DJSI World Index – three years on

In the inaugural issue of this magazine and its two subsequent anniversary issues, this column described the impact of sustainability on asset management. We focused on the Dow Jones Sustainability World Index (DJSI World) as the industry leader in sustainable investing. As promised, this is our annual update.

This month, Dow Jones Indexes, STOXX Ltd and SAM Group announce the results of their annual review of the DJSI family. The new composition of the DJSI World will again include over 300 companies representing the world's sustainability leaders across all industries. They have a market capitalisation of close to €5 trillion ($4.9 trillion). The full list can be seen on www.sustainability-indexes.com.

This year's review was marked by continued strong interest in DJSI membership and significant improvements in terms of corporate sustainability performance. The integration of economic, environmental and social criteria is moving up the management agenda in all industries and has reached a high degree of sophistication in some sectors. A growing number of companies are publishing sustainability reports to inform their stakeholders on their achievements and targets in this field.

At the same time, market acceptance of the DJSI family continues. The list of DJSI licensees has seen the addition of nine new members over the past 12 months and it includes some of the premier financial institutions in the world. Products range from mutual funds and segregated accounts to equity baskets. Assets managed in these portfolios now amount to almost €2 billion.

These licensees cater to the demands of a rapidly growing number of investors that seek to include sustainability criteria in their asset allocation. Recent corporate governance scandals have re-emphasised the need to look beyond annual reports and financial statements when analysing companies. Moreover, the floods which continental Europe experienced in August were a frightening example of current environmental developments and the effects they have on companies. Investors are increasingly taking these and other sustainability trends into account to assess their impact on the long-term performance of investments.

In that context, the performance of the DJSI World over the past 12 months shows encouraging results. We should note that although the index has underperformed the DJGI during the past year, it has outperformed the MSCI (see page 31).

Separately, a 9 August article in the *Wall Street Journal* reported recent data from Lipper and Morningstar that suggest that socially responsible funds have also produced better returns than the average domestic fund during the one-year period ending 31 July (see figure).

In late July the Social Investment Forum indicated that 72% of the funds it tracks achieved the highest rankings for performance from both Morningstar and Lipper for the one-and/or three-year periods ending 30 June 2002. Furthermore, the Forum's most recent study shows that socially and environmentally responsible investing in the US grew 8% from $2.16 trillion in 1999 to $2.34 trillion in 2001.

Finally, recent events in the US corporate world and the above average performance of sustainable and socially-screened funds seem to strengthen the linkage between good corporate governance and stock performance. Three recent, and seemingly unrelated, stories in the US media might be illustrative. They concern Enron, Major League Baseball and United Airlines. This observer would argue that they are all part of a three-legged stool called shareholder responsibility and governance. In the case of Enron the argument is self-evident. In spite of what might have been the best judgement of the directors, the company has gone bankrupt. Lingering questions of appropriate levels of executive compensation and conflicts of interest at director level will probably be debated for years.

What does this have to do with baseball? The average annual compensation of the players (employees) is $2.3 million. Claims that this is "insufficient" are frequently cited as an example of player avarice. The current dispute between players and owners is creating the possibility of a strike that could possibly destroy the sport. This student of markets had the pleasure of being an expert witness in the late 1970s on behalf of Charles O Finley, owner of the Oakland Athletics and the winner of three consecutive World Series, versus the Commissioner of Baseball. The case was about the relative value of Jimmy Foxx, Babe Ruth and Reggie Jackson. Charlie, my dearly departed friend and surrogate father, scolded me for blaming the players at that time. He taught me that the problem was really about the owners and their inability to develop a system where teams could stay competitive while keeping the sport financially sustainable. Baseball is America's national pastime and it should be capable of setting the highest standards of governance.

The same story applies to United Airlines. The perception is that the pilots and machinists are on the verge of driving the company into bankruptcy. The press is quick to point out that the former can earn as much as $300,000 for 12 hours of work a week. It certainly appears that, unlike baseball players, there is a more than ample supply of good pilots. However, the representatives of these groups are also owners and directors of this company. Isn't it ultimately the responsibility of the representatives of the shareholders to insist that management develop a business model that is sustainable? This is a great company that should be doing better.

Enron, Major League Baseball and United Airlines. Three different faces of the same problem: lack of good corporate governance and shareholder responsibility.

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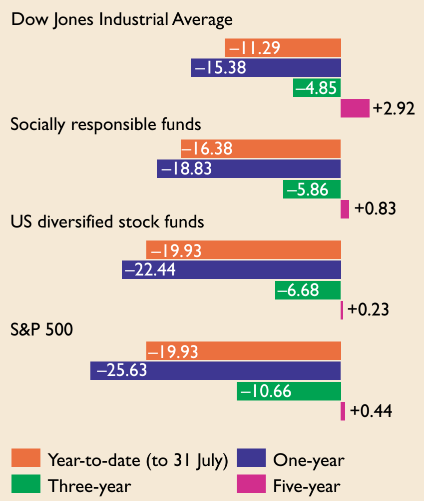
Average returns of socially responsible mutual funds compared with diversified funds and market indexes (%)



Source: Wall Street Journal*, 9 August 2002, using Morningstar and Lipper data*

Table 1. Current DJSI licensees

Institution (country)	Product
Sagitta Wealth Management (Austral)	Fund
Kepler Fonds KAG (Austria)	Fund
Dexia Asset Management (Belgium)	Fund
Credit Union Central of Ontario (Canada)	Certificate
Danske Invest (Denmark)	Fund
Sparinvest (Denmark)	Fund
DWS (Finland)	Fund
CIC Asset Management (France)	Certificate
Rothschild & Cie Gestion (France)	Fund
HypoVereinsbank (Germany)	Warrant
Gerling Investment KAG (Germany)	Fund
DZ Bank (Germany)	Certificate
Invesco (Germany)	Fund
Oppenheim KAG (Germany)	Fund
State Street Global Advisors (Germany)	Fund
Union Investment (Germany)	Fund
WestLB (Germany)	Certificate
BNL Gestioni (Italy)	Fund
Banca Advantage (Italy)	Fund
Zenit (Italy)	Fund
Nikko Asset Management (Japan)	Fund
Banque Générale de Luxembourg	Fund
Deutsche Postbank (Luxembourg)	Fund
Aegon (Netherlands)	Fund
Rabobank (Netherlands)	Certificate
Robeco Groep (Netherlands)	Fund
Folksam Sak (Sweden)	Fund
Skandinaviska Enskilda Bank (Sweden)	Fund
SPP (Sweden)	Fund
Baloise Insurance (Switzerland)	Fund
Credit Suisse Asset Management (Switz)	Fund
Sustainable Asset Management (Switz)	Fund
Sustainable Performance Group (Switz)	Invest Co
Swiss Life Asset Management (Switz)	Fund
Synchrony Asset Management (Switz)	Certificate
VZ VermögensZentrum (Switzerland)	Fund
Merrill Lynch International (UK)	Certificate