

Is SRI right for you?



As the world shifts to becoming more socially and environmentally conscious, people have begun to not only adopt these behaviours in their daily lives, but also look to invest in companies that share these principles.

This growing class of investments is collectively known as “socially responsible investing”, or SRI, and it is attracting attention from people who want to invest in organizations that are making a positive impact on our environment and our social well-being.

What’s SRI?

In simple terms, SRI is an approach where you may choose to exclude securities – such as certain stocks, bonds or funds – from your investment portfolio based on the nature of a company’s operations or how they conduct their business.

An earlier iteration of SRI was “ethical investing,” an approach that omitted for consideration any company engaged in industries focused on alcohol, tobacco, gambling, weapons, etc.

SRI expanded on this methodology and, through a rigorous screening process, also aims to avoid companies that consciously harm the environment without working toward reducing this harm, plus those that do not offer some form of positive social value.

For instance, SRI screening may rule out companies that aren’t committed to reducing their carbon footprint or contributing to overall environmental sustainability, or aren’t promoting ethical standards like racial justice, workplace equality and inclusion.

Is ESG the same as SRI?

Sometimes these two terms are used interchangeably, but it’s better to think of ESG (environmental, social and corporate governance) investing as part of the SRI philosophy. ESG considers how a company’s performance may be impacted – positively or otherwise – by certain environmental, social and governance factors.

People who consider companies through an ESG lens will devote significant time and effort analyzing a given company’s leadership and management teams, to determine if they follow principles like gender diversity, social and environmental responsibility, fair employee practices and managing operational or reputational risks.

For funds that follow either an SRI or ESG strategy, it’s common for investment managers, as shareholders of a particular company, to engage the management team in an activist role. They’ll try to influence a company – through discussions and/or voting on corporate proposals – to adopt more constructive procedures and behaviours that will help safeguard the company’s continued viability and positively impact society as a whole.

Benefits of SRI

It's important to keep in mind that the "I" in "SRI" stands for "investing." While SRI may align with your personal values and beliefs, investing in companies that observe the principles of social responsibility should also benefit you as an investor and help you achieve your longer-term goals.

When it comes to obtaining funding, companies that commit to social responsibility may find it easier to access capital, as some lenders incorporate SRI criteria into their financing mandates. As well, many companies adhering to social responsibility tend to be progressive and willing to embrace change for future business and societal gain, which can also be positive for shareholders.

Convenience of SRI funds

It can be challenging and time consuming to assess companies from an SRI perspective while still pursuing the best returns possible. Investing in an SRI-focused mutual fund or exchange-traded fund is an option that provides investors with a basket of SRI funds all in one.

SRI-focused mutual fund managers demonstrate specific expertise in analyzing companies and building SRI portfolios that may effectively diversify their holdings across industries and sectors, with the objective of enhancing risk-adjusted returns. These managers also have experience engaging corporate management teams and lobbying on behalf of investors who espouse the SRI approach.

A primary goal of SRI is to drive positive change, both today and into the future. SRI attracts like-minded investors who believe that addressing key societal and economic issues will improve the world around us and also generate long-term returns.

To learn more about how we can build a suitable plan based on your needs – including SRI – please contact us today.

INVESTED IN YOU.

This article is a general discussion of certain issues intended as general information only and should not be relied upon as tax or legal advice. Please obtain independent professional advice, in the context of your particular circumstances. Investia Financial Services Inc. is a wholly-owned subsidiary of Industrial Alliance Insurance and Financial Services Inc., a life and health insurance company which operates under the trade name iA Financial Group.