MONEY TALK$

With sustainable and responsible investing, greed can be good

BY ARNA COHEN

YOU PRIDE YOURSELF on living humanely. Your pets are all rescues. You use only cruelty-free products. Your backyard is a mecca for wildlife. You support animal protection causes and are keenly aware of your carbon footprint. You're doing it right for animals.

What's your retirement fund doing for them?

If, like many people, you're bewildered by finance jargon, you probably send your 401(k) dollars to whichever fund shows a good rate of return, unaware of which companies you're buying into. It pays to find out, however: You may unknowingly be supporting businesses whose practices or products contradict your core values.

Sustainable and responsible investing (SRI)—also known as socially responsible, ethical, or values-based investing—is one way to build a guilt-free nest egg.

SRI strategy can be exclusive, such as avoiding retailers that sell fur. It can also be inclusive, such as investing in companies that manufacture humane food products or cruelty-free cosmetics. Or you may invest in a business that has a poor record on animal welfare with the goal of leveraging your shareholder role to change the company's behavior.

$102 billion
U.S. 2012 investments in professionally managed funds that screen for animal welfare policies and practices

"Whatever route you choose, just don't be ignorant. Investing is not a passive activity."
— JON ELLENBOGEN

Yet another SRI strategy involves investing in "best in class" businesses—ones that are making a real effort to improve practices affecting animals. That could mean, for example, buying stock in a pork producer that has pledged to phase out gestation crates or a consumer goods business that is committed to reducing animal testing and developing alternatives.

Whatever approach you take to building a humane portfolio, don't shrink from seeking competitive returns on your investments. After all, financial security enables you to donate to animal charities, cover vet bills, and volunteer with your local shelter instead of working a second job to make ends meet.

"There's no contradiction between SRI and making money," says Jon Ellenbogen, an investment officer with Wells Fargo in Washington, D.C. "Some years SRI funds outperform the index; some years they don't."

With some basic legwork and prudent planning, you can watch your money grow *and* do right by animals.

MANY HAPPY RETURNS

If you lack the time, knowledge, or confidence to invest on your own, mutual funds—diversified collections of stocks, bonds, and other securities bought and sold by professional managers—are a good way to get started in responsible investing. Fund

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U.S. SRI investment products with an animal welfare screen

managers vet the companies for financial performance and make all buying and selling decisions.

The first SRI mutual fund started out relatively simply in the 1950s, avoiding the "sin" industries of tobacco and alcohol. Today's funds employ a range of screens, including or excluding companies based on issues as varied as human rights, pollution, executive pay, and labor standards.

Funds that screen for animal welfare are still a small percentage of the $641 billion in U.S. SRI mutual funds in 2012, and animal-related screening criteria are sometimes limited to whether a company engages in animal testing. But the percentage and screens continue to increase as more people learn about the realities of factory farming, fur, habitat destruction, and other animal protection issues.

Calvert Investments in Bethesda, Md., manages several SRI mutual funds that include in their screens criteria related to animal testing, husbandry practices, and corporate transparency on animal use and treatment. For a company with a large impact on animals, "we would require very high levels of disclosure about what they do to improve animal welfare," says Calvert financial analyst Ellen Kennedy. "For a testing organization, it would be the Three Rs (replace, reduce, refine), as well as lots of disclosure about the nature of the tests and the kinds of animals tested on."

Exclusive
Don't want animal cruelty in your portfolio? An exclusive strategy applies humane criteria to screen out the bad actors.

Workplace Investing
Want humane options in your employer's 401(k)? "Because of potentially higher investment risk, employers can be reluctant to include funds with ethical restrictions," says Thomas Waite, chief financial officer for The HSUS, which includes animal-friendly options in employee retirement plans. "Something like this has to bubble up from plan participants." To build support, Waite recommends asking your employer to take opinion polls, circulate articles on SRI, and coordinate a presentation by an investment company with an appropriate fund.

THE ROOT OF MUCH GOOD

If you prefer a hands-on relationship with your money, you may opt to use a professional adviser who can do the research and create a customized portfolio based on your criteria. It's a good solution if the screens included in an SRI don't match your values and goals.

You can also choose stocks on your own, though this usually carries a higher financial risk and entails time-consuming research into a company's profit history and operations; that information may be difficult to interpret, especially if you're looking at diversified, multinational corporations.

You can make investing as complicated as you want, says Chris Hoar of San Diego, who invests in companies with vegan products or services through his Hoarhouse Capital investment firm. But he recommends following Warren Buffett's dictum of investing in what you know. "Look at the products that you like … and if they're a public company, invest in them … as opposed to some tip that some guy on television was raving about."

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Best in Class
By investing in "best of class" companies, you can give them an edge over their competitors and enable them to set new industry norms.

Whether you purchase stocks directly or through a mutual fund, if you hold $2,000 in shares in a publicly traded company for 12 months, you may also be able to file resolutions to reform a company's animal-related practices. Shareholder resolutions are typically nonbinding but send a strong message to company management. "At one point, companies wouldn't respond to shareholder advocacy," says Ellenbogen. "[They] wouldn't answer [our] calls. But now they're calling SRI companies and asking how to get on the good list."

As a stockholder, you also have the right to vote on resolutions, such as those filed by humane organizations. The HSUS has used the shareholder process to persuade companies to move away from extreme confinement of farm animals, discontinue selling fur-trimmed garments, or phase out the use of chimpanzees in biomedical research.

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Animal-welfare-based shareholder resolutions filed from 2010 – 2012

However you choose to engage in responsible investing, be sure to do your homework, says Ellenbogen: "Investing is not a passive activity." He recommends joining organizations with expertise in animal protection to keep informed on the issues and asking what they invest in. The Forum for Sustainable and Responsible Investment's website (*ussif.org*) provides information on SRI basics and an extensive list of U.S.-based funds and advisers.

"Why give your power away?" asks Ellenbogen. "Use your money to effect change."

Shareholder Advocacy
Want to change your least favorite companies? Become an investor and use shareholder resolutions to initiate reforms.

Inclusive
Eager to help build a humane economy? Put your money into companies whose products or services benefit animals.