

Dow Jones Sustainability Group Index: one year on

'The City and investment community is beginning to recognise the new commercial and environmental realities, and to make money out of them. The return on equity of the new Dow Jones Sustainability Group Index averaged 15%, compared to 8% for the regular index for the first half of this year'
UK Prime Minister Tony Blair, 24 October 2000

On 8 September, 1999 the Dow Jones Sustainability Group Index – a stock index that tracks the performance of the top 10% of the leading sustainable companies in the Dow Jones Global Index – changed the asset management business in Europe. The index includes companies on the basis of best-in-class sustainability in terms of financial, environmental and social performance. In the inaugural issue of *Environmental Finance* this column described the launch of that new index. This is the promised update.

In the first 12 months 16 licences to use the index have been issued to a wide variety of financial institutions in seven different countries (see Table 1).

These licensees have created numerous financial products, including active and passive funds, equity baskets and certificates. Assets totalling approximately €1.5 billion (\$1.3 billion) are managed directly by this index or use it as a portfolio performance benchmark.

A simple analysis of performance charts give us some insight into the reasons for the success of this index. From 1 January 1999 to September 2000 the index generated a rate of return (in euros) of 59.2%. We appear to be witnessing the beginning of a movement from qualitatively driven socially responsible investing to quantitatively driven sustainable investing.

On 6 September 2000 Dow Jones Sustainability Group Indexes announced the results of its first annual review. Effective 6 October 2000, the index includes 236 companies from 61 industries in 36 countries. The leading sustainability companies in each of the 10 market sectors are presented in Table 2.

A significant change occurred during the

annual review: all components of the index are now made public (see Table 3 and also www.sustainability-index.com). Portfolio managers can therefore now use the sustainability ranking of individual companies as a decision tool as they modify their stock holdings. Managers seeking the better performance associated with sustainable companies can now more easily identify the best companies in a wide variety of sectors. In addition, hedge funds can more readily employ a 'pairs' stock trading strategy by, for example, going long an energy company with a high sustainability rating while shorting a company with a low sustainability rating in the same sector.

Public listing of the index components also provides the basis for the possible launch of exchange traded products (ETPs), securities designed to provide a single value for the aggregate performance of the components of an index. The most actively traded securities on the American Stock Exchange are ETPs based on indices such as the S&P 500, the NASDAQ 100 and the Dow Jones Industrials Average. Public listing of the components will also allow futures and options contracts to emerge. These derivative products will provide a hedging and price discovery mechanism for sustainable investors. Derivatives trading would provide the liquidity that can foster active trading strategies focused on sustainable companies. This should give additional impetus for further change in asset management in Europe in the years to come.

The opinions expressed in this article are those of the author only. He would like to thank Michael Walsh, Rafael Marques and Scott Baron for their assistance in the preparation of this article



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Table 3. Components of DJSGI

Australia Australian Gas Light; Broken Hill Proprietary; Cable & Wireless; Optus; Goodman Fielder; James Hardie Industries; Lend Lease Corp; Normandy Mining; Orica; Pacific Dunlop; Pasminco; Westpac; WMC (Western Mining)
Austria Bank Austria; VA Technologie
Belgium Barco; Dexia France; Electrabel; Union Minière
Brazil Banco Itaú; Cia Energetica Minas Gerais (CEMIG)
Canada Alcan Aluminum; Ballard Power System; Cameco; Canadian Imperial Bank of Commerce; Cognos; Dofasco; Domtar; Noranda; Nortel Networks; Nova Chemical; Placer Dome; Rio Algom; Royal Bank of Canada; Suncor; Transalta; Westcoast Energy
Chile Banco de A Edwards; Cervecerias Unidas
Denmark Coloplast; International Service System; Novo-Nordisk
Finland Metsu; Nokia; Outokumpu; Stora Enso
France Danone; Groupe GTM; Lafarge; Lafarge Corp; Legrand; Société Générale; ST Microelectronics
Germany Adidas-Salomon; Bayer; Bayerische Hypo- und Vereinsbank; BMW; Continental; Daimler Chrysler; Degussa-Huls; Deutsche Bank; Lufthansa; Deutsche Telecom; Henkel; Karstadt; Metro; MG Technologies; RWI; SAP; Schering; Siemens; Volkswagen
Greece Altec; Athens Medical Centre; Titan Cement
Hong Kong Cable & Wireless HKT; China Telecom; Kowloon Motor Bus Holdings (KMB Holdings); New World Development
Ireland Allied Irish Banks
Italy Benetton; Telecom Italia Mobile; Telecom Italia; UniCredito Italiano
Japan Asahi Breweries; Asahi Glass; Canon; Daiwa Securities; Denso; East Japan Railway; Ebara; Fuji Photo; Fujitsu; Hachijuni Bank; Hitachi Chemical; Ito-Yokado; Komatsu; Marubeni Corp; Mitsubishi Estate; Mori Seiki; Rohm; Sony; Teijin; Tokyo Electric Power; Tokyo Gas; Tokyuu Corp; Toshiba Corp; Yasuda Fire & Marine Insurance
Malaysia Malaysian International Shipping Corp; Nestle (Malaysia); YTL Power International
Netherlands ABN-AMRO; Aegon; Ahold; ING; Royal Dutch Petroleum; Philips Electronics; Unilever
Norway Norsk Hydro; Storebrand; Tomra Systems
Portugal Teelcel
South Africa Sasol; Standard Bank Investment Corp; Tongaat-Hulett Group
South Korea Mirae Corp
Spain Amadeus Global Travel Distribution; Banco Bilbao Vizcaya Argentaria; Banco Santander Central Hispano; Iberdrola
Sweden Assi Doman; Atlas Copco; Electrolux; FoerreningsSparbanken; Gambio; SKF; Skandia Forsakrings; Skanska; Svenska Cellulosa; Svenska Handelsbanken; Volvo
Switzerland ABB; Ciba Specialty Chemicals; Credit Suisse Group; Nestle; Novartis; Sulzer; Swiss Re; UBS Group; Valora; Zurich Financial Services
Thailand Siam Cement
UK Allied Domecq; Allied Zurich; Anglian Water; BAA; Barclays; BG Group; Boots; BP Amoco; British Airways; British Telecommunications; Cable & Wireless; Capital Shopping Centres; Diageo; EMI Group; Glaxo Wellcome; Granada Compass Group; Hammerson; J Sainsbury; Johnson Matthey; Lloyds TSB Group; Pearson; Powergen; Reuters; Severn Trent; Shanks; Shell Transport & Trading; Stagecoach Holdings; Thames Water; Unilever; WPP
US Alexander & Baldwin; America Online; Baxter International; BD Beckman Coulter; Bethlehem Steel; Bristol-Myers Squibb; Compaq; Computer Associates International; Conoco; Dell Computer; Dow Chemical; Dow Jones & Co; EMC Corp; Du Pont; Enso International; Equity Office Properties Trust; Fannie Mae; FDX Corp; FPL Group; Gap; Global Marine; HJ Heinz; Halliburton; Hara's Entertainment; Home Depot; Host Marriott; Intel; International Game Technology; ITT Industries; JDS Uniphase; Johnson & Johnson; Kmart; Lear; Mattel; 3M; Nicor; Nike; Pfizer; PPG Industries; Procter & Gamble; Public Service Enterprise Group; Sonoco Products; Temple Inland; Texaco; TXU; United Healthcare; United Technologies; USG; Walt Disney; Weyerhaeuser

Table 1. Institutions licensed to offer products based on DJSGI

Institution/country	Product offered
SPP/Swe	Index fund
Skandinaviska Enskilda Bank/Swe	Index fund
Banque Gen de Luxembourg/Lux	Index fund
Südwestdeutsche Genossenschafts-Zentralbank/Ger	Equity linked note
Folksam Sak/Swe	Index fund
Robeco/Neth	Index fund
Rothschild & Cie Gestion/Fr	Index fund
Bayerische Hypo- Vereinsbank/Ger	Warrant
Cordius Asset Management/Bel	Index fund
Fürst Fugger Privatbank/Ger	Index fund
Oppenheim KAG/Ger	Index fund
Baloise Insurance/Switz	Index fund
DWS/Ger	Index fund
Credit Suisse First Boston/Switz	Index fund
ING Fund Management/Neth	Index fund
Sustainable Performance Gp/Switz	Investment co

Table 2. Sustainability leaders

Market sector leaders	
BMW	Consumer, cyclical
BG Group	Energy
Bristol-Myers Squibb	Healthcare
UBS	Financial
Deutsche Telekom	Telecommunications
Dofasco	Basic Materials
Fujitsu	Technology
Procter & Gamble	Consumer, non-cyclical
Sulzer	Industrial
Thames Water	Utilities
Selected industry group leaders	
Baxter International	Medical products
Dow Chemical	Chemicals
ING Group	Insurance
ST Microelectronics	Semiconductors
Teijin	Textiles and apparel
Unilever	Food product makers