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Ethical Investing BECOMING A FULLY ETHICAL FUND

Generally, ethical investments are considered to be those investments that take something other than financial considerations into account. There are many different types of 'Ethical Investments' in the market. Some are consistent with Biblical principles, others may not be.

We think it is important that, as Christian Super, our investments reflect our beliefs. Our approach to ethical investing is outlined in our Ethically Directed Investments Charter (see page 2). We aren't happy to settle for just any 'Ethical Investment.' We want

our investments to be driven by Biblical principles - that's why we're refining and enhancing their structure (see page 4).

Over the next few issues of Member News, we will be exploring Ethical Investment concepts in further depth.

We hope this newsletter helps to explain how we are investing your money in Christian Super in a way that is consistent with Biblical principles and seeks to maximise returns for our members.

Mind the Moral Gap

by Rev'd Dr Gordon Preece, Director, Macquarie Christian Studies Institute (MCSI)

>> INTRODUCTION

Ethics talk seems to be everywhere today. Maybe it's because we live in the noughties? Ethical scandals deflate the authority of many institutions - corporations such as Enron, WorldCom, HIH and One.Tel - and churches and schools regarding child abuse. They need to 'mind the gap' (as we're warned at train stations) between their noble mission statements and their sometimes ignoble practice.

In our contemporary context of competing ethical perspectives we often sense an erosion of our society's ethical foundations. We see and feel signs of social erosion or lack of community and trust. Similarly, many Australians, including Christians, feel a gap between our personal values (being good) and our practice (doing good), despite

our prosperity (or doing well), as Hugh Mackay points out.

Those of us with children or grandchildren, nieces or nephews, or who teach students, start to think about leaving an ethical legacy, one of 'generational justice' to the next generation. US ethical investment expert Steven Viedermann calls this 'the grandfather test' i.e. when your grandchild asks you what you did to make the world a better place - or make it better reflect God's Kingdom or new creation - what will you say? While we don't know absolutely, Christian social and environmental stewardship will seek to leave open the options and give the benefit of the doubt to conserving the environment e.g. re global warming. This leads to making long-term sustainable

investments in long-term sustainable companies seen in their larger social and ecological context. This is part of expanding the notion of stewardship from the narrow sense of my money and tithing to stewardship of all our relational responsibilities, to God, humanity and God's good earth.

If you are one of these concerned Christians, and reading this, then you are likely to already be in, or be interested in Christian Super's fully ethical, ecologically sustainable and socially responsible investment funds. In a series of articles over the next year I will spell out the rationale for Christian Super and you, if you so choose, moving in this direction. We will outline a consistently Biblical ethical and relational framework. This provides a process for making ethical judgments and rationally

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Mind the Moral Gap continued from page 1

and relationally justifying them. It also helps us to give an ethical 'answer for the hope that lies within us' - 'with gentleness and respect, keeping a clear conscience' (1 Pet 3:15-16).

>> ETHICAL FRAMEWORKS

To examine some alternative ethical frameworks as they might apply to investment and superannuation decisions let's compare John Kleinig's story of Jack paying Jane a visit in hospital and the different ethical theories Jack might use to explain his visit when Jane thanks him. 'That's all right' Jack says:

'I was seeking to maximize my own personal pleasure' (hedonist, egoist).

A secular sort of hedonism or individualistic pleasure maximising exercises a strong pull over decisions about retirement, superannuation etc. The feeling is that we've worked hard enough, now it's time to lie back, enjoy life and have a pleasure binge. But from the perspective of Christian discipleship and service there is no real retirement, just perhaps a reorientation towards greater rest as the body slows up (though people are retiring younger and healthier) but still within the priorities of God's kingdom of right relationships.

'I thought it would increase the amount of happiness in the world' (utilitarian or means to an end consequentialist).

This secular do-gooder tries to maximise society's pleasure over pain, but without clear Christian principles or relational goals for their retirement or superannuation.

'It increases the species' prospects of survival' (naturalistic, ethical evolutionist).

This competitive person thinks capitalism and investment is all about winning and killing the competition, getting the top return for your money.

'I was just doing my duty' (deontological [deon=duty in Greek]).

This law-abiding citizen majors on negative, 'thou shalt not' criteria for avoiding sinful investments in e.g. alcohol, drugs, pornography. They have trouble providing positive ethical criteria for action or investment.

'God commanded me to' (divine command deontologist, but from a more explicit theistic basis of divine duty).

However, this person may not have much sense of relationship, compassion, joy or Christ-like and Spirit-guided character. They also find ethical complexity hard where there's no direct divine command.

>> A RELATIONAL ETHICAL FRAMEWORK

What's missing in all of these theories? How would you feel if you were Jane? The visit would have lost all value. It was all so impersonal. Jane, a unique individual made in God's image was invisible. There was no real relationship expressed. Jack could have been talking to an empty bed. Does the visit still have ethical or even emotional value?

What would you say? You don't have to say much. A mere 'I thought it'd be boring or lonely by yourself' or 'I wanted to see how you were' is enough to express genuine care. But behind that could be a whole relational theology based on us being made in God's image to rule and serve creation (Gen 1:26-8) and being called to love and serve each other like Christ (Phil 2:

1-11). The consequentialist and other views had little compassion, unlike the unexpected good neighbour in The Good Samaritan (Lk 10:25-37).

But compassion by itself is not enough, it needs a moral compass. One of the key points on the Christian moral compass is our view of persons or anthropology (our view of humanity). Who are Jack and Jane and you and me, the people whose businesses, work, environments and lives are touched for good or ill by our superannuation investments? Christians believe God's commands, our character, and the (kingdom) consequences of our choices should reflect a personal, relational, trinitarian God of love. God's goal and ours is the kingdom (or reign) of right, reconciled relationships with humanity and creation (Mt 6:33). That is what we should invest our lives and our money in.

But the process should reflect the principle. So our ethical systems should function within relational communities of accountability who can say as in Acts 13 and 15 'it seems good to the Holy Spirit and to us'. This is what Christian Super seeks to do in relation to its becoming a fully ethical fund. It seeks to put biblical relational principles into practice through several layers of corporate discernment about the best ethical investments. In this way the gap between doing good (practising principles) and doing well (prosperity) can be bridged. Ethical investment pays, not just for this world, but the new world God is creating (2 Cor 5:17).

MCSI (www.mcsi.edu.au) provides in person and on-line Christian courses (undergrad and postgrad) at Macquarie and other universities (cross-credit) and professional development for teachers, lawyers and business people. In future issues we will further develop a biblical relational ethical framework and apply it to investment issues.

>> ETHICALLY DIRECTED INVESTMENTS CHARTER

The earth is the Lord's and everything in it, the world, and all who live in it. Psalm 24:1

>> OUR AIM

Christian Super aims to invest in accordance with Biblical principles, consistent with our Statement of Faith, to ensure that member funds are managed responsibly while growing for their future needs.



>> OUR APPROACH

Thus we will strive to:

>> pursue investment in corporations that care for people and God's creation, who demonstrate sound ethical practices and meet performance standards in their social, environmental and financial stewardship.

Sound ethical practices include:

- Honesty and integrity
- Transparency and accountability
- Best practice governance

Social stewardship includes:

- Dignity and respect for all people
- Workplace management practices
- Community and stakeholder relations

>> avoid investment in corporations that engage in:

- producing goods or services that have addictive or harmful effects on people (such as illicit drugs, gambling, tobacco, pornography)
- activities that are excessively harmful to the environment
- predatory practices or exploitation
- abuse of human dignity or freedoms

>> positively influence fund managers and corporations through active engagement

>> work with other like minded investors to help bring Christian values to the market place

Environmental stewardship includes:

- Efficient resource use and management
- Ecological sustainability
- Renewable energy sources

Financial stewardship includes:

- Best practice financial management
- Financial return
- Risk management

What Trustee Directors think

Mark Spencer

As a long term member and involved with the Board for more than a decade I've often been challenged about what makes Christian Super 'Christian.' While there are many things I can point to such as the Christian staff in our National Office or the prayerful approach to decisions in Board meetings, at the core of our business - investing your funds - we have not been particularly distinctive.

>> As the Board has talked and prayed about the future direction of the Fund it has become clear to us that a 'step of faith' was needed



We have looked at this issue many times over the years but the advice we have received previously has been the same - you are not big enough yet. The recent relative underperformance of the current ethical options illustrates the dilemma. As we only have a smaller pool of funds we cannot take advantage of opportunities available when investing larger amounts - with results being impacted as a result.

As the Board has talked and prayed about the future direction of the Fund it has become clear to us that a 'step of faith' was needed. Not 'blind faith' but a direction based on sound expert advice that as a whole Fund we have the size to make a difference. A direction based on advice that investing in accordance with our beliefs and values need not result in lower returns (in some studies the opposite is argued). Most importantly though, a direction based upon seeking the Lord's guidance and wisdom for the Fund.

Christian Super has the opportunity to make a difference, to be genuinely Christian in our core business of investing. We hope that you will join us in this exciting journey ahead!

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Tony Deenick

What makes Christian Super Christian? It was over 17 years ago that I first joined Christian Super. At the time I joined at least partly because I wanted my investments to be handled in a Christian way by people who had the same Biblical principles I had. Ten years ago I became a trustee and became committed to managing the Fund in a Christian way, which meant being known for our Christian values and standards in both service and investment strategy.

One of the things that frustrated me for many years was the difficulty in adding viable "ethical" investment choices to the Fund. How could we ensure our money wasn't being invested to promote gambling, tobacco, prostitution or child labour? More positively, how could we direct our investments towards companies with environmentally sound and non-exploitative work practices? It took some time before we were big enough and the right sort of products were available to us but finally the Fund was able to introduce ethical investment options 4 years ago. Soon after the new options were introduced both I and my wife moved all our money into ethical options. Many of you did, too.

>> Not only will this bring us that much closer to our ideal of a Christian fund, thereby honouring God, but it will add benefits for our members

This was a great first step but there was further to go. As a Christian fund all of our funds should really be invested in an ethical way, it shouldn't just be an option. Furthermore, having all our funds in ethical choices would give us greater options in the way we could invest our funds and thus potentially improve our returns and make us that much more competitive. Personally, I would be prepared to accept a somewhat smaller return for the sake of investing ethically, but it is very pleasing to know that this doesn't need to be the case.

It is therefore with a great deal of satisfaction and anticipation that I see the Fund becoming fully ethical. Not only will this bring us that much closer to our ideal of a Christian fund, thereby honouring God, but it will add benefits for our members, enabling them (us) to better serve Him in the future.

ETHICAL INVESTMENTS LIBRARY

THE RESOURCE

We have started a new library of resources on our website at www.christiansuper.com.au. We hope that this will provide interested members with easy access to a wide range of materials relating to ethical investments. The library will include academic papers, research, performance analysis, links and discussion papers from a variety of Christian and secular sources.

We encourage you to take a look around the library and we hope that you will find these resources helpful. Please contact us at our National Office if you would like to offer any comments on this important topic.

Towards fully Ethically Directed Investment

by Geoff Stewart, Mercer Investment Consulting

The April 2005 edition of Member News outlined the rationale for moving towards a fully ethically directed investment approach, both in a Biblical and business sense. In this article we discuss the investment rationale for ethical investing and Christian Super's strategic restructure.

>> ETHICAL INVESTMENT AND PERFORMANCE

Ethical investment is one form of socially responsible investment (SRI). It refers to an investment process where the ethical standards of asset owners are integrated with typical security selection and portfolio management techniques that concentrate solely on the financial characteristics of securities.

To a number of observers, ethical investment or SRI still has a stigma of lower investment returns. This premise often relates to the traditional "negative screening" methodology that avoids exposure to companies with certain activities (eg tobacco, alcohol or gambling), thereby reducing the universe of possible investments.

Since its early days, SRI has evolved from purely negative screening to reflect varied approaches and purposes. "Positive screening" was introduced to identify leaders on SRI-related issues (often called "best-in-class" investing). This is more in tune with a risk-controlled investment approach and enables the investor to take positive action in biasing towards favoured securities (eg renewable energy). The latest phase involves SRI principles being considered as a source of outperformance, on the premise that indications of superior corporate environmental, social and governance (ESG) performance can actually be a source of extra returns for SRI investors. Likewise, shareholder activism (including shareholder engagement) is increasingly perceived as a vehicle through which investors can unlock shareholder value.

There are literally hundreds of academic and practitioner studies in the public domain examining whether applying SRI principles to investment portfolios represents a cost in the form of lower returns or a benefit in the form of lower risk and/or higher return. On balance, the view from these studies is that applying SRI principles is either beneficial or at least not harmful to investment outcomes in terms of returns or risk profiles. This is consistent with the Mercer Investment Consulting view of SRI and, indeed, we see the real potential for investment portfolios outcomes to be improved by incorporating ESG factors.

For example, AMP Capital Investors undertook a study using their Corporate Social Responsibility (CSR) ratings and applied them to 350 Australian shares. The study found that, over ten years to January 2005, stocks with higher CSR scores outperformed low scorers by 3%pa.

>> CHRISTIAN SUPER'S ACTIONS

The Fund's introduction of the ethically directed investment (EDI) options in 2001 was a clear step in demonstrating the intent for the Fund to realise its vision and be the superannuation fund of choice for the Christian community. This intent was supported by making the Ethical Growth option the "default" option.

Changing the entire investment structure to be fully ethically directed is the next step in demonstrating the Fund's commitment to this intent. This step goes beyond what most comparable superannuation funds have been prepared to do when providing investment options to meet the ethical considerations of their

members, but is consistent with a global trend to invest more assets through an ethical framework. The Fund will be positioned ahead of other funds in the recognition of the growing acceptance of SRI.

From early 2006 Christian Super is making the following specific changes:

- >> Shifting most assets from the general options into equivalent EDI options.
- >> Moving from a pooled structure with asset classes and investment managers chosen by an external product provider to one where these are selected by the Fund directly according to its specific ethical criteria.
- >> Extending ethical screening across all asset sectors. Currently, only Australian and international shares in the EDI options have ethical screening applied.
- >> Addressing three important structural differences in the current EDI options compared to the general options that have contributed to inferior returns since the introduction of those options:
 - >> Fewer managers
 - >> No allocation to non-traditional asset classes such as small company shares
 - >> No strategic currency hedging

>> ethical investments can be achieved without giving up expected performance

>> OBJECTIVES OF CHANGES

The restructure of Christian Super's investments is somewhat unique in the Australian market and has the following objectives:

- >> To create a large enough asset base to implement sound EDI strategies.
- >> To appoint investment managers with the highest investment capability rating in all asset classes, rather than being limited to managers that offer SRI products.
- >> To apply a consistent ethical screening process covering all asset classes.
- >> To incorporate important risk management aspects such as strategic currency hedging and avoiding management style biases.
- >> To seek active investment management where rewards are most likely (i.e. shares).
- >> To facilitate community-based Christian investments to enhance Christian Super's identity (eg Christian schooling, aged care).

>> SUMMARY

Research confirms that ethical investments can be achieved without giving up expected performance. Combining the EDI and general options will provide the necessary scale to implement sound ethical strategies.

This will give Christian Super greater ability to exercise the stewardship and Christian focus that the Fund and its members want.

>> KEEPING IN TOUCH

-  Call the **Helpdesk** on **1300 360 907** (local call cost)
-  Log on **www.christiansuper.com.au**
-  Write to **Christian Super**
Locked Bag 5073, Parramatta, NSW 2124
-  **Fax** 1300 367 828
-  **Email** helpdesk@christiansuper.com.au

>> DISCLAIMER

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