

# An introduction to SRI: What, How and Who?

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# Agenda

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- What is it?
  - How to do it?
  - Who is doing it?
  - The Road ahead
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# Definition

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- Comes with different names:
    - Socially Responsible Investment
    - Sustainable investments
    - Ethical investments
    - Triple bottom-line, etc.
  - Socially responsible investment (SRI), sometimes known as responsible investment (RI), is the integration of environmental, social and governance (ESG) factors in the selection and management of investments.
  - SRI considers both the investor's financial needs and an investment's impact on society.
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# A Brief History...

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- 1900 Methodist Church
- 1920 Churches and foundations
- 1971 Pax World Fund
- 1980 Mutual funds developments
- 2000 UK Law on pensions investment disclosure
- 2001 Germany – Law on pensions investment disclosure
- 2001 France – Law on pensions investment disclosure
- 2001 Swedish public funds change policy
- 2003 Belgium – Law on pensions investment disclosure
- 2005 Norway – Government Pension Fund

# Why consider SRI?

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- Managing money according to ethical criteria can be as (or more?) profitable and prudent as investing strictly for financial gain?
  - SRI can directly change corporate behavior by drawing funds away from disapproved activities toward approved activities?
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# Why consider SRI?

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- Environment and social issues represent one of the most complex challenges facing management
  - High level of technical, market and regulatory uncertainty
  - Many complex issues, stakeholders and non-financial measures to address
  - Success in this high complexity area implies ability to excel in other business areas, and thereby earn superior returns ?
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# Sustainability Issues: Impact on the Bottom Line

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- Union Carbide – Bhopal
- Exxon – Valdez
- Sandoz – Pollution of the Rhine
- Royal Dutch/Shell – Brent Spar, Nigeria
- Nike – “Sweatshops”
- Monsanto – Genetically Modified Foods
- Ford – Bridgestone tire recall on “Explorer”
- Norsk Hydro – Utkal Project in India
- ABB - Bakkun dam in Malaysia
- GE – PCB in the Hudson River
- Elf Aquitaine – Erika tanker wreckage

# How to do it?

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## Investment Stage

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## Approach?

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***Pre-Trade***

***Negative Screening***

***Positive Screening***

Ethical  
Norm-based  
Sectors

Best in-class  
Thematic

***Post-Trade***

***Engagement***

***Voting***

***Divestment***



# Pre-trade Investment questions...

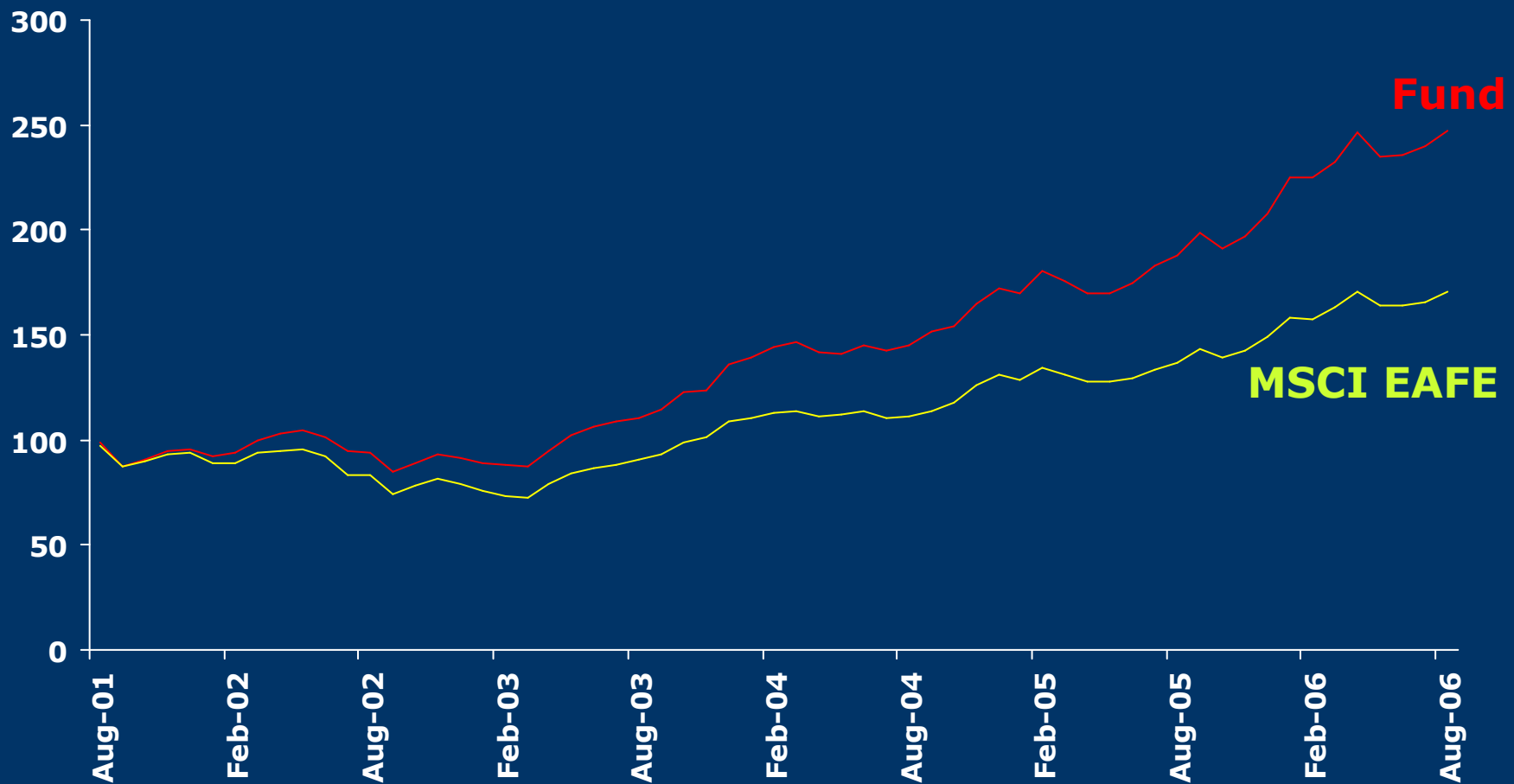
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- Standard or Screened index?
  - Multitude of providers of screened indices
  - Different screening methodologies
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# Standard vs Screened indices



# Negative Screening: Not necessarily a detractor of performance



Source: Acadian Asset Management

# Size of the US market

Figures in USD Bn

## Socially Responsible Investing in the US • 1995-2005

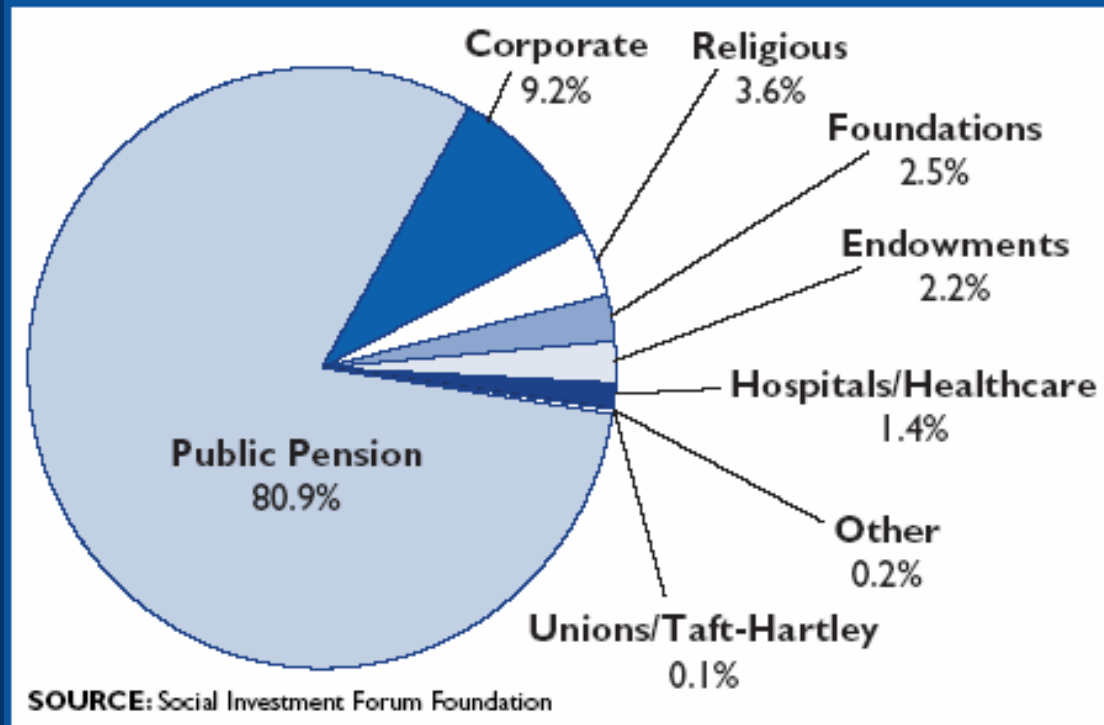
<i>(In Billions)</i>	<b>1995</b>	<b>1997</b>	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
Social Screening <sup>1</sup>	\$162	\$529	\$1,497	\$2,010	\$2,143	\$1,685
Shareholder Advocacy	\$473	\$736	\$922	\$897	\$448	\$703
Screening and Shareholder <sup>2</sup>	N/A	(\$84)	(\$265)	(\$592)	(\$441)	(\$117)
Community Investing	\$4	\$4	\$5	\$8	\$14	\$20
<b>Total</b>	<b>\$639</b>	<b>\$1,185</b>	<b>\$2,159</b>	<b>\$2,323</b>	<b>\$2,164</b>	<b>\$2,290</b>

**SOURCE:** Social Investment Forum Foundation

1. Social Screening includes mutual funds and separate accounts. Since 2003, SRI mutual fund assets have increased (see Section II) while separate account assets have declined (see Section III) as single issue screening has waned and shareholder advocacy increased on the part of institutional investors.
2. Assets involved in Screening and Shareholder Advocacy are subtracted to avoid double counting. Tracking Screening and Shareholder Advocacy only began in 1997, so there is no datum for 1995.

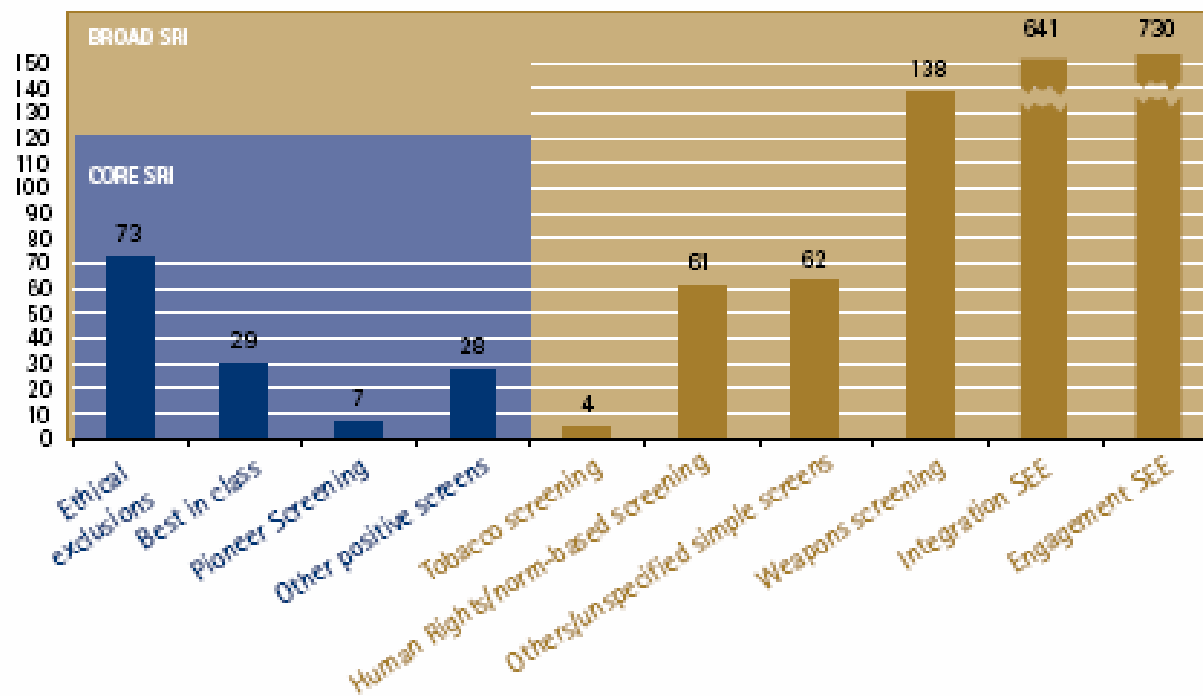
# US: Types of Institutional Investors

## Socially Screened Institutional Investor Assets • 2005



# Size of the European Market

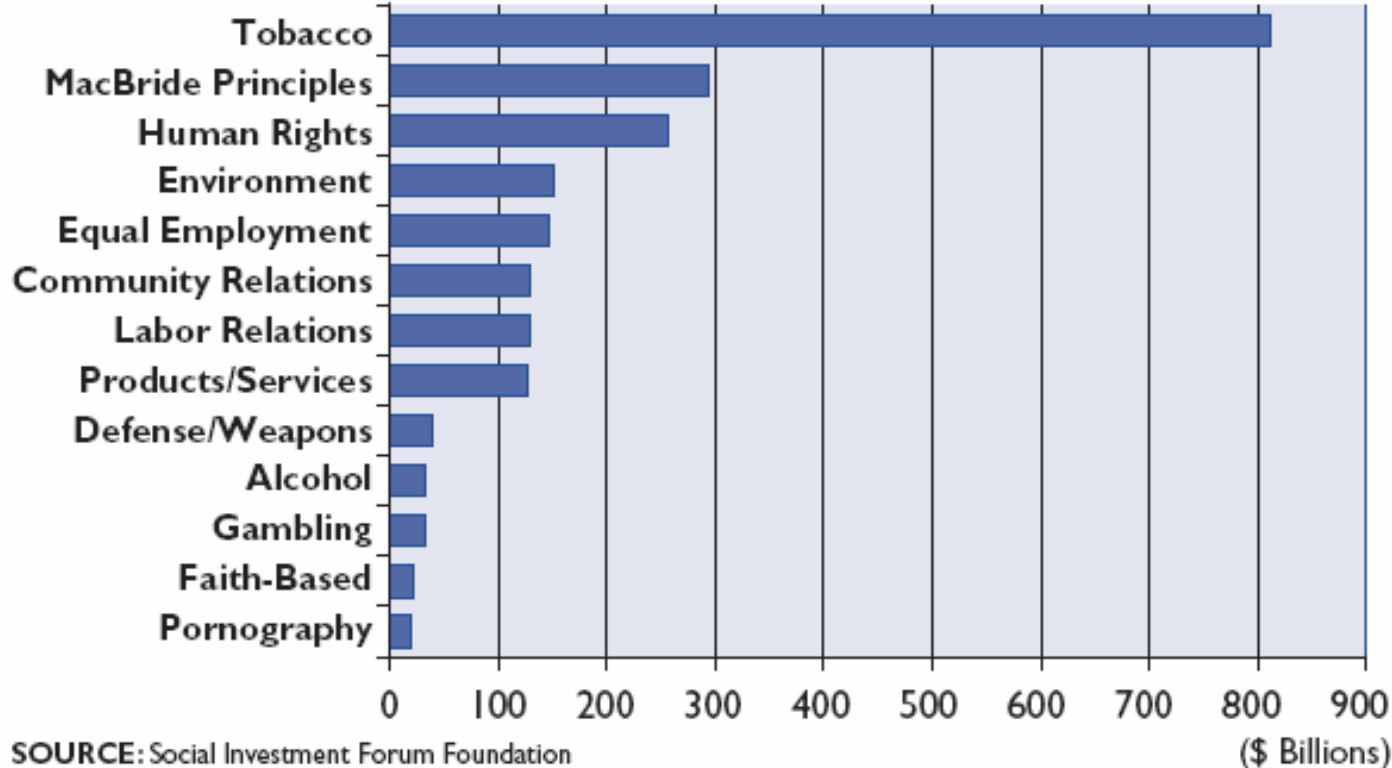
Figures in EUR Bn – Dec 31<sup>st</sup> 2005



Source: Eurosif

# Types of Screening in the US

## Social Screening by Institutional Investors • 2005



# Types of Screening in Europe

Dec 31<sup>st</sup> 2005

FIGURE 6: SIMPLE EXCLUSIONS BREAKDOWN, € BILLION

Tobacco	4
H.R. / Norms-based screening	61
Others/Undefined <sup>11</sup>	62
Weapons	138
<b>Total Simple exclusions</b>	<b>266</b>

Source: Eurosif



# Drivers behind the growth of SRI

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- Dissatisfaction with traditional security analysis
  - Legal framework (e.g. UK)
  - Regulatory Pressure
  - Pressure from stake-holders
  - Fiduciary requirement?
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# Obstacles to the growth of SRI

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- Underperformance of investments?
  - Complexity of analysis
  - Lack of data (company disclosures)
  - Diverging opinions on the same issues
  - Complexity of setup
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