



## CAER Independence and Stakeholder Report

November 2009

### *INDEPENDENCE*

CAER is a not-for-profit private research company incorporated under the *Corporations Act 2001* in the Australian Capital Territory. CAER has carried on business as an independent entity for the last 7 years.

One of the aims that CAER has is to report on its independence as an organisation through the publication of a regular report on its website each year that will be available to stakeholders and interested parties. This report covers the 2009 calendar year.

CAER needs to ensure respect and independence in the market place in which it conducts business. As part of this process CAER, as a not-for-profit private company, works with various stakeholders in order to promote responsible investment, while also providing a breadth and depth to its research on important environmental, social and governance (ESG) issues.

CAER is involved with the following organisations:

- Association for Socially Responsible Investment in Asia (ASRIA);
- Responsible Investment Association of Australasia (RIAA);
- Global Reporting Initiative (GRI);
- United Nations Principles for Responsible Investment (UNPRI).

The operation of CAER is enhanced by involvement with such organisations listed above. CAER's business is not restricted or unduly influenced by the membership of such organisations, beyond the fact that the company abide by the various rules of membership. These associations do not inhibit the business that CAER undertakes in the area of responsible investment research or CAER sales activities.

These memberships and that of other associations that the company has through its involvement in the responsible investment market place work to encourage involvement or augment the work of CAER in this field. CAER is associated with the RIAA, GRI and UNPRI because they work to encourage the take up of responsible investment research in financial markets in Australia and elsewhere across the globe. None of the activities that CAER undertakes or is associated with in relation to these organisations, such as assisting with the formulation of guidelines or input into working groups on key responsible investment issues, in anyway inhibits the company from being



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able to maintain its independence in the market, nor its ability to conduct quality, tailored and independent responsible investment research work for its clients.

Any research work undertaken by CAER through the year has been undertaken in an impartial, verifiable manner. CAER's ability to provide independent research data on indicators that are regularly requested on ESG issues has been maintained through adherence to a strict methodology based on its international partner EIRIS' well formulated systems.

During the course of 2009 CAER officers had meetings in its offices with company representatives from Gunns Ltd, Galaxy Resources, Rio Tinto and also the Wilderness Society.

Despite all CAER staff undertaking company research from time to time, no staff undertake consulting on behalf of companies that CAER researches except for some financial institutions which may be both researched as well as being clients of CAER. In such cases CAER ensures that staff who have client management responsibilities do not undertake research on companies in the finance sector who may wish to manage SRI funds using CAER research.

CAER may undertake consulting for listed companies that may wish to develop a responsible investment strategy. These could include listed financial institutions that wish to offer one or more responsible investment product or different investment approaches in one or more parts of their operation. It could also include other listed companies which might, for example wish to adopt responsible investment for their pension schemes.

CAER does not provide consulting for a company regarding its ESG practices though it may advise (without payment) on how to meet CAER client criteria. Such consulting may be done by the research team but this is done without prejudice regardless of whether the company is a client or not. In practice it is rare that a company receiving such consulting services is also a client of CAER, this would need to be managed according to CAER policies on independence should this issue arise.

It is generally in the interest of clients of CAER to see well researched, independent, high quality research work is provided to the market to maintain transparency. Such material can be used by the public, charities, non-government organisations, investors, fund managers or environmental and social groups to allow for an informed market place to be able to make informed responsible investment decisions.

In light of this CAER uses the following range of sources for the information it holds on companies. These include:

- reading and analysing company public documents, including annual reports, websites and specific environmental, social and other publications;
- analysing responses to various surveys which we send to companies;
- using independent and reliable information sources, including relevant regulatory data;
- analysing media coverage and press releases;
- reading and analysing reports from and interacting with relevant organisations and NGOs; and
- interaction with company representatives, where this is appropriate and without compromising our autonomous and independent research status.



CAER has a detailed Code of Conduct and Conflicts of Interest process that ensures the independence and areas where conflicts of interest are managed.

Hence CAER is not beholden to any organisation and vigorously upholds its autonomous and independent status.

Note:

Duncan Paterson, the chief executive officer of CAER is also a board member of the:

- Association for Socially Responsible Investment in Asia (ASRIA);
- Responsible Investment Association of Australasia (RIAA);
- Committee member of FINSIA Managed Funds Advisory Group.

Duties undertaken in these organisations are undertaken solely in a personal capacity.

## *STAKEHOLDERS*

### *Introduction*

CAER defines its stakeholders as those organisations or individuals who have an interest in, or are affected by, its activities, products, services and associated performance.

The stakeholder policy covers both:

(1) CAER and its own stakeholders ('direct' stakeholders) who might be involved in (i) the governance and direction of CAER as an organisation or (ii) in the development of CAER's research methodology and/or providing research data;

and;

(2) the stakeholders of the companies CAER researches ('indirect' stakeholders).

In practice, an organisation could sometimes fall into both categories. For instance, a human rights monitoring organisation might be both a stakeholder of a multi-national company and also provide CAER with data on human rights' indicators for particular countries.

Active dialogue is most prominent in relation to direct stakeholders, whereas indirect stakeholders tend to be more passive.

# CAER

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The following table outlines, in broad terms, the role and influence of the respective types of stakeholders.

Stakeholder type	Governance of CAER	Methodology	Data Collection	Analysis and Assessment	Company Engagement
Direct	Yes e.g. Lenders	Yes e.g. NGOs, clients	Yes e.g. Environment Agency	No (except for some Convention Watch stories)	Yes (especially through clients)
Indirect	No	No	Yes e.g. some NGOs	No (except for some Convention Watch stories)	Yes (for some Convention Watch stories)

## 1. CAER Governance

Stakeholder organisations are not formally represented on the board of the Centre for Australian Ethical Research (CAER) Pty Ltd. The nature of stakeholder involvement in the governance of CAER is more fully considered under the CAER Independence Policy. However, some lender organisations, in particular Australian Ethical Investment Ltd (AEI), may influence the way governance arrangements are established. AEI holds a lien over CAER shares that will lapse upon repayment of start-up financing provided to CAER by AEI. AEI retains the right to appoint a Director of CAER until that time.

## 2. Direct stakeholders

### *Input into research methodology:*

A range of direct stakeholders including clients, NGOs, regulatory or government bodies, industry associations and other academics / experts play a prominent role in terms of devising or reviewing methodologies for particular areas or criteria. Elements of the CAER annual research plan will require dialogue with relevant stakeholders to take their views into account when undertaking area reviews or developing new criteria. Their involvement occurs through various channels appropriate to the particular requirements arising. For instance dialogue may occur through one-to-one discussions, use of focus groups that bring a variety of interested parties together and also surveys. Such dialogue may seek to identify such things as identification of key issues or questions, identification of best practice, client requirements, identifying sources of information, testing proposals and draft criteria.

CAER is very client-focused and hence clients have a significant influence on the methodological developments of the research. At the same time it is not always feasible to find



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a consensus among all clients, who may have differing requirements. For example, some may be uncomfortable with the risk exposure categorisation for particular sectors. In cases of this kind, CAER may consider providing revised classifications, lists, criteria or assessments on a bespoke basis to meet particular client concerns.

*Engagement:*

Some stakeholders, most notably clients, may engage independently with companies using CAER research in order to clarify or obtain further information relating to CAER criteria and assessments. Providing the company allows any data arising from these engagements to be used, the information may be incorporated into the CAER research databases which may lead to revisions of the assessment(s) for the particular company.

Analysts are encouraged to meet periodically with stakeholders such as NGOs, industry associations or attend external working groups related to CSR issues to keep their knowledge of the issues and sectors up to date, such as new initiatives or evolving best practices.

*Companies:*

Although companies are direct stakeholders of CAER, separate guidelines exist that govern relations with them, such as in the CAER Code of Conduct, CAER Independence Policy and in client documents such as detailed research guides used. In general, CAER seeks information from company representatives and asks them to comment on research profiles of these companies. This is undertaken in a manner which addresses company concerns such as questionnaire fatigue, duplication of data already in the public domain or previously provided. CAER also on occasion undertakes pre-testing of data and methodology with companies.

*Partners:*

CAER participates in a network of global research partners coordinated by EIRIS Ltd in London. EIRIS' research partners provide research for the companies domiciled within their area of geographical coverage and also have responsibility for engaging with those companies.

*Data provision:*

Other stakeholders such as NGOs, trade unions, regulatory bodies, index providers and other bodies may provide data relevant to implementing CAER's research methodology. CAER analyses and incorporates this data into its research to make assessments of companies. Some of this data may be either proactively acquired from the stakeholder in question, or taken from stakeholder websites, reports, surveys or other databases or literature.

### **3. Indirect stakeholders**

These are organisations or stakeholders who have an impact on or express views on companies and who will influence companies perhaps in the way companies make information available, or encourage companies to adopt particular policies or initiatives that result in data becoming available to CAER.

*Data provision:*

Indirect stakeholders normally play no part in the assessment, rating or review of a company. The exception is in relation to Convention Watch, when some company stakeholders are



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contacted by CAER or by our global partner EIRIS to provide comment or clarify aspects of a story or event in which they are identified.

CAER is not an activist organisation. CAER is a broker of responsible investment data on investments and company activities. Hence CAER does not attempt to solicit views from a range of stakeholders with an involvement or influence upon specific companies. CAER believes that in the context of both the number of companies and the range of issues it covers, it would be impossible to consistently and objectively pursue a programme of stakeholder input into a company's assessment. There is broad cross section of issues and many very differing stakeholder views on different issues.

*Methodology:*

Indirect stakeholders may indirectly affect the development of CAER methodology in the sense that they have created a societal or corporate context in which companies behave, which CAER normally aims to capture and reflect in its coverage.

#### **4. Identification of stakeholders**

CAER's global partner EIRIS draws upon the *AA1000SES (Stakeholder Engagement Standard) Exposure Draft* and the concepts outlined therein, produced by AccountAbility. EIRIS considers, and CAER agrees, that the following categories constitute its direct stakeholders:

- Responsible investment industry bodies;
- Clients;
- Finance industry;
- Competitors;
- EIRIS and international partners;
- NGOs & campaign groups;
- Companies;
- Media;
- Government or regulatory bodies;
- Data providers;
- Industry / trade bodies;
- Multilateral organisations (OECD);
- Academics / experts;
- EIRIS and CAER staff / trade union;
- Other business partners / suppliers.