

# ACUITY'S *INSIGHTS*

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## **A Force for Change: Sustainable Investing**

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Every year at Earth Day, most of us consider how we are able to influence society in order that our 'ecological footprint' is not so large that it diminishes the earth's ability to sustain itself. Given the new priorities faced by governments and societies around the world due to the tumultuous events of 2001, environmental issues seem to have taken a back seat both in terms of policy priorities and everyday life. While this can be frustrating for individuals who care about environmental sustainability, there is a very powerful tool within our grasps that enables each of us to apply positive pressure for change – sustainable investing.

**SUSTAINABLE INVESTING DEFINED**  
*Based on rigorous financial analysis, sustainable investing applies additional environmental or social criteria to the selection of potential investments.*

As individual consumers, we really only have two mechanisms to proactively engage companies on social issues – at the cash register through our purchasing decisions and as shareholders. There is little doubt that the first approach can be effective by supporting products that consider environmentally responsible design and production. Shareholders, however, have a unique effect on companies by impacting their access to funding and influencing the manner in which they conduct business. Sustainable or socially responsible investing (SRI) is, quite simply, the application of social and/or environmental criteria in investment decisions. Through this process, funding is directed at those companies who meet strict financial criteria and take their social obligations seriously.

Even for those companies with strong social performance, there is always room for improvement which is often progressed through shareholder activism. For example, social research firms such as Calvert in the US who provide research for the Acuity Social Values Global Equity Fund, have been successful in dialoguing with Home Depot to improve its sourcing of wood products. In response, Home Depot now offers wood that is certified as having been harvested from sustainably managed forests – an important step forward for our natural heritage.

As a relatively new approach, SRI already has some impressive pedigree accounting for one in every eight dollars invested in the US (that's over \$2 trillion!) and around \$50 billion in Canada. Investors do not appear to be giving anything up in terms of performance with social investing benchmarks such as the Domini Social Index keeping pace with their non SRI peers (in this case the S&P 500) over both 5 and 10 year periods – we all expect a decent return from our hard earned money!

Contrary to the myth that SRI is largely attractive only to a very small minority of investors, recent surveys suggest that indeed most investors would be interested in SRI – if only their advisor or broker presented the option. In addition, institutional investors (such as pension funds or trusts) whose assets often run into the billions, are now beginning to take notice of SRI. Some countries such as Australia and the UK have even updated corporate and pension fund legislation to explicitly address social issues as they are increasingly being viewed as relevant to a company's bottom line.

There is a wide range of social criteria that might be applied in an SRI approach – for instance, a company's environmental performance or employee practices in developing countries. At Acuity, for instance, our Clean Environment Mutual Funds focus primarily on environmental sustainability while the Social Values Mutual Funds take a much wider range of social issues into consideration including employee practices, community relations and involvement in dangerous products such as weapons manufacturing or nuclear power production.

This diversity of approaches in SRI reflects the growing market for sustainable investing and the range of interests amongst investors. Each approach is somewhat unique, but what is important is that you bring your own values to the investment process. After all, it's a powerful way to help ensure that our economic development is indeed, sustainable.

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