

## SRI funds offer better return than traditional funds in the current crisis situation

In the presentation of the SRI Observatory 2008, a project by the ESADE Business School in collaboration with BBVA, the head of this business school's Social Institute, Ignasi Carreras, has highlighted that the current situation in the financial markets may prove to be a good opportunity for Socially Responsible Investment (SRI). In fact, he has stated that, "SRI funds are performing better than traditional ones in the current crisis."



For Ignasi Carreras, the main reason for said performance is that these are funds with a lower risk level and they include companies that are highly committed to Corporate Social Responsibility (CSR), hence they take greater account of risk factors. Moreover, in the markets where most progress has been made, investors in SRI funds tend to be more loyal, as the reasons they come into them are of a more structural and ethical nature, inducing them to remain longer. This is one of the reasons participants in these funds are not taking flight to the same degree as they are from other financial products.

Hence, despite the SRI situation in Spain being "delicate", the participants of this observatory are of the opinion that, in times of crisis like today, the position of such investment may be enhanced. It is a time in which investors can verify which are the companies that have a firm, long-term commitment to CSR and which have used it solely for image-improvement and communication purposes.

In this line, Tony Ballbriga, BBVA Manager of Corporate Responsibility and Reputation, has indicated that, "BBVA is firmly committed to boosting SRI in Spain. An indication of this is our support for ESADE's SRI Observatory work, a report that has now become consolidated and which allows all the players involved in our country to know its evolution and current standing."

He likewise pointed out that BBVA is the first entity in Spain to have subscribed the United Nations Principles for Responsible Investment, "a commitment that is going to translate into a progressive integration of social, environmental and corporate governance criteria into pension plan management," he declared.

### SRI has a future in Spain

SRI has taken a large step forward in the international finance markets; however, Spain continues to lag some way behind. It is still a marginal sector with the aggregate of funds managed under SRI criteria accounting for just 0.3% of the capital invested in investment funds in Spain. This figure, furthermore, has tended to fall, as last year it accounted for 0.48%. In this scenario, the development of the SRI institutional market, in particular that linked to pension plans and funds, is a fundamental strategy for catalysing the market.

According to the information provided by the SRI Observatory, from a national market perspective SRI is in a delicate state of health, as the data for 2007 indicates a decrease in both asset volume and participants, although it is true that we cannot ignore the times the international finance markets are going through, in which practically all products are losing

value. However, this paper underlines a positive fact, and that is that of the 19 SRI funds in Spain, 7 (37%) are turning in positive performances, whereas of the hundred or so other fund categories existing in our country, barely twenty (20%) have managed to record positive returns. This information would imply that SRI funds perform better than traditional funds under crisis situations.

As far as the situation of the CIIIs is concerned, at year-end 2007 there were 61 socially responsible CIIIs, of which 19 were managed by institutions in our country and 42 by foreign institutions. Hence, if we compare these figures with those of the previous year, in 2007 the number of CIIIs managed abroad rose by a figure of eight new socially responsible CIIIs. Which seems to imply that SRI has a future in our country.

There have, moreover, been some movements that seem to reaffirm the more optimistic forecasts, including:

- ❑ The launch of the FTSE4Good IBEX, the first socially responsible financial index to specifically analyse companies in the Spanish market. It has had a strong impact as the Spanish companies listed have committed themselves to fulfilling the standards analysed to join it, and analysts have a tool to move ahead in the development of products and services. At its launch the index contained 27 companies.
- ❑ If we take the stocks that occupied the first FTSE4Good IBEX list and review their performance from 2000 through 2008, we can see that they exceed the return from the IBEX 35 by 29%, i.e. that if someone had invested €100 eight years ago, today he or she would get €149. However, in 2008 both groups of securities have reported losses: the IBEX 35 has recorded -13% returns and the FTSE4Good IBEX -12%.
- ❑ The foundations have been laid for the creation of a new forum for Socially Responsible Investment in Spain, the SpainSIF. It is a forum on a par with those existing in countries where SRI markets are important, which will cluster the investor community around SRI. Its aims will be to disseminate SRI among possible investors, support investment managers and to foster the necessary mechanisms for SRI development.
- ❑ Pension funds in Spain are adopting social and environmental criteria in their investment policies. It is a highly positive factor as SRI pension funds have been one of the main investment instruments driving SRI in Europe and the United States.

However, despite these positive trends in SRI development in Spain, there is still a long road to travel, above all if we look at the data for the USA where over 10% of capital invested by fund managers builds in some SRI strategy. Furthermore, SRI growth in the last ten years has been quite considerable, being one of the collective investment types that has experienced strongest growth from 1995 through to today. Currently around 11% of assets (1 out of every 9 dollars invested) under professional management in the United States adopts some social responsibility criterion.