

MAKING SOCIALLY RESPONSIBLE INVESTMENTS

Choosing the right investments should not merely be done for financial soundness but also out of social and environmental consciousness.

As an outgrowth of the consciousness movement in the 1960s, socially responsible investing (SRI) got its start in the West when a group of investors began evaluating the companies they invested in. Aside from financial profitability, people asked questions concerning social and environmental issues. Does the company pollute the environment? Does the company manufacture weapons? How does the company treat its employees? Are there any forms of discrimination?

This led to the establishment of the first SRI Index in 1990, the Domini 400, which tracks the performance of socially responsible companies. Since then, the SRI world has been growing rapidly. Carol Pepper, founder and Chief Executive Officer of Pepper International, commented, "Today, out of the total US estimated investment assets of USD25.1 trillion, USD2.71 trillion dollars are managed in a socially responsible manner. That means an estimated one out of every nine professionally managed dollars, or an estimated 11%, is managed along socially responsible guidelines."

And this figure is one that grows exponentially. Between 1995 and 2007, total dollars under professional management in SRI grew from USD639 billion to USD2.71 trillion, outpacing the overall US market. This is also a mainstream investment choice for many individuals, endowments and foundations.

SRI in Asia

In Europe, the concept of SRI has become widely accepted and practised. Many institutions, such as UK pension funds, must now report on the social factors of the companies they invest in. This has driven large European corporations to move much more quickly into reporting on SRI metrics and to making improvements along these lines.

And how widely accepted is the concept of socially responsible investing in Asia? "It is an exciting time as Asian investors begin to see the value of SRI. Asia has huge environmental and population challenges as well as explosive growth and great wealth. SRI principals will be required for the region to continue to thrive over time. For example, I recently read an article which stated Hong Kong is losing attractiveness as a corporate location due to poor air quality. This is the type of issue SRI investors like to focus on. An SRI investor wants long term, sustainable, high quality results," said Carol, who was in Singapore recently to share her expertise on the family office industry.

She observes that Asian companies typically start practising SRI principals in their private companies, and start noticing the positive developments in performance, morale and long-term profitability. These changes, Carol added, are often prompted by young family members who learn about these SRI principals in foreign business





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schools. In addition, many families get involved first in improving local conditions through charitable conditions, and then move on to look for money-making investments that are also sustainable.

How to start SRI

The first step is always to take a look at the big picture. Investors need to understand their overall asset allocation: how much of their wealth is in private companies, liquid securities, real estate or other ventures? Once this is understood, it is important to decide how much money should be allotted to any particular type of investment, including socially responsible investments.

Carol explained, “You can invest in SRI mutual funds, equities, bonds and private equity, to name the most common types of investments. You need to be as prudent with this type of investment as you would with any type of investment – never put too much money in any one venture.”

As a renowned family officer entrepreneur who works closely with clients with at least USD100 mil in bankable assets, Carol founded

Pepper International in 2001 to provide consulting services to families around the globe seeking to create an independent single or multi-family office.

She said, “Some people look at companies and screen out the types of businesses they don’t approve of, for example, tobacco or weapons. Others want to know detailed information about the particular business practices, not only of the company they are investing in, but also of the suppliers who help them manufacture goods and services. This demand to certify that all suppliers have fair trade and employment practices is having a significant impact on Asia, which supplies much of the manufacturing for goods and services. The demand for safe worker conditions and living wages will eventually mean a rise in the costs of the supply chain.”

Once an agreement has been reached with clients as to how rigorous they would like the screening process to be for social and sustainable factors, Carol begins to look for investment opportunities that meet these criteria, not forgetting the financial aspects of investments in the first place. “Yes, it is possible to make good money and have

an enlightened corporate management, progressive labour policies and good environmental policies,” Carol quipped.

Post-recession SRI

Post recession, investors have become more wary and are making sure that their investments stay liquid. “They are realising that they need to have both a highly liquid portfolio to withstand the volatility in the markets as well as a very strategic long-term portfolio that they can leave to grow over time. SRI fits very well when looking at long-term, strategic investments. Investors are going to make a great deal of money investing in clean technology over the next 20 years, for example.”

Since SRI is a very research intensive task, it is important to work with an advisor who can distinguish true SRI investments from what is known as “green washing”. SRI, Carol concluded, should make sense in the context of one’s overall asset allocation – you need to invest the right amount of money in the right deals or funds – and then you will be able to enjoy excellent returns for many years to come. ▲

Carol Pepper is founder and Chief Executive Officer of Pepper International, a virtual family office located in New York. She is also a member of the Forbes.com Intelligent Investor Team and writes a column for Forbes.com entitled High Net Words.