

A Critique of Mainstreaming Socially Responsible Investment

James Thier – Executive Director of Australian Ethical Investment

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Origins

Investment principles taking into account non-financial criteria are part of a worldwide trend. The contemporary origins of ‘investing with a conscience’ can be traced to Vietnam war protests and the anti-apartheid campaigns of the 1960s and 1970s.

Subsequent decades have seen the evolution of exclusionary investment policies, accounting for a broader range of issues such as corporate governance and affirmative action. By the 1990s the focus had progressed further still to encompass and emphasise an environmental ethic.

The terminology of this growing movement – which no longer accepts that the only criteria for measuring investment success is the financial bottom line – has also morphed to include ‘ethical’, ‘socially responsible’ and ‘sustainable’ as the mainstays. Though some have tried to argue each has distinct characteristics, the difference between the applications may be less than clear-cut. Consequently, the terms are generally used interchangeably here.

Coming to maturity?

The turn of the millennium, when mainstream domestic managers produced new funds targeting the environmental and socially conscious investment market, is often cited as the maturing of the ethical/socially responsible industry; when it went from cottage industry to mainstream acceptance.

In my view none of the later breed has really embraced this new investment model, however. Instead of the possible comprehensive and proactive approach, mainstream socially responsible investment is piecemeal. It is more concerned with risk and liability management, is

limited to negative screens and avoidance, hugs the index, emphasises large listed companies and seeks comfort with restricted matters of corporate governance. All in all making the uptake less than full-blooded.

Mainstreaming or subversion

Despite claims the new emphasis will become part of the mainstream investment landscape within the next decade, evidence to date is almost the converse. Research both here and overseas shows there is often little to differentiate a socially responsible portfolio from standard counterparts. Moreover, rather than conventional funds re-thinking their more narrow, short-term paradigm, their mentality shows obvious signs of infiltrating that of sustainable funds. This is most apparent in the substantial change of attitude in regard to the issue of uranium usage. Until recently it was the most pervasive exclusion criterion. Now, domestically, up to half of the socially responsible/sustainable funds have embraced companies engaged in the activity. Rationalisations include ‘materiality’ (where a ‘small’ amount of an unacceptable activity is deemed permissible), greenhouse emission minimisation and good corporate governance. But it is purely and simply a financial imperative.

At its core, ethical investment should seek to do no harm. How can the negative impact of uranium mining and potentially catastrophic outcomes be classed in this category? It seems at best incredulous (or misleading) and at worst an oxymoron to call this sustainable. Truth be known, the whole incident smacks of ‘situational ethics’.

The future

There really is no question that ethical investment is capable of delivering competitive returns (via enhanced trade-offs between risk and returns). Rather it’s a question of whether fund managers and analysts are willing to face the challenge of implementing a new style of investment practice – one that does require additional skills and capacities. And whether they want to do this in a whole-hearted manner. Until then there will be elements of ethical influence filtering into the mainstream – or a few specialist funds will be added to general product offerings – but as an investment philosophy it will continue to occupy a niche.

When numbers of sizeable investment houses refer to themselves as sustainable/socially responsible institutions then, as Australian Ethical’s vision statement indicates, there truly will be “a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose...”.