

# Responsible Investing and Aligning Your Money With Your Values

**DeGroot**  
SCHOOL OF BUSINESS  
EDUCATION WITH PURPOSE

**McMaster**  
University 

# About the research

- 105 interviews with advisors, investors and industry professionals
- This report draws on research supported by the Social Sciences and Humanities Research Council
- <https://responsibleinvesting.degroote.mcmaster.ca/> to follow along with the study






Responsible investing means  
different things to different people |

A responsible investing lexicon is critical to ensure appropriate communication



 **lex·i·con**

*/ˈlɛksɪˌkɑːn, ˈlɛksɪˌkɒn/*

*noun*

the vocabulary of a person, language, or branch of knowledge.  
"the size of the English lexicon"

## **ESG - Environmental, Social and Governance**

Refers to three categories of factors used to measure how the firm contributes to sustainability or community impact. Environmental factors may include energy use, waste and treatment of natural resources. Social criteria refers to relationships such as with suppliers, communities, employees, and customers. Governance refers to the transparency with which stockholder's ownership is manifest in decision making and compensation processes at the company.

Screens are a critical first step to match an investor's values and preferences with their investments



**Negative/Exclusionary Screening** – Involves excluding companies that fail to meet a pre-established set of criteria. Examples include so called “sin” stocks where companies profit from alcohol, tobacco, or gambling but may include other exclusions such as involvement in fossil fuels.

**Positive Screening** – Selecting firms for investment that demonstrate pro-environmental or pro-social practices. Examples include best-in-class firms from industries commonly considered “dirty” or more generally seeking out companies that contribute positively to the community in some way.

Some institutional investors like mutual funds and pension funds are engaging firms to effect change



### **Shareholder Engagement / Activism**

Refers to how shareholders can influence a company's behaviour through persuasive tactics, proxy voting and divestiture. Increasingly institutional investors including mutual fund companies, are using their financial clout to push for behaviour change.

Impact Investing: Some investors take a highly intentional approach to achieving social and environmental impacts



## **Impact Investing**

Investments made into organizations with the intention of generating measurable social and/or environmental impact alongside a financial return

A common language is critical for effectively exploring and communicating responsible investing



Advisors and investors struggled to understand responsible investing terms



A lack of lexicon means investors have difficulty making sense of and expressing their investment preferences

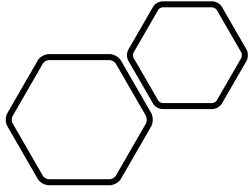


A lack of shared lexicon makes communication between advisors and investors more difficult

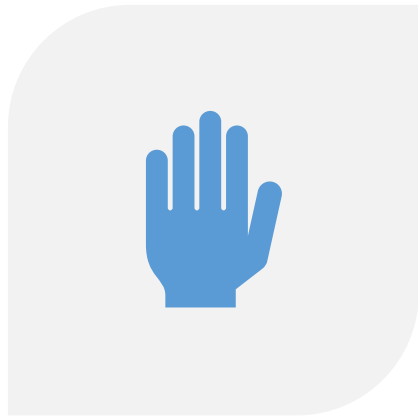


The absence of communication means latent demand exists for responsible investing



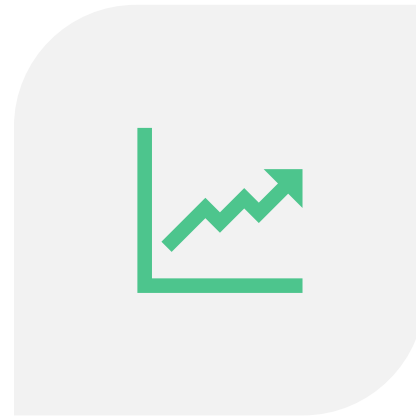


# Investor's language highlighted three general approaches to responsible investing



## KEEPING HANDS CLEAN

*“And, for me, responsible investing means that I’m not going to be providing for my own security at the cost of somebody else’s (Investor).”*



## PUSHING CORPORATE AGENDA



## VOTING WITH DOLLARS

*Throughout my life I put a lot of thought into the idea of a dollar a vote. And that's a frame from a publication that used to be called the Boycott Quarterly which is we get to vote every time we spend a dollar. So I kind of grew up on that punk rock ethos. (Investor)”*

Investors often traced their interest in responsible investing to aspects of their life

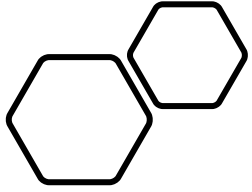
Formative life experiences

Profession

Education

Social Context

Doing well by doing good



Advisors were driven to responsible investing for three different reasons



## IMPROVING THE WORLD

*I think responsible investing is helping the companies that want to see the world a better place to grow.*



## CATERING TO CUSTOMER VALUES

*I feel that responsible investing is gonna be very subjective. It's gonna be very personally biased, right?*



## RISK REDUCTION THROUGH ESG

*But you're also trying to mitigate risk by looking at ... ESG factors. You're looking for returns, but also applying strategies to reduce the environmental and social and governance risks...*

# Preconceived Notions

Advisors

Investors

Social desirability bias;  
risk of appearing judgmental  
or radical

Lower  
Performance  
  
Low Product  
Availability  
  
Concern over  
greenwashing

Familiar companies are  
often considered  
responsible  
  
Responsible investing is  
a luxury



# What do you think – have your say.

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How well do you think responsible investments perform as compared to more conventional investments?

- A. Responsible investments underperform conventional investments
- B. Responsible investments perform similarly to conventional investments
- C. Responsible investments outperform conventional investments
- D. It depends

While preconceived notions remain, research shows that returns for responsible investments are comparable to conventional with lower risk

Conventional

Responsible

- Increased public awareness around climate change and social issues is driving greater consumer demand for responsible products and services
- Responsible investments have moved beyond ethical funds that largely excluded “sin stocks” to incorporate more robust analysis
- The demand for responsible investments has unlocked economies of scale which is critical for effective fund management

Figure 2: Canadian index comparisons

Jantzi Social vs S&P/TSX 60



Source: Bloomberg (2019)

Figure 1: U.S. index comparisons

MSCI KLD 400 Social vs S&P 500



# Investors still not comfortable with making responsible investments



- Investors often used a second pool of “play” money to make responsible investments
- Search of perfection leading to status quo and anxiety
- Philanthropy and responsible investing sometimes seen as interchangeable



- Investors assess investments through anecdotal stories
- Familiarity with firms and sectors breeds trust
- Framing of firms and investments by peers and media can influence perceptions

Investors can get tunnel vision when considering responsible investments



# Getting started on responsible investing

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- Consider your values and what is important to you
- Get informed about responsible investing options
  - RIA Canada website
  - Explore your advisor/financial institution website
  - Investigate responsible mutual funds and exchange traded funds of interest
- Engage your advisor or financial institution to have a generative conversation about your specific responsible investing interests
- Create a plan that considers
  - Your desired approach to responsible investing
  - Avoiding exit fees and excessive capital gains
- Start with RESPs and TFSAs that often receive regular investments



# Responsible investing resources

- RIA Canada website <https://www.riacanada.ca/>
  - Responsible mutual funds and ETFs
  - Responsible investing advisors
- Data sources (some suggestions)
  - Morning Star - Jantzi Sustainalytics - <https://www.sustainalytics.com>
  - Refinitiv – Market Psych - <https://www.marketpsych.com/>
- Look for a mutual fund’s shareholder engagement strategy
- Consider an advisor with a responsible investment certification – such as through RIA Canada
- For lower asset clients, consider fee for service advisors that have knowledge on responsible investing
- <https://responsibleinvesting.degroote.mcmaster.ca/>



RESOURCES