



Socially Responsible Investing



You shouldn't feel you have to accept mediocrity in order to support your beliefs. Monitor your investment's performance and be prepared to explore alternatives if your investment doesn't continue to meet your financial or philosophical needs.

Investing with an eye toward promoting social, political, or environmental concerns (or at least not supporting activities you feel are harmful) doesn't mean you have to forgo pursuing a return on your money. Socially responsible investing may allow you to further both your own economic interests and a greater good, in whatever way you define that term.

The concept of putting your money where your mouth is first gained widespread attention during the 1970s, when such highly charged political issues as the Vietnam War and apartheid in South Africa led some investors to try to prevent their money from supporting policies that were counter to their beliefs.

Since then, a wide variety of investment products, such as socially conscious mutual funds, have been developed to help people invest in ways consistent with a personal philosophy. However, individuals aren't the only ones to apply the principles behind socially responsible investing. Many colleges and universities, government pension and retirement funds, and religious groups do so to some extent.

There are many approaches to what may also be known as mission investing, ethical investing, socially conscious investing, green investing, sustainable investing, or impact investing.

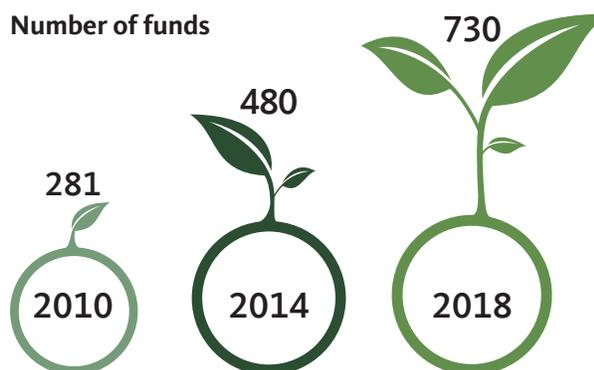
Screening potential investments

This is perhaps the best-known aspect of socially responsible investing: evaluating investments based not only on their finances but on their environmental, social, and even corporate governance practices (ESG). Screens based on specific ESG factors may eliminate from consideration companies whose products or actions are deemed contrary to the public good. Examples of companies that are frequently excluded from socially responsible funds are those involved with alcohol, tobacco, or gambling, and those that contribute to environmental pollution or that have significant interests in countries considered to have repressive governments. However, as interest in socially responsible investing has evolved, the screening process has become increasingly positive, using ESG screens to identify companies whose practices actively further a particular social good, such as protecting the environment, following sustainable practices, or being proactive in community and employee relations.

Shareholder activism

Both individual and institutional shareholders have become increasingly willing to pressure corporations to adopt socially responsible practices. In some cases, having a good social record may make a company more attractive to investors who might not have previously considered it. Shareholder advocacy can involve filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, environmental impact, and labor practices. Such activism got a boost when the Securities and Exchange Commission adopted the so-called “say on pay” rule as a result of the Dodd-Frank financial reforms. Companies over a certain size must allow shareholders a vote on executive pay at least once every three years. Though the vote is nonbinding, it could give institutional investors a stronger hand in advocating for other interests.

Growth in Investment Funds Incorporating Environmental, Social, and Governance Factors



Source: The Forum for Sustainable and Responsible Investment, 2018

Community investing

Still another approach involves directing investment capital to communities and projects that may have difficulty getting traditional financing, including nonprofit organizations. Investors provide money that is then used to support organizations that help traditionally underserved populations with challenges such as gaining access to affordable housing, finding jobs, and receiving health care. Community investing often helps not only individuals but small businesses that may operate in geographic areas that mainstream financial institutions deem too risky.

Impact investing

A recent development focuses on measuring and managing performance in terms of social benefit as well as investment returns. So-called “impact investing” aims not only to further a social good, but to do so in a way that maximizes efficient use of the resources involved, using business-world methods such as benchmarking to compare returns and gauge how effectively an investment fulfills its goals. In fact, some have made a case for considering impact investing an emerging alternative asset class. Impact investments are often made directly in an individual company or organization, and may involve direct mentoring of its leaders. As a result, such unique investments may be more similar to venture capital and private equity (where the concept of impact investing originated) and may not be highly correlated with traditional assets such as stocks or bonds.

Cast a wide net or target your investments?

One of the key questions for anyone interested in socially responsible investing is whether to invest broadly or concentrate on a specific issue or area. A narrow focus could leave you overly exposed to the risks of a single industry or company, while greater diversification could weaken the impact that you might like your money to have. Even if you choose to focus on a single social issue, you may still need to decide whether to invest in a specific company or companies, or invest more broadly through a mutual fund whose objective meets your chosen criteria.

For example, as concern about the environment has grown in recent years, investing in green technology has become a prominent element in many socially responsible investing efforts. Generally, the concept (also known as “clean technology” or “cleantech”) includes renewable energy (or technologies that can improve the environmental footprint of existing energy sources), clean water, and clean air, as well as technologies that can help reduce overall consumption, particularly of nonbiodegradable substances. Such a broad scope can make it difficult to choose among the myriad investment opportunities, especially if you don’t have expertise about a particular field or the time or energy to acquire it. Unless you’re familiar with the science behind a specific company’s product or service, you might benefit from casting a wider net. Though diversification and asset allocation can’t guarantee a profit or eliminate the possibility of loss, they can help you manage the amount of risk you may face from a single source.

Even if you have special knowledge of a particular field, don’t let that blind you to the business fundamentals of a particular company; you still need to keep an eye on how it stacks up as a stock. Also, if you’re considering a small company stock that is closely aligned with or furthers your chosen issue, don’t forget that smaller companies can



Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund; read the prospectus carefully before investing.

be extremely volatile. You also could consider investing in larger companies that have made a significant commitment to initiatives in your chosen area of interest and that might have other business advantages. Though they might not have the rapid growth potential of a small company, they often have the resources to acquire other companies, or manufacture and market globally more efficiently than a smaller company might. That could enable them to have a greater global impact while potentially offering investors a way to help mitigate the impact of smaller stocks' generally higher volatility.

If you don't have the time to do detailed research or don't trust your own judgment, you could work with an advisor who may have access to more information about your area of interest.

Know your goals

"Social good" may be defined differently by every investor, and even a socially responsible fund may include multiple definitions of the types of companies that meet its investment objectives.

Also, make sure your expectations are clear and realistic. Many socially responsible investments produce solid financial returns; others may not. Though past performance is no guarantee of future results, you should have a sense of what kind of return you might expect. You shouldn't feel you have to accept mediocrity in order to support your beliefs. Monitor your investment's performance, and be prepared to look elsewhere if your investment doesn't continue to meet your needs, either financially or philosophically.

The clearer you are about the goals you have for your money, the better your chances of selecting appropriate investments. Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund; read the prospectus carefully before investing.



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