

# Building a Business on SRI

By David J. Drucker

## Marjorie Bennett balances her clients' values with their need for good returns.

Marjorie Bennett has seen firsthand the evolution of socially responsible investing. In the 1990s, as a vice president at Morgan Stanley, she made sales presentations to large endowment funds. "They'd ask about SRI, but institutions weren't offering such investments then," she says.

Pickings were slim for individuals, too. In 1998, when she launched her firm, Aegis Capital Management, in Oakland, Calif., she and her clients wanted their portfolios to reflect their social values. It was a challenge because there weren't that many SRI opportunities available.

"In the early days of SRI," Bennett says, "funds might exclude tobacco from a portfolio and call it socially responsible. It wasn't until the Domini 400 Social Index Fund came out in 1989 that the SRI industry really distinguished itself. In the 1990s, families like Calvert and Ariel started offering socially responsible investments, and even the wirehouses were beginning to take notice."

She doesn't have the problem of finding SRI opportunities now. Big changes have arrived to SRI, mostly in the past five years. Waiting for someone to develop more SRI index vehicles, Bennett was pleased to see the Vanguard FTSE Social Index Fund VFTSX. "The fund doesn't have a great track record, but at least it

lowered expenses and turnover," she says. She also says that the two funds brought out by iShares—iShares KLD 400 Social Index DSI and iShares KLD Select Social Index KLD—are also valuable additions to the SRI market.

### Helping Hand

More than viewing SRI as a business model or the best way to invest, Bennett, like her clients, sees it as a reflection of her own values. Bennett does want to help, if not change, the world. She starts by donating 100% of her firm's profits to nonprofit groups, and she serves her community through her involvement in nonprofit organizations. Most recently, she joined the board of the YWCA Kauai—the only provider of domestic-violence and sexual-assault treatment on the Hawaiian island of Kauai. She's also funding the development of the group's Web site.

Carrying this philosophy over to approximately 25 high-net-worth clients with investment portfolios averaging \$1 million, Bennett has created a high-touch boutique firm, proving that there are enough clients who want SRI upon whom to build a practice.

"My clients are very-aware people whom I meet with four times a year—often to talk about things other than investment performance," she says. "We take a global investment approach, so we discuss everything from the

economy to politics to climate change—all of which guide me in formulating each client's SRI strategy."

To create a portfolio for a client, Bennett starts with three approaches to judge where the client is on the "purity spectrum." First, the client can do a negative screen. For example, the client might want to eliminate funds that invest in alcohol or tobacco companies. Second, there's the activism approach to make social change happen. A client might want to invest in companies in order to vote proxies to force the company to change its practices. Finally, a client might prefer to take a "best-of-breed" approach. For example, to maintain diversification and protect returns, the client can pick the most responsible company, or the least-offensive, in an industry, such as energy.

The socially responsible investments that Bennett ultimately recommends to clients depend on where clients are on the purity spectrum and how important performance is to them. "I have some 'generic' SRI funds I like," she says. "The Parnassus family of funds does a fabulous job, specifically with their fixed-income fund and their small- and mid-cap funds. Portfolio 21 PORTX is good for global investing. The iShares KLD fund is good for a tax-sensitive account."

## Advisor Profile

**Marjorie Bennett**, principal, Aegis Capital Management, Inc.



**How she caught our eye:** Specializes in socially responsible investing—something few advisors tend to do.

**Career path:** Senior financial executive for various San Francisco Bay area companies, including one of the original “Big Eight” public accounting firms. She was vice president at Morgan Stanley Institutional Asset Management before launching her own firm, Aegis Capital Management, in 1998 in Oakland, Calif. Bennett secured her CPA in 1983

and her MBA from the University of California at Berkeley in 1987.

**Personal:** Bennett is married, loves travel, good friends, and her dogs. She splits her time between Oakland and Kauai, Hawaii.

**Favorite SRI funds:** iShares KLD 400 Social Index DSI, iShares KLD Select Social Index KLD, Parnassus Mid-Cap PARMX, Parnassus Small-Cap PARSX, Parnassus Fixed-Income PRFIX.

### Beware of Overweightings

Keeping SRI clients diversified requires constant monitoring by Bennett, and it’s an ongoing battle. “In the world of SRI, you are by definition tying a manager’s arm behind his back,” Bennett says. “We know diversification is your friend, and any time you constrain it, you force additional risk on yourself. I can point to two events in the history of SRI where that’s been a bad attribute: technology in the late 1990s and financials in 2008.”

In the late 1990s, technology companies were young and had no negative impact on the environment. They easily passed screens, and SRI mutual funds became overweighted in tech stocks. That was a bad position to be in when the tech bubble burst in 2000 and these companies got hammered.

The 2008 market correction caused a similar problem with bank stocks. “Banks are generally good to their employees and don’t hurt the environment,” Bennett says, “but I had to move my clients out of this arena last year.”

The key, Bennett says, is studying a fund’s strategy. “There are screens that have to be satisfied for a stock to enter a mutual fund, so first, you need to look under the hood at the fund’s screening process.”

### SRI Matures

As SRI comes of age, clients can now buy socially responsible investments in vehicles other than mutual funds. If they have large enough accounts, Bennett has clients in SRI separately managed accounts. “It’s mostly a function of account size, which I

believe should be a minimum of \$2.5 million to \$3 million,” she says. “If a client only has \$1 million, then the manager might direct 60% into large-cap stocks, which really isn’t advisable.”

Bennett says that SRI products have trended from mutual funds to separate accounts and now to ETFs. “PowerShares has a nice lineup of clean energy or alternative ETFs,” Bennett says. “We’re also seeing new specialty indexes, like ones related to carbon footprints. Once a new index comes out, an investment product—often an ETF—comes along to track it.”

### Moving Forward

Although she is an SRI-oriented advisor, Bennett has been dealing with the same day-to-day issues facing every advisor seeking to lessen the blow of the market meltdown on their clients’ portfolios. “Last year, we lost less by reducing our clients’ exposure to the financials sector and high-yield bonds,” she says. “Our next step was to maximize after-tax returns to clients by aggressively harvesting losses to offset the capital gains we had. We didn’t sell stocks and run to cash; that’s just market-timing.”

Of course, when to get back in is usually the harder question. “We haven’t yet balanced back to target,” Bennett says. “So, if a client had 60% of his portfolio in stocks and 40% in bonds and the market eroded stocks to a 50/50 allocation, we left that allocation in place, because we see more risk to the downside than the upside.”

If it sounds like SRI requires the ability to accept compromises, it does. “I’m a big advocate of SRI, but there is a cost associated with it: higher expenses and lower returns,” Bennett says. “I really like to have SRI reflect my clients’ values, but they also must be realistic for their situation. Some clients can’t commit 100% of their portfolio to SRI.” ■

David J. Drucker is an independent financial advisor and contributor to MorningstarAdvisor.com.