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Investing In Your Values: Socially Responsible Investing

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Every generation has a unique take on the world. If you're a Millennial, it's likely that some of your attitudes about life have been shaped by the impact of rapidly changing technology and the feeling of interconnectedness it provides to events and cultures around the globe.

That sense of responsibility to the planet, its people and the environment is already taking root in many aspects of young people's lives, including the ways many are choosing to invest and put their money to work. The growing interest in socially responsible investing (SRI) is one example.

Aligning Investing with Values

Socially responsible investing enables you to make a positive impact on the big social and environmental issues facing the world by steering your assets to companies and organizations that mirror your own values.

While SRI has been around for decades, interest in this investment discipline has exploded recently as investors increasingly embrace the notion of "doing well by doing good." To see how much, consider this: The total amount invested in SRI assets surged from $3.4 trillion in 2012 to $6.57 trillion at the start of 2014—an increase of 76 percent in just two years, according to a recent report from the Forum for Sustainable and Responsible Investment.

Some of this growth is attributable to younger investors. According to a recent Spectrem Group survey, more than half (53 percent) of Millennials rank social impact as a crucial factor when making investment decisions. This compares to 42 percent of Gen X investors and 41 percent of Baby Boomer investors.

Putting Your Money Where Your Heart Is

The goal of SRI is to provide the potential for strong financial performance. At the same time, it provides a way for you to base your investment decisions on equally important non-financial standards, like whether a company uses renewable energy, insists on fair working conditions for its workers and its suppliers, and has diversity on its board of directors.

One of the easiest ways to get started investing in these and other values that you feel are important is through one or more of a growing number of socially responsible mutual funds. Today, there are approximately 950 SRI funds to choose from, up from 720 in 2012, according to a report from the Forum for Sustainable and Responsible Investment.

Generally, SRI funds can help you engage in socially responsible investing in three distinct ways:

1. Screening for companies based on your values and priorities. According to Morningstar, a socially responsible fund is any fund that invests shareholder assets according to non-economic guidelines. Those guidelines could be social, religious, corporate governance and/or environmental in nature; the key is finding a fund whose investment focus reflects your own values and goals. But keep in mind, every fund uses different criteria when building a portfolio, and the definition of “socially responsible” varies from fund to fund.

For instance, a fund may invest in a company that meets its environmental standards; however, that company may also employ child workers in foreign countries. Similarly, a fund may avoid a company that manufactures tobacco products; however, that company also may be committed to using its resources to enhance the communities in which its employees live and work. In both examples, these companies can be considered both socially responsible and not.

Your financial advisor can help direct you to a choice of funds that most closely align with your values and concerns. Another source of information on SRI funds is the Forum for Sustainable and Responsible Investment. They maintain a list of sustainable and responsible mutual funds that you can sort according to financial performance, screening and advocacy, and proxy voting records.

2. Engaging in shareholder activism. Another way to align your money with your values is by advocating for companies to improve their practices and policies for the greater good. SRI funds use their ownership rights to influence management. Often, this includes attending shareholder meetings, filing shareholder resolutions and exercising voting rights, consulting with a company's board of directors, and bringing media attention as a way to pressure and shape how a company does business. Look for a fund that provides transparency in their decisions and provides all proxy voting policies and procedures to their shareholders.

3. Participating in community investing. Some socially responsible funds also engage in community investing, which means they direct a (typically small) portion of shareholder assets to community development banks, credit unions and other nonprofit lenders (so-called "community development financial institutions," or CDFIs) that deliver responsible, affordable loans to empower people who otherwise would have no source of funding to better their lives. Read the fund's prospectus before you invest to see how the fund might use your shareholder dollars.

The Advantage of a Professional Perspective

Socially responsible funds make it easy for you to invest some of your money in a way that aligns with your goals and values. Like any investment, however, socially responsible funds are subject to certain risks. In addition, because socially responsible funds restrict the types of companies a portfolio manager can invest in, you may receive lower returns with an SRI fund than if you invested in a fund without those limitations. For this reason, you'll want to work with your financial representative before making a decision. He or she can help you identify your options, weigh the pros and cons of each and show you how an SRI fund can complement your overall portfolio.

You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. Your Northwestern Mutual Investment

Services Registered Representative can provide you with a prospectus that will contain the information noted above and other important information that you should read carefully before you invest or send money.

All investments carry some level of risk, including the potential loss of principal invested. No investment strategy can guarantee a profit or protect against loss.

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