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Title

Aligning Your Money with Your Values

The Appeal and Risks of Socially Responsible Investing

During the two-year period from the beginning of 2012 to the beginning of 2014, assets in "socially responsible" investments — often referred to as SRIs; sustainable and responsible investments; or sustainable, responsible, and impact investing — grew by 76%. Today more than one out of six professionally invested dollars are targeted toward SRIs. Assets engaged in SRI practice represent 18% of total assets under management.[1]

These figures suggest that more investors are trying to align their investments with their values. This is certainly a laudable goal, but if you're considering SRIs for your own portfolio (or are already invested), it's important not to lose sight of fundamental investment principles. Learning more about SRIs might help you maintain perspective.

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ESG FACTORS

SRIs are typically identified by environmental, social, and corporate governance (ESG) factors. "Green" or "sustainable" investments may involve activities or products that could potentially benefit the environment in areas such as pollution control, natural resource conservation, and energy efficiency. SRIs may reflect social issues, including but not limited to human rights, health and safety, and the impact of a company or its products on society at large or a specific community. Governance factors might include employee relations, compliance with industry regulations, and transparency in corporate reporting.

Investors may use one or more of the following approaches to evaluate SRI opportunities: screening, shareholder advocacy, and community investment.

SCREENING

Through screening, investments may be evaluated based on ESG factors and traditional financial analysis. For example, a company that produces wind turbines or long-life light bulbs might be included in a portfolio, whereas a tobacco company and a casino might be excluded. Of course, SRI screening decisions are typically more complex and may incorporate multiple factors.

SHAREHOLDER ADVOCACY

Shareholders might work to influence a company's management to make decisions based on ESG factors by filing resolutions for proxy voting and/or generating media attention. Such efforts have grown in recent years, possibly due to regulatory changes that require increased transparency, as well as more accessible shareholder information through the Internet and other communication methods.

COMMUNITY INVESTMENT

Some SRIs may provide capital to banks, credit unions, and other organizations that support economic development in communities that have been underserved by traditional financial institutions.

SRI OUTLOOK

When they first gained public attention during the 1960s and 1970s, SRIs were often small companies outside the mainstream investment world. Today, some SRI concepts have become widely accepted. According to one study, 76% of CEOs believe that sustainability issues will be important to the future success of their businesses.[2] They are recognizing that practices such as saving energy and using renewable resources may not only be good for the planet but also could be good for the bottom line.

Many companies now provide ESG data to current and potential investors, so it may be easier to find SRIs through ESG ratings or other criteria. Although SRI opportunities are increasing, focusing on SRIs in your portfolio may limit the total universe of available investments and make it more difficult to diversify among a variety of sub-asset classes. You should also consider whether an SRI's products or services could be competitive in its market sector. Some SRI businesses may still be in a developmental stage.

As with any investment, SRIs entail risk and could lose money, and they may underperform similar investments not constrained by social policies. There is no guarantee that a socially responsible investment will achieve its investment objectives. Different companies offering SRIs may use different definitions of socially responsible investing.

Investing with your values may be satisfying, but it is important not to lose sight of investment fundamentals as you assemble your portfolio to meet your long-term goals.

1) The Forum for Sustainable and Responsible Investment, 2014
2) UN Global Compact-Accenture CEO Study on Sustainability, 2013 (most current data available)