

MEDIA RELEASE

CFA Institute offers investors 10 tips to a socially responsible investment strategy

Sydney, Australia, June 20, 2008 – A growing number of people are extending their social consciousness beyond driving hybrid vehicles or drinking fair trade coffee to pursuing a socially responsible investment strategy that reflects their values and core beliefs.

As the popularity of socially responsible investing (SRI) continues to increase, CFA Institute, the global association for investment professionals, has developed [10 tips](#) for investors interested in developing a socially responsible investing policy. Five of these tips are highlighted below.

SRI integrates financial objectives with social and environmental objectives. SRI assets are growing at a faster pace than the broader universe of all investment assets under professional management, according to the [2007 Report on Socially Responsible Investing Trends](#) (PDF) published by [Social Investment Forum](#).

This trend is reflected globally with over 380 institutional investors, representing US\$14 trillion of assets, signing the United Nations Principles of Responsible Investment (UNPRI), which asks investors to embed environmental social and governance issues into everyday investment decisions.

The significant uptake in Australia is more evident with 40 per cent of all funds under management in the Australian superannuation industry are managed by signatories to the UNPRI.

Tip #1: Define your goals and objectives

SRI is a broad and growing field that means different things to different investors. “The first step in developing a socially responsible investment program is to ask yourself what you hope to achieve,” said Stephen Horan, PhD, CFA, head of private wealth and investor education at CFA Institute. “The answer should be based on your values and what you consider to be important.”

For example, you may wish to promote environmentally sustainable commerce, support companies that explicitly incorporate social responsibility into their governance systems, or avoid companies that engage in certain types of activities, such as weapons contracting, the sale of tobacco or alcohol, or gambling. Alternatively, you may want your investments to be compliant with personal beliefs. Your personal goals can determine how you implement a socially responsible investment policy.

Tip #2: Decide on an approach

Socially responsible investment techniques can be categorised into three general approaches. Horan noted that these approaches are not mutually exclusive; some funds use a combination of them.

The first approach, which is popular among mutual funds and investors, is **portfolio screening**, which can take two forms. Negative screening excludes some companies or sectors from the possible investment universe based on certain criteria relating to the company’s policies, actions, products, or services (such as eliminating companies that manufacture tobacco products). Positive screening

specifically includes some companies or sectors in the investment universe based on the company's meeting certain standards (such as seeking out companies with strong diversity programs).

A second approach, called **best practices classification**, chooses companies in a particular sector that rank high based on one or more environmental, social, governance, or ethical criteria as well as financial criteria.

A third approach is **using shareholder status as an owner in the company** to monitor management, initiate constructive dialogue about its business practices, and influence managerial behaviour through proxy voting or direct engagement. Although this active approach may not be feasible for the typical investor, investors can choose investment managers, pension funds, and mutual funds that define their investment strategies by such advocacy efforts.

Tip #3: Be aware of fees

Expect to pay higher management fees for socially responsible mutual funds and ETFs. Annual expense ratios for SRI ETFs range from about 0.40 percent to 1.00 percent of portfolio value. These costs are substantially higher than for ETFs that track traditional broad market indices, like the S&P 500 Index, which have expense ratios that range from 0.08 percent to 0.40 percent. "Investment management fees are an important component of investment performance, especially over the long haul," Horan said. "Only you can determine whether the cost differential, if any, warrants pursuing your SRI objectives."

Tip #4: Diversify

The golden rule of investing is to maintain a well-diversified portfolio because diversification reduces risk without necessarily sacrificing return. This imperative applies to SRI as well. "A process of systematically excluding investments and even market sectors based on negative screens or focusing exclusively on certain sectors can inadvertently create an underdiversified portfolio," Horan warned.

Research is mixed about whether SRI funds or indices are any less diversified or more risky than standard funds or indices, but socially responsible investors need to be especially vigilant about maintaining proper diversification. Failure to properly diversify has been the ruin of many investors and delayed many retirements.

Tip #5: Seek advice from an investment professional or trusted source

There is much to learn about the world of SRI. Regardless of your particular goal or approach, SRI is still investing. It is important, therefore, to seek guidance from a well trained and trusted investment adviser. There are a number of reputable and applicable credentials that financial professionals in different disciplines may hold, but none is as rigorously focused on investment knowledge as the CFA designation. A CFA charterholder can help you navigate and implement your SRI goals as well as your other financial objectives.

"Investors who choose SRI add an additional challenge to the already complex world of investing," Horan said. "But with proper advice and guidance, investors can pursue their social and financial goals simultaneously."

ENDS

Additional Resources:

- [*The Social Responsibility of the Investment Profession*](#)
- [*Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors*](#)
- [Defining Your Investment Objectives \(PDF\)](#)
- [Private Wealth Management Educational Resources](#)

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CFA Institute

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About CFA Society of Sydney

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