

3.2: Socially Responsible Investments

Socially responsible investing (SRI) refers to the evaluation of investment options in light of its social, economical, and environmental impacts on the globe in the future. This is an ethical investment strategy that focuses on maximizing both an investor's financial return and an investment's sustainability impact. **Green investing** refers to the investment in securities that focus solely on financing to environmentally conscious businesses.

The **Social Investment Forum (SIF)** and other SRI publications provide good sources of information about social investing. SIF is a national nonprofit trade association that provides programs and resources to its members to assist them with integrating social, economic, environmental, and governance factors into their investment decisions. The European nonprofit Ethical Investment Research Service also provides a source of research on the social, environmental, and economic performance of various companies as does the Investor Responsibility Research Center and the Sustainable Investment Research International network. Other sources for consumer SRI education can also be obtained from the GreenMoney Journal Retrieved March 23, 2009, from <http://www.greenmoneyjournal.com> and Clear Profit Publishing. Retrieved March 23, 2009, from www.clear-profit.com Both organizations promote SRI and corporate social responsibility through news and research.

SRI is estimated to be a \$2.7 trillion industry in the United States. Social Investment Forum (2008). The Interfaith Center of Corporate Responsibility represents the largest association of faith-based institutions making socially responsible investments. Common screens or criteria used to eliminate companies for SRI investments are animal testing, product and worker safety, industry focus (such as gambling, mining, or weapons systems), and product focus (such as alcohol or tobacco).

The proliferation of SRI products and services, such as mutual funds, equity indexes, and investments in individual stocks and bonds, is a reflection of the growing trend in SRI.

Mutual Funds

As a \$200 billion business, SRI-focused mutual funds perform competitively with non-SRI funds over time despite concerns for the higher risk levels. Social Investment Forum (2007). Some of the largest families of socially responsible mutual funds are managed by AHA, Calvert, Domini, MMA Praxis, Parnassus, and Pax World. Selection of companies for these funds are generally screened based on governance, ethics, diversity and women, indigenous people's rights, transparency, equitable and affordable access to water, climate change, stakeholder engagement, weaponry, nuclear power, and other factors.

SRI Indexes

The risk of investing in SRI indexes is lower than investing in individual socially responsible investments. The proliferation of SRI indexes is a reflection of the growing trend for sustainable investment.

Dow Jones Sustainability Indexes (DJSI). The DJSI are comprised of global, European, Eurozone, North American, and U.S. benchmarks. Launched in 1999, DJSI are the first global index tracking the financial performance of leading sustainability companies. The companies are screened based on environmental attributes (climate change strategies, energy consumption), social attributes (human resources development, knowledge management, stakeholder relations), and economic attributes (corporate governance, risk management) in 57 industry sectors.

KLD Indexes. KLD Research & Analytics has developed 19 socially or environmentally related domestic and global indexes. Retrieved March 23, 2009, from <http://www.kld.com/indexes> **KLD's Domini 400 Social Index** was the first benchmark index based on environmental, social, and governance (ESG) factors and has been in use since 1990. It is a value-weighted stock index of 400 publicly traded American companies that are screened based on rankings in employee and human relations, product safety, environmental safety, and corporate governance. The index includes companies not in the S&P 500.

KLD's Global Sustainability Index (GSI) is a broadly diversified global benchmark based on ESG rankings. The GSI lists companies with the highest sustainability rankings. The ranking takes into consideration the environment, community and society, employees and supply chain customers, and governance and ethics. The index tries to limit the financial risk associated with sector bias.

FTSE4Good Index. The FTSE4Good Index Series measures the performance of companies that meet FTSE's globally recognized corporate responsibility standards on their environmental record, development of positive relationships with their stakeholders, and support for universal human rights. Member companies are primarily from the United Kingdom, United States, and Japan.

Opportunities for the Majority (OM) Index. The OM Index represents publicly traded firms operating in base of the pyramid markets (see Chapter 9) in Latin America and the Caribbean.

Australian Sam Sustainability Index (AuSSI). The AuSSI was launched in Australia in 2005. The AuSSI represents sustainability leaders in 21 industry clusters.

Green Investment

Green investing refers to the investment in organizations that are committed to environmentally conscious business practices, such as the conservation of natural resources, the production and discovery of alternative energy sources, and the implementation of clean air and water projects.

Despite the fact that investing in green companies is riskier than other investment vehicles due to the life cycle of the companies, 64% of respondents identified the environment as the most desirable investment opportunity. Allianz Global Investors (2009). Green bonds, carbon trading, and renewable energy credits (REC) are notable examples of green investments.

Green Bonds, or Qualified Green Building and Sustainable Design Project Bonds, are tax-exempt bonds issued by federal or municipal qualified agencies to businesses to provide financing for green design, green buildings, investment in other projects intended to mitigate climate change, as well as for the development of **brownfield sites** (underdeveloped or abandoned areas often containing trace amounts of industrial pollution).

This page titled [3.2: Socially Responsible Investments](#) is shared under a [CC BY-NC-SA 3.0](#) license and was authored, remixed, and/or curated by [Anonymous](#).