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Climate of change:

Canadians investors are increasingly embracing responsible investing (RI) as the right – and the smart – choice for their investment portfolios.

Responsible investing – specifically the integration of environmental, social and governance (ESG) principles into investment analysis and security selection – continues its rapid rise in popularity and adoption. This trend is driven by investors' desire to align their values with their investment portfolios, and by investment managers as evidence mounts of the potential positive impact that ESG integration can have on investment returns.

In its most recent survey[1], the Responsible Investing Association (RIA) found that 80% of Canadian investors are concerned about climate change and the environment, and that the vast majority of respondents see these issues as having a real and material financial impact. And investors are looking to their advisors and investment managers to support them in addressing their concerns and to align their values with their portfolios. In the same RIA survey, almost 90% of respondents want their advisors and their institutions to be knowledgeable about how ESG risks could affect their investments, and more than 80% of them want to be informed about responsible investments that are aligned with their values.

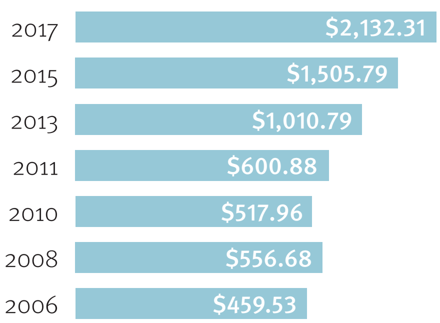
The investment industry has and continues to respond to these expectations. According to RBC Global Asset Management's 2018 Responsible Investing Survey of global institutional investors and consultants, "Charting a Sustainable Advantage," 72% of survey respondents "either somewhat or significantly use ESG principles as part of their investment approach and decision making." This represents a significant jump from an already impressive 66% in 2017, demonstrating that momentum for ESG integration continues to grow.[2]

Meritorious momentum

Today, the rise of global assets managed under RI mandates has grown to an estimated $20 trillion (U.S.)[3]. More locally, the impact of the RI trend in Canada is also real and growing rapidly: over $2 trillion of investment assets are managed using RI strategies, an amount that covers over 50% of all Canadian assets under management. And this change is gathering momentum: in just two years, between 2015 and 2017, Canadian RI assets increased at a rate of 42%[4].

And the rise of RI with global investors shows no signs of letting up soon: in a recent industry report[5], 39% investors across the globe reported holding RI, and this number is expected to grow to 48% in just the next five years. And, in the RIA survey noted above, 71% of respondents agreed that companies with good ESG practices are better long-term investments.

Canadian RI industry growth (billions)



Melting away the mystery and the myths around responsible investing

While the trend towards RI is strong, challenges to its adoption remain. Often, the two biggest of these are:

1. The difficulty investors have in making sense of the various RI options and what they mean (the RIA poll found that 81% of respondents know little or nothing about RI, and the industry report noted above found that 72% of investors found RI terminology “perplexing”);

and,

2. Overcoming the myth that RI hurts returns.

Clearing the smog on RI terminology

Making sense of the various terms and options under the RI umbrella is important, as it can help investors make the best choices for their portfolios and/or allow them to properly evaluate the efforts of their investment managers in following RI principles in their investment processes.

To begin with, RI is often broadly defined as:

- **ESG integration:** inclusion of environmental, social and governance (ESG) factors as a component of fundamental analysis to identify potential sources of risk reduction and returns.
- **Socially Responsible Investing (SRI)**, which includes:
  - **Impact investing:** allocating funds to earn a financial return alongside measurable social and environmental impact.
  - **Positive screening:** using ESG factors to select specific companies or sectors.
  - **Negative screening:** using ESG factors to exclude specific companies or sectors.
  - **Sustainability themed:** building portfolios that only include investments that meet specific ESG criteria.
- **Engagement:** seeking to influence corporate behavior through direct engagement, proxy voting and/or shareholder proposals.

Of the three primary approaches to RI captured above, ESG integration is by far the most prevalent by assets under management. A more detailed definition of the components of ESG provides greater insight into its focus and impact:

Environmental

- Climate changes
- Sustainability
- Air & water pollution
- Water scarcity
- Biodiversity and habitat
- Site rehabilitation

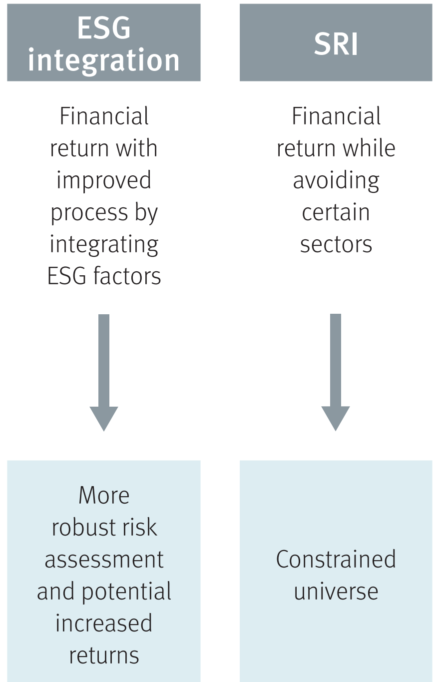
Social

- Human rights
- Community impact
- Health & safety
- Anti-child and forced labour
- Human capital: Employee engagement/ productivity

Governance

- Board independence
- Board accountability
- Executive compensation
- Shareholder rights and voting
- Anti-corruption

It is also important to note that ESG integration is not SRI (sometimes referred to as ethical investing), nor should it be confused with impact investing and/or philanthropy. The following chart captures the differences between ESG and SRI:



From the standpoint of an investment manager like RBC Global Asset Management, ESG integration means considering the environmental, social and governance risks and opportunities when making investment decisions. Unlike SRI, ESG does not "screen out" companies; instead it assesses the material ESG-related risks a company faces or might face, and then determines how that company manages those risks to reduce the potential impact on their financial returns.

A convenient truth: doing the right thing pays off

As investors seek more investment opportunities and look for money managers that can help align their values with their portfolios, they are often left to overcome the longstanding concern that RI hurts investment returns.

Fortunately, this myth is rapidly fading, as evidence mounts that the application of RI actually enhances the ability to identify highly effective management teams, which results in lower risk to the company and enhances its financial performance. A few examples of this evidence include:

- A study by Harvard Business School's George Serafeim and Robert Eccles and London Business School's Ioannis Ioannou, found that over a 17-year period, high-sustainability companies – those that actively incorporated ESG criteria into their management decisions – outperformed their low-sustainability peers by 46%[6].
- The Jantzi Social Index[7] outperformed the S&P/TSX 60 over the period covering 2000 to 2017, delivering a 6.76% return vs. broader index's 6.30%.
- A 2015 landmark study showed a neutral or positive relationship between ESG criteria and financial performance 90% of the time[8].

Sustainable stewardship: the RBC Global Asset Management approach

A growing number of investors want to ensure that their portfolios are leveraging the most effective investment techniques available, while also reflecting the most responsible and ethical approach to choosing and managing the investments those portfolios hold. Investors want an investment manager that does both, while ideally being a leader in the industry and a trusted partner in their financial journey through life.

Reflecting its long history of stewardship of clients' investments and its commitment to strong corporate governance, RBC Global Asset Management integrates material ESG factors into its investment analysis and decision-making process. RBC Global Asset Management also ensures it is an active owner/investor, which includes integrating and monitoring material ESG issues in the investments it holds, voting its shares in companies responsibly and engaging with companies to help improve their ESG-related policies and practices.

Also reflecting its commitment to being a leader in responsible investing, RBC Global Asset Management is a signatory to the United Nations Principles for Responsible Investment (PRI), which is the leading global proponent of responsible investment, while also leading and/or supporting key organizations in this area such as the Canadian Coalition of Good Governance, the Responsible Investment Association and the International Corporate Governance Network and the Council of Institutional Investors.

No denying the facts on RI

Responsible investing, and in particular ESG integration, is a rapidly growing trend within the investment and portfolio management world, reflecting investors' increasing focus on aligning their values with their investment choices, but also demonstrating the industry's active involvement in the responsible stewardship of clients' portfolios and the companies they choose to invest in on their behalf.

Investors are increasingly realizing that responsible investing does not result in lower investment returns – and, can potentially enhance them – and that they can integrate RI considerations into their investment portfolios without having to make the choice between conscience and investment return.

We strive to ensure that our clients' values are reflected appropriately and responsibly in the investment options we provide them – demonstrating our belief that the right investment choices for you are sustainable and successful over the long term, while helping to ensure that you achieve the goals in life that are most meaningful to you.

References:

[1] Responsible Investing Association, 2018 RIA Investor Opinion Survey – In Focus: Climate Change (December 2018).

[2] RBC Global Asset Management, Responsible Investing Survey – Charting a sustainable advantage (2018).

[3] Georg Kell, The Remarkable Rise of ESG (July 2018).

[4] Responsible Investment Association, 2018 Canadian Responsible Investment Trends Report (2018).

[5] UBS, Return on values, UBS Investor Watch Global Insights (Volume 2, 3Q 2018).

[6] Robert G. Eccles, Ioannis Ioannou, and George Serafeim, The Impact of Corporate Sustainability on Organizational Processes and Performance (November 2014).

[7] The Jantzi Social Index (JSI) was launched in January 2000 in partnership with Dow Jones Indexes. It is a socially screened, market capitalization-weighted common stock index modeled on the S&P/TSX 60 consisting of 50 Canadian companies that pass a broad set of ESG criteria.

[8] Gunnar Friede, Timo Busch and Alexander Bassen, ESG and financial performance: aggregated evidence from more than 2000 empirical studies (November 2015).