CIBC Wood Gundy

One to One Insights

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The rise of socially responsible investing

Socially responsible investing (SRI) isn't new, but it is becoming more popular with investors. If you're interested in incorporating SRI in your portfolio, you may want to know what makes a particular investment "socially responsible."

Generally, SRI means incorporating an analysis of a company's environmental, social and governance (ESG) risks into the investment process. However, different investment firms may use different criteria to choose SRI holdings, so a company that fits one firm's criteria could be rejected by another.

In other words, an industry standard doesn't exist. However, various resources are available to help investors evaluate an investment's SRI standing and ESG risks. Examples include the Morningstar Sustainability Rating and the Jantzi Social Index.[1]

So, what types of factors are considered when evaluating a company's ESG risks?

ESG risks explained

A company's environmental risks include the potential negative consequences its operations might have for the environment. For example, could the company's operations contribute to climate change, negatively alter a species' habitat, or deplete water resources?

A company's social risks include the negative impact its operations may have on society. These types of risks include potential human rights violations and worker safety issues. For example, an apparel company that uses a sweatshop to manufacture some of its clothing would have high social risks.

Governance risks relate to how a company is managed. For example, companies with lower governance risks generally have independent boards, encourage transparency and practise diversity in the workplace.

Investors who embrace SRI may focus on ESG risks for ethical reasons, but there's a financial component as well. Being responsible for a major environmental or human rights disaster can cost a company millions or billions of dollars. Taking ESG risks into account minimizes that type of financial risk in an investor's portfolio.

Applying SRI to the investment process

If you wish to apply SRI criteria to your portfolio, many different approaches are possible. You could use negative or positive screens, for example. Using a negative screen means not investing in any company that operates in a specific industry or engages in a certain activity, such as the mining of fossil fuels. Using a positive screen means investing only in companies in ESG-friendly industries, such as those involved in alternative energy sources like solar energy.

You could also choose to invest in businesses that meet less restrictive criteria for ESG responsibility. For example, you may choose to include energy companies in your SRI portfolio, but only those that have strict environmental policies in place and are least likely to have a negative impact on the environment. In this way, demand for SRI can even provide an incentive for companies to improve their ESG policies and adopt best-in-class practices, serving as a form of shareholder activism.

Another option is a divest-and-reinvest approach, which means selling your investments in certain types of companies and using the proceeds to invest in companies that meet your SRI criteria.

Which approach you choose is likely to depend on your specific investment objectives and social priorities. In any case, however, shareholder value should also be taken into account. With SRI, a company's financial strength is as important as its ESG risks.

The rise of SRI

According to the 2015 Canadian Responsible Investment Trends Report, the amount of SRI assets under management in Canada has increased from $600 billion in 2011 to more than $1 trillion today.[2] Currently, SRI accounts for about 31% of the Canadian investment industry.[3]

This increase has been largely driven by institutional investors, primarily pension funds, with pension fund assets using responsible investment strategies up 70% since 2011.[4] That's partly because pension funds have been striving to comply with policies that require the inclusion of SRI.

However, retail investors are also turning to SRI as they become more aware of social and environmental issues.[5] One reason for this may be a generational transfer of wealth to millennial investors. Research shows millennials are 65% more likely than baby boomers to consider ESG factors when making investment decisions.[6]

The connection with corporate social responsibility

If you're considering incorporating SRI into your portfolio, taking a look at a company's corporate social responsibility policies and practices may be a good place to start. Companies that focus on corporate social responsibility tend to be committed to human rights, diversity, worker safety and protecting the environment, so their ESG risks may already be limited.

Of course, before you decide to increase your exposure to SRI companies, be sure that this approach fits with your overall investment strategy and will help you to meet your specific objectives.

Please call us if you would like to learn more about socially responsible investing or incorporating these types of investments into your portfolio. If you have other questions about your investment portfolio, we can provide you with additional guidance.

1 Morningstar, The Morningstar Sustainability Rating, http://cawidgets.morningstar.ca/ArticleTemplate/ArticleGL.aspx?culture=en-CA&id=745789, 2016; Sustainalytics, Jantzi Social Index, http://www.sustainalytics.com/JSI, 2016

2 Responsible Investment Association, Canadian RI assets surpass $1 trillion: 2015 Canadian RI trends report, https://riacanada.ca/trendsreport/, 2015

3 Ibid.

4 Ibid.

5 Ibid.

6 Responsible Investment Association, Millennials, women, and the future of responsible investing, https://riacanada.ca/wp-content/uploads/2016/04/Millennials-Women-and-the-Future-of-RI-Final-1.pdf, 2016

It's tee time

If you belong to a private golf club, then you know the value of your membership. You can play when you want. You have access to beautiful courses around the world. Your club pro is an incredible resource, and you can't beat the camaraderie that develops among members. Here are some suggestions on how you can take full advantage of your membership benefits.

Golf without borders

Your membership likely gives you access to dozens of the most exclusive golf clubs in the world. For example, members of the National Golf Club of Canada in Woodbridge, Ontario,[1] can also play at the National Golf Club[2] in Cape Schanck, Victoria, Australia. Members of Capilano Golf & Country Club in Vancouver can play at Maui Country Club.[3]

Take advantage of your club's reciprocal agreements when you travel for business by inviting out-of-town clients or prospects to join you for a round. If you're travelling for pleasure, simply enjoy the experience of playing a challenging new course.

Prioritize your time

Your membership allows you to reserve the best tee times. That means priority access during peak weekend periods, which is perfect for business owners, C-suite executives, entrepreneurs, and others who can't leave the office during the week.

Membership also means you can be a last-minute golfer. If you have a couple of hours to spare, you have the privilege of heading to your club to play a short round. You may have seen friends who are non-members worry about getting in 18 holes, because they don't know when they'll get to play again. That's not you. Put your membership to work by making the most of your valuable time and playing just a few holes whenever your schedule allows.

Lower your handicap

You have a membership probably because you love golf and want to continuously enhance your game, and that means always striving to lower your handicap.

Working with a club pro is a significant benefit when it comes to improving your game. For example, your handicap might be suffering because you're having trouble with a specific water hole.[4] Your club pro is there to help you with that. Maybe you're coming off an injury and it's affecting your game. Your club pro will give you tips on how to adjust your swing accordingly.

Have equipment needs? Your club pro can help. If you have your eye on a set of clubs, ask your club pro if you can take them out for a round before you purchase them. That's an exclusive privilege for members.

Access to a club pro is one benefit of membership that you don't want to waste.

Enjoy the camaraderie

One of the other key benefits of a golf membership is the sense of community that develops among members. Again, though, you have to make the decision to take advantage of this aspect of membership. When you have the time for a more leisurely round, grab a drink or bite to eat with other members. Of course, you could choose to play any course, but there's something about the prestige of inviting someone to join you at "your" club.

Make the most of your membership by enjoying all the perks your club has to offer.

It's a good practice to connect with us regularly to discuss your financial plan and make sure your investment decisions are aligned with your lifestyle goals. As always, if you have any questions about your portfolio, please contact us.

1 *The National, Reciprocal clubs, http://www.nationalgolf.com.au/cms/golf/reciprocal-clubs, 2016*

2 *Golf Digest, The world's 100 greatest golf courses, http://www.golfdigest.com/story/worlds-100-greatest-golf-courses-2016-ranking, January 2016*

3 *Maui Country Club, Reciprocal membership, http://mauicountryclub.org/reciprocal-membership, 2016*

4 *PGA, Golf tips: Conquer your fear of the water, http://www.pga.com/news/lesson-learned/golf-tips-conquer-your-fear-water, May 2016*