SRI Engagement

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Our Research Process

Positive & Normative analysis → Positive analysis

Define Investment Universe → Themes → Scenario analysis → Investment impact Qualitative impact → Portfolio Impact → Engagement

Non-consensus ideas → Valuation advantage
Investment impact → Engagement advantage
Positive analysis → Client advantage

This document is intended for institutional or professional investors and experienced advisers only. Private investors and scheme members should seek professional advice before making an investment decision.
Engagement Process

**Research**
- Identify areas for engagement (risks/opportunities)

**Engagement**
- Dialogue with company management raises concerns

**Investment rating**
- May invest/divest where SEE issue has a significant investment impact

**Voting**
- Vote against if company is inadequately managing risks

Engagement and research are interdependent
Engagement themes

Transparency
- Improving governance and disclosure
- Tackling corruption

Climate Change
- Legislative responses (emissions trading)
- Scenario planning

Human Rights
- Highlighting political risk (Burma)
- Managing employee issues

Health and Safety
- Product safety (e.g. asbestos, toxic chemicals)
- Occupational health and safety
Engagement theme: Human Rights

Case study - Burma

Investor statement raising concerns over business risks of operating in Burma

- Collective project - Group representing over £400Bn
- Highlighting potential risks - loss of shareholder confidence, negative press and publicity campaigns, safety risks and corruption issues
- Wrote to over 70 companies with operations in Burma.
- Ongoing meetings with a number of companies
- Various companies ‘pull out’ - BAT, Premier, Standard Chartered
- TotalFinaElf publishes detailed social impact assessment of pipeline area
Engagement Theme: Transparency

Good information is key to assessing a company’s management quality and business strategy.

Corporate Governance

- Experienced and long standing Corporate Governance team
- Corporate Governance voting policy aligned with Combined Code
- Vote at all UK company AGMs
- Corporate Governance is incorporated into the sustainability rating
- Research linking corporate governance and equity prices

Social, Environmental and Ethical disclosure

- Policy on environmental reporting since 2000
- Extending to Corporate Responsibility reporting in 2005
Evolution of engagement

Case study: HSBC

- HSBC signs up to the Equator Principles
- HSBC acquires Household International
- Morley abstains on Annual Report - insufficient SEE disclosure
- SRI rating D4
- Meeting to discuss SRI profile and rating
- Meeting with Credit and Risk Team - upgrade to C4 rating
- Meeting to discuss Household International
- Meeting to discuss public policy and informed consent
- Morley publishes SRI matrix ratings - writes to CEO of HSBC
- HSBC hires new Environmental Adviser
- Publication of new report
- Meeting - HSBC upgraded to C2 rating

Engagement is a two way relationship

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SRI Engagement - Summary

- Integrated into the research process
- Prioritised by financial impact
- Based on a two-way relationship with companies
Thank you

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