SUSTAINABLE INVESTING HANDBOOK
for Mission-Based Organizatons

Produced by
Guardian Ethical Management

A joint venture between
Guardian Capital and Ethical Funds

This document is a draft circulated for comments, and is provided to solicit input. It will be revised and improved in the future. Please provide feedback to jclancy@gemportfolios.com.

GEM

Guardian Ethical Management Inc.

An Introduction to Sustainable Investing for Mission-Based Organizations

Sustainable investing is a growing global trend. Investors and asset managers worldwide are coming to see the merits of investing in corporations with strong social, ethical, environmental, and governance performance. Mission-based organizations, such as faith organizations, educational institutions, health care organizations, foundations, trade unions, social service, and environmental organizations – with mandates to advance broader social welfare and environmental sustainability – are often unaware they can align their investments with their values. Sustainable investing offers a way of doing so.

Sustainable investing allows an organization to align its values and beliefs with its assets to bring about positive change in society. This approach to investing has been found to reduce portfolio risk and aid in the pursuit of greater returns. Whether the goal is to promote improved environmental, social, or governance practices, or to protect the value of one's assets, sustainable investing is moving from niche status to a broader-based acceptance.

This handbook is for those organizations interested in improving both the financial and social performance of their investment portfolios and engaging all of their assets on their mission, beyond just their program dollars. It provides a definition and history of sustainable investing, lists the business case or rationale for why an organization would benefit from sustainable investing, and reviews and dispels the common myths and misconceptions of sustainable investing.

Finally, it offers a comprehensive "roadmap" of next steps that an organization or individual could follow to start their sustainable investing journey.

The booklet is a living document. We invite you to provide your input and ask questions, which will be incorporated in future interations. Please send your comments to: jclancy@gemportfolios.com

Defining Sustainable Investing

Sustainable Investing (SI) is the integration of environmental, social, and governance (ESG) factors in the selection and management of investments. Sustainable investing can be broadly defined as developing along two parallel avenues: the **Core** Approach and the **Broad** Approach

CORE SUSTAINABLE INVESTING STRATEGIES

The **Core** Approach incorporates values-based as well as risk and return considerations into the decision making process. In this case the investor will, typically, exclude (screen) certain investments – for instance tobacco, nuclear or military – from the investment universe that are not philosophically consistent with their values and beliefs. Components of Core sustainable investing will, typically, include:

Exclusions: The non-consideration of companies in a particular industry based on the premise that their “raison d’etre” is not sustainable in the long run. Examples might include the aforementioned tobacco and military industries.

Screening: The removal of companies that fail to meet certain environmental, social, and governance criteria based on an objective analysis of their day-to-day activities.

Shareholder Engagement: The ownership of the common shares of a corporation gives the holder the opportunity to exercise various shareholder rights such as proxy voting, negotiations with management, and the sponsorship of shareholder resolutions.

Community Investing: Investments in community-based financial institutions, co-operatives, micro-enterprise, and community-oriented businesses.

BROAD SUSTAINABLE INVESTING STRATEGIES

The **Broad** Approach supports a fiduciary analysis of ESG factors based on risk and return considerations. This method is rooted in the belief that by taking a fiduciary approach to environmental, social, and governance issues, it will encourage investments in companies with long-term sustainable business models that will ultimately lead to better financial performance.

Growth in Sustainable Investing in Canada

The Canadian sustainable investing market has grown exponentially in the last two years, as revealed in the following table compiled by the Canadian Social Investment Organization (SIO):

Sustainable Investing Assets in Canada ($billion)
Canadian Socially Responsible Investment Review, 2006

	2006	2004	2002	2000
CORE SUSTAINABLE INVESTING STRATEGIES				
Asset managers employing social and environmental screening	36.493	21.217	16.730	11.300
Retail investment funds	18.141	14.809	9.940	10.350
Community investment	0.809	0.546	0.069	0.085
Socially responsible lending	1.939	1.288	0.127	NA
Core SI Total	57.382	37.860	26.866	21.735
BROAD SUSTAINABLE INVESTING STRATEGIES				
Asset managers employing ESG integration[1]	12.708	NA	NA	NA
Pension funds employing ESG integration, ESG proxy voting or corporate engagement, or economically targeted investment	433.066	25.445	24.100	27.200
Shareholder advocacy	NA	2.100	0.453	1.000
Sustainable venture capital	0.449	0.052	NA	NA
Broad SI Total	446.223	27.597	24.553	28.200
Total Core and Broad SUSTAINABLE INVESTING	503.605	65.457	51.419	49.935

[1] This category is new in 2006. Previous surveys did not distinguish between screening and integration. Some integration assets may have been included under screened assets in previous years.

It's worth noting the huge growth in Broad strategies, which can be attributed to a number of large public plans such as CPP Investment Board (CPPIB), Caisse de dépôt et placement du Québec, and BC Investment Management Corporation (BCIMC) adopting sustainable policies and practices between 2004 and 2006. Having said this, even the Core Approach to sustainable investing grew over 50% from 2004 to 2006, clearly showing an expanding interest in sustainable investing by Canadians.

Although direct international comparisons are difficult, it should be pointed out that Canada has traditionally lagged the US and Europe in the percentage of investment assets dedicated to sustainable investing. In the US, for example, one in eight investment dollars are in sustainable investing portfolios. However, given the trends of large Canadian public pension plans that are integrating ESG factors into the investment process, Canada could soon be viewed as an emerging leader in sustainable investing.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

An important global development in socially responsible investing occurred in 2006 when the heads of leading institutions from 16 countries, representing more than $2 trillion in assets, became signatories to the Principles of Responsible Investment, an initiative that was convened by the UN Secretary General and coordinated by the UN Environmental Programme Finance Initiative (UNEP FI) and the UN Global Compact. Among the Canadian signatories were the Caisse de dépôt et placement du Québec, Canada Pension Plan Investment Board, and the BC Investment Management Corporation.

Some 32 pension funds, foundations, and special government funds signed the Principles, which call for the integration of environmental, social, and corporate governance (ESG) issues into the decision-making process. Just over a year later, in May of 2007, the number of signatories had risen to 192– representing over $8 trillion in assets. Clearly, there is an emerging trend, globally, to use ESG considerations to become more responsive fiduciaries.

EVOLUTION OF SUSTAINABLE INVESTING*

The history of sustainable investing stretches over centuries. Religious investors from Jewish, Christian, and Islamic faiths and many indigenous cultures have long married morals and money, giving careful consideration to the way economic actions affected others around them and shunning investments that violated their traditions' core beliefs. In the American colonies, Quakers and Methodists often refused to make investments that might have benefited the slave trade, for example, and the earliest formalized ethical investment policies avoided so-called "sin" stocks – companies involved in alcohol, tobacco, or gambling. Indeed, the first fund to incorporate such sin-stock screening was the Pioneer Fund, opened in 1928 and screened since 1950 to meet the needs of Christian investors seeking to avoid involvement in precisely such industries of "vice." The Fund continues to exclude tobacco, alcohol, and gambling industries from its portfolio to this day.

Sustainable investing in its present-day form, however, arose in the aftermath of the social and cultural upheaval of the 1960s, an outgrowth of the civil-rights, feminist, consumer, and environmentalist movements and protests against the Vietnam War, which raised public awareness about a host of social, environmental, and economic problems and corporate responsibility for them. Religious organizations and institutional investors remained very much at the forefront of these concerns about corporate social responsibility and, in the 1970s, US institutions developed to support the emergent sustainable investing industry: the Investor Responsibility Research Center (IRRC) and the Interfaith Center on Corporate Responsibility (ICCR). The US Council on Economic Priorities began rating companies on social and environmental performance in 1969, and shareholder advocates turned to the proxy-resolution process to raise issues of concern at annual company meetings.

CANADIAN ROOTS OF SUSTAINABLE INVESTING**

The birth of sustainable investing in Canada can be traced to the formation of the Taskforce on the Churches and Corporate Responsibility (now part of Kairos: Canadian Ecumenical Justice Initiatives). TCCR was established in 1975 to assist the participating churches, church agencies, and religious orders to develop strategies for addressing issues related to the social responsibility of corporations that were closely aligned with the social justice mission of the church. The TCCR agenda has always focussed attention on the churches' own investment policies and practices, the development of ethical and alternative investment services, and corporate governance issues affecting corporate accountability and shareholder rights.

In 1986, Canada's first socially responsible investment product was launched, the Ethical Growth Fund, which was sold to the credit union system in 1992 and broadened to include a family of sustainable investing products within The Ethical Funds Company.

*From the Social Investment Forum's, "2005 Report on Socially Responsible Investing Trends in the United States."
** "From Investing in Change" by Michael Jantzi Research Associates Inc.

Why Mission-Based Organizations Engage in Sustainable Investing

The sustainable investing approach to managing assets has many mission-related and financial benefits. The following are among the key reasons that organizations adopt a sustainable investment approach:

1) **Advances organizational missions:** Organizations with environmental and social mandates are able to further their missions through a sustainable investment strategy that results in improved social and environmental performance of firms. An organization's investment strategy can both generate competitive returns and be a catalyst for positive social and environmental change. Indeed, a mission-based organization could very proactively use their sustainable investments as a tool to advance social and environmental change (see text box examples below)

Two examples of the strategic potential of sustainable investing:

1. Health organizations could:

- Screen their portfolio for companies that profit from unhealthy lifestyles such as the fast-food or tobacco industries.
- Ask companies they own to provide their employees with high-quality affordable health care benefit plans.
- Add their votes to shareholder support for resolutions that call for corporations to address the impact of pandemic diseases on operations in Africa and other parts of the world.

2. Foundations seeking solutions to social problems and poverty could:

- Hold the companies they own accountable for their social impact. Ask about executive compensation levels and working conditions. For financial services, institutions ask about their lending and banking policies.
- Join other investors using shareholder strategies to tie executive compensation to social performance.

From "The Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions", Social Investment Forum Foundation, pp. 4 – 5.

Foundation's Shareholder Action Benefits Communities and Grantee:

The Jessie Smith Noyes Foundation's 100 shares in Intel Corporation, a company that manufactures microprocessors, was able to leverage its investment to aid the efforts of a grantee, the SouthWest Organizing Project in New Mexico. After previously refusing to meet with SWOP on issues of environmental concern, Intel was persuaded through the foundation's shareholder advocacy to participate in a dialogue. Ultimately this resulted in Intel revising its Environmental, Health and Safety Policy to share information with communities.

From "Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs," Michael Jantzi Research Associates Inc., p. 15.

2) **Aligns investments with values:** Organizations committed to advancing social well-being and environmental sustainability ensure their investments are not working at cross-purposes. For example, health care organizations can ensure they are not inadvertently financing the tobacco industry and child welfare organizations can limit their investments in firms that exploit child labour.

Mission-based organizations are often unaware that their asset managers may be voting proxies at company AGMs that run counter to the group's core vision and values. Imagine a situation where an environmental organization is working to restore an ecological area that is suffering damage from a mining company's emissions only to find out that their endowment funds have an investment position in that same mining company. They are not only working at cross-purposes, but run the risk of a reputation crisis if their members or donors uncover this inconsistency. Ultimately, how an organization invests its assets raises key questions of organizational integrity.

3) **Enhances shareholder value:** Sustainable investing can improve the financial performance of investments through risk reduction and return enhancement. It is widely believed that companies whose business models are centered on polices that embrace sustainability are more apt to outperform their less enlightened competitors in the long run.

For instance, firms that are mindful of the environment and avoid egregious levels of toxic emissions are less likely to be involved in lawsuits with governments and members of the community. Corporations that follow progressive human rights policies in developing countries stand less chance of suffering from brand banishment and the accompanying loss of sales. And finally, companies that practice good corporate governance will avoid compensating CEOs relatively large sums of money for mediocre performance and the inevitable negative backlash from investors.

All in all, well thought out sustainable practices should reduce risk and help support better returns over the long run.

4) **Provides marketplace differentiation:** Donor-based organizations with active sustainable investment programs can use sustainable investing to further attract donors to their cause. A sustainable investing program can be a strong point of differentiation for an organization and a key marketing benefit that can positively influence prospective donors. Public foundations, for example, can highlight their sustainable investing program to attract new donors for whom sustainable investing would be a real selling feature.

5) **Reduces reputational risk:** The Bill and Melinda Gates Foundation provides the most recent high profile example of what can go terribly wrong with a mission-based organization's asset management. The Los Angeles Times published an article in 2007 that criticized the Foundation for its investments in companies that caused illness and disease through pollution and exploitation: "The Times found that the Gates Foundation has holdings in many companies that have failed tests of social responsibility because of environmental lapses, employment discrimination, disregard for worker rights, or unethical practices…". "A Times tally showed that […] 41% of [the Foundations] assets have been in companies that countered the Foundation's charitable goals or socially concerned philosophy." (LA Times, Charles Piller, Edmund Sanders and Robyn Dixon, January 7, 2007) A week later it was reported that the Foundation had plans to conduct a wholesale review of their investments, which could lead them to shift billions of dollars out of companies that are socially irresponsible or harm human health. (The Guardian, Sarah Boseley, Jan. 12, 2007).

Organizations that rely upon donors or members for their operations are especially at risk of this exposure. Reputation is a key asset of mission-based organizations who rely on governments for grants, donors for contributions, members for legitimacy, and volunteers for program delivery. Sustainable investing can help boost public perception, prevent negative publicity, and match donor expectations (A 2001 Survey for the UK Charities Aid Foundation found that over 40% of respondents prefer to support charities that invest ethically. From "Investing Responsibly: A Practical Introduction for Charity Trustees," EIRIS Foundation, p. 2)

6) **Provides universal investors with investment options[1]:** Universal investors or owners are large asset managers that own securities in a broad cross-section of the economy. Because of their diversified portfolio of stocks, bonds, and other asset classes, universal owners are forced to bear the costs of other sectors' or firms' externalities; their success is dependent on the performance of the economy at large. This creates an incentive for them to minimize negative and maximize positive externalities across portfolio holdings, for example, by seeing an investment in training or pollution abatement as potentially benefiting the long-term health of the specific company as well as the broader sector or economy. Unlike short-term investors, longer term universal owners are more likely to support these types of investments.

Sustainable investing and its tools of ESG integration and shareholder engagement allow the universal investor to take positive action without jeopardizing its underlying investment position.

1 This section from proceedings of the Saint Mary's College Conference on Universal Ownership, April 2006.

Shareholder Engagement Case Study:

Ethical Funds Takes on the Canadian Banks

Since 2004, The Ethical Funds Company, a mutual fund company based in Vancouver, BC, has been using its investment position with the top five Canadian banks to encourage them to improve their sustainability performance. Through shareholder resolutions and direct dialogue with bank management they have requested that the banks reduce their environmental footprint, adopt lending policies that address the risks and leverage the opportunities arising from climate change, and effectively manage the related issues of biodiversity protection, forest conservation, and indigenous peoples' rights. Due in part to Ethical Funds' efforts, some banks have made progress in these areas, including CIBC, which is developing standards and criteria to consider climate change risk in their lending portfolio, and the TD bank, which released its comprehensive Environmental Management Framework in 2006. Industry leading elements in TD's Framework include support for free, prior, and informed consent as the acceptable engagement standard for indigenous peoples as well as support for forestry operations in Canada's Boreal forest that obtain the Forest Stewardship Council forest certification standard, the recognized best practices standard in sustainable forest management.

In addition to advocating for lending policy enhancements, The Ethical Funds Company has also asked Canada's major banks to support the work of the Canadian Boreal Initiative - a coalition of business, non-governmental organizations, First Nations, and investors seeking to ensure the sustainable development of Canada's vast Boreal forests. To learn more about the CBI see: www.borealcanada.ca.

7) **May be legally required:** A comprehensive study prepared by the major international law firm, Freshfields Bruckhaus Deringer in 2005 states: "Conventional investment analysis focuses on value, in the sense of financial performance. ...The links between ESG factors and financial performance are increasingly being recognised. On that basis, integrating ESG considerations into an investment analysis is clearly permissible and is arguably required in all jurisdictions." (From "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment", New York/Nairobi: UNEP FI, Oct. 2005, p. 13.

Myths and Misconceptions Surrounding Sustainable Investing

There are a number of obstacles to pursuing a sustainable investing model, most of them based on out-dated notions.

1) **Terminology**: Perhaps one of the most significant challenges facing the whole concept of sustainable investing is the confusion over terminology. Over the years a myriad of names have been associated with this form of investing:

- socially responsible investing (SRI),
- environmental, social, governance (ESG),
- ethical investing,
- green investing,
- mission-based investing (MBI),
- responsible investing (RI)
- sustainable investing (SI).

Some of these terms have been associated with the more traditional approach to sustainable investing, for instance, socially responsible investing and ethical investing, while others, such as responsible investing and ESG, have been used to describe the fiduciary role that it can play.

Nevertheless, there is clearly a bewildering array of terms in the marketplace that can lead to confusion as well as a potential loss of credibility as investors struggle to understand what they are buying.

The most practical way of looking at this is to view the investment manager as having an informed view towards the environment, human rights, social issues, and corporate governance and incorporating it into the investment decision-making process.

2) **Performance**: A second concern amongst investors has traditionally been a sense that one will give up return when utilizing this type of investing despite a plethora of research that indicates no definitive relationship between sustainable investing and lower returns.

Much of the misconception about sustainable investing returns stems from the academic notion of 100% market efficiency. The story goes something like this: if markets are truly 100% efficient, then any restriction of the investment universe through exclusionary or screening polices will, by definition, lead to weaker returns. The only problem with this analysis is that markets are not, have never been, nor likely ever will be, 100% efficient. This lack of complete efficiency has meant that excluding 10% to 15% of the universe has not led to any meaningful gains or losses of performance over any reasonable length of time, say five years or more.

Secondly, virtually all investment mangers "exclude" or "screen" out a portion of the investing universe each day that they come into the office.

For instance, it is not uncommon for a manager to exclude, because of his or her own inherent biases, certain geographic areas, industries or sectors of the market or even certain capitalization of companies. In doing so, the manager is effectively shrinking the size of the universe that he or she can invest in. It is worth noting that this has not stopped a reasonable number of them from consistently outperforming the market even with a smaller pool of securities to choose from.

The website *www.sristudies.com* is a good resource for a comprehensive look at the academic work that has been done in performance of sustainable investing strategies.

3) **Legality**: The third obstacle to sustainable investing has been related to legal issues and the fear of abusing one's fiduciary responsibility by considering factors that are deemed to be "non-financial." Much of this anxiety concerning fiduciary duties has manifested itself since the 1984 British court case: Cowan vs. Scargill. In this historic case, the leader of a coal miner's union proposed that the worker's pension fund exclude all overseas investments as well as any investments in industries thought to compete against coal. The trustees of the fund disagreed with this rather onerous demand – as did the courts. This case has been used for over twenty years as justification for trustees of charities and pension funds to avoid

sustainable investing strategies on the grounds that their task is to place the financial interests of their beneficiaries above all else and to acquire appropriate levels of diversification. In summary, the court case argued against ethical investment decisions based on the personal interests and mindsets of the trustees that cannot possibly be supported on financial grounds.

More recently, the Freshfields report dispelled the common misconception that laws prevent fiduciaries from considering ESG factors in the investment process. It examined trustee law in ten jurisdictions – including Canada, U.S., and the United Kingdom – and concluded that not only should one consider ESG issues in investment strategies, but one could, in fact, be abusing their fiduciary responsibilities by not doing so.

Freshfields is significant in that it: (a) reverses conventional wisdom regarding fiduciary duty; and (b) because it was prepared by the third largest law firm in the world with a strong reputation in the field of corporate fiduciary responsibility.

Largest US Foundations Employing Social or Environmental Screening

- Bill and Melinda Gates Foundation
- Ford Foundation
- David and Lucile Packard Foundation
- California Endowment
- Annie E. Casey Foundation
- Rockefeller Foundation
- Carnegie Corporation of New York
- California Wellness Foundation
- Robert Wood Johnson Foundation
- Heinz Endowments
- William Penn Foundation

Source: *"Chronicle of Philanthropy" as quoted in SIF Report: "The Mission in the Marketplace," p. 10. of the top 50 largest private foundations in the US. May include a single screen, such as tobacco.*

Recent Social Shareowner Resolution Proponents Among Foundations

- As You Sow Foundation
- Camilla Madden Charitable Trust
- Conservation Land Trust
- Edward W. Hazen Foundation
- Funding Exchange
- Haymarket People's Fund
- Jessie Smith Noyes Foundation
- Nathan Cummings Foundation
- Needmor Fund
- Pride Foundation
- Tides Foundation
- United Church Foundation
- Wisdom Charitable Trust

Source: *SIF Report, "The Mission in the Marketplace", p. 13.*

CONCLUSION

Mission-based Investing is a growing trend and one that is increasingly important in today's world. It is not about the pursuit of perfect companies but rather the attempt to improve corporate practices that promote a more sustainable society and enhance shareholder value.

ROADMAP FOR SUSTAINABLE INVESTING

Steps for getting started, developing and reviewing your sustainable investing program

STEP 1
Research / Increase your knowledge of sustainable investing

The first step to developing a sustainable investing program is to conduct background research on sustainable investing and identify the issues and challenges in moving sustainable investing forward in your organization.

- Consider the resources listed in Appendix A of this Handbook.
- Identify a champion who is well positioned in your organization to guide the process (e.g., the chief financial officer, executive director, program officer, chair of the Board's finance committee, etc.). Brief them and support them in taking the lead.
- Consult with organizational stakeholders (e.g., staff, donors, members, program recipients, etc.) to determine how your investment strategies affect them and any changes they seek.
- Review the organization's current investment policy and assess whether the governing documents include restrictions or limitations.
- Research what other peers are doing; research model investment policies (see Resources).

STEP 2
Dialogue / Make the case

The next step would be to bring this information forward to your Board, Investment Committee or Trustees to help them become familiar with sustainable investing.

- Have the champion promote sustainable investing within the organization.
- Identify your core social and environmental concerns and relationships between your programs and your investing objectives.

Consider:

- What kind of economy your organization would like to contribute to.
- What kinds of communities you are trying to create.
- What kinds of companies reflect these values and support these activities.
- How a Sustainable Investing policy can help address these issues.

Prepare a presentation for the Board or Investment Committee highlighting values, impacts, and success examples of other organizations.

Explain the need and benefit associated with aligning your organization's mission with its investment strategy.

Address performance and fiduciary concerns.

STEP 3
Set goals and objectives

Once you have built support and interest within the organization, identify your objectives for adopting sustainable investing and consider the links to your mission, strategies and investment approach.

- Investigate how specific investment choices can help achieve those goals. Remember that there is not a one-size-fits-all approach.
- Your organization may choose to screen all or part of its investment portfolio.
- You may choose to focus on screening or on proxy voting. Or, you may prefer to focus on community investing.
- You can adopt an approach for a finite period of time and evaluate your success and tailor your program along the way.

STEP 4
Engage financial professionals

Consult a financial professional or asset manager with sustainable investing expertise and experience with mission-based organizations. (See the Social Investment Organization for a list of resources.) If they have the right expertise and background, they can help you develop your sustainable investing policy.

Determine whether your existing financial consultants and money managers have the necessary sustainable investing expertise and offer the services you are looking for or whether additional expertise is required.

Ask the following questions of your current or prospective fund managers:

- What sustainable investing services do they provide?
- Do they engage with companies?
- Can they exercise voting rights in accordance with your organization's instructions?
- What resources do they employ for research and engagement?
- Do they charge an additional fee for sustainable investing services?
- How do they incorporate ESG into the investment process?
- How do they assess and report on their sustainable investing performance?

Review the Continuum of SRI in this Handbook (Appendix B) and determine which high impact approaches you would like your fund manager to practice.

STEP 5
Draft an sustainable investing policy

Develop a sustainable investing policy that lays out aims, content, and focus for inclusion within your organization's overall investment policy. See Appendix C for an example.

In developing your sustainable investing policy,

- Consider whether your stakeholders have specific values or beliefs affecting your approach.
- Determine which ESG issues are most relevant to your organization.
- Decide the amount of the assets to initially allocate to your strategy.
- Determine which assets the policy will apply to; for example, whether the organization wishes to screen existing assets or new contributions.
- Assess how the policy will affect the choice of companies invested in, and review the financial implications of this.

Decide the scope of your shareholder engagement policy, for example:

- Proxy voting.
- Management dialogues.
- Filing or co-sponsoring proposals.

STEP 6
Implement and monitor policy

Request that your current fund managers implement your policy and/or engage additional or alternative services (see the Social Investment Organization for a list of sustainable investing fund managers).

Monitor policy implementation on a regular basis to ensure the fund managers are meeting your sustainable investing objectives. In addition to assessing traditional performance metrics, your organization should assess the following sustainable investing outcomes:

- Screens: Have there been changes in the screens applied to the fund?
- Voting records: Have proxy voting policies been maintained and executed as expected? Are policies reviewed periodically to address new issues?
- Engagement records: Were any shareholder resolutions filed by the manager over the last year? Were other efforts undertaken to effect change in corporate performance and behaviour?

STEP 7
Lead by example

Share knowledge and best practice with other mission-based organizations. Make your investment policies and proxy voting guidelines available online for others to learn from your example.

APPENDIX A
RESOURCES

Publications:

1. Social Investment Forum Foundation, "The Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions," April 2007.
2. Cooch, Sarah and Mark Kramer, "Compounding Impact: Mission Investing by US Foundations," March 2007.
3. Michael Jantzi Research Associates Inc, "Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs," 2003.
4. EIRIS Foundation, "Investing Responsibly: A Practical Introduction for Charity Trustees," May 2005.
5. Freshfields Bruckhaus Deringer, "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment," UNEP Finance Initiative, Asset Management Working Group, October 2005.
6. Rockefeller Philanthropy Advisors and As You Sow Foundation. "Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions," 2004.
7. Bellagio Forum for Sustainable Development and Eurosif, "PRIME Toolkit: Primer for Responsible Investment Management of Foundations," 2006.
8. Saint Mary's College of California and Mercer Investment Consulting, "Universal Ownership: Exploring Opportunities and Challenges Conference Report," 2006.

Sources for Additional Information:

Carbon Disclosure Project www.cdproject.net
Council of Institutional Investors www.cii.org
Investor Environmental Health Network www.iehn.org
Investor Network on Climate Risk www.incr.com
UN Principles for Responsible Investment www.unpri.org
Social Investment Organization www.socialinvestment.ca
Foundation Partnership on Corporate Responsibility www.foundationpartnership.org
International Human Rights Funders Group www.hrfunders.org
Social Funds www.socialfunds.com
SRI Studies www.sristudies.org

APPENDIX B
Sustainable Investing Components

This draft tool has been developed by Strandberg Consulting and sponsored by Ethical Funds.

SI Checklist

Corporate Commitment & Principles:

> Corporate social responsibility (CSR) policy and program in operation
> Measure sustainability impact of operations and of SI funds
> Member of SI trade organization; participate in trade initiatives
> Issue sustainability performance report (aligned with GRI guidelines and independently verified)
> Adopt sustainability principles and standards (e.g., UN Principles for Responsible Investment)

ESG Evaluation:

> Comprehensive and integrated approach to integrating environmental, social, and governance factors into analysis
> Significant dedication of resources (internal/external) to ESG analysis

Corporate Engagement:

> Comprehensive process for issue identification
> Corporate dialogue, shareholder proposals, divestment
> Proxy voting guidelines incorporate ESG issues and are regularly updated to reflect current issues
> Participate in/lead multi-party stakeholder collaborations

Screens:

> Positive/negative values-based screens
> Solutions oriented screens/funds

Sustainable Venture Capital:

> Private placement in sustainable sectors and firms

Community Investment:

> Policy, targets and assets in community investment

Disclosure:

- Detailed disclosure of company evaluation methodology
- Regularly disclose engagement activity
- Signatory to disclosure initiatives (e.g., EUROSIF guidelines, UN PRI)
- Disclose external audit results of SI program
- Disclose public policy positions and actions

Stakeholder Communication and Engagement:

- Engage stakeholders in identifying engagement priorities
- Regularly communicate to stakeholders on SI performance and progress

Public Policy Advocacy:

- Work toward legislative reform on corporate accountability and financial transparency

Public, industry and consumer education and engagement efforts on sustainability, generally, and SRI, specifically:

- Provide public and consumer opportunities to engage on SI, ethical consumerism and corporate social responsibility
- Provide public, consumer and advisor SI education
- Publish SI research to build public, consumer and industry SI knowledge

APPENDIX C
SAMPLE INVESTMENT POLICY[1]

Investment Policy
Statement of Fiduciary Responsibility

We begin the endowment management process recognizing that our responsibility does not end with maximizing return and minimizing risk. We recognize that economic growth can come at considerable cost to community and environment.

We believe that efforts to mitigate environmental degradation, address issues of social justice, and promote healthy communities will be successful to the extent that these concerns are brought from the margins to the center of business and investment decision-making.

We recognize that addressing such concerns while pursuing financial objectives is an imperfect process. However, we believe that the development of healthier corporate cultures and, through them, a healthier economy, depends upon the recognition of these concerns by management, directors, employees, and investors. Within foundations, this means reducing the dissonance between philanthropic mission and endowment management.

We believe that in light of the social, environmental, and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike. Foundations have a particular role to play in this process, by coming to understand mission not only in terms of the uses of income to fund programs, but also in terms of the ends toward which endowment assets are managed.

Investment Philosophy
In concert with the Foundation's mission to protect and restore Earth's natural systems and promote a sustainable society by strengthening individuals, institutions, and communities pledged to pursuing those goals, we seek to invest our endowment assets in companies that:

- provide commercial solutions to major social and environmental problems; and or,
- build corporate cultures around concerns for environmental impact, equity and community.

The environmental impact of a business is tied to the throughput of materials, generation of waste, and to the long-term value of the goods or services it produces. Equity within a corporation derives from participatory management, employee ownership, salary structures, workforce diversity, employee benefit programs or other demonstrated commitments to the well-being of all individuals involved in an enterprise. A corporation can promote community through openness and accountability to all stakeholders, local job creation especially for the economically disadvantaged, corporate giving to and active involvement with community organizations, or other initiatives that provide net benefits to the local economy.

Spending And Investment Goals
The spending and investment goals of the foundation are:

- to generate income and capital gains necessary to support the foundation's operations and fund its grant-making over the long term;
- to provide capital directly to or own the equity or debt of enterprises which further the foundation's mission;
- to avoid investing in companies whose environmental or social impacts contribute to the problems which the foundation's grant-making seeks to remedy;
- to set spending levels based primarily on an assessment of current needs by the program staff and the Board as a whole and, secondarily, on Finance Committee assessments of current and projected investment returns; and,

- to preserve, to the extent possible consistent with the foundation's spending levels, the real (inflation adjusted) value of its assets over the long term.

We recognize that to the extent that our grant-making budgets, in combination with our operating expenses, exceed investment returns over a multi-year period, the preservation of the real value of our assets over the long term becomes increasingly difficult. Because the Board has determined that the foundation should be viewed as a perpetual institution, investments that have the potential to generate substantial long-term capital gains will be particularly important.

Investment Guidelines

Investment guidelines are based on a 50-year time horizon. Interim performance will be monitored as appropriate. Appreciation and income may be used to finance cash requirements for grants and operating expenses. Assets may be spent down during periods in which neither appreciation nor income are sufficient to fund grant-making budgets.

The foundation's assets will be managed by professional money managers selected by the Finance Committee in accordance with the asset allocation guidelines set forth by the Finance Committee and approved by the Board. Investment managers have complete discretion to manage the assets in each particular portfolio to best achieve investment objectives and requirements, within the social and financial guidelines set forth in the Foundation's Investment Policy. Managers will be monitored on a regular basis, as described below.

Consistent with the Foundation's Investment Policy, the responsibilities of investment managers include:

- The exercise of a high degree of professional care, skill, prudence, and diligence in the management of assets under their direction.
- Thorough professional analysis and judgment with respect to all investments held in the account. Selection and disposition of individual securities and related matters.
- Diversification of securities by issuer, industry, geography, type, and maturity of investments, etc.
- Full compliance with all provisions of any governmental regulations and decisions, thereunder, dealing with the management and investment of foundations.
- Cooperating with the Foundation on shareholder activities.

Asset Allocation

Assets will be diversified both by asset class (domestic equities, foreign equities, fixed income, venture capital, private placements and real estate) and within each asset class (by indexation vs. active management, growth vs. value, large-cap vs. small-cap, and by economic sector, industry, and quality). Asset allocation will fall within the following ranges (as of September, 1997)
Current Target Range:

EQUITIES 50-65%: Active Domestic 21%, International 13%, Index Domestic 20%, International not currently available.

FIXED INCOME 24% (25-30%): Alternative Investments: Venture Capital/ Private Equity 9% (5-20%),

Absolute Return (Hedge Funds) 13% (10-20%)

Screening

All public equity portfolios, indexed and active, will be managed by investment managers who employ social and environmental screens in addition to traditional financial analysis in their investment decision-making. Because the screening of fixed-income portfolio investments is not generally available through institutional money managers, fixed-income managers will be sought who are willing to work with the Finance Committee on a case-by-case basis with respect to avoidance of the debt of companies whose social or environmental impacts are deemed to be adverse to the Foundation's mission.

Notwithstanding the above, the Foundation may deem it desirable to own shares of certain companies whose actions are contrary to the concerns of the Foundation's grantees, creating particular problems for communities and the environment if, in the judgment of the Foundation, ownership of such shares will afford the Foundation the opportunity to influence the behavior of these companies. Ownership positions will be maintained at minimum levels necessary to support requisite shareholder activities.

Venture capital investments will be screened, with particular attention to the use of investments in early stage private companies, as a tool for shaping corporate culture and furthering the Foundation's mission. Later stage venture investments and private equity investments will be screened to the extent possible, recognizing, however, that in later stage investments the opportunities for proactive interventions in support of our mission are limited or, in the case of certain partnerships or asset classes, unavailable. In such cases the Foundation will try to assure itself that the investments will be benign in relation to its mission.

As a general rule, the Foundation will seek to have no more than 20 percent of its assets invested in asset classes in which social and environmental screening is not available. The Foundation recognizes that screening is a blunt instrument for achieving change. The screens, typically, employed by money managers are broad and imprecise with respect to the Foundation's mission. Companies that are deemed acceptable by many social investment screens may not be acceptable to the Foundation. Further, the impact of screening portfolios on the behavior of investee companies is, generally, indirect and limited. Screening has limited impact on the cost of capital to companies, although that impact might increase in the case of small cap companies and, over time, as the cumulative capital under management in screened accounts increases. On the positive side, interactions among committed money managers who screen, the Foundation Board and staff, and investee companies can play a role in influencing corporate behavior and changing corporate culture.

The impact of screening on financial returns is a subject of on-going analysis, both internally, with respect to the Foundation's own investment performance, and externally, with respect to the social investment movement as a whole. A number of recent studies, however, confirm the Foundation's own assessment: the application of social and environmental screens does not significantly affect financial performance, positively or negatively. The differences in performance between screened and unscreened portfolios can be found in manager selection and stock selection. The Finance Committee, however, will continue to monitor, assess, and seek to improve its understanding of the relationships that may exist between financial returns and the impact of screening on our mission.

In evaluating the impact of a company, we look for:

- demonstrated Board and management commitment to environmental issues, including an environmental policy statement;
- incentive packages that reflect positive and negative environmental performance, and demonstrated support for strong public environmental policies;
- accountability to all stakeholders, including employees, consumers, and the communities in which they are located;
- a commitment to environmental justice;
- products, processes, and services that have a direct and positive environmental impact;
- efforts in the manufacture, processing or marketing of food that are consistent with sustainable agriculture;
- a record of maintaining healthy and safe workplaces;
- a record of regulatory compliance;
- an on-going audit program that goes beyond regulatory requirements;

- a record of waste and toxic emission reduction toward a goal of zero emissions, including commitment to reuse and recycling;
- a commitment to sustainable use of natural resources;
- diversity of Board, management, and workforce;
- nondiscrimination in employment on the basis of race, ethnicity, gender, sexual orientation, or disability;
- R & D funding for new processes and materials that minimize environmental impact; and,
- respect for the reproductive rights of all women.

We will not invest in companies that:

- produce and/or use nuclear power (including those that mine uranium ore or develop or maintain nuclear reactors);
- produce synthetic pesticides, herbicides or other agricultural chemicals, especially those that are believed to cause birth defects or disrupt endocrine systems in humans and animals; or,
- derive more than five percent of their revenue from the manufacture and sale of tobacco products.

In industries that do not meet our screens, companies that have signed the CERES Principles or demonstrated particular leadership within their industry with respect to social responsibility and environmental impact may be considered on a case-by-case basis.

Venture Capital And Alternative Investments

Because it involves investments and, in some cases, active involvement in early stage private companies, venture capital can be a powerful tool for contributing to the Foundation's mission.

Financial objectives of venture capital and private equity investments are to generate returns, through the realization of long-term capital gains that are superior to those of public market investments. Investments will be sought that provide premiums over public market returns sufficient to compensate for the risk and illiquidity of private investments, and which, in some instances, take into account value added to our philanthropic mission. Early stage investments, and investments that have particularly higher mission-related potential, will be balanced with later stage private equity investments that usually do not afford opportunities for either screening or shareholder involvement.

Monitoring

The Finance Committee will monitor the performance of the Foundation's managers on a quarterly basis, with at least one face-to-face meeting each year. Year-to-date and cumulative performance will be assessed in terms of our screened portfolio as against other screened and non-screened portfolios under management, in comparison to the relevant indexes, including the Domini Social Equity Index, and in relation to the performance of other foundations. Social research and interactions with portfolio companies, including shareholder activities, will be reviewed. Other issues to be reviewed include adherence to the Foundation's screens and values; transactions and transaction costs; market capitalization, portfolio balancing, and holdings overlap among managers; and systematic risk (beta) and standard deviation (sigma) for each portfolio.

APPENDIX D: SAMPLE INVESTMENT PORTFOLIO (follows)

APPENDIX D

GEM Fixed-Income Sample Portfolio June 2007

Federal & Guaranteed Bonds	54.8%
Canada Govt 5.500 Jun 01 10	0.0%
Canada Govt 5.250 Jun 01 12	4.7%
Canada Govt 5.250 Jun 01 13	10.5%
Canada Govt 5.000 Jun 01 14	9.6%
Canada Govt 4.500 Jun 01 15	2.3%
Canada Govt 4.000 Jun 01 16	3.2%
Canada Govt 8.000 Jun 01 23	1.5%
Canada Govt 8.000 Jun 01 27	4.3%
Canada Govt 5.750 Jun 01 29	1.3%
Canada Govt 5.750 Jun 01 33	0.2%
Canada Housing Trst 4.100 Dec 15 08	0.7%
Canada Housing Trst 3.550 Mar 15 09	0.9%
Canada Housing Trst 3.750 Mar 15 10	1.4%
Canada Housing Trst 4.050 Mar 15 11	2.6%
Canada Housing Trst 4.000 Jun 15 12	7.0%
Farm Credit Corp 4.550 Apr 12 21	0.8%
MBS96501994 CMHC Gtd 5.000 Feb 01 13	1.8%
UK Treasury 4.250 Mar 07 11	2.0%

Provincial/State & Guaranteed Bonds	19.0%
BC Prov 9.50 Jan 09 12	4.0%
New Brunswick Prov 4.500 Feb 04 15	1.2%
Ontario Prov 8.100 Sep 08 23	2.3%
Ontario Prov 8.500 Dec 02 25	1.3%
Ontario Prov 8.00 Jun 02 26	1.9%
Ontario Prov 7.600 Jun 02 27	1.0%
Ontario Prov 5.850 Mar 08 33	1.9%
Ontario Prov 5.600 Jun 02 35	1.4%
Ontario Prov 4.400 Mar 08 16	1.0%
Quebec Prov 5.350 Jun 01 25	1.7%
Saskatchewan Prov 6.400 Sep 05 31	1.1%

Corporate Bonds	23.8%
407 International Jr 7.000 Jul 26 10-40	3.7%
Bank Of Montreal 4.300 Sep 04 09	0.0%
Bank Of Montreal 7.000 Jan 28 10	1.9%
Bank Of Montreal 5.20 Jun 21 12-17 Ff	1.7%
Bank Of Montreal 5.10 Apr 21 16-21 Ff	1.7%
Bank Of Nova Scotia 3.930 Feb 18 10	5.4%
BMO Cap Trust 5.474 Dec 31 14	1.5%
CIBC 4.50 Oct 15 09-14 Ff	3.4%
Epcor Utilities 6.950 Jun 28 10	0.0%
Master Credit Crd Tr 4.380 Nov 21 09	2.1%
Nav Canada 4.428 Feb 24 11	2.3%

Other Bonds	1.1%
Mlfa 2007-Ca21 A1 4.642 Oct 12 16	1.1%

Cash And Equivalents Totals	1.3%
Totals	**100.0%**

GEM Global Equity Sample Portfolio June 2007

Energy	**8.2%**
Eni S P A Adr (2 Ord Shrs)	1.4%
Statoil Asa Sp Adr (1 Ord Nok2.5)	2.7%
Valero Energy Corp Common	2.9%
Xto Energy Inc Common	1.2%
Materials	**6.4%**
Posco Adr (0.25 Ord Shrs)	2.4%
Crh Adr (5 Ord)	1.0%
Praxair Inc Common	3.0%
Industrials	**11.6%**
Metso Corporation Ads (1 Sh)	3.0%
Basf Ag Sp Adr (1 Ord)	3.3%
Abb Ltd Adr (1 Ord Shr)	1.9%
Paccar Inc Common	3.4%
Consumer Discretionary	**10.1%**
Fiat Spa Adr (1 Ord Share)	2.4%
Honda Motor Co Adr (1 Ord)	2.0%
Toyota Mtr Corp Adr (2 Ord)	1.7%
Penney J C Inc Common	2.2%
Walt Disney Co Common	1.8%
Consumer Staples	**7.0%**
Etablissements Delha Sponsored Adr	2.5%
Koninklijke Ahold Sp Adr (1 Ord)	1.0%
Cvs Caremark Corp Common	1.8%
Kroger Co Common	0.5%
Procter & Gamble Co Common	1.2%
Health Care	**10.2%**
Novo-Nordisk As Adr (1 'B' Ord)	1.9%
Sanofi-Aventis Sponsored Adr	1.6%
Fresenius Med Care Ads (1 Ord Shr)	1.8%
Teva Pharmaceutical Adr (1 Ord)	0.8%
Astrazeneca Sp Adr (1 Ord)	2.0%
Thermo Fisher Sci Common	2.1%
Financials	**21.0%**
Natl Australia Bk Sp Adr (5 Ord)	0.0%
Axa Sp Adr (1 Ord)	0.4%
Allianz Se Sp Adr 1/10 Sh	1.8%
Deutsche Bank Ag Nam Ord	2.3%
Aegon Nv Amer Reg (1 Ord)	1.1%
ING Groep Nv Sp Adr (1 Com)	1.3%
Banco Santan Cent Hi Adr (1 Ord)	1.2%
Credit Suisse Grp Sp Adr (0.25 Ord)	0.9%
UBS Ag Namen Akt	1.5%
Barclays Plc Adr (4 Ord)	1.3%
Goldman Sachs Group Common	1.6%
JPMorgan Chase & Co Common	3.0%
Metlife Inc Common	1.4%
Prudential Finl Common	0.9%
Austral&New Zeal Bkg Sp Adr (5 Ord)	2.3%
Information Technology	**13.2%**
Infosys TeChn Ltd Adr (1 Ord Shr)	1.5%
Canon Inc Adr (1 Ord)	1.8%
Apple Inc Common	2.3%
Cognizant Tech Solns Class A	1.3%
Corning Incorporated Common	1.3%
Hewlett Packard Co Common	2.4%
Intl Business Mchn Common	0.8%
Siliconware Precis Adr (5 Spl Shrs)	1.9%
Telecommunication Services	**3.9%**
Royal Kpn N.V Sp Adr (1 Ord)	2.5%
At&T Inc Common	1.4%
Utilities	**5.3%**
National Grid Adr (5 Ord Shrs)	1.9%
Companhia Para Energ Pfd Sp Adr	3.4%
Income Trusts	
Real Estate Investment Trust	0.9%
Prologis Com Sh Ben Int	0.9%
Cash	
Cash	2.2%
Totals	**100.0%**

GEM Canadian Equity Sample Portfolio June 2007

Energy	**21.7%**
Enbridge Inc	2.5%
Encana Corporation	4.9%
Nexen Inc	2.0%
Petro-Canada	3.9%
Suncor Energy Inc	4.9%
Western Oil Sands	3.5%
Materials	**12.2%**
Aber Diamond Corp	1.3%
Alcan Inc	1.4%
Barrick Gold Corp	2.6%
Goldcorp Inc	2.1%
Potash Corp Of Sask	3.4%
Teck Cominco Ltd	1.3%
Industrials	**6.9%**
Cdn Natl Railway	2.0%
Cdn Pacific Railway	2.4%
Finning Intl	2.5%
Consumer Discretionary	**9.2%**
Astral Media Inc	1.3%
Gildan Activewear	2.3%
Rona Inc	1.0%
Shaw Communications	1.1%
Thomson Corp (The)	1.8%
Tim Hortons Inc	1.8%
Consumer Staples	**4.6%**
Aliment Couche-Tard	0.9%
George Weston Ltd	1.0%
Shoppers Drug Mart	2.7%
Health Care	**2.1%**
Biovail Corp	1.0%
Mds Inc	1.1%
Financials	**22.1%**
Bank Of Montreal	1.8%
Bank Of Nova Scotia	3.0%
Brookfield Asset Mgt	1.1%
Cdn Imp Bank Commerc	2.1%
Great-West Lifeco	0.9%
Manulife Fincl Corp	2.4%
National Bk Cda	1.0%
Power Corp Of Cda	1.5%
Royal Bank Cda	3.2%
Sun Life Fncl Inc	2.8%
Toronto Dominion Bk	2.2%
Information Technology	**8.5%**
Celestica Inc	0.7%
Cognos Incorporated	1.5%
Macdonald Dettwiler	2.1%
Nortel Networks Corp	1.1%
Research In Motion	3.2%
Telecommunication Services	**8.0%**
BCE Inc	1.3%
Rogers CoMmunication	4.2%
Telus Corp	2.5%
Utilities	**0.0%**
Other	
Cash And Equivalents Totals	**4.8%**
Totals	**100.0%**

To find out more about GEM and the services offered to organizations, contact:

John M. Clancy, CFA

Email: jclancy@gemportfolios.com

Tel: 416.350.6880

GEM

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