Responsible Investment Association

RIA 2021 ADVISOR OPINION SURVEY REPORT

CANADIAN ADVISORS' PERSPECTIVES ON RESPONSIBLE INVESTMENT

Lead Partner

MACKENZIE Investments

Partners

NEI Vancity

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Foreword from Mackenzie Investments

By Fate Saghir, Senior Vice President, Head of Sustainability, Mackenzie Investments

The last two years have been challenging for many Canadians who have endured the consequences of the COVID-19 pandemic. These difficult times have created a heightened societal awareness of the world around us, accelerating the shift to a more sustainable future.

Investors are increasingly looking beyond shareholder and financial returns to consider the impact of our actions on all stakeholders and on our planet.

This shift is being experienced through double digit growth rates in responsible investments and sustainable investment funds[1], reflecting the growing interest from Canadian investors. In the 2021 RIA Investor Opinion Survey, 77% of respondents stated, they would like their financial advisor to inform them about responsible investments aligned with their personal values; yet only 27% of respondents indicated that their advisors are having that discussion.

To address this gap and with strong advocacy from the RIA, IIROC recently updated its Know Your Client (KYC) to include clients' personal values as part of their potential investment objectives. We believe that financial advisors will play a critical role in enabling a sustainable future by adopting responsible investments into client conversations. To further our understanding of the challenges and opportunities that exist for advisors, we're proud to introduce the inaugural RIA Advisor Research Report.

The insights from the study reinforce the much-needed work required to further awareness, understanding, and adoption of responsible investments. Firstly, the study highlights that this continues to be an investor-led shift; 81% of advisors who do not discuss responsible investments with their clients indicate that they would take interest only if their clients showed interest.

Secondly, 85% of advisors indicated that they have some level of comfort initiating a conversation about responsible investments with their clients. While positive, the study also highlights some gaps in knowledge which need to be addressed.

Lastly, concerns of greenwashing, lack of standards and fear of sacrificing financial returns continue to be top of mind for many advisors. These insights reinforce the importance of the standardization and education required to support advisors in their practice. We are at a pivotal point in our history and the Canadian investment industry can play a leading role in safeguarding Canada's sustainable future.

We are confident that the industry is taking the necessary steps to further this evolution and we encourage financial advisors to continue to provide feedback on what's needed to enable responsible investments for their clients.

Source: 1- IFIC's 2020 Investment Funds Report, sustainable investment assets grew by 55% in 2020, compared to 11% growth for the fund industry overall.

Message from NEI Investments

By Frederick M. Pinto, SVP and Head of Asset Management at Aviso Wealth, the parent company of NEI

Years ago, RI was supported by just handful of advisors, who made it their mission to align with a small group of investors seeking to make an impact with their money. As investor demand for RI exploded, a broader cohort of advisors has been challenged to keep up and respond with quality advice and relevant solutions.

While the results of the 2021 RIA Advisor Survey clearly demonstrate many advisors are looking to step up to meet this challenge, only 30% say they are 'very comfortable' initiating a conversation with their clients about RI.

That reluctance, rooted in the need to first acquire practical, practice-based knowledge, needs to be addressed. At NEI Investments, we recently initiated an RI practice management program and a dedicated RI insights function to help advisors overcome this reluctance, and in turn have meaningful RI conversations with their clients.

I'm happy to report it's working. What that tells us at NEI, and what it signals to the rest of our industry, is that advisors are just as motivated by the opportunities around RI as their clients. And that, with the right support, they will seize it.

Message from Vancity

By Joe Reid, Vice President, Wealth Management and Impact Investing, Vancity

Vancity is owned by the people it serves. As a financial cooperative, our values are at the centre of our investing practices. Vancity's subsidiary, Vancity Investment Management (VCIM), is a Canadian leader in responsible investing. Having introduced Canada's first SRI mutual fund in 1986, we know that investors have the power to drive a clean and fair world.

Demand for responsible investing opportunities continues to grow rapidly. There's an acute awareness among shareholders that the collective impact of their investments can affect the future of our planet and society. To drive this impact, a deep understanding of clients' needs and values is required.

This survey demonstrates the importance of advisors being educated about responsible investing as demand for it grows. It provides valuable insight into perceptions about RI and the integration of ESG into investment portfolios, allowing for a greater understanding of the market. Vancity is proud to support the Responsible Investment Association for continuing to bring such important research to the market.

Acknowledgements

Lead Partner

Special thanks to Mackenzie Investments for financial support which made this research possible.

Partners

Special thanks to NEI Investments and Vancity for financial support which made this research possible.

Project Director

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

Contributors

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Translation

Thanks to Vanessa Brunette for the French language translation of this report.

Media Partner

About the RIA

The Responsible Investment Association (RIA) is Canada's industry association dedicated to responsible investment (RI). The RIA aims to drive the growth and development of RI in Canada, with a vision to align capital with sustainable and inclusive development as codified in the Paris Agreement and the United Nations Sustainable Development Goals. 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.

Related Research and Publications

2021 RIA Investor Opinion Survey

2020 RIA Investor Opinion Survey

2019 RIA Investor Opinion Survey

2018 RIA Investor Opinion Survey

2020 Canadian RI Trends Report

Methodology

This report is based on survey data from research conducted by Newcom Media on behalf of the Responsible Investment Association in September 2021 using an online (internet) survey methodology. The survey was conducted in both French and English. In total, 539 Canadian financial advisors completed the study drawn from the 40,000+ subscriber base of Newcom Media's Financial Group publications. The final data was statistically weighted to reflect the geographic distribution of financial advisors across the country. The total results of a probability sample of this size would be considered accurate to within +/-3.5%, with 90% certainty of what they would be if all financial advisors in Canada were interviewed. It is important to note that the margin of error would be higher among smaller sub-groups of the surveyed population. Due to the effects of rounding, figures may not total to 100 and sums of individual items may not equal totals.

For the purposes of this research, "financial advisor" includes the following categories: "financial advisor" (68% of respondents), "investment advisor / full-service broker" (25% of respondents), and "advisor with a bank branch / trust company / credit union" (7% of respondents). All respondents reported being registered with at least one regulator.

Background

Over the past six years, the annual RIA Investor Opinion Survey has tracked Canadian investors' attitudes, knowledge, and ownership related to RI — an approach that incorporates ESG considerations into investment selection and management.

We've learned a lot. For starters, we know that most Canadian individual investors are interested in RI. In 2021, 73% of survey respondents indicated they were "very" or "somewhat" interested, up from 60% just 3 years previously. With the disastrous effects of climate change and extreme weather now an undeniable reality for many companies and communities, it's no surprise that 85% of respondents indicated that they are concerned about climate change and the environment. In fact, the same proportion of survey respondents agreed that Canadian corporations should set goals for their businesses to achieve net-zero emissions by 2050.[1]

It's clear that investors are increasingly turning to RI, whether to support their values and preferences, mitigate risks, or seize opportunities – but are advisors ready to provide the support they need? Unfortunately, there is a large gap between the percentage of Canadian investors who want their advisors to inform them about RI options (77%) and the percentage of investors who say their advisors who have initiated discussions on the topic (27%). This "RI Service Gap" means that 50% of investors aren't getting the information they'd like their advisors to give them.[2]

To learn more about why this RI Service Gap exists and what motivates advisors when it comes to RI, we've conducted our first ever RIA Advisor Opinion Survey. We hope this report encourages discussion, addresses some of the current barriers to RI adoption, and inspires further education and growth for the industry.

Responsible Investment on the Rise

According to the RIA's most recent assessment of the size of the RI market in Canada, total RI assets under management (AUM) have grown at a rapid rate, to $3.2 trillion at the end of 2019. RI made up 61.8% of all professionally-managed assets in Canada—a significant jump from 50.6% two years prior. Just over one-quarter of total RI AUM ($882.0 billion) represented assets under management for individual investors. Designated RI mutual fund assets stood at $15.1 billion while RI ETF assets reached $654.9 million, representing a small fraction of the total RI market. (Responsible Investment Association (2020). 2020 Canadian Responsible Investment Trends Report)

Since that data became available, a growing number of retail RI products (including mutual funds and ETFs) have hit the market. During the full year 2020, according to data from Morningstar, a record 46 RI funds were launched in Canada. In just the first nine months of 2021, 63 new RI funds were introduced in Canada, bringing the total number of RI funds to 208. (Responsible Investment Association (2021). Quarterly Responsible Investment Funds Report: Highlights from Q3 2021)

1 Responsible Investment Association (2021). 2021 RIA Investor Opinion Survey: Canadian Investor Perspectives on the Energy Transition

2 Ibid.

Executive Summary

The RIA Advisor Opinion Survey examines Canadian advisors' perspectives on responsible investing (RI), which incorporates environmental, social and governance (ESG) factors into investment decisions.

Our survey data, collected from 539 individual financial advisors across Canada, shows that many advisors (62%) consider themselves to have excellent or very good knowledge of RI, and most (85%) said they feel comfortable talking about RI with their clients.

However, many advisors appear to be overestimating their knowledge, and only about one-third of advisors (37%) reported actually initiating RI-related conversations. Nonetheless, the more knowledgeable an advisor feels about RI, the more likely they are to jumpstart a conversation and feel comfortable doing so. Relatedly, insufficient knowledge was the most cited reason by far for advisors who expressed discomfort around initiating RI conversations with clients.

The second half of the report sheds further light on why advisors may be hesitating to bring up RI with their clients. More than half of the advisors surveyed expressed some level of concern about greenwashing, lack of standards, financial performance, the quality of product options, lack of fund certification, the quantity of product options, and fees. Of these, greenwashing and lack of standards were the most widely cited issues for advisors. Relatedly, advisors highlighted that standardization around RI funds could go a long way to alleviating their concerns.

Overall, the findings show that advisors and the industry still have work to do when it comes to building knowledge and confidence around RI. With investor interest in RI, investor concerns around climate change, and the sheer number of RI products all on the rise, advisors may need to take greater initiative when it comes to RI in order to close the RI Service Gap and meet their clients' evolving demands.

Key Findings

Advisors say they are comfortable initiating conversations around ESG issues or RI, but they don't always do so in practice.

- 85% of advisors said they're very or somewhat comfortable starting a conversation about RI, while 15% indicated they're not comfortable doing so.
- Among advisors who have discussed ESG or RI with clients, 37% reported that they usually initiate the conversations, while 32% indicated that the client does so, and 31% said that they and their clients start these conversations equally.

Advisors who feel knowledgeable about RI are much more likely to feel comfortable taking the lead, but they may be overestimating their knowledge.

- 94% of advisors who said their RI knowledge is excellent or very good also said they are comfortable starting RI-related discussions. In comparison, only 35% of advisors who described their knowledge as poor said they are comfortable taking the lead.
- Some advisors appear to be overestimating their knowledge. Advisors' demonstrable knowledge was similar regardless of their self-assessed knowledge levels. Of those advisors who said their RI knowledge was excellent or very good, one-fifth did not correctly identify 3 true statements out of 10 statements about RI.

Climate change is top-of-mind for investors, but advisors have some concerns about RI. More standardization could help.

- 84% of advisors reported that environmental matters (such as climate change, biodiversity, and toxic waste) are the most important ESG issues for their clients.
- Advisors who have discussed ESG or RI with their clients cited various reasons, including client interest (41%), the desire to make suitable investment recommendations (25%), their sense of fiduciary duty (12%), and to distinguish their practice and services (12%).
- However, many advisors also shared concerns about RI, which may be preventing them from initiating RI-related conversations. For example, 81% of respondents expressed concern about greenwashing, and 74% expressed concern about lack of standards.
- Many advisors left comments indicating that standardization around responsible investments would help them to overcome their concerns.

Assessing Advisors' Knowledge About RI

Data for the RIA Advisor Opinion Survey was collected from 539 individual financial advisors across Canada who responded to an online survey conducted in September 2021.

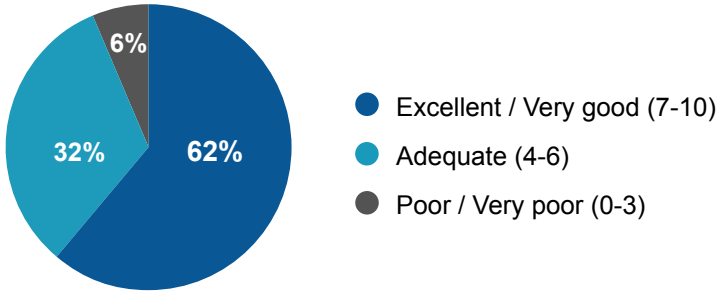
In the survey, we first asked respondents to rate their level of knowledge about responsible investing (RI), and then we followed up with a brief test of their familiarity with various RI concepts.

Figure 1 summarizes responses to the question, "When it comes to the concept of Responsible Investing (RI), how would you describe your level of knowledge?" Respondents rated their RI knowledge on a scale from 0 (Very poor) to 10 (Excellent).

A majority of the advisors surveyed (62%) described their RI knowledge as excellent or very good, while 32% described it as adequate, and 6% described it as poor or very poor.

FIGURE 1

When it comes to the concept of responsible investing, how would you describe your level of knowledge on a scale from 0 (Very poor) to 10 (Excellent)?



N = 526, Mean score = 6.9

Perhaps unsurprisingly, advisors who reported being knowledgeable about RI were much more likely to report feeling comfortable talking about it with clients. Among respondents who said their knowledge is excellent or very good, 94% also said they are comfortable initiating RI-related conversations, compared to only a third (35%) of those who assessed their knowledge as poor.

Relatedly, advisors who said they are comfortable starting RI-related conversations were more likely to report being knowledgeable about RI. Specifically, 67% of advisors who said they are comfortable starting such discussions rated their knowledge as excellent or very good. Conversely, advisors who said they are not comfortable initiating RI discussions were less likely to describe themselves as knowledgeable – only 22% of this group reported excellent or very good RI knowledge.

Further, 74% of advisors who said that RI comes up frequently or sometimes with clients also described their knowledge as excellent or very good.

Knowledge Levels May be Overestimated

While 60% of advisors reported high or excellent RI knowledge, and 32% said their RI knowledge is adequate – how well-grounded are these self-assessments?

To test advisors' RI knowledge, the survey presented a series of ten statements about RI and asked advisors to select which ones were true (Figures 2.A and 2.B). Three of the statements were true and seven were false. Only 6% of respondents correctly identified the three true statements and 42% correctly identified two true statements, while 29% correctly identified one true statement, and 23% didn't correctly identify any of the true statements at all.

FIGURE 2.A

Of the following statements which ones are true?

Statements	True or False	% who selected "True"
Research shows that responsible investments typically perform just as well if not better than traditional investments.	True	63
Some responsible investment strategies may include fossil fuel companies.	True	58
Less than 15% of all professionally managed assets in Canada take ESG issues into account.	False	40
The United Nations-supported Principles for Responsible Investment (PRI) certifies retail investment products that meet responsible investment standards.	False	30
To receive a AAA ESG rating a company must generate 'net zero' carbon emissions.	False	14
Responsible investment refers to investments that always exclude fossil fuel companies.	False	8
Responsible investing is only for investors concerned about morals or ethics.	False	8
Responsible investing accounts for a majority of professionally managed assets in Canada.	True	8
Responsible investing began in 2018 following Greta Thunberg's climate advocacy.	False	4

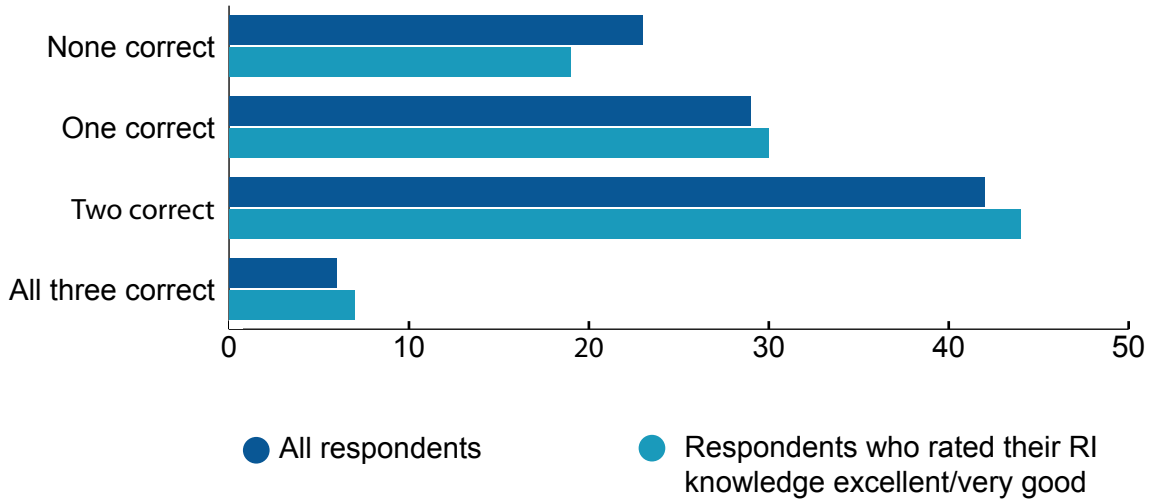
Figure 2.A continued on page 8

Statements	True or False	% who selected "True"
Responsible investors can only hold top ESG-rated securities in their portfolios.	False	7
None are true	-	13

N = 539, Multi select

FIGURE 2.B

Quiz Results Summary



N = 539, Multi select

Interestingly, there were no demographic commonalities among the 6% of respondents who correctly identified all three of the true statements.

A third (33%) of the advisors who described their RI knowledge as poor were unable to identify any of the correct statements, which might be expected. However, nearly one-fifth (19%) of the advisors who described their RI knowledge as excellent or very good could not correctly identify any of the right answers either, and only 7% of this group found all three correct answers.

Overall, performance was remarkably similar regardless of advisors' self-assessed knowledge levels. Thirty percent of those who described their knowledge as excellent or very good correctly identified one true statement, compared to 31% of those who felt their knowledge is adequate and 28% of those who assessed their knowledge as poor. This pattern repeated for those who found two true statements (44% vs. 41% vs. 39%).

Taken as a whole, these results strongly suggest that some advisors don't know what they don't know and may instead be overestimating the state of their RI knowledge.

A similar pattern is apparent in the relationship between advisors' reported comfort in initiating RI discussions and their ability to identify the true RI-related statements.

Among advisors who reported discomfort around starting RI conversations, 35% were unable to identify any of the true statements. This might be expected – after all, it can be uncomfortable to lead conversations about topics we are unfamiliar with. However, 21% of advisors who reported being comfortable initiating client discussions around RI were unable to identify any of the correct statements either, and just 6% of this group correctly identified all three. This suggests that some advisors have a high level of comfort talking about RI despite a low level of demonstrable knowledge.

Many advisors have made efforts to beef up their RI knowledge in recent years. For instance, as of the end of 2021, more than 2000 financial professionals had either earned or were in line to earn one of the RIA's RI credentials.[3]

Sources of Responsible Investment Information

We also asked survey respondents where they obtain their information about responsible investments. As Figure 3 shows, when it comes to researching responsible investments, most advisors said they use materials from the fund company (67%) as well as fund facts and/or prospectuses (63%). Many advisors (42%) also reported using funds' ESG scores, ratings, and rankings.

FIGURE 3

When you are researching responsible investments, what sources of information do you use?

Rank	% of Respondents	Sources of RI Information
1	67	Materials from the fund company
2	63	Fund facts and / or prospectus
3	42	Fund ESG scores / ratings / rankings
4	30	Company disclosures (e.g., corporate sustainability reports, annual reports, etc.)
5	28	Company ESG scores / ratings / rankings
6	27	ESG reports from a research firm
7	7	I do not research responsible investments
8	5	Other
9	2	Internal sources

N = 539, Multi select

Notably, more women than men said they use fund facts and/or prospectuses when researching RI (70% vs. 61%). This was also true for the use of company ESG scores, ratings, and rankings (38% of women vs. 23% of men). When it came to other sources of RI information, however, there weren't any significant gender differences.[4]

3 Responsible Investment Association (2021). RIA Digital Academy.

4 For the purpose of the survey, the classification of gender included choices for male, female, or non-binary/other. Respondents also had the option not to disclose. One respondent identified as non-binary/other, 13 did not disclose and 2 did not respond. The statistical analysis for this report is limited to male and female genders which comprised 98% of the sample.

An advisor's book size also provided an indication of what information they reported using for RI research. Advisors with lower AUMs showed a higher tendency to report using materials from the fund company to do their research. Among those with less than $25 million AUM, 72% used fund company materials, compared to 58% among those with $100-$249 million AUM and 46% among those with over $250 million AUM.

Advisors who self-identified as having poor levels of RI knowledge were the least likely to report using any of the RI research sources. Approximately one-third (36%) of this group indicated they do not do any research into responsible investments, compared to 9% of those with adequate knowledge, and only 2% of those with the top level of self-assessed knowledge.

Advisors who reported being comfortable initiating RI discussions with clients were also more likely to report using various RI information sources for research. Advisors who said they are comfortable initiating RI discussions with clients were more likely than their less comfortable counterparts to use materials from the fund company (69% vs. 56%), fund ESG scores (44% vs. 26%), company disclosures (32% vs. 18%), and ESG reports from a research firm (30% vs. 11%). Those who said they are not comfortable starting these conversations were also more likely to say they do not research RI at all (24%, compared to only 4% of those who said they are comfortable).

The frequency of RI-related client conversations also appears to be associated with advisors' research habits. Those who indicated that RI comes up frequently or sometimes were significantly more likely to report using almost all the research sources compared to those who said the topic rarely or never comes up.

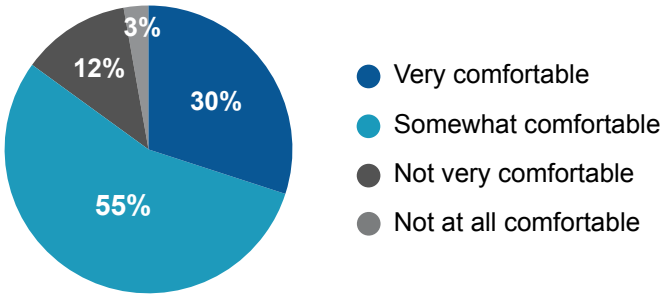
Advisors who said that their clients view social issues as the most import ESG topic were most likely to indicate that they use fund facts or prospectuses for their research (83%). In comparison, advisors who reported that their clients prioritize environmental or governance issues were more likely to report using fund company materials (70% and 56%, respectively).

Most Advisors Say They Are Comfortable Discussing RI With Clients — But They Don't Do So Very Often

Overall, most advisors (85%) indicated that they are comfortable (either "very comfortable" or "somewhat comfortable") initiating RI-related conversations with their clients.

FIGURE 4

How comfortable are you initiating a conversation with your clients about their interest in responsible investments?



N = 539

There was no statistically significant gender-based difference between those who said they are comfortable initiating these discussions and those who said they are not.

However, as described above, higher self-assessed knowledge levels were associated with greater conversational comfort. Advisors who described their RI knowledge as excellent or very good reported being far more comfortable starting RI conversations with clients. In fact, 94% of those advisors said they were comfortable, compared to only 35% of those who described their knowledge as poor.

Even infrequent experience discussing RI with clients was also associated with higher comfort levels. Almost all (95%) of the advisors who said the topic comes up frequently or sometimes reported being comfortable initiating RI discussions. This number was only somewhat lower (82%) for those who said RI comes up "rarely", while 53% of those who reported the topic "never" comes up said they were comfortable initiating RI conversations.

If 85% of advisors said they are comfortable initiating RI-related client conversations, what accounts for the discomfort of the remaining 15%? These "uncomfortable" survey respondents were asked to identify their main reasons for being uncomfortable initiating discussions about responsible investment with your clients (Figure 5). By far, the most cited reason related to self-assessed RI knowledge as 70% of this group flagged poor knowledge as a factor in their discomfort. Other common explanations included "it's not part of my practice" (24%), "I'm concerned about financial performance" (24%), and "I don't think clients are interested" (22%).

FIGURE 5

What is your main reason for being uncomfortable initiating discussions about responsible investment with your clients?

Rank	% of Respondents	Reasons
1	70	I'm not very knowledgeable about it
2	24	It's not part of my practice
2	24	I'm concerned about financial performance
3	22	I don't think clients are interested
4	10	I think it's a temporary trend
5	7	It's all greenwashing
6	6	I'm not required to
7	3	I'm not comfortable talking about personal matters with clients
7	3	Other

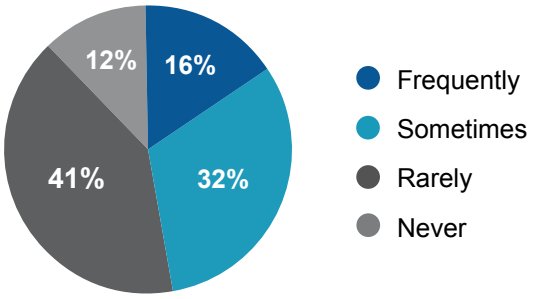
N = 80, Multi select

While most advisors (85%) said that they're comfortable initiating RI-related conversations with clients, it doesn't seem that ESG issues or RI come up very often.

As shown in Figure 6, only 16% of advisors said that ESG issues or RI come up "frequently", while 32% reported that they come up "sometimes." A higher proportion (41%) of respondents said the topics come up "rarely", and 12% indicated they "never" come up at all.

FIGURE 6

How often do ESG issues or responsible investing come up with clients?



N = 539

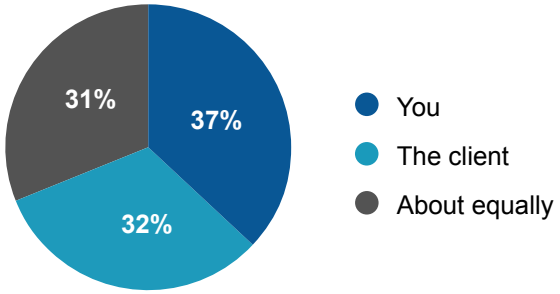
On this question of frequency, however, there were notable statistical differences related to advisors' gender, geography, book size, and self-assessed RI knowledge:

- A greater proportion of female advisors (55%) reported that ESG issues or RI come up with clients frequently or sometimes compared to their male counterparts (44%).
- Advisors in British Columbia (68%) and Quebec (65%) were the most likely to report that ESG and RI come up frequently or sometimes, while those in Alberta (28%) were the least likely to report this.
- Among advisors with AUM of $250 million or more, 66% reported that RI topics come up frequently or sometimes. Interestingly, only 38% of advisors with AUM between $100-$249 million reported that these topics come up frequently or sometimes.
- Lastly, 57% of those advisors who reported having excellent or very good RI knowledge said that the topic is raised frequently or sometimes compared to 34% of those who described their knowledge as adequate and 8% of those who described their knowledge as poor.

It appears that when RI and ESG-related conversations do happen, clients are roughly as likely to raise the topic as their advisors. Thirty-seven percent (37%) of respondents reported that they usually initiate the conversation, while another 32% indicated their clients usually do so. The remaining 31% said they and their clients usually start the conversation "about equally."

FIGURE 7

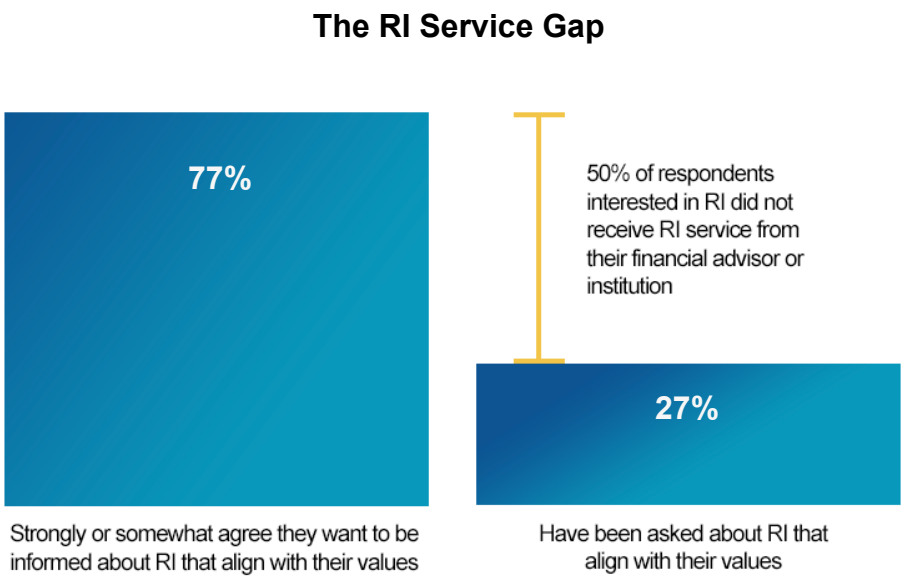
Who usually starts the conversation about ESG issues or responsible investing?



N = 464

Advisors may be missing a golden opportunity here. In the 2021 Investor Opinion Survey, only 27% of investors surveyed said that their financial advisor or financial institution has asked if they're interested in responsible investments that align with their values, while 77% somewhat or strongly agreed that they would like their advisor to start that discussion.[5] There appears to be a large gap between what clients want from their advisors and the service that they are actually receiving. We call this the RI Service Gap.

FIGURE 8



Location seems to play a modest role in who starts the RI conversations that do happen. Advisor-initiated conversations were more commonly reported by advisors in Quebec (42%) and Ontario (40%). Client-initiated conversations were more commonly reported by advisors in Manitoba and Saskatchewan (43%) and Alberta (43%). Advisors on both coasts indicated the topic is raised about equally between the advisor and their clients (Atlantic Canada 45%; British Columbia 43%).

Perhaps unsurprisingly, advisors with stronger self-assessed RI knowledge seem more empowered to start the ESG-related conversations that so many clients are looking for, whereas those who feel less knowledgeable seem more inclined to wait for their clients to take the initiative. Specifically, 40% of advisors who assessed their RI knowledge as excellent or very good said they usually raise the subject themselves, compared to just 28% who said their RI knowledge is poor. Relatedly, 61% of those who reported poor knowledge said that the client usually starts the RI conversation, compared to just 26% of those who feel their knowledge is very good or excellent.

Advisors' comfort also matters. Thirty-nine percent (39%) of advisors who are comfortable initiating RI conversations said they usually raise the topic first, compared to only 15% of uncomfortable advisors. Conversely, while 67% of uncomfortable advisors reported that their clients usually raise the topic first, only 28% of comfortable advisors said the client usually takes the lead.

Client Interest Influences Advisors' ESG and RI Discussions

When advisors do discuss ESG issues or RI with their clients, why are these conversations happening?

5 Responsible Investment Association 2021. 2021 RIA Investor Opinion Survey: Canadian Investor Perspectives on the Energy Transition.

As shown in Figure 9, among respondents who have had ESG or RI discussions with their clients, client interest was the most cited reason for those discussions (41%), followed by advisors' desire to make suitable investment recommendations (25%), fulfil their fiduciary duty (12%), and distinguish their practice and services (12%).

FIGURE 9

What is the top reason you discuss ESG issues or responsible investments with clients?

Rank	% of Respondents	Reasons
1	41	Interest from clients
2	25	To make suitable investment recommendations
3	12	Fiduciary duty
3	12	To distinguish my practice / services
4	6	To improve risk / return outcomes
5	3	It's my firm's policy / approach
6	2	Other

N = 467, Multi select

Not unexpectedly, client interest was the most-cited reason for discussing ESG and RI for those with poor knowledge (69% vs. 37% of those with excellent or very good knowledge), and for those who are not comfortable starting an RI conversation (61% vs. 39% of comfortable advisors).

Female advisors were slightly less likely to report that they discuss RI with clients because of client interest (36%) versus their male counterparts (43%). Female advisors were also less likely to say they do so for fiduciary duty (8% vs 14%). On the other hand, female advisors were more likely to cite the desire to make suitable investment recommendations as a reason for discussing RI with clients (36%) vs. their male counterparts (21%).

Fiduciary duty didn't rank high on the list of reasons why advisors discuss RI with their clients, but it may motivate more advisors in the future. As more advisors, investors, regulators, and courts grow to understand that ESG considerations are often financially material, pressure will grow to weigh such factors when evaluating investment opportunities and risks.[6]

Additionally, the RIA has made the case for some time that any Know-Your-Client (KYC) discussion that fails to ascertain clients' ESG values and preferences would be incomplete.[7] Recent guidance from the Investment Industry Regulatory Organization of Canada (IIROC) clarifies that clients' investment needs and objectives under KYC rules may include ESG preferences and personal values.[8] This is a very welcome development, and it is consistent with the RIA's proposal in our submission to IIROC.[9] We expect this guidance will raise the quality and quantity of advisor-led conversations about RI.

6 Cleary, S. & Leech, J. (n.d.), Institute for Sustainable Finance. Fiduciary Duty, Climate Change and ESG Considerations.

7 Shriver, M., Investment Executive (2021). Make responsible investing part of KYC, suitability, RIA says.

8 IIROC Rules Notice (2021). Know-your-client and suitability determination for retail clients (Guidance Note)

9 Responsible Investment Association (2021). RIA Submission to IIROC Re: Proposed Guidance on Know-your-client and Suitability Determination.

Among those who said RI rarely or never comes up, most advisors (81%) said that interest from their clients would lead them to learn more about RI (Figure 10). Since investor interest in RI has been growing — 73% of investors were interested in RI in 2021 compared to 60% in 2018[10] — advisors who are not approaching the topic may not be in tune with the level of interest that currently exists.

FIGURE 10

What would lead you to learn more about responsible investing?

Rank	% of Respondents	Responses
1	81	Interest from clients
2	36	Knowing where to get information
3	21	Regulatory requirement
4	19	Financial incentive
5	18	My firm's policies
6	5	Other

N = 283, Multi select

Clients are likely looking for advisors to take the lead in initiating RI discussions. Indeed, as the RIA Investor Opinion Survey has shown, there is a large RI Service Gap between the percentage of Canadian investors who want their advisors to inform them about RI options (77%) and the percentage who say their advisors have actually initiated RI-related conversations (27%).[11]

Other than client interest, advisors who said RI rarely or never comes up also said they would be motivated to learn more if they knew where to get information (36%), if it was a regulatory requirement (21%), if there was financial incentive (19%), or if it was their firm's policy (18%).

Interestingly, female advisors were more likely than their male counterparts to say that knowing where to get information would help (45% vs. 33%).

As for geographic distinctions, a high proportion of advisors in British Columbia (61%), Manitoba and Saskatchewan, (44%) and Ontario (42%) also indicated that knowing where to find the right information would lead them to learn more about RI.

Environmental Issues Top Client's Concerns

As shown in Figure 11, among respondents who are having ESG and RI conversations with their clients, most (84%) said that environmental issues are their clients' top concern, followed by social issues (10%) and governance issues (7%). These findings align with our 2021 RIA Investor Opinion Survey, where 85% of respondents indicated that they were very concerned or somewhat concerned about climate change and the environment.[12] While environmental issues were the top response from advisors in each region across Canada, more advisors gave this response in Atlantic Canada (92%) and Quebec (89%) compared to the prairies in Manitoba and Saskatchewan (75%).

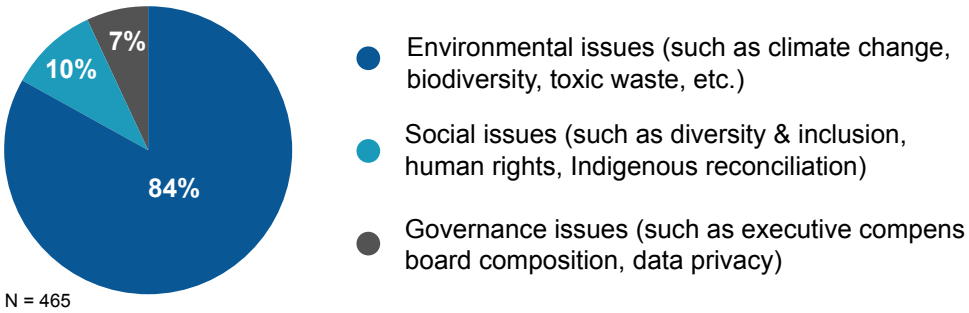
10 Responsible Investment Association (2021). 2021 RIA Investor Opinion Survey: Canadian Investor Perspectives on the Energy Transition.

11 Ibid.

12 Ibid

FIGURE 11

In general, which ESG issues are most important to your clients?



Advisors Report Low Adoption of RI

Globally, responsible investment AUM are reported to have made up 35.9% of total AUM in 2020 compared to 33.4% in 2018 and 27.9% in 2016. Currently, Canada stands as a global leader, with 62% of all professionally managed assets following one or more RI strategies. This ranks ahead of Europe (42%), Australasia (38%), the United States (33%) and Japan (24%).[13]

There is a growing body of evidence that responsible investments often perform as well as or better than those that don't explicitly take ESG considerations into account, and may provide downside protection during market downturns.[14] A meta-study published in 2021 by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management examined the relationship between ESG activities at organizations and their financial performance in more than 1,000 research papers over the period from 2015-2020. Some of the key takeaways included:

- ESG investing provides downside protection, especially during a social or economic crisis.
- Improved financial performance due to ESG becomes more noticeable over longer time horizons.[15]

RI funds seem to have demonstrated performance resilience during the COVID-19 pandemic. During the 12 month-period from March 5, 2020 to March 5, 2021, S&P Global Market Intelligence discovered that 19 out of 26 ESG exchange-traded funds (ETFs) and mutual funds with more than $250 million in AUM outperformed the S&P 500. These 19 funds grew between 27.3% and 55% from March 5, 2020 to March 5, 2021. The S&P 500, in comparison, increased by 27.1%.[16]

In Canada, the RIA conducts quarterly reports on the performance of designated RI funds relative to their traditionally-managed peers. As of December 31, 2020, over 70% of RI mutual funds and ETFs in Canada outperformed their average asset class return for the year.[17] Despite these findings, advisors haven't embraced RI with individual clients to the extent that might be expected – or as clients seem to wish they would.

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13 Global Sustainable Investment Alliance (2021). Global Sustainable Investment Review 2020.

14 For a comprehensive list of industry research on this topic, see UNPRI (2021). ESG factors and equity returns – a review of recent industry research

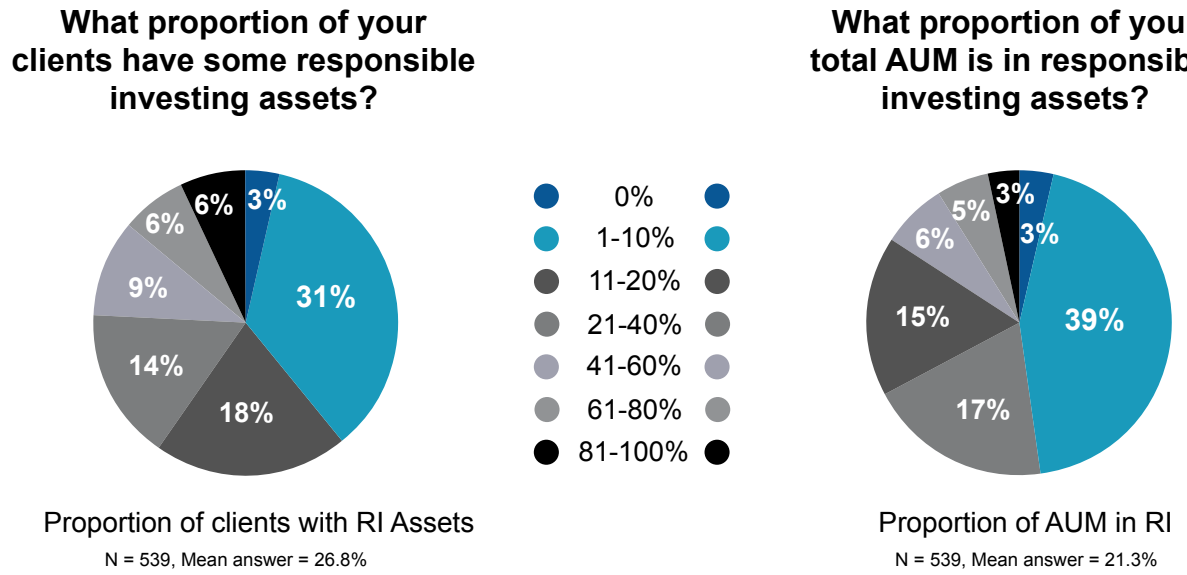
15 NYU Stern Center for Sustainable Business (2021). ESG and Financial Performance.

16 S&P Global (2021). ESG funds beat out S&P 500 in 1st year of COVID-19; how 1 fund shot to the top.

17 Responsible Investment Association (2021). Quarterly Responsible Investment Funds Report: Highlights from Q4 2020.

As shown in Figure 12, few advisors (6%) reported having a large proportion of clients with RI assets (81-100%). Only one fifth of advisors (21%) reported that between 41% and 100% of their clients hold RI assets. Instead, most advisors reported that less than 40% of their clients hold RI assets. Specifically, 31% of advisors said that only 1-10% of their clients hold RI assets, while another 18% of advisors said that 11-20% of their clients do. Another 14% of advisors said that 21-40% of their clients hold RI assets.

FIGURE 12



When the survey asked advisors to identify the proportion of their assets under management (AUM) in responsible investments, the mean answer was 21.3%. Few advisors (3%) said RI makes up the bulk of their AUM (81-100%). Rather, the largest group (39%) said RI makes up only 1-10% of their AUM. Another 15% of advisors reported that RI makes up 11-20% of their AUM, and another 17% indicated RI makes up 21-40% of their AUM.

Overall, female advisors reported having a higher average proportion of clients with RI assets (32% vs 24.8%), as well as a higher average proportion of RI assets among their AUM (26.1% vs 19.5%).

Advisors in British Columbia reported the highest average proportion of clients with RI assets (33.1%), while advisors in Manitoba and Saskatchewan reported the lowest average proportion of clients (14.5%). In terms of AUM, advisors in Atlantic Canada reported the highest average proportion of RI assets among their AUM (28.5%) while those in Manitoba and Saskatchewan report the lowest average proportion (11.9%).

Not unexpectedly, advisors who indicated that RI comes up frequently or sometimes reported a higher average proportion of clients with RI assets (36.2%) compared to advisors for whom RI comes up rarely (15.7%) or never (16.8%). This pattern also holds for the average proportion of RI in advisors' AUM (29.0% vs. 12.2% vs. 13.3%).

Advisors who assessed their RI knowledge as excellent or very good also reported a higher average proportion of clients with RI assets (28.4%) relative to those who felt their RI knowledge was adequate (20.4% average) or poor (8.1% average). Likewise, advisors who felt they had better RI knowledge also reported higher average proportions of RI in their AUM (23.6% vs. 14.7% vs. 5.5%).

Similarly, advisors who said they are comfortable initiating RI conversations also reported a higher average proportion of clients with RI assets (28.5% vs. 13.4% amongst uncomfortable advisors). This pattern also held true for the average proportion of RI in advisors' AUM (22.5% for comfortable advisors vs. 12.4% among uncomfortable advisors).

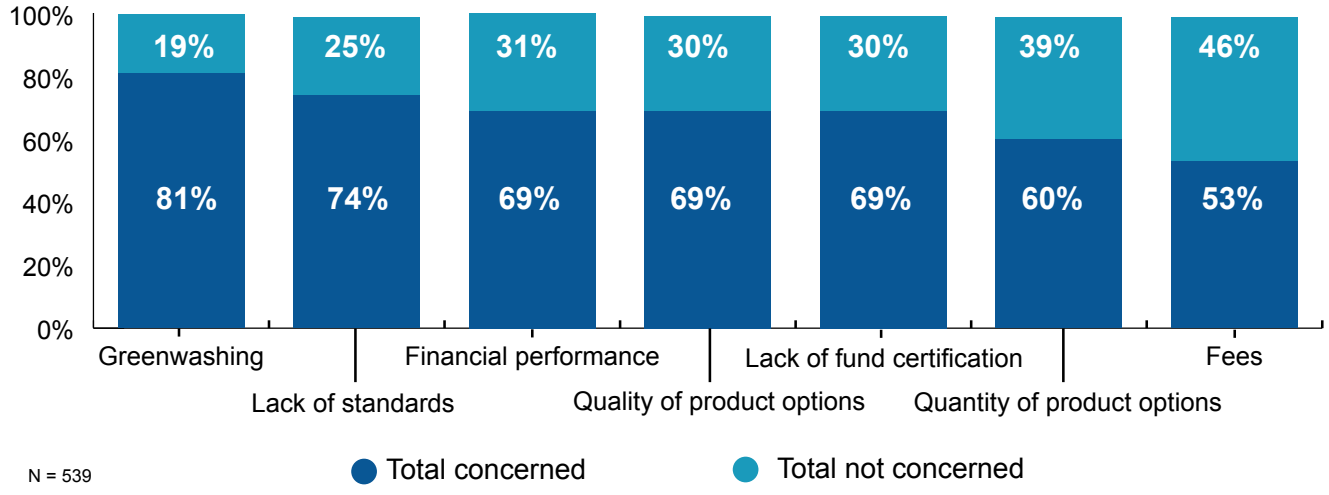
In the RIA's 2021 Investor Opinion Survey, 31% of respondents said they own responsible investments; however, 33% weren't sure if they have any responsible investments.[18] Investors' apparent uncertainty could present advisors with an opportunity to better explain RI to their clients and bring these options to their attention.

Many Advisors Wary of RI, But Growing Standardization May Help

Although interest in RI continues to increase, skepticism may be preventing some advisors from jumping fully onboard. As Figure 13 shows, respondents overwhelmingly noted that they are concerned about greenwashing (81%), followed by lack of standards (74%), financial performance (69%), the quality of product options (69%), lack of fund certification (69%), the quantity of product options (60%), and fees (53%).

FIGURE 13

What is your level of concern regarding the following issues as they relate to responsible investments?



Note: "Total Concerned" category includes respondents who selected "Very concerned" or "Somewhat concerned". "Total Not Concerned" category includes respondents who selected "Not too concerned" or "Not at all concerned".

The Oxford English dictionary defines "greenwash" as "disinformation disseminated by an organization so as to present an environmentally responsible public image."[19]

Advisors in Atlantic Canada (92%) and Manitoba and Saskatchewan (90%) were most likely to report

18 Responsible Investment Association (2021). 2021 RIA Investor Opinion Survey: Canadian Investor Perspectives on the Energy Transition.

19 Oxford University Press (2021). Greenwash.

concerns about greenwashing, especially when compared to advisors in Quebec (73%).
With increased media attention to greenwashing, advisors are likely fielding more questions from clients, while also working to decipher claims made by investee companies, funds that invest in the companies, and investment processes or strategies.[20]

Education for both advisors and investors may be the key to reducing greenwashing concerns. A standardized disclosure framework for RI funds to make ESG claims would also likely mitigate concerns.[21]

As might be expected then, lack of standards was the second greatest concern among advisors. Advisors in Western Canada were more likely to express concern about lack of standards (Manitoba and Saskatchewan 83%; Alberta 81%; British Columbia 80%) than those in the East (Ontario 75%; Atlantic Canada 69%; Quebec 68%).

Financial performance, the third most-cited concern, was more commonly an issue for those in Alberta (81%) than for those in Quebec (49%). It was also more concerning among those who reported poor RI knowledge (81%) compared to advisors who said their knowledge is excellent or very good (65%). Advisors who expressed discomfort around initiating RI discussions were also more likely to cite financial performance as a concern (80%) compared to advisors who are comfortable with RI discussions (67%).

There was a substantial geographic difference when it came to concerns about the quality of product options. Those in Manitoba and Saskatchewan were a lot more likely to express concern (83%) in contrast to advisors in Atlantic Canada (46%). Product quality was also a more common concern for those who expressed discomfort around initiating the RI conversations (78%) compared to those who said they are comfortable (67%).

When it came to the quantity of product offerings (as opposed to the quality of products), advisors in British Columbia were the most likely to express concern (71%), while those in Quebec (45%) were least likely to express concern. Lastly, fees were more of a concern for advisors in Manitoba and Saskatchewan (65%) and British Columbia (64%) and less of a concern for those in Quebec (38%).

In addition to learning about respondents' concerns about RI, we also wanted to hear their perspective on how their concerns could be alleviated. We asked survey respondents an open-ended question: "What information would be helpful to overcome your concern(s) about responsible investments?"

To overcome concerns around RI, it appears that many advisors want standardization around ESG investments.

For example, one advisor commented that they would like to see "common ESG standards that are used to evaluate the ESG profile of a fund" while another said it would help "knowing that [investments] have tough legislation and requirements to call themselves RI funds."

Advisors also made it clear that they want to see greater transparency. For example, an advisor said they want to see "further updates and communications from the fund companies as to how exactly they manage the RI process, exclusion process, track a company's footprint and track impact results."

Advisors also noted that it would help if they knew where to find reliable information about how RI funds compare to non-RI funds. They would also like to see evidence that RI performance is demonstrably superior.

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20 Robertson, I. (2021), The Globe and Mail. How advisors can determine the level of 'greenwashing' in investments.

21 Lanz, D. (2021), Investment Executive. An advisor's short guide to greenwashing.

Since this survey took place in September 2021, there have been some notable developments around standardization and disclosures. In November 2021, the CFA Institute announced the launch of its first voluntary Global ESG Disclosure Standards for Investment Products.[22] The Standards are designed to communicate information about an investment product's consideration of ESG issues in its objectives, investment process or stewardship activities.[23]

That same month, at the 2021 United Nations Climate Change Conference (COP26), the International Financial Reporting Standards (IFRS) Foundation Trustees announced the creation of the International Sustainability Standards Board (ISSB) to develop "a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' needs." Notably, Montreal will be home to one of the key ISSB offices.

Given that advisors' hesitancy about RI seems to be preventing them from closing the RI Service Gap, these developments come at a critical time. As standardization improves, advisors may feel more confident in responding to investors' growing interest in RI.

Conclusion

For advisors interested in responsible investing (RI), knowledge is power.

Advisors today are faced with expanding investor interest in RI, access to more RI products, increasing ESG-related standardization, and growing regulatory clarity about how know-your-client and related frameworks bear on RI-related conversations.

Our first ever RIA Advisor Opinion Survey has revealed that advisors who feel their knowledge is strong are more comfortable initiating discussions around RI – and report having these conversations more often. This was the case even though many advisors appear to be overestimating their actual knowledge levels. More confident and comfortable advisors also reported that a higher average proportion of their clients hold responsible investments, as well as a higher average proportion of their AUM overall in RI assets. It is also notable that advisors with AUM of $250 million or more were more likely to say that RI comes up frequently than those with lower AUM.

In light of the persistent "RI Service Gap" revealed in our RIA Investor Opinon Survey, it's clear that the more RI knowledge an advisor has, the better positioned they are to serve their clients' ESG-related needs – whether their clients want to mitigate risks, seize opportunities, or simply invest in line with their values.

Perhaps most importantly, the report has revealed that there is more work to do in building advisors' knowledge of RI and confidence in initiating RI discussions with clients. Concerns about greenwashing and insufficient standardization appear to be prevalent, which could themselves be signs of advisors' growing knowledge, even if that knowledge is often overestimated. We believe further education as well as developments around standardization and regulation will play key roles in relieving advisors of their concerns and closing the RI Service Gap.

22 CFA Institute (2021). CFA Institute Releases Global ESG Disclosure Standards for Investment Products.

23 CFA Institute (2021). Global ESG Disclosure Standards for Investment Products.