RESPONSIBLE INVESTING

Ethical investing gains respect on the street and buy-in from investors as it blooms into a trillion-dollar environment

Peter Leighton, co-founder and COO of RE Royalties: growth seen in wind and solar power, which are now increasingly competitive with hydro-electricity • CHUNG CHOW

Frank O'Brien

Investing that aligns personal objectives in relation to environmental, social and governance (ESG) values has shifted rapidly from the left wing to centre ice for Canadian investors.

According to the most recent data from the Toronto-based Responsible Investment Association (RIA), assets in Canada managed using one or more ESG strategies increased from $1.51 trillion at the end of 2015 to $2.13 trillion as at December 31, 2017. That represents a 41.6 per cent increase in ESG-related assets under management in just two years.

And, judging from Standard & Poor's Financial Services LLC's (S&P) tracking of ESG investments, the trend will accelerate. Its April 2019 study showed that the S&P ESG index has been running slightly ahead of the broader S&P 500 index for the past five years.

S&P's ESG index relates to environmental objectives, but it also excludes tobacco, controversial weapons, and companies not in compliance with the UN Global Compact, a voluntary initiative based on CEO commitments to universal sustainability principles.

The bottom line: the composite score of the S&P ESG index was 71.57, an increase of 9.92 compared with the S&P 500's score of 62.26; and this was despite excluding more than 30 per cent of companies based on eligibility requirements.

ESG investing can no longer be considered a risk or a rarity. Responsible investing now accounts for 50.6 per cent of Canadian assets under management, up from 37.8 per cent two years earlier.

"Surpassing the 50 per cent threshold marks a major milestone in the history and development of responsible investing in Canada," understates Dustyn Lanz, CEO of the RIA.

The audience – and potential – for ESG has attracted a number of Canadian investment groups, including startups, staking out specific investment targets. They are likely aware that millennials – those aged 18 to 34 – are becoming a force in responsible investing.

James Tansey, executive director of the University of British Columbia Sauder School of Business' Centre for Social Innovation and Impact Investing, says the evidence around social investing in public companies shows that millennials are 65 per cent more likely to select socially responsible investments than older Canadians.

RE Royalties Ltd. (TSX.V:RE) of Vancouver, which launched last November on the Toronto Venture Exchange, for example, focuses on providing royalty-based financing to renewable energy projects, such as wind, solar and hydro power.

In a June transaction, RE Royalties bought a portfolio of royalties from four solar parks in Ontario for $1.87 million. The solar parks have a generation capacity of approximately 60,000 megawatt hours of clean energy per year, capable of removing 2,971 tonnes of carbon dioxide equivalent from the hydro grid or providing electricity to 6,600 homes annually. Currently the company, which was trading below $1 as of mid-June, has a portfolio of royalties on 58 solar parks, two wind farms, including one in B.C., and three hydro projects in Canada, the U.S. and eastern Europe, according to co-founder and COO Peter Leighton.

Leighton sees growth in the U.S. market, where he says solar power provides electricity cheaper than off the hydro grid in all 50 states. "It costs two` cents per kw [kilowatt] for solar, which is one-tenth of what it cost five years ago," he says.

For Wayne Wachell it is what is *not* in the portfolio that defines the potential of responsible investing: namely no oil and gas companies.

In B.C., where about 40 per cent of the population is against the expansion of oil pipelines, divesting could strike a chord with investors.

"We launched our fossil-free suite of funds believing it was possible to generate strong returns without contributing to climate change. With each year, the data has supported that assertion. At the five-year mark, we can conclusively say: divesting from fossil fuels pays," says Wachell, CEO and chief investment officer with Vancouver-based Genus Capital.

Wachell notes the CanGlobe Equity fossil-free fund has outperformed the overall Canadian stock market index, which includes coal and major carbon-producing industries, since its inception in 2013. Historical data, he claims, shows that divesting from oil and gas would have yielded positive returns for investors as far back as 1998.

"With the advancements being made in more climate-friendly sectors like technology, financial, consumer discretionary and telecoms, we can only expect to see the return potential for divested portfolios grow," Wachell says.

Wayne Wachell, CEO and chief investment officer, Genus Capital, says divesting from fossil fuels is the key to investment performance

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INVESTING IN S&P 500 VERSUS THE S&P ESG

Annualized total returns (%) 2013-18