Responsible Investment Association

MILLENNIALS, WOMEN, AND THE FUTURE OF RESPONSIBLE INVESTING

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OCEANROCK INVESTMENTS INC.

Executive Summary

This report examines the perspectives of two increasingly important demographics for Canada's investment industry: Millennials and women. Specifically, the report surveys their perspectives on responsible investment (RI), defined as investments that incorporate environmental, social, and corporate governance (ESG) criteria.

Survey data collected by Ipsos Reid shows that Millennials – the generation between 18 and 34 years old[1] – are *significantly* more likely than previous generations to show interest in responsible investments. Since Millennials are now the largest demographic in North America's workforce,[2] [3] and are set to inherit more than $30 trillion in the next few decades,[4] responsible investment advisors and RI fund companies are positioned reap the rewards by engaging this emerging generation of investors.

Our data shows that women investors are about equally as likely as men to factor ESG criteria into their investment decisions. However, women are much more likely than men to express uncertainty about responsible investing. Their responses indicate that women could be more open to responsible investing if they had more information to make their decisions. This points to an opportunity for responsible investment advisors and RI fund companies to target more education and awareness efforts to women investors.

In addition, our data shows that investment preferences vary based on the investor's location and level of education, with investors in BC and Quebec, along with university graduates, showing greater interest in responsible investing.

Key Findings

Millennial investors show significantly more interest in responsible and impact investments[5] than previous generations:

- Millennial investors are more than twice as likely as Baby Boomers to be interested in investments dedicated to solving social or environmental problems.
- Millennial investors are 65% more likely than Boomers to consider ESG factors when making investment decisions.

Millennials view the management of ESG risks and opportunities as crucial to the long term performance of their portfolios:

- Millennials are almost twice as likely as Boomers to believe that companies with good social and environmental practices are better long-term investments.
- Millennial investors are more than twice as likely as Boomers to believe that companies with good social and environmental practices can provide investors with better protection against downside risks.

Women investors may be more open to RI than men, which presents an educational opportunity for responsible investment advisors and RI fund companies:

- Women are about twice as likely as men to say they are unsure whether they believe it is important to consider ESG factors.
- Yet women are also more likely than men to believe it is important for advisors to be knowledgeable about RI. RI advisors would benefit from providing women with more information about RI options.

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[1] Although definitions of "millennial" vary, Ipsos Reid's data represents those between 18-34 years of age.
[2] Millennials are Now the Biggest Generation in the Canadian Workforce. *Canadian Business*, June 3, 2015.
[3] Millennials Now Largest Generation in the U.S. Workforce. *Time*, May 11, 2015.
[4] Wall Street Has Its Eyes on Millennials' $30 Trillion Inheritance. *Bloomberg*, March 3, 2015.
[5] Impact investments are defined as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return" (Global Impact Investing Network, 2014).

Background

There is a growing body of international evidence suggesting that Millennials and women are increasingly important drivers of demand for responsible investments that incorporate environmental, social and governance criteria.

A 2015 report by the Morgan Stanley Institute for Sustainable Investing found that in the U.S., Millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes.[6] The same report found that women investors are nearly twice as likely as men to consider both rate of return and positive impact when making an investment. Until now, there had been no comparable data available for the Canadian market. This study fills that knowledge gap.

Methodology

"Investors" are defined as individuals who currently own investments such as mutual funds, exchange-traded funds, stocks, bonds, GICs or other securities.

Ipsos Reid collected the data via an online survey of 11 questions between February 22nd and 29th, 2016. The sample size was N=1073 individual investors, broken down as follows:

- Men: N=520
- Women: N=553
- Millennials (18-34): N=299
- Gen X (35-54): N=397
- Baby Boomers (55+): N=377

The precision of Ipsos online surveys is measured using a Bayesian credibility interval. In this case, the survey results for N=1073 are accurate to within +/-3.4%.

Millennial Investors

Overall, Canadian Millennial investors are far more likely than investors from the Generation X and Baby Boomer generations to show an interest in and understanding of responsible investing.

Millennials are now the largest demographic in North America's workforce. They will also be an increasingly important demographic for business going forward, as they are set to inherit $30 trillion over the next few decades. Thus, their strong interest in RI indicates a positive trajectory for the RI industry in coming years.

Millennial investors are more than 2X as likely to be interested in investments dedicated to solving social or environmental problems.

Compared to their older counterparts, Millennials are more likely to consider ESG factors when investing, and more inclined to seek investments that specifically aim to address some of the world's most pressing social and environmental issues.[7]

Our survey shows that Millennials are:

- More than two times as likely as Boomers to be interested in investments that are dedicated specifically to solving social or environmental problems (58% of Millennials compared to 35% of Gen X and 25% of Boomers).

- 65% more likely than Boomer investors to consider ESG factors when making investment decisions (66% of Millennials compared to 48% of Gen X and 40% of Boomers).

[6] Sustainable Signals: The Individual Investor Perspective. *Morgan Stanley Institute for Sustainable Investing*, 2015.
[7] Examples of these types of investments include renewable energy companies, energy efficiency or funds that provide micro loans to entrepreneurs in underserved communities in Canada and abroad.

Millennials have a greater tendency than older investors to expand their definition of value beyond strict financial returns, considering the value of positive societal impact as well. They are 67% more likely than Boomers to seek to achieve a balance between rate of return and positive societal impact (50% of Millennials compared to 36% of Gen X and 30% of Boomers).

Millennial investors view companies with strong social and environmental practices as more profitable and overall superior long-term investments. Millennials are:

- 75% more likely than Boomers to believe that companies with good social and environmental practices will be more profitable (56% of Millennials, compared to 38% of Gen X and 32% of Boomers).
- Almost two times as likely as Boomers to believe that companies with good social and environmental policies and practices are better long-term investments (67% of Millennials compared to 39% of Gen X and 36% of Boomers).
- More than two times as likely as Boomers to believe that companies with good social and environmental practices can provide investors with better protection against downside risks (52% of Millennials compared to 28% of Gen X and 21% of Boomers).

Millennial investors also stand by their values; they are 60% more likely than Boomers to exit an investment because of objectionable corporate activity on social or environmental issues (75% of Millennials compared to 56% of Gen X and 47% of Boomers).

When asked, among environmental, social and governance issues, which are most important to them as investors, about the same percentage of Millennials rank environmental and social issues as most important to them. Generation X investors are slightly more inclined to rank environmental issues (e.g., climate change, carbon emissions, water scarcity, etc.) over social issues (e.g., human rights abuses, labour rights, worker safety, consultation with First Nations and local communities, etc.). Boomers are more inclined to rank social issues over environmental issues (Chart 1).

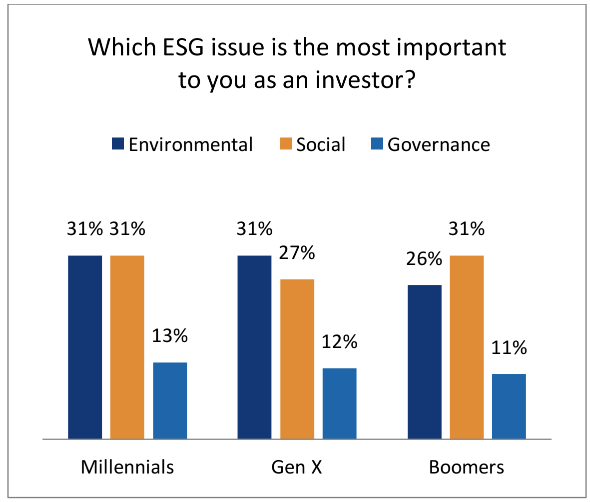

Chart 1

With all three age groups, a significantly smaller percentage rank governance issues (e.g., high executive pay, women on boards, independent directors, etc.) as the most important issues to them as investors.

When it comes to Millennial investors' outlook on the future, 82% say they believe that RI will become more important in the next five years, compared to 55% of Gen X and 48% of Boomers.

82% of Millennial investors believe that responsible investing will become more important in the next five years.

Millennials expect their financial advisors to keep up with them; 67% believe it is important for their financial advisor to be knowledgeable about RI issues and trends, compared to 52% of Gen X and 54% of Boomers.

Millennials by Region

Millennials in BC believe more strongly than their peers across Canada that companies with good social and environmental practices can provide investors with better protection against downside risks (Chart 2).

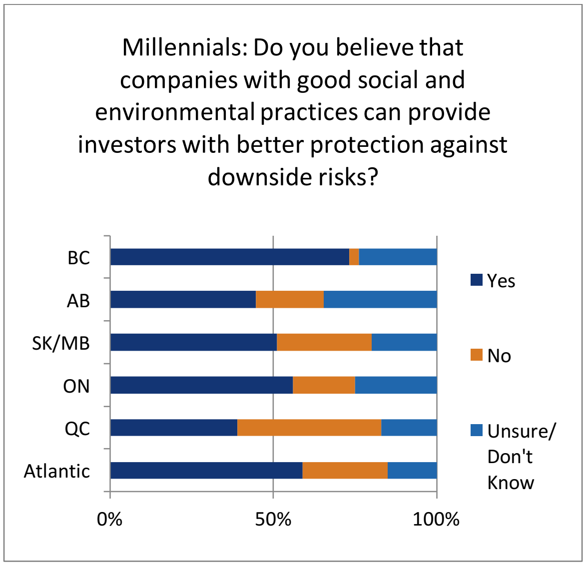

Chart 2

Millennials in Alberta expressed the least interest in “impact investments” that are dedicated specifically to solving social or environmental problems (Chart 3).

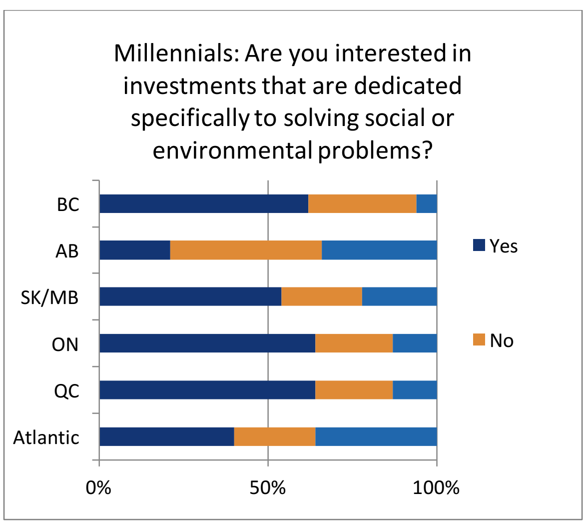

Chart 3

In contrast, however, the same group in Alberta placed greater importance than their counterparts on considering ESG factors when making investment decisions (Chart 4), and recognized the long-term prospects for those investments (Chart 5).

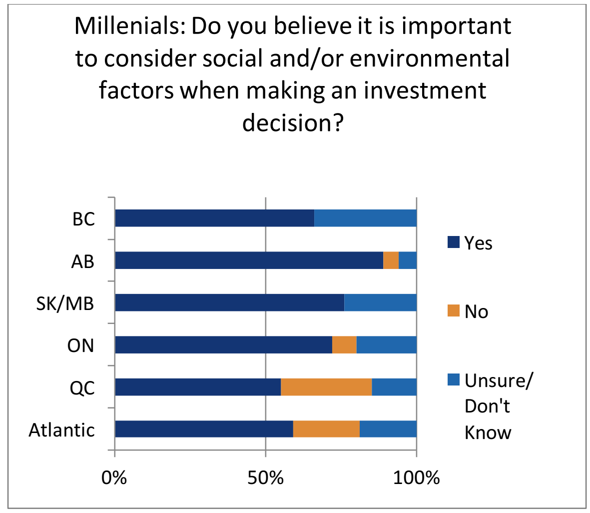

Chart 4

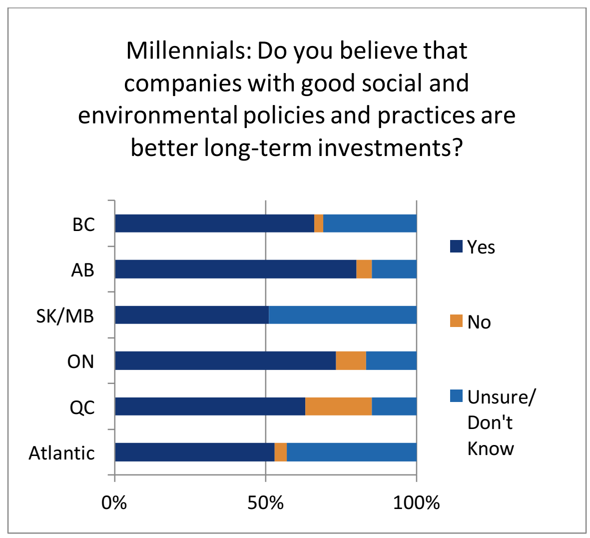

Chart 5

This contrast suggests that Albertan Millennials are likely to be more interested in an ESG integration strategy than impact investing or “green” strategies. Although we lack data to explain this contrast empirically, it is possible that some respondents view ESG factors as important through a risk mitigation lens, while viewing “green” investment as incompatible with local economic objectives.

Women Investors

On many questions, women provided very similar responses to men regarding their *positive* feelings about RI.

Yet, significantly, the percentage of women who responded to questions by indicating that they either *weren't sure* or *didn't know* was far higher than men who said the same.

In fact, women are about twice as likely as men to indicate uncertainty as to whether they believe it is important to consider ESG factors when making an investment decision (Chart 6).

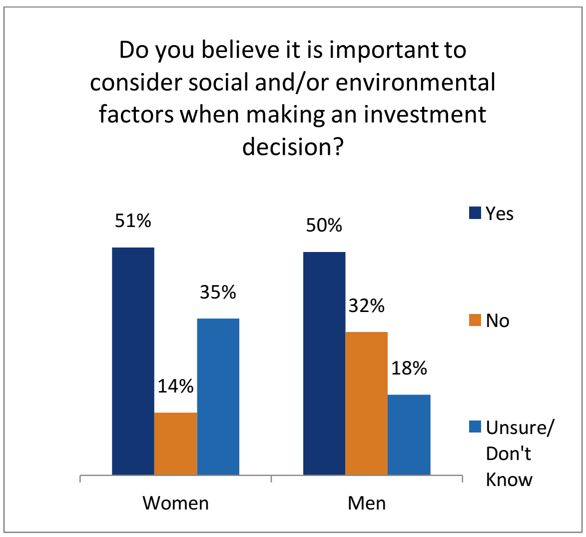

Chart 6

Charts 7 through 9 tell a similar story: Women investors are consistently *less likely* than men to rule out responsible investments, and consistently *more likely* to express uncertainty about their interest in RI.

Similar to Millennials, **women are more likely than men to believe it is important for their advisors to be knowledgeable about RI issues and trends** (62% of women compared to 52% of men).

These findings indicate a clear educational opportunity, as women may be more open to RI if given more information. RI advisors could benefit significantly by providing women investors with more information about responsible investment options.

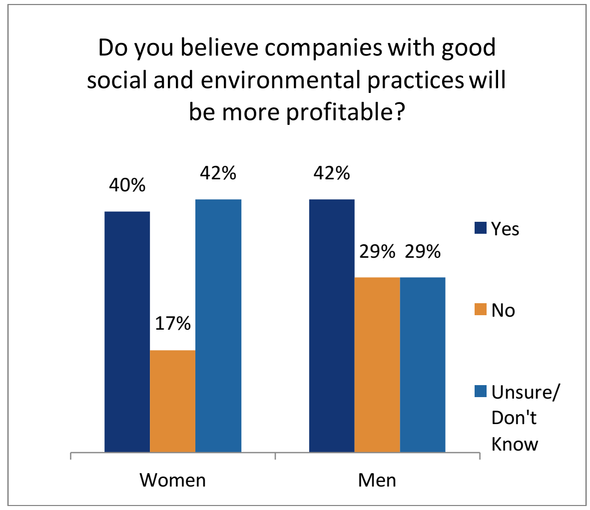

Chart 7

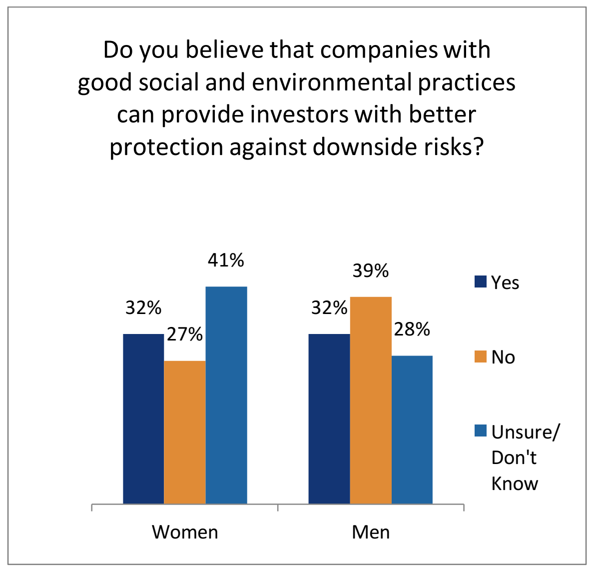

Chart 8

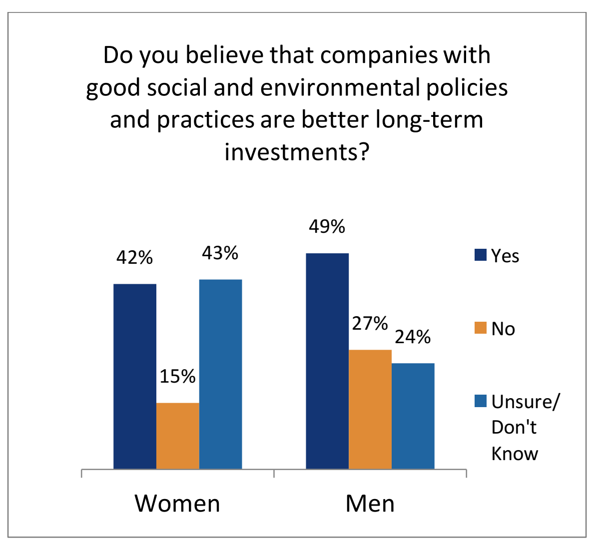

Chart 9

When asked to rank the most important issues to them, among environmental, social and governance issues, women investors are more inclined to rank social issues over environmental issues, while the opposite is true for men. For both genders, a significantly smaller percentage rank governance issues as most important to them as investors (Chart 10).

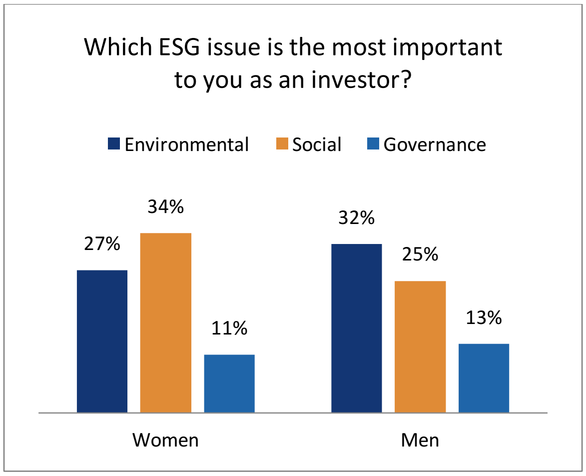

Chart 10

Women by Age

When looking at women across age lines, Millennial women most strongly believe that ESG factors are important investment considerations, while Gen X women are the most unsure (Chart 11).

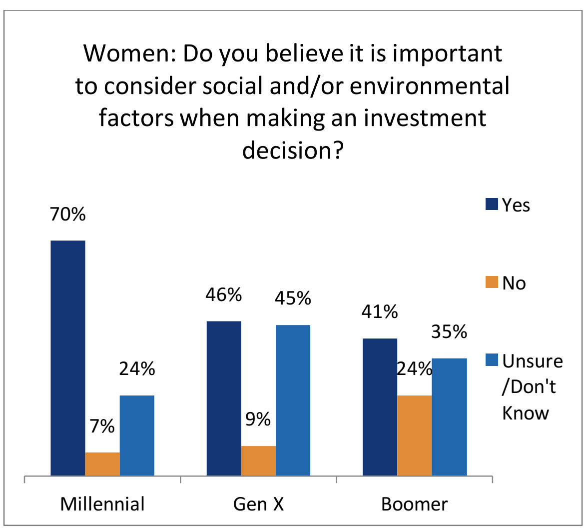

Chart 11

This breakdown by age was fairly consistent across all of the survey questions asked; that is, Millennial women tended to answer affirmatively in response to their beliefs and perceptions about RI, while Gen X and Boomer women were more unsure about their responses.

These findings suggest there is an opportunity for fund companies and financial advisors to provide more education about RI specifically targeted toward women age 35 and above. Of investors across all ages who use a financial advisor, 62% of women investors, compared to 52% of men, believe it is important or very important for their financial advisor to be knowledgeable about RI issues and trends.

Additional Findings

Our survey found additional insights about Canadian investors' perspectives on responsible investment.

Canadian Investors

Half of the investors surveyed believe it is important to consider ESG factors when making investment decisions, and the majority (58%) say they would divest due to ESG concerns.

However, only 32% of those surveyed are aware that responsible investment provides better protection against downside risks, indicating an educational opportunity for financial advisors to better inform their clients.[8]

A strong majority of those surveyed (60%) believe that socially and environmentally responsible investing will become more important in the next five years.

Investors by Region

Generally speaking, investors from British Columbia and Quebec demonstrate the highest interest in responsible investing, though Millennials in Alberta show a surprisingly strong interest in considering ESG

[8] A recent study commissioned by OceanRock Investments (*Canadian Responsible Investment Mutual Funds: Risk/Return Characteristics*, Carleton Centre for Community Innovation, 2015) found that almost every comparison of RI versus traditional investment returns points to better long-term risk adjusted returns when ESG issues are taken into account.

factors in their investments compared to Millennials in other regions (see pg. 5).

Investors in Quebec show the strongest interest in impact investing. Across age lines, investors from almost everywhere in Canada are more than twice as likely as those in Alberta to be interested in impact investing (Chart 12).

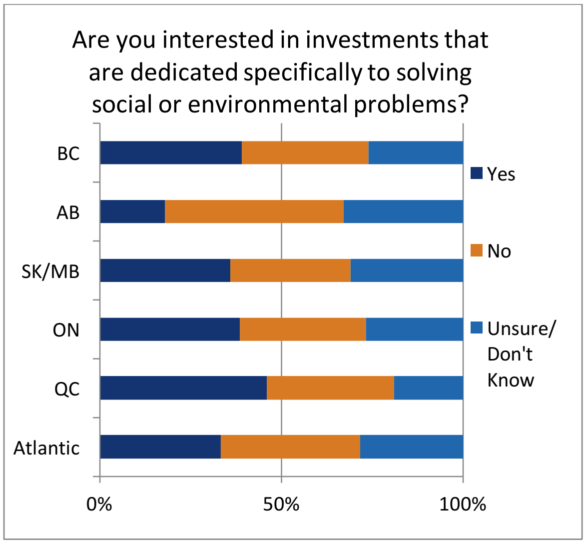

Chart 12

Quebec investors are also more likely than those from other regions to believe that companies with good ESG practices will be more profitable, and that companies with good ESG policies and practices are better long-term investments

Investors from Quebec and BC are the most likely to divest because of objectionable corporate activity on ESG issues.

Investors by Education Level

Our survey showed that university graduates are more interested in RI, and that they see a strong future for RI in years to come.

- University grads are almost twice as likely as those with no post-secondary education to be interested in investments that are dedicated specifically to solving social or environmental problems (52% vs. 28%).

- 63% of university grads believe it is important to consider social and/or environmental factors when making an investment decision (vs. 43% for those with a high school education).

- 74% of university graduates believe that socially and environmentally responsible investing will become more important in the next five years (vs. 55% of respondents with high school education).

Conclusion

The data indicates a bright future for responsible investing, as the emerging generation of investors are much more likely to choose RI than previous generations.

As Millennials' incomes rise, and as they begin to inherit and invest some $30 trillion in the coming years, we expect the RI industry to grow at an exponential rate, continuing to build on its recent growth. Responsible investment advisors that recognize and prepare for this trend will be well positioned to reap the rewards, especially since two thirds of Millennial investors believe it is important for their advisors to be knowledgeable about RI.

Women are about twice as likely as men to indicate uncertainty about their views on responsible investing, and more likely to believe it is important for their advisors to be knowledgeable about RI issues and trends. This indicates a clear educational opportunity for responsible investment advisors, as women investors may actually be more open to RI once they are more informed.

RI advisors and fund companies would benefit from providing women investors with more information about RI. Key areas to focus on include: (1) informing women investors about RI options; and (2) educating women investors about the strong performance and risk characteristics of RI funds.

The RIA website provides a large selection of resources to support this educational effort at ***www.riacanada.ca***