



PRIVATE BANKING UPDATE

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Investing Responsibly: Aligning Your Money With Your Values

Whether the focus is on advancing environmental causes, building healthy communities, or promoting corporate ethics, investors interested in making a difference in the world are spurring interest in socially responsible investing (SRI), also known as sustainable and responsible investing.

Sustainable and responsible investing traces its roots to religious concerns, and it expanded in scope in the 1970s and 1980s as investors joined other protestors against apartheid by choosing not to invest in companies involved in South Africa. From there, the definition of SRI evolved to include the avoidance of "sin stocks" -- stocks of companies that derive earnings from gambling, alcohol, and tobacco. More recently, the concept has expanded further to include any number of social and environmental issues as well as a growing concern with "corporate character" -- seeking out companies that have commendable records on corporate governance.

Sustainable and responsible investments accounted for more than \$3.7 trillion in assets under management as of 2012.¹ Depending on a particular portfolio and its investment directive, SRI criteria are broad and potentially can include:

- Corporate governance, or how a company's management team shares rights and responsibilities with shareholders.
- Environmental practices, such as forestry, mining, waste disposal, or hydraulic fracturing.
- Employment policies, including diversity.
- Practices of global suppliers.
- Health issues, including products that could contribute to addictions or obesity.
- Military use of a company's product or service.
- Products that are inconsistent with certain religious beliefs, such as use in abortions.
- Geopolitical factors, such as a presence in a country where the government has supported war or genocide.

For example, environmental investment factors are incorporated in the management of 551 investment vehicles with \$240 billion in assets under management.¹

SRI has both advocates and critics. Those with a skeptical eye contend that investment decisions should be made solely on the basis of investment criteria. But advocates point to examples of SRI initiatives that have shifted traditional notions of investing to include a greater emphasis on the environment and a corporation's impact on society.

Factors to Consider

If you are interested in SRI, it may be worthwhile to take the following into account:

- Because socially responsible funds are actively managed, their performance will not necessarily mirror broader market trends.
- Actively managed mutual funds, including a socially responsible fund, are likely to have higher expenses compared with a passive investment.
- It is difficult to compare socially responsible funds with one another because, in many instances, criteria for stock screening are different.
- Using a socially responsible selection screen will not necessarily rule out a large portion of

the investment universe.

If you are interested in SRI, there are mutual funds whose investment criteria correspond to various types of SRI screens. It is possible for investors to screen individual securities on their own, but this could be very time consuming. SRI may not be for everyone, but it presents an additional way of viewing the investment universe.

¹Source: *The Forum for Sustainable and Responsible Investment, Report on Sustainable and Responsible Investing Trends in the United States, 2012.*

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