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FINANCIAL REVIEW

Socially responsible investment strategies come out on top

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Plunging commodity prices and poor returns from the mining sector have helped the crop of local fund managers that market themselves under "socially responsible" or "ethical" banners beat the returns of their mainstream counterparts.

A key trend highlighted in the latest Mercer Investment Sector Surveys released on Tuesday was the growing dominance of socially responsible investment strategies. The monthly Mercer report is a closely watched measure of the comparative performance of institutional fund managers.

"Socially responsible investment strategies were the strongest performers over the three months to February 28, returning 13 per cent, and were the second-strongest style over the past year, returning 17.3 per cent," Mercer principal Clare Armstrong said.

"A tendency among this cohort to avoid the mining sector, which has been slugged by declining commodity prices over the past year, appears to be the biggest contributor to outperformance," she said.

The top-performing socially responsible investment strategy for the three months to February 28 was the Integrity Tailored ESG fund, followed by the Warakirri Charitable Australian Equities fund and the Bennelong ESG Australian Equities. All three returned more than 14 per cent over the period.

Warakirri Charitable Australian Equities fund was the top-performing socially responsible investment strategy for the past 12 months, returning 20.6 per cent. In second and third place respectively were the BT Institutional Ethical Sector Trust and the Dalton Nicol Reid Socially Responsible fund, which returned more than 18 per cent each.

NO BLANKET BAN

Not all players in the socially responsible investing game shun fossil fuel producers outright.

Warakirri Asset Management head of charities Conor Hayes said that while the fund was not precluded from investing in fossil fuel producers it did account for the declining value of these assets over time, meaning fewer of them make it into the portfolio.

Mr Hayes said a decision to exclude Woolworths due to its gambling businesses had been one of the biggest contributors to the fund's outperformance in recent months. Overweight positions in Qantas Airways and Lend Lease have also helped the fund's performance, he said.

Dalton Nicol Reid chief investment officer Jamie Nicol said that while fossil fuel investments were not excluded from that firm's socially responsible fund, being underweight to the mining and gas sectors over the past year had definitely helped its performance.

"Being underweight this segment of the market has contributed to the portfolio's outperformance, given falls in commodity prices such as iron ore and oil," Mr Nicol said. He said the rationale for being underweight fossil fuels exposure was largely due to uncertainty about the impact coal seam gas drilling had on the environment.

Mr Nicol said a positive bias towards healthcare stocks, which with their regular earnings profile tend to do well in a defensive part of the investment cycle, had helped his fund outperform in recent months. Resmed, Regis Healthcare, Sonic Healthcare and Estia Health are all current holdings.

The Mercer Survey of retail funds also showed managers with a mandate for socially responsible investing are benefiting from shying away from the mining and energy sectors. The Australian Ethical Smaller Companies Trust, which bans miners but allows investment in natural gas, ranked 12th over the past year with a return of 22.6 per cent.