

Perpetual to extend ESG dashboard to fixed income space

By [Rachel Alembakis](#) - May 18, 2012

Investment manager Perpetual will continue to roll out its dashboard report approach to embedding environmental, social and governance (ESG) considerations into investment decisions, including further reports on its universe of equities and preparing reports tailored to capture fixed income and asset backed securities. Last year, Perpetual began the process of combining ESG research with the insights of their 16 equities analysts to develop one page reports on the ESG risks and opportunities of 240-270 ASX-listed stocks that potentially meet the firm's standards for investment. Thus far, about 15 reports have been written and the analysts have started using those reports, said Pablo Berrutti, manager – responsible investment and sustainability at Perpetual.

“Some want to use it as engagement tool – we've had a couple of analysts that have gone into company meetings and put it down in front of CEOs and chairmen and said, what about this,” Berrutti said. “I'm quite happy to have them do that, although they have to have the backing to know that the information in the dashboard is correct and that they're arguing the right things. Others want to use it as part of proxy voting process. There are different approaches and different feedback, and some don't see why it's necessary. You're going to have that mix of responses.”

The dashboard reports include research from three main external providers – Corporate Analysis, Enhanced Responsibility (CAER), Goldman Sachs governance research and Reprisk, as well as permitting observations from the analysts themselves. Perpetual's investment analysts must now consider ESG as part of their job function, and Berrutti noted that completing the dashboard analysis is one way for analysts to demonstrate their completion of that part of the job function.

“For fixed income, we expect the look and feel will be quite similar, except it will be more focused on downside risk,” Berrutti said. “The fixed income guys have the asymmetry where they have the upside limited to the interest being paid, whereas there is plenty of downside. The way that the dashboard indicators will be built – there are a lot of dials and knobs that I've got that sit behind the dashboard to bring out what's important. It will be more focused on the potential for blow ups rather than the positives that come out in the equities dashboard.”

Perpetual will include asset backed securities and residential mortgage backed securities in the fixed income ESG analysis, which presents challenges in gathering adequate data because most ESG research is focused on companies as opposed to asset-backed securities.

“The challenge with fixed income is that we’ve also got things like RMBS – residential mortgage backed securities and asset backed securities – where they’re not corporate issuances, so where do you get data on those types of assets,” Berrutti said. “Most ESG research is focused on companies and these assets aren’t covered, but we have some interesting ideas and we think it is possible.”

Perpetual recently published its second report to the UN Principles for Responsible Investment (PRI), detailing its actions and progress against the PRI’s six principles. The report, which is a self-assessment, per PRI protocol, covered activities in 2010 and early 2011. Perpetual assessed itself as in the second quartile in comparison to other Australian investment managers for its progress in responsible investment, citing enhancements to their policy framework, including updating their proxy voting to include engagement activities.

“We are committed to only reporting what we can prove,” Perpetual said in the report. “So while internally we remain confident that material ESG issues are being considered and incorporated, demonstrating how these issues influence investment decision-making is challenging because the wide range of ESG issues are considered in different ways and to differing extents depending on the asset in question.”

In the PRI report, Perpetual listed a variety of its engagement activities, including one failed interaction with company Washington H. Soul Pattinson (SOL), a management company with interests in shares, coal mining, distribution and retail of pharmaceutical products and manufacture of building products. An investor in SOL for almost 20 years, Perpetual has been raising corporate governance concerns with the company for the last five years around issues including “lack of independent directors; cross ownership (SOL owns 48% of Brickworks (BKW) and BKW owns 42.9% of SOL); use of the cross ownership and shared directors to; entrench control of minority shareholders, the Millner; family, over both companies; lack of an independent audit committee for SOL; lack of appropriate management of conflicts of interest; including the use of related party, Pitt Capital, for advice on corporate actions; the appointment to the board of Chairman Milner’s son, a candidate who we don’t believe has the necessary experience to serve on the board of a company the size of SOL.”

In 2011, after concluding that engagement had not brought around sufficient improvement in governance, Perpetual proposed to nominate a new independent director to the board, Robert Fraser. Lacking the support of SOL’s chairman, Fraser’s nomination was voted down.

“It’s a fairly aggressive action by us, and it didn’t end the way we would have liked it to end,” Berrutti said. “I really wanted to tell that story because I think there’s this perception that investors can get whatever they like when they engage with companies and companies will do whatever investors want them to do. That’s not actually the case.”