Responsible Investment Association

2018 RIA INVESTOR OPINION SURVEY
IN FOCUS: CLIMATE CHANGE

DECEMBER 2018

Sponsored by:

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Foreword

By Kevin McCreadie, Chief Executive Officer and Chief Investment Officer, AGF Management Limited

In the world of responsible investing, it's been said that "Who Cares Wins." That was the title of a landmark report that first coined the term ESG more than two decades ago, unleashing a new way of looking at investing by incorporating environmental, social and governance considerations into the everyday decision making of investors.

Today, there's never been more evidence that ESG integration is seen as a path to creating long-term value for shareholders while also contributing to a better environment, healthier communities and good corporate governance practices. In fact, in Canada alone, there is now $2.1 trillion in responsible assets under management, representing 42% growth over the past two years and 51% of Canada's investment industry.[1]

It's not surprising then that investors are becoming much more vocal in expressing their desire to know more about responsible investing initiatives and the options available to them. We heard loud and clear from this year's RIA survey of Canadian investors that they understand the connection between ESG factors and financial results, and are committed to investing in solutions that contribute to building a sustainable future.

For example, while 73% of investors believe climate change will create risks for the global economy within the next 5 years, 66% of those polled would like a portion of their portfolio invested in companies that are providing solutions to climate change and environmental challenges. Moreover, 71% agreed that companies with good ESG practices are better long-term investments.

As a leader in the development of sustainable investing initiatives, AGF is excited to hear that investors are aligned with much of our thinking. We strongly believe that integrating consideration of ESG factors into our investment decision-making and ownership practices will contribute to better investment outcomes for our clients. This is true across all

of our investment management teams, and our commitment to good stewardship and responsible investing doesn't end there.

Take AGF's Global Sustainable Growth Equity Strategy, for instance. Launched in 1991, it has one of the longest track records in sustainable investing with a thematic approach focused on investing in companies related to generating a positive social or environmental impact, alongside the potential for financial growth.

Of course, it's not enough just to create more responsibly-minded investment strategies. As the survey also showed, investors are looking for more guidance on how to align their values with the growing choices that are now available to them on this front.

The ongoing education of investors, therefore, needs to remain a top priority across the investment industry. By upping our collective understanding of the varying aspects of responsible investing, we can drive more meaningful change.

The commentaries contained herein are provided as a general source of information based on information available as of November 21, 2018 and should not be considered as investment advice or an offer or solicitations to buy and/or sell securities. Every effort has been made to ensure accuracy in these commentaries at the time of publication however, accuracy cannot be guaranteed. Investors are expected to obtain professional investment advice.

[1] "2018 Canadian Responsible Investment Trends Report", Responsible Investment Association

Methodology

This report is based on findings from an Ipsos poll conducted for the Responsible Investment Association from October 5th to 11th, 2018. For the survey, a sample of 800 Canadian investors was interviewed online. For the purposes of this research, investors are defined as individuals who currently own investments such as mutual funds, exchange-traded funds, stocks, bonds, or other securities.

Ipsos measures the precision of online polls using a Bayesian credibility interval. In this case, the poll has a credibility interval of plus or minus 4 percentage points. This is comparable to a "classical" margin of error of plus or minus 3.5 percentage points. For more information about credibility intervals, please read this statement from Ipsos. The data were weighted to the Canadian population data by region, gender, age, and education.

Related Research

The RIA conducts market research as part of our ongoing effort to promote education and awareness about responsible investing. Below are links to some of our recent publications.

- **2018 Canadian Responsible Investment Trends Report**
- **2017 RIA Investor Opinion Survey**
- **2016 Canadian Impact Investment Trends Report**
- **2016 Millennials, Women, and the Future of Responsible Investing Report**

Acknowledgements

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Responsible Investment Association

About the RIA

The RIA Investor Opinion Survey is released annually 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

Background

The 2018 RIA Investor Opinion Survey examines individual Canadian investors' attitudes towards responsible investment (RI). RI, which refers to the incorporation of environmental, social, and governance (ESG) factors into investment decisions, continues to experience growth in Canada.

Total RI assets under management in Canada now exceed $2 trillion, including $435 billion being managed on behalf of individual investors. Given such significant capital being directed into RI strategies, this survey provides important insights for financial advisors and financial institutions about individual investors' interest in RI and the issues they consider important.

This is the Responsible Investment Association (RIA)'s third annual survey of individual investor opinions. This year's report is based on survey data from 800 investors across Canada. The first part of the report examines investor views on RI in general, and the second section covers individual investors' perspectives toward climate change and the environment.

Executive Summary

This report examines Canadian individual investors' interest in and knowledge about responsible investing (RI), which incorporates environmental, social, and governance (ESG) factors into investment decisions. In this year's survey, we put the spotlight on climate change and the environment. Survey data collected from 800 individual investors by Ipsos reveal that Canadian investors are concerned about climate change, and they recognize that climate change presents financial risks and opportunities for companies and investors.

As we have seen in previous surveys, most investors are interested in RI but lack a sound understanding of the subject. In this year's survey, the vast majority of investors stated that they would like their financial advisor or institution to be knowledgable about RI, and they would like to be informed about RI products that are aligned with their values.

While responsible investors believe that environmental, social and governance issues are all important factors to consider, this study reveals individual investors rank environmental issues as the most important of the three. More than three quarters of respondents are concerned about climate change, and more than half want their investments to be aligned with a low-carbon future. Furthermore, the data indicates a majority of Canadian investors recognize that climate change presents financial risks, and a majority want a portion of their portfolio to be invested in companies that are providing solutions to climate change.

Given these findings, there is a clear opportunity for client-facing financial professionals to add value to client relationships by informing clients about RI, engaging clients in discussions about their ESG preferences, and meeting their needs with suitable RI options. While there is strong interest in RI across all demographics, interest tends to be strongest among investors that fall into one or more of the following categories: female, under 35, have kids, and university educated. This highlights an even greater opportunity for financial professionals to engage clients in these segments.

Key Findings

Most Canadian investors are interested in RI, and agree their financial advisors should be knowledgeable on the subject:

- 71% of respondents agree that companies with good ESG practices are better long-term investments. However, 81% of respondents know little or nothing about RI.
- 86% of respondents agree that financial advisors and institutions should be knowledgeable about how ESG risks could affect their investments.
- 81% of respondents would like their financial services provider to inform them about responsible investments that are aligned with their values.

The majority of investors are concerned about climate change and wish to invest in environmental solutions:

- 81% of respondents expressed concern about climate change, and respondents ranked environmental issues as the most important factor among E, S, and G issues.
- 73% of respondents believe it's likely that climate change will create risks for the global economy within five years; this figure climbs to 81% over a twenty-year horizon.
- 70% of respondents believe climate change will have negative financial impacts on companies in some industries in the next five years; this number rises to 79% over the next twenty years.
- 66% of respondents would like a portion of their portfolio to be invested in companies providing solutions to climate change and environmental challenges.

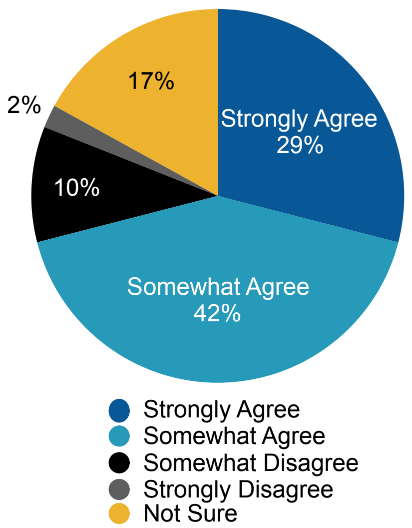
Investor views on responsible investing vary based on demographic factors:

- 72% of respondents with kids are interested in RI, and 69% believe it's important to align their investments with a low-carbon future. These figures fall to 57% and 53%, respectively, among those without kids.

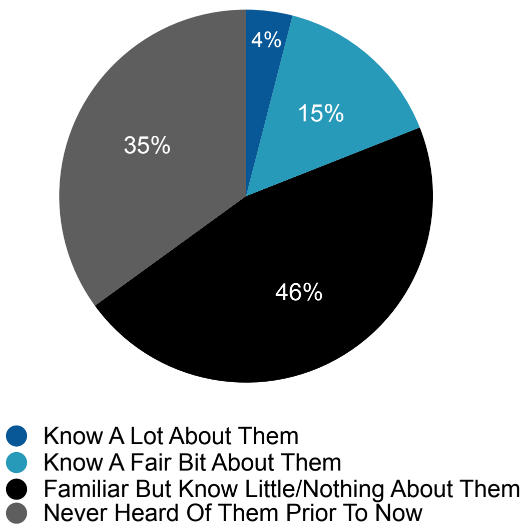
RI Knowledge Gap

Consistent with our 2017 survey, there is a gap between investor interest in RI compared to their knowledge of RI. While 71% of individual investors agree that companies with good ESG performance are better long term investments, a staggering 81% of respondents reported knowing little or nothing at all about RI. The charts below present these data.

"Companies with good ESG practices will be better long-term investments"



To what extent are you knowledgeable about responsible investments that consider ESG issues?



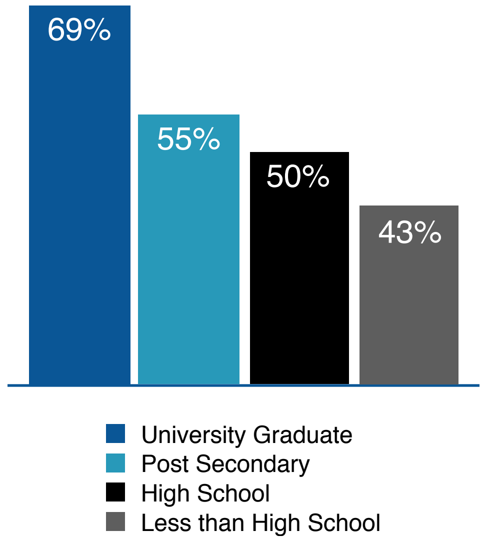
71% of individual investors agree that companies with good ESG performance are better long term investments.

Demographic Variances

While a majority of Canadian investors surveyed are interested in RI, interest is particularly strong among women, investors aged 18-34, investors with kids, and investors with a university degree. 64% of women expressed interest in RI, compared to 57% of men. 70% of investors aged 18-34 report interest in RI, whereas 52% of investors over the age of 55 state interest. These findings are consistent with past studies[2][3]. In addition, 72% of respondents with kids state they are interested in RI, while 57% of those without kids express interest.

Of the demographic factors, the largest gap in RI interest is seen across varying levels of education. 69% of university graduates surveyed are interested in RI, whereas only 43% of those who have not graduated high school report interest. This discrepancy highlights that education plays a substantial role in the level of interest investors have in RI.

Percentage of investors interested in RI by level of education



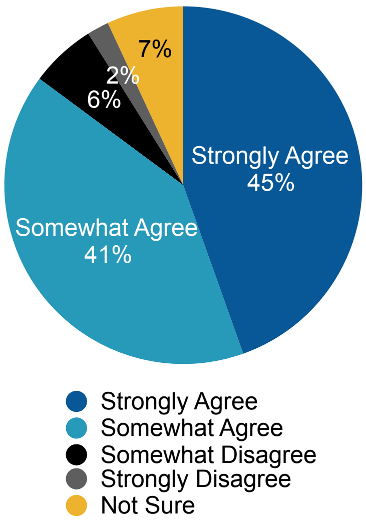
[2] RIA (2017). RIA Investor Opinion Survey
[3] RIA (2016). Millenials, Women and the Future of Responsible Investing

A Call to Action

A few of the questions in our survey produced results that can be viewed as a clear call to action for financial professionals.

First, a staggering 86% of investors surveyed believe their financial services provider should be knowledgeable about how ESG risks could affect their investments. These data are shown in the chart below.

"Financial advisors and financial institutions should be knowledgable about how ESG risks could affect my investments"



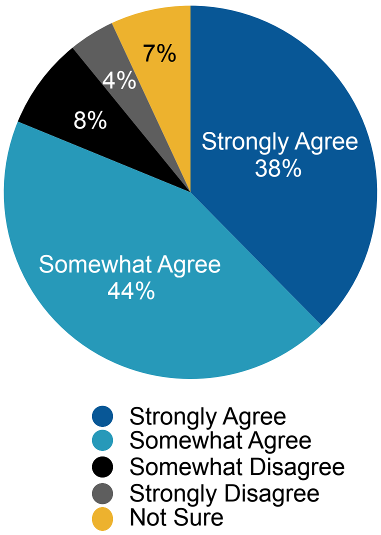
Studies have found RI can reduce risk and lead to financial outperformance[4][5]. Notably, scholars are finding that ESG integration results in higher Sharpe ratios, or higher risk-adjusted returns[6]. In light of this, investors' desire for financial advisors and institutions to be knowledgable about ESG risks is warranted.

82% of investors would like their financial services provider to inform them about responsible investments that are aligned with their values.

Alignment with Investor Values

In addition to agreeing that financial advisors and institutions should be knowledgable about ESG risks, 82% of respondents would like their financial services provider to inform them about responsible investments that are aligned with their values. This is consistent with the 2017 RIA Investor Opinion Survey which found investors would be more likely to choose RI if their advisor suggested suitable options.

"I would like my financial advisor or financial institution to inform me about responsible investments that are aligned with my values"



Following the previously observed trend, when broken down into demographic factors, women and respondents with kids show the strongest interest in having RI options aligned with their values. 86% of women agree with the above statement, compared to 76% of men. Similarly 86% of respondents with kids agree, while 79% of respondents without kids agree.

An overwhelming majority of the Canadian investors surveyed want their financial advisors and institutions to be knowledgable about RI, and to inform them about investments that are aligned with their values. Financial services providers who develop an understanding of their clients' ESG preferences are positioned to tap this growing market.

4 Carleton University (2015). Canadian SRI Mutual Funds Risk / Return Characteristic
5 Morgan Stanley Institute for Sustainable Investing (2015). Sustainable Reality
6 Kumar et al. (2016). ESG Factors and Risk-Adjusted Performance: A New Quantitative Model

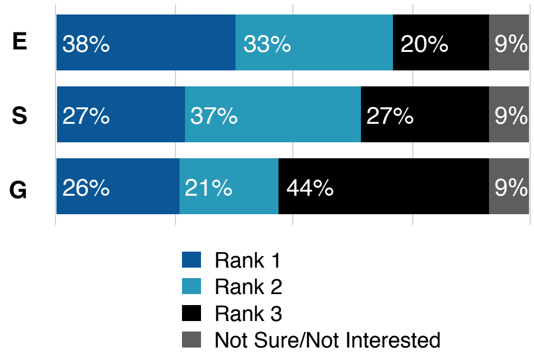
In Focus: Climate Change

In October of 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report on the impacts of 1.5°C of global warming above pre-industrial levels. The report indicates human activities are estimated to have already caused approximately 1.0°C of warming, and we are on track to surpass 1.5°C as early as 2030 if greenhouse gas emissions continue at their current rate.[7] The IPCC's models show that surpassing the 1.5°C threshold will likely to lead to catastrophic environmental, social, and economic impacts.

Environmental disasters associated with weather and climate change are already becoming more frequent and occurring closer to home. In 2017 alone, the U.S experienced a historic number of severe weather and climate-related disasters such as tropical cyclones, storms, floods, drought, wildfires and a major crop freeze. The cumulative cost of these events reportedly exceeded $300 billion USD[8].

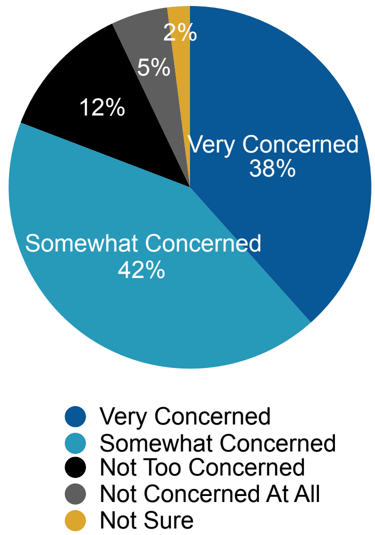
The widespread media coverage of environmental disasters has likely contributed to a growing awareness and concern about environmental issues. When asked to rank environmental, social, and governance issues in order of importance, most investors ranked environmental issues as being the most important, with 38% of investors ranking them first. Social issues were ranked second, followed by governance issues in third.

Rankings of environmental (E), social (S), and governance (G) issues in order of importance to individual investors



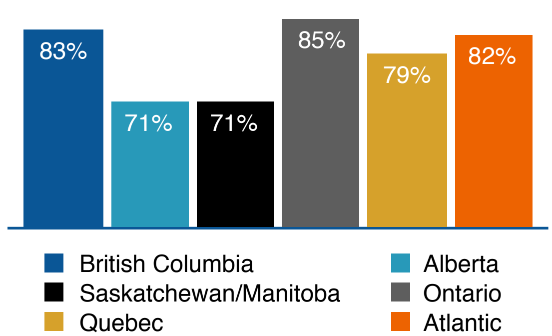
Consistent with investors ranking environmental issues as a high priority, 80% of respondents report concern about climate change and the environment. Notably, only 5% of investors said they are not concerned at all.

To what extent are you concerned about climate change and the environment?



Across most demographic categories, at least three quarters of respondents expressed concern about climate change and the environment. The one exception is when respondents are segmented by province. Respondents in Ontario and BC are the most concerned about climate and the environment, at 85% and 83%, respectively, while only 71% of respondents in Alberta, Saskatchewan, and Manitoba expressed concern. Despite these regional variances, a clear majority of Canadian investors in all provinces expressed concern.

Percentage of investors concerned about climate change and the environment



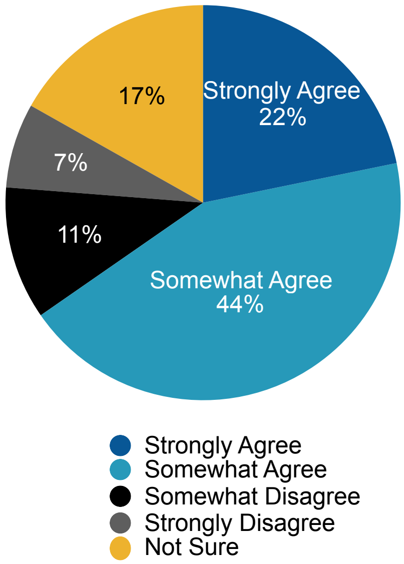
[7] IPCC (2018). Global Warming of 1.5

[8] Smith (2018). 2017 U.S. Billion Dollar Weather and Climate Disasters: A Historic Year in Context

Investing in Climate Solutions

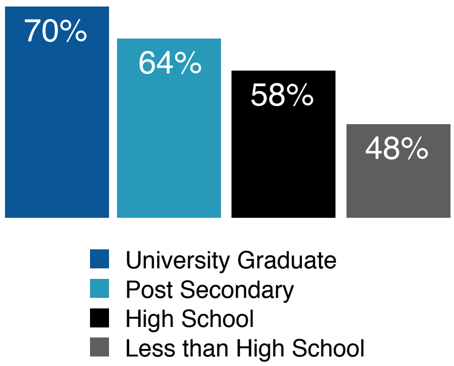
Are Canadian individual investors ready to play a role in addressing climate change through their investment choices? Indeed, survey data show that about two-thirds (66%) of investors would like a portion of their portfolio to be invested in companies that are combating climate change and other environmental issues.

"I would like a portion of my portfolio to be invested in companies that are providing solutions to climate change and other environmental challenges."



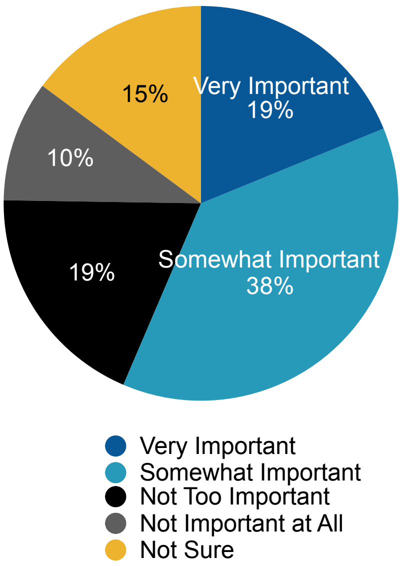
Similar to investors' interest in RI, the desire to invest in climate solutions varies by level of education. While 70% of investors with a university degree agree with the above statement, this figure drops to 48% among investors without a high school diploma.

Percentage of respondents who would like to invest in companies providing solutions to climate change

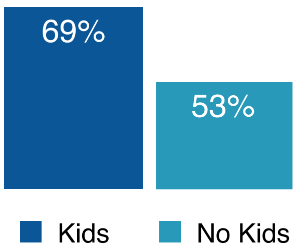


Most Canadian investors want their portfolios to be aligned with a low carbon world. According to the survey data, a majority of 57% of respondents believe it is important to align their investments with a low carbon future. Moreover, 69% of respondents with kids believe it is important for their investments to be aligned with a low-carbon future, as do 64% of investors aged 18-34.

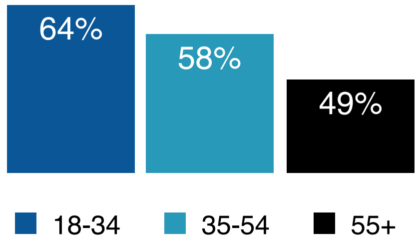
Percentage of investors who believe it is important to align their investments with a low carbon future



Percentage of investors who believe it's somewhat to very important, by household type



Percentage of investors who believe it's somewhat to very important, by age



Canadian Investor Views on Climate-Related Financial Risk

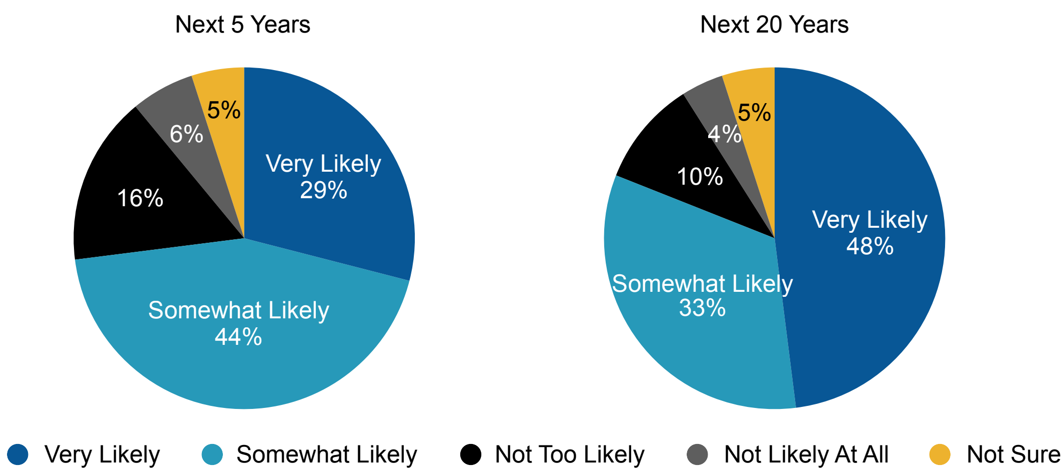
Studies show that climate change presents serious risks to the global economy. According to the Organisation for Economic Cooperation and Development, a lack of action on climate change could lead to economic losses between 1% and 3.3% of global GDP by 2060.[9]

As shown below, individual investors in Canada are attuned to these risks. While 73% of survey respondents believe it's likely that climate change will create risks for the global economy within five years, this number climbs to 81% over the next twenty years.

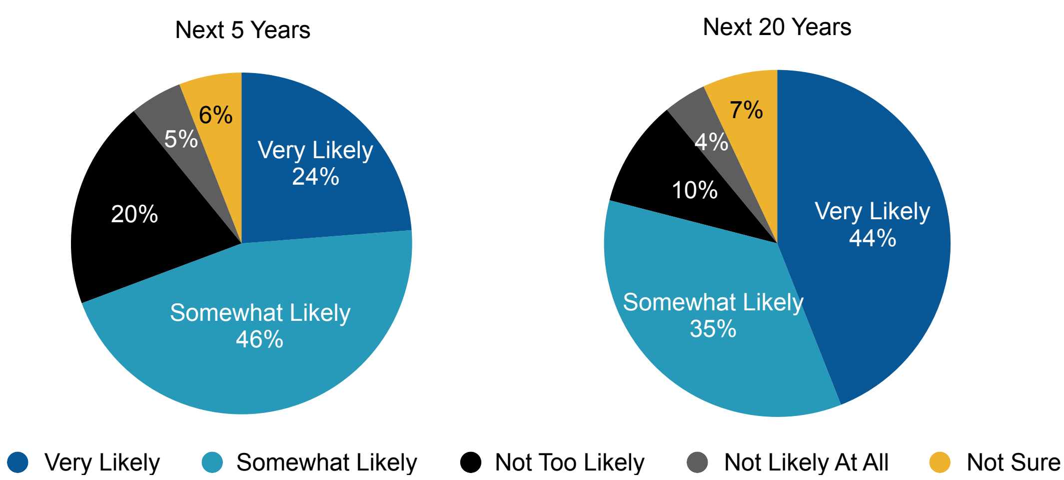
Similarly, Canadian individual investors recognize that climate change will have negative financial impacts on companies in some industries. 70% of survey respondents believe climate-related financial risks will play out in the next five years, and this figure climbs to 79% over the next twenty years.

On this topic, education is a factor. While 71% of university grads believe climate change will have negative impacts on some companies in the next five years, only 31% of respondents without a high school diploma agree.

Do you believe climate change will create risks for the global economy?



Do you believe climate change will have a negative financial impact on companies in some industries?



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[9] [OECD (2015). The Economic Consequences of Climate Change]

Conclusion

The evidence is clear: the vast majority of Canadian investors agree that their financial services providers should be knowledgeable about how environmental, social and governance risks could affect their investments. Investors also reported they would like to be informed about investments that are aligned with their values. This represents an opportunity for client-facing investment professionals.

Moreover, Canadian investors are concerned about climate change, and they recognize that climate change presents financial risks and opportunities. As a result, a majority of Canadian investors want their investments to be aligned with a low-carbon future, and a majority would like a portion of their portfolio to be invested in climate solutions.

Given these findings, financial advisors can add significant value to client relationships by informing clients about RI, engaging clients in discussions about their values and meeting their needs with suitable investment options. That is the case for most investors across Canada, but the case is particularly strong for engaging clients who belong to one or more of the following groups: women, under 35, have kids, and university educated.