

Socially Responsible Investment

“Social investing, social responsible investing (SRI), socially aware investing, ethical investing, values-based investing, mission-based investing... all describe the same concept. These terms tend to be used interchangeably within the investment industry to describe an approach to investing that integrates personal values and societal concerns into the investment decision-making process” according to the Social Investment Forum (SIF). Another definition stems from the Sustainable Asset Management in Zurich which regards it as “the identification of, and investment in, companies that create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social trends”. This definition focuses on a particular asset class, namely listed company sector.

Socially responsible investing is growing rapidly in markets across the world, including Australia. The most commonly quoted growth indicator is that of the SIF, which reported that “in the US in 1999, one in every eight dollars under professional management was subject to some form of SRI criteria”. The Pax World Funds reported in 2001 that a total of over \$103 billion was being managed within SRI funds globally. The Ethical Investment Association in Australia estimates that socially responsible investment in Australia grew 32% from 2001 to 2002 to over \$13.9 billion. The reasons for the growth include, but are not limited to:

growth in superannuation savings and member choice in superannuation. The amount invested in superannuation funds now exceeds \$500 billion; rising levels of share ownership. Australians have the highest rate of share ownership in the world, with over 52% owning shares either directly or indirectly; and increasing levels of societal wealth.

A significant volume of research also suggests that investment decisions made on this basis also tend to outperform traditional forms of investment. The Domini Social Index, a capitalisation weighted market index of 400 common US stocks screened according to broad social and environmental criteria, has outperformed the S&P 500 stock index since its launch on 1st May 1990. Other indexes such as the Dow Jones Sustainability Index and the FTSE 4 Good Index have reported similar out performance.

Whilst I believe that this stream of investment is currently limited to specific SRI mandates, with an increasing emphasis being placed on corporate governance issues, and with strategies such as SRI investment overlays, ultimately all investors will have to take on board sustainability issues, along with financial performance, when making investment decisions. For now let me ask a series of questions. Which companies would you choose to invest in if you were making the investment on behalf of your grandchildren? Would you invest in industries such as coal, tobacco or oil and gas? Would this effectively be the same as investing in an asbestos manufacturer 20 years ago? What would one of today’s pioneering renewable energy companies look like? How would one of today’s eco-tourism groups measure up? Would our current large banks still be at the helm, or would they have long been over taken by community banking? The future holds a number of surprises, but what will not be a surprise is that companies that ask such probing questions of themselves are likely to be the survivors - that is the most sustainable.

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