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Socially Responsible Investing:

Integrating Your Values with Your Financial Plan

It's not unusual for people to question just exactly what they are investing in. Sure they want to invest in profitable businesses, but they don't want to find out that this means businesses that prosper from unethical behaviours. "Socially responsible investing" might be defined as making investment decisions that factor in your personal values and your concerns for society with your financial needs.

Socially responsible investing (SRI) comes in different flavours. One way to invest in a socially responsible fashion is to include businesses based on positive criteria, such as good labour relations or corporate citizenry. Another way is to screen out investments based on negative criteria, such as companies that derive a significant part of their revenue from gambling, tobacco, alcohol, or nuclear power.

The mandate of these funds is to avoid investments in serious polluters, tobacco, and weapons manufacturers and in utilities involved in the production of nuclear energy.

Currently in Canada there are approximately three-dozen socially responsible investment funds, including funds from Acuity Funds, Ethical Funds, Mackenzie Financial, and Investors Group. With total assets of more than \$2 billion, Investors Group's SUMMA Fund is the single largest SRI fund in the country.

Vancouver City Savings Credit Union was one of the early adopters of the idea of socially responsible investing in Canada. In 1986 the Ethical Growth Fund offered individual investors the opportunity to invest in a socially conscious manner. The mandate of these funds is to avoid investments in serious polluters, tobacco, weapons manufacturers, and in utilities involved in the production of nuclear energy. The fund managers also strive to invest in companies that encourage progressive industrial relations and who are committed to implementing environmentally conscious practices.

Canadian SRI mutual funds experienced spectacular growth during the 1990s. In 1989, SRI mutual fund assets totalled about \$102 million, a number that ballooned to \$3.8 billion by the end of 1999. This represented a growth rate of more than 3700 percent during the 1990s. Between 1989 and the end of October 2001, SRI mutual funds grew at about four times the pace of the industry overall.

As a financial planner, my concern with specialty products like these is whether there might be some sacrifice of investment performance. The great news is that socially responsible funds have demonstrated there doesn't need to be a trade-off between performance and your value system.

The Jantzi Social Index® (JSI) was created in 1998 by Michael Jantzi Research Associates Inc. The Jantzi Social Index will consider investment opportunities in companies that have no significant

involvement in the production of nuclear power, tobacco products, or weapons-related contracting. The index will also look at the areas of business practices, community, diversity, employee relations, environment, international and human rights, and product safety.

From its inception on January 1, 2000, through December 31, 2003, the JSI gained 6.68 percent, while the S&P/TSX 60 lost 1.75 percent and the S&P/TSX Composite gained 3.62 percent over the same period. The Jantzi Social Index was back-tested against the TSE 100 Index and the TSE 300 Index, which do not screen companies based on socially conscious criteria, from 1994 to 1999. During this time frame, the Jantzi Social Index again outperformed both the TSE 100 and the TSE 300.

This is one example of good investment performance from socially responsible investing and there are others. The bottom line is that running a business in a socially responsible way often makes good business sense. That translates into good performance from an investment point of view.

The Calvert Group in the US and Michael Jantzi Research Associates in Canada specialize in evaluating companies based on socially responsible criteria. More information can be found at www.calvert.com and at www.mjra-jsi.com. ▲

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