Investing in Your Values

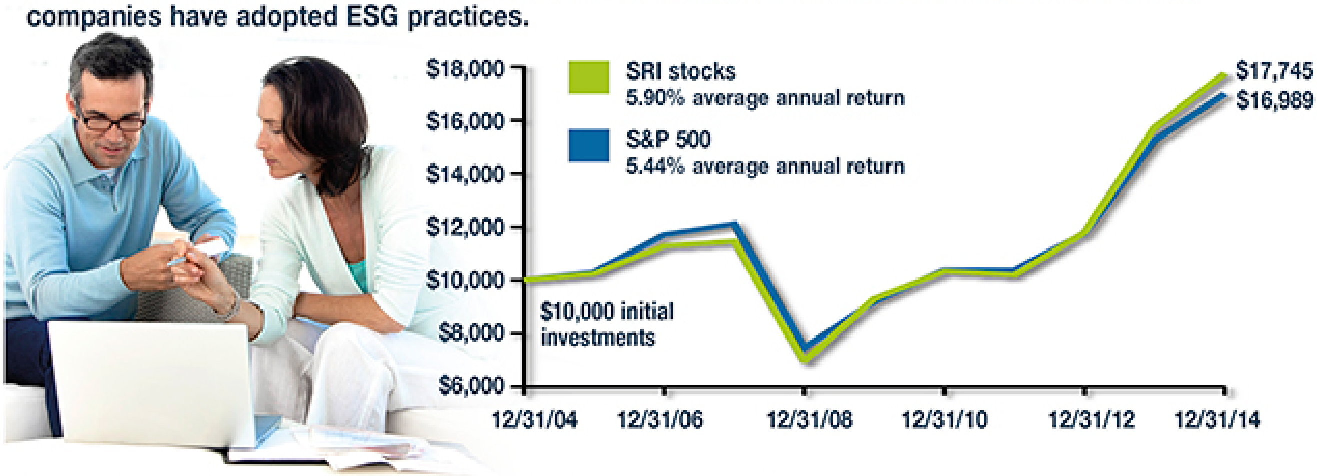
It's probably safe to say that people choose an investment with the assumption that it will add financial value to a portfolio. However, more investors are considering other values when making investment decisions — the way a company does business, the way it treats employees, and the social and environmental impact of its products and services.

This type of value-based investing is called by various names, including socially responsible investing; sustainable and responsible investing; and sustainable, responsible, and impact investing. Typically, the acronym SRI is used to represent all these terms, and the principles are similar regardless of terminology. Investing based on your social beliefs does not necessarily reduce the potential for financial gain. In fact, SRI stocks tend to perform similarly to the broader stock market (see chart).

Interest in sustainable and responsible investing has grown steadily since it was first tracked in 1995, but growth has accelerated over the last two years. U.S. assets invested according to SRI principles increased by 76% from 2012 to 2014, rising from $3.74 trillion to $6.57 trillion — equivalent to about one out of six professionally managed U.S. investment dollars.[1] Globally, the increase was 61%, rising from $13.3 trillion to $21.4 trillion.[2]

CONSCIENCE AND THE MARKET

Over the 10-year period from 2005 to 2014, SRI stocks slightly outperformed stocks in the S&P 500. Most of the higher SRI returns were generated during the last three years, a period when more companies have adopted ESG practices.



Source: Thomson Reuters, 2015, for the period 12/31/2004 to 12/31/2014. SRI stocks are represented by the Calvert Social Index, which tracks large- and mid-cap U.S.-based companies that are considered to be socially responsible. The S&P 500 is represented by the S&P 500 Composite Price Index, an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. Some stocks may be included in both indexes. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. The results do not include reinvestment of dividends, capital gains, interest, or distributions, or the effects of fees, expenses, and taxes. Rates of return will vary over time, particularly for long-term investments. Past performance is no guarantee of future results. Actual results will vary.

Strategies and Advocacy

SRI strategies typically incorporate environmental, social, and corporate governance (ESG) factors to analyze and construct investment portfolios. This is often done by professional investment managers for large institutional investors, but individual investors might consider these factors when developing their own portfolios. Along with screening individual stocks, investors can choose from more than 450 ESG mutual funds.[3]

ESG factors include such issues as employee relations, environmental practices, product safety and utility, and respect for human rights. For example, an SRI approach might include companies that produce "green" products or are proactive in community and employee relations; it might screen out companies that produce tobacco or alcohol products, engage in questionable employment practices, or invest in countries with poor human rights records. A more targeted ESG approach, often called community investing, channels dollars to benefit individuals or organizations that have been underserved by mainstream financial institutions.

In addition to considering ESG factors when choosing investments, shareholders are increasingly using voting power and other influence to encourage corporate management to follow practices that might improve the company's ESG efforts. This may reflect shareholders' personal values as well as the belief that greater ESG engagement could improve business results and increase share value.

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Consider the Risks

Although the number of companies and funds that consider ESG factors continues to grow, focusing on SRI strategies limits the total universe of available investments and could make it more challenging to diversify and maintain your desired asset allocation. Diversification and asset allocation do not guarantee a profit or protect against loss, but they may help manage risk.

Like all investments, SRI stocks and funds entail risk and could lose money, and they may underperform similar investments not constrained by social policies. There is no guarantee that an SRI-focused investment will achieve its objectives, and different companies may use different definitions of ESG factors and SRI strategies. You should take the time to learn about a potential SRI stock or fund before making a commitment to purchase it.

Logo

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Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1, 3) The Forum for Sustainable and Responsible Investment, 2014
2) Global Sustainable Investment Alliance, 2015