

Karen Telleen-Lawton: What's New in Socially Responsible Investing?

Even the corporate world is buying into the opportunities and rewards of the growing market

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 04.12.2011 2:47 p.m.



What's new in [socially responsible investing \(SRI\)](#) For starters, the label is morphing to [ESG: environmental, social and corporate governance](#). This change reflects the fact that the corporate world has entered the field in earnest, responding to a market growing annually by 15 to 20 percent.

“ESG came largely from the institutional side, which has been uncomfortable with terms like ‘socially’ and ‘responsible,’” said Peter Kinder, president of [KLD Research & Analytics](#).

Curtis Ravenel, sustainability director at [Bloomberg](#), comes to the same perspective from a different path. He believes ESG has come into its own because it is good for profits.

“If a company treats its employees well, it should have less turnover and lower HR costs,” he says. “If a manufacturer gets serious about safety, it can avoid expensive lawsuits. There’s increasing evidence — and, correspondingly, a growing belief among portfolio managers — that companies taking such factors into account are forward-thinking and well-managed, and therefore places investors should consider.”

Not all of corporate America believes that profits are the only bottom line. Steve Lydenberg, CFA, chief investment officer at [Domini Social Investments](#), questions this premise, but says “the beauty ... is that the SRI approach would work for them as well.”

Indeed, the SRI/ESG space has been growing well in times when the corporate and investment community has had much to bemoan.

“Responsible Investing: A Paradigm Shift,” a white paper by [Booz & Company](#) and [Robeco](#), of Rotterdam, predicts that by 2015 this market will account for \$26.5 trillion of global assets under management. Currently the biggest players are large institutions and pension funds, but individual investors are increasingly attracted.

But how much do you have to sacrifice for forsaking profits as the singular focus? Daniel Nielsen, director of SRI at [Christian Brothers Investment Services](#), says that “based on the large number of academic studies I’ve seen, the underperformance myth has been disproved. Most papers I’ve read say SRI may not enhance returns, but it won’t detract either if done the right way.”

And what’s the right way?

“We regularly evaluate our investment managers and the portfolios they manage for us,” he says. “We compare them with non-SRI portfolios they manage for other clients to ensure our screens aren’t costing returns. And we’ve consistently found over the years that our managers aren’t giving up return.”

That’s not surprising, since a focus on ESG is a focus on the fundamentals of good management and good business.

The options to begin an ESG investment program are dramatically more varied than they were just a few years ago. Not long ago an investor’s sole option was primary research, determining his or her own social criteria along with other financial criteria to find companies that matched.

Next came investment funds whose managers research and assemble funds designed to appeal to investors with similar criteria. Some of the leaders include [PAX World](#), [Parnassus](#), [Neuberger Berman](#), [Green Century](#), Domini and [Calvert](#). These funds remain very popular for investors who want active management.

More recently, the financial community has responded to corporate and, increasingly, individual investors who favor a passive investment approach. Index companies such as [FTSE](#) and [MSCI](#) have delved into the ESG market and produced funds whose investment returns correspond closely to the price and yield performance, before fees and expenses, of particular SRI indices.

You may be inclined to revamp your entire portfolio using SRI/ESG indexes, ETFs, mutual funds and stocks, or include ESG as an “overlay” component or

asset class. Either way, the opportunities and the rewards are increasing for those who are interested in putting their money where their hearts are.

— *Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: The Nature of Rattlesnake Canyon at www.CanyonVoices.com.*