



What's in Your Portfolio? You May Be Surprised by the Answer

Take a look at your investment strategies to be sure they're serving your mission.

By Mark Dietz

Nonprofit organizations depend on their investment portfolios to help generate income. Endowment funds are essential for long-term financial well-being.

Beneath the surface, however, a different challenge may be lurking. While you're managing your portfolios for good investment returns, you may be giving it all back when it comes to fulfilling your social responsibility. Or, borrowing words from the Hippocratic Oath to which doctors adhere, you might be advised to "do no harm."

The problem stems from the types of stocks that can make their way into investment portfolios. Should the stocks of companies that market tobacco, alcohol, or gambling be in the portfolio of a nonprofit dedicated to improving society? What about the stocks of companies in the firearms and weapons industry? Or

Could you be undoing your organization's good works through your investment portfolio?

companies that operate sweat-shop facilities overseas so they can market their goods in the U.S. at the lowest possible cost (in dollars, not human lives)? Other examples of companies that come up short on social responsibility are polluters, those that engage in unfair labor practices, those making unsafe products, and businesses violating the rights of indigenous peoples throughout the world.

A Challenge throughout the Nonprofit Sector

It's troubling to think that a nonprofit doing good works through its people, programs, and financial resources could be undoing them through its investment portfolio.

What's more, it's a challenge that can plague nonprofits of all sizes. Small groups may lack the human resources to devote to screening, while large organizations may hold stocks and bonds in hundreds of companies and have trouble keeping track of them. One large U.S. foundation, for example, was found to have invested in companies whose actions contradicted the foundation's mission of improving life for people afflicted by poverty and disease.

There is an answer. It's called socially responsible investing, or SRI. It's an investment strategy that integrates social or environmental criteria into sound financial analysis.

It's not a new idea. SRI was first formally practiced by religious investors who, nearly 100 years ago, avoided companies involved in tobacco, alcohol, and gambling. Over the past several decades, investment management companies specializing in SRI have come into being and flourished. In the U.S. today, an estimated \$2.3 trillion in financial as-

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sets are invested in accord with socially responsible criteria. Those subscribing to SRI seek to accomplish the following:

- **Align investment portfolios with values** by avoiding companies that don't meet certain standards.
- **Encourage improved corporate, social, and environment performance** through an active investment strategy.
- **Identify companies with better long-term financial performance** through analysis of social and environmental factors.

SRI Is Investing First and Foremost

Here are other factors to keep in mind as you consider socially responsive investing:

- **People may be inspired** to give to your organization or increase their level of support when they know their contributions are be-

ing managed in accord with social principles.

- **For members of your board and investment committee**, SRI is consistent with the duties and responsibilities of a fiduciary. The reports an investment committee receives from an investment manager following SRI standards are just like any other, as they analyze returns, risk, portfolio characteristics, peer rankings, and so forth. The only difference: The investment schedule contains stocks meeting SRI standards.
- **You can seek the same returns** with SRI as with other investments. And there's ample opportunity to diversify, as hundreds of public companies meet SRI criteria.

It makes sense for every nonprofit to look into SRI. It's investing first and foremost, with social responsibility as part of the investment process. ■

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- **How to Pick the Right Investments** (Vol. 15, No. 6)
- **Who's Managing Your Money?** (Vol. 6, No. 5)
- **Investment Policies for Endowment Funds** (Vol. 11, No. 2)
- **Is Your Principal Supporting Your Principles?** (Vol. 5, No. 1)
- **Investment Guidelines for Nonprofits** (Vol. 13, No. 1)
- **Are You Fulfilling Your Financial Trust?** (Vol. 17, No. 1)
- **How Responsible Is Your Investing?** (Vol. 20, No. 6)



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