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**when an exclusionary approach is not an option***Insight Investment has developed an approach to SRI investing that takes account of its requirement to hold stocks right across the market. Mike Scott talks to Rory Sullivan.*

The investment approach of Insight Investment, the asset management arm of HBOS, is partly a function of when it was established and partly dictated by the type of investor it is, according to Rory Sullivan, head of investor responsibility.

Insight was created in 2002, when HBOS brought together its asset management businesses under one brand and it has always had a focus on responsible investment. 'It was shortly after the scandals at Enron and Parmalat, and people were concerned about the safety of investments,' Sullivan says. He admits that, as well as being motivated by a desire to maximize returns, there was an element of brand differentiation. 'There were not many investment managers at that time taking a strong position on environmental and social issues', he says.

Insight, which has £109billion (\$218bn) under management, is invested across the market – 'in the UK, we hold about 1 – 1.5 per cent of virtually every big company,' says Sullivan – and so, unlike SRI funds, it does not take an exclusionary approach. 'We have to ensure, as an investor, that all the companies our money is in are as well-run as they can be.'

As a result, Insight is very active in promoting good corporate governance and best practice on pay, strategy and succession planning. It has also developed a sector-based benchmarking strategy to encourage companies to behave more responsibly and has used this to assess the performance of 35 companies in six sectors on topics from supply chain labour standards to sustainability reporting. In every case 'substantial improvements have been made by companies subsequent to our engagement with them'.

The group is proud of its research, which incorporates performance analysis of corporate governance and responsibility into investment decisions. 'We believe asset managers should consider as a matter of course how effectively companies manage social and environmental change, since this influences their long-term success', Sullivan says. Insight upholds this principle on both a company-specific and a thematic basis. This allows it to identify sector-wide challenges such as water use, as well as the companies most likely to benefit.

Insight also prides itself on the strength of its engagement activities. In 2007, it engaged with 285 companies on 17 themes, among them climate change, consumer health and obesity, human rights, the opportunities and risks of investing in China, promoting revenue transparency in extractive industries and responsible supply chain management.

'Our engagement is much more effective now because it is linked to our analysis', says Sullivan. As a result, if the research team reveals that a company has failed to respond to the Carbon Disclosure Project, or has no policy on human rights, Insight can approach management and ask specific questions rather than just talking about the wider issues.

Ultimately, Insight's approach is based on the fact that it is a mainstream investor. 'We are required to invest across the market, so we do not deal in the simplistic messages that ethical funds can offer', Sullivan says.

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