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Socially responsible investment gaining ground

Atlanta Business Chronicle - by [Doug DeLoach](#) Contributing writer

In the wake of widespread outcry spawned by the disastrous **BP** oil spill in the Gulf of Mexico, corporate leaders in every industry are more attuned than ever to the way their actions are perceived by the public in terms of social and environmental impact.

Investors, financial managers and shareholders have also been taking notes.

During the last decade or so, a subspecialty of the financial services industry has evolved around identifying, tracking and advising investors regarding what are sometimes referred to as sustainable investments as part of a strategic approach to portfolio management.

In 2007, the Social Investment Forum (SFI) reported \$2.71 trillion in total Socially Responsible Investment (SRI) assets under management — a number that equates to nearly \$1 in every \$9 under professional management in the U.S. today and marks an uptick from \$2.29 trillion in SRI in 2005. And the number of socially screened mutual fund products in the U.S. has jumped from 55 SRI funds in 1995 to 260 in 2007.

In July, **Cleantech Group LLC**, which provides global market research, events and advisory services for the “cleantech” industry, in conjunction with Deloitte, released a report on second-quarter 2010 results for clean technology venture investments in North America, Europe, China and India.

According to the report, total investments amounted to \$2.02 billion across 140 companies, a 43 percent increase from the same period a year ago. The number of deals was down from a record high of 192 in the first quarter, but still represents a strong quarter by historic standards.

“There is a lot of academic evidence supporting the idea that you can invest in the large capitalization U.S. stock space and do it competitively with the S&P 500 by following socially responsible companies,” said Ghislaine Austin, senior director of investments at Wells Fargo Wealth Management in the Southeast.

Since 1990, **KLD Research & Analytics Inc.** has been issuing the KLD 400 Social Index, a float-adjusted, market capitalization-weighted, common stock index of U.S. equities constructed using environmental, social and governance (ESG) factors.

“In comparison with the S&P 500, the KLD Social 400 has returned an average of 9.5 percent versus 8.4 percent on investments made during the past two decades,” Austin said.

The caveat is that most investment advisers (Austin included) believe broad diversification in a portfolio is a requirement for maximizing return on investment while maintaining strong risk controls.

“You cannot have both a 100 percent socially responsible investment strategy within a fully diversified portfolio,” she said.

On some investment managers’ radar screens, SRI has shown up only as a relatively minor blip.

“We have access to those types of funds, but it’s never been a priority for our clients,” said Jim Heard, president of **Windham Brannon Financial Group Inc.**

Heard said during the past few years the Atlanta-based firm has received “only one or two” inquiries from clients interested in pursuing an SRI-based strategy.

Other financial advisers in the metro area report a similar dearth of interest.

“I’m in a study group of large wealth management firms across the country and the topic was brought up recently,” said Andrew Berg, CEO at **Homrich & Berg Inc.** “The consensus response was, ‘Nah, we don’t hear about that anymore.’ ”

Presented with a choice between two investments, only one of which demonstrated SRI qualities, Berg said a number of his clients would probably choose the SRI weighted stock or fund. Nevertheless, he said many investors remain unmoved by the SRI strategy on economic grounds.

“My clients are of the mind-set that if you limit the choices for investments, the likelihood is that you are going to lessen the return,” Berg said.

In fall 2008, Wells Fargo launched the Wells Fargo Advantage Social Sustainability Fund. Its fund managers use a screening process to invest in companies with positive traits related to environmental, social and governance (ESG) factors. At the same time, the managers avoid stocks that trigger negative associations, such as alcohol, tobacco, gambling or weapons manufacturing.

At the SIF, Director of Programs Peter DeSimone defines sustainable investing as a strategy that encompasses at least one of three different goals:

- **Shareholder advocacy:** An example would be pushing for a resolution requiring a company to issue sustainability data relating to carbon footprint and climate impact issues or to set greenhouse gas emission targets.
- **Screening:** Benchmarking or in some way weighting a portfolio by taking into account a company's performance regarding social or environmental issues.
- **Community investing:** Includes investing in companies that finance low-income homes or undertake infrastructure improvements in underserved areas, such as Native American communities.

Noting a movement away from using traditionally negative screens, DeSimone said positive screening is becoming more prevalent among researchers, which means, for example, "fund managers might choose to focus on cleantech companies or companies rated very high for workplace practices."

DeSimone said many investment firms are looking at the screening process from a risk perspective.

"They feel like they have an advantage, especially over the long term, because in addition to traditional financial risks, they are looking at sustainability risks, which many mainstream investment managers ignore," he said.

For the moment, SRI is being championed more by younger investors, but that particularly weighted positioning may be changing — and not just because of natural consequences.

"The older generation tends to separate the two sides of the equation," Austin said. "They say, 'Don't confuse your feelings with financial results.' But the younger generations are having an effect on their parents and their view is much more integrated."

The proof is in the numbers, of course, and the figures for SRI are looking up.

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