



Socially Responsible Investment in Australia - 2002

Benchmarking Survey conducted for the Ethical Investment Association

**by Deni Greene Consulting Services
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Executive Summary

Socially Responsible Investment Shows Rapid Growth

Socially responsible investment in Australia continued to grow dramatically over the past year – rising to at least \$13.9 billion. This is an increase of 32% since the baseline study in 2001.

Assets of SRI managed funds in Australia grew by 31% between 2001 and 2002, in marked contrast to assets of managed funds as a whole, which declined by 0.1% during the year to 30 June 2002. Since 1996, SRI managed fund assets in this country have achieved a staggering growth rate of over 700%.

The number of SRI managed funds has also increased dramatically. In 1996, there were 10 funds. The 2001 baseline study identified 46 funds, and this year, there are 74.

This study identified \$13.9 billion in socially responsible investment assets in Australia.

- \$1.8 billion in managed SRI funds
- \$124 million in private SRI portfolios managed by financial advisers
- \$6.7 billion in investments by religious organisations
- \$116 million invested by charitable trusts using SRI criteria
- \$5 billion in employer superannuation funds using SRI overlays
- \$164 million in community finance investment

Investments in each of these categories increased substantially over the past year. Superannuation funds using social responsibility overlays appear for the first time this year. Two public sector superannuation funds – the Commonwealth fund CSS/PSS 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.

Philanthropy Australia facilitated access to charitable trusts this year, allowing us to identify a greater number of organisations with socially responsible investments.

No shareholder actions related to environmental or social issues were identified this year. In 2001, assets related to such actions totalled \$2.6 billion, but their absence in 2002 was more than compensated for by significant growth in other areas.

The \$13.9 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 in this survey.

The Survey

In August 2002, we surveyed financial advisers, institutional investors and community investment providers to determine the assets they control or manage under socially responsible investment (SRI) guidelines. We also contacted groups involved in shareholder action.

The results of this survey are combined with data on screened managed fund assets to produce the results shown in this report. The figures update results of the first comprehensive research study on socially responsible investment in Australia, conducted one year ago.

This study has been funded by grants from Environment Australia, The Myer Foundation and the Ethical Investment Working Group.

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

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The views expressed herein are not necessarily the views of the Commonwealth Government, and the Commonwealth does not accept responsibility for any information or advice contained herein.

Introduction

Although some individuals and organisations have long taken account of environmental and social factors in selecting their investments, the issue of socially responsible investment was largely ignored by the media and the public. That situation has changed completely in the past couple of years – hardly a day goes by without a newspaper article on some aspect of socially responsible investment. Public awareness of the issue has grown substantially, although much misinformation continues to circulate, both in the general community and among investment professionals.

Several milestones beginning in 2000 mark the emergence of socially responsible investment into the Australian consciousness. These include:

- Ethical Investment Association formed
- Ethical Investor Newsletter launched as an online publication
- Ethical Investment conferences held in Melbourne or Sydney each year
- Memorandum of understanding established between EPA Victoria and the United Nations Environment Programme (UNEP) Finance Initiative
- Ethical Investor Magazine began monthly publication and widespread distribution
- Environment Australia held a series of high level, industry-focused finance sector and sustainability roundtables and forums
- “A Capital Idea” published by Environment Australia to demonstrate the importance of socially responsible investment to companies
- Baseline study of socially responsible investment in Australia conducted
- Financial Services Reform Act (FSRA) enacted, requiring new product disclosure statements to state the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of an investment
- Christian Centre for Socially Responsible Investment (CCSRI) formed by investment professionals from mainstream churches and other Christian organisations

The first wide-ranging analysis of socially responsible investment in Australia was conducted last year to provide a reliable estimate of the extent of such investment. A report on the results of that work was released at the Ethical Investment Conference in September 2001. Despite the availability of that information, many different estimates for the extent of funds invested ethically or socially responsibly in Australia continue to appear in the media.

The 2002 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 where information was not available in 2001.

Environment Australia, the Myer Foundation, and the Ethical Investment Working Group provided funding to the Ethical Investment Association of Australia for this benchmarking study. Philanthropy Australia facilitated the survey of charitable trusts.

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

Background

Socially responsible investment is growing rapidly 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 adding an overlay to address issues related to social responsibility

A second 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. A form of shareholder action becoming more common is constructive engagement, whereby managed funds are invested along traditional financial lines, but take account of sensitive issues by means of meetings with companies to encourage the adoption of more socially responsible 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 as a major concern this year because of high-profile corporate collapses 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 baseline study in 2001.

Methodology

As figures for socially responsible investment in Australia will inevitably be compared to corresponding numbers overseas, this study employed a methodology that, to the extent possible, is comparable to studies in the United States and Canada. Where there were differences between Canadian and US methods, this study used the Canadian approach. Methodologies for the Canadian and US studies are attached as Appendix 1 and Appendix 2.

To provide timely information, data was gathered by telephone or email communication. All interviews and data collection occurred during late August or early September 2002. Details on collection of the various categories of data are shown in the sections below:

Managed funds

Data on the assets of managed funds that define themselves as ethical, socially responsible, or sustainable are by Corporate Monitor, based on data from Morningstar, in each issue of *Ethical Investor Magazine*.

Corporate Monitor data on retail funds, wholesale funds, superannuation funds, and insurance funds that it classifies as ethical was used as the basis for the information included in this report. These data include assets for each fund as of 31 July 2002, and inception dates for each of the funds. Corporate Monitor previously provided data for the 2001 baseline study, which included information on assets in 2001, 2000, 1998 and 1996. There were a few funds whose data was not provided by Corporate Monitor; figures for these funds were obtained from Morningstar.

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 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.

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 24 financial advisers identified in the August 2001 issue of *Ethical Investor Magazine*.

We sent an email to each of these financial advisers describing the study and asking the advisers to provide us with 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

The long history of religious organisations in socially responsible investment is well known. The 2001 baseline study provided the first Australia-wide comprehensive estimate of ethical investment by religious organisations, although some estimates had been made previously for particular groups in individual states.

For this study, data on religious organisations' investments were gathered through telephone interviews with investment managers or responsible individuals within or acting for each of the churches.

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 loaned to local parishes for community church-based activities. For most religious bodies, loans to local parishes constitutes the bulk of their investments

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

In May 2002, investment professionals from the mainstream churches and other Christian organisations established the Christian Centre for Socially Responsible Investment (CCSRI). Its aim is to provide leadership and advocacy in socially responsible investment based on Christian values. The organisation intends to work closely with similar bodies overseas, including the US-based Interfaith Centre on Corporate Responsibility and the Ecumenical Council for Corporate Responsibility (ECCR) in Britain. CCSRI provided us with a list of its members, and all contributed data for this study.

Charitable trusts

There are many different charitable trusts in Australia, but as reporting requirements for such trusts are very limited, very little information is known about the trusts' assets, and their 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. Two additional organisations

that had participated in last year's study were contacted by telephone and provided updates to their information.

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 socially 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. For this report, we contacted the 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 four credit unions, 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 US survey represent institutional investors that are actively involved in shareholder advocacy but do not employ SRI screens, and 30% relate to funds that both use screens and are involved in shareholder advocacy.)

The US survey requires a fund to be a sponsor or co-sponsor of the resolution.

Canada has had little direct shareholder action because of restrictive legislation; the requirements have just recently been liberalised. In the Canadian 2000 survey of SRI investment, only the asset value of the shares voted for a resolution was 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 the 2001 Australian study. We also limited the survey to resolutions passed in 2001 - 2002. Only resolutions related to socially responsible criteria were considered. A narrow definition of socially responsible was used, excluding resolutions that dealt strictly with corporate governance issues.

As noted earlier, community awareness of the issue of corporate governance has risen markedly over the past year, owing primarily to concerns associated with the collapse of a number of very large corporations. Although we made a decision to continue to exclude shareholder resolutions confined to issues of corporate governance from the definition of socially responsible investment in Australia, we attempted to gain information on the extent of such activity. Contact with relevant shareholder organisations has indicated that no formal compilation is kept of the number of resolutions introduced or the number of shares voted for specific resolutions.

The profile of the corporate governance issue means that over the coming year, greater consideration should be given to the question of including shareholder action on corporate governance within the scope of benchmarking socially responsible investment in Australia. This would entail the development of efficient systems for tracking the introduction and voting on relevant shareholder resolutions.

Results:

Socially Responsible Investment in Australia – 2002

This study identified \$13.9 billion in socially responsible investment assets in Australia.

- \$1.8 billion in managed SRI funds
- \$124 million in private SRI portfolios managed by financial advisers
- \$6.7 billion in investments by religious organisations
- \$116 million invested by charitable trusts using SRI criteria
- \$5 billion in superannuation funds using social responsibility overlays
- \$164 million in community finance investment

We were unable to identify any shareholder resolutions on social or environmental issues introduced this year.

Summary of Socially Responsible Investment - August 2002

ETHICAL MANAGED FUNDS	2002 Net Assets \$m	2001 Net Assets \$m	2000 Net Assets \$m	1998 Net Assets \$m	1996 Net Assets \$m
Retail Trusts - Australian Shares	338.91	327.52	121.50	33.50	16.20
Retail Trusts – Overseas Shares	409.8	258.98	121.50	35.10	12.00
Other Retail Trusts	120.02	70.42	48.00	24.40	9.10
Wholesale Trusts – Australian Shares	438.57	248.23	158.00	46.00	13.00
Wholesale Trusts – Overseas Shares	173.63	60.8	-	-	-
Other Wholesale Trusts	189.39	320.97	257.78	229.74	164.84
Superannuation Managed Funds	85.74	65.40	25.40	4.70	1.00
Insurance Bonds	4.38	2.90	2.30	1.30	0.50
Miscellaneous Funds	-	75.50	-	-	-
TOTAL MANAGED FUNDS	1760.34	1347.72	685.98	374.74	216.64
% Growth	31%	86%	83%	73%	
	2001-2002	2000-2001	1998-2000	1996-1998	

OTHER SOCIALLY RESPONSIBLE INVESTMENT

	2002	2001
	SRI Investment \$m	SRI Investment \$m
Total Private Portfolios Managed by SRI Financial Advisers	123.72	78.52
Total Religious Organisations	6704.5	6283.20
Employer Superannuation Funds with SRI overlay	5000.00	-
Total Charitable Trusts	80.81	5.07
Total Community Finance	163.8	129.87
Total Shareholder Resolutions	-	2623.50
	13833.12	10467.88
GRAND TOTAL ALL INVESTMENTS	\$13.9 billion	\$10.5 billion

GROWTH 2001 TO 2002 32%

Managed fund data from Corporate Monitor (from data provided by Morningstar). Additional data from Morningstar

Data on Other Funds, Financial Advisers, Community Finance, Charitable Trusts, Shareholder Resolutions and Churches assembled by Deni Greene Consulting Services

Churches included: (Uniting, Catholic, Anglican, Baptist, Lutheran, Assemblies of God, Salvation Army)

Details of these results are described further below.

Managed funds

Assets of socially responsible managed funds shown above were derived in large part from information provided by Corporate Monitor. Their data is based on figures provided to them by Morningstar. Using the Corporate Monitor data, with the addition of a small amount of additional information from Morningstar obtained as part of this SRI survey, the total assets in SRI managed funds were found to be \$1,760 million, that is, \$1.8 billion. This compares with \$1,348 million on 31 July 2001, a growth of 31% in one year. The growth of SRI managed funds is in marked contrast to the results for all managed funds in Australia – while assets of SRI funds grew by 31%, those of all managed funds declined by 0.1% over the 2001 – 2002 financial year.

The dramatic growth of socially responsible investments in Australia is very recent. Assets in 2000 were \$686 million so growth between 2000 and 2001 was 89%. Growth between 1998 and 2000 was 83%. Assets in 1996 were \$217 million; growth between 1996 and 1998 was 73%. Total growth over the six-year period from 1996 to 2002 was an astounding 713%.

The number of SRI managed funds has also increased dramatically. In 1996, there were 10 funds. The 2001 baseline study identified 46 funds, and this year, there are 74.

Private portfolios managed by SRI financial advisers

Twenty-four financial advisers specialising in socially responsible investment were contacted as part of this survey. Only one declined to participate.

Nine financial advisers manage private share portfolios applying SRI criteria to investment. Total funds under management amount to \$124 million. Other advisers providing information to the survey have no SRI funds under management beyond those invested in SRI managed funds.

Assets in SRI private share portfolios managed by these financial advisers have grown from \$78.5 million in 2001, an increase of 58%

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 2001 figure was \$6.3 billion.) 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.

Seven charitable trusts indicated that they employ SRI approaches to investment, and reported the extent of the assets invested using such approaches. Two further organisations identified in the 2001 study provided updated information on their assets.

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

- Opportunity International
- Australian Bush Heritage
- Reichstein Foundation
- Mullum Trust
- The Fogarty Foundation
- Australian Sports Foundation
- CAF Australia
- Invergowrie Foundation
- The Foundation for Young Australians

In addition, two organisations that manage investments for charitable trusts provided information about the assets of charitable trusts under their management that are invested using an SRI approach. Merlyn Asset Management and ANZ provided data on the assets invested in this manner, but did not identify the names of the charitable trusts involved.

This study identified \$116 million invested by charitable trusts using SRI criteria. In 2001, the total identified was only \$5 million.

Other charitable trusts may very well use SRI criteria for investment, but we were not able to obtain information about them in this survey.

Employer superannuation funds

Two public sector superannuation funds – the Commonwealth fund CSS/PSS 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.

The Commonwealth Superannuation Scheme/Public Sector Superannuation Scheme (CSS/PSS) has an SRI overlay covering \$3 billion of its assets. The Local Government Superannuation Scheme in New South Wales uses an unusual overlay for sustainability that covers \$2 billion of its investment assets.

Community finance

Community-based investment programs provide capital to people who have difficulty attaining 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. 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, shareholders' groups have formed for a number of Australia's major listed companies.

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.

We did not identify any shareholder resolutions related to social responsibility introduced this year. As described earlier in this report, shareholder resolutions relating strictly to corporate governance were not considered, in line with the approach used overseas.

Last year's study included investments related to one shareholder resolution: a resolution introduced at the Rio Tinto AGM, regarding workplace rights. The total number of shares that voted for the resolution was 95.4 million (17.3% of votes cast). The value of the shares supporting the resolution was \$2.6 billion, based on the share value on the date of the AGM.

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 (while this group may be large, the individuals and groups involved will be quite difficult to identify)
- trade union investments outside of managed funds

Future Studies

The results of this study provide a benchmark for continuing to monitor the growth in SRI investment in Australia over coming years. While additional areas of investment should be identified and, estimates for them obtained wherever possible, the results of future studies should be provided in a form that would allow comparison with these estimates.

Several organisations surveyed indicated that they were hoping to adopt ethical screens for their investments. Other organisations indicated that they were putting systems in place so they could track their SRI investment. Additional areas of coverage and organisations may therefore be included in future reports.

Socially responsible investment is surveyed every two years in the United States and Canada. The rapid growth of SRI in Australia and the number of additional areas not yet investigated provide a rationale for conducting annual surveys for at least the next few years. Subsequently, a decision could be made whether to continue on an annual basis or move to alternate year surveys.

Appendix 1

Canadian Methodology for Survey of Socially Responsible Investment

From: Canadian Social Investment Review 2000, December 2000, A comprehensive survey of socially responsible investment in Canada by The Social Investment Organization

Background to the Canadian Social Investment Review 2000

The Social Investment Organization (SIO) defines socially responsible investment as the process of selecting or managing investments according to social or environmental criteria. Socially responsible investment can be done by individuals or institutions, it can include positive or negative screening based on social and environmental criteria; shareholder advocacy and corporate engagement initiatives; and investment for community-based development.

Specifically, SRI in Canada includes the following:

- Socially-screened mutual funds
- Labour-sponsored venture capital that is guided by social considerations
- Screening of stock portfolios or other private holdings
- Shareholder advocacy and corporate engagement initiatives
- Community investment initiatives
- Socially responsible investment of institutional assets (managed in-house, or through pooled funds or segregated accounts)

SIO believes that socially responsible investment includes three components:

1. Positive and negative screening. This is the application of social and environmental guidelines or "screens" to the investment process. Negative screens are criteria that exclude certain companies from investment portfolios based on such issues as tobacco, alcohol, gambling, pornography and military production, or companies with poor environmental records, or human rights and employee abuses such as sweatshop or child labour. Examples of positive screens are companies making a contribution to social, economic or environmental sustainability or industries with exemplary employee practices.
2. Community Investment. This is the investment of money into community development or microenterprise initiatives that contribute to the growth and well-being of particular communities. The idea is to reverse the drain of capital and income that debilitate low-income communities.

3. Shareholder Advocacy and Corporate Engagement. This is the process of using shareholder influence to help to bring about corporate social and environmental change. This can include proxy voting (establishing policies for voting shares on social and environmental issues), corporate engagement (communicating with management on particular issues), shareholder resolutions (filing or supporting shareholder proposals on social and environmental issues) and divestment (selling of shares).

Methodology

In the summer and fall of 2000, in conjunction with the MBA Program at Wilfrid Laurier University, SIO surveyed institutional investors, investment management firms and community investment providers to determine for the first time the total sum of socially responsible assets.

The survey was carried out through a faxed questionnaire, followed up by telephone contact. Participation was voluntary. The survey methodology was approved by the Wilfrid Laurier University Research Ethics Board.

The results will be used as a baseline for comparison with subsequent surveys in years to come to determine the scope and nature of this important investment trend.

Response

- Questionnaires were sent to 219 money management firms.
- Additional efforts were made to contact the top 40 money management firms, as reported in *The Top 40 Money Managers of 2000, Benefits Canada*, April 2000.
- Surveys were sent to 245 institutional investors, using directories of foundations, treasurers of religious organizations, the members of the Taskforce on the Churches and Corporate Responsibility, university investment officers, and financial institutions known to manage screened assets. This included 23 foundations, 47 pension funds, 100 religious organizations, 73 universities and two financial institutions.
- Surveys were sent to 46 community investment organizations.

Double-Counting

To address the problem of double counting (screened mutual funds held on behalf of clients by investment managers, for example), SIO asked money managers to report the percentage of screened assets they manage that are held in mutual funds. This number was then subtracted from the total funds.

There may be some double counting due to assets managed primarily in-house by institutional investors that use investment management firms for a portion of their assets. We believe this amount to be insignificant, however.

Under-Estimation

Assets were totalled from actual amounts and organizers did not extrapolate survey results to the entire universe of potential respondents. With this in mind, we feel that the survey was conducted in a manner that under-estimates total socially responsible investment assets. There are a number of reasons for this:

- We know from other sources that some of the money management companies and institutional investors with screened assets failed to respond to the survey. However, SIO feels that most of the managers and investors with screened assets did respond to the survey.
- Some money management firms reported that they manage screened assets but declined to disclose the total for privacy or competitiveness reasons.
- Some institutions and money management firms reported to us that they have screened assets, but they were unable to participate in the survey because their data systems do not permit them to accurately report the screened assets they manage. This is because their data systems do not capture information on screened assets managed by individual account representatives. One money management firm suggested to us that they manage about \$1 billion in screened accounts, but declined to participate in the survey, citing the difficulty in providing an accurate estimate.
- Some of the institutions that did not respond have participated in social investment proxy voting proposals or corporate engagement initiatives.
- There are assets managed in private stock portfolios of brokers that were not included in the survey.

As a result, SIO believes that the total of socially responsible investment assets contained in this report is under-estimated. In future studies, SIO will attempt to enlarge the study to capture these unidentified assets.

Elements of socially responsible investment in Canada

Socially responsible mutual funds and labour-sponsored venture capital funds

The Social Investment Organization uses the following definition to identify socially responsible mutual funds and labour-sponsored funds.

To be included in the SIO's list of socially responsible funds, a mutual fund must include social or environmental criteria in the investment objectives as set out in the fund's prospectus. As well, SIO requires that mutual funds be widely available (screened pooled funds are not included in this list because they are available only to certain groups or to investors defined as "sophisticated investors" under securities regulations). Source: www.socialinvestment.ca

In addition, SIO uses the following definition to identify socially responsible labour-sponsored venture capital funds:

To be included in this list, a labour fund must have signed the statement of principles of the Alliance of Labour Funds, which sets out certain labour fund principles. Among these is a commitment to use economic and social goals in making investments, including the use of social audits in assessing potential investee companies. Source: www.socialinvestment.ca. For the Statement of Principles, visit www.wofund.com/wof/Misc_stuff/defining_statement.html

Investment Management Firms and Institutional Investors

No previous public survey has been done of investment management firms offering socially- or environmentally-screened accounts for their clients.

This includes three types of accounts:

- Screened pooled funds open to institutional investors or high net worth individuals which manage assets according to pre-determined social and environmental criteria;
- Segregated accounts which will hold stocks or other securities according to customized social and environmental screens established by the client;
- Private stock portfolios managed by brokers using customized screens for individual clients and institutions.

To determine the value of assets contained in these accounts, SIO surveyed money managers in Canada.

SIO also surveyed foundations, religious institutions, universities, pension funds and a small number of financial institutions to receive information directly from investors. We sent 245 institutional investor surveys, and received responses from 45. We subtracted results from assets reported by institutional investors where we could not establish whether these assets were managed by investment management firms already captured in the survey.

To capture information on private stock portfolios, SIO relied on information provided by its own financial advisor members. This underestimates the assets in this category as we likely have missed a large amount of screened assets managed by SIO member brokers who did not respond or brokers who are not SIO members.

Community Investment

In attempting to identify community investment assets, the SIO's general aim has been to include individual or institutional assets that in some way help to develop local communities through the alleviation of poverty, the evolution of community institutions or ventures meeting community needs, or the development of new co-operative businesses.

SIO has included capital raised from individuals, charitable and civil society organizations. While donations of government capital haven't ruled out an organization for inclusion, community investment has not been included in the study if most of the capital has been contributed by government (eg the federal Community Futures Committees). Such activity

should more properly be seen as a government regional development program, rather than a social or community investment.

This is not to argue against government involvement in the community development sector. In fact, SIO recognizes that there is a legitimate place for government assistance for community organizations. Rather, SIO wants to take care that the assets we measure in this study are private or civil society funds, not government grants.

Using these principles, SIO has arrived at the following categories of community investment in Canada:

- *Micro-enterprise lending.* Community-based organizations providing capital for micro-entrepreneurs unable to obtain capital from conventional financial institutions. The borrowers usually show some element of hardship or low-income characteristics. Loans are usually less than \$25,000 with typical loans in the \$2,000 to \$5,000 range.
- *Community development venture capital.* High-risk loans or equity placements in locally-based businesses meeting community or social needs. This sometimes includes non-profit development organizations but can also include venture capital companies. The focus here is on businesses with an emphasis on community building that meets local needs.
- *Non-profit lending.* Lending to non-profit organizations pursuing a social mission that are unable to obtain capital from conventional financial institutions. This is usually done by non-profit lenders.
- *Co-operative development.* Funds making loans or equity placements in new co-operatives.
- *Lending for social or affordable housing.* Risk mortgages or construction loans for housing targeted to low-income markets. Conventional co-op or social housing mortgages backed by CMHC guarantees will not be considered because of the business nature of the lending.
- *Economically-targeted investments (ETIs).* These are community development investments made by pension funds or other institutions.
- *Other forms of locally-based investment* targeted to meeting the needs of particular communities or groups.

SIO surveyed 46 community organizations obtained from lists of micro-credit providers from Industry Canada's Strategis website (strategis.ic.gc.ca/SSG/so03121e.html) and *Community Micro-loan Funds in Canada*, published by Calmeadow in March, 1999. As well, SIO surveyed its own members that provide community investment services.

Shareholder Advocacy

Shareholder advocacy is the use of an investor's shares in an attempt to influence management and corporate behaviour on social and environmental issues. Shareholder advocacy includes proxy voting (establishing policies for voting shares on social and environmental issues), corporate engagement (communicating with management on particular issues), shareholder resolutions (filing or supporting shareholder proposals on social and environmental issues) and divestment (selling of shares).

Appendix 2

U.S. Methodology for Survey of Socially Responsible Investment

From 2001 Report on Socially Responsible Investing Trends in the United States, Social Investment Forum

The Social Investment Forum employs a direct survey methodology to identify professionally managed socially responsible investment assets in the United States. This section describes the data qualification, data sources, and survey methodology employed for the purposes of this report. It also outlines improvements to the methodology used in the 1999 survey. Finally, this section identifies social investment assets that are not counted in the survey, thus providing additional confidence that the survey results are a conservative statement of the total assets involved in socially responsible investment in 2001.

This 2001 Trends Report is a quantitative behavioral study. That is, all professionally managed investment assets that fit within the strategies of socially responsible investing are counted. In short, if assets are screened, involved in shareholder advocacy, or are directed to community investing, they are counted. The study doesn't attempt to make a qualitative judgment about whether or not the investor identifies with the term "socially responsible investing," or markets services as part of the socially responsible investing industry. A criticism of this quantitative approach is that some investors, portfolio managers, and mutual funds counted in this study may not be positioning themselves in the marketplace as "socially responsible." This criticism suggests that a future study might be conducted to ascertain the qualitative intentions motivating the behavior that this study is designed to identify. Such an analysis of intention is not attempted by this study.

What Was Counted

For purposes of the survey underlying this Social Investment Forum study, an institution was considered to engage in socially responsible investing if its practice includes one or more of the following:

- **Screening.** The institution utilizes one or more social screens as part of a formal investment policy. Only that portion of an institution's funds that is screened for one or more social issues is credited as such, and is included in the screened portfolio component of social investing.
- **Shareholder Advocacy.** The institution sponsors or co-sponsors shareholder resolutions on social responsibility issues or engages in dialogue through the

Interfaith Center on Corporate Responsibility (ICCR) addressing issues of social or environmental concern. A qualifying institution must have filed at least one social issue resolution over the past three years, or be part of the active shareholder dialogue process managed by ICCR. If the institution was a sponsor or a co-sponsor, the assets under its management were included in the shareholder advocacy segment of social investing. Resolutions on corporate governance were not included, nor were institutions that do nothing more in this area than vote their proxies.

- **Community Investment.** The institution qualifies as a Community Development Financial Institution (CDFI), which the Forum defines as a private sector organization that has a primary mission of lending to low-income or very-low-income communities, and that engages in finance as its primary activity.

The research employed in this study is designed to identify assets that qualify as socially responsible investments. Members of the Social Investment Forum are included in the survey, but the survey is not limited to these members. Mutual funds and other institutions and money managers that are not members of the Social Investment Forum can also qualify for inclusion in the survey provided they meet the criteria outlined above.

What Was Not Counted

Certain dollars under management were not counted in this survey. Exclusions were determined in the following manner:

Social Screening excludes any institution that says it takes into account social criteria in its investment decisions, but has no formal policy for doing so and/or utilizes no social screens.

Shareholder Advocacy excludes any institution that:

- Votes proxies in support of shareholder resolutions on issues of concern to socially responsible investors, and has an active social investment committee, but has not sponsored or cosponsored a resolution in the past three years, or does not take part in active shareholder dialogue.
- Says it “votes proxies,” but lacks any formal policy determining votes; or votes with management in a clear majority of cases, especially on resolutions submitted by socially concerned investors.
- Conducts only shareholder resolutions regarding corporate governance.

Community Investment excludes any institution that says it has some type of economically targeted investment(s), but which are not recognized by a Community Development Financial Institution (for details, see Data Sources below). Organizations

that engage in community investing in accordance with Community Reinvestment Act I requirements are not counted in this survey unless the investments were made through a Community Development Financial Institution. In addition, low-income housing tax credits were not included.

Data Sources

The following data sources were used to compile the institutions and investment managers included in the survey:

Mutual funds: Mutual funds and variable annuity subaccounts that have at least one social screen were included in the study. This list was compiled from material provided by Morningstar, Wiesenberger, the Social Investment Forum, First Affirmative Financial Network, and public media sources.

Other screened portfolios: Forum researchers compiled a list of all investment managers who identify themselves in the *2001 Nelson's Directory of Investment Managers* as employing "social screening" as an investment strategy. Researchers also listed all institutions identifying themselves in the *2001 Nelson's Directory of Plan Sponsors* as restricting their investments with some social criteria. Added to this list were institutions that are known to have adopted social screening strategies in the past two years. These institutions were identified through the assistance of the Investor Responsibility Research Center, the Interfaith Center on Corporate Responsibility, and various media sources.

Shareholder Advocacy: The list of institutions involved in shareholder advocacy came from both the Interfaith Center on Corporate Responsibility's *Corporate Resolutions Book* and the Investor Responsibility Research Center's "Checklist of Shareholder Resolutions" in the Corporate Issues Reporter. The chart on the Status of Social Policy Shareholder Resolutions in 2000 and 2001 was provided by the Investor Responsibility Research Center, October 15, 2001. IRRRC is based in Washington, DC. For more information, please visit its Web site at www.irrc.org.

Community Investment: Community Investment: The Forum contacted all of the community development trade organizations and intermediaries to determine the number of member institutions and the assets they control. Trade associations and intermediaries contacted included the National Community Capital Association, the Association for Enterprise Opportunity, the National Federation of Community Development Credit Unions, the Community Development Venture Capital Alliance, the National Community Investment Fund, the CDFI Fund, and the Calvert Foundation.

Total Assets Under Professional Management in the United States: To determine the total assets under professional management in the United States, the Forum used the *2001 Nelson's Directory of Investment Managers*. The *2001 Nelson's Directory* lists \$21.7 trillion in total assets under management as of December 31, 2000. Of this total, \$1.8

trillion is under management outside the United States. Therefore, total assets under management in the United States equal \$21.7 trillion minus \$1.8 trillion, or \$19.9 trillion.

Survey Methodology

The Social Investment Forum utilizes a survey to determine the total assets involved in various types of socially responsible investments. The survey methodology is direct and straightforward:

The list of institutions to be surveyed is compiled from the data sources described in the Data Sources subsection above.

The entire list of managers and institutions were surveyed for the amount of assets they manage in the United States that qualify under social screening, shareholder advocacy, and community investing. Managers and institutions that screen were also surveyed for the type of screen(s) utilized. Community Development Financial Institutions (CDFIs) were surveyed for the amount of assets managed by their member organizations.

The surveys are compiled by investment type—that is, screening of portfolios, shareholder advocacy, and/or community investing—and any double counting is eliminated. An example of double-counting that is eliminated is a mutual fund subadvisor and a mutual fund reporting the same assets. No estimates or sampling techniques were used in gathering data for this report.

Methodology Improvements

The Social Investment Forum conducts this survey every two years. From time to time, the methodology is improved. The improvements are then applied to allow survey results to be compared across years. Improvements and changes in 2001 include:

- The Social Investment Forum this year, for the first time, used HostedSurvey.com, an online survey firm, to query investment managers, institutional investors, and mutual fund companies concerning their social screening and shareholder advocacy roles. A ten-question survey was provided online and potential participants were emailed to solicit their participation in the data collection process. Participants were surveyed for their asset totals, use of screens, advocacy efforts, and other vital information. A sample of the questionnaire may be found at www.socialinvest.org/trends/onlinesurveyquestions. These responses were tallied into the various totals and used as a check against existing data.
- There are now several investment management firms that focus their attentions specifically on socially responsible investing. The asset totals from these firms include the money they have invested on behalf of clients in SRI mutual funds. To avoid double counting, these firms were contacted separately to ascertain their

asset totals minus the money they have invested in socially responsible mutual funds. In past reports, not all of the SRI assets of these firms were captured.

- The *2001 Trends Report* corrects an error found in the First Edition of the *1999 Report*. In 1999, the Forum reported that there were 175 mutual funds; the correct number was 168, which is reflected in this report.

Conservative Bias: Note on Undercounting

The Social Investment Forum believes that the data sources included in this study have led to the identification of the vast majority of the professionally managed assets in the United States that reside in portfolios that meet the study's definition of socially responsible investment. However, there are certain types of social investment assets that this survey is not able to identify, including:

- Investment assets owned by individuals who directly purchase the equity or debt securities of companies according to the individual's personal social investment criteria. With Internet trading, and the increased information available on the Internet that provides individual investors with the information needed to create their own screened investment portfolios, this may be a growing area of socially responsible investment.
- The stocks and bonds of responsibly managed companies purchased for individuals through personal stockbrokers and financial planners.
- The portfolios of socially aware investors whose investment assets are managed through the trust departments of banks or law firms.
- Smaller investors who participate in the shareholder advocacy process.
- Community investments not made through a Community Development Financial Institution.

In short, there are a number of investors and investment portfolios engaged in socially responsible investing that are currently invisible to the public view. The Forum intends to explore the development of the survey methodology to capture these sources in the future. At present, this undercounting of assets involved in social investment introduces a conservative bias to the survey, and provides confidence that survey results are a conservative statement of the total assets involved in socially responsible investment in 2001.

What is the Ethical Investment Association?

The Ethical Investment Association (EIA) was formed in 1999 with the primary objective being to promote the concept, practice and growth of socially and environmentally responsible investing in Australia. At present, almost every ethical 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 and committed to the Association's objectives. The Association now has over 100 members including financial advisers, managed funds, superannuation funds, consultants, community organisations, publications and government bodies.

What are the aims of the EIA?

The EIA aims to:

- ⇒ Influence economic policy to improve social justice and environmental sustainability practices in the commercial sector;
- ⇒ 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;
- ⇒ Actively 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 to key decision-makers. To this end, the EIA develops partnerships and projects that will ensure that the foundations for industry growth are solid and that the sector is well positioned to fulfil its potential. The following projects are currently underway:

- ⇒ The EIA has just launched a **Consumer Guide to Socially Responsible Investment**. The Guide forms the backbone of an extensive consumer awareness campaign carried out through Amnesty International, the Australian Conservation Foundation, New Scientist magazine, Teacher's Federation, Money Magazine, the YWCA and National Trust.
- ⇒ This year the Ethical Investment Association presents the **Third Annual Ethical Investment Conference**, providing a meeting point for SRI professionals from around Australia, from the region and from other parts of the world.
- ⇒ The inaugural **EIA Financial Advisers Course** was launched this year at the Third Ethical Investment Conference and will be available to financial advisers across Australia by early 2003. The course will provide comprehensive professional education to financial advisers about the opportunities and the issues around SRI financial planning and will be available as a one-day course or via distance learning.

How can you join the EIA?

You can join the Ethical Investment Association on our website at www.eia.org.au or you can phone us 02 9214 8411.



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