

SPECIAL ADVERTISING SECTION

QUESTIONS FOR THE FUTURE

CORPORATE SOCIAL RESPONSIBILITY

Ethical Investment Growing in Europe

With around €500 billion in funds in Europe and an annual growth rate of 15%, socially responsible investment (SRI) is growing in importance as an investment strategy.

Interest in SRI has been driven by an increased focus on the part of institutional investors on corporate social responsibility, caused by scandals such as Enron and Parmalat.

"The corporate scandals of the past few years in Europe and the U.S. have been a swift kick in the seat of the pants for the investment industry. Investors are realizing they need to manage these social, environmental and governance risks," says Matt Christensen, executive director of the Paris-based European Social Investment Forum (Eurosif), an industry body that encourages SRI and better corporate governance.

There are broadly three approaches to SRI: Engagement, where an investor will exercise its shareholder rights in a company to ensure it acts responsibly; negative screening, in which certain industries or companies are excluded from a portfolio; and positive screening, where companies that are involved in responsible industries are included.

Eric Gelfgren, head of institutional clients international at Zurich-based Sustainable Asset Management (SAM), says definitions of SRI and corporate social responsibility differ across Europe. "In the U.K., the SRI focus is on corporate governance and many investors will take an engagement approach. In the Nordic region, however, the focus is on the exclusion of companies that present an ethical reputational risk."

Engagement is the most straightforward approach to SRI and does not require any radical change of investment strategy. Insight Investment, the asset management arm of Halifax and Bank of Scotland Group that has £80 billion (€120.6 billion) in funds under management, takes ethical considerations into account when buying or selling stocks, says Alex Illingworth, director of international equities. "Once we have decided to invest in a company, we use shareholder ownership rights in a responsible manner."

SRI enables investors to differentiate themselves from competitors, says Gemma Taylor-Gee, marketing manager at CoreRatings, a European rating agency that analyzes corporate responsibility risks. "By considering SRI information, investors can avoid risky companies and investments."

Mainstream analysts realize that they cannot ignore issues such as climate change and the impact it will have on some industries, she adds. However, a lack of standards for defining SRI does pose a problem for financial analysts trying to integrate these risks into their valuation models.

There are a number of ratings agencies, indexes and tools to help analysts. The best-known indexes are the Dow Jones Family of Sustainability Indexes, which were developed with SAM, FTSE4Good and a range of indexes from E. Capital Partners, an Italian company.

E. Capital Partners agrees that SRI plays an important role in helping investors avoid risk. Ethical screening can act as a positive filter, it says, pointing out that it had screened out companies such as WorldCom, Enron and Parmalat.

— HEATHER MCKENZIE