

**Inaugural ASrIA Conference - November 2001**

**SRI Research  
Lessons from Australia  
Implications for Asia**

**Mark Bytheway, CEO,  
Sustainable Investment Research Institute  
Australia**

**[www.siris.com.au](http://www.siris.com.au)**

Sustainable Investment Research Institute



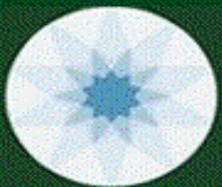
**SIRIS**

## Parallel Session - SRI Research

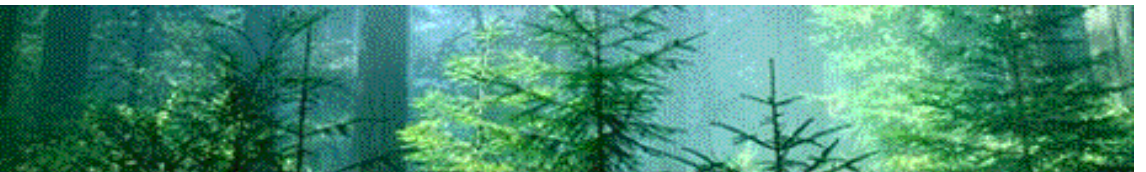
---

### Session highlights

- **What does SRI research consist of?**
- **Can global benchmarks be used in an Asian context?**
- **If not, what metrics should be used to perform SRI analysis in Asia?**



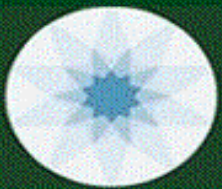
SIRIS



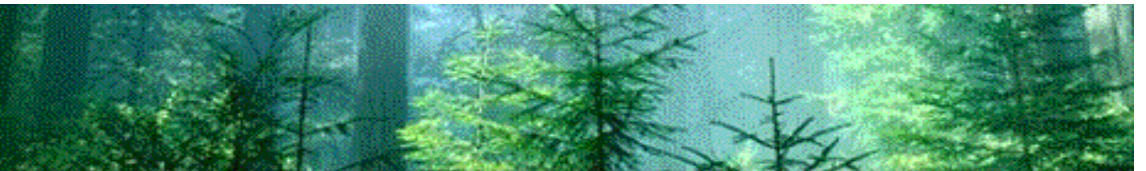
# Presentation Outline

---

- **SIRIS model**
- **Australian Experience**
  - **Parallels/lessons for non-Aust Asia**
- **Proposed Research Model or ASIA**



**SIRIS**

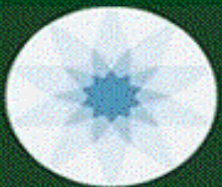


# Brief Introduction

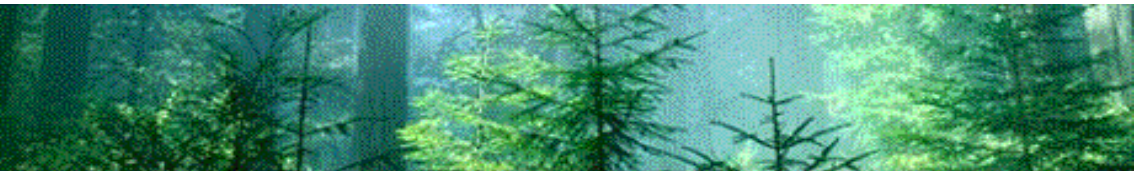
---

## ➤ SIRIS

- **Established April 2000**
- **Independent environmental & social investment research group in Australasia**
  - **owned and controlled by staff**
  - **financial institutions**
- **Research staff of 7**
- **Cover Aust/NZ (approx. 340 companies)**



**SIRIS**



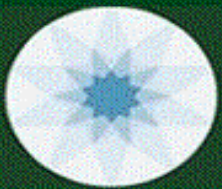
# SIRIS Model

---

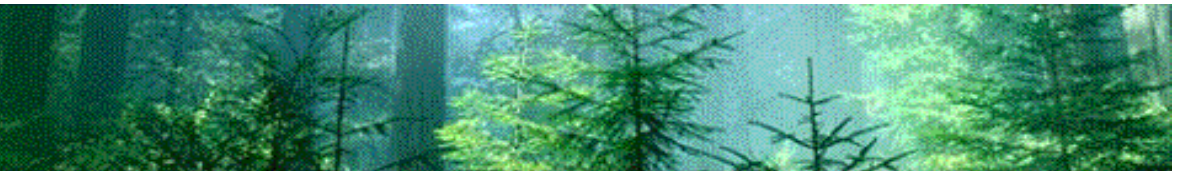
## Issues for SRI Research

Need to demonstrate:

- Context
- Capability
- Capacity
- Credibility



SIRIS

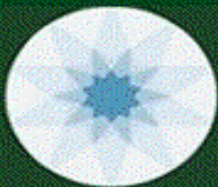


# SIRIS Model

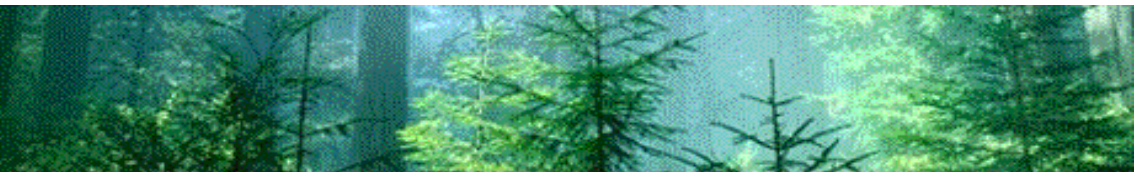
---

## Context of SRI and SRI Research

- **Financial Imperative:**
  - Growing worldwide market for environmental g & s >\$US550b
- **Increased Transparency:**
  - Increasing regulatory and disclosure requirements
  - A growing (and increasingly sophisticated) voluntary corporate environmental reporting dynamic
- **Increasing and Broadening Vested Interest:**
  - A widening of direct and indirect public ownership
  - Proposed changes to superannuation requirements to include SRI issues
  - Increasing level of societal wealth (capacity for concern)



SIRIS



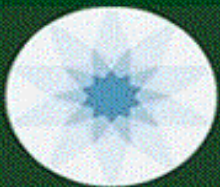
# SIRIS Model

---

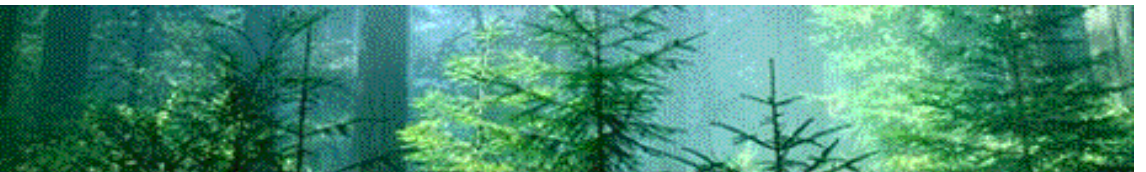
## Issues for SRI Research

### Need to demonstrate:

- An appropriate level of due diligence (to demonstrate product bona fides);
- Credibility and resources of Group(s) undertaking this work;
- Cost (including resources) of research provision
- Efficient integration of SRI (SIRIS) research into investment/credit assessment approach



SIRIS

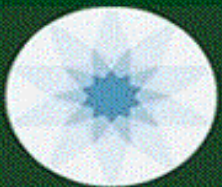


# SIRIS Model

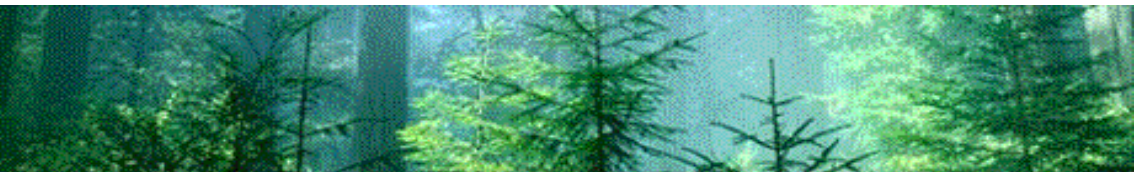
---

## SIRIS Perspective

- Dedicated specialised investment research house
- Provide research to investors and other providers of capital eg institutional and retail\* investors, banks into
  - sustainable development risks and opportunities,
  - particularly, social and environmental impacts and aspects of investment assets.
- Provide assistance and guidance to companies and other entities re managing corporate sustainability issues



SIRIS



# SIRIS Model

---

## Research Objective

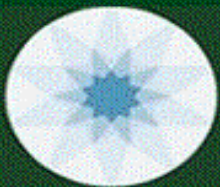
1. Provide response to SRI investor issues
2. Provide clients with critical analysis of aspects of corporate activity which can (incl into the future) affect licence to operate.

➔ **SUSTAINABILITY**

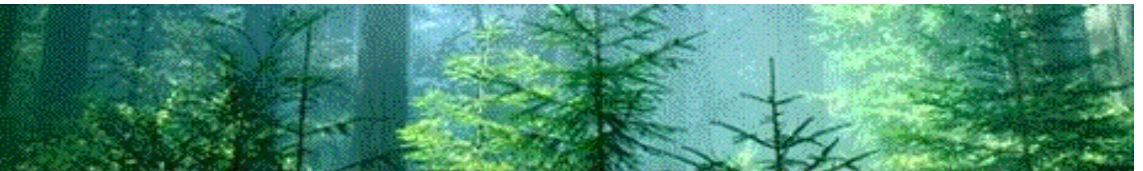
➔ **BUSINESS & INVESTMENT RISK**

## Research Applications:

- **SRI** - Provide company social profiling and analytical services to investors seeking to incorporate this analysis into investment process
- **Applied Investment risk analysis**
- **Credit risk analysis**



SIRIS

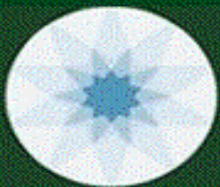


# SRI Research

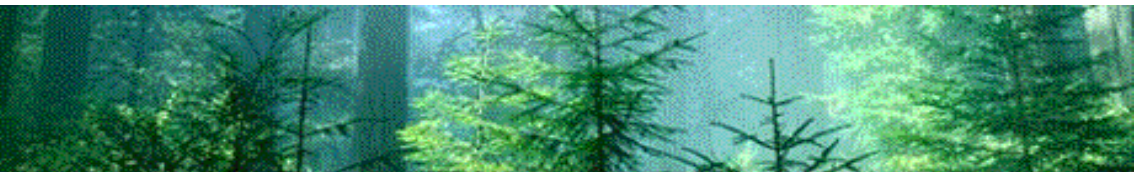
---

## Scope of SIRIS Research:

- Dedicated high quality social research service analysing a number of criteria. These are generally grouped as:
  - Environmental Impact
  - Corporate Governance & Ethics
  - Workplace Practices
  - Regulatory Compliance
  - Product Quality and Stewardship



SIRIS



## Global Benchmarks In An Asian Context

---

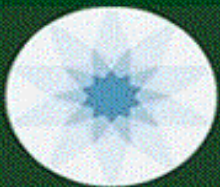
Benchmarks employed need to consider;

➤ *global consistency:*

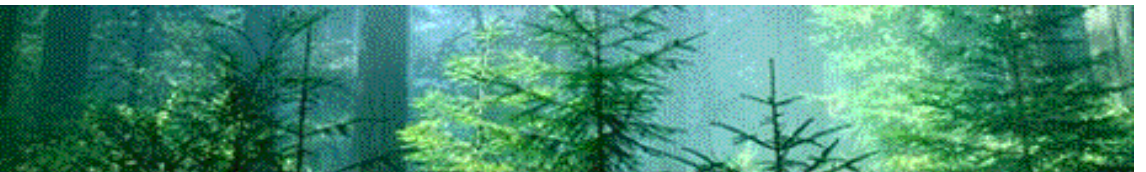
- implementation of global initiatives eg GRI, ISO Standards, SA 8000
- Global SRI investor requirements

➤ *regional/sovereign specific issues:*

- values, regulatory requirements, technical aspects
- local SRI investor requirements



SIRIS

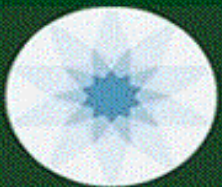


# Global Benchmarks In An Asian Context

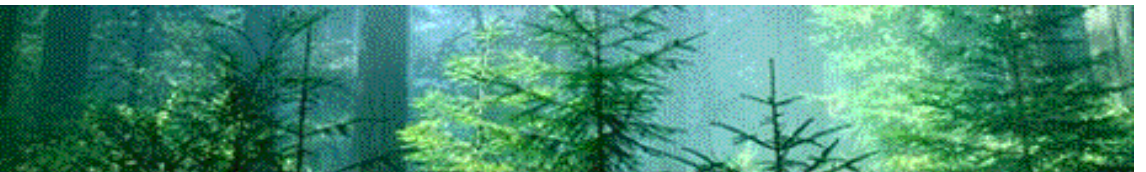
---

**BUT;**

- **No global :**
  - **SRI issues/criteria/metrics**
  - **SRI Analytical standards**
    - **EU initiative currently underway**



**SIRIS**

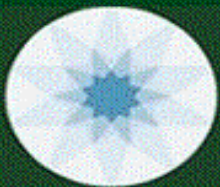


# Global Benchmarks - The Australian Experience

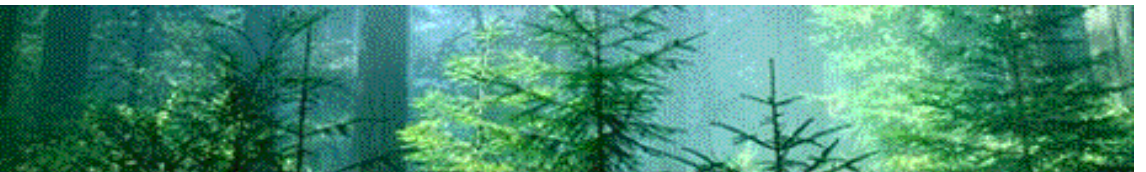
---

## ➤ Parallels with Australia

- **Lagged development of SRI**
  - **Until recently;**
    - **a very niche, predominantly “retail based” outcome**
    - **effectively no domestic wholesale managed funds involvement**
    - **absence of dedicated SRI research process**
- **Structural issues with capital markets**
- **Particular (local) social and environmental issues**
- **➔ Implications for SRI research**



SIRIS

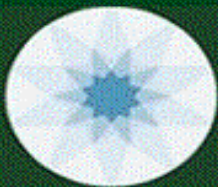


# Global Benchmarks - The Australian Experience

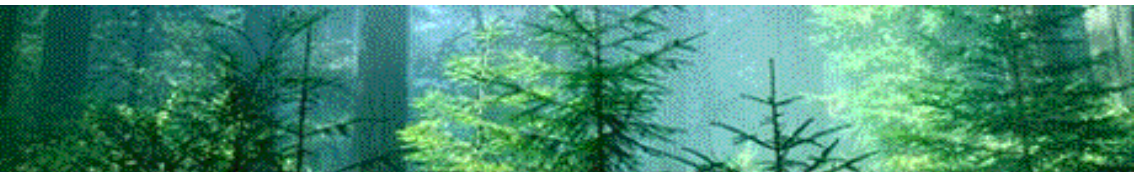
---

## ➤ Structure of economy and stockmarket

- **Australia has relied heavily on non-sustainable industries;**
  - **Resources, Mining and services to mining) accounted for 4.6% of Australian GDP in 2000/01,**
  - **Australia is one of only two OECD countries not to sign Kyoto Protocol and the only one to seek and obtain increases on base case (+8%)**
  
- **Stockmarket**
  - **Investment bias towards non-sustainable industries**
    - **18.3% of the ASX S&P300**
  - **Relatively narrow and shallow market**
    - **ASX Top 20 MV = 203bn USD**
    - **66% of total market capitalisation**



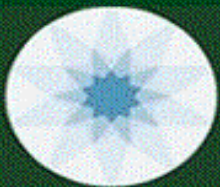
SIRIS



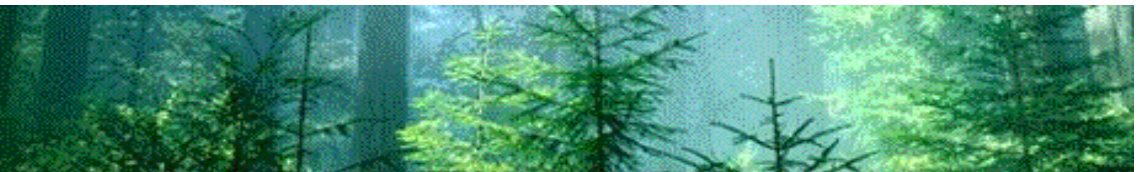
# Global Benchmarks - The Australian Experience

---

- **Geo-political**
  
- **Structural idiosyncrasies within the investment markets**
  - **historic concentration of managed funds stifled financial services product development and innovation**



SIRIS

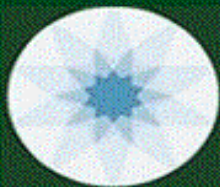


# Global Benchmarks - The Australian Experience

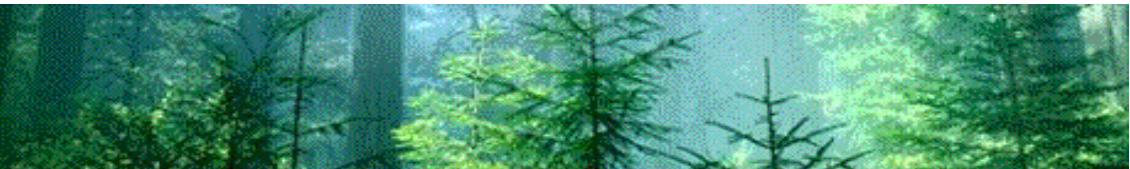
- Investment Bias towards traditional non - SRI industries

Frequently Screened Sectors	Weightings (%)		
	ASX 300	DJIA	MSCI
<i>Alcohol &amp; Tobacco</i>	3.0	1.8	2.0
<i>Mining</i>	1.7	1.8	0.6
<i>Resources inc. oil</i>	13.6	6.3	6.3
<i>Forestry</i>			0.5
<i>(Inc. Paper &amp; Pack)</i>	0.4	1.8	
<i>Gaming</i>	1.3	Nil	1.4
<b>TOTAL INDEX WEIGHTING</b>	<b>18.3</b>	<b>11.7</b>	<b>10.8</b>

Sources: *Macquarie Equities Limited*  
*Neuberger & Berman, LLC*

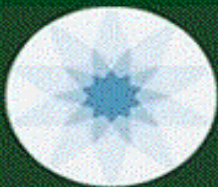
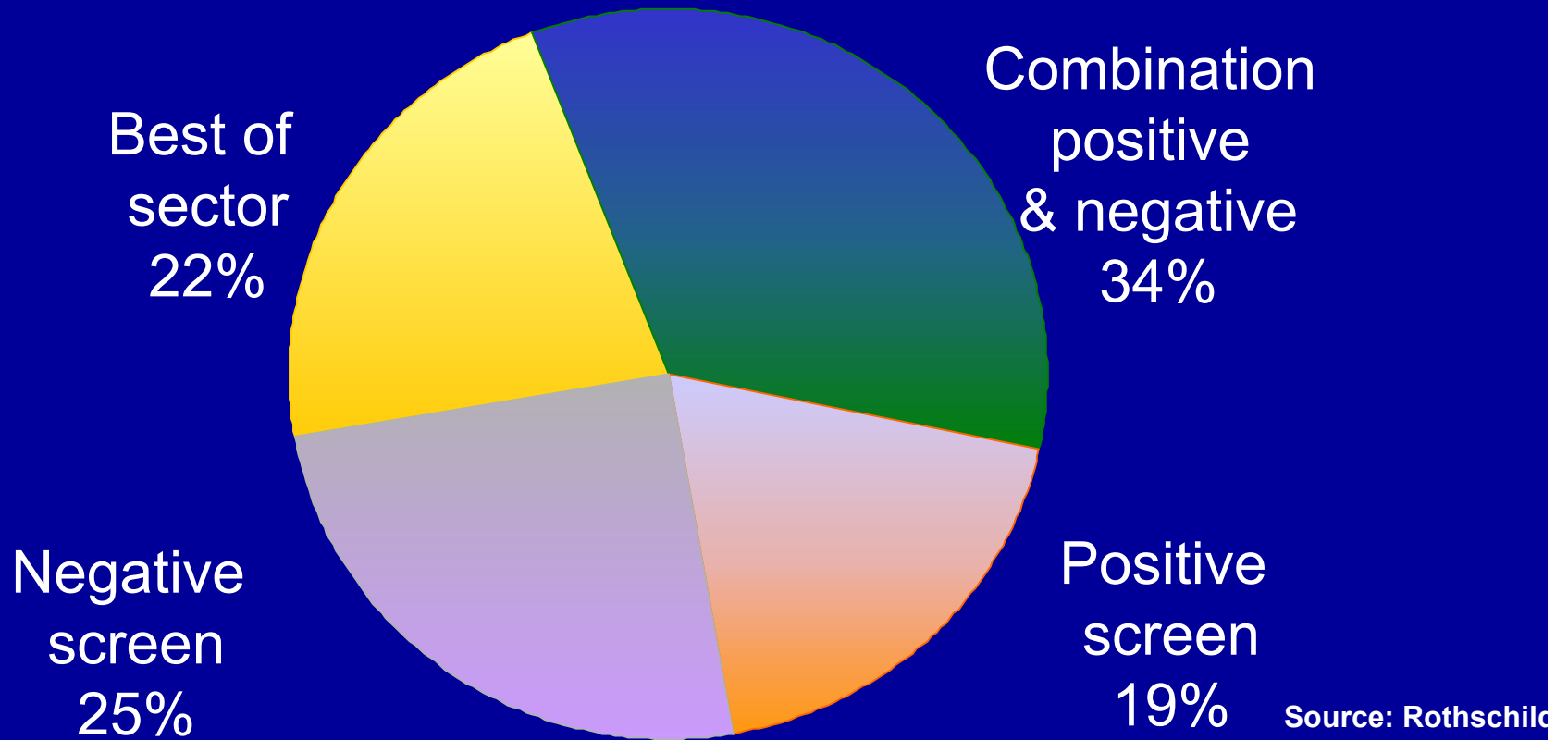


SIRIS



# Global Benchmarks - The Australian Experience

## The most favoured Investment Approach



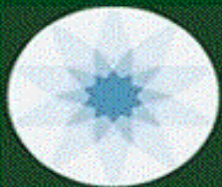
SIRIS

# Global Benchmarks - The Australian Experience

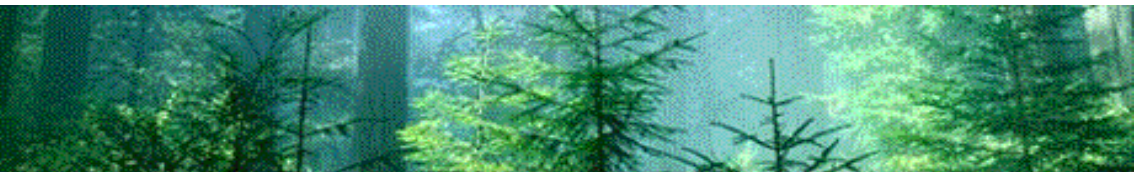
---

Rothschilds study concluded (inter alia):

- Transparency of SRI criteria is paramount
- ➔ Transparency of SRI research process is paramount



SIRIS



# Issues Going Forward

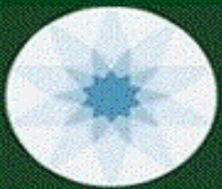
---

## ➤ Reporting Standards & Issues

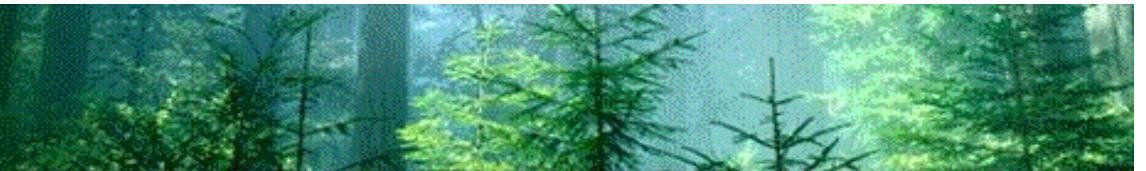
- survey fatigue

## ➤ SRI Analytical Standards

## ➤ Case for investment Proposition of SRI



SIRIS



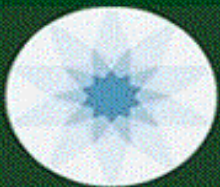
# Issues Going Forward

---

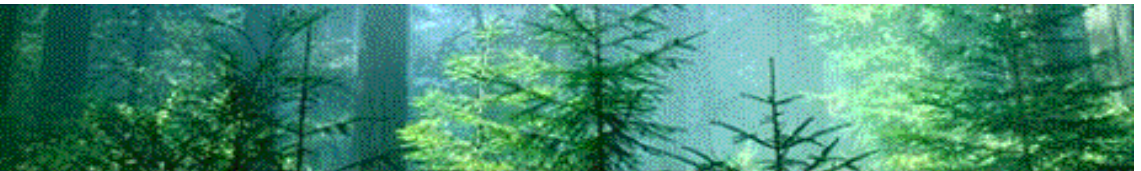
## ➤ Reporting Standards

### Development status of SRI reporting in Australia and Asia.

- Reflects developing status of corporate environmental and social systems and accounting.
  - Eg SIRIS estimates less than 10% of Top 100 companies have implemented ISO14000.
- SRI relatively recent and developing phenomenon
  - ➔ Strong need to improve systems and accounting
  - ➔ Need to improve SRI data provision to analysts
  - ➔ Reduce survey fatigue



SIRIS

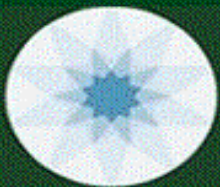


# Issues Going Forward

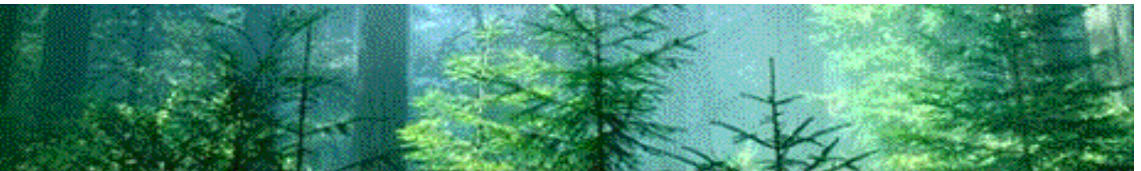
---

## ➤ SRI Analytical Standards

- Growing concern by companies and investors at the level of transparency in “screening and rating” processes.
- Debate currently in process re requirement/benefits of disclosure level provided by financial analysts in their valuation process
- current size of research market suggest that Aust likely to follow overseas initiative(s)
  - IP protection of need to disclose to engender comfort.



SIRIS

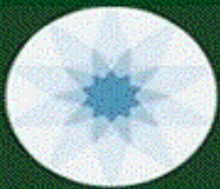


# Issues Going Forward

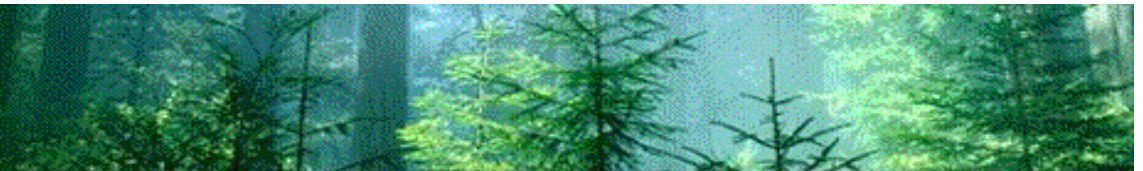
---

## ➤ Case for investment Proposition of SRI

- Corporates
  - Value adding insights into risk and opportunity
  - Adoption of SRI by critical pool of capital/large institutions
  - Acceptance and adoption by franchised research houses (stockbrokers)
  - Corporate perception of credibility and relevance
- Investors
  - Investment performance
    - returns (performance)
    - risk management



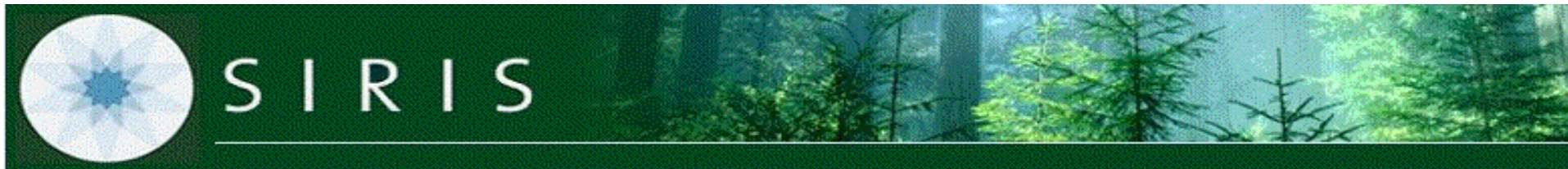
SIRIS



# Issues Going Forward

## Current SRI Products status (by Large Managers)

Funds Under Management to September 2001 (Consolidated)				
Rank	Fund Manager		Market share (%)	FUM (\$b)
1	AMP Henderson		11.2	70
2	Colonial First State		7.4	46
3	Deutsche		5.6	35
4	BT		4.9	31
5	State Street Global Advisors		4.9	30
6	ING		4.7	29
7	Macquarie		4.7	29
8	Commonwealth Investment Management		4.3	27
9	QIC		3.6	22
10	Alliance Capital Management		3.6	22
<b>Total FUM Top10</b>			54.9	341
<b>Total FUM in Australia: \$628 billion</b>				
	Funds Managers currently offering an SRI product(s)			
	Funds Managers known to be investigating offering an SRI product(s)			
<b>Source: Rainmaker Survey</b>				

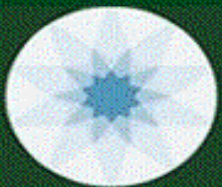


# Metrics

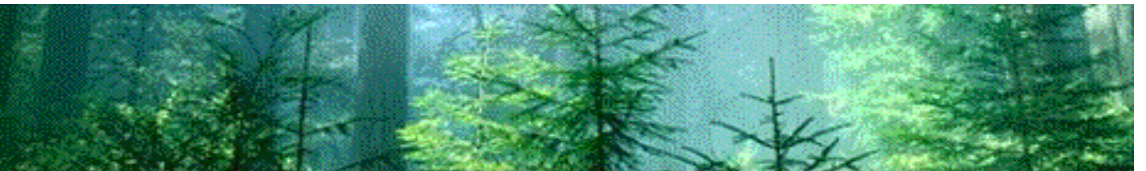
---

## Development Considerations

- recognise global initiatives
- reflect regional/local issues concerns and values
- develop as corporate reporting and accounting develops
- enable public and private benefits
- transparent
- reflect current status of development of SRI in Asia
  - acknowledge current concerns and institutional barriers



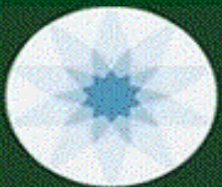
SIRIS



# Asian Research Proposal

---

- **Development of regional SRI database**
  - **based on wide stakeholder consensus**
  - **web-based -publicly available**
    - ➔ **transparent**
    - ➔ **focus corporate response (reduce questionnaire fatigue)**
    - ➔ **enable public and private benefits**
  
- ➔ **Development of “PLATO”**
  - **regional research provider**



**SIRIS**

