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## MoneyVoices: Why SRI Managers Win Mandates

Column published on Aug 21, 2008

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**Guest Columnist:** John LaPann brings more than 25 years of high level investment and planning experience to his role as president of Federal Street Advisors.

I run a Boston-based investment consultancy that serves about 75 families and foundations with a little over \$5 billion in combined assets. As the foundation and non-profit space has grown recently, so have the questions about socially responsible investing (SRI).

SRI is an increasingly important part of the investment industry, with more than \$2 trillion managed under some type of social mandate. Conventional wisdom says that SRI provides below market returns, but we've found that careful selection of active managers has produced consistently strong results for our clients.

There are a number of highly qualified money management firms across investment styles that can help implement a successful, diversified social investing program. Certain hallmarks allow them to stand out in an often confusing and noisy marketplace. This is what we look for when constructing an SRI portfolio for a client:

**Diversification** – Concentrate on investments that provide the most effective diversification benefits. As in traditional equities, you can look to diversify by style, size, process and geographic focus. For social portfolios, you can add subsequent value by diversifying the social impact of investments. Don't just focus on the traditional SRI screens like tobacco, alcohol and firearms. Rather, find out whether other social approaches, such as community investing, shareholder advocacy, social venture capital or green real estate, might help your clients achieve their goals.

**Thorough Screens** – Managers must be able to go through a rigorous selection process with both quantitative and qualitative criteria just like the ones used for traditional managers. Advisors that take shortcuts will shortchange their clients.

**Due Diligence** – Once screened down to a short list, social managers must be placed through the same level of due diligence that traditional investment managers would face, including:

- Reviews of publicly-available information on the manager's organization, performance and process.
- In-depth investigating, including on-site visits.
- Ongoing due diligence; this is a timely topic following the SEC's July 2008 announcement of sanctions against an investment manager for allegedly not adhering to its own social screening policy. It is critical to regularly monitor holdings and ask the questions after the manager is in place.

We prefer firms that do client-specific social research over those that simply layer an SRI screen on top of a traditional process. Separate account managers who follow such an approach are viewing the social criteria in a portfolio context, further reducing risks for clients. The better managers serve as a resource to their clients by explaining decisions, designing customized programs and even advising on shareholder engagement. Because of this customization by client, the investment must be managed in a separate account structure rather than in a mutual fund where the social investment needs of the many investing clients may differ from one another.

While many exceptional SRI managers employ industry standard SRI screens, we also monitor SRI managers who manage specific SRI mandates. They work with clients that have a particular focus in areas such as climate change or that may have specific religious restrictions. Social investing is as unique as each social

investor, so it is important for both managers and consultants to stay up-to-date on the full range of issues and options.



**John LaPann** brings more than 25 years of high level investment and planning experience to his role as president of Federal Street Advisors. LaPann also chairs the firm's investment committee. Before founding Federal Street, LaPann served as senior vice president of Gannett, Welsh & Kotler after seven years as vice president of Pell, Rudman. He received a BA from Williams College and a master's degree from the State University of New York in Albany. Currently, he serves on the investment committee of the Unitarian Universalist Service Committee, is the treasurer and member of the board of Casa Myrna Vasquez, and is a trustee of several individual and charitable trusts..

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