



Nordic markets leading SRI push

Momentum is growing for sustainable and responsible investment. In a world where successful trends are measured by internet hits, SRI searches were up from 66.2 million in 2008 to 175 million in 2009. In 2008, SRI funds accounted for EUR 2,700 bn, 17.5% of Europe's total assets under management. In their typically non-showy way, the Nordic markets are leading the push towards SRI. Considering that Scandinavia accounts for only 3% of Europe's total population, its SRI total of EUR 597 bn accounts for a staggering 22% of Europe's total SRI assets under management. Scandinavian signatories of the UN PRI – represent around 10% of the 720 total (as of April 2010).

Danish Sparinvest signed the United Nations Principles for Responsible Investment in December 2009. Kasper Billy Jacobsen, Chief Portfolio Manager within Sparinvest's Value Equities team, also chairs the internal committee that was set up to oversee the introduction of ESG considerations into the investment process. In this article, he explains why it is important to take the time to get things right.

SRI means different things to different people, and there is not necessarily a right or wrong framework for action. But three main approaches are evolving – each with the ultimate objective of combining investors' financial objectives with their concerns about ESG issues:

- Sustainable investment – actively invests in companies that are demonstrably working towards sustainable business models with future-proof products.
- Best-in-class – invests in companies that stand out versus their sector peers according to factor comparison.
- Ethical investment – filters out investment in companies failing certain ethical screening criteria.

The belief is that good corporate ESG performance can have a positive impact on shareholder value but the jury is still out on whether SRI improves performance because of the huge disparity of approaches and factors: exclusion v. engagement, quality and style of management, difficulty in separating out ESG-related performance from mainstream financial performance factors.

An overly rigid exclusion approach reduces the investment universe, with obvious implications for risk and return. But active ownership, with its commitment to engage with companies that are in breach of international norms, also has additional manpower cost implications.

Who investigates the breaches? Who engages with the offending company to ensure that action is taken?

The 2009 EuroSIF study found that:

- "Investors want to contribute to sustainable development".
- "Investors don't want to contribute to violations of international norms".
- "Active ownership and engagement is developing strongly".

The Swedish company, Ethix SRI Advisors, reports that Scandinavian institutions – both asset holders and asset managers – are becoming increasingly active and engaged. But Ulrika Hasselgren, Managing Director, cautions that it is very important for investors to take the time to get the framework for action right. "Investors need a clear policy which addresses the questions: Why are we doing this? What do we want to achieve? And how are we going to achieve it?" she says.

Sparinvest, one of Denmark's largest asset managers, signed the UN PRI in December 2009 and has spent the last six months formulating its SRI framework for action. Already, a great deal of progress has been made. As due diligence for investment mandates, Sparinvest's two most popular funds Sparinvest Global Value and



Sparinvest High Yield Value Bonds have both been subjected to ESG screenings and were both found to be compliant with international norms criteria.

The really interesting thing here is that 'being ethical' was never part of the original investment objective for either fund and has certainly never been a constraint for their fund managers. Being ethical has not hampered performance and may, in fact, have been an unrecognised factor in helping both funds to achieve their strong performance track records. This goes to show that whilst ethical investment is often perceived to be a 'morality issue', in reality a large part of the SRI movement is focused on corporate value and thus on returns to investors. Even UN PRI puts the emphasis on corporate value (and thus on more successful investment) being created through a good ESG track record. In an actively- managed-fund where the process is bottom up and balance-sheet focused, it is easier (and instinctively desirable) to avoid companies with risk factors attached – be they financial liabilities or environmental, social or governance liabilities.

Sparinvest has now added Sparinvest Ethical Global Value and Sparinvest Ethical High Yield Value Bonds to its product range. These funds offer investors with an SRI mandate access to Sparinvest's proven Value investment processes for both equities and bonds, with an overlay of ESG screening by Ethix SRI Advisors.

Furthermore, Sparinvest has established an internal SRI division which will determine the shape and timeframe of the company's implementation of UN PRI. The group believes that a focus on ESG and active ownership increases transparency, sustainability and responsiveness in investments across all asset classes. Therefore ESG awareness creates long-term value for investors. The company's investment philosophy to date has always been one of 'prudent investment'. The definition of 'prudent' is now expanded to include 'responsible' and 'sustainable' investments, enabling investors to make more money long term, supported by the ESG factors, engagement and active ownership.

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Ulrika Hasselgren,
Ethix SRI Advisors

UN PRI signatory, Sparinvest, is a Danish and pan-European investment house that relies on academic evidence to provide prudent investments with a superior relationship between risk and return. Strategic asset allocation and Value investing are two of the Group's core strategies and strengths. Working in collaboration with the Swedish company, Ethix SRI Advisors, Sparinvest offers an Ethical Global Value equity fund and an Ethical High Yield Value Bonds fund which select companies on the basis of Sparinvest's proven value strategy before subjecting them to an ESG screening. More information is available at sparinvest.eu.

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