Socially Responsible Investment and client expectations

Canadian Institute of Financial Planners
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Investing with principle

Socially responsible investing is all about making money and feeling good about it at the same time.

Getting great returns with a clean conscience

Socially responsible investing still going strong: official

There's nowhere to go but up

Being a socially responsible investor may make...
The SRI train is leaving the station.  
And your clients expect you to be on it.
What is the SIO?

• The Social Investment Organization (SIO) is the national membership-based organization for SRI
• Its members include financial institutions, asset management firms, fund companies, investment consultants, financial advisors, and organizations interested in SRI
• Mandate is to promote the practice of SRI in Canada
What is the SIO?
What is Socially Responsible Investment (SRI)?

- Socially responsible investment (SRI) is the integration of environmental, social and governance (ESG) considerations into the management and selection of investments.
SRI – the development of an idea

• Flows from the philosophical position that investors have a stake in their investments not just as profit-seeking individuals, but as global citizens concerned with the well-being of their families, communities and the environment
How big is SRI? A Global Movement

• $3.07 trillion in SRI assets in US, Dec. 31 2009
• Up from $2.7 trillion in 2007
• 12% of funds under management in US
• About 5.0 trillion euros of SRI assets in Europe Dec. 31 2009
• Growing in Asia, Australia
Total Canadian assets invested according to SRI guidelines held steady at about one-fifth of assets under management in Canada.
The myth of underperformance

What many advisors believe

SRI funds underperform conventional funds
The myth of underperformance

The reality

There are strongly performing SRI funds in all major asset categories
The myth of underperformance
SIO analysis of March 2012 mutual fund data

- Cnd. Equity – avg. SRI outperformed industry avg. on 1, 3, 5 and 10 yr. basis
- Cnd. Fixed Income – avg. SRI outperformed industry avg. on 1, 3 and 5 yr. basis
- Cnd. Money Market – avg. SRI outperformed on 1, 3, 5 and 10 yr. basis
- Cnd. Small or Mid Cap – single SRI fund in this category outperformed industry avg. on 1, 5, and 10 yr. basis
- Global Equity – avg. SRI outperformed industry avg. on 1 and 10 yr. basis
The myth of underperformance
SIO analysis of March 2012 mutual fund data

• Let’s look more closely at Canadian equity funds
• 1 yr. – 11/14 outperformed category average
• 3 yr. – 6/8 outperformed
• 5 yr. – 5/6 outperformed
• 10 yr. – 4/4 outperformed
The myth of underperformance
SRI can help to generate long-term value

- Two major global studies


- *Shedding light on responsible investment: approaches, returns and impacts* (2009, Mercer)
The myth of underperformance
SRI can help to generate long-term value

- Review of 36 studies in total
- 20 positive relationship between ESG factors and financial performance
- 2 neutral-positive relationship
- 3 neutral-negative
- 8 neutral
- 3 negative
The myth of underperformance

• We believe that investing in sustainable, responsible companies will generate long-term reliable returns by mitigating deep-seated risks, and tapping into social and environmental trends
This is also what Canadians believe
What do Canadians think about sustainability?

- Major study of 4,300 Canadians
- April/May 2009
- Hoggan & Associates
What do Canadians think about sustainability?

- 79% of Canadians rate sustainability as a top or high priority
- 88% say companies that pollute should be punished severely
- 72% say the impacts of climate change are going to be very serious
- 28% says concerns about climate change are exaggerated
What do Canadians think about sustainability?

• 58% believe pension managers should be required to include environmental and social factors when making investment decisions

• 71% believe that companies that are socially responsible are more likely to be profitable over the long-term
What about personal investments?

- GlobeScan
- Regular surveys of Canadian investors on a number of topics, including corporate social responsibility (CSR)
Very Interested in Learning More about Social/Environmental Performance of Companies in Investment Portfolio

Shareholders, 2004–2008

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<thead>
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<th>Year</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
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<td>2004</td>
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Shareholders continue to express interest in learning more about the social and environmental performance of companies in their investment portfolio.

The white space in this chart represents "Depends / Neither agree nor disagree" and “DK/NA.”

Subsample: Shareholders

13. Agree/Disagree: d) I am very interested in learning more about the social and environmental performance of companies that are part of my investment portfolio.
CSR Reporting Is an Important Factor When Making an Investment Decision

Shareholder, 2004–2008

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The signs of interest in SRI are there: Almost three-quarters of Canadian shareholders believe that CSR reporting is an important factor to consider when making an investment decision...

The white space in this chart represents "Depends / Neither agree nor disagree" and “DK/NA.”

Subsample: Shareholders

13. Agree/Disagree: c) The fact that a company reports on its environmental and social performance is an important factor when I consider an investment decision.
Interest in SRI
Standard Life/Ipsos Reid survey

- 13% not at all interested in SRI
- 26% somewhat interested in SRI
- 6% very interested in SRI
- 55% interested in SRI if the performance is as good as or better than other investment vehicles

- Based on a survey of 1,029 Canadians in August and September, 2011
SRI is what Canadians want

• Canadians will favour investments that are sustainable and socially responsible, and that earn decent returns

• Advisors who are knowledgeable about socially responsible investments will be well positioned in the future
What you can do as an advisor

• Educate yourself on the options (check out SIO’s SRI Mutual Fund Directory)
• Ask your clients if they would be interested in looking at socially responsible investments
• Consider joining the SIO
• For more information:
• www.socialinvestment.ca