



Sustainability rating systems

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Areas to be covered

- History of systems covering more than finance
- Examples of differing methodologies
- Future development of rating systems

History of rating systems

- Background in exclusion of sectors or industries
 - No alcohol or tobacco
 - No nuclear industry or armaments
- Funds have been active in this area for at least fifty years
 - Origins in religious groups who took a moral stand on issues
 - Later expanded to anti-apartheid and other issues
- More recently funds created with specific environmental and/or social as well as financial objectives

SRI Methodologies: Dow Jones Sustainability Indices

- Best in class approach
- Management of social and environmental risk
- Management of social and environmental opportunities

- Process
 - Survey based
 - Press cuttings monitored
 - NGO input solicited

SRI Methodologies: FTSE 4 Good

- Developed in collaboration with EIRIS (part of Ethical Investment Research Services)
 - EIRIS was launched in 1983 by a group of churches and charities
- Questionnaire based approach
- Focus on high level commitments covering;
 - Human rights
 - Environmental protection
 - Labour rights
- Negative screening excludes some sectors

SRI Methodologies: Innovest

- Traditional style of approach includes
 - Research sold to investors and fund managers
 - Buy, sell, hold communicated to investors
- Contingent aspects of balance sheet considered
 - Includes potential clean up costs
 - Includes potential opportunities and managers ability to apply them
- Environmental overview is unique aspect

SRI methodologies: SERM Rating Agency

- Direct and indirect costs of potential environmental and safety risks calculated to produce gross risk
- Mitigants calculated to give net risk
- Measured against market capitalisation to produce risk to capital ratio
- Reported along bond rating scale AAA to C-
- Ability to exploit new markets not included in calculations

Conclusions from Methodologies

- Broad range of methods to support SRI
- No generally accepted methodology for:
 - Accounting for environmental risk
 - Accounting for social risk
 - Calculating the quotient of environmental times social risk
- Results of this has been
 - Increased dialogue with companies
 - Lack of agreement as to what ‘engagement’ means

Future developments

- Asymmetry of information
 - Sarbanes Oxley Act
- Shareholder activism
 - Institutions voting their shares
- Surveys and questionnaires declining
 - More probing discussions emerging
- Increased regulations
 - Companies Act; Operating and Financial Review
 - Stock Exchange; disclosure for listing documents

Questions for LATF

- How will this external environment be best used to the Regions' advantage?
- There are no SRI Funds in Europe for such as Sustainable Property – how can this type of gap be used to direct FDI?
- What are the natural aspects of the current Latin American capital markets that can be used to promote SRI?