



# GROWING UP

The introduction of live pricing of the SRI Index is a crucial step in developing the index as the soul of JSE global trading, Kerry Dimmer reports

## Going

live with the SRI Index is to have an impact on the way trading on the JSE is conducted. Prior to this, the index only provided close-of-day values, leaving it somewhat on the periphery of trading activity.

That the SRI Index has become an important criteria in influencing trading decisions is not in doubt, but live trading will bounce the SRI Index into the flurry of mainstream investment with its minute-by-minute tracking capabilities.

There has been a significant increase in the number of JSE-listed companies that are prioritising the imperatives of corporate responsibility since the SRI Index was created six years ago. Making it onto the index symbolises the commitment of a company to achieve balanced environmental, social and economic success, a triple bottom line that dramatically decreases the gap between organisations and society and, of course, shareholder interest.

When Corli le Roux, head of the SRI Index at the JSE, oversaw its launch in 2004 under the sponsorship of deputy CEO Nicky Newton-King, and with the patronage of Graça Machel and Reuel Khoza, it was the first index of its kind in an emerging market, and the first to be managed by a stock exchange.

'It was always intended that the SRI Index would have live pricing,' says Le Roux, 'Going live is significant in addressing the discontent of investors who no longer want to use the SRI Index as just a benchmark. This service opens the door to the creation of SRI-based products such as unit trusts, tracker funds and exchange traded funds (ETFs).'

Ana Forssman, senior GM of Information Product Sales at the JSE agrees. 'While it is possible to create investment products based on end-of-day pricing, this is not the norm. The market demands transparency and real-time prices to track performance during the day. The introduction of live pricing and the visibility of the SRI Index on trading desks will facilitate the introduction of SRI-based products.'

'Responsible investment is coming of age and is increasingly important to investors, most notably for institutional investors such as pension funds,' says Le Roux. 'While enabling responsible investment was an original aim of the index, the credibility and robustness of the criteria and research process, as well as the buy-in of eligible companies, initially demanded most of the attention. The focus on the index from an investor point of view really started converging late in 2006, when it started to increase its functionality for

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the investment community. We are now able to market it more aggressively and promote the importance of responsible investing.'

A year ago the JSE achieved a breakthrough with the growth of the SRI Index when the Government Employees Pension Fund (GEPF) – SA's largest trading pension fund and asset owner – began collaborating with the JSE on data collection and analysis for the SRI Index.

As a founding signatory to the UN's Principles for Responsible Investment, the GEPF positioned itself as a leader in actioning its aspirations to investigate how to incorporate environmental, social and governance (ESG) considerations into its investment decision making, and is using the SRI Index criteria and concomitant analysis on listed companies as a foundation for informing its own research and engagement.

King III has made it evident that good corporate governance and sustainability issues are becoming increasingly important for listed SA companies, and along with other drivers such as the UN Principles of Responsible Investment, a clear directive has emerged: achieving social development and environmental sustainability while achieving business success.

At the end of November, the JSE will announce the results of its 2009 SRI Index review, publishing constituents' names and highlighting the top performers. Inclusion on the index has become a desirable accolade, having grown from 51 companies at inception, to 61 at the end of 2008. 108 companies are currently under review for the 2009 assessment.

All SRI Index constituents are reviewed annually to ensure they meet three criteria: environmental, social, and governance and related sustainability concerns. In response to investor demand for transparency and predictability, all Top 40 and mid cap companies have automatically been assessed since 2008, while small caps remain eligible for voluntary assessment.

As markets mature, awareness of the impact corporations have on the health, education and livelihood of

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society tends to grow. Business operations invariably result in some form of displacement and it is therefore crucial that measures exist to ensure that this impact is minimised, if not eliminated entirely.

The SRI Index review is, therefore, not just a stakeholder-centric model but a means to track the difference a committed organisation is making.

This is certainly endorsed by the JSE's head of investor relations, Michelle Joubert, who has worked alongside Le Roux for two years. 'Our aim is for companies to use the index criteria as a standard against which good triple bottom line practices can be measured, thereby greatly encouraging awareness of the importance of sustainability issues.'

Reviewing the constituents for 2009 is undertaken by UK-based Eiris, a leading international provider of sustainability research and analysis. Using the indicators set by the JSE in the SRI Index Criteria, Eiris looks at the extent to which SA candidate businesses address ESG issues in line with global standards. Locally relevant imperatives such as BBBEE, HIV/Aids, skills development and occupational health and safety are also considered. This is not as much a judging process as it is a monitoring one.

Consistent constituents are finding that not only does the recognition of being included on the index add financial value, but it also proves a track record and strengthens their reputation as a good corporate citizen.

Oceana Group is one such company and regards the influence and impact its business has on the economy, society and the environment very seriously. 2008 was the fourth year that it was included in the SRI Index due to consistently meeting its key objectives: to position the company for long-term growth and viability; to utilise resources on a responsible basis; to maintain positive relationships with major stakeholders; and to promote social upliftment.

Mbuyi Mtsheketshe, head of Oceana Group's Corporate Affairs and Transformation division, confirms that the group has seen increased benefits since its inclusion. 'More importantly,' he says, 'we view our inclusion as playing an integral role in our survival and success, as much as it is our corporate duty to contribute to the well-being of our stakeholders.'

Le Roux confirms that Oceana's inclusion is indeed a remarkable achievement for a small-cap company classified as a high environmental impact organisation, requiring it to meet the same criteria as large multinational corporations operating in sectors such as mining, construction, oil and gas.

The mining sector could again dominate as a high-impact best performer in 2009. Other industries that usually perform well include financial institutions, construction, food, and insurance. By their very nature, these sectors have the biggest impact on social development and have long been exposed to the pressures of meeting their obligations in this regard.

There is, obviously, an enormous difference between those organisations that plant a tree and those that implement social and environmental responsibility beyond the balance sheet.

The SRI Index is no longer driven solely by stakeholder interest; it has grown to become the social code for business practice in SA. By providing an aspirational benchmark for what good sustainability practices entail, and facilitating investment in and engagement with those who espouse such practices, the SRI Index's impact on corporate and investment behaviour, in relation to the environmental and socio-economic imperatives of SA, could be significant. 



# THE 'PETER' PRESCRIPTION

Tiger Brands CEO Peter Matlare is a strategist with a knack for patching up damaged reputations. His latest challenge is probably the biggest he's ever had to remedy. By Kerry Dimmer

# When

Peter Matlare joined the food and pharmaceutical giant Tiger Brands in 2008, it was in the wake of a massive bread price-fixing scandal. Then, just months into his tenure, it emerged that the company's healthcare unit, Adcock Ingram, was being investigated. The company was later found guilty by the Competition Commission of colluding to fix tenders and divide the market on specific products. Violating competition laws twice cost the group around R150 million in fines.

Matlare though, is no stranger to controversy. His "was he pushed or did he jump?" early departure in 2006 from the SABC as its group chief executive was speculated to be the result of conflict with the SABC hierarchy – he was determined to turn around the corporation's R600-million deficit by transforming it from a parastatal into a commercially focused business, a move that stepped on the toes of those who wanted the public broadcaster to be the government's mouthpiece.

Between that rock and this hard place though, came a somewhat quiet sojourn at Vodacom Group as its chief strategy and business development officer, tasked with the development and delivery of the company's growth strategies, identifying new revenue streams and taking responsibility for Vodacom Ventures, the venture capital arm of the group. Interested parties suggested that Matlare was being considered as Vodacom CEO Alan Knott-Craig's successor and were therefore startled at Matlare's announcement that he would be joining Tiger Brands while it was still licking its wounds amid difficult trading conditions.



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But he seems comfortable in this arena, even optimistically so, despite the economic crisis. In May, Tiger Brands reported a 16% decline in diluted HEPS of 624.5 cents for the six months ended March 2009 (this from 739.5 cents the previous year). Some relief will come from the sale of 74% of Tiger Brands' interest in Sea Harvest for a reported R541 million, and the sale of its 10.3 million shares in

Adcock Ingram. According to Matlare, this will 'bring the group's cash position back to manageable levels and free the company to pursue other acquisitions outside SA'.

In the past year the group has experienced significant increases in raw material costs, high interest rates and a weakening rand, so it's not surprising that it's taking a bit of knock as consumers alter their buying patterns. Despite this, Tiger Brands stock has gained 7% this year.

One area where the group has seen significant improvements is its Exports and International Division, with operating income increasing from R64.4 million to R155.9 million. This is in line with Matlare's thinking. He is particularly keen on organic growth, particularly in East and West Africa, adding more brands through acquisitions such as the recent purchase of Crosse & Blackwell mayonnaise from Nestlé.

Last year, the group also bought a 74.4% stake in Cameroon-based chocolate manufacturer Chococam, and 51% of Kenya-based personal care and consumer products company, Haco Industries.

Although there was a failed takeover bid for AVI earlier this year that cost Tiger Brands some R33.6 million, it's been reported that should AVI come around again, the company would reconsider a bid, believing it would add value to its basket.

More recently, the company began to address its shareholder base by making an additional 10% of its shares available to black shareholders in order to boost black ownership in the group. The total value of the deal is R2.8 million and will be issued to the company's trusts and its strategic black partners, Brimstone Investment Corporate and Mapiiso Consortium Investments. Matlare has said that the group was not implementing the transaction merely to comply with BEE codes but also because it wants to establish a sustainable social investment to make a difference in the lives of employees and their families.

Matlare's own family hails from Durban where his father worked in the attorney-general's office. His higher education was completed in the UK where he pursued a political science degree at the University of Plymouth and a masters in political economy at the University of York. Before joining the SABC, Matlare was COO at Primedia and CEO of Primedia Broadcasting. He has also worked for the Urban Foundation, Citibank and Chamber of Mines.

Married with daughters, it's not surprising that Dr Namane Magau once described Matlare as 'having the right sensitivities' when gender equity issues at the SABC were being reviewed. He has been hailed as a skilful, articulate communicator with impressive strategic instincts – qualities that will stand him in good stead as he focuses on restoring the reputation of the JSE's largest listed branded food and consumer giant. 