

SUSTAINABLE AND RESPONSIBLE INVESTING:

How Your Money Can Help You and the World

by Gregory Wendt, CFP



In the past few years, our financial system has been rocked to its core. Belief in profit-driven motives as the sole metrics of performance has been fundamentally shaken. Our perception of risk have been forever altered, and our economy is shifting toward a new foundation. Traditionally, investments are made with one, and only one, measure in mind -- how much money does the investment return? Every investment is considered for its financial return potential, yet financial return should not be the only metric for success. In today's world, investing processes must take into consideration the impact on the environment, the individuals employed, the communities involved, the climate, biodiversity issues, and a host of other factors.

One of my clients, I'll call her Terrie, is an anti-tobacco educator for colleges across California. She's devoted to her job and has a talent for helping young people recognize the perils of smoking. That's why she was appalled when she learned that every one of her mutual funds held large investments in tobacco stocks. For Terrie, the revelation that her investment portfolio conflicted with her personal values is what sent her to my office and marked the beginning of her interest and inquiry in socially and environmentally responsible investing. Another client of mine, Mary, is pleased that now her "money is where her mouth is." Mary, a successful television actress, is very active in supporting environmental groups and progressive causes. For years, her advisor was a family stockbroker at a major brokerage firm. On a number of occasions, she raised her concerns about companies in her portfolio that depleted natural resources and befouled the earth. Mary encouraged her advisor to find investments and mutual funds that were socially and environmentally responsible. Throughout the relationship, the broker derided her concerns; he dismissed such requests and advised her that sustainable and responsible investment strategies were inferior. Eventually Mary got fed up. She came to me seeking someone who would not only listen to her concerns, but also help her to earn competitive returns on her portfolio. Mary says she is pleased that her wealth is not only growing, but it is also helping to fuel positive change in the in corporate America and having an impact through community development investments she has made. Her investments, she says, are

now safeguarding her family's welfare -- and the planet's.

Mary and Terrie aren't alone. The trend toward sustainable investing, also known as socially responsible investing (SRI), began in the 1960s, as people began to shun companies like Dow Chemical that profited from the manufacture of napalm for the Vietnam War. The movement to sell off "sin stocks" gained momentum in the 1980s. A growing number of investors found it unconscionable to hold stocks in companies that did business in apartheid South Africa. Success

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with helping to end apartheid inspired socially responsible investors to turn their attention to other issues, such as protecting the environment and promoting fair labor practices. One faith-based institutional investor on the East coast, alone, leverages its \$90 billion in assets to make better corporate citizens out of companies as large and powerful as Exxon Mobil, Chevron and General Electric.

Today, one out of every eight dollars under professional management in the U.S. is part of a values-based portfolio. In 2007, the Social Investment Forum reported that socially responsible investments in the U.S. totaled more than \$2.71 trillion in total assets under management using one or more of the three core socially responsible investing strategies—screening, shareholder advocacy, and community

investing. About one out of every ten dollars under professional management in the United States today is involved in socially responsible investing—11 percent of the \$25.1 trillion in total assets under management.

How Can I Become A Socially Responsible Investor

Responsibly minded investors align their portfolios with their values by selecting or excluding companies based on their values. For my client Terrie, her strong commitment to public health made her choice clear: dump all of her tobacco holdings. This is known as screening. Investors consider a host of values when determining what companies to invest in -- and what companies to avoid. Avoidance Screening is an option when a company or industry falls short of an investor's values. Socially responsible investors consider a wide range of factors. For example, many responsible investors shun companies that manufacture or sell tobacco, alcohol, firearms, weapons or energy from nuclear power plants. Responsible investors might also exclude companies for any number of other reasons, such as companies with poor records of diversity in the workplace, shoddy environmental records or firms who do business with oppressive regimes, such as Burma. Affirmative Screening is the opposite approach. Responsible investors might seek out innovative companies that support their values and principles. Sometimes this takes the form of investing in companies in cutting-edge industries such as alternative energy or companies that market organic foods. It might also takes take the form of investing in companies or agencies that demonstrate a high level of commitment to the environment, workers rights or minority communities.

Whether you know it or not, your money is talking. The question is, do you agree with what it is saying? A key factor in Sustainable and Responsible Investing is using the power of our voices to improve the way business is done. Through the shareholder process, your investments can convey your values and concerns to top management, thus changing the way that major corporations impact their employees, our communities and the natural environment. This is known as shareholder activism. This is very important because

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it has a direct impact on how companies are managed. I always remind my clients that this is where the "rubber meets the road." Shareholder activism is promoting powerful changes in corporate America. This is accomplished via proxy voting, shareholder resolutions and dialogue with management. Every year there are hundreds of shareholder resolutions on issues as diverse as: climate change, executive pay, animal testing, product safety, non-discrimination policies, sweatshop labor,

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genetic engineering and human rights. Through these varied approaches, value-based investors are changing the way many firms do business. This is promoting progressive changes here in the U.S. and around the world. Success with one corporation can often spur change across an entire industry.

What About Performance?

A common misconception is that Sustainable and Responsible Investing negatively impacts investment performance. Studies now demonstrate that socially responsible investing does not mean a loss on competitive returns. Several recent studies make it clear that SRI funds do not underperform conventional mutual funds. In short, investors have discovered that one can 'do good and do well' at the same time. A recent article from the website www.socialfunds.com stated: "Most Socially Responsible Mutual Funds Outperformed the Benchmarks in 2009" and cites "Almost three-quarters of the 73 large-cap SRI funds reviewed by SIF outperformed the benchmark employed by the study, the S&P 500, in 2009, and on average the large-cap SRI funds outperformed the benchmark by 6%. A majority of the large cap funds offered by SIF members also outperformed the S&P 500 over three


years and over 10 years,' according to the SIF study, by about one percent in both cases."*

Caring for the community and making a sustainable impact



Socially responsible investing, mission-related and program-related investing by foundations; venture philanthropy; social entrepreneurship; local economies, and consumer demand for organics and green products are the first stages of a more profound alignment with the way we work with money, commerce and the environment. Many investors want the savings they hold outside the stock market to work for their values as well. Community development investing and high impact investing are some of the most dynamic and innovative areas of growth in this field. Institutions such as Nobel Prize-winner, Muhammad Yunus' Grameen Bank was the pioneer to what is called "microfinancing," making financial services and loans available to the poor. Angel investors like Investors Circle, are dedicated to socially responsible venture capital; "Patient Capital for a Sustainable Future," and RSF Social Finance are dedicated through the investments they make to "change the way the world works with money." All these areas are new and innovative ways that the world of investing is evolving to make the world a better place.

Gregory Wendt is the Director of Sustainable and Responsible Investing for Enright Premier Wealth Advisors, Inc. which is recognized as one of the top 100 independent Registered Investment Advisory Firms in the nation. Greg advises clients who want to align their wealth through investments that reflect their priorities and concerns for a better world. Greg is one of only a handful of Sustainable Investing experts in Southern California with over 19 years of experience as a financial advisor. Mr. Wendt is also the founder of the non-profit "Green Business Networking," a community of over 3,500 green business owners and professionals in Los Angeles. A native of Southern California, Greg has lived in Santa Monica for 27 years. In his spare time Greg enjoys swimming, surfing, gourmet cooking, reading, meditation, hiking and hosting wonderful events for his family and friends. He can be reached at www.gregwendt.com

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