

The Top Canadian Equity SRI Funds For 2008

By Gordon Pape

When 500 ducks meet a gruesome death simply by landing on an oil sands tailing pond, it gets people's attention. No one wants to hear stories like that and when they occur, interest inevitably rises in socially-responsible investing (SRI).

One of the problems, however, is that not everyone agrees on what is really "socially responsible". For example, many SRI funds include major oil companies in their portfolios, including those that are big players in the oil sands. If dead ducks and high CO2 emissions run counter to your personal definition of social responsibility, your range of choices has just been narrowed.

You'll also find a lot of banks in the SRI funds that are available in this country and some people have ethical problems with them as well. In the end, you have to decide what type of securities are acceptable to you, which is why I advise carefully reviewing the screens applied by each fund before making a decision.

There are now almost 50 SRI mutual funds and ETFs available in Canada and the major players are starting to realize that there is something happening that merits their attention. Within the past year, three of the big bank fund groups have launched SRI entries. Last July, RBC created the RBC Jantzi Balanced Fund, RBC Jantzi Canadian Equity Fund, and RBC Jantzi Global Equity Fund. Two months later, we got the TD Global Sustainability Fund and in February of this year the Scotia Global Climate Change Fund appeared. If you sense a trend here, you're right.

The expanding world of SRI funds gives investors a lot more choice but it also complicates the selection process since there is no special category for these funds. You have to search them out and it's not an easy process although you'll get a lot of help at www.social-investment.ca

To make life easier for investor, I combed through the list of all available SRI funds and selected my top picks in the most popular categories. Note that I limited my choices to funds

with a track record of at least three years. There are several newer funds that look promising but I prefer to focus on those with a proven record over time.

Here are my top Canadian equity SRI selections for 2008. Next week, I'll write about the best choices in several other categories.

TOP ACTIVELY-MANAGED CANADIAN EQUITY FUND

ETHICAL GROWTH FUND. It took a while but I am happy to report that Ethical Growth Fund is looking very respectable these days. The granddaddy of Canadian socially-responsible funds went through a lengthy period of sub-par results so in mid-2004 the company brought in a new manager in an effort to turn things around. Robert Hammill of Guardian Capital LP has done exactly that. Over the three years to May 31 the fund posted an average annual compound rate of return of 12.7 per cent, well ahead of the category average.

Hammill brought a new style approach. Previously, this was a value fund but now the stocks are being selected on a GARP (growth at a reasonable price) model. That means there may be a little more risk in the portfolio but investors probably won't care in the light of what he has achieved so far. His changes have included more emphasis on commodity stocks (the energy and materials sectors make up about one-third of the portfolio) and this has paid off big-time. Major holdings include Suncor, Nexen, and EnCana.

TOP INDEX CANADIAN EQUITY FUND

Meritas Jantzi Social Index Fund. This is an index fund with a difference. Its benchmark is the Jantzi Social Index which tracks the performance of selected Canadian companies that meet certain standards of social responsibility. Top holdings include three of the major banks, several of the big energy companies such as EnCana, Petro-Canada, and Suncor, Sun Life, Potash Corp., Research in Motion, and BCE. Recent results have been above average for the Canadian Equity

category, with a three-year average annual compound rate of return of 15.6 per cent. However, the five-year average annual return is about half a point below the norm. If you are looking for a socially-responsible index fund for your portfolio, this is a good choice.

TOP CANADIAN SMALL/MID-CAP EQUITY FUND

MAVRIX SIERRA EQUITY FUND. This is the SRI entry of the Mavrix organization. The company stresses that the goal of this fund is not simply to avoid so-called "sin stocks" but to integrate "environmental, social and corporate governance (ESG) considerations with fundamental investment analysis to reduce portfolio risk and enhance returns". Manager Paul Mesburis, who took over the fund in January 2006, can invest in all sizes of companies, even though the fund is officially slotted into the Canadian Small/Mid-Cap Equity category. The portfolio usually holds between 35 and 60 positions.

The fund got off to a bad start, recording double-digit losses in 2000 and 2001. However, it has looked much better since and has been a superior performer for its type since Mesburis took over, with an average annual gain of 12.2 per cent for the two years to May 31/08. Historically, volatility has been very high (the fund lost 45 per cent over the 12 months to September 2001) however that seems to be gradually improving. Top holdings at mid-year ranged from small companies that few people have heard of, such as ProMetic Life Sciences, to giant corporations like Research in Motion and Nexen.

This has developed into a respectable SRI fund, with very good numbers. It warrants serious consideration.

For more information, please contact Mavrix Funds Management Inc., 416-362-3077 or visit us @ www.mavrixfunds.com.