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Ecosystem Goods and Services and the Capital Markets

Portland Katoomba
June 9th, 2006

Bruce M. Kahn, Ph.D.
212-230-3588
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Figure 1. Marine Protected Areas of South Caicos
The “Iceberg” balance sheet

Financial Capital 30%

Intangible Capital 70%
- Sustainable Governance
  - Strategy
  - Capability/Adaptability
  - Traditional governance practices
- Eco-Value
  - Quality of environmental management
  - Environmental risks & Eco-efficiency
  - Strategic profit opportunities

Four Key Intangible Value Drivers

**Human Capital**
- Recruitment retention strategies
- Employee motivation
- Labor relations
- Innovation capacity
- Knowledge Development & Dissemination
- Health & Safety
- Progressive workplace practices

**Stakeholder Capital**
- Regulators & Policymakers
- Local communities
- NGOs
- Customer relationships
- Alliance partners
- Supply chain
- Social benefits of products & services
EcoVALUE '21 analyzes over 60 key variables using over 20 data sources:

**Historical Contingent Liabilities:**
- Superfund
- State and hazardous waste sites
- RCRA
- Toxic torts

**Operating Risk Exposure:**
- Toxic emissions
- Product risk liabilities
- Hazardous waste disposal
- Waste discharges
- Supply chain management risk

**Eco-Efficiency and Sustainability Risk:**
- Energy intensity and efficiency
- Raw materials & natural efficiency and intensity
- Product life-cycle durability and recyclability
- Exposure to shifts in consumer values

**Managerial Risk Efficiency Capacity**
- Strategic corporate governance capability
- Environmental management systems strength
- Environmental audit/accounting capacity
- Supply chain management
- Training capacity and intensity
- Generic environmental management protocols
- Industry-specific protocols

**Strategic Profit Opportunities**
- Ability to profit from environmentally-driven industry and market trends

Figure B1: Schematic of Major EcoValue’21® Analysis Factors.

*Source: Innovest*
Environmental, Social, and Governance Performance

Stakeholder Relations
Cost / Liability Reduction
Human Capital – Recruitment and Retention

Differentiation and Competitive Advantage

Market Share Growth
Brand Value
Innovation Capacity
Time to Market Reduction

Superior Earnings Growth and Share Price Performance

How Can These Factors Add Value?
### Aug-05

**Darden Restaurants Inc**

<table>
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<th>Country:</th>
<th>United States</th>
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<tr>
<td>Ticker Symbol:</td>
<td>DRI</td>
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<tr>
<td>Industrial Sector:</td>
<td>Hotels Restaurants &amp; Leisure</td>
</tr>
<tr>
<td>Combined IVA Rating:</td>
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</table>

**Sub-Factors:**

| Strategic Governance:       | 6.3                         |
| Human Capital:               | 5.0                         |
| Environment:                 | 2.5                         |
| Stakeholder Capital:         | 6.0                         |

**PERFORMANCE / ALPHA INTENSITY MATRIX**

This matrix situates the four key intangible value drivers along 2 dimensions: 1. How well or poorly the company performs on each of the 4 key factors. 2. How much impact that particular factor has on financial performance in that industry sector; its “alpha intensity”.
Over 60 Independent Studies Provide the Evidence...

Incorporating Sustainable Alpha™ overlay with financial inputs adds value (January 1999 to December 2004)

<table>
<thead>
<tr>
<th>Performance Results</th>
<th>Cumulative Return</th>
<th>Annual Return</th>
<th>Cum Ex Return</th>
<th>Annual Ex Return</th>
<th>Tracking Error</th>
<th>Info Ratio</th>
<th>Annual Turnover</th>
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<tbody>
<tr>
<td>US SAO Overlay</td>
<td>51.21%</td>
<td>7.13%</td>
<td>43.07%</td>
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<td>4.81%</td>
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<td>Baseline</td>
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<td>5.94%</td>
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<td>4.69%</td>
<td>5.48%</td>
<td>0.86%</td>
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<td>S&amp;P 500 Index</td>
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<td>1.25%</td>
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</table>


The performance shown does not represent actual performance, but is hypothetical performance created through a back-test. The results shown do not represent the results of actual trading but were achieved by means of the retroactive application of a hypothetical model that was designed with the benefit of hindsight. These hypothetical results should not be considered indicative of the skill of the adviser. Historic performance is not necessarily indicative of future performance, which could differ substantially. The performance figures are reported on a gross basis, but net of transaction and custody charges. Additional fees, such as the advisory fee, would reduce the return. For example, if an annualized gross return of 10% was achieved over a 5-year period and a management fee of 1% per year was charged and deducted annually, then the resulting return would be reduced from 51% to 54%. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in U. S. dollars.
Information for Science-Based
"Dual Return"
Conservation Investments

An Overview of ICValue’s Vision, Methods and Environmental Performance Outcomes
Understanding Risk and Return

Return vs. Risk (Standard Deviation)

Risk (Standard Deviation)

Return

Conservative
Conserv/Moderate
Moderate
Moderate/Aggressive
Aggressive
Current Portfolio

Source: Zephyr
Resources

• [www.nyas.org](http://www.nyas.org)  
  – Eco-Investing E-briefing
• [www.socialfunds.com](http://www.socialfunds.com)
• [www.socialinvest.org](http://www.socialinvest.org)
• [www.responsibleinvesting.org](http://www.responsibleinvesting.org)
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