



"Giving" Advice



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Socially Responsible Investing No Longer a Niche

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Glover, Hannah

Just as the Oscar buzz surrounding Al Gore's documentary "An Inconvenient Truth" pushed discussions about global warming out of academia and into living rooms across the country, environmental awareness and a solid track record have helped propel once-niche socially responsible mutual funds into the retail arena.

As a class, SRI funds represented \$2.3 trillion in assets in 2005. That figure is expected to rise to \$2.5 trillion this year, according to data from Celent of Boston.

"I would say the tipping point was 2005," said Julie Gorte, vice president and chief social investment strategist at Calvert in Bethesda, Md. Gorte cited a particularly devastating hurricane season, including Hurricanes Katrina and Wilma, and the tsunami that struck South Asia as events that increased public awareness and concern for issues such as global warming.

Once those events got investors' attention, funds like Calvert worked to show that investing in companies that protect the environment also makes good business sense. "For a lot of hard-headed investors, the fact is they believe that this issue has an impact on long-term shareholder value," said Timothy Smith, director of social investing at Walden Asset Management in Boston.



**TOLEDO COMMUNITY
FOUNDATION**
608 MADISON AVE
SUITE 1540
TOLEDO, OHIO 43604-
1151

419-241-5049
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Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

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Smith pointed to the depletion in natural resources, such as oil and gas, increasing the cost of doing business, as well as punitive government fines and the expense of cleanup. "Major institutional investors understand that these issues are impacting the bottom line, and feel that they are obliged as fiduciaries to be proactive." Where institutional investors go, retail typically follows.

"It's not just a bunny-hugger issue anymore; it's everyone's issue," Gorte said.

And everyone, from retail investors, to Fortune 500 companies, to old-time Wall Street titans, is getting involved.

Last month, a group of investors from companies including Walden, Calvert, New York-based Domini, London-based F&C Asset Management and Munich-based Allianz stood together with major institutional investors, including the California Public Employees Retirement System, to call on federal legislators and regulators to devise a policy to reduce ozone-depleting greenhouse emissions by at least 60%, to offer incentives to so-called "green businesses" to clean technology, and to require all companies to disclose in their filings their environmental impact. Together, the group represented \$4 trillion in investments.

While SRI funds are a small piece of the \$10 trillion U.S. mutual fund industry, they are also winning the attention of more mainstream competition. JPMorgan Chase of New York in February partnered with Innovest Strategic Value Advisors of New York to launch a bond index focused on climate change risk. Last month, New York-based Standard & Poor's introduced a series of indexes tracking sustainability, including a Global Clean Energy Index and a Global Water Index. Barclays, State Street and Vanguard each have environmentally conscious products of their own.

Such funds have also increased competition, and buzz among investors.

Socially responsible funds also appear on various 401(k) platforms.

The increased popularity of so-called analyst "sustainability reports," which typically outline companies' ability to weather resource limitations, extreme weather conditions or lawsuits and fines related to pollution liability, indicate SRI funds' staying power, said Anita Clemons, president of the New Covenant Funds, based in Columbus, Ohio, and affiliated with the Presbyterian Foundation Group.

And while events, such as natural disasters, or widely released documentaries, may cause short-term bumps in investor interest, those who do invest, tend to stay with SRI funds longer than the average non-SRI investor, Clemons said.

"Our clients expect competitive performance," she said. "You must be

there."

SRI funds were there, for the most part, throughout the mutual fund scandals of 2003. Gorte credits screens for helping many SRI funds weed out companies with weak governance. As a result, many of these funds also enjoyed greater recognition and earned more credibility among investors.

But being there also means having competitive costs, compared to non-SRI counterparts. That, historically, has been a challenge facing many SRI funds, especially those from smaller shops, said William Rocco, an analyst with Morningstar of Chicago.

"There are some that are attractively priced, but there are some that are simply too expensive," he said. Another challenge has been the range in types of funds. SRI funds, the universe of which is only about 70 funds, have only recently begun introducing international products, a development Rocco cited as "encouraging."

SRI funds also tend to have various sector biases, for example, being light in oil and heavy in technology, which can make them more susceptible to market swings, he added.

Smith contends that as attention to SRI increases, so, too, will their offerings and competition. "When you're up against the Fidelities of the world, it's big competition, but it's also getting the message out," said Smith. "Groups like that create a bit of mainstream confidence in the marketplace," he said.

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