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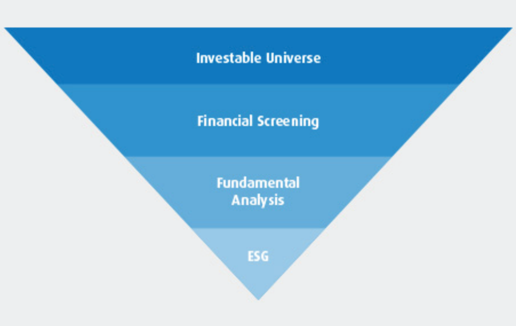
BMO Global Asset Management



Responsible Investing: An Advisor Success Story

Shortly after starting Dolan Wealth Management in 1995, a client asked Patti Dolan to shed some light on the Dow Jones Sustainability Index in development. At the time, sustainability was new vernacular, and the criteria, a new lens through which to vet securities. When three companies from her hometown of Calgary made the cut – including Suncor Energy, an in-demand oil sands opportunity – Patti was intrigued.

20 years later, this discretionary portfolio manager not only screens investments based on environmental, sustainability and governance principles (ESG), she's a sought-after spokesperson for responsible investing (RI), a thought leader about ethical business practices, an engaged community advocate, and in the spirit of living green, cycles to work – when Calgary weather cooperates.

Responsible Investing – the early days

First off, the jargon is often confusing to clients (sustainable, ethical, etc.), so I explain that the over-arching term is *responsible investing*. The three pillars of RI, essentially how to vet securities for RI, are based on environmental, social and governance (ESG) principles. RI has come to encompass: ethical investing, socially responsible investing, sustainable investing, green investing, community investing, emission-based investing, and more recently, impact investing. What's more, growing evidence suggests that RI not only reduces risk, it can generate better returns over the long-term.[1]

In the mid-1990s, ESG reporting was superficial. Corporations mentioned their "strategies" – local sports sponsorships or recycling efforts – in passing, often as a paragraph or two in a CEO letter. In those early days, I was curious – if sceptical – about getting my head around the process of looking beyond fundamentals. Portfolio choices were limited, and of the few funds available, performance wasn't all that great; it was more a matter of excluding the so-called "sin" stocks (i.e., tobacco, liquor, gambling and weapons manufacturers.)

Today: Opportunity… not opportunity cost

Today, RI is a more complex and diverse proposition – rife with opportunity rather than opportunity cost – as companies disclose, and are measured by, workplace practices, governance policies and environmental impact, among other criteria.

RI has become increasingly entrenched in the way companies do business; for example there's Enbridge, Inc. and Suncor, into renewables, and Unilever, which subscribes to the concept of "shared value" – actually realizing a financial benefit by creating social change. The *United Nations (UN) Global Compact* – the world's largest corporate sustainability initiative with 8,000 companies – has also been an influencer, and I was pleased to participate by attending UN sessions in New York, and reviewing sustainability reports.

I've always said that I'd love it if my practice was no longer considered niche – and I'm heartened by the shift taking place: publicly listed large caps who now formally report good business practices; the new wave of investment solutions; and established indexes to benchmark portfolio performance against sustainability leaders, including the Dow Jones Sustainability Index, the Corporate Knights' Global 100 Index, the FTSE4Good Index, Jantzi Social Index®, and the MSCI ESG Indexes.

Nothing radical: Conventional portfolio construction

I think many advisors would be surprised to learn that I don't use a Ouija board… my screening process is conventional, and consequently, many of my portfolio positions would be similar. Like my peers, I look at the overall economic landscape first, and drill down in the investible universe to vet company financials, cash flow, debt, etc. If the fundamentals don't line up, they're off the list. Then I look at ESG criteria for any red flags. If those best practices are in order, typically the result is a sound investment.

After applying conventional due diligence, I vet an organization's environment impact, community involvement, business practices and governance policies to identify possible risks.

There are still a lot of misperceptions out there. Prospects I meet have been told – *by their former advisors* – that they can't invest with a conscience… there's no choice, they'll lose money. The truth is, there's not only a diversity of large-cap companies adhering to ESG principles; there's also a level playing field, with the benchmark Jantzi Social Index® tracking – or outperforming – the S&P/TSX Composite and the S&P/TSX 60.[2]

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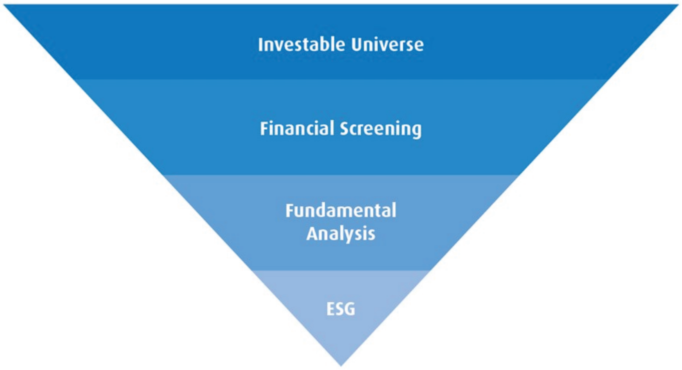

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Comparative Returns: December 1999 - December 2015

Source: Responsible Investment Association.

How to get started

For those interested in taking a first step toward enhancing their practical knowledge, I suggest the Canadian RI Fundamentals course offered by the Responsible Investment Association (RIA) Canada. It's a great way to equip you for client conversations – and it's also CE-credit-eligible.

If you're looking to enhance the client relationship – and engage in a different, deeper-level discussion – I've found over the years that the subject matter itself is of interest. For prospective clients, RI is a conversation-starter, and a value-added educational piece. Sometimes I lead with the question, "*What if you woke up one morning to realize that your investments had done wrong?*" Looking at the underlying investments of a fund this way is thought-provoking, and causes people to wonder if their investments actually do align with their personal belief system. It's a wake-up call to be sure, but also empowering to realize that there is choice.

Growing demand for RI

RI is the fastest-growing area of my business, so my advice to those who want to attract and retain clients is to get informed. The affluent investors who gravitate toward my practice simply want to see their values or moral convictions reflected in their portfolios. I also deal with intergenerational wealth, from grandparents to grandchildren. It's not surprising that my approach resonates with millennials who have inherited large sums or have come into trust money. They want to do things in a different way – through responsible or impact investing. This area is my passion, but it's also an excellent business development tool. There is a rapidly growing market of clients who appreciate a strategy that uses measurable ethical, social and environmental criteria to make exchange traded fund and mutual fund decisions, without sacrificing performance.

Given my expertise, David Clarke, my BMO Global Asset Management wholesaler, was eager to discuss their new BMO Fossil Fuel Free Fund and BMO Women in Leadership Fund – timely solutions that put a spotlight on ESG principles. The former reflects an interest in renewables, and the impact of fossil fuels on climate change. The latter contemplates the impetus on social change – particularly relevant as CSA guidelines now include disclosure of gender-diversity policies and practices at the board and executive officer levels.

Walking the walk

One of the main reasons I came to Raymond James is because they were really supportive of what I was doing, and quite excited to have me onboard. They've been a true partner in helping to develop my portfolio platform. We're aligned in that community involvement is a big part of their value system.

My clients know that I'm not only committed to them, but I also believe in protecting the environment, active community engagement, and doing my part to be a change agent through board service that includes RIA Canada and Vibrant Committee Calgary, the steward of Enough for All, Calgary's poverty reduction strategy. I'm a member of numerous organizations like the Women's Executive Network, University of Calgary Sustainable Investment Committee and Respect for the Earth and All People (REAP), a Calgary sustainable business association.

I try to walk the walk. Happily my approach in life, and business, leads to some very deep, long-term client relationships.

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To learn more about BMO Fossil Fuel Free Fund, read "Fossil-Fuel Free: Good for Your Portfolio, Better for Your Conscience" – also in this issue of Insights. In case you missed it, BMO Women in Leadership Fund was the focus of "Impact Investing without Opportunity Cost" – an article in our June issue. For information on these, or other solutions to enhance your practice, contact your BMO Global Asset Management Regional Sales Representative.

[1]Responsible Investment Association.

[2]Sustainalytics.com/JSI.

Patti Dolan

CFP®, CIWM, FCSI®, RIAC, CIM®, Portfolio Manager, Dolan Wealth Management, Raymond James Financial Advisor

As an experienced and knowledgeable financial advisor I value the relationship with my clients. By operating within each client's risk profile and keeping your investment objectives in mind, a diversified investment strategy is designed which will achieve stable growth without taking unnecessary risks. I want to make sure my clients can sleep at night.

An area that I specialize in is Responsible Investing (RI) and have done so since 1995. RI is a screening process that focuses on environment, sustainability and governance. Individuals, businesses and organizations are aligning their personal values with their investment values. I analyse an investment with conventional methods, financial, technical and the overall economy, but then examine further how a company works within their community, impacts the environment and how they govern themselves and treat their employees. I utilize professionals who will engage with companies in improving their efforts in the ESG areas of their business.