What is responsible investing?

Wealth Management
Dominion Securities

Every portfolio has environmental and social risk. Investors who are increasingly concerned with what risks may be present in their investment portfolios could consider responsible investing.

RBC Dominion Securities supports the merits of responsible investing. RBC is committed to community involvement, diversity and inclusion, and environmental responsibility to help the world become a better place—for both current and future generations. To help make good on our commitment to have a positive social and environment impact, we have pathways for you to invest capital in a more responsible manner.

Responsible investing

Responsible investing is an umbrella term encompassing the approaches used to deliberately incorporate environmental, social and governance (ESG) considerations into an investment portfolio. We believe there are four main applications of this data, and each applies this data very differently. The four applications are:

ESG integration

Systematically incorporating material ESG factors into investment decision making to identify potential risks and opportunities and help improve long-term, risk-adjusted returns.

ESG screening and exclusion

Applying positive or negative screens to include or exclude assets from the investment universe.

Thematic ESG investing

Investing in assets involved in a particular ESG-related theme or seeking to address a specific social or environmental issue.

Impact investing

Investing in assets that intend to generate a measurable positive social or environmental impact.

Environmental, social and governance (ESG) integration

ESG integration works in tandem with fundamental factors to define attractive investments with long-term returns in focus. These metrics may include:

Environmental concerns — Including climate change, natural resources conservation, pollution and waste management, and water scarcity.

Social issues — Such as corporate philanthropy, community and government relations, workplace health and safety, human rights and diversity.

Governance topics — Including accounting practices, board accountability and structure, disclosure practices, executive compensation, corporate ethics, regulatory compliance and transparency.

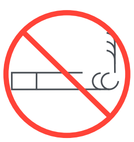
> Responsible investing in Canada showed a slight decrease of 6% (rounded) between 2020 and 2022, accounting for 47% of total Canadian assets under professional management, according to Responsible Investment Association (RIA[1]).

ESG screening and exclusion

ESG screening and exclusion is the earliest form of responsible investing. The idea is for investors to reflect their values in an investment portfolio. Investors are looking to make a positive change by aligning their personal values with their investment choices. This involves both negative and positive screening of companies, industries or sectors to make a financial influence that matches their values—or identifying assets that meet a defined set of desired ESG-related criteria or ESG score threshold.

> ESG data provides investors with valuable research, insights and analysis about companies to help with portfolio development.

Negative screening



Tobacco

Alcohol

Weapons

Positive screening

Social housing

Renewable energy

Human rights

Thematic ESG investing

Thematic ESG investing identifies a social or environmental impact or theme that the portfolio wants to measure and report progress in alongside risk and return. With thematic investing, there is an intentional allocation of capital to a specific investment theme (e.g., climate change, gender equity, sustainability-related categories).

> There is significant investment into technologies that alleviate threats to sustainability. At RBC Dominion Securities, we call these themes "SusTech"—sustainability through Technology.

	Threats to sustainability			
SusTech technologies	**Climate change**	**Fresh water scarcity**	**Waste management**	**Lack of social progress**
GreenTech	X		X	
AgriTech/FoodTech	X	X	X	X
FinTech				X
HealthTech				X
Smart Cities	X	X	X	X

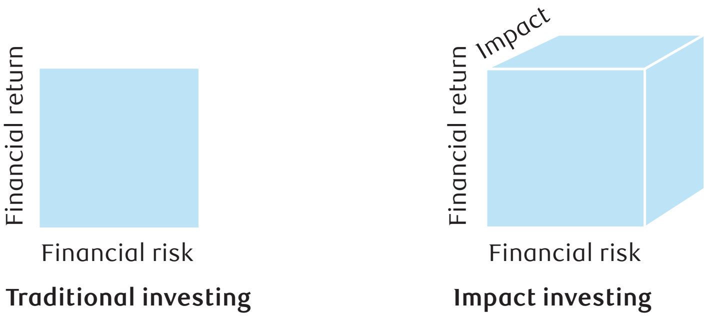
Source: RBC Dominion securities
"x" indicates the technological solution that aims to address the threat to sustainability

Impact investing

Impact investing is not charity. It is an investment where an investor is hoping first and foremost to generate social or environmental impact. Impact investors also want to earn a return on their investments; However, they may be willing to take a temporary low in order to see potential impact results in their investment. An example includes investment in low-income housing loan assistance, where a tangible impact is measurable (i.e., number of households able to afford housing).

Any investor can participate in responsible investing. It is available to all, beyond the traditional large asset managers, institutional investors, foundations and high-net-worth investors.

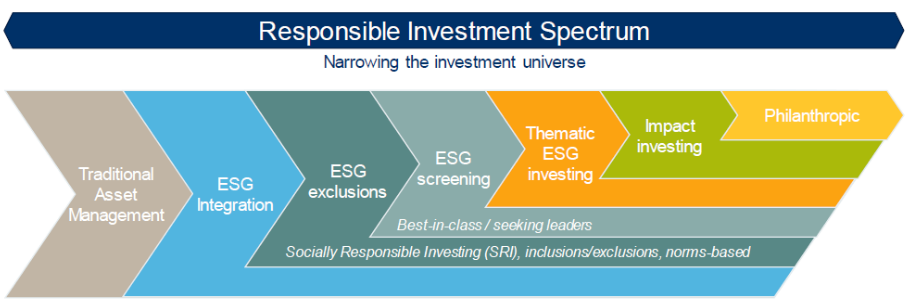
Impact investing—a third dimension of performance



Responsible investing spectrum

Responsible investing is the umbrella term that is used for all ESG approaches into an investment portfolio. The spectrum below shows the variety of approaches to responsible investing. How the ESG data is applied will determine the approach to responsible investing. It should not be assumed that all the approaches are mutually exclusive. An investment product can incorporate more than one approach, and multiple approaches can be applied simultaneously within the investment process.

Moving from the left to the right side of the spectrum, it may narrow the investment universe as more screens or exclusions are applied, additional themes are put into focus, and the more measurable impact that is desired. Moving to the right provides a higher level of direct ESG impact and may increase the potential for volatility and may have more impact on returns.



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[1] "Technical Report-2022 Canadian Responsible Investing Trends." Responsible Investment Association

Past performance is no guarantee of future results.

Due diligence processes do not assure a profit or protect against loss. Like any type of investing, ESG investing involves risks, including possible loss of principal.