

Investment Assistance for the Socially Responsible Investor

February 2010

What is Socially Responsible Investing (SRI)?

SRI is “a generic term covering ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors’ financial objectives with their concerns about environmental, social and governance (ESG) issues” (EuroSIF, 2009). This is a very broad definition covering a wide range of values.

The SRI process requires researching corporate environmental and social performance and then benchmarking this data against standards set by reference to a nominated party. The end objective is to provide a more accurate assessment of the risks associated with the future performance, and hence the value of a particular corporation with reference to its peers on a global basis.

The traditional SRI approach is for the investor to select key values that they want to be taken into consideration. Certain types of investment can then be excluded, or an engagement process can be taken. The investor can also ask for certain positive investments can be made.

Normal investment risks apply but investing in SRI funds does not mean that you have to settle for a lower return.

Exclusion or Negative screens

Exclusion or negative screens will ensure that SRI Portfolio will NOT be invested in companies engaging in say the following activities: tobacco; alcohol; gambling; armaments; pornography; nuclear weapons and the nuclear power industry, or any other activity the investor does not like. This screening can be done using publicly available information (including annual reports issued by investment companies), social responsibility indices compiled by independent market observers (e.g. FTSE4Good industry series), to ensure that no investment within the portfolio is with companies engaged in these activities or others such as poor labour practices, cruelty to animals, or excessive environmental pollution

The above exclusions will apply where it is the company’s principle business; or the company earns more than 20% of its revenues from those activities. (Note: there are some companies (e.g. supermarkets) which sell alcohol and tobacco products, and it is possible the revenues from these activities may exceed 20%, but such sales are clearly not a supermarket’s principal business. Hence these companies are not excluded.)

Positive screens

In addition to excluding activities deemed “non desirable”, preference can be given to activities which make a positive contribution to our society. Companies that will be considered are those that make a positive social contribution, tackle ecological degradation; and have strong governance practices, ethical standards and track records.

Engagement

Unlike the above 'screened' investment, 'engagement' uses its ownership stakes to engage companies which under-perform in social, ethical and environmental terms in dialogue and shareholder activism, rather than excluding such companies from its investments. Such investors have effectively turned from 'exit' to 'voice' in their relationships with unsatisfactory companies.

There are organisations that provide this service, usually for Funds that are able to pay for this service. This allows investors and managers to monitor the social and environmental issues facing the companies in which they invest, and also ensures that these companies are well informed of the latest business impacts of sustainable development. The various social and environmental engagement issues could include:

- environmental strategy and management;
- employee practices;
- health and safety;
- corporate governance;
- human rights;
- community relations;
- products and services; and
- climate change.

Your Personal Choice

To select an SRI fund you need to first decide **what is important to you in terms of your own ethics, beliefs and conscience**. (but see last section below) This will lead into the type of investment you may want to exclude (if any), what engagement issues are important to you (e.g. trying to change environmental behaviour), and whether you want to emphasise positive company behaviour. You may also want to select funds that invest in New Zealand, rather than overseas, as information is easier to obtain, funding favours the domestic economy and can be monitored more closely and in practical terms attendance at meetings is made easier. However investors need to keep in mind that New Zealand represents less than 1% of the total world sharemarkets.

New Zealand SRI Funds

The following SRI funds are available for retail investors as at 30 September 2009:

- Asteron Socially Responsible Investment Trust
- Prometheus Ethical Finance
- Quaker Investment Ethical Trust (QIET)

The following SRI KiwiSaver funds are available for retail investors as at 30 September 2009

- ASB Firstchoice KiwiSaver - Global Sustainability Fund
- Asteron KiwiSaver - Socially Responsible Investment
- SIL (ING) KiwiSaver - Sustainable Growth Fund
- Fidelity Life - Ethical Kiwi Fund

Prices and performance may be found in the Sunday Star Times and on

www.morningstar.net.nz/

Overseas Investments

If you want to invest in a SRI Fund overseas, information about SRI investment options can be found at www.eiris.org/ and www.srifundsadvice.com/rating/index.php.

Morningstar (www.morningstar.com) can assist with the evaluation of a fund. The process is straight forward:

1. Go to the Fund Manager's website
2. Find out the minimum amount (\$ 10,000 or less is usually a retail amount).
3. Look at their prospectus or investment statement.
4. Organise money transfer to the Fund Manager (NB because of procedures to avoid money laundering activities, you may be required to provide stringent proof of ID).

Some individual sites are

Domini Social Investments (Nasdaq:[DSEFX](#)) manages assets for individual and institutional investors who wish to integrate social and environmental criteria into their investment decisions. www.domini.com

Calvert Group (Nasdaq:[CSIBX](#)) offers investors a large family of socially responsible equity, bond, and money market funds. www.calvert.com

Australian Ethical Investment Trusts manages four ethical unit trusts. www.austethical.com.au

Green Century Funds offers a family of no-load environmentally responsible mutual funds. www.greencentury.com

The Timothy Plan offers a religious choice for investing by avoiding companies that are involved in abortion, pornography, anti-family entertainment, non-married lifestyles, alcohol, tobacco, and gambling. www.timothyplan.com

Ariel Mutual Funds (Nasdaq:[ARGFX](#)) offers a no-load family of mutual funds investing in small to medium sized companies. www.arielmutualfunds.com

Acuity Investment Management offers investment opportunities through Acuity Pooled Funds, Acuity Mutual Funds, Acuity Clean Environment Mutual Funds, and Acuity Social Values Mutual Funds. www.acuityfunds.com

Parnassus Investments (Nasdaq:[PARNX](#)) provides no-load mutual funds that invest in undervalued companies. www.parnassus.com

New Alternatives Fund (Nasdaq:[NALFX](#)) is a socially responsible fund with investments in renewable energy, fuel cells, recycling and energy conservation, and organic foods. www.newalternativesfund.com

Pax World Fund (Nasdaq:[PAXWX](#)) is a no-load, diversified, open-end, balanced mutual fund designed for those who wish to receive income and invest in life-supportive products and services. www.paxfund.com

Citizens Funds www.citizensfunds.com

Women's Equity Mutual Fund invests in public companies that advance the social and economic status of women in the workplace. www.womens-equity.com

Sierra Club Mutual Funds Forward Management allows people to unite their financial goals with environmental progress. Securities selected must meet environmental guidelines established by the Sierra Club. www.sierraclubfunds.com

Winslow Green Growth Fund (Nasdaq:[WGGFX](#)) is an open-end fund that invests primarily in domestic securities of small and medium capitalization. www.winslowgreen.com

Portfolio21 Portfolio 21 invests in companies designing ecologically superior products, using renewable energy, and developing efficient production methods www.portfolio21.com.

Weaknesses of the Traditional SRI Model

SRI is such a broad definition that it includes investors who are concerned only about one type of behaviour such as tobacco, or nuclear weapons. Hence companies that are major causes of environmental degradation could be assessed as ethical in some SRI portfolios. Without going into a lengthy discussion here, CSRI states that such a broad definition is inadequate because it includes company behaviour that is clearly unethical. We would encourage you to adopt a more robust and comprehensive definition, where strong sustainability is a necessary characteristic with social and economic matters.

A further weakness of the SRI model is that it involves evaluating the social and environmental impact (and governance characteristics) of investment and then excluding or selecting certain types of investment or engaging to change behaviour. It makes the assumption that the financial sector and the economic principles on which it is based, do not need to change. During the last few years the financial sector has been shown to be a complex, interdependent system, prone to conflicts of interest. Fraud has been rampant and the financial returns of bankers and fund managers did not take into account the performance or the longer-term consequences of their actions. If disaster strikes, someone else (borrowers, investors, taxpayers) ends up bearing at least some of the losses. People concerned about SRI need to also be concerned about the unethical and unsustainable behaviour of the present international finance sector.

If you are not already a member of CSRI we would encourage you to join and help us work for these changes. Until there is better regulation of the financial sector, a prudent SRI investor is likely to invest in funds that have a smaller number of companies, including more regional and local companies, rather than global. These SRI funds would take larger stakes in companies with a longer time commitment and likely to lead to a closer contact between the fund manager, investor and company management. Investors might include in their portfolios companies that deal with mitigation (such as renewable energy) or areas of their personal "ethical" choice. For more details see the CSRI Chair's report for 2009 (www.csri.org.nz go to AGM details).

Disclaimer: this information has been provided in good faith, but CSRI cannot be responsible for any action based on this information.