

Socially Responsible Investing

Yes, it is possible that ethical investing can produce higher returns. For instance, America's Social Investment Forum found in a "... review of 160 [U.S.] socially responsible mutual funds from 22 members of the Social Investment Forum (SIF) ... that the vast majority of the funds – 55 per cent – outperformed their benchmarks in calendar year 2009, most by significant margins..."

In fact, most studies of ethical and socially responsible (SR) investing do find roughly similar or even sometimes higher returns when compared to conventional investing. And this is what reviewers concluded after examining thirty key academic and broker studies related to ethical/SR investing for the United Nations Environmental Programme (UNEP) Finance Initiative and Mercer in late 2007.

be in. This means say, investing in defence companies with 'stellar' ethical/SR corporate attributes – if there are such companies – despite the company's products not aligning with the investor's values.

However, I suspect that with investors and governments increasingly demanding that companies report and improve upon their environmental, social, and governance (ESG) activities, in the future there will be fewer companies engaged in potentially damaging ESG activities. And, therefore, there will be a smaller number of industries and companies for ethical/SR investors to shun. Perhaps this sounds utopian, but these are indeed the trends.

The wake-up call of the BP oil disaster also adds fuel to the promulgation of ESG policies. Some alert ethical/SR fund managers, having studied and critiqued BP's ESG activities, sold their BP stock prior to its oil spill.

Research Shows SR Returns Higher

Lessons Learned

Of all the studies on ethical/SR investing in recent years, perhaps the best credentialed is 'The wages of social responsibility,' by Meir Statman and Denys Glushkov, published in America's Financial Analysts Journal in July/August 2009. The study found that the so-called 'best-in-class' ethical/SR investing approach yielded superior returns.

Quoting from the study, "[that] analyzing 1992–2007 returns of stocks rated on social responsibility ... found that this tilt gave such investors an advantage over conventional investors. [But] the advantage from tilting toward stocks of companies with high social responsibility scores is largely offset by the disadvantage from the exclusion of stocks of shunned companies..." Therefore, "socially responsible investors can thus do both well and good by adopting the best-in-class method in constructing their portfolios: tilting toward stocks of companies with high scores on social responsibility characteristics but refraining from shunning stocks of any company."

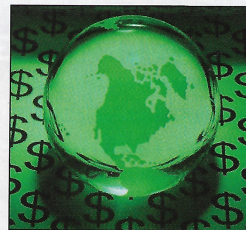
This latter point is controversial among ethical/SR investors. It suggests investing in 'best-in-class' companies no matter what industry they may

One point that troubles most conventional investors concerning ethical/SR investing is the placing of personal values above profit – as seen in just released survey results from the Desjardins Group. "... [given] the choice between a conventional fund and an SRI [socially responsible investing] fund with a one per cent lower return, 85 per cent of investors would choose the SRI fund. Even if the return was three per cent lower, 58 per cent of investors would still choose SRI funds!" But, as the

above research proclaims, giving priority to personal values can be positive for investing returns.

As investors realize that they can apply their ethical/SR values to investing and make similar or potentially better returns compared to conventional portfolios, investors everywhere will eventually favour ethical/SR oriented funds and investments. And the added benefit will be a better world for us all. ■

Ron Robins, MBA, is founder and analyst at Investing for the Soul (r.robins@alroya.com) copyright.alroya.com



By: Ron Robins

INSIDE

2010 Directory
Socially Responsible
Investing

Page 30

TD Asset
Management's
Roundtable on
Sustainable Investing

Page 35