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Top Five Socially Responsible Investing News Stories of 2005

Source: SocialFunds.com

NEW YORK, Jan. 9, 2006 - After more than a quarter century of building credibility, socially responsible investing (SRI) and corporate social responsibility (CSR) took the final steps crossing over from the periphery into the mainstream in 2005. Household names such as Citigroup and GE went public with initiatives confirming that SRI and CSR considerations can steer investment and business strategies, respectively. Recognizing these watershed events, SocialFunds.com chooses these developments as its top two news stories of 2005. Rounding out the top five SRI stories of the year are microfinance emerging as a new asset class, the withdrawal of shareowner resolutions on climate change after companies agree to issue climate change reports, and exchange traded funds (ETFs) adopting SRI strategies.

1. Mainstream Firms Adopt SRI Strategies

How do you know when SRI has entered the mainstream? When traditional brokerages, investment consultants, and law firms embrace SRI, and when illogical opposition lashes out.

This past year, at least four mainstream investment banks issued research reports utilizing SRI analytical lenses spanning the gamut of social investment research strategies. Citigroup subsidiary Smith Barney issued a report that took a decidedly qualitative approach, assessing sustainability issues across 28 sectors. Goldman Sachs sailed the opposite tack, taking a quantitative approach by correlating 42 environmental, social, and governance (ESG) criteria in the energy sector to financial performance as well as exposure to "new legacy assets," or newly discovered oil and gas reserves.

UBS sought to quantify that which is qualitative by establishing a framework to measure corporate social liabilities across nine sectors in its SRI report. Finally, Merrill Lynch partnered with an environmental nongovernmental organization (NGO) -- the World Resources Institute (WRI) -- to produce a report analyzing investment opportunities due to climate change in the auto sector, making specific stock recommendations on seven companies.

Mercer Investment Consulting stepped into the SRI fray by releasing a survey of mainstream investment managers' approaches to SRI in March. Then in October, Mercer's SRI consulting team launched an ongoing research stream rating investment manager capacity to assess corporate ESG performance and conduct active shareholder engagement and proxy voting.

The conventional wisdom that fiduciary duty *precludes* the consideration of ESG issues was turned on its head this past year. A report from the uber-mainstream law firm Freshfields Bruckhaus Deringer commissioned by the United Nations Environment Program Finance Initiative (UNEP FI) established that fiduciary duty not only *allows* ESG considerations, it sometimes requires them!

Perhaps inevitably, the mainstreaming of SRI met some opposition. In a December move widely viewed as a capitulation to big business, UK Chancellor of the Exchequer Gordon Brown unexpectedly killed the Operating and Financial Review, a regulation mandating annual corporate disclosure of environmental, social, and governance information. Incomprehensibly, Brown cited concern over "goldplating" (or blind adoption of European Union regulations) when the OFR was homegrown, the product of a multi-year, multi-stakeholder consultation overseen by the Department of Trade and Industry (DTI).

"With such major players embracing and validating social investing strategies, it is clear that mainstream financial institutions are finally seeing the light regarding the merits of SRI and sustainability investing," said Jay Falk, president of SRI World Group, which publishes SocialFunds.com.

2. Mainstream Companies Embrace CSR Strategies

If irrational opposition is a testament of success, 2005 started with a bang for corporate social responsibility when *The Economist* issued its diatribe against CSR in January. Apparently, the markets did not agree with the magazine's assessment, as several of the world's most influential corporations adopted significant CSR initiatives and policies this past year.

In May, GE launched its "Ecomagination" environmental responsibility initiative, a move that reverberated widely. When a corporate giant such as GE places its stamp of approval on CSR as a legitimate mainstream business strategy, it suddenly becomes much harder to invalidate CSR. The fact that GE made the announcement on the eve of the second

Institutional Investor Summit on Climate Risk at the United Nations Headquarters demonstrates the company's recognition of the importance of corporate environmental responsibility to the investment markets.

Wal-Mart, infamous for its truculence on CSR, astounded observers with its October announcement of broad commitments to environmental and social responsibility. These included 100% renewable energy, zero waste, and reducing greenhouse gas emissions by 20% by 2012, as well as increasing the percentages of women and minority managers.

And in November, Goldman Sachs became the first major investment bank to adopt a comprehensive environmental policy -- and the fourth major US financial institution to do so, after JPMorgan Chase earlier in 2005 and Bank of America and Citigroup in previous years.

"2005 was the year of announcements embedding CSR as a valid mainstream business strategy," Falk said. "2006 and beyond will be the litmus test years for companies to demonstrate action on CSR and critics to assess if these actions measure up."

3. Microfinance Emerging as a New Asset Class

The United Nations (UN) dubbed 2005 the "Year of Microcredit," and the markets reflected this by ushering in microfinance (which provides small loans to the poor for starting up small businesses) as an emerging new asset class. The most significant development advancing this trend was the November launch of the Global Commercial Microfinance Consortium. Deutsche Bank not only coordinates the consortium, which also includes the Calvert Social Investment Foundation, Merrill Lynch, and Munich Re, but also manages its $75 million fund that provides financing to microfinance institutions (MFIs) around the world.

"Social investors' portfolios have included microfinance for years, so the emerging recognition of microfinance as a distinct asset class with a host of different vehicles and strategies is a welcome development," said Falk.

4. Climate Change Resolutions Withdrawn as Companies Agree to Report and Act

This past year, shareowner advocates solidified momentum toward convincing companies to address climate change. This progress stems from a campaign coordinated by Ceres and the Interfaith Center on Corporate Responsibility (ICCR). This past March saw the withdrawal of shareowner resolutions after Apache, Anadarko Petroleum, Chevron, Marathon Oil, Tesoro, and Unocal agreed to issue reports measuring climate change impacts and presenting plans for mitigation. Five companies who made similar commitments leading to resolution withdrawals in 2004 -- American Electric Power, Cinergy, Reliant Energy, Southern Company and TXU -- issued their reports or enacted increased disclosure this past year.

"In the matter of a few years, shareowner advocates have used the resolution-filing process to shift climate change from the periphery to a priority on the corporate agenda, compelling companies to disclose information on how they plan to track and minimize their environmental impacts," said Falk.

5. SRI Exchange Traded Funds Launched

One of many signs of the maturation of SRI is the adoption of increasingly sophisticated investment strategies. One such strategy is the exchange traded fund (ETF), which resembles a mutual fund by bundling securities but differs by allowing trades all day to exploit market flux instead of setting net asset value (NAV) once daily. One measure of the explosive growth of interest in ETFs is the rise in assets under management by ETF provider PowerShares Capital Management, which mushroomed from $280 million at year-end 2004 to exceed $3 billion before the end of 2005.

Early in 2005, Barclays Global Investors launched the iShares KLD Select Social Index Fund (KLD) on the New York Stock Exchange. KLD Research & Analytics devised the underlying index to utilize an "optimization" technique that overweights companies with strong social and environmental performance and underweights companies with weaker social and environmental performance. Mainstream institutional investors appreciated this strategy, judging by the list of top institutional holders, which includes JPMorgan Chase, Merrill Lynch, Goldman Sachs, and UBS.

Soon thereafter, the American Stock Exchange began listing the PowerShares WilderHill Clean Energy Portfolio, comprised of companies that promote renewable and alternative energy. The fund clearly appeals to social investors, as the top institutional holder is Trillium Asset Management and the top mutual fund holder is the Winslow Green Growth Fund, but mainstream institutions such as Merrill Lynch and Wells Fargo also find it attractive. PowerShares subsequently launched other ETFs that overlap into the SRI space, including one focused on nanotechnology and another on water.

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