

December 11, 2007



Socially responsible investing offers multitude of investment opportunities

By JAN SCHALKWIJK

Socially Responsible Investing (SRI) incorporates environmental, social and corporate governance evaluation.

With increasing awareness about sustainable living, the environmental aspect commands the most attention from the public and the media these days. And for good reason -- we are facing tremendous challenges related to climate change and other environmental issues. The green revolution is the latest trend 25 years in the making.

In addition to the environmental aspect, investors are also looking at other criteria to evaluate whether a company represents a responsible investment. An ever-growing chorus of institutional investors, such as pension funds and large endowments, is voicing concerns related to gender equality and employee-friendly workplaces. Moreover, retail investors are joining the choir. The marketplace has responded by making available mutual funds that offer SRI screening specifically related to workplace, gender equality and other social issues.

Parnassus Investments, an SRI mutual fund company based in San Francisco, has a product called "The Workplace Fund." According to the company's Web site, it "looks for companies that have great workplaces for their employees, with the idea that happier employees make for better companies."

To find these companies, Parnassus Investments works with Milton Moskowitz, the co-author of Fortune magazine's "100 Best Companies to Work For." Parnassus ultimately decides which stocks to hold, using Moskowitz' work as a guide.

The notion that good places to work are also good investments -- or at the very least do not pay a performance penalty for treating their employees with respect -- appears logical. So far, the fund, which was created in April 2005, has delivered. The year-to-date performance as of Sept. 30 amounted to 10.32 percent, compared to 9.13 percent for the S&P 500 and 9.41 percent for the Lipper Multi-Cap Core Average.

PAX World Funds, based in Portsmouth, N.H., has recently assumed ownership and portfolio management responsibility for the Woman's Equity Fund. According to PAX, the Women's Equity Fund "applies sustainable investing criteria, emphasizing companies that promote gender equity through internal policies and programs, transparency regarding the effectiveness of those policies and programs, and accountability among employees to assure implementation and observance."

The gender criteria are in addition to the other environmental, social and governance (ESG) criteria that PAX uses in its investment analysis. Although it may be difficult to assess a performance differential based on how a company approaches gender, it certainly is not difficult to ascertain that gender equality is desirable and, in combination with other ESG factors, can lower a company's risk exposure and increase its attractiveness.

It is also important to note that just as the aforementioned funds look at more than workplace and gender issues, other SRI funds may also look at these particular issues as part of their broader screening process. Understanding how a fund screens will help an investor decide whether it passes the investor's own criteria. An investor can get a good idea of what a fund company may or may not invest in by looking at the company's ESG criteria, which are often displayed on its Web site or in its prospectus. When it comes to issues such as nuclear power or gambling, different fund companies take different views, or may have varying levels of tolerance.

As there are no perfect corporate citizens, it is hard to find a perfect mutual fund, especially for the SRI purists. Keep in mind that even though there may be some fund holdings that operate in the grey area, the fund manager can still exert influence as a shareholder and use shareholder advocacy to promote ESG issues. Consider therefore not just what you own, but also how you own.

If concerned investors cannot find enough funds to diversify their portfolio that meet their criteria, it may make sense to supplement funds with individual securities. The advantage would be increased flexibility. It would be more difficult to engage in shareholder advocacy, however, which is easier done when investors pool their interests into a singular entity such as a fund.

The SRI universe has evolved and at present it is much easier for an individual investor to engage in SRI. It is no longer just about sin stock avoidance but about a greater set of issues, with options for investors to focus on certain areas of particular concern.

The underlying reason for increased choice is the fact that more companies are coming to the conclusion that it makes good business sense to be responsible. It is not about choosing profits to the detriment of responsibility; the two can go hand in hand.

Schalkwijk, CFA, is the founder and principal of downtown San Diego-based JPS Global Investments, an investment advisory firm that specializes in sustainable investing.