INVESTOR'S EDGE

Put your money where heart is

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Contributing writer

"If ethics are poor at the top, that behavior is copied down through the organization."

— Robert Noyce, co-founder of Intel

Back in January, in The Post-Standard's "Letters to the Editor," a reader of my column wrote that I basically gave little attention to the issues of socially responsible investing, or SRI, as it is called. Perhaps unknowingly, the writer was onto a much larger trend that is already having a significant influence on both the stock market and future investment flows.

The fact is, assets placed in socially responsible investment funds have surged, and it is estimated that an incredible $1 in every $6 put in the U.S. equity market is now invested with some style of socially responsible investment strategy. In the last two years alone, over $2.5 trillion has been placed into sustainable investments, a more than 25 percent increase. Bank of America Merrill Lynch estimates that "sustainable, responsible and impact investing" funds account for some $9 trillion in total assets. To put that number in context, there are approximately $41 trillion in total assets under professional management in the United States, according to Aaron Levitt of the website, ETF Database.

Of course, the topic begs the question, "What exactly is 'values investing,' especially considering the deep divide in this country about which values matter?" Originally, SRI was founded on the principles of

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the Quaker community that sought to match its investments with its religious morals, ethics and principles. The overriding principle was to avoid harming society. As such, there is a vast array of strategies and indexes that can help investors find "profits with purpose" based on their own beliefs.

The term ESG is the investing buzzword currently used as it relates to values investing. ESG stands for environmental, social and governance factors. SRI-based mutual funds, variable annuities and money managers will direct their analysis of investments on various ESG factors, depending on their purpose, such as discrimination complaints, CEO pay, environmental accidents and community involvement.

Regardless of the ethical bent of the fund, the goal remains the same — growing money. So, how do SRI funds stack up? Very well, thank you. According to a recent report by Morgan Stanley, "Investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments."

To be sure, SRI fund managers focus on a wide metric of investing ideas, such as earnings, cash flows, valuations and the like.

Nevertheless, investing with an emphasis on ESG factors has a clear edge, especially on principles of governance, which provides a clear, ethical board oversight and management process.

Good governance supports long-term investment performance because it helps investors avoid those sudden, nasty news headlines that can stun shareholders in the companies they own.

Examples of troubled companies that most dedicated SRI funds had been warned about ahead of time include Mylan Pharmaceuticals, Volkswagen, Valent Pharmaceuticals, and most recently, Equifax, which has taken a public and financial beating after hackers gained access to the personal information of 143 million people, or about 45 percent of the U.S. population!

Below is a list of high-quality, excellent performing, socially responsible funds, most of which have beaten the S&P 500 Index over the short and long term:

One of the most respected ESG Funds is the Parnassus Endeavor Fund, symbol PARWX, which is 5-star rated by Morningstar. This large cap fund has outperformed the S&P 500 over the past 1-, 3-, 5- and 10-year periods.

Another solid choice is the Vanguard FTSE Social Index Fund, symbol WFTSX. It is 4-star rated by Morningstar, is extremely low cost (no load, 0.22 percent expense ratio), and also has beaten the S&P 500 over the past 1, 3, and 5-year time frames.

For faith-based investors, the Ave Maria Growth Fund, symbol AVEGX, may be a fine choice. It is four-star rated and avoids companies that deal in weapons, pornography, human rights violations, abortion products, etc. and provides solid risk-adjusted returns.

Without question, I can see that numerous large, medium, and small publically traded companies are getting out front and making their improving ESG policies very transparent. SRI investing is, in my view, a long-term, sustainable trend.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment.