Spring 2008

Rathbone Greenbank Review

In this edition we review the markets for 2007, look at some of our new investments during the year and provide an overview of our engagement activities. Many of our activities are linked by the major issue of climate change.

2007 may well be remembered as the year that the world finally and unequivocally woke up to the reality of climate change – with businesses now lobbying for change, Australia signing the Kyoto protocol and even growing signs of real action in the US. For many of us, it is not before time – we have been aware of the challenge of climate change for a decade or more. Mainstream investors too have begun to sit up and take notice, and the year saw the launch of a number of climate change themed investment funds targeted broadly, not just at ethical investors.

Thus our investment report highlights some of the growing band of companies which came to the market in 2007 in the clean energy and energy efficiency space. We profile our support for ECOS, a pioneering developer of sustainable housing. Our researchers discuss their work monitoring and engaging with companies, and report specifically on the issue of business travel. Our Investor Day in 2008 will look at sustainable transport – a critical area if climate change is to be addressed.

Supporting Award Winners

Rathbone Greenbank has been advising the Environment Agency Pension Fund since 2004 on integrating environmental and social issues into its investment strategy. In 2007, the fund won no less than four major pension industry awards and has demonstrated clearly that even large institutional investors can adopt a sustainable and responsible investment strategy.

We are delighted that Adam Twine, director and landlord of Westmill Wind Farm Co-operative, was named as this year's winner of the prestigious Schumacher Award as we have supported Westmill on behalf of a number of our investors.

Mark Mansley

Investment Director

Within this issue:

Rathbone Greenbank Investments is the specialist ethical investment unit of Rathbone Investment Management Limited. It provides personalised and professional investment services for those who wish to ensure that their investments take account of their environmental, social and ethical concerns.

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Investment review

Equities

It seems a very long time ago that takeovers were hitting the dealing screens on a daily basis and the private equity bidders seemed to have endlessly deep pockets. Yet it was only in the Spring of last year that the US stock market suffered the first tremors of concern over the housing market and a wider spread recession. Indeed until then equity markets were on a rising trend and small and medium sized companies were outperforming larger ones. Official forecasts of faster US economic growth were achieved and the US markets rose to all time highs. The FTSE 100 Index rose to 6,732 in mid June, which was its highest level since September 2000. With demand in the Far East soaking up any supply, commodity prices began a surge that continues to date and mining shares rose around the world.

In the Far East the economy shows no sign of slowing. China for the first time this year accounted for more than the US in its contribution to global growth. Despite the scare early in the year, and in spite of higher interest rates designed to cool an economy growing at 11.9% and inflation of 5.6% (annualised) in July, Chinese shares have paid scant attention to events elsewhere in the world. By contrast the Japanese market, suffering political uncertainty, has lagged other major markets.

Another theme this year has been the threat of inflation. Rising energy and food costs affect individuals and businesses alike. Rising iron ore, coal and steel prices have been passed on through the manufacturing chain, but these pressures are difficult to absorb if demand slows. In addition some significant currency price moves, a falling dollar and strong euro have changed the competitive outlook of global businesses.

The change of mood occurred in the summer months. Major markets started to retreat as Countrywide Financial, America's biggest mortgage lender, issued a profits warning in July and announced a $400m write-down on its home loan business. This sparked rumours that the company might default and also highlighted the fact that holders of collaterised debt obligations (CDOs) faced heavy losses on their holdings. Markets became very sensitive to the outlook for US economic growth. They fell in reaction to the worse than expected August US employment numbers then rallied when interest rates were unexpectedly cut by 50 basis points in September, and the Federal Reserve promised to act "as needed" to ensure price stability and sustainable growth. Equity markets regained their high levels on the back of this pledge and were rewarded by a further 25 basis points cut in October and again in December.

While European economic performance continued to be robust through the summer and to recent times, European shares were not immune to developments elsewhere. It transpired that the German bank IKB had run up losses on sub-prime mortgage transactions and it was rescued by KFN, a state-owned bank. Several banks issued profits warnings relating to the third quarter and manufacturers began to grumble about the competitive impact of the weak dollar.

Fixed interest

In the fixed interest markets, government stocks lost ground in the early part of the year because of inflation fears, but benefited from a "flight to quality" in the summer months, which has continued during the unfolding credit crisis. The Bank of England was more reluctant than its American and European counterparts to inject money into the banking system. However it stood prepared to act as lender of last resort. Following the run on Northern Rock by savers determined to get their money out, the Bank acted and lent over £20 billion to Northern Rock.

Corporate debt performed less well than government stock. When the credit crisis was at its worst, corporate bonds suffered and even very high quality issues under performed the equivalent government bond. Liquidity in the corporate bond market remains very thin, meaning little trading is actually taking place. Risk is being priced differently among different borrowers. 2007 has proved a difficult year for ethical investors who hold ethically screened corporate bonds rather than government issues as there has been a large divergence of performance. Having said this, in one of the worst periods seen in decades, capital values have still only fallen a few per cent.

The Federal Reserve Bank's actions to stimulate the US economy have led to very significant flows of capital into assets that are perceived to benefit; namely Asian and emerging high quality markets, mining stocks, hard and soft commodities, and energy. In addition, the staple consumer sectors like tobacco and beverages, telecoms and transport sectors have performed well last year being less affected by economic or financial turmoil. Conversely, the financial, house building, property and construction sectors have not performed well. The jury is still out on the manufacturing companies, where broadly the small and medium sized companies have fared worse than the larger more international ones. 2007 is characterised by the large divergence in performance between sectors and asset classes.

Looking ahead, confidence is still fragile and the full extent of the sub-prime fallout and CDO losses have yet to be seen. However, with interest rates easing, investors may decide that slowing economic growth has already been discounted and that they can buy into a resumption of growth in earnings and dividends. The greatest dilemma at the moment is whether accelerating inflation causes interest rates to rise again, but that may impact more on bonds than on equities, making index-linked stock more attractive if income is less of a consideration.

Kate Murphy

Charity Adviser

The UK Mining Sector – a feature of 2007

- Commodity prices rose in response to increasing demand from growing economies such as China and India.
- FTSE All Share weighting of the mining sector increased from 6.4% at the start to a very significant 10% at the end this year but still offers little in the way of yield to investors.
- The sector has increased in market value by close to 50% this year to date, while the FTSE All Share is only up a few percent.
- This sector, of all those in the stock market, has the greatest conflict as far as human rights and environmental issues are concerned.

Metals recycling

As mentioned above, the mining sector has become an increasingly large part of the stock market as UK mining companies have grown in size and a number of overseas mining companies have listed in the UK. This sector has been extremely difficult to invest in for ethical investors concerned with human rights issues, environmental degradation and health and safety. Greenbank is therefore seeking ways of compensating for the strong financial performance of this sector by investing more in metal recycling businesses.

Two companies we have held for a long time are Tomra, the Norwegian reverse vending machine manufacturer, and Johnson Matthey, which has a large division refining precious metals. Another company heavily involved in recycling is Universal Salvage, which was held by many Greenbank investors before being taken over earlier this year. In addition our investments in the Impax Environmental Markets Fund gives us exposure to smaller recycling businesses, which tend to benefit from the rise in metal prices.

Around 60,000 of Tomra's reverse vending machines have been installed in retail stores worldwide. They allow the collection of used beverage containers and are an ideal way of linking retailers and consumers with their waste. Tomra is also the provider of waste recognition and sorting systems, which allow recyclable material to be processed back into new products.

Johnson Matthey's refining business recovers platinum from spent catalysts and recycles scrap material from the automotive, electronic, pharmaceutical and chemical industries. Its innovative metal scavenging system has won a prestigious environmental award. With ever increasing demand for raw materials from China and India these businesses have a very important part to play in the conservation of the planet's scarce resources.

Elizabeth Haigh

Investment Director

Business travel

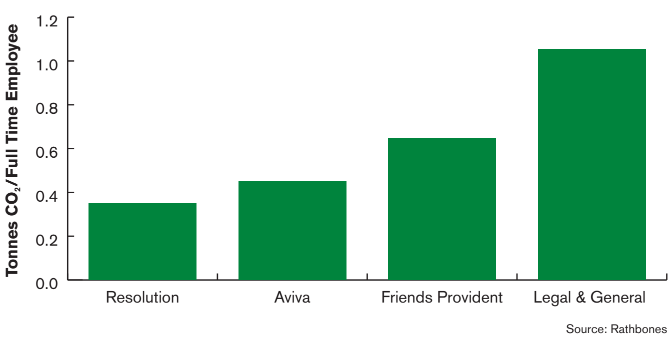
As more and more companies wake up to the challenges and opportunities of climate change, all areas of corporate activity are up for scrutiny. As businesses become more global, we look at how the FTSE 100 companies are dealing with the impacts of business travel.

The globalisation of trade has produced truly international companies – networks of interconnected regional business units promoted under the same brand, with common leadership. Whilst this has been enabled by advances in IT and telecommunications, global business is still reliant on personal contact and relationship, enabled by international air travel and other forms of transport. The larger transnational companies are beginning to formulate strategies to reduce carbon emissions, but are still heavily dependent on high impact forms of transport.

In this context we became interested to see which companies are delivering on their commitments to reducing carbon emissions by reducing the amount of travel per employee, and investing in new communication technology which would reduce unnecessary travel.

Taking the FTSE 100 as a starting point, we found that only 47 out of these 100 companies reported some data on business travel. Of these, some are reporting the impacts of product transport, but many have realised that in order to have a consistent approach to reducing carbon emissions in their business, staff travel must also be considered.

Business travel – Insurers

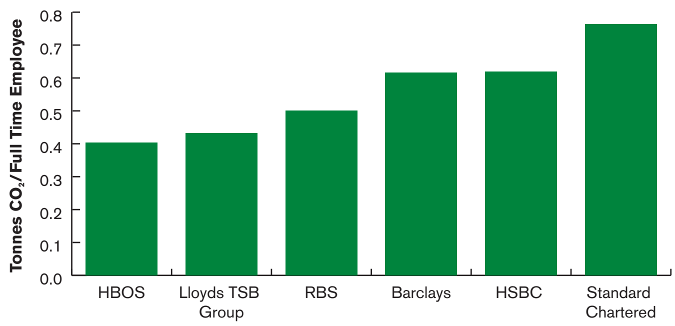


Source: Rathbones

It is probably no surprise that the relatively lower impact sectors are the best reporters on this issue. Six out of seven banks in the index reported their performance, for example, and six out of seven of the life insurers. The major energy users have understandably concentrated on their direct impacts – but it was slightly disappointing to see some of the middle intensity business not reporting on this issue of business travel (Kingfisher for example), given the international nature of their businesses. The extractives companies offered the least amount of reporting on this issue, with only BHP Billiton reporting a number for carbon emissions from business air travel.

Not all companies report the same type of data on this issue, but the most frequently used statistic is the amount of carbon emitted from business travel per full time employee. Bearing in mind the potential inconsistencies between different reporting sectors, the best performer would appear to be Capita Group, closely followed by Whitbread. The best performing life insurer on our analysis was Resolution, with Aviva the next best performer for a significantly bigger workforce.

Business travel – Banks



Source: Rathbones

The banking sector is worth looking at in detail, being an area which has taken advantage of the process of globalisation more than most. HSBC, for example, operates in 83 countries, and Standard Chartered in over 50. Both companies are at the higher end of the scale in our analysis. We would expect these companies, many of whom aspire to leadership in carbon management, to have appreciated the impact of their business travel and to be making efforts to reduce their reliance on it. On this, HBOS appears to be the leader, albeit with a smaller business model (see graphs for more detail).

We raised the issue of business travel with Francis Sullivan of HSBC, where emissions from air travel specifically had risen by 21% between 2005 and 2006 due to expansion in the Asia-Pacific region, despite pursuing carbon neutrality for its operations. The main issue of carbon emissions from the group remains energy use, being ever more reliant on power hungry data and IT systems. However, the company does recognise that business travel is a challenging area, and has outlined plans to work with central purchasing systems to incentivise greener forms of travel in addition to trialling new desk-based video telephones. HSBC has looked into the behavioural patterns of its most frequent and intense travellers, but states that some employees are just more disposed to take advantage of technology than others. The major barrier remains cultural, but HSBC hopes that increasingly bringing travel intensity into budgetary decisions will engage more people on the issue.

The experience of the banks is reflected across many of the businesses, namely that despite investments in advanced videoconferencing equipment, most appear to be having trouble in reducing their travel on business. Many would appear to still feel that the quality of communication achieved meeting face-to-face cannot be attained through such technology. Greenbank itself has experienced these challenges, although admittedly on a smaller scale. With a key member of the team now based outside of Bristol, we have reduced the need for internal domestic flights through use of our video and teleconferencing facilities, which were installed across the Rathbones office network in 2005. Social and Environmental committee meetings have also been conducted via videoconference, not only reducing the need for energy intensive travel, but vitally freeing up staff time and improving work life balance.

Businesses should be encouraged to profile the immense benefits offered by the use of technology among staff, as well as making use of the cost savings. In this way, the carbon intensity of UK businesses can be reduced while producing benefits for staff and investors.

Matt Crossman

Ethical Researcher

ECOS Homes Ltd

In November 2007 Rathbone Greenbank clients invested almost £500,000 in the ECOS Fund – an Industrial and Provident Society established by ECOS Homes Ltd, an environmentally progressive house builder.

ECOS believes that the starting point for any sustainable development is that it should incorporate:

- Houses and commercial premises built to the highest energy efficiency standards;
- Renewable energy generation;
- Affordable housing and community buildings owned by a locally controlled trust;
- Access to shops and services without reliance on car based transport.

ECOS believes that such developments should move closer to carbon neutral living in ways which represent an improvement in quality of life.

The award winning first development at Great Bow Yard in Langport, Somerset has been the subject of much interest and enthusiasm from house builders, architects and owners alike. Following this success ECOS has drawn up plans to develop a further 80 ecologically friendly houses in the South West of England, funded through a mix of direct investment, the ECOS Fund and joint ventures with landowners. The developments will utilise biomass, solar and micro hydro technologies as well as sustainable building materials and processes.

The most significant challenge for ECOS is the desire to meet the highest possible standard for the Code for Sustainable Homes. Designs have been refined to ensure that the buildings go significantly beyond the energy efficiency of Great Bow Yard - no mean achievement as monitoring has shown that the average carbon emissions from the houses there is 70% lower than that of the average UK home.

In order to meet the energy efficiency goals the designs have been enhanced to ensure that walls are super-insulated and windows triple glazed. Sufficient external shading will be required to prevent over-heating in the summer months and local stone or cob block-work will be used to provide passive heating and cooling. Building is expected to start in the first quarter of 2008.

Whilst risks to the UK housing market appear to be rising, contingency plans are in place to deal with any significant falls in selling prices. Investing through an Industrial Provident Society places our investors at the lower risk end of the project's development finance whilst enabling them to take advantage of the opportunity to support an exciting new approach to building more sustainable homes and communities.

John David

Investment Director

Company engagement summary

Company	Issue	Action
Barclays	Zimbabwe	Following press reports alleging that Barclays had provided finance to Zimbabwean government ministers who are subject to EU sanctions, Rathbone Greenbank has requested confirmation that Barclays' regulatory and compliance procedures prevent such individuals from receiving loans.
BP	Remuneration and H&S performance	Before this year's AGM, Rathbone Greenbank outlined to BP's chairman its concerns about directors' remuneration due to a perceived failure to explicitly link pay to health and safety performance in the light of highly critical reports following 2005's Texas City disaster. Despite assurances that executive directors' annual bonuses had been reduced by 50% to take account of performance issues, Rathbone Greenbank voted against acceptance of the remuneration report, contributing to the 21% of all votes which were cast contrary to the board's recommendation.
Latchways	Corporate responsibility	Rathbone Greenbank wrote to congratulate the company on recent developments in its CSR management reporting systems, and encouraging it towards improved reporting. The company indicated that it would take our comments into account when determining what to include in next year's shareholder communications.
Marks & Spencer	Living wages in supply chain	Having written to the company to express concern about labour conditions and wages in the garment industry in developing countries, M&S provided a full written response. The company reaffirmed its commitment to auditing and conducting site visits; it also committed to defining what a living wage would mean in countries from which it sources clothing (including India, Sri Lanka and Bangladesh). M&S undertook to provide an update on its 'Living Wage Ladder' programme via its website in early 2008.
National Grid	Grid connections for	With over 100 renewable energy projects awaiting connection to the national grid, Rathbone Greenbank renewables enquired about the length of time it was taking for such projects to gain access. National Grid's group corporate responsibility manager responded in full, citing the 2005 cut-off date for UK network harmonisation as one reason for the backlog. Resolution of this problem (known as the "GB Queue") is still ongoing. National Grid also pointed out that nearly half of all connection dates for Scottish renewables projects have been delayed due to the public inquiry into the Beauly-Denny transmission line [see below].
Reed Elsevier	Defence exhibitions	Following Reed Elsevier's expansion of its defence exhibitions business, Rathbone Greenbank expressed concern at its growth in this area. The company's director of corporate responsibility pointed out the legitimate nature of such exhibitions in serving the defence industry and highlighted the fact that they also feature equipment used by disaster relief agencies. Reed Elsevier affirmed its policy of banning the promotion of cluster munitions and landmines; however, this claim was called into question by the Campaign Against the Arms Trade which found that such items were openly marketed at the IDEX 2007 exhibition – an issue which Rathbone Greenbank again pursued with the company. In June, Reed Elsevier finally bowed to pressure from a range of stakeholders by announcing that it would sell its defence exhibitions business by the end of 2007.
Rio Tinto	Relationship with Ascendant Copper in Ecuador	Through a concerned investor with links to NGO groups in Ecuador, Rathbone Greenbank learned of a commercial agreement between Rio Tinto and Canadian mining company Ascendant Copper for the supply of exploration data. Rathbone Greenbank contacted Rio Tinto to establish the precise nature of the relationship and to express its concern, given that Ascendant Copper has been the subject of a campaign to dissuade it from developing its project in Junín (a region internationally recognised for its biodiversity) amid allegations of human rights abuses against local protesters. Rathbone Greenbank has learned that Rio Tinto withheld information on Junín from the data sharing arrangement because of its awareness of "community issues". We await a definitive response to our enquiries. In the meantime, Ascendant's activities in Junín may have been severely curtailed after an announcement from Ecuador's minister for mines and petroleum purporting to revoke Ascendant's mining concessions.
Scottish & Southern Energy	Beauly-Denny transmission line	After several Rathbone Greenbank clients in Scotland expressed concern about the impact of the proposed upgrade of the Beauly-Denny transmission line through the Scottish Highlands, Rathbone Greenbank wrote to ascertain the extent to which alternatives to overhead cabling were discussed as part of the project's environmental impact assessment. The group's director of corporate affairs indicated that such issues would be fully explored at the ongoing public inquiry which hopes to report early in 2008. S&SE stated that material changes had already been made to proposals since 2004 in response to concerns voiced at voluntary public consultations.
Other engagement activity		During the year, Rathbone Greenbank also wrote to the following companies to provide comments on their corporate responsibility reports, or to request additional information: Aviva, BG Group, Corin Group, Croda International, Gyrus Group, HSBC, Marston's, Mondi, Royal Bank of Scotland, J Sainsbury, StatoilHydro, Vedanta. In its capacity as manager of the Real Life Fund, Rathbone Greenbank also wrote to the following companies in the UK mining sector to outline the social & environmental standards it would expect them to demonstrate before being considered as potentially investible: Anglo American, Antofagasta, BHP Billiton, Kazakhmys, Rio Tinto, Vedanta, Xstrata.

Energy efficiency

Renewable energy is an integral part of reducing global CO_2 emissions, shifting the demand away from oil, gas and coal fuelled generation to sustainable sources such as wind, wave and solar. The flotation of PV Crystalox Solar in June 2007 provided Rathbone Greenbank with a rare opportunity to invest in the UK solar energy market. This company is a leading manufacturer of multicrystalline silicon ingots and wafers, the key component in solar power systems. PV Crystalox Solar's focus is on the first three steps of the value chain in the photovoltaic industry and, in 2007, produced the equivalent of almost 200MW of solar generation capacity, which powers over 70,000 homes.

Just as important as finding sustainable sources of energy, is the drive to reduce consumption and increase efficiency. Over a third of all UK carbon emissions are generated in the home so any domestic energy savings can have a big impact on global warming. One company that is working to increase household energy efficiency is eaga, which came to the market in June 2007. eaga manages all four regions of the UK Government's Warm Front scheme in England, the Home Energy Efficiency Scheme in Wales, and the Warm Homes Scheme in Northern Ireland. In all three projects, eaga liaises with affordable housing providers and other agencies to manage the delivery of residential energy efficiency solutions such as improved central heating and insulation, in addition to facilitating access to government grants for such systems.

Kate Elliot

Assistant Ethical Researcher

Forthcoming events

Greenbank is pleased to be supporting the following events in 2008:

Saturday 9 February 2008
ECCR South-West Group Launch Meeting

The Ecumenical Council for Corporate Responsibility (ECCR) is inviting people in the South-West who are interested in corporate and investor responsibility, and faith-based engagement with companies on environmental, social and governance to a meeting to launch the ECCR South-West Group. Our Ethical Researcher, Matt Crossman, is a Director for the ECCR and will be hosting the event. For further information, please contact Helen Boothroyd: helenboothroyd@eccr.org.uk 01697 746567; or Miles Litvinoff: miles.litvinoff@eccr.org.uk, 020 8965 9682.

Wednesday 27 February 2008
Professional Intermediaries Ethical Investment Seminar

We are hosting a seminar on ethical investment at our London office, for financial advisers, lawyers and accountants. We will be joined by representatives from Impax, First State and Developing World Markets to discuss issues around ethical and sustainable business. For further information, please contact us on 0117 930 3000, or e-mail greenbank@rathbones.com

Wednesday 7 May 2008
The Funding Network

The Funding Network South West is holding a Funding Event in Bristol on 7th May at 5.30pm. It will be a special environmentally themed event organised in partnership with Forum for the Future as part of the Green Capital intiative, and sponsored by Rathbone Greenbank Investments. For more information visit www.thefundingnetwork.org.uk or email tfn@quartetcf.org.uk

Wednesday 14 May 2008
Annual Investor Day

This year we are holding our Investor Day at STEAM (Museum of Great Western Railway) in Swindon, on the subject 'Sustainable Transport – The Way Forward'. We will be joined by key representatives from the transport industry. Further information will be sent out shortly.

18-24 May 2008
National Ethical Investment Week

The UK Social Investment Forum are organising the first National Ethical Investment Week. Their key message is that it is not just for the deeply committed – it is a valid and attractive option for all investors. For further information, please go to www.uksif.org

Weekend 6-7 September 2008
Soil Association Organic Food Festival

Look out for our stall at the annual Soil Association Organic Food Festival in Bristol this autumn. The event is Europe's largest organic festival, kicking off Organic Fortnight. For further information please go to www.soilassociation.org

Rathbone Greenbank Investments

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For further information on the services that we provide, or to arrange a meeting, please contact one of the Rathbone Greenbank investment managers:

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Please note:

Rathbone Greenbank Investments' offices will be relocating in May 2008.
Telephone and fax numbers will remain unchanged.

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RGI-REVIEW-SPRING-01-08 330597