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ASSET MANAGEMENT

INDEPENDENT | ACTIVE | INVESTORS

Disclosure and differentiation - an investor perspective

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November 2005

"Sunlight is said to be the best of disinfectants: electric light the most efficient policeman"

Justice Louis Brandeis

"Disclosure is as much an opportunity for corporations to establish their business aims and principles as it is a means of enhancing their accountability. Disclosure leads to questions and so to further disclosure: it feeds on itself."

Adrian Cadbury & Ira Millstein (2005)

Key questions

- Who is the audience?
- Are we disclosing the information that they want to know in a manner that is meaningful to them?
- How useful is what we disclose?
- How can we disclose in a manner that ensures that the disclosure results in a positive outcome rather than simply avoiding a repercussion?

Why the need?

- Mining has a high impact from a social, economic and environmental perspective
- Resources are finite
- Access to the resources requires political approval
- Extraction requires substantial long term capital commitment
- Revenue forecasts are subject to exogenous factors
- A varied reputation
- Difficulties in determining source

Key investor issues

- Financial & operational
  - What will generate the earnings over both the short and long term and whether or not earnings are credible
- Understanding risk
  - Market cycles
  - Un-predictable issues
  - Inevitable issues
- Maximising returns over the long-term are the central objective of the investor – this is ensured through effective asset allocation

Investor pressure

- Rise in investor consciousness and understanding of risk
  - Internationalisation
  - Institutionalisation, member involvement and risk
  - The growth of SRI & investor awareness
  - The plethora of codes

Investor pressure contd.

- Changes in the investment market
  - Core-satellite approach to management
  - The growth of hedge funds
  - Increased specialisation
- A broader understanding of risk
  - Consequences for the cost of capital

The boundaries

"The omission or mis-statement of an item is material if, in the light of the surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying on the report would have been changed or influenced by the inclusion of the item"

FASB Statement of Accounting Concepts

Three failures

1. **No depth of information** – no comparable or accurate data, and no reference points
2. **Information overload** with few connections, this is typical of box ticking practices, or following a pre-determined list of what should be disclosed
3. **Poor synthesis**, with information displayed in a disparate manner

Key observations

- Relevance and materiality not clearly understood
- A balance between successes and areas where management needs to improve is needed
- Need to educate the user as to how the company’s performance on sustainability issues is part of its value proposition

Key observations contd.

- There is often little integration within reports leading to a perception that sustainability performance is a mere “add on” rather than a fundamental part of the business proposition
- Companies are only starting to find out what information stakeholders and shareholders want to know – this paves the way to establishing long term communication channels

If management stands to gain wisdom and credibility by facing mistakes, why do so many annual reports trumpet only successes"

Warren Buffet

"Tell me, I forget. Show me, I remember. Involve me, I understand."

Ancient Chinese Proverb

Conclusion

- As the investor gets more specialised, sustainability issues are likely to become a greater signal of quality
- This will impact on the cost of capital, and thus on the company's ability to produce shareholder returns
- Non-performers will become increasingly volatile as they become proxy for market shifts
- As the high performers improve, the expectation of the investor will rise and the gap between them and the laggards will widen

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Thank You

Questions…