



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.

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Study conducted for the Ethical Investment Association by:
Deni Greene Consulting Services
PO Box 189
North Carlton VIC 3054
613 9387 1655 phone
613 9387 8314 fax
deni@greene.com.au

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 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 Government¹ 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.

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.

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

Year	Net assets (\$million)				
	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 for 2002 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

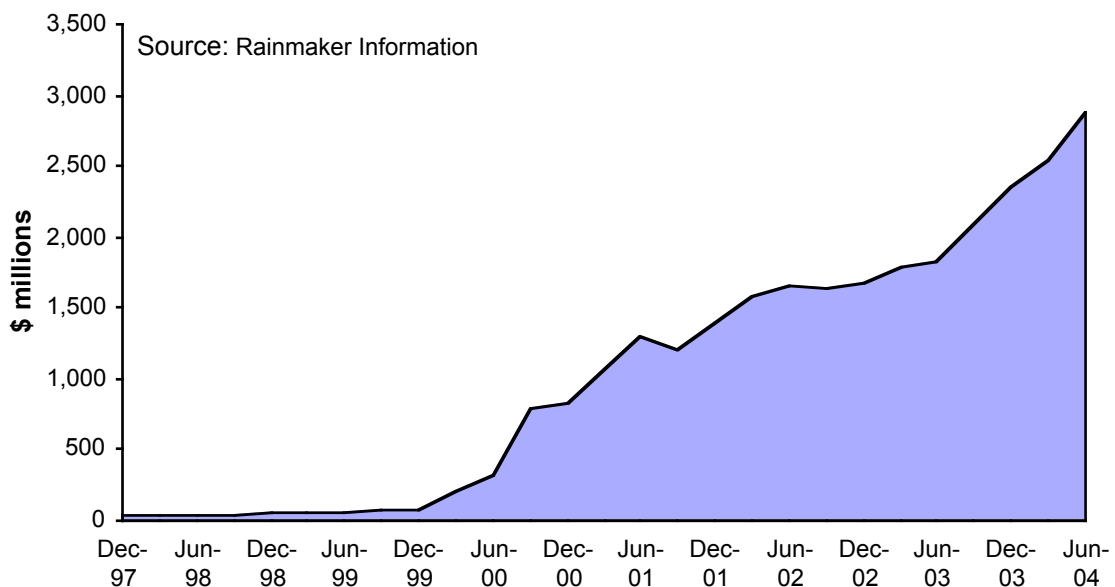
Managed funds

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.

Ethical/SRI funds under management



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

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.

