

CEC Bulletin

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Socially Responsible Investing (SRI)

Last month, Janzi Research and Barclays Global Investors Canada Ltd. launched iShares CDN Jantzi Social Index Fund (XEN), the first socially responsible Exchange Traded Fund (ETF) in Canada. This move is part of a growing trend in Canada toward Socially Responsible Investment (SRI), which now makes up 20 percent of the combined retail mutual fund market and institutional investment market. SRI is defined by the Social Investment Organization (SIO) as the integration of environmental, social and governance (ESG) factors in the selection and management of investments.

The iShares Jantzi Social Index Fund (XEN)

The iShares Jantzi Social Index Fund (XEN) is specifically designed for socially responsible investors in Canada. XEN tracks the highly successful Jantzi Social Index (JSI) a socially screened, market capitalization weighted, common stock index which includes 60 Canadian companies with high ESG ratings.

The launch of iShares Jantzi Social Index Fund (XEN) is notable for a wide variety of reasons, including:

- The iShares Jantzi ETF is being promoted as a strong option for Canadian SRI investors because it combines high growth potential with low management costs. The XEN reproduces the returns of the JSI which has increased in value by almost 78 percent over seven years, growing faster than the S&P/TSX Composite and the S&P/TSX 60. At 0.5, the management expense ratio for the XEN is less than one quarter of what most SRI mutual funds charge.
- The launch highlights the positive correlation between social responsibility and economic growth. The launch of this fund is a response to the excellent record of the JSI. As stated, the socially responsible JSI has been growing faster than the average composite over the last seven years.

- Barclay's Canada is a major financial player. The launch of the XEN is therefore significant, not only because it is the first socially responsible ETF in Canada, but because it highlights the increasing importance of the SRI market. The Globe and Mail is calling the launch of this new fund symbolic of the maturation of the SRI sector in Canada.

Though an exciting development, the XEN launch is by no means the beginning of the SRI market in Canada. SRI funds are already offered by several large fund families including Acuity, Desjardins, Investors Group, Mackenzie and Phillips Hager & North.

Backgrounder to SRI

SRI, broadly defined, is the integration of ESG factors in investment selection and management decisions. ESG attributes include a large number of issues, one of which is labour standards. According to the 2007 SIO report, many ESG rating systems take into account factors such as company business practices, diversity of employees, employee relations, and human rights. A fast growing trend, Canadian SRI totalled \$503.6 billion in 2006 - up from just \$65.5 billion in 2004.

As detailed in SIO's recent report, SRI can be divided into two categories: "core SRI" and "broad SRI". Core SRI combines value based decisions and risk and return considerations and includes screened investment, community investment, and socially responsible lending. An increase in assets managed under social and environmental screens contributed to a 52% increase in Core SRI between 2004 and 2006. Core SRI now represents 2.2 % of the combined retail mutual fund and institutional investment market.

Broad SRI is based on a fiduciary analysis of ESG factors and risk and return criteria. This category includes ESG integration with traditional financial analysis strategies, ESG corporate engagement and proxy voting, and sustainable venture capital. Broad SRI has been the primary source of the growth in SRI in Canada over the last few years. This growth is largely attributable to several major public pension funds adopting SRI practices. Broad SRI makes up 17.4 % of the combined retail mutual fund and institutional investment market in Canada.

One example of the growing trend at the international level toward SRI is the UN Principles for Responsible Investment (PRI) initiative, which sets out principles for incorporating ESG factors into investment decisions. On its first anniversary in April 2007, the UN Global Compact announced that the PRI initiative now has over 180 leading institutional signatories, which represent over US \$8 trillion in assets under management worldwide.

The launch of the Jantzi XEN fund, the move of major pension funds in Canada toward ESG, and the success of the UN Principles for Responsible Investment indicate that SRI is becoming more mainstream. The growth of SRI suggests that investors are attempting to align their social values with their investment portfolios to a greater degree. The ongoing growth of SRI signals a need for business to be more aware of ESG considerations.

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