Responsible Investment Association

2020 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

NOVEMBER 2020

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NEI

ACKNOWLEDGEMENTS

Sponsor

We extend a special thanks to NEI Investments for sponsoring the 2020 Canadian RI Trends Report. Their generous contribution made this report possible.

Research Partner

Thanks to the Canadian Institutional Investment Network for providing data on Canada's investment industry.

Project Director

This research project was led by Mary Robinson, the RIA's Director of Research, Policy & Collaboration.

Contributors

Thanks to Frederick M. Pinto for writing the Foreword to this report. We also thank Stella Tsai for her assistance with collecting survey data and research support for this report.

Translator

Thanks to Vanessa Brunette for providing a French-language translation of this report.

About the RIA

The Canadian Responsible Investment Trends Report is released biennially by the Responsible Investment Association (RIA), Canada's industry association dedicated to responsible investing. RIA members include fund companies, financial institutions, asset management firms, asset owners, advisors, research firms, consultants and others who practice and support the incorporation of environmental, social and governance (ESG) factors into investment decisions. Learn more at www.riacanada.ca

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FOREWORD

On behalf of NEI Investments, it is my pleasure to introduce the 2020 Canadian RI Trends Report. It's hard to believe it was only two years ago that we marked the fact that responsible investments, for the first time ever, accounted for over half of all assets invested in Canada. Today we're at 61.8%.

Over the last two years, responsible investing has grown in other ways, and is becoming more ingrained in the consciousness of Canadians and the asset managers entrusted with their money. And while the top reasons for investing responsibly—minimizing risk, improving returns, fulfilling fiduciary duty, and addressing mission, purpose or values—have remained consistent, as we move forward we can expect the relative importance of these reasons to shift significantly.

We are witnessing this shift already. When asked what they believe will be the main drivers for responsible investing over the next two years, not one of the reasons listed above was identified as the most important. It was investors' burgeoning demand to make an impact.

We should not be surprised. Against the backdrop of the massive social, economic and environmental disruption that characterizes our world today, there has risen among investors a powerful need to take an active role in driving fundamental change. And those investors see responsible investing as the means to do it. It is why the organizations who participated in this report almost all believe responsible investing will experience moderate to high levels of growth over the *next* two years as well. What we do is in very high demand—and it's only going to go up from here.

None of that expected growth should be considered a fait accompli. As responsible investment practitioners, the onus is on us to step up to meet that demand on the terms investors set. And investors are telling us they want an active role in how we drive positive change through our efforts.

For years, many of us toiled away believing the work we did would and *could* make a difference in the world (it does). Now the majority of investors are looking to us not just to help them do that, but to *involve* them in the process as well.

In 2020, it's not about metrics and milestones. It's about recognizing this is *our* time, and stepping forward with confidence to meet this opportunity.

Frederick M. Pinto, CFA
SVP, Head of Asset Management
NEI Investments and Aviso Wealth

NEI aviso wealth

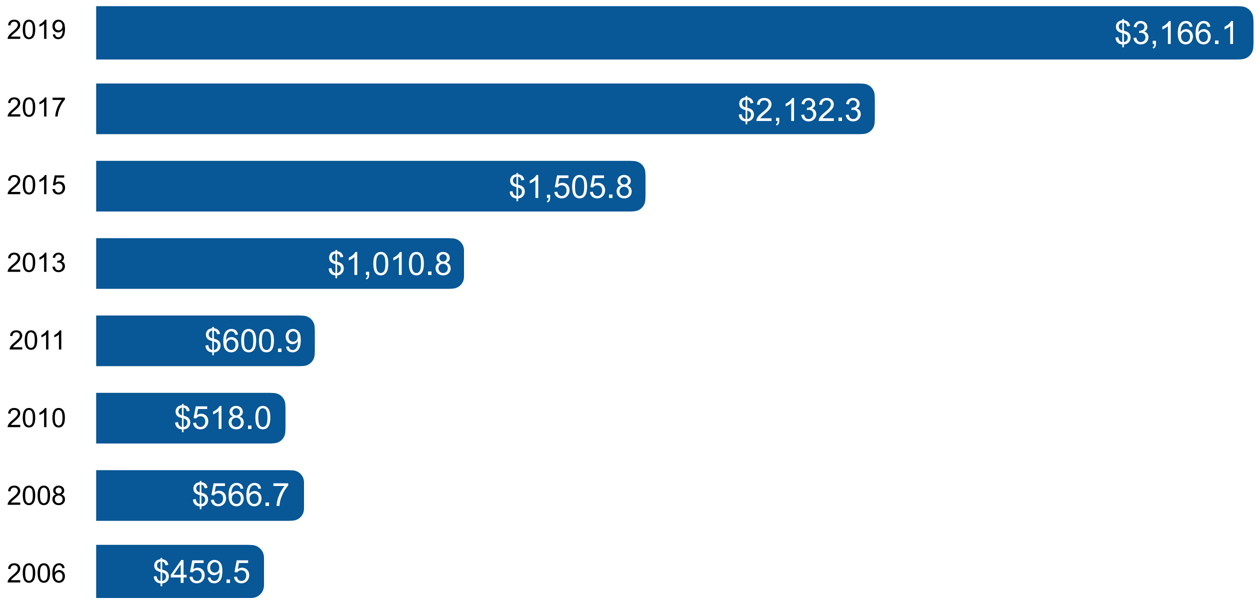
EXECUTIVE SUMMARY

The 2020 Canadian Responsible Investment Trends Report indicates that responsible investment (RI) has taken its place as the predominant investment approach among Canadian investors. Survey data collected from more than 100 asset managers, asset owners, and publicly-available sources reveal that environmental, social and governance (ESG) factors are increasingly being incorporated into investment decisions. This report describes the size, growth and outlook for RI in Canada and highlights the RI practices being employed. All figures are stated in Canadian dollars as at December 31st, 2019.

Key Highlights

- $3.2 trillion in RI assets under management (AUM).
- 48% growth in RI AUM over a two-year period.
- RI represents 61.8% of Canada's investment industry, up from 50.6% two years ago.
- Retail RI mutual fund assets increased from $11.1 billion to $15.1 billion, up 36% over two years.
- The two most prominent RI strategies by AUM are: (1) ESG integration and (2) shareholder engagement.
- The ESG frameworks most often used by survey respondents in their investment analysis are: (1) Task Force on Climate-related Financial Disclosures (TCFD); (2) United Nations' Sustainable Development Goals (SDGs); and (3) Sustainability Accounting Standards Board (SASB).
- Survey respondents reported the top four reasons for considering ESG factors are: (1) minimizing risk over time, (2) improving returns over time, (3) fulfilling fiduciary duty, and (4) fulfilling mission, purpose or values.
- 97% of respondents expect moderate to high levels of growth in RI over the next two years.

Canadian Responsible Investment Assets (billions)



As of December 31, 2019, survey data and supplementary desk research conducted by the RIA show that assets in Canada being managed using at least one RI strategy increased to $3.2 trillion, compared to $2.1 trillion at the end of 2017. This corresponds to growth of 48.5% for RI AUM over a two-year period—equivalent to 21.9% annualized growth over two years. Responsible investing comprises a majority of Canada's professionally managed assets, accounting for 61.8% of all Canadian AUM.[1] This is a larger share of the overall market than two years prior, when RI assets attained a milestone of 50.6% of the Canadian investment industry.

The growth of RI assets in Canada runs parallel to the growth in the number of Canadian asset owners and asset managers who are signatories to the UN-supported Principles for Responsible Investment (PRI), from 96 to 147 signatories over the two-year period covered by this report.

Responsible investment is an umbrella term that includes several different strategies, and investors often use more than one RI strategy in their investment processes. ESG integration is by far the dominant RI strategy in Canada, with $3.0 trillion AUM, or about 95% of all reported RI AUM. ESG integration refers to the process of systematically embedding ESG factors into traditional investment analysis and decision-making. The number of institutions that integrate ESG factors across all of their assets has increased, as has their total AUM. ESG integration is, evidently, now "business as usual" for many institutional investors in Canada.

Shareholder engagement, which is a form of active ownership that uses corporate engagement and shareholder action to improve ESG practices, is the second-most prominent RI strategy, with $2.7 trillion AUM. There was significant overlap in the survey respondents who reported using both ESG integration and shareholder engagement strategies, signalling that these strategies are often used in tandem.

Overall growth in RI AUM was apparent among both the institutional and individual investor segments of the market. This year's survey respondents managed $2.3 trillion on behalf of institutional clients compared to $882 billion managed on behalf of individual investors. Two years ago, survey respondents reported $1.7 trillion managed on behalf of institutional clients and $435.7 billion managed on behalf of individuals. Individual investors' share of the total RI market has increased to 28% from 20% over the last two years. While this growth, to some extent, reflects rising demand from individual investors, it is largely indicative of asset management firms implementing an ESG integration strategy across all of their assets, including retail funds that are not necessarily labeled or marketed as responsible investments.

The rising demand for RI among individual investors is being met with greater availability and diversity of retail RI products, as longer-standing RI firms expand their product offerings and newer entrants to the space launch RI products. Assets in designated RI retail mutual funds have increased to $15.1 billion from $11.1 billion two years prior, representing growth of 36% over two years.[2] Meanwhile, assets in exchange-traded funds (ETFs) managed under RI strategies have more than doubled over the last two years, from $240.6 million to $654.9 million.[3] The market is experiencing fund flows into RI retail funds and ETFs amid strong interest from individual investors, particularly among younger investors as reported in our 2020 RIA Investor Opinion Survey, which focuses on retail investor perspectives.

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1 The sum of all professionally managed assets in Canada is estimated at $5.122 trillion. This calculation is based on proprietary data provided by the Canadian Institutional Investment Network, and publicly-available data from IFIC and the OECD. See Appendix C for calculation.

2 These figures refer to retail funds that are labeled and marketed as responsible investment products, supported by RI policies in regulatory documents such as the prospectus and fund facts. Data on RI mutual funds and ETFs was provided by Fundata, supplemented by RIA research.

3 ETF investments are also available to institutional investors, who account for some of the growth in this market segment.

Responsible investing has become well-established in Canada, and this goes hand-in-hand with the growing recognition among investment professionals that ESG factors can have a material impact on the risk and return potential of an investment. Survey respondents reported their top four reasons for considering ESG factors are: (1) minimizing risk over time; (2) improving returns over time; (3) fulfilling fiduciary duty; and (4) fulfilling mission, purpose or values.

Responsible investors require access to robust data on the ESG factors they incorporate in their investment analyses. In this year's survey, we asked survey respondents to tell us which sources they rely on for ESG data. The top source of ESG data is direct engagement with companies, followed by companies' sustainability reports or integrated reports. Specialized ESG research providers are also relied upon by a majority of survey respondents.

There are numerous global corporate reporting standards and frameworks that companies can use to measure and report their ESG performance. Survey respondents indicated the standards/frameworks most commonly being considered in their investment analysis are the Task Force on Climate-related Financial Disclosures (TCFD), the United Nations' Sustainable Development Goals (SDGs), and the Sustainability Accounting Standards Board (SASB).

Canadian responsible investors were nearly unanimous in their positive outlook for RI, with 97% of respondents expecting moderate to high levels of growth over the next two years. This is an increase from the last survey, in which 87% of respondents expected moderate to high growth. The respondents expect the main driver of this growth will be investor demand for ESG/impact, followed by climate change, and greater public awareness of ESG issues. Survey respondents also identified their perceived deterrents to growth in RI. Lack of reliable data was overwhelmingly cited as the top deterrent, followed by mistrust/concerns about greenwashing and lack of legislative/regulatory requirements.

INTRODUCTION

Responsible investment (RI) generally refers to the incorporation of environmental, social, and governance factors (ESG) into the selection and management of investments. In Canada and globally, we have seen increasing adoption of RI over the past several years, to the point that RI can now be considered mainstream. This growth reflects the evolution in thinking among investment professionals that considering material ESG factors, alongside financial factors, facilitates more thorough investment analysis and is compatible with fiduciary duty.

There are many different terms used to describe the various strategies or approaches to responsible investing. In order to standardize language and enable comparability across regions, the RIA and our peer organizations in the Global Sustainable Investment Alliance (GSIA) use consistent terminology for seven RI strategies: ESG integration, shareholder engagement, norms-based screening, thematic ESG investing, impact investing, negative screening, and positive screening. These RI strategies are defined in the table below.

	RI Strategy	Description
Impact	**Impact Investing**	Impact investing refers to investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
Inclusionary	**Shareholder Engagement**	Engagement refers to the use of shareholder power to improve corporate ESG performance. For example, an investor may vote proxies, file shareholder resolutions, and engage in dialogue with companies to improve their greenhouse gas emissions or diversity in leadership.
	Thematic ESG Investing	Investments targeted at specific ESG themes such as clean technology, women in leadership, water solutions, etc. An ESG theme defines the investable universe.
	Positive Screening	Positive screening refers to the systematic inclusion of companies based on positive ESG performance relative to peers in various sectors. Also known as best in class.
	ESG Integration	ESG integration refers to the process of systematically embedding ESG factors into traditional financial analysis. The portfolio manager integrates ESG data with traditional financial metrics when assessing a company's value. This is the most prominent RI strategy in Canada.
Exclusionary	**Negative Screening**	Negative screening refers to the systematic exclusion of specific companies, industries or sectors from the investable universe based on personal values, ethical considerations, or negative ESG characteristics.
	Norms-Based Screening	Norms-based screening refers to exclusionary screening based on compliance with international norms and standards such as the UN Guiding Principles for Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

Consistent with the GSIA's terminology, all assets covered in this report are aligned with one or more of these seven RI strategies, and the survey respondents provided their data accordingly. Note that responsible investors often apply more than one RI strategy in their investment processes.

We recognize that RI terminology can be complicated and confusing to observers, and that non-specialists may find RI difficult to navigate as a result. In 2019, we saw media headlines concerned with 'greenwashing' or misrepresentation in responsible investment. Much of this can be attributed to market confusion flowing from the complexity and nuances in RI. For example, when an observer learns that a fund is marketed as responsible or sustainable, they might assume the fund excludes certain industries, not knowing that there are actually seven different RI strategies, some of which are *inclusionary* and some of which are *exclusionary*. The table above groups the seven different RI strategies into three buckets that are simpler and more intuitive for observers and non-specialists: *inclusionary*, *exclusionary*, and *impact*-focused. This simplified terminology has been promoted by the Investment Company Institute and the Institute of International Finance, and we find this simpler language to be useful for communicating about RI strategies in public settings.

In a recent notable development, in fall 2020 the CFA Institute launched a consultation regarding the development of a voluntary, global industry standard that would establish disclosure requirements for investment products with ESG-related features. The purpose of the CFA Institute ESG Disclosure Standard for Investment Products is to provide greater transparency and comparability for investors by enabling asset managers to clearly communicate the ESG-related features of their investment products. The Standard is expected to be released in 2021.[4] The terminology used in this report is largely aligned with the CFA Institute's draft terminology, and we expect to strengthen that alignment once the Standard is finalized.

Canada's Expert Panel on Sustainable Finance

Canada's Expert Panel on Sustainable Finance released its final report in June 2019, *Mobilizing Finance for Sustainable Growth*. The report set out 15 recommendations to support the growth and development of sustainable finance in Canada – to enable Canada's transition to a climate-smart, resilient, and prosperous economy.

The RIA and Canadian institutional investors welcomed the Expert Panel's recommendations and issued a statement endorsing sustainable finance in Canada, *Canadian Investors Endorse Sustainable Finance*.

The RIA is engaged in supporting the development of several of the Expert Panel's recommendations, and this will continue to be a focus of our advocacy work. Going forward, we expect that the adoption of the Expert Panel recommendations will encourage the development of robust sustainable finance practices in Canada.

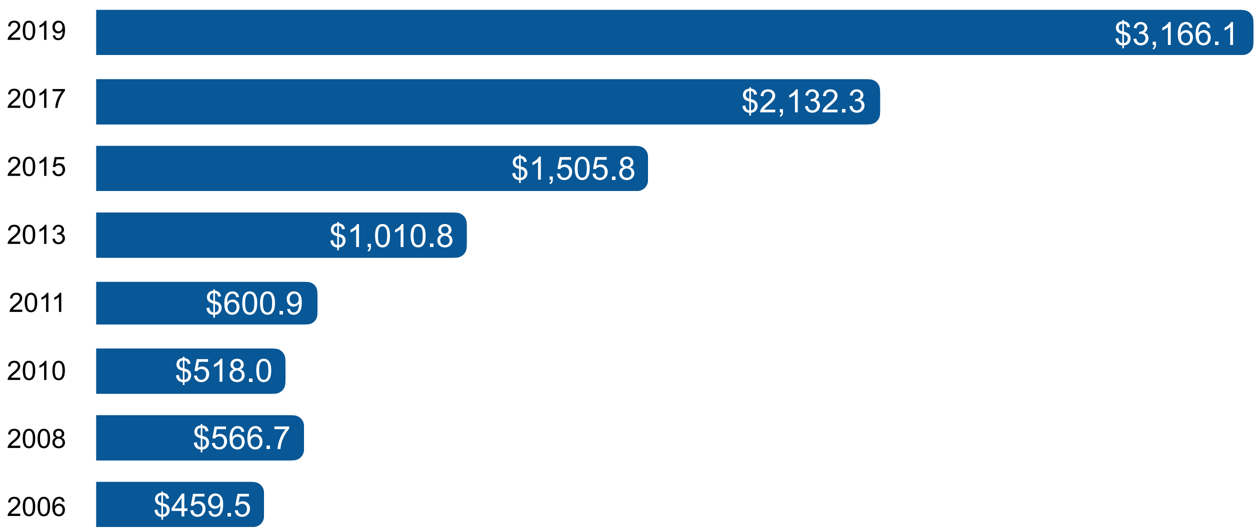
[4] CFA Institute (2020). Consultation Paper on the Development of the CFA Institute ESG Disclosure Standards for Investment Products

1. CANADIAN RI MARKET OVERVIEW

Market Characteristics

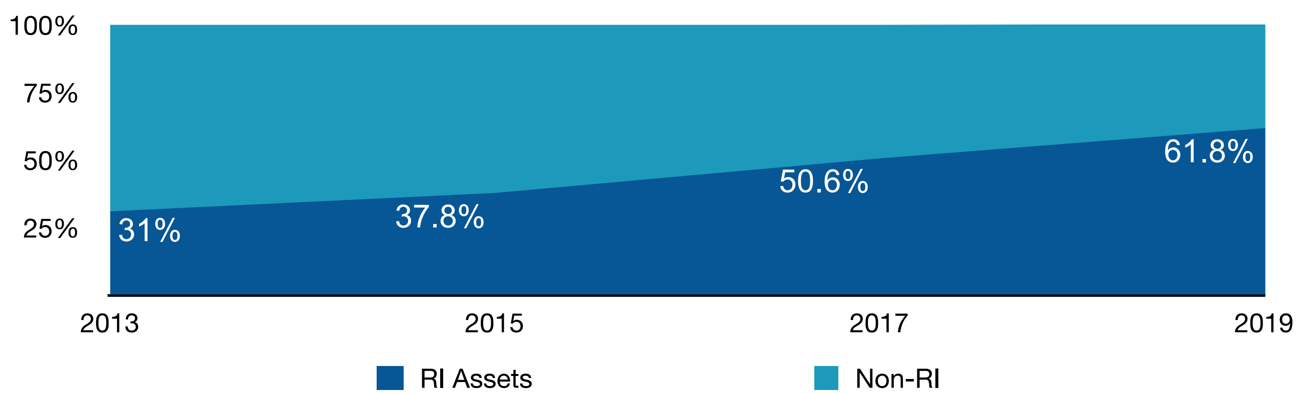
Responsible investing has grown rapidly in Canada over the last two years. As at December 31st, 2019, RI assets under management (AUM) are $3.2 trillion. This corresponds to growth of 48.5% for RI AUM over the two-year period—equivalent to an annualized growth rate of 21.9%.

Canadian Responsible Investment Assets (Billions)



Responsible investing comprises a majority of Canada's professionally managed assets, accounting for 61.8% of all Canadian AUM.[5] This is a larger share of the overall market than two years prior, when RI assets attained a milestone of 50.6% of the Canadian investment industry.

Responsible Investment Market Share in Canada



[5] The sum of all professionally managed assets in Canada is estimated at $5.122 trillion as of December 31, 2019. This calculation is based on proprietary data provided by the Canadian Institutional Investment Network, and publicly-available data from IFIC and the OECD. See Appendix C for calculation. The comparative market value was $4.214 trillion as of December 31, 2017.

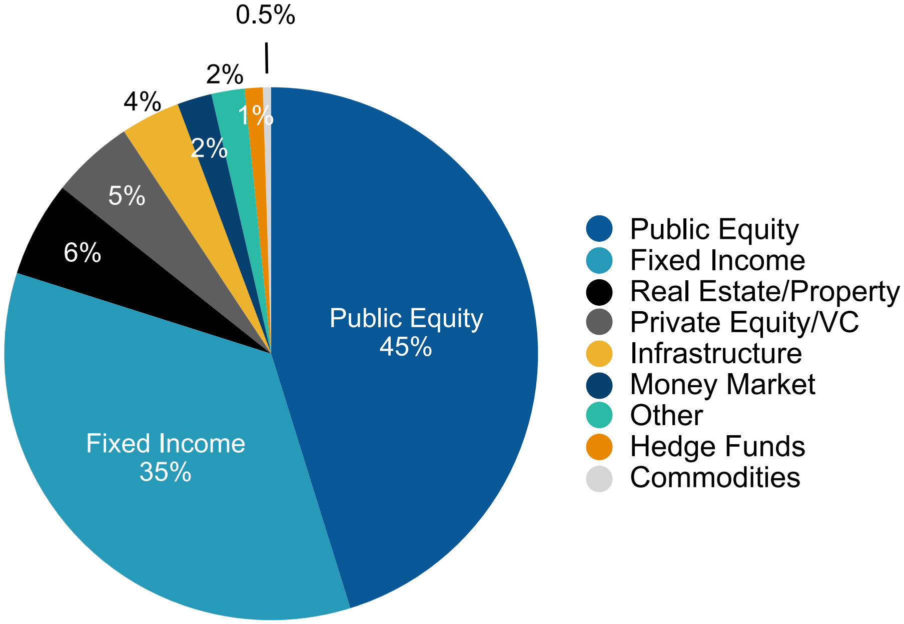
The chart above illustrates the growing adoption of RI in the Canadian market, as evidenced by RI's growing share of total professionally-managed AUM.

The growth of RI is attributable to numerous factors, including greater adoption of RI by investment managers and asset owners across asset classes, as well as asset flows and asset appreciation.

Asset Allocation

As of December 31, 2019, public equities and fixed income represent the majority of RI assets in Canada. Public equities have grown to 45% of RI assets, compared to 36% reported two years ago. Fixed income represents 35% of RI assets, slightly ahead of the 34% reported in 2017. According to a report from the CFA institute, ESG integration practices in Canada are more prevalent among equity practitioners than among fixed-income practitioners.[6]

Real estate represents 6% of all RI assets in Canada, while Private equity/Venture capital represents 5% of RI assets, and the remaining asset classes account for smaller shares. The chart below provides a detailed breakdown by asset class of RI AUM reported in this year's survey.



Why are Investors Considering ESG Factors?

Survey respondents were asked to rank their top three reasons for considering ESG factors in their investment decisions. The two most prominent reasons survey respondents gave for considering ESG factors are to minimize risk and to improve returns, as shown in the table below. This relative ranking is unchanged since our previous survey. These results suggest that institutional investors continue to emphasize the business case for incorporating ESG factors into investment decisions: the ability to generate better risk-adjusted returns.

[6] CFA Institute (2020). ESG Integration in Canada.

Meeting fiduciary obligations and fulfilling mission, purpose, or values were closely ranked third and fourth in importance, respectively. This is consistent with the predominance of ESG integration among Canadian RI investors, and could indicate a shift in investors' views that responsible investing is "the right thing to do" in order to manage assets in the best interests of their clients and beneficiaries. The importance placed upon fiduciary duty is notable given that in our survey two years ago, respondents ranked fiduciary duty as the top driver for future adoption of RI.

Most Commonly Cited Reasons for Considering ESG Issues[7]

Rank	Score	Factor
1	97	Minimize risk over time
2	82	Improve returns over time
3	67	Fulfill fiduciary duty
4	65	Fulfill mission, purpose or values
5	49	Meet client / beneficiary demand
6	26	Pursue social / environmental impact
7	0	Meet legislative / regulatory requirements

N = 64

The understanding around how incorporating ESG is consistent with, not in conflict with, an investment manager's fiduciary duty has become more widely accepted within the investment industry. Considering all relevant information and material risks in investment analysis and decision-making includes considering relevant, material ESG information and risks.

To provide further clarity around fiduciary obligations, regulators could codify the extent to which ESG factors could or should be integrated into investment decisions. In 2019, Canada's Expert Panel on Sustainable Finance recommended the development of a Canadian Stewardship Code for investment fiduciaries outlining how fiduciaries should account for climate change and other material ESG matters.[8] As an example, the UK Stewardship Code 2020 establishes expectations about ESG incorporation for asset owner and asset manager signatories under Principle 7: "Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities."[9]

RI Policy Statements

Our surveys have tracked over time the number of organizations that disclose a formal RI policy statement. The percentages are shown in the charts below.

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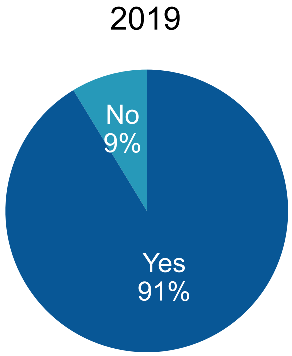
[7] See Scoring methodology in Appendix A.

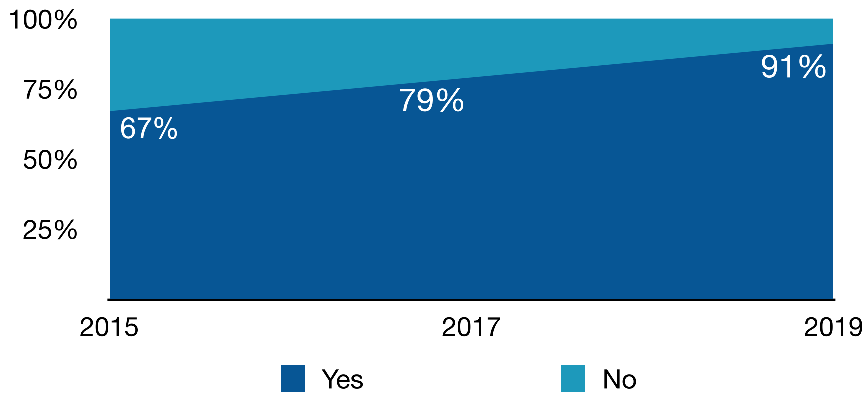
[8] Environment and Climate Change Canada (2019). Final Report of the Expert Panel on Sustainable Finance.

[9] Financial Reporting Council (2020). The UK Stewardship Code 2020.

Does your organization have a responsible investment (RI) policy statement?



N = 57 (2019)



Between 2017 and 2019, the percentage of survey respondents that disclose their RI practices in a formal RI policy rose from 79% to 91%. This signals a maturation of RI in Canada as investors recognize that formalizing their RI practices promotes transparency and accountability for their investors and stakeholders.

Top ESG Considerations

Survey respondents were asked to cite which ESG factors they incorporate into their investment decisions. Below are the data summaries for environmental, social and governance categories.

Most Commonly Cited Environmental Issues

Rank	# Respondents	Environmental Issue
1	46	Climate change mitigation
2	41	Energy efficiency
3	39	Climate change adaptation
4	33	Pollution / toxics
5	30	Waste & hazardous materials management
6	29	Water solutions/infrastructure
7	24	Biodiversity/Sustainable natural resources
8	18	Sustainable agriculture
9	10	Other

N = 57

As shown in the table above, climate change and climate-related concerns dominated the list of environmental factors that investors are considering. Climate change mitigation was the most cited factor, while climate change adaptation ranked third, with energy efficiency at number 2.

This is consistent with the findings from our 2018 and 2016 reports, when climate change/carbon were the top environmental factors. Pollution/toxics and waste & hazardous materials management were the next most prominent environmental considerations.

Climate change mitigation refers to reducing the sources of emissions of greenhouse (GHG) gases (and other substances that warm the climate) into the atmosphere, and/or enhancing the sinks to remove GHG gases from the atmosphere.

Climate change adaptation is the process of adjusting to actual or expected changes in the climate, to moderate or avoid harm or exploit beneficial opportunities.

Source: Canada's Changing Climate Report

It is not surprising that issues related to climate change have remained a top concern for investors, as the Paris Agreement and other global initiatives have illuminated the risks associated with a warming planet and the transition risks associated with a shift to a low carbon economy.

The Bank of Canada and other central banks in the Network for Greening the Financial System (NGFS) have recognized that climate change poses a non-diversifiable, systemic risk to the Canadian and global economies. The NGFS has prioritized research to understand the macroeconomic impacts of climate change and the transition to a low-carbon economy.[10] Since climate-change related risks are systemic, they cannot be avoided by excluding one or two sectors from a portfolio. They impact all sectors, and investors bear the responsibility for managing climate risks and opportunities on behalf of their clients and beneficiaries.

Underscoring the important role of the financial sector in tackling climate change, the COP26 Private Finance Agenda was launched in February 2020 with the objective that every professional financial decision take climate change into account.[11]

Most Commonly Cited Social Issues

Rank	# Respondents	Social Issue
1	46	Labour practices
2	45	Human rights
3	43	Health and safety
4	40	Employee diversity & inclusion
5	34	Product quality & safety
5	34	Supply chain management
6	30	Data protection and privacy
6	30	Community relations
7	24	Aboriginal relations
8	23	Customer relations
8	23	Selling practices & product labelling
9	22	Modern slavery/Human trafficking
10	16	Oppressive regimes

[10] Network for Greening the Financial System (2020). The Macroeconomic and Financial Stability Impacts of Climate Change Research Priorities.

[11] Bank of England (2020). "COP 26 Private Finance Agenda launched".

Rank	# Respondents	Social Issue
10	16	Just transition
11	12	Other

N = 55

The table above summarizes the ranking of social issues that investors are incorporating into their investment analysis. Consistent with 2015 and 2017, labour practices and human rights were the most commonly cited social issues in this year's survey, followed by health and safety and employee diversity & inclusion.

These top social issues definitely came to the forefront in 2020. At the time of writing, Canada is experiencing the second wave of the COVID-19 pandemic. While COVID-19 is essentially a health crisis, it has caused unprecedented disruption to all levels of the economy. And ultimately, it has been a crisis for people—the people who are at the heart of every organization. Early in the pandemic, responsible investors advocated that businesses take care of their workers, and to date 335 long-term institutional investor signatories representing over $9.5 trillion USD have signed on to the *Investor Statement on Coronavirus Response*.[12] The signatories urge companies to provide paid leave, prioritize employee health & safety and maintain employment.

The year 2020 also marked a tipping point in confronting racial injustice and inequality in our societies and in our workplaces, prompted by the killing of George Floyd by police in May 2020 and the public outrage that followed. Responsible investors in Canada responded overwhelmingly to provide their support for the *Canadian Investor Statement on Diversity & Inclusion*. Signatories to the Statement commit to take steps to integrate diversity & inclusion (D&I) into their investment processes, and to strengthen D&I practices within their own institutions. To date, the Statement has garnered support from 61 organizations representing over $4 trillion AUM.[13]

While the "S" in ESG has garnered greater attention recently, responsible investors have long believed that well-governed companies with strong performance and social and environmental practices are likely to be better long-term investments. In 2019, the US-based Business Roundtable articulated a new vision for the purpose of a corporation that moved away from "shareholder primacy" in the running of a company and effectively aligned with the views of responsible investors. These 181 CEOs of major corporations stated that in addition to delivering long-term value to their shareholders, companies should also create value for their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate.[14]

Most Commonly Cited Governance Issues

Rank	# Respondents	Governance Issue
1	44	Board diversity & inclusion
1	44	Executive pay
2	43	Independent directors

[12] Interfaith Center for Corporate Responsibility. Investor Statement on Coronavirus Response.

[13] Responsible Investment Association. Canadian Investor Statement on Diversity & Inclusion.

[14] Business Roundtable (2019). "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'".

Rank	# Respondents	Governance Issue
3	39	Shareholder rights
4	38	Bribery & corruption
5	35	Director nominations
6	27	Cybersecurity
7	23	Political contributions/lobbying
7	23	Tax avoidance
7	23	Culture
8	12	Other

N = 55

In the governance category, the table above shows that the top three issues cited by survey respondents were board diversity & inclusion, executive pay, and independent directors. These were also the top 3 governance issues cited in our 2018 report.

Responsible investors have worked to improve corporate board diversity for a long time. While the focus to date has largely been on gender diversity, the heightened awareness of racial inequality in 2020, as noted previously under social issues, has also highlighted the need for improving corporate diversity "beyond gender" to address other forms of diversity such as race and ethnicity in corporate leadership positions.

Since 2014, the Canadian Securities Administrators (CSA) regulations have required corporate issuers to disclose the gender of directors and senior managers. This has provided investors with access to the data they need to measure companies' progress, which helps inform their investment decisions as well as corporate engagement and proxy voting activities.

However, disclosure from companies on racial & ethnic diversity has largely been lacking. A step towards filling that data gap came into effect on January 1, 2020, when publicly traded companies governed by the Canada Business Corporations Act (CBCA) were required to disclose their policies and practices related to diversity on their boards and within senior management. The required disclosures include the proportions of women, Aboriginal peoples, people with disabilities and members of visible minorities.[15] Canada became the first jurisdiction in the world to mandate disclosure of specific diversity characteristics in addition to gender.

In the summer of 2020, Norton Rose Fulbright analyzed the first round of corporate diversity disclosures under the new CBCA requirement, and found that women continue to be under-represented in corporate Canada, as they hold only 19% of board seats and 17.1% of executive positions—despite making up 50% of the Canadian population. And although members of visible minority groups make up 28.4% of the Canadian population, racialized people hold just 4.7% of board seats and 7.4% of senior executive positions in Canada.[16]

The business case supporting improved racial and ethnic diversity at the corporate board and executive levels has proved to be strong. A McKinsey report in 2019 found that top-quartile companies in ethnic and cultural diversity in executive teams outperformed their peers in the

[15] Government of Canada. Diversity disclosure for boards of directors and senior management comes into force.

[16] Norton Rose Fulbright Canada LLP (2020). Diversity and inclusion: A look at current disclosure, challenges and improvements.

bottom quartile by 36% in profitability.[17] Another study found that companies with the most ethnically diverse executive teams are 33% more likely to outperform their peers on profitability, while companies with the most ethnically diverse boards are 43% more likely to see higher profits.[18] Much work remains to be done for responsible investors to advance corporate diversity in Canada and globally.

[17] Centre for International Governance Innovation and The Pierre Elliott Trudeau Foundation (2017). Diversity Dividend: Canada's Global Advantage.

[18] McKinsey & Company (2018). Delivering Through Diversity.

2. RI ASSETS BY STRATEGY

Responsible investing encompasses many different approaches to considering ESG factors in investment decisions. While the roots of RI lay in exclusionary screening, investors are now applying a range of strategies for embedding ESG factors in their investment processes. The RIA and our peer organizations in the Global Sustainable Investment Alliance (GSIA) developed and use consistent terminology for seven RI strategies: ESG integration, shareholder engagement, norms-based screening, thematic ESG investing, impact investing, negative screening, and positive screening. For the purpose of the survey we use the term responsible investing as an umbrella term to encompass these different RI strategies.

As explained in the introduction to this report, we further classify RI strategies into three simplified categories for the purpose of using clearer, less esoteric language in our public communications: *inclusionary*, *exclusionary* and *impact*-focused strategies. The table below provides definitions and a visual layout to show how the three simplified categories correlate to the seven RI strategies that we track in this survey.

	RI Strategy	Description
Impact	**Impact Investing**	Impact investing refers to investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
	Shareholder Engagement	Engagement refers to the use of shareholder power to improve corporate ESG performance. For example, an investor may vote proxies, file shareholder resolutions, and engage in dialogue with companies to improve their greenhouse gas emissions or diversity in leadership.
	Thematic ESG Investing	Investments targeted at specific ESG themes such as clean technology, women in leadership, water solutions, etc. An ESG theme defines the investable universe.
Inclusionary	**Positive Screening**	Positive screening refers to the systematic inclusion of companies based on positive ESG performance relative to peers in various sectors. Also known as best in class.
	ESG Integration	ESG integration refers to the process of systematically embedding ESG factors into traditional financial analysis. The portfolio manager integrates ESG data with traditional financial metrics when assessing a company's value. This is the most prominent RI strategy in Canada.
Exclusionary	**Negative Screening**	Negative screening refers to the systematic exclusion of specific companies, industries or sectors from the investable universe based on personal values, ethical considerations, or negative ESG characteristics.
	Norms-Based Screening	Norms-based screening refers to exclusionary screening based on compliance with international norms and standards such as the UN Guiding Principles for Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

Our online survey provided definitions of the different RI strategies to our respondents, but ultimately our data is based on self-reporting. Note that assets may follow more than one RI strategy. As a result, the totals for each category sum to an amount that is greater than the actual total RI AUM in Canada.

Inclusionary Strategies

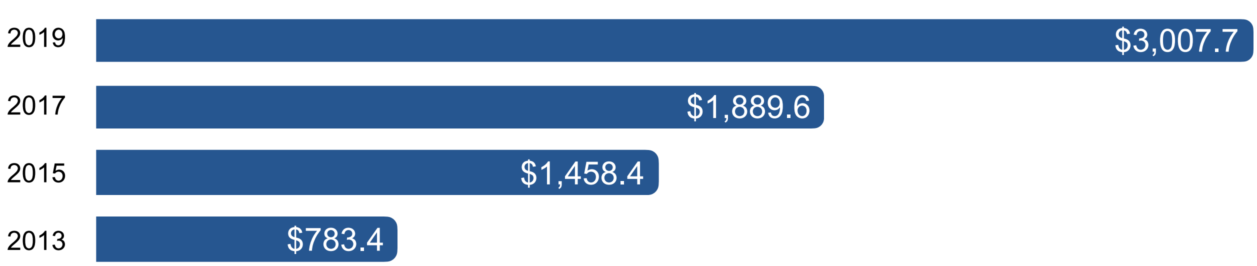
Inclusionary strategies represent the largest segment of RI strategies adopted by Canadian investors. The chart below shows the top two RI strategies in Canada: ESG integration leads the way with $3.0 trillion AUM, while engagement is a close second with $2.7 trillion AUM. Integration and engagement were also the top two strategies reported two years ago. Thematic ESG investing and positive screening strategies are also categorized as inclusionary strategies, although they each represent much smaller proportions of RI AUM.

ESG Integration

ESG integration refers to the process of systematically and explicitly embedding ESG factors into traditional investment analysis and decision-making. When performing ESG integration, the analyst or portfolio manager combines ESG data with traditional financial metrics in their investment analysis and decisions. This approach recognizes that ESG analysis can help to identify risks and opportunities that are not captured by traditional financial analysis alone.

ESG integration is the most prominent RI strategy in Canada, with $3.0 trillion AUM. This represents approximately 95% of all reported RI AUM. Assets in this category have grown by 59% over the past two years, as shown in the chart below. The number of institutions that integrate ESG factors across all of their assets has increased, as has their total AUM being reported. ESG integration is, evidently, now “business as usual” for Canadian responsible investors.

ESG Integration AUM (CAD billions)



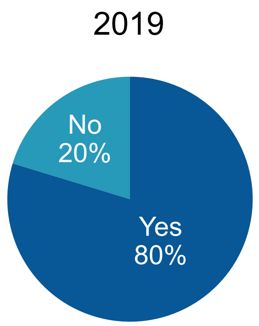
The range of ESG issues that can be analyzed for any company is extensive.[19] The focus of responsible investors in recent years has been on recognizing the materiality of ESG issues for a particular security, industry or sector, as they seek to incorporate all material information relevant to their investment analyses and decisions. Leading RI practitioners are now developing and applying knowledge about which ESG factors are material, for example, with reference to the Sustainability Accounting Standards Board (SASB) Standards, which identify

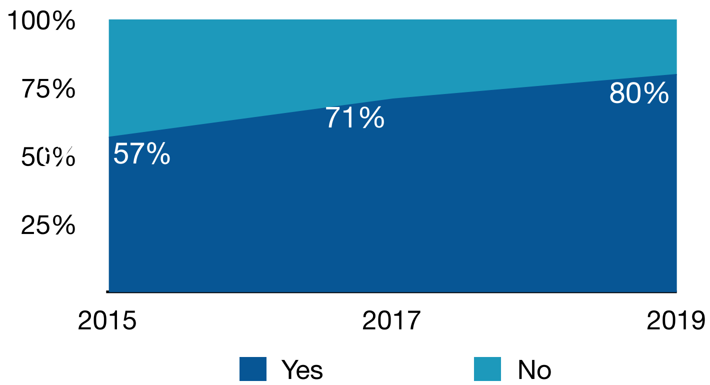
[19] Refer to the previous section in this report on “Top ESG Considerations” to gain an understanding of the breadth of ESG issues being considered by responsible investors.

those financially material issues that are reasonably likely to impact the financial condition or operating performance of a company.[20]

The rise of responsible investment and ESG integration have been accompanied by the increased adoption of formal ESG integration programs. The charts below show the proportion of respondents who reported a formal ESG integration program at the end of 2019 compared to the results in our 2 previous surveys. Since 2015, the percentage of organizations that use ESG integration as an RI strategy has steadily grown from 57% to 80% of survey respondents.

Does your organization have a formal ESG integration program?



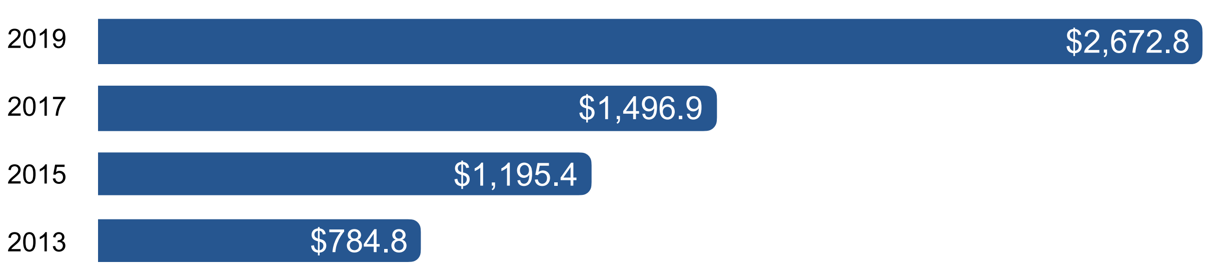


N = 69 (2019)

Shareholder Engagement

Shareholder engagement refers to the use of shareholder power to influence corporate behaviour. In practice, engagement typically involves voting proxies guided by ESG criteria, and practicing active ownership by filing or co-filing shareholder proposals, and engaging in dialogue with company management and boards of directors to improve their ESG performance and disclosures. The chart below tracks the growth of engagement in Canada.

Shareholder Engagement AUM (CAD billions)



Engagement is the second most prominent RI strategy in Canada, with approximately $2.7 trillion AUM. Assets in this category have grown by 78% over the last two years. While historically we have referred to this category as “shareholder” engagement, fixed income investors are also increasingly using their influence with issuers on ESG issues. Therefore, the

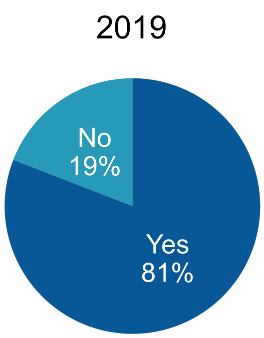
[20] Sustainability Accounting Standards Board. Standards Overview.

scope of AUM falling under the engagement category has expanded. Engagement is used most often alongside other RI strategies, and is commonly paired with an ESG integration strategy.

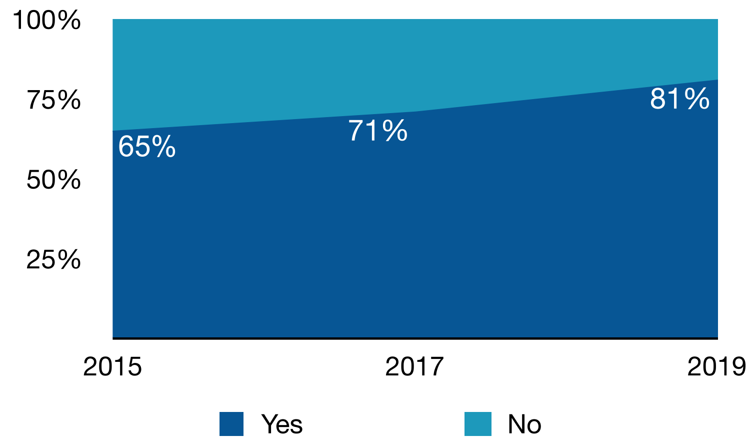
Proxy Voting Policies

Responsible investors have strengthened their commitments to active ownership by improving transparency to their proxy voting guidelines. In the two years since our last survey, organizations reporting they have RI proxy voting guidelines has increased from 71% of respondents to 81% of respondents. In comparison, in 2015 RI proxy voting guidelines were reported by 65% of survey respondents. The changes over time are shown in the charts below.

Does your organization have responsible investment (RI) proxy voting guidelines?



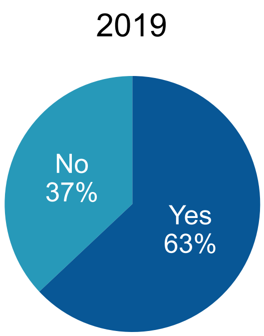
N = 68 (2019)



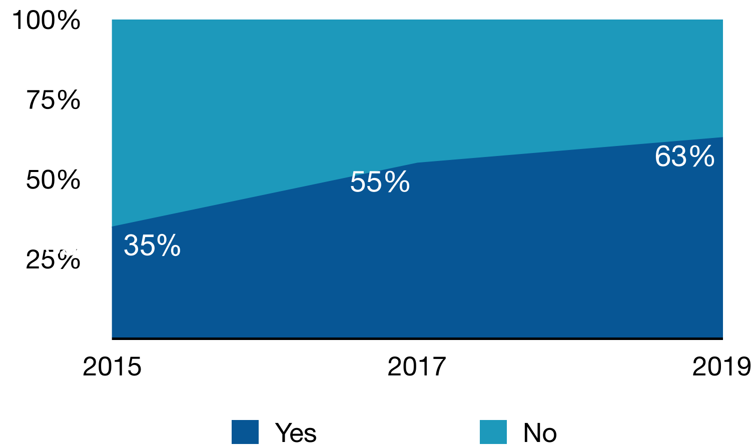
2019 Engagement Policies and Themes

Over the past two years, the number of organizations with a formal policy on shareholder engagement has also grown, from 55% to 63% of survey respondents. In comparison, at the end of 2015 only 35% of survey respondents reported having a formal policy on shareholder engagement. The charts below show this comparison over time.

Does your organization have a formal policy on shareholder engagement?



N = 68 (2019)



Survey respondents that engaged with corporations on ESG issues were asked to report the three most common issues they addressed in their engagement activities in 2019. As shown in the table below, the top-ranked engagement issue was climate change (including GHG emissions) by a long shot. Diversity & inclusion was the second most prominent issue, followed by ESG disclosure, and executive compensation.

Most common ESG issues in your engagement program in 2019[21]

Rank	Score	ESG Issues
1	73	Climate change (including GHG emissions)
2	32	Diversity & Inclusion
3	28	ESG Disclosure
4	27	Executive Compensation
5	19	Board independence
6	12	Other: Social
6	12	Other: Governance
7	8	Labour Practices
8	7	Shareholder rights/Proxy access
9	6	Indigenous Relations/Reconciliation
10	5	Health & Safety
10	5	Plastics
11	4	Data security/privacy
11	4	Supply Chain Management
12	1	Animal Welfare
12	1	Lobbying/Political Contributions

N=41

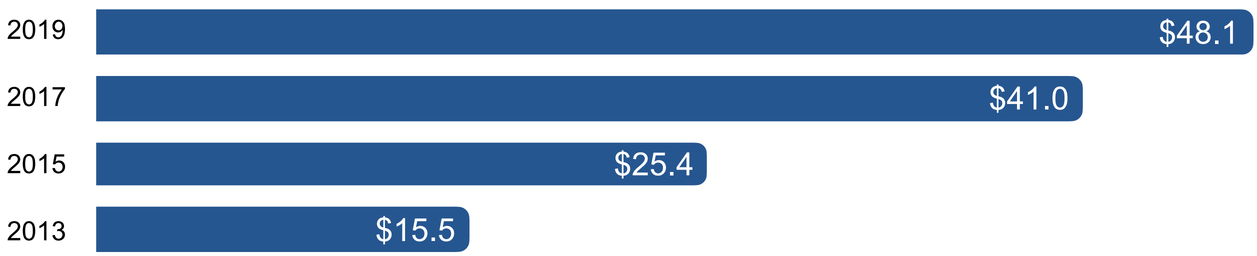
Thematic ESG Investing

Thematic ESG investing is an approach in which the investable universe is defined by themes specifically related to social or environmental sustainability. Some common ESG themes include women in leadership, water infrastructure, clean energy, green buildings, sustainable

[21] See scoring methodology in Appendix A.

agriculture, and cybersecurity, among others. Green bonds also fall in this category. Thematic ESG investing reported by survey respondents this year totalled $48.1 billion, up from $41.0 billion since 2017. The growth in thematic ESG AUM is shown in the chart below.

Thematic ESG Investing AUM (CAD billions)

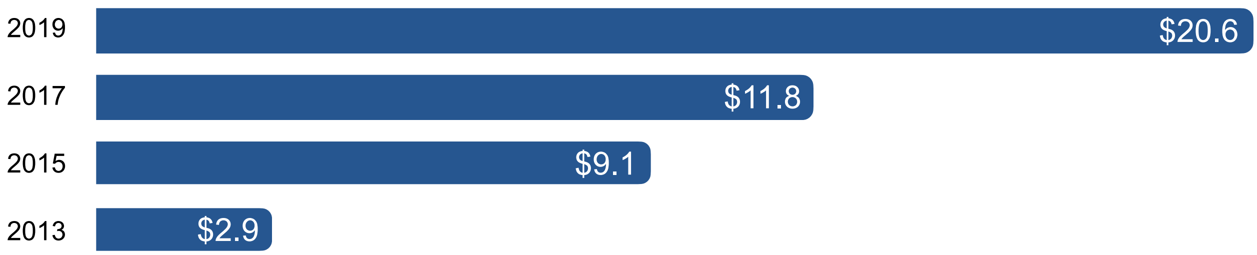


Positive Screening

Whereas negative screening can be thought of as excluding or “screening out” industries based on values or negative ESG characteristics, positive screening can be thought of as “screening in” companies or projects based on positive ESG performance relative to industry peers. A positively-screened portfolio can be fully diversified across sectors, while choosing the highest ESG performers across each sector. This strategy is often referred to as “best in class.” Positive screening may also include companies on the basis of specific ESG criteria such as the products a company produces.

The chart below shows the growth in positive screening AUM over time. Positive screening reported as of the end of 2019 was $20.6 billion, up from $11.8 billion two years prior. The significant growth observed in positive screening AUM between 2017 and 2019 is due to a greater number of investment managers who are applying positive screens in their portfolios, and across a higher proportion of their AUM than previously.

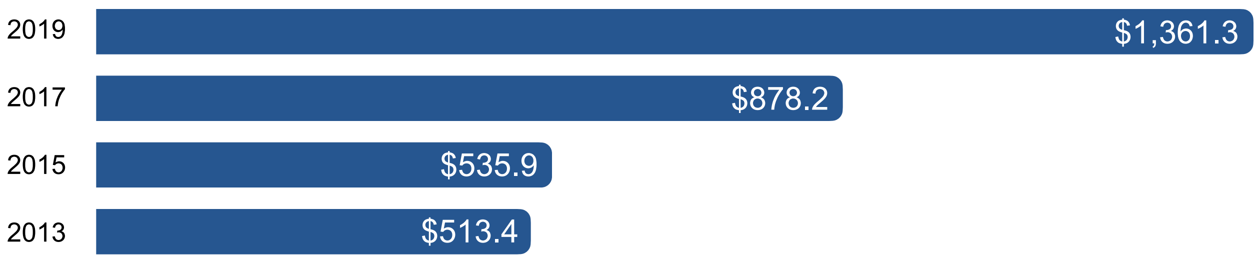
Positive Screening AUM (CAD billions)



Exclusionary Strategies

Negative screening and norms-based screening fall under the category of exclusionary RI strategies. Negative screening refers to the systematic exclusion of certain companies, industries, products or countries, typically based on ethical, moral or religious considerations. Negative screening may also be used to refer to the exclusion of companies or industries with negative ESG outlooks. Other the other hand, norms-based screening refers to the systematic exclusion of investments that are not in compliance with globally recognized norms or standards. Negative screening is the third-most prominent RI strategy in Canada by assets, while norms-based screening is the fourth most common RI strategy in Canada by assets. The charts in this section show the increasing AUM under these strategies over time.

Negative Screening AUM (CAD billions)



The chart above shows that negatively-screened assets have continued to grow over the last two years, representing $1.4 trillion in 2019. Over one-half of this AUM is held by four large public sector pension funds, who apply negative screens across 100% of their assets.

The most prominent negative screens are shown in the following table. The two most common products that are screened out of RI portfolios are those related to tobacco and weapons/military/cluster munitions, with over 80% of survey respondents excluding these products from their portfolios. These findings are similar to the results two years ago.

For the first time, the category “fossil fuels” was included in the list of exclusions, and it appears at number four, with almost half of respondents reporting some form of fossil fuel exclusions. This does not necessarily mean all of the respondents’ portfolios are “fossil fuel free” because the screen may be applied to one particular fund managed by the asset management firm, and because fossil fuel screens can be applied in many different ways. For example, the exclusion could apply to exclusively to coal, or it could cover companies with a certain amount of revenues derived from oil and gas or a certain threshold of proven fossil fuel reserves. Or, it could involve divestment of all companies involved in the production and distribution of fossil fuels. The key takeaway of this data point is that 24 institutional investors in our survey have some form of fossil fuel exclusion applied to at least a portion of the assets they manage.

In recent years fossil fuel divestment has become increasingly common, with investors justifying screens based on both ethical and financial arguments. The ethical argument for excluding fossil fuels is based on their contribution to climate change, and an investor’s desire not to finance the harm that carbon emissions are causing. The financial argument is based on a view that fossil fuel reserves may become uneconomic, or “stranded”, in future due to the inevitable need to prevent their carbon emissions to avoid the worst outcomes of climate change. For additional insights on this topic, read the RIA CEO’s column, *Why some ESG funds hold oil and gas stocks.*

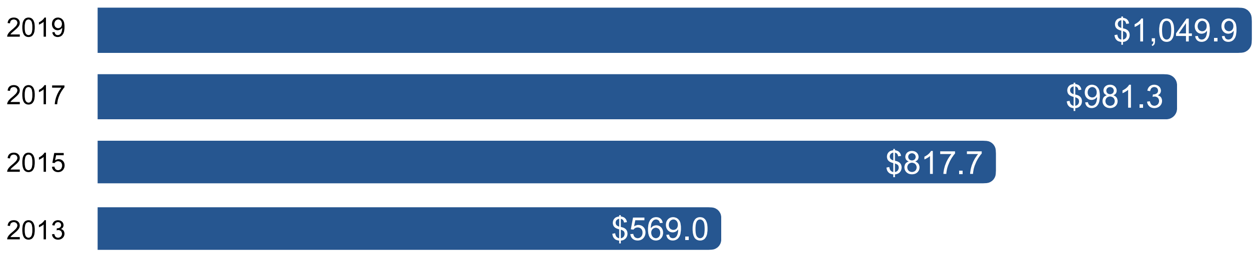
Cannabis also appeared in the list of possible exclusions for the first time in this year’s survey, and ranked in ninth place.

Negative screens/exclusions applied in investment decisions

Rank	# Respondents	Product
1	43	Tobacco
2	42	Weapons/military/cluster munitions
3	25	Gambling
4	24	Fossil fuels
4	24	Pornography
5	23	Alcohol
6	19	Nuclear energy
6	19	Significant controversies
7	16	Cannabis
8	12	Other
9	8	Animal testing/animal welfare issues
10	7	Conflict zones/Oppressive regimes
10	7	Genetic engineering (GMOs)

N=52

Norms-Based Screening AUM (CAD billions)



The chart above shows that norms-based screening is now applied to $1.05 trillion AUM in Canada, up from $981.3 billion two years prior. As shown in the table below, the most commonly applied standard for norms-based screening is the UN Global Compact. The OECD Guidelines on Multinational Enterprises, the Prohibiting Cluster Munitions Act 2014, the UN Guiding Principles for Business and Human Rights, and the UN Declaration on the Rights of Indigenous Peoples complete the top 5 cited norms.

Most Commonly Applied Norms

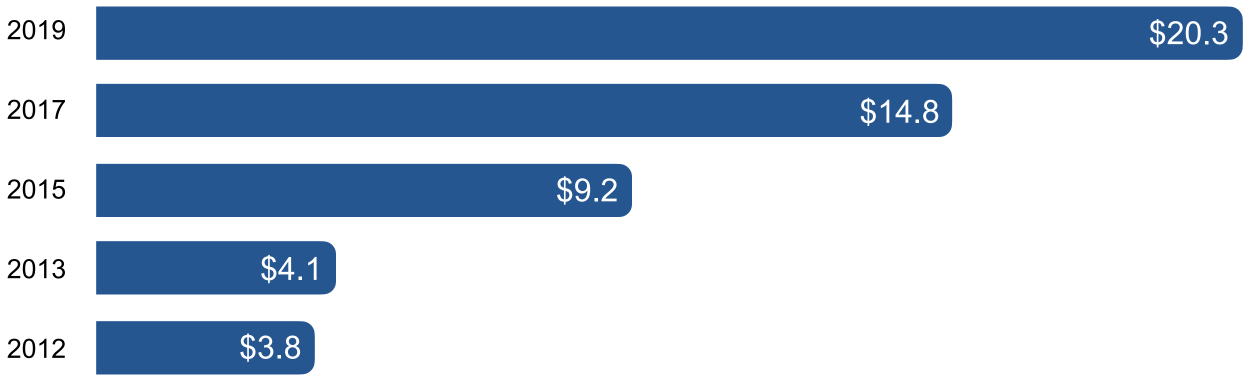
Rank	# Respondents	Norms
1	22	UN Global Compact
2	12	OECD Guidelines for Multinational Enterprises
3	11	Prohibiting Cluster Munitions Act 2014
3	11	UN Guiding Principles on Business and Human Rights
4	10	UN Declaration on the Rights of Indigenous Peoples
5	5	ILO Tripartite Declaration of Principles concerning Multinational Enterprises & Social Policy
6	4	Equator Principles
6	4	Other

N = 48

Impact Strategies

Impact investing refers to "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."[22] Over the past two years, reported impact investments in Canada have grown from $14.8 billion to $20.3 billion. This represents 38% growth in impact AUM over this two-year period.

Canadian Impact Investment Assets (billions)



According to the 2020 Annual Impact Investor Survey from the Global Impact Investing Network (GIIN), the global market for impact AUM is estimated at $715 billion (USD).[23] Canada therefore accounts for approximately 3% of the global market for impact investing.

Coming Soon: The next Canadian Impact Investment Trends Report will be released by Q1 2020.

[22] Global Impact Investing Network (2020). What You Need to Know About Impact Investing.

[23] Global Impact Investing Network (2020). 2020 Annual Impact Investor Survey.

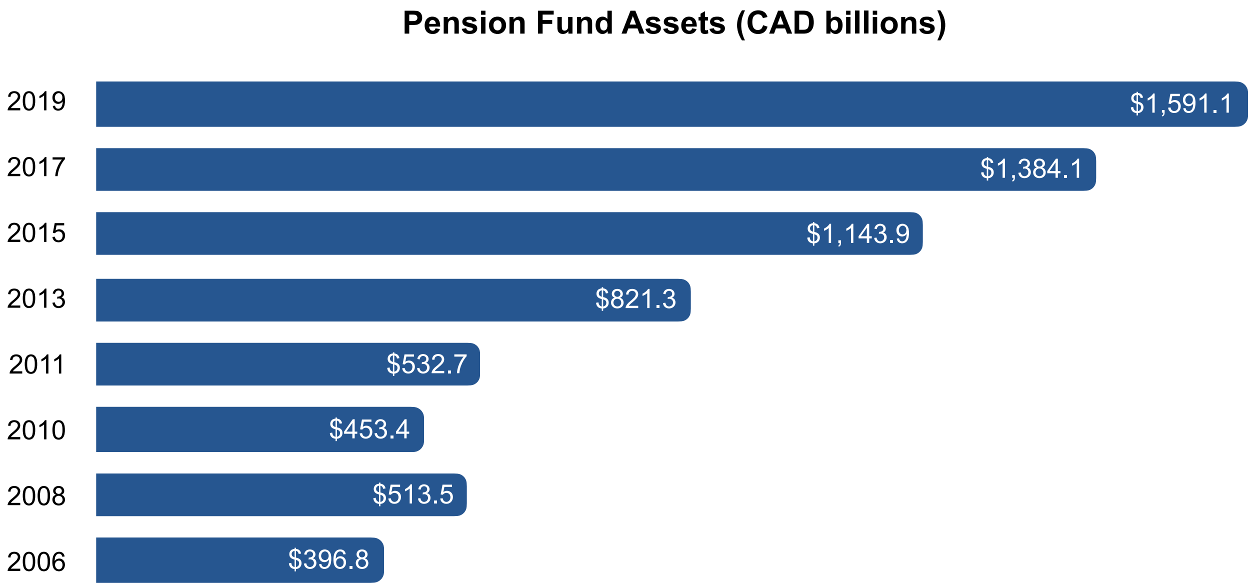
3. RI ASSETS BY MARKET SEGMENT

A wide range of institutional and individual investors are incorporating ESG factors into their investment decisions. Institutional clients include pension funds, insurance companies, mutual funds, universities, foundations, faith-based organizations, and other endowments. Individual clients are simply any individual person who is an investor—also known as retail investors or private clients, and including high net worth.

Based on survey responses, we are able to provide an estimate for total RI assets managed on behalf of individual clients. We also provide sound estimates for retail mutual funds, ETFs, and retail venture capital funds, although data limitations preclude a precise estimate for all market segments.

RI Pension Funds

Pension Funds account for the majority of RI assets under management in Canada, representing $1.6 trillion. The chart below shows the growth of RI pension fund assets over time.



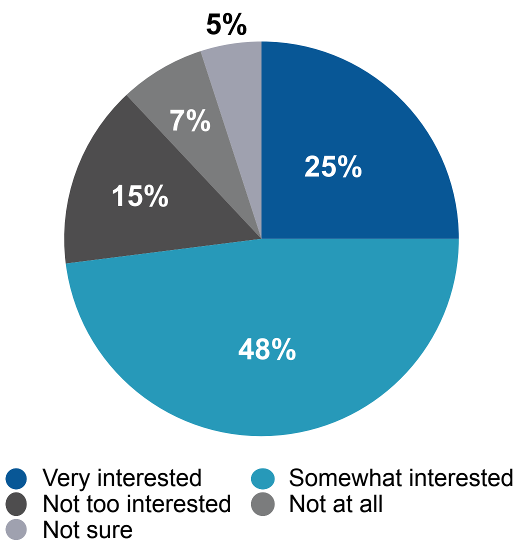
Ten large public pension funds, each managing over $20 billion in assets, account for over 95% of RI AUM reported in this segment. These large funds tend to manage all or a significant portion of their assets in-house. While many smaller plans also align their investments with an RI strategy, they tend to hire external managers. The vast number of pension funds that would need to be surveyed, and the risk of double-counting assets, makes it challenging to collect and analyze the data for smaller plans. Therefore, $1.6 trillion is a conservative estimate for pension funds as it does not include RI pension assets in the market that were not reported.

Individual Investors

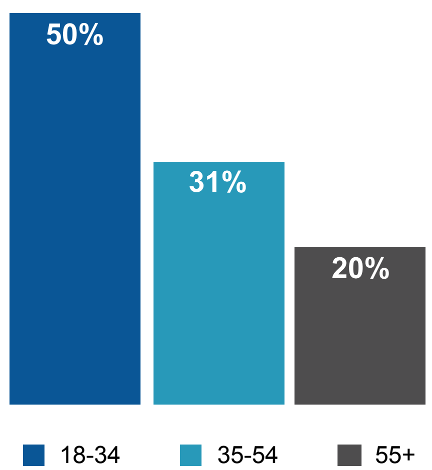
In 2020, the RIA conducted its fifth annual survey of Canadian individual investors, tracking their perspectives on responsible investing over time. According to the 2020 RIA Investor Opinion Survey, which collected data from 1,000 survey respondents, individual investor interest in RI remains high, and ownership of RI has also increased. Key highlights include:

- 72% of respondents were "very" or "somewhat" interested in RI, compared to 60% in 2018 and 72% in 2019.
- Younger investors expressed the highest interest in RI, with 83% of respondents in the 18-34 age group stating they were "very" or "somewhat" interested.
- Overall, 33% of respondents stated they currently own responsible investments, up from 26% in 2019. Notably, 50% of the18-34 age group reported they currently own responsible investments.[24]

To what extent are you interested in responsible investments that incorporate ESG factors?



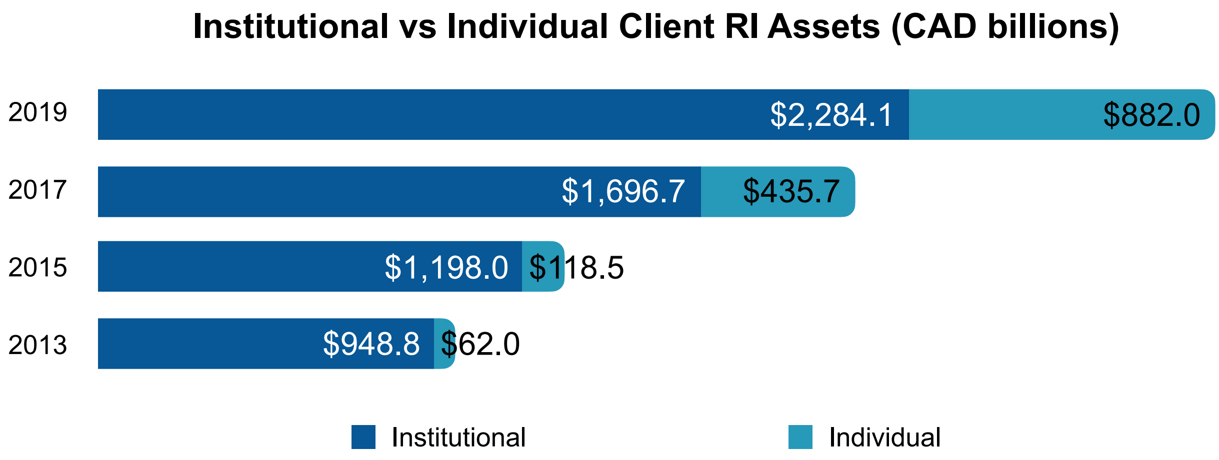
Percentage of respondents who currently own responsible investments that incorporate ESG issues, by age group:



Amid this high level of interest in RI from individual investors, and indications that RI ownership is in fact increasing, survey data collected for the 2020 Canadian RI Trends Report indicates considerable growth in RI AUM on behalf of individual investors. To estimate the size of the individual RI market, we asked survey respondents to report the proportion of assets that are managed on behalf of institutional and individual (retail) clients. Individual client RI AUM has grown to $882 billion as at December 31st, 2019, compared to $435.7 billion reported as at December 31st, 2017. Individual RI assets' share of the total RI market has increased to 28% from 20% over the last two years. The chart below shows this upward trend over time.

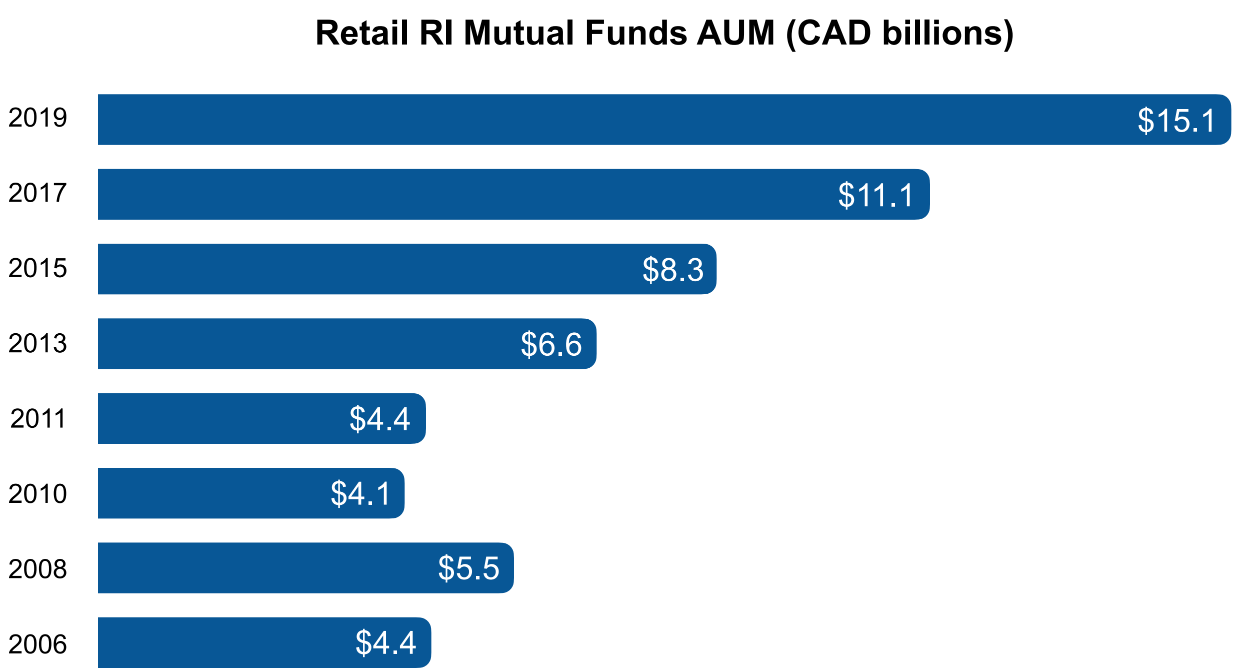
[24] Responsible Investment Association (2020). 2020 RIA Investor Opinion Survey.

This growth in individual RI AUM reflects rising demand from individual investors and corresponding fund flows, asset appreciation, and a growing landscape of RI products available to individual investors. However, we estimate that the growth is driven predominantly by large asset management firms implementing an ESG integration strategy across all of their assets, including retail funds that are not necessarily labeled or marketed as responsible investments.



Retail RI Mutual Funds

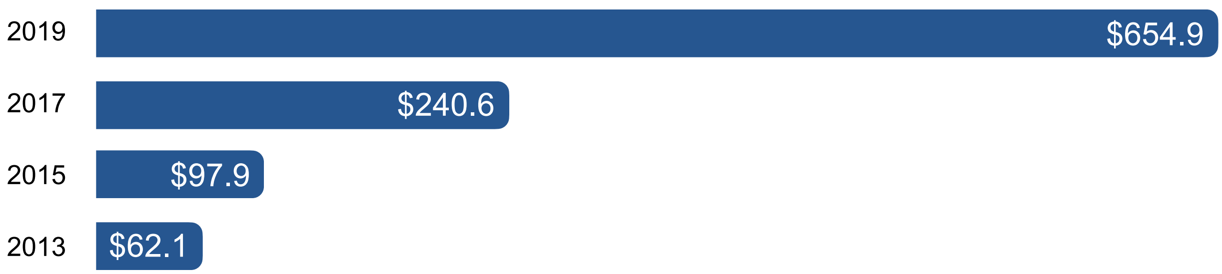
The RIA tracks assets in designated or labeled retail RI mutual funds and ETFs for our quarterly report on the performance of RI funds in Canada. As shown in the chart below, assets invested in retail RI mutual funds have increased by 36% over two years from $11.1 billion to $15.1 billion. These figures include mutual fund wrap products.



RI Exchange-Traded Funds

Assets in exchange-traded funds (ETFs) managed under RI strategies have more than doubled over the last two years, from $240.6 million to $654.9 million, as shown in the chart below. Assets in RI ETFs had already more than doubled over the previous two years, from $97.9 million to $240.6 million at the end of 2017. While ETFs are available to individuals, ETF investments by institutional investors also account for some of the growth in this market segment.

RI Exchange-Traded Funds AUM (CAD millions)



A number of new RI ETFs were launched over 2018 and 2019 to meet the growing demand from responsible investors who are interested in ETFs as an investment vehicle. The considerable growth in RI ETFs reflects the general growth trend in Canada's ETF market. According to IFIC's 2019 Investment Funds Report, there were 746 ETFs in Canada as of the end of 2019, compared to 554 ETFs two years earlier.[25]

The assets included in the charts above for retail RI mutual funds and RI ETFs represent retail RI products that are designated, or labeled, and marketed as responsible investments. The RIA reviews regulatory documents such as the prospectus and fund fact sheets to ensure labeled RI products have RI policies in place. Many labeled RI products follow more than one RI strategy.

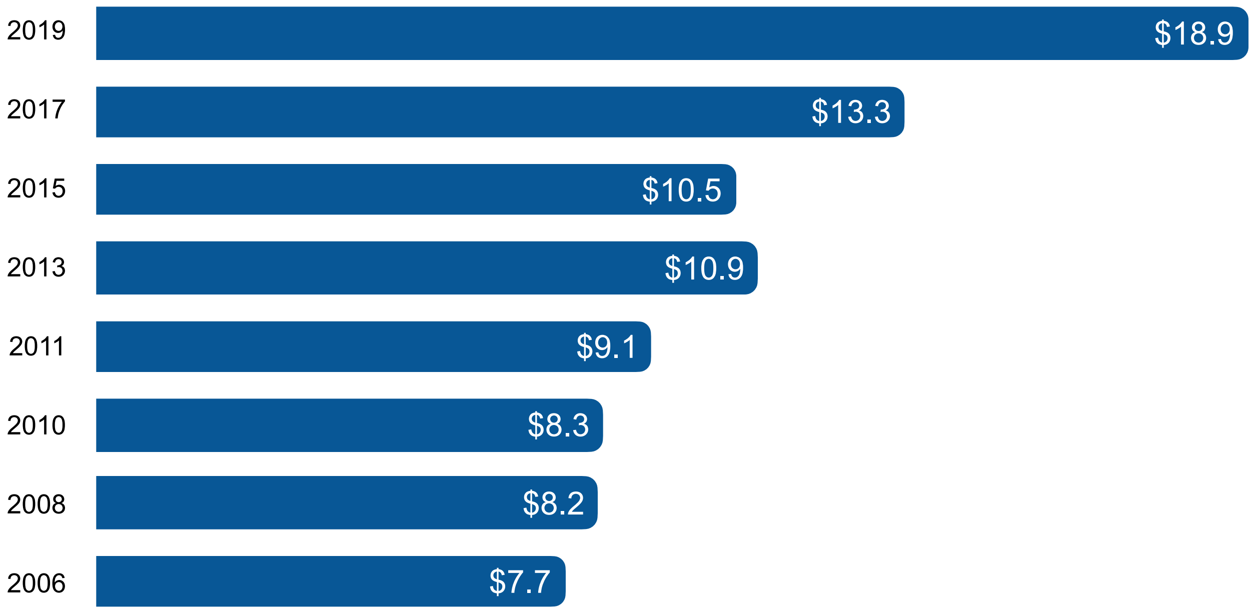
Retail RI Venture Capital Funds

Retail RI venture capital funds have also seen significant growth. Retail RI venture capital funds are professionally-managed pools that invest in small- and mid-size companies, and have grown out of the labour-sponsored venture capital funds that offered federal and provincial tax credits in many provinces in Canada. Retail RI venture capital funds can employ the same RI strategies as mutual funds. In some cases, these funds have adopted specific objectives related to impact and sustainability, and apply economic, social and environmental lenses to the selection of their investments. sustainable development Since 2017, retail RI venture capital funds have increased by 42%, from $13.3 billion to $18.9 billion, as shown in the chart below.[26]

[25] Investment Funds Institute of Canada (2020). 2019 Investment Funds Report.

[26] The two funds included in our survey that fall into this category are both labour-sponsored funds.

Retail RI Venture Capital Funds AUM (CAD billions)



4. RI PRACTICES: ESG INFORMATION AND FRAMEWORKS

In two new questions for this year's survey, we sought to find out more information about the most prevalent RI practices currently being used by responsible investors in their investment analysis and decision-making.

In order to effectively execute their RI strategies, responsible investors require access to robust data on the ESG factors they include in their investment analyses. We asked survey respondents to indicate their top 3 sources of ESG information they used when making investment decisions.

What are the key sources of ESG information you use to make investment decisions?

Rank	# Respondents	Issue
1	46	Direct engagement with company management/Board
2	43	Company sustainability report or integrated report
3	39	External ESG research provider
4	25	Other company reporting (e.g. regulatory disclosures)
5	10	Broker research (sell-side)
5	10	Other

Rank	# Respondents	Issue
6	7	Media reports
7	6	Carbon performance indices (e.g. CDP)
7	6	NGO reports
8	4	Sustainability indices
9	3	Reference to controversy index

N=60

Direct engagement with companies' boards and management teams was the primary source of ESG information survey respondents used to make investment decisions, cited by 77% of survey respondents as one of their top 3 sources of ESG information. This was closely followed by a company sustainability report or integrated report, which 72% of respondents reported they consider a key source of ESG information. In combination, these top two responses appear to indicate that investors most often look to the companies they are analyzing for their sources of ESG information. External ESG research providers are relied upon as a key source of ESG information by 65% of survey respondents. These specialized research firms collect, analyze and score companies' ESG performance.

We also asked survey respondents about the different ESG frameworks they incorporate in their investment analysis. There are numerous global corporate reporting standards and frameworks that companies can use to measure and report their ESG performance, and we were interested in seeing which ones were most commonly being considered by responsible investors.

Which of the following ESG frameworks do you incorporate in your investment analysis?

Rank	# Responses	ESG Framework
1	36	Task Force on Climate-related Financial Disclosures (TCFD)
2	32	UN Sustainable Development Goals (UN SDGs)
3	30	Sustainability Accounting Standards Board (SASB)
4	25	CDP
5	15	Global Real Estate Sustainability Benchmark (GRESB)
6	13	Global Reporting Initiative (GRI)
7	6	Other
8	4	International Integrated Reporting Council (IIRC) Integrated Reporting (IR)
9	2	Future-Fit Business Benchmark

N = 51

The table above shows responsible investors appear to be coalescing around the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which is being incorporated by over 70% of survey respondents. The aim of the TCFD is to improve the measurement, management and reporting of climate-related risks. The TCFD recommendations have gathered significant support since they were released in 2017, and investors' demands for companies to report information in line with the TCFD recommendations have also grown. Greater uptake of the TCFD among survey respondents may be in part due to changes in the PRI's mandatory reporting in 2020, adding requirements for specific climate-related indicators.[27] The TCFD recommendations are gradually gaining more regulatory support as well. In 2020, New Zealand, Canada and the UK each enacted legislation requiring TCFD-aligned reporting in different contexts.[28]

A majority (63%) of survey respondents indicated they are using the United Nations' Sustainable Development Goals (SDGs) in their investment analysis. The SDGs provide investors with a framework for considering the real-world outcomes of their investment activities, in accordance with 17 goals covering issues such as climate, water, gender equality and decent work—all issues that responsible investors consider important. It has been estimated that meeting the SDGs by 2030 will require about US$5 trillion to US$7 trillion per year from the private sector. In 2020 the PRI provided signatories with a guide for how to take action on the SDGs, and intends to update its reporting framework in 2021 to include questions about signatories' policies and processes related to the SDGs.[29] While we didn't ask survey respondents the extent to which they are incorporating the SDGs in their investment analysis, the survey results seem to indicate that the majority of responsible investors are already recognizing the relevance of this framework, and adoption may grow in the future with this encouragement from the PRI.

The third most prevalent framework, cited by 59% of survey respondents, was the Sustainability Accounting Standards Board (SASB). The SASB standards provide a framework to guide companies' reporting on industry-specific, financially-material ESG and other sustainability topics and metrics that investors require for their analysis. According to SASB, 170 institutional investors globally, representing $55T AUM (USD), support SASB and/or use SASB standards to inform their investment decision-making.[30]

It is important to note that investors are often using more than one ESG framework in their investment analyses. For instance, in 2020 the Canada Pension Plan Investment Board (CPPIB) updated its sustainable investing policy to include support for the TCFD and SASB standards.[31] While to date corporate ESG/sustainability reporting has not become standardized, the market appears to be headed in this direction. For example, in September 2020 the CDP, CDSB, GRI, IIRC and SASB, five global framework- and standard-setting institutions, published a shared vision for comprehensive financial accounting and sustainability disclosures.[32] Also in September, the Trustees of the IFRS Foundation published a Consultation Paper on the need for global sustainability standards, including the possibility of establishing a new sustainability standards board.[33]

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27 Financial Stability Board (2020). Task Force on Climate-related Financial Disclosures 2020 Status Report.

28 See Canada Development Investment Corporation (2020). Large Employer Emergency Financing Facility Factsheet; Ministry for the Environment (2020). Mandatory climate-related financial disclosures; and HM Treasury (2020). UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap.

29 PRI Association (2020). Sustainable Development Goals.

30 Sustainability Accounting Standards Board. Global Use of SASB Standards.

31 CPP Investments (2020). "CPP Investments Sustainable Investing Policy: Update Reinforces ESG Role in Long-Term Value Creation".

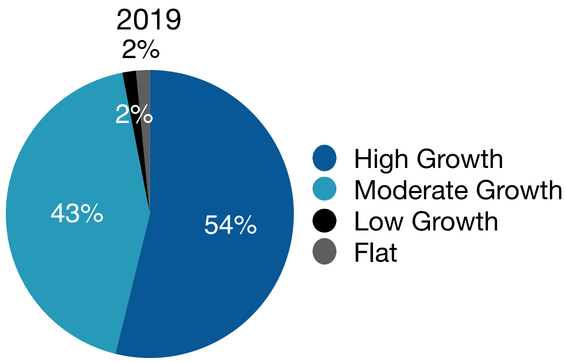
32 CDP, CDSB, GRI, IIRC and SASB (2020). Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.

33 International Financial Reporting Standards Foundation. (2020). "IFRS Foundation Trustees consult on global approach to sustainability reporting and on possible Foundation role".

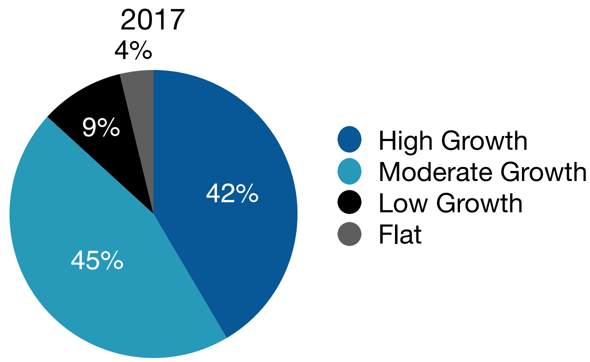
5. INDUSTRY OUTLOOK

We asked survey respondents to share their outlook for the growth of responsible investing over the next two years. Investors were almost unanimous in their positive outlook on the future of RI, with 97% of respondents reporting that they expect to see moderate to high levels of growth over the next two years, up from 87% two years ago. No respondents reported expectations of negative growth.

What level of growth in RI are you anticipating in the next two years?



N=66 (2019)



N=53 (2017)

We also asked survey respondents to rank their top 3 drivers and top 3 deterrents for growth in RI over the next two years.

What do you think will be the main drivers for responsible investment over the next two years?[34]

Rank	Score	Driver for RI
1	81	Investor demand for ESG/impact
2	73	Climate change
3	68	Greater public awareness of ESG issues
4	36	ESG factors' impact on returns
5	26	COVID-19
5	26	Responsibility to client / fiduciary duty
6	20	Regulatory guidance/requirements
6	20	Younger investors / plan members
7	13	Risk management

[34] See scoring methodology in Appendix A.

Rank	Score	Driver for RI
8	12	Industry competition
8	12	Organizational purpose/mission/values
9	2	Other

N = 65

As shown in the table above, for the first time survey respondents cited investor demand for ESG/impact as the top driver for RI in the next two years. Climate change and greater public awareness of ESG issues ranked in second and third place, respectively. These drivers seem to dovetail with each other. As the public and investors increasingly recognize the importance of ESG issues facing our society and our planet—such as climate change—they may increasingly seek to incorporate the financial implications of these issues in their investment strategies, and perhaps to use their investments to drive improved societal outcomes.

In comparison, the top drivers cited in our 2018 report were responsibility to client/fiduciary duty, risk management, and incorporating climate risk in investment strategy—only the latter issue appearing in this year's top 3.

What do you think are the major deterrents to growth in responsible investment?[35]

Rank	Score	Perceived Deterrent
1	91	Lack of reliable data
2	59	Mistrust/concerns about greenwashing
3	54	Lack of legislative/regulatory requirements
4	53	Performance concerns
5	46	Lack of awareness
6	38	Lack of qualified advice/expertise
7	19	Other
8	18	Investment/portfolio risk concerns
9	17	Lack of viable products/options

N = 66

Survey respondents were also asked to rank their perceived deterrents to the growth in RI. As shown in the table above, lack of reliable data was overwhelmingly cited as the top deterrent. Mistrust/concerns about greenwashing ranked as the second major concern, followed by lack of legislative/regulatory requirements, and performance concerns.

[35] See scoring methodology in Appendix A.

Responsible investors are seeking ESG data from companies that are consistent, comparable, and material. But, as noted previously in Section 4 of this report, companies use various reporting standards and frameworks for their ESG/sustainability reporting. And while ESG research firms have helped to fill in the gaps for investors, differences in their proprietary scoring methodologies occasionally cause market confusion.[36] Initiatives underway to improve ESG data standardization, as noted earlier, may alleviate some of investors' data concerns.

Interestingly, performance concerns have dropped from being the number one ranked perceived barrier for RI in 2018 to fourth in this year's survey. This relative reduction in concern about performance seems to indicate that investors are more confident with the business case in favour of RI, and are focusing more on improving the execution and integrity of their strategies.

[36] Jacqueline Poh (2019). "Conflicting ESG ratings are confusing sustainable investors". Bloomberg.com.

APPENDIX A: METHODOLOGY

The RIA collected data from 104 asset managers and asset owners via electronic surveys and emails between July and October 2020. We supplemented the survey data with secondary research, using dozens of publicly-available sources such as annual reports, responsible investing reports, website data, and PRI Transparency Reports. All figures shown in this report are in Canadian dollars as at December 31st, 2019.

To count total Canadian RI assets, we used a methodology based on the criterion of certainty: we only counted assets about which we were certain. For instance, if an investment manager indicated that their RI policies apply to “a majority” of their AUM, we counted only 51% of their AUM as RI assets. Therefore our methodology indicates a conservative estimate of Canadian RI assets, since our cautious approach likely excluded some RI assets.

We also took precautions to avoid double counting. We asked respondents to report the percentage of their responsible AUM that is externally managed or invested in other funds (i.e. “fund of funds”). As shown in the table below, we subtracted these assets from the total. We did this based on the assumption that another survey respondent may be managing those assets, which is unlikely to be true in all cases but we chose to err on the side of under-counting assets rather than over-counting. The result is that our estimated total RI AUM is very conservative.

Counting Methodology (millions)

Total Reported RI Assets	**$**	**3,804,333**
Externally managed assets	$	638,203
Total RI AUM in Canada	**$**	**3,166,130**

For questions where respondents were asked to rank their top three choices, scores were calculated as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1).

The questionnaires contained very few mandatory questions. We did this to help maximize engagement, and to collect whatever data respondents were able/willing to provide. As a result, respondents skipped some questions. However, key questions such as total RI AUM were mandatory, so this had no affect on the tabulation of RI assets.

All data included in this report is either self-reported or collected from publicly-available sources such as websites, annual reports, and PRI Transparency reports. We investigated anomalies and verified data where possible; still, it was not feasible to verify all respondents’ data. In addition, the sample of respondents varies from year-to-year. Despite the limitations of self-reporting, all figures presented in this report are true and accurate to the best of our knowledge, and have been subjected to as much verification and diligence as possible.

APPENDIX B: LIST OF SURVEY RESPONDENTS

We thank the following organizations who took the time to complete our surveys. Additional data was collected from dozens of annual reports, PRI Transparency Reports and other publicly-available sources.

ACM Advisors Ltd.
Active Impact Investments
Addenda Capital
AGF Management Limited
Alberta Investment Management Corporation (AIMCo)
AllianceBernstein L.P.
AlphaFixe Capital Inc.
Amplify Capital
Amundi
Batirente
Beutel, Goodman & Company Ltd.
BlackRock Asset Management Canada Limited
BMO Global Asset Management
Brick by Brick
British Columbia Investment Management Corp. (BCI)
Calgary Foundation
Canada Post Corporation Pension Plan
CI Investments Inc.
CIBC Asset Management
Coast Conservation Endowment Fund Foundation
Community Forward Fund Assistance Corp
Connor, Clark & Lunn Investment Management
CoPower
Deetken Impact
Desjardins Investment Inc
Developpement international Desjardins
Desjardins Global Asset Management
E-Fund
FarmWorks
Federated Hermes
Fiera Capital
FinDev Canada
Fonds de solidarité FTQ
Foyston, Gordon & Payne Inc.
Franklin Templeton
Genus Capital
Gestion FÉRIQUE
GLC Asset Management Group Ltd
Global Alpha Capital Management
Grand Challenges Canada
Greenchip Financial Corp.
Hexavest
Hillsdale Investment Management
HOOPP
Horizons ETFs
iA Clarington
IG Wealth Management
Inspirit Foundation
Invesco
Investment Management Corporation of Ontario (IMCO)
Ivey Foundation
Janus Henderson Investors
Jarislowsky Fraser Ltd
Kindred Credit Union
Mackenzie Investments
Manulife Investment Management
Marigold Capital
McMaster University
National Bank Investments
NEI Investments / Aviso Wealth
New Market Funds Inc
North Growth Management Ltd.
Northleaf Capital Partners
NT Global Advisors, Inc.
Nunavut Business Credit Corporation
OMERS
Ontario Teachers' Pension Plan
Optimum Asset Management
OPTrust
Orbis Investments
Ottawa Renewable Energy Co-operative
Pacifica Partners Capital Management Inc.
Pangaea Ventures
Pictet Asset Management
Rally Assets
Rally Assets Inc.
Raven Indigenous Capital Partners
RBC Global Asset Management, Inc.
Renewal Funds
Rhiza Capital
RISQ (Réseau d'investissement social du Québec)
Russell Investments Canada Limited
Saint John Community Loan Fund
Sarona Asset Management Inc
Social Enterprise Fund
State Street Global Advisors
TD Asset Management
The Atmospheric Fund
The JW McConnell Foundation
The Lawson Foundation
Toronto Foundation
Trillium Housing
UGE International Ltd.
Upper Canada Equity Fund
Value Partners Investments
Vancity
VERGE Capital
WC Kitchen Family Foundation
Wellington Management Canada ULC
Western University
William Blair Investment Management, LLC
York University
Youth Social Innovation Capital Fund

APPENDIX C: CALCULATION OF INVESTMENT INDUSTRY SIZE

The sum of all professionally-managed assets in Canada is estimated at $5.12 trillion. This calculation is based on proprietary data provided by the Canadian Institutional Investment Network, and publicly-available data from the Investment Funds Institute of Canada (IFIC) and the Organization for Economic Cooperation and Development (OECD). The table below summarizes the calculation.

CIIN Breakdown as at December 31, 2019	
Mutual Funds	$1,077,638
Pension Defined Benefit	$797,510
Private Clients / High Net Worth	$409,601
Insurance Company Assets	$343,744
Pension Capital Accumulation Plans	$228,738
Corporate Assets	$200,361
Exchange-Traded Funds	$114,175
Insurance Company Segregated Funds	$90,859
Third Party Assets	$75,751
Foundations & Endowments	$74,099
Other Pension Assets	$61,593
Other Structured Products	$49,476
Separately Managed Accounts/Wraps	$48,155
Closed-End Funds	$9,367
Trust Funds	$9,060
Total Asset Manager AUM (CAD millions)	**$3,590,128**

Total Pension AUM - OECD Pension Markets in Focus*	$2,006,717
Less Asset Manager Pension AUM - CIIN	$1,087,841
Net Pension AUM	$918,876

IFIC Total AUM - Mutual Funds and ETFs	$1,805,000
Less Asset Manager Mutual Funds and ETFs AUM - CIIN	$1,191,813
Net IFIC AUM	$613,187

Total AUM (CAD millions)	$5,122,191

* $1,531,844.75 (USD millions) converted at $1.31 CAD/USD