Ethical investing still in infancy

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By Bina Brown - For CNN

(CNN) -- From the relatively small amount of money going into socially responsible investment (SRI) funds, it is clear that people do not always put their money where their mouth is.

Less than 1 percent of global funds under management are directed towards SRI or ethical funds, even though up to 70 percent of people surveyed by fund managers say they would invest all or part of their superannuation in SRI if they had the option and if they knew more about it.

According to the latest benchmarking study commissioned by the Australian-based Ethical Investment Association, the SRI funds' market share in Australia is about 1.54 percent, up from about 1.34 per cent a year earlier.

The study estimated the SRI mutual funds market in United States to be about 2 percent. In Canada, SRI mutual funds represented about 3.5 percent of the total.

SRI has been actively promoted in European countries and the latest survey released by the European Social Investment Forum says SRI is up 71 percent since 2002 and possibly represents as much as 10-15 percent of the total European funds under management.

But while SRI is still just a fraction of overall investment markets, it is a growing area. An increasing number of fund managers are offering products which in some countries are attracting more funds than many mainstream managers.

Much of the growth has been attributed to healthy share market returns, the rising wave of money flowing into retirement funds and investment portfolios, and continued acceptance of sustainability and value based investing.

Becoming mainstream

Mercer Investment Consulting last year released a global study on the speed with which SRI and ethical investment was becoming mainstream.

Mercer asked 195 investment managers worldwide, representing more than $30 trillion in assets, whether SRI practices would become common components of mainstream investment processes in the short and long term.

The three SRI related practices are:

• active shareholding which includes share voting and engagement;
• positive and negative screening and
• the incorporation of social and environmental factors into corporate performance, usually known as triple bottom line accounting.

The results varied from region to region but among Australian and Asian managers, 85 predicted that all three SRI related practices would become mainstream within 10 years.

So what is the difference between SRI and ethical investment?

EIA executive director Louise O'Halloran says ethical investment refers to what consumers do when they want to achieve some consistency between their personal values and beliefs and the way they invest their money.

"For them, this is an ethical choice based upon their own value system. This is the same for religious and charitable investors. They are seeking to find investment opportunities which align with their organization's ethical goals and values," she says.

Wholesale investors

The other significant category is the wholesale investor, such as the superannuation and pension funds.

These big funds are becoming increasingly interested in this type of investment because they see it as a helpful investment style which complements their own long term investment horizon.

Many are concerned to find more "sustainable" investment propositions. An increasing army of institutional investors believe that there are investment risks and opportunities related to environmental, social and ethical issues which mainstream fund managers ignore.

O'Halloran says that instead of ethical investment, which can be viewed as subjective, these investors prefer the business case terminology, sustainable investment, or SRI.

"They believe that this is an investment style which will add value to their portfolios in the long term, which is what counts for super funds, and that in this way they can invest in a better world, and also uphold their fiduciary duty to maximise returns for the members."