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## Institutional investors start to worry about challenges facing oil companies

- Giles Parkinson
- From: *The Australian*
- March 22, 2010 12:00AM

**WITH the current state of the oil and equity markets, it may seem premature to think that the petroleum industry is about to hit the wall, whatever your opinion of peak oil and climate change.**

But institutional investors from the US, Europe and Australia worth a combined \$US12.5 trillion (\$13.6 trillion) are sufficiently concerned about the significant challenges and potential threats to oil industry valuations that they are demanding greater disclosure on how these companies propose to manage the inevitable transformation to a low-carbon economy and the likely shift away from their end products.

The information demanded by the three groups includes further details on emission reduction targets, more data on emissions and carbon intensity, and the scope of investments in renewable and clean energy targets.

But for the first time the investors are also seeking disclosure on the funding of climate lobby groups and research. This has been driven by European asset managers who feel aggrieved at attempts by the oil industry to undermine the political process of setting climate policies.

In the US, several Texan oil companies are fighting the climate change laws of Californian governor Arnold Schwarzenegger.

Frank Pegan, the chief executive of Catholic Super, says it's time that the business strategy, investment, reporting and lobbying activities of the oil and gas sector are aligned with investors' and society's needs to shift to a low-carbon economy.

Nathan Fabian, the head of the Australian-based Investor Group of Climate Change, hopes such information becomes part of the normal assessments of broking analysts, so such risks and opportunities can become part of the normal stock valuations. But it might be a chicken and egg situation, because some brokers seeking to engage asset managers on such issues complain that they are being met with glazed eyes by some of their institutional clients.

Still, some brokers are forging ahead: Citi's Elaine Prior last week published detailed ESG (environmental, sustainability and governance) snapshots of BHP, Rio Tinto, Bluescope, OneSteel and Woodside, and Goldman Sachs ESG specialist Andrew Gray also released a detailed report highlighting the outperformance of companies with strong governance measures. AMP Capital's Angus Dennis has published a report highlighting the rapidly developing global interest in clean-tech funds and investments, despite the failure of Copenhagen, and particularly by those managers engaged in ESG and responsible investment principles.

### Clean profits

ONE of those managing his own transition from mainstream markets to the rapidly expanding clean-tech sector is Tim Buckley, a former leading industrial analyst who was head of Citi's Australian equity research team for nearly a decade and is now investment manager at Arkx Clean Energy Fund.

Some of the metrics Buckley is dealing with could startle those focused on Australian industrial stocks, for instance.

The average price-earnings multiple of his portfolio is 21 times, nearly a third more than the Australian market, which is running at around 15.

But if that seems dangerously inflated, the growth rate of Buckley's portfolio is double that of Australian companies, the beta and financial gearing are lower, and the balance sheets are large.

"I can justify these on normal metrics. I don't have to get passionate about tree-hugging," he says.

One of the fund's favourites is China's BYD, which plans a massive push into the electric vehicle market.

Earlier this month it announced it would hire a further 30,000 employees, taking its total to 160,000. Its market cap is now around \$20 billion.

The three key themes that Arkx runs to are climate change, growth in energy demand and energy security. Buckley has most affinity to the latter and is driving the regulatory support that underpins the sector and is attracting the interest, and the balance sheets, of some of the world's largest companies.

Buckley says the sheer scale of investments being made in China, the US and Europe is breathtaking. Sadly, clean-tech is largely ignored as an investment sector in Australia, possibly because it lacks the support of government policy, and the local clean-tech index trails the overall market badly over both the short and long term.

Overseas, it's a different story.

#### **RACV joins in**

BETTER Place, which plans to roll out Australia's first electric car network in Canberra in 2011, will announce today that it has brought in Victorian-based motoring association RACV as a new \$2m investor. This could include facilities for battery exchanges, joint marketing initiatives, roadside assistance and insurance cover.

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