



What Every Investor Should Know About the Performance of Socially Responsible Investments

Description

As the final part of this series on socially responsible investing ([Part 1](#), [Part 2](#), [Part 3](#), [Part 4](#), [Part 5](#), [Part 6](#)), I want to address, at least partially, the question that we all have. Does the cost of being a socially responsible company adversely affect profitability and growth, and accordingly, stock price and investor returns?

Although there are a multitude of factors that go into a company's performance and success, I thought it would be an interesting exercise to compare the returns of our complete list of socially responsible companies to that of the appropriate indexes. I have focused on the 3 year returns for this exercise. The tables below show that for this period, 71% of the socially responsible stocks we've explored outperformed their respective indexes.

One conclusion we can make from these numbers is that companies who adopt socially responsible policies are not negatively affected by the costs of doing so, and that they can and do provide investors with returns that are comparable and even better than their peers.

Let's take a closer look.

Financials

	3 Year Return
Royal Bank (TSX:RY)	23.3%
TD Bank	22.3%

<i>Financials Index</i>	20.2%
Bank of Montreal	13.5%

From [our list of socially responsible financial stocks](#), only Bank of Montreal performed worse than the TSX Financials Index over the past 3 years. Royal was the best performer. Partially contributing to Royal's performance, particularly on the socially responsible side, in 2012, Canada's biggest bank underwrote its first investment grade solar bond. The \$172 million bond supports 2 solar farms in Ontario with a combined production capacity of 40 megawatts that will feed the power grid.

Energy

	3 Year Return
Cenovus Energy (TSX:CVE)	6.8%
Suncor	-1.2%
<i>Energy Index</i>	-4.3%
Talisman	-32.4%

In the energy sector, 2 out of 3 of the socially responsible stocks outperformed the rest of the group. The top performer, Cenovus, has achieved one of the lowest steam-to-oil ratios, which has resulted in lower overall energy use. This is an example of what's good for the environment is good for the bottom line, as lower energy use not only spares the environment, but it also saves on energy costs.

Consumer Staples

	3 Year Return
Molson (NYSE:TAP)	8.6%
Loblaw	8.4%
<i>Consumer Staples Index</i>	0.1%

Both of the socially responsible consumer staples stocks outperformed their benchmark over the past 3 years. Molson has also thought of a way to mix social responsibility with good business. Molson was the first brewer to convert its brewing by-products into fuel grade ethanol. The company recycles beer lost during packaging or beer that is deemed below quality standards to ethanol in a facility that produces approximately 2 million gallons of ethanol per year. The ethanol is then shipped to refineries to be blended with gasoline.

Consumer Discretionary

	3 Year Return
Tim Hortons (TSX:THI)	56.3%
Gildan	49.9%
Canadian Tire	41.3%
<i>Consumer Discretionary</i>	35.9%
Rona	-11.8%

Tim Hortons was the top performer of our consumer discretionary names, and 3 out of the 4 socially responsible stocks outperformed the group. Tim Hortons has expanded its recycling and waste diversion programs and is currently diverting 80% of its waste away from landfill. Furthermore, the company is involved in helping economically disadvantaged children with its Tim Horton Children's Foundation camps and programs. These programs will surely add to the company's goodwill and customer loyalty so while it is not directly quantifiable, there are no doubt economic benefits to be had.

Industrials

	3 Year Return
CN Rail (TSX:CNR)	57.2%
<i>Industrials Index</i>	38.7%

Bombardier	-2.7%
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Canadian National Railway handily beat the index, with a 57.2% 3-year return. The company is in the process of integrating hybrid and alternative fuel vehicle into its fleet. These vehicles are up to 20% more fuel efficient, producing 40% fewer nitrogen oxides. Good for the environment and good for the bottom line.

Materials

	3 Year Return
Cascades (TSX:CAS)	-6.3%
Teck Resources	-29.8%
Potash	-33.4%
<i>Materials Index</i>	-39.4%
IAMGold	-71.0%

Three out of four of our socially responsible Materials stocks outperformed their benchmark over the past 3 years, although none of these returns are really anything to write home about. Cascades was the best performer, by far, with a 3 year return of -6.3% compared to the index performance of -39.4%. The company's profit sharing plan stands out in my mind. Through this plan, all employees are eligible to receive quarterly bonuses and an annual bonus based on Cascade's profits. Clearly, this will increase employee loyalty and goodwill, and can only mean good things for the bottom line.

Telecommunications

	3 Year Return
Telus (TSX:T)	54.4%
BCE	30.1%
<i>Telecom Index</i>	26.0%

In the telecom industry, both of our socially responsible stocks outperformed their respective index. Telus was the best performer, and represents another company that is trying to minimize its impact on the environment. Employees have completed training on environmental and safety themes, safety reporting, and transportation and disposal of waste.

Bottom Line

This exercise has provided us with some evidence that we should, in fact, consider a company's social policies in our investment decisions, and be confident that we can still achieve above average returns. I would even take it a step further and say that socially responsible policies, in fact, should actually add to returns in the long run. For example, less lawsuits, less clean-up costs for industry, and more customer and employee loyalty and goodwill. More good, and less bad from a company, translates to all good for investor returns!

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Our senior investment analyst will unveil his [top two stock ideas](#) for new money now on Oct. 1. And YOU can be one of the select few investors to find out first — just [click here](#) to reserve your invitation.

Fool contributor Karen Thomas does not own shares in any of the companies mentioned above. The Motley Fool does not own shares in any of the companies mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAP (Molson Coors Beverage Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:RY (Royal Bank of Canada)

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