SEAL COVE FINANCIAL

Socially Responsible Investing

By Lauryn Agnew April, 2009

With competitive returns, fiduciaries can implement SRI portfolios that align the values of organization with the investments in the portfolio.

Socially Responsible Investing (SRI) has matured in the past few decades to represent just over 10% of the assets in the investing marketplace, and now includes broader and more extensive guidelines for consideration. As fiduciaries, we need to be careful about how we implement socially responsible criteria in our investment decisions. Choosing to exclude certain products is a fairly easy criterion to define in an Investment Policy Statement (no alcohol, weapons or gambling, for example). Today, SRI strategies can also include proactive screens for social justice in the workplace, pro-environment policies and corporate governance issues. These intangible environmental, social and governance (ESG) criteria are more difficult to define, measure and monitor.

The SEC and the Department of Labor allow the use of sustainable and responsible investment strategies as long as the financial returns are competitive. Combining investment policy with an institution's intangible values can align corporate policies with the shareholders' interests, but must still require extensive due diligence in implementing the policy. Traditional benchmarks should continue to be part of the monitoring process to ensure that screened portfolio returns are competitive over time with non-screened broad market returns. In the past, most SRI investing was 'faith based'. Today we are seeing public funds and large investor pools become activists in shareholder issues such as corporate governance. Executive compensation, transparency, environmental and other social justice issues are key proxy voting resolutions. The law allows fiduciaries to consider nonfinancial benefits, such as the ethics or mission of the charitable organization, in investment decisions if competitive returns are anticipated. Labor policies, for example, could be key issues for Union pension plans, and choosing investments in companies with favorable global labor standards could be a factor in building a portfolio.

There are many mutual funds, money managers and benchmarks available to SRI/ESG investors. Understanding how your money managers analyze, screen and invest in socially responsible companies will be the key to implementing your social, environmental and governance standards in your portfolio.