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Article from : National Post (f/k/a The Financial Post) (Canada)

Date : February 2, 2008 Saturday

Feel good, make money; Ethical funds 'no longer just a niche'

Lisa Ashcroft sleeps well at night knowing she has invested responsibly for her children's future. Not only is her RRSP portfolio delivering healthy returns, it is invested in companies committed to a healthy world for when her daughter, Jamie, age nine, and son, Andrew, 12, grow up.

"Obviously, we all want to make money investing," acknowledges Ms. Ashcroft, a single mom who lives in Whistler, British Columbia. "I'm really happy I'm invested in sustainable companies. I'm hoping the world will still be a good place to live when I retire and when my kids are older."

Ms. Ashcroft is one of a growing number of Canadians leveraging their retirement investments to affect change in the corporate world. Through what has come to be known as **socially responsible investments, SRI** for short or just plain ethical funds, investors are able to put their money where their conscience is.

Even better is that many SRI funds have in recent years outperformed their conventional counterparts.

A full 65% of the Vancouver-based Ethical Funds Company's assets performed above median during 2007, while the Jantzi Social Index of 60 SRI-screened companies (available through Meritas Mutual Funds or as iShares Cdn Jantzi Social Index Fund) consistently delivers returns slightly higher than the S&P/TSX 60.

"It does demonstrate there is no sacrifice for investing in SRI, and in fact, there may be some performance benefits," says Eugene Ellman, executive director of the Social Investment Organization, the SRI industry's trade association.

Over the past year, mainstream financial institutions have jumped into the genre, with the Royal Bank, TD Bank, Barclays and Bank of Montreal all launching SRI fund options.

The selection of funds is growing in response to consumer demand, says Mr. Ellman. The number of companies his organization tracks has swelled from a handful in 1989 to 102 to date, he says. "SRI appeals to mainstream values of Canadians so now very mainstream mutual fund companies are active in SRI funds. They're no longer just a niche," says Mr. Ellman.

Michael Jantzi is president of Jantzi Research and founder of the Jantzi Social Index of SRI-compliant companies, which RBC and Barclays now offers as a mutual fund.

"I've been doing this for 18 years and I've never seen the interest on the retail side in socially responsible investing that we're seeing today," says Mr. Jantzi. "The difference is people are not just thinking about it. The sense I get is they are compelled to act. They really feel like they need to do something."

Mr. Jantzi says he didn't have to sell the big banks on the Jantzi-screened SRI mutual funds. "These are large, smart, sophisticated companies that don't make decisions based on sentiment. They make them based on hard-core business parameters."

SRI companies that are selected for funds are screened and rated based on their environmental practices, human rights practices and corporate governance transparency.

Elaine McHarg, senior vice-president of marketing for the Ethical Funds Company, suggests a heightened awareness of global warming has prompted more Canadians to invest ethically. "We have had much more dramatic weather, which makes it very real for people. When it starts to affect you directly, people take notice."

Ms. McHarg adds the screening process applied to SRI funds can serve as a better assessment of risk for novice investors. "We have two sets of analysts looking at a company from different vantage points, so when they agree that a company should be invested in, it gives you a better long-term look."

Even if the returns lag, more investors such as Ms. Ashcroft simply want to know their money is doing some good.

"Rather than opening up her pocketbook and giving money to a local charity, she realized that through socially responsible investing she could get some sort of leverage to activism because her money's being pooled with other investors who share those same values. Plus, Ethical Funds can use their power at meetings of shareholders to press for change," says Ben Eylon, Ms. Ashcroft's financial advisor at North Shore Credit Union.

Next on the SRI horizon, according to Mr. Jantzi, will be solid portfolios of companies delivering sustainable technologies such as alternate energy sources. He calls these "groovy companies."

"Canadians want to be investing in companies that will be making a difference and shifting the economic paradigm," he says.