

The challenge of Transparency and Comparability

Measurability in the SRI-fund-market

Topic of the month September 2012

Due to the increasing willingness to incorporate additional aspects into investment decisions, sustainable or socially responsible investments (SRIs) have strongly gained in importance especially over the past few years. The concept of SRI has therefore become an integral part of the financial world and plays a major role for various groups of actors.

This trend is fuelling a need for a greater breadth and depth of information as for the investor with a focus on sustainability, there is a very large selection of mutual funds available worldwide. In the past few years alone, the number has nearly doubled. However, to borrow from George Orwell's quote, some sustainability funds are more sustainable than others. Furthermore, investors complain about the diverse use of the term sustainability and the complexity and heterogeneity of the concepts behind the word. As a consequence, the focus has increasingly changed to the central question of how to create transparency in this diverse environment and how to measure sustainability in a way that meets the diverse needs of investors. Further, a clear, high-quality overview that allows for a professional comparison of a fund's environmental, social and governance (ESG) sustainability should be provided.

One possible way to achieve this is by a central information platform that can provide information about the various options and strategies and serve as a guide to the decision process. This platform should offer all relevant information about socially responsible funds, aggregating scattered information and processing it for different target groups.

In order to increase the quality and credibility of sustainability investments, thereby promoting growth, the following goals should be pursued:

I

Transparency

It can be challenging to understand the key characteristics of different SRI products, be it because of the many different ways to describe them or due to the frequent lack of proper disclosure. The platform should provide greater insight in an easily understandable way to facilitate the choice of an appropriate product. And it is essential to understand what underlies an SRI product to establish trust.

II

Comparability

Socially Responsible Investing (SRI) is not a strict concept: Fund managers have developed different approaches that are incorporated into the investment process. To identify the product that best suits the investors' needs out of the huge number of available SRI funds, an efficient and sound comparison has to be enabled.



III

Measurability

How can the quality of a fund's sustainability strategy be quantified? This requires a methodology that allows a consistent translation of a large set of non-financial indicators into a final sustainability score. Such a methodology has to be transparent, complete and comprehensive.

A leading sustainability fund is characterized by, e.g., comprehensive social and environmental company research as evidence of its commitment to sustainability. This is reflected by the inclusion of companies with excellent stakeholder relationships and innovative products in the fund's portfolio. In addition, a fund should actively pursue engagement opportunities, e.g., through company dialogue, proxy voting or shareholder resolutions. It should also show a high level of transparency for investors, which becomes apparent by the fund management's readiness to provide information on specific questions, such as investment philosophy, transparency of selection criteria or disclosure of portfolio holdings.

With SRIFundsAdvice.com, Care Group has developed an interactive platform for presenting and comparing the sustainability quality and performance of funds. SRIFundsAdvice.com also shows how this information can be employed profitably in the investment process.

Second, additional ways of helping investors to navigate the diversity of SRI-products are quality seals respectively quality labels. This also helps to overcome the second challenge for an investor navigating in the broad field of SRI-investments, the challenge of gaining a detailed picture of the SRI quality of a fund in a quick and timely way. So, in addition to the objective transparency and evaluation of sustainability, the intelligibility of the information provided is therefore becoming increasingly important as well.

A label can provide guidance to investors and the interested public, e.g. indicating that a neutral sustainability rating is available which is independent of product providers and compiled on the basis of strict and objective criteria.

'A label takes account of the trend toward transparency and quality. It focuses on the central question on how transparency can be created in a diverse environment'



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Additional information can be found on the website www.SRIFundsAdvice.com, on www.yoursri.com and the [press release can be downloaded here](#).



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