

Ethical Investing

Socially Responsible Investing Nortel Nosedive

We all want to do the right thing. And when it comes to investing, consideration should certainly be given to the ethical or social impact of the operations of the companies we invest in. On the surface, no one wants to consciously invest in businesses that exploit child labour, destroy rain forests, or deal in weapons of mass destruction.

However, when it comes to actually constructing a screening process as to which companies to invest in, ethical or socially responsible investing becomes more complicated. Should companies that haul garbage be included? Should the logging company that cuts some virgin forest but replants more than any of its competitors be excluded? And more importantly to investors, will returns be better or worse, from such a screening process?

The good news for Canadian Investors is that there are now a number of funds available that focus on socially responsible investing. In the US, social values funds represent almost 10% of new investment assets. (Curiously, in the US there was a "Sin" fund that only invested in gambling, tobacco and alcohol stocks - and that fund has changed its focus to entertainment, as it suffered from poor returns and low investor interest).

Socially Responsible Investing (SRI)

This unique form of investing incorporates social and environmental values into the investment decision-making process - essentially striving to increase investment capital in a manner that is consistent with the needs of society and the limits of the ecosystems.

Business activity produces a wide range of economic, social and environmental impacts. Corporations respond to the demands of their investors and customers. Therefore, socially responsible investors are changing how corporations operate by encouraging companies to maximize the benefits of business activity while minimizing or even eliminating negative impacts.

How do Mutual Fund companies choose what stocks are acceptable?

Individual Mutual Fund companies will likely differ in their exact criteria.

We have chosen to profile Ethical Group of Funds since they have the widest variety of Socially Responsible Funds to choose from and they were the first to introduce them.

In their screening process, Ethical Funds look for companies that fit the following criteria:

- Non Tobacco
- Non Military
- Non Nuclear
- Progressive Industrial Relations
- Promote Human Rights and Equal Opportunity

- Progressive Environmental Practices.

Actionable Steps

Using Ethical Funds as an example, we looked into what they do aside from investigating which stocks to buy or sell.

Due to the size and range of their investment activity and because of their familiarity with the issues, Ethical Funds has the opportunity to engage directors and senior management in extensive dialogue about strategic directions and operational decisions. The following are the actionable steps that are often taken:

- Writing to the specific companies to inform them of concerns.
- Requesting meetings with senior management, CEO's or members of the Board of Directors.
- Contacting and meeting with environmental organizations, social justice groups, and representatives of communities to acquire an enhanced understanding of location-specific issues and local perspectives.
- Filing shareholder resolutions

To review your investments, your personal risk tolerance, or to discuss our available social values funds, please contact one of our associates at 1-800-387-9273

continued on back page

1 Year Total Return

1 Talvest Global Health Care	82.2%
2 Fidelity Small Cap America	55.4%
3 AGF International Value	40.5%
4 CI Global Energy Sector	39.8%
5 Altamira Health Sciences	37.3%
6 Trimark US Companies	36.5%
7 Fidelity Focus Financial Servs.	34.2%
8 Fidelity Focus Natural Res	33.8%
9 CI Global Consumer Products	32.5%
10 AIC World Advantage	31.4%

3 Year Total Return

1 Altamira Science & Technology	64.4%
2 Talvest Global Sci & Tech	58.7%
3 Talvest Global Health Care	47.5%
4 AIM Global Technology	45.3%
5 CI Global Telecom Sector	44.9%
6 BPI Global Opportunities	42.8%
7 AGF Aggressive Growth	42.4%
8 Janus American Equity	33.4%
9 TD Entertainmnt & Comm	29.9%
10 Elliott & Page US Mid-Cap	29.3%

5 Year Total Return

1 Altamira Science & Technology	44.7%
2 BPI Global Opportunities	39.7%
3 Janus American Equity	29.9%
4 AGF Aggressive Growth	29.5%
5 MB Pooled American Equity	23.6%
6 BPI American Equity	23.5%
7 Royal Life Science &Technology	23.5%
8 Spectrum European Growth.	22.0%
9 Ethical North American Equity	21.9%
10 McLean Budden Amer Eq Growth.	21.5%

10 Year Total Return

1 Spectrum American Growth	20.6%
2 MB Pooled American Equity	20.5%
3 GBC North American Growth	20.1%
4 CI Signature Amer Small Cos	19.7%
5 BPI American Equity	19.0%
6 AGF Amer Growth Class.	18.9%
7 TD US Index Fund (\$US)	18.9%
8 McLean Budden Amer Eq Growth.	18.3%
9 Ethical North American Equity	18.0%
10 Fidelity Growth America	17.7%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

* Increased to 30% effective January 1, 2001
 Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

1 Year Total Return

1 Altamira e-business	-41.4%
2 MAC Universal Japan	-37.7%
3 Ethical Pacific Rim	-37.4%
4 Trimark Discovery	-35.8%
5 CI Global Technology Sector	-34.8%
6 Dynamic Far East.	-32.6%
7 CI Pacific Sector	-32.3%
8 Clarington Globl Communication.	-31.6%
9 CI Pacific.	-31.3%
10 Fidelity Japanese Growth	-30.2%

3 Year Total Return

1 Ethical Pacific Rim	-6.9%
2 Dynamic Real Estate Equity.	-6.5%
3 AGF Latin America	-5.9%
4 CI Latin American	-2.8%
5 Fidelity American High Yield.	-1.9%
6 Zweig Strategic Growth	-1.0%
7 Fidelity Latin American Growth.	-0.3%
8 MAC Univ World Emerging Grth	0.5%
9 TD Japanese Growth	0.6%
10 CI European	0.6%

5 Year Total Return

1 Ethical Pacific Rim	-13.3%
2 Royal Asian Growth.	-8.0%
3 AGF Asian Growth Class	-8.0%
4 MAC Universal Far East	-7.7%
5 CI Pacific Sector	-5.2%
6 Talvest Asian	-4.9%
7 CI Pacific.	-4.1%
8 TD Japanese Growth	-3.0%
9 TD Asian Growth.	-2.0%
10 Altamira Asia Pacific	-1.3%

10 Year Total Return

1 Royal Japanese Stock	3.1%
2 AGF Japan Class.	3.3%
3 CI Short-Term Sector	3.7%
4 Royal \$US Money Market.	4.1%
5 Merrill Lynch US Money Mkt	4.1%
6 CI Pacific Sector	5.0%
7 CI Pacific	5.8%
8 Global Strategy ROTH Wrld Bond	6.2%
9 AGF Global Government Bond	6.7%
10 Talvest Asian.	6.9%

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

1 Year Total Return

1 Dynamic Wealth Mgmt	66.7%
2 PH&N Dividend Income	45.6%
3 AIC Advantage II	41.2%
4 Merrill Lynch Cdn Inc Trust	40.9%
5 AIC Advantage	40.4%
6 Middlefield Growth	38.5%
7 GGOF Guardian MonthlyHi Inc Cl	38.2%
8 CI Signature Select Cdn	38.1%
9 GGOF Guardian MonthlyHiInc	37.8%
10 Talvest Millennium High Income	36.9%

3 Year Total Return

1 StrategicNova Cdn Technology	40.3%
2 Dynamic Venture Opportunities	25.0%
3 AIM Canadian Premier	24.3%
4 Working Opportunity (Balanced)	24.3%
5 Synergy Cdn Momentum	23.4%
6 VenGrowth Fund	22.1%
7 Synergy Cdn Growth	20.5%
8 Altamira Capital Growth	20.3%
9 AIM Canadian First Class	19.7%
10 Capital Alliance Ventures	18.4%

5 Year Total Return

1 PH&N Dividend Income	23.9%
2 AIC Diversified Canada	23.2%
3 AIC Advantage	21.9%
4 MB Pooled Cdn Equity Growth	20.2%
5 Royal Dividend	18.5%
6 Scotia Cdn Dividend	18.2%
7 AIM Canadian Premier	18.1%
8 Fidelity Cdn Growth Company	18.0%
9 Working Opportunity (Balanced)	17.7%
10 Beutel Goodman Small Cap	17.4%

10 Year Total Return

1 AIC Advantage	22.9%
2 ABC Fundamental Value	19.2% #
3 Dynamic Power Canadian Growth	18.8%
4 GBC Canadian Growth	18.7%
5 Altamira Equity	18.4%
6 PH&N Dividend Income	17.5%
7 MB Pooled Cdn Equity Growth	16.4%
8 MAXXUM Dividend	16.3%
9 PH&N Vintage	16.2%
10 Northwest Specialty Equity	15.9%

1 Year Total Return

1 Altamira RSP e-business	-43.1%
2 Trimark Discovery RSP	-37.9%
3 CI Global Technology RSP	-34.9%
4 Clarington RSP Global Comm	-32.8%
5 MAC Univ RSP World Sci & Tech	-30.7%
6 TD Nasdaq RSP Idx	-30.0%
7 AGF RSP Japan	-29.8%
8 Spectrum RRSP Global Telec	-29.7%
9 TD Nasdaq RSP Idx Fd E	-29.5%
10 CI Global Telecom RSP	-27.7%

3 Year Total Return

1 AGF Managed Futures Value	-24.1%
2 Scotia Precious Metals	-15.8%
3 Spectrum Canadian Resource	-14.5%
4 Global Strategy Gold Plus	-13.5%
5 Royal Precious Metals	-12.8%
6 Dynamic Precious Metals	-11.6%
7 MAC Industrial Growth	-11.1%
8 Global Strategy Cdn Small Cap	-11.0%
9 Northwest Specialty Equity	-8.4%
10 AGF Canadian Resources	-8.2%

5 Year Total Return

1 Dynamic Precious Metals	-16.3%
2 Global Strategy Gold Plus	-15.8%
3 Scotia Precious Metals	-14.8%
4 Royal Precious Metals	-13.5%
5 AGF Managed Futures Value	-11.8%
6 MAC Universal Precious Metals	-9.2%
7 Altamira Resource	-8.3%
8 TD Precious Metals	-7.2%
9 MAC Industrial Equity	-7.1%
10 TD AsiaGrowth RSP	-6.3%

10 Year Total Return

1 Dynamic Precious Metals	1.1%
2 MAC Industrial Growth	2.7%
3 MAC Industrial Equity	3.4%
4 Dynamic Global Bond	3.9%
5 MAC Short-Term	4.2%
6 Royal Precious Metals	4.2%
7 Merrill Lynch Canadian T-Bill	4.4%
8 AGF Canadian Money Market	4.5%
9 Fidelity Cdn Money Market	4.6%
10 Ethical Money Market	4.6%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to provide information on funds marked #
- Figures are average rates of return for the periods ending Jan. 31, 2001
- Source data from Bell Charts, including over 3400 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP eligible funds are at least 70% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 30% of book value

How do they Perform?

Strictly speaking on performance, the flagship Ethical Growth fund has had mediocre returns over the last decade. And its current holdings don't seem much different than many large cap Canadian equity funds. As of Jan 31, its holdings included Nortel, four of the five big banks, CN, Magna, and Suncor.

Other Socially Responsible Funds

One niche in the socially responsible list is the Clean Environment group of funds. They largely focus on the technology stocks that will allow mankind to prosper on this planet and take care of the environment as well. This makes them slightly different from most of the other Canadian social funds. We would recommend looking at the two more broadly diversified funds from the same **Acuity fund family and managers. Those are the Acuity Social Values Canadian and International funds.**

Over the years, we have spoken with several investment managers of regular mutual funds about Socially Responsible Investing. When questioned, the managers have surprisingly similar comments. They point out that companies who treat their employees well, that don't pollute or harm the environment and who care for the safety of their customers, generally don't get sued and attract good employees. In the long run, this is good business practice and is ultimately good for their shareholders. Therefore, not being an "ethical" fund does not necessarily mean a fund invests in unethical companies.

Therefore, it really comes down to your personal investment preference. We have included a list of the socially responsible funds that we offer here at ScotiaMcLeod. Whether or not you choose to invest in these funds will be your decision. However, we are sure that having the choice of several social-

ly responsible funds is good for everyone.

To visit the mutual fund companies websites to find out more information about the funds holdings and what they have to offer, visit our website at www.mutualfundreporter.com/ethical for direct links to websites of interest.

Socially Responsible Mutual Funds

Acuity Social Value Cdn Equity

Acuity Social Value Global Equity

Clean Environment Balanced Fund

Clean Environment Equity Fund

Clean Environment Int'l Equity

Ethical Balanced Fund

Ethical Canadian Equity

Ethical Global Bond

Ethical Global Equity

Ethical RSP Global Equity

Ethical Growth Fund

Ethical Income Fund

Ethical Money Market

Ethical North American

Ethical RSP North American

Ethical Pacific Rim

Ethical Special Equity

Mackenzie Universal Global Ethics

Mackenzie Universal RSP Global Ethics

YMG Sustainable Development

Nortel Drop - How does this affect my investments?

You have likely heard all about the nosedive that Nortel Networks, one of Canada's leading telecommunications firms, had last month. This has affected many Canadian mutual funds, as it is one of the most widely held stocks in Canada. You likely own some Nortel in your portfolio through your mutual fund holdings. The good news is that it is a good time to be investing and broad-based mutual funds are generally capped at 10% on any one individual holding. Index funds are an exception to this rule and Canadian Stock Index Funds will be the mutual funds most affected by the Nortel drop. Index funds

are reflective of the performance of the TSE 300 as a whole and Nortel is an index heavyweight (see issue MFR 155 - January 2000). As with any market fluctuation, we continue to maintain our buy and hold philosophy for investing. If your mutual funds drop, it is likely one of the worst times to consider selling them. We of course recommend that your portfolio be diversified and an investment in a stock indexed mutual fund should reflect a desire to hold a somewhat more aggressive position, preferably for a smaller portion of your portfolio, or for dollar cost averaging. Contact us for an investment review at 1-800-387-9273.

Fund News

Dynamic has introduced 16 new funds, all of which are 'class' funds. i.e. more tax efficient when held outside an RRSP.

Working Ventures has recently introduced a new fund. The Working Ventures II Tech Fund.

Franklin Templeton has recently introduced two new foreign funds.

- Franklin World Growth
- Franklin World Growth RSP (100% RRSP-eligible)

AIM Group of Funds has introduced four new funds:

- AIM Canadian Leaders
- AIM Global Sector Managers
- AIM RSP Global Sector Managers
- AIM RSP Global Financial Services

* Some information contained in this publication has been provided by Ethical Group of Funds who can be contacted through our ethical funds link at www.mutualfundreporter.com/ethical