# Making a positive impact

Socially responsible investments making a difference

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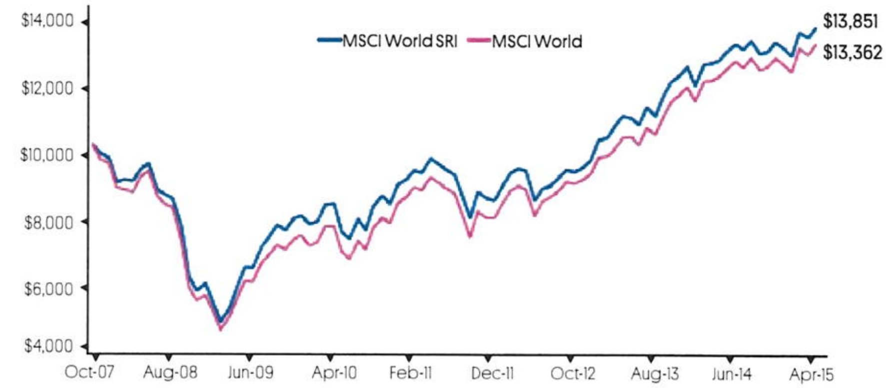
Considering environmental, social and corporate governance (ESG) criteria in your investment decisions is the basis of Socially Responsible Investing (SRI). With SRI, the goal is to generate attractive long-term financial returns and have a positive impact on society. If you're looking to align your social values with your investment portfolio, then SRI funds may be worth a closer look.

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### WHAT IS SRI?

SRI is broadly defined as the integration of social and environmental principles into the selection and management of investment portfolios. A large number of asset management firms and pension plans incorporate SRI into their investment selection process. According to the Responsible Investment Association, more than $1 trillion of investments in Canada follow some form of SRI discipline. This includes mutual funds as well as pension plans such as the Canada Pension Plan and Ontario Teachers' Pension Plan along with individual stock selection. SRI strategies can incorporate screens and research disciplines to identify firms that score well for their social impact and avoid firms that score poorly. In this framework, each investment is evaluated based on three specific factors: environmental, social and corporate governance (ESG). Typically, this process leads SRI portfolios to exclude firms with significant revenues from the production of tobacco, alcohol, nuclear energy, gambling and weapons. Some proponents of SRI go a step further and push for change by engaging companies through discussions with management, filing shareholder resolutions and using shareholder votes in accordance with SRI principles.

### ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE FACTORS

#### ENVIRONMENTAL

An environmental analysis typically looks at the steps and procedures taken by a company to prevent pollution and waste, reduce greenhouse gas emissions and improve overall environmental practices. It is important to note this is not necessarily "green" investing, which tends to focus on producers of renewable energy products like solar, water and wind. Core to many SRI portfolios is the idea of "best-in-sector" where even a company in the oil and gas sector can qualify as acceptable if it follows environmental best practices for that industry, or responds to environmental challenges better than its peers.

#### SOCIAL

Social analysis looks at factors dealing with the workplace environment including issues related to human labour-management relations. A company's products are also reviewed with respect to safety and quality. Social aspects like community involvement and philanthropic activities are also considered.

#### CORPORATE GOVERNANCE

Governance reviews seek to determine whether the interests and goals of company management are aligned with shareholders. This is accomplished by evaluating executive and board compensation schemes, management accountability and shareholder rights.

#### SRI PERFORMANCE

While there's no clear link between SRI disciplines and investment performance, the chart shows the performance of a popular global equity market benchmark and its SRI counterpart. The SRI approach has historically led to slightly better results in this case, although the margin was quite narrow. Perhaps more important is the fact that the SRI discipline did not lead to underperformance in this case, despite the more limited range of investment possibilities in the SRI portfolio.

If you are looking to adopt a socially conscious investment approach, SRI can help to align your investment portfolio with your social values without compromising your potential long-term returns.

1. Responsible Investment Association. "Canadian Responsible Investment Trends Report." www.riacanada.ca/trendsreport