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Green investments taking root

Socially Responsible Investing is becoming a growing trend and advisers are stirring clients in that direction

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SPECIAL TO THE STAR

Sucheta Rajagopal buys organic vegetables. She takes the TTC and doesn't own a car. Her home is powered by green energy, thanks to Bullfrog Power.

Meet the new breed of investment advisers. Advisers who specialize in Socially Responsible Investing are more likely to drive a bicycle than a BMW. These advisers are focused on the bottom line, but they're also eco-minded and concerned about social justice.

Rajagopal, an investment adviser with Hampton Securities Ltd., decided to specialize in SRI because of her own concerns about social justice. Socially responsible investing, she explains, "is a way of integrating your values into the investing process." And that means looking at companies' environmental, social and governance practices.

When it comes to building portfolios for clients, Rajagopal is directed by clients' risk tolerance, financial goals and time horizons, but she's also guided by the social issues her clients are concerned about. Some clients are especially focused on the environment while others may be more interested in human rights.

"I have a questionnaire I use with clients that says how important are these things to you? For every client, it's different."

SRI advisers use different screening tools when building an investment portfolio. Negative screening excludes companies involved in certain industries. For example, many of Rajagopal's clients do not want to invest in companies in the tobacco industry.

Positive screening focuses on finding companies that are making progress within sectors, such as mining, that may not be known for outstanding performance when it comes to environmental or social justice practices.

SRI mutual fund companies, such as Meritas, use positive screening, accompanied by shareholder action, to encourage corporations to improve their environmental, social and governance behaviours. Shareholder action may involve meeting with company officials or filing shareholder resolutions to press a particular environmental or human rights issue.

Positive screening allows socially responsible investors not only to achieve greater diversification in their portfolios but also to influence company practices, says Kevin Towers, a financial planner, who specializes in SRI, at GP Wealth Management.

"If you take an active position in a company, a shareholder position, you can encourage better behaviour whereas if you don't invest at all, you really don't have a voice in what that company does," says the planner, who once owned a recycling company.

Both Towers and Rajagopal say occasionally they've had to explain to potential clients that SRI doesn't mean lower returns.

"We don't have to sacrifice returns at all," Towers says. "Adhering to SRI principles correlates highly with prudent management practices and results in higher profitability and better share performance in the long term."

Towers explains that companies with better labour practices have "happier, more productive employees in the long term and fewer possible liabilities down the road in the form of wrongful dismissal lawsuits."

In addition, eco-minded companies that produce less waste tend to be more profitable because "it costs companies to deal with waste in whatever form it takes." The less waste generated, the less money spent on dealing with that waste.

Rajagopal adds "there have been a lot of studies that show that companies that have good governance policies will outperform."

For example, if a company building a pipeline meets with the community who will be displaced by the pipeline and together builds a plan for relocating the community "you're going to see that infrastructure project happen probably more smoothly than a company that just says, `We don't care about these people. We're just coming through.' In the latter case, protests and work stoppages will likely occur. Those things all contribute to the bottom line."

When helping clients build portfolios, SRI advisers have more selections to choose from than ever before. In the last decade the number of SRI funds has greatly increased, Rajagopal and Towers say.

"You have Canadian equity funds, balanced funds, small cap funds, foreign funds, and American equity funds," Rajagopal says.

As SRI funds grow in popularity, it's difficult to describe a typical socially responsible investor because the investors come from different professions and are different ages, from first-time employees to retirees.

One belief many socially responsible investors and advisers share is that investments cannot only help investors achieve financial goals, they can make the world a better place.

As Rajagopal says, "I go out of my way with my consumer dollar to find organic produce and fair trade products and buy clothes from companies that are adhering to labour standards and not using child labour. I want my investment dollar to do the same thing."