UNDERSTANDING SOCIALLY RESPONSIBLE INVESTING

This investment strategy may better align your investments with your personal values.

Socially responsible investing (SRI) is an investment strategy that aims to provide financial return while encouraging positive social change. SRI allows people to invest in companies that align with their values or beliefs, and avoid those companies that don't.

For example, you may decide to only invest in companies that have *"net zero carbon footprints"* or avoid industries or companies that operate in conflict areas. It's often associated with supporting environmental, social and governance initiatives that have a positive societal impact.

Also known as:

- sustainable investing
- responsible investing
- ESG investing *(based on Environmental, Social and Governance factors)*
- socially conscious investing
- ethical investing
- green investing

How SRI works

SRI is an investment approach that considers both the financial return and the social good that a company generates. A wide range of companies across numerous industries could be considered socially responsible.

To determine a company's suitability, investment advisers as well as individual investors screen companies based on a variety of environmental, social, and governance factors. SRI-based screening can be either positive or negative.

Positive screening – selects companies that demonstrate good SRI practices.

May include companies that:

- Take good care of the environment.
- Create eco-friendly products.

- Reduce greenhouse gas emissions.
- Support good employee relations.
- Promote women in leadership opportunities.
- Are involved in local communities.
- Take a stand on climate change.
- Respect human rights and diversity.

Negative screening – excludes companies that the investment adviser or investor perceives as having poor SRI practices or that have a negative impact on society through the products or services they provide.

As an alternative to screening, investment advisers might practice "ESG integration," which means they embed environmental, social, and governance factors into traditional financial analysis, with the aim of gaining a more complete understanding of an investment's value and prospects.

Investment advisers may also take an active approach to SRI, by investing in companies and then engaging with them to improve these companies' environmental, social, and governance practices.

3 reasons to choose SRI:

1. Promote sustainability

By investing in sustainable companies with good track records of managing their impact on people, profits and the planet *(known as the "triple bottom line"),* you're encouraging their best practices.

**"The triple bottom line (TBL) measures a company's financial profitability, as well as its social responsibility and environmental impact. The three facets are referred to as people, profits and planet."*

2. Opportunity for returns

You don't necessarily have to give up on financial performance to invest responsibly. Some studies have shown that companies that maintain high SRI standards can deliver competitive financial returns for investors.

3. Wide variety to choose from

You can invest in socially responsible stocks, ETFs, mutual funds, and fixed income products. There are also socially responsible alternative investments, such as private equity, venture capital and real estate.

Take action

You can work with an advisor to help you select socially responsible investments or identify suitable ones on your own.

Information courtesy of https://www.getsmarteraboutmoney.ca/.