

# SOCIALLY RESPONSIBLE INVESTING CAN MAKE CENTS

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## How to do well while doing good

(First of a two-part series)

ANNETTE KOCH has always had a social conscience. Unfortunately, warm fuzzies don't pay bills.

Although she began her career as a social worker, she ultimately ended up in corporate America, where she spent 25 years as a corporate real estate executive. "My real love is helping other people, but after a couple years of doing that in the workforce, I found that my passion for saving the world was not compatible with my financial aspirations," said Koch, 51, of Naperville, Ill.

Whenever she could, Koch fed her appetite for altruism with fundraising and volunteerism. Then, friend and former colleague Mary Nemetz invited her to invest in a new venture: tix4cause, an online marketplace where individuals can sell unused event tickets, then donate the proceeds to charity. "I went all in," said Koch, who left corporate America in 2010 to partner with Nemetz in the venture.

As president of tix4cause, Koch went from grazing on good deeds to gorging on them. In doing so, she discovered that her financial and social objectives weren't mutually exclusive. Instead, they're symbiotic.

"tix4cause gave me the impetus to start looking at my other investments, as well," Koch said. "And that's exactly what I've done: I've started a conversation with my financial adviser and my husband about socially responsible investing; we're looking at our portfolio and trying to do as much social good as we can while still meeting our financial goals."

### Investing With a Conscience

Also known as environmental, social and governance (ESG) investing, socially responsible investing (SRI) marries the pursuit of financial returns with that of social impact. Those who practice SRI invest in companies that not only perform well but also align with their personal values and support their favorite causes.

It's philanthropy that's as much about getting as it is giving.

"As an investor, there are ways to evaluate companies aside from just their financial statements," Koch explained. "For example, you can look at how they interact with the environment, how they are on social issues and how they operate from a governance perspective. You can tweak your portfolio based on whatever values are important to you."

Koch isn't the only one tweaking. In a 2012 analysis, the Forum for Sustainable and Responsible Investment reported that SRI totaled \$3.74 trillion, or 11.23 percent of all assets under professional management in the U.S. — up 22 percent from 2010.

To get a sense for what types of companies qualify as "socially responsible," look to organizations such as the Reputation Institute, a consulting firm whose annual Global RepTrack 100 report identifies the 100 most reputable companies in the world based on seven dimensions of corporate reputation, three of which — workplace, governance and citizenship — are based on corporate social responsibility. Topping this year's list are The Walt Disney Co., which is ranked first in "citizenship" for its environmental efforts; Google, which is ranked first in "workplace" for the way it treats its employees, and BMW, which is ranked first in "governance" for its transparent business practices.

Although interest in SRI is highest among young people, investors of all ages are engaging in SRI, according to a 2013 study by Spectrem Group's "Millionaire Corner" website. Among older adults and seniors with less than \$1 million in net worth, it found that 41 percent and 39 percent, respectively, ranked SRI as a primary investment selection factor; among older adults and seniors with greater than \$1 million in net worth, the numbers were 34 percent and 27 percent, respectively .

### Risks and Rewards

SRI might sound like an oxymoron, but investors who engage in it can potentially strengthen both their profits and their principles.

"Fifteen years ago, socially responsible investing was truly a niche segment. There were just a few funds and returns were not that great," said Surya Kolluri , managing director of policy and market planning within the Global Wealth and Retirement Solutions practice at Bank of America Merrill Lynch. "But if you look at the performance of many (SRI) offerings in the last five to six years, you'll notice a couple things: One, the variety of offerings in this category has vastly expanded. Two, returns have become quite strong and quite comparable to regular indices."

The benefits aren't just financial. Investing with moral scruples also can yield emotional and social returns. "For some people, it's just about feeling good," said Ann Logue, author of "Socially Responsible Investing for Dummies." "For others, it's pure capitalism: Companies need shareholders to grow; if they believe investors care about (corporate social responsibility), they will make changes that support it."

Whatever one's motivation, potential rewards are tempered by potential risks, including the following:

- Immaturity: SRI is still nascent, according to Kolluri; as a result, many fund managers lack the experience and track record to deliver reliable returns.
- Ambiguity: Its nascence means there are as many definitions for "socially responsible" as there are companies claiming it; not all "socially responsible" investments are, in fact, socially responsible, Kolluri cautioned.
- Opportunity costs: Although it can deliver strong returns, SRI can nevertheless restrict your portfolio by excluding from it certain high-performance assets, such as tobacco stocks. The result, Logue said, could be lower returns.
- Volatility: Many SRI funds invest heavily in startup companies and emerging industries, which can be highly volatile, according to Dan McElwee, executive vice president and wealth manager at Ventura Wealth Management in Ewing, N.J.

For Koch, the risks are worthwhile. "When I look at my financial returns, and I see them going up, I feel really, really good because my financial footprint is contributing to society," she said. "It's not just me personally that's benefiting; it's my kids, who are going to inherit a better world because of my investments."

Next week: Getting started in socially responsible investing.

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