

# Values-driven investing

Socially responsible investing is increasingly popular as a way to invest in companies that are committed to community, the environment and good governance.



Socially responsible investing (SRI) refers to the management of mutual investment funds, which, like their counterparts, pursue certain financial objectives. However, the selection and management of securities combines targeted returns with consideration for social, environmental and governance factors. It is therefore an investment that takes into account criteria other than strictly financial ones, which differ from an ordinary fund. In short, the selection depends on whether the company can be qualified as socially responsible.

## A QUESTION OF VALUES

Desjardins has been active in the SRI fund niche since 1990, the year in which it launched the Desjardins Environment Fund. “This fund is considered to be socially responsible because it meets such exclusion criteria as tobacco, weapons and nuclear operations,” explains H el ene Gagn e, Director of Marketing Communications in Desjardins Group’s Investment Funds Division. “With responsible investing,” she adds, “we generally avoid businesses from those sectors since their activities may have major, irrevocable consequences on society. The selection of securities also promotes companies that actively and responsibly manage their environmental footprint.”

Basically, SRI funds are for investors looking for investment vehicles that are consistent with their values. In Canada, many institutional investments have followed this trend, including several major retirement funds, as well as the *Caisse de d ep ot et placement du Qu ebec*. But the general public is still largely unaware about them. “This is to be expected, since most people find the investment sector quite dry,” explains H el ene Gagn e.

It’s not easy to talk about investment returns in the current climate of instability on the financial markets, but we can safely say that SRI funds bring in good returns. In comparison to others in its category, i.e.

Canadian equity funds, the Desjardins Environment Fund is making the best of a shaky situation. That said, Ms. Gagn e adds that SRI funds cannot be shown to systematically offer better or worse returns; they are simply products with special features for people looking for a different kind of investment.

## THE ORIGINS OF SRI FUNDS

It was predominately religious communities that instigated this type of investment. “They were already asking their portfolio managers decades ago to pick companies that matched their own values,” explains H el ene Gagn e. “They have always been concerned about where they invest their financial capital.” Other concerns, such as gender equality, sustainable development, apartheid, workers’ rights and nuclear safety, also lie behind the creation of today’s SRI funds. In the wake of the financial scandals of recent years, social responsibility and governance now carry much more weight than they did before. The SRI market grew by 670% between 2004 and 2006 in Canada, soaring from \$65 billion to \$503 billion during that period. Whereas before 2004, most responsible investing impacted the more traditional funds of individual investors, such as workers’ funds and ethical mutual funds, today the adoption of SRI policies by retirement funds—mostly public but some private—has led to a huge increase in assets under management.



### DISPELLING MYTHS

SRI funds are limited to stocks from socially responsible businesses. The composition of the Desjardins Environment Fund includes businesses already recognized for the strong environment-oriented management of their activities, as well as others that are expected to make imminent changes to their practices. If they do not make the required improvements, these companies' securities can be withdrawn from the fund. Of course, investing in a business means getting to have a say in its decisions, and Desjardins expresses this shareholder power through the steps it takes to influence the companies involved.

"Desjardins keeps up a dialogue with certain businesses to try to influence them to adopt better practices," notes H el ene Gagn e. "Another option we have is to submit proposals to shareholders at general meetings, to promote causes that we care about. A lot of work goes on in the background and, although you may not see immediate results, it does often lead to changes in company practices."

Faced with businesses resistant to change, the investor — in this case Desjardins — could go as far as pulling out. But this type of situation rarely arises because SRI funds invest first and foremost in responsible businesses and those that are most likely to instigate real change. Those ranked "bottom of the class" are not selected.

Overall, this dialogue with businesses is proving its worth, if developments in environmental policies are anything to go by. In 1990, very few companies had any type of environmental policy. Less than 20 years later, the vast majority have management systems and standards to govern their activities with respect to the environment. We've come a long way!

"Of course, all this was not achieved by Desjardins alone—changes in society played a major role. Nevertheless, we were pioneers at the time.

When Desjardins calls a company and asks to see its environmental record, it becomes an incentive for a change in practices," Ms. Gagn e concludes. **D**

## Desjardins, CO-OWNER OF THE ETHICAL FUNDS COMPANY

In December 2007, Desjardins signed a strategic partnership with the Credit Union Central of Canada to acquire a 50% stake in The Ethical Funds Company. In becoming the joint owner of Canada's leading manufacturer of socially responsible mutual funds, Desjardins intends to allow its members to benefit from the know-how and expertise of this British Columbia-based company, which has put social responsibility at the centre of its business philosophy and made it the basis for all its products.