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Ethical Investment Association

Socially Responsible Investment in Australia – 2003

Benchmarking Survey conducted for the Ethical Investment Association

by Deni Greene Consulting Services

with project assistance from

Rainmaker Information

and

Philanthropy Australia

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What is the Ethical Investment Association?

The Ethical Investment Association (EIA) was formed in 1999 with the primary objective of promoting the concept, practice and growth of socially and environmentally responsible investing (SRI) in Australia. At present, almost every SRI managed fund and financial adviser working in this area in Australia is a member of the EIA. Membership is open to any business, organisation or investment professional (excluding listed companies) participating in the ethical investment field or related areas, and committed to the Association's objectives.

What are the aims of the EIA?

- To influence economic policy to improve social justice and environmental sustainability practices in the commercial sector;
- To facilitate and encourage the dissemination of quality information about ethical investment and increase the number of socially responsible investment options available to the public via superannuation, fund management, financial planning, community banking, venture capital and direct investment;
- To engage in the broader debate toward increasing business, economic, social and environmental sustainability.

What does the EIA do?

The EIA seeks to represent the interests of this burgeoning industry to an increasingly curious general public, to the government, the media, superannuation trustees, the charitable and religious sectors and key decision-makers. The following projects are currently underway:

- Harvest – Sustainable Company Briefings, a forum for showcasing listed sustainable companies to potential investors. Harvest will be presented three times a year with a focus on industry sectors such as renewable energy, waste management, water, forestry and health;
- Preparation is underway for the fourth Ethical Investment Conference, to be held in Melbourne in late 2004. The conference will focus on the risks and opportunities associated with social, environmental and ethical factors and new tools for measuring and quantifying those risks. The 2004 conference will also feature a special stream for values-based investing designed for religious organisations, charities, unions, NGOs and other non-profits;
- Advocacy work and policy submissions on a wide range of issues, including the FSRA disclosure requirement for SRI products and the accompanying ASIC guidelines;
- The EIA Financial Advisers' Course, which attracts six FPA CPD points. It is currently available and provides professional education on the opportunities and issues in SRI financial planning.

Would you like to join the EIA?

Membership of the EIA offers you:

- Notification about and discounts to our events;
- The opportunity to use our logo in your materials, eg "Proud Member of the EIA";
- Access to research;
- Networking with the core of the SRI industry;
- Email newsletters on the latest developments in SRI in Australia and abroad;
- The opportunity to write about your organisation on our website, which is widely used by the public to locate SRI services;
- The opportunity to become involved on the board and to vote on important issues;
- Inclusion in all published EIA members' lists (eg *Year in Review* and the *Guide to SRI*).

Please join the EIA on our website at eia.org.au or call on 02 8224 0314.

Executive Summary

Socially Responsible Investment Shows Rapid Growth

Socially responsible investment (SRI) in Australia continued to grow dramatically over the past year – rising to at least $21.3 billion by 30 June 2003. This is an increase of 54% since the benchmarking study in 2002. In the two years since the first benchmarking study in 2001, SRI in Australia has more than doubled.

The $21.3 billion in socially responsible investment assets identified by this benchmarking study includes:

- $2.4 billion managed SRI funds
- $126 million private SRI portfolios managed by financial advisers
- $6.7 billion investments by religious organisations
- $220 million invested by charitable trusts using SRI criteria
- $5.1 billion employer superannuation funds using SRI overlays
- $191 million community finance investment
- $6.7 billion shareholder resolutions on environmental and social issues

Assets of SRI managed funds in Australia grew by 8% between June 2002 and June 2003, about 2% faster than the overall Australian retail and wholesale investment market. In the past three years, SRI managed fund assets in this country have achieved a staggering growth rate of 625%.

The number of SRI managed funds has also increased substantially. In 1996, there were 10 funds. The 2001 baseline study identified 46 funds; the July 2003 issue of Ethical Investor magazine listed 63 ethical managed funds.

Investments in most other categories have also shown significant growth.

Private portfolios managed by financial advisers grew by only 2% this year, owing to declining value of shares, but have increased by 61% over the past two years.

Funds invested by charitable trusts using SRI criteria have shown an increase of 90% since last year, and a spectacular growth of 4,200% over the past two years.

A growing number of superannuation funds are offering their members the opportunity to invest in a socially responsible manner. This study has identified 30 funds with varying forms of approaches to SRI. Some employer super funds have either established an ethical or SRI investment option or have appointed a fund manager to manage a mandate that is explicitly defined as ethical or SRI.

Other superannuation funds use an overlay to take account of social responsibility criteria while continuing to use traditional methods for selecting investments. (A fund using an overlay typically identifies environmental, social or other risks to a company in which it is investing, and then meets with the company to discuss ways of overcoming or reducing the risks.) Funds using an overlay approach have a total of $5.1 billion in assets, up by 2% since last year.

Community finance programs increased by 34% since last year. These programs provide capital to people who have difficulty obtaining it through conventional channels or are underserved by conventional lending institutions.

Shareholder activism was definitely on the rise over the past year. Most shareholder action concerned issues of corporate governance. Although many or most of the corporate governance resolutions introduced at AGMs can certainly be considered relevant to the social responsibility of the companies involved, our benchmarking study took a relatively focused approach, restricting our coverage to resolutions covering environmental or social issues. The major activity in this area was spearheaded by the Wilderness Society, which succeeded in gaining support for an anti-woodchipping resolution from 23% of the shares voted at AGMs of the Commonwealth Bank and National Australia Bank. According to the Wilderness Society, "this is the largest support for a shareholder resolution in Australia's corporate history." The assets represented by these votes totalled $6.7 billion.

The $21.3 billion in SRI investments identified in this report is a conservative estimate; details on many other probable areas of investment were unable to be obtained for this survey.

The Survey

In August to October 2003, we surveyed financial advisers, institutional investors and community finance providers to determine the assets they control or manage under socially responsible investment guidelines. We also contacted groups involved in shareholder action. Data on ethical/SRI managed funds and on superannuation funds with ethical/SRI options was provided by Rainmaker Information. All data were based on investments as of 30 June 2003.

The figures in this report update results of the EIA benchmarking study conducted in 2002. The benchmarking reports for 2003, 2002 and 2001 are available on the website of the Ethical Investment Association, http://www.eia.org.au

Deni Greene Consulting Services conducted the research for the Ethical Investment Association.

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Introduction

Clear signs are emerging that socially responsible investment is becoming an accepted part of the investment scene. Ethical or socially responsible investment appears to have passed through the phase of being 'discovered' by financial journalists, and is less likely to appear on the covers of business magazines, but it is the subject of serious discussion in the boardrooms of super funds, philanthropic trusts, churches and charities. It is also a recurrent topic in magazines aimed at super fund members or professionals, such as doctors or accountants.

Socially responsible investment is now included on the curricula of business and economics courses in Australian universities. Public awareness of the issue is far higher than it was a few years ago, although much misinformation continues to circulate, both in the general community and among investment professionals.

Perhaps an even more significant indication of the impact of socially responsible investment is the evidence that the issues that have driven such investment are now becoming a part of mainstream investment thinking.

The recent report by Shaun Mays[1] acknowledged that sustainability is in the early stages of development as an investment concern. Nevertheless, the report quotes one of the members of the report's steering committee as saying, "the more I look at these issues, the more I get to see the operation of the company and its management in a way I would not traditionally enjoy. The deeper my knowledge of the company, the better will be my investment decisions." The report also notes that the progress of Australian organisations towards the development of comprehensive social reporting is behind that of Europe and the United Kingdom, Canada and the United States.

The recently released RepuTex Ratings of Australian companies, widely promoted by former Liberal leader John Hewson, recognise the importance of four key aspects of social responsibility: environmental impact, corporate governance, social impact, and workplace practices. The ratings agency, chaired by Hewson, who is now Dean of the Macquarie Graduate School of Management, states that the ratings are based on the premise that "to achieve a sustainable future, global communities will expect companies to maintain a reasonable degree of dialogue on issues that impact on sustainable development. With many global companies now having greater wealth than many sovereign states, it is also reasonable for citizens and governments to expect companies to establish social reporting systems to complement their financial reports and which are prepared within standard audit and verification frameworks."

The Mays report and RepuTex Ratings are only two of the many recent publications that emphasise the importance of social responsibility in Australian companies. They underscore the view of many in the ethical investment area that social responsibility is financially prudent as well as good corporate citizenship.

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[1] Shaun Mays and BT Financial Group (2003), *Corporate Sustainability — an Investor Perspective The Mays Report*, Department of the Environment and Heritage, Canberra.

The first wide-ranging analysis of socially responsible investment in Australia was conducted in 2001 to provide a reliable estimate of the extent of such investment, and results of that analysis were updated in 2002. Reports on the results of those studies were released at Ethical Investment Conferences in 2001 and 2002 and are available on the website of the Ethical Investment Association, http://www.eia.org.au.

The 2003 benchmarking study of socially responsible investment in Australia is intended to track growth in the field since last year and to extend coverage in some investment categories.

Rainmaker Information provided data on managed funds and superannuation funds for this study. Philanthropy Australia facilitated the survey of charitable trusts.

Deni Greene Consulting Services conducted the study for the Ethical Investment Association.

Background

Socially responsible investment is growing in Australia and overseas as increasing numbers of individuals and organisations become aware that they can consider social and environmental factors, in addition to the traditional financial ones, when they invest. Recognition is growing that financial returns of socially responsible investments match and often exceed those of more traditional investment.

Three different types of activities are embraced under the umbrella of socially responsible investment:

One is placement of money in managed funds, shares, bonds or other securities that are screened to reflect environmental, social or other non-financial values. Typical SRI approaches used in selection of potential investments include:

- negative screening to avoid some types of investments, eg gambling, weapons, etc;
- positive screens to exercise a preference for activities or characteristics, eg companies in future-oriented industries, such as biotechnology, renewable energy, and health care, or companies with good environmental and social performance;
- best of sector screens – to select leading firms in every business sector, based on environmental and social performance or sustainability;
- use of a social responsibility overlay – to select funds using traditional financial criteria but add a process for addressing issues related to social responsibility. A fund using an overlay typically identifies environmental, social or other risks to a company in which it is investing, and then meets with the company to discuss ways of overcoming or reducing the risks. Some refer to this approach as an 'engagement' or 'confrontation' strategy, to contrast it with avoidance or preference approaches.

Socially responsible investment fund managers are, of course, also concerned about providing good financial returns and about financial risk, so the portfolios of most SRI managed funds in Australia include shares in many of the same companies that are held by non-SRI funds.

A second type of socially responsible investment is shareholder action – involving efforts to improve a company's environmental or social behaviour through exercise of rights gained as an owner of shares in the company. It may be carried out directly by individual shareholders or through investment in a managed fund that holds shares in a company and uses those shares to raise issues with company management.

Shareholder action can take the form of introducing and/or voting on resolutions at an Annual General Meeting of a company. The use of a social responsibility overlay, as described above, can also be considered shareholder action, because the institutional shareholder engages with a company to encourage environmental, social or other changes in company behaviour.

In line with the methods used overseas for benchmarking socially responsible investment, shareholder action in this report refers only to activities related to social or environmental issues. It does not include shareholder action confined to issues of corporate governance. Emergence of corporate governance has become a major concern because of high-profile corporate collapses, which might lead to a change in the scope of shareholder action considered in future studies.

A third type of activity also commonly included in socially responsible investment is community-based investing. This typically consists of direct investments in projects or financial institutions that benefit specific communities or constituencies, especially in economically disadvantaged areas. Unlike making a donation, a community investor usually requires that, at a minimum, the original value of the investment can be returned, either by payment or trading.

Project Description

The overall aim of this project is to provide credible data on the size and growth of the Australian SRI market and to compare this with trends in Australia's financial market and SRI internationally.

The project is intended to establish the size and, where possible, growth of the following SRI categories:

- Screened funds and portfolios
- Shareholder advocacy/action and corporate engagement
- Community-based investment

Results obtained from the current project are compared with those obtained in the benchmarking studies in 2001 and 2002.

Methodology

This study employed a methodology that, to the extent possible, is comparable to studies in the United States and Canada, so that trends in socially responsible investment can be compared to corresponding numbers overseas. Where there were differences between Canadian and US methods, this study used the same approach as Canada.

To provide timely information, data was gathered by telephone or email communication. All interviews and data collection occurred between August and October 2003, but data were obtained for investment as at 30 June 2003. Details on collection of the various categories of data are shown in the sections below:

Canadian and US reports on the extent of socially responsible investment in those countries are issued every two years. The most recent report from Canada is the *Canadian Social Investment Review 2002; A comprehensive survey of socially responsible investment in Canada*, by The Social Investment Organization, released in March 2003. The 2003 US report will be issued shortly after the completion of our benchmarking report. At the time we were preparing this report, the most recent US report was the *2001 Report on Socially Responsible Investing Trends in the United States*, by the Social Investment Forum.

Managed funds

Data on the assets of managed funds that define themselves as ethical, socially responsible, or sustainable was provided by Rainmaker Information. These data include assets in ethical or socially responsible managed funds, grouped by fund manager, as of 30 June 2003. They include investments directly into the managed funds as well as institutional mandates. (Mandates provide individual instructions to a fund manager, usually by an institution, to manage an investment in the same manner as a specific managed fund/unit trust. The institutional investor, because of the size of their investment, negotiates different financial arrangements for fund management than those pertaining to small investors.) The 2002 and 2001 reports on socially responsible investment in Australia did not include figures for mandates in their totals. Their inclusion this year broadens our coverage of the extent of socially responsible investment.

The inclusion of only those managed funds that describe themselves as ethical, socially responsible or sustainable is a much more conservative approach than that used in US surveys of socially responsible investment. The US 2001 analysis includes any fund that uses one or more screens in selecting its investments. In the US, therefore, any fund that specifically excludes tobacco, for example, but includes no other SRI criteria, would qualify for inclusion in the estimates of socially responsible investment. Our analysis applied more stringent criteria for inclusion and did not look at managed funds outside the SRI area.

Private portfolios managed by SRI financial advisers

Some financial advisers specialise in providing services to investors who want to use an ethical/socially responsible approach to their investment. For this study, we surveyed the 22 financial advisers understood by the Ethical Investment Association to have some involvement in ethical/socially responsible investment.

An email was sent to each of these financial advisers describing the study and asking for an estimate of the funds they manage directly, excluding those invested in managed funds (to avoid double counting). Telephone follow-up was used to obtain information from the advisers who did not respond to the email.

Religious organisations

Religious organisations have long had an association with socially responsible investment, but until the 2001 baseline study for the Ethical Investment Association, no reliable estimates existed on the extent of such investment.

For this study, data on religious organisations' investments were gathered through telephone interviews and/or email correspondence with investment managers or responsible individuals within or acting for religious organisations. Many of these organisations are members of the Christian Centre for Socially Responsible Investment, which was established in May 2002 to provide leadership and advocacy in socially responsible investment based on Christian values. The organisation works closely with similar bodies overseas, including the US-based Interfaith Centre on Corporate Responsibility and the Ecumenical Council for Corporate Responsibility (ECCR) in Britain.

The methods used for determining what portion of a religious organisation's funds should be counted as a socially responsible/ethical investment varied among the different churches:

For example, the Uniting Church has an ethical charter governing all its investments, and therefore all its investment funds under management can be considered as socially responsible investments.

Funds managed by other churches were considered socially responsible investments if they fell into either of two categories: they were invested using ethical screens or they were provided to local parishes for community church-based activities. For most religious bodies, funds provided to local parishes constitute the bulk of their investments.

The survey did not include the value of real estate holdings of the churches.

Our coverage of religious organisations is far from comprehensive. In some cases, religious organisation investment is highly disaggregated, with individual congregations responsible for their own investments. It is beyond the capacity of this survey to reach all these groups. We have been unable to identify appropriate contacts in many of the religious organisations in Australia, and have therefore not determined the extent of their ethical/socially responsible investments.

Charitable trusts

There are many different charitable trusts in Australia, but as reporting requirements for such trusts are very limited, little information is generally available about the trusts' assets and investment policies.

Philanthropy Australia, an umbrella organisation for charitable trusts, facilitated access to charitable trusts for this study by contacting all of its members, describing the study, and soliciting interest in participating. We made follow-up telephone calls to those organisations that indicated their willingness to participate. In addition, we made contact with organisations that had participated in last year's study and with some additional organisations that were believed to be using ethical approaches to their investment.

Employer superannuation funds

Many superannuation funds are now providing their members with a choice of funds, including the option of a socially responsible fund. These are generally funds categorised as managed SRI funds, and are counted in the total for that category. Some employer superannuation funds are employing different techniques for introducing social responsibility in their activities. They have put in place systems for ensuring that the funds take account of social responsibility criteria, while continuing to use traditional methods for selecting investments. This is done by the overlay or constructive engagement approach described earlier in the report. For this report, we contacted managers or advisors for superannuation funds known to be employing such systems.

Community finance

For this study we surveyed by telephone organisations known to be involved in community finance activities. These included three credit unions (Maleny and District Community Credit Union, Macaulay Community Credit Co-operative, and Fitzroy and Carlton Community Credit Co-operative), the Foresters ANA Friendly Society, and the Ethical Investment Trust (Bendigo Bank-Community Aid Abroad).

We requested figures on funds under management invested using an ethical screen, and/or funds lent for community development purposes, including those lent to low income individuals, or similar activities.

Shareholder action

Shareholder action/advocacy is one of the three main elements of socially responsible investment. Public manifestation of shareholder action can take the form of voting on a resolution related to an issue of social responsibility. This form of SRI is growing rapidly across the world.

US and Canadian surveys use different methods for calculating the amount of assets controlled by investors taking an active role in shareholder action on issues of social responsibility. The US surveys include all assets of a fund that has sponsored or co-sponsored proxy resolutions on social issues within the past three years. In other words, if a superannuation fund sponsors such a resolution, the entire assets of that fund are considered a socially responsible investment. (About 70% of the assets included in the shareholder action category in the last US survey represented institutional investors that are actively involved in shareholder advocacy but that do not employ SRI screens, and 30% relate to funds that both use screens and are involved in shareholder advocacy.)

Canada has had relatively little direct shareholder action because of restrictive legislation; but the requirements were substantially liberalised in 2002. The *2002 Canadian Social Investment Review* stated that the Social Investment Organization expects the level of activity to increase dramatically in years to come as the full effect of amendments to the

Canada Business Corporations Act (CBCA) are felt. These amendments make it easier for investors to file shareholder proposals. The amendments also eliminate a clause in the old CBCA, which permitted corporate management to exclude from the management proxy circular shareholder proposals filed "primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes." In the Canadian surveys of SRI investment, only the asset value of the shares voted for a resolution is counted. Asset value is based on share price on the day of the vote.

The Canadian approach has been used in both this year's and previous Australian studies. We also limited the survey to resolutions passed in 2002 – 2003 related to social responsibility criteria. A conservative definition of 'social responsibility' was used, excluding resolutions that dealt solely with corporate governance issues.

Results:
Socially Responsible Investment in Australia – 2003

This study identified $21.3 billion in socially responsible investment assets in Australia as of 30 June 2003.

- $2.4 billion in managed SRI funds
- $126 million in private SRI portfolios managed by financial advisers
- $6.7 billion in investments by religious organisations
- $220 million invested by charitable trusts using SRI criteria
- $5.1 billion in superannuation funds using social responsibility overlays
- $191 million in community finance investment
- $6.7 billion shareholder resolutions on social responsibility issues

Summary of Australian Socially Responsible Investment

MANAGED FUNDS*

Fund Manager	**Funds under mgt ($million)**
Hunter Hall Investment Management Limited	529
Glebe Asset Management Ltd	506
BT Financial Group	232
Australian Ethical Investment Ltd	213
AMP Henderson Global Investors	202
Warakirri Asset Management	173
SAM Sustainable Asset Management	116
ING Group (including the ING/ANZ joint venture)	101
TOWER Asset Management Limited	57
Challenger Managed Investments Limited	37
BIAM Australia Pty Limited	29
Deutsche Asset Management (Australia) Limited	26
Perpetual Investments	22
Perennial Investment Partners Limited	21
EQT Funds Management	19
Bell Asset Management Limited	18
Maple-Brown Abbott Limited	15
ABN AMRO Asset Management (Australia) Limited	9
Suncorp Metway Investment Management Limited	8
Ausbil Dexia Limited	8
Alpha Investment Management Pty Ltd	8
Australian Unity Limited	3
WHTM Asset Management Limited	3
Total 30 June 2003	**$2,355**

**Including institutional mandates*

Comparison with prior years – socially responsible managed funds
Data from Rainmaker Information

	Net assets ($million)			
Year	**2003**	**2002**	**2001**	**2000**
Total funds under management	**$2,355**	**$2,175**	**$1,818**	**$325**
% Growth – 1 year				
2002–2003	**8%**			
2001–2002	**20%**			
2000–2001	**459%**			
% Growth – 2 years				
2001 – 2003	**30%**			
% Growth – 3 years				
2000 – 2003	**625%**			

The figures above compare Rainmaker data for the years shown. These figures include funds covered by institutional mandates.

Figures in prior reports of the EIA Benchmarking Survey were based on data provided by Corporate Monitor, which did not include mandates. Corporate Monitor reported in *Ethical Investor* magazine, September 2003, that total funds under management in managed funds alone was $2.2 billion in June 2003. This represents an increase of 36% from their 2002 total of $1.6 billion.

OTHER TYPES OF SOCIALLY RESPONSIBLE INVESTMENT

	SRI investment ($ million)		
	2003	**2002**	**2001**
Total private portfolios managed by SRI financial advisers	**126**	**124**	**79**
Total SRI investments by religious organisations*	**6728**	**6705**	**6283**
Employer Superannuation Funds with SRI overlays	**5094**	**5000**	**–**
Total SRI investments of charitable trusts	**220**	**116**	**5**
Total community finance	**191**	**164**	**130**
Total social responsibility shareholder resolutions	**6673**	**–**	**2624**

**The total for religious organisations in 2003 is not strictly comparable to totals in this category for prior years. Some investments included in the religious organisation total in 2002 and 2001 have this year been moved to the managed funds category.*

Grand Total –SRI Investments

Year		2003	2002	2001
Total funds under management		**$21.3 billion**	**$13.9 billion**	**$10.5 billion**
% Growth 1-year				
2002-2003	54%			
2001-2002	32%			
% Growth 2-years				
2001 to 2003	**104%**			

Comparison with Overseas SRI Investment

The Social Investment Organization (SIO) in Canada, in its most recent report, estimated that total assets in Canada managed according to social responsibility guidelines were $51.4 billion ($A56.2 billion) as of June 30, 2002. This was an increase from 2000, when assets were $49.9 billion ($A54.6 billion). Growth from 2000 to 2002 was 3%. Socially responsible investment assets in 2002 represented 3.3 % of the Canadian retail mutual fund market and the institutional investment market. This is essentially the same level of total assets as in 2000 (3.2%).

The SIO concluded, "While stock markets have declined significantly in the last two years, total assets under management have continued to rise as new money is invested in mutual funds, stocks, pension plans and other investments. The same is true of SRI. SRI assets have declined in several categories as a result of lower stock market values, but new money in the institutional sector has helped to maintain SRI's share of the total investment market.

The United States-based Social Investment Forum is scheduled to release its biennial analysis, *Report on Responsible Investing Trends in the U.S. 2003*, shortly after the publication of the Australian EIA benchmarking study. Current data is therefore unavailable at the time of writing. In 2001, the most recent date for which figures are available, assets in socially screened investment portfolios under professional management in the United States were more than $2 trillion. This represented a growth from 1999 to 2001 of 35%. It should be noted, though, that the U.S. figures are determined on a broader basis than figures for Australia or Canada. The U.S. figures include funds that use a negative screen based on single-criterion, such as tobacco, but do not take account of other aspects of social responsibility. They also use a more expansive determination of the assets included under the category of shareholder action, as described earlier in this report. Both Australia and Canada use more stringent tests of socially responsible investment.

A report from the United States in April 2003 stated that 998 shareholder resolutions had been filed in the first four months. That number is up sharply from the 802 resolutions filed in all of 2002. Although most of the resolutions addressed issues of corporate governance, substantial numbers related to environmental issues, particularly climate change, and global labour standards.

Clear evidence of interest in SRI in Europe and Asia is indicated by the emergence of organisations promoting SRI in these regions, including: Eurosif: European Sustainable and Responsible Investment Forum; Forum pour l'Investissement Responsable (French SIF – Social Investment Forum); Forum Nachhaltige Geldanlagen (German Sustainable Investment Forum); Forum per la Finanza Sostenibile (Italian Forum for Sustainable Finance); Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) (Dutch Association of Investors for Sustainable Development); UK Social Investment Forum; and the Association for Sustainable and Responsible Investment in Asia (ASrIA).

Eurosif has just reported on its first survey of SRI in Europe – *Socially Responsible Investment among European Institutional Investors – 2003 Report*. This analysis excludes retail investment, that is, individual savings and investment. According to this report, core institutional SRI in Europe is approximately €34 billion ($A57 billion). This figure does not include simple exclusions of asset managers and engagement practices, which are estimated to account for €218 billion ($A366 billion) and €336 billion ($A564 billion) respectively. (Simple exclusion means the use of a single criterion screen, such as exclusion of tobacco or activity in Myanmar [Burma].)

The UK makes up 69% of the total, or €23.5 billion ($A39 billion or 16.3 billion pounds). The Netherlands, Germany and Switzerland each have about €2.7 billion ($A4.6 billion), France has about €1.7 billion ($A2.9 billion), and the remainder is divided among Italy, Austria and Spain. The Eurosif survey did not cover Sweden, where SRI is quite developed. Some European governments are actively SRI investment. The German Federal Ministry of the Environment and the Federal Environmental Authority have also recently published *Mehr Wert: Oekologische Geldanlagen* ("Worth More: Green Investments"), giving information on SRI.

Discussion of 2003 results

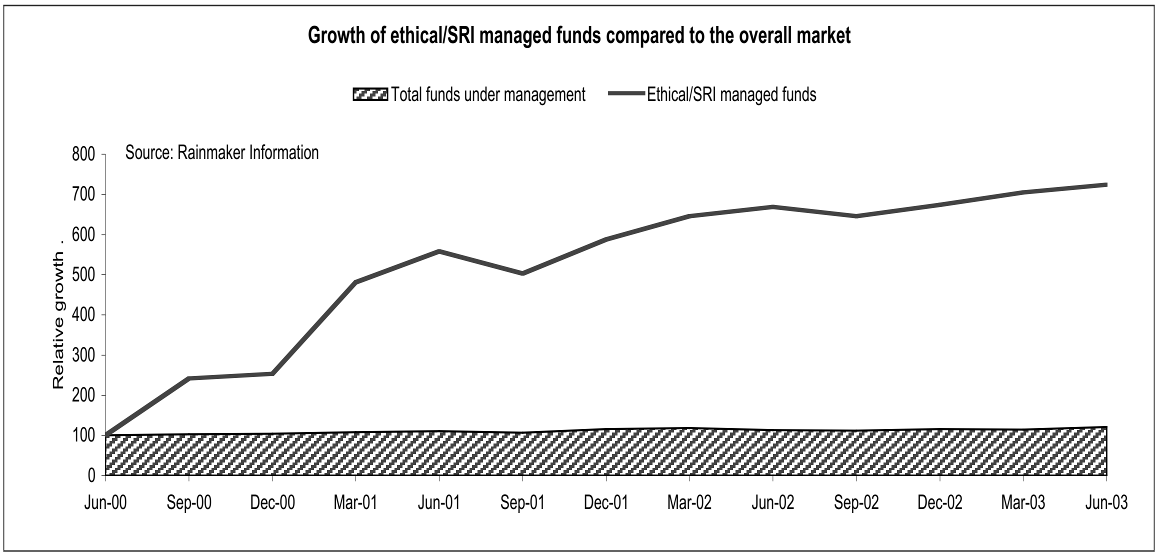
Managed funds

Assets of socially responsible managed funds in Australia were $2.355 million – $2.4 billion – on 30 June 2003, as shown in the tables on preceding pages. Results were derived from data provided by Rainmaker Information. They include both investments in managed funds and SRI institutional mandates.

Rainmaker found total assets in 2002 of $2,175 million, indicating a growth of 8% in the past year. In 2001, the total was $1,818 million, and in 2000, it was 325 million. Growth from 2001 to 2002 was 20%. From 2000 to 2001, growth was 459%. For the three-year period 2000 to 2003, the total growth was an astonishing 625%, though admittedly starting from a very low base.

As noted in the previous section, figures in prior reports of the EIA Benchmarking Survey were based on data provided by Corporate Monitor, which did not include mandates. Corporate Monitor reported in *Ethical Investor* magazine, September 2003, that total funds under management in managed funds alone was $2.2 billion in June 2003. This represents an increase of 36% from their 2002 total of $1.6 billion.

The dramatic growth of socially responsible managed funds in Australia is very recent. The graph below compares growth of SRI and the overall funds management market in Australia over the past three years. Ethical/SRI managed funds represent only a tiny fraction of the overall funds management market (0.3% of the $767 billion of funds under management). Nevertheless, their rate of growth is significantly faster than the overall market.



The number of SRI managed funds has also increased dramatically. In 1996, there were 10 funds. The most recent issue of *Ethical Investor* magazine listed 63 SRI managed funds of various types.

Private portfolios managed by SRI financial advisers

Twelve of the financial advisers contacted for this survey manage private share portfolios applying SRI criteria to investment. Total funds under management amount to $126.5 million.

Assets in SRI private share portfolios managed by these financial advisers have increased from $124 million over the past year and from $78.5 million in 2001. The growth since 2002 is 2%, and growth over the two-year period 2001 to 2003 was 61%.

There has also been an increase in the number of financial advisers managing private SRI portfolios. Seven of the financial advisers reporting SRI portfolios this year did not do so last year. Another group of financial advisers providing information for this survey direct all SRI funds under management to SRI managed funds. Their funds under management are not included in the total for private portfolios.

Religious organisations

Obtaining comprehensive data on the investments of religious organisations is very difficult because many religious groups have decentralised investments. Identifying all the individual groups investing funds and obtaining information about their investments is a massive task.

In this survey, with the assistance of members of CCSRI (Christian Centre for Socially Responsible Investment), we were able to obtain information about investments of the Uniting, Catholic, Anglican, Lutheran, Baptist, Assemblies of God churches, and the Salvation Army. Even within this group, the results obtained are not comprehensive; some types of funds, and the investments of the religious organisations in some states may not have been included.

The churches providing information to this survey have a total of $6.7 billion of funds under management that are invested using SRI criteria. (The 2002 and 2001 figures were $6.7 billion and $6.3 billion, respectively.) A substantial portion of this total consists of funds lent to local parishes or churches for local community-based church purposes. We did not obtain estimates of the relative proportions of church funds invested in equities and lent for local purposes.

Charitable trusts

Charitable trusts have very limited reporting requirements, so their lending policies and even their total assets are not generally available to the public. Philanthropy Australia assisted with this year's study to facilitate information gathering from charitable trusts. Organisations that indicated willingness to participate in the study were asked whether they used social responsibility principles or screens in selecting their investments.

In this survey, we obtained information from 12 charitable trusts that employ SRI approaches to investment. The total assets invested by these charitable trusts are $220 million. This compares with $116 million identified in the 2002 survey and only $5 million identified in 2000. The growth from 2002 to 2003 was 90%; and the growth from 2001 to 2003 was 4200%!

Considerably raised public awareness of socially responsible investment over the past few years has probably contributed in two ways to the enormous growth in amounts identified by this survey. First, more charitable trusts are now focusing on the social responsibility of their investments, and second, more trusts are willing to have it known that they are investing in this manner.

We are confident that there are additional charitable trusts employing some ethical/social responsibility criteria in the selection of their investments, and would hope to be able to identify them in the future.

Charitable trusts stating that they are using SRI approaches in investing include:

- Australian Bush Heritage
- Australian Sports Foundation
- CAF Australia
- Invergowrie Foundation
- Mullum Trust
- Opportunity International
- Poola Foundation
- Sisters of Charity
- The Foundation for Young Australians
- The Lance Reichstein Foundation
- The Myer Foundation

In addition, Merlyn Asset Management, which manages investments for a number of charitable trusts, provided information about the assets of charitable trusts under their management that are invested using an SRI approach, but did not identify the names of the charitable trusts involved.

Superannuation funds

A growing number of superannuation funds are offering their members the opportunity to invest in a socially responsible manner. These include the following:

Anglican SuperFund – Sydney
Australian Christian Superannuation
Australian Retirement Fund
CARE Super
Catholic Superannuation and Retirement Fund
Christian Super
Combined Schools Superannuation Fund
CSS Fund
equipsuper
Fire and Emergency Services Superannuation Fund
Health Employees Superannuation Trust Australia
JUST Super
Local Authorities Superannuation Fund
NSW Local Government Superannuation Scheme
Local Super (South Australia)
National Catholic Superannuation Fund
Non-Government Schools Superannuation Fund
Printing Industry Superannuation Fund
PSS Fund
Quadrant Superannuation Scheme
Retirement Benefits Fund Board
Sara Lee Super
Statewide Superannuation Trust
Sunsuper
Superannuation Trust of Australia
The Victorian Superannuation Fund
UniSuper
WA Local Government Superannuation Plan
Westpac Staff Superannuation Plan
Westscheme

Some employer super funds have either established an ethical or SRI investment option or have appointed a fund manager to manage a mandate that is explicitly defined as ethical or SRI. The assets of these funds are not included in our totals because it is not known which of them are already covered by our figures for managed funds.

Other superannuation funds, including the Commonwealth funds CSS/PSS, Catholic Super and the NSW Local Government Superannuation Scheme (LGSS), have put in place systems for ensuring that the funds take account of social responsibility criteria while continuing to use traditional methods for selecting investments. These funds have a total of $5.1 billion in assets.

In the media statement launching their new system, the Chairman of Catholic Super, Dan Sexton, described their approach as "an all year round governance research and dialogue discipline for identifying social, environmental and corporate governance risks among Australian share investments. Importantly, it takes us well beyond the relatively short annual proxy-voting season. This is an approach to risk management that never sleeps." Their program, which is managed by BT Financial Group, evaluates social, environmental and corporate governance risks of companies, advises on those risks and helps develop action plans to mitigate those risks.

Community finance

Community-based investment programs provide capital to people who have difficulty obtaining it through conventional channels or are underserved by conventional lending institutions. They also provide loan funding for community socially responsible activities. Three credit unions and one Friendly Society in Australia are known to provide this type of community-based investment in accordance with SRI principles: Maleny and District Community Credit Union, Macaulay Community Credit Co-operative, Fitzroy and Carlton Community Credit Co-operative, and Foresters ANA Friendly Society.

In addition, an alliance between Oxfam Community Aid Abroad's Ethical Investment Trust and the Bendigo Bank has led to the creation of the Ethical Investment Deposit Account, an at call bank account. Depositors can choose to have some or all of the interest on their deposits donated to the Ethical Investment Trust. A portion of the funds deposited in the bank account is loaned to community projects that have been screened by the Ethical Investment Trust using ethical criteria.

These five institutions manage a total of $164 million. This represents an increase of 34% over the $130 million identified last year.

Shareholder action

One aspect of the growth of socially responsible investment in Australia has been increased awareness of the potential for shareholder action. Although only a limited number of resolutions related to SRI issues have been introduced so far, green or ethical shareholders' groups have formed for a number of Australia's major listed companies.

The most significant shareholder actions this year were conducted by the Wilderness Society. The organisation backed resolutions to the Commonwealth Bank and National Australia Bank calling on the banks to cease investing in or loaning to companies damaging old growth forests. The Commonwealth Bank resolution won 23% of the votes cast – 94 million shares out of a total share pool of 413 million – at the November 2002 AGM, including the support of a number of institutional shareholders.

Leanne Minshull, corporate campaigner for The Wilderness Society, described the vote for the resolution as "the largest support for a shareholder resolution in Australia's corporate history." The resolution was put forward by a group of Commonwealth Bank shareholders concerned by the Bank's 16% stake in the woodchipping company, Gunns Ltd.

The National Australia Bank resolution secured 125 million votes out of a total of 553 million votes – 23% of votes cast.

The value of the shares voting for the resolutions was: $3,960 million ($4.0 billion) for the CBA resolution and $2,713 million ($2.7 billion) for the NAB resolution. The total value was is $6,673 million, or $6.7 billion.

The 2002 EIA benchmarking report did not identify any shareholder action. The 2001 report included $2.6 billion in shareholder action, which represents the value of shares supporting a resolution to Rio Tinto on workplace rights.

Increased discussion has also been occurring about the use of constructive engagement with companies: this may involve dialogue between fund managers and companies on issues of concern. There is, as yet, no systematic way of obtaining information about the nature and extent of constructive engagement activities.

As noted earlier in this report, shareholder action in this report refers only to activities related to social or environmental issues, in line with the methods used overseas for benchmarking socially responsible investment. It does not include shareholder action confined to issues of corporate governance, although such resolutions are often directly relevant to the social responsibility of the companies concerned.

Other Potential Socially Responsible Investments

This benchmarking study was not able to survey all possible groups that might be involved in socially responsible investment. Some additional areas that might be pursued in future studies include:

- charities and charitable trusts beyond those identified in this study
- renewable energy and other environment industry venture capital funds
- portfolios of individual SRI investors purchased through brokers
- additional religious groups' funds
- community group investments
- other managed funds, not normally identified as SRI funds, which do have screens
- private investors who use SRI principles in developing their own portfolios without brokers (a very large group, but difficult to identify)
- trade union investments outside of managed funds
- shareholder action on corporate governance issues
- ethical home loans
- microfinance

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