DRIVE CHANGE WITH RESPONSIBLE INVESTING

Do you know you can invest in ways that align with your values and help change the world?

"Canadians are becoming increasingly aware that their consumer choices can affect societies and the world around us," says Dominique Barker, Vice-President and Portfolio Manager, CIBC Asset Management. Barker manages institutional socially-responsible investments and leads the firm's efforts to incorporate environmental, social and governance factors into all investment processes.

You may choose to buy local produce to reduce greenhouse gas emissions, or to avoid products manufactured in countries with poor human rights records. Whatever your priorities, responsible investing may let you incorporate them into your portfolio.

What is responsible investing?

This type of investing considers both financial returns, and social and environmental (and potentially other) factors, to bring about a positive change. "Encouraging corporate practices that promote environmental stewardship, consumer protection, human rights and diversity is in a company's best interest," says Barker.

Responsible investing uses several techniques. For instance, positive screening includes certain types of companies and industries. Negative screening excludes specific ones and is investor driven—for instance, you may want to avoid investing in tobacco or alcohol companies.

Financial benefits

"Making money and making a positive impact aren't mutually exclusive," says Barker. That's because a company is more than just numbers. Responsible investing may help enhance your portfolio's long-term performance by reducing exposure to some risks that may not always be visible on a company's financial statements.

Let's compare two box manufacturers* with similar market share and sales trajectories.

Company A

- Doesn't pay workers a living wage
- Illegally dumps manufacturing waste
- Machinery doesn't meet safety regulation

Company B

- Offers competitive salaries and benefits
- Uses 80% recycled materials
- Factory uses solar energy

*For illustration only.

It's clear that Company B takes the more responsible approach by respecting the environment and employees. As a result, it may also be in a better position to avoid expensive legal or regulatory costs.

The Millennial factor

Interest in responsible investing is growing. In 2015, it accounted for $1.50 trillion in assets under management (AUM) in Canada. By 2017, that number increased to $2.13 trillion.[1]

One reason for this shift is millennials. This generation is keen on making investment decisions that make an impact on society, the environment and create positive change. About 80% of millennials believe business success should be measured in terms of more than just financial performance, according to a recent survey.[2] This is a powerful barometer for the future of business, given that millennials will make up 75% of the workforce by 2025.[3] It's also an opportunity for organizations to connect purpose and profits—and pave the way for real change in the process.

Our thought leadership

Here are some opinion pieces on responsible investment brought to you by Dominique Barker.

Is Nuclear Suitable for a Responsible Investing Portfolio?

This Ship Has Sailed: Maritime vessels abandon heavy oil in favour of cleaner alternatives

Oil—Will It Go the Way of Salt?

ESG—The evolution of responsible investing

Responsible investing started out as an idea—investing in "good" companies and avoiding "bad" ones. It has evolved to evaluate how companies can create a positive financial and societal impact on environmental, social and governance (ESG) factors.

"I think there's a strong perception that we're going to exclude a number of investments, and that's not it at all," says Barker. It's actually about how ESG issues might impact the risk and return profile of each investment, above what's in their standard financial statements.

Let's look at the details and some examples.[4]

Environmental factors consider a company's respect for the environment and related risks.

Example: Climate change—Many governments agree that we need to transition to a low-carbon economy to maintain a safe and stable climate. ESG looks at how companies manage exposure to climate-related risks and opportunities.

Social factors look at a company's business relationships.

Example: Community relations—It's important for companies to obtain and maintain project support from local communities, as opposition could prevent progress at a great cost to a company. ESG looks at how companies manage community relations.

Governance factors refer to how a company is governed, like board structure.

Example: Women in leadership—Women hold only 14% of all board seats of publicly traded companies in Canada.[5] However, some studies have shown that companies with more women on their boards have been known to financially outperform their competitors.[6]

As you can see, these factors can help better determine the future financial performance of companies.

Responsible investing empowers you to engage in the market according to your values. It allows you to have real influence over companies and industries, and can help positively impact our world. Contact us if you have questions about responsible investing. We're always happy to talk with you.

[1] https://www.riacanada.ca/responsible-investment/#how-ri-works

[2] https://www2.deloitte.com/insights/us/en/topics/talent/deloitte-millennial-survey.html

[3] https://www.theguardian.com/bank-australia-clean-money/2019/feb/20/how-millennials-are-driving-the-rise-of-conscious-capitalism

[4] https://www.riacanada.ca/responsible-investment/#benefits-of-ri

[5] https://www.securities-administrators.ca/aboutcsa.aspx?id=1613

[6] https://cfc-swc.gc.ca/abu-ans/wwad-cqnf/wldp/wb-ca/booklet-en.html?wbdisable=true