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Improving the World One Investment at a Time



Choosing to become a socially conscious investor takes more than simply wanting to do good. In a world exploding with choices, balancing your desire to have your portfolio working to improve the world and your need for performance can be tricky.

Amy Domini doesn't eat hamburgers, and she probably never will. But that doesn't stop her from owning stock in McDonald's Corp., the world's largest chain of fast food restaurants. Domini, the founder of the Domini Social Equity Fund and one of the leaders of the socially responsible investing movement, uses her decision to own McDonald's as a way to illustrate the often thorny — but potentially critical — issues many investors face when attempting to match their personal values with the needs of their portfolio.

"It's an investment in a company that whenever you push them and say factory farming techniques on chickens are horrific, you need to source your chicken differently, or [your packaging is] horrific, you need to package your food differently, or any one of the issues they have been hit with in the past — they are responsive to it," she says, pointing to the fact that the company has a long history of responding to shareholder concerns and effectively communicating changes to its business practices. "They are consistent with my goals of moving corporations towards being solutions to creating a livable tomorrow."

If you are like a growing number of investors, an investment's effect on the wider world may be as important as its performance when building your portfolio. But with the number and types of socially responsible investments growing by the day, figuring out how to make sure your investments perform both inside and outside your portfolio can be crucial.

An Ever-Expanding Universe

The universe of socially responsible investment choices is growing rapidly. Research published by the Social Investment Forum in its 2003 Report on Socially Responsible Investing Trends found that between 1995 and 2003, assets committed to social investing grew 40% faster than all professionally managed investment assets in the United States. At the same time, a total of \$2.16 trillion in assets — more than one of every nine dollars under professional management in the United States — was identified in professionally managed portfolios using one or more socially responsible investing strategies.

Most socially responsible investments are made following one of two basic strategies: screening or shareholder advocacy. Portfolio screening is one of the most common and well-known socially responsible strategies. It involves eliminating companies as possible investment choices due to the type of business they engage in, their corporate behavior or other criteria based on your values or religious beliefs. On the other hand, shareholder advocacy aims to get companies to change their practices through proxy voting, meetings with management or public pressure, and continues to grow in popularity and effectiveness.

Many Choices, Few Directions

Once you decide you want to follow a strategy of socially responsible investing, matching your financial goals and personal values can require some work, especially with so many options available. Unfortunately, no clearinghouse for information about socially responsible investing exists. So finding the investments that will best suit your goals — both financially and socially — can be time consuming.

While entire mutual fund families, such as Calvert, PAX World and Domini offer socially responsible choices, perhaps the best way to integrate your specific values into your investments is through a separately managed account. Working with an investment advisor, you can develop a portfolio that balances your desire to have your investments reflect your values with your financial goals.

For some investors, their own individual approach to socially responsible investing can vary depending on their interests and needs. For example, a customized management of a range of socially responsible investments may be a good fit for one investor while investing in a socially conscious mutual fund may be right for another.

Keeping Perspective Is Important

Placing your values in perspective by understanding the difference between effecting change and attempting to save the world all by yourself is critical. There is a very real potential

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Social venture capital screens match entrepreneurship with vision

A type of socially responsible investment screening, Social Venture Capital, refers specifically to investing that integrates community and environmental concerns into professionally managed venture capital portfolios.

Looking to capture social and environmental as well as financial gains, these portfolios allocate some or all of their assets in promising start-ups that offer profitable ways of addressing pressing social issues. With market-based solutions and innovative technologies, these often small companies tackle social issues in new and exciting ways. Many mutual fund managers and investment advisors may also consider a company's culture — including its commitments to diversity, sustainable business practices and community involvement — important when choosing companies in which to invest.

Low-cost and compact hydrogen generation systems, batteries based on enzymes and natural household cleaning products are all examples of products created by companies supported by social venture capital investment advisors.



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tradeoff between making socially responsible investment choices and return.

“You can very, very quickly reduce yourself to banking at a local credit union, or one that’s operating out of a church basement” if you start applying screens that are simply too rigorous to your financial choices, Domini says. “If you start at that level, you’re shut out of investing. So I think one piece is to be realistic about the fact that you’re trying to move things to a better place.”

Placing your financial goals and personal values side by side, instead of one on top of the other, can help strike a balance between your commitment to social responsibility with the investments necessary to help you achieve your financial goals. And for some investors, that may mean taking a mixed approach to socially responsible investing.

and potentially forfeiting investment return, or trying to own the companies with the fewest environmental issues.”

A World of Possibilities

Today, questions concerning how to match your values with your investments may be taking on new urgency, especially in light of the fact that there are more socially responsible investment choices than ever before. Over the past two decades, socially responsible investments have grown from a tiny niche in the investing world into a powerful force. If nothing else, that means that as an investor, you now have the ability to match your values with investments in almost every area of your portfolio, not simply with one or two token investment choices.

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Some investors may strike this balance by investing in a company that may not be at an ideal place from a social or environment standpoint, but is making strides toward improvement, or is the “best in class.” Other investors may decide their convictions outweigh their desire for higher returns.

Kathleen Kalp, a senior vice president and portfolio manager at Northern Trust, sees clients facing this decision regularly. “In a diversified equity portfolio, Northern Trust typically recommends exposure to the energy sector,” Kalp says. “Finding stocks to own in this area may be difficult, however, for clients with environmental screening considerations. Those clients must make a choice between avoiding energy companies altogether

“Clients have a number of ways in which to apply social responsibility to their investment and asset allocation strategies,” Kalp says. “From customized screening, socially responsible mutual funds, shareholder advocacy via proxy resolutions and community investing, the range of opportunities has grown significantly in the last several years.”

With such a wealth of choices, there’s probably no place in your portfolio where a socially responsible investment can’t be found, if you so choose. Opportunities to match your values with your investments abound whether you are creating or updating your portfolio, and making good choices can mean going beyond simply choosing investments that are likely to increase your bottom line. ■