Socially Responsible Investing for the Rest of Us
While data contained herein was gathered from sources deemed reliable, the accuracy of the data presented can not be guaranteed. Please remember that past performance may not be indicative of future results. Moreover, you should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from Dana Investment Advisors, Inc. at (800) 765-0157, or P.O. Box 1067 Brookfield, WI 53008.
What is Socially Responsible Investing?

- Socially Responsible Investing (SRI) incorporates social, ethical, or other non-financial factors into investment decisions.
- Socially responsible investors may be looking for non-financial returns from their investments.
- Social responsibility reflects a set of beliefs, value judgments and social goals.
- Not every investor will share the same values and goals.
- SRI comes in many variations and sometimes uses different names.
What is Socially Responsible Investing?

SRI is an approach to investing that incorporates environmental, social, ethical and moral factors into the selection of portfolio securities.

Common factors for SRI screening include:
- “Sin Stocks” – Alcohol, Tobacco, Gambling, Pornography
- Human Rights, Product Safety, Employee Relations
- Weapons Manufacturing, Military Revenue
- Faith-Based Concerns
- ESG – Environmental, Social, Governance
- Sustainability – Considering long-term impact of today’s decisions
Brief History of Socially Responsible Investing

- In biblical times, Jewish laws dictated how to invest according to ethical values
- Islam prohibits the charging of interest
- Quakers, in the early 1800s, refused to invest in companies that supported slavery
- Followers of John Wesley avoided investing or partnering with companies profiting from alcohol, tobacco, gambling or weapons
- Pioneer Fund begins in 1928, avoids companies whose primary business is alcohol or tobacco
Brief History of Socially Responsible Investing

- 1960s: Vietnam War (weapons companies, defense contractors, Dow Chemical)
- 1970s: Corporate Disasters (Love Canal, Three Mile Island, Dalkon Shield, Firestone tread separation, Ford Pinto)
- 1980s: South Africa (led to creation of the Sullivan Principles regarding corporate behavior when doing business in South Africa)
- 1990s: Creation of the Domini Social Index
- 2000s: United Nations Principles for Responsible Investment
Growth of Social Assets

Assets Managed with Social Mandates

Source: Social Investment Forum Foundation
Variations on the Theme

- **Socially Responsible Investing (SRI)** – traditional label for socially responsible or values-based investing, often perceived as driven by moral judgments and focusing on negative screening
- **Faith-Based Investing** – values-based investing guided by a specific religious viewpoint (BRI, Catholic, Sharia)
- **ESG Investing** – Environment, Social, Governance – equal emphasis on positive and negative screening
- **Sustainability** – meet present needs without sacrificing the future; integrate ESG factors and traditional financial analysis to better understand the true performance and long-term health of a company
Methods of SRI

- **Exclusion** – the earliest and simplest approach to SRI is to exclude (or divest) investments in companies whose products or behavior conflict with the investor’s view of social responsibility
- **Negative Screening** – an extension of exclusion, negative screening avoids companies with poor SR records or characteristics
- **Positive Screening** – actively seek out investment opportunities in companies that perform better than peers on SR criteria
- **Advocacy** – invest in companies and use position as shareholder to influence corporate behavior
- **Direct Investment** – invest in activities (often through debt or private equity) that directly address a social concern
Does SRI Screening Affect Returns?

Theory suggests that social screening will come at a cost of investment returns. The argument is that any investment choice available to a social investor is also available to the unrestricted investor, but the converse is not true. Therefore the unrestricted investor can always at least match the social investor, and may outperform.

What if the theory is wrong? What if social screening helps the investor avoid stocks that underperform? In other words, what if social screening is a positive investment factor similar to valuation metrics?
Anecdotal Evidence

- Dana Backtest: social portfolio outperforms large cap (January 1990 to November 1999)
- Dana Live Portfolios: Dana SRI outperforms Dana Large Core (January 2000 to December 2010)
- MSCI / KLD 400 outperforms S&P 500 (April 1990 to December 2010)
- GS Sustain: outperforms global benchmark (began in August 2007)
- Sustainable Asset Management AG: 10 year study (1999 to 2009)
Academic Evidence

- Orlitzky, Schmidt, Rynes (2004): meta-analysis of 52 prior studies suggests significant positive relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP)
- Brown, Caylor (2004): shows a positive relationship between an Institutional Shareholder Services corporate governance score and financial performance
- Derwall, Guenster, Bauer, Koedigk (2006): positive relationship between a measure of eco-efficiency (economic value per unit of waste generated) and investment performance
- Von Arx, Ziegler (2009): positive relationship between environmental and social activities of a firm (compared to industry peers) and stock returns
- Statman, Glushkov (2009): positive screening correlates to higher returns; exclusions may hurt performance
Academic Evidence

- Bradley, Chen, Dallas, Snyderwine (2008): corporate governance factors related to credit ratings and cost of debt
- Bauer, Hann (2010): proactive environmental practices shown to be associated with lower cost of debt
- Bai, Liu, Lu, Song, Zhang (2004): better corporate governance and improvements in corporate governance lead to higher valuations in China
- Standard & Poors (2009): in India, positive relationship between corporate governance ratings and financial performance; higher valuations also related to better corporate governance
Possible Impacts on Performance

- **Corporate Governance** – shareholder-friendly management leads to better returns for shareholders
- **Environment** – environmental factors may identify risk factors; can impact long-term cost structure
- **Social** – in addition to identifying risk factors, may impact investor perception and influence valuation
- **Sustainability** – investors may reward improvement in long-term company performance
- **Employee Relations** – companies with positive employee relations may attractive and motivate quality employees
- **Proxy for Management Quality** – social screening may help to identify higher-quality, shareholder-friendly management
SRI Across Asset Classes

- **Domestic Equity**
- **International Equity** – overseas markets are ahead of U.S. in reporting of ESG and sustainability measures
- **Emerging Markets** – several recent academic studies show positive relationship between ESG and financial performance
- **Fixed Income** – Green Bonds; academic studies show relationship between ESG factors and cost of credit
Questions ???