Celebrating 15 years of the UK Social Investment Forum
promoting sustainable and responsible finance (1991-2006)
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Preface

I am delighted to congratulate the UK Social Investment Forum (UKSIF) on 15 years of promoting sustainable and responsible finance in the UK.

Institutions manage the savings of millions of individuals and organisations. They look to the institutions to create wealth for retirement and for other long term needs. Responsible investors recognise that it is in their interests for companies to deliver innovation for sustainable development – that stronger self-regulation, more effective governance, improved incentive structures and more rational business practices protect and enhance society and the environment.

The finance sector continues to respond also to consumer demand based on personal ethical values. Around the time that UKSIF was formed, some felt there was no future for retail ethical investment, as apartheid ended in South Africa. On the contrary, at end 2006, about £7 bn was invested across nearly 90 retail ethical funds.

I have been keen to advance sustainable and responsible finance across a range of roles in government, my relationship with UKSIF now dating back nine years.

In 1999, as Pensions Minister, I introduced a regulation requiring occupational pension funds to disclose the degree to which they take social, environmental and ethical issues into account in their investment decision making. This modest measure has been effective in the UK, and similar measures have been adopted in other countries too.

Later, at the Treasury, I worked with Sir Ronald Cohen’s Social Investment Task Force which was supported by UKSIF. The results included introduction of Community Investment Tax Relief, and creation of the Community Development Finance Association, spun off from UKSIF as a dedicated trade body for community development finance institutions, which has just celebrated its fifth anniversary.

As Corporate Social Responsibility Minister from 2002 to 2004, and then Pensions Minister again, I followed with interest developments in sustainable and responsible investment in the UK, in Europe (UKSIF created the European Social Investment Forum and has played a leading role in developing it) and worldwide. I am pleased that similar forums now exist in most continents. UKSIF has partnered most recently with the United Nations Environment Programme Finance Initiative to produce an overview of the responsible investment policies of leading public pension funds.

Most recently, as Chief Secretary to the Treasury, I was delighted to host the reception at 11 Downing Street for UKSIF’s 15th Anniversary.

These developments illustrate how sustainable and responsible investment and financial services have grown and developed over the last 15 years. There is much more still to do. I look forward to working with UKSIF in the future and wish it every success.

Rt Hon Stephen Timms MP
UK Social Investment Forum (UKSIF)
Mission, Values and Operating Principles

Mission
The UK Social Investment Forum (UKSIF) is the membership network for sustainable and responsible financial services. UKSIF promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

Values and Beliefs
1. UKSIF is a values-led organisation whose primary purpose is to achieve its mission.
2. UKSIF regards its members as its primary stakeholders but also recognises a responsibility to wider civil society, in the UK and internationally, and to the environment and future generations. It draws its strength from the expertise and contacts of its members in financial services providers and other financial services stakeholders. While it operates similarly to a trade association, it does not exist to defend and advance particular member interests. It therefore looks particularly to its members’ expertise rather than their individual or collective commercial interests in deciding how best to fulfil its mission.
3. UKSIF believes in and seeks to stimulate and encourage the provision of a healthy market in responsible finance products. This includes encouraging a sufficient range of products to address diversification and differing values and financial requirements. It includes also taking a lead in encouraging innovative new approaches to achieving social and environmental impact and supporting the identification and removal of market failures.
4. UKSIF supports transparency, effective governance and management processes, principles-based regulation and “treat customers fairly”. It believes that these should be achieved by voluntary action rather than compulsion where possible. However, if encouraging a voluntary approach fails, legal or regulatory compulsion is acceptable so long as sufficient attention is given to effective implementation.
5. UKSIF believes that, so long as accurate information is available, it is the role of customers and the market to select preferred responsible finance strategies. UKSIF does not endorse specific strategies in preference to others (e.g. screening v. engagement).
6. UKSIF is willing to endorse or approve good practice standards in transparency, governance, management processes and similar. In doing this, it celebrates the positive rather than criticises the negative – it will “name and fame” but not “name and shame”. Surveys, awards and similar initiatives help to identify market leading solutions. UKSIF will undertake and endorse surveys, awards and similar where these “name and fame” rather than “name and shame”.

Operating Principles
1. UKSIF operates in the “co-operative space” where a critical mass of its members wish to work together to grow and develop responsible finance rather than the “competitive space” where they compete for their share of the resulting market.
2. UKSIF’s core business activities are:
   • to provide a membership network, delivering information, networking and other services to its members
   • to inform, educate and influence the public, the media, government and other external audiences
   • to undertake specific projects which advance sustainable and responsible finance
3. UKSIF obtains its core funding from membership, including the provision of membership services; as such, it seeks to achieve its mission in ways which secure the continuing support of a critical mass of members.
4. UKSIF seeks to build on its core funding from members by attracting project funding from sources compatible with its mission. These include sponsorship from members, charitable grants and government contracts.
5. UKSIF seeks to undertake a critical mass of activities that enable it to be a sustainable organisation that can deliver its mission. However, it avoids doing activities that are already being addressed effectively by other organisations. And where other organisations are more suitable and can be encouraged to take action, UKSIF prefers to be a catalyst rather than a competitor.
6. Corporate governance is within UKSIF’s scope in principle. However, UKSIF has decided that its work on corporate governance should be limited to the interface between governance and social / environmental / ethical (SEE) issues i.e. SEE governance / corporate responsibility governance. UKSIF does not seek to develop a specific competence on conventional governance issues, as this is already well served by other organisations.
UK Social Investment Forum (UKSIF)

Board of Directors and 2007-2010 Strategic Aims

Board of Directors

Following UKSIF’s 15th Annual General Meeting on 16 November 2006, its board of directors was:

Steve Waygood (Chair)  Morley Fund Management
Clare Brook (Vice Chair)  Carbon International
Charles Middleton (Vice Chair)  Triodos Bank
Mark Campanale  London Bridge Capital
Lee Coates  Ethical Investors Group
Michael Deakin  Michael Deakin Consultancy
Julia Dreblow  Friends Provident Life and Pensions Ltd
Katie Gordon  Cazenove Capital Management
Robin Keyte  Towers of Taunton (Financial Services)
Rod Schwartz  Catalyst Fund Management and Research
Meagan Thompson  Railpen Investments
Peter Webster (Treasurer)  EIRIS

Board members serve in a personal capacity. Organisational affiliations are as at 30 June 2007 and are given for information only.

2007-2010 Strategic Aims

To ensure that the UK finance sector is the world leader in advancing sustainable development through financial services.

In order to achieve this, UKSIF aims to

Grow Customer Demand

so that by 2010
- most mass affluent and high net worth consumers, pension funds and charity investors are aware of the concept of sustainable and responsible financial services
- where products are available that meet their needs, a significant percentage of these customers purchase them

Ensure Access to High Quality Supply

so that by 2010
- a broad range of sustainable and responsible financial services are available
- these meet the needs of mass affluent and high net worth consumers, pension funds, charity investors and other customers
- these deliver commercial opportunities for all industry actors

Ensure that the Operating Environment for the UK Finance Sector encourages and enables leadership in Sustainable and Responsible Finance

so that by 2010
- senior financial services decision makers, government and regulators support the importance of financial services that advance sustainable development and a long-term responsible approach to wealth creation and management
- leading practitioners and other opinion formers have a shared and robust analysis of the drivers and inhibitors for sustainable and responsible financial services and agreement on the best menu of actions to ensure systemic change

Continuously improve UKSIF’s capacity to achieve its mission and strategic aims

so that by 2010
- there is increased senior level support for innovation by UKSIF members and strategic support for UKSIF projects
- our resources are fit for purpose, our activities are sustainable and of high quality & our impact is increasingly highly regarded
The Beginnings

UKSIF was launched on 10 July 1991. It built on the work of the earlier groups Socially Responsible Investment Network and ‘Socially Useful Money’ (SUM) / ‘Social Use of Money Organisation’ (SUMO). An Interim Executive steered UKSIF’s formation during 1990.

In May 1992, UKSIF joined with other Social Investment Forums worldwide to send a resolution to the Earth Summit in Rio de Janeiro.

UKSIF Mission from 1991

The Forum’s primary purpose is to promote and encourage the development and positive impact of Socially Responsible Investment (SRI) throughout the UK.

Socially Responsible Investment combines investors’ financial objectives with their concerns about social, ethical and environmental issues.

UK Social Investment Forum
Press release

Embargo: Thursday, 14th May 1992, 00.00hrs

Contact:
Alan Miller, UK Social Investment Forum
John Schultz, US Social Investment Forum
Marc de Sousa-Shields, Canadian Social Investment Organisation
Peter Blom, International Association for Investors in the Social Economy (INAISE)
Robert Rosen, Australian Social Investment Forum

INVESTORS CHALLENGE EARTH SUMMIT WITH RIO RESOLUTION

Today, a coalition of social investment organisations representing investors in Australia, Canada, Europe, the United Kingdom, and the United States announced their adoption of the Rio Resolution.

The Resolution calls on individuals, companies, financial institutions and governments to incorporate social and environmental criteria into their investment decision-making processes. The Resolution is named after the location - Rio de Janeiro - for the United Nations Conference on Environment and Development, June 3 - 14.

We want to draw the Conference’s attention to the role of investors in focusing development on meeting the needs of today without jeopardising the ability of future generations to meet their needs, ‘said Mr Alan Miller, Executive Director of the United Kingdom Social Investment Forum. ‘Sustainable development and investment decisions are bound together’.

The Resolution asks:

- Individuals - to question whether the investment policies of their savings plans, pension plans, insurance, mortgage and loans support the objectives of sustainable development.

- Companies and non-governmental organisations - to ensure that their policies enable investments to be managed for environmental and social benefit.

- Financial Institutions - to begin the process of integrating environmental and social considerations into the investment analysis process and to have particular regard for investments in emerging capital markets.

- Governments - to introduce incentives for private capital to invest in community enterprises that support low-cost housing, small business start-ups, education, sustainable agriculture and other projects which enhance the common good.

Mr Miller noted, ‘The growth of social investing over the last ten years and its impact on corporations shows that investors can spark change. With the active encouragement of the world’s investors, corporations will make the transition to planning based on sustainability. The Rio resolution offers practical ways for investors to engage in the process’.

The Resolution is accompanied by a statement addressed to Maurice Strong, Secretary General to the Earth Summit.

The “Rio Resolution”, 1992
The First 15 Years

‘UKSIF itself has launched on an exciting period of growth ... What a challenge we have before us as we leave our formative years and enter into maturity.’

Charles Jacob MBE, UKSIF patron and then board member, UKSIF AGM keynote speech, October 1996

### Achievements

- **1981** First Social Investment Forum launched in United States.
- **1984** First UK retail ethical fund launched.
- **1990** Initial meeting held to discuss a UK Social Investment Forum.
- **1991** UK Social Investment Forum launched.
- **1992** UKSiF and other Social Investment Forums adopt the ‘Rio Resolution’.
- **1996** UKSiF secures development funding from Charities Aid Foundation, Polden-Puckham Charitable Foundation, Prairie Trust and Unity Trust Bank.
- **1996** Over £1bn held in UK retail ethical funds.
- **1997** UKSiF appoints first full-time staff member.
- **1998** Tony Colman MP creates All-Party Parliamentary Group on Socially Responsible Investment, with UKSiF providing its secretariat.
- **1998** Pensions Minister John Denham MP delivers UKSiF Annual Lecture, announcing possible SRI disclosure regulation for occupational pension funds.
- **2000** SRI disclosure regulation becomes law.
- **2000** Sir Ronald Cohen’s Social Investment Task Force, with UKSiF providing its secretariat, publishes report ‘Enterprising Communities: Wealth beyond Welfare’.
- **2001** UKSiF and partners create European Social Investment Forum (Eurosif).
- **2002** Community Development Finance Association (CDFA) launched.
- **2002** Just Pensions becomes an UKSiF programme, having been started by War on Want and Traidcraft.
- **2003** UKSiF starts its Retail Revolution programme.
- **2003** UKSiF starts its collaborative engagement programme, supporting the development of the Institutional Investors Group on Climate Change, Pharma Futures, the Pharmaceutical Shareholders Group and other initiatives.
- **2004** Over £5bn held in UK retail ethical funds.
- **2006** UKSiF starts its Sustainable Pensions project.
- **2007** UKSiF celebrates its first 15 years with a reception at 11 Downing Street.

### UKSIF Chairs, Patrons and Officers

#### Chairs 1991–2006
- **2006–Present** Steve Waygood
- **2003–2006** Emma Howard Boyd
- **2001–2003** Andrew Robinson MBE
- **1997–2001** Susan Jenkins
- **1997** Amanda Davidson
- **1992–1997** Tessa Tennant
- **1991–1992** Alan Miller

#### Treasurer
- **1991–Present** Peter Webster

#### Company Secretary
- **2006–Present** Adam Ognall
- **1991–2006** Malcolm Lynch

#### Patrons 1996 – 2006
- Michael Brophy
- Sir Adrian Cadbury
- The Rt. Revd. Richard Harries
- Hazel Henderson
- Charles Jacob MBE
- Lord Joffe
- Jonathon Porritt CBE
- Diana Schumacher
- Joan Shapiro
- Professor Muhammad Yunus

#### Chief Executive / Executive Director
- **2002–2005** Helen Wildsmith
- **1993–1997** Pat Conaty
- **1991–1993** Alan Miller
Sustainable and Responsible Finance Today:
Perspectives from Industry Leaders

Michael Quicke
Chief Executive
CCLA Investment Management Ltd

David Anderson
Chief Executive
Co-operative Financial Services

Peter Webster
Executive Director
EIRIS

Karina Litvack
Director, Head of Governance & Sustainable Investment
F&C Management

Julia Dreblow
SRI Marketing Manager
Friends Provident Life and Pensions

Will Oulton
Head of Responsible Investment
FTSE Group

George Latham
Head of SRI Funds
Henderson Global Investors

Colin Melvin
Chief Executive
Hermes Equity Ownership Services Ltd

Rory Sullivan
Head of Investor Responsibility
Insight Investment, the asset management arm of HBOS plc

Emma Howard Boyd
Head of Socially Responsible Investment, Director
Jupiter Asset Management

Peter Michaelis
Head of Sustainable and Responsible Investment
Morley Fund Management

David Russell and Daniel Summerfield
Co-Heads of Responsible Investment
Universities Superannuation Scheme
The Changing Shape of Sustainable and Responsible Finance

‘The Socially Responsible Investment movement has gone from the margins to the mainstream over the last 15 years. This is not just Corporate Social Responsibility - that is important but very different. It has not taken over the city but more and more of the market makers who manage pension funds and other financial assets are looking at sustainable investment. Some are doing so to reflect consumer demand for ethical investment; others are alarmed by the potential costs of unsustainable investment; still others want to invest in fast-growing environmental technology industries.’
Rt Hon David Miliband MP’s blog, 28 July 2006

Responding to Sophisticated Demand

Over the last few decades, huge advances have been made in sustainable and responsible finance.

With around £7.5 billion now invested in over 90 ethical funds the retail market has grown considerably since the launch of the UK’s first ethical fund in 1984. Figures from Eurosif value the broad SRI market in the UK at over €781 billion.

Financial institutions have responded to growing and ever more sophisticated demands of the retail public and stakeholders by providing a wider portfolio of products from “green” mortgages and insurance through to Sharia compliant funds and bonds.

At the same time, investors have demonstrated that they can engage successfully with companies to deliver meaningful change in how they handle the social and environmental challenges facing society.

Pressure from UK government and multilateral initiatives such as the United Nations Principles for Responsible Investment, the Carbon Disclosure Project and the Equator Principles will require more financial institutions, both in the UK and beyond, to deepen their responsible investment practices.

Looking ahead, pressure from investors, civil society and government will demand that financial institutions respond to an increasing range of global issues such as climate change, poverty and HIV/AIDS – each of which has the potential to seriously affect shareholder value.

EIRIS believes that all investors benefit by understanding the social and environmental impacts of their investments. We will continue to help our clients develop the market in ways that benefit investors, asset managers and the wider world.

Achieving the Right Outcomes

It has long been the aim of the SRI community to get mainstream investors integrating social, ethical and environmental (SEE) issues into their investment processes. The thinking is that if all investors asked companies about their SEE performance, then companies would respond by strengthening their performance in this area.

UKSIF has had a great deal of success in this area. Over the last fifteen years initiatives such as the Thomson Extel partnership and the Just Pensions sector notes have helped embed the view that SEE issues can be a material consideration when forming investment views. So much so that most serious UK fund managers now claim to be “integrating” material SEE issues into their investment process in some way or another.

While this represents something of a success, at Morley, we believe that it would be dangerous to believe that the markets now routinely motivate more responsible corporate practices. This is because the credibility of many investors’ claims can be seriously questioned and most do not disclose what they do. More importantly, simply considering a social or environmental issue – such as bribery in the defence sector – does not automatically lead to the “right” corporate outcome or the kind of Sustainable Future that our funds are attempting to help foster.

Looking forwards to the next fifteen years, I believe that UKSIF’s role will increasingly be ensuring that SRI is delivering an approach to capitalism that does indeed lead to the right outcomes. We all need capitalism to work better, and UKSIF is uniquely well placed to help us achieve this.
One of the most difficult problems of current investment approaches adopted by pension funds is their tendency to be invested in a way that encourages over-emphasis on short-term financial performance, at the expense of investment in the tangible and intangible assets necessary to deliver more responsible, sustainable and productive business activities. This outcome is not in the public interest and nor is it in the long-term interest of pension fund beneficiaries.

Next Steps towards Sustainable & Responsible Investment’, UKSIF’s submission to the Minister for Pension Reform, February 2006

What does it mean to be a long term responsible asset owner?

Fifteen years ago the BT Pension Scheme, Hermes’ owner, decided that, as the largest pension fund in the UK, it had an obligation to adopt a responsible approach to its investments.

This wasn’t a moral stance but a reflection of the belief that companies with active, involved shareholders are more likely to achieve superior long-term performance than those without.

Being a responsible shareholder is not about micro-managing companies or getting involved in matters that are rightly the domain of the directors. Nor is it about compliance with a set of rules.

In a world that often seems fixated with short term performance, being a responsible owner means framing discussions with companies in terms of long-term value creation and offering a shareholder perspective on the challenges they face. Our interventions with companies are guided by the Hermes Principles, which cover strategy, communications, financial structure, governance and social, ethical and environmental risk.

Today, on the back of increasing evidence that this approach improves returns, Hermes’ responsible ownership resources include a team of fifty individuals, with a broad range of skills and experience and our clients are like-minded major asset owners around the world.

Colin Melvin
Chief Executive,
Hermes Equity Ownership Services Ltd


b) after regulation 11 insert -

“Additional content of statement of investment principles 11A. The matters prescribed for the purposes of section 35(3)(f) of the 1995 Act (other matters on which trustees must state their policy in their statement of investment principles) are -

(a) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and

(b) their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.”

UKSIF Sustainable Pensions Project

UKSIF’s Sustainable Pensions Project encourages pension schemes of companies which are leading the way on corporate social responsibility (CSR) to consider environmental and social issues in their pension fund investment decisions. Launched in Spring 2006, it influences the pension funds of companies listed in the FTSE4Good UK Index and in the Carbon Disclosure Project’s Climate Leadership Index. This includes comparing their responsible investment practices with their corporate sponsors’ CSR and sustainability policies. It also encourages UK local government pension funds to support the UK government’s commitment to become a leader in sustainable public procurement.

Responsible Investment in Focus: How leading public pension funds are meeting the challenge

In 2006, the UKSIF Sustainable Pensions Project partnered with the United Nations Environment Programme Finance Initiative (UNEP FI) Asset Management Working Group (AMWG) to research the responsible investment policies of leading public pension funds worldwide. The resulting fifteen case studies were published in the report ‘Responsible Investment in Focus: How leading public pension funds are meeting the challenge’. 
Since 2000, UK institutional investors have played leading roles in collaborative investor initiatives on sustainable finance and long-term responsible investment. These include:

**Institutional Investors Group on Climate Change**
Established in 2003, the Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration between pension funds and other institutional investors on issues related to climate change.

IIGCC seeks to:
- Promote better understanding of the implications of climate change amongst its members and other institutional investors.
- Encourage companies and markets in which IIGCC members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

**Enhanced Analytics Initiative**
The Enhanced Analytics Initiative is an international collaboration between asset owners and asset managers aimed at encouraging better investment research, in particular research that takes account of the impact of extra-financial issues on long-term investment. It incentivises research providers to compile better and more detailed analysis of extra-financial issues within mainstream research by offering credible market incentives to interested and appropriate research agencies.

**The Marathon Club**
The Marathon Club is a collaboration of investment organisations that aims to promote long-term investing.

**PharmaFutures**
Pharma Futures is an investor-led dialogue between the pharmaceutical industry and its investors about how to manage a rapidly changing operating environment to deliver long-term value. It is based on understanding that a better alignment between profitability and society’s need for improved access to affordable healthcare, including medicines, is a prerequisite for a thriving healthcare industry. Pharma Futures is convened by pension funds ABP (Netherlands), OPERS (US) and USS (UK).

**Principles for Responsible Investment**
The Principles for Responsible Investment are an initiative of the United Nations Environment Programme (UNEP) Finance Initiative and the UN Global Compact. Launched in 2006, they consist of six voluntary overarching principles underpinned by a set of 35 possible actions that institutional investors and asset managers can take to integrate environmental, social and corporate governance (ESG) considerations into their investment activities.

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**Taking Leadership Seriously**

It has become increasingly clear that extra financial factors, including environmental, social and governance issues, if not appropriately managed, can and will impact on the value of the assets in which pension funds invest. Critically, many of these issues have impacts over the longer term. Pension funds, with their long-term liabilities, need to be setting the framework that enables the longer term to be taken into account in our investment processes.

At USS we recognise that this is easier said than done: We are all in the same position – whilst we would like to be long term, we live in a short term world. But just because it is difficult, doesn’t mean that pension funds shouldn’t take our leadership role seriously.

That’s why we have been active members of the Marathon Club (working with other pension funds to develop our long term thinking), and of the Enhanced Analytics Initiative (to actively and publicly support better long term and extra financial research from the sell side). USS were also a founder signatory to the Principles for Responsible Investment, setting a framework for action in this area, and enabling us to learn from the experience of others from around the world. These and other collaborative initiatives such as the Institutional Investors Group on Climate Change and PharmaFutures have enabled USS to address market wide risks to our long term performance.

Long Term and Responsible Investment is about making the companies in which we invest perform better – both in terms of the likely returns that we receive, and in terms of their impact on both the environment and society at large. This isn’t altruism - it is about being able to pay the pensions promise that funds make to their members and beneficiaries.

We believe that working together, pension funds and their fund managers have both the ability and the responsibility to act as long term and responsible owners. In doing so, we will exercise our fiduciary responsibilities, and act in the best interests of both our members as beneficiaries and the broader environment and society, of which we are all part.

David Russell and Daniel Summerfield
Co-Heads of Responsible Investment, Universities Superannuation Scheme
Ethical Savings and Investment

‘It is probably time to clarify what is normally meant by ‘ethical investment’. It does not mean a moral campaign to clean up the Stock Exchange, or to raise the standards of those who work in the financial field, much as this may need doing. Ethical investment is straightforward, and simply means an investment philosophy that combines ethical or environmental goals with financial ones.’


The Rise of the Ethical Saver

The need for a quantum shift in responsible investment has never been more paramount than it is today. According to the Stern Review, the investments that take place over the next 10-20 years will have a profound effect on the climate in the second half of this century and into the next, either locking us into very high emissions or leading the world on towards a more sustainable path.

It is reassuring then, that according to the recent AccountAbility report “What Assures Consumers on Climate Change?” two thirds of today’s consumers believe that all elements of society have a need to take increased responsibility for dealing with climate change.

Those far-sighted individuals and organisations that have pursued a sustainable investment path over the past 15 years and beyond should be well placed to maximise the opportunities from these emerging realities.

As such, it is no coincidence that 2007 marked a major milestone for ethical investment when Co-operative Insurance Sustainable Leaders Trust became the first socially responsible trust to outperform all other trust funds in the UK All Companies Sector.

The growth in ethical investment since 1992 has been impressive, going from some £372 million to around £7.5 billion by the end of 2006. However, going forward this growth will need to be dwarfed by the tens of billions of consumer savings that will need to be mobilised to underpin the investment required for the development of low-carbon technologies to meet our evolving global social, environmental and economic needs.

David Anderson
Chief Executive,
Co-operative Financial Services

Ethical Consumerism: Key Facts

- £29.3bn total spend on UK ethical consumerism in 2005 – an 11% increase from 2004, compared with UK household expenditure increase of 1.4%.
- Greater than retail sales of tobacco and alcohol (total of £28bn) for the first time.
- Ethical food spending up 18% from £4.6bn to £5.4bn. This includes organic products, Fairtrade goods and free-range eggs.
- Green home expenditure up from £3.8bn to £4.1bn. This includes energy-efficient electrical appliances, green mortgage repayments, small renewables (such as micro-wind turbines) and green energy.

The Co-operative Bank’s 2006 Ethical Consumerism Report, produced with the Future Foundation

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*(Est). Data from Ethical Investment Research Service (EIRIS)
Although the concept of ethical investment was not entirely new, when Friends Provident launched the first retail ethical fund in 1984, it was seen as something of a revolutionary move.

Charles Jacob among others had been battling with the Department of Trade for some years to get the concept of a retail ethical fund approved. And the general industry sentiment at the time was that the formula could not work.

How times have changed! Pioneers Friends Provident now boast over £3 billion under management across the Stewardship range. Many others have since followed and total UK ethical screened retail assets now exceed £6 billion.

However, this in many ways is the tip of the iceberg. In 2000 something very substantial shifted. Stephen Timms, in his then role as Pensions Minister, introduced a Social, Environmental and Ethical (SEE) amendment to the 1995 Pensions Act. What followed was the launch of many new funds alongside the boom in interest in responsible share ownership we see today.

Through its ‘Retail Revolution’ programme, UKSIF has played an important role in bringing this to individual investors. Key milestones include the development of an Adviser Toolkit and the inclusion of client ethical concerns within the new international standard (ISO) for personal financial planning.

In this area and many others beside, UKSIF’s contribution has been significant, commendable and also necessary – helping and encouraging the financial services industry to play its part in important societal shifts as they evolve. Vive la Revolution! Here’s to the next 15 years!
Beyond the Bishop of Oxford: the dilemma of the responsible charity investor

In 1991, a judge ruled that charity trustees should maximise returns and that in most cases this would be achieved by well established investment practice. The judge also said non-financial considerations should not lead to a risk of financial loss, and that the scope should be limited. The Bishop had hoped for something quite different.

CCLA clients showed limited interest at the time. The few that took the time to correspond vigorously agreed with the ruling. Today our experience is different: charity trustees, staff, volunteers, beneficiaries and donors are exhibiting an unprecedented interest. Furthermore Charity Commission guidance says some exclusion, positive investment or constructive engagement is now perfectly consistent with the wider aim of generating best returns - indeed not to do so might have detrimental consequences; and the Statement of Recommended Practice for charity accounting requires the disclosure of any social, ethical and environmental considerations taken into account within an investment policy.

So the conditions for the growth of ethical investment are more favourable, and charities say they want more of it. That said, the sector is desperate for income. Consequently the dominant behaviour is to continue to buy products with the best financial returns, regardless of ethical considerations. CCLA doesn’t lose much business on ethical grounds.

CCLA is a fund manager owned by its charitable, church and local authority clients. We were established to do things the market and regulators wouldn’t accommodate, and are founding members of UKSIF. New challenges present themselves, but we take inspiration from those leaders in the charity sector who have had the confidence to begin to pursue their mission in new ways, too, ‘with their substance, not just their surplus’.

The EIRIS/UKSIF Charity Project promotes awareness of Responsible Investment within the charity sector and provides assistance to charities who are considering adopting a Responsible Investment approach. It has produced three publications for charity trustees:

- The Responsible Investment approaches of Common Investment Funds (2006)
- Responsible Investment approaches to non-equity investments: An introduction for charity trustees (2006)
Warming to green issues

The recent publication of the UK Government’s Energy Review and Waste Strategy speaks volumes about how environmental issues have moved into the mainstream of politics and business. Equally, pledges by high street stores show that environmental factors are increasingly important to us when making everyday purchases.

Given this backdrop, green investing is at a fascinating juncture – arguably more so than at any point in the 19 years that we have been running green funds here at Jupiter.

The investment universe is expanding at a rapid rate, with specialist green businesses maturing and delivering more sustainable profits, while larger blue-chip companies are showing serious commitment to environmental responsibility. There are three notable long-term drivers of growth within the green investment universe.

Firstly, government policy is proving vital in forcing the pace of change and the adoption of new technologies, showing that green issues are becoming one of the most important global themes for investors today.

Secondly, the adoption of important environment-focused initiatives by the corporate sector, backed by significant capital expenditure, are also generating investment opportunities.

Finally, the consumer sector is becoming increasingly important, as evidenced by the recent strong inflows into the ethical and green investment sector. Recent Investment Management Association statistics show that net retail sales for the first quarter of 2007 are almost three times greater than the same period in 2006.

The highly competitive performance from several funds, particularly over the last year, has been important in attracting inflows, underscoring that green and ethical investing is no longer simply about principle – it is about profit.

Building a new economy

Back in 1992, few could see the investment opportunities in sustainable development. But UKSIF, as ever, was in the vanguard with Tessa Tennant and Mark Campanale among those who helped to launch the global ‘Rio Resolution’ from the investment community.

Fifteen years on, the market potential of sustainability solutions continues to outstrip expectations.

The carbon market – whose origins can be traced all the way back to 1992 Earth Summit – tripled in size in 2006 to reach $30 billion, according to the World Bank. Alongside this, a record $100 billion worth of deals were conducted in the clean energy arena in 2006, including $10 billion in initial public offerings (New Energy Finance). But the Industries of the Future that are driving the transition to a sustainable economy are not limited to ‘green’ themes alone.

The health of the world is also out of balance, with the scourge of HIV/AIDS requiring new ways to ensure access to medicines, and the relentless rise in obesity, which is driving an ever-greater focus on preventive approaches.

The scale of these global challenges can sometimes appear daunting. But there is also a new economy in the making – one that delivers healthy returns to investors by providing real solutions to real problems.

Emma Howard Boyd
Head of Socially Responsible Investment, Director, Jupiter Asset Management

George Latham
Head of SRI Funds, Henderson Global Investors

Investing in Green and Sustainable Solutions

‘The transition to a low-carbon economy will involve the biggest restructuring in how we live and work since the industrial revolution.’

Rt Hon David Miliband MP speech to the Association of British Insurers (ABI), 7 November 2006
Reflections on Investment Research and Engagement

"[the] fiduciary role gives you a responsibility to include environmental, social and governance criteria in your investment policy- and decision-making."
United Nations Secretary-General Kofi Annan launching the Principles for Responsible Investment, 27 April 2006

Investment integration today

As society’s expectations of business grow, it is increasingly evident that environmental, social and governance (ESG) issues can have a significant financial impact on companies – as a result of tighter regulation, litigation, damage to brand and reputation or changing patterns of consumer behaviour for example. We believe that these issues should now be considered as a matter of course by all investment managers, not simply those managing ethical mandates, to improve their investment decision-making.

However, this should not be taken as an argument that these issues will always be material to a company’s performance, either individually or bundled together. In our experience, most social or environmental issues simply cannot be shown to have a material impact on companies’ financial performance, over the short or the long-term. Research must therefore be carefully targeted so as to focus on the one or two issues likely to be most financially relevant – such as climate change in the utilities sector or nutrition and health in the food sector.

The principle of focusing on financially material issues should also underpin engagement; engagement with companies will be most effective if it is first and foremost aimed at understanding how effectively companies are managing material ESG issues and how they see them affecting their business prospects. Without this alignment, and the consequent strengthening of the levers available to investors to encourage high standards of corporate governance and corporate responsibility, investor influence will ultimately be less effective than might otherwise be the case.

Rory Sullivan
Head of Investor Responsibility, Insight Investment, the asset management arm of HBOS plc

Taking the long view

F&C launched two of the UK’s first SRI products – screened retail funds in 1984 and the responsible engagement overlay in 2000. Our aim remains to lead the market rather than follow. So what will SRI look like in 2025 and how will we get there?

For many, integrating ESG issues effectively - ie systematically across all issues and all sectors - will remain the key challenge over the next 2-3 years. Thereafter, we anticipate that, just as investment houses have strategy teams and economists, SRI teams will play a discrete role in investment analysis. Certain ESG issues will become more integrated, but society and the environment are not static entities, and there will always be new ESG risks that are potentially material but not yet in the mainstream.

In responsible engagement, the twin challenges will be new asset classes and globalisation: engaging the BRICs companies, and understanding how ESG materiality differs in those markets. Climate change and anti-corruption show the importance of supportive policies and incentives for company action. Catalysing change requires diversifying the tool box – investors will need to engage increasingly with public policymakers. ‘Old-fashioned’ screened funds may make a comeback: institutional investors will see that certain ethical screens can be applied without compromising performance.

Finally, SRI will move from analysing risks to identifying investment opportunities, with a rise of specialist funds. The first are already open for business, based on climate change. Others will follow. This means that SRI teams and SRI products will look very different in 2025 to 2007. They may not be socially responsible at all – merely investment.

Karina Litvack
Director, Head of Governance & Sustainable Investment, F&C Management

Just Pensions

UKSIF ran the Just Pensions programme from 2002-2005. It educated and influenced UK pension funds and other investors about the importance of international development issues in their SRI practice.

Just Pensions provided SRI toolkits for trustees, worked with investment institutions to develop a ground-breaking series of ‘sector notes’ identifying potentially material social and environmental issues and co-ordinated in-depth research on blockages. It was core funded by the UK Department for International Development (DFID) and initiated by the development charities Traidcraft and War on Want.
Using Indexes and Awards

‘Today, the UK must be the pioneer of a new model of economic change, that integrates social and environmental consideration. This is not just a question of values and moral duty. It is about our economy’s capacity to sustain itself.’
Rt Hon David Miliband MP at FTSE4Good 5th Anniversary, 7 February 2007

**FTSE4Good – Making a Difference**

Influencing corporate behaviour is one of the most valuable contributions responsible investment (RI) can make to both investors and society alike.

Company engagement is therefore becoming a key element in the investment process to help manage risks and capture opportunities. It is in this context that the FTSE4Good Indexes are contributing to driving change.

Developed by FTSE Group and launched in July 2001, the index provides an evolving transparent and challenging global Corporate Responsibility standard for companies to aspire to and exceed, and serves as an increasingly important tool for investors and the basis for an increasing number of financial products.

FTSE established its innovative and unique in-house engagement programme in 2002 to drive and measure change. Working directly with listed companies, the program helps them understand and reach the new inclusion criteria.

To date over 300 companies have moved to meet new criteria on environment, human rights and supply chain labour standards. Although constituents in the FTSE4Good index have increased from around 700 to 900, meeting the new criteria introduced annually is not easy and over 150 companies have been deleted from the index.

The challenge going forward is to drive changes in corporate performance. FTSE looks forward to joining with UKSIF and the RI industry in tackling this challenge. And with FTSE’s record on engagement so far, through its new climate change criteria and a more detailed FTSE4Good product, that is exactly what FTSE4Good is setting out to do for investors.

**Thomson Extel / UKSIF SRI & Sustainability Survey**

Since 2003, UKSIF has partnered with financial services information provider Thomson Extel to run the Annual SRI and Sustainability Survey. The survey identifies the leading brokerage firms and individuals undertaking SRI and Sustainability Research, Corporate Governance Research and Long-Term Thematic Research and also the leading SRI Fund Management firms.

**Sustainable City Awards**

The City of London’s Sustainable City Awards recognise business leadership in sustainable development. UKSIF is the City’s partner for the award for Sustainable and Responsible Finance. Since the awards were launched in 2001, the finance category winner has twice gone on to win the overall award.

**Carbon Disclosure Project**

Launched in 2000, the Carbon Disclosure Project (CDP) now brings together 280 institutional investors representing more than $41 trillion. It is a collaboration on the business implications of climate change that asks quoted companies for disclosure of investment-relevant information concerning the risks and opportunities facing these companies due to climate change. In association with this, it highlights companies with the most comprehensive climate disclosure practices in its Climate Leadership Index.
The Breadth of Sustainable and Responsible Finance

‘UKSIF as the membership network for SRI has been keen for some time to help stimulate debate about the development of SRI products across a wider range of asset classes.’

Forward to ‘Discovering New SRI Institutional Investment Opportunities’, Anne-Marie Smith, UKSIF. 2006

**Discovering New SRI Institutional Investment Opportunities**

In 2005, UKSIF invited Anne-Marie Smith, an independent consultant, to produce an overview of SRI opportunities across non-equity asset classes. Her report was published in 2006 as ‘Discovering New SRI Institutional Investment Opportunities’.

The investment categories covered included bonds, both vanilla and non-conventional, exchange traded funds and alternative investments such as hedge funds and carbon trading. Microfinance, renewable energy and alternative risk transfer products such as weather derivatives and natural catastrophe bonds were also discussed. Where sustainable and responsible finance products had been launched, at least one example was given.

**Savings and Bank Accounts**

UKSIF member banks and building societies that provide savings and bank accounts using explicit ethical or sustainable criteria include Triodos Bank, that lends only to organisations and businesses pursuing positive social, environmental and cultural goals and The Co-operative Bank (including Smile), that introduced its Ethical Policy in 1992 to set out precisely what ethical standards would govern the types of businesses it would and would not offer services to.

**Green Mortgages**

UKSIF members such as the Ecology Building Society and The Co-operative Bank offer mortgage products that take account of the environment.

**Community Development Finance Institutions**

Community Development Finance Institutions (CDFIs) are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. Pioneering CDFIs were UKSIF members in the 1990s. UKSIF supported their development through the Social Investment Task Force and the creation of the Community Development Finance Association.

**Venture Capital for Sustainability**

By 2006, 1.25 billion euros of committed capital had been raised across Europe by the fast growing sector of Venture Capital funds linked to sustainability issues, according to the European Social Investment Forum (Eurosif). Eurosif called this emerging space ‘Venture Capital for Sustainability (VC4S)’ and mapped it for the first time.

**Sustainable Property Investment**

UKSIF’s support for Sustainable Property Investment included a seminar organised in association with the Investment Property Forum in 2003. Speakers included Prudential Property Investment Managers and Morley Fund Management.

UKSIF members active in sustainable property include both investment institutions and sustainability consultancies such as Upstream, who have a specialist focus on the property sector.

**Project Finance**

The Equator Principles are a finance industry benchmark for managing social and environmental risk in project financing. They were launched initially in 2003 and revised in 2006. Financial institutions which have adopted the Equator Principles include UKSIF members such as Barclays and HSBC.

**Asset Finance**

Working with its members and with the support of the Carbon Trust, UKSIF undertook a feasibility study in 2006 on asset finance for low carbon assets. This led to the report ‘Green Opportunity: Accelerating the Financing of Low Carbon Assets’ that made recommendations on how to develop this market opportunity.
### UKSIF Members and Affiliates at 30 June 2007

**Banks & Building Societies**
- Barclays PLC
- Co-operative Financial Services
- Ecology Building Society
- HSBC Holdings Plc
- Lloyds TSB Group Plc
- NatWest
- Triodos Bank
- Unity Trust Bank

**Investment Management Institutions**
- Aberdeen Asset Management
- ABN AMRO Asset Management
- AEGON Asset Management
- Armstrong Management Limited
- Baillie Gifford & Co
- Catalyst Fund Management and Research Ltd
- Cazenove Capital Management Ltd
- CCLA Investment Management Ltd
- Charities Aid Foundation
- Credit Suisse Asset Management
- Ecclesiastical Insurance Group
- Epworth Investment Management
- F&C Management Limited
- Fidelity Investments
- Friends Provident Life and Pensions Ltd
- Generation Investment Management LLP
- Governance for Owners
- Henderson Global Investors
- Hermes Investment Management Ltd
- Impax Group
- Insight Investment
- Jupiter Asset Management
- Legal & General Investment Management
- M&S Money
- Marwyn Investment Management Limited
- Morley Fund Management
- Newton Investment Management
- Norwich Union
- QUADRIS Environmental Investments Ltd
- Rathbone Greenbank Investments
- RCM (UK) Ltd
- Schroder Investment Management (UK)
- SG Asset Management
- Skandia Investment Management
- Standard Life Investments
- Threadneedle Investments

**Investment Banks**
- Citigroup Investment Research
- Dresdner Kleinwort
- Goldman Sachs
- Morgan Stanley & Co International Limited
- Oddo Securities
- UBS (Investment Bank)
- WestLB Equity

**Investment Consultants**
- AllenbridgeEPIC Investment Advisers
- Hewitt Associates
- Mercer Investment Consulting
- Watson Wyatt LLP

**Occational Pension Funds**
- Environment Agency Pension Fund
- Railpen Investments
- Universities Superannuation Scheme

**Independent Financial Advisers**
- Agile Planning
- Ashlea Financial Planning Ltd
- Barchester Green Investment
- Bromige Limited
- C F Bartlett & Co Ltd
- Church Hill Finance
- The Ethical Investment Co-operative
- Ethical Investments
- Ethical Investors Group
- Ethikos Independent Financial Advisers
- Evans Ash Financial Services LLP
- Fabcats
- Finansec Green
- GIEIA Partnership Ltd
- Heron House Financial Management
- Holden and Partners
- Ian White
- Interface Financial Planning Ltd
- Investing Ethically
- John Scott & Partners Ltd
- Kingswood Consultants
- Lifestyle Financial Services Ltd
- Prest Financial Services
- Social Investment Advisers Ltd
- Southgate Financial Services Ltd
- Tamar IFA
- Tanya Pein
- Thompson Little
- Towers of Taunton (Financial Services) Ltd

**Research Providers & Professional Advisory Firms**
- Acclimatise
- Aguilas
- Andlug Consulting
- Dr Andy Mullineux
- Bates Wells & Braithwaite
- Carbon International
- Centre for Social and Environmental Accounting Research
- Centre Info SA - Sustainable Investment Consulting
- Cirrus
- Clifford Chance LLP
- CorporateRegister.com Ltd
- CO3
- CSR Consulting Ltd
- Cushman & Wakefield Healey & Baker
- EIRIS
- Ethical Screening
- Ethics Etc
- First & 42nd
- FTSE Group
- Innovest Group
- Inspire Invest
- Institutional Shareholder Services

**Investing For Good**
- Kaleidoscope Policy and Research
- Kinder, Lydenberg, Domini & Co., Inc.
- Kingston Real Estate Research Group
- oekom research AG
- PG Capital Limited
- PIRC Ltd
- PricewaterhouseCoopers
- Sancroft
- SustainAbility
- Synaptic Systems Ltd
- Trucost
- Upstream
- Vigeo Group
- Wrigleys

**Other Organisations**
- Amnesty International
- Angier Griffin
- Association for Sustainable & Responsible Investment in Asia (ASRIA)
- Aston Reinvestment Trust
- Big Invest Company Ltd
- Business in the Community (BITC)
- Campaign Against the Arms Trade
- Carbon Trust
- Centre for Tomorrows Company
- Charles Scanlan
- Christian Ethical Investment Group (CEIG)
- Clear Profit
- Community Development Finance Association (CDFIA)
- Community Enterprise Limited
- Computers4Africa
- Ethical Consumer Magazine
- Ethical Investment Association (Australia)
- Ethical Performance
- European Social Investment Forum (Eurosif)
- Fair Pensions
- Forum for the Future
- Highland Opportunity Ltd
- The Joseph Rowntree Charitable Trust
- Medical Mission Sisters
- New Economics Foundation
- Oxfam
- Polden-Puckham Charitable Foundation
- Prairie Trust
- Shared Interest
- Social Investment Forum (USA)
- Social Investment Organization (Canada)
- SRI Briefings
- Traidcraft Exchange
- UNISON
- WWF-UK
- wwwolf
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