Responsible Investment Association

2022 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

Summary Report | November 2022

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The RIA gratefully acknowledges the following members who have provided financial support for the 2022 Canadian RI Trends Report.

With more than $33 billion in assets under management, Addenda Capital is recognized as a leader in sustainable investing. From climate transition to impact investing to traditional strategies, our multi-asset solutions seek to provide enhanced returns for a clientele that is both institutional and private. At one point, we significantly enriched our investment process by integrating analysis of environmental, social and governance (ESG) issues. Today, we are playing an active role in the shift toward a net-zero economy while staying true to our commitment: serving our clients and generating sustainable wealth for a better future.

Founded in 1957, AGF Management Limited (AGF) is an independent and globally diverse asset management firm delivering excellence in investing in the public and private markets through its three distinct business lines: AGF Investments, AGF Private Capital and AGF Private Wealth. AGF brings a disciplined approach focused on providing an exceptional client experience and incorporating sound responsible and sustainable practices. The firm's investment solutions, driven by its fundamental, quantitative and private investing capabilities, extends globally to a wide range of clients, from financial advisors and their clients to high-net worth and institutional investors including pension plans, corporate plans, sovereign wealth funds, endowments and foundations.

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ACKNOWLEDGEMENTS

NEI Investments is a Canadian asset manager specializing in responsible investing, with over C$10 billion under management. With over 35 years of firm experience, NEI is committed to providing Canadian investors with a broad range of responsible investment solutions. The company delivers disciplined, active asset management with a focus on environmental, social, and governance (ESG) factors. NEI Investments also manages and operates a proprietary active ownership program and has been a signatory of the United Nations' Principles for Responsible Investment for more than 15 years. NEI Investments is a wholly owned subsidiary of Aviso Wealth.

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Research Partner

This study was completed by Environics Research on behalf of the Responsible Investment Association (RIA).

Data Contributor

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

Report Collaborator

Thank you to Argyle for providing communications and writing support.

FOREWORD FROM THE RIA'S CEO

It is my pleasure to present the Responsible Investment Association's 2022 Canadian Responsible Investment (RI) Trends Report. This report marks my first as CEO of the RIA, which for me has made this project particularly insightful and rewarding. It also marks a remarkable shift in industry dynamics, which we characterize as moving from momentum to maturity.

This year's report sets a new baseline for our evaluation of RI assets under management (AUM) and market share in Canada. The RIA commissioned Environics Research, a leading Canadian market research firm with a deep history of research in this space, to conduct this year's study. With this change in approach, the report results embody industry best practices for survey design, data collection, analysis and insights. By adding this external expertise to bolster our internal resources, we were also able to expand this year's questionnaire and research universe.

We also recognize that the dynamism of the RI sector over the past two years necessitates a more frequent industry "pulse check". The additional capacity provided by our collaboration with Environics will now allow the RIA to produce the RI Trends report annually, instead of biennially. This report is the RIA's most-requested research, and we look forward to providing updated results and insights every year. Some of the key observations in this report include:

- Reported RI assets under management (AUM) remained steady at $3 trillion.
- Responsible investors are using more strategies than ever before, with risk management as their top motivation.
- Climate change is an overwhelming concern for responsible investors–-who also believe it is the greatest driver for growth over the next two years.
- Survey respondents consider the top deterrent to growth in RI to be mistrust or concerns about greenwashing.

This report was made possible by the generous support of our sponsors: Addenda Capital, AGF Investments Inc., Mackenzie Investments, NEI Investments, and RBC Global Asset Management. I am immensely grateful for their commitment to the RIA, our mission, and this important research.

The 2022 Canadian RI Trends Report provides the Canadian RI industry with a reliable new baseline in a very dynamic time. I truly believe we are at an inflection point where the future growth of the industry will be characterized by greater transparency, standardization and integrity. I invite you to reflect on this research, and I welcome your thoughts. The RIA looks forward to continuing to engage with investors, policymakers, regulators and other industry stakeholders as we continue our mission to advance RI in Canada.

Sincerely,

Patricia Fletcher, ICD.D
Chief Executive Officer
Responsible Investment Association

EXECUTIVE SUMMARY

The 2022 Responsible Investment Report (RI) captures an industry in the midst of a remarkable evolution. Momentum has given way to sophistication and reporting has become increasingly thoughtful and conservative. This is both a critical stage in the maturation of responsible investing in Canada and a pivotal moment, determining its future.

Over the past two years, we have seen the rush into responsible investment claims tempered by forces both external and internal to the financial industry. As highly publicized investigations around misleading ESG claims made headlines, the reputational and legal risks of greenwashing sent a strong signal to the market. Indeed, participants in this year's study cited mistrust or concerns about greenwashing as the number one deterrent to responsible investment growth. At the same time, recent industry demand for qualified ESG talent suggests organizations are bolstering the breadth and depth of their responsible investment teams—bringing increasing maturity and a critical lens to their investment reporting.

With its updated methodology, the report confirms that responsible investments under management have remained steady at $3 trillion, while the proportion of respondents who use ESG integration as an RI strategy has increased to 94%. From this, we gather two conclusions: (1) this year's responsible investment assets under management (AUM) represents a reliable floor, not a ceiling and (2) responsible investing, in its many forms, is firmly entrenched.

Not only has ESG integration reached a new high, but responsible investors are using more strategies than ever before, from corporate engagement, to positive and negative screening, to thematic and impact investing. The challenge is that most people do not understand the difference between these strategies, much less the intentions that drive them and their intended outcomes. Earning public confidence, support, and demand for responsible investment approaches requires a much more informed public conversation.

There has never been a more important moment to create that clarity. While investors are less bullish on the rapid growth of responsible investment than they were in 2020, they are also more aware of the urgency behind it. Climate change has risen sharply to become the number one driver behind responsible investment growth while minimizing risk remains the top motivation for considering ESG factors in investments.

As the world confronts the widening gap between the investment required to stave off cataclysmic climate change and the current flow of capital, investors are increasingly seized by both the risks of inaction and the demand for solutions.

However, if there is one lesson we can take from this year's research, it's that industry alone cannot propel responsible investment forward. As greater vigilance defines the floor of responsible investing, increased clarity and certainty are necessary to shape the slope and raise the ceiling. This will depend greatly on decisions made by governments, regulators, and standard-setters. From the evolution of new standards such as those from the International Sustainability Standards Board (ISSB), to clarity on definitions created by new taxonomies, to movements toward mandatory disclosures — the future of responsible investing is being written as we speak.

This is the time to get it right.

ABOUT THIS REPORT

About the survey

The Canadian RI Trends survey has been conducted biennially by the Responsible Investment Association to track the development of responsible investment practices in Canada over time. The last survey was conducted in 2020.

Responsible investment (RI) generally refers to the incorporation of environmental, social, and governance factors (ESG) into the selection and management of investments. For the purpose of this report, responsible investment is an umbrella term that encompasses various strategies or approaches. We continue to use the terminology and definitions for seven RI strategies based on those used by the Global Sustainable Investment Alliance (GSIA). This enables the comparison of the Canadian RI market with other regions, and over time.

The seven RI strategies referred to in this report are: ESG integration, corporate engagement, negative screening, norms-based screening, thematic ESG investing, positive screening and impact investing. (Definitions are provided in the text box on page 11 of this report.) All assets covered in this report are aligned with one or more of these seven RI strategies, as reported by the survey respondents. Note that responsible investors often apply more than one RI strategy in their investment processes.

The RIA commissioned Environics Research to undertake the data collection and analysis for this report. Respondents were invited from a database of 390 organizations, including investment managers, Canadian asset owners including pension funds and foundations, and other institutional investors. There were 90 survey respondents, comprising 77 asset managers and 13 asset owners. The RIA conducted desktop research for additional 26 entities that did not complete the survey, using publicly available information.

The 2022 survey consisted of 37 questions. The RIA sought input from several industry stakeholders on this year's survey questions to help us ensure we would be obtaining relevant data on current practices. We would particularly like to acknowledge the valuable contributions from the Institute for Sustainable Finance (ISF) in developing new questions related to net zero, portfolio carbon intensity and GHG emissions reductions targets.

Survey data is self-reported and not verified, although reasonability checks were conducted resulting in minimal adjustments to the collected data. It is important to note that the Canadian RI Trends Report survey does not represent a census, as it is based on survey results from a subset of the research universe. However, we have a high level of confidence that this sample is sufficiently representative of the broader Canadian responsible investment industry.

Due to the effects of rounding, figures may not total to 100 and sums of individual items may not equal totals.

About the Responsible Investment Association (RIA)

The RIA is Canada's industry association for responsible investment. 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 UN Sustainable Development Goals. The RIA's membership includes asset managers, asset owners, advisors, and service providers. Our institutional members collectively manage over $42 trillion in assets. Learn more at www.riacanada.ca.

CONTEXT: MORE URGENCY AND MORE SKEPTICISM THAN EVER BEFORE

Since we published our 2020 Report, the global environmental, social, geopolitical, and economic landscape has been volatile.

The COVID-19 pandemic continued, tallying over 6.6 million deaths globally at the time of writing. Mask mandates and lockdowns contributed to social friction and political divergences.

On the geopolitical front, Russia's illegal war in Ukraine brought to the forefront not only the loss of life and territory of a sovereign nation but also real concerns for energy and food security.

AT A GLANCE

- Global volatility has reshaped the landscape over the past two years, increasing urgency for RI
- Simultaneously, scrutiny and criticism of ESG—justified and not—encouraging maturation of the industry

Overall, these events have caused significant economic repercussions – global inflation, rising interest rates, heightened risk of recession, falling markets and lower investment returns.

Meanwhile, climate change continues to pose a significant threat to the world. Floods, droughts, wildfires, and storms are becoming more frequent and extreme and have caused billions of dollars in financial losses. To avoid the worst effects of climate change, the world must urgently cut GHG emissions by 45% by 2030 on a pathway to reduce greenhouse gas (GHG) emissions to net zero by 2050. In addition, it is estimated that more than US$300 billion per year by 2030 will be required to adapt to the climate crisis, with developing countries requiring most of this investment.[1]

At the same time, the investment opportunities to transition to a low-carbon economy have increased in scope and scale. We have reached a point where the costs of energy production are shifting positively in favour of renewables relative to fossil fuels.[2] Amidst this energy transformation, we must ensure a "just transition" for the individuals and communities that may be negatively affected by massive changes in the industry.

1 "Emissions Gap Report 2022." UNEP, 27 October 2022. Accessed 10 November 2022.

2 Baker, David R. "Renewable Power Costs Rise, Just Not as Much as Fossil Fuels." BNN Bloomberg. Accessed 10 November 2022.

These issues have direct implications for responsible investors; they manifest as ESG issues for issuers that responsible investors evaluate and factor into their investment and stewardship decisions.

At the same time, this period has been marked by intense scrutiny of ESG practices and their real-world impact on the challenges affecting the environment and society. Amidst high-profile crackdowns on misleading ESG claims by the US Securities and Exchange Commission and the UK's financial regulator, denouncements of "greenwashing" dominated media headlines. An even more extreme form of criticism has emerged: ESG has been labelled "woke", a "sham" and a "scam" by right-wing politicians and pundits, sweeping responsible investing into an overtly politicized and polarizing narrative.

The criticisms of ESG, both warranted and unwarranted, are underpinned and exacerbated by genuine market confusion about what RI is and is not. There is little mainstream knowledge that there are actually different RI strategies and even less understanding about how they are differentiated.

In this environment, it was not surprising to see that concern about greenwashing is the most frequently cited significant deterrent to growth in RI in this year's survey. Respondents are clearly signaling their concern over the potential reputational and legal risks of overstating RI claims. Allegations or appearances of greenwashing threaten to undermine responsible investors' significant progress in advancing RI in their organizations and the overall investment industry.

Largely in response to such concerns, the industry is now seeing heightened regulatory policy initiatives with implications for responsible investors, including efforts to define terminology, establish taxonomies and improve disclosures—within Canada, other countries/regions, and globally. The Principles for Responsible Investment (PRI) identified 225 new or revised policy instruments in 2021, more than double the number in any previous year.[3] In the meantime, the RI industry remains in a state of flux, with more regulations, standards, guidance, and oversight on the horizon.

This report provides insights into the most common practices of responsible investors in Canada. It documents an industry in the midst of a remarkable evolution, from momentum to sophistication, from rapid growth to standardization. This is both a critical stage in the maturation of responsible investing in Canada and a pivotal moment, determining its future.

3 "Policy." PRI. Accessed 10 November 2022.

The following definitions for RI strategies were provided in the survey questionnaire and are consistent with the terminology and definitions used by the Global Sustainable Investment Alliance (GSIA).

DEFINITIONS OF RI STRATEGIES

Negative/exclusionary screening

Exclusion of certain sectors, companies, countries or practices from a portfolio, typically based on ethical or values-based criteria. For example, excluding product categories (e.g., tobacco, weapons), company practices (e.g., animal testing, corruption) or controversies.

Positive screening

Inclusion of certain sectors, companies or practices into a portfolio based on specific ESG criteria. For example, including companies with positive ESG performance compared to industry peers (also referred to as best-in-class screening).

Norms-based screening

Screening out investments that do not meet minimum standards of business practice or issuer practice based on international norms and conventions such as those issued by the UN, ILO, and OECD.

Thematic (ESG) investments

Investments that specifically target ESG themes such as women in leadership, clean technology, alternative energy, cybersecurity, etc.

Corporate engagement & shareholder action

Using shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

ESG integration

Explicitly and systematically embedding ESG issues into traditional financial analysis. With ESG integration, the portfolio manager combines ESG data together with traditional financial metrics when assessing a company's value.

Impact investing

According to the Global Impact Investment Network, impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. They can be made across asset classes, and target a range of returns from below market to market rate, depending on the investor's strategic goals.

CANADIAN RI MARKET CHARACTERISTICS

RI AUM and market share: a reliable floor

AT A GLANCE

- Under new methodology, reported RI AUM has remained steady at around $3 trillion
- Industry circumstances and supporting data suggests this number is a floor, driven by more sophisticated and cautious reporting

Reported Canadian RI AUM was $3.0 trillion as of December 31, 2021, similar to the $3.2 trillion reported as of 2019.[4] In previous surveys, we have seen a strong upward trend in reported RI AUM, so this year's survey results are notable and bear investigating.

For 2022, we commissioned Environics to conduct this study on behalf of the RIA. With the change in approach and methodology, the size and composition of the reporting sample in the 2022 survey are different from the 2020 survey, which may account for some of the variance in reported AUM(41% of 2022 respondents also completed in 2020, 36% of respondents were new in 2022 and 22% of responses were completed via desk research). Looking into the data for returning respondents, we noticed that several, large asset managers among them, changed how they were reporting their RI AUM in 2022 compared to 2020–reporting lower RI AUM overall. We think there could be a number of plausible reasons (other than error) for these changes, all of which point to more thoughtful and sophisticated reporting.

First, while definitions of the different RI strategies were included in the survey questions, some organizations might classify their RI assets differently and could have used their own internal definitions in their response. Second, we noticed that some asset managers reported the AUM for their "RI-specific" strategies and excluded the majority of their assets that are managed under ESG integration strategies. This may indicate that they no longer consider ESG integration a standalone RI strategy, as ESG integration has become business as usual or standard practice (especially among PRI signatories). Finally, we also consider the possibility that some managers were deliberately conservative in reporting their RI AUM, exercising caution in the face of heightened scrutiny.

There are numerous global initiatives related to ESG and RI disclosures in effect or emerging. In Europe the Sustainable Finance Disclosure Regulation (SFDR) sets out mandatory ESG disclosures requirements

4 "2020 Canadian RI Trends Report." Responsible Investment Association. Accessed 10 November 2022. All later comparisons to the 2020 report/survey refer to this report. Previous RIA reports can be found online here.

for asset managers, while in Canada the Canadian Securities Administrators (CSA) issued guidance on the disclosure practices of investment funds as they relate to ESG considerations. In 2021, the CFA Institute published the CFA Institute Global ESG Disclosure Standards for Investment Products while in 2022 the Securities and Exchange Commission (SEC) issued a proposed rule to enhance disclosures of ESG investment practices. All of these initiatives seek to improve disclosures to investors, increase transparency of ESG-related practices and reduce greenwashing. With global definitions currently in a state of flux, however, it is not surprising that this year's survey respondents approached their reporting of RI AUM more cautiously.

Asset allocation by RI strategy

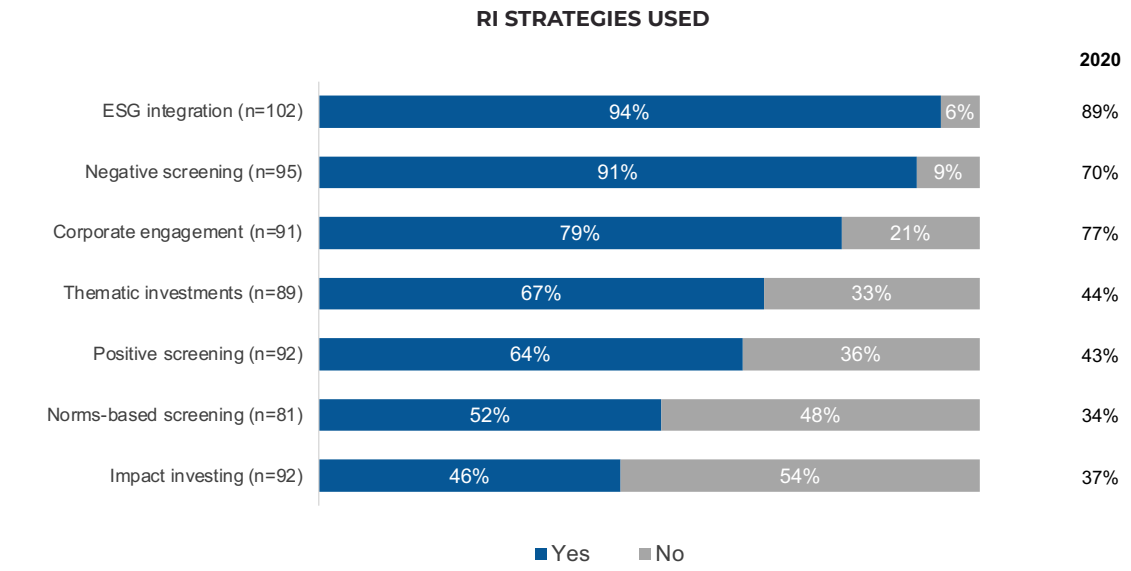
Figure 1 shows the prevalence of the seven RI strategies reported by survey respondents in 2022.

The survey results also showed that organizations tend to use more than one RI strategy across their AUM, and in fact, are incorporating a greater number of RI strategies overall compared to past surveys.

AT A GLANCE

- ESG integration has reached a new high
- Fossil fuel screening is becoming more prevalent
- Climate change risk is driving corporate engagement
- Investors are using a more diverse range of RI strategies than ever before

FIGURE • 1



Q17: (n varies) Which of the following responsible investment strategies do you use?

ESG Integration

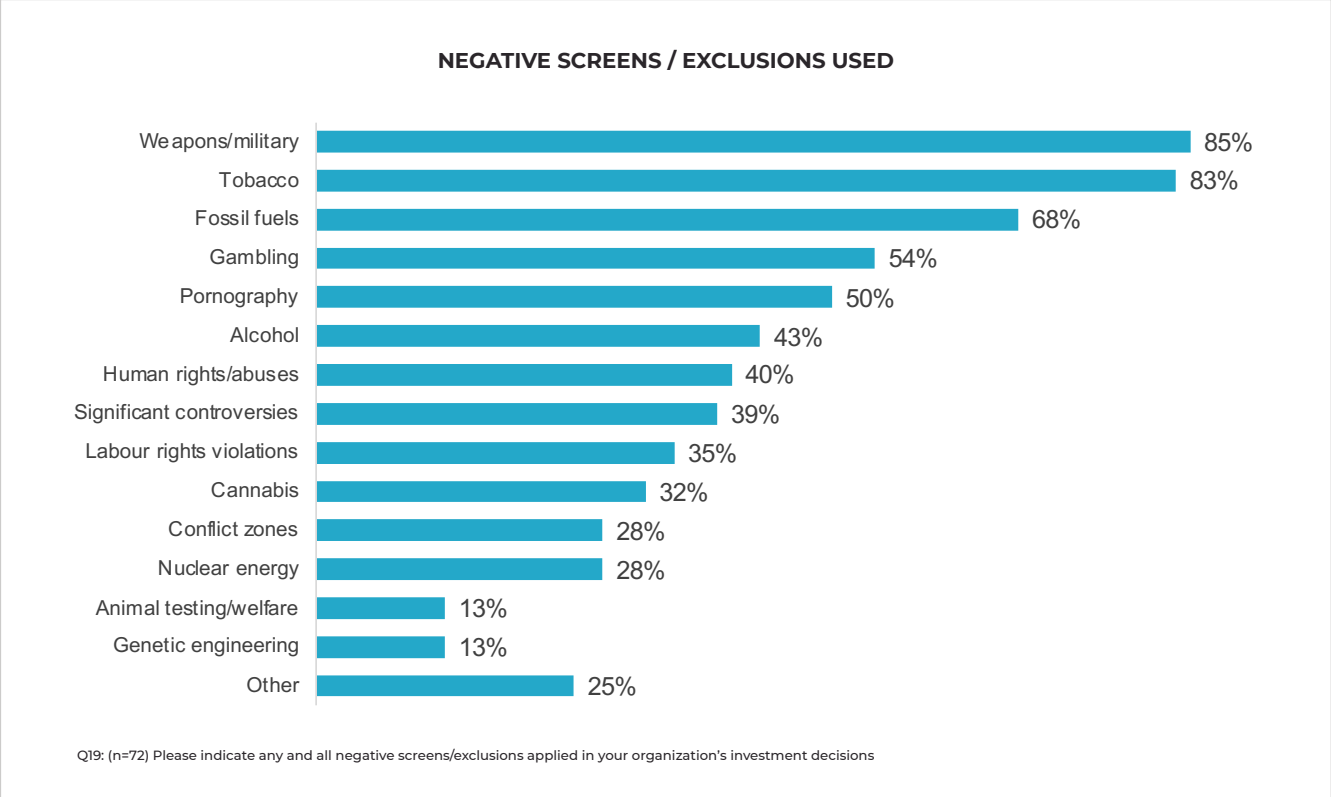
ESG integration continues to be the most prevalent responsible investment approach in Canada and accounts for the greatest proportion of RI AUM. In 2022, 94% of survey respondents reported using ESG integration, an increase from 89% of respondents in 2020. On average, respondents using ESG integration do so across 94% of their RI AUM. Almost all respondents using ESG integration do so in combination with at least one of the six other RI strategies.

Negative Screening

Negative screening rose in incidence in this year's survey results to be the second most used RI strategy, selected by 91% of respondents. This represents a significant increase since 2020 when 70% stated they used negative screening. On average, respondents using negative screening do so across two-thirds (67%) of their RI AUM. The most prominent negative screens are shown in **Figure 2**. The two products most commonly screened out of RI portfolios are those related to weapons/military and tobacco, each with over 80% of survey respondents excluding these products from their portfolios. These findings are consistent with what we have seen in our previous surveys.

About two-thirds (68%) of respondents reported they apply fossil fuel exclusions in their investment decisions. Careful interpretation of this result is important. Screening is not necessarily a binary in/out decision–fossil fuel screens can be applied in different ways. For example, the exclusion could apply exclusively to coal, or it could apply to companies that exceed a certain threshold of revenues from fossil fuels. The exclusion does not necessarily apply to all of a respondent's AUM, either–it might only apply to specific products or portfolios, a subset of their total AUM. Or, it could involve divestment of all companies involved in the production and distribution of fossil fuels. The key takeaway of this data point is that most institutional investors in our survey have some form of fossil fuel exclusion applied to at least a portion of the assets they manage.

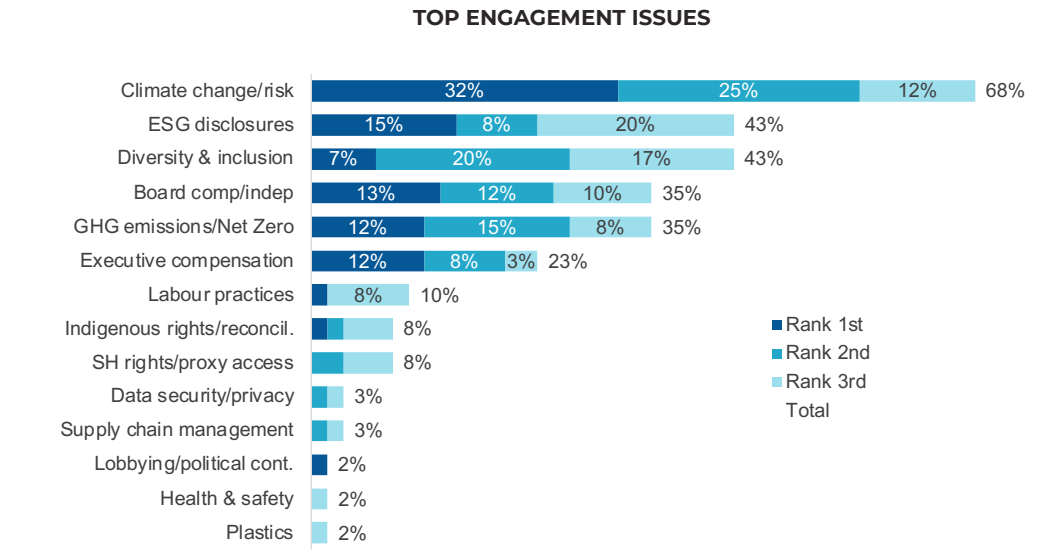
FIGURE • 2



Corporate Engagement and Shareholder Action

The third most prevalent RI strategy in Canada is corporate engagement and shareholder action, cited by 79% of respondents (similar to 77% in 2020). These respondents using corporate engagement do so across, on average, most of their RI AUM (89%). We asked survey respondents to identify the top three most common ESG issues in their engagement program in 2021. As shown in **Figure 3**, Climate change/risk (68%) was the most common ESG issue in organizations' engagement programs, by a significant margin. Almost one-third of survey respondents reported that climate change was their top-ranked engagement issue. ESG disclosure was the second most prominent engagement issue that investors continue to press for, followed by Diversity & inclusion. Board composition/independence and GHG emissions/Net Zero were similarly ranked in fourth and fifth place, respectively. These results were in line with those in our 2020 survey.

FIGURE • 3



Q21: (n=60) What were the three most common ESG issues in your engagement program in 2021?

Climate Engagement Canada (CEC) was launched in October 2021. CEC is a Canadian, financial sector-led corporate engagement program to assist in accelerating Canada's transition to a low-carbon future. CEC is coordinated by several investor networks including the Responsible Investment Association (RIA), Shareholder Association for Research and Education (SHARE), and Ceres. The UN-backed Principles for Responsible Investment (PRI) is also supporting the CEC. In June 2022, the CEC Focus List was launched—forty select TSX-listed companies that investors will strategically engage to encourage them to improve governance of climate risks and opportunities, reduce GHG emissions, set measurable targets and provide climate-related disclosures.

Other RI Strategies

Among the other RI strategies, in this year's survey, it was notable that all rose in use among survey respondents:

- **Thematic ESG:** Cited by 67% of 2022 respondents, up from 44% of 2020 respondents.
- **Positive screening:** Cited by 64% of 2022 respondents, up from 43% of 2020 respondents.
- **Norms-based screening:** Cited by 52% of 2022 respondents, up from 34% of 2020 respondents.
- **Impact investing:** Cited by 46% of 2022 respondents, up from 37% of 2020 respondents. Of those using impact investing, more than eight in ten (86%) say they focus on both environmental and social impacts.

In summary, while ESG integration remains well-established as the most prevalent RI strategy in Canada, we observe that responsible investors in Canada are expanding their adoption of additional RI strategies within their AUM, for at least some portion of their RI AUM.

RI policies: An established practice

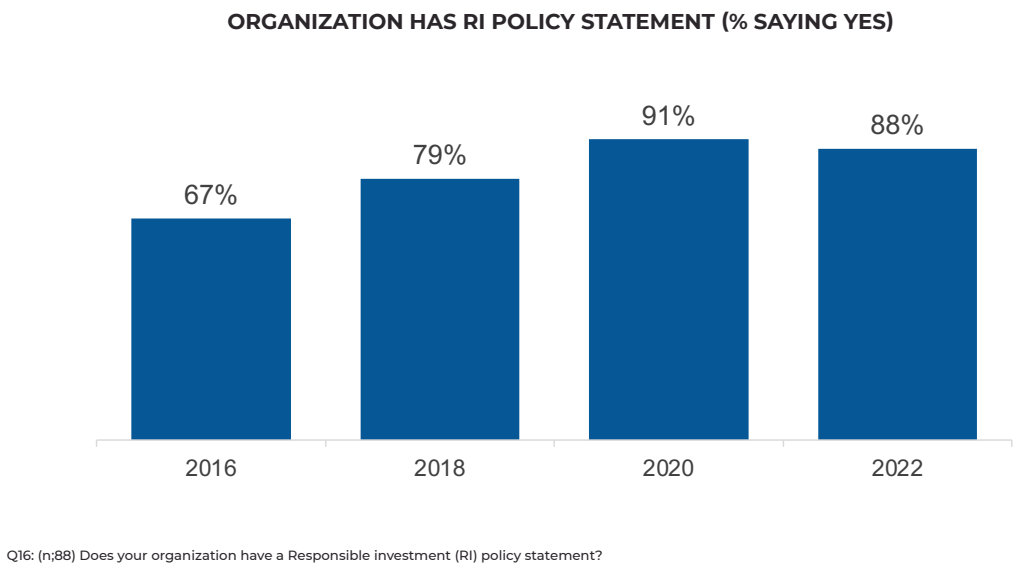
Survey results this year show that responsible investors' practices around the disclosure of RI policies and practices have remained relatively consistent in the past two years.

Our surveys have tracked over time the number of organizations that disclose a formal RI policy statement. In 2022, 88% of respondents overall have a formal RI policy statement. This proportion is similar to 2020, when 91% responded yes, and has increased markedly since 2016 when 67% responded yes **(Figure 4)**. The high level of adoption confirms the disclosure of RI policies has evolved to become a standard practice in Canada. Survey results also indicated that the larger the proportion of RI assets in the organization, the more likely it is that they have a formal RI Policy. Notably, 94% of those respondents with 100% of their AUM invested according to RI strategies have an RI policy, compared to 78% of those respondents with less than 10% of their AUM invested in RI strategies. The importance of RI to an organization's business strategy is favourably associated with greater disclosure about their RI policies.

AT A GLANCE

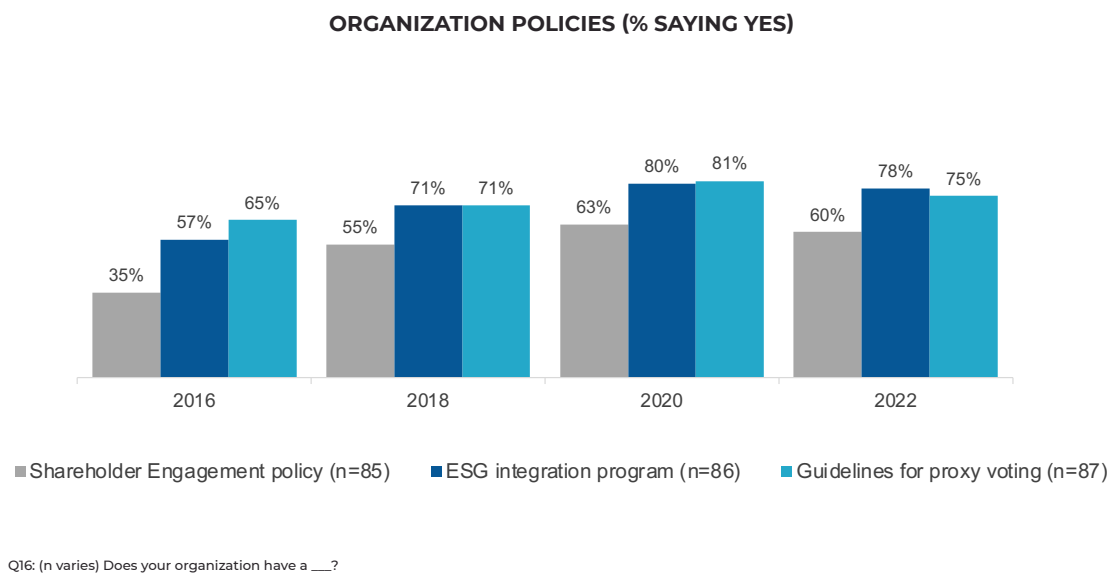
- The vast majority of investors have a formal RI policy statement
- Investors are increasing transparency with additional disclosures around proxy voting, engagement, and ESG integration

FIGURE • 4



Of the respondents with a formal RI policy, almost all also stated they have a formal ESG integration program (96%), shareholder engagement policy (98%), and proxy voting guidelines (98%). This high prevalence of disclosure is a positive trend in providing transparency and accountability to an organization's investors and other stakeholders.

FIGURE • 5



WHY ARE INVESTORS CONSIDERING ESG FACTORS? IT COMES DOWN TO RISK

The RI Trends survey tracks how respondents rank their top three reasons for considering ESG factors in their investment decisions.

AT A GLANCE

- Minimizing risk and improving returns are the top drivers of ESG consideration
- Fiduciary duty remains a key factor

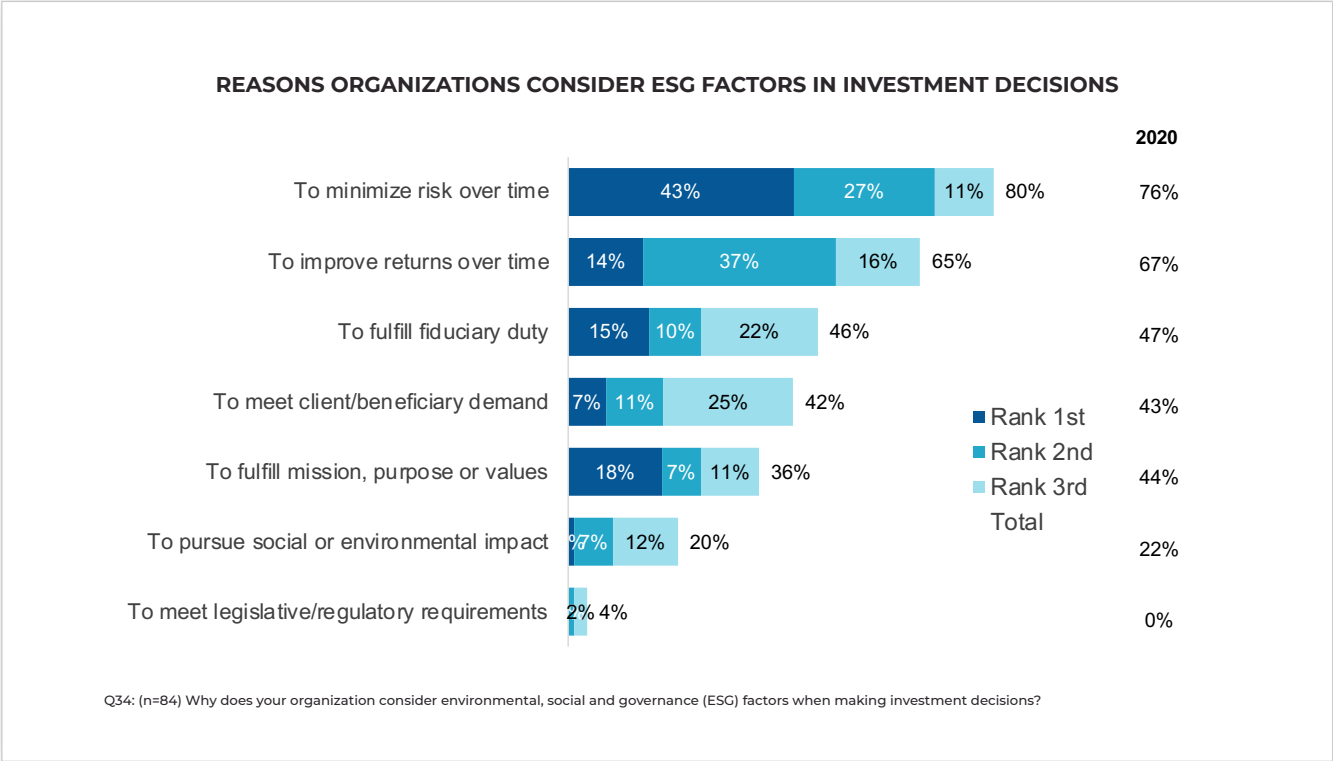
In this year's survey, 43% of respondents ranked risk minimization as their top reason to consider ESG factors, and overall, 80% of respondents ranked risk minimization in their top 3 reasons **(Figure 6)**. The second-highest ranked reason was to improve returns, with 65% of respondents ranking it in their top 3. Put together, these rankings suggest a key driver for investors to incorporate ESG factors into their investment decision-making is the opportunity to generate better risk-adjusted returns. This finding has been consistent in our previous three surveys, covering the past six years–which points to a steadfast conviction among respondents.

Meeting fiduciary obligations was the third-ranked reason (overall 46% of respondents) to consider ESG factors, which is the same relative ranking (and overall score) as last year. Over time, the idea that investors incorporating ESG factors is consistent with, not in conflict with, an investment manager's fiduciary duty, has become more widely accepted in the investment industry. Modern fiduciary duty arguably requires investors to consider all relevant information and material risks in investment analysis and decision-making, which includes considering relevant, material ESG information and risks.[5]

Fulfilling mission, purpose, or values ranked fourth in 2020 and ranked fifth in 2022 in importance among this year's respondents. Interestingly, 18% of respondents ranked it as their top reason, second only to risk minimization.

5 The CFA Institute's Positions on Environmental, Social and Governance Integration can be found here. The PRI's modern interpretation of fiduciary duty can be found here.

FIGURE • 6



Q34: (n=84) Why does your organization consider environmental, social and governance (ESG) factors when making investment decisions?

RI PRACTICES: WHAT ESG FACTORS / SCREENS ARE BEING CONSIDERED?

Top ESG considerations

Survey respondents were asked to identify which ESG factors/screens they systematically incorporate into their investment decisions. The questionnaire provided lists of E, S and G factors for the respondents to select from. While different ESG factors may be identified and evaluated differently within asset classes, sectors, investment processes and RI strategies, respondents were asked to choose the most prevalent ESG considerations across all their investment decisions. Overall, social and environmental factors/screens make up the majority of the top 10 ESG issues systematically considered in investment decisions, while two governance issues are included in the top 10 ESG issues, as shown in **Figure 7**.

AT A GLANCE

- Top 10 ESG factors include a mix of environmental, social, and governance issues
- Climate-related issues are the dominant overall consideration
- Human rights, EDI, Board diversity, and executive compensation are the top Social and Governance factors

FIGURE • 7

Q26: (n=80) Please indicate any and all ESG factors/screens that are systematically considered in your organization's investment decisions. We recognize that different ESG factors will be considered across sectors, but please select the most prevalent ESG considerations across all of your investment decisions.

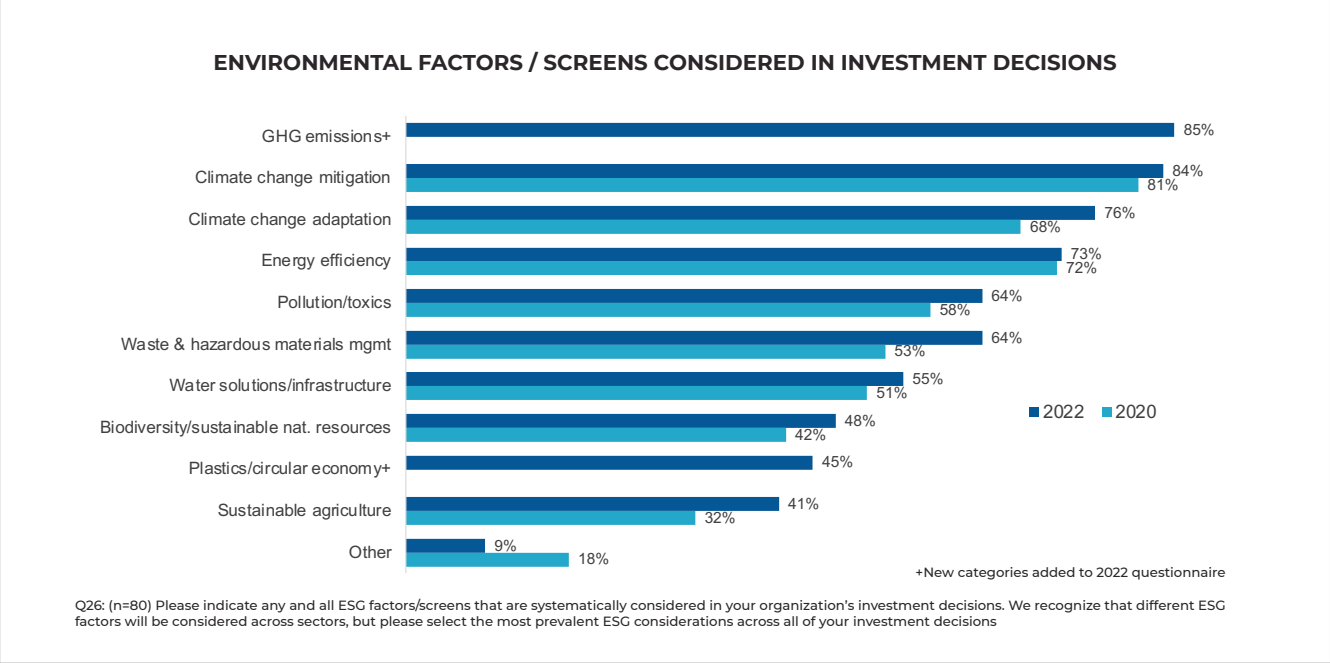
Most commonly used environmental factors

Climate change and climate-related concerns top the environmental factor/screen usage list with greenhouse gas emissions (85%) and climate change mitigation (84%) mentioned most frequently, followed by climate change adaptation (76%). More than seven in ten (73%) respondents mention using energy efficiency factors/screens **(Figure 8)**.

This ranking is very similar to the 2020 survey result when climate change mitigation was the most cited E factor, climate change adaptation ranked third, and energy efficiency ranked second. (The category "GHG emissions" was introduced in 2022.)

Issues related to climate change remain top of mind for investors, and we don't expect that to change soon. The physical and transition risks associated with rising global temperatures pose a systemic risk to the global financial system, the economy, and our planet's future. The survey results confirm that responsible investors understand that climate risk represents investment risk.

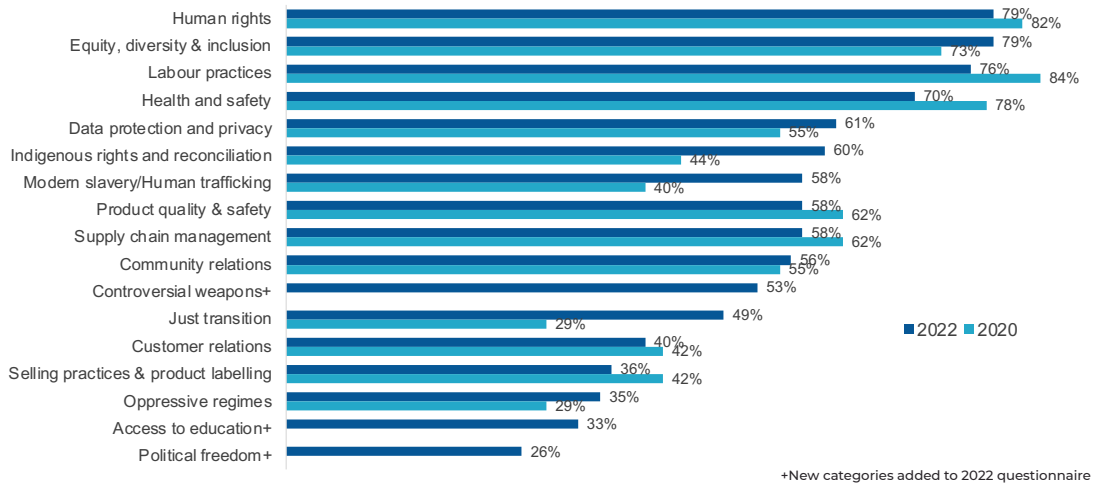
FIGURE • 8



Most commonly used social factors

Figure 9 summarizes the ranking of social issues that investors are incorporating into their investment analysis. In 2022, Human rights tied with Equity, Diversity & Inclusion (EDI) as the most cited social issues in this year's survey, with nearly 80% of respondents using these factors/screens in their investment decision-making. Labour practices and Health & Safety ranked third and fourth, respectively. These four categories also ranked in the top four in our 2020 survey.

FIGURE • 9



Q26: (n=80) Please indicate any and all ESG factors/screens that are systematically considered in your organization's investment decisions. We recognize that different ESG factors will be considered across sectors, but please select the most prevalent ESG considerations across all of your investment decisions.

Most commonly used governance factors

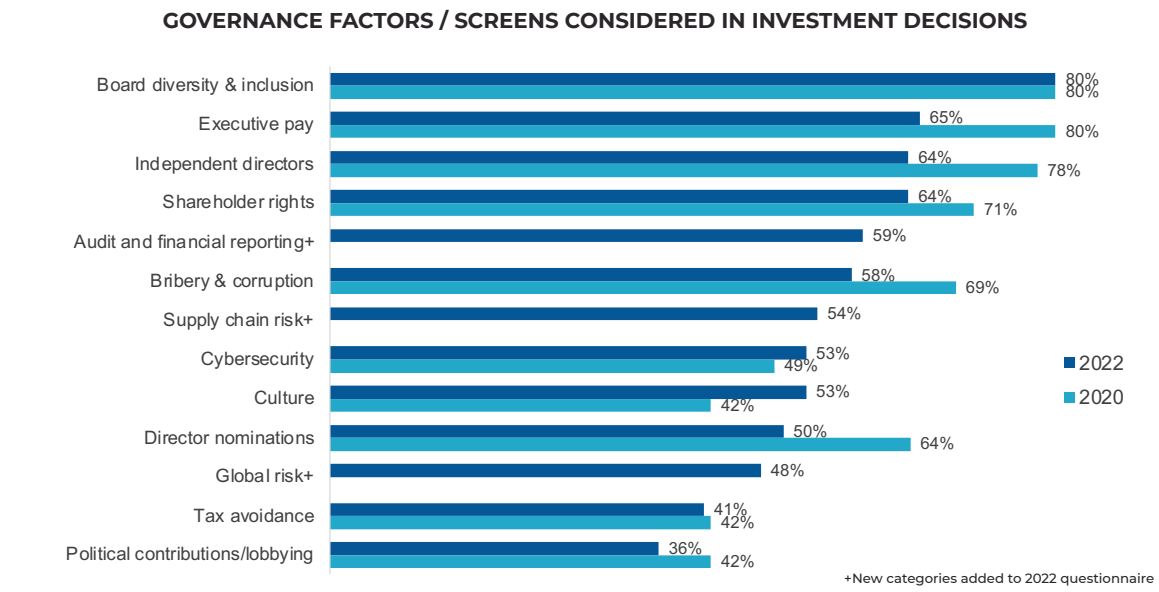
Survey respondents cite board diversity & inclusion as the top governance factor they use **(Figure 10)**. Executive pay, independent directors and shareholder rights were very closely ranked as the next three most cited governance factors. These top four governance issues are consistent with our 2020 survey results.

Although significant gains in board diversity have been achieved, particularly in the higher proportion of women represented, the racial and ethnic demography of Canada is still under-represented in corporate Canada.[6] Work remains to be done for responsible investors to advance corporate diversity in Canada and globally, through their investment and stewardship activities.

The RIA launched the Canadian Investor Statement on Diversity & Inclusion on October 1, 2020, signed by Canadian institutional investors managing more than $2.3 trillion in assets. Statement signatories acknowledge the existence of systemic racism and its impacts on Black and Indigenous communities and People of Colour, while further acknowledging the existence of inequities and discrimination based on other factors including, but not limited to, gender, sexual orientation, age, disability, religion, culture, and socio-economic status. Signatories commit to taking intentional steps to promote diversity and inclusion across their portfolios and within their organizations. The RIA continues to support the work of the Statement signatories with periodic roundtables and resources.

6 MacDougall, Andrew. "Report: 2022 Diversity Disclosure Practices – Diversity and leadership at Canadian public companies." Osler, Hoskin & Harcourt LLP, 13 October 2022. Accessed 10 November 2022.

FIGURE • 10



Q26: (n=80) Please indicate any and all ESG factors/screens that are systematically considered in your organization's investment decisions. We recognize that different ESG factors will be considered across sectors, but please select the most prevalent ESG considerations across all of your investment decisions.

RI PRACTICES: WHAT ESG INFORMATION, FRAMEWORKS & NORMS ARE BEING USED?

To shine a light on the most prevalent RI practices currently being used by responsible investors in their investment analysis and decision-making, we asked survey respondents to rank their key sources of ESG information used when making investment decisions, and about the different ESG frameworks and norms they incorporate in their investment analysis.

AT A GLANCE

- Direct engagement with companies continues to be investors' top source of ESG data; in-house research ranks second
- TCFD, SASB, and SDGs are the top three frameworks investors use for analysis and reporting
- Two third of respondents expect to incorporate the ISSB disclosures over the next two to five years

ESG information sources

For responsible investors to make informed investment decisions they need to source ESG information to incorporate into their analysis. We asked respondents to identify their key sources of ESG information, by selecting from a list. Of note, respondents identified they are using 2.7 sources on average.

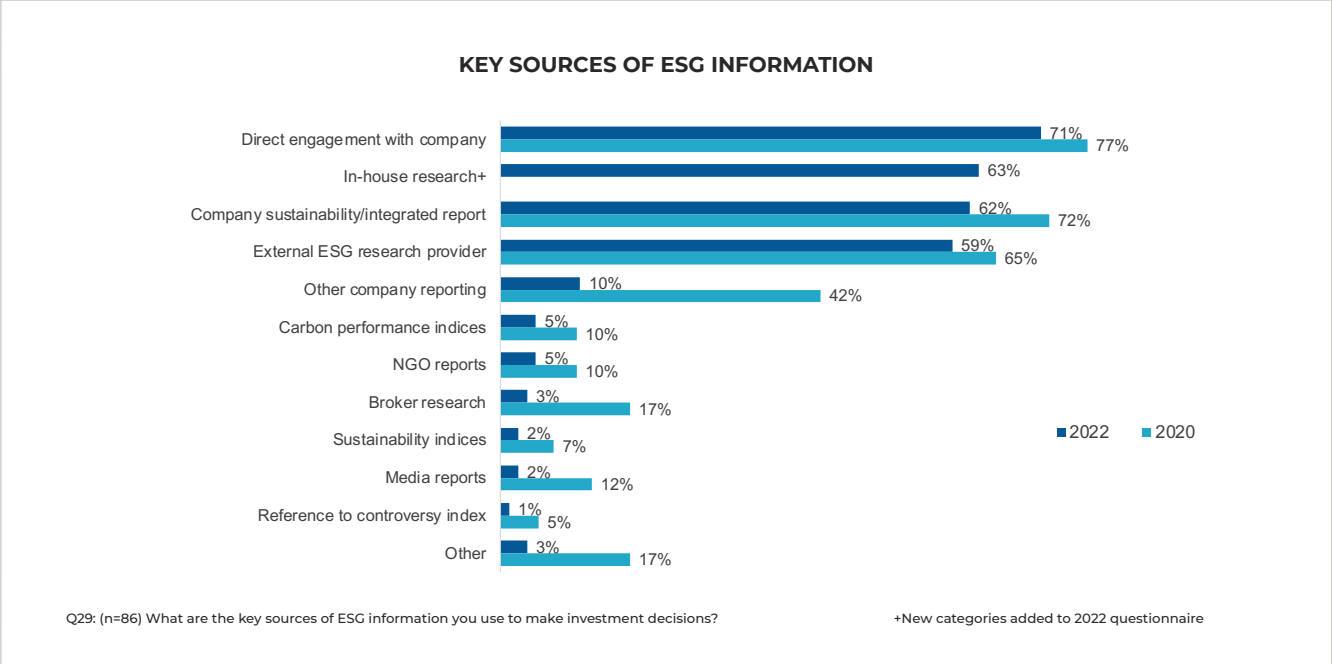
Results are shown in **Figure 11**. Overall, the top source of ESG information, selected by 71% of respondents, was direct engagement with companies. This was consistent with the 2020 survey when it was the top-ranked source by 77% of respondents. Meetings with company management and investor relations provide investors with key insights on ESG initiatives and performance. Investors are also increasingly collaborating with each other on engagement initiatives to ensure their investee companies are taking necessary action on ESG issues–including initiatives such as Climate Action 100+[7] and Climate Engagement Canada[8] to address climate change.

In 2022 a new category, "In-house research", was added to the survey questionnaire, which 63% of respondents said they utilized when making investment decisions, ranking second overall as a source of ESG information. While many firms have or are building internal ESG research capabilities, 59% of respondents said they used external ESG research providers as a source of ESG information, which ranked fourth. Company sustainability/integrated report was ranked third which dovetails as a source of information for (number 2 ranked) in-house ESG research analysis.

7 Climate Action 100+

8 Climate Engagement Canada

FIGURE • 11



ESG frameworks

ESG frameworks and standards help guide company disclosures to ensure they are comparable, consistent, and reliable. We asked respondents which ESG frameworks they most use to gain ESG data and information for their investment analysis **(Figure 12)**.

Climate change and climate-related concerns are the most prevalent E factor considered by survey respondents in their investment and engagement programs. Correspondingly, two-thirds (66%) of respondents report they currently incorporate the Task Force on Climate-Related Financial Disclosures (TCFD) framework into their investment analysis. In its 2022 status report, the TCFD noted the number of supporters of the recommendations has steadily increased to more than 3,800 organizations, including over 1,500 financial institutions responsible for assets of $217 trillion.[9] Looking ahead, there seems to be continued momentum for TCFD support among survey respondents, as the majority (78%) of those not currently using the TCFD plan to start using the framework in the next two to five years.

The Sustainability Accounting Standards Board (SASB) Standards and UN Sustainable Development Goals (SDGs) complete the top three ESG frameworks currently being used by respondents in 2022 at rates of 61% and 59% respectively. According to SASB, 317 institutional investors globally—representing $81T AUM (USD) and 27 markets—support SASB Standards and/or use SASB Standards to inform their investment decision-making.[10]

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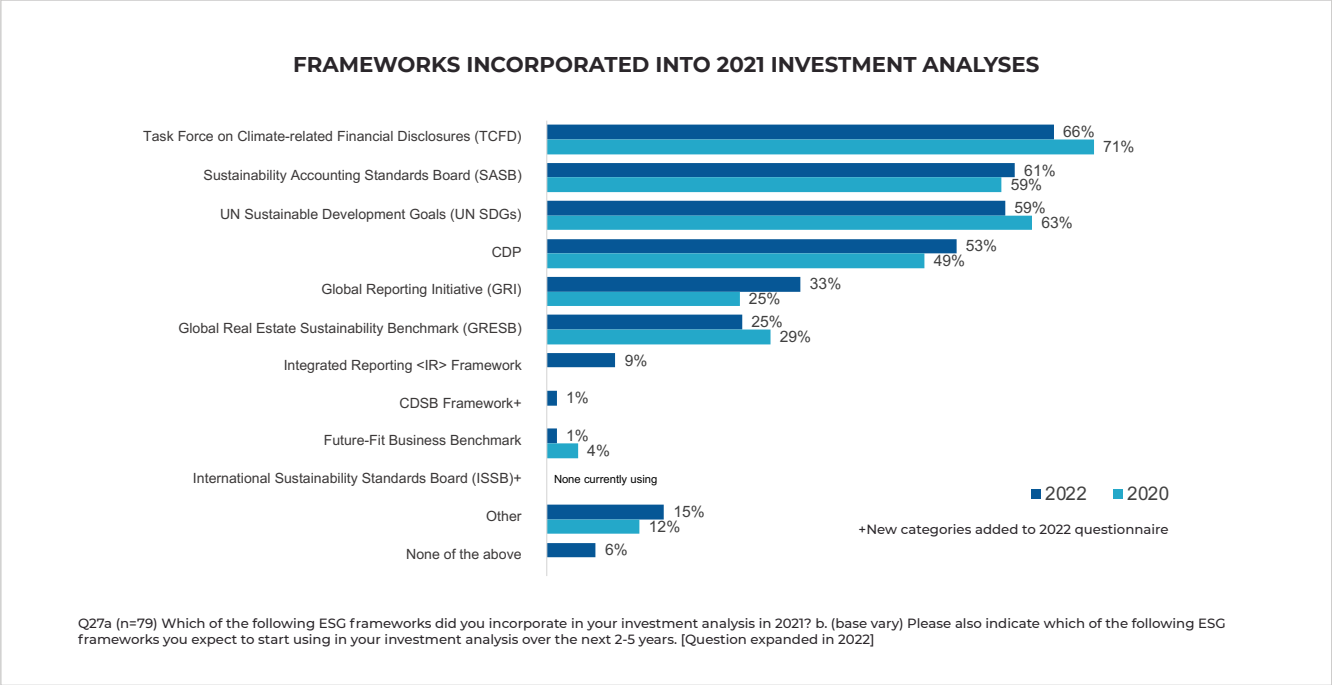
9 "2022 TCFD Status Report: Task Force on Climate-related Financial Disclosures." Financial Stability Board, 13 October 2022. Accessed 10 November 2022.

10 "Global Use of SASB Standards." SASB. Accessed 10 November 2022.

FIGURE • 12



In late 2021, the International Sustainable Standards Board (ISSB) was created to address the need to consolidate multiple ESG reporting frameworks. It aims to result in a high-quality, comprehensive global baseline of sustainability disclosures that will provide investors with information about companies' sustainability-related risks and opportunities to help them make informed decisions. The ISSB standards will build on the work of the Climate Disclosures Standards Board, TCFD, the Value Reporting Foundation's Integrated Reporting Framework, SASB Standards and the World Economic Forum's Stakeholder Capitalism Metrics.[11] The ISSB issued two Exposure Drafts for consultation in 2022 (IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures) and plans to issue final Standards in 2023. Survey results indicate widespread adoption of the ISSB framework (67% of respondents) is likely over the next two to five years.

Looking forward, another framework under development is the Taskforce on Nature-related Financial Disclosures[12] (TNFD Framework) which will enable companies and financial institutions to integrate nature into decision-making. At the time of writing, the Taskforce expects to launch the framework in September 2023.

11 "IFRS- ISSB: Frequently Asked Questions." IFRS Foundation, 3 November 2021. Accessed 10 November 2022.

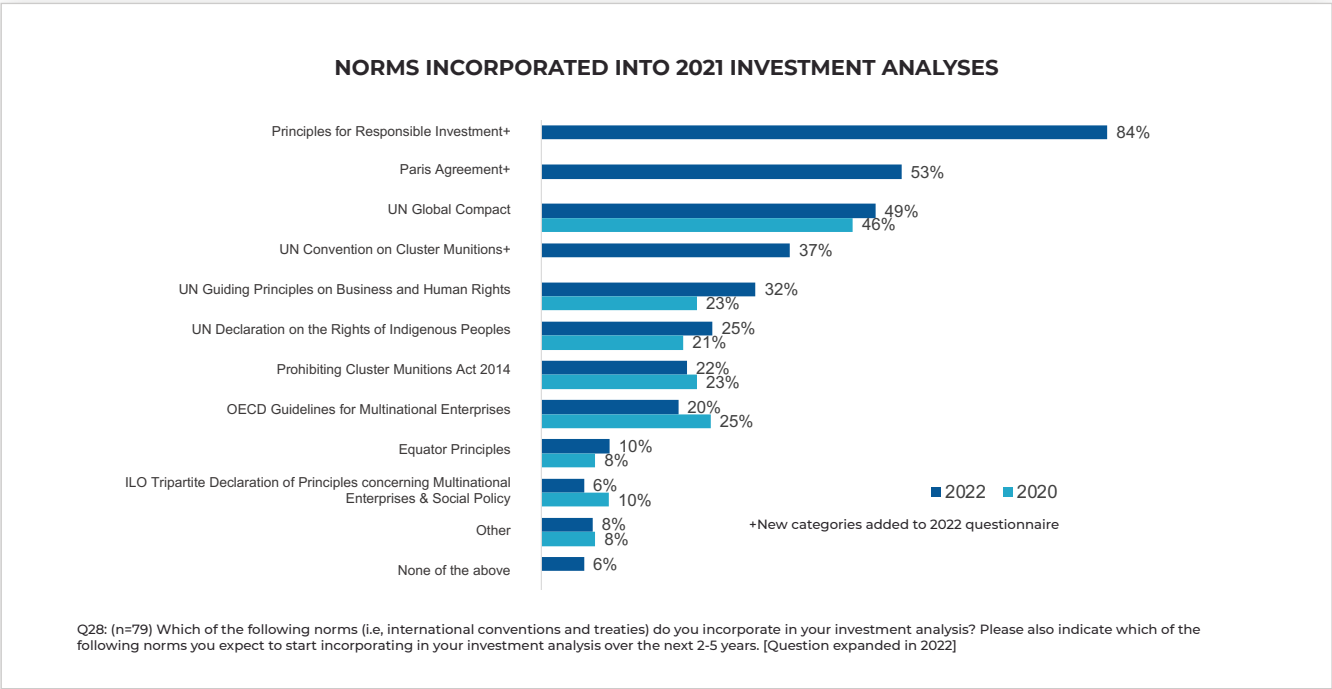
12 Taskforce on Nature-related Financial Disclosures: TNFD. Accessed 10 November 2022.

Norms (international conventions and treaties)

The Principles for Responsible Investment (PRI) was the most commonly incorporated norm in 2021 (a new category added in this year's survey), selected by 84% of respondents **(Figure 13)**. This high level of response reflects the prevalence of PRI signatories within the survey sample. Globally, the number of PRI signatories continues to accelerate, increasing 28% year-on-year to 4,902 global signatories by March 31, 2022 (19% increase in Canada).[13] PRI signatories commit to incorporating ESG issues into investment analysis and decision-making processes, to be active owners and to incorporate ESG issues into ownership policies and practices, and to seek appropriate disclosure on ESG issues by the entities in which they invest.[14]

The second most incorporated norm was the Paris Agreement (a new category added in 2022). The Paris Agreement was signed by almost 200 countries in 2015 with a global action plan to limit global warming to 1.5ºC. Investors looking to align with the Paris Agreement would look to ensure their portfolios and investee companies are working to achieve the Agreement's ambitions. The most applied standard for norms-based screening in our 2020 survey was the UN Global Compact, which fell to third place in this year's ranking. Among those who are not currently using, half expect to incorporate the Paris Agreement (50%) and nearly half expect to incorporate the UN Guiding Principles on Business and Human Rights (45%) in the next two to five years.

FIGURE • 13



13 https://www.unpri.org/annual-report-2022/signatories. Accessed 10 November 2022.

14 PRI | Home, https://www.unpri.org/. Accessed 10 November 2022.

NET ZERO AND GHG EMISSIONS TRACKING & TARGETS

For the first time, in this year's survey we added a series of questions related to how investors are incorporating net zero targets and GHG emissions into their investment practice. With respondents ranking climate change as the top ESG issue in investment decisions and engagement activities, and as the window of opportunity to avoid the worst effects of climate change closes, we intend to continue to track developments in this area in future surveys.

AT A GLANCE

- One-third of respondents have signed on to a GFANZ alliance
- The vast majority are measuring, or planning to measure, their carbon intensity
- 30% have set GHG reduction targets and the majority of that group has set interim targets as well
- A minority of respondents have targets for Scope 1, 2, and 3 emissions

Formal commitments to net zero at early stages

In 2021, the Glasgow Financial Alliance for Net Zero (GFANZ) was launched by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, to raise ambition and coordinate efforts across all sectors of the financial system to accelerate the transition to a net-zero global economy. In a notable development at COP26, GFANZ announced it had "mobilized over 450 firms from 45 countries to commit to transforming economies towards net-zero emissions. The firms collectively control over $130 trillion in private capital which would be aligned with Paris Agreement goals, including limiting global warming to 1.5C."[15]

GFANZ membership has now grown to over 550 firms, from over 50 countries, that commit to the goal of net zero by 2050, developing net-zero transition strategies, setting interim targets for 2030 or earlier, and reporting progress annually.[16]

15 "COP26 Day 4: Mobilizing the money | United Nations." the United Nations. Accessed 10 November 2022.

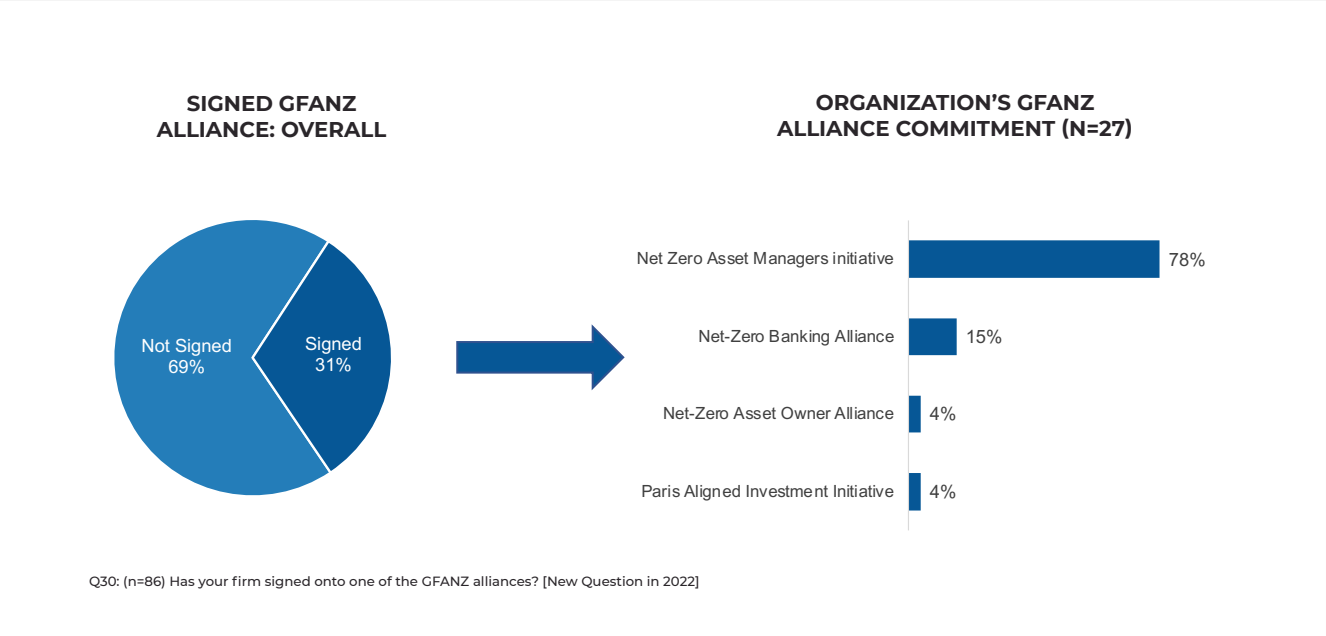
16 "About Us." Glasgow Financial Alliance for Net Zero. Accessed 10 November 2022.

There are currently seven financial sector alliances under GFANZ:

- Net-Zero Asset Owner Alliance (NZAOA)
- Net-Zero Asset Managers initiative (NZAM)
- Paris Aligned Asset Owners (PAAO)
- Net-Zero Banking Alliance (NZBA)
- Net-Zero Insurance Alliance (NZIA)
- Net Zero Financial Service Providers Alliance (NZFSPA)
- Net Zero Investment Consultants Initiative (NZICI)[17]

Overall, about one-third (31%) of survey respondents said that they have signed on to a GFANZ alliance, the majority under the Net-Zero Asset Managers initiative **(Figure 14)**.

FIGURE • 14



In addition to the global alliances, Canadian institutional investors also can signal their commitments to achieving net zero via the Canadian Investor Statement on Climate Change. The Statement, which the RIA launched in 2021, has been signed by 37 institutional investors managing over $5.5 trillion in assets. Statement signatories commit to taking action to advance the global pursuit of net zero, through such initiatives as disclosing their financed emissions and setting an expectation that their investees will establish emissions targets and report on their progress.

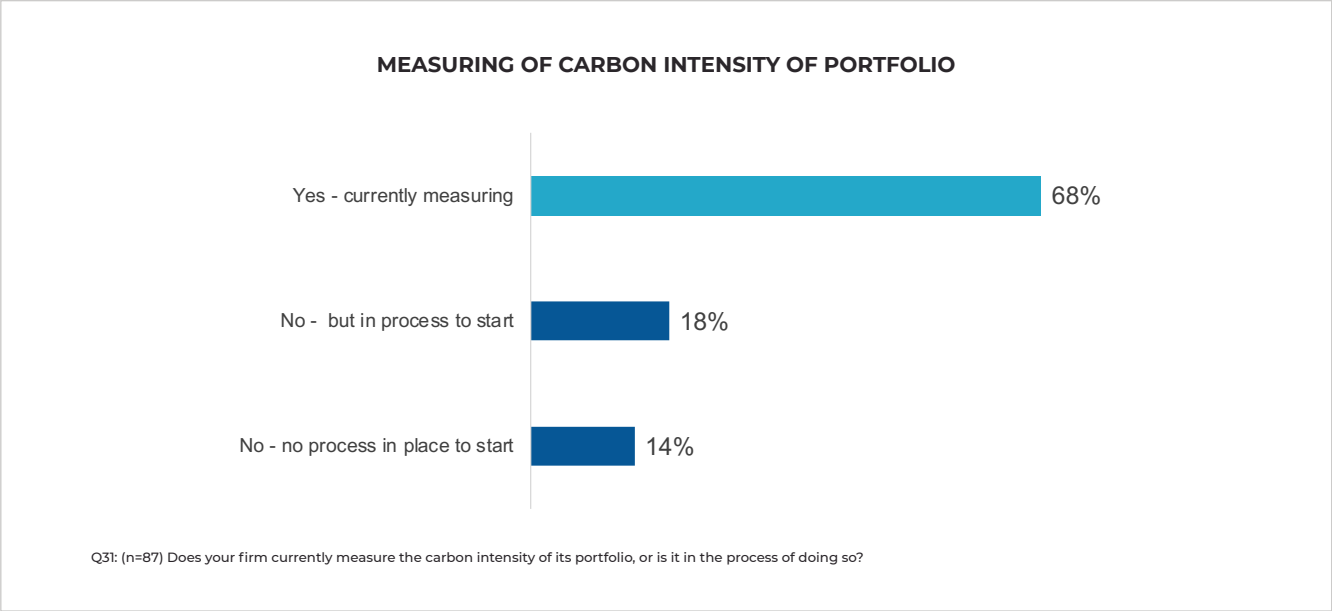
17 Glasgow Financial Alliance for Net Zero. Accessed 10 November 2022.

Majority measuring portfolio carbon intensity

Analyzing carbon emissions in their portfolios gives investors insights into their portfolios' exposure to climate risk and their contribution to global emissions. It can also help investors track how a portfolio company is managing and mitigating those risks, which can inform the investor's corporate engagement and stewardship activities.[18]

As shown in **Figure 15**, the practice of measuring portfolio carbon emission intensity is becoming widely adopted according to survey respondents. With 68% of respondents currently measuring the carbon intensity of their portfolios, and an additional 18% who do not currently measure being in the process to start, this leaves only 14% who have no plans to start. Organizations that report on engagement activities and outcomes are more likely to say they measure the carbon intensity of their portfolio.

FIGURE • 15

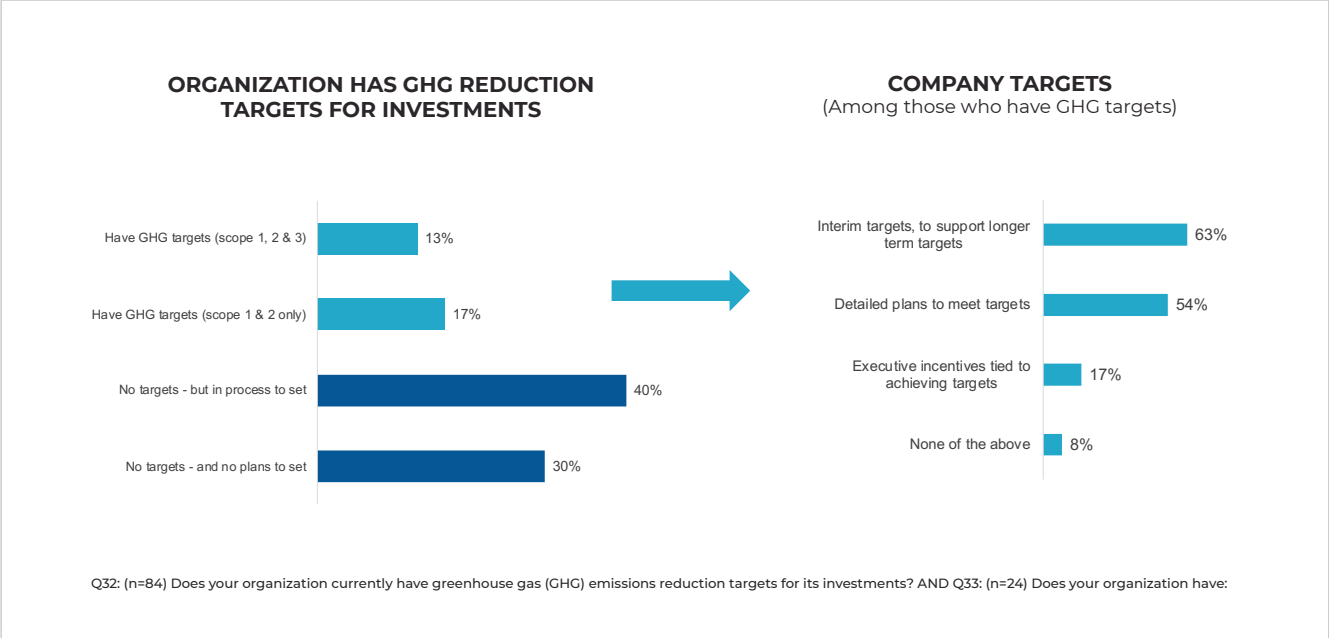


Limited adoption of greenhouse gas (GHG) emissions reduction targets

Meanwhile, as shown in **Figure 16**, 30% of respondents say they have GHG emissions reduction targets including 13% who have targets for scope 1, 2 and 3 emissions. Among those with GHG targets, the majority (63%) have interim targets to support longer-term targets and 54% have detailed plans to meet their targets. While 70% of respondents do not currently have GHG emissions reduction targets, over half of this group said they are in the process to set targets.

18 "A guide to portfolio carbon emissions." RBC Global Asset Management. Accessed 10 November 2022.

FIGURE • 16



Transitioning to a net-zero economy will require significant transformations of all sectors, industries, and geographies. In particular, the energy sector must be transformed, as it accounts for about three-quarters of global GHG emissions. But this cannot happen in a vacuum, and investors must not only focus on reducing GHG emissions but also on enabling a just transition to a low-carbon future for workers and their communities.

THE FUTURE OF RI: INDUSTRY OUTLOOK

We asked survey respondents to share their outlook for the growth of responsible investing over the next two years and share their views on the major challenges and drivers for the growth of RI in Canada.

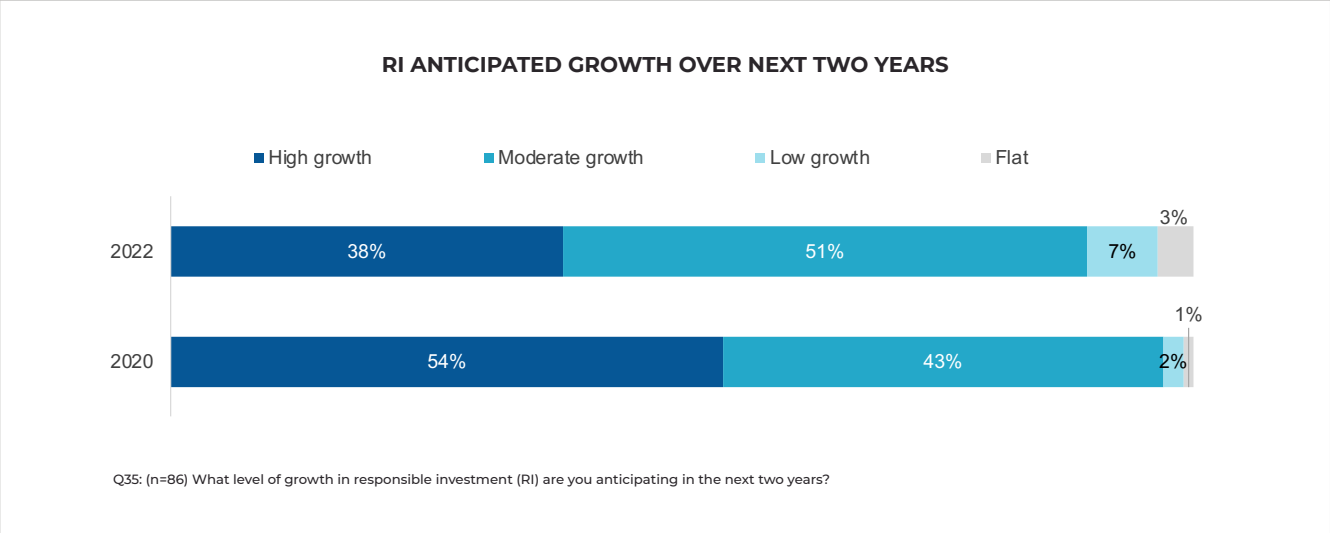
AT A GLANCE

- Expectations for RI growth are moderating
- Mistrust/concerns about greenwashing is the top deterrent to RI growth; lack of standardized frameworks ranks second
- Climate change leads all other issues as a key driver of RI growth, followed by investor demand

RI growth expectations are moderating

As the RI industry matures, expectations for future industry growth are moderating. We asked survey respondents the level of growth in RI they expect over the next two years. In 2022, half the respondents (51%) said that they expect moderate growth over the next two years, in contrast to half the respondents (54%) who said they expected high levels of growth in 2020. The RI landscape remained steadfast through a volatile period of unforeseen events such as a global pandemic, increasing geopolitical tensions, social polarization, and a backlash against ESG in the US. As noted earlier, respondents appeared to be conservative in their RI AUM calculations reported in this year's survey. We are also seeing an indication of caution in this year's respondents' moderating growth expectations, compared to two years ago.

FIGURE • 17

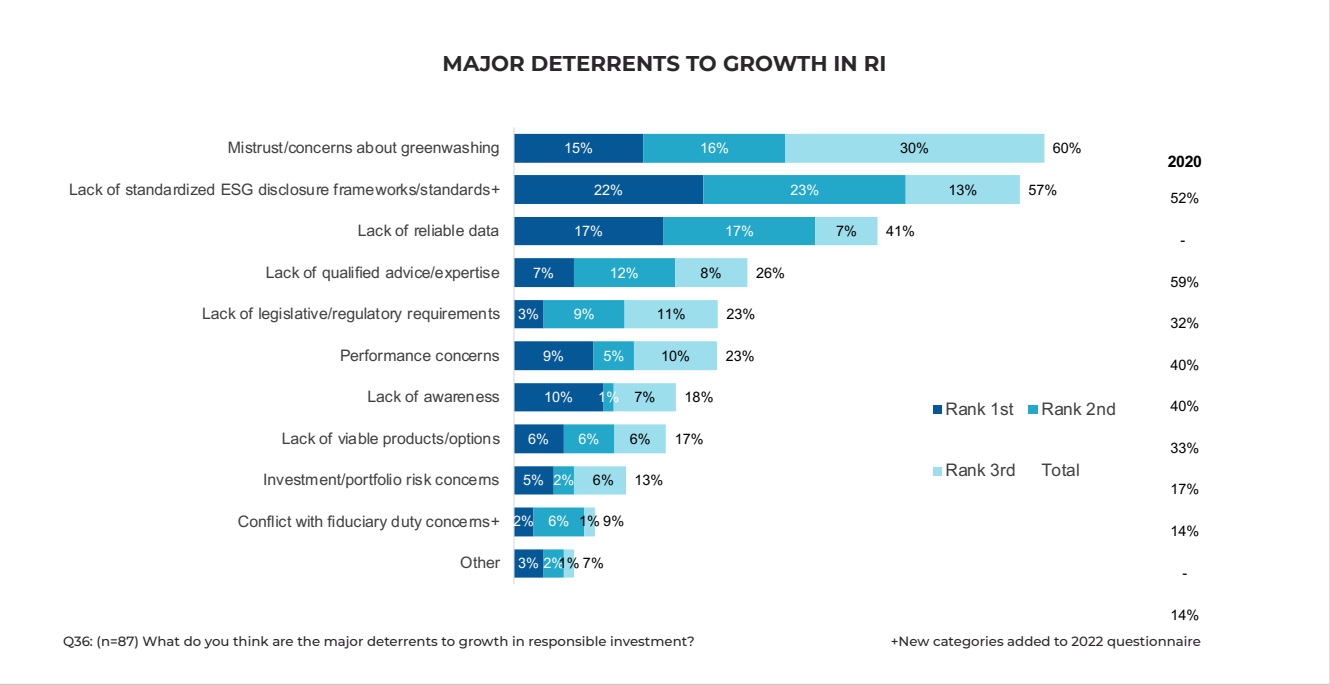


Greenwashing, lack of standardization top list of concerns

Mistrust/concerns about greenwashing moved from rank 2 in 2020 to the top of the chart in 2022 as the most significant deterrent to growth in RI **(Figure 18)**. Political backlash in the US, inconsistencies in ESG data and a lack of regulation have contributed to concerns and the mistrust of some investors.

In Canada, we have seen recent developments from regulators intended to reduce the potential for greenwashing, particularly as it relates to investment fund disclosures for retail investors. In January 2022, the Canadian Securities Administrators (CSA) published guidance for investment fund disclosures related to ESG considerations. Considering the growing interest in responsible investments and the number of retail products being launched, the CSA sought to reduce the potential for "greenwashing", whereby a fund's disclosure or marketing intentionally or inadvertently misleads investors about the ESG-related aspects of the fund.[19]

FIGURE • 18



Additionally, in Canada, the Canadian Investment Funds Standard Committee (CIFSC) has published a Responsible Investment (RI) Identification Framework which defines six non-mutually exclusive approaches to RI with the aim to provide clarity for investors who wish to invest in products with responsible investment strategies.[20]

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19 "CSA Staff Notice 81-334- ESG-Related Investment Fund Disclosure." Ontario Securities Commission, 19 January 2022.

20 "CIFSC Publishes Responsible Investment Identification Framework." Canadian Investment Funds Standards Committee (CIFSC), 5 July 2022. Accessed 10 November 2022.

The lack of standardized ESG disclosure frameworks/standards ranked second as a deterrent to growth and the lack of reliable data ranked third. The consolation and strengthening of reporting standards as seen with the creation of the International Sustainability Standards Board[21] (ISSB) will help answer the call for more high-quality, transparent, reliable, and comparable data. The Canadian Sustainability Standards Board (CSSB) is currently being formed to ensure sustainability disclosures are standardized in Canada by supporting the development and the adoption of IFRS® Sustainability Disclosure Standards and considering the Canadian context in assessing their relevancy.[22]

Performance concerns as a deterrent to growth dropped from the number one ranked perceived barrier to growth for RI in 2018 to number four in 2020 and to number six in 2022. In fact, as noted earlier, improving risk-adjusted returns for clients is a top priority for survey respondents. In just four years, we have seen a remarkable shift in respondents' concerns about RI from performance to integrity, standardization, and reliability–further indications of a maturing mindset about RI.

Climate change emerges as key driver for RI growth

In this year's survey, climate change topped the chart as a key driver for RI growth over the next two years, ranked number one by 45% of respondents; overall, 63% of respondents ranked climate change in their top three drivers **(Figure 19)**. In 2020 climate change ranked second overall with just 25% citing it as the top driver–this represents a significant shift in sentiment over the past two years. Increasing global temperatures will likely continue to cause more severe storms, droughts, floods, and loss of biodiversity. The transition to cleaner forms of energy is presenting new technologies and opportunities for investors. It's no wonder respondents have selected climate change as the top driver of growth in RI.

Investor demand for ESG/impact fell from first-ranked in 2020 to rank second in 2022, while greater public awareness of ESG issues continued to rank third. Greater awareness of ESG issues, including climate change, is translating into higher demand from investors for products and strategies that address or consider ESG issues.

Notably, regulatory guidance/requirements rose from rank number six in 2020 to rank number four in 2022. In the past, in the absence of regulatory guidance or requirements to support ESG disclosures or RI practices, much of the growth in RI has been industry-driven. Respondents are indicating greater confidence that initiatives such as the strengthening of sustainability disclosure requirements and increasing standardization of sustainability data will be a strong driver for the RI industry going forward.

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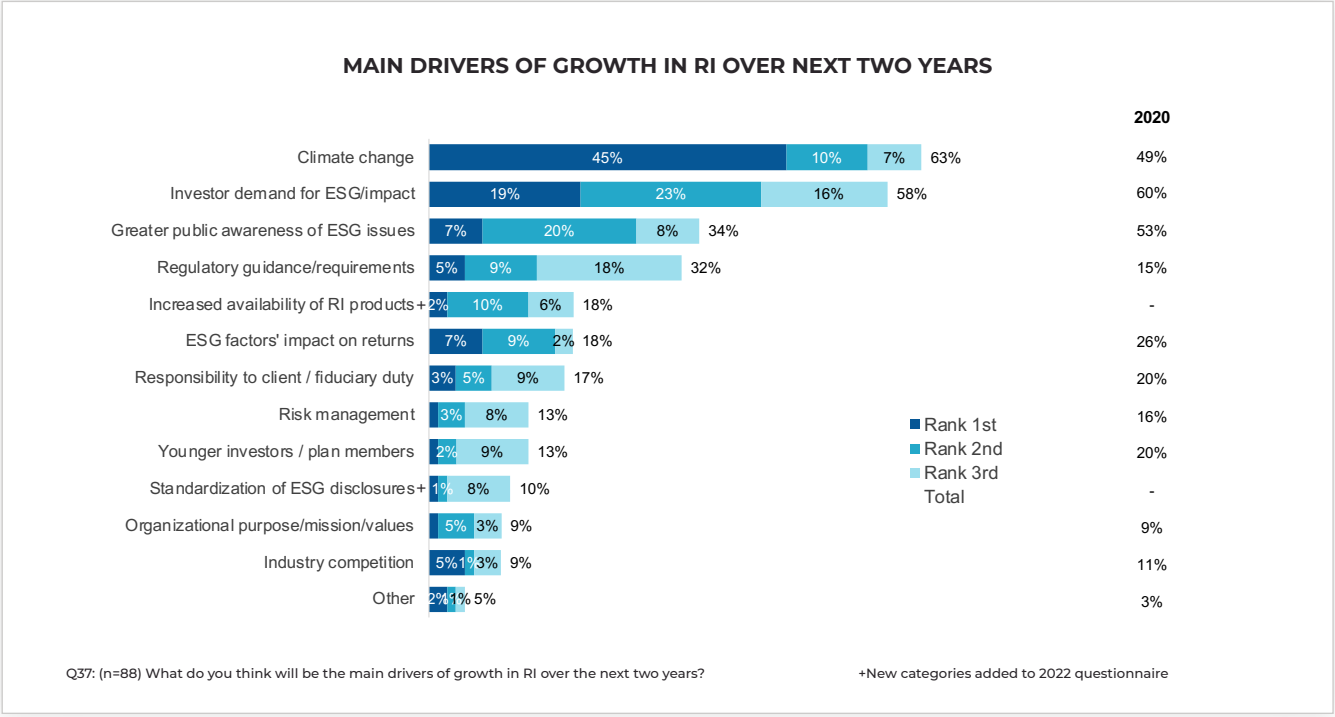
21 "IFRS- International Sustainability Standards Board." IFRS Foundation. Accessed 10 November 2022.

22 "CSSB- Canadian Sustainability Standards Board." FRAS Canada. Accessed 10 November 2022.

FIGURE • 19


MAIN DRIVERS OF GROWTH IN RI OVER NEXT TWO YEARS
2020
Climate change 45% 10% 7% 63% 49%
Investor demand for ESG/impact 19% 23% 16% 58% 60%
Greater public awareness of ESG issues 7% 20% 8% 34% 53%
Regulatory guidance/requirements 5% 9% 18% 32% 15%
Increased availability of RI products+ 2% 10% 6% 18% -
ESG factors' impact on returns 7% 9% 2% 18% 26%
Responsibility to client / fiduciary duty 3% 5% 9% 17% 20%
Risk management 3% 8% 13% 16%
Younger investors / plan members 2% 9% 13% 20%
Standardization of ESG disclosures+ 1% 8% 10% -
Organizational purpose/mission/values 5% 3% 9% 9%
Industry competition 5% 1% 3% 9% 11%
Other 2% 1% 5% 3%
Rank 1st
Rank 2nd
Rank 3rd
Total
Q37: (n=88) What do you think will be the main drivers of growth in RI over the next two years?
+New categories added to 2022 questionnaire

APPENDIX

LIST OF SURVEY RESPONDENTS

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

1832/Dynamic Funds/Scotia Global Asset Management

ACM Advisors Ltd.

Active Impact Investments

Addenda Capital

AGF Investments

AIMCo

Alliance Bernstein

AlphaFixe Capital

Amundi Canada

ATB Investment Management Inc

Aviva Investors

Beneva

Beutel, Goodman & Company

BMO Global Asset Management

BMO Private Wealth

Bridgehouse Asset Managers

British Columbia Investment Management Corporation

Canada Post Corporation Pension Plan

Capital International Asset Management (Canada), Inc. (This is the legal entity name in Canada for the brand Capital Group)

CC&L Infrastructure

Central 1 Credit Union

CIBC Asset Management

ClearBridge Investments, LLC

Coast Funds - Coast Conservation Endowment Fund Foundation

Connor, Clark and Lunn Investment Management

Crestpoint Real Estate Investments Ltd.

Deetken Impact

Desjardins Global Asset Management

Desjardins Investments Inc.

Développement international Desjardins

Equality Fund

Federated Hermes

Fidelity Investments Canada

Forum Asset Management

Franklin Resources, Inc.

Genus Capital

Gestion FÉRIQUE

Global Alpha Capital Management

Guardian Capital LP

Hillsdale Investment Management

Honeytree Investment Management

iA Clarington Investments

IG Wealth Management

Inspirit Foundation

Jarislowsky Fraser

Justwealth

Kindred Credit Union

Letko, Brosseau and Associates

Libro Credit Union

Mackenzie Investments

Manulife Investment Management

MD Financial Management

Meridian Credit Union

Middlefield Group

Montrusco Bolton Investments Inc.

Munro Partners

National Bank Investments

NEI Investments

Ninety One

North Growth Management Ltd.

Northern Trust Asset Management

Northleaf Capital Partners

OMERS

Orbis Investments

Pacifica Partners Inc.

Pictet Asset Management

Picton Mahoney Asset Management

Purpose Investments

Rally Assets

RBC Global Asset Management

RGP Investments

Russell Investments

SLGI Asset Management

Sprucegrove Investment Management Ltd.

STATE STREET GLOBAL ADVISORS

T. Rowe Price Associates, Inc.

TD Asset Management

TMA

Trans-Canada Capital

Triasima Portfolio Management

University of Toronto Asset Management Corporation (UTAM)

University Pension Plan

Value Partners Investments

Vancity

Vanguard Investments Canada Inc.

Waratah Capital Advisors

WC Kitchen Family Foundation

William Blair Investment Management, LLC

Youth Social Innovation Capital Fund