For years, social investment has offered faith-based investors the opportunity to achieve their financial objectives in a way that is consistent with their ethical and moral concerns. Increasingly, however, institutional investors such as foundations, endowments and not-for-profit organizations are recognizing that social investment can be a mechanism for aligning the organization’s philanthropic mission with its asset management, thereby reinforcing its advocacy and grant-making abilities.

This paper describes the concept of mission-consistent investment and the potential implications of this investment approach on investment performance and fiduciary responsibility.
THE UNDERLYING PREMISE

The underlying premise of mission-consistent investment is that an organization’s asset base should be viewed not only as the source of income to help meet grant-making goals, but also as a mechanism for using market forces to best contribute to the social and environmental changes an organization seeks to achieve through its grant-making. As such, mission-consistent investment can draw a deeper, new relationship between an organization’s philanthropic mission and its constituencies.

There are three basic components of mission-consistent investment:

◆ “Screened” portfolio investment, which seeks to integrate the organization’s social and/or environmental guidelines into the selection of stocks for its portfolios.

◆ Shareholder involvement, through which an organization can potentially contribute to corporate change through direct dialogue with corporations, the filing of shareholder resolutions and/or proxy voting.

◆ Direct investments in community development vehicles or in companies that are developing commercial solutions to critical social and/or environmental challenges an organization deals with in its grant-making.

IMPLICATIONS FOR INVESTMENT RETURNS

Contrary to commonly held beliefs, historical research has shown that the integration of social research and financial analysis in portfolio management has not had a negative impact on investment performance. A study comparing the performance of an industry index composed of 400 socially screened stocks against that of the S&P 500 over thirteen years found that the socially screened stocks consistently generated returns close to or above that of the S&P 500.

In fact, our experience suggests that this integration may actually help add value to the investment process because we believe societal issues around the workplace, the environment and communities are becoming increasingly important business issues for many companies and industries. As a result, how companies integrate these issues into their operations is likely to impact their costs, risks, competitive opportunities and future growth possibilities.

Along these lines, it is our view that the companies likely to profit from these trends will be those whose leadership, values and corporate culture enable them to go beyond compliance and derive and drive strategic value from their social and environmental initiatives. Our findings, we believe, are consistent with those of numerous studies which indicate that leading-edge companies often have stronger growth and higher potential returns on investment compared to their competitors.

IMPLICATIONS FOR FIDUCIARY RESPONSIBILITY

A long-standing “mantra” among directors and trustees of nonprofit entities is that financial rate of return is the sine qua non of fiduciary responsibility under the prudent person or business care rule. According to this point of view, any other considerations, such as social and environmental implications, would be extraneous. There is not a large body of law on this subject, but recent legal writings take issue with this traditional view.

Lewis Salomon, Theodore Rinehart Professor of Business Law at George Washington University Law School, and Karen Coe have concluded: Directors and trustees of such organizations may undertake social investment without violating their fiduciary duties under either the prudent investor or the business care rule. Under the former, a fiduciary may consider social implications only if they do not take precedence over financial considerations. Under the latter, a fiduciary may consider social and financial factors equally when making investment decisions.
In an article in the *Journal of Investing*, William B. McKeown, formerly of the law firm Patterson, Bellknap and Webb, goes one step further and observes that board members of charities “may have a duty to consider the effect on program of their investment decisions [and] to consider whether their investment decisions will further those charitable purposes, or at least not run counter to them.”

**THE MISSION/INVESTMENT INTEGRATION**

As described above, integrating an organization’s philanthropic mission with its investment strategy has the potential to add a new dimension to its stewardship efforts and its view of fiduciary responsibility. The Social Awareness Investment program at Smith Barney Asset Management has been assisting investors to integrate their financial and philanthropic objectives for more than 25 years, making it one of Wall Street’s oldest and most established social investment managers. We also can assist in the writing of the investment policy statement with regard to the social and environmental guidelines.

The discussion on fiduciary responsibility is being provided for informational purposes only. The opinions and views expressed are those of the source provided and do not represent a complete discussion. Contrary views may exist. Neither Smith Barney Asset Management nor Citigroup Asset Management offers legal advice. Clients should consult their own legal advisors regarding their specific situation. The views expressed are current as of 05/05/04 and are subject to change without notice. They should not be construed as investment advice or recommendations or used as the sole basis for an investment decision with respect to the information discussed. The views expressed are those of the management team specified and not necessarily representative of the views of other portfolio managers or of the firm as a whole. Factual information relating to the topics covered was obtained from sources believed to be reliable, but there can be no guarantee as to its accuracy. Past performance is not a guarantee of future results. Investments are subject to risk and there is no guarantee that these investment objectives will be achieved.

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4 KLD & Analytics. “Smart Screened Investments: Environmental Screened Equity Funds that Perform Like Conventional Funds.” *Journal of Investing*, Fall 1998.
6 Thomsen, Mark, see above.
13 Viederman, S., and M.A. Ballert, see above.

Some of the above endnotes reference studies or articles that reflect an author’s perspective from a specific period and have been deemed relevant to the point that is being made in this white paper.

The S&P 500 stock index, published by Standard & Poor’s Corporation, is a market-capitalization-weighted composite of 500 of the largest U.S.-traded companies. It is widely recognized as a performance benchmark for a broad population of widely owned U.S. stocks.
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