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IMPACT INVESTING (SOCIALLY RESPONSIBLE INVESTING)

Allocating your assets with the goal of helping the world … and your portfolio.

Provided by Kristen L. Chirhart, Boom Planning

"Do well by doing good." You've probably heard that phrase. In the financial arena, it is often written or spoken in reference to impact investing – also known as socially responsible investing.

A chance to be an activist. Maybe you don't think of yourself as an activist – you don't take to the streets, you don't have the time or energy to get involved on the ground in social or political causes. Well, many investors around the world are choosing to be economic activists through socially responsible investing.

The fact is, sometimes a corporation or a big business can generate large-scale environmental or social returns for a community or a region – an impact that many non-profit organizations would be hard-pressed to match. Socially responsible investing means allocating some of your investment assets across private sector change agents working for sustainability.

The demand is there and financial firms are noticing it. Many investors want to affirm sustainability through their portfolio choices. The fund companies must meet an interesting challenge as they seek to serve this expanding investor niche.

On one hand, it would seem appealing to allocate X percent of one's assets to an emerging market fund dedicated to impact investing. You could help the emerging economy of a nation or a region with a growing middle class, and essentially cast your vote in a certain economic direction. On the other hand, many emerging market economies have lax environmental and labor regulations and poor track records when it comes to human rights - and mutual fund companies are hardly lobbyists.

Still, as of January 2011 there were 166 impact investing funds available – more than twice the selection found in 2001.[1]

Social returns aside … what about investment returns? A few years ago, impact investing was getting a bad rap. The word on the street (Wall Street) was that your fund choices were limited and performance was nothing to write home about. Well, is that true today?

It doesn't appear to be. SRI funds appear to be holding their own in the market The KLD 400 Social Index – pretty much regarded as the benchmark index for socially responsible investing – posted a 1.1% price return across the past five years compared to 1.0% for the S&P 500. Some individual fund returns have been very impressive. For example, the 75-stock Huntington EcoLogical Portfolio gained 33.5% during 2009.[1,2]

Who sets the screens? Who determines whether or not companies meet a socially responsible fund's criteria? Sometimes that is left up to private third-party research firms consulting the fund. This may mean that some companies you might think twice about make the cut, as their criteria could differ from yours. So you want to keep checking what you own.

You also want to see that the funds are really walking the walk. The Social Investment Forum (a Washington, D.C.-based membership organization for financial services industry firms and professionals committed to impact investing) says that just 27% of socially responsible mutual funds file shareholder resolutions or actively call for change at the companies they own. SmartMoney looked at 20 big socially responsible mutual funds and discovered that 10 had invested in oil companies.[1]

Consider green investing in pursuit of a triple return. Look into some of these funds and you will likely find one (or two, or more) that may meet your personal environmental, social and governance standards. Over time, they may create financial, social and environmental returns.

Kristen Chirhart is an Investment Advisor Representative. Securities and Investment Advisory services sold through Ameritas Investment Corp. (AIC) Member FINRA/SIPC. AIC and Boom Planning are not affiliated. Kristen Chirhart may be reached at (415) 364-0226 or kchirhart@boomplanning.com. CA Insurance License #0G16691.

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Citations

1 –smartmoney.com/investing/mutual-funds/what-you-need-to-know-about-socially-responsible-mutual-funds-1294427152167/ [1/11/11]
2 – post-gazette.com/pg/10075/1043010-334.stm [3/16/10]
3 – montoyaregistry.com/Financial-Market.aspx?financial-market=money-and-happiness&category=29 [1/29/11]