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Sustainable Responsible Investment in Australia - 2005

A BENCHMARKING SURVEY CONDUCTED FOR THE ETHICAL INVESTMENT ASSOCIATION BY

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WITH PROJECT SUPPORT FROM:

Victoria The Place To Be

Australian Government
Department of the Environment and Heritage

BCU
Let's talk banking

OCTOBER 2005

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 year 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.

Over the last twelve months the EIA has focussed on three significant projects designed to grow the sector by helping investors to locate the SRI products and services which best suit their needs. Those projects are outlined below.

If you are interested in joining the EIA or in finding out more about our work please contact our office in Sydney, Australia on 61 2 8224 0314, email us at info@eia.org.au or visit the EIA website, www.eia.org.au.

SRI SYMBOL – WORLD-FIRST SRI CERTIFICATION PROGRAM

The world's first SRI industry certification, the SRI Symbol program, was launched by the EIA in September 2005. 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. Display of the SRI Symbol will certify that a licensee has adopted educational and disclosure practices relevant to their license category. 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.

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. Information relating to each Symbol licensee will be publicly available on the EIA website (www.eia.org.au), which will retain responsibility for the ongoing management of the SRI Symbol program.

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 also lists financial advisers who provide SRI advice.

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

SRI COURSE FOR FINANCIAL ADVISERS

Five years ago the EIA commissioned the world's first course for financial advisers on Sustainable Responsible Investment written by EIA co-founding President, Janice Carpenter.

The course has been delivered live at three EIA conferences however in the past six months the Association has been working with prospective partners in order to establish a distribution framework which will make it widely and easily available to advisers and adviser networks across the country. We anticipate realisation of these plans by early to mid 2006. For more information about the EIA Financial Advisers' course please contact the EIA.

JOIN THE EIA

…and become part of a co-ordinated, united group working to promote the growth of SRI in Australia and New Zealand. Benefits of membership include:

- The opportunity to apply for the SRI Symbol (categories are Fund Manager, Super Fund, Financial Adviser and Dealer Group), available only to members of the EIA;
- The opportunity to write about your product, service or organisation on the EIA website which is Australia'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.

ETHICAL INVESTMENT ASSOCIATION

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Table of Contents

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Executive Summary

This is the 5th Annual SRI Benchmarking Study commissioned by the Ethical Investment Association. The main aim of this year's study is to update figures on various forms of SRI and to develop more data on trends, attitudes and recent developments in the superannuation sector.

Overall the results show that SRI is growing strongly in Australia and in areas where this is not yet apparent – such as community finance, SRI superannuation and mainstream acceptance of SRI research techniques – it is poised to grow strongly in the coming year.

SRI Managed Portfolios grew by 70 per cent during the 2005 financial year from $4.5 billion (revised upwards from $3.31 billion in last year's study) to $7.67 billion, an increase of $3.17 billion. New investor inflows into existing SRI funds form a smaller, albeit significant, part of this growth. The main factors contributing to this impressive level of growth were: large superannuation funds adopting SRI policies for existing portfolios ($1,720m); strong investment performance ($785m); capital raised by new SRI funds ($153m) and net flows to established SRI funds ($512m).

The major reason for the re-statement of last year's SRI managed funds figure is the inclusion of a number of funds that had not been recognised in that report as SRI funds, some of which were included in other categories of SRI investment. In the 5 years from 2000 through 2005 SRI managed portfolios have now grown from $325m to $7.67 billion, an increase of 2360% (almost 24 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, particularly over all periods of 3 years or more.

By using more expansive methodology in this year's study we were able to identify over 100 financial advisers with a specific interest in SRI investing, up from 54 in the 2004 study. Of that group, 30 advisers indicated that they advise on direct investment portfolios, which total $482m, up 65 per cent from $292m in 2004.

Within community finance, 6 providers had total assets of $308m in June 2005, an increase of 28 per cent. This segment shows the promise of substantial growth in the coming year as a few leading credit unions are in the process of adopting more formalised community financing and ethical investing policies.

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

The survey identified 21 charities and charitable trusts with screened direct SRI portfolios of $258m. Based on the figures and reports provided by financial advisers and the growth of SRI funds aimed at the charities market, there is definitely a trend for the not-for-profit sector to adopt SRI investing.

Data on public offer superannuation funds indicates that 119 funds offer a total of 317 SRI options. A listing of 14 funds that offer 5 or more SRI options is provided.

The study also conducted an attitudinal survey of employee opinions about the prospect of using SRI for their superannuation savings, attracting 927 responses. This indicated that members were favourably disposed to the concept of an ethical/SRI superannuation fund with 27 per cent saying they would consider an SRI super option favourably and 22 per cent saying they would use an SRI fund.

Around 9 per cent stated that they were not interested in SRI superannuation and another 42 per cent were non-committal, indicating they would consider this option on its merits.

Respondents who indicated they were considering a change to their superannuation fund in the next two years, or who had already taken up a new option, were somewhat more favourably disposed to the idea of SRI super (25 per cent).

SRI overlays totalled $7.94 billion, up 73 per cent on an adjusted 2004 balance of $4.6 billion, as more institutional investors engage specialists to undertake constructive engagement on their behalf.

In the survey period there was only one specific shareholder resolution that related to an issue of social responsibility, against the Commonwealth Bank of Australia, which attracted votes to the value of $2.5 billion. Shareholder action in relation to James Hardie's funding of asbestos liabilities is also noted, though no specific resolution was mounted.

The research for the survey was conducted by Corporate Monitor for the Ethical Investment Association.

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What is Sustainable Responsible Investment?

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

SRI MANAGED PORTFOLIOS

Placement of money in managed funds, share portfolios, or other investment securities portfolios screened to reflect environmental, social, labour relations or other ethical considerations.

Typical SRI approaches used in the selection of potential investments include:

- 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 good environmental and social performance;
- environmental and social performance or sustainability;
- use of a sustainability or social responsibility overlay – to select funds using traditional financial criteria which add a process for addressing issues related to sustainability or corporate social responsibility.
- A fund using an overlay typically identifies environmental, social or other risks to a company in which it is investing, and then meets with the company to 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; so the portfolios of most SRI managed funds in Australia include shares in many of the same companies that are held by non-SRI funds.

SHAREHOLDER ACTION

This study also considers shareholder action, which is activism by a group of concerned shareholders to address issues regarding a company's environmental or social behaviour. 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 gaining support for resolutions at an Annual General Meeting of a company. It is designed to be a public protest against a company's behaviours, 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 from within by the directors of the company.

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 Corporate Social Responsibility (CSR). It refers to 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 an individual's values and beliefs regarding the environmental, social, labour rights, governance and ethical performance of corporations.

PROJECT DESCRIPTION

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

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

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

Results obtained from the current project are compared with those obtained in the benchmarking study in 2004.

Methodology

This study employed a methodology similar to that used in previous EIA Benchmarking Surveys with any differences noted in the context of the report.

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

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

Other data 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 providers are reluctant to supply information. This may be for reasons of privacy or commercial confidentiality. Where we are aware of a major SRI provider that did not supply data this is noted in the study. But overall the results should be considered conservative for this reason.

All requests for information occurred in the period July through October 2005, but all figures are as at 30 June 2005.

MANAGED SRI PORTFOLIOS

Data was collected on the net assets of managed funds that define themselves as ethical, sustainable or socially responsible. It includes investments directly into the 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 thought to have an interest in SRI we obtained data from 30 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 data in last year's survey on SRI investment by religious groups was not updated as it was considered to be outside the scope of this study.

CHARITIES AND CHARITABLE TRUSTS

Using sources such as the Givewell Research Centre, we identified about 60 charities who had share portfolios of $1m 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 21 responded that an SRI policy applied.

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. Where this was the case, and where that investment was no longer invested into an established SRI fund, then the amount was included in managed SRI portfolios under the name of the superannuation fund.

Data on constructive engagement services was obtained from the providers of this type of service. Individual instances of engagement were not surveyed.

COMMUNITY FINANCE

For this study we surveyed organisations known to be dedicated ostensibly to community finance activities. We included figures on their total investments and loans.

SHAREHOLDER ACTION

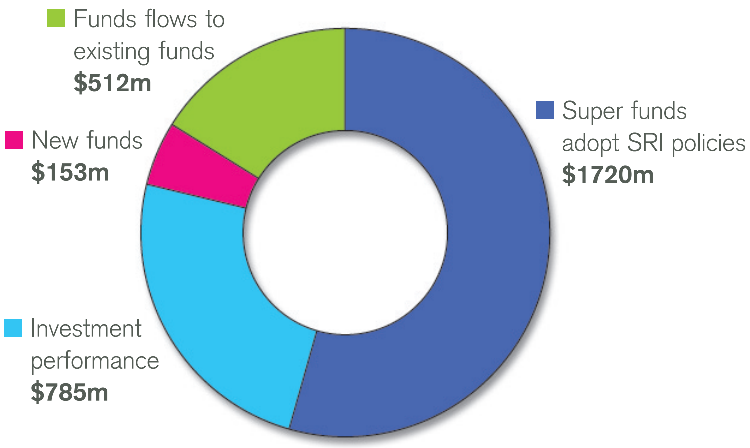
Using the regular coverage of incidents of shareholder activism provided by Ethical Investor magazine we gathered information on several actions. But only one of these fitted within the definition of an SRI related shareholder resolution.

SRI Managed Portfolios

Managed SRI portfolios grew by 70 per cent during the 2005 financial year from $4.5 billion (revised upwards from $3.31 billion in last year's study) to $7.67 billion, an increase of $3.17 billion.

However, it is important to understand that new investor inflows into existing SRI funds form a smaller, albeit significant, part of this growth.

WHERE HAS SRI MANAGED FUNDS GROWTH COME FROM?



The main factors contributing to this impressive level of growth were as follows:

	$m
Large superannuation funds adopting SRI policies for existing portfolios	1720
Positive investment performance	785
Capital raised by new SRI funds	153
Net flows to established SRI funds	512
Total	**3170**

Within these overall trends there are a number of other factors to note which helped to contribute to the overall results:

SUPERANNUATION FUNDS ADOPTING SRI INVESTMENT POLICIES

A handful of industry based superannuation funds are adopting SRI investment policies that extend beyond offering their members an SRI option in their choice of superannuation.

- VicSuper extended its sustainability based investment policy to include its direct property investments.
- Local Government Superannuation Services introduced a policy across its Australian shares portfolio of removing exposure to companies (by 'short selling' positions) excluded under its negative screened SRI policy. 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 is $15m.
- From July 2005 Christian Super has embarked on the task of transitioning all of its investments to fall under its ethical investment policy in the next 12 months.
- Other superannuation funds like UniSuper, National Catholic Superannuation Fund and HESTA continued their investment into established SRI funds throughout the year, with UniSuper and HESTA employing specialists in corporate governance and sustainability to further develop their work in this area.

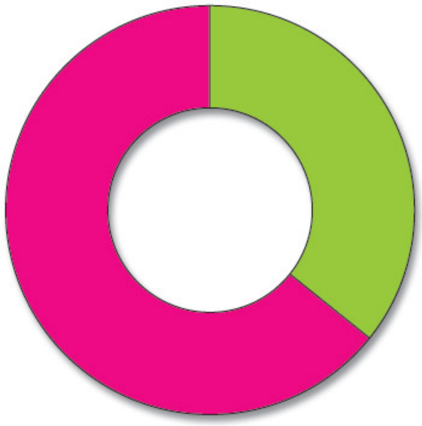
RETAIL VERSUS WHOLESALE GROWTH LEVELS

Both the retail and wholesale segments of the SRI sector continue to grow strongly. The smaller retails funds segment attracted $370m net funds inflow and, together with the impact of positive investment performance, grew to $2.75 billion.

Wholesale portfolios' net funds flow was $2.08 billion, which – together with the performance effect – saw it grow to $4.92 billion. As already noted above, $1.72 billion of this is attributed to the establishment of a newly screened superannuation fund portfolio.

Adjusting for this, net new investor support for retail versus wholesale SRI funds was about equal over the year ($370m versus $360m).

SRI PORTFOLIOS WHOLESALE/RETAIL SPLIT $BILLION



Wholesale 4.92 Retail 2.75

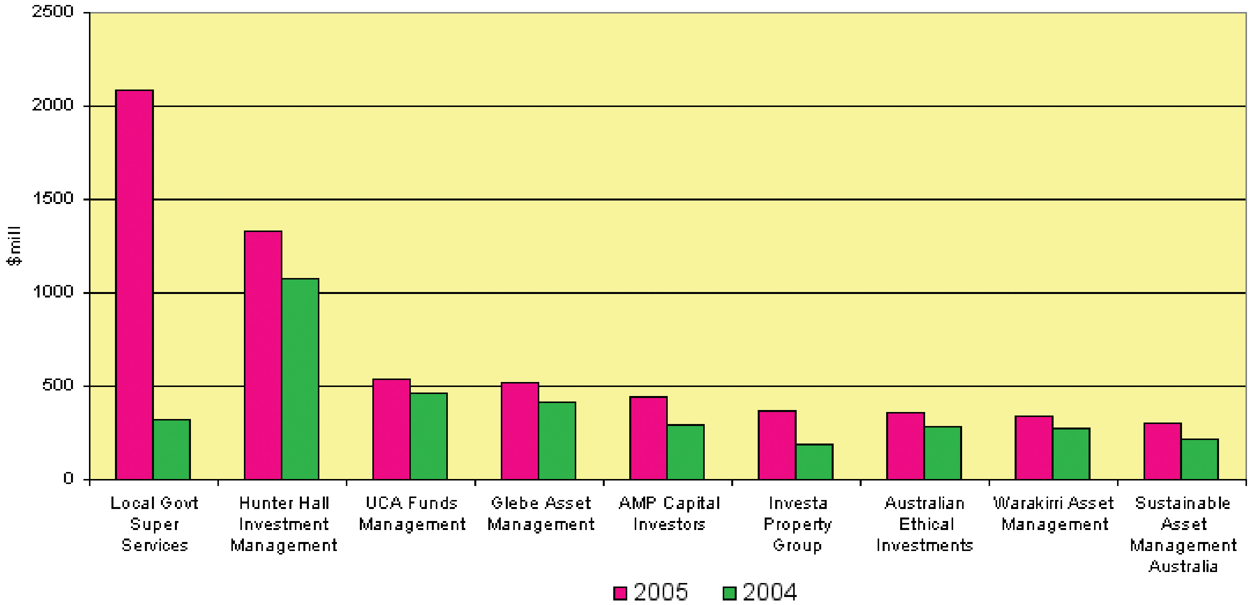
MAJOR SRI FUND MANAGERS

Fund managers and superannuation funds with more than $300m in SRI funds under management as at June 2005 are listed as follows:

Manager	$m (2005)	$m (2004)
Local Government Super Services	2082	322
Hunter Hall Investment Management	1329	1076
UCA Funds Management	541	458
Glebe Asset Management	523	415
AMP Capital Investors	439	292
Investa Property Group	372	186
Australian Ethical Investments	355	279
Warakirri Asset Management	342	272
Sustainable Asset Management Australia	304	215

The new entrant to SRI investing this year, Local Government Super Services, had the highest rate of growth. For the other 8 major SRI fund managers the average rate of growth during the year was still an impressive 32 per cent.

LARGEST SRI MANAGERS FUNDS UNDER MANAGEMENT > $300M IN 2005



SRI MANDATES

Included in the total SRI portfolios, there are several screened investment mandates managed by mainstream fund managers who do not offer a pooled SRI fund. These include Kaplan Funds Management, Deutsche Asset Management, Maple-Brown Abbott, State Street Global Advisers, Alpha Investment Managers and Putnam Investments Australia, who together managed $188m in SRI mandates in June 2005 ($168m in 2004).

OTHER FORMS OF SUSTAINABLE INVESTMENT

This year the survey gathered data on two emerging areas of sustainability investing related to renewable energy and sustainable forestry. However, as they do not strictly meet the definition of an SRI portfolio, their figures were not included in the total.

One notable area of activity on the Australian Stock Exchange during the year was the emergence of diversified infrastructure funds dedicated to investment in renewable energy. One established fund is the CVC Renewable Energy Equity fund. Another, Pacific Hydro, was taken over during the year by industry superannuation fund manager Industry Fund Services for $788m. Two new funds to emerge during the year were the Babcock and Brown Environment Investments Fund and the Viridis Clean Energy Group.

The 3 remaining funds (apart from Pacific Hydro) managed net assets valued at $150m at year end and this segment is poised to grow strongly in the coming year. These funds have not been included in SRI portfolios because of their more limited diversification and ASX listed status.

It is also worth noting that 2 ASX listed agribusiness managers – Timbercorp and ITC – raised $133m to finance investment into Forest Stewardship Council certified timber plantations. This contrasts with $83m raised in 2004.

NEW FUNDS – PRODUCT DIVERSIFICATION

In prior years, new SRI funds were predominantly offered by fund managers in order to provide an SRI option alongside their mainstream fund counterparts. In the case of retail funds these were largely targeted at the clients of financial advisers and direct investors. Wholesale funds were largely aimed at investment platforms, superannuation funds and institutional investors.

New SRI funds developed in 2004-05 have tended to be targeted more specifically to certain investor groups. This is a clear sign of a more mature market and perhaps a reluctance on the part of fund managers to enter the more crowded traditional retail/wholesale SRI funds sphere. For example, an SRI screened collaterised debt obligation (CDO) instrument offered by Grange Securities aimed primarily at local government investors raised $50m.

Other funds launched by Goldman Sachs JB Were and UBS Asset Management attracted investment from charities and grew to a combined total of $68m at year end. Also, a new Listed Investment Company with an SRI policy, the Fat Fund, raised $30m.

STRONG INVESTMENT PERFORMANCE

SRI investing has traditionally been dominated by screened share portfolios - Australian and, to a lesser extent, overseas. During the 2005 financial year the Australian sharemarket benchmark, the S& P/ASX 300 Accumulation Index, increased by 26 per cent. This strong performance from Australian shares helps to explain why investment performance contributed an increase of 17 per cent in the assets held in SRI portfolios. Few SRI investors would be disappointed by the recent performance of their fund in this context.

A comparison of the performance of various categories of SRI public managed funds against performance benchmarks and their mainstream counterparts is presented later in this report.

SRI PROPERTY MAKING ITS MARK

Apart from the 2 superannuation fund property portfolios mentioned above, other sustainability focused property funds offered by Glebe Asset Management, James Fielding Asset Management and Investa Property Group attracted good support, mainly from institutional investors. Together these funds raised approximately $250m in new funds during the year.

RE-STATEMENT OF 2004 STATISTICS

Last year's study reported a figure for managed SRI funds of $3.31 billion. The June 2004 figure has been re-established in this year's study to $4.50 billion, an increase of $1.19 billion. The major reason for this re-statement is the inclusion of a number of funds that had not been recognised as SRI funds in last year's study, some of which were included in other categories of SRI investment.

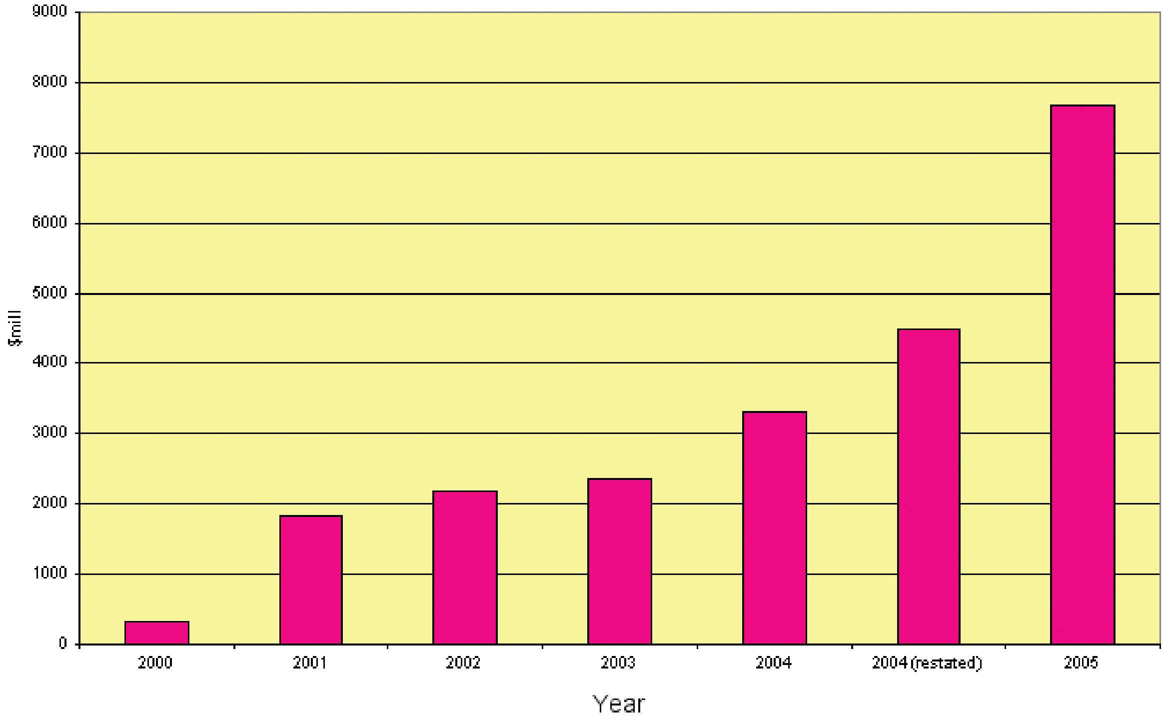
These include:

	$m at June 2004
UCA Funds Management	458
Investa Property Group	186
Local Government Super Services	322
VicSuper	164
James Fielding Asset Management	52
Other minor differences	8
Total	**1,190**

In the 5 years from 2000 through 2005, SRI managed portfolios have now grown from $325m to $7.67 billion, an increase of 2360% (almost 24 times).

With the 2004 SRI managed portfolios figure re-stated, the long-term growth of SRI funds is now as follows:

GROWTH IN SRI MANAGED PORTFOLIOS AS AT JUNE 30



SRI PORTFOLIOS – MARKET SHARE

According to Standard & Poors' latest ASSIRT Market Share Report, Total Investment Management in Australia comprised $672 billion as at March 2005. Therefore, SRI portfolios in June 2005 of $7.6 billion are 1.14 per cent of this total.

Retail SRI funds are 0.7 per cent of total retail funds under management and wholesale SRI portfolios comprise 1.2 per cent of the ASSIRT total for wholesale funds and discrete managed portfolios.

OVERSEAS COMPARISONS

A detailed summary of overseas studies of SRI investment was included in last year's study. International comparisons between studies are not available because of differences in data gathering methodology, the definitions of SRI and the level of investments' disclosure.

One area that does bear broad comparison is the market share of SRI managed funds with the total managed investments in each country, according to its latest SRI study. As stated above, SRI funds' market share in Australia is about 1 per cent.

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

An earlier 2003 study by the United States based Social Investment Forum calculated SRI mutual funds of US$151 billion to be 2 per cent of the total market of US$7,500 billion.

While SRI has been actively promoted in several European countries, the latest SRI survey in 2003 did not calculate its market share.

SRI Funds Performance

In another enhancement for this year's study we present the latest analysis of the average investment return to an SRI investor compared with mainstream managed investment funds and with sharemarket benchmarks.

In a year when most Australian share funds posted strong returns that were still lower than the benchmark S&P/ASX 300 Index, SRI funds did not fare as well. But the average SRI fund did perform above the average mainstream fund for all periods over 3, 5 and 7 years. It also beat the sharemarket benchmark over 5 and 7 years despite showing underperformance over 1 and 3 years.

A more limited sample of overseas share SRI funds showed better results. The average ethical fund investor achieved a return that was well above benchmark and the average mainstream fund over all time periods measured.

The positive results for Australian share funds then leads to similarly good results for investors in SRI balanced growth funds.

The analysis comes from the September 2005 Ethical Managed Funds table published by Ethical Investor magazine.

This also includes Standard & Poors' category index returns that show the (asset size) weighted average return of all funds in each investment category. The rate of return for each index is influenced mainly by large mainstream funds.

SRI VS MAINSTREAM MANAGED FUNDS RETURNS TO 30 SEPTEMBER 2005 (NET OF MANAGEMENT FEES) % PA

	1 year	3 years	5 years	7 years
Australian Share Funds				
Average SRI Fund	26.37	20.82	14.59	16.38
Average Mainstream Fund – Wholesale	30.71	20.14	11.51	13.40
Average Mainstream Fund – Retail	31.07	19.41	10.13	12.30
S&P/ASX 300 Accum. Index	31.73	21.12	11.46	12.94
Overseas Share Funds				
Average SRI Fund	16.67	16.72	13.04	17.45
Average Mainstream Fund – Wholesale	13.20	7.52	-6.55	1.75
Average Mainstream Fund – Retail	14.19	6.06	-8.03	0.37
Balanced Growth Funds				
Average SRI Fund	15.31	12.11	8.97	9.40
Average Mainstream Fund – Wholesale	16.73	12.62	6.59	7.70
Average Mainstream Fund – Retail	15.39	10.94	5.47	7.08

Community Finance

Six community finance providers had total assets of $308m in June 2005, an increase of 28 per cent on a re-stated 2004 balance of $241m. These are:

- Community Sector Banking
- Ethical Investment Trust
- Bendigo Ethical Cash Management Account
- Macauley Credit Co-op
- Maleny Credit Union

The figure of $322m for community finance reported in last year's study was re-stated because of a discrepancy in figures reported for one major institution. Most of the growth in this sector is attributed to Bendigo Bank's Community Sector Banking initiative.

This segment shows the promise of substantial growth in the coming year as a few leading credit unions like mecu, Bananacoast Community Credit Union and South Australia's Saving and Loans are in the process of adopting more formalised community financing and ethical investing policies.

GREEN LOANS

A recent feature of the finance sector is the development of green loans – those which finance environmental purposes and which also offer the borrower some form of tangible benefit if they take out this type of loan.

We identified six lenders providing this type of facility:

- Bendigo Bank
- mecu
- Maleny Credit Union
- The Green Home Loan
- Community CPS Credit Union
- StateWest Credit Society

While we were unable to obtain data from the leading green loans provider Bendigo Bank (for reasons of commercial confidentiality) we were able to calculate loans in 2005 of $26.1m from 5 lenders, up 53 per cent from $17.1m in 2004.

SRI Financial Adviser Portfolios

By using more expansive methodology in this year's study we were able to identify over 100 financial advisers with a specific interest in SRI investing, up from 54 in the 2004 study. Of that group, 30 advisers indicated that they advise on direct investment portfolios, which total $482m, up 65 per cent from $292m in 2004.

This substantial increase can be attributed to a combination of the following factors:

- Significant growth from advisers offering specialised services to charitable and religious organisations.
- Strong growth in established SRI specialist advisory firms.
- High capital appreciation from direct share portfolios.
- Some movement away from SRI managed funds in order to provide investment portfolios that are more customised to investors' specific values.

Overall, while this figure is still only a fraction of total SRI investments, it is becoming a more significant means by which individual investors and charities implement SRI investing.

Charities and Charitable Trusts

Again, using more expansive methodology, we were able to identify 21 charities and charitable trusts with screened direct SRI portfolios of $258m in 2005. This figure is not comparable with the $327m stated in last year's study, which reported total SRI assets of 10 organisations. It is also likely that many of 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.

Based on the figures and reports provided by financial advisers and the growth of SRI funds aimed at the charities market, there is definitely a trend for the not-for-profit sector to adopt SRI investing. However, the limited disclosure of investments provided by the sector precludes us from drawing any conclusions on the extent to which this trend is occurring.

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.

In anticipation of the new legislation, superannuation funds of all types have worked hard to improve their appeal to both new and prospective members. Part of that appeal is to offer a greater range of investment choices so that members with certain investment preferences (such as SRI investing) would be more inclined to support the fund.

Given that both members and trustees are favourably disposed to SRI, it would be expected that more superannuation funds would offer SRI options. Values-focussed investors also prefer to adopt SRI for all their investments; so it would be expected that more superannuation funds would offer several SRI options to enable members to adopt SRI in full and spread their risk across investment sectors.

These expectations have been borne out in recent times by an increase in the number of super funds with an SRI option, offering more options. Last year's study listed the 30 largest superannuation funds that offer some element of SRI super. For 2005 we obtained data from Rainmaker Information Services that shows how many public offer superannuation funds offer an SRI option and also ranks the funds that offer the most options. This data listed 119 funds offering a total of 317 SRI options. A listing of the funds that offer 5 or more SRI options follows. These are all commercial master funds.

Fund	Number of SRI options offered
ASGARD Employee Superannuation	12
Freedom of Choice	11
Wealthtrac Superannuation & Rollovers	9
Breakthrough Superannuation Master Plan	8
Smartsave Superannuation Master Plan	8
Supa Select Superannuation Plan	8
Trust Company Superannuation Master Plan	8
AMG Universal Super	6
BT Superwrap	6
Summit Master Trust	6
Macquarie Super Manager	5
netwealth Superannuation	5
Paterson Ord Minnett IA Super Manager	5
eWrap Superannuation Service	5

Source: SelectingSuper
a Rainmaker Information company

While a number of large industry-based superannuation funds offer some element of SRI choice, they typically offer just one or two options. These include Australian Retirement Fund, HESTA, Sunsuper, UniSuper, JUST Super, VicSuper and Superannuation Trust of Australia.

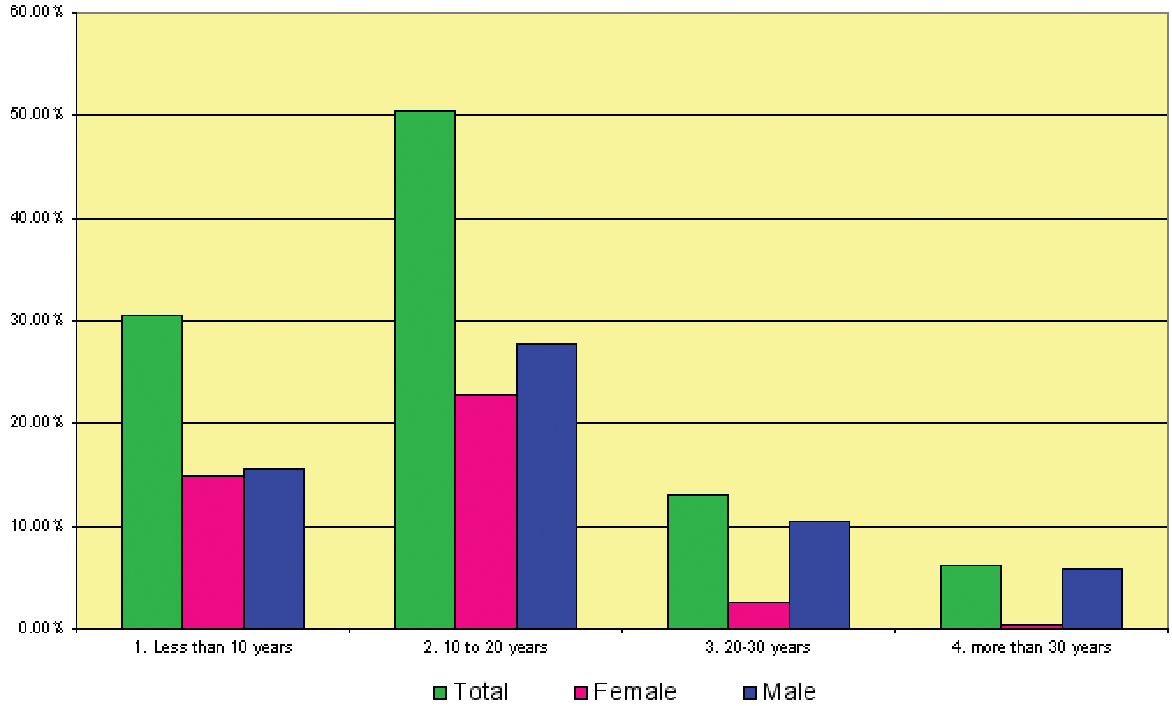
More information about superannuation funds that offer SRI investment options is available online from the EIA's SRI Superannuation Centre at www.eia.org.au

Attitudes to Superannuation Choice Survey

The survey was conducted during August and September 2005. A number of email lists were used, comprising mainly of individuals that already own managed investments, other members of the finance industry and professional services sectors. This is evidenced by the fact that 39 per cent indicated they used the services of a financial adviser for superannuation advice.

In all, 927 valid responses were received – 41 per cent female and 59 per cent male. The great majority (82 per cent) of respondents have been contributing to superannuation for less than 20 years with 30 per cent for less than 10 years. The average number of years that respondents have been contributing to superannuation was 14. This indicates the sample is representative of the working population and is not skewed towards older workers and retirees.

LENGTH OF CONTRIBUTION



The survey clearly attracted responses from individuals who were prepared to consider their options. Most were open to the idea of superannuation choice. A majority (55 per cent) indicated they would consider another superannuation fund in the next 2 years and a further 14 per cent said they had already exercised their new choice of fund. This leaves 31 per cent who said they were not considering a change.

ATTITUDES TO SRI SUPERANNUATION CHOICE

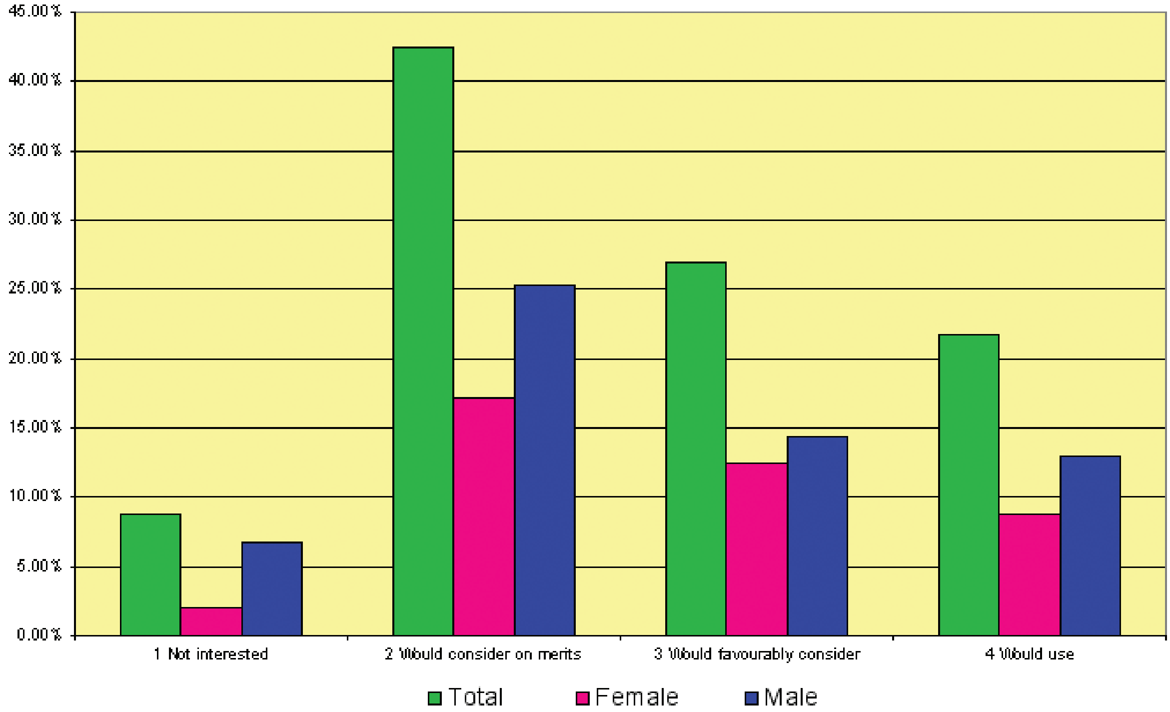
As a group, they were also disposed to the concept of an ethical/SRI superannuation fund with 27 per cent saying they would consider the option favourably and 22 per cent indicating they would use an SRI fund. Around 9 per cent stated that they were not interested in SRI superannuation and another 42 per cent were non-committal, indicating they would consider this option on its merits.

These stated intentions should be treated with some caution, understanding that fewer people ultimately act on their inclinations stated in surveys of investment attitudes.

Respondents who indicated they were considering a change to their superannuation fund in the next 2 years, or who had already taken up a new option were somewhat more favourably disposed to the idea of SRI super. The same proportion (27%) said they would consider this option on its merits and 25% indicated they would use an SRI fund (compared with 22% for the whole sample).

These results contrast with a similar survey of 500 adult consumers in August 2000 conducted by KPMG Consulting. It found that 69 per cent respondents said they would consider an SRI fund, given the opportunity to choose.

SRI SUPER INVESTMENT OPTION



WHO SHOULD OFFER SRI SUPER?

The survey gave a resounding vote in favour of SRI options being given by a member's existing superannuation fund. A minimal number (3 per cent) of respondents said they were less likely to consider SRI superannuation if it were offered by their current fund. Another 31 per cent were ambivalent, while over two thirds (66 per cent) said they were more likely to consider it if it was offered by their current fund.

This level of support indicates that fund members are clearly guided by the decisions of their superannuation fund trustees and that they prefer to exercise any choices within the confines of their existing superannuation environment.

It should also follow, based on these views, that few members would be prepared to step outside their current superannuation environment in order to invest in SRI superannuation. This proposition is supported by the relatively low levels of funds flows towards retail superannuation funds in 2005 ($80m).

RESULTS SEGMENTATION

Within the survey there are a number of interesting observations:

- Respondents who have been contributing to superannuation for less than 10 years indicated that they were more likely to consider choosing another superannuation fund in the next two years.
- This group was also more favourably disposed towards considering an SRI superannuation option.

These 2 findings suggest that younger employees have less loyalty to their existing superannuation fund and are more inclined to look at options, including SRI superannuation.

- Support for SRI superannuation was also ranked based on the existing fund in which member benefits were held. While the level of support did not vary greatly, the SRI superannuation support levels ranking is: Government superannuation; Industry-based fund; Private fund manager or master fund; Employer superannuation; Self-managed fund.
- There was also a notable variation in support for SRI superannuation, depending on whether the employee used a financial adviser for superannuation advice. Employees who did not use financial advisers indicated a higher level of interest in SRI superannuation. They also tended to be younger (less years contributing to superannuation) and a little more inclined towards having an SRI option provided by their current fund.

These findings suggest that younger employees in government or industry-based funds are the group most inclined towards SRI superannuation, provided it is offered by their existing fund.

Conversely, older employees who rely on a financial adviser to guide their investment choices indicate the lowest level of interest in the idea.

SRI Overlays

Last year's study counted $7.2 billion in assets that were managed under a formalised process of engaging companies to address environmental and social issues and/or lift their overall performance in this area. One of the funds listed, Local Government Super Services, now has these assets counted under the SRI portfolios category.

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), who provide engagement services on behalf of a number superannuation funds and institutional investors of $7.94 billion, up 73 per cent on their assets under advice in 2004 of $4.6 billion.

The prospects for the coming year in this area are very bright, with a number of large superannuation funds planning to add engagement on environmental factors to their established process of engaging companies on corporate governance issues.

Shareholder Action/Advocacy

In 2005 there was only one specific shareholder resolution that related to an issue of social responsibility. However, there was one significant incident where a company responded to this type of advocacy that should be noted. There were also a few union sponsored resolutions pertinent to workplace relations issues.

JAMES HARDIE

In September 2004 James Hardie Industries deferred a resolution to adopt its 2004 annual accounts pending the outcome of a NSW Special Commission of Inquiry into its handling of and funding for asbestos liabilities. However, it was widely reported that some institutional shareholders were planning to reject the resolution if it were put to the vote. This was due to social concerns that the potential shortfall in liabilities had not yet been resolved. Those accounts were subsequently adopted at the 2005 Annual General Meeting in August after a firm commitment concerning those liabilities had been made. In this case the value of the shareholder advocacy, though obviously very substantial, was unable to be determined because the resolution was withdrawn.

UNIONS AT THE AGM

Shareholder groups formed by trade unions mounted 3 resolutions during the 2004 AGM season to attract more support for their labour relations and pay claims. The Finance Sector Union mounted a special resolution to have a Commonwealth Bank of Australia operational review made subject to an independent assessment. This resolution attracted approximately 10 per cent of the vote in favour, valued at $1.52 billion.

In the case of Bluescope Steel, shareholders affiliated with the Australian Workers Union proposed restrictions on director remuneration, and future and other director commitments.

In the case of Qantas and Boral, unions lobbied for support from other shareholders to oppose director sponsored resolutions relating to director and chief executive remuneration levels.

Mainstream Fund Mangers Using SRI Practices

One recent interesting and pervasive development in the field of SRI is its so-called 'mainstreaming'. This means that mainstream fund managers recognise that envirosocial factors do affect share price performance and so they should be incorporated into fundamental security analysis.

One example of this is the measurement of a company's vulnerability to and preparedness for climate change. As climate change sets in, the theory goes that companies that are better able to manage climate change risk and take advantage of the business opportunities that climate change presents will be rewarded with better profitability and a stronger share price. This mainstreaming phenomenon is being widely studied and supported by leading investment management groups across the world.

However, at this stage, there is little evidence that this is happening in a formal sense in Australia at present. While a number of managers are looking to improve their assessment of corporate governance, only one Australian shares specialist, Portfolio Partners, incorporates envirosocial and human capital factors into its risk analysis when deciding the weighting of a company it will hold in each portfolio.

However, asset consultant Mercer has indicated that its Australian research team will follow the lead from overseas and incorporate an evaluation of how well environmental, social and governance factors are incorporated into the investment process when it assesses all fund managers.

SRI New Zealand

Sustainable Responsible investing in New Zealand experienced a modest year marked by Tower exiting the SRI market and AMP no longer promoting its international funds through its New Zealand investment service. Prometheus and Asteron did not increase significantly. However Trust Investments charitable trust Sustainable New Zealand Share Fund has a relatively substantial amount invested. Last year the EIA reported a total estimate for SRI in New Zealand of NZ$19.3m. For the year ended 30 June 2005 we estimate this to be NZ$31.6m, bolstered significantly by the Trust Investments fund which was not included in last year's figure. This total excludes funds invested by New Zealanders in Australian and other international funds. Further information about most of the SRI offerings is provided below along with an update on the New Zealand Superannuation Fund.

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 2005 it increased deposits slightly from NZ$7.9m to NZ$8m. However, there was a significant increase in activity and the amount of lending grew. It has introduced new accounts including the Earth Saver Term Account with funds dedicated to habitat protection and native forest regeneration projects and the Climate Saver Term Account with funds dedicated to renewable energy.

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. Not all were associated with Quakers. The money has been used for housing, small businesses and low 'income housing schemes. The Trust has over NZ$1,100,000 in deposits as at 30 June 2005

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 NZ$1.4m to NZ$1.5m in the year ended 30 June 2005.

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 a Sustainable New Zealand Share Fund weighed in favour of companies that meet certain sustainability criteria. In order to meet the sustainability criteria, it avoids investments in companies whose major business activities are: tobacco products, alcoholic beverages, pornography, gambling and armaments. In the year ended 30 June 2005 the Sustainable New Zealand Share Fund grew from NZ$15.7m to NZ$21m.

**Just Dollar$** (www.justdollars.org.nz) was established in 1992 as a charitable trust providing a vehicle for funds donated and lent to be made available to approved ventures. Non-profit as well as commercial ventures are eligible for assistance. Applicants must be unable to secure bank finance and must be on 'low incomes'. Just Dollar$ has NZ$240,000 in investors' funds; and, since 1993, has loaned NZ$940,000 to 315 borrowers.

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 NZ$20,000 to small enterprises that are unable to obtain finance from mainstream sources. To date it has made 86 loans totaling more than NZ$610,000 with only one failing.

New Zealand's legislation for the **New Zealand Superannuation Fund** (a retirement fund for New Zealanders retiring in the future, funded from general taxation) and Government Superannuation Fund (a retirement fund for government employees) 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 (www.nzsuperfund.co.nz) commenced investing in October 2003 with NZ$2.4 billion. The fund is expected to reach NZ$48 billion in 10 years and NZ$120 billion in 20 years. In line with the Fund's governing legislation, a policy for ethical investing has been developed. The Fund is now planning to increase its interactions with similar initiatives undertaken by other institutional investors around the world to ensure the Fund's approach in this area remains contemporary. An additional area of focus is the manner in which the voting rights attached to the ownership of the equities in the Fund's global portfolio are exercised. The Fund notes that there is increasing recognition that alignment between institutions with long investment horizons, and the management of organisations in which they invest, is mutually positive. The Fund is seeking to increase its involvement in global initiatives aimed at achieving this. The projected size of the Fund means that it is expected to provide leadership in this area in New Zealand, and will be an important contributor to international debate.

Dr Rodger Spiller

www.rodgerspiller.com

eia

Ethical Investment Association

Socially Responsible Investment in Australia – 2004

Benchmarking Survey conducted for the Ethical Investment Association

by Deni Greene Consulting Services

with project assistance from

Rainmaker Information

and

Philanthropy Australia

October 2004

What is the Ethical Investment Association?

The Ethical Investment Association (EIA) was formed in 1999 and is Australia's peak membership body for professionals and professional organisations working in the area of Socially Responsible Investment (SRI).

The EIA exists to promote the concept, practice and growth of SRI and to represent the best interests of its members to the investment industry, government, the media, regulators and the public.

Almost every fund manager and financial adviser working in SRI in Australia is a member of the EIA, together with many other professionals who work toward similar goals.

EIA Achievements and Plans for the Future

- Produced four annual conferences bringing together key players in the SRI field from Australia and abroad;
- Played a key role in the development and passage of the FSRA Disclosure Bill and ASIC SRI Disclosure Guidelines;
- Developed and presented the Ethical Investment Association SRI Training Course for Financial Advisers and gained accreditation for 6 CPD points;
- Conducted a major public awareness campaign on SRI;
- Established a new website, which has become the country's key portal for the location of SRI products, services and information
- Conducted four annual benchmarking surveys to track the size and growth of SRI in Australia, which are frequently cited by the media and publications here and abroad;
- Produced a series of events called Harvest: Sustainable Company Briefings, designed to showcase leading companies from sectors such as renewable energy, forestry and waste management to potential investors;
- Acted as a key spokesperson in the media for issues related to SRI;
- Prepared a website campaign for 2005 for Choice of Super;
- Prepared a promotional campaign for 2005 to assist consumers to make use of the new Ethical Product Disclosure Statements.

Benefits of EIA membership

Join the EIA and become part of a co-ordinated, united group working to promote the growth of SRI in Australia.

Benefits of EIA Membership include:

- The opportunity to write about your organisation on the EIA website, which is Australia's central portal for information about SRI products and services;
- The opportunity to promote your products and services at EIA conferences;
- The opportunity to apply to use the SRI Recognition Symbol;
- Representation in policy development;
- An opportunity to network with the core of the SRI industry;
- Discounts to all EIA events;
- The opportunity to participate on the EIA Committee and to vote on EIA resolutions;
- The opportunity to work closely with other EIA members in industry collaborations.

Join the EIA online at www.eia.org.au or call on 02 8224 0314.

Executive Summary

Socially Responsible Investment Shows Rapid Growth

Nearly all forms of socially responsible investment (SRI) in Australia continued to grow dramatically over the past year – rising to at least $21.5 billion by 30 June 2004. This is an increase of 1% since the benchmarking study in 2003. The total of all areas of SRI except shareholder resolutions grew by 26% overall in the past year. In the three years since the first benchmarking study in 2001, SRI in Australia has doubled.

The $21.5 billion in socially responsible investment assets identified by this benchmarking study include:

- $3.3 billion managed SRI funds
- $168 million private SRI portfolios managed by financial advisers
- $7.2 billion investments by religious organisations
- $327 million invested by charitable trusts using SRI criteria
- $7.2 billion employer superannuation funds using SRI overlays
- $322 million community finance investment
- $3 billion shareholder resolutions on environmental and social issues

Assets of SRI managed funds in Australia grew by 41% between June 2003 and June 2004, more than twice as fast as the overall Australian retail and wholesale investment market (which grew 18% over that period). Since June 2000, SRI managed fund assets in this country have achieved a staggering growth rate of 920%.

The number of SRI managed funds has also increased substantially. In 1996, there were 10 funds. The 2001 baseline study of SRI in Australia identified 46 funds; Ethical Investor magazine now lists 89 ethical managed funds.

Investments in all categories except shareholder action have also shown significant growth.

Private portfolios managed by financial advisers grew by 32% this year, and have increased by 113% over the past three years.

Funds invested by charitable trusts using SRI criteria have shown an increase of 48% since last year, and a spectacular growth of 6,400% over the past three years.

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

Other superannuation funds use an overlay to take account of social responsibility criteria while continuing to use traditional methods for selecting investments. (A fund using an overlay typically identifies environmental, social or other risks to a company in which it is investing, and then meets with the company to discuss ways of overcoming or reducing the risks.) Superannuation funds using an overlay approach have a total of $7.2 billion in assets, up by 40% since last year.

Community finance programs increased by 69% since last year. These programs provide capital to people who have difficulty obtaining it through conventional channels or are underserved by conventional lending institutions. The increase over the past three years is a dramatic 148%.

Shareholder activism has definitely been on the rise over the past few years. A very large proportion of shareholder action concerns issues of corporate governance. Although many or most of the corporate governance resolutions introduced at Annual General Meetings (AGMs) can certainly be considered relevant to the social responsibility of the companies involved, our benchmarking study took a relatively focused approach, restricting our coverage to resolutions covering environmental or social issues. The major activity in this area was spearheaded by the Wilderness Society, which succeeded in gaining support for an anti-woodchipping resolution from 25% of the shares voted at an AGM of the Commonwealth Bank in October 2003. This appears to be the largest support for a shareholder resolution in Australia's corporate history, surpassing the previous record of 23%, which was set by a Wilderness Society resolution in the previous year. The assets represented by the vote totalled $3 billion.

The $21.5 billion in SRI investments identified in this report is a conservative estimate; details on many other probable areas of investment were unable to be obtained for this survey.

The Survey

In September and October 2004, we surveyed financial advisers, institutional investors and community finance providers to determine the assets they control or manage under socially responsible investment guidelines. We also contacted groups involved in shareholder action. Data on ethical/SRI managed funds and on superannuation funds with ethical/SRI options was provided by Rainmaker Information. All data were based on investments as of 30 June 2004.

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

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

Table of Contents

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Introduction

When the notoriously conservative International Standards Organization decides it is time to develop a standard on social responsibility, as it did in July, it is clear that the issue has become a normal part of good business practice. This awareness is slowly permeating into boardrooms, but there is a still a long way to go, as the actions of James Hardie demonstrate. The high profile cases like James Hardie are not common, but a great many companies are still stuck in the old ways. Earlier this year, a study for the Commonwealth Government[1] found that fewer than 25% of very large companies are producing annual sustainability or environment reports. The proportion of companies reporting is much lower among Australian companies than among multi-nationals. Other studies tell a similar story about social responsibility in Australian industry today. Nevertheless, the attention given to reputation indexes make clear that there is a public demand for information about the CSR practices of companies.

Until corporate social responsibility is the norm, not just best practice, then there will continue to be growth in the number of people looking to SRI to ensure that they are investing in line with their values.

There are clear signs emerging that socially responsible investment is becoming an accepted part of the investment scene. Ethical or socially responsible investment is the subject of serious discussion in the boardrooms of super funds, philanthropic trusts, churches and charities. It is also a recurrent topic in magazines aimed at super fund members or professionals, such as doctors or accountants. There is still considerable discussion about the relative returns of SRI and conventional forms of investment.

Socially responsible investment is now included on the curricula of business and economics courses in Australian universities.

The first wide-ranging analysis of socially responsible investment in Australia was conducted in 2001 to provide a reliable estimate of the extent of such investment, and results of that analysis were updated in 2002 and 2003. Reports on the results of those studies were released at Ethical Investment Conferences each year and are available on the website of the Ethical Investment Association, http://www.eia.org.au.

The 2004 benchmarking study of socially responsible investment in Australia is intended to track growth in the field since last year.

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

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

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[1] Department of Environment and Heritage, Australian Government (2004) *The State of Sustainability Reporting in Australia 2004*, prepared by Centre for Australian Ethical Research, KPMG and Deni Greene Consulting Services, June.

SRI – a Global Phenomenon

Socially responsible investment is growing around the world. Clear evidence of interest is indicated by the emergence of organisations promoting SRI in many countries. The Social Investment Forum is the body for SRI in the United States. Its counterpart in Canada is The Social Investment Organization.

A range of organisations exists in Europe, including: Eurosif: European Sustainable and Responsible Investment Forum; Forum pour l'Investissement Responsable (French SIF – Social Investment Forum); Forum Nachhaltige Geldanlagen (German Sustainable Investment Forum); Forum per la Finanza Sostenibile (Italian Forum for Sustainable Finance); Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) (Dutch Association of Investors for Sustainable Development). The UK Social Investment Forum works closely with its European counterpart organisations. The equivalent organisation for the Asian region is the Association for Sustainable and Responsible Investment in Asia (ASrIA).

The most recent report on SRI in the U.S. was issued by the Social Investment Forum in October 2003. It showed a total of US$2.16 trillion in assets in professionally managed portfolios using one or more of the three core SRI strategies: screening, shareholder advocacy, and community investing. More than one out of every nine dollars professionally managed in the U.S. today is involved in socially responsible investing.[2]

The most recent report from Canada, released in March 2003 by The Social Investment Organization, is the *Canadian Social Investment Review 2002*[3] It reported that SRI in Canada amounted to US$38.2 billion.

Eurosif, the European Sustainable and Responsible Investment Forum, calculated European Institutional SRI in 2003 to be as high as €336 billion. The Eurosif research, highlights the scale of European Institutional SRI in eight countries (Austria, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom).[4]

No formal survey has been made for SRI in New Zealand, but investment in the four major ethical investment funds available through New Zealand-based organisations totals $19.3 million. These funds are managed by Prometheus, Tower, AMP and Asteron. Further detail on ethical investment in New Zealand is provided in the Appendix.

The Association for Sustainable & Responsible Investment in Asia (ASriA) reports that SRI in Asia is less than US$2.5 billion.[5] SRI is also beginning to make itself felt within the financial community in South Africa. The country's first socially responsible investment (SRI) index was launched on the Johannesburg Stock Exchange (JSE) in July 2004, and includes 51 companies.[6] A small number of SRI funds have also been created.

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2 Social Investment Forum (2003) 2003 *Report on Socially Responsible Investing Trends in the United States.*

3 The Social Investment Organization, *Canadian Social Investment Review 2002; A comprehensive survey of socially responsible investment in Canada.*

4 Eurosif (2003) Socially Responsible Investment among European Institutional Investors 2003 Report.

5 ASriA website: http://www.asria.org

6 Sunday Times (South Africa) (2004) Responsible funds make inroads SA, 26 September.

Background

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

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

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

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

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

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

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

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

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

Project Description

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

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

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

Results obtained from the current project are compared with those obtained in the benchmarking studies in 2001, 2002 and 2003.

Methodology

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

To provide timely information, data was gathered by telephone or email communication. All interviews and data collection occurred in September and October 2004, but data were obtained for investment as at 30 June 2004. Details on collection of the various categories of data are shown in the sections below:

Canadian and U.S. reports on the extent of socially responsible investment in those countries are issued every two years.

Managed funds

Data on the assets of managed funds that define themselves as ethical, socially responsible, or sustainable was provided by Rainmaker Information. These data include assets in ethical or socially responsible managed funds, grouped by fund manager, as of 30 June 2004. They include investments directly into the managed funds as well as institutional mandates. (Mandates provide individual instructions to a fund manager, usually by an institution, to manage an investment in the same manner as a specific managed fund/unit trust. The institutional investors, because of the size of their investment, negotiates different financial arrangements for fund management than those pertaining to small investors.)

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 U.S. surveys of socially responsible investment. The U.S. analysis includes any fund that uses one or more screens in selecting its investments. In the U.S., therefore, any fund that specifically excludes tobacco, for example, but includes no other SRI criteria, would qualify for inclusion in the estimates of socially responsible investment. Our analysis applied more stringent criteria for inclusion and did not look at managed funds outside the SRI area.

Private portfolios managed by SRI financial advisers

Some financial advisers specialise in providing services to investors who want to use an ethical/socially responsible approach to their investment. For this study, we surveyed the 45 financial advisers understood by the Ethical Investment Association to have some involvement in ethical/socially responsible investment.

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

Religious organisations

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

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

The methods used for determining what portion of a religious organisation's funds should be counted as a socially responsible/ethical investment varied among the different churches, For example, the Uniting Church has an ethical charter governing all its investments, and therefore all its investment funds under management can be considered as socially responsible investments.

Funds managed by other churches were considered socially responsible investments if they fell into either of two categories: they were invested using ethical screens or they were provided to local parishes for community church-based activities. For most religious bodies, funds provided to local parishes constitute the bulk of their investments. The survey did not include the value of real estate holdings of the churches.

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

Charitable trusts

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

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

Employer superannuation funds

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

Community finance

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

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

Shareholder action

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

U.S. 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 U.S. 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 98% of the assets included in the shareholder action category in the last U.S. survey represented institutional investors that are actively involved in shareholder advocacy and employ SRI screens, and 2% relate to funds that are involved in shareholder advocacy but do not use screens.)

Canada has had relatively little direct shareholder action because of restrictive legislation; but the requirements were substantially liberalised in 2002. The *2002 Canadian Social Investment Review* stated that the Social Investment Organization expects the level of activity to increase dramatically in years to come as the full effect of amendments to the Canada Business Corporations Act (CBCA) are felt. These amendments make it easier for investors to file shareholder proposals. In the Canadian surveys of SRI investment, only the asset value of the shares voted for a resolution is counted. Asset value is based on share price on the day of the vote.

The Canadian approach has been used in both this year's and previous Australian studies. We also limited the survey to resolutions passed in 2003 – 2004 related to social responsibility criteria. A conservative definition of 'social responsibility' was used, excluding resolutions that dealt solely with corporate governance issues.

Results:
Socially Responsible Investment in Australia – 2004

This study identified $21.5 billion in socially responsible investment assets in Australia as of 30 June 2004.

- $3.3 billion — managed SRI funds
- $168 million — private SRI portfolios managed by financial advisers
- $7.2 billion — investments by religious organisations
- $327 million — invested by charitable trusts using SRI criteria
- $7.2 billion — employer superannuation funds using SRI overlays
- $322 million — community finance investment
- $3 billion — shareholder resolutions on environmental and social issues

Summary of Australian Socially Responsible Investment

MANAGED FUNDS*

Fund Manager	**Funds under mgt ($million)**
Hunter Hall Investment Management Limited	1,064
Glebe Asset Management Ltd	435
AMP Henderson Global Investors	292
Warakirri Asset Management	271
Australian Ethical Investment Ltd	267
SAM Sustainable Asset Management	216
BT Financial Group	202
ING Group (including the ING/ANZ joint venture)	98
Kaplan Partners	71
TOWER Asset Management Limited	55
BIAM Australia Pty Limited	53
Challenger Managed Investments Limited	43
State Street Global Advisors	42
Perpetual Investments	38
Suncorp Metway Investment Management Limited	35
Perennial Investment Partners Limited	33
Deutsche Asset Management (Australia) Limited	30
Ausbil Dexia Limited	20
ABN AMRO Asset Management (Australia) Limited	19
Maple-Brown Abbott Limited	16
Alpha Investment Management Pty Ltd	9
IOOF	3
WHTM Asset Management Limited	3
EQT Funds Management	<1
Australian Unity Limited	<1
Total 30 June 2004	**$3,315**

**Including institutional mandates*

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

	Net assets ($million)				
Year	**2004**	**2003**	**2002**	**2001**	**2000**
Total funds under management	**$3,315**	**$2,355**	**$2,175**	**$1,818**	**$325**

% Growth – 1 year	
2003-2004	**41%**
2002-2003	**8%**
2001-2002	**20%**
2000-2001	**459%**
% Growth – 2 years	
2002 – 2004	**52%**
% Growth – 3 years	
2001 – 2004	**82%**
% Growth – 4 years	
2000-2004	**1,020%**

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

Figures in the 2001 and 2002 reports of the EIA Benchmarking Survey were based on data provided by Corporate Monitor, which did not include mandates.

OTHER TYPES OF SOCIALLY RESPONSIBLE INVESTMENT

	Total investment ($million)			
	2004	2003	2002	2001
Total private portfolios managed by SRI financial advisers	**168**	**126**	**124**	**79**
Total SRI investments by religious organisations*	**7152**	**6728**	**6705**	**6283**
Employer Superannuation Funds with SRI overlays	**7157**	**5094**	**5000**	**–**
Total SRI investments of charitable trusts	**327**	**220**	**116**	**5**
Total community finance	**322**	**191**	**164**	**130**
Total social responsibility shareholder resolutions	**3028**	**6673**	**–**	**2624**

**The totals for religious organisations in 2004 and 2003 are not strictly comparable to totals in this category for2002 and 2001. Some investments included in the religious organisation total in 2002 and 2001 were moved to the managed funds category in 2003.*

Grand Total –SRI Investments

	Total investment ($billion)			
	2004	**2003**	**2002**	**2001**
Total funds under management	**21.5**	**21.3**	**13.9**	**10.5**

% Growth 1-year	
2003-2004	**1%**
2002-2003	54%
2001-2002	32%
% Growth 2-years	
2002 to 2004	50%
2001 to 2003	**104%**
% Growth 3-years	
2001 to 2004	96%

Comparison with Overseas SRI Investment

The Social Investment Organization (SIO) in Canada, in its most recent report published in 2003, estimated that total assets in Canada managed according to social responsibility guidelines were $51.4 billion ($A56.2 billion) as of June 30, 2002. This was an increase from 2000, when assets were $49.9 billion ($A54.6 billion). Growth from 2000 to 2002 was 3%. Socially responsible investment assets in 2002 represented 3.3 % of the Canadian retail mutual fund market and the institutional investment market. This is essentially the same level of total assets as in 2000 (3.2%).

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

The United States-based Social Investment Forum released its biennial analysis, 2003 *Report on Socially Responsible Investing Trends in the United States*, in October 2003. This report showed a total SRI investment of US$2.16 trillion. It represents one out of every nine dollars under professional management in the U.S. These figures represent a decline in SRI in the U.S. between 2001 and 2003 of 7%, mainly as a result of fewer shareholder resolutions by large superannuation funds. The growth in SRI over the period 1995 to 2003 was 40% faster than all professionally managed investment assets in the United States (growth was over 240% compared with 174% for the overall universe of assets under professional management). It should be noted, though, that the U.S. figures are determined on a broader basis than figures for Australia or Canada. The U.S. figures include funds that use a negative screen based on a single-criterion, such as tobacco, but do not take account of other aspects of social responsibility. They also use a more expansive determination of the assets included under the category of shareholder action, as described earlier in this report. Both Australia and Canada use more stringent tests of socially responsible investment.

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

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

The UK makes up 69% of the total, or €23.5 billion ($A39 billion or 16.3 billion pounds). The Netherlands, Germany and Switzerland each have about €2.7 billion ($A4.6 billion), France has about €1.7 billion ($A2.9 billion), and the remainder is divided among Italy, Austria and Spain. The Eurosif survey did not cover Sweden, where SRI is quite developed. Some European governments are actively using SRI investment.

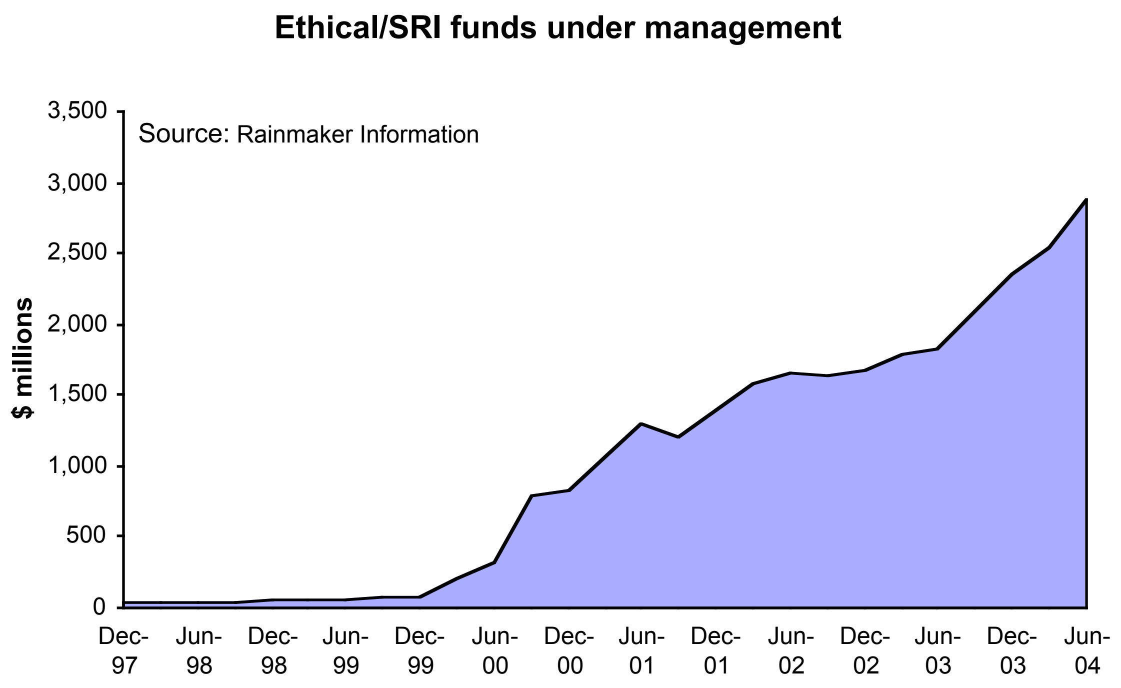
Discussion of 2004 results

Managed funds

Assets of socially responsible managed funds in Australia were $3.3 billion on 30 June 2004, as shown in the tables on preceding pages. Results were derived from data provided by Rainmaker Information. They include both investments in managed funds and SRI institutional mandates.

Total assets in SRI managed funds were $2.4 billion in the previous survey in 2003, indicating a dramatic growth of 41% in the past year. This is substantially greater growth than the overall Australian market, which grew by 18% last year. In 2002, the total of SRI managed funds was $2.2 billion; in 2001, the total was $1.8 billion, and in 2000, it was $325 million. Growth from 2002 to 2003 was 8%; growth from 2001 to 2002 was 20%. From 2000 to 2001, growth was 459%. For the four-year period 2000 to 2004, the total growth was an astonishing 920%, though admittedly starting from a very low base.

The spectacular growth of socially responsible managed funds in Australia is very recent. The graph shows the growth of SRI over the past six years. Ethical/SRI managed funds represent only a tiny fraction of the overall funds management market. Nevertheless, their rate of growth is significantly faster than the overall market.



Note that the figures in this graph are lower than those reported elsewhere in the report because Rainmaker excludes some funds.

The number of SRI managed funds has also increased dramatically. In 1996, there were 10 funds. The most recent issue of *Ethical Investor* magazine listed 89 SRI managed funds of various types.

Private portfolios managed by SRI financial advisers

Eleven of the financial advisers contacted for this survey manage private share portfolios applying SRI criteria to investment. Total funds under management amount to $167.5 million. Another group of financial advisers providing information for this survey direct all SRI funds under management to SRI managed funds. Their funds under management are not included in the total for private portfolios.

Assets in SRI private share portfolios managed by these financial advisers have increased from $126 million over the past year and from $78.5 million in 2001. The growth since 2003 is 32%, and growth over the three-year period 2001 to 2004 was 78%.

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, Presbyterian and 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 $7.2 billion of funds under management that are invested using SRI criteria. (The 2003, 2002 and 2001 figures were $6.7 billion, $6.7 billion and $6.3 billion, respectively.) A substantial portion of this total consists of funds lent to local parishes or churches for local community-based church purposes. We did not obtain estimates of the relative proportions of church funds invested in equities and lent for local purposes.

Charitable trusts

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

In this survey, we obtained information from 10 charitable trusts that employ SRI approaches to investment. The total assets invested by these charitable trusts amount to $327 million. This compares with $220 million identified in the 2003 survey, $116 million identified in 2002 and only $5 million identified in 2001. The growth from 2003 to 2004 was 48%; and the growth from 2001 to 2003 was 6350%!

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

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

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

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

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

Superannuation funds

A growing number of superannuation funds are offering their members the opportunity to invest in a socially responsible manner. The 30 largest of these are:

AMP Flexible Lifetime Super
UniSuper
Australian Retirement Fund
Health Employees Superannuation Trust Australia
AMP CustomSuper
Superannuation Trust of Australia
Sunsuper
ASGARD Superannuation Account
Health Super Fund
MLC MasterKey Business Super
Macquarie Super Manager
Vision Super
equipsuper
The Victorian Superannuation Fund
Westpac Staff Superannuation Plan
Retirement Benefits Fund Board
Colonial Select Superannuation Plan
BT Business Superannuation
ANZ Super Advantage Personal Superannuation
CARE Super
AMP SuperLeader
Catholic Superannuation and Retirement Fund
BT Personal Portfolio Service: Superannuation
ASGARD Employee Superannuation Account
Westscheme
Perpetual WealthFocus Super Plan
Synergy Retirement Service - Superannuation
Non-Government Schools Superannuation Fund
Statewide Superannuation Trust
Mercer Portfolio Services Superannuation Account

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

Other superannuation funds, including the Commonwealth funds CSS/PSS, Catholic Super and the NSW Local Government Superannuation Scheme (LGSS), have put in place systems for ensuring that the funds take account of social responsibility criteria while continuing to use traditional methods for selecting investments. These funds have a total of $7.2 billion in assets, an increase of 40% since 2003.

Community finance

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

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

These five institutions manage a total of $322 million. This represents an increase of 69% over the $164 million identified last year. Growth since 2001 is 148%.

Shareholder action

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

The most significant shareholder actions this year were sponsored by the Wilderness Society. The organisation backed a resolution to the Commonwealth Bank calling on the banks to cease investing in or loaning to companies damaging old growth forests. The Commonwealth Bank resolution won nearly 25% of the votes cast – 93 million shares out of a total share pool of 377 million – at the October 2003 AGM.

This vote was even larger than the 23% gained in an earlier resolution sponsored by the Wilderness Society, which was described at the time as "the largest support for a shareholder resolution in Australia's corporate history." The resolutions were put forward by a group of Commonwealth Bank shareholders concerned by the Bank's stake in the woodchipping company, Gunns Ltd.

In addition to this very large vote for the resolution, a significant number of investors abstained from the vote, to express their concern even if they felt they couldn't vote for it. The number of abstentions was about 15 million more than the level abstaining on most resolutions at that AGM.

The value of the shares voting for the resolution was $3,028 million ($3 billion).

The 2003 EIA benchmarking report reported on two shareholder resolutions sponsored by the Wilderness Society and introduced at AGMs of the Commonwealth Bank and National Australia Bank.

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

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

Other Potential Socially Responsible Investments

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

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

Appendix – Ethical Investment in New Zealand

A total of $19.28 million is invested in the four major ethical investment options available through New Zealand-based organisations for New Zealand investors – Prometheus has $7.9 million, Tower $8.18 million, AMP $1.7 million and Asteron $1.5 million. This excludes funds invested by New Zealanders in Australian and other funds. It also excludes wholesale investment by religious organisations and others other than in these four options.

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.

AMP (www.amp.co.nz) and Tower (www.towerfunds.co.nz) enable New Zealanders to access international equity ethical investment portfolios.

In 2002 Asteron (www.asteron.co.nz) launched New Zealand's first Socially Responsible Investment Trust investing primarily in New Zealand listed companies. It uses the research services of Rodger Spiller & Associates (www.rodgerspiller.com)

A significant development is the legislation for the Government Superannuation Fund (the retirement fund for government employees) and the New Zealand Superannuation Fund (the retirement fund for New Zealanders retiring in the future, funded from general taxation). This legislation requires "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 October 2003 with $2.4 billion. The fund is expected to reach $38 billion in 10 years and $101 billion in 20 years. An SRI expert, Glen Saunders, has recently been appointed as a Guardian of the New Zealand Superannuation Fund.