

SRI 101

An Introduction to 'Investing for Good' —Socially Responsible Investing

by Jeremy A. Pearce

Many investors are disappointed to be investing in companies whose products they'd never buy themselves and are interested in investing in companies whose products and business practices they hold in high regard. They wonder how their investments can contribute to a better society and healthier planet. Just as many are stunned to hear that this strategy for investing already exists and is commonly known as socially responsible investing (SRI). So let's talk about SRI, its three components and what it means to invest in this manner.

Some of you may be asking what is socially responsible investing and is it like some of the other strategies you might be hearing about: green investing, sustainable investing and impact investing. For the sake of this article, let's just agree that the nomenclature here basically references the same practice: an investment strategy that aligns an investor's values with his or her financial objectives and that these strategies generally pursue endeavors that promote a healthy environment and viable communities.

The first component of SRI is the process of screening, both avoiding those companies that run counter to investors' values and investing in those companies that meet investors' environmental, social and governance (ESG) criteria. The genesis of this strategy are ancient Judaic and Islamic laws and in colonial times the Quakers and Methodists who shunned in-



vestments in slavery and war-related businesses. More recently, this strategy was employed during the Vietnam War and then again played a role to end apartheid in South Africa. Today, companies that fail to treat their employees fairly that exploit natural resources and companies that conduct business with oppressive governments are generally removed from SRI portfolios. Conversely, the process of using ESG criteria to pursue investment opportunities that have a positive impact in communities, has come into play in the last decade. Increasingly investors want to identify those companies that do the right thing, employ females in leadership roles, pay a living wage to all employees or appropriately addresses their carbon footprint.

Socially responsible investors also have an opportunity to practice shareholder advocacy, the second component of SRI. This strategy encourages companies to adopt healthier corporate standards and behaviors. Because investors are owners of these companies, they can shape the role that large public companies play in employee relations, the environment and local communities through proxy initiatives and direct shareholder/management dialogue. Convincing large snack-makers to remove palm oil from its ingredients counts as a recent success story of responsible investors driving social change through shareholder advocacy.

Finally, it is through the third com-

ponent of SRI, community investing, where investors can empower the small businesses that make up the fabric of local communities. In a strategy that mirrors the aforementioned positive screening, investors can direct assets toward community development financial institutions (CDFI) that place loans and investments in projects and endeavors that address affordable housing, healthcare, renewable energy and energy conservation and urban and rural revitalization. In short, development banks and small businesses that lack access to traditional financial markets are a great opportunity to affect real social change.

Over the last few years, the world of socially responsible investing has grown in ways almost unimaginable. A record number of investors are aligning their assets with their values. More and more financial professionals are demonstrating to clients the strengths of SRI. Businesses once thought to be indifferent, unfriendly corporate entities are showing their capacity to be true corporate stewards. In the following months, stories will be shared in *Natural Awakenings*, highlighting why total SRI assets grew 76 percent between 2012 and 2014, according to The Forum for Sustainable and Responsible Investment. For now, consider how your investments meet your financial goals, contribute to a better society, and promote a healthy planet.

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