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Responsible Investment Association

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Responsible Investing In Canada: Conference Covers Key Bases

By: Cary Krosinsky

Just back from what was an excellent, buzzing responsible investing conference in Toronto, ON. Called the RIA, what was until last year known as the SIO, is an annual gathering of financial professionals interested in or already working with applying environmental and social considerations to investment. Around 350 professionals gathered to hear a variety of topics discussed, all of which are gaining in relevance.

First off was a panel on the issue of economic inequality, featuring excellent speakers including Bob Walker and Michelle de Cordova, of NEI Investments; Kevin Ranney, of Sustainalytics; and Adam Kanzer, of Domini. Of particular interest was the recent effort to pass a shareholder resolution on Google paying a fairer share of corporate tax. Recent articles go into the details on this such as a recent piece in the Guardian.

Divestment Campaign

Next was myself, along with Dermot Foley, of Vancity and IA Clarington, on 'Carbon Constraints and Investment Strategy.' As per my recent About.com piece on 'The Problems with the Divestment Campaign,' I argued at length for those pitching for a divestment campaign to instead consider how to influence investment strategy, so that capital can enable the necessary energy transition. Foley eloquently stated the case for the strategies his firm deploys and, as he stated earlier this year for Corporate Knights, "It's part of our overall strategy of encouraging all participants in the market to wake up to the possibility of very real carbon constraints."

Another plenary went into detail on impact investing in Canada, one more case of the need for capital not yet met by adequate projects on the ground, as well as additional creativity within the sphere of allowable investment infrastructure. An impact investing fair followed, along with the first opportunity for detailed networking as conference attendees considered all they were hearing and learning.

For myself, the following morning provided the opportunity to sit in on one more panel on climate change and investment strategy, in which we went into more depth on this subject, including hearing from a representative of 350.org.

Prior to this, Mariam Dao Gabala, West African regional representative for Oikocredit, gave an eloquent and touching overview of impact investing in practice in Africa. He talked about a project to build a market for uneducated women to sell their produce which was a rousing success, leading to further related education and health facilities on the ground. Scaling such smaller ideas into capital which can be deployed to a larger extent is clearly the next hurdle, but providing case studies of success is as always a necessary first step.

> '… IMPACT INVESTING IN CANADA, ONE MORE CASE OF THE NEED FOR CAPITAL NOT YET MET …'

Other concurrent panels on the second day included talks on RI basics and anti-corruption, followed by a panel on the performance myth, how extractive companies can try to be sustainable, and more on human rights and digital technology.

Future Of Responsible Investing

The conference wrapped up on the final day with an indepth discussion on the future of responsible investment. While SRI is starting to make serious inroads, ESG really needs to be integrated by all mainstream investors, or certainly many more assets than currently is the case, so that meaningful environmental and social progress can be made and realized.

The annual responsible investing conferences in Canada are always excellent, as was the equivalent event in Montreal, QC, two years prior. This was the first iteration of RI Week in Canada, including other side events hosted by PRI and others.

In late September in Montreal, there is another week of events, in this case the Global PRI events, both the PRI In Person and Academic Network events. They are being co-hosted by the excellent folks at Concordia University. Not to be missed.

Canada is right in the middle of all that is happening in many ways – a resource rich country that is also keenly socially aware and focused, and environmentally concerned. Keep a keen eye on Canada as a country willing to dive in and tackle the world's toughest problems. ❖

Cary Krosinsky is an advisor, teacher, and author on issues pertaining to the nexus of sustainability and finance. He teaches and advises on sustainable investing curriculum for Columbia University's Earth Institute, in conjunction with Kerry Kennedy's RFK Center for Human Rights & Justice. He is also a senior associate at the University of Cambridge.

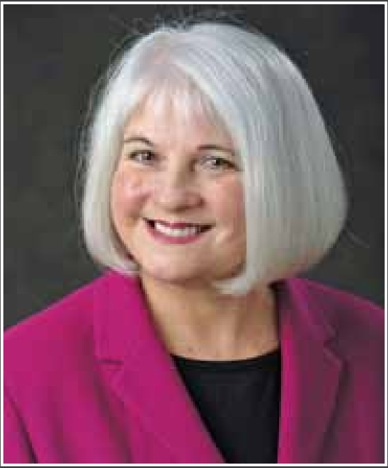
Responsible Investment Association

Cary Krosinsky

Advisor, Teacher, and Author

Columbia University's Earth Institute

Responsible Investing… Investing In The Future



Deb Abbey

Chief Executive Officer
Responsible Investment Association

By: Deb Abbey

Responsible investing has changed. It isn't about my values or your values anymore. It's about managing risk to long-term shareholder and stakeholder value. In the '80s and '90s investors were convinced that companies should focus entirely on shareholder value. We know better now.

Companies don't operate in a vacuum. They have employees, customers, suppliers, communities where they operate, sectors, regulatory environments, governments, international norms, and so on.

Responsible Investment, or RI, has come to represent socially responsible investment, ethical investment, sustainable investment, community investment, mission-based investment, and, more recently, impact investment. They are all components of RI.

Reflects The Evolution

RI reflects the evolution from just screening out companies that we don't like to integrating environmental, social, and governance or ESG criteria into the selection and management of investments.

Responsible investors have long known that the integration of ESG factors can provide superior risk adjusted returns and positive societal impact. What's changed in the past decade is that it's becoming a mainstream function of good investment practice, resulting in better, more informed investment decisions.

So why is this the case? It is because our world is very complex and the tools that investment managers have traditionally used to manage risk simply aren't up to the task anymore. Quarterly results just aren't enough. We need to know how the companies we invest in are managing the future and ESG analysis gives us a bigger and better window into their operations. It's just common sense.

Increasingly, investment managers are incorporating ESG analysis as a means of reducing risk, recognizing opportunity, and generating superior long-term financial returns.

In a world where climate change, water scarcity, and global supply chain issues dominate the business pages, that job has become a lot more challenging. There's a growing consensus that accurate valuations and proper risk management are only possible with adequate disclosure of how companies are addressing these issues.

The UN Sustainable Stock Exchanges Initiative has brought together eight exchanges to explore how they can work with investors, regulators, and companies to increase transparency on ESG issues. The world's largest stock exchange, the NYSE Euronext, recently joined the initiative.

Understand The Link

The goal is to encourage responsible, long-term approaches to investment. Stock exchanges are beginning to understand the link between profitability and responsibility. And recent research has shown that analysts are giving more positive recommendations to companies that address ESG risk.

With a growing body of evidence that ESG considerations have an impact on the financial performance of securities, the UK, Australia, France, and Germany now require that investment decision makers disclose the extent to which they take these factors into account. The Ontario government is considering similar legislation.

The RIA's 2012 Responsible Investment review reported that there are over $600 billion in RI assets in Canada. That represents 20 per cent of the overall assets under management (AUM) in Canada.

Those numbers reflect the views of Canadians. A Standard Life/Ipsos-Reid Survey in 2011 showed that 87 per cent of Canadians are interested in Responsible Investments if the performance is as good or better than other investments.

And a recent study by NEI Investments showed that four out of five investors expect advisors to have at least a broad knowledge of Responsible Investing. Their study also showed that many investors are more likely to work with an advisor who talks about Responsible Investing.

Reduce Risk

There are many RI managers in Canada who incorporate ESG factors to reduce risk and add value to active management strategies. Others use a best of sector approach. They identify the companies that are the best in their sector or class in terms of environmental protection, supply chain management, alternative energy, executive compensation, consultation with aboriginal communities, and so on.

Because it's not just about mitigating risk, still others take a thematic approach and invest in sustainable businesses. These are companies involved in energy efficiency, green infrastructure, and clean fuels, as well as companies providing adaptive solutions to some of the most challenging issues of our time. These are investments that present solutions to our problems and provide great opportunities for investors. ❖

Deb Abbey is the co-author of the '50 Best Ethical Stocks for Canadians' [2001] and the author of 'Global Profit and Global Justice, Using Your Money to Change the World' [2004].

HOOPP Takes A Green LEAP

By: Lisa Lafave

As a major commercial real estate investor, HOOPP (Healthcare of Ontario Pension Plan) places a great deal of importance on ensuring that the buildings it owns are 'healthy' buildings. And, as a long-term investor, it believes that enterprises that effectively implement environmental, social, and governance (ESG) standards are likely to be better managed and more financially successful than those that do not; making them better investments over time.

It is with this commitment to sustainability and industry best practices that the LEAP (Leadership In Environmental Advancement Program) Awards were launched in 2012.

The inaugural LEAP awards were presented to the 'Low Energy Leader' and energy and carbon certificates at HOOPP's commercial buildings recognized top energy performance. Since its launch, LEAP has recognized outstanding performance in the areas of sustainability and leadership engagement with industrial and retail tenants.

In future years, the awards program will look at other environmental indicators such as greenhouse gas emissions, carbon reduction, water consumption, and waste diversion. By building healthy, energy efficient, and high-performing buildings, HOOPP is delivering a long-term benefit to its tenants and to HOOPP's members.

With over $8 billion in real estate assets and more than 180 properties in Canada and around the world, real estate is an important asset class for the pension plan. Real estate produces regular monthly income which aligns perfectly with the need to provide pension benefits for its more than 286,000 active and retired members. HOOPP has more than $51.6 billion in net assets and is fully funded.

HOOPP is rapidly gaining an international reputation in responsible investment and environmental sustainability winning the Best Real Estate Investor Award in 2013 and the LEAP program has been recognized by the National Association for Industrial and Office Properties. ❖

Lisa Lafave
Senior Portfolio Manager, Real Estate
HOOPP (Healthcare of Ontario Pension Plan)

Why The SASB Is Important

By: Bruno Bertocci

Standards make a difference. While the importance of standards in our lives may not be obvious, their existence cannot be understated.

The comparability of financial data is reliant on common accounting and disclosure standards. The development of common accounting standards allows investors, asset owners, and analysts to compare the financial accounts of companies around the world on an 'apples-to-apples' basis. While some local adjustments may be necessary, and some judgment is involved in these comparisons, the key financial metrics that determine revenues, margins, assets, and liabilities are generally easily comparable.

Until recently, analysts that wanted to compare different companies with respect to their energy use, environmental waste, personnel practices, or safety records could collect data from a variety of sources. However, commonality of disclosure and comparability was challenging. In addition, determining the most material data was also difficult and subject to varying opinions.

The creation of the Sustainability Accounting Standards Board (SASB) in 2011 addressed these issues directly. The mission of SASB is to create "a world where transparent corporate sustainability performance and a shared understanding of its significance drive companies and investors to make decisions that increase long-term value and improve sustainability outcomes."

We believe that SASB is in the process of identifying the key data items that are most material to the assessment of a company's sustainability profile and it is also writing the accounting rules for the disclosure of this information. These developments should result in the elevation of sustainability data to the same plane, quality control, and certainty that we have for financial data.

Given that this information is material, we believe that there will no longer be any reason for investors to ignore it. On the contrary, academic work suggests this can improve and enhance the investment process, helping investors expand their mosaic of relevant data and adding to the batting average of stock-selection processes. ❖

UBS

Bruno Bertocci

Senior Portfolio Manager
and Managing Director

UBS Global Asset Management

SRI: Where You Fit Makes A Difference

By: Brian Holland

It appears that there are three basic categories of SRI investors and understanding where you fit will make all the difference.

The first group of investors are those that simply wish to placate their stakeholders by saying that, 'yes, indeed, the fund does employ an SRI manager.' You may say this is cynical but let's face it, socially responsible investing is a relatively new field and not everyone is onboard. For these individuals, you have numerous choices. Many investment managers have employed the services of an SRI screening service and use this data to modify an existing investment strategy. Based on the SRI screening report, a few names are eliminated and, voila, an SRI portfolio. In hiring such a manager, the normal criteria would apply (i.e. return, risk, style etc). In addition, one needs to assess the effect that SRI investing has had on the returns over time – if any.

The second group is those that wish to align the portfolio with their values. Normally these investors know which company or group of companies they dislike whether they are tobacco or fracking companies. In such a circumstance, a specialist SRI portfolio manager may not be needed, but rather the client instructs the investment manager what stock(s) to eliminate. But be warned; this approach requires effort on your part. The first hurdle is to have a well-informed understanding of the issue. It is not unheard of that companies are targeted for protest and internet vilification long after remedial action has been taken so it will take some effort to stay current on excluded companies. Just as important, if too many stocks are eliminated, it may be difficult for the manager to add value or build a properly diversified portfolio, not to mention the measurement of investment results. So don't be surprised if the manager pushes back on your request. The best approach for such portfolios is to limit your focus and be well-informed.

The final SRI group is 'active owners.' To satisfy the needs of this group, a comprehensive understanding of the company, industry, and government regulations is required. It involves the SRI manager trying to make their presence felt by ensuring that their proxy vote reflects their concerns, by engaging with corporate management directly, and by asking questions at the company's annual general meeting (AGM). Also, and if it is warranted, as a shareholder you have the right to put a proposal forward at the AGM.

Finally, such SRI programs might try to change the rules of the industry by engaging government regulators or industry associations. All these tactics take time and, as such, investment managers using this approach typically employ specialist SRI researchers that focus on these issues. These SRI programs can be very effective, but it is not worth the effort if you or your stakeholders just want something 'green.'

In summary, SRI programs and investment manager offerings can be very different. The place to start is to try to understand what you really want. ❖

Brian Holland

Senior Vice-president, Client Services

Guardian Ethical Management Inc.

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