

THE FUTURE OF SRI

All signs are pointing to the mainstreaming of socially responsible investment practices over the next 10 years.

by Coro Strandberg



This past winter I nearly fell off my chair reading this job posting: “Canada Pension Plan Investment Board (CPPIB) recruiting a Manager of Responsible Investing.” The CPPIB, responsible for managing \$98.6 billion in Canadian retirement pensions, was seeking a manager to lead implementation of their corporate engagement program and help integrate environmental, social and corporate governance factors into their portfolio management. This was nothing less than a watershed moment in the Canadian socially responsible investment (SRI) industry.

I interviewed 42 international thought leaders for their views on the future of SRI in a 2005 study sponsored by Vancity Credit Union. They all acknowledged that globally SRI is going mainstream, with institutional fund managers increasingly integrating social, environmental and governance factors into financial analysis. In the future, they predict every financial investment product category will have an SRI twin, and mainstream investors will be very active in shareholder engagement programs, having come to see them as part of good asset management practice.

So, with the institutional investor and SRI investor camps kissing and making up, whither the SRI movement? Will mainstreaming SRI move society off its current path of social disintegration and environmental degeneration? Investors searching not only to align their investments with their values, but to make a positive difference in the world, will be unhappy with the mainstreaming approach. While their long-term investments might be protected from social and environmental risks, a mainstream SRI sector will be limited in its ability to foster a clean, secure world.

The global thought leaders believe that over the coming decade mainstreaming will cause the SRI to embrace higher-impact social change investing. A continuum from SRI-lite to “deep” SRI will emerge, wherein deep SRI managers will develop and brand products and investment approaches to differentiate themselves from mainstreamed SRI programs, while fostering tangible so-

cial and environmental outcomes.

Values-based investment managers will include, for example, community development, carbon neutral, green property and clean tech venture capital investments in their portfolios—investments which offer more than a solid financial return. But deep SRI consumers will scrutinize not only financial returns, but social returns as well. Fund and asset managers will be rated on their ability to make a difference in the world. Those able to report positive social and environmental impacts will gain market share.

Deep SRI investment firms will offer financial instruments that secure revenue flows of sustainable products where investments are bundled and sold as bonds—renewable energy, sustainable forestry, clean water, etc. These funds will attract attention for their ability to garner capital to solve fundamental social and environmental challenges.

While mainstream managers adopt SRI-lite approaches to corporate engagement, deep SRI investors will patronize firms with high-impact shareholder action programs—where shareholder campaigns are causing the marketplace to move towards acting in accordance with fundamental human values. And they will reward SRI firms that convene multi-stakeholder coalitions with NGOs, industry players and others to work with governments to level the playing field for future-friendly, sustainability oriented companies.

Not surprisingly, deep SRI consumers will expect the highest standards of accountability and transparency from SRI fund management, operations and performance. In the face of this demand, SRI fund and investment managers will report in accordance with the emerging international standard, the Global Reporting Initiative. Transparency guidelines for SRI assets, such as those developed by the European Social Investment Forum, will become a baseline standard against which funds report on their internal Corporate Social Responsibility and SRI practices (www.eurosif.org/publications/retail_transparency_guidelines). Australia’s move to establish an SRI Symbol, the world’s first

certification program for SRI fund managers, dealers and advisors, is another step in that direction (www.eia.org.au).

The nascent SRI investor rights movement may represent latent potential to catapult SRI into deeper values-based performance. This is illustrated by campaigns such as the Amnesty Share Power Campaign (www.amnesty.ca/campaigns/sharepower). Regulatory and legislative reform will accelerate this process, demanding increased disclosure from mutual and pension funds on their proxy voting and investment policies—leading to greater accountability to pension plan members and fund unit-holders. As Steve Lydenberg writes in *Corporations and the Public Interest*, a broad societal debate will ensue over the roles and responsibilities of corporations. And the vehicles for change will be investment institutions in which most have a stake.

Progress in the Canadian SRI industry will only be achieved if the retail distribution market gets itself organized. Common platforms from which to market SRI mutual funds at the retail level are needed, such as a national dealer network dedicated to socially responsible investment. Awareness and training of brokers, bank and credit-union-based advisors and independent financial planners on high-impact versus integrated SRI will be critical.

So while SRI fundamentals go mainstream and the CPPIB picks up press for their integrated approach to financial analysis, SRI firms will be challenged to measure their impact, move towards deeper, more tangible results, align their internal operations with the expectations of their investee companies, and transparently report on their approach, performance and progress. A lot of heavy lifting is necessary in the years to come, but essential if the sustainability potential of the SRI industry is to be realized. **CK**

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