

# Canadian Social Investment Conference

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## Generating Value Through SRI

**By:**

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# Aberdeen Asset Management PLC

- Founded in 1983
- Asset management group listed on London and Singapore exchanges
- Asset management our sole business
- CA\$60.0 billion under management
- Managing SRI assets since 1988

# The SRI market

- The SIO estimates that in Canada more than CA\$63bn is managed according to social responsibility guidelines
- The figure for the UK is close to £200bn according to a Eurosif study of 2003
- In these areas the fastest growth has been in institutional assets

# How do we seek to add value?

- Many studies on the subject
- Generally indicate that results will be similar in screened and unscreened portfolios
- There are different approaches:
  - Negative and positive screening
  - Best of sector
  - Engagement or “Shareholder advocacy”
- The evolution of these processes into analysis of companies according to measures of sustainability

# There are several SRI benchmarks

Dow Jones Sustainability Indices

FTSE4Good Regional and Global Indices

Domini 400 Social Index and KLD Indices

Jantzi Social Index

All serve a purpose..... but the client will also judge performance in relation to the established indices, eg., MSCI World or FTSE World Indices

Our policy: Monitor performance vs established as well as new indices

# Portfolios need to meet client's aspirations

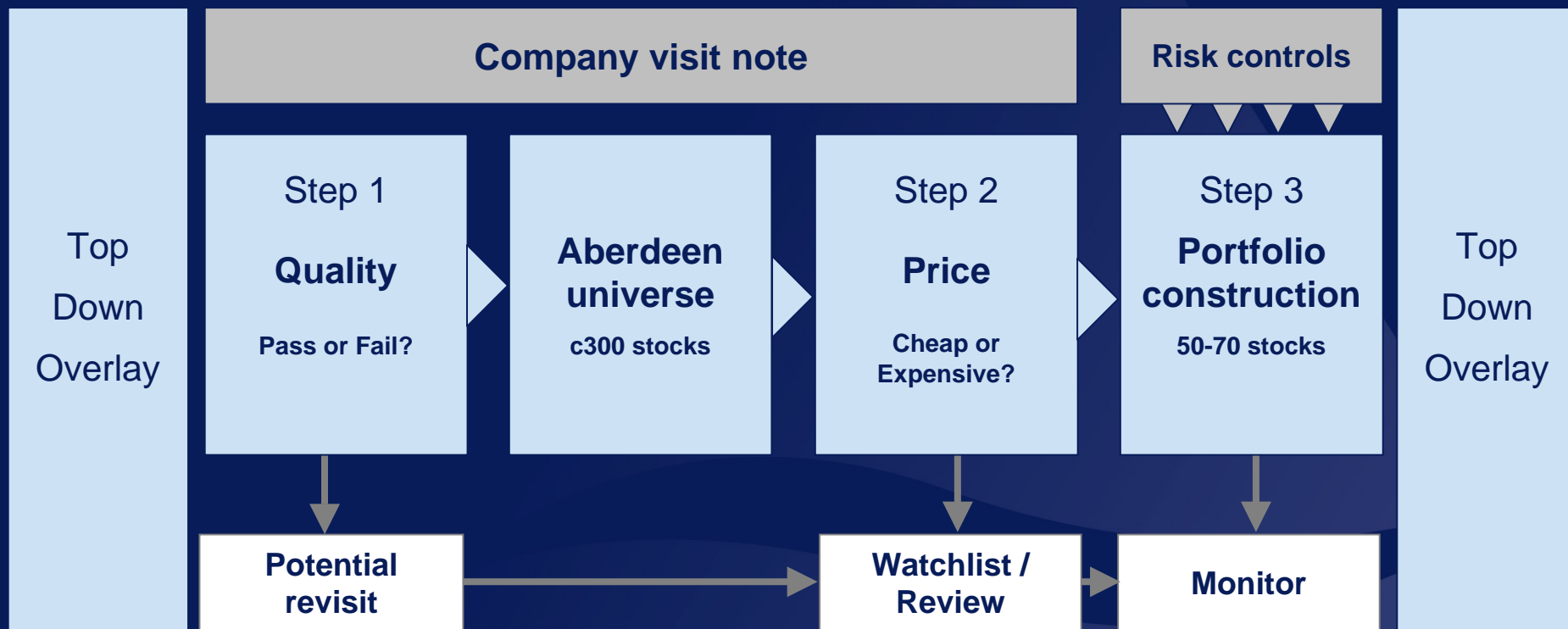
- Looking to create a store of value for savings or pensions
- Need a sound philosophy and process to do it well
- We adopt the same philosophy and process for all investments, **including** SRI investments

# Investment philosophy and approach

- We believe that, over the long term, share prices reflect good fundamentals
- We identify 'best ideas' at reasonable/cheap valuations via company visits
- Risk is investing in a poor quality company and/or overpaying, and not benchmark-relative
- Although a long only fund manager, we focus on absolute returns

**We do not trade, but invest for the long term – and only in companies that we understand and can value.**

# Investment Process



# Step 1: Quality

## Pass or Fail?

- **Business prospects/strategy**  
Evidence of industry growth, clear strategy and execution
- **Management team**  
Motivation, experience, do we trust them?
- **Financials**  
Strength of balance sheet, use of gearing
- **Transparency**  
Clean company structure, visible earnings, clear annual report
- **Commitment to shareholder value**  
Company is run for shareholders, not managers or controlling interests

**Only companies satisfying quality criteria enter Aberdeen universe.**

# Step 2: Price

## Cheap or Expensive?

- Valuation: price/earnings ratios, price/cashflow, net asset value, dividend yield
- Different criteria depending on sector/industry
- Cross-border and industry comparisons
- Focus on downside; are risks in the price?
- Simple forward modelling of each investment prospect

**Prefer straightforward, focused businesses, with good management.**

# Proprietary Research is our Competitive Advantage

- **Necessary because of quality/reach of broker research:**  
Sell side bias, too much focus on index and relative valuation
- **Quality of Aberdeen's preparation:** We develop a thorough checklist before meeting senior management
- **Depth of approach:** Our research is intensive, both qualitatively and in the number of stocks covered
- **Cross coverage:** Stocks are not assigned and we revolve visits. Fund managers act as analysts/researchers as well as portfolio managers
- **Discipline:** The template drives independent conclusions
- **Outcome:** The conviction to take active decisions

**Monday meeting is forum for extensive portfolio discussions.**

# Focus on fundamentals.... then SRI analysis

- Fundamental research first to establish our universe for investment
- Rigorous analysis against portfolio-specific SRI criteria by AAM team using extensive research tools/company visits
- Selection of stocks which satisfy this two-stage approach

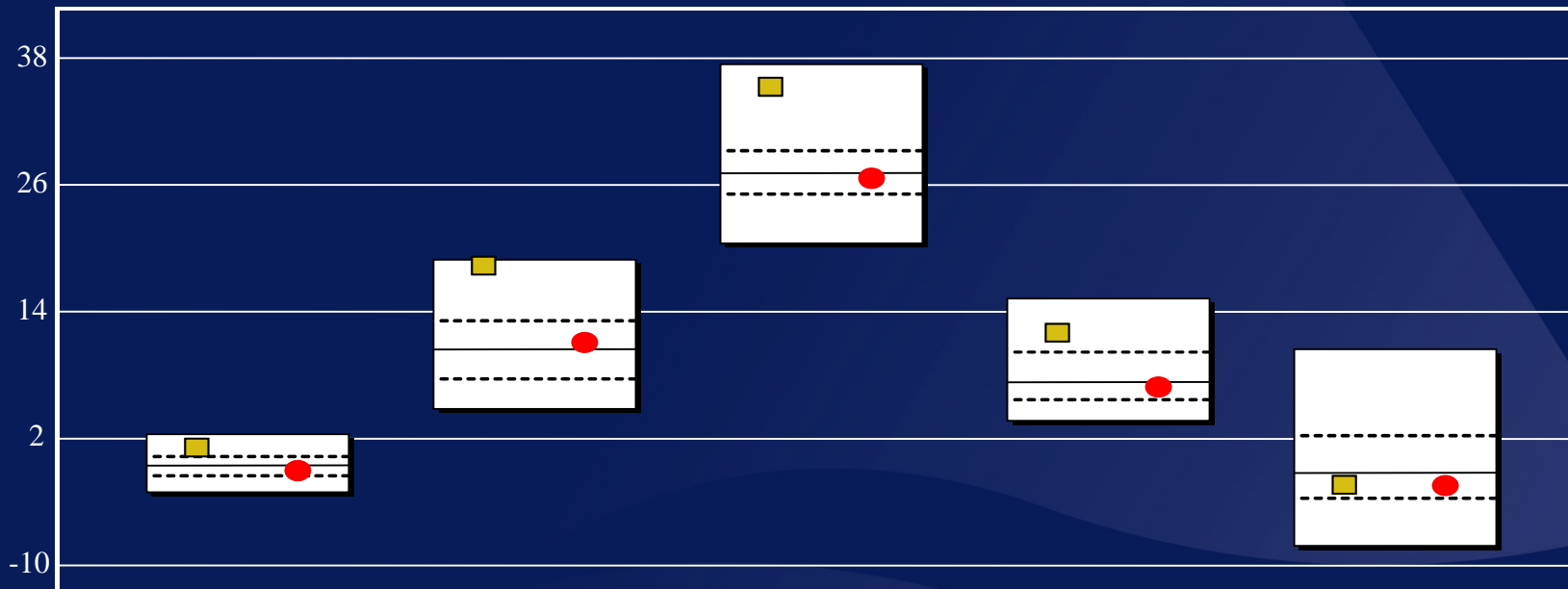
# Typical portfolio characteristics

- Typically 75% large cap; 25% mid/small cap
- Low turnover
- Divergence from indices (Tracking error c.4% to 9%)
- Beta <1
- Unhedged

# Performance

## Aberdeen - Global Equity SRI Comparison with the Mercer Global Equity Universe Performance before tax and before fees for periods ended March 2005

Rates of Return(%)



	3 Months (%)	1 Year (%)	2 Years (%pa)	3 Years (%pa)	5 Years (%pa)
Ab GI Eq SRI	1.2	18.4	35.2	12.1	-2.5
MSWF	-1.0	11.1	26.7	6.9	-2.5
95th Percentile	2.3	18.8	37.4	15.2	10.3
Upper Quartile	0.3	13.1	29.1	10.1	2.2
Median	-0.7	10.4	27.1	7.3	-1.3
Lower Quartile	-1.6	7.5	25.1	5.5	-3.8
5th Percentile	-3.3	4.6	20.5	3.5	-8.3
Number of Funds	159	148	140	128	108

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