Socially Responsible Investing: What You Need to Know

Description

Traditional investors should be made aware of a new trend — socially responsible investing (SRI). What is SRI? At its core, it's an investment strategy that is centered on companies that bring about positive social change. Companies whose main business or corporate social responsibility (CSR) programs focus on the environment, human rights, and diversity are most targeted.

Before you dismiss the concept, the interest in SRI is rapidly growing. Between 2013 and 2015, individual investors grew their Canadian responsible investment (RI) assets by 91%, and the Canadian RI assets under management (AUM) topped $1.5 trillion. This accounted for approximately 38% of the total Canadian AUM. This is no small chunk of the investment pie.

Every day, companies are making bold decisions that align with their values and social beliefs. Case in point, **Nike's** recent endorsement of Colin Kapernick. Overnight, the company has made its social stance by siding with one of the most controversial sports figures of the past decade. The support and vilification were swift. **Target** experienced similar intense reactions when it moved to gender neutral bathrooms.

At the time, Target's share price plunged but has since recovered and is trading near all-time highs. Nike's share price dropped a few percentage points on its announcement, but make no mistake; this was a calculated gamble. The company believes it will be on the right side of history and, in turn, this will help the company's bottom line.

SRI investment options

There currently exists a lack of low-cost Canadian SRI options for the passive investor. The biggest name in Canada is **iShares Jantzi Social Index ETF** (TSX:XEN). Its top 10 holdings consist of four out of the five big banks and all three of Canada's biggest telecommunications firms. **Suncor Energy**, **Canadian National Railway**, and **Sun Life Financial** round out the top 10.

This issue with this fund and many others like it is that the fund is focused what not to include. Let me explain.

Jantzi's ETF omits companies that operate certain industries such as weapons manufacturing and tobacco. Anything else is fair game. This is in contrast to an ETF focused on a company's CSR efforts. There is a major difference.

Canadian investors now have two new SRI options to consider. In March, RBC Global Asset Management launched the **RBC Vision Women's Leadership MSCI Canada Index ETF** (NEO:RLDR). In June, BMO followed suit and released the **BMO Women in Leadership Fund** (TSX:WOMN).

Gender diversity

The Women in Leadership Fund is an actively managed fund, with an 0.39% management expense ratio (MER). It screens the globe for a gender-diverse leadership environment within companies. Although RBC's Vision Women's Leadership fund has a similar focus, its geographical scope is limited to Canadian-based companies and its MER is only 0.25%.

There is a growing body of evidence that gender-diverse companies deliver better returns. According to a study by MSCI in 2015, companies with gender-diverse boardrooms had a 36.4% higher return on equity and a 12.8% higher price-to-book value than those who were non-gender diverse.

When looking at SRI investment options, there are two types of ETFs — those that avoid certain industries, such as the Jantzi Social Index, and those that focus on companies that have specific CSR strategies. The choice is a personal one, but understanding a company's CSR efforts is now a key component to investment research.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WOMN (BMO Women in Leadership Fund)
2. TSX:XEN (iShares Jantzi Social Index ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
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