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Kim Inglis, BCom, CIM

Green investment options

How to color your portfolio “green”

On Earth Day we hear a powerful message that heightens awareness of all things sustainable, causing us to scrutinize our lifestyles and assess our ecological footprints. For investors, "green" analysis means examining portfolios to ensure they meet sustainability goals.

Individual views determine the degree to which investors judge their portfolios to be green. For some, their objectives are met with a few alternative energy holdings. For others, a portfolio is only deemed green when every holding fits a sustainability theme. Examining investment options can help you decide on an approach.

One way of incorporating green exposure is through sustainability-oriented mutual funds. They construct their portfolios to include corporations with a positive impact in a range of areas including environmental stewardship. These funds avoid companies that are environmentally unfriendly, that invest in undesirable sectors, or have sub-par human rights standards. The fund managers perform extensive due diligence and file shareholder proposals to address a company’s environmental, social, and governance (ESG) issues. NEI’s Ethical Funds are the largest and most popular sustainability-oriented mutual funds in Canada, offering a variety of mandates.

Investors preferring a more passive approach may opt for exchange-traded funds (ETFs). There are many available and all have different mandates, however most will track a sustainability-themed index. In Canada, the iShares Jantzi Social Index ETF (TSX: XEN) comprises 60 Canadian companies that meet specific ESG rating criteria as determined by the Jantzi-Sustainalytics group. It is a popular ETF recognized for the high quality of its research.

The US-based PowerShares Cleantech Portfolio ETF (AMEX: PZD) tracks the Cleantech Index, comprised of companies deemed to be global leaders in clean technology products like alternative energy, energy efficiency, advanced materials, air and water purification, eco-friendly agriculture & nutrition, and power transmission.

Detractors of sustainable ETFs argue that they don't have active engagement with the companies and therefore aren’t effecting enough change on an ESG scale. Opponents of sustainability-oriented mutual funds claim that the funds do not have enough focus on purely green companies. They argue that a green portfolio shouldn't hold oil & gas companies because the sector does not constitute renewable energy.

By way of example, they point out that many Canadian-based funds hold oil and gas company, Suncor Energy Inc. (TSX: SU). However, Suncor is a leading advocate of environmental sustainability, one of our most active companies promoting responsible operations, and a founding member of the Integrated Carbon Dioxide

Green investment options

Continued from Page 1

Network. In fact, from an ESG standpoint, Suncor fills the bill.

Those seeking something other than mutual funds or ETFs, can invest directly in companies focused on areas like renewable energy or energy efficiency. Canaccord Genuity analysts' top sustainability picks are TS03 Inc. (TSX: TOS) and Newalta Corporation (TSX: NAL). TS03 Inc. is involved with sustainable medical instrument sterilization and Newalta Corp. helps reduce the environmental impact of industrial waste. Investors should note there is a much higher degree of risk when investing in individual sustainability stocks, as many are smaller capitalization companies still in their early growth stages.

When choosing sustainable investments, investors must first determine where their values lie and then make investment decisions within their respective risk tolerance levels. There are many choices available, so those wishing to color their portfolio "green" should be able to find a match.

Kim Inglis, BCom, CIM is an Investment Advisor. The views in this column are solely those of the author. www.kiminglis.ca