

EIRIS Emerging Market Research

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Outline

- What has been EIRIS Emerging Market coverage to date?
- Current developments
- Where to next?

Why are we doing this research?

- Emerging markets are increasingly seen as being 'where the action is', and offer potentially good investment value
- Rise of the BRIC countries with China now the second biggest economy
- Simultaneously provide major sustainability challenges e.g. climate change, human rights with water management and food security rising rapidly onto the agenda
- Concerns about levels of ESG – perception of lagging behind developed world, but ...
- Many EM companies showing commitment to CSR e.g. impact of King Code, creation of indices, regulations, scrutiny of supply chains by companies in developed markets
- Giving a focus to UN Global Compact that is rooted in international laws / conventions which many companies have signed up to
- Links to other international organisations and initiatives e.g. OECD, PRI

What EIRIS has done - a developing tradition

Coverage of EM for a number of years:

- study of top 50 EM companies in 2006
- bespoke Convention Watch coverage since 2005, becoming standard service in 2010
- Involvement with Emerging Market Disclosure Project
- UNCTAD Report (2008) on analysis of disclosure of leading EM companies
- Sustainable Stock Exchange papers (2009 & 2010)
- worked with stock exchanges to create RI indices e.g. JSE, Mexico
- part of Controversial Weapons research
- bespoke research / services when requested



EIRIS Emerging Markets Approach

3 key strands

- **Convention Watch**
- **EIRIS Emerging Market Risk Management**
 - undertaking top 300 MSCI EM
 - working with partners e.g. KOCSR / HERI undertaken 55 Chinese companies
- **Negative screening**

Convention Watch

- EIRIS Convention Watch identifies companies alleged to have broken international principles and sends detailed reports to companies asking for their feedback
- EIRIS covers 730 large / medium EM companies in its standard service
- Allegations depend on free press and developed civil society
- Often NGOs focus on global brands, which are often developed world companies. For supply chain this can lead to reports on manufacturing companies in China.

Convention Watch: response rates (Nov 2010)

- overall response rate of 49% (better than expected)
- compared to 78% for companies based in developed markets
- South African companies have the highest response rate (80%); Russia (10%) appears as one of the worst respondents.

| Regions | Allegations | Responses | Rate |
|---------------|-------------|-----------|------|
| Asia | 62 | 26 | 42% |
| Latin America | 20 | 14 | 70% |
| South Africa | 10 | 8 | 80% |
| Europe | 13 | 3 | 23% |
| TOTAL | 105 | 51 | 49% |

Convention Watch: summary of assessments (Nov 2010)

- although fair response rates, poor impact on addressing the allegations

| Convention | Addressed | Not Addressed | TOTAL |
|-------------------|------------------|----------------------|--------------|
| Biodiversity | 0 | 21 | 21 |
| Env Pollution | 0 | 3 | 3 |
| Bribery | 2 | 19 | 21 |
| Labour Standards | 0 | 21 | 21 |
| Human Rights | 0 | 12 | 12 |
| H&S | 5 | 22 | 28 |
| TOTALS | 7 | 99 | 106 |

ESG risk management

- research process

- Working with our partners in some key countries i.e. Korea, Mexico
- Hiring people with key language abilities to help build in house capacity
- Research company publications / websites
- Additional civil society / media coverage for Convention Watch
- Send profiles to companies for comment & incorporate any relevant additional data

ESG risk management – criteria for covering 300 MSCI Large Cap

| Environment | Social | Governance |
|--|--|---|
| <ul style="list-style-type: none"> •Environmental impact •Environmental policy •Environmental systems •Environmental reporting •Biodiversity •Climate change | <ul style="list-style-type: none"> •Human rights exposure •Human rights policy •Human rights systems •Human rights reporting •Supply chain exposure •Supply chain policy •Supply chain systems •Supply chain reporting •Health & safety | <ul style="list-style-type: none"> •Board practice •Bribery risk exposure •Bribery policy •Bribery systems •Bribery reporting •Business details |

Criteria applicability

- Criteria are common to most companies, but we are aware that there are different challenges in different countries that may also be important or sensitive.
- Some issues will be captured by Convention Watch e.g. incorporated under environmental damage, human rights
- We will continue to work with partners and others to see how best to capture these sensitivities.

Data extracts for Mexico & China (1) - risk exposure

| | ENVIRONMENT | | HUMAN RIGHTS | | BRIBERY | |
|----------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
| | China (52 cos) | Mexico (65 cos) | China (52 cos) | Mexico (65 cos) | China (52 cos) | Mexico (65 cos) |
| High / Large | 54% | 57% | 77% | 5% | 44% | 37% |
| Medium / Small | 42% | 25% | 23% | 8% | 50% | 58% |

Data extracts for Mexico & China (2) - environment

| | CHINA (28 high impact companies) | | | MEXICO (36 high impact companies) | | |
|-------------------|--|---------------|------------|---|---------------|------------|
| | Pol | ManSys | Rep | Pol | ManSys | Rep |
| Excellent | 0 | 11% | 0 | 3% | 8% | 0 |
| Good | 4% | 4% | 0 | 11% | 22% | 0 |
| Moderate | 0 | 14% | 0 | 19% | 6% | 14% |
| Weak | 11% | 4% | 0 | 3% | 11% | 3% |
| Inadequate | 85% | 67% | 100% | 64% | 53% | 83% |

Data extracts for Mexico & China (3) - human rights

| | CHINA (37 large presence companies) | | | MEXICO (3 large presence companies) | | |
|----------------------|---|---------------|------------|---|---------------|------------|
| | Pol | ManSys | Rep | Pol | ManSys | Rep |
| Advanced | 0 | 0 | 0 | 0 | 0 | 0 |
| Good | 0 | 0 | 0 | 0 | 0 | 0 |
| Inter-mediate | 0 | 0 | 0 | 0 | 0 | 0 |
| Limited | 16% | 16% | 0 | 67% | 33% | 33% |
| No evidence | 84% | 84% | 100% | 33% | 67% | 67% |

Data extracts for Mexico & China (4) - countering bribery overall

| | CHINA (24 high risk companies) | MEXICO (24 high risk companies) |
|---------------------|--|---|
| Advanced | 0 | 0 |
| Good | 0 | 4% |
| Intermediate | 4% | 8% |
| Limited | 54% | 38% |
| No evidence | 42% | 50% |

Negative screening

Covers 'traditional' areas incorporating different threshold levels within each area:

- Alcohol
- Gambling
- Tobacco
- Adult entertainment
- Military

Summary

- EIRIS building on work of recent years
- Developing focus on 3 key strands
- Continuing to work with EM stock exchanges
- EMs present potential investment rewards, notable challenges, need for risk awareness, developing CSR practices
- Exciting journey ahead!

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