

# Investing for a Cause

**A growing number of people are investing to achieve change—change in the future of their communities, the environment and the world. As a result, socially responsible investing—reflecting all political spectrums—has become one of the most significant trends in the financial world.**

Socially responsible investing (SRI) allows individuals and institutions, such as pension funds, to use their investments to support social and environmental causes of their choosing, while generally earning competitive returns. The number of individual and institutional investors following SRI principles continues to grow. Over the last ten years, the amount of assets managed according to socially responsible criteria grew at a faster rate than the entire universe of managed assets in the United States. According to a 2005 study of SRI trends conducted by the Social Investment Forum, nearly one out of every ten dollars under professional management in the United States—9.4 percent of the \$24.4 trillion in total assets under management—followed some type of SRI criteria.\*

## Types of Socially Responsible Investing

Traditionally, SRI investors focused on avoiding companies involved in the alcohol, tobacco or gambling industries. Today, SRI has vastly shifted from simple avoidance to active shareholder participation with the goal to change corporate policy. Ranging from “liberal” to “conservative,” SRI can take three forms: *Screening*, *Shareholder Advocacy* and *Community Investing*.

### Screening

Screening is the process of including or excluding securities from a portfolio based on social or environmental criteria. There are two types of screening: positive and negative.

Positive screening attempts to identify profitable companies with a history of excellent employee relations, community involvement, environmentally



conscious policies and practices. Respect for human rights and safe, useful products are also often considered. Investors use positive screening to invest in industry leaders, despite the reputation of an industry as a whole, in the hopes that the general standard of business practices will improve.

Conversely, negative screening identifies companies with poor records in these areas. These companies are then excluded from an investor’s portfolio.

### Shareholder Advocacy

Shareholder advocacy goes beyond screening. Shareholder advocates will purposely invest in companies with poor social or environmental records and actively work with the company’s management to improve its practices. These activities include filing, co-filing and voting on shareholder resolutions that focus on social and corporate-governance issues. They generally intend to improve a company’s policies and practices, encouraging management to exercise good corporate citizenship and promote long-term shareholder value and financial performance.

For example, shareholder resolutions implemented on social and environmental issues increased by more than 16 percent, from 299 proposals in 2003 to 348 in 2005. Additionally, social resolutions reaching a vote rose by more than 22 percent, from 145 in 2003 to 177 in 2005.\*

Institutional investors that filed or co-filed resolutions on social or environmental issues controlled \$703 billion in assets in 2005, a 57 percent rise over the \$448 billion in assets counted in 2003.\*

### Community Investing

This form of SRI provides investment capital to communities not served, or underserved, by traditional financial institutions. Community investing gives these communities direct access to credit, equity, capital and basic banking products they would otherwise lack. Community investing allows local organizations to provide financial services to low-income residents and supplies capital for small businesses and community services, such as affordable housing, child care and healthcare.

According to the Social Investment Forum, assets in community investing institutions rose by 40 percent, from \$14 billion in 2003 to \$20 billion in 2005. Community investing assets have nearly quintupled from the \$4 billion identified a decade ago.\*

### What's Behind the Growth?

As has been seen, the fastest growing type of asset management falls under SRI criteria. A number of factors are behind this growth:

- **Performance.** Many people assume that SRI results in underperformance; however, research has confirmed that, when properly managed, risk-adjusted and controlled for investment style, socially screened portfolios perform comparably to their unscreened peers.\* In addition, a 2002 study of international SRI mutual funds found little

evidence of significant differences in risk-adjusted returns between ethical and conventional funds for the 1990–2001 period.\*\* However, past performance is not an indication of future results.

- **Information.** Today, investors can easily access a wealth of information about SRI. Investors are better educated and informed about social/environmental issues. Also, SRI organizations are better able to provide more sophisticated information to a receptive audience. As a result, well-educated investors are able to participate in SRI.
- **Corporate scandals.** Corporate scandals involving accounting fraud and other issues have eroded trust in company leadership. These scandals have resulted in calls for reforms that require more transparency, stricter corporate governance and accountability, and greater disclosure of information.
- **Sustainability.** As the general public's concerns about global warming, alternative energy sources, human rights, corporate scandals and other issues grow, new and expanded opportunities will be offered to socially-aware investors.

### For More Information

If you would like to learn more about developing an investment portfolio that reflects your social concerns, please contact your UBS Financial Advisor.

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\*"2005 Report on Socially Responsible Investing Trends in the United States, 10-Year Review," Social Investment Forum, January 24, 2006.

\*\*"International Evidence on Ethical Mutual Fund Performance and Investment Style," Rob Bauer, University of Maastricht - Limburg Institute of Financial Economics (LIFE); ABP Investments, Kees C.G. Koedijk, Erasmus University Rotterdam (EUR) - Department of Financial Management; Erasmus University Rotterdam (EUR) - Erasmus Research Institute of Management (ERIM); Centre for Economic Policy Research (CEPR) and Roger Otten, University of Maastricht - Limburg Institute of Financial Economics (LIFE), July 2002.

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