HOLDS COMPANIES ACCOUNTABLE

Values and ethics are back in the limelight and smart investors are demanding greater accountability from the companies in which they invest.

Adopting a responsible investment (RI) strategy is an excellent way to facilitate improvements in corporate responsibility.

- There will be more pressure placed on companies to explain how they are dealing with the key social and environmental challenges of the 21st century. Responsible investors can ensure their voices are heard through their investment decisions.

- While Australia and New Zealand escaped the harshest consequences of the sub-prime crisis and global financial meltdown, the rest of the world didn't. The loss of capital valuation of financial assets worldwide reached over US$50 trillion; unemployment increased by 20 million jobs; about 53 million fewer people will escape poverty in the developing world.

- In response, the makeup and performance of company boards, executive remuneration and the behaviour of large institutional shareholders and fund managers are all in the spotlight. From now on individual and institutional investors will be paying much closer attention to how the companies they invest in are governed.

The rise and rise of corporate social responsibility has been driven by many factors but none so powerful as the wake up calls experienced by companies exposed for their harmful activities:

  - 20 years ago the New York Times revealed the exploitative labour practices of Nike's suppliers in Indonesia leading to a prolonged and high-profile activist and consumer backlash.

  - There's growing public pressure on pharmaceutical companies to provide cheaper drugs to poor nations. At the Pretoria Drug Trials in 2001 five of the largest pharmaceutical companies banded together to defend their patents on AIDS drugs resulting in reputational loss on a grand scale and big wins for AIDS treatment and for Africa.

  - Food manufacturers are becoming the target of litigation and regulation to force improvements in the fat, sodium and sugar contained in day to day food items.

Institutional investors and fund managers who have committed to using the principles of responsible investment to govern their investment policies and practices are increasingly driving how corporations respond to the big 21st Century issues like climate change, water usage and governance.

WHAT'S YOUR MONEY UP TO?

Want to learn more about responsible investment?
Visit www.responsibleinvestment.org

- The successful investor-backed Carbon Disclosure Project (CDP) is just one of many international success stories. Launched in 2000, the CDP has already persuaded major corporations around the world to disclose their carbon emissions with the aim of motivating investors, corporations and governments to take action to prevent dangerous climate change. Now in 2010 it is working on encouraging 300 of the world's largest corporations to report their water usage. Ford, PepsiCo and Molson Coors have already agreed. That's what can happen when 130 institutional investors with $16 trillion in assets under management act in the name of RI.

- In May 2010, a coalition of international fund managers, pension funds and super funds representing more than $1.7 trillion wrote to 21 major companies urging them to improve their disclosure of bribery and corruption risks. The investors asked companies from eight sectors, including defence, construction and capital goods, to explain whether their anti-corruption management systems adhere to frameworks developed by the International Corporate Governance Network (ICGN) and UN Global Compact.

- In March 2010, the ICGN published proposed global guidelines suggesting a new approach to the pay structure of non-executive directors, which they hope would result in more transparency and accountability. These guidelines are in addition to the numerous other guidelines prepared by the ICGN around anti-corporation, non-financial business reporting and corporate governance. The ICGN's membership of around 450 leaders in corporate governance includes institutional investors who collectively represent funds under management of around US$9.5 trillion.

Responsible investors can lead the way on corporate governance issues. Institutional investors and RI fund managers have already taken a significant lead on issues like climate change, water scarcity and the need to reform our financial markets. Even the financial decisions of individual investors can have a part to play in shaping corporate behaviour.

The most common reasons why people decide to become responsible investors are:

1. To generate **competitive returns** whilst making a difference to the environment or society.
2. To ensure your money is directed towards companies making a **positive difference to the environment** and the impact of climate change whilst avoiding those that cause harm.
3. As a way to **influence corporate behaviour** and push for greater accountability on issues like employment and trade conditions, environmental sustainability and good corporate governance.
4. To take your **social or consumer activism** to the next level.

There are a broad range of RI products, strategies and services for every life stage, investment timeframe and risk profile.

Speak to JustInvest Financial Planning today on 08 9325 2299 to find out how investing responsibly can help you grow your wealth.