Canaccord Genuity Wealth Management

Financial Focus

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Responsible Investing

By Clinton Orr

What is Responsible Investing? At one time the term socially responsible investing was common, however this category of investing has become very broad and is now generally referred to as responsible investing. According to the Responsible Investment Association, responsible investment refers to, "the incorporation of environmental, societal and governance factors into the selection and management of investments." Broadly speaking it is incorporating your personal values into your investment strategy. Responsible investing is a growing trend in the financial industry. In fact, according to a 2018 report from the Responsible Investment Association, in Canada there is now $2.1 trillion being managed with a responsible investment strategy. That is a big number, it represents about half of all Canadian assets under management. Although the rapid growth in responsible investing is recent, it is not a new concept. In Canada the history of responsible investing is usually traced back to the 70s. Canadian organizations led the charge to cease support of South Africa as a means of opposing apartheid. Eventually Canadian banks stopped all loans to South African companies, as well Canadian pension and endowment funds divested of any investment in South Africa. Canada's efforts drew international attention and during the 80s many other countries followed suit, applying economic and political pressure to South Africa. So, we know responsible investing is popular and has a history in Canada, how do we do it?

<u>What is important to you?</u>

The significant growth in responsible investing has led to an equally large expansion of investment products. I believe there is still a perception that responsible investment is about the environment, however the range of issues is has significantly increased: water scarcity, renewable energy, poverty reduction, executive compensation, women in leadership, indigenous relations, cyber security, waste management and pollution, affordable housing, child labour and sustainable agriculture are just some of the themes that are available in responsible investment products. Reviewing all the available products can be overwhelming, a good starting point is to consider what is important to you.

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I suggest you begin with one or two key values and slowly integrating those into your investment strategy.

Positive and Negative Screens

There are thousands of ways to incorporate responsible investing into your portfolio. A simple way to begin is with positive or negative screens. Positive screening means investing in companies or financial products that support your values. Negative screening means avoiding companies and financial products that are contrary to your values. There are numerous resources online that will list or rank responsible investment products. Screening a few of those sites is a good starting point.

Maintain your risk level

Responsible investments run the gamut from very low risk to very high risk. Try to find a responsible investment that matches your values and maintains your preferred risk level. If you usually invest in guaranteed investments, a start-up water treatment company might represent a worthy cause but is significantly higher risk. I do not suggest changing the risk level of your portfolio, try to find responsible investments that match your risk tolerance.

Keep costs low

Sometimes unique strategies come at a higher cost. Those additional fees can eat into your investment return. A useful tip for all investing is to ensure your costs are reasonable. Responsible investment products come in many forms: mutual funds, GICs, bonds, ETFs, individual stocks. Each one will have a different cost structure. Do your homework, be sure the fees are reasonable.

Keep it simple

The tips above are not exhaustive, they are intended as a starting point. One final tip is to keep it simple, responsible investing can become quite complex. It is important that your overall financial plan remains on track. Any investment change must fit your overall plan. Do not upend your existing strategy, if responsible investing is important to you, I suggest you start slow and incorporate one or two responsible investments into your existing strategy. Simple incremental adjustments are often the right approach.

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