Sustainable and Responsible Investing
in the United States

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All investing is future-oriented; sustainable and responsible investing is even more so. Socially conscious investors seek to secure their own financial futures while directing investment capital toward a more just, sustainable, and healthy society.

We understand that the ways people spend and invest can dramatically influence both the fabric and consciousness of society. We recognize that corporations may have either a positive or negative impact on people, communities, and our natural environment. We realize that today's social issues often become tomorrow's economic problems.

We know that investment capital can finance either socially desirable or socially destructive businesses. And we know that, as investors, we can make conscious choices about how our money works in the world.

A Brief History

The origins of what we call sustainable and responsible investing date back centuries. In biblical times, Jewish law laid down directives about investing ethically. In the mid 1700s, the founder of Methodism, John Wesley, considered the use of money as the second most important subject of New Testament teachings.

For generations, religious investors whose traditions embrace peace and nonviolence have avoided investing in enterprises that profit from products designed to enslave or kill fellow human beings. It is likely that Methodist and Quaker immigrants brought the concept of values based investing to the "new world." The Quakers never condoned investing in slavery or war. The Methodists have been managing money in the U.S. using what are now referred to as "social screens" for over two hundred years!

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The modern roots of this phenomenon can be traced to the impassioned political climate of the 1960s. During that tumultuous decade, a series of themes served to escalate sensitivities to issues of social responsibility and accountability. Concerns regarding the Vietnam war, civil rights, and equality for women broadened during the 1970s to include labor-management issues and anti-nuclear convictions.

The deep religious origins of SRI can still be seen in the widespread avoidance of "sin stocks"—companies in alcohol, tobacco, and gaming industries.

The ranks of socially conscious investors grew dramatically in the 1980s as millions of people, churches, universities, cities, and states focused investment strategies on pressuring the white minority government of South Africa to dismantle its racist system of apartheid. Then, with the Bhopal, Chernobyl, and Exxon Valdez incidents, the environment became top-of-mind for socially concerned investors.

In recent years, school shootings, human rights, Native American issues, respect for indigenous peoples around the world, and healthy working conditions in factories everywhere that produce goods for U.S. consumption have become rallying points for investors with dual objectives for their investment capital. Most recently, the climate crisis has awakened investors to opportunities inherent in directing investment capital in transformative ways.

Investor Motivations

Many socially conscious investors believe that in addition to the benefits of ownership, we bear responsibility for the impact our money has in the world. We believe that we can make money and make a meaningful difference by consciously directing investment capital toward enterprises that contribute to a clean, healthy environment, treat people fairly, embrace equal opportunity, produce safe and useful products, and support efforts to promote world peace.

Motivated by a sense of responsibility that has financial, social, and ecological dimensions, socially conscious investors understand that investment returns over the long-term are driven primarily by the performance of innovative, well-managed corporations. More importantly, we know that corporations are dependent on the health of the human societies and ecological systems that sustain all economic enterprise.

Some of us wish to put our money to work in a manner that is more closely aligned with our personal values and social priorities. Others are more interested in directing investment capital to push for social change. All seek to use their money to catalyze the shift toward a more economically just and environmentally sustainable world.

Three Dynamic Strategies

Sustainable and responsible investing can be defined most succinctly as the process of integrating personal values, societal concerns, and/or institutional mission into investment decision-making. The process considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.

Three complimentary strategies are aimed at the dual objectives of making money and making a difference.

Screening involves overlaying qualitative analysis of corporate policies, practices, attitudes, and impacts on the traditional quantitative analysis of profit potential. Qualitative screening helps illuminate corporate character and often helps identify better-managed companies. A double bottom line (quantitative + qualitative) analysis provides the basis for designing investment portfolios aligned with an investor's personal values and social priorities, while producing the returns needed to achieve their financial goals.

Shareholder Advocacy efforts include engaging in dialogue with companies and submitting and voting on proxy resolutions. Action is focused on positively influencing corporate behavior. Socially conscious investors often work cooperatively to steer company management on a course that they believe will improve financial performance over time and enhance the well-being of all stakeholders—customers, employees, vendors, communities and the natural environment, as well as stockholders.

Community Investing directs capital to people in low-income communities who have difficulty accessing it through conventional channels. Many socially conscious investors earmark a percentage of their investment portfolios to community development financial institutions (CDFIs) that work to alleviate poverty, create jobs, provide affordable housing, and finance small business development in disadvantaged communities.

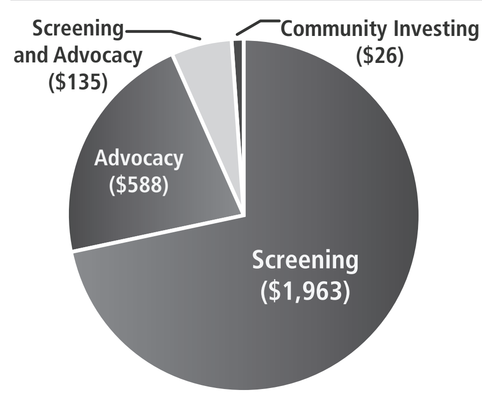
These three complimentary strategies allow us to choose our level of involvement. Screening provides a mechanism for investors to align our values with our financial goals while earning competitive returns. Shareholder advocacy efforts facilitate direct communication with company management and encourage companies to become more responsible corporate citizens. Community investing allows us to put money to work in under served communities, where capital is not readily available to create jobs, affordable housing, and other needed services.

$2.7 Trillion

The Social Investment Forum's *2007 Report on Socially Responsible Investing Trends in the United States** identified over $2.7 trillion in professionally managed portfolios using one or more of the three dynamic strategies that together define sustainable and responsible investing in the U.S.—screening, shareholder advocacy, and community investing.

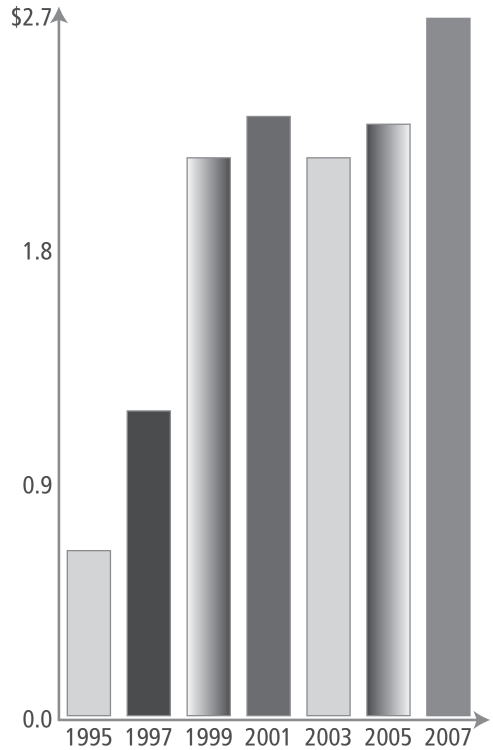
In the dozen years between the Forum's first Trends Report in 1995 and the most recent report in 2007, SRI assets grew from $639 billion to over $2.7 trillion, an increase of 324% versus a 260% increase in the broader universe of assets under management as tracked in Nelson Information's *Director of Investment Managers*.

2007 Investments by Strategy



Between 2005 and 2007, SRI assets increased by more than 18%, while the broader universe of professionally managed investment assets increased by less than 3%. In 2007, nearly one in every nine dollars under professional management in the U.S. was invested in these SRI portfolios (11% of the $25.1 trillion in total assets).

Growth of SRI Investments (in Trillions)



What Is Fueling the Growth?

Information. Investors are significantly better educated and informed today. Social research organizations provide higher quality information than ever before. The better informed investors are, the more responsible their actions tend to be.

Climate Change. As consumers and investors have become increasingly aware of both the dangers and business opportunities embodied in the climate crisis, more and more are looking to invest in solutions.

Performance. An impressive body of academic evidence plus real-world results effectively refutes the contention that social screening will automatically result in underperformance. Investors are realizing that responsibility can walk hand-in-hand with prosperity.

Availability. Some 260 funds are designed for socially conscious investors.* Socially screened investment options are increasingly being offered within retirement plans, and hundreds of asset managers now promote their ability to manage socially responsible portfolios.

Values and Authenticity. There is a spiritual yearning on the part of a large and growing segment of the population to integrate personal values into all aspects of life, including finance and investing.

Corporate Scandals. Numerous recent instances of accounting fraud and other scandals have eroded trust in company leadership. Many investors are attracted to an investment process based on research that goes deeper into corporate character.

It is estimated that 60% of socially conscious investors are women.

Women. As women have filled the ranks of MBA programs and law schools, climbed corporate ladders, started their own companies, and assumed roles as fiduciaries, they have brought an affinity for a more caring approach to investing along with them.

Sustainability. The growth of sustainable and responsible investing has marched in lock-step with increasing public interest in natural and organic food, renewable energy, green building, and alternative health care, providing new inspiration and expanded investment opportunities.

Investing for a Better World

Socially conscious investors know that business is among the most powerful institutions on the planet. More importantly, it is painfully obvious that if we are going to get a grip on many of the issues that threaten our quality of life, business must shoulder more responsibility for both remedy and prevention.

Many people are consciously casting a ballot with every consumer purchase and investment decision. When it is perceived that a company is exploiting workers in unsafe foreign factories, for example, informed consumers often stop buying that company's product, and informed investors push management for changes in business practices.

Socially conscious investors, no matter how large or small, are most satisfied with investments that reach beyond purely financial goals to address ethical concerns. Fortunately, making money and making a difference with your money has never been easier.

Getting Started

Working with a knowledgeable investment professional who can help you plan and implement investment strategies designed to achieve your financial goals is always advisable. If you are interested in contacting an investment professional with expertise in integrating personal values and social priorities into your investment portfolio, you can find a list of qualified advisers at www.firstaffirmative.com—click on "Find an Adviser."

For more information about sustainable and responsible investing, visit the Social Investment Forum at www.socialinvest.org.

Source: 2007 Report on Socially Responsible Investing Trends in the United States. *The Social Investment Forum is the nonprofit trade association for the sustainable and responsible investment industry in the U.S. (www.socialinvest.org).*

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