

EIRIS and the Financial Reporting Council UK Stewardship Code

EIRIS and Engagement in Context

EIRIS fully supports the development of the UK Stewardship Code and welcomes the opportunity to disclose how EIRIS carries out the wishes of our clients, a number of whom are signatories to the UK Stewardship Code, by applying the principles of the Code that are relevant for our activities.¹

EIRIS is a leading global responsible investment research house, researching corporate performance on ethical, environmental, social and governance grounds for clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, the USA and Asia. In addition to overseas offices, EIRIS has a global network of research partners to further extend our research coverage and keep us abreast of responsible investment issues at the local level.

In light of EIRIS' long history and belief in the potential for change through engagement, EIRIS supports the code as a formal encouragement of engagement activity to investors, with the intention to improve transparency and accountability, thereby reducing risk and improving value in investments in the long term.

Engagement has been at the heart of EIRIS since its beginning. Founded by churches and charities interested in issues related to South Africa in 1983, EIRIS was born out of the need for independent research data to inform investors keen to engage on an issues-basis with companies in which they invested.

As EIRIS' research products and coverage developed over time, EIRIS has actively carried out engagement in many ways. For example, the engagement EIRIS carries out all the time through our research process. Our core process begins with the data companies make public. EIRIS then sends targeted profiles to companies in areas where the public data is unclear. This results in considerable focused dialogue with companies, and also encourages them to address the issues of concern to investors and to improve their public reporting. Sector specialists within each team review the research conducted by colleagues before it is released. EIRIS creates and updates the approach to many areas of our research in dialogue with NGOs, companies and clients with a particular interest so as to establish both good and leading practice in a form useful to investors. Clients can then distinguish those companies addressing an issue from those that do not.

EIRIS also provides research to organisations (such as stock exchanges) who have begun to change corporate RI practices through disclosure; and EIRIS has contributed to the development of the responsible investment field as a whole, through a wealth of high profile contacts and longstanding advocacy of its purpose and value.

¹ Financial Reporting Council, 'The UK Stewardship Code', July 2010

The research area where we engage more than any other is around our Convention Watch service, which explores claims that companies have broken international principles on human rights, labour standards, the environment, health and safety or bribery. Amongst other products, EIRIS also advises on the creation of voting policies to encourage corporate disclosure, and provides an engagement service to asset managers and asset owners, allowing investors to actively influence how companies address material ESG issues in order to protect and enhance the value of their investments.

EIRIS does not invest in companies for its clients, but provides research services to give independent assessments of companies' ESG risk exposure and their response to it, as well as advice on integrating this within an investment strategy. Here EIRIS sets out how EIRIS complies with the principles and spirit of the Code, where applicable, in line with the FRC implementation guide.²

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

EIRIS supports the Stewardship Code's encouragement of greater disclosure and transparency amongst investors. Greater disclosure leads to the better fulfilment of the interests of ultimate beneficiaries. Greater availability of information also contributes to more efficient functioning of capital markets in the long term.

EIRIS upholds a sense of stewardship in the way it interacts with all its stakeholders. EIRIS' Stakeholder Policy informs these interactions³, as does its 2006 Positioning Statement which underpins its mission and operations, and its Independence Policy which reflects its core values of independence and integrity.⁴

Unlike many ESG research houses, EIRIS is not owned by any of its clients, but is wholly owned by the EIRIS Foundation, a UK charity. The Foundation has 28 years' experience of providing free, objective and trusted information on ethical finance.

EIRIS fully supports the concept of stewardship. EIRIS has various policies in place to ensure research quality and to mitigate EIRIS' impact on the environment.⁵ EIRIS also has an Ethical Purchasing Policy that governs our interactions with suppliers of services.

The EIRIS Voting Service enables investor clients to add long-term value to their proxy voting policies by ensuring that they take account of material ESG issues. Our voting service provides clients with ESG-specific voting recommendations, supported by research reports and assistance with engagement activities. By using this service, clients can apply a consistent global approach through use of alternative votes where a vote on sustainability disclosure or performance is not available, and can

² Financial Reporting Council, 'Implementation of the UK Stewardship Code, July 2010, p. 3

³ EIRIS, EIRIS Stakeholder policy in summary, last updated October 2008 <http://www.eiris.org/about-us/documents/stakeholderpolicy-summary.pdf>

⁴ EIRIS, EIRIS Independence Policy, last updated October 2008 <http://www.eiris.org/about-us/documents/independencepolicy-summary.pdf>

⁵ EIRIS, EIRIS Environmental Policy, last updated October 2008 <http://www.eiris.org/about-us/documents/environmentalpolicy.pdf>

ensure that voting and engagement activities are complementary and consistent on ESG issues.

Clients receive reports with recommendations from EIRIS, supporting their own reporting to stakeholders on the implementation of their voting policies.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

EIRIS is not owned, in part or whole, by any company or client that it researches. EIRIS has policies in place to ensure that it retains independence from those it researches and that it is not unduly influenced by them, including avoiding conflicts between researchers and their personal shareholdings.⁶

EIRIS research is based on a fully transparent and holistic research methodology which is certified according to external industry quality standards. EIRIS is supportive of the Voluntary Quality Standard promoted by the Association for Independent Corporate Sustainability & Responsibility Research.⁷ The EIRIS research methodology was recently awarded AI CSRR certification. This accreditation is based on a 3-year cycle, with 1 year on-site and 2 years off-site audit.

EIRIS has written procedures to identify and eliminate, or manage and disclose any conflicts of interest that may influence the independence and objectivity of EIRIS' research. From time-to-time EIRIS may assist a company to understand how to meet EIRIS criteria, but EIRIS does not provide consultancy services to the companies it researches, or those of clients such as FTSE.

Its firm-wide Independence Policy and Code of Conduct includes how staff are to deal with potential conflicts of interest and a record is kept of all potential conflicts and how these are being managed.⁸

Furthermore, profiles of all the EIRIS Foundation Council, the EIRIS Board and wider staff members are publicly available on the EIRIS website.

Principle 3: Institutional investors should monitor their investee companies

Monitoring corporate performance on environmental, social and governance grounds is a key activity for EIRIS. EIRIS' research process involves regular research and often dialogue with companies on particular issues. Monitoring results against criteria is a constant part of this process.

⁶ EIRIS, Independence Policy, last updated October 2008 <http://www.eiris.org/about-us/documents/independencepolicy-summary.pdf>

⁷ <http://csrr-gs.org/content/home.html>

⁸ EIRIS, EIRIS Code of Conduct, last revised October 2008, p. 2. <http://www.eiris.org/about-us/documents/codeofconductpolicy.pdf> EIRIS also reports on the application of and disclosures from the Code of Conduct in its Code of Conduct Monitoring Report.

EIRIS offers a variety of products and services to help asset managers and asset owners meet their fiduciary obligations, through monitoring their investee companies' performance on ESG grounds.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

EIRIS offers an engagement service to clients. The EIRIS Engagement Service supports investors through all phases of engagement including developing a practical policy, providing recommendations for specific and general issues for engagement, facilitating engagement, and assisting with reporting on engagement activity. However, whilst EIRIS can offer its support, recommendations and knowledge, it is a client's decision whether to escalate engagement activity in any given case.

EIRIS' experience of escalating activities in engagement, in order to protect and enhance shareholder value, can be illustrated for example, by our publication of a series of best practice recommendations designed to address investors' concerns about ESG practices at Vedanta Resources.⁹ EIRIS followed this up by monitoring progress one year on, analysing how far these recommendations had been adopted.¹⁰

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate

From time to time EIRIS works collaboratively with other organisations on particular projects or publications. These may include clients or wider stakeholders. However, engagement by EIRIS with any stakeholders is undertaken in a manner that maintains EIRIS' objectivity, independence and avoids conflicts of interest. EIRIS does not participate in NGO campaigns or offer consulting services to companies.¹¹

EIRIS participates in, and belongs to, a wide array of membership organisations, both through its corporate person and the individual affiliations of staff members. This provides the opportunity to work collaboratively on projects and to mutually develop expertise and breadth of knowledge. Organisations that we have worked collaboratively with include: the OECD, UNCTAD, the International Integrated Reporting Committee, the Ecumenical Council for Corporate Responsibility, the Interfaith Centre for Corporate Responsibility, FairPensions, Global Reporting Initiative, UN Principles for Responsible Investment, UNEP FI, various international SIFs, UKSIF, CERES and SIRAN. In no way does EIRIS' involvement with these organisations hinder its ability to conduct independent research.¹² EIRIS is transparent about its affiliations and declares its membership of various organisations on its website.¹³

⁹ <http://www.eiris.org/media.html#Vedanta>

¹⁰ <http://www.eiris.org/files/research%20publications/EIRISVedantaReport2011.pdf>

¹¹ EIRIS, EIRIS Stakeholder policy (summary), last updated October 2008.

¹² EIRIS, Independence Policy, last updated October 2008.

¹³ <http://www.eiris.org/about-us/memberships.html>

Clients are also offered the opportunity for collective engagement as part of the EIRIS Engagement Service. Clients can participate in a committee reviewing the engagement product and to join with other investors in a collective engagement strategy for greater impact on certain issues. However, such collective activity does not undermine the core part of the service achieved through individual corporate dialogue around AGMs.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

EIRIS does not carry out voting at shareholder meetings for clients. EIRIS offers clients voting and engagement services, providing recommendations on ESG-grounds, underpinned by research.

In particular, the EIRIS Voting Service offers a consistent global approach by providing alternative voting recommendations that fit with country-specific voting structures. Unfortunately, specific resolutions on sustainability issues are rarely available which makes it hard for investors to vote on these material issues. The EIRIS Voting Service is designed to deal with this problem by extending voting activities beyond governance issues. The service provides 'surrogate' voting recommendations to either 'Support', 'Abstain' or 'Vote Against' a company based on the quality of its disclosure on environmental and social risks. EIRIS can assist clients to establish their own publicly-disclosed voting policy.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities

The EIRIS Voting Service provides clients with accurate and timely weekly voting recommendations on environmental and social issues. This is supplemented by quarterly reports to review and assist clients with measuring their impact in changing corporate ESG performance. Clients can then use these reports to assist with their own reporting on stewardship and voting activities.

Prior to commencement of engagement, the EIRIS Engagement Service provides clients with risk briefings on each company with whom they are considering engaging. EIRIS then also provides clients with in-depth bi-annual progress and end of year reports, reviewing the themes of engagement and detailing progress to date. This can assist clients with writing their own reports on their stewardship and voting activities.

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