

Climate change concerns spawning interest in socially responsible investing

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MONTREAL - Some call it the Al Gore effect, others say it's just makes good business sense.

Concern about climate change, popularized by the former U.S. vice-president, has helped to accelerate interest in green and socially responsible investing, say industry experts.

In six years, the assets of socially responsible investment (SRI) funds have grown nearly 10-fold to \$609 billion from \$65.5 billion, according to the Social Investment Organization, a non-profit association that is the voice for the socially responsible investment industry in Canada.

“One of the big drivers in this has been the whole consciousness around environmental issues, largely as a result of climate change and the change in consciousness on global warming,” says executive director Eugene Ellmen.

The desire to be part of the solution has pushed more to buy hybrid cars and organic food. Many are taking that next step by trying to use their money as tool to spur companies to improve their environment, social and corporate governance standards.

A majority of Canadians say they have an interest in having their investments reflect a sense of corporate responsibility, Ellmen said in an interview.

“We believe that the untapped potential of this market is huge.”

However, many financial and investment advisers fail to discuss this option with their clients, he said. The association is trying to educate professionals about SRIs, which only represents less than two per cent of total investments.

Socially responsible investments produce competitive rates of return and charge comparable fees, says Michael Jantzi, head of an independent investment research firm that evaluates and monitors the social and environmental performance of securities.

The Jantzi Index, which includes 60 Canadian companies chosen based on their environmental and social records, has outperformed the Toronto Stock Exchange since it was launched nearly a decade ago.

“This myth that you’re going to lose money just simply hasn’t proven true,” he said from Toronto.

It’s the reason that a growing number of institutional investors are turning to SRIs, even though interest by North American pension funds lags five to 10 years their European counterparts, said Jantzi.

As of 2008, Canadian pension funds have \$544 billion in socially responsible investments, up 26 per cent in two years. The amount includes fund managers like the Caisse de depot et placement du Quebec, whose assets are included in the total because it follows a socially responsible investment policy.

Excluding pension funds, Canadian SRI assets declined 5.6 per cent in two years to \$54.2 billion in 2008 because of market conditions. But they are up from \$37.8 billion in 2004.

Dermot Foley, vice-president strategic analysis for Inhance Investments which has \$75 million of assets under administration, said its funds have “tracked the market within 100 basis points.”

Because diversity is important to good investing, Foley recommends investors consult with professionals, especially when considering SRIs.

Inhance invests in companies that have demonstrated records on environmental and social leadership, human rights policies, community relations and corporate governance.

It selects companies judged best in their sector even though they may not have unblemished environmental records. Despite its involvement in the oil sands, Suncor Energy (TSX:SU) is on the list because of its environmental efforts, but Imperial Oil (TSX:IMO) is not.

The mutual funds include between 40 and 200 companies.

Foley said those interested in investing in individual companies or pure environmental funds must be prepared to absorb higher risk and volatility because many of the companies are new or small players.

Most SRIs avoid tobacco companies, weapons producers and the nuclear power industry, all because they’re viewed as unsustainable in terms of their contribution to society.

Socially responsible investors tend to be more active with their investments, pushing managers to question company policies and introduce shareholder initiatives, he added.

The efforts of Meritas Mutual Funds, for example, helped to push Canadian companies, including banks, to agree to give shareholders a say on the remuneration of senior executives.

While the number of investment options has grown, there still aren't enough SRI funds available to cover all the bases required by most investors, says Adrian Mastracci, portfolio manager of KCM Wealth Management.

Most SRI funds contain a basket of sectors which some clients may find objectionable. Those opposed, for example, to the oil sands, may have limited investment options, he said.

"Five years from now you're going to get a lot of SRI products, today it's going to be difficult to do the whole portfolio with SRI," he said from Vancouver.