

# THE ULTIMATE GUIDE TO RESPONSIBLE INVESTING

SURVEY EDITORS: TOBY A.A. HEAPS AND MARTIN TONER

- The 2003 Ranking of Canada's Best SRI Mutual Funds
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- The 10 Trends Driving SRI
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# 2003 KNIGHT FUND RANKING: CANADA'S BEST SRI MUTUAL FUNDS

## WHAT THE RANKING IS AND WHAT IT ISN'T

The 2003 Corporate Knights SRI Fund Ranking is the only resource designed to help investors make an educated judgment on which funds have done the best job of fusing the social, environmental and financial values they bring to the table. Trying to design a ranking criteria that will be consistent with everyone's values is an exercise doomed to fail, so investors can best utilize our chart making their own assessment based on each fund's characteristics.

## METHODOLOGY BRIEF: 5 Shield Score is based on three equally weighted scores:

- 33 per cent Screening (1/2 number, 1/2 depth)
- 33 per cent Engagement (1/2 policy, 1/2 number of engagements)
- 33 per cent Performance (21 months: the longest time period that captures performance data for at least 3/4 of the SRI funds currently offered for sale)

This is the first leg of a long journey. We are working hard to improve the extent of this survey and evolve it to reflect all aspects of the SRI question, qualitative and quantitative. We welcome your comments and suggestions at [info@corporateknights.ca](mailto:info@corporateknights.ca). No letter bombs, please.

**NOTE:** All performance related data provided by Morningstar Canada, Dec. 31st, 2002. All non-performance data obtained from the Fund Companies.

## SRI POOLED FUNDS:

[www.acuityfunds.ca](http://www.acuityfunds.ca)  
[www.jonesheward.com](http://www.jonesheward.com)  
[www.realassets.ca](http://www.realassets.ca)

## LABOUR SPONSORED INVESTMENT FUNDS THAT ADHERE TO SRI PRINCIPLES:

Crocus Fund (Manitoba)  
 First Ontario Fund  
 Fondation (Quebec)  
 Working Opportunity Fund (BC)  
 Solidarity Fund (Quebec)  
 Workers Investment Fund (NB)

Source: Social Investment Organization

## LEGEND FOR THE RANKING CHART

**FUND RETURN:** The growth of a \$1,000 invested in the fund 21 months prior to the ranking.  
**ASSETS:** The value of fund's assets under management  
**MER:** The Management Expense Ratio  
**SCORE:** The Combined Corporate Knights score for screening, engagement and performance  
**SHIELDS:** The Corporate Knights Fund Ranking in shields (from zero to five)

FUND NAME	FUND RETURN	ASSETS	MER	SCORE	SHIELDS
Ethical Special Equity	\$1,423	106.3	2.76	4.02	★★★★★
Meritas Canadian Bond	\$1,136	3.5	2.13	3.84	★★★★★
Meritas Money Market	\$1,036	1.2	0.97	3.67	★★★★★
Ethical Global Bond	\$1,135	27.6	2.79	3.53	★★★★★
Ethical Income	\$1,125	185.6	1.80	3.51	★★★★★
Ethical Money Market	\$1,034	154.8	1.34	3.36	★★★★★
Mackenzie Universal Global Ethics Capital Class	\$605	9.3	2.98	3.33	★★★★★
Meritas Jantzi Social Index	\$809	9.1	2.00	3.29	★★★★★
Mackenzie RSP Universal Global Ethics	\$576	2.5	2.63	3.28	★★★★★
Meritas U.S. Equity	\$755	3.3	2.79	3.20	★★★★★
Ethical Balanced	\$897	439.6	2.42	3.13	★★★★★
Meritas International Equity	\$708	2.7	3.05	3.12	★★★★★
Ethical Canadian Equity	\$886	17.8	2.53	3.11	★★★★★
Ethical Growth	\$834	446.9	2.41	3.02	★★★★★
Canada Life Gen Income (Ethical)	\$1,104	2.2	3.00	2.97	★★★★★
Ethical Pacific Rim	\$760	16.6	3.28	2.90	★★★★★
Investors Summa Fund	\$744	1902.7	2.97	2.86	★★★★★
Ethical Global Equity	\$694	25.6	2.76	2.79	★★★★★
Ethical RSP Global Equity	\$689	12.2	2.83	2.78	★★★★★
Desjardins Ethical Income	\$959	3.0	3.25	2.73	★★★★★
Desjardins Ethical Balanced	\$927	4.8	3.25	2.67	★★★★★
Ethical North American Equity	\$586	158.9	2.54	2.60	★★★★★
Ethical RSP North American Equity	\$582	17.6	2.58	2.60	★★★★★
Canada Life Gen Balanced (Ethical)	\$879	1.1	3.25	2.59	★★★★★
Desjardins Environment	\$872	87.3	2.39	2.53	★★★★★
Canada Life Gen Growth (Ethical)	\$816	0.6	3.40	2.49	★★★★★
Desjardins Ethical North American	\$783	3.2	3.25	2.43	★★★★★
Acuity Social Values Canadian Equity	\$1,013	9.4	2.50	2.30	★★★★★
GWL Ethics	\$893	0.6	2.95	2.26	★★★★★
Quadrus GWLIM Ethics	\$882	0.6	2.95	2.24	★★★★★
Lutheran Life Fortress North American	\$573	0.1	3.83	2.08	★★★★★
Canada Life Gen Nth Am Equity (Ethical)	\$572	1.2	3.60	2.03	★★★★★
Acuity Social Values Global Equity	\$749	4.3	2.60	1.91	★★★★★
Dynamic StrategicNova Sami	\$814	1.6	2.70	1.80	★★★★★
Manulife CDN Balanced Ethics Fund	\$926	5.3	2.80	1.70	★★★★★
Mavrix Sierra Equity	\$770	0.7	2.74	1.32	★★★★★
Acuity Clean Environment Balanced	\$889	45.8	3.39	0.78	★★★★★
Acuity Clean Environment Equity	\$716	113.3	3.39	0.49	★★★★★
Acuity Clean Environment Global Equity	\$582	16.5	3.43	0.27	★★★★★
Sentry Select Focused Alternative Energy	\$434	2.3	2.25	0.11	★★★★★
Acuity Clean Environment Science and Tech	\$485	0.3	2.60	0.10	★★★★★

## SCREENS EMPLOYED (RED = NEGATIVE, BLUE = POSITIVE)

FUND NAME	SCREENS EMPLOYED
ACUITY SOCIAL VALUE FUNDS*	[Icons]
ACUITY CLEAN ENVIRONMENT FUNDS	[Icons]
CANADA LIFE / ETHICAL FUNDS	[Icons]
DESJARDINS FUNDS	[Icons]
DESJARDINS ENVIRONMENT FUND	[Icons]
DYNAMIC MUTUAL FUNDS LTD.	[Icons]
GWL / LONDON LIFE / QUADRUS FUNDS	[Icons]
INVESTORS GROUP INC.	[Icons]
LUTHERAN LIFE INS. SOC. OF CANADA	[Icons]
MACKENZIE FINANCIAL CORPORATION	[Icons]
MANULIFE FINANCIAL	[Icons]
MAVRIX FUND MANAGEMENT INC.	[Icons]
MERITAS MUTUAL FUNDS	[Icons]
MIDDLEFIELD FINANCIAL LIMITED	[Icons]
PH&N INVESTMENT MANAGEMENT	[Icons]
SENTRY SELECT CAPITAL CORP.	[Icons]

## SCREENS GUIDE

[Red Icon]	Tobacco	[Blue Icon]	Environment
[Red Icon]	Alcohol	[Blue Icon]	Employee relations/ Diversity
[Red Icon]	Gambling	[Blue Icon]	Gender equity
[Red Icon]	Pornography	[Blue Icon]	Diversity
[Red Icon]	Human Rights	[Blue Icon]	Gender equity
[Red Icon]	Nuclear	[Blue Icon]	Corporate Governance
[Red Icon]	GMO's	[Blue Icon]	Community/ Diversity
[Red Icon]	Weapons	[Blue Icon]	Community/ Diversity
[Red Icon]	Animal Testing	[Blue Icon]	Aboriginal rel.
[Red Icon]	Fin. Services	[Blue Icon]	Community Direct
[Red Icon]	Entertainment	[Blue Icon]	Investment
[Red Icon]	Pork/Poultry	[Blue Icon]	Animal Welfare
[Red Icon]	Fur	[Blue Icon]	Animal Welfare
[Red Icon]	Roadbuilding	[Blue Icon]	Animal Welfare

\*Community Direct Investment (CDI) screen only for Acuity Social Values Global Equity fund.

## SRI FUND FAMILY FOCUS



**ACUITY FUNDS LTD.**  
Tel: (800) 461-4570  
Web: www.acuityfunds.com  
SRI assets: \$189.6 million  
# of SRI funds: 6  
Load structure: Optional



**CANADA LIFE ASSURANCE CO.**  
(segregated funds)  
Tel: (888) 252-1847  
Web: www.canadalife.com  
SRI assets: \$5.1 million  
# of SRI funds: 4  
Load structure: Back End Load



**DESJARDINS FUNDS**  
(fiducie Desjardins)  
Tel: (800) 361-2680  
Web: www.desjardins.com/ang  
SRI assets: \$98.3 million  
# of SRI funds: 4  
Load structure: No Load



**DYNAMIC MUTUAL FUNDS LTD.**  
Tel: (800) 268-8186  
Web: www.dynamic.ca  
SRI assets: \$1.6 million  
# of SRI funds: 1  
Load structure: Optional



**ETHICAL FUNDS INC.**  
Tel: (877) 384-4225  
Web: www.ethicalfunds.com  
SRI assets: \$1,616.6 million  
# of SRI funds: 19  
Load structure: Optional



**GREAT-WEST LIFE ASSURANCE CO.**  
(segregated funds)  
Tel: (800) 665-5758  
Web: www.gwl.ca  
SRI assets: \$0.6 million  
# of SRI funds: 1  
Load structure: Choice of No Load or Back End Load



**INVESTORS GROUP INC.**  
Tel: (888) 746-6344  
Web: www.investorsgroup.com  
SRI assets: \$1,902.7 million  
# of SRI funds: 1  
Load structure: Both Front End and Back End Loads



**LONDON LIFE INSURANCE CO.**  
(segregated funds)  
Tel: (877) 566-5433  
Web: www.londonlife.com  
SRI assets: \$2.2 million  
# of SRI funds: 1  
Load structure: Back End Load



**LUTHERAN LIFE INSURANCE SOCIETY OF CANADA**  
(segregated funds)  
Tel: (800) 563-6237  
Web: www.lutheranlife.ca  
SRI assets: \$0.1 million  
# of SRI funds: 1  
Load structure: Back End Load



**MACKENZIE FINANCIAL CORPORATION**  
Tel: (800) 387-0614  
Web: www.mackenziefinancial.com  
SRI assets: \$11.8 million  
# of SRI funds: 2  
Load structure: Optional



**MANULIFE FINANCIAL**  
(segregated funds)  
Tel: (800) 517-0259  
Web: www.manulife.ca  
SRI assets: \$5.3 million  
# of SRI funds: 1  
Load structure: Optional



**MAVRIX FUND MANAGEMENT INC.**  
Tel: (416) 362-3077  
Web: www.mavrixfunds.com  
SRI assets: \$0.7 million  
# of SRI funds: 1  
Load structure: Optional



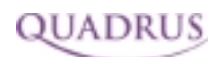
**MERITAS MUTUAL FUNDS**  
Tel: (866) 637-4827  
Web: www.meritas.ca  
SRI assets: \$19.8 million  
# of SRI funds: 5  
Load structure: Optional



**MIDDLEFIELD FINANCIAL LIMITED**  
Tel: (888) 890-1868  
Web: www.middlefield.com  
SRI assets: \$0.1 million  
# of SRI funds: 1  
Load structure: Optional



**PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT**  
Tel: (800) 661-6141  
Web: www.phn.com  
SRI assets: \$35.8 million  
# of SRI funds: 4  
Load structure: No Load



**QUADRUS GROUP OF FUNDS**  
Tel: (888) 532-3322  
Web: info@quadrusinvestment.com  
SRI assets: \$0.6 million  
# of SRI funds: 1  
Load structure: Optional



**SENTRY SELECT CAPITAL CORP.**  
Tel: (888) 246-6656  
Web: www.sentryselect.com  
SRI assets: \$2.3 million  
# of SRI funds: 1  
Load structure: Front End Load

## 10 TRENDS DRIVING SRI

**THE ENRON EFFECT:** Be responsible or perish. It is clear now that to achieve long-term prosperity, a company must be a solid corporate citizen.

**BIG MONEY:** The new activists. The Carbon Disclosure Project, which represents a consortium of institutional investors with \$4 trillion in assets, sent a letter to the world's 500 largest quoted companies to let them know it is time to start taking climate change risks seriously because it is an important part of the investment analysis.

**IT'S THE NUMBERS STUPID:** Ninety-five studies have been carried out to find the link between corporate social performance and financial performance. Only 4 found a negative relationship.

**THE LAW SAYS SO:** Pension fund managers in the UK and Germany are required by law to explain their vision of SRI. In France, all public companies must issue a triple-bottom line report. New guidelines published by the Canadian Institute of Chartered Accountants (CICA) call on companies to cite "key drivers" such as social and environmental responsibility in their Management's Discussion & Analysis (MD&A) disclosures.

**MARKET IS TOO IMPORTANT:** Twenty years ago, 1.5 billion people lived under a market system. Today, 6 billion people do.

**POPULATION GROWTH:** Humanity is putting increasing pressure on global ecosystems, exceeding the Earth's biological capacity by 20 percent, according to the Ecological Footprint of Nations.

**SRI INFORMATION EXPLOSION:** Global Reporting Initiative launched in 1997 to establish corporate reporting guidelines on their economic, environmental, and social performance. There are now 27 SRI indexes in the world.

**ITS OWN UNIVERSE:** Size of SRI has hit critical mass. With over 54 retail mutual funds spanning all asset classes, Canadian retail investors can now construct an entire portfolio using only SRI funds.

**BIG LABOUR, BIG BUCKS:** The three largest pension funds in Canada (OMERS, CAISSE, OTPP) combine for a quarter-trillion dollar portfolio, with a weighting of 23-25 per cent (\$60+ billion) invested in Canadian equities. They are beginning to use SRI as part of their risk analysis.

**OLD GUARD JOINING FORCES WITH SRI ON CORPORATE GOVERNANCE:** Canadian Coalition for Good Governance, a group of pension funds that control \$400 billion in assets has joined ranks to make sure their power is felt in the boardroom.

**WHITHER EQUITIES?** Of the top-six ranked funds, five were either bond or money market funds. No surprise here. Performance accounted for one-third of the weighting in our ranking. Ethical Funds and the M&M brothers (Meritas and Mackenzie) beat the pack with their strong scores in the screening and engagement categories. After this, performance separated the men from the boys, and that's why in a year rife with equity pain, only three equity funds made the top ten.

**PERFORMANCE: NOT SO GOOD, BUT NOT SO BAD**

S&P/TSX 60 Index 1-Year Return:	-15.7 per cent
All SRI Fund 1-Year Return:	-11.6 per cent
All fund 1-Year Return:	-15.2 per cent
All SRI Fund 3-Year Return:	-7.5 per cent
All fund 3-Year Return:	-4.0 per cent
All SRI Fund 5-Year Return:	-1.9 per cent
All fund 5-Year Return:	-1.3 per cent
All SRI Fund 10-Year Return:	6.6 per cent
All fund 10-Year Return:	6.5 per cent

**MERS SURPRISINGLY LOW**

Average MER for the 54 SRI funds: 2.60 versus 2.54 for the Average Canadian Mutual Fund. This is a surprise because SRI funds come with a more comprehensive analysis that includes the social and environmental components.

**POSITIVE SCREENED FUNDS DOGGING IT**

The Acuity Clean Environment Funds and Sentry Select Alternative Energy Fund suffered from the bias in this study as they do not apply negative screens. This could be viewed as unfair in two respects: sustainability focused investing is a subset of the broader SRI style of investing and can thrive handsomely without bothering with inefficacious negative screens. The Dow Jones Sustainability Index with its positive-only screen style and solid track record is a case in point. In practice, positive-only screened funds almost never invest in the nasty industries for which SRI-traditionalists screen. But none of these funds treat corporate engagement with the level of professionalism one would expect from a fund that claims to pursue sustainability. While disclosing proxy voting record, and engaging companies on sustainability issues—material to the objective of the fund—through dialogue or shareholder resolutions is standard practice with most other funds, the positive-focused funds are opaque. The other element of the ranking that hurt the positive focused funds was their performance. However, this is in part due to the limited timeframe that was taken into account (21 months) which has been pointedly painful for science & technology stocks.

**EACH TO ITS OWN WHEN IT COMES TO NEGATIVE SCREENS**

Stephen Jarislowsky, chairman at Jarislowsky Fraser Limited, is critical of SRI. "I don't know what an ethical investment is," he says. "These ethical funds invest in Canadian Government Bonds, and then the government uses that money to build casinos. How is that consistent?" he asks. Jarislowsky makes a good point. But that line is defeatist. Just because you can't do everything, doesn't mean you can't do something. For example, Canada's largest SRI fund family, Ethical Funds has only four negative screens: no smokes, nuclear, human rights abusers, or weapons. Alcohol, porn, and gambling, however, are ok.

**MOST POPULAR NEGATIVE SCREENS**

Tobacco:	89 per cent
Weapons:	89 per cent
Human rights abuses:	80 per cent
Nuclear:	74 per cent

**LEAST POPULAR NEGATIVE SCREENS**

Gambling:	37 per cent
Alcohol:	37 per cent
Pornography:	33 per cent
Animal Testing:	13 per cent

**ODDBALL SCREENS**

Mackenzie Universal Global Ethics: No fur or road builders.  
Dynamic StrategicNova Sami: No entertainment, pork or poultry or financial services.

**CHEATING ON THE SCREENS**

Three of four funds that claim to negatively screen slip on the nitty-gritty, relaxing their principles to invest forbidden stocks via non-SRI derivative instruments or non-SRI trusts. The SRI fund industry does deserve credit, however, for taking steps to ensure they don't touch indexes or funds that contain forbidden stocks. We found Meritas, Mackenzie's two Global Ethics funds, Investors Summa, and GWL Ethics to be the most thorough in upholding the integrity of their screens by steering clear of investment instruments that might be harbouring the forbidden fruit.

**POSITIVE DIVERSITY**

All the fund families have different positive screens. The Dynamic StrategicNova Sami and the Manulife Canadian Balanced Ethics Fund do not apply any positive SRI screens at all. Of the rest of the funds, all have positive screens for the environment, which means they look for firms that have superior environmental performance. Only six funds dedicate a portion of their assets to community development investments (CDI), in things such as local hockey rinks. Over the past three years, CDI has outperformed the equity markets, turning in a solid T-bill like 4 per cent per annum.

**POSITIVE SCREENS**

Environment:	96 per cent
Employee relations:	85 per cent
Gender equity:	83 per cent
Community (aboriginal):	83 per cent
Corporate governance:	78 per cent
Animal Welfare:	13 per cent
CDI:	11 per cent

**GMOS ARE AN EMERGING NEGATIVE SCREEN**

Neither of the two biggest SRI fund families have GMO screens, but Ethical Funds is reviewing its GMO policy. Five funds presently have negative screens for GMOs, including the Investors Summa Fund, the two Mackenzie Universal Global Ethics funds, and the two Acuity Social Values funds.

**FUNDS SCREEN AT ALL DEPTHS**

A firm might screen for tobacco, but what does that mean? With tobacco, Meritas funds and Mackenzie Global Ethics funds have a zero threshold. Investors Summa fund will not own a company if tobacco is more than 2 per cent of its business. Ethical Funds is prepared to own a company who makes money on smokes, so long as it is not more than 5 per cent of the primary business. Manulife Canadian Balanced Ethics Fund sets the primary income threshold bar at 20 per cent. The thresholds need to be taken with a grain—nay, a pound—of salt. Our main intent for asking about the secondary and primary income thresholds and making it part of the criteria was to make fund companies think about the intensity of their screens. We hope it will drive investors to find better tools or lobby for changes to make tracking the total financial ties of a company with the rest of the economy a science of particulars, not

question marks. It might start with banks disclosing exactly which companies to which they are significantly exposed. In general, we found Meritas and Mackenzie to have the most rigour with respect to the depth of their screens.

**FUNDS NOT SERIOUS UNLESS THEY PROPOSE ENGAGEMENT**

Not counting the seven positive only funds who eschew engagement, 85 per cent of the funds claim to engage companies on social and environmental matters, with resolutions or dialogue. But of these 40 funds that claim to engage, only 28 publish their proxy intentions. The three leading SRI engagers are Ethical Funds, Meritas, and Mackenzie. Engagement is the future of SRI. Expect the lagging fund families to clarify and make their engagements and dialogue easily known to unitholders, by posting all relevant information on their web sites, as Ethical Funds does.

**WHERE ARE THE BANKS?**

SRI is a holistic investment strategy that the overwhelming account of academic studies concludes is also viable. The growth is there. While the number of overall funds shrank in the past six months, the number of SRI funds has shot upward by 25 per cent. According to a 2001 poll by Vector Research, 51 per cent of Canadians say they would invest in "companies with a good record even if it resulted in somewhat lower investment benefits." There is money to be made in this market: \$104 million of Management expense fees will be collected on retail SRI funds this year. Not allowing socially responsible funds into the bank's powerful retail networks is similar to Major League Baseball not allowing black people to play in the show. Before Jackie Robinson broke the colour barrier in the big leagues with the Brooklyn Dodgers 1947, Cubans had played at the major league level. Canada has two Cubans in the form of fund giants Investors Group (Summa) and Mackenzie Financial (2 Global Ethics funds). Who among Canada's big banks is going to be the Branch Ricky for SRI? BMO Financial Group was poised to kick off a line of retail funds based on the sustainable development investment strategies pioneered by Blair Feltmate. But, BMO dragged its feet and Feltmate recently picked up shop to take over as head of Sustainable Development with Ontario Power Generation. The reasoning for the banks to maintain the SRI fund apartheid comes from the following four schools of thought:

1. SRI IS A DOG—Ethical investing in an unethical system is a fast way to lose money.
2. IF WE BUILD IT THEY WON'T COME—Consumers will not buy SRI funds
3. ANTI-TROJAN HORSE—Inviting ethical investing to the inside will invite outside scrutiny on our unethical practices.
4. THE SHEEP—No other banks are doing it, so how could we?

Graham Harris, RBC Spokesperson for Mutual Funds is part of the If-we-build-it-they-won't-come-school. "If the market demands it sufficiently for us to introduce them, we will. At this point we are reviewing it, but we have not moved further in that direction at this point." RBC placed as Canada's most socially responsible bank in the Corporate Knights 2002 Best 50 Corporate Citizens ranking, and it is member of the elite Triple Crown Crowd of seven leading Canadian companies that qualified for the Dow Jones Sustainability Index, FTSE4Good Global Index and the Best 50 Corporate Citizens in Canada. **CK**