



# Update on Charity/Socially Responsible Investment

Mercer quarterly update on charity & ethical fund issues in Ireland



## Pursuing ESG integration in emerging market investments

As we welcome in the New Year, Emerging Market investment continues to be an important strategic asset allocation decision for global investors. Emerging Markets offer attractive diversification opportunities for institutional investors whilst providing access to strong economic growth in developing economies. The potential link between environmental, social and governance (ESG) factors and emerging market investments can be viewed both from a risk management perspective, and also as a way of identifying investment opportunities. Market inefficiencies in emerging market regions - perpetuated by lower standards of data availability, reporting and transparency - are a potential source of alpha for investors in these regions. Identifying leading companies that perform well on environmental standards, governance standards, human rights and product/safety standards are vital ingredients for effectively managing risk whilst achieving strong and sustainable long-term returns.

From a macro-economic perspective, 'hot money' flowing in to and out of emerging market regions may de-stabilise local economies and increase volatility in portfolio returns for institutional investors with exposure in those markets. Poor transparency and governance standards in many emerging market economies may also contribute to higher portfolio risk. Investing through an ESG lens may help to better manage such risks, as well as perhaps identifying good investment opportunities.

Mercer has recently worked with a large Dutch pension fund to search for high performing managers that are on the path towards integrating ESG factors into their core processes. This work had the dual aim of searching for a new mandate, as well as sending a wider signal to the market that there is demand from asset owners for ESG integrated solutions. The search was broken down into two main elements: an initial search for skilled managers that are likely to outperform a suitable benchmark over the full economic cycle; and an assessment of their process and capability for incorporating ESG factors into their investment process.

In a related project, Mercer was recently commissioned by the International Finance Corporation (the private sector branch of the World Bank Group) to undertake in-depth research on the prevalence of the integration of ESG factors of fund managers based in emerging market regions. Over the coming months, Mercer will survey fund managers operating in, and investing into, emerging markets to identify and highlight those that integrate ESG factors in their investment processes. As part of this project, a detailed survey will be carried out on fund managers based in China, South Korea, India and Brazil.

Whilst there has been considerable interest in the issue of integrating ESG into core investment processes, we estimate that only a few asset owners have sent a strong signal to managers via mandates and manager searches, either in developed or developing markets. As we move into 2008, we urge more asset owners to take this route, to continue to promote change and innovation across the investment community. With a strong motivation and equipped with the right tools for effective implementation, this is one New Year's resolution that the investment community can keep.

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## Charity & Ethical Managed Fund Update at 31 December 2007

Manager	1 Mth %	3 Mths %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
<b>AIBIM</b> <i>Select Ethical Balanced Growth Fund*</i>	-0.8	-2.5	-0.8	8.5	8.7	4.5
<b>BIAM</b> <i>Ethically Managed Fund</i>	-1.7	-6.4	-9.9	4.0	6.5	5.1
<b>Friends First</b> <i>Stewardship Managed Fund</i>	-0.3	-2.1	0.7	n/a	n/a	n/a
<b>Hibernian Life</b> <i>SRI Managed Fund</i>	-0.5	-1.6	2.8	12.0	10.9	n/a
<b>Irish Life</b> <i>SRI Managed Fund</i>	-1.1	-2.6	-0.1	n/a	n/a	n/a
<b>KBCAM</b> <i>Ethically Managed Fund</i>	-1.2	-4.5	-5.4	6.9	7.2	n/a
<b>New Ireland</b> <i>Ethically Managed Fund</i>	-2.0	-6.5	-10.3	3.0	n/a	n/a
<b>Oppenheim</b> <i>Ethically Managed Fund</i>	-0.2	-2.7	-3.8	6.8	8.8	n/a

\* AIBIM Charity Managed Fund closed 20/3/07 and the assets transferred into Select Ethical Balanced Growth Fund.

## Charity & Ethical Equity Fund Update at 31 December 2007

Manager	1 Mth %	3 Mths %	1 Yr % p.a.	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
<b>AIBIM</b> <i>Charity Global Equity Fund</i>	-0.5	-2.5	6.7	13.6	11.0	3.3
<b>Dolmen</b> <i>Green Effects Fund</i>	1.2	-4.6	7.0	17.4	15.2	n/a
<b>Hibernian Life</b> <i>SRI High Yield Equity Fund</i>	0.2	-1.5	3.2	15.9	13.3	n/a
<b>Friends First</b> <i>Pension Stewardship Fund</i>	0.0	-3.2	0.3	9.5	10.1	10.5
<b>Irish Life</b> <i>SRI Global Equity Fund</i>	-1.3	-4.8	-4.3	7.2	5.7	n/a
<b>KBCAM</b> <i>Global Ethical High Yield Fund</i>	-1.1	-6.9	-6.3	7.9	n/a	n/a
<b>New Ireland</b> <i>Ethical Global Equity Fund</i>	-2.3	-7.9	-12.6	5.5	n/a	n/a
<b>Standard Life Investments</b> <i>European Ethical Equity Fund**</i>	-1.3	-4.3	n/a	n/a	n/a	n/a

\*\* Invests in European equity only.

## Index Returns to 31 December 2007

Sector	1 Mth %	3 Mths %	1 Yr % p.a.	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
<b>Irish Equity - ISEQ</b>	-3.7	-11.5	-24.5	6.3	14.5	7.8
<b>FTSE Eurobloc</b>	-0.5	-0.6	8.7	19.1	18.2	
<b>FTSE UK</b>	-2.4	-4.7	-1.7	12.8	11.9	5.1
<b>FTSE Europe ex. UK &amp; Euro</b>	-2.6	-7.0	-2.2	16.3	16.2	
<b>FTSE North America</b>	-0.1	-5.5	-3.1	7.6	6.8	3.8
<b>FTSE Japan</b>	-3.8	-8.2	-14.0	5.3	7.4	2.5
<b>FTSE Pacific ex. Japan</b>	-1.4	-4.9	18.6	24.0	21.5	10.2
<b>FTSE World</b>	-0.9	-4.6	0.4	11.9	10.9	5.3
<b>FTSE World ex. Eurobloc</b>	-1.0	-5.4	-1.2	10.6	9.7	
<b>ML EMU Gov 5+ Bonds</b>	-0.5	1.1	0.5	2.1	4.2	5.7
<b>ML EMU Gov 10+ Bonds</b>	-0.4	0.9	-1.8	2.1	4.8	6.5
<b>Barclays Euro Inflation Linked</b>	-0.7	1.8	1.7	2.1	5.1	
<b>3 Month Interbank Deposit</b>	0.4	1.2	4.4	3.2	2.8	

Source: Rimes, 2 January 2008

Performance returns are provided to Mercer by each Investment Manager.

Care has been taken in preparing this document however the information herein is intended as a general guide only. No responsibility is accepted for errors or omissions howsoever arising. Specific advice should be sought from your Mercer consultant when queries arise and professional legal advice should also be sought where necessary.