

# SOCIALLY RESPONSIBLE INVESTING

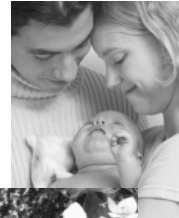
in the United States

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All investing is future-oriented; socially and environmentally responsible investing is even more so. Socially conscious investors seek to secure their own financial futures while putting investment capital to work in the creation of a more just, sustainable, and healthy society.

We understand that the ways people spend and invest can dramatically influence both the fabric and consciousness of society. We recognize that corporations may have either a positive or negative impact on people, communities, and our natural environment. We realize that today's social issues often become tomorrow's economic problems. We know that investment capital can be used to finance socially desirable or socially destructive businesses.



## A Brief History

The origins of what has become known as socially responsible investing date back hundreds of years. In biblical times, Jewish law laid down many directives about how to invest ethically. In the mid 1700s, the founder of



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Methodism, John Wesley, considered the use of money as the second most important subject of New Testament teachings.

For generations, religious investors whose traditions embrace peace and nonviolence have avoided investing in enterprises that profit from the enslavement or killing of fellow human beings. It is likely that Quaker and Methodist immigrants brought the concept of socially responsible investing to the new world. Quakers have never condoned investing in slavery or war and Methodists have managed money in the U.S. using what are now referred to as “social screens” for over two hundred years!

*The deepest religious origins of SRI can still be seen in the widespread avoidance of “sin stocks”: companies in alcohol, tobacco and gaming industries.*

The modern roots of this phenomenon can be traced to the impassioned political climate of the 1960s.

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During that tumultuous decade, a series of themes served to escalate sensitivities to issues of social responsibility and accountability. Concerns regarding the Vietnam war, civil rights, and equality for women broadened during the 1970s to include labor-management issues and anti-nuclear convictions.

The ranks of socially concerned investors grew dramatically throughout the 1980s as millions of people, churches, universities, cities, and states focused investment strategies on pressuring the white minority government of South Africa to dismantle its racist system of apartheid. Then, with the Bhopal, Chernobyl, and Exxon Valdez incidents and vast amounts of new information about ozone depletion and climate change coming into public view, the environment moved to the forefront of the minds of socially concerned investors.

More recently, school shootings, issues of human rights, and healthy working conditions in factories around the world producing goods for U.S. consumption have become rallying points for investors with dual objectives for their investment capital.

## Investor Motivations

Many believe that in addition to the benefits of ownership, investors bear responsibility for the impact their money has in the world. Socially conscious investors believe that they can make money and make a meaningful difference by consciously directing investment capital toward enterprises that contribute to a clean, healthy environment, treat people fairly, embrace equal opportunity, produce safe and useful products, and support efforts to promote world peace.

Motivated by a sense of responsibility that has financial, social, and ecological dimensions, socially conscious investors understand that investment returns over the long-term are driven primarily by the performance of innovative, well-managed corporations that are dependent on the health of the human societies and ecological systems that sustain all economic enterprise.

Some wish to put their money to work in a manner that is more closely aligned with their personal values and social priorities. Others are more interested in directing investment capital to push for social change. All seek to use their money to catalyze the shift toward a more economically just and environmentally sustainable world.

## Three Dynamic Strategies

Socially responsible investing can be defined most succinctly as the process of integrating personal values, societal concerns, and/or institutional mission into investment

*Three complimentary strategies are aimed at the dual objectives of making money and making a difference.*

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decision-making. The process considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.

**Screening** involves overlaying qualitative analysis of corporate policies, practices, attitudes, and impacts on the traditional quantitative analysis of profit potential. Qualitative screening helps us to understand corporate character and often helps us identify better-managed companies. A double bottom line (quantitative + qualitative) analysis provides the basis for designing investment portfolios aligned with an investor's personal values and social priorities, while producing the returns needed to achieve their financial goals.

**Shareholder Advocacy** efforts include engaging in dialogue with companies and submitting and voting on proxy resolutions. Action is focused on positively influencing corporate behavior. Socially conscious investors often work cooperatively to steer company management on a course that they believe will improve financial performance over time and enhance the well-being of all stakeholders—customers, employees, vendors, communities and the natural environment, as well as stockholders.

**Community Investing** directs capital to people in low-income communities who have difficulty accessing it through conventional channels. Many socially conscious investors earmark a percentage of their investments to community development financial institutions (CDFIs) that work to alleviate poverty, create jobs, and provide affordable housing, and finance small business development in disadvantaged communities.

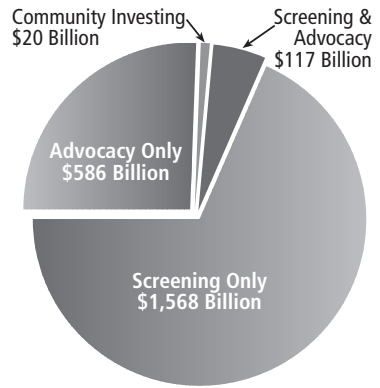
These three complimentary strategies allow investors to choose their level of involvement. Screening provides an opportunity for investors to align their values with their financial goals while earning competitive returns. Shareholder advocacy efforts facilitate direct communication with company management and encourage companies to become more responsible corporate citizens. Community investing allows investors to put money to work in at-risk communities, where capital is not readily available to create jobs, affordable housing, and other needed services.

# Over \$2 Trillion Under Management

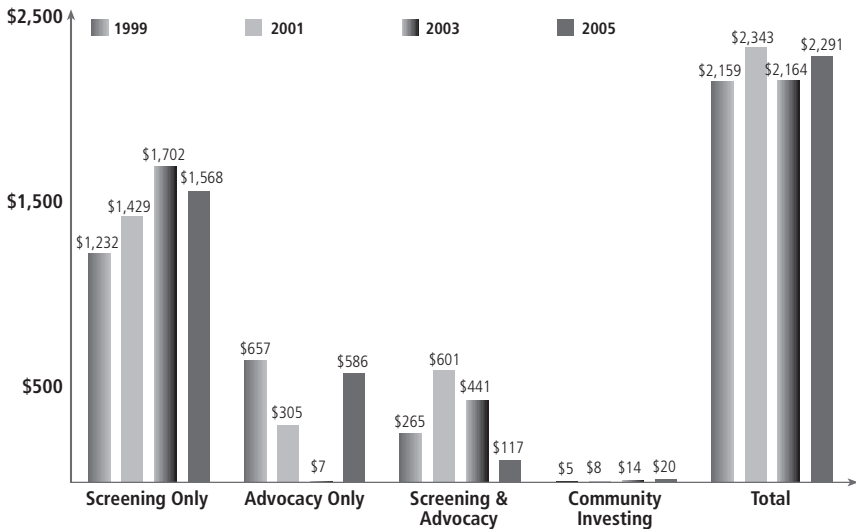
The Social Investment Forum's\* 2005 *Report on Socially Responsible Investing Trends in the United States* identified \$2.29 trillion under professional management involved in one or more of the three primary socially responsible investment strategies.

Assets under professional management involved in one or more of the three dynamic strategies that define socially responsible investing in the U.S. grew from \$639 billion to over \$2 trillion between 1995 and 2005, an increase of 240%. Nearly one in

2005 Investments by Strategy



Growth of SRI Investments (in Billions)



\* The Social Investment Forum is the nonprofit trade association for the socially responsible investment industry in the U.S. Data in this document originated in the Forum's 2005 Report on Socially Responsible Investing Trends in the United States ([http://www.socialinvest.org/areas/research/trends/sri\\_trends\\_report\\_2005.pdf](http://www.socialinvest.org/areas/research/trends/sri_trends_report_2005.pdf)).

ten dollars was invested in these SRI portfolios in 2005 (9.4% of the \$24.4 trillion in total assets under professional management in the U.S., according to Nelson's Directory of Investment Managers).

Socially screened mutual fund assets grew 15-fold over the same ten-year period from \$12 billion to \$179 billion, outpacing the growth of the mutual fund industry in the U.S.

## What Is Fueling the Growth?

**Performance.** An impressive body of academic evidence plus real-world results have effectively refuted the contention that social screening will automatically result in underperformance. Investors are realizing that responsibility can walk hand-in-hand with prosperity.

**Information.** Investors are significantly better educated and informed today. Social research organizations are able to provide much higher quality information than ever before. The better informed investors are, the more responsible their actions tend to be.

**Availability.** Some 201 mutual funds are designed for socially conscious investors.\* Socially screened options are increasingly being offered within retirement plans, and hundreds of asset managers now promote their ability to manage socially responsible portfolios.

**Values.** There is a spiritual yearning on the part of a large and growing segment of the population to integrate personal values into all aspects of life, including finance and investing.

**Corporate Scandals.** Numerous recent instances of accounting fraud and other scandals have eroded trust in company leadership. Many investors are attracted to an investment process based on research that goes deeper into corporate character.

*It is estimated that 60% of socially conscious investors are women.*

**Women.** As women have filled the ranks of MBA programs and law schools, climbed corporate

ladders, started their own companies, and assumed roles as fiduciaries, they have brought an affinity for socially responsible investing along with them.

**Sustainability.** Socially responsible investing has marched in lock-step with increasing public interest in alternative energy, natural foods, sustainable building, and alternative healthcare, providing new inspiration and expanded investment opportunities.

## Investing for a Better World

Socially conscious investors know that business is among the most powerful institutions on the planet. More importantly, it is painfully obvious that if we are going to get a grip on many of the issues that threaten our quality of life, business must shoulder more responsibility for both remedy and prevention.

Many people are consciously a ballot with every consumer purchase and investment decision. When it is perceived that a company is exploiting workers in unsafe foreign factories, for example, informed consumers stop buying that company's product, and informed investors push management for changes in business practices.

*Investors can apply democratic principles to economic decisions.*

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Socially conscious investors, no matter how large or small, are most satisfied with investments that reach beyond purely financial goals to address ethical concerns. Fortunately, making money and making a difference with your money has never been easier.

## Getting Started

Working with a knowledgeable investment professional who can help you plan and implement investment strategies designed to achieve your

financial goals is always advisable. If you are interested in contacting an investment professional with expertise in integrating personal values and social priorities into investment decision making, you can find a list of qualified advisers at [www.firstaffirmative.com](http://www.firstaffirmative.com).

For more information about socially responsible investing, visit the Social Investment Forum at [www.socialinvest.org](http://www.socialinvest.org).

*Steve Schueth is President and Chief Marketing Officer of First Affirmative Financial Network, LLC. An independent investment advisory firm registered with the SEC, First Affirmative specializes in serving socially conscious individual and institutional investors nationwide. A former Director and Spokesperson for the Social Investment Forum, Mr. Schueth lives in Boulder, Colorado. You can contact him at 303.998.1141 or [steveschueth@firstaffirmative.com](mailto:steveschueth@firstaffirmative.com).*

*Past performance is never a guarantee of future results. Investing in securities involves risk and investors may incur a loss.*



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