

Personal Finance - Can you make money by being nice?

edgesi0020030206dy99002hl

By chrisfirth.

873 Words

09 September 2002

The Edge Singapore

English

(c) 2002 The Edge Publishing Pte Ltd. All Rights Reserved.

Nice guys always finish last, so the cynics say. So, is it the same for nice companies and nice funds? Historically, there hasn't been much encouragement for altruistic investors. After all, some of the most successful global brands are tobacco firms, oil conglomerates, arms manufacturers and fast-food companies. But with the papers full of news about greedy chief executive officers, unethical accountants and the horrors of globalisation, it's enough to make investors think about the "moral value" of their investments.

This is where socially responsible investment (SRI) comes in. SRI allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations. With investors, especially in developed countries, becoming more sensitive to these concerns, there could well be a "halo effect" that boosts the bottom line. The money-minded argument is that increasing numbers of consumers prefer to buy products from socially responsible firms. And so these companies are likely to gain market share - even if their products are no better than those of the less-caring competition.

So how do you become a socially responsible investor? One way is to invest in an SRI unit trust. These funds aim to provide investors with financial returns that match the returns of conventional investments. Yet they also promise more intangible social and environmental rewards.

Hence, SRI fund managers use a variety of special techniques to pick stocks. Portfolio screening is used to filter stocks and shares on ethical, social and/or environmental grounds. There may be screens to exclude unacceptable shares from the portfolio, or screens to actively select companies with superior social and environmental performance, thereby contributing to more sustainable economies. There may also be corporate ratings so that companies are selected on a "best of class" basis.

Shareholder engagement is sometimes adopted to directly influence a firm's behaviour. The fund managers use their status as shareholders to pressure company management to pursue acceptable business opportunities. And some SRI funds may support a particular cause or activity through community investing. This includes micro-credit schemes, some of which originate in Asia, which have helped to alleviate grinding poverty in some countries. There is evidence that recent market scandals have accelerated the move towards SRI. According to the non-profit Social Investment Forum (SIF), socially and environmentally responsible mutual funds experienced positive asset growth in the first half of this year, while traditional fund assets fell off substantially. SRI funds in the US grew by 3.0 per cent between January and June, while most funds experienced a 9.5 per cent decrease in total assets. And in June alone, an especially tumultuous period in which the Standard and Poor's (S&P) 500 lost over 13 per cent, socially responsible funds benefited from net inflows of US\$47 million while more conventional funds suffered from net redemptions to the tune of nearly US\$13 billion.

But inflows don't prove that these funds make more money. What research exists on this topic is inconclusive. There are a few rays of light. According to a recent study by the SIF, 72 per cent of SRI funds with US\$100 million or more in assets achieved the highest performance rankings from Morningstar and Lipper. And the Dow Jones Global Sustainable Index (DJGSI), a global SRI index, shows an impressive outperformance versus its

traditional global equity index.

What are the choices for Singaporeans who want to try SRI? Currently, only one local fund really deserves the moniker, and that's the Morley Global Socially Responsible Growth Fund. Launched without fanfare earlier this year, it invests in companies that show a "commitment to long-term economic growth without compromising either society or the environment". A few other Singapore funds take ethics into consideration. Keppel Insurance's Takaful Global Fund invests in Shari'ah-compliant stocks in accordance with Islamic principles, and United's Global Unifem Singapore Fund invests mainly in securities of companies that show a commitment to the "empowerment of women in any part of the world". Singapore Unit Trusts also offers a fund that channels its investments to "activities which are environmentally friendly, healthy, clean or productive".

However, Morley reckons its SRI funds are radically different from such ethically screened funds. Instead of focusing on negative criteria, they actively look for companies making a direct link between sustainable development and long-term returns. The only industries they exclude outright are those incompatible with sustainable development such as nuclear power plants, extraction of fossil fuels, armaments and tobacco manufacture.

Despite these noble goals, the jury is still out on whether being nice means being profitable. But this trend could be more fundamental to investing than we realise. Indeed, Morley's idealistic-sounding Sustainable Future Team claims that the "20th Century will be known for the conflict between capitalism and communism, and the 21st Century will be known for the union of capitalism and sustainable development". If that's true, we'll all be socially responsible investors one day.

Chris Firth is CEO of dollarDEX Investments. DollarDEX is a licensed investment adviser, providing wealth investment services and products.