Responsible investing

HOW TO INVEST WHILE DOING YOUR PART

KALEIDO

Education savings that does more

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CHAPTER 1

WHAT IS RESPONSIBLE INVESTING?

Definition

Responsible investing is choosing to invest while taking into account not only economic factors, but also the environmental, social, and governance criteria - also called **ESG criteria**. When it comes to responsible investing, it is about choosing companies that take these criteria into consideration.

Responsible investment is also associated with terms such as:

- Sustainable investing
- Ethical investing
- Impact investing

Where Does Responsible Investing Come From?

The basic principles of responsible investment, as we understand it today, began to appear timidly at the turn of the **1960s**, carried by the major social movements of the time.

During the 1990s, the movement grew in scope, reaching the popularity we know today. Nothing indicates that it will slow down anytime soon.

ESG Criteria

ESG (**e**nvironmental, **s**ocial, and **g**overnance) criteria are the basis of responsible investing. Let's explore these three factors:

1

The Environmental Criterion

To meet the environmental criterion, a company must promote **respect for the environment** in its practices or policies.

Examples of practices meeting the environmental criterion:

- Reduction of greenhouse gasses (GHG)
- Water management
- Waste management policies
- Protection of biodiversity
- Clean energy use
- Reduction of waste

The Social Criterion

The social criterion refers to the fate reserved for **humans**, especially **children and women**, as well as **communities.**

Examples of practices meeting the social criterion:

- Ensuring the well-being of employees
- Not negatively impacting communities
- Maintaining suitable working conditions
- Positive relations with the community, customers, and suppliers
- Non-exploitation of children
- Respect and gender equity in the workplace

For example, it could mean not investing in a company that forces the displacement of indigenous populations or negligently puts the lives of its employees at risk.

The criterion can extend to the tobacco and arms manufacturing industries, which can be excluded due to their harmfulness to individuals and societies.

The Governance Criterion

The governance criterion focuses on the administration of the company in terms of **sound management, transparency,** and **honesty** on the part of management.

Examples of practices meeting the governance criterion:

- Anti-corruption measures
- Cybersecurity measures
- Salary cap for management
- Lobbying management

If you do business with a financial advisor, they can therefore take into account environmental, social, and governance criteria when analyzing the balance sheet of a company.

The UN Principles for **Responsible Investment**

The United Nations (UN) has ruled on the Principles for Responsible Investment (PRI), which are increasingly used by financial organizations in their investment strategies.

The goal of the six principles is to make economically profitable investments that contribute to the creation of a better world, taking into account society and the planet.

PRINCIPLES FOR
RESPONSIBLE INVESTMENT

1	**Take ESG Issues into Account in Decision-making**	This involves a company including **environmental, social, and governance criteria** in its investment choices; for example, by not investing in polluting companies.
2	**Integrate ESG Issues into Investment Policies and Practices**	This involves verifying that a company takes ESG criteria into account in its **investment policies** and **practices.**
3	**Consult the ESG Reports of Companies**	This principle deals with accountability on the part of companies. Companies must provide a report on the implementation of ESG criteria.
4	**Promote the Principles to People Involved in Investment Decisions**	Promoting the principles means that internally, and with suppliers and companies, a **dialogue will be opened** on the importance of ESG issues.
5	**Work As a Team to Improve the Application of the Principles**	This principle is based on a **collaborative approach**. The aim is to support employees in implementing better responsible investment principles.
6	**Report on Activities and Progress in Applying the Principles**	The company must report on its **activities** and **actions** in terms of ESG criteria.

SUMMING UP PRI

The Principles for Responsible Investment (PRI) remind us that respect for the environment and communities is a value as tangible as the quest for profitability for corporations. Portefolio managers are trained to respond to these new practices and take them into account.

CHAPTER 2

ASSESSING COMPANIES

At the moment, there is **no standardized evaluation system** in North America. However, the Responsible Investment Association (RIA) represents responsible investment leaders in Canada and can serve as a guide to investing.

The lack of a standardized evaluation system does not prevent many companies from distinguishing themselves by adopting better investment practices, as evidenced by the Canadian ESG Grand Championship.

Evaluate Company Behaviours

This approach consists of evaluating companies on their environmental, social, and governance record. The **behaviours of the company** are evaluated without necessarily taking into account the sector of activity.

This evaluation is carried out from the **company's balance sheets and reports** by analysts within fund management firms or portfolio managers.

Dialogue with Companies

If you can afford the services of a portfolio manager, they can encourage the companies you invest in to improve their ESG practices.

Examples of dialogue:

- Voting rights
- Discussions with management
- Shareholding proposals

These could be companies that are not ESG leaders but that your portfolio manager has been doing business with for a while and are open to improving their practices.

Should Certain Industries **Be Excluded**?

How do you know whether a company should be included or excluded from your investments? The nature of the company's activities will guide your financial advisor or portfolio manager in their decision-making.

Examples of industries to be excluded:

- Gambling,
- Pornography,
- Weapons,
- Tobacco,
- Petroleum/petrochemicals.

Companies working directly in the renewable energies sector could be given priority. Conversely, if the sector the companies work in is harmful according to ESG criteria, as are the tobacco and weapons industries, they will be excluded.

Examples of industries to be preferred:

- Wind power,
- Geothermal energy,
- Hydroelectric power.

CHAPTER 3

THE IMPORTANCE OF ESG FACTORS

Is Responsible Investing Profitable?

This is the big question everyone is asking! You might think that those who turn to responsible investing do so only on principle. However, the latest studies indicate that responsible investments are **entirely profitable**. To find out more, take a look at our responsible investments article and the accompanying video.

Why is compliance with ESG factors so important when it comes to investing? What if responsible investing was a more powerful tool than we had imagined?

Here are some aspects that will help you understand the scope of this movement.

The Environmental and Social Impact

Beyond the actions we take in our daily lives to ensure a better future for all, where we place our assets says a lot about our commitment.

Choosing responsible investments is a very effective way to put pressure on companies. The more they realize that people prefer to invest where ESG factors are in place, the more they will be interested in adopting these practices.

Contribution to the Future of Children, Beyond the Economic Aspect

Many people invest with their children or grandchildren in mind. Beyond the money you could bequeath, shouldn't you think about **the type of world** you want to leave as a legacy to your children?

Investing responsibly allows you to grow your money while contributing positively to the state of the world in which future generations will grow up.

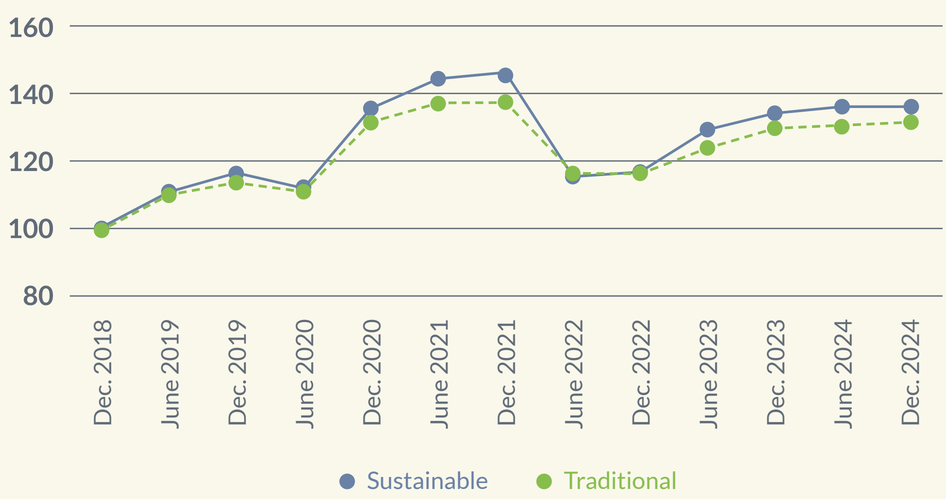
What the **Numbers Reveal**

Up to now, we know that investments made according to the Principles for Responsible Investment have **performed better over the long term** than traditional investments.

In fact, an analysis of Morningstar data by the Morgan Stanley Institute for Sustainable Investing refutes the preconceived notion that responsible investing is unprofitable.

By way of comparison, $100 invested in a sustainable fund in December 2018 would be worth $136 today, versus $131 if invested in a traditional fund over the same period.

Evolution of a $100 investment over a 6-year period



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of 4 Feb 2025.

How can we explain the better performance of sustainable investing? Largely through consideration of ESG factors. Since companies that comply with ESG standards often have better management practices, they find themselves better equipped to deal with the vagaries of the market.

The Public Demands Sustainable Businesses

Everything indicates that responsible investment is not just a passing fad. A survey by the Responsible Investment Association (RIA) reveals the following data:

- **82%** of respondents want to turn to responsible investing
- **77%** agree that companies with a good ESG record are better long-term investments

Risk Management **Benefits Investors**

For investors, ESG factors are an essential tool for assessing the risks associated with their investments.

By doing business with transparent companies, you are less likely to see a company you have invested in making front-page news for a scandalous story.

The Deepwater Horizon Scandal

Following the explosion of BP's Deepwater Horizon platform that caused an oil spill and the death of several people in 2010, the company paid more than US$65 billion in compensation. Investors were also affected, with BP shares losing 54% of their value between April 20 and June 25, 2010.

CHAPTER 4

HOW TO INVEST RESPONSIBLY

Now that you know a little more about the basics of responsible investing and its benefits, learn how to get started.

All Investments Can Be **Responsible**

First, be aware that all types of investments can be responsible. Whether you want to open a TFSA, subscribe to a Registered Education Savings Plan (RESP), boost your RRSP, or invest in the stock market, it is possible to do so while following the principles of responsible investing.

Some financial organizations specialize in responsible investing and are 100% dedicated to it. By becoming a client of such an organization, you are assured that all of your investments will respect ESG factors.

The Steps to Investing Responsibly

Here are the steps to follow to invest according to the principles of responsible investing:

Ask Your Financial Advisor for Advice

1

If you have a financial adviser looking after your investments, they can guide you towards choices that meet the principles of responsible investing. You can tell them that you now want your investments to go in this direction.

A good way to start this process is to assess your priorities in terms of ESG factors. Are you concerned about:

- Pollution?
- Women's rights?
- The rights of indigenous peoples?
- Mental health?
- Education?

Having a list of your priorities will make it easier to choose investments that align with your values.

Your financial advisor can help guide you by suggesting ways to invest more responsibly. They will take care to avoid investment opportunities and companies that are falsely responsible or engage in greenwashing by consulting their policies, balance sheets, and reports.

2

Make Sure Your Risk Tolerance Is Respected

Any investment involves some risk. Your financial advisor knows your risk tolerance and must respect it.

> ### GOOD ADVICE
> Know your limits. We all have personal values that could be more or less affected by certain investment decisions.

3

Consider Your Options and Diversify Your Investments

Several financial organizations offer **“green” investment options** or subscribe to the principles of responsible investing. You can contact them for more details on these types of investments and their policies. Kaleido also offers responsible investment options with its IDEO+ education savings portfolios.

A good way to reduce the risk of losing value is not **to “put all your eggs in one basket”**. Invest in different products rather than just one. The funds offered by your financial institution give you a certain level of diversification since they contain several securities.

To ensure that your investments are diversified by type of sector, your financial adviser may separate the amount you wish to invest into several funds. For example, they may choose one fund dedicated to strong governance and another dedicated to the clean energy sector. Moreover, they could advise you on “turnkey” funds that provide systematic and automatic diversification while having a sustainable investment approach. This will ensure you have greater peace of mind.

Learn About the Costs of Different Products

4

Fees may be associated with any investment, whether it is a responsible investment or not, for example:

- Management fees
- Purchase fees
- Redemption fees

Did you know that... Kaleido IDEO+ Education Savings Portfolios are available **with no purchase or redemption fees** and **no recurring contribution obligations**.

KALEIDO

Education savings that does more

Since 1964, Kaleido entrusts 100% of its RESP assets to portfolio managers who are signatories to the UN Principles for Responsible Investment (PRI).

Kaleido remains at the forefront of the industry by measuring the impact of its sustainable investment efforts and reducing the carbon footprint of its portfolios.

For more information, see:

- Sustainable investment at Kaleido
- Kaleido's Sustainable Investment Policy

Discover our IDEO+ RESPs, and in particular, IDEO+ Responsible plan, which incorporates investing principles aimed at generating positive environmental and social impacts.

Make an appointment online