The Morningstar Guide to “Green” and Socially Responsible Investing

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These days, it seems like everyone is trying to be more socially aware. Our social beliefs affect our everyday behaviors, which for some, means protecting our environment by recycling, bringing your own bags to the grocery store, or driving a hybrid vehicle.

For others, being socially aware might mean giving up meat and shunning fur and leather products.

But social beliefs are not limited to consumer spending; they can also apply to investing and money management. How can you extend your social ideals to your portfolio? Can you invest with your conscience and still make money?

This guide was developed to help answer those questions.

Socially Responsible Investing

By Morningstar Analysts

What is SRI?

Socially responsible investing is a catch-all phrase that, at its broadest, refers to all investment and money management activities undertaken according to certain social values instead of, or in addition to, purely financial considerations. For many institutional and retail investors, SRI involves screening investment portfolios according to certain social criteria as well as financial criteria. Nearly all socially screened mutual funds screen out tobacco, alcohol, and gaming securities, as well as companies involved in weapons manufacture. Most also refuse to invest in nuclear energy and in companies with poor records on environmental, workplace, diversity, or human rights issues. An increasing number of funds gear their screens to particular religious beliefs. Shareholder advocacy is another component of SRI, and many, but not all, screened funds introduce shareholder resolutions and jawbone companies to end objectionable policies.

The Case for SRI Funds

The standard argument for socially screened investing is simple: It allows people to avoid investing their money in companies whose products or behavior they find objectionable. That makes a lot of sense for large institutions—state pension plans, university endowments, labor unions—that can ill afford to alienate their constituencies and may only require moderate returns on their investments over time. But can the small investor afford the possibility of forgoing returns for the sake of good?

For two reasons, the answer could well be "yes." Increasingly, sound social policies are not just intrinsically good, in the opinion of SRI advocates, they are good for business. Good employee and community relations, a diverse workforce, and protecting the environment are all things that can add to a company's strength by giving it more productive workers, community support, a good corporate image, and less exposure to lawsuits.

Additionally, screened mutual funds are not mere charity organizations. They do not hold securities solely on the basis of social criteria. Fund holdings must also be financially viable. In fact, SRI fund managers go about the business of security selection the same way other fund managers do—by following their particular stock-picking styles. In most cases, managers select securities first, and then submit them for social screening, which is done by a separate team of screening analysts.

The Case against SRI Funds

Screened funds face criticism from both ends of the spectrum. One camp, you might call them the investment purists, argues that even if screened funds do put financial criteria first, limiting one's investment universe for non-financial reasons inevitably limits returns and increases risk. An investor would be better off making money first, then contributing a portion of any gains to causes he or she feels strongly about.

The other camp, call them the social purists, points out that SRI funds don't have overly rigorous social screens and therefore sell out their values in favor of the bottom line. Indeed, it isn't uncommon to see corporations like **Nike** NKE, **Colgate-Palmolive** CL, and **Wal-Mart** WMT in the portfolios of socially screened funds. (Nike has come under criticism recently for its use of cheap labor in developing countries, Colgate-Palmolive for using animals in product testing, and Wal-Mart for anti-unionism.) Truly socially responsible funds, according to this line of argument, would have little use for most multinational corporations, which often follow objectionable policies somewhere in their far-flung operations. Some would argue further that the SRI movement ought to fight against the intrinsic power and dominance of multinationals.

Therein lies the rub. Of 139 socially screened funds with five-year records, the record isn't very pretty: there are six funds with a 5-star rating and when SRI funds are compared with non-screened offerings that follow similar investment strategies, only 37 posted positive trailing five-year returns, compared with 2,436 non-SRI funds. In general, socially screened funds' star ratings and their performances relative to funds with similar investment strategies are skewed towards the bottom third of the mutual fund universe.

That said, investors must look carefully for SRI funds that have track records competitive with their non-SRI peers. Moreover, investors should keep in mind that some investment categories are largely devoid of decent SRI funds.

In Conclusion

Investors who lean toward the social-purist school are probably bound to be disappointed in SRI funds. As a group, these funds aren't out to protest the power of giant corporations and they often invest in companies that have questionable—from a purely SRI standpoint—policies somewhere in their operations. The bottom-line purpose of SRI funds is to provide exposure to companies that have acceptable social policies that can also provide a favorable return on investment. As the SRI universe grows, and its newer funds establish track records, investors should be able to look forward to a growing number of good performers. As for funds' social-screening policies, investors have every right to know exactly what they are and how they are implemented—these things should be clearly stated in the fund's prospectus or other available materials. For that matter, investors have every right to offer their opinions, protests, and proposals for changes in a fund's screening policies; after all, it is they who collectively own the fund. Over time, SRI funds' social screens should more or less reflect the preferences of their shareholders.

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Going Beyond the Hype of Green Investing

A road map for navigating the growing number of "green" funds and ETFs

By Michael Herbst

It seems these days that everywhere we look we're being asked to "go green." With all the attention surrounding Al Gore's documentary, "An Inconvenient Truth," and his Nobel Prize, it's not surprising we're seeing a growing number of mutual funds and ETFs touting green credentials. As a result, we'd like to assist investors in identifying the strongest investment options among this growing fund and ETF niche.

The Latest Green Wave

This isn't the first time we've seen green. Since the oil scare of the 1970s, we've seen environmentally oriented mutual funds pop up from time to time. But a number of funds closed up shop as a result of light investor interest or lackluster performance. Even so, there is a growing consensus among scientists, policy makers, and investment pros that alternative forms of energy will be necessary to meet global demand in coming decades. And the regulatory environment around climate change will likely have a significant impact on businesses in multiple industries. As a result, a broad range of companies, from fledgling start-ups to multinational corporations to a host of new consulting firms, are examining how climate-related factors may have an impact on their bottom lines. Similarly, heavyweight institutional investors such as pension funds, investment banks, and insurance companies are working together to navigate the transition to a greener world. That combination of factors has us thinking green investing could be more than a passing fad.

What Does Green Mean?

We've seen several approaches to green investing. We call one style the "best-in-breed" approach, in which the idea is to invest in companies with industry-leading environmental track records. That tack guides **Green Century Equity** GCEQX, which currently owns **Proctor & Gamble** PG and **3M Company** MMM because its managers con-sider them to be among the greenest operators in their industries. We also see funds like **Winslow Green Growth** WGGFX that invest in "clean" companies, meaning those that have no negative environmental impact. Lastly, a number of funds invest in "environmentally proactive" firms that produce goods or services linked to green initiatives like alternative energy, energy efficiency, emissions reduction, water distribution, and agriculture. Such options include **Guinness Atkinson Alternative Energy** GAAEX and the **ETF PowerShares WilderHill Clean Energy** PBW. Some funds blend several styles, such as **Alger Green** SPEGX and **Portfolio 21** PORTX.

Investors need to look under the hood and decide for themselves which green strategy they'd prefer. Socially conscious investors may be surprised that not all green funds fit the bill (because they may invest in nuclear power companies, for example). Others seeking the biggest bang for their buck might favor a fund in which management tends to invest strictly where it sees the most attractive growth opportunities.

Finding Winning Green Funds

To sort through green investing options, we'd first look for clear communication from the fund's management detailing its green definition and its investment universe. Some green funds may lean heavily on large-cap or small-cap stocks. Some invest domestically and some globally, so they can also alter a portfolio's geographic exposure. We'd home in on those that draw on several green investing styles because they're apt to have greater flexibility in selecting winning stocks in a variety of market conditions.

Manager experience, important in any mutual fund, is especially pertinent in green investing. Many companies in green industries such as solar, wind, and bio-fuels are early-stage firms and thus carry the risks common to all small-cap growth stocks. They can also be subject to the same cyclical pressures that buffet traditional energy stocks. As a result, we'd favor management teams that have been around the block a few times and are familiar with the pitfalls of small-cap stocks and the volatile energy sector. We'd also prefer to see teams with deep research resources, in part because government regulation (which varies by country and is constantly evolving) can have a big impact on green companies.

Two funds that meet our criteria thus far are the Winslow fund mentioned above and **Calvert Global Alternative Energy** CGAEX. Although we cover a number of green funds, we're likely to take a closer look at additional green options in future reports.

Don't Overlook the Risks.

Did we mention "don't overlook the risks"? In addition to the challenges discussed above, some green funds present risks of their own. Many green industries are young and likely to experience growing pains. For example, relevant governmental regulation or subsidies can change quickly, either making or breaking a one-product firm's fortunes. And, smaller-cap green stocks can sometimes be difficult to trade. Lack of diversification can also be problematic: Many of the green ETFs, such as **Claymore S&P Global Water** CGW, focus on narrow niches. Others, such as **Market Vectors Environmental Services** EVX, are highly concentrated in their top holdings. For these reasons we'd expect most green funds and ETFs to deliver a bumpy ride, and we'd recommend using them as specialty holdings.

Investors may not yet have seen these risks play out because many of the funds mentioned here have been on a strong multiyear run. And, valuations in a number of green sectors (especially solar and wind) are looking fairly rich. Therefore, investors buying in because of the recent hot returns will likely be disappointed if the general area cools off. Also, green funds are generally not cheap. Most of the green ETF expense ratios fall in the 0.50% to 0.75% range, which does not include the brokerage costs that come with buying and selling them. Similarly, the mutual fund options' levies range from 1.25% to a hefty 1.98%.

Different Shades of Green

Investors should read the description of a fund's strategy closely because there are more shades of green than we thought possible. For instance, Portfolio 21 invests in companies around the globe that employ environmentally and socially sustainable business practices, such as European mega-retailer Carrefour. That slant gives it a broader sector range than most green funds and makes it diversified enough to use as a core holding. Alger Green has a similar large-cap bias and is also well-diversified across sectors, making it an option for green investors seeking a domestically focused core fund.

Yet most green funds would be suitable only in small doses. Many, such as Winslow Green Growth, emphasize smaller, riskier companies. Others, such as Calvert Global Alternative Energy, focus on narrow slices of the market. Many are quite concentrated: As of late, Guinness Atkinson Alternative Energy and exchange-traded fund PowerShares WilderHill Clean Energy had roughly 90% of assets stashed in the hardware, industrial-materials, and utilities sectors alone. That concentration is a big reason we're wary of many of the green ETFs we've seen. We just don't think investors need a water-based ETF such as Claymore S&P Global Water, or the ultra-concentrated Market Vectors Environmental Services. Funds with concentrated portfolios or a pronounced small-cap tilt court plenty of volatility and should be approached with caution.

In addition, some green funds will own companies with human rights, labor, or environmental issues that might cause them to fail socially responsible screens. **New Alternatives** NALFX and Portfolio 21 put a high priority on firms' social and environmental track records so that SRI investors can rest easy. Yet the Guinness Atkinson fund mentioned above might not fit the SRI bill due to its investment in palm-oil companies (which have run into trouble for clear-cutting forests and labor concerns). Even so, that fund's updates, as well as Portfolio 21's Web site, give admirably detailed descriptions of the strategy and rationale behind its management's picks.

Keeping the Bases Covered

What is considered green is likely to shift with changes in government regulation, the effects of climate change, investor sentiment, or all three. In addition, promising technologies are in fierce competition to gain a foothold in areas such as alternative energy, energy efficiency, and pollution reduction. Thus management's experience and its research support are critical. We appreciate the perspective of skippers Maurice and David Schoenwald at New Alternatives or Jackson Robinson and Matthew Patsky at Winslow Green Growth and **Winslow Green Solutions** WGSLX. Both teams have invested in green companies for more than two decades. Because they've experienced several waves of interest and disinterest in green investing, we're optimistic they could avoid some of the potholes that come with the territory. The team behind the Calvert fund is newer to the table, yet its bosses draw on several analyst teams, an external advisory board, and Calvert's SRI screening team to steer the fund.

Seeing Red over Fees

Many green funds are too expensive. For instance, the high 1.85% levy on the Calvert fund is likely to drag on its performance. The 1.64% expense ratio on the Guinness Atkinson fund is not much better. The levies on many green ETFs are inexplicably higher that their non-green counterparts. Even the more reasonably priced Winslow Green Growth and Portfolio 21 are on the dearer end of the small-cap and world-stock categories, respectively. One notable exception is New Alternatives: Its 0.95% expense ratio lands in the cheapest quintile for broker-sold world-stock funds, making it the least expensive actively managed green offering that we've seen. We're generally wary of pricey funds because high fees are one of the most powerful predictors of future underperformance.

The Round Up

We've added a number to green funds coverage to help investors sort through the various offerings. Yet so far, few merit our recommendation. Portfolio 21 warrants a second look for investors seeking a broad-based green strategy. We like Winslow Green Growth due to its veteran management and because its strategy is broader than some of its peers' (yet its concentration and small-cap emphasis makes it suitable only as a supplemental holding). New Alternatives is appealing due to its management, SRI credentials, and low fees. Although we're less enthusiastic about the Guinness Atkinson and Calvert funds mentioned above, readers can read our new analyses of those funds as well.

We approach green funds as we would any other kind of fund, which bears remembering, because the hype around green funds can be pretty tough to cut through. We home in on a green fund's strategy to uncover its risks and to get a grasp on how an investor might use it. Scrutiny of a green fund's management, including its experience and research support, gives us an idea of how well-equipped it may be to handle the risks of its approach and to add value for investors. We also check out funds' price tags because high fees take a big chunk out of funds' gains.

For those reasons, we think green investing could have staying power. Investors' enthusiasm fueled a strong run in 2005 through 2007 for many of the funds mentioned here. Yet that enthusiasm switched to pessimism in early 2008, and many of the funds posted double-digit losses for the year through March 3, 2008. The highs and lows of any market are nearly impossible to call, and the green investing road is likely to remain bumpy. Our main point is that investors thinking of going green ought to adopt a long-term view and pay extra attention to the fund characteristics outlined above.

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Carbon Regulation

By Morningstar Analysts

The introduction of carbon regulation would be a watershed event, not only for our environment, but for many sectors of the economy, as well. We believe investors would be wise to both anticipate the related challenges and take advantage of the many great opportunities that may emerge. Unfortunately, we can't predict the exact form of any future legislation, but by studying the general themes of current proposals, we can point out some broad effects a greener economy will have on your wallet, and your portfolio.

How Would a "Carbon Tax" Work?

Most of the current proposals espouse a "cap and trade" system, similar to what we use now for sulfur dioxide (which causes acid rain). The European Union adopted such a system for carbon a few years ago in order to comply with the Kyoto Protocol. We think following in their footsteps makes sense, as we can learn from their experience and perhaps eventually form an efficient global carbon market.

The cap-and-trade system is simple in principle. In order to emit carbon dioxide, companies must buy credits, either from each other or from the government. The price of the credits will be set by the market. Of course, companies can also invest in technologies that reduce the amount of pollution they produce, or generate "offset" credits by investing in green projects, such as wind farms. In theory, by forcing companies to pay for their emissions, we will ultimately reduce the amount of pollution in the atmosphere and create a cleaner planet.

Unfortunately, implementation can be tricky. For example, how do we prevent companies from simply exporting their dirtiest operations to China? How do we make sure increasing electricity prices don't hurt low-income families? Should we give free credits to fund emerging technologies? Everyone has solutions for these issues, but instead of getting bogged down with details, let's focus on some general themes we see for the future, no matter how a carbon tax may be implemented.

Key Trends Following a Carbon Tax

For consumers, the most conspicuous change may be higher utility bills. About 50% of our electricity comes from coal, one of the most carbon-intensive ways to generate electricity. If carbon prices are high enough, utilities may choose to burn more natural gas, a much more "carbon friendly" fuel, and less coal. Natural gas is currently more expensive than coal, and greater demand for gas would drive its price even higher. Plus, utilities will have to pay for the carbon they emit. Ultimately, all of these costs will be passed on to consumers, leading to higher monthly bills.

The impact won't be limited to the utility sector. Carbon-intensive manufactured products, such as cement and steel, may become more expensive, as well, leading to more expensive cars and houses. Moreover, our economy might also react in completely unpredictable ways. For example, entrepreneurs may reforest pasturelands in order to generate offset credits, driving up the cost to raise cattle, and therefore beef prices. We can't predict all of these changes, but we will do our best to point you in the right direction.

The Winners

Carbon controls may be a game changer for many segments of the economy, especially the energy and industrial sectors. However, the laws may never pass. Or if they do, they may end up mere slaps on the wrist for our biggest emitters. Therefore, even with the prospect of astronomical returns, we think investors should not forget their margin of safety. We think the best way to profit from carbon is to identify attractive companies that will benefit from regulation and buy them at appropriate discounts to their fair value estimates. If Congress decides to act, great! You win! However, if nothing happens, you would still own some solid companies, and potentially earn a very good rate of return.

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Energy Investing in a Carbon-Conscious America

The political landscape has shifted toward cleaner energy.

By Travis Miller

Given that the 110th Congress produced six carbon cap-and-trade bills and that President-elect Barack Obama has so far stood by his campaign rhetoric backing quick action on carbon, utilities executives and Beltway insiders have acknowledged that carbon regulation is coming in one form or another. We think this could have significant consequences for investors in the utility, energy, and transportation sectors. In November 2008, the balance of power in the carbon debate again shifted sharply to the left when Rep. Henry Waxman (D-Ca.) unseated Rep. John Dingell (D-Mich.) as chairman of the House Energy and Commerce Committee. Although both are Democrats, the two men take very different views on carbon regulation. Dingell, a longtime ally of the automakers, has favored a slow, measured approach. His bill requires total carbon emissions to be 6% below 2005 levels by 2020. Waxman, along with Sens. Bernard Sanders (I-Vt.) and Barbara Boxer (D-Ca.), favors a 14% reduction from 2005 levels.

These days, committee chairs are not quite the feudal lords of your father's Congress. Ordinary members will have more to say in the carbon debate. The GOP staunchly opposes aggressive targets. Democratic Representatives who hail from coal states also are unlikely to support extreme action. Still, Rep. Waxman is a close ally of House Speaker Nancy Pelosi (D-Ca.), who has shown very little tolerance for dissent within the ranks and is keen to produce landmark legislation with her newly strengthened majority. Because Waxman will control the version of the bill that makes it to the House floor, we consider it a relatively safe bet that it will have to win his seal of approval.

In the Senate, the Lieberman-Warner bill briefly saw the light of day this summer before being voted down. There is a fierce debate about the bill's relatively lax targets, its cost "safety valve," and whether or not to include a Federal renewable portfolio standard. The bill garnered 54 votes in favor, and it would require 60 to be filibuster-proof. The Democrats could wind up with 59 next year; it is not outside of the realm of possibility that it will pass the next time, setting up a showdown with the House version. Sen. Boxer could also revive her more aggressive bill with a strengthened negotiating position.

As with everything in Washington, the balance of power in Congress and politicians' special interests likely will determine the victor. However, with the President-elect calling climate change one of his top priorities, the Democratic gains in the House and Senate, and the changing of the guard in the House Energy and Commerce Committee, the situation is getting very interesting.

Investing in a Carbon-Constrained World

So, what does this mean for investors? In the utilities industry we see two distinct camps taking shape, roughly approximating the potential winners and losers under carbon caps. Among the leading carbon-cap proponents—and potential winners—are utilities that produce a substantial amount of electricity from low-carbon or carbon-free sources, most notably nuclear power plants and renewables. In the other camp are utilities that produce most of their power from carbon-intensive fuel sources, most notably coal.

The extent to which individual utilities win or lose under carbon caps depends on politicians and regulators. If politicians take an aggressive stance, we think **Exelon** EXC, the nation's largest nuclear power producer, and **FPL Group** FPL, the nation's largest merchant wind power producer, should be winners for investors. About 10% of our fair value estimate for Exelon comes from our assumption that carbon caps take effect in 2012.

Natural gas should be another big winner. This low-carbon fossil fuel likely would replace the production lost from marginal coal plants and become the second-largest fuel source for U.S. electricity production. This is especially true over the intermediate term as there is currently an abundance of underutilized natural gas capacity already built. Most companies involved with natural gas production, transportation, and power generation should benefit from carbon caps. In the fund space, we like **iShares Dow Jones US Oil and Gas E&P ETF** IEO for its large exposure to domestic natural gas producers and **PowerShares WilderHill Clean Energy ETF** PBW for its broad exposure to clean energy technologies. Losers could include utilities **Edison International** EIX, **FirestEnergy** FE, and **PPL** PPL because of the large share of earnings these companies derive from carbon-intensive power plants. High-cost coal and oil producers also could suffer.

If politicians pass less-aggressive carbon caps, we see fewer winners or losers. The proxy we have for this scenario is the Regional Greenhouse Gas Initiative that takes effect Jan. 1, 2009, for 10 states in the Northeast. Politicians made RGGI carbon caps so loose that utilities in the region likely will not have to make any changes to comply until 2014. By then, we expect new investments in low-carbon power generation sources and transmission should negate any significant effects.

For regulated utilities, the key question will be how each state treats carbon costs. If regulators in carbon-intensive states such as Wyoming, Kentucky, Indiana, West Virginia, and Ohio raise customer rates to pay for the higher costs, utilities should be mostly unaffected. However, if regulators balk at higher rates, **Allegheny Energy** AYE, **American Electric Power** AEP, and **Dayton Power & Light** DPL could face lower earnings and dividends. For regulated utilities such as **Pacific Gas & Electric** PCG that already have low-carbon profiles, customers—not investors—are most likely to benefit if the company can sell its excess allocated carbon credits.

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Can You Build an Excellent All-SRI Portfolio?

Your chances are better these days, but it's still a big challenge.

By Morningstar Analysts

The universe of socially responsible investing funds continues to grow. Thirty-five SRI funds have been launched in the past three years, raising the total number of such funds to 122 (distinct portfolios). What's more, SRI fans have a broader as well as a bigger collection of choices. That's because more than a third of the new funds fall in the value, smaller-cap, or international categories—groups that previously had very few strict secular-screened offerings available.

But the universe of SRI funds is still relatively limited. The 35 new SRI funds that have been launched over the past three years pale in comparison to the 1,159 non-SRI offerings that have opened during the period, while the total of 122 SRI funds is a tiny fraction of the 6,695 (distinct portfolio) offerings that exist overall. And the preponderance of SRI funds still follow large-blend, large-growth, or blue-chip moderate-allocation strategies despite the introduction of the new ones that employ value, small-cap, specialty, or international styles.

Thus, although the task is not as daunting as it used to be, investors who wish to build good all-SRI portfolios still face several obstacles. For starters, while they have several fetching options if they want a blend- or growth-oriented core domestic holding, they continue to have a paucity of attractive choices if they prefer a value-oriented one. What's more, SRI fans still don't have very many good supplemental domestic options, and the best overseas options remain unproven. And, finally, investors who do succeed in building an all-SRI portfolio are likely to end up with funds that employ a hodgepodge of social criteria, which may make it hard for them to determine if their personal social standards are being met.

Blend- and Growth-Oriented Core Domestic Holdings

Roughly half of the strict secular screened funds are large-blend offerings, large-growth funds, or moderate-allocation offerings that favor mainstream or growth-oriented blue chips. Some of these funds are uninspiring or unproven options, while several others are solid but unexceptional choices.

However, four of these funds make good core domestic holdings. **Neuberger Berman Socially Responsive** NBSRX stands out in the socially responsive pack through its willingness to invest in the least-offensive companies from various sectors and its preference for value-priced names. Although it's a bit riskier than the typical socially responsible fund, it can serve as a core holding. **Vanguard FTSE Social Index** VFTSX doesn't have a great record at present, largely because its hefty financial stake has stung this year, but this large-blend index fund has two major advantages over its competitors: dirt-cheap expenses and Vanguard's crack indexing team. **Calvert Social Investment Equity** CSIEX has been slowed by its reserved traits in recent years, but the lead manager of this socially screened fund sticks mainly to steady growers, though he will occasionally pay a premium for firms with more-rapid earnings growth. He focuses primarily on large-cap stocks but will also climb down the market-cap ladder. And **Pax World Balanced** PAXWX, which normally invests 50% to 75% of its assets in stocks, relies on a growth-oriented discipline, and pays significant attention to overseas and mid-cap equities while doing so. Its fixed-income stake favors government-agency issues and investment-grade corporate bonds, though the manager was given the green light to purchase Treasuries in the spring of 2008.

Value-Oriented Core Domestic Holdings

SRI funds have a tough time following strict value strategies. Their social criteria, particularly their environmental screens, make it difficult for them to purchase many stocks in oil, metals, forest-products, and other traditional value industries. And there are only eight secular screened funds in the large-value categories. None are particularly a compelling choice. **Calvert World Values International Equity** CWVGX is subadvised by a management team from Acadian Asset Management, which also runs a portion of **Vanguard Global Equity** VHGEX. The team uses quantitative models and avoids big bets against its benchmark, the MSCI EAFE Index.

Supplemental Domestic Holdings

Five smaller-cap SRI funds have opened in the past three years, bringing the total number of such funds to 13. The new funds have gotten off to slow starts and are moderately to quite pricey, so they're certainly not very attractive options at this point. The more-established smaller-cap SRI funds are a rather uninspiring lot overall. All but one of these funds suffers from major flaws, such as considerable management turnover, poor performance, or high costs. The sole exception is **Winslow Green Growth** WGGFX, which has been run by the same lead manager throughout its nine-year history and boasts impressive longer-term returns. That said, it is important to recognize that it is quite risky because of its bold, concentrated style and that it's not cheap (though it is reasonably priced relative to other smaller-cap SRI offerings).

International Funds

The overseas portion of the SRI universe has improved in recent years. One of the established funds, Calvert World Values International Equity, brought on Acadian Asset Management as a subadvisor in early 2006, and that firm has had significant success on international separate accounts using the same value-oriented quant discipline as its does on that fund. Domini launched three funds—**European Social Equity** DEUFX, **PacAsia Social Equity** DPAFX, and **EuroPacific Social Equity** DUPFX—that are being subadvised by widely respected and highly successful Wellington Management. And Winslow just opened a global fund, **Winslow Green Solutions** WGSIX, which should have many of the same attributes of Winslow Green Growth.

That said, each of these funds has its limitations. Calvert World Value's International Equity has posted sluggish results since Acadian took over, and it is pretty pricey. Domini European Social Equity has gotten off to a solid start, but Domini PacAsia Social Equity and Domini EuroPacific Social Equity have gotten off to poor starts, and all three funds are expensive (though, to be fair, all three funds are still pretty small). And Winslow Green Solutions is just over a year old, so it's way too soon to get excited about it. Thus, while SRI fans do have better overseas options than they used to, they don't have any terrific ones.

Social Criteria

Finally, investors who opt to cobble together all-SRI portfolios—or simply want to own more than one SRI offering—are likely to end up dealing with a variety of screens and social criteria. SRI funds differ in the screens they use, how strictly they apply their screens, and whether they take proactive steps to advance their social agendas or not. This means that investors who own multiple SRI funds may end up being thrilled with the social standards of one holding, reasonably satisfied with the social criteria of a second holding, and pretty disappointed with the social standards of a third holding.

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