

What is Sustainable Investing (and how do I do it)?

Did you know that there are hundreds of socially responsible (or sustainable and responsible) mutual funds, and that a portfolio of these funds is likely to produce returns competitive with traditional funds? Sustainable funds use the following strategies to promote responsible corporate behavior and build a better future.

Screening: The mutual fund managers screen the companies being considered for their portfolio to avoid certain activities, like weapons or tobacco production, environmental abuse, unfair labor practices, or excessive executive pay. They may also have positive screens, whereby they choose companies that treat their employees well or minimize packaging and waste.

Shareholder Activism: In 2009, shareholders successfully convinced IdaCorp* to establish greenhouse gas emissions reduction goals and report on plans to meet them, despite opposition from corporate management. Through shareholder activism, many sustainable mutual funds and other shareholders engage with corporate management, submit shareholder resolutions, and vote proxies to change corporate behavior.

Community Investing: Community investing provides capital to underserved communities. It can help create jobs and opportunities by financing small businesses, and facilitates the development of affordable housing, improved childcare and other community facilities. There is a very wide variety of community investing options; on the simplest level, you can decide to bank with a local bank that reinvests your deposits locally.

When it comes to mutual funds, the strategies above are all pursued within the context of the rigorous financial analysis that fund managers do to determine if an investment is appropriate for the fund. In other words, these environmental, social, and governance criteria are considered *in addition to* the rigorous financial analysis. Sustainable investing requires an *additional layer* of due diligence and analysis.

At this point, you are probably wondering if you have to sacrifice return in order to invest this way. After all, we all need our investments to grow to help us reach our financial goals and be able to retire. In late 2009, a study by Mercer Consulting analyzed 36 academic studies about the relationship between ESG (Environmental, Social and Governance) factors and investment performance*, and found that 61% showed a positive relationship, and only 17% showed a negative relationship (the rest were neutral). They concluded that "the ... report further builds the already strong case that considering ESG factors can add real and measurable value to an investment portfolio."

In terms of returns, sustainable investing is like other investment strategies; you may do somewhat better during certain market conditions and somewhat worse during others, but a diversified portfolio over the long-term will be competitive with a traditional portfolio. In sum, you are likely to do just as well investing sustainably, so why not put your money to work in a way that promotes a better future for all of us? For more information, see: www.socialinvest.org.

** Mention of a specific security should not be considered an offer to buy or sell that security. Past performance does not guarantee future results.*

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