

Ethical investment

Sometimes the good guys win!

Ethical investment is no longer seen as investment where returns take second place to social conscience, an option for those who want to make money but not at any cost. In fact, over the past seven years ethical funds have given conventional managed funds a run for their money, and now some mainstream fund managers are launching new ethical funds.



An ethical investment strategy aims to change the world for the better by refusing to invest in companies whose activities harm the environment or the social fabric. Ethical funds don't invest in tobacco, armaments, alcohol or coal-fired electricity, but invest in alternative energy companies, sustainable agriculture or 'neutral' industries such as banking. However, the question has always been: How much growth and investment return do you lose by filtering out the nasties, or excluding blue chip companies that have one or two nasty subsidiaries? The truth is that most companies do not produce environmentally or socially harmful products, so the core companies in an ethical fund's share portfolio overlap with many of those in a mainstream fund.

This is one reason why research by the Responsible Investments Association of Australasia (RIAA), the ethical investment industry body, has revealed that ethical funds have not only kept pace with mainstream funds in terms of returns, but have often marginally outperformed them. The RIAA benchmark survey for 2009 reported that the average ethical share fund outperforms the average conventional Australian share fund over 1, 5 and 7 years, while the average ethical balanced fund does the same over 1 and 5 years.¹

Another reason may be that ethical funds are more likely to be pathfinders, investing in emerging industries such as renewable energy.

Ethical investment is a fast-growing but still small segment of the managed fund market, with around \$16 billion under management – less than 2% of the total market.² At the same time, there are now more than 40 ethical funds offering investment and superannuation portfolios in Australia so you have a real choice – not only of managers, but also of investment philosophies. Finally, ethical share funds must always disclose their screening criteria and list the companies in their portfolios – so you never invest blind when you invest green!

¹ Responsible Investment 2009, the RIAA benchmark report, Nov. 2009.

² Responsible Investment 2009, the RIAA benchmark report, Nov. 2009.