

## **THE JSE's SRI INDEX CHALLENGES INVESTORS TO INVEST RESPONSIBLY**

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The JSE's Socially Responsible Investment (SRI) Index, which assesses the environmental, social and economic sustainability practices and corporate governance of listed companies, today announced the constituents of the 2007 SRI Index.

Now in its fourth year, the SRI Index conducted the review of constituents after a strategic development process which included extensive consultations with various stakeholders, including listed companies and the investment community, aimed at ensuring that the SRI Index was well positioned to meet the needs of the growing number of stakeholders interested in socially responsible behaviour and investment.

While the Index has been a global leader in encouraging broad based sustainability practice by companies and fostering consensus on what this means in the context of South Africa, the JSE has this year introduced enhancements to the Index criteria and construction so as to meet the growing demand for responsible investment. In implementing these enhancements, the JSE has partnered with the UK-based research organisation EIRIS, a world renowned expert in the field of sustainability research. The JSE has also been working more closely with FTSE Group through FTSE4Good in reviewing the Criteria. "This collaboration ensures that the criteria used to assess the companies are now more globally aligned while remaining locally relevant," says Corli le Roux of the JSE, who heads up the SRI Index.

In reviewing the criteria, while the triple bottom line and governance approach has been retained, indicators have been structured along the ESG approach promoted by the UN Principles for Responsible Investment (PRI). The environmental criteria have been aligned with the FTSE4Good environmental criteria, while the remaining indicators deal with social, governance and related sustainability concerns in a thematic manner, with specific emphasis on local issues such as black economic empowerment, skills development and HIV/Aids.

Companies are assessed against the Index criteria by EIRIS on all publicly available company information.

For the 2007 review, all companies in the FTSE/JSE Top 40 Index (Top 40) and all those in the 2006 SRI Index were automatically assessed. "The decision to automatically assess the Top 40 and SRI Index companies is in line with global trends and is in response to a call from investors to increase transparency around the universe of companies that is being assessed," says Le Roux.

The remaining companies in the FTSE/JSE All Share Index were invited to participate on a voluntary basis. In total, 72 companies were assessed of which 65 formed part of the automatic universe. In the end, 57 have successfully made it into the 2007 Index.

In keeping with the Index's aim to recognise companies for their commitment to the triple bottom line, the Index has again highlighted some best performers this year. These are the 14 companies that have met the minimum requirements to qualify but in doing so also met all of the relevant core criteria in the social and governance themes.

While the SRI Index constituents continue to be dominated by companies in the JSE's Top 40 (with 34 of the Top 40 companies qualifying), the continued presence of Mid- and Small-Cap companies (18 and 5 constituents respectively) affirms that sustainability is important to companies of all sizes. In fact, a number of companies have commented that the SRI Index criteria offer an aspirational benchmark for companies and are a useful framework to assess and manage business risk.

With 13 participants, of which 12 qualified and 3 are best performers, the mining sector remains dominant as the biggest individual sector represented in the SRI Index, but other sectors are also making a good showing, particularly the construction sector, food producers and the financial sector (banks, general financial and insurance).

Due in part to the unique transformational needs in South Africa giving precedence to issues such as skills development, employment equity and BEE, the environmental performance of South African companies in medium and low impact sectors appears to be less advanced than their European counterparts especially in their reporting. This is an area that needs attention especially as climate change and related environmental issues are increasingly in the spotlight on the local agenda. In response, the JSE is aiming to develop criteria for this area in particular in upcoming reviews.

Despite the improvement in the quality of companies and more stringent assessment criteria, there has to date been very little in the form of material investor commitment to socially responsible investment.

"We have been disappointed by the slow uptake of responsible investing, however, we are having promising discussions in this regard at the moment, fuelled perhaps by the increased global focus on responsible investment and initiatives such as the PRI. Interest and understanding is certainly growing and indications are also that the enhancements we are making to the Index should facilitate its increased use as a tool for responsible investment," le Roux noted.

Martin Kuscus, head of the Government Employees Pension Fund (GEPF), South Africa's largest pension fund and a founding signatory to the PRI, added that "the SRI Index has done a lot to raise the profile around ESG in South Africa. In working to concretise the GEPF's commitment to incorporating ESG issues into all our decision-making, we are currently in discussions with the JSE around developing a tool that will meet our needs in this regard".

According to le Roux, "the SRI Index has to date played an important role in crystallising the debate around what sustainability means in the South African context. The bigger challenge remains working towards incorporating responsible investment as a mainstream consideration in investment decisions while recognising the rewards of ESG fundamentals. However, if investment decisions take a holistically integrated and balanced view of company performance, thereby increasingly influencing company behaviour, the potential impact on meeting the socio-economic imperatives of the country could be significant. The SRI Index offers investors a unique tool to achieve this."

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Word count: 964

**Additional information included:**

- list of constituents
- best performers
- quotations from some of the companies
- SRI Index Advisory Committee

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For further information, please visit [www.jse.co.za](http://www.jse.co.za)

**FOR FURTHER INFORMATION PLEASE CONTACT:**

Roz Thomas/ Kholofelo Masenya

Corporate Communications Consultants (Pty) Ltd

Tel: (011) 783 8926

Fax: (011) 783 7608

Email: [rozt@corpcom.co.za](mailto:rozt@corpcom.co.za)/ [kholofelom@corpcom.co.za](mailto:kholofelom@corpcom.co.za)