

jury no longer out

The following article includes extracts from a presentation by Dr. Matthew Kiernan, Chief Executive of Innovest. International Ethical Investment Conference, 2004

Presenters at the 2004 International Ethical Investment Conference repeatedly gave evidence dispelling the myths surrounding SRI performance. Over and over again we were presented with results of studies showing no adverse impact on returns as a result of the screening process.

Therefore, the time has come to find socially responsible investment “Not Guilty” and to lay to rest the idea that addressing sustainability factors can be injurious to financial returns or that it would be a breach of fiduciary duty to incorporate sustainability factors into an investment strategy.

As Jean Frijns, Chief Investment Officer of ABP Netherlands, the largest pension fund in the world puts it: *“there is a growing body of empirical evidence that companies which manage environmental, social and governance risks most effectively tend to deliver better risk adjusted financial performance than their industry peers.”*

A company’s performance on “sustainability” issues can be an excellent proxy and leading indicator for good performance because success in these areas, which are some of the main areas considered in ethical investing, implies ability to excel in other business areas for the following reasons:

- Environmental, social and governance issues represent one of the most complex challenges facing company management today
- There is a high level of technical,

market and regulatory uncertainty that management must contend with

- There are many complex issues including stakeholders and non financial measures to address

“increasingly, we have seen indications that there is value in “extra-financial” or qualitative analysis of equities, where corporate governance, social or environmental issues are incorporated into the overall financial analysis of companies and industries”

Harry D Cohen, Chief Investment Officer, Citigroup Asset Management

AND THERE’S MORE !!!

“over the longer term, investments based on sustainability criteria are expected to outperform those based on traditional performance resources”

Roderick Munsters, Chief Investment Officer, PGGM Netherlands.

“A realistic description of our economic system must include the fact that consumers, suppliers and employees care about being treated fairly and treating others fairly. In addition, they are willing to

resist unfair firms..... Satisfying the fairness constraint may lead to better long run financial performance.”

Kahneman, Knetsch & Thaler, “Fairness and Assumptions of Economics”, *Journal of Business* (1986)

AND ULTIMATELY.....

“ the trend toward sustainability will work to reinforce the performance of socially responsible investing for the foreseeable future.....As more and more people realise that SRI outperforms they will begin to incorporate it in their financial practice. Wall Street will begin to imitate SRI screens to achieve performance, and the relative outperformance of SRI will decrease. In the end SRI will cease to be a countertrend in the financial world, and will instead simply be the way things are done. It is unlikely that 100 years from now there will be socially responsible investing and non-socially responsible investing, and the performance comparison will have become a footnote in economic history”.

Peter Camejo, *The SRI Advantage: Why Socially Responsible Investing has Outperformed Financially* (New Society, 2002).

RECENT RETURNS ON ETHICAL MANAGED FUNDS

Fund Name	1 yr return to 31 Dec 2004	3 yr return to 31 Dec 2004 (average per annum)
Australian Ethical Balanced Trust	18.90%	8.40%
Australian Ethical Large Companies Trust	29.70%	9.60%
Australian Ethical Equities Trust	22.40%	6.40%
Hunter Hall Value Growth Trust	12.80%	11.90%
Hunter Hall Australian Value Trust	14.40%	17.00%
Hunter Hall Global Ethical Trust	19.40%	6.10%
AMP Sustainable Futures Australian Share Fund	31.85%	13.72%
AMP Sustainable Futures Balanced Share Fund	16.89%	3.17%
Glebe Large Cap Equities Trust	25.80%	9.60%
Glebe Small Cap Equities Trust	35.30%	20.50%
Challenger Socially Responsive Investment Fund	24.93%	9.42%