

## **Analysis: Sustainability indexes lack own transparency**

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(Reuters) - Indexes that determine which stocks can be called "socially responsible" don't always set the highest standards with their own disclosures.

Take the strange cases of one-time Internet star AOL Inc (AOL.N) and property and casualty insurer Chubb Corp (CB.N). Both companies were kicked off the Dow Jones Sustainability Indexes last week. But the index provider declined to say why.

At the same time FTSE Group added both to its competing "FTSE4Good" index series, suggesting each company could claim at least some good corporate citizenship.

For its part the FTSE4Good index eliminated a group of other companies from United Parcel Service Inc (UPS.N) to Bridgestone Corp (5108.T) for what it said were human rights-related reasons, but gave no more detail. (FTSE Group is a joint venture of Pearson PLC's (PSON.L) Financial Times and the London Stock Exchange Group (LSE.L)).

The situation stumps some social investment managers, who buy or sell companies' shares with an eye to pressing them to change their policies or strategies.

"Just as our industry is pushing for increased transparency from companies, I actually think the indexes should be very explicit" about why they would add or drop a company, said Lauren Compere, managing director of Boston Common Asset Management. Like other managers, her firm uses FTSE4Good indexes for researching what stocks it might buy or sell.

Indexers should at least specify when they shuffle member companies based on financial factors like a falling share price, said Vanderbilt University finance professor Nicolas Bollen. "Surely the investors who pay attention to these lists care both about ethical considerations and financial performance," he said.

Executives from the indexes said they must balance disclosure of their reasoning with their need to continue talks with companies they rate.

For one thing, companies turn over plenty of internal reports and documents during reviews. Giving out details could breach confidentiality agreements, said Francois Vetri, spokesman for the SAM unit of Dutch asset manager Robeco.

SAM helps to determine the makeup of the Dow Jones Sustainability Indexes, which are owned by CME Group Inc (CME.O) and News Corp's (NWSA.O) Dow Jones unit.

#### 'OPAQUE METHODOLOGY'

David Harris, FTSE's head of responsible investment, acknowledged that "many sustainability indices do have a pretty opaque methodology." But even so his company provides plenty of explanation when it acts, he said.

"FTSE4Good is the most transparent index of its type," he said. "We wanted to be able to create an index where all the information about how the index is constructed is publicly available," he said.

With \$28.4 billion under management as of July 31, so-called "socially responsible" U.S. equity funds are small players in a total equity fund universe of \$4.8 trillion, according to data from Lipper, a Thomson Reuters unit.

But social investors tend to put their money behind their beliefs, making the assets stickier. As markets fell from October 2007 to March of 2009, for instance, equity funds with social missions took in \$613 million, while traditional equity funds had outflows of \$265 billion, Lipper found.

Social indexes are widely used by institutional investors and by some funds like the Vanguard FTSE Social Index fund, which tracks the performance of the FTSE4Good US Select Index.

FTSE said companies on its "responsible investment" indices must show they are working to improve in areas such as "environmental management," as well as countering bribery, a major problem in developing countries. FTSE4Good also screens out tobacco companies and makers of weapons such as nuclear bombs.

Sometimes the indexes partially explain changes, such as when the FTSE4Good index dropped BP Plc (BP.L) (BP.N) after the record oil spill in the Gulf of Mexico earlier this year.

On September 9 FTSE4Good said it was dropping companies including DuPont (DD.N), UPS and Bridgestone for "human rights" reasons but declined to say more. The Dow Jones index series also deleted DuPont from its North America Index, without giving a reason.

## DUPONT 'DISAPPOINTED'

Neither index would discuss how its moves squared with praise DuPont has gotten for its policies toward gay employees and on child labor. Representatives for DuPont said it was disappointed by both decisions and that it will try to improve its overall sustainability performance.

They said the No. 3 U.S. chemical maker had been told by FTSE it needed to share more about how it integrates human-rights into its risk-management process, and that it has not yet met with officials from the Dow Jones index.

UPS declined to comment, as did Chubb. Bridgestone representatives did not respond to questions. Of the changes at the indexes last week, an AOL spokeswoman said: "We are essentially being removed from one respected green index and added to another respected index."

(Reporting by Ross Kerber; Editing by Steve Orlofsky)