CFA SOCIETY SRI LANKA CAPITAL MARKET AWARDS 2024

Evaluation Criteria and Feedback from Judging Panel

BEST INVESTOR RELATIONS AWARD

OBJECTIVE: Recognize companies that practice active Investor Relations to communicate interactively with the investor community and encourage best practices

SHORTLISTING COMMITTEE

- Asanka Herath
- Bimanee Meepagala
- Christine Dias Bandaranaike, CFA
- Dimantha Mathew
- Navin Ratnayake
- Nusrath Mohideen
- Raynal Wickremaratne
- Sanjeewa Fernando
- Trisha Peries, CFA
- Vindhya Jayasekera, CFA

AWARD COMMITTEE

- Nishendra Herat, CFA (Chair)
- Nadika Ranasinghe, CFA
- Deshani Wijeyaratne, CFA
- Samanmalie Herath, CFA

PROCESS

- Companies are shortlisted based on two categories – large to mid- caps and small caps, and are evaluated on the strength of their IR practices and responsiveness
- A wider group of analysts from stockbroking firms, fund managers and institutional investors are surveyed to rank the shortlisted companies.

EVALUATION CRITERIA

- Accessibility and responsiveness of management
- Quality, transparency and fairness in disclosure
- Consistency of the IR function under all economic conditions

BEST INVESTOR RELATIONS AWARD

Commendations:

- More companies are making available their analyst forums/briefings recordings online, enabling viewing by a larger audience.
- We see increased investor relations by some small-cap companies, including investor presentations and webinars on M&A, which is an encouraging trend.

Areas for Improvement:

- To make the IR function more dynamic, it would be good if more listed companies could strengthen their investor relations function and further expand access to investors, both institutional and retail.
- Listed companies should strive to provide a regular short-to-medium-term outlook for the benefit of investors.
- It would be encouraging to see strong investor relations activities during both positive as well as adverse economic conditions.
- Listed companies should consider holding investor forums/webinars for major company events, such as M&A, to provide investors with more clarity.
- Listed companies should use their websites more effectively to disseminate relevant information to the wider investor community.
- Certain companies continue to engage with a selected investor community, and little information is disseminated to the broader investor groups.
- Listed companies should publish details of upcoming investor/earnings briefings, including login details on CSE or their own website, to encourage wider participation.

BEST STOCKBROKING RESEARCH TEAM AWARD

OBJECTIVE: Reward teams working to develop research as an integral component of the investment decision-making, targeting fundamentals-driven, informed and efficient capital markets; and promote provision of high quality and timely research to all market participants

PANEL OF JUDGES

- Chethana Ellepola, CFA (Chair)
- Tharindra Gooneratne, CFA
- Richardson Moraise, CFA
- Nirmalan Balakrishnan, CFA
- Farah Wijayakumara, CFA

PROCESS

- One-on-One Interviews with a panel of Judges
- Survey among institutional investors

EVALUATION CRITERIA

- Depth of analysis & breadth of coverage
- Accuracy in forecasts and facts
- Quality of research and consistency in the quality of research
- Industry knowledge and sector experience
- Frequency, time to market and fairness in dissemination of research
- Innovation in research methods
- Ethical behavior with respect to investment advice & actions
- Initiatives towards investor education

BEST STOCKBROKING RESEARCH TEAM AWARD

Commendations:

- Improved speed and efficiency of information dissemination via the use of communication methods, such as WhatsApp, webinars, periodic video reports etc.

Areas for Improvement:

- Refocus on in-depth fundamental company and industry research
- Enhance coverage of companies beyond large and mid-caps
- Provide analytical skill development in the sell side research industry
- Enhance research independence and objectivity

Key Observations:

- Depth of research in the sell side brokerage industry has weakened
- Lack of visibility on forecast accuracy as only a few teams publish deviations from forecasts and provide detailed variance analysis
- Despite good coverage on large cap stocks, there is scope to expand coverage to mid and small caps with strong fundamentals

BEST UNIT TRUST FUND AWARD

OBJECTIVE: Recognize and reward fund management companies that place unit holders interest first, provide adequate disclosures to the existing and prospective unit holders to make an informed decision, adopt stringent risk management and compliance practices and implement other best practices in Asset Management

PANEL OF JUDGES

- Ruvini Fernando (Chair)
- Dhinali Pieris, CFA
- Rachini Rajapakse, CFA
- Rusiru Abeyasinghe

PROCESS

- All unit trust funds with a minimum 5-year history or between 3-5 year history for the New Industry Entrant category, were evaluated based on publicly available information and documents requested by the committee
- Funds were requested to make presentations to the committee covering its investment process, operations and compliance and procedures amongst others

EVALUATION CRITERIA

- Quality of disclosures and availability of information to the public
- Investment management, risk management and compliance processes and practices
- Approach to marketing, sales, client acquisitions and facilitating convenience accessibility for retail investors
- Risk adjusted returns against appropriate benchmarks for the period

BEST UNIT TRUST FUND AWARD

Commendations:

- The better companies are attempting to do investor outreach, onboard small savers and create awareness. Use of trilingual communications and physical awareness creation events across regions are useful
- Online presence has grown and a concerted effort to facilitate investments using digital platforms for expediting onboarding, switching and redemptions is noted
- Some companies have started leveraging multiple distribution channels but yet penetration is low
- Selected companies have created innovative new products and have attempted to diversify investor concentration away from large institutions
- Encouraging to see sustainable information sharing practices through wider use of digital media
- Encouraging to see a growth in retail investor base and assets under management across most funds

BEST UNIT TRUST FUND AWARD

Areas for Improvement:

- After many years of participation, we see companies without:
  - factsheets being made available online
  - annual reports and interim reports not being online
  - not publishing returns clearly against benchmarks (a benchmark is important for investors to understand how best their selected strategy would have performed in the market)
  - not having fund manager viewpoints and commentaries
- Annual reports have a lot of background information but no specific mention of how the fund managers added value and used their investment skills
- Annual reports content does not resonate with the wider inclusive audience that unit trusts are attempting to reach, by using more illustrative charts / graphs and analysis
- Redemption processes not being clear enough and especially in respect of large value redemptions
- Some explanatory memorandums were not current as required by the regulations
- No commentary about the fund management company, their key personnel, future plans and investment management process in the Annual Reports

BEST ESG REPORTING AWARD

OBJECTIVE : Recognize companies that demonstrate excellence in sustainability reporting across environment, social and governance factors

INITIAL SCREENING:

- Ranil Hewamanna, CFA
- Supun Walpola, CFA

PANEL OF JUDGES

- Aidha Ahamat (Chair)
- Ashani Wijetunge
- Sanjaya Bandara
- Dr. David Von Eiff

ELIGIBILITY: Only listed companies in Sri Lanka were eligible for this award

PROCESS: Two step process of shortlisting

Round 1: Listed companies were invited to apply and respond to a questionnaire on their ESG reporting/disclosure practices, sustainability initiatives etc.

Round 2: Companies were shortlisted by the judging committee on the strength of ESG reporting practices (based on application responses). Shortlisted companies were invited to a brief presentation/interview with the panel of judges to outline their ESG disclosure practices

EVALUATION CRITERIA

- Company’s ESG strategy, including initiatives and how ESG integrates to its overall business strategy/business model.
- ESG reporting policy: details about ESG goals and targets, independent verifications.
- Adoption of Sustainability frameworks
- Key highlights about the company’s ESG disclosures related to environmental, social and governance factors.
- The company’s risk identification and mitigation process and any negative impacts related to the company’s performance or impact on stakeholders.
- Only publicly available reports and information was accepted for judging

BEST ESG REPORTING AWARD

Commendations:

- **Sustainability strategy embedded in business strategy:** Although companies in the local market are at various stages of their respective ESG journeys, there is a growing trend towards integrating ESG considerations into their core business strategy as reflected in their long-term business objectives/values.
- **Adoption of global reporting frameworks and standards:** Despite the lack of mandatory disclosure requirements, most companies have adopted (in the process of adopting) globally-recognized frameworks and standards.
- **Third-party assurance and verification:** Many companies are seeking third-party assurances and verification for their ESG reports and Key Performance Indicators to enhance the credibility and reliability.
- **Increased communication:** Companies are enhancing the transparency of their ESG initiatives by leveraging multiple communication channels such as annual reports, stand-alone sustainability reports and corporate website

BEST ESG REPORTING AWARD

Areas for Improvement:

- **Targets and metrics:** Establish clear, measurable ESG goals and targets, such as reducing carbon emissions, improving diversity and inclusion, and enhancing governance practices.
- **Variance analysis:** Consistency in reporting on how KPIs are tracking against targets and include rationale for variances.
- **Board and management accountability**: Improve disclosure to outline where accountabilities lie and the distinct role of board level committees and management level business functions in providing oversight on ESG risks and opportunities.
- **Avoid greenwashing risk:** Companies should be careful in their communications of ESG efforts to avoid greenwashing or exaggerating the extent of the impact of any sustainability measures.
- **Adapting a culture of transparency by reporting on negative impacts:** Transparency about challenges and areas needing improvement is crucial for credibility and continuous progress.
- **Enhance readability**: Improve report organization and navigability to facilitate easier comprehension and information retrieval

BEST SECTOR RESEARCH REPORT AWARD

OBJECTIVES: Reward and recognize analysts producing best in class sector research. Promote best practices in fundamental equity research, thereby ensuring informed and efficient capital markets

PANEL OF JUDGES

- Buddhika Fernando, CFA (Chair)
- Vijith Karunaratne, CFA
- Thilan Sampath, CFA
- Gayani Tennakoon, CFA
- Nabiha Mohamed, CFA
- Dhinali Peiris, CFA
- Lakshitha Gunaratne, CFA

PROCESS

- Initial shortlisting by 2 judges evaluating each submission
- Shortlisted reports ranked by all judges

EVALUATION CRITERIA

- Industry Overview and Regional Comparison
- Industry Attractiveness
- Competitive Landscape
- Industry Challenges/Risks

BEST SECTOR RESEARCH REPORT AWARD

Commendations:

- Congratulate research teams for publishing many more sector reports this year
- Increased breadth of coverage

Areas for Improvement:

- Improve readability and user-friendliness of the reports - clear story-arc (follow pyramid logic!), succinct writing, avoid repetition, professional presentation
- Need for convincing arguments on how growth stories / valuation re-ratings can translate into earnings growth and share price increase for specific companies
- Report should discuss the top picks within the sector with clear reasoning

BEST EQUITY RESEARCH REPORT AWARD

OBJECTIVES: Reward and recognize analysts producing best-in-class equity research. Promote best practices in fundamental equity research, thereby ensuring informed and efficient capital markets

PANEL OF JUDGES

- Buddhika Fernando, CFA (Chair)
- Vijith Karunaratne, CFA
- Thilan Sampath, CFA
- Gayani Tennakoon, CFA
- Nabiha Mohamed, CFA
- Dhinali Peiris, CFA
- Lakshitha Gunaratne, CFA

PROCESS

- Initial shortlisting by 2 Judges evaluating each submission
- Shortlisted reports evaluated and ranked by the entire panel

EVALUATION CRITERIA

- Company overview, ESG, management and share dynamics
- Financial analysis
- Valuation
- Industry overview and competitive landscape
- Investment risks

BEST EQUITY RESEARCH REPORT AWARD

Commendations:

- Congratulate research teams for producing a greater number of in-depth reports on companies during the past year
- Commend the addition of a section on ESG in most of the reports

Areas for Improvements:

- Actionable reports that answer the ‘why invest now’ question
- Greater focus on valuation and financial analysis
- Recommendation to be based on the future – forecasting is essential
- Disappointed to see SPaG errors in many reports at this stage of our industry