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## **Value vs. Values: Evaluating Non-Traditional Risks in a Shifting Investment Landscape**



**Victoria CFA Society  
Vancouver, BC  
April 20, 2005**

**Michael Jantzi, Jantzi Research Inc.**

## The underlying question for today

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...is evaluating non-financial risks (intangibles)  
appropriate/achievable as part of the investment  
process?

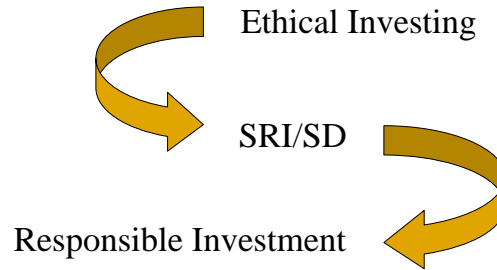
## SRI is

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...the integration of social and environmental  
parameters into the investment decision making  
process.

## What's in a name?

- the integration of social and environmental parameters into the investment decision making process



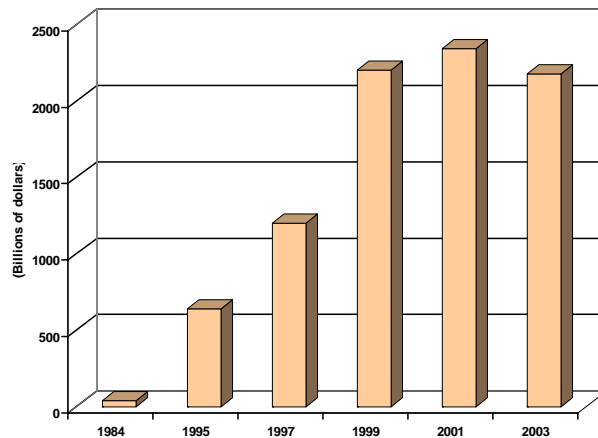
## What's the Risk?



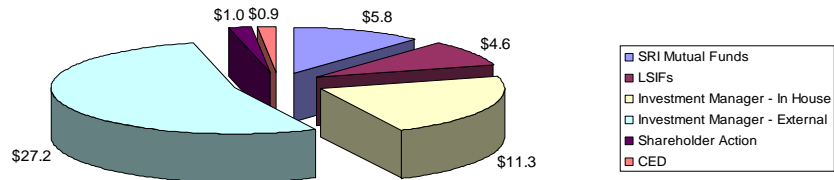
## European Perspective

- July 2000 – UK Pensions Disclosure Regulation: “the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments”
  - Belgium, France, Germany, Australia
- the Netherlands – ABP, PGGM
- FRR-Fonds de Réserve Pour Les Retraites
- Swedish National Pension Funds
- institutional SRI in Europe totals about €336 billion
- Enhanced Analytics Initiative

## SRI Assets in the U.S.



## SRI Assets Under Management in Canada (Billions \$)

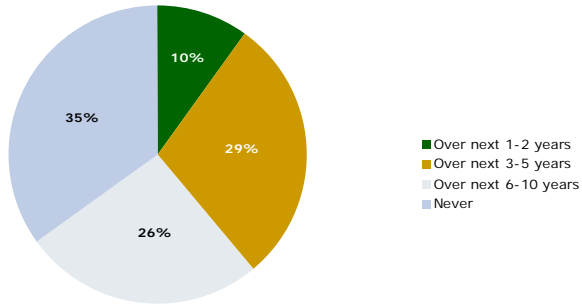


## What Does The Future Hold?

- Mercer Investment Consulting – recent *Fearless Forecast* surveyed 220+ investment managers worldwide, and asked them to predict in which time frame active ownership, screening, and the integration of ESG analysis “*will become a common component of mainstream investing?*”

## What Does The Future Hold?

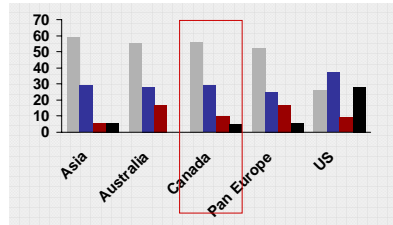
Positive or negative screening for social and/or environmental factors



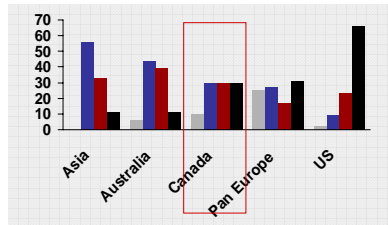
Source: 2005 Fearless Forecast, ©2005 Mercer Human Resource Consulting LLC and Mercer Investment

## What Does The Future Hold?

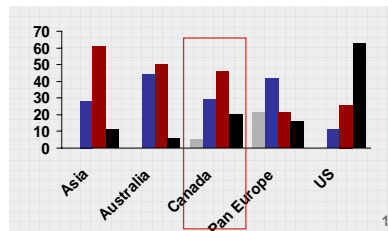
Active ownership (shareholder engagement/activism, proxy voting)



Positive or negative screening for social or environmental factors



The integration of social/environmental corporate performance indicators



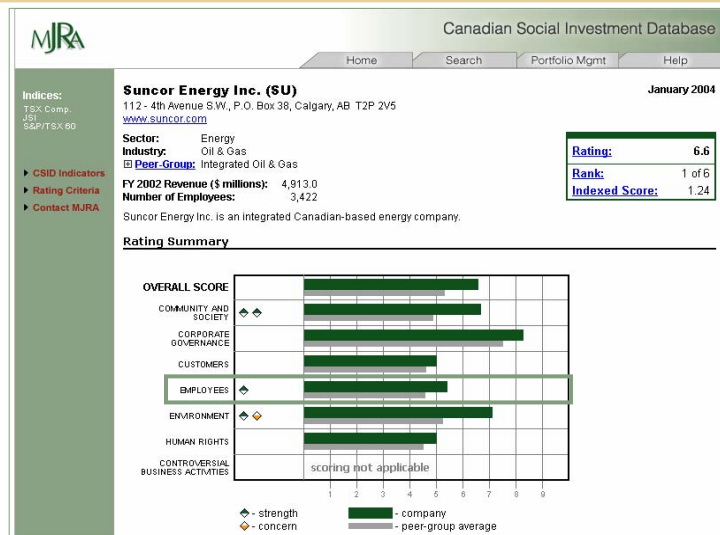
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## Critiquing the Critics


- SRI analysis is not as rigorous as traditional fundamental analysis – can't trust the data sets

- *Hercules Management Ltd. vs. Ernst & Young*

## Rating Companies



# Employees


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JSI  
S&P/TSX 60

▶ CSID Indicators

▶ Rating Criteria

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**Suncor Energy Inc. (SU)** January 2004

112 - 4th Avenue S.W., P.O. Box 38, Calgary, AB T2P 2V5  
[www.suncor.com](http://www.suncor.com)

**Sector:** Energy  
**Industry:** Oil & Gas  
**Peer Group:** Integrated Oil & Gas

**FY 2002 Revenue (\$ millions):** 4,913.0  
**Number of Employees:** 3,422

Suncor Energy Inc. is an integrated Canadian-based energy company.

EMPLOYEES

	Score	Rank (of 6)	Indexed Score	Peer-Group Average	Range
<b>EMPLOYEES</b>	<b>5.4</b>	<b>2</b>	<b>1.18 (0.43 - 1.18)</b>	<b>4.6</b>	<b>2.0 - 5.4</b>
Employee Programs and Benefits	4.7	2	1.21 (0.49 - 1.31)	3.9	1.9 - 5.0
Diversity	5.7	2	1.29 (0.38 - 1.39)	4.4	1.7 - 6.1
Health and Safety	7.6	2	1.36 (0.43 - 1.37)	5.6	2.4 - 7.6
Union Relations	2.5	4	0.75 (0.00 - 1.50)	3.3	0.0 - 5.0
Other Employee Data	10.0	1	1.09 (0.55 - 1.09)	9.2	5.0 - 10.0

**Rating:** 6.6

**Rank:** 1 of 6

**Indexed Score:** 1.24

# Health and Safety

**EMPLOYEES**

**Health and Safety (H&S)**

- formal H&S/wellness management system
- policy on occupational health and safety
- managerial structure and responsibility
- systems to monitor/track H&S data
- H&S audits/inspections
- performance objectives and targets
- employee training and communication
- public reporting on H&S
- occupational health and safety programs
- employee wellness programs
- H&S record
  - lost-time injury rate
  - recordable incident rate
  - number of fatalities
  - safety convictions over the last five years
  - safety fine total over the last five years
  - health and safety incidents and impacts

## Health and Safety Incidents and Impacts



## Employees

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January 2004

**MJRA**

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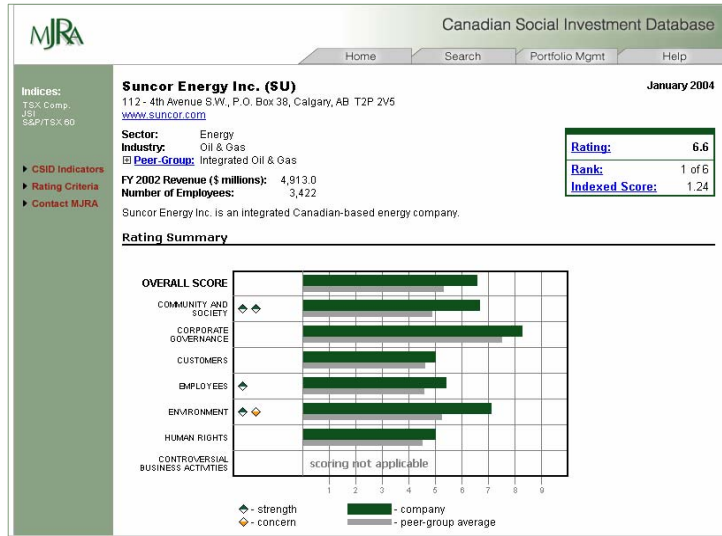
Indices:  
TSX Comp. JSI S&P/TSX 60

▶ CSID Indicators  
▶ Rating Criteria  
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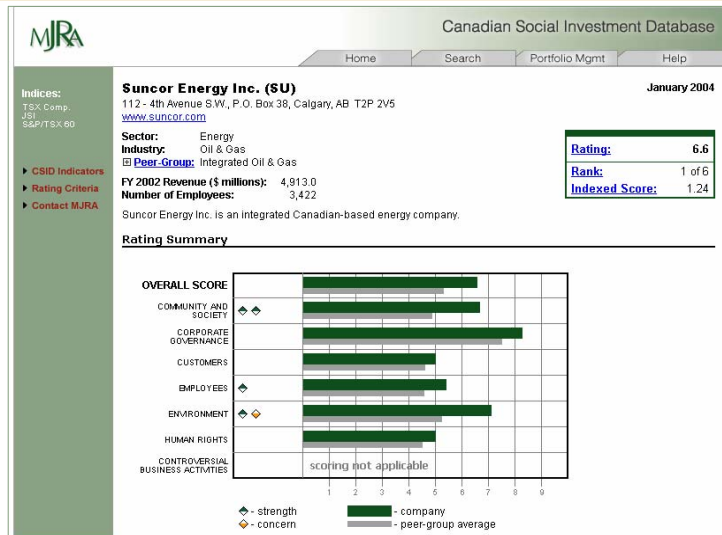
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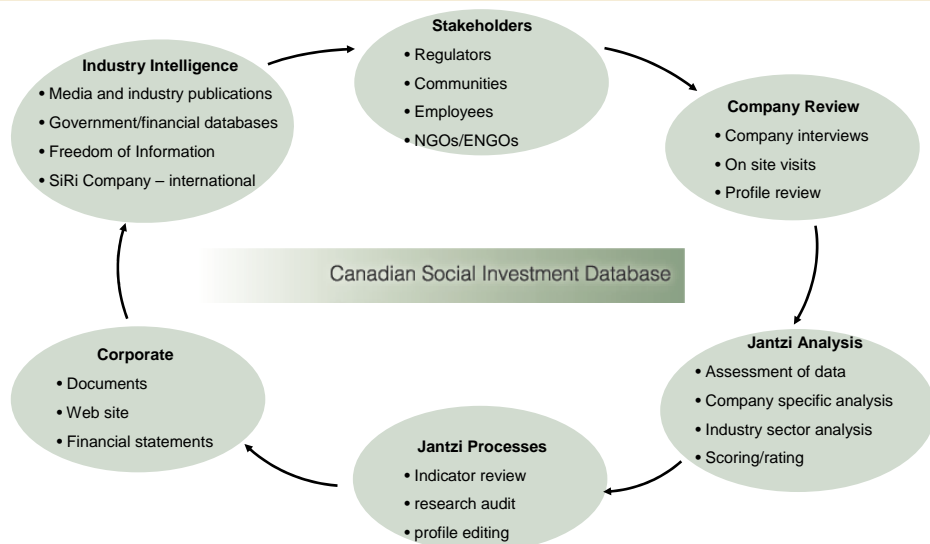
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## Critiquing the Critics

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  - *Hercules Management Ltd. vs. Ernst & Young*
- SRI research process is less rigorous than traditional process

## Research Process



## A Critique of the Critics

- SRI analysis is not as rigorous as traditional fundamental analysis – can't trust the data sets
  - *Hercules Management Ltd. vs. Ernst & Young*
- SRI research process is less rigorous than traditional process
- there's no such thing as a perfect company - why bother?
- SRI reduces the size of the universe - lower returns

## A Critique of the Critics

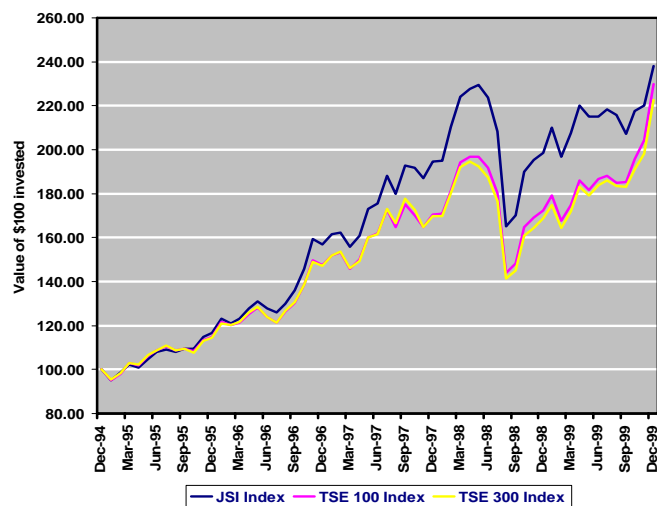
“The goal of every active investment manager is to construct a portfolio that will perform better than the market. Mainstream investment managers do this by applying investment principles that they believe will result in a portfolio of stocks that will deliver superior returns. The disciplined application of these investment principles, just like the application of SRI principles, reduces the size of the investible universe for the fund manager. And just like socially responsible investors, mainstream investment managers justify this exclusionary process as a means to identify superior investment opportunities.”

Brent Sutton, Partner  
Phillips, Hager & North Investment Management Limited

## What's the Opportunity?

- generation of alpha
- growing body of research highlighting link between superior sustainability performance and enhanced share value
- sustainability indexes - Jantzi Social Index

## Jantzi Social Index - Backtest



## Jantzi Social Index - Backtest

	JSI	TSE 100	TSE 300
<b>Annualized Return</b>	18.93%	18.11%	17.35%
<b>Std Dev (Risk)</b>	16.12%	16.04%	15.76%
<b>Sharpe Ratio*</b>	0.802	0.755	0.720
* (Return-RiskfreeReturn)/StdDev [Assumed Rf=6%]			

## JSI - Comparative Values

(through March 31, 2005)

RETURNS	Mar 2005	3 mths	6 mths	1 yr	3 yr*	Incep*	Incep**
<b>JSI</b>	1.05%	2.90%	10.16%	6.68%	9.38%	4.43%	25.58%
<b>S&amp;P/TSX 60</b>	0.56%	4.72%	11.78%	10.60%	8.27%	3.06%	17.13%
<b>S&amp;P/TSX COMPOSITE</b>	-0.38%	4.36%	11.86%	11.95%	8.94%	4.15%	23.79%

\* Annualized \*\* Cumulative from inception on January 1, 2000 through March 31, 2005

## JSI - Comparative Returns (through March 31, 2005)

