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Socially Responsible Investing: Making an Impact

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When it comes to investing, you've likely heard, "Put your money to work for you." That means creating an investment strategy that can potentially achieve your education, retirement and estate planning goals. But if you're part of the growing number of socially aware investors, you not only try to put your money to work for you, but also for your favorite causes.

"Some investors see their financial affairs as an extension of their own beliefs," says John M. De Clue, Chief Investment Officer for The Private Client Reserve. "They want to avoid any feelings of hypocrisy related to feeling very strongly about something on the one hand and then investing without regard to it on the other. There's an undercurrent of not wanting to somehow support — albeit indirectly — industries they feel are harmful."

This brand of investing, known as socially responsible investing (SRI), isn't for everyone. Nevertheless, it's growing in popularity, according to the US SIF (The Forum for Sustainable and Responsible Investment), a nonprofit association for professionals and organizations engaged in SRI. Its most recent report, the *2012 Report on Sustainable and Responsible Investing Trends in the United States*, shows that SRI accounts for $3.74 trillion, or 11.23 percent of all assets under professional management in the United States. That's an increase of 22 percent since 2009.

Likewise, a 2013 study by Spectrem Group's *Millionaire Corner* found that 35 percent of ultra-high-net-worth investors under age 45 rank SRI as a primary investment selection factor. Although just 19 percent of ultra-high-net-worth investors consider socially responsible investing a primary investment selection factor, interest among young investors suggests the trend has legs.

Activist Assets and Passionate Portfolios

For most investors, SRI means cleansing portfolios of industries that engage in activities with which investors disagree.

"Conventionally, socially responsible investing is investing in a way that doesn't take you out of your comfort zone," De Clue explains. "For example, some clients might be uncomfortable with weapons of mass destruction, nuclear power, alcohol, gambling, tobacco, adult entertainment and negative environmental impact."

According to US SIF's *Trends* report, investors' most popular SRI criteria include concerns about:

- Business ties to repressive or terrorist regimes, such as Sudan and Iran
- Corporate governance practices, including executive pay and board issues
- Environmental issues, such as climate change and carbon emissions
- Tobacco
- Labor issues
- Corporate political contributions

Whatever their interests and causes, investors who wish to engage in SRI have many choices. The most common SRI investment vehicles are mutual funds that consider various SRI criteria, of which there were 333 totaling $641 billion in net assets in 2012. That's up from 55 totaling $12 billion in assets in 1995, according to US SIF.

"There are mutual funds — a number of them — that are specifically for this purpose," De Clue says. "There's even an index fund that tracks socially responsible investments."

These types of funds aim to meet investors' social and financial objectives alike by conducting in-depth research on the political, corporate, social and environmental activities of their holdings. They regularly evaluate their holdings against predetermined criteria and often include SRI commentary in or alongside their quarterly prospectus. In addition to mutual funds, investors can apply SRI to individual stocks, either themselves or through their investment advisor.

"We deal with this all the time and honor our clients' unique goals, doing everything we can to act on their instructions," says De Clue, who adds that The Private Client Reserve advisors use special trading software to avoid stocks that conflict with clients' SRI criteria. "Our software is loaded with stocks that are tagged with various categories. Take something like weapons. If we tell the system it should not accept any transaction of stock associated with weapons development, it will exclude military and defense contractors."

Before You Invest

Investors who are interested in SRI should take note: Eliminating certain holdings from a portfolio could possibly mean eliminating stability too. In other words, affecting positive social change could have negative potential financial consequences.

"One thing we caution our investors about is they could wind up with a more aggressive set of holdings than if they just owned a broad market index fund," says De Clue, who advises clients to consider reallocating their assets in response. "Knowing that a socially responsible program might be a little more volatile, you may want to reduce your allocation to equities, to potentially reduce some risk in the context of your overall holdings."

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— John M. De Clue

Ultimately, the decision to engage in socially responsible investing is a personal one that depends on your unique social and financial goals. As with any investment, it's important to discuss with your Wealth Management Advisor the potential risks and rewards — including the possibility that your portfolio might never be completely "pure" of what you consider to be questionable causes.

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