

Occasional Paper Number One



ICValue Inc.
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Comparison of Environmental (and Financial) Performance of U.S. Domestic vs. Foreign-Owned Companies

To build wealth, investors seek efficiency in their portfolio, selecting for management, momentum, diversification and other strategies that reduce firm-specific risk. To pursue environmental conservation and sustainability, investors need environment-based investment research that selects for companies conserving resources and meeting common measures of environmental value appreciation. The result can be a dual return for investors, financial and environmental. As of 3/05, ICValue had identified 40 (out of 103) companies that create value in the environment, potential investments for individuals or institutions seeking dual returns.

For a fully efficient portfolio, investors will consider both domestic and foreign-owned companies with significant operations in the U.S. It is useful, therefore to compare the environmental as well as the financial performance of both domestic and overseas firms. We wanted to know whether a pattern of environmental performance distinguishes between these two classes of companies, and which one generally has the top performers environmentally. We also asked whether the same companies are also top performers financially. These are questions often posed by environment-minded investors looking to achieve an efficient portfolio.

Study Approach

We began by looking at the environmental performance scores of the 103 companies reviewed by ICValue through early March, 2005. ICValue evaluates each firm's environmental performance on 50 metrics using science-based methods. Some 160 indicators are considered, 3 to 4 for each metric, quantifying the business environmental management systems, supply-chain control, water conservation, toxic and acid gas emissions, energy use, greenhouse gas emissions, biodiversity protection, biological productivity, and off-site human health. ICValue reports its evaluations of each metric using scores from 0 to 2, which are then aggregated over 50 metrics into letter rating categories as follows:

86 to 100 AAA High Confidence 37 to 45 B Limited Confidence

74 to 85	AA	Good Confidence	27 to 36	CCC	Minimal Confidence
64 to 73	A	Adequate Confidence	5 to 26	CC	Low Confidence
55 to 63	BBB	Modest Confidence	0 to 14	C	Very Low Confidence
46 to 54	BB	Neutral Confidence			

For a simple summary of performance outcomes, ICValue recognizes three top tier companies (Tier 1 to Tier 3), and “Low Score Others”, with the following range in aggregated score.

Tier 1:	AAA, AA, and A+	(Metric Scores 71+)
Tier 2:	A, A-, and BBB+	(Metric Scores 61 to 70)
Tier 3:	BBB, BBB- and BB+	(Metric Scores 53 to 60)
Low Score Other:	BB, B, and all C’s	(Metric Scores 0-52)

The broad letter-based categories have been further subdivided by recognizing + and – performance within each letter grade.

Environmental Performance Results

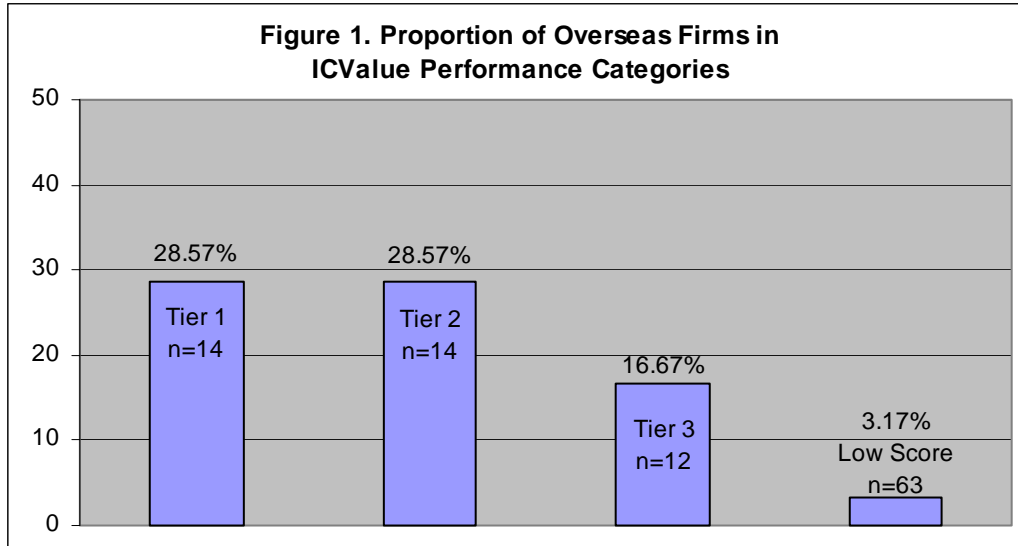
A first step in comparing domestic vs. overseas outcomes considers average environmental performance of the companies making up each of ICValue’s Tiers. These average performance scores for all regions, domestic and overseas together, are shown in Table 1. The means largely reflect the upper and lower bounds noted above for each Tier. Also shown is the larger number of companies (n=63) in the “Low Score” category compared with the number of firms (40) in the top 3 Tiers. For environmentally concerned or conservation minded investors, these data show that only a limited number of firms achieve recovery of ecosystem service values or environmental returns.

Table 1. Numerical environmental total scores and ICValue letter grades.

	<u>Total Score</u>	<u>Letter Grade</u>	<u>Confidence</u>
Tier 1:	77.77	AA	Good Confidence
Tier 2:	65.20	A-	Adequate Confidence
Tier 3:	57.41	BBB	Modest Confidence
Other:	33.21	CCC	Minimal Confidence

The average environmental performance for Tier 2 is just above the lowest score accepted at the A- level. Tier 3 is just above the lowest score accepted for the BBB level.

In comparing environmental performance of domestic versus overseas firms, it is useful also to know the proportion of overseas firms among the top ICValue environmental performance categories. These are shown in Figure 1.



Since ICValue’s selection criteria took all high-impact companies present in defined U.S. resource region studied, the result that just under 30% of both Tier 1 and Tier 2 categories are overseas firms is surprising. Almost one-fourth of firms in the Top 3 Tiers, which ICValue accepts as satisfactory environmental performers, are headquartered overseas but operate at a substantial level in at least some regions of the U.S.

These results lead us to consider the average environmental scores of the domestic versus the overseas companies. This question is important when an environmentally concerned investor seeks to diversify and still wants to be invested in a mission of conservation. Figure 2 shows the results, but with two of ICValue’s business sectors excluded (homebuilding and electric utilities), sectors that do not have overseas representation in the U.S. domestic market.

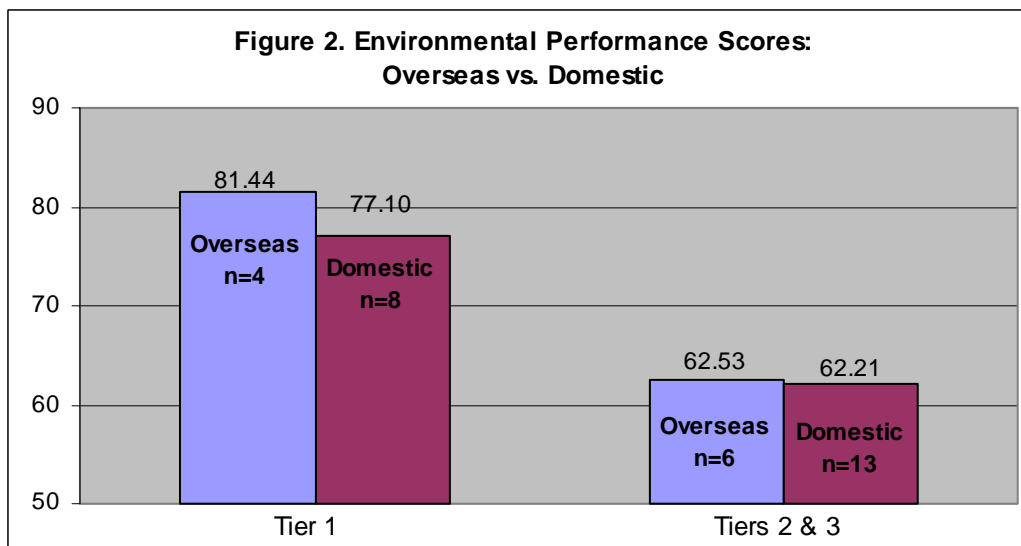
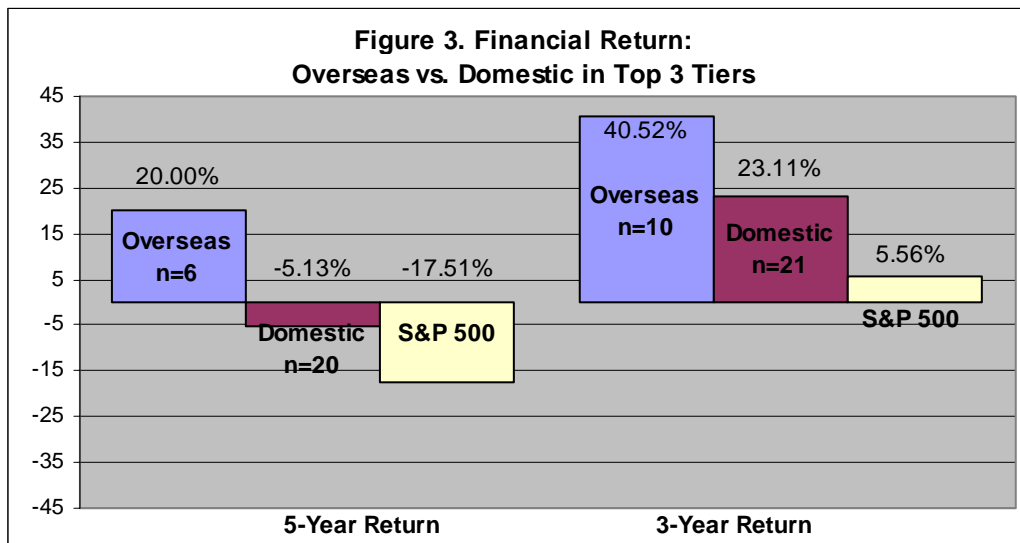


Figure 2 illustrates that in a comparison of environmental performance between overseas and domestic companies, Tier 1 overseas firms out-perform the domestic companies by 4.34 points, on average. Expressed in terms of the ICValue letter grades, both overseas and domestic firms lie in the AA range of Good Confidence, the former almost in AA+, and the latter close to AA-. Comparison of environmental performance scores of overseas and domestic firms in Tiers 2 and 3 shows little difference, because these categories are imbedded in a narrow range of upper and lower bounds. One should note that the majority of the overseas companies reviewed lie within the Top 2 Tiers, in contrast to the large proportion of domestic companies in the Low Score category.

Several reasons for the better performance of overseas companies (European, Canadian, South African, and Japanese) can be listed. For some, the company is aware of stricter environmental regulation in regions of high density populations and ancient cultures. For others, there is sensitivity in the home country to air and water quality requirements for tourism. And the overseas companies have been responding to these cultural predispositions for about 20 years, or 5 to 10 years longer than in the U.S.

These results show that overseas firms perform better environmentally, but what about their financial performance? To answer this question, we looked at the three-year and five-year value-weighted returns for the overseas firms compared to the domestic firms. We used the S&P 500 as a benchmark for comparison. The number of companies available is different for the 5-year compared to the 3-year return because the longer term data are not available for 4 overseas firms and 1 domestic firm.

Figure 3 shows that overseas firms outperformed the domestic firms financially over both three years and five years. Overseas firms had nearly a 20% gain over the 5-year period, while the domestic companies had about a 5% loss. At the same time, ICValue's top domestic environmental performers did not have as much of a loss as the S&P 500 over the same five year period. Over the past 3 years, overseas firms among the top 3 Tier environmental performers have had an impressive 40% return (with n=10), compared to the domestic return of 23% (with n=21). Although the sample is small, ICValue's top environmental companies outperformed the S&P 500 of this 3-year period, which had a return of 5.56%.



One cannot say what caused the difference between the overseas and domestic returns, but a number of considerations arise. During the past 5 years, all stocks experienced the effects of the technology bubble-burst, and the economic ramifications of the September 11th attacks, which were more serious for U.S. equities than overseas. In addition, a major factor affecting these returns over the past 3 years (less so over 5 years) has been the decline in value of the U.S. dollar, which lost 19% of its value against the euro during 2003, and more in 2004. These data suggest investors concerned with global or local environmental issues, and seeking dual return, probably should consider overseas firms within their portfolio.

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