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# What yield can a sustainable portfolio be expected to generate in the long term?

Study  
by HVB & oekom research  
on the performance of best-in-class portfolios  
Munich, September 2007

## Overview

- Objective of the study
- Study design and methodology
- Results
- Summary
- Background information on sustainable investment at HVB and on oekom research

## Objective of the study

To examine the impact which taking sustainability criteria into account in the selection of securities has on the yield of a share portfolio, whereby:

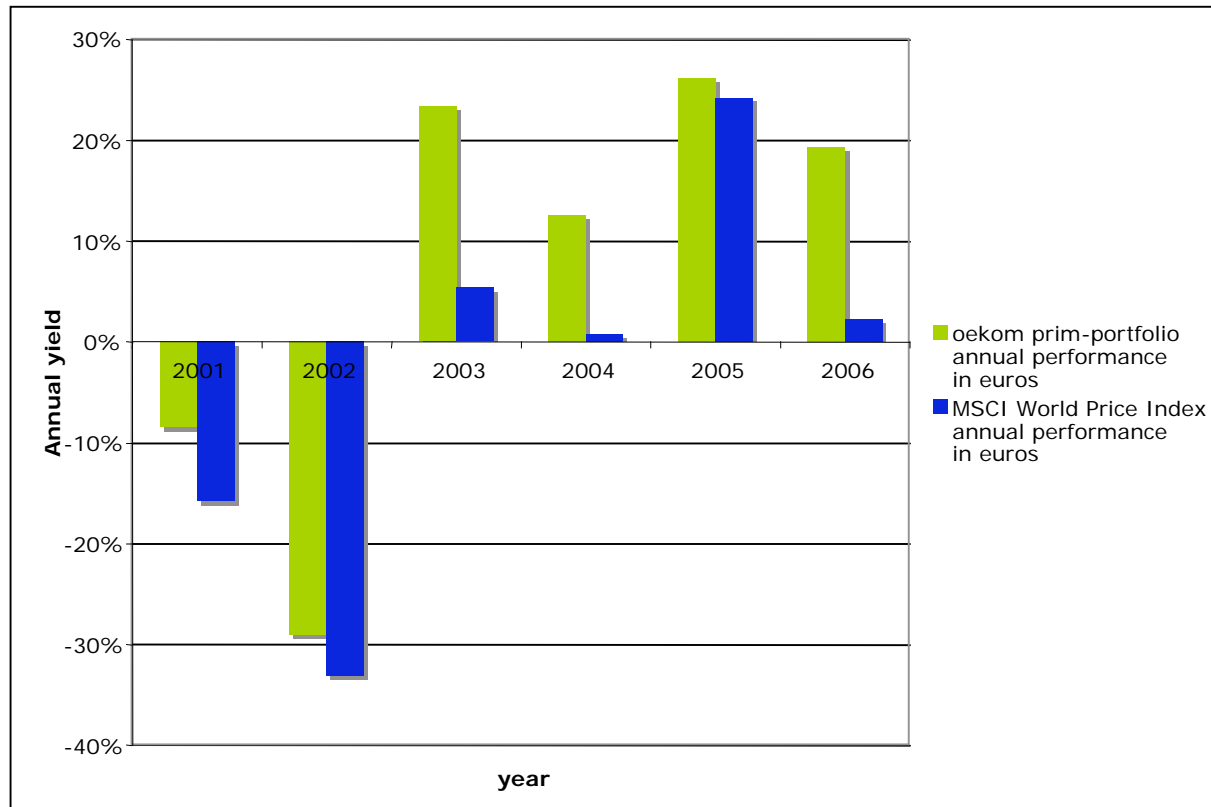
- oekom research examines and evaluates listed companies according to environmental and social criteria and from this produces a Corporate Responsibility Rating
- HVB Wealth Management incorporates this research alongside their financial evaluation into the selection of securities, as part of their Sustainable Wealth Management client service.

- Hypothesis 1: Shares which oekom research recommends for sustainable investment because of their good performance in the Corporate Responsibility Rating (prime portfolio) outperform a share market index in which sustainability factors are not taken into consideration. (“The prime portfolio yields better returns than the market.”)
- Hypothesis 2: Shares which oekom research recommends for sustainable investment because of their good performance in the Corporate Responsibility Rating (prime portfolio) outperform a portfolio of shares which oekom research does not recommend for sustainable investment because of their relatively poor performance in the Corporate Responsibility Rating (not-prime universe). (“The prime portfolio yields better returns than the not-prime portfolio.”)

## Study design and methodology (Hypothesis 1)

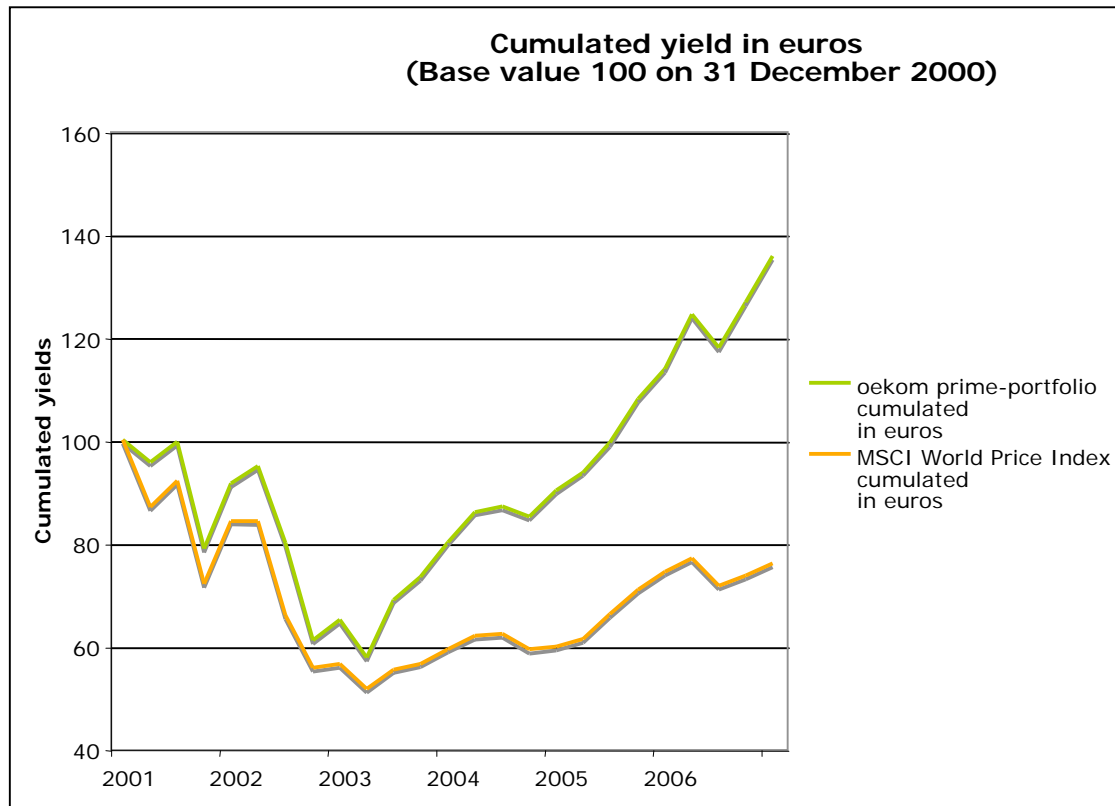
- **Hypothesis 1: The prime portfolio yields a better return than the market.**
- Period examined: 31.12.2000 – 31.12.2006
- Universe of recommended portfolio: MSCI World share index (approx. 1900 securities)
- Size of the prime portfolio: 140 securities initially, 219 at the end of the period examined
- oekom research's "prime" investment recommendations are made quarterly on the basis of social and environmental criteria used to compare companies within an industry (best-in-class approach without the use of further exclusion criteria)
- The study looks at the average share-price performance of the prime portfolio, so all shares are given equal weighting
- The share-price performance of the prime portfolio is compared with that of the MSCI World share index (price index weighted according to market capitalisation)

## Results (I): annual yields



- in each of the six years looked at, the average yield of the prime portfolio was better than the performance of the MSCI World share index.
- In four of the six years, the prime portfolio performed significantly better than the MSCI World.

## Results (II): cumulated yields



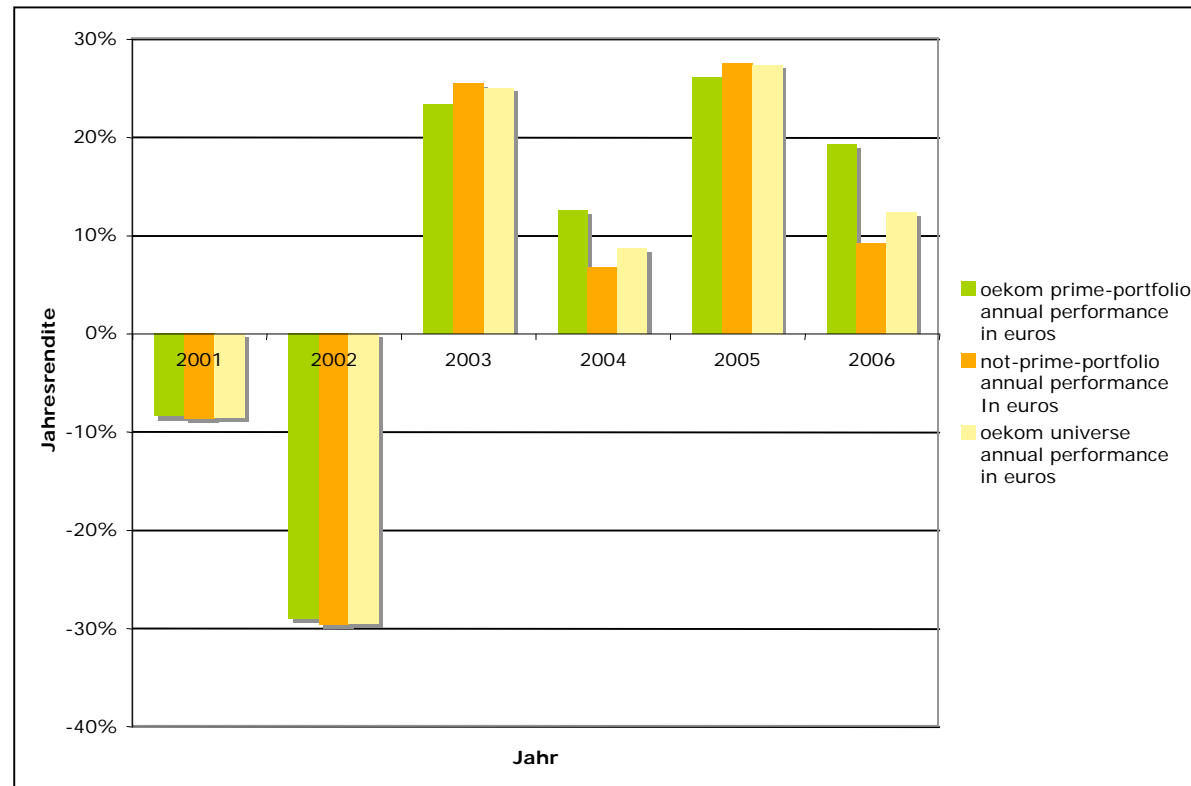
- oekom's prime portfolio: **35.76%** yield over six years
- MSCI World Price Index: **-24.00%** yield over six years

## Study design and methodology (Hypothesis 2)

- **Hypothesis 2: The prime portfolio yields a better return than the not-prime portfolio.**
- Period examined: 31.12.2000 – 31.12.2006
- oekom universe: global universe of large and mid cap shares (coverage by market capitalisation in 2006: 80% of MSCI World, 90% of DJ STOXX 600)
- Size of share universe in total: 346 securities initially, 749 at the end of the period of the study
- Size of prime portfolio: 140 securities initially, 219 at the end of the period
- Size of not-prime portfolio: 206 securities initially, 530 at the end of the period
- oekom research's "prime" investment recommendations are made quarterly on the basis of social and environmental criteria used to compare companies within an industry (best-in-class approach without the use of further exclusion criteria)
- The study looks at the average share-price performance of the prime portfolio and of the not-prime portfolio, so all shares are given equal weighting

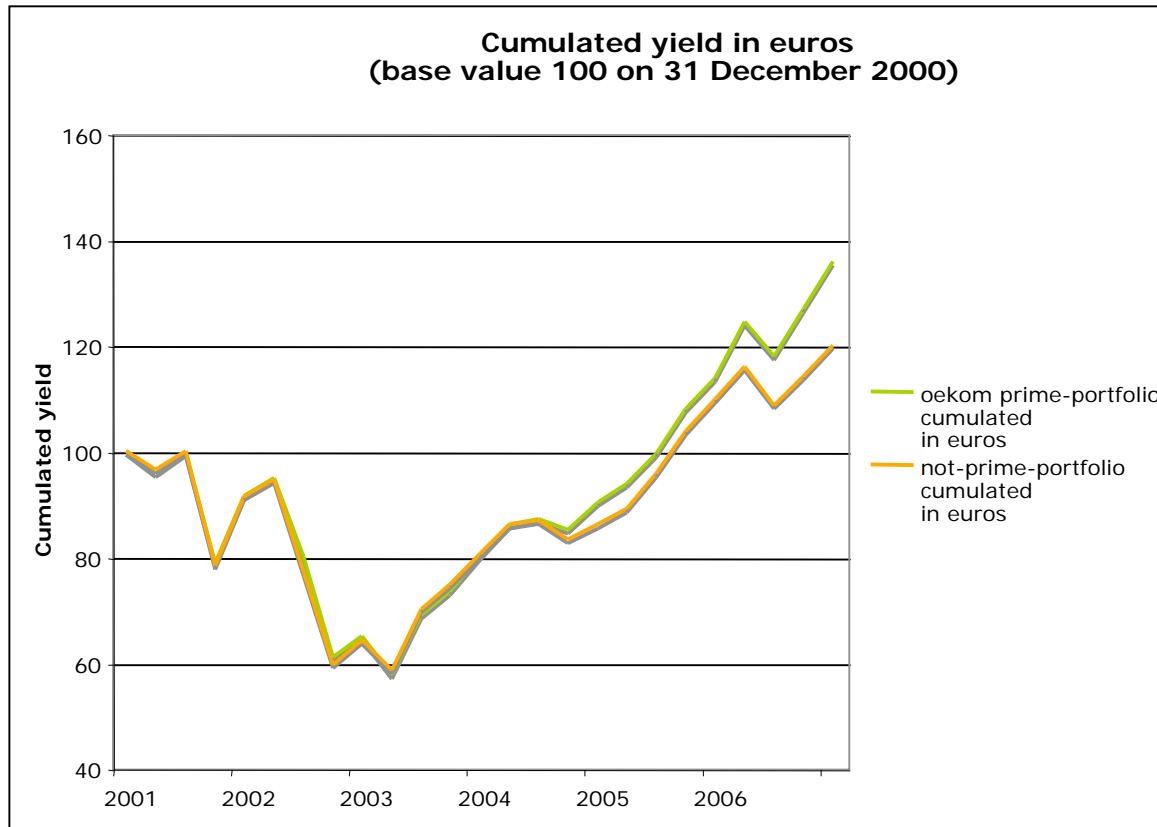


## Results (III): annual yields



- in two of the six years looked at, the yield of the prime portfolio was significantly better than that of the not-prime portfolio, in two years it was approximately the same, and in two years it was worse

## Results (IV): cumulated yield performance



- The yield of the prime portfolio is 15.80 percentage points higher than that of the not-prime portfolio
- The outperformance only becomes apparent after several years
- Average annual yield was 5.23 % for the prime portfolio and 3.08% for the not-prime portfolio

## Summary

- The data shows a clear positive correlation between the inclusion of sustainability evaluations in investment and the yield achieved
- The longer the time horizon, the more markedly the prime portfolio is seen to outperform the others
- Possible reasons for the good performance of the prime portfolio:
  - high degree of transparency in companies run on sustainable lines
  - existence of integrated management systems
  - high degree of capacity and willingness to learn
  - management serving as role model
  - dialogue with interest groups provides early warning system
  - timely seizing of market opportunities
  - avoidance of regulatory risks
  - minimisation of costs through sparing use of resources

## HVB Wealth Management product lines

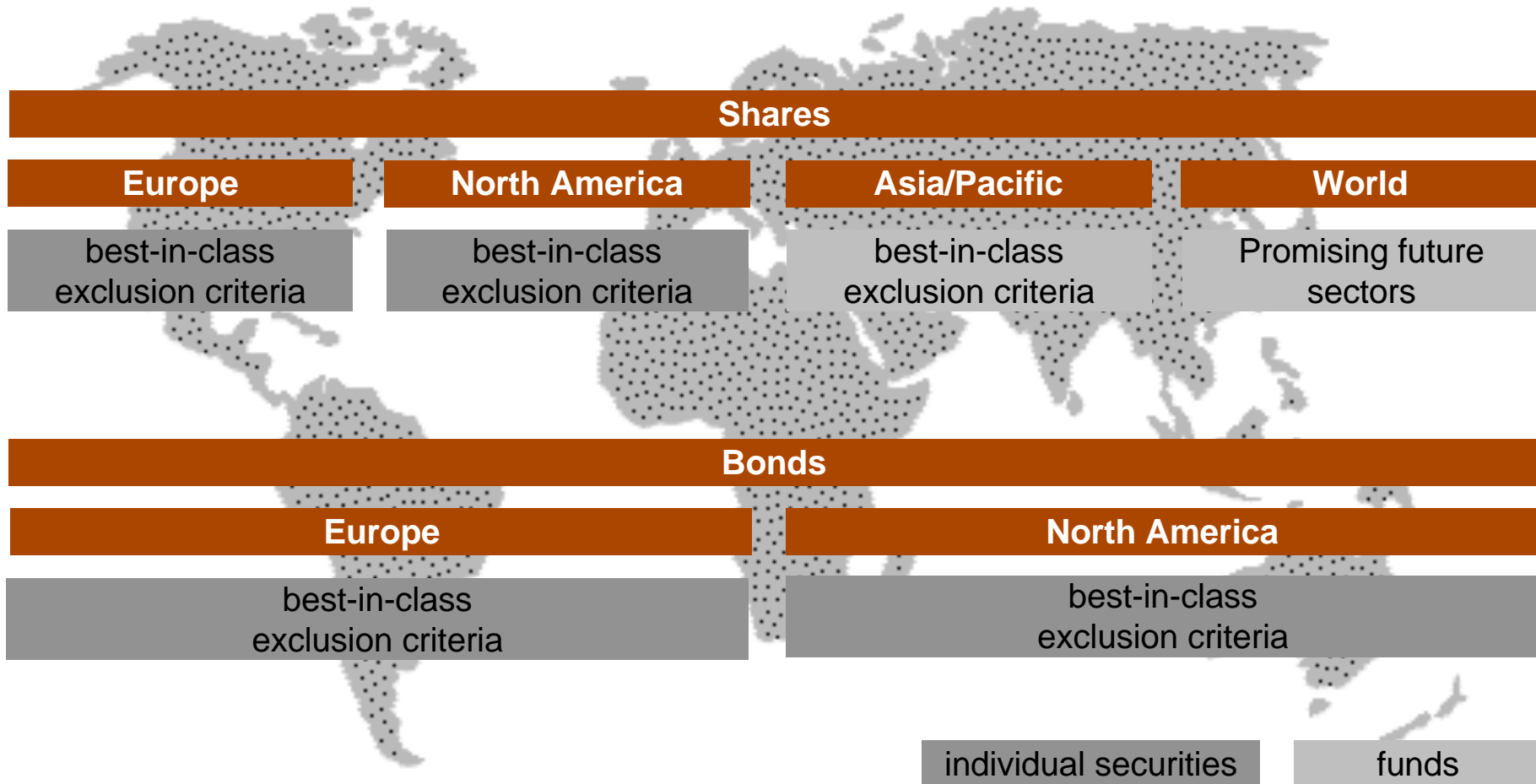
	HVB Wealth Management "FIRST"	HVB Wealth Management "FIRST FLEX"	HVB Wealth Management "FOUNDATION"	HVB Wealth Management "Sustainability"
<b>Product-variant</b>	Wealth Management with <ul style="list-style-type: none"> <li>• funds</li> <li>• TopAdvice fund selection</li> <li>• open architecture</li> </ul>	Wealth Management with facility for opting to fill the portfolio with: <ul style="list-style-type: none"> <li>• individual securities</li> <li>• funds</li> <li>• ETFs</li> <li>• certificates</li> <li>• combination is possible</li> </ul>	As HVB Wealth Management "First Flex", additionally enhanced to meet individual needs, e.g. <ul style="list-style-type: none"> <li>• real asset value maintenance</li> <li>• dividends</li> <li>• foundation charter</li> <li>• reporting</li> <li>• etc.</li> </ul>	As HVB Wealth Management "First Flex", with the selection of securities oriented toward: <ul style="list-style-type: none"> <li>• environmental and</li> <li>• social aspects</li> </ul>
<b>Minimum investment</b>	250.000 €	500.000 €	500.000 €	500.000 €

### The benefits for you:

- product-independent premium quality standards
- individually tailored to your needs
- up-to-date with latest statutory and tax legislation
- customer-oriented service provision

# The HVB Wealth Management investment process

## Sustainability - Asset allocation



## oekom r|e|s|e|a|r|c|h

- Corporate Responsibility & Country Research
- universe covers major international shares and bonds
- highest quality standards
  
- number of employees: 29
- interdisciplinary 21-strong team of analysts
- scientific advisory board
  
- partner to various asset managers and institutional investors in Austria, Switzerland, Germany, France and Japan
- influence on funds and mandates with a total volume of EUR 85 billion (June 2007)
  
- market experience since 1993
- full independence
- offshoot fo oekom Verlag publishers



**Experience**

**Competence**

**Customized Services**

**Independence**

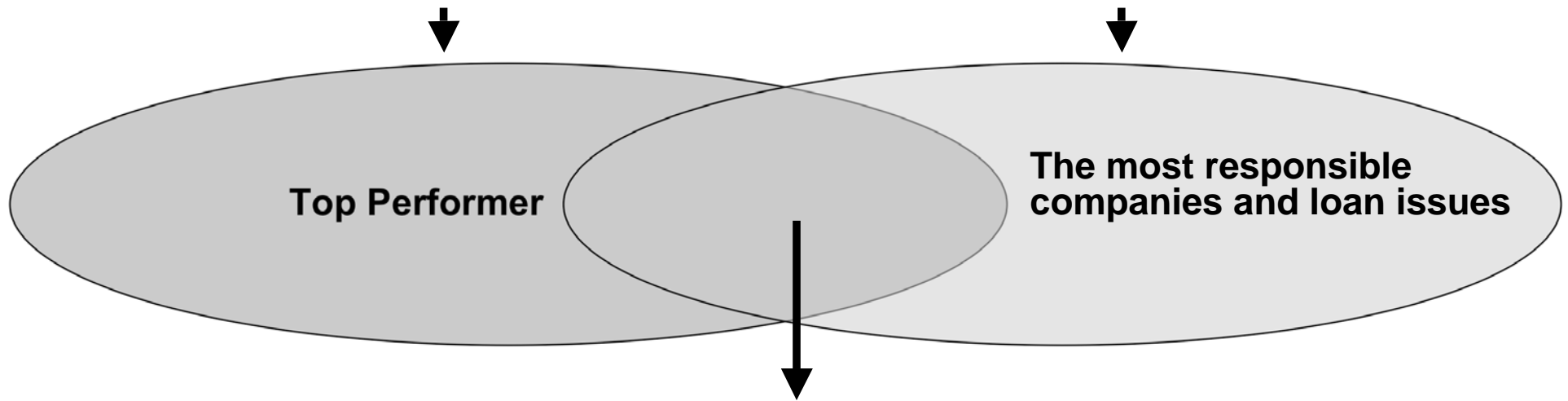
# HVB Wealth Management

## Sustainability: the best of both worlds



**Fundamental Analysis**

**environmental & social analysis**



**Investment universe for sustainable wealth management**  
(Combination of best-in-class and exclusion possible)

# The HVB Wealth Management investment process

## Sustainability – selection of securities

Security selection level	
<p><b>Fundamental assessment by HVB WEALTH MANAGEMENT</b></p> <p>fundamental and chart-reading Assessment by our Group's own international teams of analysts</p> <p><b>Result:</b> Investment judgement (e.g. buy)</p>	<p><b>Sustainability evaluation by oekom r e s e a r c h</b></p> <p><u>Variant 1:</u> <u>Best in Class</u> Based on 200 environmental, social and cultural indicators</p> <ul style="list-style-type: none"> <li>• Environmental Rating</li> <li>• Social Rating</li> </ul> <p><u>Variant 2:</u> <u>Best in Class + individual exclusion criteria</u></p> <ul style="list-style-type: none"> <li>• ethically controversial business areas</li> <li>• Ethically controversial business practices</li> </ul> <p><b>Result:</b> Corporate Responsibility Rating (share fulfils/does not fulfil the required sustainability criteria)</p>
<p><b><u>Overall result:</u></b> <b><u>Selection of securities based on sustainability criteria</u></b></p>	



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