

Acuity turns environmental, social and governance concerns into investment decisions

A focus on a 'clean' slate

Supporting environmentally friendly and socially conscious investment habits has been a rewarding business strategy for Acuity Investment Management and Acuity Funds Ltd., twin companies founded and headed by Ian Ihnatowycz.

Acuity has seen assets in its 16 mutual funds more than double in the past year to \$954-million as the dual drivers of healthy performance and strong sales spurred growth. When combined with 14 low-fee pooled funds targeted to high-net worth individuals, as well as institutional and pension accounts and two publicly traded closed-end funds, Acuity's assets are close to \$3-billion.

"Our mission is to provide high value-added products and services to clients in a clearly differentiated way," Mr. Ihnatowycz says.

Mr. Ihnatowycz founded the Acuity group in 1991 when he launched the Clean Environment funds, and it continues to be privately held by him and a handful of partners at the firm. The original funds, which invest in companies offering solutions to environmental problems or supporting environmentally friendly practices, became the base for a broader product line.

In addition to diversified equity and fixed-income products, Acuity also offers a line of "social values" funds. Social criteria include excellence in environmental management, positive labour practices, support of human rights, and the avoidance of any companies tinged by association with nuclear power, weapons, alcohol or tobacco.

"Not only is investment return uncompromised, but it is enhanced when environmental and social considerations are combined with financial analysis," Mr. Ihnatowycz says. "There's a strong value-added component."

The largest fund in the stable is the Acuity High Income Fund, with \$432-million in assets. The fund, which had a one-year gain of 19.8% at July 31 and a three-year average annual return of 15.5%, won the award for Balanced Fund of the Year at the 2003 Canadian Investment Fund Awards.

"Acuity's fund performance has certainly turned a few heads," says Dan Hallett, president of Windsor, Ont.-based Dan Hallett & Associates. "It's a positive cycle – the good returns grab attention and that leads to more sales."

Before founding Acuity, Mr. Ihnatowycz was a portfolio manager at Hughes, King & Co., where his responsibilities included managing pension assets with environmental or social criteria. He left to



launch his own firm, and a "quiet market study" determined a need in the marketplace for a line of investment funds specializing in environmentally sensitive products or solutions.

With an undergraduate degree in science and pharmacology, he was personally concerned about such problems as global warming, and felt it was important to contribute to a solution.

"Environmental and socially conscious investing has become a groundswell, but when Acuity was launched we were breaking new ground," he says. "Today, it's no longer a question of whether or not global warming is dangerous, it's what do we do about it."

Mr. Ihnatowycz has painstakingly assembled a team of investment managers that possess strong science or practical business backgrounds as well as financial and analytical skills. For example, Hugh McCauley is a graduate in engineering and physics; Martin Grosskopf has a master's degree in environmental science; David Stonehouse is a geological engineer; and Warren Fenton has experience in consumer products and merchandising.

"As a team, we cover the bases as far as understanding different industries," Mr. Ihnatowycz says. "We look at specific characteristics such as return on equity, quality of management, cash flow and strategic positioning – and combine all of that with expertise in science and business. It's resulted in a unique product line and strong results."

He says the team was ahead of the curve in discovering the investment attributes of income trusts, and has used them to supplement equity, fixed-income and balanced portfolios for more than a decade.

"When used judiciously, income trusts can lower the volatility of a portfolio and enhance return."

In 2003, Acuity was selected as the only Canadian firm to participate in a 14-month study sponsored by the United Nations Environmental Program (UNEP) on the materiality of social, environmental and corporate governance to stock prices. The results found these issues can have profound effects – both negative and positive, depending on whether they are being addressed – on shareholder value in both the long and short term. The UNEP is urging corporate managers and board directors to include environmental, social and corporate governance reporting in their annual reports and financial statements, and trustees of pension funds to invest assets in a manner that reflects the strong links between social, environmental and financial performance.