Socially Responsible Investing : Part 1
Can You Balance Good Will with Good Returns?

A walrus was falling to its death from the top of a cliff because its natural habitat had melted away.

This was a heartbreaking scene in David Attenborough's 'Our Planet' TV series. It was one of many illustrations of the impact of climate change that have entered the public consciousness in recent times.

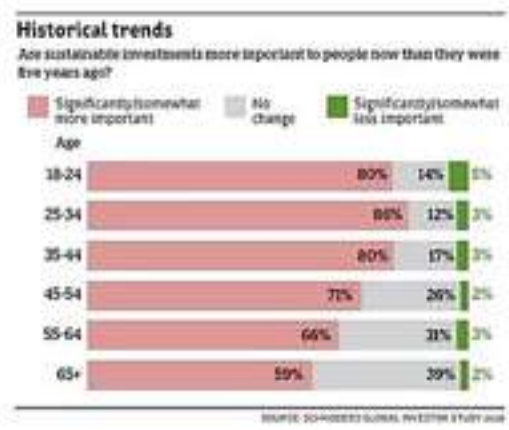
Climate change and the risk of extreme weather events rank among people's top concerns, according to the World Economic Forum's Global Risks Perception Survey. Previously, 'Blue Planet II' brought the scale of pollution in our oceans to our screens.

Investor Awareness…

As awareness around climate change has increased, so many investors have started to consider more carefully how to put their money to work in a way that does not harm the environment.

And how they can invest in companies that actually help to mitigate the risk of climate change.

People of all ages make small changes in their daily lives to be less wasteful. Meanwhile, more and more investors are taking a closer look at where their money is going and what it is used for.



According to a recent Schroder's Global Investor Study (illustrated), 75% of people who invest say that in the last five years, sustainable investments have become more important to them.

While all of this sounds warm and fuzzy, many people wonder if socially responsible investing is a winning investment strategy.

Unfortunately, there is no perfect answer to that question.

Though it is entirely possible that investments in socially responsible companies will provide investment returns comparable - or even better - to the general market, these businesses experience the same ups and downs as anyone else.

Good Returns…

An increasing number of people want their investments to be aligned with specific values or sectors, as well as being profitable, and with the rise of socially responsible investing it is possible to achieve both.

Some people assume that investing in a socially responsible fund or company means that your returns will suffer.

In reality there is a wide choice of investment areas, and many socially responsible investment funds have a reliable track record of returns.

We will take a look at specific investment areas in part 2, next month.

First, a little more about Socially Responsible Investing…

A New Approach…

Ethical investing was originally characterised by a process of "negative screening" - Basically the exclusion of companies that are considered harmful.

But more recently, a new approach has captured people's imagination, with fund managers in the sector now not only excluding certain companies, but also actively focusing on companies that have a positive impact on society.

Fund managers have also become more active in influencing the companies in which they invest, by voting against excessive executive pay at shareholder meetings, for example.

Environmental, Social and Governance Factors (ESG)…

The way most professional investors analyse a company's positive contribution to society is by looking at its environmental, social and governance (ESG) factors.

More specifically, they turn to ratings agencies that produce scores about companies' behaviour.

While negative screening was based around products, positive screening focuses on conduct.

This includes a wide spectrum of issues, ranging from whether the company treats its workers fairly in its supply chain, whether it uses energy efficiently and whether there is some diversity on its board.

- The environmental part of ESG assesses a company's impact on climate change, waste management, air pollution and energy efficiency.
- The social part tends to look at how a company engages with its employees, clients and the communities it is in, including human rights issues, consumer privacy, as well as health and safety.
- And finally, the governance part includes considerations around a company's board, its ownership structure, its business ethics and how much it pays its executives.

Who Would Be Most Interested in this Strategy?...

Socially Responsible Investing is for those who want to have a personal connection to their investments, and want to invest their money in noble causes.

There are two sides to Socially Responsible Investing...

In companies that you feel have ethical business operations and probably more so, and avoiding companies that you think don't have ethical business practices, products, or services.

So for example, if you think tobacco is bad for the world, you may avoid investing in companies that produce tobacco products. You may instead invest in companies that focus on delivering local, organic produce at an affordable price.

Many people who are against war avoid investing in companies that produce tanks and missiles. A socially responsible investor might want to put their money in a company that has adopted a way to bring clean water to third-world countries.

And the good news is that there are funds that base their investment choices on looking into such companies, through their ESG factors, in greater detail.

Choose Carefully…

Whichever route you choose, first you have to consider what your definition of socially responsible is.

Are there companies that you are trying to avoid? Are you keen to invest in renewable energy? Or social housing projects?

It is also possible to use more traditional funds to focus on specific sectors like biotech or media companies.

That is for you to decide.

Furthermore, research has shown that ESG factors are not simply part of a socially responsible approach, but they can also have a huge impact a company's long-term performance and share price.

That is because, simply put, companies that behave responsibly are less likely to suffer setbacks brought on by bad governance.

Diversification…

There is one more advantage when it comes to socially responsible investing.

Many of the companies in this space are international with broad-based business portfolios, so investing in them might give you an extra layer of diversification to your existing portfolio.

Bottom Line…

If you want to be completely connected to your investment choices and value companies that are actively working towards a better planet, socially responsible investing seems like a reasonable proposition.

In the end, it may come down to a matter of conscience.

If you value socially responsible investing more than the prospect of making money at any price, you should consider investing your money in companies that you believe in and will help you sleep more soundly at night.

In Part 2...

We will take a look at some of the Socially Responsible Investing options open to you and take a more in depth look at the pros and cons of Socially Responsible Investing.

Please do not hesitate to contact me for a copy of Part 2