



OTS Minority Depository Institutions Advisory Committee Socially Responsible Investing Background Information July 7, 2009

What is Social Investing?

Social investing describes an investment strategy which seeks to maximize both financial return and social good. In general, socially responsible investors favor corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity.

What are the approaches investors typically utilize in socially responsible investing?¹

Screening, which includes both positive and negative screens, is the practice of evaluating investment portfolios or mutual funds based on social, environmental and good corporate governance criteria. Screening may involve including strong corporate social responsibility (CSR) performers, avoiding poor performers, or otherwise incorporating CSR factors into the process of investment analysis and management. Generally, social investors seek to own profitable companies that make positive contributions to society. “Buy” lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world.

Conversely, many social investors avoid investing in companies whose products and business practices are harmful to individuals, communities, or the environment. It is a common mistake to assume that SRI “screening” is simply exclusionary, or only involves negative screens. In reality, SRI screens are being used more and more frequently to invest in companies that are leaders in adopting clean technologies and exceptional social and governance practices.

Shareholder advocacy involves socially responsible investors who take an active role as the owners of corporate America. These efforts include talking (or “dialoguing”) with companies on issues of social, environmental or governance concerns. Shareholder advocacy also frequently involves filing, and co-filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial

¹The Social Investment Forum, the non-profit trade association for SRI professionals.
www.socialinvest.org.

discrimination, pollution, problem labor practices and a host of other issues. Shareholder resolutions are then presented for a vote to all owners of a corporation.

The process of dialogue and filing shareholder resolutions generates investor pressure on company management, often garners media attention, and educates the public on social, environmental and labor issues. Such resolutions filed by SRI investors are aimed at improving company policies and practices, encouraging management to exercise good corporate citizenship and promoting long-term shareholder value and financial performance.

Community Investing directs capital from investors and lenders to communities that are underserved by traditional financial services institutions. Community investing provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack. In the US and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals and to supply capital for small businesses and vital community services, such as affordable housing, child care, and healthcare

Social Investing Resources

Social Investment Forum www.socialinvest.org

The Social Investment Forum is the U.S. national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Critical to responsible investment practice is the consideration of environmental, social and corporate governance criteria *in addition to* standard financial analysis. Forum members support SRI through portfolio selection analysis, shareholder advocacy and community. The 500 members of the Social Investment Forum include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations, Native American tribes and other asset owners.

Publication Resources <http://www.socialinvest.org/resources/pubs>

National Community Investment Fund (NCIF) www.NCIF.org

The **National Community Investment Fund** is a non-profit, private equity trust that invests in banks, thrifts and credit unions that generate both financial and social returns. These Community Development Banking Institutions (CDBIs) — a term used by NCIF to describe depository institutions with a community development focus - may be located in urban, rural or Native American markets, and may be minority-owned, minority-focused or majority owned. However, to be considered a CDBI, an institution must focus a substantial part of its business on low- to moderate-income people or communities. NCIF speculates that of the 8,625 banks and thrifts there are several hundred that could be certified as CDBIs by virtue of their superior community development impact.