

RATHBONE GREENBANK REVIEW

14th Annual Investor Day Edition 2011



A WORLD BEYOND
ECONOMIC GROWTH

SUSTAINABLE SUPPLY
CHAIN MANAGEMENT

THE BUSINESS CASE
FOR SUSTAINABILITY

SUSTAINABILITY AS
A VALUE DRIVER

RATHBONES
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Front cover: photograph of the Clumps by David Hall



RATHBONE GREENBANK HAS LONG HELD THE CONCEPT OF SUSTAINABILITY AT THE HEART OF ITS INVESTMENT DECISIONS. WE WERE DELIGHTED TO EXPLORE THIS THEME FURTHER AT OUR 14TH ANNUAL INVESTOR DAY, WHERE THE SUBJECT OF THE DAY'S PRESENTATIONS WAS:

“SUSTAINABLE CONSUMPTION - A CONTRADICTION IN TERMS?”

The event, held at the Earth Trust Centre near Didcot in Oxfordshire on Monday 9 May, attracted some 70 guests and we are grateful to them, our hosts and our speakers for making the day such a success.

Andrew Simms of nef (new economics foundation) was first to tackle the question, arguing that the premise of unrestrained economic growth on a planet with finite resources was fundamentally flawed. Instead, he contrasted data from the UN's human development index with nef's own research to show that a low-consumption pathway is not only possible, but can deliver a better quality of life.

Next, Professor Paul Cousins from Manchester Business School shared some of his research into the nature of sustainable supply chain practices and specifically, what motivates or deters companies from integrating such practices into their supply chain policies.

Having set out the theory, it was then the turn of two companies to share their experiences to date and their vision for the future.

Neel Bradham of InterfaceFLOR (the global leader in environmentally-responsible modular flooring) and Henk de Bruin of Philips (the healthcare, lighting and consumer electronics group) described how their respective companies are managing their direct impacts while developing products and services that enable customers to move towards more sustainable patterns of consumption.

Attendees were left in no doubt that there are significant barriers to bringing about the changes in consumer behaviour required if the earth's resources are to be utilised more sustainably. However, both InterfaceFLOR and Philips demonstrated that, if the vision and will is there, change is achievable. We, as investors and individuals, can play our part in this.

JOHN DAVID
Head of Rathbone Greenbank Investments



ANDREW SIMMS

FELLOW AT nef HAVING BEEN ITS POLICY DIRECTOR UNTIL THE END OF 2010.

FOUNDED nef's CLIMATE CHANGE, ENERGY AND INTERDEPENDENCE PROGRAMMES.

CO-AUTHOR OF GREEN NEW DEAL REPORT AND CO-FOUNDED THE GREEN NEW DEAL GROUP.

ON THE BOARD OF GREENPEACE UK AND 10:10 CLIMATE CAMPAIGN.

A WORLD BEYOND ECONOMIC GROWTH

ANDREW SIMMS, nef

REPORTED BY MATT CROSSMAN

Ethical research team

Andrew began by commenting on the conflicting views held by various groups involved in the sustainability debate. For example, he cited the case of the World Business Council for Sustainable Development (WBCSD), whose 'Vision 2050' banner outlining its low-carbon pathway projection was on display for the event. The position of a former chair of the WBCSD¹ neatly encapsulates the apparent contradictions in the sustainable consumption debate: his company derives a large portion of its revenue from selling cement – the manufacture of which is a major contributor to global carbon emissions.

Are the contrasts really as stark as this? Specifically, does an elevated quality of life have to equate to high levels of consumption – as typified by the 'western' lifestyle model? nef research suggests otherwise: its happy planet index (HPI) combines an assessment of a country's ecological footprint with its life expectancy and life satisfaction. This measures, in effect, the environmental efficiency with which people enjoy relatively long and happy lives.

The HPI shows that globally, once sufficiency is achieved, higher levels of resource consumption are not directly related to higher levels of well-being. The results are somewhat surprising: the country doing best in terms of delivering quality of lifestyle with relatively low levels of consumption is not a Nordic state or a western country, but Costa Rica. With greater certainty in its data, some might be surprised to learn that Cuba would also have come out very well. The raw conclusion from this gives us hope that a low-consumption pathway is not only possible, but can deliver a 'better' society.

The core question for those who have been engaged in the debate on sustainability and climate change for many years remains one of effectiveness: how do we begin to trigger the kind of changes needed in society, and how can a low-consumption, high-quality society be fostered?

Behavioural economics gives an insight, encouraging us that an engaged minority doing innovative things in a visible manner, has a massive influence.

The 'demonstration effect' of low-carbon electricity generation and organic agriculture, for example, can have a much more far-reaching effect than we often give it credit for. Engaged people should not give up on these efforts. Multitudes of small successful projects will send the message to society that a transition is indeed possible.

How quickly this is needed is debatable, but unlike the WBCSD map, which envisages a contribution from sustainable consumerism in late 2040, nef feels that engagement with this issue must come sooner. There is a great deal of uncertainty regarding the pathway for this transition – even acknowledged by the large energy

1. Bertrand Collomb, former chair of the French building materials group, Lafarge

companies in their promotional literature – and so we have the opportunity to shape the agenda. This has formed the basis for nef's major report, 'The Great Transition'.

The assumption that we need to restore patterns of high consumption to extricate ourselves from the current economic crisis is fundamentally flawed. Research into the ecological limits of growth has identified that there are nine planetary boundaries², ranging from climate change, biodiversity loss and ozone depletion to ocean acidification, freshwater use, and the nitrogen cycle. Of these, we have already breached three of the thresholds and are in serious risk of breaching another three.

Furthermore, in the UK in particular, the rise of our 'dematerialised' service industries has not led to the low-carbon economy that many had heralded. When the carbon impacts of imports into the UK are included, we fare badly in global rankings: we haven't truly dematerialised our society, merely outsourced our environmental impacts to other countries.

Former World Bank economist Herman Daly has pointed out that dematerialisation can only go so far, as we are still physical creatures; for example, we can move further down the food chain, but we can't eat recipes – even in the knowledge economy, people have to eat. Every online service depends on a very real computer server requiring electricity and using devices which require rare metals to manufacture. Similarly, as North Sea oil reserves begin to run down, we are becoming increasingly dependent on foreign suppliers for our energy. Far from growing stronger, our society has probably become less robust as it has moved into the provision of services.

The 'solution' to the world's issues – be it recession or global human development – is touted as growth. Specifically, growth in gross domestic product (GDP). Early thinking suggesting that there would be limits to growth was roundly criticised, but more recent work has suggested that even this crude modelling was mostly correct. The fundamental reality is that the economy is a sub-system of the global ecosystem; the global ecosystem does not grow indefinitely and so neither can the economy.

In the natural world, growth results in maturity and then leads to evolutionary development in other ways, resulting in complex and rich ecosystems which sustain life on earth. The scale of human society cannot continue to grow exponentially. A doubling in world GDP from this moment in time would require more than the resources that have been used in every single previous doubling.

The reliance on growth as a panacea also rests on flawed metrics. GDP was not developed to be an indicator of the health of global economies. One of its early pioneers, Simon Kuznets, developed it for use during the Great Depression in the United States and the build up to the Second World War, as a means of gauging society's

productivity. Reliance on GDP growth as the solution to all our problems leads us to another flaw – the characterisation of the responsible citizen as a good consumer.

Time and again we hear news on reduced consumer spending presented in a pessimistic light. We are bombarded with messages every day telling us that our primary identity is not as a citizen with duties, but as a consumer with needs which we have a limitless right to indulge. Countering this notion with a strong definition of responsible and practical citizenship is vital in the low-carbon transition.

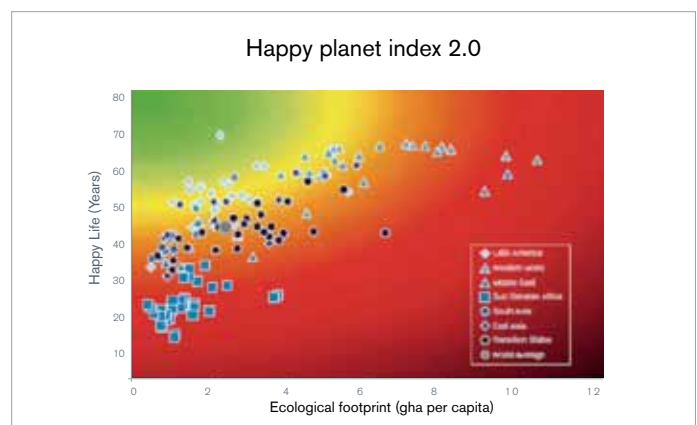
There is, however, some good news. As the happy planet index results show, it is possible to step off the high-consumption treadmill and still achieve a better quality of living.

There are great benefits to be had from the shift to a low-carbon economy, such as reduced pollution and increased social capital, but nef research has also found that new approaches to work and a transition economy would create many thousands of jobs.

The response of governments to the global financial crisis in the form of quantitative easing demonstrates that the money is there and can be spent in a non-inflationary way. We also have some obvious choices to make regarding costly projects, such as the replacement for Trident, whose funds might be better directed into building the infrastructure needed for the low-carbon transition pathway.

In conclusion, Andrew asserted that we must become more adept at recognising and valuing low-consumption lifestyles and roles, and nef has conducted research seeking to quantify the social return of various professions³.

There is a general sense in society that an individual's 'worth' is reflected by the size of their salary. However, nef demonstrates, through measurement of social, environmental and economic value, that salary is a poor measure of value to society. Changing our attitudes towards less lucrative but vital areas of the economy will be key in delivering a genuinely sustainable society.



2. "Planetary Boundaries: Exploring the Safe Operating Space for Humanity", Johan Rockström (June 2008)

3 "A Bit Rich? Calculating the real value to society of different professions", nef (December 2009)

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

PROFESSOR PAUL COUSINS
MANCHESTER BUSINESS SCHOOL

REPORTED BY KATE ELLIOT
Ethical research team

Paul Cousins, a professor in operations management at Manchester Business School, gave an introduction to his ongoing research into the nature of sustainable supply chain practices and specifically what motivates or deters companies from integrating such practices into their global supply chains. He began with a reminder of economist Milton Friedman's famous quotation, "the business of business is business", emphasising to the audience that ultimately companies want to make as much money as possible, as quickly as possible.

TODAY'S SUPPLY CHAINS ARE COMPLEX, INTERLINKED NETWORKS AND ENSURING THE IMPLEMENTATION OF ETHICAL STANDARDS THROUGH THEIR MANY LAYERS IS A CONSIDERABLE TASK.

In the early days of manufacturing, companies focused on improving the process of transforming inputs into outputs, through a move to mass production and the design of increasingly efficient factories. The 1980s, however, saw a major shift in the manufacturing paradigm as companies became increasingly exposed to competition on a global basis and the focus broadened to efficiency across the whole business model. It was at this stage that companies really began to consider their suppliers and supply chains, with a view to further reducing costs. This shift in culture, along with technological advances that have allowed supply chains to become more complex and span greater distances, led to the establishment of supply chain management as an integral part of any large company's business model.

Parallel to these developments in manufacturing paradigms, there has been a similar evolution in the concept of corporate sustainability. From its origins in the 1970s as

corporate responsibility where stakeholders campaigned for the needs of workers and communities to be balanced against companies' pursuit of profits, through the environmentalism of the 1980s and 1990s, the concept has developed to encompass ethical, social and environmental concerns. It is therefore clear that companies wishing to embrace sustainability in procurement face substantial challenges. Today's supply chains are complex, interlinked networks and ensuring the implementation of ethical standards through their many layers is a considerable task.

Professor Cousins argued that corporate culture and strategy are key to how successfully a company can integrate sustainability into its operations. His recent research has involved surveying the opinions of a range of public and private sector organisations, from which two principal approaches to sustainability were identified: compliance and competitive advantage.



PROFESSOR PAUL COUSINS

MOVED TO MANCHESTER BUSINESS SCHOOL IN 2005 AFTER SPENDING TIME AS RESEARCHER, LECTURER AND PROFESSOR AT UNIVERSITY OF BATH, UNIVERSITY OF MELBOURNE AND QUEEN'S UNIVERSITY BELFAST.

CURRENTLY DIRECTOR OF SUPPLY CHAIN MANAGEMENT RESEARCH GROUP WHERE HE HOLDS A GRANT FROM THE SUSTAINABLE CONSUMPTION INSTITUTE.

A compliance framework involves measures such as supplier surveys and the implementation of an environmental management system to comply with legislation or other formal standards. Linked in to compliance is the concept of creating a cost advantage through sustainability, for example, reducing the amount of product packaging or streamlining distribution networks. Companies are clearly motivated to adopt a compliance approach due to the threat of penalties should they be found to be in breach of regulations. In addition, the recent economic downturn has focused attention on costs and companies are increasingly realising that sustainability measures can improve margins.

Competitive advantage strategies begin by focusing on the creation of brand awareness and loyalty, and through product or process changes. For example, sourcing only certified sustainable wood or phasing out harmful chemicals from products. The final stage of integration involves

placing sustainability at the centre of business operations; redesigning products and changing the business model to reduce impacts. Value is then created from these changes, for example, designing products with take-back and recycling in mind, and then providing this service to customers.

Professor Cousins' findings indicated that the majority of companies are operating under a compliance framework, with very few moving to a competitive advantage strategy. A major concern for companies thinking about moving beyond compliance is that making an open commitment to sustainability opens them up to much greater public scrutiny. For many, the risk of bad publicity should a supply chain problem be uncovered outweighs any market advantage gained through a more sustainable model.

It is therefore vital that we, as investors, consumers and citizens, encourage companies to move

beyond compliance through our choices and behaviour. Even companies with leading procurement strategies can be caught out due to the impact of sustainability issues across supply chains that span the world. We need to give credit where it is due, whilst keeping the pressure on organisations which are falling behind.

Rathbone Greenbank Investments believes that those companies integrating sustainability into their business models will be best positioned to operate in a resource constrained world. We will continue to encourage best practice in the companies in which we invest and look forward to further opportunities to invest in sustainable companies in the future.

WE NEED TO GIVE CREDIT WHERE IT IS DUE, WHILST KEEPING THE PRESSURE ON ORGANISATIONS WHICH ARE FALLING BEHIND.

THE BUSINESS CASE FOR SUSTAINABILITY

NEEL BRADHAM, INTERFACEFLOR

REPORTED BY KATE SHEPHERD
Greenbank team assistant

Neel Bradham, senior vice president at InterfaceFLOR EMEAI (Europe, Middle East, Africa and India), a global leader in the design and production of high-quality innovative modular floor coverings, presented an instructive insight into the business case for sustainability.

The company, which is part of Interface Inc, believes that “sustainability is the bringing together of three core responsibilities: environmental, social and economic, and that to be a truly sustainable person, company or society we need to realise that everything we do, everything we take, everything we make and everything we waste has an impact on the world around us”.

Interface came to embrace sustainability when Ray Anderson, its chairman and founder, initiated ‘Mission Zero’ in 1994. This committed Interface to becoming a fully sustainable business and completely eliminating any negative impacts it has on the environment by 2020. It has been making step-by-step progress towards this goal ever since and is now globally recognised as a pioneer in sustainable manufacturing and business practice.

Fundamental to Interface’s sustainability drive has been Ray Anderson’s deeply held belief that it is essential for businesses to show leadership in reducing their environmental impact.

Since the mid-1990s, the company has been introducing a number of initiatives to help complete ‘Mission Zero’. The savings from the implemented initiatives have been reinvested into the business to help redesign products and processes and further reduce waste. Neel mentioned a handful of the initiatives currently in place:

REDESIGNING PRODUCTS TO REDUCE WASTE

Applying the principles of ‘biomimicry’, which uses nature as its inspiration, InterfaceFLOR created the concept of non-directional flooring, where each tile is unique and maintains a random pattern whichever way it is laid. This design produces less than 1% installation waste and allows products to be efficiently recycled.

REDESIGNING PROCESSES TO REDUCE WASTE

Using NASA technology as inspiration, InterfaceFLOR has installed a bespoke ultrasonic cutting machine, which reduces the amount of waste material produced during production by 80%. This amounts to eliminating 310 tonnes of wasted material annually from the production of carpet tiles alone.

ENGAGING EMPLOYEES TO REDUCE WASTE:

QUEST (quality utilising employee suggestions and teamwork) is designed to eliminate measurable waste by establishing focused and innovative teams throughout the world to identify, measure and then eliminate waste streams.

HELPING CUSTOMERS TO REDUCE WASTE

Through the ReEntry scheme, InterfaceFLOR helps customers to reduce their own impact on the environment. Carpets are collected at ‘end of life’ and recycled or down-cycled into new products. Wherever possible, carpet is reused in other schemes which help the local community and raise their own sustainability status.



NEEL BRADHAM

JOINED INTERFACE, INC. IN 2003 AND SERVED AS VICE PRESIDENT OF BUSINESS DEVELOPMENT.

MANAGED INTERFACE'S GLOBAL SUSTAINABLE STRATEGY GROUP AND NEW VENTURE, INTERFACERAISE.

RESPONSIBLE FOR SALES, MARKETING AND CUSTOMER SERVICE FOR COMMERCIAL BUSINESS IN UK, CONTINENTAL EUROPE, MIDDLE EAST, AFRICA AND INDIA.

As a result of these and other initiatives InterfaceFLOR has seen the following improvements since 1996 (per unit of production):

- 82% reduction in waste sent to landfill
- Water intake in manufacturing down 82%
- Total energy use down by 43%
- Non-renewable energy down by 60%
- Reduction of Interface's greenhouse gas emissions by 35%.

In addition:

- 30% of global energy comes from renewable sources
- 40% of total raw materials are recycled for bio-based materials
- Cumulative avoided waste costs since 1995 total \$438m.

In summary, InterfaceFLOR strongly believes that it can be a manufacturer yet still have a positive impact on society, by showing that it is possible to be both commercial and sustainable. As a company, it shows commitment to providing innovative, high quality products, whilst addressing increasing customer demand for solutions to environmental issues.

Overall, Neel presented a compelling case for incorporating sustainability into business models and clearly highlighted the need for sustainability to be at the forefront of all business decisions.

SUSTAINABILITY AS VALUE DRIVER

HENK DE BRUIN, ROYAL PHILIPS ELECTRONICS

REPORTED BY PERRY RUDD
Head of ethical research team

Henk de Bruin, global head of corporate sustainability at Philips, began by highlighting the company's commitment to corporate social responsibility throughout its 120 year history. What began as simple philanthropy through the provision of a company school has evolved beyond profit-sharing schemes with employees, to today's EcoVision5 sustainability programme, which was first established in 1998. Indeed, the influential 1972 publication, 'The Limits to Growth', which explored the tensions between a rapidly growing global population and finite availability of resources, was written with the involvement of Nico Pannenburg, a former Philips board member responsible for research and development.

This early example of forward-thinking is now exemplified by one of the four key priorities under the group's strategic plan 'Vision 2015', in which it states that it is committed to being a leading company in matters of sustainability, defining specific ambitions for each of its sectors, as outlined in its EcoVision5 programme. The plan is intended to address all stakeholders and as such the drivers for this kind of multi-stakeholder engagement must be much broader than those designed to appeal just to shareholders.

Within this programme, Philips has identified 30 key performance indicators (KPIs) to enhance its leadership on sustainability up to 2015; half of these relate to sustainability management and half to green manufacturing (including chemicals management and health and safety).

Three of the main KPIs point to long-term commitments to:

- Bring care to more than 500 million people by 2015
- Improve the energy efficiency of its overall product portfolio by 50%
- Double the global collection and recycling amounts of its products (as well as doubling the amount of recycled materials they contain).

The first objective will be achieved by increasing patient access to medical technology such as MRI and CT scanners, in addition to raising the proportion of care products in its overall product mix.

Henk outlined how Philips has developed its strategy over the years to become increasingly attuned to a more demanding model of what constitutes a sustainable business. This began in 1994 with the desire to produce less waste, consume less water and produce fewer emissions as part of the product development process. By 2001, this had evolved into managing the challenges presented by outsourcing its manufacturing. And by 2006/07, the concept had been identified as a key business driver and become a core part of the group's strategic approach.

The idea of 'sustainable consumption' is, according to Henk, achievable, but it must be addressed by the whole population, not just industry. At the same time, there is a definite need to get industry 'back on-side', having taken the brunt of the blame for much of the environmental degradation which occurred during the 1970s and before. In terms of marketing eco-products to consumers,

UPCOMING EVENTS

Henk felt that there should ideally be a global standard so that any 'green' claims would be credible. In the absence of such a standard, Philips uses its own criteria to classify its 'green products'; these are then randomly verified by its assurance provider KPMG. Last year, these goods – ranging from low-energy light bulbs to medical diagnosis equipment – accounted for 38% of total group sales (up from 20% three years ago). The company defines a 'green product' as one "that offers a significant environmental improvement compared to a reference product in at least one green focal area: energy efficiency, packaging, hazardous substances, weight, recycling and disposal, and lifetime reliability."

As a final anecdote to reflect the increasing interest in sustainability issues in recent years, Henk cited the case of Philips' own investor relations roadshows, of which it holds around 300 each year. Historically, only around 1% of mainstream analysts or investors questioned the company about its objectives or performance on environmental, social or governance issues. Today, following the inclusion of reference to such matters in its presentations in recent years, the level of interest has risen noticeably, so that in the US and Europe, some 12% and 47% respectively of mainstream investors now express interest in these increasingly significant matters.



HENK DE BRUIN

HEAD OF TEAM AT PHILIPS RESPONSIBLE FOR IN-HOUSE AND EXTERNAL REPORTING, AND VERIFICATION PROCESS REGARDING SUSTAINABILITY PERFORMANCE.

FOCUS ON STRATEGY AND POLICY DEVELOPMENT AND STAKEHOLDER MANAGEMENT AT PHILIPS.

Thursday 22
September 2011

TFN SOUTH WEST

The Funding Network South West will be holding its next event at The Mansion House, Canynge Road, Clifton, Bristol BS8 3LJ, starting at 6.30pm.

To book a place, please visit:
www.thefundingnetwork.org.uk

Saturday 8
and Sunday 9
October 2011

THE SCHUMACHER CENTENARY FESTIVAL

Colston Hall and various Harbourside venues, Bristol

Saturday 8 October

A day of lectures and workshops, followed by an evening concert.

Sunday 9 October

A range of workshops on citizen science, green economics, food and energy – plus a Schumacher mini film festival featuring a number of documentary premieres.

Speakers include:

BILL MCKIBBEN, 350.org, author of End of Nature & Earth

VANDANA SHIVA, environmentalist and global campaigner

PROF. TIM JACKSON, author of Prosperity Without Growth

POLLY HIGGINS, environmental lawyer

ROB HOPKINS, co-founder of the Transition Network

SATISH KUMAR, editor of Resurgence

PETER BLOM, CEO of Triodos Bank

MATT HARVEY, poet

For further details or to book your place, please visit: www.schumacher.org.uk

Confirmation of these and other events (including venues, dates and times), and how to get involved, are announced on our website: www.rathbonegreenbank.com

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