

This summer will see the FTSE4Good Index's fourth birthday. Launched in July 2001 in response to the Pensions Act 2000, which forced pension funds to set out the social, environmental and ethical considerations used in their investment policies, it was soon adopted by other institutions as a benchmark. There are also now two UK retail funds that track the index – the CIS UK FTSE4Good Tracker and the Direct Line FTSE4Good Tracker – with a number of other retail funds using the index as one of their benchmarks.

The five FTSE4Good indices cover the UK, Europe, US, Japan and global markets. The index currently includes around 930 companies, of which 300 are UK-based. To be included, companies must either be in the FTSE-All Share Index or FTSE-All World Developed Index and satisfy a range of corporate social responsibility criteria based on three principles: working towards environmental sustainability; developing positive relationships with stakeholders; and supporting human rights.

Unfortunately, however, in common with other ethical indices, such as the Dow Jones Sustainability Index, FTSE4Good has left the charity world somewhat underwhelmed.

"None of our charity clients use them," reports Mark Mansley, strategy and communications manager at Rathbones Greenbank Investments, the ethical investment arm of Rathbones. "As far as the UK is concerned, the indices have been useful, but they haven't been seized on by large numbers of ethical investors."

Mansley reckons that the lack of interest is partly because the approach of the indices may not fit in with charities' objectives. Many will want to take a stronger approach to issues than the screening offered by FTSE4Good or the best in sector approach of the Dow Jones Index. Both also fail to give exposure to smaller, more positive companies. FTSE might include an oil company in the energy sector, for instance, but not a renewable energy company. It perhaps also hurts itself by blurring the common distinction between approaches to ethical

Good for nothing?

The FTSE4Good Index is almost four years' old, but it has failed to spark the interest it hoped for from the charity sector. Gail Moss argues that it can, however, boast some modest but important achievements



investment, taking a passive view on the financial side, but an active view on social responsibility, for instance.

Yet even if it didn't do so, the index might still struggle to gain credibility, according to Karina Litvack, director and head of governance and SRI at F&C Asset Management. "The indices have not yet gained the widespread following they would need in order to be declared successful, and this is partly because an ordinary index is created on the basis of reasonably objective criteria – for example, you're either a top 100 company

or you're not. An ethical index on the other hand is designed according to the particular definition of ethics used by the people creating it. So what is an 'excellent' environmental management policy?"

The result is that, at best, charities use the indices as a secondary benchmark, relying on mainstream financial indices such as the FTSE All Share, or charity indices in the first instance.

But it is perhaps unfair to judge the ethical indices in this light anyway. According to Will Oulton, strategic adviser to FTSE4Good, its major achievement

has been to improve the practice of the companies listed. "The FTSE4Good was created with the clear intention that criteria would become more rigorous over time, as a drive to improve corporate responsibility and benefit investors," he says. Since its inception, he points out that 27 companies have been deleted from the index for failing to meet the tougher requirements, and that the index has become an investor activism tool. "Those companies who get deleted from the index get a red flag against them," says Oulton. "The way that companies have responded to the changing criteria of the index is unprecedented in the industry. It has been an issue for them to retain their index status." On this level at least, he says that the indices have therefore been a success, even if their wider influence has been limited.

Nevertheless, he agrees that the index has not been entirely a runaway success. "It has not lived up to the impact that we hoped for in terms of acting as a financial benchmark, although that is growing," he admits.

Partly, this is down to the fact that the stock market has not been in great shape since the index was launched, says Melissa Gamble, senior analyst, SRI, at Morley Fund Management. "There's been a real drop-off in interest in ethical investment from charity trustees because of stock market performance," she says. "What trustees tend to focus on is meeting their liabilities."

Last year, Morley launched a campaign to encourage charities to invest responsibly, mailing 1,000 charities with information on the process of engagement it uses in its SRI products. This was followed by a further letter, and the next stage will involve direct contact with the larger charities. "The response from charities has been fairly quiet," says Gamble. "A large percentage of the 1,000 do not have an ethical policy."

The index also has no monopoly over investments with a social conscience. "We cannot talk just about the FTSE4Good, because our own selection processes are driven by other indices as well," says Litvack. Her own company

manages £1.6 billion in the Stewardship funds but runs £124 billion in funds not accountable to Stewardship criteria. "There may be companies in these other funds where we would voice our concerns about particular practices.

Cafedirect, for instance, can be bought through the Ethex matched bargain market operated by Triodos Bank. Other shares traded on Ethex include the Ethical Property Company and Golden Lane Housing. Organisations wishing to



Screening has been successful for us, but we think the activist route can also be a force for good."

So while the FTSE4Good Index has raised awareness of SRI, there are plenty of other options. Charities can even look at investing in companies directly and speaking to their management, where they are unlisted. Shares in the UK's largest Fairtrade hot drinks company

purchase shares and shareholders wishing to sell them register with Triodos which matches buyers and sellers at the end of each month.

As time goes on the FTSE4Good may find itself losing even more business to such alternatives, but in raising the profile of SRI, it deserves some credit for their success, even if it doesn't always see the benefit.