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IS SRI * BUNK? ** Socially Responsible Investing*

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It will only become completely successful
when it ceases to exist altogether...”*

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SRI and Zen

SRI, or ‘socially responsible investing’, has to rank as one of the most ambiguous concepts in the investment world today. To many of its supporters, the future of humankind hinges on the broad adoption of *SRI* principles by investors around the globe. To many of its detractors, *SRI* is a vacuous ‘do-gooder’ concept that has been turned into a marketing gimmick by an investment industry forever looking for new ways to collect fees from a naïve investing public.

So what is *SRI*? Saviour of the globe? Or marketing gimmick? After careful study, we conclude that *SRI* indeed presents a Zen-like paradox. It can only become a useful investment concept by disappearing from the investment lexicon altogether. This *Letter* shows how to make *SRI* disappear, but only after salvaging something very useful and valuable from the idea.

What Is ‘Socially Responsible Investing’?

To understand what people who talk about ‘socially responsible investing’ mean by it, we turn to a July 2002 study titled ‘*Do UK Pension Funds Invest Responsibly?*’ by David Coles and Duncan Green (www.justpensions.org). Coles and Green surveyed the *SRI* practices of 14 UK

pension funds managing about 20% of all UK pension assets. Here are the four criteria they used to judge the *SRI* practices of these funds:

1. Policies: how clearly does a fund’s Statement of Investment Policies and Goals articulate why social, environmental, and ethical issues should be considered in the fund’s investment program?
2. People: who is accountable for monitoring the social, environmental, and ethical performance of the companies the fund invests in?
3. Implementation: how is the assessment of social, environmental, and ethical issues integrated into the fund’s investment and risk management processes?
4. Transparency: is there an effective dissemination of the fund’s *SRI* activities?

How well did the 14 UK funds score by these four criteria? According to the authors: “... *actual practice is substantially worse than we had expected. We can only conclude that poor practice by major pension funds on socially responsible investment is the norm*”.