Portfolio Advisor

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Responsible Investing: A tree of many branches

Responsible Investing (or "RI") describes a range of approaches to incorporate environmental, social and governance (or "ESG") considerations into the investment process. But with this myriad of different approaches, it can be a challenge for investors to determine what's right for them. So, let's "clear the air" on RI.

A rapidly growing canopy

A growing number of investors want to own investments that reflect their values, according to a 2020 survey from Canada's Responsible Investment Association (RIA)*, with 72% indicating an interest in RI. And this trend has momentum, with 50% reporting more interest in RI than a year earlier. The vast majority also stated that they want to invest in companies that are striving to achieve clear ESG policy targets. This includes in specific areas such as inclusivity, female leadership opportunities and diversity.

And the dollar figures confirm this interest. According to the RIA survey, 50% of those aged 18-34 and 20% of those 55+ already own RI assets. RI assets under management have grown at a staggering rate over the last few years, reaching $2.3 trillion in Canada at the end of 2018, primarily in ESG mandates. More recent numbers show that during the first quarter of 2020, RI funds saw more investment inflows than for all of 2019. And there is room to grow: in Europe, where RI has dominated for much longer than in North America, more than 85% of money managers have integrated ESG policies into their investment process.**

The many branches of RI

Despite the interest in RI, nearly 75% of investors have little to no knowledge of their investment options.* To help, here are some key concepts:

- **ESG integration:** going beyond traditional financial factors to consider ESG factors when analyzing the risks and return potential of investing in certain companies.
- **Socially Responsible Investing (SRI):** investing in companies to earn a financial return, while also making a measurable positive social and environmental impact.
- **Positive screening:** using ESG factors to identify and include specific companies or economic sectors in an investment portfolio.
- **Negative screening:** using ESG factors to exclude specific companies or sectors.
- **Sustainability themed:** only including investments that meet more specific ESG criteria, e.g. specifically helping the environment.
- **Engagement:** seeking to influence corporate behaviour through direct engagement, proxy voting and/or shareholder proposals.

Picking the right approach – and solutions – for you

RI provides a variety of options to help investors align their investments with both their personal values and financial goals. But given the wide variety and popularity of RI investments today, it's important to watch out for "green washing": investments that claim to follow RI principles, but don't. Talk with us and we can help you make the right choices for you.

2020 RIA Investor Opinion Survey, Responsible Investment Association (October, 2020).
***The future of ESG integration*, RBC Global Asset Management (2019).