



Centre for Australian Ethical Research Pty Ltd

Ethical Investment in Australia:

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Duncan Paterson - CEO

Centre for Australian Ethical Research (CAER)

www.caer.org.au

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Overview

- CAER as an organisation
 - research methodology, data sources, clients and products
- Ethical Investment in Australia
 - size of sector and performance of ethical funds
 - increasing relevance due to FSR, ASX corporate guidelines



Centre for Australian Ethical Research Pty Ltd

Centre for Australian Ethical Research

- Independent not-for-profit organisation
- Assists investors in applying ethical screening criteria to investments
- Positive, negative, best of sector screens and corporate engagement
- Carries out tailored research as requested by investors
- Has exclusive licence to distribute Ethical Portfolio Manager (EPM), specialised ethical investment software

CAER Research Methodology

- Based on research process devised by EIRIS, developed over a 20 year period
- Over 80 clients around the world use EIRIS data, including:
 - AXA Sun Life
 - ABN Amro Bank
 - Co-operative Bank
 - Credit Suisse AM Funds (UK)
 - FTSE4Good Index
 - Goldman Sachs
 - Henderson Global Investors
 - The Royal Ministry of Finance, Norway
 - Standard Life Investments
 - World Wide Fund for Nature (WWF)
- Not-for-profit structure ensures independence
- Allows clients to apply own values to the data e.g. no specific definition of 'ethical' or 'sustainable'
- Employs individuals with strong research backgrounds with interest in environmental/social issues (current team of 4)

Data Sources

- Publicly available data - annual reports, government sources, community groups, media research
- Information verified twice per year - surveys sent once per year, with factsheet follow-up to check accuracy of profile
- Well-established relationships with key company contacts
- Share information and carry out collaborative projects with key organisations e.g. Department of Environment and Heritage, Australian Consumers Association
- This information is entered into EPM for access by global SRI Funds

Examples of Ethical Issues Covered:

- Corporate governance
- Past pollution convictions
- Community relations
- Promotional/advertising policies
- Indigenous relations
- Participation in the nuclear fuel cycle
- Old Growth logging
- Environmental reporting
- Corporate giving
- Occupational Health and Safety
- Operations in repressive regimes
- Production/use of non-renewable resources
- Development of Green Technologies

CAER Research:

In summary...

- Fundamental emphasis on the flexibility of the research process
- Focus on presentation of data in an objective way, allowing the client to present their own interpretations to stakeholders
- Established methodology, existing resources and product
- Clear independence from NGOs, company groups and major financial institutions

Ethical Investment in Australia

- Has been growing steadily with assets in SRI managed funds increasing by 8% in fiscal 2003
- Total FUM for SRI in the same period grew by 54%
- Financial Services Reform Act (FSRA) enacted, requiring disclosure of 'SRI' issues in new product disclosure statements
- Australian Stock Exchange (ASX) Corporate Governance Council formed and published its Principles of Good Corporate Governance and Best Practice Recommendations
- Australian Securities and Investment Commission (ASIC) released draft 'SRI' guidelines for new product disclosure statements

Ethical Investment in Australia – 2003

The 2003 Ethical Investment Association's survey identified \$21.3 billion in SRI assets in Australia (54% increase on 2002).

Category	Assets
Religious organisations	\$6.7 billion
Employer superannuation funds using SRI overlays	\$5.1 billion
Managed SRI funds	\$2.4 billion
Shareholder resolutions on enviro and social issues	\$6.7 billion
Community finance investment	\$191 million
Private SRI portfolios managed by financial advisers	\$126 million
Charitable trusts using SRI criteria	\$220 million

SMH - SRI funds grew 20% from June-December 2003

How government and industry are shaping the growth of Ethical Investment in Australia

Financial Services Reform Act

- Financial Services Reform Act came into operation in March 2002
- Issuers of products with an investment component must include in their Product Disclosure Statement (PDS) a statement detailing:
“the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention and realisation of the investment”

The FSRA in practice:

- All managed fund product disclosure statements published after March 11 2004 must include this declaration.
- ASIC has worked with the industry to develop a series of best-practice disclosure requirements in order to assist product issuers to deal with this requirement.
- The final version of ASIC's guidelines are available at their web site: - www.asic.gov.au and search for 'ethical'.
- ALL funds must disclose whether or not they take these issues into account, but only those that actively do so must use the guidelines.
- This cuts down on the potential for confusion between a genuine SRI fund and one which takes the issues into account purely for financial reasons (the UK experience).

ASX Principles of Good Corporate Governance and Best Practice Recommendations

A company should:

- Lay solid foundations for management and oversight
- Structure the board to add value
- Promote ethical and responsible decision-making
- Safeguard integrity in financial reporting
- Make timely and balanced disclosure
- Respect the rights of shareholders
- Recognise and manage risk
- Encourage enhanced performance
- Remunerate fairly and responsibly
- Recognise the legitimate interests of stakeholders

Disclosure of corporate governance practices (applying the “if not, why not?” approach)

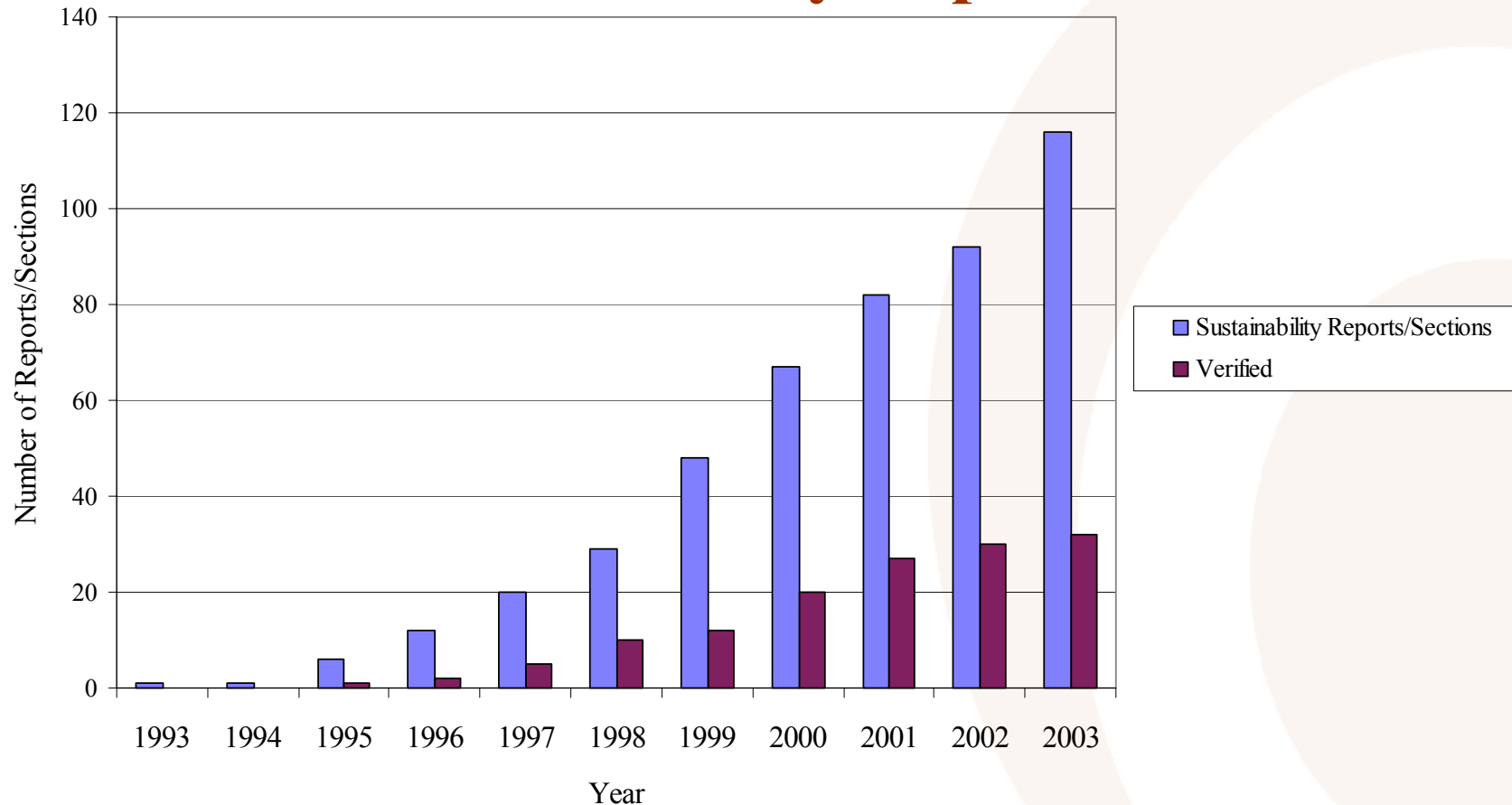
- the extent to which they have followed the best practice recommendations in the reporting period
- must identify the recommendations that have not been followed and give reasons for not following them

Disclosure period:

- applies to the company’s first financial year commencing after 1 January 2003
- companies must report on recommendations in 2004

New Research:

Production of Sustainability Reports/Sections



Benefits of Producing Sustainability Reports

1. Reputation enhancement (70%)
2. Gain confidence of investors, insurers and financial institutions (61%)
3. Operational and management improvements (59%)
4. Improved management of risks (55%)
5. Ability to benchmark performance (48%)
6. Capacity to recruit and retain excellent staff (37%)
7. Greater control of environmental disclosure (29%)
8. Creation of market opportunities (26%)
9. Satisfying a mandatory or signatory reporting need (23%)

Global Reporting Initiative (GRI) Guidelines

- “The GRI is fast becoming the *de facto* standard defining the triple bottom line.” (Allan Fels, Oct 2003)
- DEH Study
 - Reports prepared “in accordance” with GRI Guidelines:
2003 = 1 company; 2004 = 5 companies
 - Reports prepared “with reference” to GRI Guidelines:
2003 = 13 companies; 2004 = 35 companies
- Worldwide - 456 companies using GRI Guidelines, 26 reporting “in accordance” (5.7%)

Likely developments in the next 12 months

- continued growth in Ethical Investment FUM
- inclusion of information relating to labour standards and environmental, social and ethical factors in the Product Disclosure Statements of all investment products
- disclosure of the ASX Corporate Governance Council principles in company annual reports
- S&P/ASX 300 companies on EPM
- Australian criteria on EPM

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Thanks for your time