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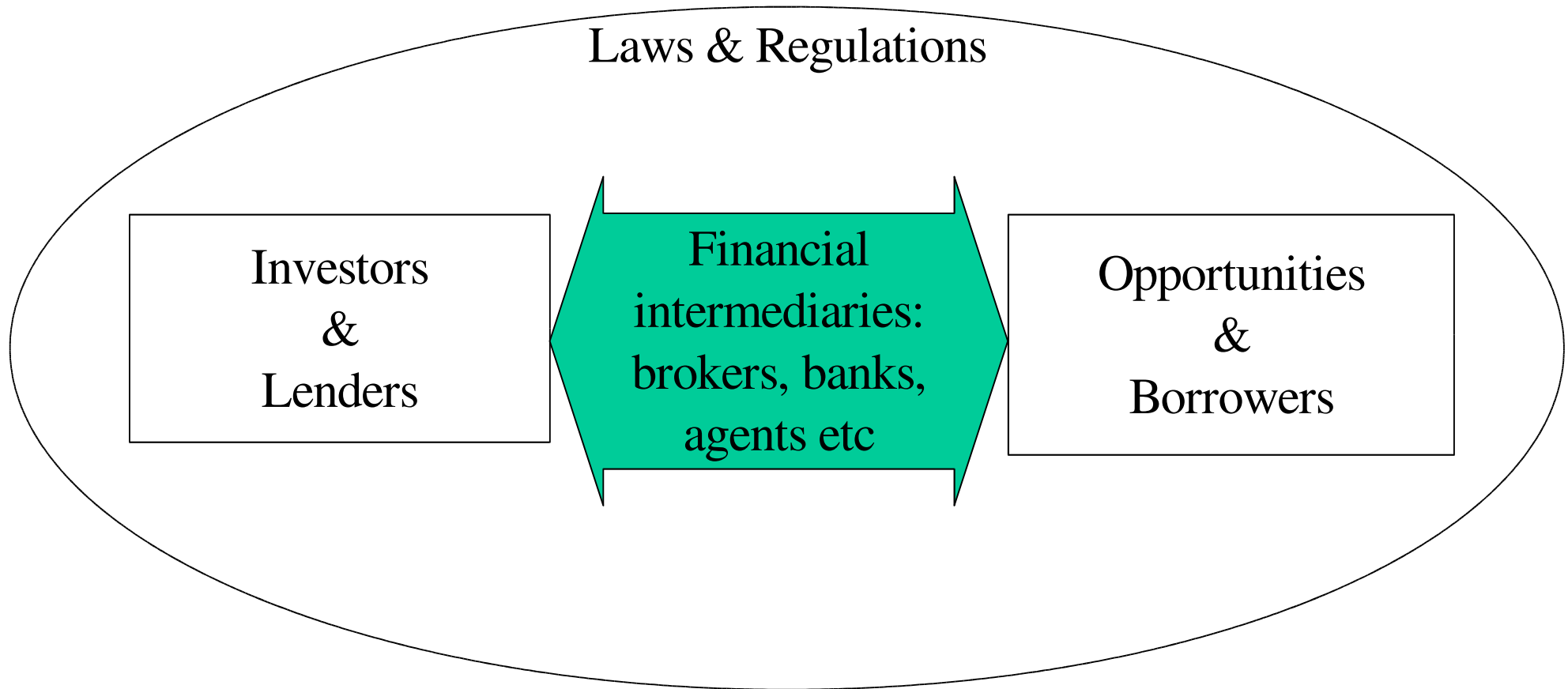
Finance 101

- *The Industry*
- *Functions*
- *Benefits*
- *Money*
- *Currency*
- *The Investment Industry*



*Financial markets are sophisticated derivatives of barter exchange.
They open up opportunities and reduce costs.*

Finance 101
The Industry



*The Financial Objective:
Maximise Opportunity, Minimise Opportunity Cost*

**Finance 101
Functions**

Objectives

- *Maximise: owner value, current net worth, credibility, future value, personal value?*
- *Within legal criteria? Personal moral code? Cultural moral code?*
- *“Stakeholders”: shareholders, lenders, customers, employees, boss, friends/family ...*

Functions

- *Identify, educate, communicate, link, broker, trade sources and users of money in space and time.*
- *Reduce economic, transaction and translation costs (diversify/pool risk).*
- *Within legal criteria? personal moral code? cultural moral code?*



*Financial projections replace chaos with error.
So take a step in the right direction ...*

Finance 101
Benefits

-
- *The information you have is not the information you want.*
 - *The information you want is not the information you need.*
 - *The information you need is not the information you can obtain.*
 - *The information that you can obtain costs more than you want to pay.*

 - *... so gather data, do some analysis and make rational bets!*



Money Makes The World Go Round!

Finance 101

Money

- *Money created to facilitate barter - the exchange of assets, including time.*
 - *Borrowing has always had a cost (1800BC - pigs with interest).*
- *Liquidity of money relies on standardisation (Archimedes), stability and reliability (Florentine banking).*
- *Risk mitigation innovations since merchant venturers, Lloyds, coffee shops.*
- *Future money may be intangible.*



Currency systems.

- *There are 3 ways of designing a currency system:*
 - **fiat** (i.e. without reference to anything else); currency created by fiat (Latin, "let it be made" or "let it be done") whose value is guaranteed by the authority issuing it rather than by any external reference or backing. All national currencies today are issued and managed by Central Bank fiat;
 - valued by **benchmarking** to a commodity - its value is expressed in terms of the value of that commodity (whether or not it is redeemable in that commodity--e.g.: Bretton Woods dollar-gold equivalence standard; airline miles); or
 - **backed** by a commodity, when the currency is in fact a claim to a given quantity of that commodity (which typically requires having a stock of that commodity on hand to meet such requests).



Money and community currencies

What is Money?

- Money is an agreement within a community to use something as a medium for exchange.
- The agreement may be voluntary or coerced, conscious or unconscious, and may fluctuate with time or remain fixed.
- All kinds of communities--large and small; local, national, international, or virtual; cooperative or competitive--may create such an agreement.
- The money itself can be issued en masse by a central authority or created ad hoc by consenting parties in a mutual credit system; it may store value or merely mark transactions; it may be backed or valued with something tangible or merely by the issuing authority; and it may take any shape - coins and bills, hard or electronic records.
- *What is a "community currency"?*
- A community currency is a currency that operates within a community. That community can be geographic, for example "Zurich", or social, for example "SiB". Any community you declare at all.
- Community currency is also called complementary currency, as it runs alongside existing national currencies, as well as other community/complementary currencies. Both are handily abbreviated to "cc". It is "open money". CC has been around for decades and there are thousands of CC communities around the world. National currencies are CC's of nation states. The Euro is a CC of Europe.
- The currency only operates within that community and can't be transferred into or out of the community. It may be that the community does not exchange their currency with other communities eg North Korea. (Cooperation and sufficiency is intended rather than competition and scarcity.)



Asset managers leverage massive influence over global trends through asset allocation and timing decisions.

Finance 101
Investment
Industry

- *Capital market size estimated to be over \$ 100 trillion.*
 - ~ \$ 80 trillion in 1998.
 - World GDP ~ \$ 27 trillion (of which G7 ~ \$ 19 tril), World trade ~ \$ 5 tril, daily FX TO~ \$ 3 tril.
 - Players use debt and equity linked securities. Derivatives used to acquire and sell risk.
 - Liquidity highest in currencies (turnover > \$ 2 trillion per day globally); private equity market relatively illiquid relying on negotiated transactions.
- *Investment management is the principal influence on economic development.*
 - Decisions over many individuals' assets (eg pensions, deposits etc) concentrated in the hands of relatively few managers (via intermediaries like banks and pension companies).
 - Intermediaries (long term financial institutions) being driven to globally responsible policies by customer demand (savers demanding ethics) and by regulation (governance).
 - Decision stakeholders include regulators, incumbents, public asset allocators, private investment managers, entrepreneurs, private investors, and, most importantly, individual savers.



The three most popular issues raised by US shareowners of funds in 2002 were human, social and health, not return.

- *Adopting International Labor Organization (ILO) standards;*
- *Linking executive pay to social and/or environmental criteria; and*
- *Phasing out, labeling, or reporting to shareowners on genetically engineered food products.*



Demanded by customers and fiduciaries (pensions, banks etc), investment managers must adopt non-financial screens.

Finance 101
Investment
Industry

-
- *Accepted financial benchmarks: GAAP, Euro GAAP, AACCP, ...*
 - *The Global Reporting Initiative (unrelated to GRI Equity)*
 - a framework for reporting corporate economic, environmental, and social performance.
 - *The Sustainable Investment Research International (SiRi) template for profiling the sustainability of companies around the world.*
 - *Portfolio Advisers Screening Service PASS*
 - provides a snapshot of a company's social and environmental performance.
 - KLD Research & Analytics, Inc. developed an offshoot of its SOCRATES rating system.
 - Can be used to build portfolios according to client interests.
 - *Social Return on Investment (SROI) in monetary terms*
 - The Roberts Enterprise Development Fund (REDF)
 - Used for non-profit businesses and may be adapted for all.
 - Gaining recognition, two prominent business schools have attributed enough importance to SROI to include it as one of three criteria for winning a venture capital contest.



Venture Capital 101

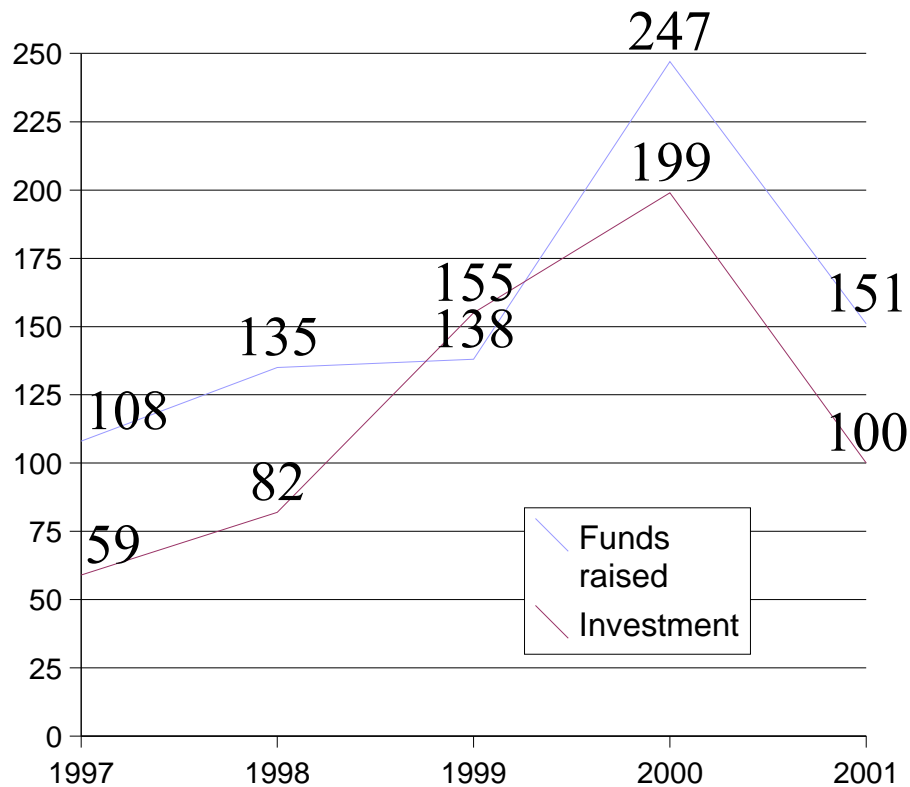
- *The Industry*
- *Process*
- *Analysis*
- *Due Diligence*
- *Portfolio*
- *Structure*
- *Systems*



New competitive challenges for managers since the asset bubble burst in 2000, including private equity.

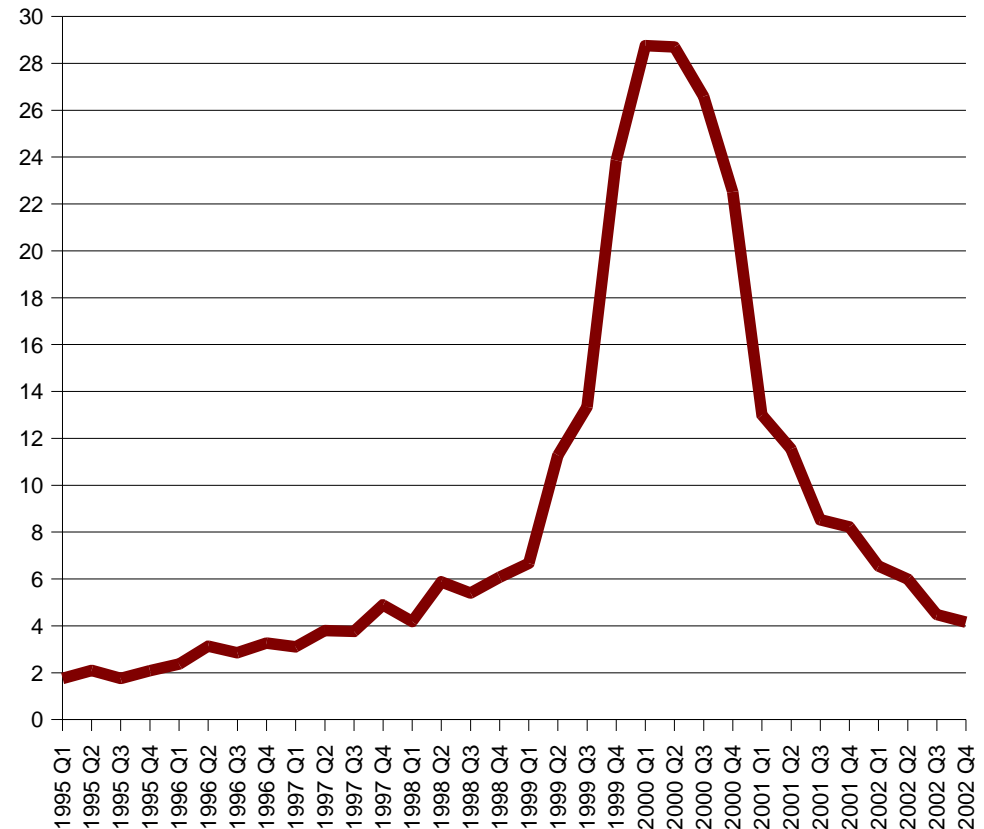
VC 101
Investment Industry

Global VC Funds Raised and Invested
1997 - 2001 (US\$ bil)



Source: 3i, PWC MoneyTree.

VC Investments in USA
1995 - 2002 (US\$ bil)



Private investment and venture capital managers are under particular pressure.

VC 101
Investment
Industry

- *Majority of incumbents suffering from depreciated portfolios.*
 - Massive investment during 1999 – 2001 at unsustainable prices.
 - Raised funds without sufficient rigour in due diligence on their own opportunity, because investors were chasing an economic bubble.
- *Now demanding over-aggressive pricing to improve portfolios. Valuation methodology confused by vested interests.*
 - Managers using short term investment strategies for (long term) private opportunities.
 - Pressured by investors demanding aggressive short term performance and more opportunities.
- *Participants lack experience in down-market.*
 - Rapid expansion of private equity management industry brought in new inexperienced managers, lowering the overall standard of competence.
 - Players have not addressed challenges of higher minimum standards of governance, environment etc and thus have skill and experience gaps to be filled.



The investment process is guided and monitored; risks are qualified and quantified. It should be rigorous yet flexible.

VC 101 **Process**

Opportunity Screen

- *Deal flow from industry, Web and GRI Equity's network.
- *Screen to check within investment policy.
- *Screen for attractive businesses.
- *Notify investment committee.

Business Review

- *Strategic and financial review (screens):
Assess market, management, technology, operations, financials.
- *Develop relationship and mutual understanding.
- *Clarify the deal.
- *Investment committee recommendation.

Invest

- *Due diligence – financial, legal, technology, market etc
- *Documentation
- *Approval by manager, then investment committee.
- *Investment – NB conditions precedent/ subsequent.

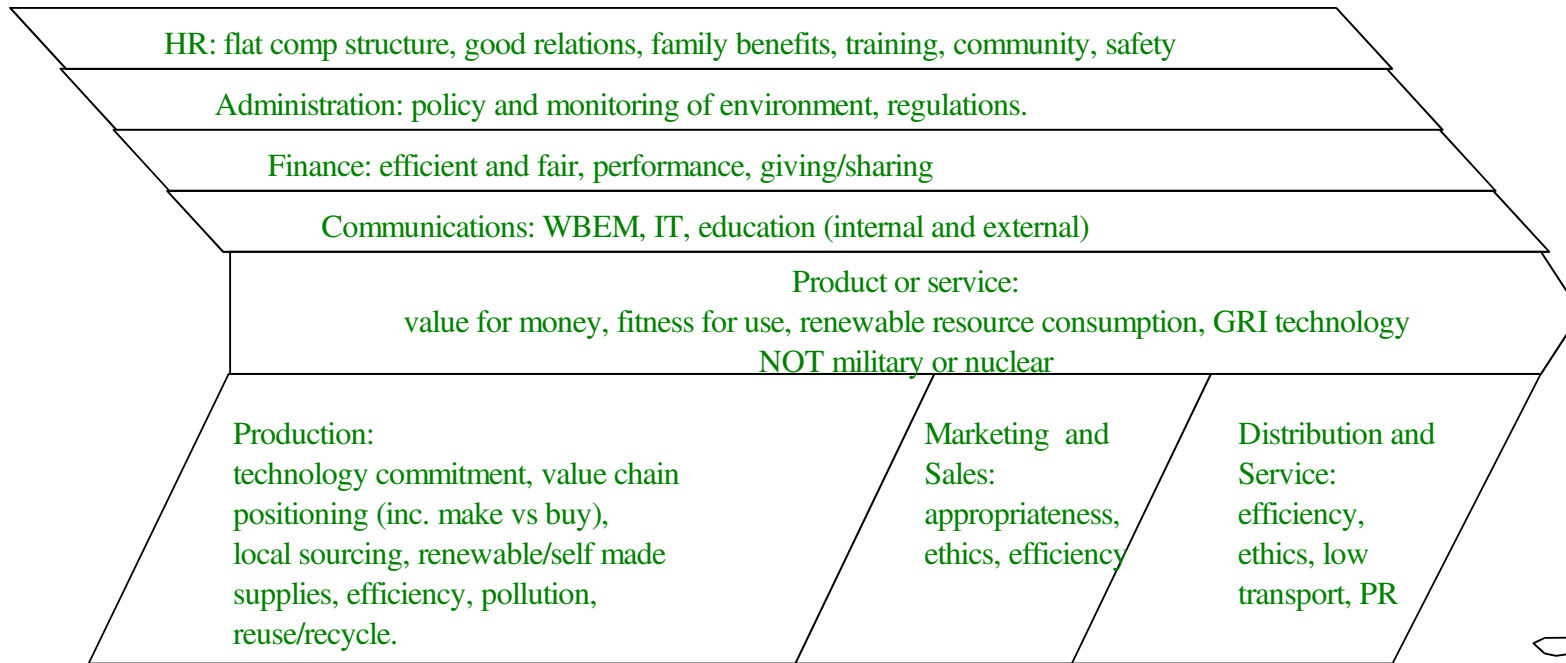
Advise and Exit

- *Monitor business vs business plan and market.
- *Strategic input.
- *Financial support.
- *Investment banking advice.
- *Exits



Proven value chain based analysis coherently integrates comprehensive financial review with other analysis.

**VC 101
Investment
Analysis**



NB: Management screen applied throughout organisation. Centralised management is considered a risk to growth and competitive flexibility. Confidentiality to be maintained through culture.



Risks are many, in any business/investment.

VC101 Due Diligence?

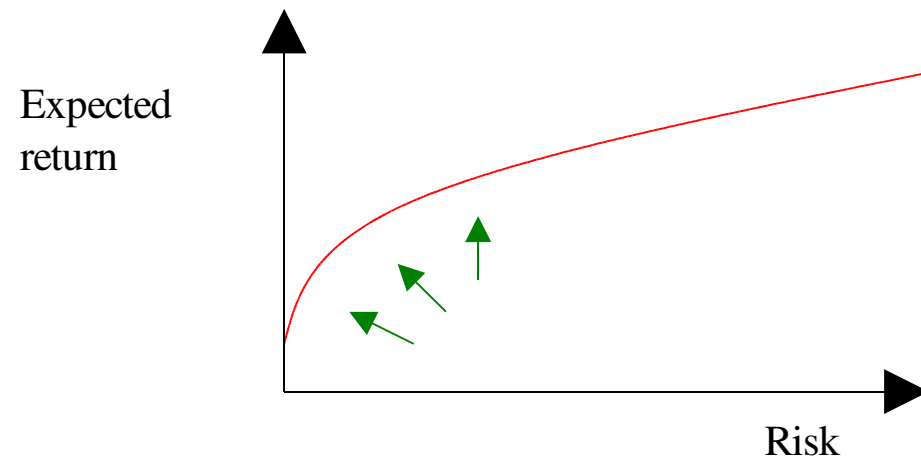


Managing the risks optimises returns.

VC 101 Portfolio

- *Pragmatic risk management*

- Facilitates the investment process.
- Improves synergy between investor and holdings
- Engenders circles of excellence.
- Attractive return on investment.



Seek the efficient frontier.

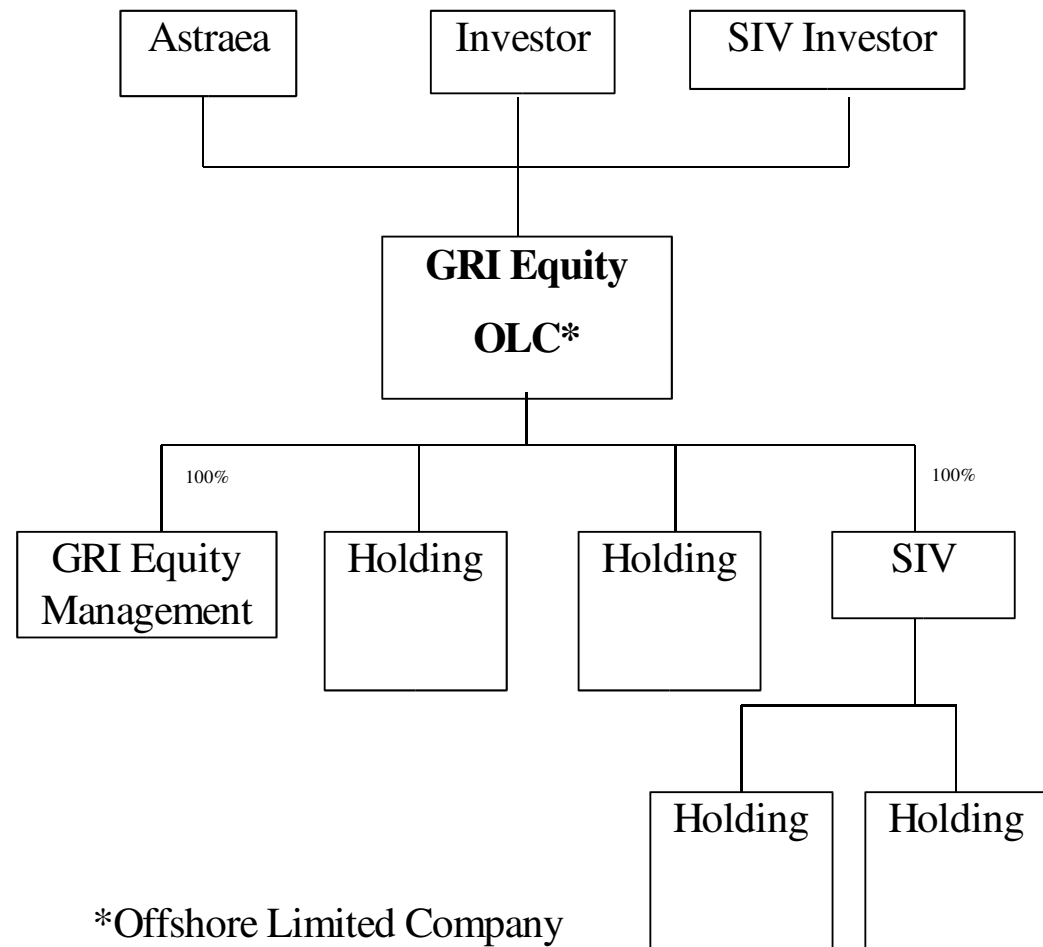


Corporate structure provides coherence between management's and investors' interests.

VC 101 Structure

- Investors' and management's goals and incentives are congruent.

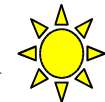
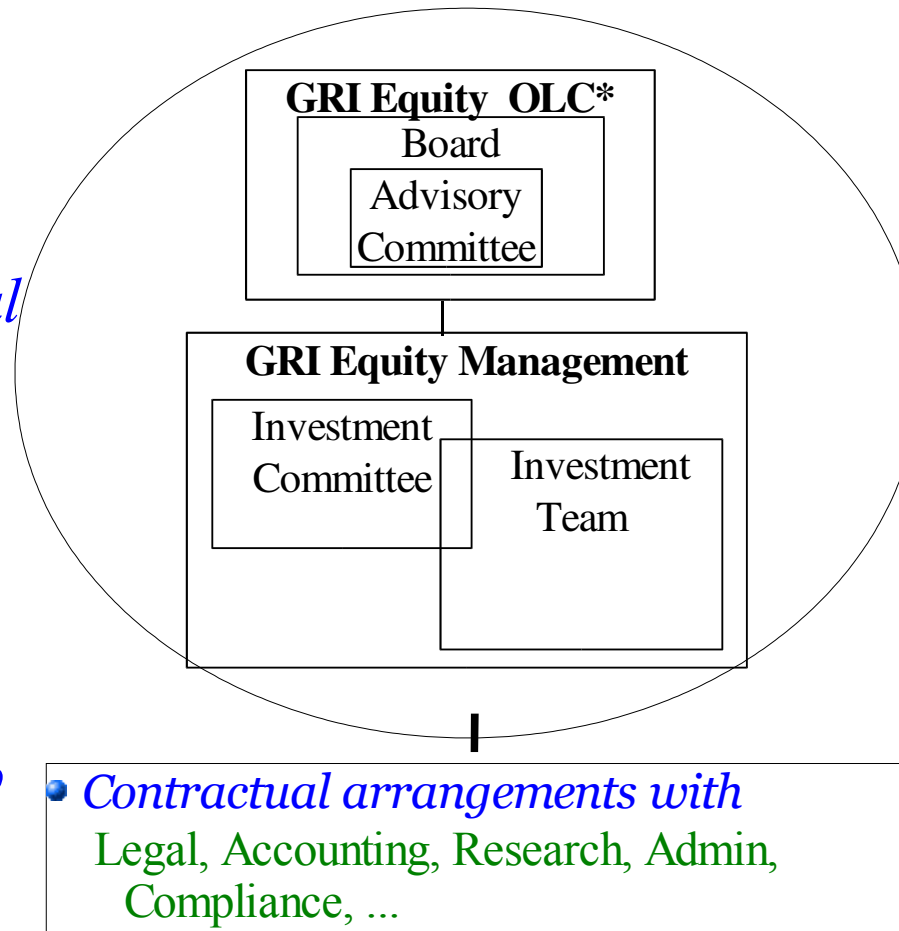
- Offshore investment holding company, self-managed by 100% owned subsidiary.
- Equality of opportunity for global investors (tax transparent)- matches global management trends.
- Investment strategy may be adjusted to suit changing market conditions by the board.



*Integrated, coherent internal structure aligns interests.
The Board, representing investors, controls assets.*

VC101 Structure

- *Investors direct and monitor the Manager and Administrator via the Board.*
- *Quarterly and audited annual shareholder reports.*
 - Board reviews annual valuations of unlisted investments
 - Board monitors application of the Investment Policy.
 - Board monitors conflicts of interest.
- *Investors have access to Web network.*



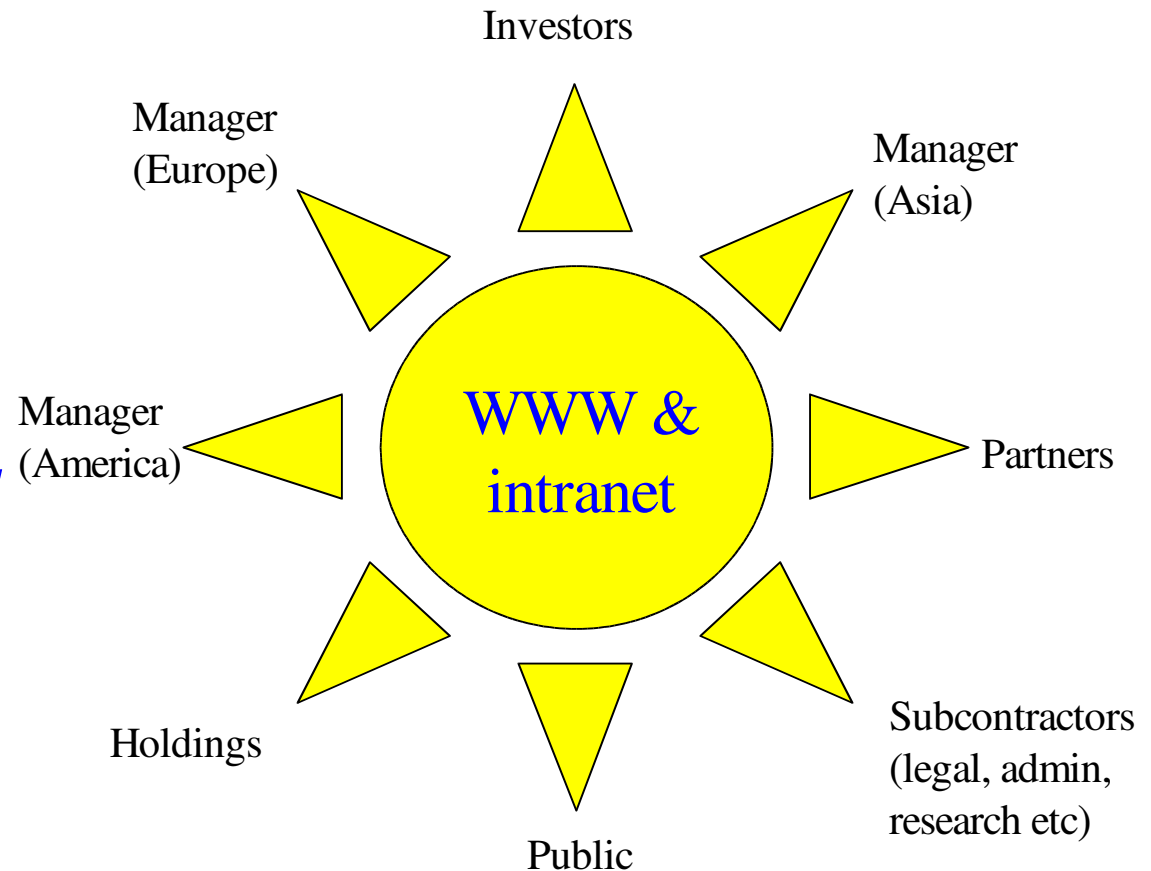
**GRI Equity
linked through
the Web to
network of
associates and
with access to
potential**



Web based enterprise can efficiently leverage global resources and lower overheads. "Productivity x 10 in 10 years."

VC 101 **Systems**

- *Team based infrastructure and systems.*
- *Partnership resources leveraged*
- *Internally audited/ monitored processes.*
- *Lower IT, support, distribution costs.*



Sustainability 101

- *Natural Law*
- *Cooperation*
- *Ethics/Spirit*
- *Responsibility*
- *Geopolitics*
- *Business*
- *System Change*
- *Value Opportunity*



The choice for natural interdependence is overwhelming ...

- *There is sufficient understanding of how the biosphere works and how humans work, and sufficient technologies to enable any type of future.*
- *Notwithstanding natural compromises, individuals know what the right course is and how to do implement it.
Humans can do the right thing the right way.*
- *Individuals and groups choose a course interdependent with nature rather than a world without nature.*



... and the rewards of choosing sustainable consumption options are great.

-
- *Life on earth for your children and grand children.*
 - otherwise only virtual reality is a possibility (and then only a slim one).
 - *Good food, warm home, rewarding lifestyle.*
 - *Opportunity to reach the stars, literally and spiritually.*
 - Work within the laws of nature to preserve life.
 - Use the time to develop technology of physical, mental and spiritual dimensions.



Humans may choose to compete and consume, ...

- *Knowing the scale of earth's problem ("the end of the world may be nigh") some individuals and groups think it is better to take a hedonistic approach*
 - Consume as much as possible, as fast as possible before everything runs out.
 - Kill the poor to make capacity for the rich.
 - Consume today for tomorrow we are all dead.



... or choose a cooperative approach to consumption, within nature's laws.

-
- *A cooperative model requires compromise.*
 - Individuals choosing to subsidise pollution by others e.g. organic food in Europe.
 - *The wealthy are in a position to set the example.*
 - The “rich and educated” are able to make appropriate resource allocation decisions.
 - They may acquire clean fuel transport, clean energy for domestic and commercial use. They may use recycled materials and set up the infrastructure to recycle and reuse materials. They may buy clean food (organic) and reduce packaging. They may demand newer, smarter technologies. Etc, etc, etc ...
 - *Others do not have these options, even if they would like to choose them.*



Ethics increasingly is a key economic driver.

-
- *Regulation of industrial and consumer markets demands environmentally and socially responsible behaviour. Governance and self regulation.*
 - Carbon pricing, Rio/Kyoto/Jo'burg, German Green coalition, Earth Charter ...
 - *Risk profile influenced by systemic ethics. Ethical track record used to standardise expected return.*
 - *Particular responsibility of financial markets.*
 - E.g. businesses failing to be ethical: AA, Enron, Parmalat, LTCM, WorldCom, Tyco ...
 - E.g. Fiduciaries focusing on GR market: Dexia, Morley, Triodos, Coop ...
 - E.g. Institutional initiatives: IMF, Evian Group, DJSI, FTSE4Good ...



Consumption decisions will remain the provenance of individuals. A virtual or natural world may be favoured.

Sustainability 101
Responsibility



Global politics/economics rapidly transforming from command to market systems. IT drives efficiencies.

- *Resource allocation decisions more by responsible cooperation, less by competition.*
- *Fitness for purpose is still ensured.*
 - Competition and testing may be used to ensure that individuals are competent, as well as skilled, to do a job.
- *Power required to be taken responsibly and increasingly distributed. Responsibility requires a minimum set of skills, experience and commitment.*
 - Some jobs may be inherently dysfunctional - an individual can not do it all e.g. “president”).



Sustainability is about being globally responsible.

*Human resource allocation is changing
to emulate nature's sustainability:*

- *Critical mass of technology available driving global sustainable initiatives.*
 - “Theory of Everything” S. Hawking et al.; “chaordism” D. Hock et al.; anthrosophy etc.
- *Efficient markets emerging fast (fair and free – low/no transaction costs)*
 - Price capital, including nature, to account for opportunity costs and externalities.
 - Democratic, open
 - Regulation to benchmark and enforce relevant ethics.
 - Inherent sustainability.
- *Sustainable solutions are in great demand globally.*
 - Earth care
 - Physical – biosphere
 - Intellectual and ethical – technology, politics and economics.



Globally responsible initiative is quickly changing physical, intellectual and ethical spheres.

Sustainability 101 System Change

- *Market systems (like nature) work better than command systems.*
 - Systems must be reactive and flexible ... neural
 - Market improved by reducing transaction costs especially by
 - Good information
 - Fair rules
 - Self sustaining – lower externalities/pollution incl. Physical, intellectual, ethical.
- *Sustainable businesses grow faster, with lower risk.*
 - Multi-sector trend to sustainable solutions. Public and private institutions responding to GR consumer culture.
 - 3% global assets managed, fast growth, proven outperformance, demanded by WorldBank et al..
 - GEO 1, 2, 3, WRI, Earth Charter, Rio, Kyoto, Jo'burg, Evian Group
- *Success requires:*
 - Value for money
 - Transparency/Disclosure (self audit)
 - Cooperation (And knowing what to look for ... GRI Equity)



The market offers attractive opportunities.

-
- *Confluence of factors that make industrial and consumer LOHAS* market growth powerful.*
 - Intrinsic growth.
 - Rapid substitution.
 - Growth of opportunities.
 - *Cooperative economic model offers attractive risk/return profile.*
 - Lower transaction costs and enterprise goodwill principally based on work ethic, not brand, technology premia, goodwill etc.
 - *The market is in its high growth phase.*
 - Public awareness of medical, ecological, political and economic globalisation issues.
 - Rapid substitution driven by cheap technology.

*Lifestyle Of Health And Sustainability

