

The last financial year has been a difficult one for both New Zealand and the world. In New Zealand the country has struggled to adapt to the financial downturn caused in part by the subprime debacle and its flow on effects. The seeds for this were planted in the 1980's and 90's with the deregulation in the USA financial sector and growth in debt levels. The effect in New Zealand was a \$6 billion meltdown of investment in financial companies with many New Zealanders losing all or part of their savings. It is pleasing to hear very recently that the Government is intending to reform an ineffective lightly regulated market approach. Unfortunately the **needed structural reforms** at an international level have yet to appear.

Although this New Zealand commitment is to be welcomed as a first step, it does not address the more important issue. As Lord Stern put it, **the greatest market failure** is the lack of protection of (and investment in) our environment. The failure at Copenhagen to address this is a major, but not unexpected, concern. It has not been an encouraging year for anyone who listens to the scientists who are now talking about a minimum 3-4 degree Celsius warming of the climate with consequent runaway impacts on food chains along with other indications of ecological degradation. It is disheartening to watch the New Zealand Government continue to ignore this major risk to our economy and quality of life..

The CSRI Board has had considerable discussion about these threats and the various methods to promote sustainable investment. Some of our members said that there is no point in considering social and environmental factors if one's investment has been stolen or lost because of the incompetence and corruption of the financial system. We have concluded that the traditional SRI model has a number of limitations because it does not adequately take into account a fraudulent financial system.

Neither does it rest on a model of sustainability that will lead to the necessary changes. The SRI model is based on a weak definition of sustainability that is a variation of the Business as Usual approach. Weak sustainability is where economic, social and environmental factors are considered or balanced when investing. This model does not make environmental considerations a necessary condition. Hence social and economic factors can be used to justify investment that continues to degrade the environment.

Strong sustainability is where investment necessarily takes into account the ability of an ecosystem to recover from disturbance and re-establish its stability, diversity and resilience and support human life. . A change in values is also necessary, away from the ethics of utilitarianism and a version of the Lockean social contract, to notions such as equity and integrity that cover both human-human and human-Earth relations. We need to see the world differently, not for our exploitation but as a steward or guardian, resulting in a different pattern of investment.

Unfortunately many of the international standards and benchmarks, such as the United Nations Principles for Responsible Investment, are based on a definition of weak sustainability and suffer a similar weakness as the traditional SRI model. As a result many of the risks that face a prudent investor will be ignored. Adoption of such principles will not lead to the change which is required to make our world and our investments safe. We face a turbulent future with a world losing its diversity and resilience and its ability to support human life on Earth.

We have been aware of the need to focus these concerns on our core function: to provide **advice** for people and organisations that want to invest sustainably and responsibly. CSRI with Sustainable Aotearoa New Zealand ran two **workshops** in Auckland and Christchurch, to identify the weaknesses of the SRI model, and an analysis of the global drivers that will influence future investment patterns and opportunities.

As a result of website enquiries we have revised our website, particularly **Investment Assistance for the Socially Responsible Investor**. It is pleasing to note that one of these enquirers thanked us for the helpful advice that she followed, and then joined up as a member. We would encourage all who read this Annual Report to read that part of our website and also **Reasons to Join**.

We have also made available on our website copies of **presentations** by Robert Howell and Wayne Cartwright that indicate some of the thinking and reasons for our current direction. These are

- *The Ethics of a Sustainable Economy: Implications for Public Policy*
- *Ecological Ethics for a Sustainable World, and Some Implications for Investment.*

Both the latter presentations were made to academic audiences and have received favourable international peer reviews.

The economic downturn had an impact on us in that our major supporters had less capacity to financially support us. Contributions from Trust Waikato, and in particular ASB Community Trust, were down. It has meant that the work that we carry out has had to rely more on the time gifted by our people, particularly our CEO, Robert Howell, but members of the Board and others. We are grateful for their long term commitment. To you and to our supporters, thank you.

Margaret Crozier
Chair