



Responsible Investment Association Australasia

Asset Allocation Models and Alternative Investments

September 24, 2008

Agenda

Introductory Observations

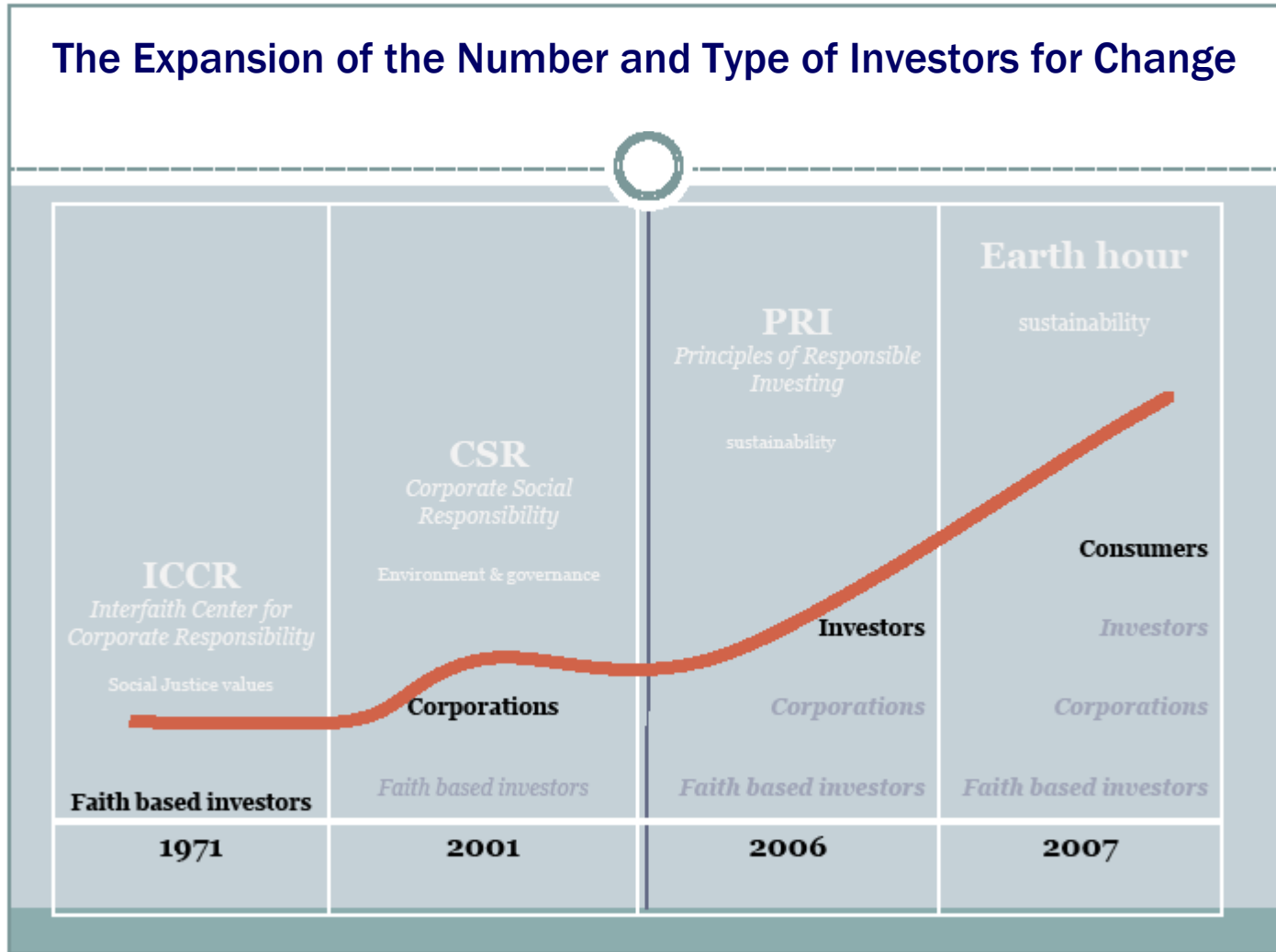
Organizing Questions and My Responses

- How are ESG issues driving asset allocation?
- What kind of ESG *driven* investments are luring investors away from equities and why?
- What's on the horizon in the coming years?

Context

The Global Movement for Positive Change

The Expansion of the Number and Type of Investors for Change



Context

2008

“In this landscape, responsible investors – those that choose to integrate environmental, social, and governance issues into portfolio management – have a **critical** role to play.

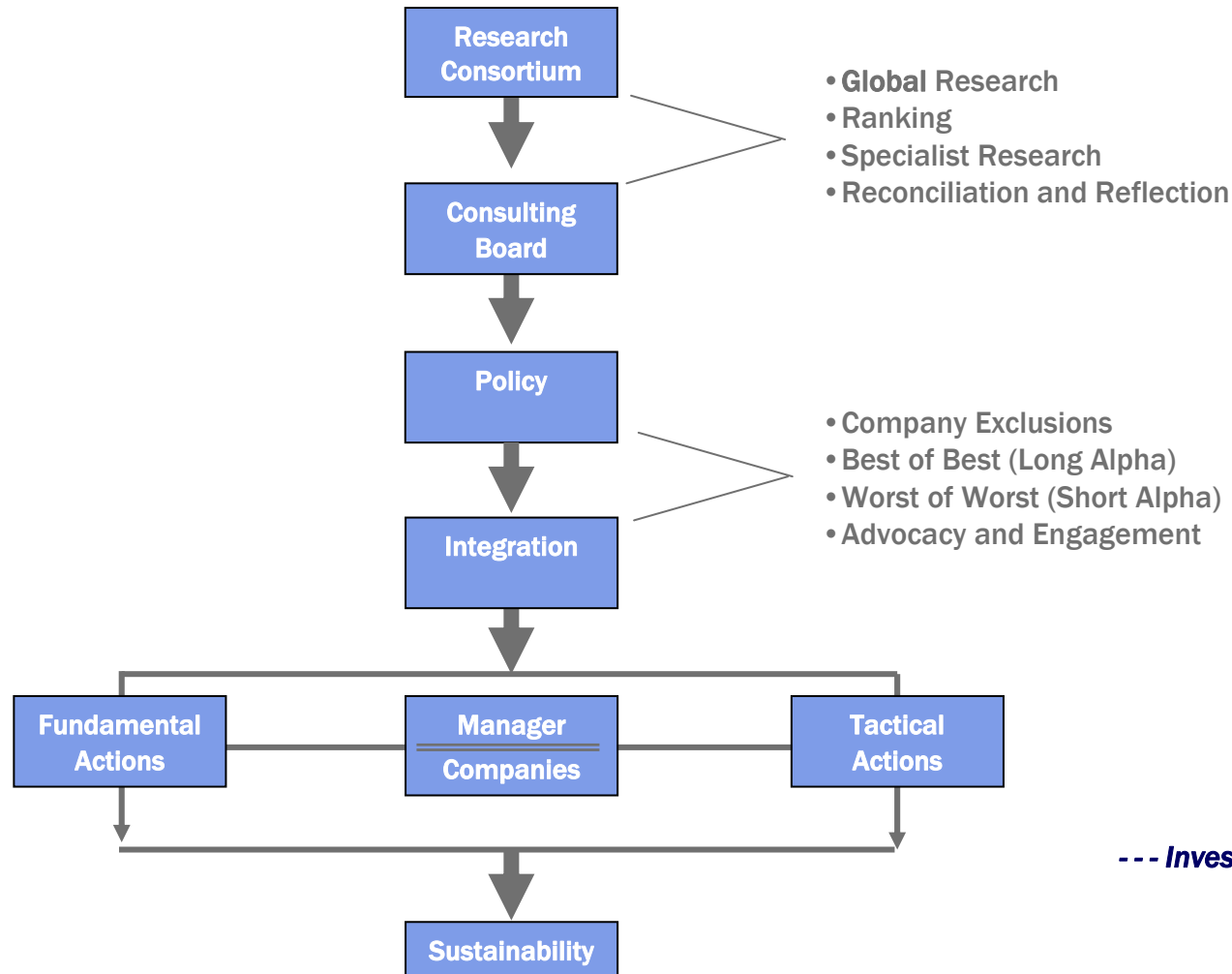
In some cases, the driver will be maximizing return, in others acting in accordance with personal ethics or furthering societal goals. Increasingly, it will be **some combination of all three, as we recognize the best long-term investment returns are aligned with the best long-term social, environmental, and governance outcomes.**”

Hon. Peter Garrett AM MP
Speech to RIAA
August 19th, 2008

--- Integration → Policy → Asset Management

How are ESG issues driving asset allocation?

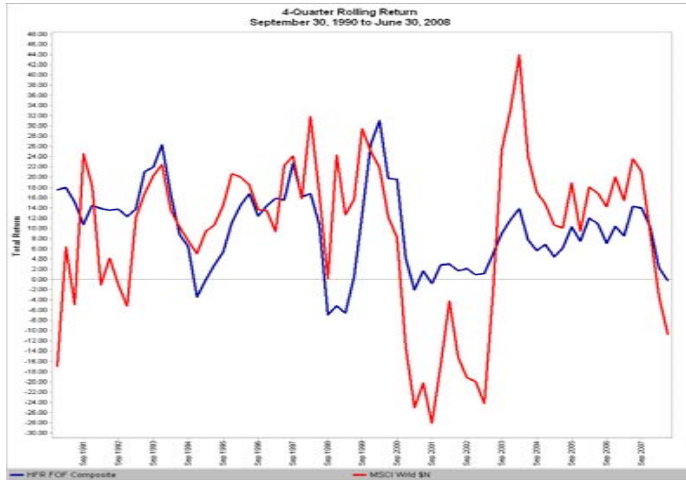
Broadening the Policies to allow for Integration



--- Investment Platform for Integration?

What kind of investments are luring investors away from equities?

What kind of Platform *integrates* effectively? (opportunity for influence and low volatility of returns)



Date	HFR Fund of Fund Return	HFR Fund of Fund Volatility	MSCI World Index Return	MSCI World Index Volatility
6/30/1992 - 6/30/2008	8.76%	5.71	8.41%	13.12

Hedge Funds

- Stability of Returns (Capital Protection)
- Two Dimensional Influence Capacity and Influence Leverage
 - Shorts and longs
- Activism and Specialization
- Diversification Potential
 - *Regionalism, Nationalism*
- Improving Transparency
 - *Positive Publicity*

--- Evolution?

What's on the horizon in the coming years?

Perhaps another form of activism

- Theme-driven affirmative investing

- An ESG Compliant Bank Loan Fund
 - As part of a hedge fund of funds
 - Diversification and due diligence
 - Expansion of the Rated Universe
 - Engagement as a term of Capital Provision
 - Superior return potential
 - Tactical Opportunities
 - Engagement across a wider spectrum of capital sources
 - The ability to engage with a large, more traditional player
 - Influence as the credit system regenerates