The Ethical Investment Association

Sustainable Responsible Investment (SRI) in Australia has been steadily gaining pace since the early 1990s. In 1999, the Ethical Investment Association (EIA) was formed to promote the concept and practice of SRI in Australia. The EIA is Australia’s peak membership body for professionals and professional organisations working in the area of SRI and exists to represent the best interests of its members to the investment industry, government, the media, regulators and the investing public. In the past few years the EIA has extended its charter to New Zealand and a section on the SRI industry in that country is covered in this report by Dr Rodger Spiller.

Activities of the EIA include the production of a major international biennial conference, policy work, training, media and consumer awareness campaigns, website development, the annual benchmarking study on the size and growth of SRI in Australia and SRI industry events.

The EIA is currently focusing on five significant projects designed to support the sector and these are outlined below.

**WORLD-FIRST SRI CERTIFICATION PROGRAM**

The SRI Symbol is a Registered Trade Mark owned and managed by the EIA. This world-first SRI Certification Program was launched in September 2005 and developed over 2 years in consultation with representatives from finance, business, not-for-profit organisations and charities. The SRI Symbol has been designed to:

> “help consumers make informed choices regarding investment opportunities that take environmental, social and ethical considerations into account as well as financial returns”.

There are currently four different SRI Symbol license categories: Fund Manager, Superannuation Fund, Dealer Group and Financial Adviser. Applicants to license the SRI Symbol will be assessed pursuant to strict eligibility criteria by the EIA, with independent verification for the category of Fund Manager performed by global chartered accounting firm Grant Thornton.

Investors can now find detailed information about all Licensees to the SRI Symbol on the EIA’s website. For example, for the category of Fund Manager this includes detailed information about the fund’s SRI methodology, stock holdings and past performance. For the category of Financial Adviser, the disclosure includes information about the adviser’s financial and SRI qualifications and access to SRI products.

Essentially a navigational tool and aid to disclosure, the Symbol will help investors find the SRI investment that best suits their needs and values.

The SRI Symbol program was created in partnership with the NSW Department of Environment and Conservation (DEC), the Victorian Government, Baker & McKenzie, Ys Communications, Gavin Anderson and AMP Capital Investors.

**SRI COURSE FOR FINANCIAL ADVISERS**

*Ethical Investing: A Specialist Course for Financial Advisers*, is a web-based course that provides advisers with the knowledge and the skills to advise clients on ethical investing. The course was launched in September 2006 and is designed for financial advisers and dealer groups keen to broaden their specialty offerings and deliver superior client service.

This world-first online training program is the result of a partnership between the EIA and SAI Global, a leader in business publishing, compliance, training and assurance. SAI Global is also the Australian publisher of the ISO Standards. The original course material was delivered live at EIA conferences and was written by EIA co-founding President, Janice Carpenter.
The course covers a broad range of topics including terminology, ethical investment issues, creating an ethical client profile, an overview of available products, portfolio construction, direct share analysis, international research and interactive case studies.

View a sample of the course at www.ethicalinvestmenttraining.com

SRI SUPERANNUATION CENTRE

Following the introduction of Choice of Superannuation on 1 July 2005, many Australians are now making enquiries about ways in which they can invest all or part of their super in SRI or Ethical Investment options.

In a recent attitudinal survey conducted by Corporate Monitor of employee opinions about the prospect of using SRI for their superannuation savings, 27 per cent said they would favourably consider an SRI super option and 22 per cent indicated they would use an SRI fund. This should come as good news to the more than 100 superannuation funds that offer such an option.

The EIA launched the SRI Superannuation Centre to provide people with a list of SRI options found in managed funds, industry funds and master funds. This Centre provides information such as key contact details, the fund’s overarching SRI methodology and their asset classes.

The SRI Superannuation Centre can be found at www.eia.org.au

CHRISTIAN CENTRE FOR SRI JOINS THE EIA

In 2006 the Christian Centre for Socially Responsible Investment (CCSRI) joined together with the EIA, forming a new special interest group within the EIA called the Christian Investor’s Forum. The Forum is governed by an advisory board and holds a permanent seat on the EIA board. In the coming year the Forum will work to develop a new category for the SRI Certification Program specifically designed for religious and charitable investors.

THE EIA WELCOMES NEW ZEALAND

2006 was also the year when the EIA opened its membership to New Zealand providers of SRI products and services and renamed itself as Australasian. New members include The New Zealand Superannuation Fund, Prometheus (a community bank) and dealer group Rodger Spiller and Associates. The SRI Symbol is currently undergoing Trade Mark registration in New Zealand and the new ethical investing course for financial advisers will also be offered to New Zealand advisers.

JOIN THE EIA

……..and become part of a co-ordinated, united group working to promote the growth of SRI in Australasia.

Benefits of membership include:

- The opportunity to apply for the SRI Symbol, available only to members of the EIA;
- The opportunity to write about your product, service or organisation on the EIA website which is Australasia’s central portal for information about SRI products and services;
- The opportunity to promote your products and services at EIA conferences;
- Representation in policy development;
- An opportunity to network at the core of the SRI industry;
- Discounts to all EIA events;
- The opportunity to work collaboratively with other EIA members on industry projects;
- The opportunity to participate on the EIA Committee and to vote on EIA resolutions.

If you are interested in joining the EIA or in finding out more about our work please contact us at:

Ethical Investment Association
Level 2, 60 Castlereagh St, Sydney NSW 2000, Australia
Phone: 61 2 8224 0314
Email: info@eia.org.au
Web: www.eia.org.au
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Executive Summary

This is the 6th Annual SRI Benchmarking Study commissioned by the Ethical Investment Association. The aims of this year’s study are to update figures on various forms of SRI, to present analysis of growth in the area and comparisons with the total investment market, and to report on the latest overseas SRI figures.

Overall the results show that SRI is again growing strongly in Australia due in large part to healthy sharemarket returns, growth in the level of superannuation assets and investment portfolios and continued investor acceptance of sustainability and values based investing.

Managed SRI portfolios grew by 56% during the 2006 financial year from $7.67 billion to $11.98 billion, an increase of $4.31 billion. In comparison, mainstream managed portfolios grew 15.5% in that same period.

Factors contributing to this growth were as follows: positive investment performance $688m; net flows to wholesale funds and mandates $1,358m; net flows to retail funds $185m; incorporation of renewable energy infrastructure funds $1,312m and growth of new funds $773m. The fastest growing established fund manager for the year was AMP Capital Investors whose SRI assets under management grew from $439m to $1.55 billion.

In the 6 years from 2000 through 2006 SRI managed portfolios have now grown from $325m to $11.98 billion, an increase of 3,587% (or 36 times).

Analysis of the average return of SRI managed funds in the Australian Shares, Overseas Shares and Balanced Growth categories indicates that they compare favourably with that of the average mainstream fund over periods of 3 years or more.

There are just over 100 financial advisers in Australia that have clients in direct SRI share portfolios of which we have collected data on 40. These portfolios total $681m, a growth of 40 per cent from $482m in 2005.

A total of 13 community finance providers were identified who had total assets of $382m in June 2006, an increase of 23% on last year’s figure of $308m. This includes a small but growing pool of microcredit loan funds.

Figures for religious organisations’ investment in SRI were not updated this year.

The survey identified 28 major charities and charitable trusts with screened direct SRI portfolios of $295m in 2006, up 14% from $258m in 2005.

Data on public offer superannuation funds indicates that 122 funds offer a total of 350 SRI options, up from 317 in 2005. A listing of the 20 largest superannuation funds with SRI options is provided.

SRI overlays accounted for $8.6 billion, up 8 per cent on their assets under active engagement of $7.9 billion in 2006.

In 2006 there were no specific shareholder resolutions that related to environmental or social responsibility issues.

In New Zealand SRI assets are estimated be $37.2 million, an increase of $5.6 million or 18%.

The research for the survey was conducted by Corporate Monitor for the Ethical Investment Association. The New Zealand report was provided by Dr Rodger Spiller.

Michael Walsh  
Executive Director  
Corporate Monitor  
Tel: (02) 6682 4817  
Email: walsh@corporatemonitor.com.au
What is Sustainable Responsible Investment?

The term “ESG” will be used in this report from time to time. “ESG” stands for environmental, social and governance and is a term which has been gaining in popularity in recent years.

Three different types of activities are embraced under the umbrella of Sustainable Responsible Investment or SRI:

1. **SRI MANAGED PORTFOLIOS**
   Placement of money in managed funds, separately managed share portfolios, or discrete investment mandates screened to reflect environmental, social, labour relations or ethical considerations.

   Typical SRI approaches used in the selection of potential investments include:
   - specialised analysis of companies to identify ESG performance, impacts and sustainability;
   - negative screening to avoid some types of investments, eg gambling, tobacco, uranium, 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 strong ESG performance;
   - use of a sustainability or social responsibility overlay. A fund using an overlay typically identifies ESG risks to a company in which it is investing, and then meets or engages with the company to encourage it to better address those risks. Some refer to this approach as a ‘constructive engagement’ strategy, to contrast it with negative screening or positive screening approaches.

   Sustainable Responsible Investment fund managers are, of course, also concerned about financial risk and providing good financial returns. Most aim for a broad exposure of securities that pass their screens rather than a concentrated (and therefore risky) portfolio of only the best SRI performers. So the portfolios of most SRI managed funds in Australia include securities (such as shares or bonds) issued by many of the same companies that are held by non-SRI funds.

2. **SHAREHOLDER ACTION**
   This study also considers shareholder action, which is activism by concerned shareholders to address issues regarding a company’s ESG performance. This may be carried out directly by individual shareholders or by an investment institution, both of which use their rights as shareholders to raise issues with or formalise a protest against company management. The objective of shareholder action is to encourage or persuade companies to recognise SRI issues and improve their level of corporate social responsibility (CSR).

   Shareholder action can take the form of introducing and gaining support for resolutions at an Annual General Meeting of a company. It is designed to be a public protest against a company’s conduct or activities, whereas constructive engagement is handled privately.

   In line with the methods used overseas for benchmarking Sustainable 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 such as board composition, remuneration and other resolutions sponsored by the directors of the company.

3. **COMMUNITY-BASED INVESTING**
   A third type of activity also commonly included in Sustainable Responsible Investment is community-based investing. This involves pooling deposits in order to make loans to disadvantaged individuals, to not for profit organisations or for loans to fund actions that help the environment.

**WHAT IS THE DIFFERENCE BETWEEN SRI AND ETHICAL INVESTMENT?**

Sustainable Responsible Investment embraces the business case for CSR. It refers an the investment style which analyses the environmental, social, labour rights, governance and ethical issues which are material to a company’s profitability and sustainability.

Ethical Investment is an investment process which reflects the values and beliefs of individuals and mission-based organisations regarding the environment, society, labour rights, governance and ethics.
In practice, for many SRI investments these terms are used interchangeably because they have elements of both – negative screens to exclude companies that may not be in accordance with investor values, and sustainability analysis to focus the portfolio on companies that have embraced CSR.

In this study investments that are labelled SRI and ‘ethical’ are included together.

**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 and action and corporate engagement
- Community-based investment

Results obtained from the current project are compared with those obtained in the Benchmarking Study in 2005.

**Methodology**

This study employed the same methodology to that used in the 2005 EIA Benchmarking Survey.

Data was gathered from a range of sources. Managed funds data was kindly provided by managed funds industry research specialists Standard & Poors and Rainmaker Information Services, though some data was also provided directly by fund managers to Corporate Monitor.

Information on Total Investment Management and the average performance of certain managed fund categories was also provided by Standard & Poors.

Data on the range of superannuation funds offering SRI options was also provided by Rainmaker Information Services.

Data on the other categories was collected by Corporate Monitor. Initial requests for data were made by email and then followed up where necessary by telephone.

It is important to note that for many areas of SRI data there is no requirement for disclosure and some custodians of SRI investments are not publicly known or may be reluctant to supply information. This may be for reasons of privacy or commercial confidentiality. For this reason the results of categories outside of Managed SRI portfolios should be considered conservative.

All requests for information occurred in the period July through August 2006, and figures are as at 30 June 2006.

**MANAGED SRI PORTFOLIOS**

Data was collected on the net assets of professionally managed portfolios that define themselves as ethical, sustainable or socially responsible. This includes investments directly into managed funds (retail and wholesale), superannuation funds, insurance bonds, directly managed accounts, institutional mandates and other portfolio based investments. Where a fund manager operates multiple funds that invest into one investment pool then any double counting of investments was removed.

**DIRECT INVESTMENT PORTFOLIOS MANAGED BY SRI FINANCIAL ADVISERS**

Some financial advisers specialise in providing services to investors who want to use an ethical/SRI approach in their investments. From over 100 advisers that have registered an interest in SRI we obtained data from 40 advisers on the amount under their advice that is invested in ethically screened direct investment portfolios (including shares and other portfolio investments), apart from managed funds.
RELIGIOUS ORGANISATIONS
The level of religious investment was last updated in this Benchmarking Study in 2004 and is currently considered outside the scope of this report. However, following the merger of the Christian Centre of Socially Responsible Investment with the EIA during the year, it is anticipated that more comprehensive data on religious groups’ SRI investing will be available for next year’s study.

CHARITIES AND CHARITABLE TRUSTS
Using sources such as the Givewell Research Centre, we identified about 60 charities who had share portfolios of $500,000 or more based on their latest financial statements. We then surveyed this group to ask them if these investments were held under an ethical investment policy. A total of 28 responded that a formal SRI policy applied to this investment portfolio.

EMPLOYER SUPERANNUATION FUNDS
Many superannuation funds are now providing their members with a choice of funds, including the option of an SRI super fund. These options generally then invest in one of the managed SRI portfolios and are counted in the total for that category.

A few employer superannuation funds have also adopted SRI investing as part of their mainstream investment options. If that investment has gone into an established SRI fund, then the amount is not included so as to avoid double counting. Where the investment has gone to an external source, such as an overseas SRI mandate, then it is listed as part of SRI Managed Portfolios under the heading Superannuation funds adopting SRI investment policies.

COMMUNITY FINANCE
For this study we surveyed organisations known to be dedicated ostensibly to community finance activities. This includes Approved Deposit Institutions that predominantly accept deposits and make loans to lower income groups and not for profit organisations. In this case we included figures on their assets.

A number of microfinance based loan portfolios (small loans made to disadvantaged groups) were also included in this category.

SHAREHOLDER ACTION
Using regular media coverage of incidents of shareholder activism we considered a range of voting and resolution actions based on corporate behaviour and governance. We also sought advice from corporate governance specialists on the incidence of any SRI related shareholder activism. But this year all such actions fell into the broader category of corporate governance while none fitted within the definition of an SRI related shareholder resolution.

Data on constructive engagement services undertaken as SRI overlay was obtained from the providers of this type of service. Ad hoc instances of corporate engagement on environmental or social issues by institutional investors or interest groups were not able to be surveyed due to their private nature.
SRI Managed Portfolios

Managed SRI portfolios grew by 56% during the 2006 financial year, up from $7.67 billion to $11.98 billion, an increase of $4.31 billion.

Total Investment Management in all types of standard or mainstream managed portfolios grew 15.5% in that same period.

This is a lower level of growth in percentage terms than in 2005 (70%) but 36% higher in dollar terms than the $3.17 billion increase in that year.

The $11.98 billion was arrived at after an amount of $665m in co-investment between various SRI funds was removed so as to avoid double counting. By adding these figures the published value of Managed SRI portfolios rises to $12.65 billion.

COMPONENTS OF MANAGED SRI PORTFOLIOS

This published value is made up of:

<table>
<thead>
<tr>
<th></th>
<th>$m</th>
<th>% of SRI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets of retail managed funds and managed accounts</td>
<td>3,194</td>
<td>26</td>
</tr>
<tr>
<td>Net assets of wholesale managed funds, investment mandates and public superannuation funds</td>
<td>7,874</td>
<td>62</td>
</tr>
<tr>
<td>Market capitalisation of ASX listed investment funds</td>
<td>1,582</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>12,650</td>
<td></td>
</tr>
</tbody>
</table>

The main factors contributing to the $4.31 billion in growth were:

<table>
<thead>
<tr>
<th></th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive investment performance</td>
<td>688</td>
</tr>
<tr>
<td>Net flows to wholesale funds, mandates and super</td>
<td>1,358</td>
</tr>
<tr>
<td>Net flows to retail funds</td>
<td>185</td>
</tr>
<tr>
<td>Incorporation of renewable energy infrastructure funds</td>
<td>1,312</td>
</tr>
<tr>
<td>New funds</td>
<td>773</td>
</tr>
<tr>
<td>Total</td>
<td>4,316</td>
</tr>
</tbody>
</table>
SUPERANNUATION FUNDS ADOPTING SRI INVESTMENT POLICIES

A handful of industry based superannuation funds have adopted SRI investment policies that extend beyond offering their members an SRI option in their choice of superannuation and these are outlined below. The growth of the SRI portfolios they have established is also due to the growth of those funds as the pool of retirement savings increases:

- VicSuper increased its investment in property funds invested under a sustainability policy.
- Local Government Superannuation Services (LGSS) increased its investment in its Australian shares portfolio which has an SRI policy of removing exposure to companies excluded under its negative screened SRI policy. LGSS removes exposure to negatively screened companies through a process of short-selling the equivalent of those positions from its mainstream portfolios. To enable comparability, the full value of this share portfolio was included in the total SRI managed portfolios (using the same assumptions that apply with other negative screened SRI funds). The value of the short positions at year end was $11.6m.
- From July 2005 Christian Super embarked on the task of transitioning all of its investments to fall under its ethical investment policy in the next 12 months. At year’s end this contributed $380m to the growth in SRI related superannuation.
- Other superannuation funds like UniSuper, National Catholic Superannuation Fund and HESTA continued their investment into established SRI funds throughout the year.

RETAIL VERSUS WHOLESALE GROWTH LEVELS

The wholesale segment of SRI managed portfolios is now growing at a much stronger rate than retail funds.

The smaller retail funds segment attracted $185m net funds inflow and, together with the impact of positive investment performance, grew to $3.19 billion.

Wholesale portfolios and mandates’ net funds flow was a much larger $1.36 billion, which – together with the performance effect – saw it grow to $7.87 billion. Much of the increased flow is attributed to institutional investment by large superannuation funds and not for profit organisations.

SRI FUND MANAGERS

Fund managers and superannuation funds with SRI funds under management as at June 2006 are listed as follows:

<table>
<thead>
<tr>
<th>MANAGER</th>
<th>2005 $M</th>
<th>2006 $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government Superannuation Services</td>
<td>2,082.0</td>
<td>2,419.0</td>
</tr>
<tr>
<td>Hunter Hall</td>
<td>1,328.6</td>
<td>1,661.3</td>
</tr>
<tr>
<td>AMP</td>
<td>439.2</td>
<td>1,550.3</td>
</tr>
<tr>
<td>Babcock and Brown</td>
<td>100.0</td>
<td>1,175.0</td>
</tr>
<tr>
<td>Investa</td>
<td>371.6</td>
<td>568.0</td>
</tr>
<tr>
<td>UCA Funds Management</td>
<td>541.3</td>
<td>563.4</td>
</tr>
<tr>
<td>SAM</td>
<td>304.4</td>
<td>483.6</td>
</tr>
<tr>
<td>Glebe</td>
<td>522.6</td>
<td>443.7</td>
</tr>
<tr>
<td>Australian Ethical</td>
<td>356.2</td>
<td>423.7</td>
</tr>
<tr>
<td>Warakirri</td>
<td>342.0</td>
<td>370.0</td>
</tr>
<tr>
<td>BT Financial Group</td>
<td>257.4</td>
<td>284.1</td>
</tr>
<tr>
<td>Christian Super</td>
<td>0.0</td>
<td>275.0</td>
</tr>
<tr>
<td>Ausbil Dexia</td>
<td>108.4</td>
<td>235.5</td>
</tr>
<tr>
<td>Vic Super</td>
<td>175.0</td>
<td>185.0</td>
</tr>
<tr>
<td>Generation</td>
<td>0.0</td>
<td>140.0</td>
</tr>
<tr>
<td>Perpetual</td>
<td>89.2</td>
<td>129.7</td>
</tr>
<tr>
<td>Viridis Clean Energy Group</td>
<td>23.9</td>
<td>111.0</td>
</tr>
<tr>
<td>James Fielding</td>
<td>52.0</td>
<td>110.5</td>
</tr>
<tr>
<td>Kaplan Funds Management</td>
<td>98.0</td>
<td>100.0</td>
</tr>
<tr>
<td>ING Asset Management</td>
<td>53.5</td>
<td>71.2</td>
</tr>
<tr>
<td>Sustainable Responsible Investment in Australia – 2006</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Challenger Financial Services</td>
<td>54.1</td>
<td>70.9</td>
</tr>
<tr>
<td>Merlyn Asset Management</td>
<td>55.0</td>
<td>68.2</td>
</tr>
<tr>
<td>Smallco Investment Manager</td>
<td>32.6</td>
<td>66.1</td>
</tr>
<tr>
<td>Perennial Value Management</td>
<td>46.9</td>
<td>56.9</td>
</tr>
<tr>
<td>GS JB Were</td>
<td>28.0</td>
<td>52.0</td>
</tr>
<tr>
<td>UBS</td>
<td>40.0</td>
<td>43.5</td>
</tr>
<tr>
<td>Deutsche Asset Management</td>
<td>36.0</td>
<td>42.0</td>
</tr>
<tr>
<td>Portfolio Partners</td>
<td>0.0</td>
<td>41.5</td>
</tr>
<tr>
<td>IOOF Perennial</td>
<td>33.4</td>
<td>40.0</td>
</tr>
<tr>
<td>CVC Sustainable Investments</td>
<td>32.1</td>
<td>36.3</td>
</tr>
<tr>
<td>Fat Prophets</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Tower</td>
<td>46.9</td>
<td>21.2</td>
</tr>
<tr>
<td>Maple Brown Abbott</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>BIAM Australia</td>
<td>44.1</td>
<td>19.6</td>
</tr>
<tr>
<td>State Street Global Advisers</td>
<td>18.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Alpha Investment Managers</td>
<td>11.0</td>
<td>13.0</td>
</tr>
<tr>
<td>QIC</td>
<td>0.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Putnam Investments Australia</td>
<td>5.0</td>
<td>7.0</td>
</tr>
<tr>
<td>vanEyk</td>
<td>3.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Cavilla</td>
<td>0.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

LARGEST SRI MANAGERS
FUNDS UNDER MANAGEMENT > $300M IN 2006

![Bar chart showing funds under management for different SRI managers in 2005 and 2006.](chart.png)
The fastest growing of the larger more established fund managers for the year was AMP Capital Investors who originally launched its Sustainable Future Funds range in early 2001. Its high growth last year was largely attributable to broad uptake of its new Responsible Leaders range multi-manager funds. Its own fund was also awarded mandates from institutional investors such as the Federal Government employees superannuation scheme, Aria.

Major retail manager Hunter Hall experienced a slower rate of growth this year and this was largely attributable to the positive effect of strong investment markets. Its underperforming Australian Value Trust experienced funds outflows which had the effect of slowing its overall rate of growth as well as that of the retail SRI funds segment.

Investa Property Group’s two wholesale sustainable property trusts experienced solid growth due to an uptake in investment from institutional investors and another year of creditable returns from the commercial property sector.

Another larger fund manager to experience significant growth was SAM Australia, which experienced typically steady inflows from its superannuation fund clients, combined with the positive impact of the strong investment returns.

**SRI MANDATES**

Included in total SRI portfolios, there are several screened investment mandates managed by mainstream fund managers who do not offer a pooled SRI fund. These include Generation, Kaplan Funds Management, Deutsche Asset Management, Maple-Brown Abbott, State Street Global Advisers, Alpha Investment Managers, Perennial Value Management and Putnam Investments Australia, who together managed $395m in SRI mandates in June 2006.

**RENEWABLE ENERGY INFRASTRUCTURE FUNDS NOW CLASSED AS SRI**

This year the survey again gathered data on two emerging areas of sustainability investing related to renewable energy and sustainable forestry. After reference to the methodology used in overseas SRI studies it was determined that diversified listed renewable energy funds meet the definition of an SRI managed portfolio.

In fact a notable area of activity on the Australian Stock Exchange during the year was the level of capital raising support for diversified infrastructure funds dedicated to investment in renewable energy.

There are now four such funds: CVC Renewable Energy Equity Fund; Babcock and Brown Environment Investments Fund; Babcock and Brown Wind Partners and the Viridis Clean Energy Group. Together this group had a stockmarket capitalisation at June 2006 of $1.31 billion after raising new equity in 2005-06 of $758m. These funds now form the bulk of the ASX listed investment company component of SRI which is valued at $1.58 billion.

The two Babcock and Brown funds dominate this segment.

**NEW SRI FUNDS**

Despite solid investor support and strong investment markets it was a quiet year for launching new SRI funds.

The “all ethical” approach adopted by the $380m strong Christian Super was the most significant initiative and this saw $275m in new SRI mandates awarded during the year with the balance being allocated to established SRI funds. It also seeded a new innovation, the Portfolio Partners Long Short Sustainability Fund, which is also open to other investors.

Some other product development initiatives are understood to be in development at the time of writing and these will see more new products being included in the 2007 study.
**FUND RATIONALISATION**

Last year also marked a period of product rationalisation as a number of fund managers decided to exit or reshape their involvement in SRI investing.

The most significant was Glebe Asset Management who terminated many of its funds when it failed to sell the funds management business. Glebe will now focus on managing funds for the Anglican Church largely using a multi-manager approach.

Another notable exit was the $50m SRI based Collateralised Debt Obligation (CDO) developed by Grange Securities last year. Because of a deterioration in credit quality there was a bond-holder resolution at which 100% of holders voted to restore the credit quality of the transaction by including non SRI credits within the portfolio and drop the ethical overlay.

Other smaller fund terminations throughout the year include: ABN AMRO Global Socially Responsible Investments Fund, Tower Global Responsibility Fund and the Warakirri Charitable Enhanced Growth Trust – all of which had a fund size of less than $20m prior to their closure.

During the year the first Australian SRI fund to be promoted by one of Australia’s big 4 banking groups, the BT Eco Share Fund (formerly the Westpac Eco Share Fund which opened in February 2000), was closed to new investment after its foundation shareholder Hesta superannuation fund moved its portfolio to a discrete mandate managed by BT Financial Group. This occurred after BT Financial Group had decided to lift the ‘no uranium’ screen on its range of SRI funds and Hesta preferred to keep the screen. BT Financial Group continues to offer its two other SRI Australian share funds to external clients.

ING Investment Management also rationalised its SRI presence during the year by closing its Sustainable Investments Global fund. Its Sustainable Investments Australian Share Trust, which is supported by the Australian Catholic Superannuation Fund, remains open for investment.

Even the fast growing AMP rationalised its SRI options by transitioning its Sustainable Future International Share Fund and Sustainable Future Balanced Growth Fund to its new Responsible Leaders multi-manager fund options.

**SUSTAINABLE FORESTRY- NOT PART OF SRI BUT WORTH NOTING**

Two ASX listed agribusiness managers – Timbercorp and (Futuris controlled) ITC – raised $85m to finance investment into Forest Stewardship Council certified timber plantations. This is a decline from $133m raised in 2005, reflecting an overall moderation in capital raised for timber plantations. This has been attributed to a shortage of land suitable for new timber plantations and uncertainty over the continuation of tax benefits for investment in this sector.

**SRI PORTFOLIOS - MARKET SHARE**

According to Standard & Poors’ latest Market Share Report, Total Investment Management (i.e. all types of mainstream managed investment portfolios) in Australia comprised $777 billion in June 2006. Therefore, SRI portfolios in June 2006 of $11.98 billion are 1.54% of this total, up from 1.14% in 2005 and 0.73% in 2004. This indicates the cumulative effect of several years of above average growth for SRI investment, although it is still a very small segment.

Retail SRI funds are 0.8% of total retail funds under management (up from 0.7% in 2006) and wholesale SRI portfolios now comprise 1.5% of the Standard & Poors total for wholesale funds and discrete managed portfolios (up from 1.2% in 2005).

**OVERSEAS COMPARISONS**

Other parts of the globe that conduct similar studies of SRI investing include the US, Canada and Europe. However this is the first study of 2006 data to be published.

International comparisons between studies are difficult because of differences in data gathering methodology, the definitions of SRI and the level of investment disclosure.
One area that is worthy of mention is the market share of SRI managed funds compared with the total managed investments in each country, according to its latest SRI study. As stated above, SRI funds’ market share in Australia is 1.54%.

A 2005 study published by the US Social Investment Forum found that Socially Screened Mutual Funds accounted for US$179 billion in investments. According to the Investment Company Institute total mutual fund net assets in 2005 were US$8,905 billion. This suggests an SRI mutual funds market share of 2%, which remained unchanged from the 2003 study.

A broader measure of SRI used in the US study was a figure of US$2.29 trillion made up of screened portfolios, shareholder advocacy and community investing. This is calculated as 9.4% of all assets under professional management in the US, being $24.4 trillion in 2005. This figure includes large amounts in socially screened investments of religious organisations and education bodies. While similar organisations in Australia have SRI investment policies they have fallen outside the scope of this study.

A 2004 study by the Social Investment Organisation in Canada calculated that SRI mutual funds of C$14.8 billion represented 3.5% of the total market of C$417 billion.

SRI has also been actively promoted in several European countries and the latest survey was released by the European Social Investment Forum (Eurosif) in September 2006 based on data to December 2005. This study presents a figure of €105 billion for Core SRI, which is up 71% since 2002. In Europe Core SRI includes portfolios subject to ethical exclusions and positive screens. The study also identified €266 billion in European pension fund portfolios subject to simple ethical exclusions such as tobacco or weapons screens, which represents 6% of the total European pension funds market. Finally, Eurosif presents a measure of the Broad European SRI market which is now estimated to be up to €1 trillion and comprises 10% -15% of the total European funds under management. Broad SRI includes Core SRI (€105b) plus simple exclusions (€266b) plus shareholder engagement plus integration of ESG issues into investment decisions. Broad SRI represents 36% growth since December 31, 2002. In the Report, Eurosif adds that SRI is growing in many countries and is particularly booming in Spain and Austria.
### LONGER TERM TRENDS

Over the 6 year period that SRI has been benchmarked the growth in this segment is now as follows –

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2004(R)</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>325</td>
<td>1,818</td>
<td>2,175</td>
<td>2,355</td>
<td>3,315</td>
<td>4,500</td>
<td>7,670</td>
<td>11,985</td>
</tr>
<tr>
<td>Market Share %</td>
<td>0.7</td>
<td>1.14</td>
<td>1.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change SRI Year</td>
<td>459</td>
<td>20</td>
<td>8</td>
<td>41</td>
<td>91</td>
<td>70</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>% Change SRI Cum.</td>
<td>459</td>
<td>569</td>
<td>625</td>
<td>920</td>
<td>1,285</td>
<td>2,260</td>
<td>3,587</td>
<td></td>
</tr>
<tr>
<td>% Change Mainstream Investments</td>
<td>9.2</td>
<td>15.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(R) = Restated in the 2005 study relating to 2004 figures.

This table shows that since 2001, when a number of mainstream fund managers like AMP, Perpetual, ING, Challenger and Westpac (now BT Financial Group) entered the sector SRI portfolios have grown by a factor of nearly 6 times over that five year period.
SRI Funds Performance

Analysis of the SRI Managed Funds performance table to June 2006 has found that the average SRI Australian share fund underperformed its larger mainstream counterparts over the last year.

In 2005-06, when most Australian share funds continued to post strong returns, SRI funds did not fare as well – with the average SRI Australian share fund underperforming its benchmark, the S&P/ASX 300 Index, and the average mainstream fund. This is due largely to the continuation of the resources boom, an underweight area for SRI funds as a whole.

But when looking at three year returns, the average SRI fund investor fared better and obtained a return that was at par with mainstream funds and the market benchmark index. And over the last five years SRI funds outperformed the average mainstream fund and the index.

On the other hand, overseas SRI funds offered in Australia outperformed their mainstream counterparts and the benchmark index over one year, three years and five years. This is due to the dominance of that category by the larger and high performing Hunter Hall funds.

The limited number of SRI balanced funds underperformed mainstream funds over one year but outperformed over three to five years.

### SRI VS MAINSTREAM SHARE FUNDS
returns to June 2006 (net of management fees) % pa

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australian Share Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average SRI Fund</td>
<td>22.36</td>
<td>23.32</td>
<td>13.99</td>
</tr>
<tr>
<td>Average Mainstream Fund-Wholesale</td>
<td>25.37</td>
<td>23.72</td>
<td>11.94</td>
</tr>
<tr>
<td>Average Mainstream Fund-Retail</td>
<td>24.95</td>
<td>23.06</td>
<td>10.89</td>
</tr>
<tr>
<td>S&amp;P/ASX 300 Acc(AUD)</td>
<td>24.02</td>
<td>23.91</td>
<td>12.31</td>
</tr>
<tr>
<td><strong>Overseas Share Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average SRI Fund</td>
<td>26.60</td>
<td>20.49</td>
<td>13.48</td>
</tr>
<tr>
<td>Average Mainstream Fund-Wholesale</td>
<td>23.02</td>
<td>13.36</td>
<td>-1.46</td>
</tr>
<tr>
<td>Average Mainstream Fund-Retail</td>
<td>23.55</td>
<td>13.17</td>
<td>-2.67</td>
</tr>
<tr>
<td>S&amp;P/Citi BMI World Acc(AUD)</td>
<td>21.76</td>
<td>15.04</td>
<td>-0.14</td>
</tr>
<tr>
<td><strong>Balanced Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average SRI Fund</td>
<td>13.08</td>
<td>15.40</td>
<td>9.46</td>
</tr>
<tr>
<td>Average Mainstream Fund-Wholesale</td>
<td>14.62</td>
<td>14.17</td>
<td>7.86</td>
</tr>
<tr>
<td>Average Mainstream Fund-Retail</td>
<td>13.48</td>
<td>12.74</td>
<td>6.82</td>
</tr>
</tbody>
</table>

Source: Corporate Monitor based on data provided by Standard & Poors.

The average return for mainstream funds is published in *Ethical Investor* magazine each month and is based on asset weighted category indices calculated by Standard & Poors.
Community Finance

In this year’s study a broader range of community finance organisations was surveyed. This includes microfinance loan schemes and organisations dedicated to providing financial services to disadvantaged communities and not for profit organisations.

Thirteen community finance providers had total assets of $382m in June 2006, an increase of 23% on last year’s figure of $308m. These are:

- ANZ Progress Loans
- Bendigo Ethical Cash Management Account
- BSL No Interest Loans Scheme
- Community Sector Banking
- Ethical Investment Trust
- Fitzroy and Carlton Credit Co-op
- Foresters ANA
- Hillsong Emerge
- Macauley Credit Co-op
- Maleny Credit Union
- NAB Step up Loan
- Traditional Credit Union
- UCA Development Fund

While this segment of SRI has not grown as strongly in dollar terms there is a notable effort on the part of a handful of organisations to build further community finance and microcredit infrastructure in Australia. This is due in part to follow up efforts from the UN’s International year of Microcredit 2005 and the involvement of some of the major local banks.

In addition larger credit unions like mecu, Bananacoast Community Credit Union and South Australia’s Savings and Loans furthered their adoption of more formalised community financing and ethical investing policies.

GREEN LOANS

A corollary feature of the community finance sector is the further development of green loans – those which finance environmentally friendly purchases and which also offer the borrower some form of tangible benefit if they take out this type of loan.

This year we identified seven lenders providing this type of facility:

- Bendigo Bank
- StateWest Credit Society
- Community CPS
- Maleny Credit Union
- mecu
- SA Savings & Loans
- Westpac Bank

Green loan balances were $44m at June 2006. A comparative figure for 2005 cannot be provided as this year’s figures include Bendigo Bank for the first time, a pioneer in the green loan area.

Westpac’s Economical Living Package was launched in June 2006 and includes a discount offer for all its new home mortgage borrowers to purchase environmentally friendly products for their home. While this is a significant initiative, it may not be possible, given the structure of the product, to identify the actual takeup from the offer – and the green home loans that result.
SRI Financial Adviser Portfolios

By using the methodology developed for last year’s study we built on the list of over 100 financial advisers with a specific interest in SRI investing. Of that group, firms representing approximately 40 advisers indicated that they advise on direct investment portfolios, which total $681m. This is up 40% from 2005 which gathered data from 30 advisers.

More than half of this increase can be attributed to the strong sharemarket returns as these portfolios are typically dominated by holdings of Australian shares.

Other factors include the ongoing growth of established ethical investment specialist firms and a continued trend from charitable and religious organisations to seek advice in building ethically screened investment portfolios.

Charities and Charitable Trusts

Again, by using the methodology for last year’s study, we obtained responses from 28 major charities and charitable trusts with screened direct SRI portfolios of $295m in 2006, up 14% from $258m in 2005. It should be noted that in some cases these charities use the services of a financial adviser who has also included the value of the charity’s SRI portfolio in their assets under advice.

The actual amount invested via an ethical investment strategy is in fact larger than the figure stated here. One reason for this is that a few charities surveyed also indicated that they had changed their investment policy in the last year and switched investments to managed funds. Hence their investment balances were not included as this amount would be included in the SRI managed portfolios category.

Based on the figures and reports provided by financial advisers and the growth of SRI funds aimed at the charities market, the trend for the not for profit sector to adopt SRI investing has continued.

Superannuation Funds and SRI Options

From 1 July 2005 many Australian employees were able to choose their own superannuation fund and to ask their employer to have their superannuation contributions paid into that fund.

For 2006 we obtained data from Rainmaker Information Services that shows the largest 20 public offer superannuation funds that offer an SRI option. This is based on 122 superannuation funds offering a combined total of 350 SRI investment options and includes a total of 32 industry, government and corporate funds and 90 corporate and personal master trusts. By comparison, the 2005 study listed 119 funds offering a total of 317 SRI options.

Rainmaker notes that the total number of super funds offering SRI investment options doesn’t appear to have increased much since last year. However, to put this in context, Rainmaker points out that there has been significant super fund closure and merger activity of late which has reduced the total number of super funds in the market.
## LARGEST 20 SUPERANNUATION FUNDS OFFERING ETHICAL/SRI INVESTMENT CHOICE

<table>
<thead>
<tr>
<th>FUND NAME</th>
<th>SEGMENT</th>
<th>FUM ($BN)</th>
<th>NO. OF ETHICAL/SRI INV'T CHOICES</th>
<th>CAN ANYONE JOIN?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 AustralianSuper</td>
<td>Industry fund</td>
<td>$20.0</td>
<td>3</td>
<td>Yes</td>
</tr>
<tr>
<td>2 UniSuper</td>
<td>Industry fund</td>
<td>$19.3</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>3 AMP Flexible Lifetime Super</td>
<td>Personal master trust</td>
<td>$18.5</td>
<td>3</td>
<td>Yes</td>
</tr>
<tr>
<td>4 MLC MasterKey Superannuation</td>
<td>Personal master trust</td>
<td>$15.9</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>5 HESTA Super Fund</td>
<td>Industry fund</td>
<td>$9.8</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>6 Mercer Super Trust (Corporate Super Division)</td>
<td>Corporate master trust</td>
<td>$9.0</td>
<td>2</td>
<td>Yes, through employer</td>
</tr>
<tr>
<td>7 Sunsuper</td>
<td>Industry fund</td>
<td>$8.7</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>8 AMP CustomSuper</td>
<td>Corporate master trust</td>
<td>$6.4</td>
<td>3</td>
<td>Yes, through employer</td>
</tr>
<tr>
<td>9 MLC MasterKey Business Super</td>
<td>Corporate master trust</td>
<td>$6.3</td>
<td>1</td>
<td>Yes, through employer</td>
</tr>
<tr>
<td>10 Health Super Fund</td>
<td>Industry fund</td>
<td>$6.2</td>
<td>4</td>
<td>No</td>
</tr>
<tr>
<td>11 Plum Superannuation Fund</td>
<td>Corporate master trust</td>
<td>$6.1</td>
<td>1</td>
<td>Yes, through employer</td>
</tr>
<tr>
<td>12 ASGARD Superannuation Account</td>
<td>Personal master trust</td>
<td>$5.8</td>
<td>10</td>
<td>Yes</td>
</tr>
<tr>
<td>13 Navigator Personal Retirement Plan - Super Service</td>
<td>Personal master trust</td>
<td>$5.2</td>
<td>7</td>
<td>Yes</td>
</tr>
<tr>
<td>14 AMP SignatureSuper</td>
<td>Corporate master trust</td>
<td>$3.9</td>
<td>3</td>
<td>Yes, through employer</td>
</tr>
<tr>
<td>15 OneAnswer Personal Superannuation Plan</td>
<td>Personal master trust</td>
<td>$3.8</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>16 Equipsuper</td>
<td>Industry fund</td>
<td>$3.7</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>17 Vision Super</td>
<td>Industry fund</td>
<td>$3.7</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td>18 Macquarie Super Manager</td>
<td>Personal master trust</td>
<td>$3.6</td>
<td>4</td>
<td>Yes</td>
</tr>
<tr>
<td>19 Integra Super (Personal Division)</td>
<td>Personal master trust</td>
<td>$3.6</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>20 The Victorian Superannuation Fund</td>
<td>Government fund</td>
<td>$3.3</td>
<td>1</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Source:** SelectingSuper

This table shows a strong selection of larger superannuation funds offering some element of SRI choice, including not for profit industry funds and commercial master funds. The number of funds offering a range of SRI choices is still small although some, like AMP and ASGARD, offer a multi-manager choice which achieves a broad level of diversification within the one SRI option, thus enabling members to adopt SRI over their entire superannuation account.

More information about superannuation funds that offer SRI investment options is available online from the EIA’s SRI Superannuation Centre at www.eia.org.au
**SRI Overlays**

This year we surveyed 2 overlay providers, the BT Governance Advisory Service and the Responsible Engagement Overlay (distributed in Australia by State Street Global Advisers). These services provide engagement specifically on corporate sustainability performance on behalf of a number superannuation funds and institutional investors of $8.6 billion, up 8 per cent on their assets under advice in 2005 of $7.9 billion.

In net terms this growth can be accounted for by a market effect which indicates there has been negligible uptake in this area in the past year. This compares with a 73% increase in 2005.

**Shareholder Action/Advocacy**

In 2006 there were no specific shareholder resolutions that related to an issue of environmental or social responsibility.

This contrasts with more positive developments in institutional shareholder advocacy on corporate governance related issues such as director/executive remuneration or board composition etc. These have been facilitated by improved regulations and best practice guidelines on good governance as well as a requirement to present shareholders with a remuneration report which is subject to a non-binding vote at each company’s Annual General Meeting. There has also been an evident trend for institutional investors to seek professional advice on governance matters and for some, like AMP Capital Investors, to provide a public report on their active ownership actions.

However with these developments there have been no SRI related actions. Why? First, some environmental groups are involved in a legal battle with forestry company Gunns over what it claims to be economic loss resulting from illegal interference with its trade and business. Second, other groups are preferring to focus on engagement and political lobbying activities.

Last, while companies like James Hardie and AWB have been criticised during the year for the negative social impacts of their business activities, there have been no specific shareholder actions mounted against them.

This rather benign environment for SRI related shareholder activism is somewhat perplexing when compared to the US. For example, GreenBiz.com reported in April that social, environmental and corporate governance shareholder resolutions were seeing another robust year in 2006, according to the US Social Investment Forum.

At that time an estimated 180 social and environmental shareholder resolutions have either already come to votes or were scheduled to be decided at US corporate meetings for the first half of 2006, compared with 169 for the first half of 2005.

In Australia SRI shareholder advocacy has typically been initiated by environment or labour groups who, having met the 100 shareholder threshold, have then taken their case to institutional investors to build support for their resolution. Contrast this with the US where actions are typically initiated by institutional investors and co-ordinated by groups like the Social Investment Forum or the Interfaith Center for Corporate Social Responsibility. So, even though the Federal Government is advancing reforms that will lift the requirement to call an Extraordinary General Meeting well above the 100 shareholder rule, the requirements for putting a shareholder resolution at an Annual General Meeting remain unchanged. It follows that fewer SRI resolutions in recent times cannot be blamed upon regulatory changes.

Overall, the main hope for Australia to see a higher level of SRI shareholder advocacy is for institutional investors like superannuation funds and fund managers to adopt a coordinated approach similar to that which operates in the US and develop and promote their own resolutions.
Mainstream Fund Managers Using SRI Factors

Last year’s study noted the beginnings of a trend for mainstream fund managers to incorporate environmental, social and governance (ESG) factors into their investment process.

During the year Mercer Investment Consulting released its first survey of how Australian equity managers integrate ESG issues into investment decision-making. The survey covered 27 ‘high profile’ managers and found that 2 rated ++ (well above average) and another 7 rated + (above average) for their capabilities in this area. Mercer plans to add approximately 10 fund managers to this survey in the coming year.

On a more formal note the United Nations’ Principles for Responsible Investment (PRI) were also launched during the year as a sign that institutions are committed to develop their application of ESG factors across their investment portfolios (not just SRI investments).

Australasian signatories to the principles are as follows –
- Catholic Superannuation Fund
- Christian Super
- Dexia Asset Management
- New Zealand Superannuation Fund
- VicSuper
- Portfolio Partners Limited
- Monash Sustainability Enterprises
- RepuTex Group

Another indication of the level of fund manager interest in ESG issues is provided by the Carbon Disclosure Project (CDP). This represents a process whereby institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions. The latest project, CDP 4, sent this request to over 1,900 companies on behalf of institutions with assets under management of more than US$31 trillion.

CDP 4 signatories that have established businesses in Australia are as follows –
- Aberdeen Asset Managers
- ABN AMRO
- Allianz Group
- AMP Capital Investors
- Australia and New Zealand Banking Group
- Australian Ethical Investment
- AXA Group
- BT Financial Group
- Catholic Superannuation Fund
- Credit Suisse Group
- Deutsche Bank
- Dexia Asset Management
- Five Oceans Asset Management
- Merrill Lynch Investment Managers
- National Australia Bank
- Portfolio Partners
- SAM Sustainable Asset Management
- Schroders
- UBS AG
- VicSuper

It is also worth noting that 10 of these 20 fund management businesses have no current involvement in managing SRI portfolios in Australia.
SUSTAINABLE PROPERTY INVESTMENT

A trend towards sustainable property development and management techniques is also evident within institutional property portfolios. At least one fund manager has formalised a commitment to this as it undertakes new developments or refurbishments.

The Industry Superannuation Property Trust (ISPT) introduced a policy in 2005 of improving the environmental performance of its $4 billion property portfolio by having its new developments subjected to an Australian Building Greenhouse Rating and introducing Environmentally Sustainable Development principles in the early stages of the new project design process. In 2006 it has stated that it will report its progress on this commitment.

There are many other examples of buildings with high sustainability ratings that form part of institutional investment portfolios. But because the whole portfolio is not managed under a sustainability policy it is not classified as SRI.

SRI in New Zealand

Last year the EIA reported a total estimate for SRI in New Zealand of $31.6 million. For the year ended 30 June 2006 we estimate this to be $37.2 million, an increase of $5.6 million or 18%. This total excludes funds invested by New Zealanders in Australian and other international funds. It also excludes the Crown Financial Institutions such as the New Zealand Superannuation Fund. Further information about most of the New Zealand SRI offerings is provided below along with an update on the New Zealand Superannuation Fund.

Asteron (www.asteron.co.nz) launched New Zealand’s first Socially Responsible Investment Trust in 2002 investing primarily in New Zealand listed companies and based on the principle of negative screening and engagement with companies in its predominantly New Zealand based equity portfolio. Asteron is part of the Promina Group, which is listed on the Australian and New Zealand Stock Exchanges. It uses the research services of Rodger Spiller & Associates (www.rodgerspiller.com). Asteron’s SRI Trust grew from $1.5 to $1.8 million in the year ended 30 June 2006.

Just Dollar$ Trust (www.justdollars.org.nz) established in 1992 as a charitable trust providing small business loans to people and not for profits in the Canterbury region who are unable to access bank finance. Loans are to a maximum of $10,000. It provides a vehicle for funds donated and lent to be made available to approved ventures. Applicants must be unable to secure bank finance and must be on “low incomes”. Just Dollar$ has $240,000 in investor funds (a similar amount to last year), and since 1993 has loaned almost $1 million to over 300 people.

The Nelson Enterprise Loan Trust (www.nelt.org.nz) is a charitable trust established in 1997 and operates a regionally-based, ethical investment loan fund that facilitates employment opportunities by making loans of up to $20,000 to small enterprises that are unable to obtain finance from mainstream sources. To date it has made 101 loans totaling more than $769,000 with only one (for $5,000) failing.

Prometheus (www.prometheus.co.nz) began its operations in 1983 providing deposit and borrowing services. It lends to people and projects that make a positive contribution to society by incorporating social and environmental responsibility, sustainability and sound business practices. In the year ended 30 June 2006 it increased deposits by 31% from $8 million to $10.5 million. There was a significant increase in activity and the amount of lending grew in excess of 20%. Prometheus has also introduced a new Energy Saver Term Account. For the most part funds will be used to finance loans under the auspices of the Energy Efficiency and Conservation Authority (EECA) Solar Water Heating (SWH) finance assistance programme. Prometheus has been chosen by EECA as their preferred finance provider for 2006/07 for this programme which could result in upwards of $5 million of loans to SWH installations throughout New Zealand this year. Funds in these accounts may also be used to finance loans for other renewable energy projects. These are mostly made up of household stand-alone renewable energy systems (including solar electric, wind and micro-hydro). Prometheus is also seeking to build awareness about loan availability for energy-efficiency and insulation retrofits, both household and commercial. Prometheus joined the Ethical Investment Association in 2006.
The **Quaker Investment Ethical Trust** (www.quaker.org.nz/qiet) was established in 1989. Its primary object is to provide an ethical savings, investment and loan service in such a way as to reflect Quaker concern. To date, most loans have gone to people who, because of their current circumstances, are unable to secure loans through traditional means, although not all were associated with Quakers. The money has been used for housing, small businesses and low income housing schemes. The Trust has over $1,100,000 in deposits as at 30 June 2006.

**Trust Investments** (www.trustinvestments.co.nz) is a specialist manager initiated by the Anglican Church. It caters to charitable trusts offering a range of conventional funds and the Sustainable New Zealand Share Fund weighed in favour of companies that meet certain sustainability criteria. In order to meet the sustainability criteria, it avoids investment in companies whose major business activities are: tobacco products, alcoholic beverages, pornography, gambling and armaments. In the year ended 30 June 2006 the Sustainable New Zealand Share Fund grew from $21 million to $23.6 million.

The **New Zealand Superannuation Fund** (www.nzsuperfund.co.nz) is a retirement fund for New Zealanders retiring in the future, funded from general taxation. Along with several other Crown Financial Institutions including the Government Superannuation Fund (a retirement fund for government employees), the New Zealand Superannuation Fund is governed by legislation that requires these funds to implement “ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.” The legislation also requires maximising return without undue risk.

The New Zealand Superannuation Fund commenced investing in September 2003 with $2.4 billion. As at 30 June 2006 the Fund had grown to $10.1 billion. The fund is expected to reach $120 billion by 2025 making it one of the largest funds in Australasia. In line with the Fund’s governing legislation, an SRI policy has been developed.

One of the Fund’s core beliefs is that the long term financial performance of companies it invests in can be affected by ESG issues. During the past year the Fund made progress in incorporating this perspective into its operation.

The Fund has become a founding signatory of the Principles for Responsible Investment (www.unpri.org), an initiative of the United Nations, in conjunction with many of the world’s largest institutional investors. In addition, the Fund has adopted the United Nations Global Compact as a benchmark by which it measures the non-financial performance of the companies it invests in. They have also appointed International Shareholder Services (ISS) to co-ordinate, research and exercise its international voting rights and assist them in the development of a corporate governance standard for New Zealand.

The Fund believes the Principles provide a framework for achieving better long-term investment returns and more sustainable markets. The Fund aims to continue moving forward in each area and to be able to demonstrate constructive progress each year.

An issue facing institutional investors is whether certain types of activities should be excluded from the portfolio on the basis that they are inappropriate. The Fund’s policy is that it will not permit investment in an activity which is illegal in New Zealand even if it is legal in a foreign jurisdiction. If it determines that an investment has been made which contravenes this standard, it will be divested. Conversely, if an activity is legal in New Zealand, it will not prohibit its inclusion in the portfolio.

The Fund recognises that it is often the standards set by companies for their operations which attract criticism. Here the approach is to measure the companies in the portfolio against the standards set out in the United Nations Global Compact (www.unglobalcompact.org). The Global Compact covers human rights, employment conditions, the environment and business corruption. The Fund believes this provides transparent, objective and widely accepted criteria to identify entities whose behaviour is such that investment in them by the Fund could prejudice New Zealand’s reputation as a responsible member of the world community. Where a company is identified, through a monitoring programme, as appearing to be operating inconsistently with these principles, the Fund’s aim is to undertake constructive engagement with them. The intention is to operate in concert with other institutional investors in these discussions to make them more effective.
During the Fund’s first three years, resources were focused on the development of investment policy and the matter of exercising proxy votes was delegated to their external investment managers. As the number of investment managers has expanded, so has the number of securities – the Fund is now the registered owner of more than 3,000 securities around the world. It recognised that to meet their intention to vote all their shares, where possible, it would need to centralise their voting to ensure votes were cast and to enable them to report on how they voted. This centralisation brought with it the need to more clearly define their expectations for standards in corporate governance. In conjunction with ISS, their investment managers and other New Zealand institutional investors, the Fund has developed a set of guidelines for the domestic market and are committed to constructive discussion with issuers around this.

The New Zealand Superannuation Fund has joined the Ethical Investment Association in 2006.

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