



Introduction

Socially responsible investment (SRI) is the inclusion of social, environmental and governance considerations into the management and selection of investments.

Investors around the world are learning that they can be confident in their investment choices and feel good about their positive influence on organizations and their communities. They understand that financial performance can go hand-in-hand with social and environmental responsibility.

The Social Investment Organization has prepared the following fact sheets to help you become an informed socially responsible investor:

Fact Sheet #1: [What is Socially Responsible Investment \(SRI\)?](#)

Fact Sheet #2: [Screening Basics: Evaluating Investment Choices](#)

Fact Sheet #3: [What is Community Investing?](#)

Fact Sheet #4: [What is Shareholder Advocacy?](#)

Fact Sheet #5: [Does Social Investment Lead to Social Change?](#)

Fact Sheet #6: [The Performance Myth: Do Social Investors Sacrifice Returns?](#)

Fact Sheet #7: [Why Choose a Member of the SIO as Your Financial Planner?](#)

The Social Investment Organization also makes it easy for you to find a professional [financial advisor](#) in your area who has knowledge of available SRI products and will consider your personal values and financial objectives.

About the Social Investment Organization

The Social Investment Organization (SIO) was established in 1989 as Canada's association for socially responsible investment. SIO members include financial institutions, investment firms, financial advisors, and various organizations and individuals interested in socially responsible investing. Our members serve more than half a million depositors and investors in Canada. The mandate of the SIO is fourfold:

- To take a leadership role in furthering the use of social and environmental criteria within the investment community in Canada
- To raise public awareness of socially responsible investment
- To establish the case for environmental/social analysis with other investment organizations
- To provide a forum and information source on socially responsible investment for our members and the public

SIO members believe that socially responsible investment represents a useful investment tool to enhance returns and reduce risk. It is also a catalyst for positive social change.



Socially responsible investment (SRI) is the inclusion of social, environmental and governance (ESG) considerations into the management and selection of investments. There are two categories of socially responsible investment: Core SRI, rooted primarily in values-based decisions about appropriate companies or sectors for investment selection; and Broad SRI, which reflects more of a financial concern with the risk and return considerations posed by environmental, social and governance issues.

Core SRI strategies

Positive and negative screening, such as tobacco, alcohol, environmental performance, human rights violations, community involvement and employee relations. Screening involves the application of pre-determined social or environmental values to investment selection. The aim is to screen out particular companies or sectors based on values choices, or to positively select companies considered "best of sector." [See Fact Sheet #2]

Community Investment. This is the investment of money into community development or micro-enterprise initiatives that contribute to the growth and well-being of particular communities. The idea is to reverse the drain of capital and income that debilitate low-income communities. [See Fact Sheet #3]

Socially responsible lending. This is the process of issuing loans to borrowers selected on social screens or community economic development. It is typically done by institutions (VanCity Savings and Citizens Bank are the most prominent institutions involved in this activity), but it can also be done by individuals as part of a community investment strategy. [See Fact Sheet #3]

Broad SRI strategies

Integration of ESG strategies into analysis and investment. This brings together environmental, social and governance (ESG) considerations with traditional financial management to bring a larger perspective to investment management and selection. It leads to an emphasis on investment in ESG leaders, rather than just a reliance on financial factors alone.

Proxy Voting and corporate engagement. This is the process of using shareholder influence to help to bring about positive social environmental change at corporations. This can include corporate engagement (communicating with management on particular issues), filing shareholder resolutions and using the threat of divestment (selling shares and discontinuing investment in a company) to bring about positive change. [See Fact Sheet # 4]



Socially-responsible investment screening involves selecting companies in a portfolio based on social or environmental criteria. Typically, socially responsible investors exclude or screen out certain companies for products or practices that have a negative social or environmental impact. Positive screening involves selecting companies based on their positive contributions to society or the environment.

Social investors know there are no *perfect companies*. The screening process attempts to identify companies that are well-managed, that produce socially useful products and that treat their employees, suppliers, customers and the environment in which they operate well. Screening decisions can involve some trade offs which are informed by careful research and evaluation.

There are a large number of social and environmental issues that investors can use to select investments:

- ❑ *Charitable Contributions.* How much and what kinds of charities does the company contribute to?
- ❑ *Community Involvement.* Does the company support local programs strengthening the community in which it operates?
- ❑ *Ecology and Environment.* Does the company operate according to sustainable development practices? Is it working to improve its climate change practices?
- ❑ *Labour Relations.* Does the company have a good record with regard to treatment of its employees? Do contractors of the company use sweatshop or child labour?
- ❑ *Minority Groups.* Does the company have a good record in dealing with minority groups?
- ❑ *Product Safety and Quality.* Does the company produce safe, reliable products or services?
- ❑ *Weapons.* Is the company a major military contractor?
- ❑ *Women.* Does the company have a good record on its treatment of women generally and its female employees in particular?

Social and environmental screening allows investors to invest in a manner that is consistent with their values while also assisting them to identify companies that are more profitable and sustainable in the long term. In Canada, the assets and earnings of screened mutual funds and labour sponsored funds are tracked by the Social Investment Organization and are available at www.socialinvestment.ca.



Community investing consists of direct investments in projects that benefit specific communities or constituencies, especially in economically disadvantaged areas. These investments usually take the form of loans or equity investments that can be either at or below market rates. In Canada, community investment includes:

- ❑ *Micro-enterprise Lending.* Community-based organizations providing capital for micro-entrepreneurs unable to obtain capital from conventional financial institutions. Loans are usually less than \$25,000 with typical loans in the \$2,000 - \$5,000 range.
- ❑ *Community Development Venture Capital.* High risk loans or equity placements in locally based businesses meeting community or social needs. This sometimes includes non-profit development organizations but can also include venture capital companies. The focus here is on businesses with an emphasis on community-building that meets local needs.
- ❑ *Non-profit Lending.* Lending to non-profit organizations pursuing a social mission that are unable to obtain capital from conventional financial institutions. This is usually done by non-profit lenders.
- ❑ *Co-operative Development.* Funds making loans or equity placements in new co-operatives.
- ❑ *Lending for social or affordable housing.* Risk mortgages or construction loans for housing targeting low-income markets.
- ❑ *Economically Targeted Investments (ETIs).* These are community development investments made by pension funds or other institutions.
- ❑ *Other forms of locally-based investment* targeted to meeting the needs of particular communities or groups.

Community investment helps to link local investors, consumers and business - embodying the philosophy of "think globally, act locally."

Community investors want their investments to help generate a high "social return" in the form of local job creation, the development of local enterprise, the provision of affordable housing and the empowerment of workers and consumers. These investors are generally willing to accept a slightly lower financial return as a result. For more information on community investment, please visit the Canadian Community Investment Network at www.communityinvestment.ca



Shareholder Advocacy is the process of using shareholder influence to help bring about positive social and environmental change in corporations. Institutional investors such as foundations, mutual funds, trusts, investment pools and pension funds usually initiate change. However, individual investors can also be "active shareholders". The process usually includes one or more of these steps:

- ❑ *Corporate Dialogue.* Individual investors and institutions can engage directly in dialogue with companies around issues of concern. Investors can identify areas of improvement for individual companies and then try to persuade these companies to commit themselves to improving their performance. Through telephone calls, letters and meetings, social investors press management to address issues of concern to them.
- ❑ *Proxy Voting Policies.* Institutional investors such as pension funds and mutual funds can also develop proxy voting guidelines which reflect their position on key issues for social change. Mutual fund companies such as Meritas and Ethical Funds have socially responsible proxy voting guidelines and post them on their websites.
- ❑ *Shareholder Proposals.* In cases where companies are not responsive or where dialogue breaks down, social investors can take their concerns directly to other shareholders through the shareholder resolution process. In recent years, shareholder proposals have been presented on sourcing of lumber products for Home Depot and establishing codes of conduct for vendors of Sears Canada and HBC. [See Fact Sheet #5] Recent changes to the law governing corporations in Canada will make it easier for shareholders to submit proposals on social and environmental issues in the coming years.
- ❑ *Divestment.* If corporate management is adamant that it does not want to heed your wishes as a shareholder, you may want to consider selling your shares as a way to show the managers your displeasure with their lack of action. Divestment is also a means to ensure that the portfolio is ethically consistent with the views of investors or other stakeholders.



What evidence exists that shows that investment tied to social and environmental goals changes company behaviour?

Socially Responsible Investing (SRI) has been perceived primarily as a negative approach to investing. That is, many see it as the process of eliminating "bad" companies from a portfolio. However, SRI includes more activist approaches to social responsibility that use economic and political interventions in an attempt to make economic practices more democratic and workplaces more humane.

- Social investors have begun over the last decade to influence company behaviour. Examples from the last few years include the successful campaigns to protect old-growth temperate rainforests in British Columbia. Partially as a result of pressure from a coalition of investors (including Canadian-based Ethical Funds), Home Depot agreed to phase out its purchases of wood products from old-growth forests. As one of the largest consumers of wood products in North America, Home Depot has agreed to source wood products from forests certified by the international Forestry Stewardship Council.
- On sweatshop and labour issues, shareholder proposals have asked Sears Canada and HBC to comply with the International Labour Organization's labour standards and report on compliance to shareholders. Though the proposals failed to pass, they generated enough attention that management at HBC has agreed to examine the issue.
- Predatory Lending. A shareholder resolution prompted Citigroup - one of the biggest financial services corporations in North America - to take steps to improve the way it serves low-income communities. In late 2000, a coalition of church groups and other socially responsible investment institutions asked Citigroup to develop policies to ensure that no employee or broker engages in predatory lending practices.*

For information on the latest issues of concern to social investors, visit the Social Investment Organization at www.socialinvestment.ca

* Predatory lending targets low-income borrowers who don't qualify for prime rates and involves excessive fees and interest rates, hidden costs, unnecessary insurance, and other abusive practices. Predatory lending has been blamed for stripping the equity from the homes of people in low-income communities.



Many investors assume that there is a financial cost to employing social and environmental criteria in investment decisions. However, a growing body of evidence indicates socially responsible investments (SRI) can perform as well as conventional investments. In some cases, they have performed better.

In the US, the Domini Social Index (DSI), an index of 400 socially responsible companies, has outperformed the Standard & Poors 500 on a total-return basis and on a risk-adjusted basis since its inception in May 1990. For current data, visit www.kld.com.

In Canada, Jantzi Research Inc. has created the Jantzi Social Index, an index of 60 Canadian companies selected on social responsibility criteria. The index was launched in January, 2000. The data shows that the JSI index has outperformed its conventional benchmark. For current data, visit www.jantziresearch.com.

The cause of such outperformance is a matter of some academic debate. Some researchers believe that this outperformance is due to investment factors, such as sectors, industries, capitalization or other factors. Others believe that there is a social premium, that socially responsible screening leads to higher returns because of social and environmental factors, such as far-sighted management, higher productivity, lower legal and social liabilities and market opportunities. A full discussion of these issues is available at www.sristudies.org.

An academic study* comparing Canadian SRI mutual funds with conventional mutual funds found that investing in a socially responsible manner has a neutral effect on returns. Moreover, the same study suggests that socially responsible screening may even reduce investment risk.

What is clear is that -- contrary to conventional wisdom -- investing according to social and environmental screening does not mean lower returns. In fact, in some cases, social screening can produce higher returns.

* Asmundson, Paul and Foerster, Stephen R. (2001) "Socially Responsible Investing: Better for Your Soul or Your Bottom Line?" *Canadian Investment Review Journal*. <http://www.investmentreview.com/archives/2001/winter/social.html>



For individuals who are interested in social investment, finding an investment advisor sympathetic to their needs can be a challenge. You are looking for *professional competence* - someone with the requisite knowledge of financial planning who will also empathize with your values, goals and objectives for your investments.

Every financial advisor member of the SIO is a practicing professional financial planner who can assist you with your investment decisions. SIO advisors are also advocates of socially responsible investment (SRI) and share the conviction that social investment provides investors with prudent social and environmental analysis as well as serving as a powerful tool for social change. Social investment can demonstrate that financial performance and social responsibility are not mutually exclusive.

SIO member advisors are:

- ❑ Familiar with the concept of SRI and sympathetic to your desire to have the companies you own shares in (stocks or indirectly through a mutual fund) or lend money to (bonds) reflect your personal values
- ❑ Familiar with the range of socially screened investment products currently available (stocks, bonds, mutual funds, and labour-sponsored investment funds)
- ❑ Familiar with sources of *financial and social* research available to socially aware investors
- ❑ More likely to focus efforts and resources on issues of interest to social investors
- ❑ Supportive of the SIO's principles and standards for professional members which includes availing themselves of opportunities for continuing education in the field of SRI whenever possible

Establishing a portfolio of investments with social and environmental considerations is possible when you work together with your financial advisor to identify the issues of most concern to you and your family. For more information on SRI, visit www.socialinvestment.ca