ENHANCED ANALYTICS INITIATIVE

October 18th 2004

Enhanced Analytics Initiative:
changing the way the broker community analyses extra-financial issues and intangibles

Today sees the launch of an initiative by institutional investors to address one of the obstacles to investors taking a longer-term and more rounded assessment of corporate performance – namely the current focus of much sell-side research.

The founding members of this initiative, all major fund managers and significant clients in their individual right, have agreed to allocate 5% of their broker commissions on the basis of how well brokers integrate analysis of extra-financial issues and intangibles. Such issues typically include corporate governance, human capital management, value creation or destruction during mergers and acquisitions, or global environmental challenges such as climate change.

The founding group, who represent EUR 330 billion in assets under management, are:

- BNP Paribas Asset Management (FR)
- PGGM (NL)
- RCM (UK), Deutscher Investment Trust (dit) and dresdnerbank investment management (dbi) (Germany)
- Universities Superannuation Scheme (UK)

All major brokers will receive today a letter informing them of the initiative and inviting them to a briefing session in early November at which the project will be explained in full by the CIOs of the four founding members.

According to Peter Moon, CIO, USS Ltd: "We decided to help launch this project because both we and our brokers know the current approach is producing a lot of research which adds little value. Extra-financials and intangibles can account for a significant proportion of the value of a company, especially over the longer term. We feel that a catalyst is required to encourage active participation by broking houses therefore allocating 5% of the research budget seems a pragmatic incentive to enable brokers to produce more rounded, more useful research."

This timely initiative coincides with the growing move by brokers to adapt their business model following regulatory changes, legal events and clearer demands from customers.

As Neil Dwane, CIO Europe of RCM said: “Many clients are, rightly, looking for fund managers to better manage long term risks and opportunities, and to better manage absolute risks and deliver greater alpha. Traditional investment analysis is very well suited to short term investment but if you are trying to take a longer term view, the most informative notes are those that take the material extra-financial aspects of corporate performance into account. We therefore view the allocation of commissions as a fundamental part of our fiduciary duty to protect and manage our client assets and part of that duty is to represent their requirements for good and consistent governance.”

According to Philippe Lespinard, CIO of BNP Paribas Asset Management, “We have some very clever people working on our behalf in sell side houses and independent research boutiques. Part of the solution is to focus their effort on providing us with a more complete view of investment opportunities, and that’s why the specific allocation is so important. We have a chicken and egg dilemma here and fund managers who want a different kind of research have to go first and break the impasse. But paying brokers is not the only thing we need to do. We also need to evaluate what brokers provide with more rigour and that’s one of the big benefits of working together with other informed peers.”

In this regard, the initiative builds on the experience of other projects such as the Institutional Investors Group on Climate Change (IIGCC) and UNEP-FI Asset Management Working Group where brokers have been asked to deliver innovative research. Critically, this initiative addresses the dual challenge of creating financial incentives and having a process for informed feedback. The founding members, together with a leading Swedish foundation, Mistra Foundation, have commissioned an independent review of what research brokers have produced in the last 18 months, as well as the specific commitments brokers make in response to this new Initiative. This ‘baseline’ assessment will determine the allocation of brokerage commission budgets for 2005 and further details about this baseline assessment will be shared with brokers at a special briefing by the CIOs of the founding group in London on November 2nd, 2004.

Whilst many fund managers are considering their broker relationships, this unusual initiative involves collaboration between mainstream investors. According to Roderick Munsters of PGGM: "With this project we are laying down a challenge to brokers everywhere. It's a difficult task to convince the investment community that intangibles really matter: by offering the broker community a challenging perspective, we believe that we can speed up and streamline this process".

The Initiative also welcomes support from institutional investors who do not manage funds directly but who would like their fund managers to reward and have access to this kind of research. Mistra is the first of what is intended to be a growing group of pension funds and other asset owners who join this initiative as associate members.

About BNP Paribas Asset Management

BNP Paribas Asset Management is one of the leading players in European fund management, with EUR 195.6* billion of assets under management (as of June 30th, 2004). The asset management business employs over 1,300 staff in 20 countries. Its fund management teams are active in all of the world's major financial markets, including Paris, London, New York, Philadelphia and Tokyo and Hong Kong. They are specialised by asset class, investment style and geographical area.

* *Including our affiliates*

About Mistra

Mistra is a foundation that supports research of strategic importance for a good living environment, solving major environmental problems and contribute to the development of a sustainable society. It distributes about SEK 250 million a year to environmental research. At the beginning of 2004, the foundation's capital amounted to SEK 3.3 billion.

About PGGM

With a total pension capital of around EUR 57 billion, PGGM provides former and current employees in the healthcare and social work sector with a comprehensive and broad-ranging pension package at as low a price as possible. The fund spreads its investments – both in the Netherlands and in the rest of the world – over equities, fixed-interest securities, real estate, private equity and commodities. Its investment policies focus specifically on sustainability and careful application of Asset Liability Management. PGGM is based in Zeist and has over 1,200 employees.

About RCM

RCM is part of Allianz Dresdner Asset Management, the asset management arm of Allianz AG. RCM has investment offices in Frankfurt, London, Hong Kong, Tokyo, San Francisco and Sydney with over 270 investment professionals worldwide. RCM's investment philosophy is based on fundamental research. RCM's German operations are integrated with dit and dbi the retail and institutional German businesses of Allianz Dresdner Asset Management. Allianz Dresdner Asset Management has combined assets of EUR 1,066 billion as at 30/06/04.

About USS

USS Ltd, with nearly 200,000 members and assets of approximately EUR 28.5 billion, is one of the largest pension funds in the UK and Europe. USS's Directors believe that companies which manage corporate responsibility well, and which have good standards of corporate governance, will - all else being equal - prove to be better long-term investments. The fund also believes that it is in the fund's interests to encourage companies that perform poorly on these issues to improve their performance, as this too is likely to add value to the fund over the long term.

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