

Overview of SRI and ESG Investment Policy Analysis

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“SRI” is an investment discipline that considers the impact of an investment on shareholders and society. Historically, the acronym stood for “Socially Responsible Investing.” Today, many organizations refer to it as “Sustainable, Responsible, and Impact Investing.”

Traditional investing utilizes an investment process that considers fundamental metrics, such as valuation, earnings growth, and financial strength. “SRI” investing uses traditional metrics combined with environmental, social, or governance (ESG) criteria. The ESG criteria can also be supplemented with faith-based criteria or other ethical and moral goals.

Factors and Metrics

ESG factors that may have a material impact on an investment:

- *Environmental* analysis looks at how a company performs as stewards of the natural resources and environment (metrics include pollution, climate change, consumption, and disclosure).
- *Social* analysis refers to how a company manages relationships with its employees, suppliers, customers, and communities where it operates (metrics include tobacco, labor practices, gambling, pornography, weapons, abortion, and alcohol).
- *Governance* analysis looks at the company’s leadership practices (metrics include board independence, executive pay, audits and internal controls, and shareholder rights).

Impact investing is the process by which funds are allocated, not only to earn a financial return, but also to advance social, mission, or environmental goals. Strategies can include:

- Alternative energy projects
- Poverty alleviation
- Micro-finance
- Education
- Affordable housing
- Organic farming
- Job creation support
- Philanthropic opportunities

Issues

Trustees deliberating on adoption of those principles must assess the following issues:

- Cultural and generational change
- Competitive products
- Performance
- Implementation
- Fiduciary barriers
 - Key objective: Financial, Sustainability, or Consistency with values
 - Perspective: “Prudent,” “Responsible,” or “Right” thing to do
 - Criteria: Alpha, Beta, or Mission
 - Investment Thesis
 - Key Strategy: Integration, Inclusion, or Exclusion

Resources

The following organizations provide research on the subject:

- *Responsible Investment Association (RIA)* is Canada’s leader on responsible investment.
- *Forum for Sustainable and Responsible Investment* is the U.S. national nonprofit membership association for professionals, firms, and organizations dedicated to advancing the practice and growth of socially responsible investing.
- *Ceres* is a nonprofit organization with a mission to integrate sustainability into business practices for the health of the planet and its people.
- *Investor Network on Climate Risk (INCR)*, as a project of Ceres, is a network of investors from across the globe dedicated to advancing the investment opportunities and reducing the material risks posed by sustainability challenges, such as climate change.
- *Carbon Disclosure Project* is a nonprofit organization that collects climate change, carbon emissions, and water data from more than 2,000 companies worldwide.
- *Global Impact Investing Network (GIIN)* is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing.
- *Interfaith Center on Corporate Responsibility (ICCR)* seeks to build a more just and sustainable world by integrating social values into investor actions.
- *UN Environment Program Finance Initiative (UNEP FI)* is a global partnership between UNEP and the financial sector.
- *Access to Medicine Index* analyzes and independently ranks the top 20 research-based pharmaceutical companies on how they make medicines, vaccines, and diagnostics more accessible in low- and middle-income countries.

If you are interested in more information, please contact DeMarche at (913) 384-4994 or www.demarche.com.