

## **Why I took my money out of the Al Gore Fund**

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If you were asked to choose two words to associate with Al Gore, I am sure the majority of people would say *climate change*. Al Gore has worked tirelessly and at personal cost to promote through many decades the cause of avoiding the dangers of climate change. He held the first USA congressional hearings on the climate change and global warming. Millions have seen his presentations throughout the world and his film *An Inconvenient Truth*. He is a co-recipient of the 2007 Nobel Peace Prize for his environmental work. So when he started *Generation Investment Management* in 2004 that planned to create environment-friendly portfolios, you would have thought that the first criteria that they would have used, would be to ask about the environmental and climate impact of the companies they invest in. Right?

Wrong.

Generation Investment is primarily an institutional investment management firm, operating at the wholesale level (major pension funds, foundations, family offices and a smaller number of insurance companies) rather than the retail level. The exception is the arrangement with Colonial First State, the distributor of the Generation fund in Australia, that constitutes about 1% of Generation Investment's total investments. New Zealand Investors are able to put their money with the Al Gore Fund through ASB Group. That is how and why I chose to link up with them.

Last year when researching investments options that are based on best practice, I looked at the Al Gore Fund in more detail. Their web tells an impeccable story. Their approach is that sustainability is a key factor in determining the long term performance of companies. The issues include climate change and environmental degradation, poverty and development, water, natural resource scarcity, health, demographics, migration and urbanisation. Corporate Governance, stakeholder engagement, bribery and corruption issues are also considered. Generation Investment management combines sustainability analysis with traditional analysis. Its first fund was Global Equity; the second, established in 2007, was Climate Solutions. The latter invests in private equity, restricted public equity, and unrestricted public equity. This fund focused exclusively on deploying capital into companies that are part of the transition from a high-carbon to a low-carbon economy. It has four areas of focus: renewable energy generation and distribution; energy efficiency and demand destruction; carbon markets and climate-related financial services; and solutions for the biomass economy. (Generation Investment Management, 2010).

Because Generation Investment is primarily an institutional investment management firm, their web site gives no information about the companies they invest in. But the information is available through other websites. Global Equity, its flagship fund, concentrates on 30-50 companies that are high-quality businesses, with high-quality management teams, that can be bought at the right price. As at 30 June 2010, it had an investment in Varian Medical Systems (who provide technologies for cancer treatment); Northern Trust (who manage investments and funds); Becton Dickinson (who provide medical technology); Henry Schein, (a health care company); Quanta Services (who provide specialised services for power, gas, and telecoms); Plum Creek Timber, (a forestry and timber operation); Qualcomm Inc (a communications company); Paychex (who provide payroll and payroll tax services); and C R Bard, (a health care company). These investments were 57% of the fund, the total of which

was valued at \$2.6 billion (Stockpickr, 2010).

Varian Medical Systems accounted for 8.24% of Generation Investment Management's \$2.6 billion investment. At that time there was no assessment of Varian Medical Systems' environmental impact on its website, apart from statements of legal risk. Its Annual Report stated that it is subject to a variety of environmental laws regulating the manufacture and handling, storage, transport and disposal of hazardous materials. It follows procedures intended to comply with existing laws but acknowledges that it can not completely eliminate the risk of non-compliance (Varian Medical Systems, 2010).

Varian's Corporate Communications & Investor Relations Director, Europe, stated Varian "committed to have a Global Reporting Initiative (GRI) based report available for public consumption and posted on our website by the end of 2011... Varian has always been socially and environmentally responsible, with initiatives dating back some 20 years, and we have much to be proud of. The missing link is that we've been very poor at communicating these achievements". When asked about carbon emissions, renewable energy, fuel and water use, the company answered that they were working on these matters for the 2011 report. Its Salt Lake City operation has signed up to purchase 'green power' through its local utility. It has not adopted the Natural Step or its equivalent, although it does have environmental and health and safety prescribed operating practices. (N. Madle, personal communication, 2010).

So why was Varian Medical chosen? Even if they are as good as they claim, the fact that they have poor records and inadequate communication, means that they cannot have been chosen because they are part of the climate change solution.

ASB Group were very helpful last year in linking me up with people in the Generation Investment Management's office in Sydney, and the Sydney office helped me this year to meet a Director in London. She confirmed my misgivings. She said that the approach GIM take is based on a sector differentiation. For the health care sector, companies considered for selection are based on whether the companies are meeting health care needs. Whether they had done a serious environmental impact assessment, and working to a low carbon and other desirable ecological outcomes, was not factored into the selection process. Rather they were chosen because they were leaders in meeting health care needs.

When I returned to New Zealand I wrote to Al Gore and David Blood laying out my concern. I received a reply that stated *"We recognise that there will be times when people choose to disagree with our methodology, however we are comfortable that our investment process is executed in line with our mission, and will continue to focus on the integration of relevant and material sustainability factors as a key part of our investment analysis"*.

That is when I decided to withdraw my investment. ASB Group – you should now provide alternatives to Kiwisaver investors that are based on sustainability and take the environment threats, including climate change, seriously. Al and David - you have to walk the talk. Let me know when you do.

## References

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