptation is a critical issue

2. As a business, do you factor climate change related risks and opportunities into analysis and investment decisions?

- a) In no sectors
- b) In a minority of sectors you invest in
- c) In a majority of sectors you invest in
- d) In all sectors

We do not have a common investment process. Investment managers and teams factor climate change related risks and opportunities into analysis and investment decisions to the extent they deem them to have a material financial impact.

The SRI team proactively and explicitly factors in climate change risks and opportunities in the analysis and investment process, alongside other ESG issues. It does this by considering companies in two ways:

- WHAT their business products and services are: e.g. providing solutions to climate change, or vulnerable to efforts to reduce climate change impacts
- HOW their business operates e.g. are they working to reduce their carbon emissions and adapt to the implications

Where climate change is a critical issue, a company is only approved should it be deemed to have effective practices for managing risks/exploiting opportunities. The team also engages on an ad-hoc and proactive basis with companies, and sectors on climate change. Visit the SRI website for more information: www.henderson.com/sri

Please comment on which sectors and why:

- For certain sectors, mitigation may be a more critical issue on the risk side, so may warrant deeper analysis of the management of it e.g. oil & gas, utilities, logistics, airlines. Such sectors generate a significant proportion of emissions.
- For a broader range of sectors (and may include those falling into the category above), adaptation may be a more critical issue on the risk side, so may warrant deeper analysis e.g. agricultural commodities, food producers. Such sectors depend on inputs which may be impacted by changes in climate variables
- The financial sector is also another sector where climate change may be significant and may warrant deeper analysis of management, but which does not fall within the previous categories e.g. their association is via their investments and involvement in project finance

3. Are you currently making use of climate change related data provided by companies (including data on emissions) in investment decision making?

- a) In no companies
- b) In a minority of companies where data is available
- c) In a majority of companies where data is available
- d) In all companies where data is available

We do not have a common investment process. Investment managers and teams make use of climate change related data provided by companies to the extent they deem it to have a material financial impact.

For some teams it is unlikely that they ever make much use of climate change related data. At the other extreme, the SRI team explicitly and proactively makes use of climate change related data provided by companies in investment decision making and where this is considered a critical issue, will be a key consideration in deciding whether to approve the company for investment. In addition, the data provided by companies feeds into the SRI fund carbon audits (

<http://www.henderson.com/sites/henderson/sri/transparency.aspx?phid=TabbedPHolder2>)

Please comment on your use of climate change information from investee companies:

See above.

4. In the last 2 years, have climate change related factors affected investment allocations at your firm (n.b. excluding specialist SRI / Environmentally focused funds)?

- a) In no sectors
- b) In a minority of sectors you invest in
- c) In a majority of sectors you invest in
- d) In all sectors

Please comment on why climate change does or does not affect investment allocations:

In the last 2 years climate change related factors have clearly had a material financial impact in certain high impact sectors such as energy. However, for the majority of sectors climate change is not currently amongst the most significant issues in terms of material financial impact.

Section C: Engagement on climate change issues

1. As a business, do you engage (via written or face-to-face communication) with investee companies to ensure that they address climate change related risks and opportunities effectively?

- a) with no companies
- b) with a minority of companies you invest in
- c) with a majority of companies you invest in
- d) with all companies you invest in

Please comment on why you engage or do not engage with companies to address climate change related risks/opportunities, and if relevant how you undertake engagement:

We engage with companies on climate change issues as part of our overall commitment to responsible investment (see Henderson Responsible Investment Policy). This included in 2009 writing to all companies where Henderson as a whole has more than a 1% shareholding to encourage those companies that have failed to respond to the CDP in the past (or are being asked for a response for the first time this year) to provide a comprehensive response to the initiative. On an ad-hoc basis we have also written to specific companies to raise concerns with them about their approach to climate change and related issues. For example, we have recently written to BP, Shell and a variety of other companies involved in the exploitation of the Canadian tar sands raising concerns over the ability of the companies to manage a variety of social and environmental risks including those relating to climate change.

In addition, the SRI team engages systematically with companies, and sectors on the issue of climate change, where this is a critical issue, and action by investors is appropriate (this constitutes the majority of companies we invest in). The engagement is conducted to:

- Generate insights into the management of the issue by the company e.g. how well-positioned the company is with regards risks and opportunities
- Influence more positive management practices on climate change, with regards risks and opportunities

The team may engage with companies on the issue of mitigation specifically, or adaptation, or both. The engagement may occur:

- On an ad-hoc basis e.g. in response to an external event, as part of the routine company research approval process
- On a proactive basis e.g. as part of a planned programme of engagement

2. Where engagement occurs, which of the following do you seek to have in place at investee companies?

i) Named board member / senior executive responsible for addressing climate change risks/opportunities

- a) Yes
b) No

ii) Company measures its GHG emissions and discloses to shareholders

- a) Yes
b) No

iii) Company has an action plan with targets to reduce GHG emissions over a specified timetable

- a) Yes
b) No

iv) Other - Please specify

The specifics that we will look for will depend considerably on the sector and industry in question. For example, as described above whether the sector is likely to be most impacted by climate change itself and therefore needs to address adaptation risk, or whether it is more likely to be subject to policy measures to limit greenhouse gas emissions.

In either case we are looking for information both on the sophistication of the company's strategy (for example are they considering potential impacts across their value chain? how does increasing policy intervention reshape their business model?) as well as information on actual performance (e.g. in terms of both absolute and normalised emission levels) ideally with some explanation of current performance, relative performance (e.g. to previous years performance, industry benchmarks, national/international emission reduction targets) and some discussion of how the company will achieve its own internal targets. Ideally we would also like to see the financial impacts of efforts to reduce emissions.

Please comment on the purpose of climate change related engagement with companies:

The engagement is conducted to:

- Generate insights into the management of the issue by the company e.g. how well positioned with regards risks and opportunities
- Influence more positive management practices on climate change, in respect of risks and opportunities.

For the SRI funds we also have an explicit mandate to engage with companies and to encourage greater action to address climate change issues purely from an ethical perspective.

Section D: Reporting

1. As a business, do you report on action taken (including engagement with companies) to reduce portfolio risks and enhance opportunities arising from climate change?

- a) no reporting
b) to clients who request it
c) to all clients
d) publicly on a website

Please comment on your policy for reporting action to reduce climate change risk and enhance opportunity:

We report on our responsible investment work, including climate change related issues, according to client requirements. We also report information publicly via the Henderson website :

<http://www.henderson.com/sites/henderson/responsibleinvestment.aspx>

<http://www.henderson.com/sites/henderson/property/responsiblepropertyinvestment.aspx>

<http://www.henderson.com/sites/henderson/sri/home.aspx>

Henderson Group reports in its annual financial report on its efforts to minimise GHG emissions within its own operations, as well as with regards its investments. The company website also has a section on 'Responsible Investment' which contains some information on our approach to climate change. In addition, the company also completes the UN PRI questionnaire, as well as the Carbon Disclosure Project questionnaire.

In addition, the SRI team explicitly and proactively communicates with clients and other stakeholders on its approach to climate change as well as a wide range of other issues. This occurs via a number of channels including:

- SRI website: www.henderson.com/sri
- Dedicated reports e.g. fund carbon audits, team submissions to public consultations, team inclusion in public letters
- Client newsletters
- SRI blog: www.henderson.com/sriblog

Additional information:

Our contact with Henderson, through telephone conversation with FairPensions, also wished to clarify the following points:

- Henderson does not have a 'one size fits all' approach and manages numerous different asset classes, making this survey difficult to fill in at points.
- In light of Section A, Questions 4, 5 & 7: Henderson takes no uniform business view, so has no common corporate policy regarding such matters. This underpins the decision not to answer these questions by filling a tickbox, but instead offering a fuller written explanation for each one.
- In light of Section B, Questions 2 & 3: Use of climate change data is an issue for Henderson across all investment areas, but differs according to the team in question (e.g. the property team perform full sustainability reviews on all their portfolios, whilst for other teams, climate change data plays only a minimal role).

Please return the completed questionnaire by Friday 12th June 2009 to:

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