

ETHICAL INVESTING

Returns feel good too

Ethical investments are showing they can perform competitively and avoid certain risks — and asset managers who follow UN principles for responsible investment may be at an advantage when funds are farmed out.

The Banker magazine reported recently that few parts of the global financial sector could claim to have continued growing in the past two years like Islamic financial institutions had — namely, asset growth of 64%.

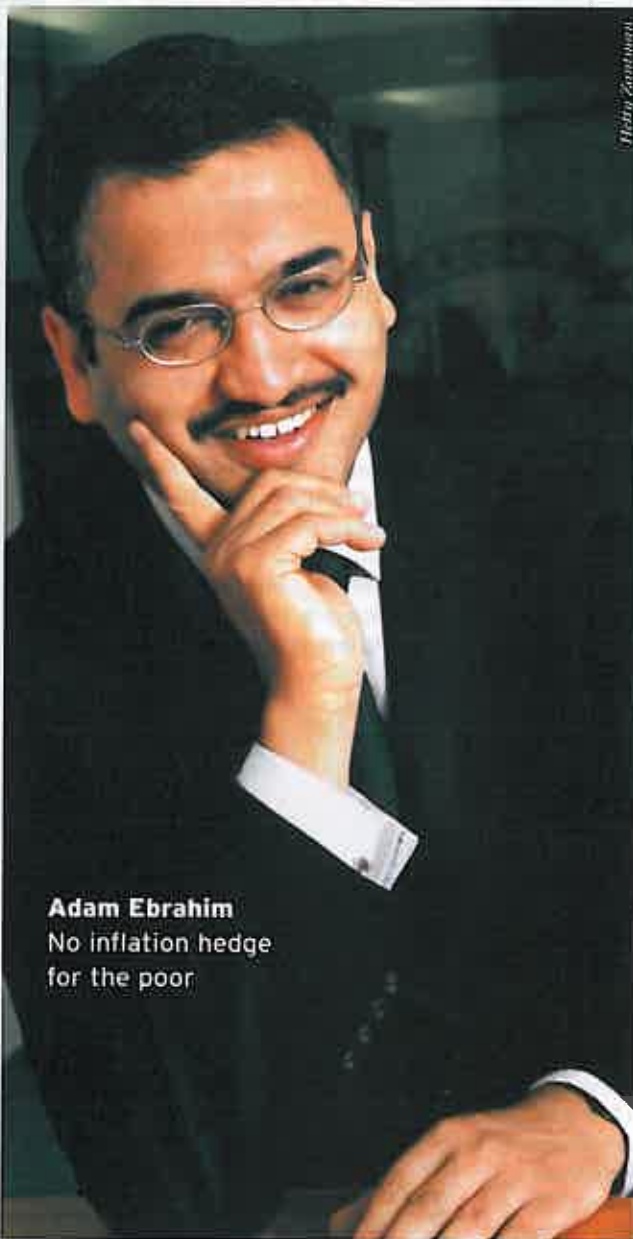
Ethical investing means investing in companies that comply with strict standards of environmental, social and corporate governance.

While most analysts in the past have only been concerned with the bottom line — no matter how the money was made — they are now seeing that it is possible to outperform when also considering ethical aspects of a company's operation.

The Oasis Crescent Equity Fund was the first collective investment scheme in SA to be compliant with shariah (Islamic) law. It was launched in August 1998, so it is a good benchmark to use. It has already adopted the principles for responsible investment developed by the UN in 2005.

Since inception this fund has outperformed its peer group and inflation handsomely, though it remains around middle of the pile across all equity funds over a shorter term (see table).

Its manager, Adam Ebrahim, says the intention is not to make quick, high-risk profits or invest in debt. Rather, the focus is on creating wealth through the cycle and not worrying about what competitors are doing in the short term. Debt



Adam Ebrahim
No inflation hedge
for the poor

exposure is low, so the fund has avoided asset bubbles. "This way we don't destroy value over time," Ebrahim says.

A practical example of investing ethically is that a manager would not go long on staple food prices, as that would push up bread and rice prices for the poor.

"Poor people do not have inflation hedge assets," explains Ebrahim.

He also stays away from overvalued situations and looks for low-cost opportunities.

Oasis believes a good track record in ethical investment makes the fund attractive to administrators that place funds in line with the UN principles.

In 2007 the country's most powerful fund administrator, the Public Investment Corp, with R800bn under management, called for tenders from asset managers to secure some of the R90bn worth of investments it had allocated to external managers. It had just withdrawn R146bn from external managers in 2006 and was interested in whether managers had signed up to the UN principles.

Again in 2009, the PIC pulled billions out from fund managers, preferring to invest with those who had the style and industry mandates it was looking for. Many managers have changed their offerings accordingly.

The changes, though, have come with growing pains. One problem is that the high-volume retail bank sector is short of highly trained shariah scholars with sufficient knowledge of finance and established reputations.

Evan Pickworth

A LITTLE OFF THE PACE IN BIG LEAGUE

Rank	Fund	Category	Type	1 week	3 months	12 months	3 years
1	RMB small/mid-cap fund	Domestic	Smaller companies	0,32%	9,91%	64,17%	23,90%
111	Oasis Crescent Equity Fund	Domestic	General	0,41%	3,75%	29,88%	7,08%
77	Oasis General Equity Fund	Domestic	General	-0,37%	5,75%	39,39%	17,13%
166	Stanlib Gold and Precious Metals Fund (A)	Domestic	Mining & Resources	-0,67%	-4,78%	-10,49%	-13,14%

Funds listed by 12 month sell-sell performance

SOURCE: EQUINOX