



Responsible Investment Association

2018 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

OCTOBER 2018

Sponsored by:



ACKNOWLEDGEMENTS

Sponsor



We extend a special thanks to NEI Investments for sponsoring the 2018 Canadian RI Trends Report. Their generous contribution made this report possible.

Translator



Thanks to Groupe Investissement Responsable and Vanessa Brunette for providing a French-language translation of this report.

Research Partners



Thanks to the Canadian Institutional Investment Network for providing data on Canada's investment industry, and to Purpose Capital for providing data on impact investing. Thanks to Smart Prosperity Institute for providing analysis of green bonds in Canada.

Contributors

Thanks to Fred Pinto for writing the Foreword to this report, and to Ian Robertson for contributing an article for the introduction. Thanks to Emily Matthews and Tracy Ann Haynes for research and writing support.



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

TABLE OF CONTENTS

| | |
|------------------------------------------------------------|-----------|
| FOREWORD | 5 |
| EXECUTIVE SUMMARY | 6 |
| INTRODUCTION | 8 |
| Navigating the Responsible Investment Landscape | 9 |
| 1. CANADIAN RI MARKET OVERVIEW | 11 |
| Market Characteristics | 11 |
| Why are Investors Considering ESG Factors? | 12 |
| Top ESG Considerations | 13 |
| 2. RI ASSETS BY STRATEGY | 16 |
| ESG Integration: \$1.9 trillion | 16 |
| Shareholder Engagement: \$1.5 trillion | 17 |
| Norms-Based Screening: \$981.3 billion | 21 |
| Negative Screening : \$878.2 billion | 22 |
| Thematic ESG Investing: \$41 billion | 23 |
| Impact Investing : \$14.75 billion | 23 |
| Positive Screening : \$11.8 billion | 24 |
| Market Trend: Green Bonds | 25 |
| 3. RI ASSETS BY MARKET SEGMENT | 26 |
| RI Pension Funds | 26 |
| Individual Investors | 27 |
| 4. INVESTOR POLICY ADVOCACY | 30 |
| 5. INDUSTRY OUTLOOK | 31 |
| APPENDIX A: METHODOLOGY | 32 |
| APPENDIX B: LIST OF SURVEY RESPONDENTS | 33 |
| APPENDIX C: CALCULATION OF INVESTMENT INDUSTRY SIZE | 34 |

FOREWORD

On behalf of NEI Investments, it is my pleasure to introduce the RIA's 2018 RI Trends Report. As the sponsor of this report, we believe this is an essential piece of research to measure the ongoing success of the Responsible Investment (RI) movement in Canada.

As you'll read in the following pages, the 2018 RI Trends Report strongly reflects the growing momentum of RI in Canada. We should feel proud and excited by this rapid growth across all channels and firms. For many of us, this trend affirms what we've believed for years – that RI has a place in the investment mainstream and that Canadians are, in fact, RI investors at their core.

However, it's one thing to believe in the relevance and importance of RI and quite another to engage advisors and investors around RI solutions and get them to act. The challenges to more widespread adoption of RI remain stubbornly persistent. And to more effectively connect with a broader audience, we will need to resolve them. That means fully recognizing the work it takes to engage potential supporters around new investment concepts, even when those concepts are not new to us.

It is clear by the numbers that the RI wave continues to build. That alone is enough to help the movement grow. But it's not in our nature or interest as RI practitioners to passively stand aside and hope this upward trend continues. Collectively, we've put too much into this movement to stop playing an active role in its growth. With momentum on our side, we need to renew our commitment, re-evaluate our approaches, re-think our message and reach out to new constituencies. To continue to grow and be relevant, we will need to change.

If that sounds like a lot of work, it is – but it's worth it. There's never been a more opportune time for RI to take hold and become embedded in the thinking of every investor in Canada. I encourage you to use the information in this report as inspiration for what you can do – and what we can all do together – to expand our movement and meet Canada's rapidly growing demand for RI solutions.

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



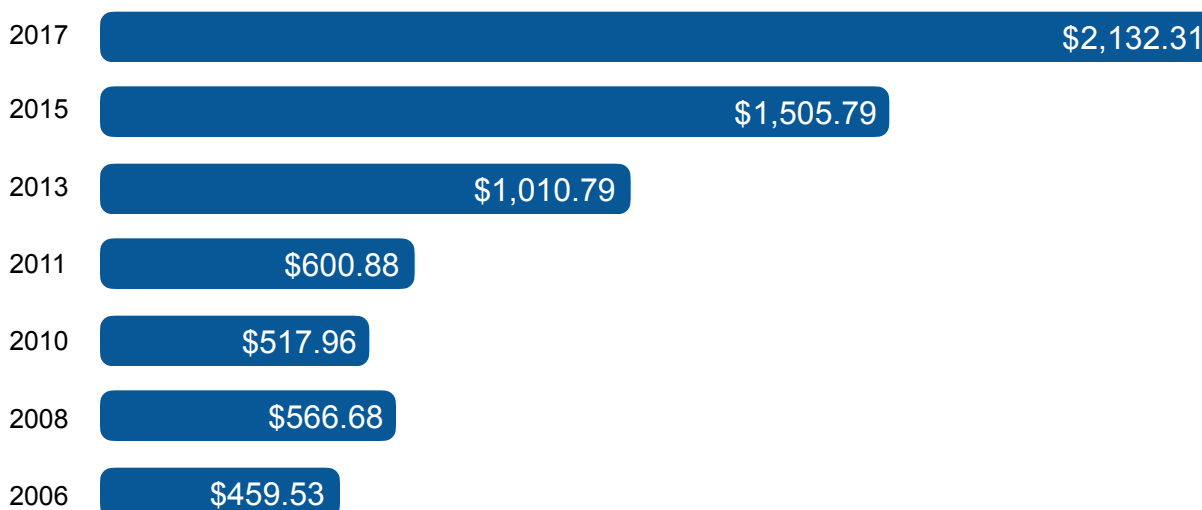
EXECUTIVE SUMMARY

The 2018 Canadian Responsible Investment Trends Report reveals that responsible investment (RI) is continuing to experience rapid growth in Canada. Survey data collected from more than 100 asset managers, asset owners, and publicly-available sources indicates that Canadian investors increasingly view environmental, social and governance (ESG) factors as important components of their investment decisions. This report describes how RI is growing and developing in Canada. All figures are stated in Canadian dollars as at December 31st, 2017.

Key Highlights

- \$2.13 trillion in RI assets under management (AUM).
- 41.6% growth in RI AUM over a two-year period.
- RI represents 50.6% of Canada's investment industry, up from 37.8% two years ago.
- Retail RI mutual fund assets increased from \$8.26 billion to \$11.07 billion, or 34% over two years.
- The most prominent RI strategies by AUM are: (1) ESG integration, (2) shareholder engagement, (3) norms-based screening and (4) negative screening.
- Survey respondents reported the top four reasons for considering ESG factors are: (1) managing risk, (2) improving returns over time, (3) meeting client/beneficiary demand, and (4) fulfilling fiduciary duty.
- 87% of respondents expect moderate to high levels of growth in RI over the next two years.

Canadian RI Industry Growth (billions)



According to survey responses and secondary research conducted by the RIA, assets in Canada being managed using at least one RI strategy increased from \$1.5 trillion at the end of 2015 to \$2.1 trillion at the end of 2017. This robust growth represents a 41.6% increase in RI assets under management over a two-year period. Responsible investing now makes up a majority of Canada's investment industry, as RI assets now account for 50.6% of all Canadian AUM¹ – up from 37.8% two years earlier. This marks a major milestone in the history and development of responsible investing in Canada.

¹ The sum of all professionally managed assets in Canada is estimated at \$4.214 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.

There are numerous strategies for investing responsibly. The most prominent RI strategy is ESG integration, with \$1.9 trillion AUM.² ESG integration refers to the process of systemically embedding ESG factors into traditional financial analysis. The second-most prominent RI strategy by assets is shareholder engagement, which is a form of active ownership that leverages shareholder power to improve corporate ESG practices. Norms-based screening, which aligns investment policies with international standards such as the United Nations Global Compact, is the third-most prominent RI strategy by assets. Negative screening or exclusion is the fourth most common RI strategy in Canada by assets.

Fixed income accounts for a much greater share of RI AUM than in previous years. Whereas public equities previously accounted for 40% of RI assets and fixed income accounted for 27% of RI assets two years ago, the latest data shows these asset classes are almost equal. Fixed income now stands at 34% and public equity at 36% of RI AUM. These data reflect the rise of ESG integration in fixed income.

Assets in retail mutual funds designated or labelled as RI have increased by 34% over two years, from \$8.26 billion to \$11.07 billion.³ Assets in exchange-traded funds dedicated to RI have more than doubled over the last two years, from \$97.9 million to \$240.6 million. The growth of assets in these products reflects the rising demand for RI among individual investors within a growing product landscape.

Survey respondents reported a total of \$435.7 billion assets managed on behalf of individual investors, compared to \$1.7 trillion managed on behalf of institutional clients. Two years ago, survey respondents reported \$118.5 billion managed on behalf of individuals. This tremendous growth is largely the result of major institutions moving to integrate ESG factors across all of their assets. Concurrently, the number of Canadian asset managers who are signatories to the UN-supported Principles for Responsible Investment (PRI) grew from 38 to 56 over this period.

The rapid uptake of responsible investing in Canada is being driven largely by the growing business case for incorporating environmental, social and governance factors into investment decisions. Survey respondents reported their top four reasons for considering ESG factors are: (1) managing risk, (2) improving returns over time, (3) meeting client or beneficiary demand, and (4) fulfilling fiduciary duty. These findings in the Canadian market are consistent with global trends, as indicated in a recent report from the CFA Institute.⁴

Impact investing continues to grow rapidly. In the past two years, impact investing has grown from \$9.2 billion to \$14.75 billion. Impact investing refers to “investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact along with a financial return.”⁵ The significant growth of impact investing is attributable to rising demand for impact across asset classes, including public markets.

Institutional investors are increasingly bullish on the outlook for responsible investing, with 87% of respondents expecting moderate to high levels of growth over the next two years. This is an increase from the last survey, in which 80% of respondents expected moderate to high growth.

² Many assets follow more than one RI strategy, so there is overlap between the assets in each category. Overlapping assets were excluded from the calculation of total RI AUM to prevent double counting.

³ 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.

⁴ A 2018 CFA Institute survey found materiality and client demand are the top reasons for using ESG information among 652 global investors. Source: Why and How Investors Use ESG Information: Evidence from a Global Survey. <https://www.cfapubs.org/doi/abs/10.2469/faj.v74.n3.2>

⁵ Global Impact Investing Network. <https://thegiin.org/impact-investing/need-to-know/>

INTRODUCTION

Responsible investment (RI) refers to the incorporation of environmental, social, and governance factors (ESG) into the selection and management of investments. In recent years, RI has been growing rapidly in Canada and around the world – largely due to the growing business case for considering ESG factors in investment analysis. A recent CFA Institute survey of 652 institutional investors cited materiality and client demand as the top reasons for using ESG information in their investment decisions.⁶

There are many different terms used to describe the various strategies or approaches to responsible investing. In order to standardize language, the terminology used in this report is aligned with the language used by the UN-supported Principles for Responsible Investment (PRI) and our peer organizations in the Global Sustainable Investment Alliance (GSIA).

Consistent with those organizations, all assets covered in this report are aligned with one or more of the following RI strategies: ESG integration, shareholder engagement, norms-based screening, thematic ESG investing, impact investing, negative screening, and positive screening. The table below provides a definition for each strategy.

| RI Strategy | Description |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ESG Integration | ESG integration refers to the process of systemically 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. |
| Shareholder Engagement | Engagement refers to the use of shareholder power to influence corporate behaviour. For example, an investor may vote proxies, file shareholder resolutions, and engage in dialogue with companies to improve their ESG performance. |
| Negative Screening | Negative screening refers to the systematic exclusion of specific companies, industries or sectors from the investible universe based on ethical considerations or negative ESG characteristics. |
| Positive Screening | Positive screening refers to the systematic inclusion of companies, industries or sectors into the investible universe based on positive ESG performance relative to peers. Also known as best in class. |
| Norms-Based Screening | Norms-based screening refers to investments that are made 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. |
| Thematic ESG Investing | Investments targeted at specific ESG themes such as environmental sustainability, low carbon, clean tech, women in leadership, etc. |
| Impact Investing | Investments made into companies, organizations and funds with the intention to solve social or environmental problems. Impact investments generate a measureable social or environmental impact alongside a financial return. |

⁶ CFA Institute (2018). Why and How Investors Use ESG Information: Evidence from a Global Survey. <https://www.cfapubs.org/doi/abs/10.2469/faj.v74.n3.2>

Navigating the Responsible Investment Landscape

By Ian Robertson, CFA, Chair of the RIA Board of Directors and Portfolio Manager, Director, and Vice President with Odium Brown.

Investors are faced with many options when they want to invest responsibly. To ensure they get the results they're after however, they first must sort through the principles that underlie each choice, starting with what 'responsibly' means. In the following paragraphs I will outline two very different understandings – first as practiced by investment analysts, and second according to investor values or behaviour – and then show where those two theoretical poles are beginning to merge.

Investment firms, which manage portfolios on behalf of others (including mutual funds and exchange traded funds (ETFs)) are amongst the largest investors. Many are signatories to the United Nations backed PRI, or Principles for Responsible Investment, based in London, England. The PRI defines 'responsible investment' as the integration of environmental, social and governance (ESG) factors into the analysis and selection of investments, and into ownership activities such as engagement with management and the voting of proxies at shareholder meetings.

Consistent with Modern Portfolio Theory (MPT) which among other things guides investors to broadly diversified portfolios, ESG integration does not limit the types of investments considered. Rather it mandates consideration of the impact that material ESG issues might have on the risk and return profile of each investment, over and above what may be available from standard financial statements. Determining which ESG issues are material to a company, and how to measure those issues is an emerging area, but one that is receiving high profile leadership, including from Mark Carney (Governor, Bank of England, and formerly Bank of Canada) and Michael Bloomberg (former mayor of New York).

The benefit to analysts of integrating ESG factors is the potential discovery of hidden risks not apparent on regular financial statements, and a better chance at outperformance. The benefit to society – i.e. the reason this is considered 'responsible' – comes from public companies paying attention to the ESG issues that are important to financial analysts, disclosing and reporting on those issues publicly, and in many cases changing their corporate behaviour. Measurement and transparency lead to better ESG outcomes.

ESG integration also requires consideration of material ESG factors on the *ownership* side of investing. By voting on shareholder proposals that seek better ESG outcomes, investors can improve further the ESG practices of public corporations. Large investors may even have a chance to engage directly with a company's management on environmental, social or governance issues – a 'behind the scenes' practice which can advance corporate ESG practices considerably. 'Active ownership' leads to better ESG outcomes.

Notably, PRI's definition of 'responsible investment' does not involve personal values or the screening of investments for particular attributes: high carbon oil (out); low carbon wind or solar power (in); tobacco (out); strong diversity policies (in). Many investors however have strongly held views about these and other issues and want their investment portfolios to reflect those values. Fortunately, there are many mutual funds and ETFs willing to accommodate.



Screening of portfolios for particular attributes has a long history, rooted many decades ago in the exclusion by religious organizations of stocks that were anathema to their values. Eventually the practice evolved into what is often called ‘socially responsible investing’ (SRI) or ‘ethical investing’, or when tilted towards environmental issues, ‘green investing’. It is based upon values which are personal, and which may be different for each investor. Screening may lead to a portfolio that is less diversified than MPT prescribes, but in practice modest amounts of screening may have little impact, especially over the long run ... and there may be offsetting (or larger) benefits.

Behavioural finance theory shows that control over one’s choices instills greater confidence in outcomes, which may result in a higher likelihood of staying invested during volatile markets. As well, investing according to commonly held values such as concern about global warming can send an important social signal. We chat at social gatherings about our investments, and as our societal values evolve so do the regulatory and legal frameworks that mandate (hopefully) better ESG practices. Corporations pay attention to their social licence and to the values of consumers and tailor or modify their ESG practices accordingly.

Notice that the processes for the analysis-based ESG integration and the behaviour-based screening are quite different. Just as neoclassical finance and behavioural finance co-exist and explain different aspects of the stock market, so too do they explain different aspects of ‘responsible’ investment. With the two different investment approaches outlined, we can explore where they are starting to overlap in practice.

Some studies show that companies that performed well on ESG metrics or which showed improving ESG metrics outperformed or had lower risk than their peers. While past results are not necessarily indicative of future performance, the studies do encourage further consideration and research. For example, another group of researchers is using this type of data to propose inclusion of ESG as a *systemic* factor within MPT – showing in a robust theoretical model that ESG factors are generally underpriced in the market and that they offer higher returns and/or lower risk.

Many mutual funds and ETFs offer broad screens of ESG factors which also align with commonly held ESG values – a happy convergence of behaviour and emerging financial theory – and many mutual funds also use active ESG integration as well.

While this article has focussed on investment vehicles such as mutual funds and ETFs, many investors also hold stocks and bonds directly. Investors should discuss with their advisor or consider carefully themselves how to best meet their goals. Do they want to invest according to their values, or follow MPT and rely on ESG integration, or use a blend of both? If values are part of the mix, is the investment performance of the screen supported by research, or is some diversification sacrificed? Is there capacity to integrate ESG considerations into the analysis of stocks and voting of proxies, or should they rely on the expertise of a mutual fund or ETF?

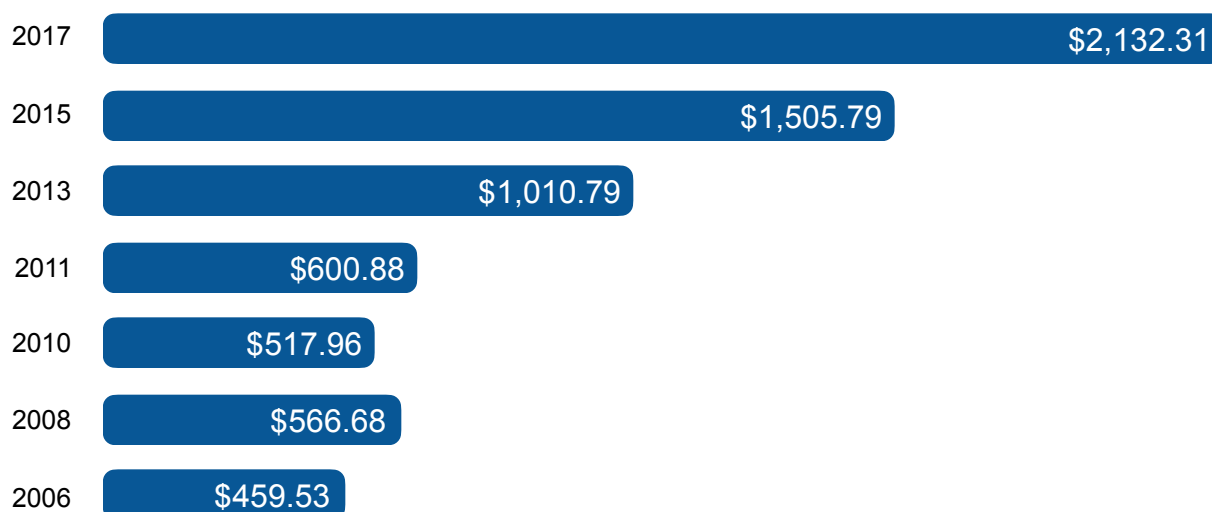
Responsible investment is an evolving field, both in practice and in the research that underpins those practices. It has an important role to play in improving corporate transparency and environmental, social and governance outcomes, and investors have an important role in ensuring their money contributes to these responsible outcomes. ■

1. CANADIAN RI MARKET OVERVIEW

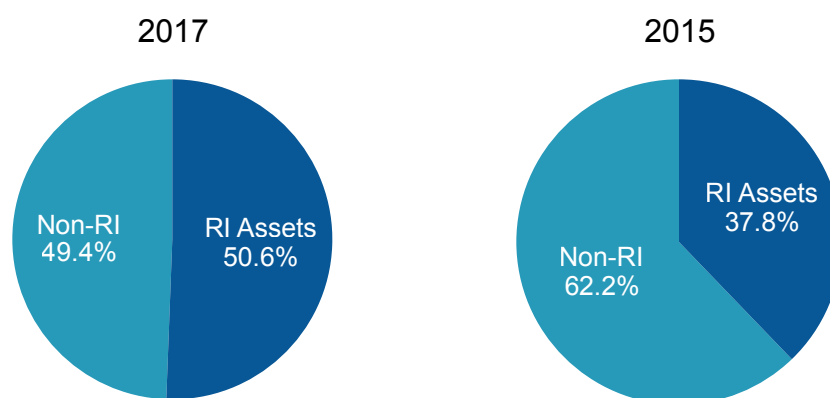
Market Characteristics

The Canadian RI market continues to grow at a rapid pace. As at December 31st, 2017, RI assets now stand at \$2.13 trillion. This represents a growth rate of 41.6% over the last two years. RI now accounts for 50.6% of all professionally-managed assets in Canada,⁷ up from 37.8% two years prior.

Canadian RI Industry Growth (billions)



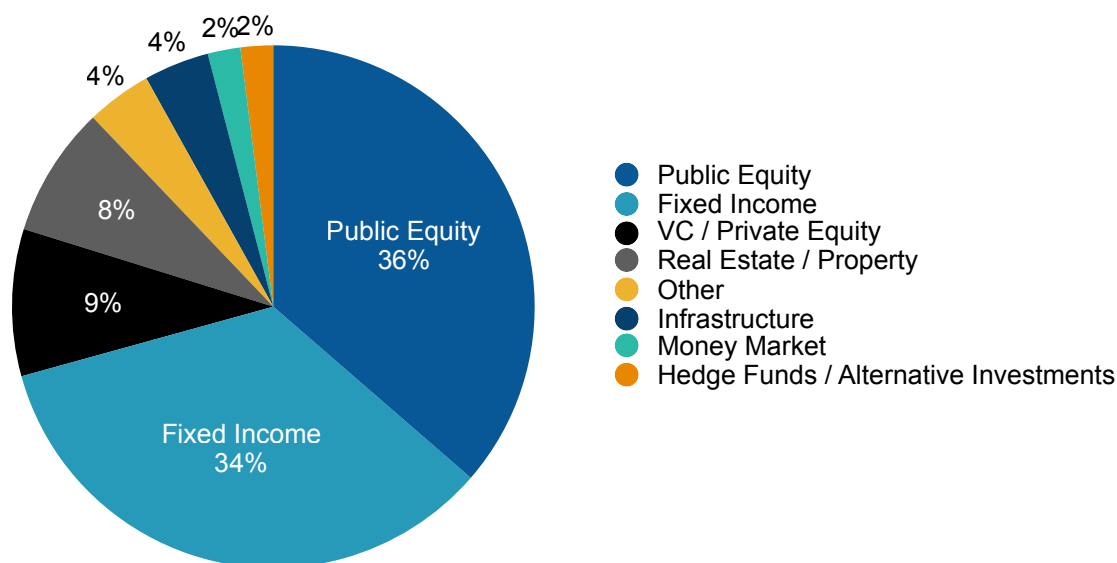
As shown in the pie chart below, just over half of all Canadian AUM are now aligned with one or more RI strategies. This marks a major milestone in the history and development of responsible investing in Canada. As detailed in section two, the most common RI strategies are ESG integration, shareholder engagement, norms-based screening, and negative screening.



⁷ The sum of all professionally managed assets in Canada is estimated to be \$4.214 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.

Asset Allocation

Two years ago, public equities accounted for 40% of RI assets, while fixed income accounted for 27%. The latest data now shows these two asset classes are almost equal in size, with fixed income growing to 34% and public equity at 36% of total RI AUM. This indicates that RI is on the rise in fixed income. Venture Capital / Private Equity and Real Estate represent 9% and 8% respectively, while other asset classes account for a smaller share as shown in the chart below.



Why are Investors Considering ESG Factors?

The survey data shows investors are moving towards RI for a number of reasons, with risk management, performance, and demand leading the way. Investors were asked to rank their top three reasons for considering ESG factors. As shown in the table below, fiduciary obligations and fulfilling mission/values rank fourth and fifth, respectively. These data suggest that institutional investors increasingly see a clear business case for incorporating environmental, social and governance factors into investment decisions.

Most Commonly Cited Reasons for Considering ESG Issues⁸

| Rank | Score | Factor |
|------|-------|--------------------------------------------|
| 1 | 88 | Minimize risk over time |
| 2 | 76 | Improve returns over time |
| 3 | 53 | Meet client / beneficiary demand |
| 4 | 41 | Fulfill fiduciary duty |
| 5 | 39 | Fulfill mission / values |
| 6 | 26 | Pursue social / environmental impact |
| 7 | 8 | Meet legislative / regulatory requirements |

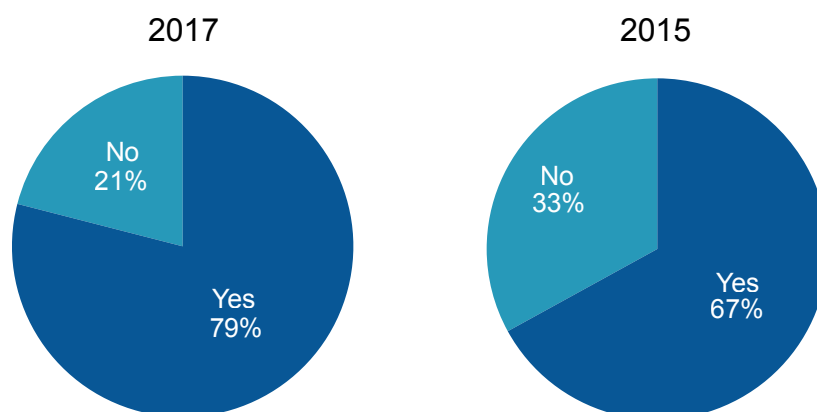
N = 56

⁸ See scoring methodology in Appendix A.

Formal RI Policy Statements

Over the last two years, the number of organizations disclosing a formal RI policy statement has increased from 67% to 79% of survey respondents. The growth of formal RI policy statements indicates that a growing number of institutional investors are formalizing their RI practices.

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



N = 57

Top ESG Considerations

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

Most Commonly Cited Environmental Issues

| Rank | # Respondents | Environmental Issue |
|------|---------------|-------------------------------|
| 1 | 43 | Climate change / carbon |
| 2 | 40 | Water / waste management |
| 3 | 37 | Clean technology |
| 4 | 36 | Pollution / toxics |
| 5 | 33 | Sustainable natural resources |
| 6 | 29 | Green buildings |
| 7 | 25 | Fossil fuel divestment |

N = 55

Climate change and carbon were the top environmental factors, with 43 out of 55 institutional investors reporting that they consider these factors when making investment decisions. This is consistent with the findings from two years ago, when climate change was also ranked as the top environmental issue. As shown in the table above, water/waste management, clean technology and pollution/toxics were the next most prominent environmental considerations.

Most Commonly Cited Governance Issues

| Rank | # Respondents | Governance Issue |
|------|---------------|-------------------------|
| 1 | 44 | Executive pay |
| 2 | 43 | Independent directors |
| 3 | 40 | Diversity |
| 4 | 25 | Political contributions |

N = 52

In the governance category, the top three issues are executive pay, independent directors, and board diversity. As shown in the table above, political contributions were also an important governance factor for responsible investors, with 25 out of 52 respondents reporting.

The table below summarizes the responses for social issues. Consistent with 2015, Labour issues, human rights and terrorist/oppressive regimes are the most commonly cited social issues.

Most Commonly Cited Social Issues

| Rank | # Respondents | Social Issue |
|------|---------------|---------------------------------|
| 1 | 47 | Labour |
| 2 | 44 | Human rights |
| 3 | 27 | Terrorists / oppressive regimes |

N = 52

Drivers and Barriers to RI Adoption

What do you think will be the major drivers for responsible investment over the next two years?⁹

| Rank | Score | Driver for RI |
|------|-------|-----------------------------------------------------------------|
| 1 | 70 | Responsibility to client / fiduciary duty |
| 2 | 65 | Risk management |
| 3 | 59 | Incorporating climate risk in investment strategy |
| 4 | 40 | Generational transfer of wealth / interest by younger investors |
| 5 | 37 | Looking for stable long-term return |
| 6 | 24 | Financial opportunity |
| 7 | 18 | Contribution to local community development / making an impact |

N = 56

Survey respondents were asked to identify the top three factors that could drive growth of responsible investing over the next two years. As shown in the table above, institutional investors reported that fiduciary duty / responsibility to clients is the top driver for future adoption of RI. Risk management, and

⁹ See scoring methodology in Appendix A.

specifically climate risk, are also among the top issues that institutional investors view as future drivers for considering ESG factors.

What do you think will be the major barriers for responsible investment over the next two years?

| Rank | # Respondents | Perceived Barriers |
|------|---------------|----------------------------------------|
| 1 | 37 | Performance concerns |
| 2 | 23 | Lack of qualified advice / expertise |
| 3 | 18 | Mistrust / concerns about greenwashing |
| 4 | 16 | Lack of viable products / options |
| 5 | 10 | Risk concerns |

N = 54

Survey respondents were also asked to rank the perceived barriers to RI. Almost 70% of respondents indicated that performance concerns are the main barrier to the adoption of RI. This suggests that some investors still believe there is a tradeoff between corporate responsibility and financial performance, despite mounting evidence to the contrary. For example, a 2015 meta-study in the *Journal of Sustainable Finance & Investment* aggregated 2200 empirical studies on the relationship between ESG and corporate financial performance. The study found a positive ESG impact on financial performance to be stable in the long-term, and concluded, “the business case for ESG investing is empirically very well founded.”¹⁰

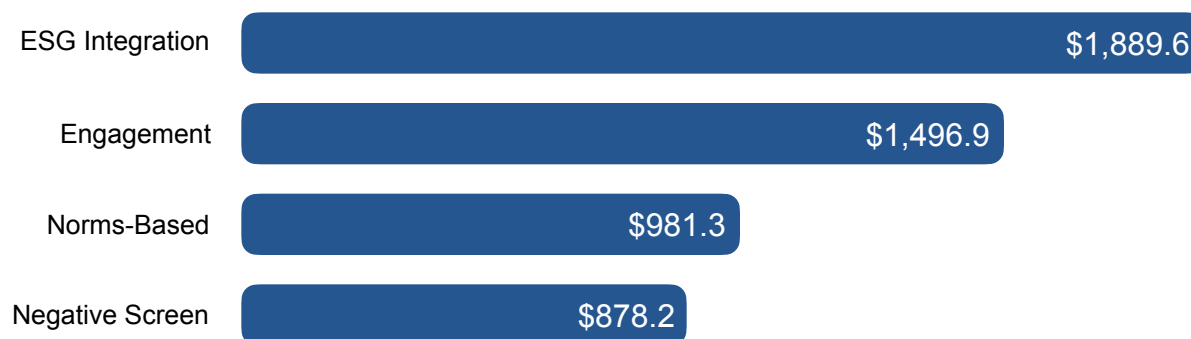
¹⁰ Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, *Journal of Sustainable Finance & Investment*, 5:4, 210-233, DOI: [10.1080/20430795.2015.1118917](https://doi.org/10.1080/20430795.2015.1118917)

2. RI ASSETS BY STRATEGY

There is no “one size fits all” when it comes to responsible investing. Different investors use different strategies for making ESG factors a part of their investment decisions. As a result of this inherent complexity, the language used in the RI space can be confusing for media, casual observers, and new market participants. For instance, you may have encountered terms such as sustainable investing, socially responsible investing (SRI), ethical investing, and other similar terms. While each of these terms may have a slightly different meaning, for the purpose of this survey we use the term *responsible investing* as an umbrella term to encompass the many different approaches to considering ESG factors in investment decisions.

To provide a more granular analysis, we asked survey respondents to report their RI assets according to seven different RI strategies: ESG integration, shareholder engagement, negative screening, positive screening, norms-based screening, thematic ESG investing, and impact investing. This terminology is standardized in alignment with the language used by the UN-supported Principles for Responsible Investment (PRI) and our peer organizations in the Global Sustainable Investment Alliance (GSIA).

Top Four RI Strategies (CAD billions)



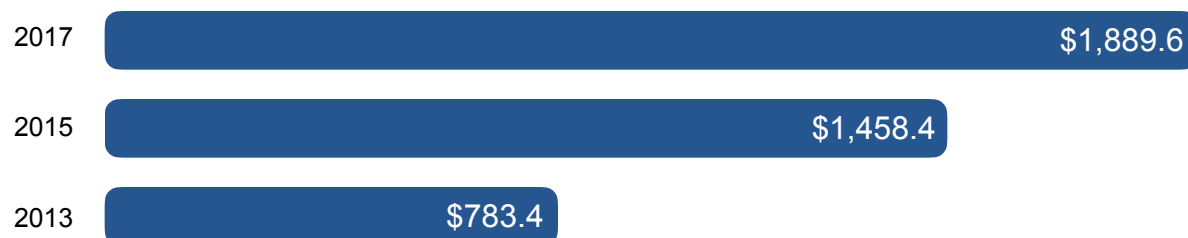
The chart above shows the top four RI strategies adopted by Canadian investors. ESG integration leads the way with \$1.9 trillion AUM, while shareholder engagement is a close second with \$1.5 trillion AUM. Integration and engagement were also the top two strategies reported two years ago. Note that 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. A summary for each RI strategy follows.

ESG Integration: \$1.9 trillion

ESG integration refers to the process of systemically embedding ESG factors into traditional financial analysis. When performing ESG integration, the analyst or portfolio manager integrates ESG data with traditional financial metrics when assessing a company's value. For example, when running a discounted cash flow (DCF) model, an analyst may adjust the discount rate based on a company's exposure to water scarcity risks or human rights risks in its supply chain. This could result in a reassessment of the company's value over the long term.

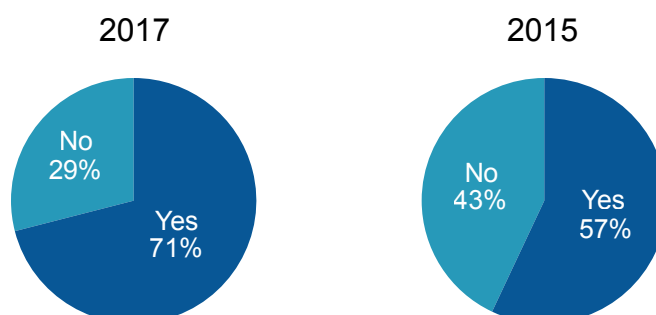
ESG integration is the most prominent RI strategy in Canada, with \$1.9 trillion AUM. Integration is gaining traction largely because of the growing awareness that ESG analysis can help to identify risks and opportunities that are not visible with traditional financial analysis alone. Leading RI practitioners are now developing knowledge about which ESG factors are material in each industry.

ESG Integration AUM (CAD billions)



The growth of ESG integration has taken place alongside the growing adoption of formal ESG integration programs. The pie charts below show the number of respondents who reported a formal ESG integration program at the end of 2017 vs. the end of 2015. Since 2015, the number of organizations that use ESG integration as an RI strategy has grown from 57% to 71% survey respondents. Assets in this category have grown by 18% over the last two years, from \$1.46 trillion to \$1.1723.8 trillion AUM.

Does your organization have a formal ESG integration program?



N = 56

Shareholder Engagement: \$1.5 trillion

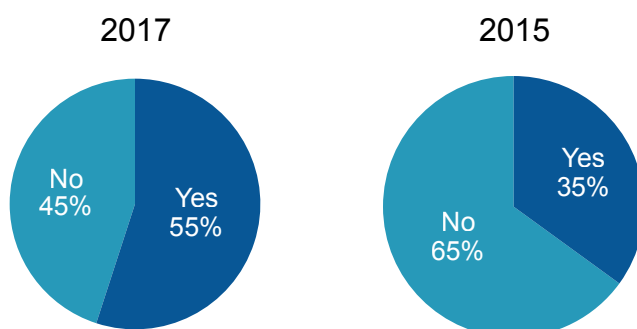
Shareholder engagement refers to the use of shareholder power to influence corporate behaviour. In practice, engagement is conducted by voting proxies guided by ESG criteria, filing or co-filing shareholder proposals, and by engaging in dialogue with company management and boards of directors. Engagement is the second most prominent RI strategy in Canada, with approximately \$1.5 trillion AUM. Assets in this category have grown by 25% over the last two years. The chart below tracks the growth of shareholder engagement in Canada.

Shareholder Engagement AUM (CAD billions)



Institutional investors have strengthened their commitments to active ownership. Over the past two years, the number of organizations with a formal policy on shareholder engagement has grown by 20%. At the end of 2017, 55% of survey respondents reported a formal policy on engagement, while at the end of 2015 the total was only 35%. For the first time, a majority of survey respondents have formal policies in place on shareholder engagement. The charts below show this comparison.

Does your organization have a formal policy on shareholder engagement?



N = 53

Engagement policies and 2017 themes

Survey respondents that engaged with corporations on ESG issues were asked to report which issues they addressed in their engagement activities. Of the organizations that engaged with corporations, the most common issues were corporate governance, climate change, and executive compensation. As shown in the table below, climate change is the second most prominent issue, while other environmental issues ranked sixth. This indicates that climate change is by far the top environmental concern for many active owners.

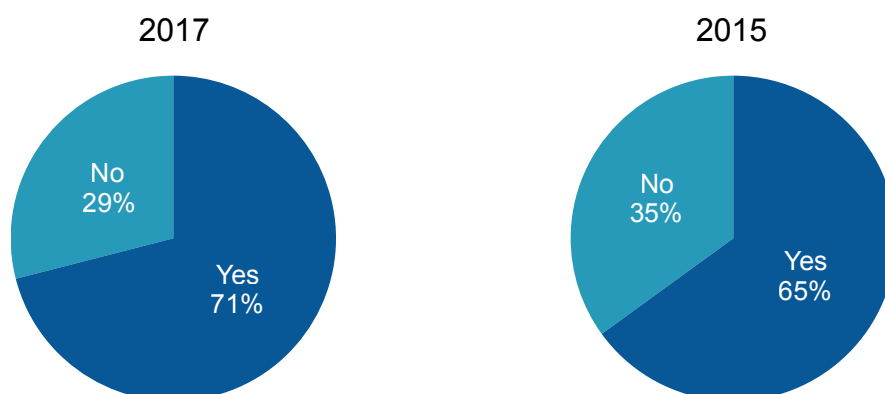
Most Common Engagement Issues

| Rank | # Respondents | Issue |
|------|---------------|------------------------------------|
| 1 | 29 | Corporate governance |
| 2 | 18 | Climate change |
| 3 | 17 | Executive compensation |
| 4 | 9 | ESG disclosure |
| 5 | 8 | Gender diversity |
| 6 | 4 | Environmental issues (non-climate) |

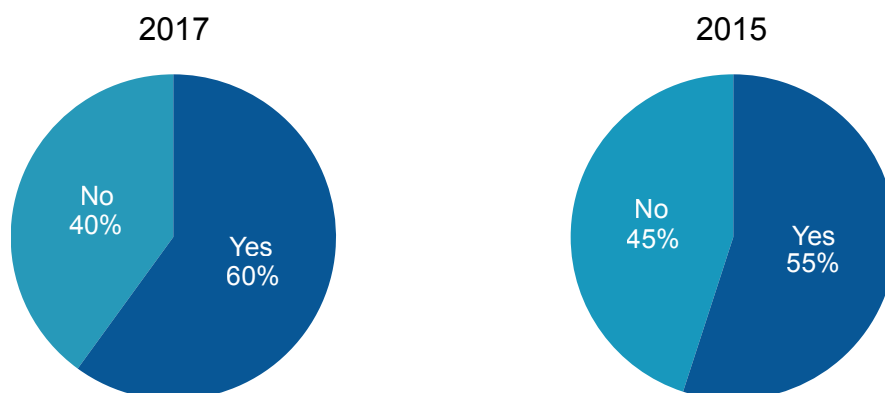
N = 53

Proxy Voting

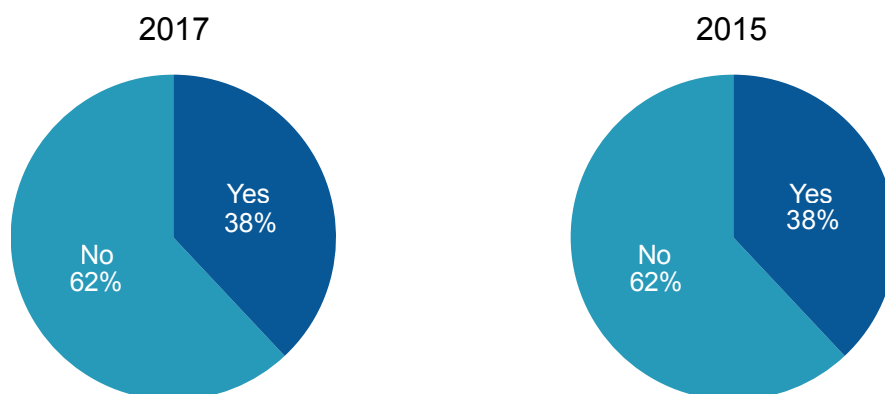
In the two years since our last survey, there has been a 6% increase in organizations with RI proxy voting guidelines, with 71% of respondents stating their organization has these guidelines. There has also been a 5% increase in the number of organizations that publicly disclose voting records, up from 55% to 60%. There was no change in the number of organizations that audit their proxy voting records in relation to their proxy voting guidelines. Since 2015, this number has remained at 38%.

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

N = 52

Does your organization publicly disclose voting records?

N = 52

Does your organization audit its proxy voting record vis-a-vis its proxy voting guidelines?

N = 48

Shareholder Resolution Issues and Outcomes

Twelve survey respondents indicated that their organization had filed shareholder resolutions on ESG issues in the past year. As shown in the table below, the top issues were climate change, corporate governance, and executive compensation. This is nearly identical to the top issues in 2015, where the top issues were greenhouse gas emissions, executive compensation/board issues/governance, and human rights.

Most Common Shareholder Resolutions on ESG Issues

| Rank | # Respondents | Topic |
|------|---------------|------------------------------------|
| 1 | 7 | Climate change |
| 2 | 4 | Corporate governance |
| 2 | 4 | Executive Compensation |
| 3 | 3 | Human rights |
| 3 | 3 | Sustainability Reporting |
| 4 | 2 | Political Contributions |
| 4 | 2 | Gender diversity |
| 4 | 2 | Environmental Issues (non-climate) |
| 4 | 2 | Aboriginal rights |

N = 12

As shown in the table below, six survey respondents reported that they withdrew their resolution after engagement with the companies, while five respondents reported that their resolutions resulted in a policy change. Four respondents intend to file additional resolutions, while one respondent made the decision to divest.

Most Common Outcomes of Shareholder Resolutions on ESG Issues

| Rank | # Respondents | Outcome |
|------|---------------|------------------------------------------|
| 1 | 6 | Withdrawn after engagement with company |
| 2 | 5 | Result prompted policy change |
| 3 | 4 | Intention to file additional resolutions |
| 4 | 1 | Divestment |

N = 11

Norms-Based Screening: \$981.3 billion

Norms-based screening refers to the screening of investments based on compliance with international norms and standards. This may involve excluding investments that are not in compliance with globally recognized norms or standards. The chart below shows the growth of norms-based screening since 2013.

Norms-Based Screening AUM (CAD billions)



As shown in the table below, the most commonly applied standards for norms-based screens are the UN Global Compact, UN Guiding Principles for Business and Human Rights, OECD Guidelines on Multinational Enterprises, and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy.

The UN Global Compact is made up of ten principles, divided into four main categories: human rights, labour rights, the environment, and anti-corruption¹¹. Not only does this norm provide a useful lens for RI, it highlights areas in which companies may be exposed to reputational risk.

The UN Guiding Principles for Business and Human Rights are thirty-one principles based on three pillars: state duty to protect human rights, corporate duty to respect human rights, and the ability for victims of human rights injustices to access effective remedy¹². Similarly, these norms provide a useful framework for RI practices, and shed light on the key areas in which business activities with adverse impacts on human rights could result in increased financial and reputational risk.

Most Commonly Applied Norms

| Rank | # Respondents | Norms |
|------|---------------|--------------------------------------------------------------------------------------|
| 1 | 20 | UN Global Compact |
| 2 | 18 | UN Guiding Principles for Business and Human Rights |
| 3 | 13 | OECD Guidelines for Multinationals |
| 4 | 11 | ILO tripartite declaration of principles concerning multinationals and social policy |

N = 42 (Others cited include the Equator Principles, CDP, Universal Declaration on Human Rights)

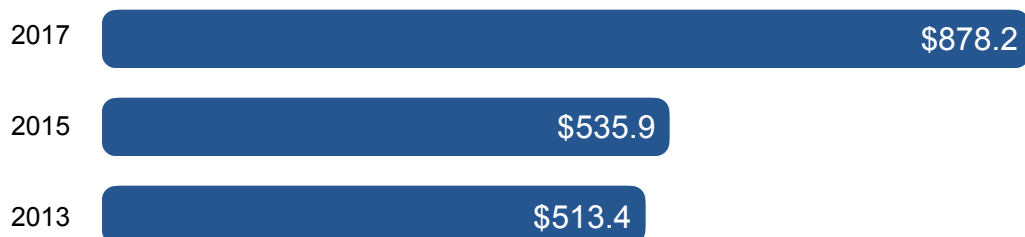
¹¹ The Ten Principles of the UN Global Compact, DOI: The UN Global Compact

¹² UN "Protect, Respect and Remedy", Framework and Guiding Principles from Business & Human Rights Resource Centre, DOI: Framework and Guiding Principles

Negative Screening : \$878.2 billion

Negative screening refers to the systematic exclusion of certain companies, industries, projects or countries, typically based on ethical, moral or religious considerations. For example, a fund manager may exclude industries such as weapons or tobacco, or exclude a country involved with human rights abuses. Negative screening also refers to the exclusion of companies or industries with negative ESG outlooks. For example, in recent years coal has been noted as an exclusion from some portfolios based on a view that it may be uneconomic due to its high carbon emissions compared to other energy sources.

Negative Screening AUM (CAD billions)



Negatively-screened assets have grown tremendously over the last two years, from \$535.9 billion to \$878.2 billion.¹³ Four large institutions account for nearly all of the upswing in negative screening, with three institutions managing over \$100 billion each reporting that they apply a negative screen across all of their assets in 2017 vs. little or no self-assets reported in this category two years ago. The most prominent negative screens are shown in the table below.

While RI fund companies have excluded tobacco and other objectionable industries for years, large institutions are now following suit. This is partly due to the work being carried out by Dr. Bronwyn King and her colleagues at Tobacco-Free Portfolios. Dr. King has been a keynote speaker at the RIA Conference for the last two years, and her efforts are making an impact in Canada and globally. For example, OPTrust, Ontario Teachers' Pension Plan, McGill University and many other institutions have signed the Tobacco-Free Finance Pledge to divest of tobacco companies.¹⁴

As shown in the table below, the two most common products that are screened out of RI portfolios are those related to weapons and tobacco. These findings are consistent with the results two years ago.

Negative Screening - Products

| Rank | # Respondents | Product |
|------|---------------|--------------------------|
| 1 | 38 | Weapons / Military |
| 2 | 33 | Tobacco |
| 3 | 25 | Pornography |
| 3 | 25 | Gambling |
| 4 | 20 | Nuclear |
| 5 | 15 | Alcohol |
| 6 | 13 | Animal testing / Welfare |

N = 47

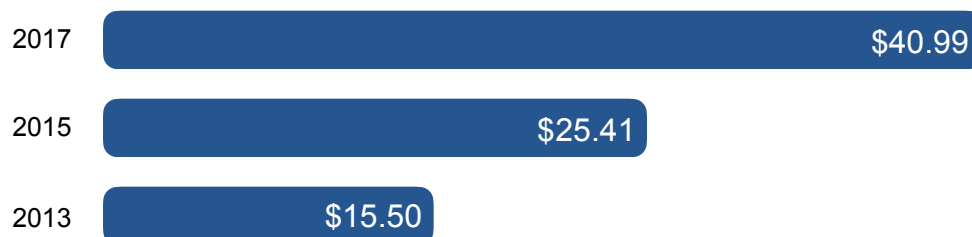
¹³ 2015 assets have been revised upward from \$481 billion to \$535 billion due to a reporting error in this category.¹³ This revision had no impact on the total RI AUM, as the assets were correctly reported under a different RI strategy.

¹⁴ See a list of signatories to the Tobacco-Free Finance Pledge at tobaccofreeportfolios.org/the-tobacco-free-finance-pledge

Thematic ESG Investing: \$41 billion

Thematic ESG investing is a top-down approach that leverages long-term structural trends to identify investment opportunities in specific industries or themes through an ESG lens. Some common ESG themes include women in leadership, water infrastructure, energy efficiency, waste recovery, sustainable food, and cybersecurity, among others. Green bonds would also fall in this category. Thematic ESG investing now stands at \$40.99 billion, up from \$25.41 billion over the last two years.¹⁵

Thematic ESG Investing AUM (CAD billions)

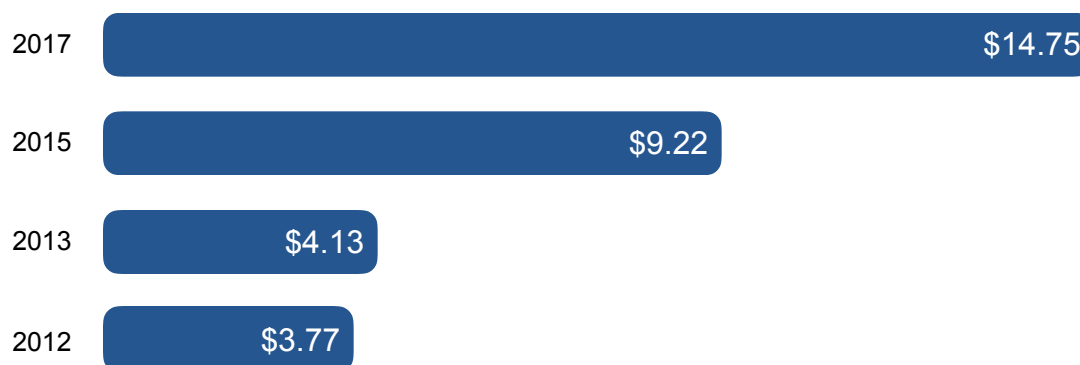


The most prominent ESG theme is “low carbon,” with \$30.87 billion assets under management. Low carbon refers to a broad category of investments in businesses involved in energy efficiency, green infrastructure, sustainable agriculture, clean fuels, electric vehicles, clean technology and other companies that are providing solutions for a low-carbon future.

Impact Investing : \$14.75 billion

Impact investing refers to “investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact along with a financial return.”¹⁶ In the past two years, impact investing has grown from \$9.2 billion to \$14.75 billion.

Canadian Impact Investment Assets (billions)



The significant growth of impact investing is attributable to the increased demand for impact across asset classes among asset owners and individual investors. Organizations such as the Inspirit Foundation have made public commitments to invest for impact across their entire portfolio. Other organizations, including

¹⁵ 2015 assets have been revised down from \$93 billion to \$25.41 billion due to a reporting error by a large institution in this category. This revision had no impact on the total RI AUM, as the assets were correctly reported under a different RI strategy.

¹⁶ Global Impact Investing Network. <https://thegiin.org/impact-investing/need-to-know/>

the J.W. McConnell Family Foundation and the Catherine Donnelly Foundation, are publicly seeking to make an impact with their endowment. These public statements and commitments are often driven by a growing interest in aligning portfolios with organizational values. For example, the Ivey Foundation has written about its intentions to “activate” its investment portfolio by using all of its assets as a tool for making progress toward its mission and goals.

In addition, a recent report from the MaRS Centre for Impact Investing found that approximately 90% of high net worth Canadians are interested in impact investing.¹⁷ The report found that demographics in the more experienced, younger, wealthier and female categories tended to show particularly significant interest in impact investing. Impact investing is likely to continue on its rapid growth trajectory as more millennials and women build wealth and influence household financial decisions.

As a result of this growing appetite for impact, there has been a rapid rise of impact investing in public equities. At the end of 2017, 41% of reported impact assets were in public equity, compared to 20% at the end of 2015 and only 3% at the end of 2013. This shift to public equity in Canada is more rapid than elsewhere: the Global Impact Investment Network’s 2017 Annual Impact Investing Survey found that only 14% of assets reported by its survey respondents were in public equity.¹⁸

More Impact Research Coming Soon!

The RIA will release the 2018 Canadian Impact Investment Trends Report in late 2018/early 2019. This report will provide a deeper analysis of Canada’s impact investing landscape.

Positive Screening : \$11.8 billion

Positive screening means rather than excluding companies, investors allocate capital to companies or projects selected from a defined universe for their positive ESG performance relative to industry peers. Unlike negative screening, which is generally more black and white, positive screening requires a more complex analysis of ESG metrics. With positive screening, an investor may choose to include an oil company that is showing sustainability leadership in its industry, despite the overall reputation or environmental record of the broader industry. Positive screening can help to identify companies that are heading in a positive direction.

Positive Screening AUM (CAD billions)



As shown in the chart above, positive screening now stands at \$11.8 billion in Canada, up from \$9.1 billion two years ago.¹⁹ While positive screening represents a relatively small segment of the industry, a 2018 report from the CFA Institute indicated that global investors believe positive screening will become more important within the next five years.²⁰

¹⁷ MaRS (2018) *Market Momentum: Impact Investing & High Net Worth Canadians*.

¹⁸ Global Impact Investing Network. *2017 Annual Impact Investor Survey*.

¹⁹ 2015 positive screening assets have been revised downward from \$304 billion to \$9.1 billion due to a reporting error from one major institution. This revision had no impact on the total RI AUM, as the assets were correctly reported under a different RI strategy.

²⁰ Why and How Investors Use ESG Information: Evidence from a Global Survey. <https://www.cfapubs.org/doi/abs/10.2469/faj.v74.n3.2>

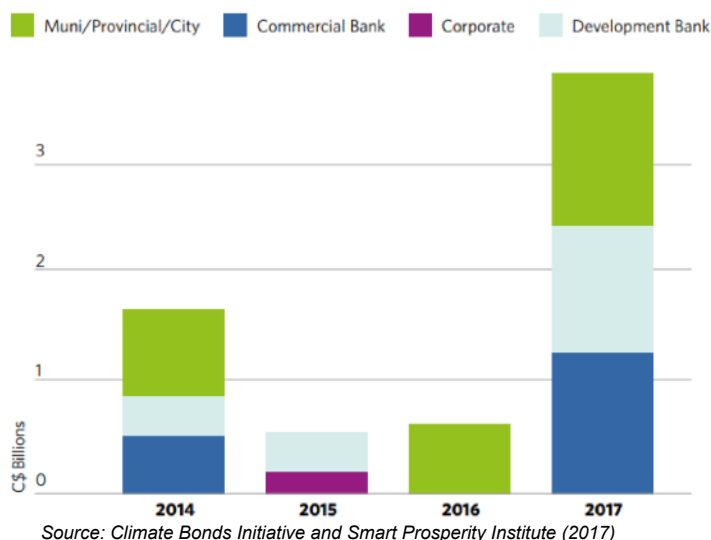
Market Trend: Green Bonds

Courtesy of Smart Prosperity Institute



Financial flows directed toward environmentally positive investments are a growing trend for investors, who recognize that a competitive return can be made alongside positive social impact. They will also play a vital role if we are to achieve Canada's international environmental commitments and shift towards a competitive, low-carbon, and resource-efficient economy.

In Canada and around the world, green bonds – bonds earmarked to fund sustainable projects – continue to gain traction. Green bond issuance in Canada for 2017 exceeded all other years combined, reaching C\$3.8 billion. This rapid growth is mirrored internationally with global green bond issuance projected to reach USD \$250 billion in 2018, an increase of 55% over 2017's total according to Climate Bonds Initiative.



Issuance of green bonds are also beginning to diversify. Historically, the green bond market in Canada has been led by sub-national issuers (predominantly Ontario and Quebec) and Export Development Canada. However more diverse actors are beginning to seize the opportunity: In 2016, CoPower began offering the first green bond to individual investors across Canada; in late 2017, the City of Ottawa issued its first green bond; in May of 2018, Manulife became the first insurance company to issue a green bond in Canada, with a C\$600 million offering. And a month later, Canada Pension Plan Investment Board (CPPIB) – the country's largest institutional investor – issued Canada's largest green bond to date, worth C\$1.5 billion.

Green bonds remain poised for even greater growth as demand continues to outstrip supply. For example earlier this year, Ontario increased the size of its planned green bond offering from C\$500 million to \$1 billion after the original offering received C\$1.8 billion in investor orders. And CPPIB's recent record-setting green bond issuance was also oversubscribed, by an estimated 80%.

Canada is currently examining ways to continue to accelerate this momentum. Building upon the recommendations of Michael Bloomberg's Task Force on Climate-related Financial Disclosures, the Government of Canada appointed an Expert Panel on Sustainable Finance to explore opportunities to leverage Canada's advanced financial sector to help drive strong environmental and economic performance, with initial recommendations expected out this fall. ■

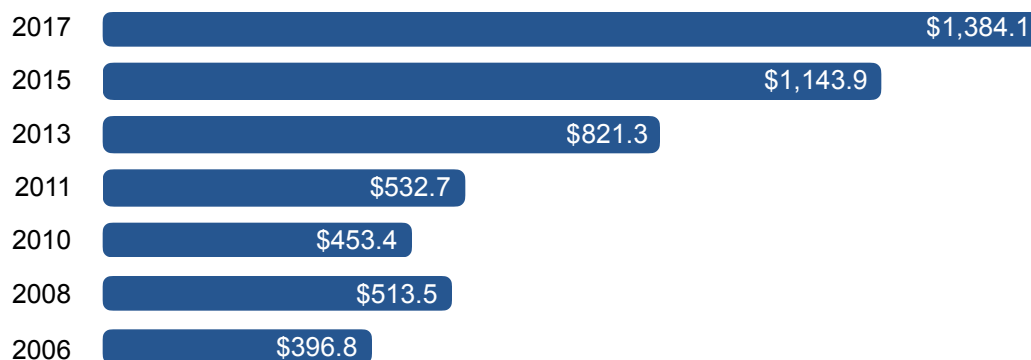
3. RI ASSETS BY MARKET SEGMENT

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

RI Pension Funds

Pension Funds account for the majority of RI assets under management in Canada, with \$1.38 trillion, or 65% of total RI assets. RI pension assets have increased by 21% over two years.

Pension Fund Assets (CAD billions)



Eleven large public pension managers with assets over \$10 billion account for 98% of RI assets reported in this segment. While many small plans may align their investments with an RI strategy, they are more likely to have an external manager which makes it challenging for researchers to collect and analyze their data. Therefore, \$1.38 trillion is a conservative estimate for pension funds as there are likely more RI pension assets in the market that were not reported.

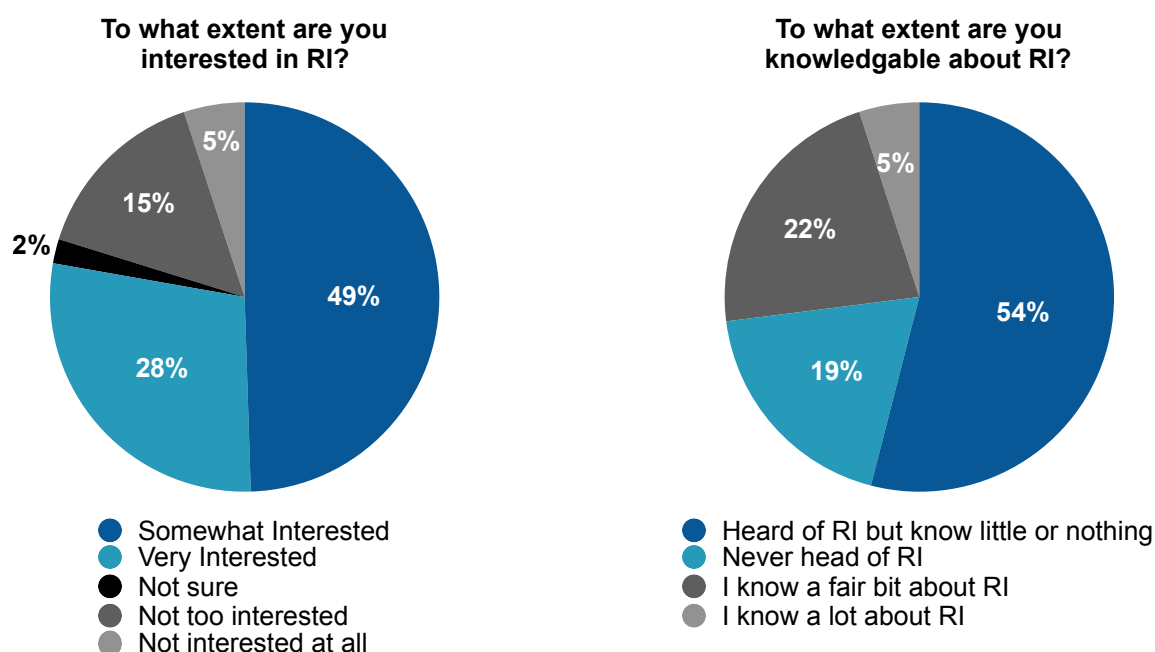
The table below shows the 11 large pension managers with more than \$10 billion whom account for 98% of reported RI pension assets. Other reporting pension funds with strong commitments to RI include University of Toronto Asset Management, United Church of Canada Pension Plan, and Bâtirente.²¹

| Public Pension Managers with >\$10 billion RI Pension AUM | |
|-----------------------------------------------------------|-----------------------------------------------------|
| Canada Pension Plan Investment Board (CPPIB) | Investment Management Corporation of Ontario (IMCO) |
| Caisse de depot et placement du Quebec (CDPQ) | Healthcare of Ontario Pension Plan (HOOP) |
| Ontario Teachers' Pension Plan (OTPP) | Alberta Investment Management Corp. (AIMCo) |
| PSP Investments | OPTrust |
| British Columbia Investment Management Corp. (BCI) | CAAT Pension Plan |
| Ontario Municipal Employees Retirement System (OMERS) | |

²¹ AIMCo UTAM, IMCO also manage non-pension assets which were excluded from this segment, but included in the overall total.

Individual Investors

Individual investors are increasingly interested in RI. According to the 2017 RIA Investor Opinion Survey²², which collected data from 1,084 survey respondents, 77% of individual investors are “somewhat” or “very” interested in responsible investing. However, as shown in the chart below, a staggering 73% of respondents reported that they know little or nothing about RI. These results highlight a significant gap between individual investors’ interest vs. awareness of RI. This “RI Awareness Gap” points to a business opportunity for financial advisors to inform their clients about responsible investing.



Yet, despite this statistical gap between interest and awareness among individual investors, survey data collected for the 2018 Canadian RI Trends Report indicates that individual investors are increasingly moving their assets into RI vehicles. For example, assets in designated or labeled retail RI mutual funds have increased by 34% over two years to \$11.07 billion. Similarly, assets in retail RI venture capital funds grew by 26% to \$13.27 billion, and assets in RI ETFs have more than doubled over the last two years from \$97.9 million to \$240.6 million. The charts below provide a visual representation of these statistics.

It is important to note that the assets described above are allocated to retail RI products that are designated or labeled as responsible investments. This means that the products are labeled and marketed as responsible investments.²³ Many labeled RI products follow more than one RI strategy. For example, some labeled RI funds combine a screening strategy with ESG integration and shareholder engagement - or some other combination. Other labeled RI products may follow a thematic approach, in which their investible universe is defined by a specific ESG theme.

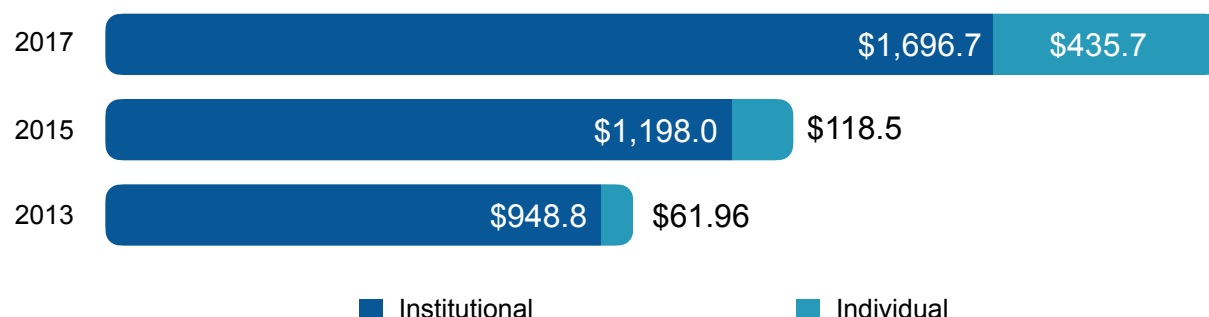
Historically, we have estimated the size of the retail RI market by counting assets in these designated RI vehicles and asking other survey respondents to report the proportion of assets that are being managed on behalf of individual clients. We combine these totals (while controlling for double counting) to provide an estimate for the total RI assets being managed on behalf of individual investors. As noted in the 2016 Canadian RI Trends Report, that figure was \$118.5 billion as at December 31st, 2015. As shown in the

²² Responsible Investment Association (June 2017). RIA Investor Opinion Survey. <https://www.riacanada.ca/wp-content/uploads/2012/08/2017-RIA-Investor-Opinion-Survey-WEB.pdf>

²³ Our researchers review regulatory documents such as the prospectus and fund fact sheets to ensure labeled RI products have RI policies in place. This is an act of diligence to present misrepresentation or “greenwashing.”

chart below, our most recent survey indicates this figure has more than tripled to \$435.7 billion as at December 31st, 2017.

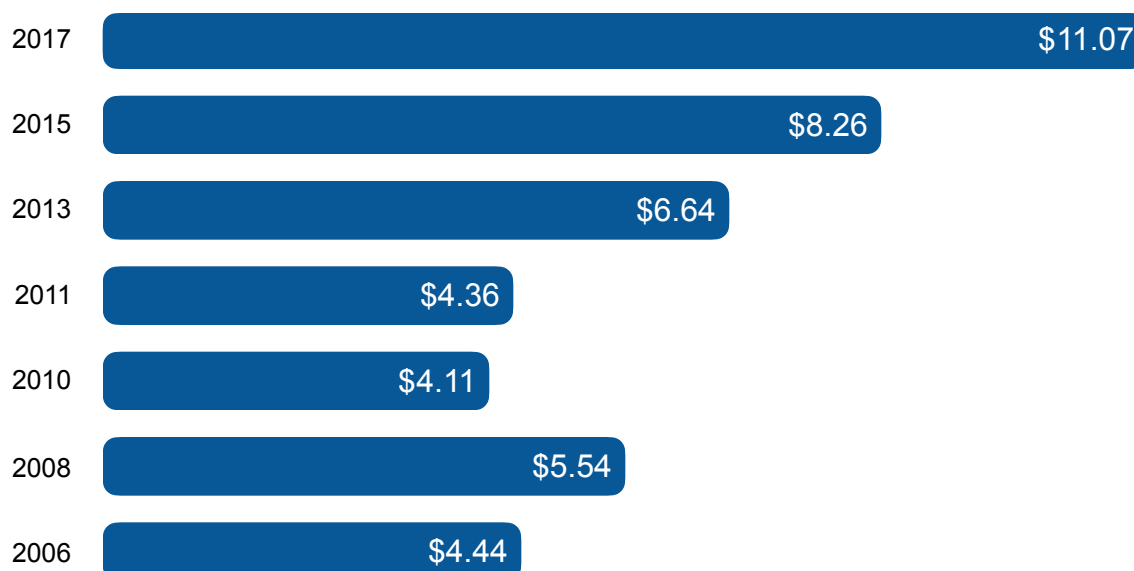
Institutional vs Individual Client RI Assets (CAD billions)



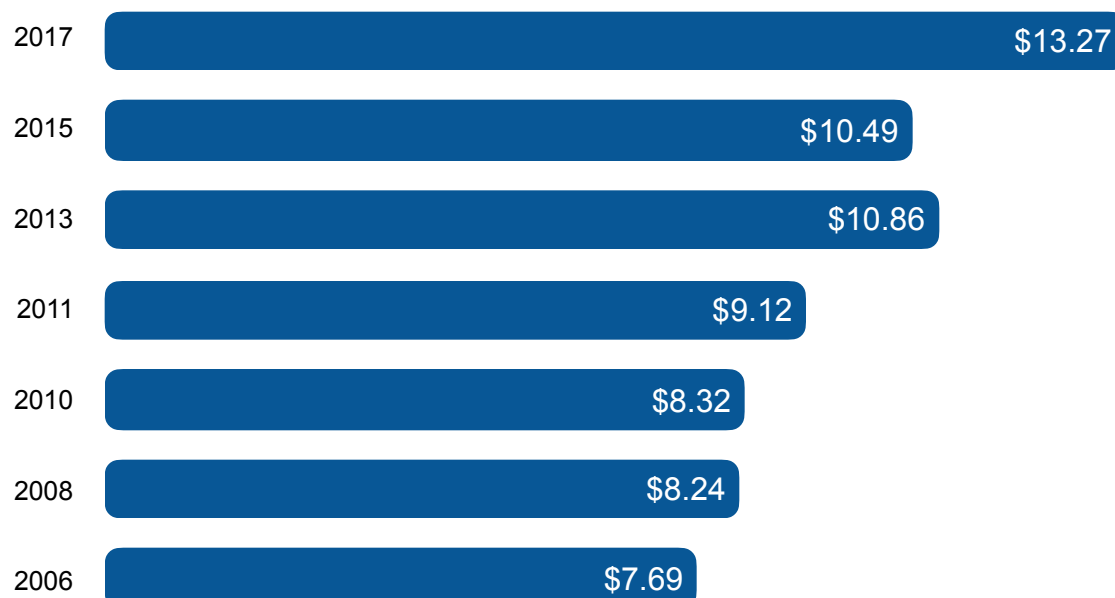
The staggering growth in the chart above is not necessarily the result of more assets flowing into retail RI products or mandates. It is the result of large asset management firms implementing an ESG integration strategy across all of their assets, including retail funds that are not necessarily labeled or marketed as responsible investments. So the chart above reflects the rise of ESG integration among institutions that are strengthening their commitments to ESG across all of their assets. This trend has occurred alongside a growing signatory base or the UN-supported Principles for Responsible Investment (PRI). The number of Canadian asset manager PRI signatories grew from 38 to 56 over this period.

The charts below provide a clearer depiction of retail assets that are flowing into designated RI vehicles. Labeled retail RI mutual fund assets have grown from \$8.26 billion to \$11.07 billion AUM, reflecting a significant growth rate of 34%. This growth is the result of rising client demand for RI, as well as a growing landscape of RI products available to individual investors.

Retail RI Mutual Funds AUM (CAD billions)



Retail RI Venture Capital Funds AUM (CAD billions)

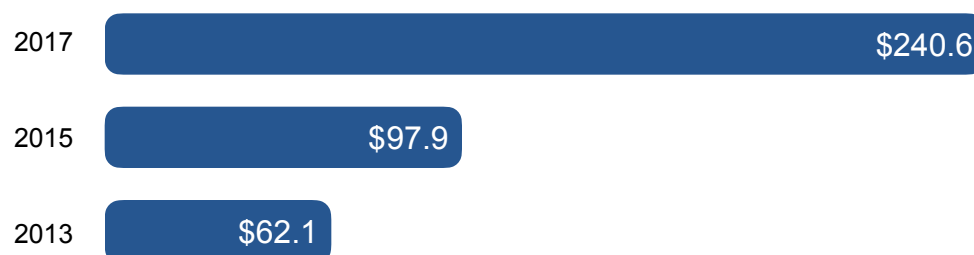


Retail RI venture capital funds have also seen significant growth. Retail venture capital funds are professionally-managed pools that invest in small- and mid-size companies in the startup or expansion phase of their development. This group of funds has grown out of the labour-sponsored venture capital funds that offered federal and provincial tax credits in many provinces in Canada. RI retail venture capital funds employ the same investment strategies as mutual funds; but in some cases, funds use a social audit process to examine the employment, community, supplier and customer record of potential investee companies. This social audit information is used to determine investment worthiness along with the company's financial strength. Since 2015, retail RI venture capital funds have increased by 26%.²⁴

RI Exchange-Traded Funds

Assets in RI ETFs have more than doubled over the last two years, from \$97.9 million to \$240.6 million at the end of 2017. This growth is the result of new ETFs coming to market alongside the growing interest in passive investment vehicles. While ETFs are available to institutional investors, they are also available to individuals with no minimum account size.

RI Exchange-Traded Funds AUM (CAD millions)

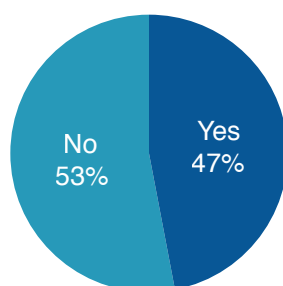


²⁴ The only two funds included in our survey that fall into this category are both labour-sponsored funds.

4. INVESTOR POLICY ADVOCACY

In addition to engaging with companies, some responsible investors also engage with government representatives and securities regulators. Nearly half of the survey respondents indicated that they engaged with governments or regulators on policies and issues related to RI in 2017.

Did your organization engage with government or securities regulators on policies related to responsible investing in 2017?



N=55

Twenty-six respondents reported that they engaged with government and securities regulators in some way. As shown in the table below, eighteen institutional investors responded to government consultations or stakeholder engagement. Sixteen respondents initiated direct engagement with government.

Most Common Method of Engagement with Government or Securities Regulators

| Rank | # Respondents | Advocacy |
|------|---------------|---------------------------------------------------|
| 1 | 18 | Responded to government consultation / engagement |
| 2 | 16 | Initiated engagement with government |
| 3 | 7 | Other |

N = 26

Respondents were also asked to identify which issues they focus on in their policy work. As shown in the table below, the most common advocacy issues for investors are ESG disclosure, climate change, corporate governance and gender diversity.

Most Prominent Policy Advocacy Issues for Investors

| Rank | # Respondents | Standard |
|------|---------------|------------------------------|
| 1 | 19 | ESG disclosure |
| 2 | 18 | Climate change |
| 3 | 16 | Corporate governance |
| 4 | 15 | Gender diversity |
| 5 | 10 | Sustainability reporting |
| 6 | 8 | Canadian sustainable finance |

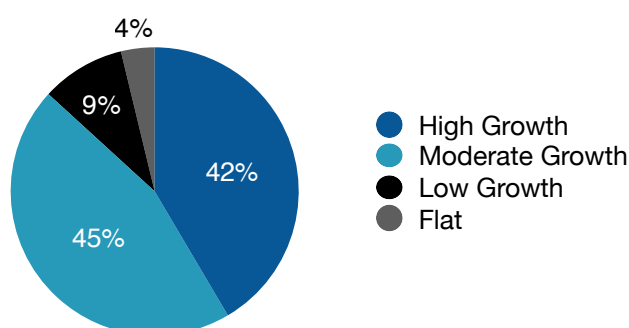
| Rank | # Respondents | Standard |
|------|---------------|------------------------------------|
| 6 | 8 | Executive compensation |
| 7 | 7 | Environmental issues (non-climate) |
| 7 | 7 | Human rights |
| | 12 | Other |

N = 25. Other includes: Political contributions (4), Water (3), Aboriginal relations (2), Animal welfare (2), Bribery and corruption (1).

5. INDUSTRY OUTLOOK

Survey respondents were asked to share their outlook for the growth of responsible investing over the next two years. Investors are bullish on the future of RI, with 87% of respondents reporting that they expect to see moderate to high levels of growth over the next two years, up from 80% two years ago. Zero respondents reported expectations of negative growth.

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



N=53

Investor Interest in New RI Products

Respondents were also asked to report what types of RI products they would like to see to come to the market. Of the 18 respondents who answered this question, eleven indicated that they would like products aligned with the United Nations Sustainable Development Goals, and 9 mentioned impact measurement tools or investment products that specifically measure impact. Five institutions mentioned green or low carbon products, while two investors mentioned ESG scoring for private equity and additional products for pension fund liabilities.

APPENDIX A: METHODOLOGY

The RIA collected data from 106 asset managers and asset owners via electronic surveys and emails between June 2018 and September 2018. We supplemented the survey data with secondary research, using dozens of publicly-available sources such as annual reports and PRI Transparency Reports. All figures shown in this report are in Canadian dollars as at December 31st, 2017.

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.

Counting Methodology (millions)

| | | |
|---------------------------------|-----------|------------------|
| Total Reported RI Assets | \$ | 2,805,214 |
| Externally managed assets | \$ | 672,902 |
| Total RI AUM in Canada | \$ | 2,132,312 |

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; 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 effect 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. 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.

During our analysis, we found anomalies in the data for thematic ESG investing and positive screening. It was found that two survey respondents made errors in the 2015 survey when reporting figures for positive screening and thematic ESG investing. As a result, we adjusted the 2015 figures for thematic investing and positive screening.

APPENDIX B: LIST OF SURVEY RESPONDENTS

We thank the following survey respondents who completed our surveys:

| | |
|----------------------------------------------|---------------------------------------------|
| ACCESS Community Capital Fund | Greenchip Financial Corporation |
| ACM Advisors Limited | GreenSoil Investments |
| Active Impact Investments | Guardian Capital |
| Addenda Capital Incorporated | Hermes Investment Management |
| Affinity Credit Union | Hexavest |
| AGF Investments | Home Ownership Alternatives |
| AIMCo | HSBC Global Asset Management (Canada) |
| AlphaFixe Capital | Limited |
| Amundi Canada Incorporated | I.A. Clarington |
| ArcTern Ventures | Impact Hub Ottawa |
| Baker Gilmore and Associates | Inspirit Foundation |
| Batirente | Investors Group |
| Bealight Foundation | Jarislowsky, Fraser Limited |
| BC Municipal Pension Plan | J.W. McConnell Family Foundation, The |
| Beutel Goodman & Company Limited | Jubilee Fund Incorporated, The |
| Black Business Community Development Fund | Kindred Credit Union |
| Limited | Knives & Forks Community Investment Coop |
| BMO Global Asset Management | Leith Wheeler |
| Bonnefield | Mawer Investment Management Limited |
| Borealis Geopower Incorporated | Manulife Asset Management |
| Brighter Investment | NEI Investments |
| Brique par brique | New Commons Development |
| CAAT Pension Plan | New Market Funds |
| Caisse de depot et placement du Quebec | Nunavut Business Credit Corporation |
| Calgary Foundation | OceanRock Investments Incorporated |
| Canada Co-operative Investment Fund | Oikocredit |
| Canada Pension Plan Investment Board | OMERS |
| Canadian Worker Co-operative Federation | OPTrust |
| CCEC Credit Union | Ottawa Community Foundation |
| CC&L Investment Management | Ottawa Renewable Energy Co-op |
| CI Investments Incorporated | PCJ Investment Counsel |
| CIBC Asset Management | Presima Incorporated |
| ClearBridge Investments | RBC Global Asset Management |
| Community Forward Fund | Renewal Funds |
| CoPower | Réseau d'investissement social du Québec |
| Cordiant Capital | Rhiza Capital Incorporated |
| Creston & District Community Investment Coop | RISQ Canada |
| Cygnus Investment Partners | Russell Investments |
| Deetken Asset Management Incorporated | Sarona Asset Management |
| Desjardins Investments | Scheer Rowlett & Associates |
| Development International Desjardins | Social Enterprise Fund |
| E-Fund | TD Asset Management Incorporated |
| FarmWorks Investment Co-op Limited | Trillium Housing Bonds |
| Fiducie du Chantier de l'économie sociale | UBS Asset Management (Canada) Incorporated |
| Fiera Capital Corporation | United Church of Canada, The |
| Fondaction | University of Toronto Asset Management |
| Fonds de solidarité FTQ | Vancity Investment Management |
| Foyston Gordon & Payne Incorporated | Vancouver Island Community Investment Group |
| Franklin Templeton | VERGE Capital |
| Genus Capital Management | World Vision Canada |
| Gestion FÉRIQUE | XPV Water Partners |
| GLC Asset Management Group Limited | Youth Social Innovation Fund |
| Global Alpha Capital Management | ZooShare Biogas Co-operative Incorporated |

APPENDIX C: CALCULATION OF INVESTMENT INDUSTRY SIZE

The sum of all professionally-managed assets in Canada is estimated at \$4.214 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, 2017 | |
|----------------------------------------------------------|----------------------|
| Mutual Funds | \$971,941.1 |
| Pension Defined Benefit | \$711,222.8 |
| Private Clients / High Net Worth | \$257,794.9 |
| Insurance Company Assets | \$187,654.9 |
| Pension Capital Accumulation Plans | \$183,305.5 |
| Corporate Assets | \$145,989.0 |
| Third Party Assets | \$99,020.5 |
| Insurance Company Segregated Funds | \$87,992.2 |
| Other Pension Assets | \$67,138.2 |
| Foundations & Endowments | \$58,906.6 |
| Separately Managed Account Programs | \$31,240.4 |
| Trust Funds | \$9,155.2 |
| Closed-End Funds | \$6,785.2 |
| Total Asset Manager AUM (CAD millions) | \$2,818,146.6 |
| | |
| Total Pension AUM - OECD Pension Markets in Focus | \$1,785,202.0 |
| Less Asset Manager Pension AUM - CIIN | \$894,528.3 |
| Net Pension AUM | \$890,673.7 |
| | |
| IFIC Total AUM | \$1,477,100.0 |
| Less Asset Manager Mutual Fund AUM - CIIN | \$971,941.1 |
| Net IFIC AUM | \$505,159.0 |
| Total AUM (CAD millions) | \$4,213,979.3 |

