

Affirmative Thinking

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SRI Grows to Over \$3 Trillion in U.S.

By Sara Laks

The sustainable and responsible investing (SRI) industry has grown to over \$3 trillion in assets under professional management, as reported by the [2010 Report on Socially Responsible Investing Trends in the United States](#) from the Social Investment Forum (SIF). This figure includes the use of ESG (environmental, social, governance) analysis, shareholder advocacy, and/or community investment strategies.

Growing Market Share

The aggregate \$3 trillion represents a more than 13% increase in AUM since the start of 2007 when this market research was last conducted. The numbers become even more striking when compared to the broader universe of professionally managed assets, which grew by less than 1% between 2007 and 2010.

And this development is not limited to the United States. In Australia, the Responsible Investment Association Australasia (RIAA), reports that the responsible investment market (a combination of specialized managed funds, community finance, green loans, RI charity investments, and financial advisor portfolios) grew 13% over the fiscal year ending June 30, 2010, surpassing the 9% growth of the broader conventional asset universe during that same time period. The same report notes that over half of all funds under management in

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A \$300 Billion College “Bubble”

By Dan Apfel, Executive Director, Responsible Endowments Coalition

On campus, life is good. It may even feel socially just and environmentally responsible, with the university as a benevolent, doting parent. Students refer to this as the “college bubble.”

But colleges and universities are by no means isolated from the real world. In fact, they are integrated with the economy through all of their operations, and particularly their finances. They collect tuition, pay salaries, and invest their money. Collectively, colleges and universities have over \$300 billion invested for the long term in endowment funds.

While schools exist for a positive social good, to educate people, and some are even at the forefront of green practices, university endowments often make investments without regard for their social and environmental impacts.

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Local Food Appeal Growing

The local food movement is gaining momentum. More than four in ten American adults care about buying local foods. According to [NMI](#) (Natural Marketing Institute), local foods are perceived as fresher, inherently healthier, generally having a smaller carbon footprint, and good for the local economy. It's a win-win-win.

NMI expects the drive for locally-made products will move to other consumables and potentially durables. Can this trend create a "Made in the USA" movement as concerns over shipping jobs overseas, carbon footprints, and foreign sourced products accelerate? Stay tuned...

Sustainability Builds Brands

The more sustainable a brand is perceived to be, the more meaningful it becomes to consumers, says Havas Media.

Their [Brand Sustainable Futures](#) analysis finds that consumers consider only one-third of brands meaningful. While sustainability is a key issue for consumers worldwide, few brands live up to increasing expectations.

The survey of more than 30,000 people across four continents, showed 80% of consumers expect business to act responsibly. And, an increasing majority place responsibility for environmental and social issues on businesses, not governments.

Environmental Influence on Bond Prices and Interest Rates

By [Christie Renner](#)

In recent years, both academic research and real world experience have shown that environmental management is an important indicator of business success. Responsible investment strategies pay close attention to the connections between environmental performance and financial performance, but for the most part, such strategies are focused on equities (stocks). New research has begun to evaluate how environmental management influences corporate bond markets.

Can poor environmental performance lower a company's credit rating and increase its cost of debt?

Rob Bauer and Daniel Hann of [Maastricht University](#) and the [European Center for Corporate Engagement](#) addressed this question in their recently released paper, [Corporate Environmental Management and Credit Risk](#). Their strong research methodology earned them the 2010 Moskowitz Prize for outstanding quantitative academic research in the field of socially responsible investing, awarded at the 21st annual [SRI in the Rockies Conference](#) in November.

Using research data from KLD (now part of MSCI ESG Research), Bauer and Hann evaluated the practices of 528 firms between 1995 and 2006. They found that environmental performance and cost of credit (the amount of interest a company pays on its corporate bonds) are linked, and that the link is growing stronger. Firms with environmental concerns often pay a premium on their cost of debt financing and are assigned lower credit ratings. "The results are consistent with the view that the regulatory implications of climate change have sensitized lenders to the downside risk of poor environmental practices," the report concludes.



The authors found that a low environmental management score has greater impact on the interest pricing of corporate bonds than does a high score. "Negative information is given more weight," [Bauer said](#). "A good environmental management system for an oil producer is seen as self-evident, a necessary condition. But if a corporation isn't on top of this, it's immediately penalized through higher capital costs."

You can [listen online](#) to the presentation Daniel Hann made at the SRI in the Rockies Conference. To review studies published by past Moskowitz Prize winners, visit the [Center for Responsible Business](#) at the University of California Berkeley Haas School of Business.

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Australia are now signatories to the United Nations Principles for Responsible Investment (UNPRI).

Why?

This information begs the three-trillion dollar question: Why has the SRI space enjoyed such robust growth, during a period of global economic slowdown?

To start, green and socially conscious investors have benefited from an expansion of quantity and improvement in quality of investment products and services designed to make money and make a difference. The global growth of the SRI industry has tracked the increasing public interest in sustainability and all things “green.” From slow food, to green building, to climate change, people are paying more attention to their impacts on the world; they are asking more questions about how their actions impact the commons known as planet earth.



Although many tend to focus on the “E” (for environment) in ESG, interest in the role of corporate governance or the “G” has risen tremendously over the last few years. In the wake of the scandals, meltdowns, and corruption that have often dominated financial headlines, trust in mainstream financial institutions has eroded and many investors are looking for greater transparency and accountability. Investors are paying closer attention to corporate character and want increased corporate disclosure. Legislative and regulatory developments are demanding the same, and have set new standards that make better corporate governance not only an issue, but a competitive advantage.

Greater social awareness has also played a large part in fueling the growth. For many, the bottom line of sustainable and responsible investing is impact on people and society at large. Assets in community investing rose from \$25 billion in 2007 to \$41 billion in 2010—60% growth in the amounts invested in community development banks, credit unions, loan funds, and venture capital funds. Another powerful growth factor has been large scale divestment in Sudan. The SIF Report found that, “...Sudan-related investment policies have displaced tobacco as the most prevalent ESG criteria incorporated into investment management.”

One out of Every Eight Dollars

These and other factors have helped shaped today’s market and distributed almost 1 out of every 8 dollars under professional management in the U.S. into sustainable and responsible investment strategies. Although conventional analysts often consider SRI as separate from the mainstream, the most current figures strongly suggest that the SRI industry itself is a significant shareholder in the broader “mainstream” investment universe.

Business Leaders Remain Focused on Sustainability Despite Economic Uncertainty

Despite continuing economic uncertainty, results from the [BSR/GlobeScan State of Sustainable Business Poll 2010](#) released in November showed that 84% of respondents are somewhat or very optimistic that global businesses will embrace corporate social responsibility (CSR)/sustainability as part of their core strategies and operations in the next five years. Nearly all plan to maintain or increase CSR spending. These leaders cited climate change, workers’ rights, and human rights as priorities.

Respondents identified three important actions companies can take to address the “trust gap”: measuring and demonstrating positive social and environmental impacts; increasing the transparency of business practices; and responding promptly and effectively to accidents, product quality issues, and other incidents.

Respondents also picked the three areas where companies are leading today, and the three actions that will drive ongoing business success. Both questions yielded the same responses: creating innovative products and business models designed for sustainability; measuring and demonstrating positive social and environmental impacts; and responding promptly and effectively to accidents, product quality issues, and other incidents.

More on the Web!

Find additional articles and additional content at www.firstaffirmative.com.

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First Affirmative
Financial Network, LLC

Investing for a Sustainable Future

5475 Mark Dabling Boulevard, Suite 108
Colorado Springs, Colorado 80918
800.422.7284 • fax: 719.636.1943
www.firstaffirmative.com

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Thirty-nine schools in the United States have set up Committees on Investor Responsibility (CIRs) made up of students, administrators, and other community members to provide guidance to trustees and investment committees. Many schools are engaging in dialogue with portfolio companies and filing shareholder resolutions, and some are making investments in community development financial institutions. Here are two success stories:

Loyola University of Chicago spent the past year engaging with JPMorgan Chase. Loyola, and its committee members have seen firsthand the destruction of mountaintop removal coal mining in Appalachia. They held stock in JPMorgan and, after engaging in dialogue, JPMorgan published its first policy limiting its involvement in financing this practice.

At Seattle University, students saw a distinct need in their community and decided to be proactive. The CIR, along with students, convinced the school to invest \$500,000 in Community Capital Development, a local microfinance fund, that supports low-income and minority community members to start small businesses.

For seven years, the Responsible Endowments Coalition (REC) has supported responsible investment on campus. You can help your alma mater, or your children’s alma mater, by writing a letter to your university president and sending it along with your next donation. You can download a sample letter from the REC website (www.endowmentethics.org) and customize it, as appropriate.

U.S. Supports UN Declaration on the Rights of Indigenous Peoples

By Christie Renner

President Obama has [announced](#) that the United States will sign the [United Nations Declaration on the Rights of Indigenous Peoples](#).

The United Nations passed the Declaration in 2007, after twenty years of debate. The United States is late to sign on, but its support is welcomed by many indigenous communities. According to a publication by the [International Indian Treaty Council](#) (IITC), “Implementation is what we are waiting for now.” While U.S. support is a good step forward, there are concerns about qualifications made to U.S. support, one of which the IITC reports waters down the concept of “free, prior, and informed consent” to “consultation.”

As investors, we have encouraged companies to uphold human rights for many years. In October of this year, First Affirmative joined other investors in sending a letter to Secretary of State Hillary Clinton, urging the United States to sign the UN Declaration. U.S. support of the Declaration sends a clear message to the business community that proactive policies addressing human rights are expected.