Responsible Investment Association

2023 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

Summary Report | October 2023

REPORT PARTNERS

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ACKNOWLEDGEMENTS

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The RIA gratefully acknowledges the following members who have provided financial support for the 2023 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.

AGF Investments is comprised of various subsidiaries of AGF Management Limited who manage and advise on a variety of investment solutions for clients globally. The investment teams draw upon and integrate fundamental and quantitative investing capabilities and research across the companies. AGF Investments' disciplined approach, global mindset and eye to risk management have allowed us to continue to evolve and thrive as a diversified asset manager. AGF Investments' teams embrace a culture of collaboration with the belief that an interconnected team leads to a better understanding of an interconnected world as we strive to deliver on investment objectives and provide an exceptional client experience.

Mackenzie Investments (Mackenzie) is a leading investment management firm with $185 billion in assets under management as of October 31st, 2022. Mackenzie provides investment solutions and related services to more than one million retail and institutional clients through multiple distribution channels. Founded in 1967, Mackenzie is a global asset manager with offices across Canada as well as in Boston, Dublin, London, Hong Kong and Beijing. Our 17 distinct investment teams offer expertise across traditional and non-traditional asset classes and cover the spectrum of sustainable investment approaches. We are committed to delivering competitive, long-term risk-adjusted performance with a pledge to uphold the United Nations-supported Principles for Responsible Investment (PRI).

ACKNOWLEDGEMENTS

NEI

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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RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) and includes money managers BlueBay and Phillips, Hager & North Investment Management. RBC GAM is a provider of global investment management services and solutions to institutional, high-net-worth and individual investors through separate accounts, pooled funds, mutual funds, hedge funds, exchange-traded funds and specialty investment strategies. The RBC GAM group of companies manage approximately $555 billion in assets and have approximately 1,500 employees located across Canada, the United States, Europe and Asia.

ENVIRONICS RESEARCH

Research Partner

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

Canadian Institutional Investment NETWORK

Data Contributor

The Canadian Institutional Investment Network provided data on Canada's investment industry.

argyle:

Report Collaborator

Argyle provided communications and writing support.

FOREWORD FROM THE RIA'S CEO

It is my pleasure to introduce the Responsible Investment Association's 2023 Canadian Responsible Investment (RI) Trends Report.

The data from this year's report shows that amid polarization and economic disruption, responsible investment remained resilient in 2022. As sustainability issues increasingly define investment risk and opportunity, the financial sector is codifying RI practices, ramping up transparency and reporting, and pushing for greater clarity and certainty. While we are seeing strong ripples in Canada of the global investor movement to enhance, align, and embed sustainability reporting in capital markets, it is clear that the emergence and uptake of credible, consolidated standards will determine the future potential of RI. As decisions around Canadian standards remain in limbo, the RIA is committed to helping investors continue to rise to the challenge. We are also calling on regulators and policymakers to act decisively to standardize data, definitions, and disclosure.

Key findings from this year's report include:

- **RI is increasingly becoming table stakes for investors, and investment organizations are acting to integrate RI approaches more fully**. After a more reliable floor emerged in 2021 for reported assets under management (AUM), this year saw the proportion of RI AUM increase by two points to 49% – even as AUM in general fell. Use and disclosure have led to increased sophistication: 52% publicly disclose formal policies in place – an RI policy statement, an ESG integration program, a shareholder engagement policy, and guidelines for proxy voting.
- **Greater sophistication around RI is leading to increased scrutiny and higher expectations**. Nearly six in ten organizations feel more confident about the overall quality of ESG reporting compared to this time last year and are particularly confident about the quality of their own reporting. Meanwhile, concerns about greenwashing, lack of standardized ESG disclosures, and lack of reliable data have risen. They remain the top three deterrents to RI growth, according to respondents. More than one-quarter (29%) of respondents ranked the absence of standards as their top concern.
- **Investors are readying themselves for consolidated frameworks and increasing transparency around their reporting**. 72% of respondents are currently using either the Taskforce on Climate-related Financial Disclosures (TFCD) or the Sustainability Accounting Standards Board (SASB) frameworks to make investment decisions, and 51% are using both. Based on current usage and stated intentions, the projected adoption of the International Sustainability Standards Board (ISSB) guidance could grow to 79% in the next 2 to 5 years, dependent on clarity around timelines and implementation pathways. As more policies become publicly available, organizations have demonstrated greater transparency in their reporting. An increasing majority (79%) of respondents now report on their engagement activities, with an overwhelming majority (93%) of that group also reporting the outcomes of their engagement.

The Trends Report is the RIA's most requested research, and we are excited to be delivering new data on an annual basis. Again this year, we worked with leading Canadian market research firm Environics Research to conduct the study, helping us deliver best-in-class analysis and insights. This report was also made possible by the generous support of our sponsors: Addenda Capital, AGF Investments, Mackenzie Investments, NEI Investments, and RBC GAM. Thank you for your continued commitment to the RIA and this research.

The 2023 Canadian RI Trends Report highlights the opportunity to unlock the potential of RI in Canada. We have actionable solutions in front of us today to become a maker, not just a taker, of clear, credible, and globally aligned standards. I am optimistic about the future of RI in Canada and the opportunity to embrace the global momentum behind emerging tools - from disclosure standards to green and transition taxonomies - in ways that advance Canada's priorities, including economic Indigenous reconciliation. As the voice for responsible investment in Canada, the RIA will continue to advocate for the clarity and certainty investors need, while ensuring they have the knowledge and tools to continue to act with conviction.

As you review this research, please do not hesitate to share your thoughts, concerns, and ideas. I look forward to rising to the challenge together to advance RI in Canada.

Sincerely,

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

EXECUTIVE SUMMARY

The 2023 Canadian Responisble Investment Trends Report shines a light on the continued resilience of RI in Canada. Now representing half of the Canadian market, RI is increasingly becoming table stakes, with the potential to influence positive outcomes for investors and society more broadly. But the road ahead is not certain. Investors' expectations for future RI growth have moderated with concerns about greenwashing, disclosures, and data quality persisting as the top deterrents to growth. How we address these challenges, through the adoption of emerging global standards and clear regulatory guidance, will determine RI's potential to rise to the greatest challenges of our times.

In 2022, against the backdrop of industry-wide declines in assets under management (AUM), RI's market share increased to 49%. This increase, amid global market volatility, underscores both the steady commitment to and the resilience of RI in Canada. The motivation for investors to adopt RI continues to stem primarily from the expectation of improving risk-adjusted returns, which is firmly aligned with their fiduciary duty.

Climate change continues to be a top priority, driving investment decisions and corporate engagement activities. However, the top factors shaping decisions are well-balanced across the ESG spectrum. The highest-rated social factors include equity, diversity, and inclusion (EDI), human rights and labour practices. The top governance issues include board diversity, executive compensation, and shareholder rights.

A new and important insight from this year's data is the increase in investor confidence related to the quality of ESG reporting—both overall and concerning their own reported data. However, greater sophistication around responsible investing is also likely leading to increased scrutiny and higher expectations for the industry. Investors eagerly anticipate the establishment of long-called-for, globally consistent definitions, standards, and frameworks, such as the International Sustainability Standards Board's (ISSB) inaugural standards for disclosures on sustainability-related risks and opportunities.

Meanwhile, investors are staying committed to implementing sound RI practices and adopting formal RI policies, and are increasingly sharing this information publicly. Notably, responsible investors have substantially increased reporting on the outcomes of their corporate engagement activities. This heightened transparency provides insight into the value generated by these engagement activities for their investors and beneficiaries, demonstrating a positive shift towards greater accountability and maturity within the RI landscape.

Investors are bolstering their efforts to incorporate ESG factors into their investment processes, even in the face of ambiguity. As decisions around RI standards and regulatory approaches evolve in the coming months and years, we have an unprecedented opportunity to unlock the potential of responsible investment in Canada. As a financial community, we must rise to the challenges ahead of us and use our influence to shape the responsible investment industry and the real economy. Ultimately, maintaining confidence and conviction in responsible investment is crucial for creating value in a volatile world.

ABOUT THIS REPORT

The Canadian Responsible Investment Trends Report, published by the Responsible Investment Association (RIA), serves as a tool for monitoring the evolution of responsible investment (RI) practices in Canada. This 2023 report draws upon responses gathered from a survey of Canadian institutional asset managers and asset owners, which took place between May 9th and July 6th, 2023. The previous survey was conducted in 2022, and before that, surveys were conducted every two years.

Clarity and consistency around definitions of RI and its common terms are essential for this research.

This report defines responsible investment as the incorporation of environmental, social, and governance (ESG) factors into the selection and management of investments.

It is important to note that RI is a broad term encompassing various strategies and approaches to implementation. This report references terminology and definitions for seven RI strategies, based on those used by the Global Sustainable Investment Alliance (GSIA). This approach facilitates comparisons of the Canadian RI market with other regions and over time.

All financial data is reflective of December 31st, 2022. The data collection and analysis were carried out by Environics Research. Over 390 organizations, including investment managers, Canadian asset owners such as pension funds and foundations, and other institutional investors managing assets in Canada, were invited to participate in the survey. This research universe encompasses both RIA members and non-members.

A total of 95 respondents completed the survey, comprising 61 asset managers and 34 asset owners. Survey participation was voluntary, and the data provided by participants was self-reported and not verified. Some reasonability checks were conducted, resulting in minimal adjustments. In addition to the survey, the RIA conducted desktop research using publicly available information for an additional 30 organizations that were unable to take part in the survey. This report does not aim to serve as a comprehensive census. Instead, it provides a reliable baseline against which to measure the growth, development, and prospects of the RI industry in Canada.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION

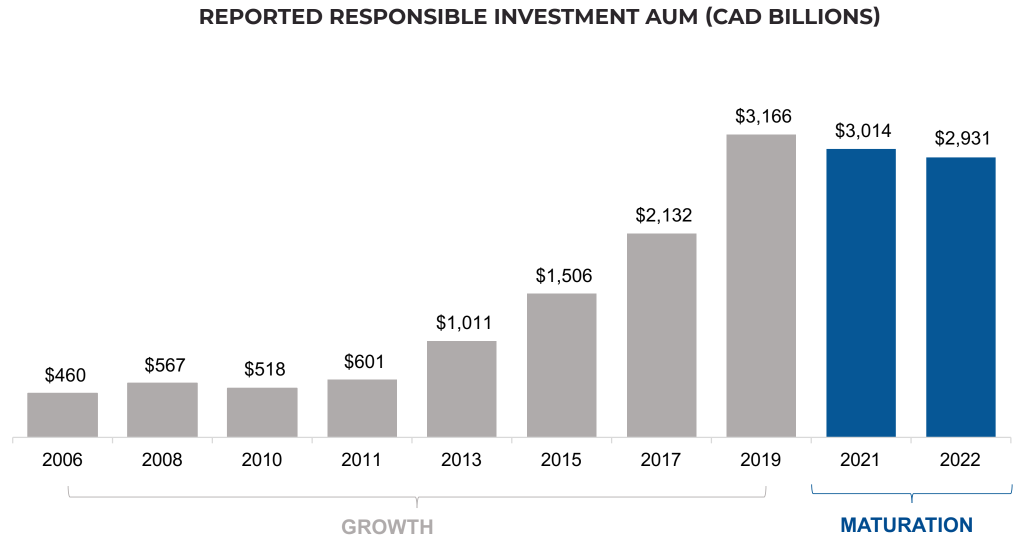
The RIA is Canada's industry association for responsible investment. The RIA aims to drive the growth and development of RI in Canada, with a vision to align capital with sustainable and inclusive development as codified in the Paris Agreement and the UN Sustainable Development Goals. The RIA's membership includes asset managers, asset owners, advisors, and service providers. Our institutional members collectively manage over $40 trillion in assets globally. Learn more at www.riacanada.ca.

CANADIAN RI MARKET CHARACTERISTICS

RI AUM and Market Share

In a season of economic disruption, the momentum behind responsible investment grew stronger. 2022 saw a slight decrease in reported Canadian RI AUM, from $3.0 trillion to $2.9 trillion (***Figure 1***).

FIGURE • 1



Q11: (n=93) What is your total AUM in Responsible Investments? Only includes assets subject to environmental, social or governance (ESG) criteria, policies or screens as at December 31, 2022, and consider assets managed on behalf of Canadian-domiciled clients.

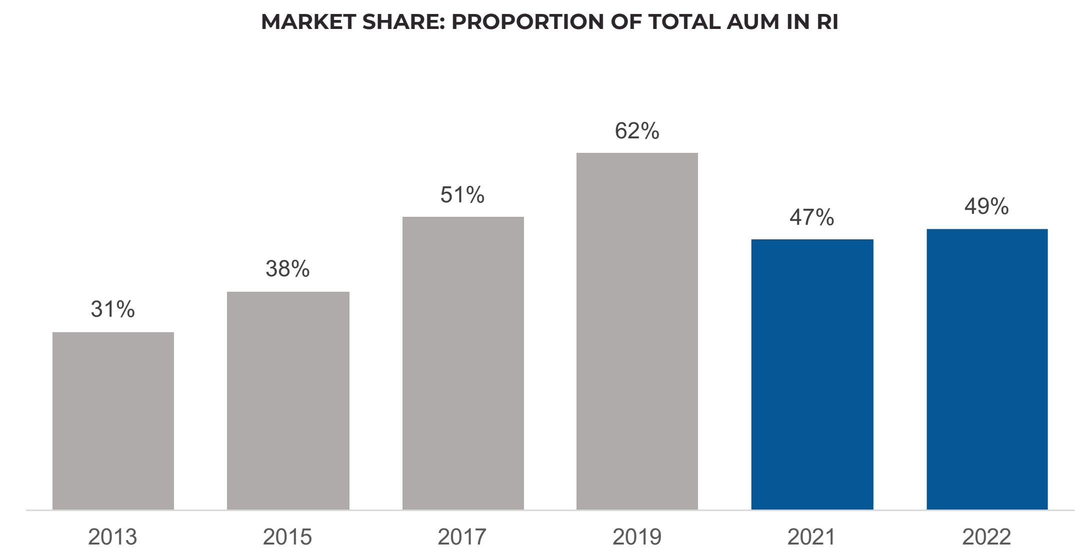
Putting this value into context: when viewed as a percentage of all Canadian professionally managed assets, ***RI's market share increased from 47% in 2021 to 49% in 2022***. (***Figure 2***).

2022 was marked by rising inflation and interest rates combined with continued geopolitical turmoil and concerns about a forthcoming recession. In this environment, global fixed income and equity market returns were strongly negative, leading to a decline in overall AUM.[1]

That RI posted a modest gain in market share reflects the continued resilience of the industry.

1 Total estimated professionally managed assets under management in Canada were $5,992 billion as of December 31, 2022, compared to $6,453 billion as of December 31, 2021. See Appendix for calculation details.

FIGURE • 2



Q11: (n=93) What is your total AUM in Responsible Investments? [Calculated percent of total AUM using data from CIIN. See Appendix for calculation details.]

The 2022 RI Trends report showed an inflection point, in which the increased sophistication of ESG reporting and disclosures led to a more conservative estimate: a new baseline for RI AUM. Against this new baseline, the upward trend of RI market share in 2022 is evidence of continued resilience.

That resilience was not unwarranted or unexpected. In 2022, the initial release of the Canadian Investment Funds Standards Committee (CIFSC) fund classification was underway and the industry was eagerly anticipating the release of incoming ISSB standards. These ongoing efforts have bolstered the RI industry; even as final decisions around implementation remain in limbo.

In short, RI AUM represents about 50% of the overall market, and the RI industry is only strengthening its base.

Why RI? Top Motivations

The RI Trends survey asks respondents to rank their top three reasons for considering ESG factors in their investment decisions (***Figure 3***).

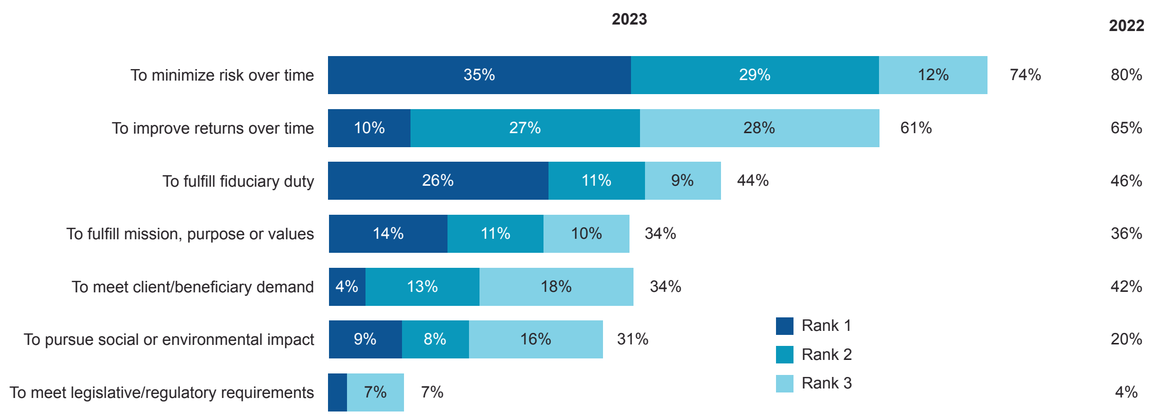
Minimizing risk was the top reason to consider ESG factors, chosen by 35% of respondents. Overall, 74% of respondents ranked minimizing risk in their top 3 reasons to consider ESG factors, followed by 61% of respondents who ranked improving returns in their top 3. Taking minimizing risk and improving returns together, responsible investors are emphasizing the opportunity to generate better risk-adjusted returns as a key motivation for considering ESG factors in their investment decisions. This corresponds strongly to the predominance of ESG Integration in the Canadian market, which requires investors to consider ESG factors in the process of evaluating material information (see page 14).

Fiduciary duty ranks third overall (44% of respondents) as a motivation for responsible investors. Interestingly, more than half of those who selected it did so as their number one priority. On the other hand, *improving returns over time* was selected by respondents predominantly as a second- or third-ranked priority. The top three ranked reasons for respondents to consider ESG factors in their investment decisions have remained consistent since the 2020 Canadian RI Trends survey.

This year's survey results show an interesting trend emerging among investors seeking to deliver social or environmental impact. There is a significant increase in the proportion of respondents who rank pursuing social or environmental impact in their top 3 motivations from 20% of 2022 respondents to 31% of respondents in 2023. In addition, organizations that use impact investing as a strategy are more likely to rank fulfilling mission, purpose, or values (54%) in the top 3 reasons they consider ESG in their investment decisions.

FIGURE • 3

REASONS ORGANIZATIONS CONSIDER ESG FACTORS IN INVESTMENT DECISIONS



Q34: (n=90) Why does your organization consider environmental, social and governance (ESG) factors when making investment decisions?

Top ESG Considerations

With an understanding of the motivations driving responsible investors to consider ESG factors in their investment decisions, which specific factors are they systematically incorporating? Survey respondents selected from lists of E, S, and G factors were asked to choose the most prevalent ESG considerations across all their investment decisions. It is important to note that the incorporation of ESG factors will vary on an investment-by-investment and industry-by-industry basis as well as over time.

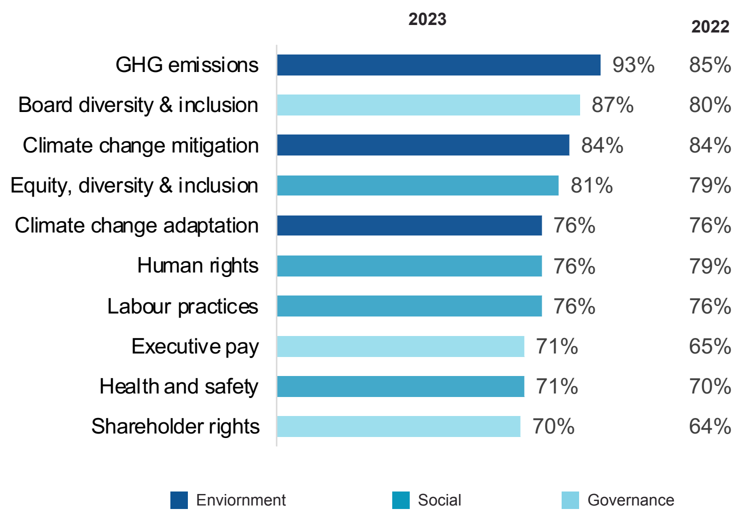
The top 10 ESG issues systematically considered in investment decisions are shown in ***Figure 4***. Greenhouse gas (GHG) emissions continue to be the most common ESG factor included overall, which is consistent with last year's survey. However, the environmental factors do not overshadow the social and governance ones. In fact, ***among the top 10 ESG factors, there is a relatively balanced spread of E, S, and G.***

Of note in this year's report is the extent to which GHG emissions maintained and extended its lead as the most commonly cited ESG factor considered by investors: it saw the highest level of growth of any of the top 10 factors (8% higher) compared to 1 year ago. Board diversity & inclusion rose to be the second-most prevalent ESG factor this year, 7% higher than last year.

The increased attention being paid to GHG emissions by responsible investors in their investment decisions can also be seen in their engagement activities and progress in setting GHG emissions targets for their portfolios, described later in this report.

FIGURE • 4

TOP 10 ESG FACTORS CONSIDERED IN INVESTMENT DECISIONS[2]



Q26: (n=95) Please indicate any and all ESG factors/screens that are systematically considered in your organization's investment decisions.

2 To see the complete list of E, S, and G factors and their relative rankings, refer to the Technical Report.

ASSET ALLOCATION BY RI STRATEGY

This 2023 report references the Global Sustainable Investment Alliance (GSIA) definitions for seven RI strategies to enable the comparison of the Canadian RI market with other regions and over time.

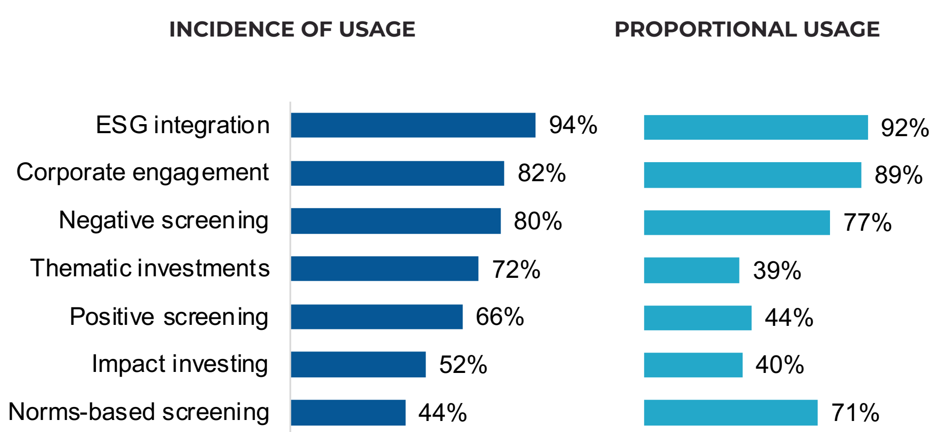
In this report, the extent to which each of these RI strategies is being used is gauged in three different ways: ***Incidence***, ***Proportion***, and ***Total Value***. Each of these viewpoints gives us a different perspective on the direction the industry is moving in (***Figures 5 and 6***).

Incidence: The rate at which organizations are using the RI strategy to any extent in their investments.

Proportion: The percentage of each organization's total RI AUM that is invested using that strategy.

Total Value: The total value (in dollars) of the RI AUM invested using that RI strategy.

FIGURE • 5

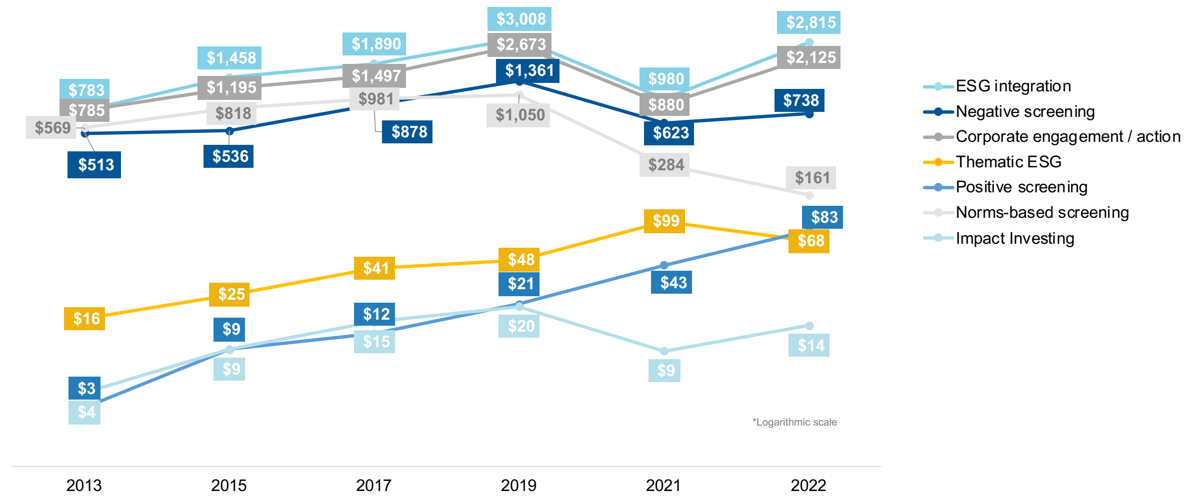


Q17: (n varies) Which of the following responsible investment strategies do you use? (Yes/No).
Q18: (n varies) What percentage of your RI are invested using each strategy?

Total RI AUM invested using each of the seven RI strategies, from 2013 to 2022 is shown in ***Figure 6*** (note the use of a logarithmic scale). Viewed this way, there is evidence of the AUM "reset" in 2021 when asset owners and managers scaled back the value of AUM they reported under most strategies. For 2022, the reported AUM for most strategies has returned to similar levels as those reported for 2019.

FIGURE • 6

TOTAL VALUE OF RI AUM BY STRATEGY* (CAD BILLIONS)



Q18: Calculation: total RI AUM ($) x by % in strategy and then sum all values for that strategy.

RI strategies are not mutually exclusive and an investment may use one or multiple RI strategies. ***Notably, the use of one strategy by any given organization is a strong predictor of the positive use of other strategies***.

ESG Integration

Definition: 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.

Incidence: **94%**

Proportion: **92%**

Total Value: **$2,815**
(in CAD billions)

ESG integration continues to be the most utilized RI strategy in Canada by all three measures: incidence, proportional usage, and total value. Since last year's report, there have been no notable changes in the reported incidence and proportional usage of ESG integration in Canada.

Corporate Engagement and Shareholder Action

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

Incidence: 82%

Proportion: 89%

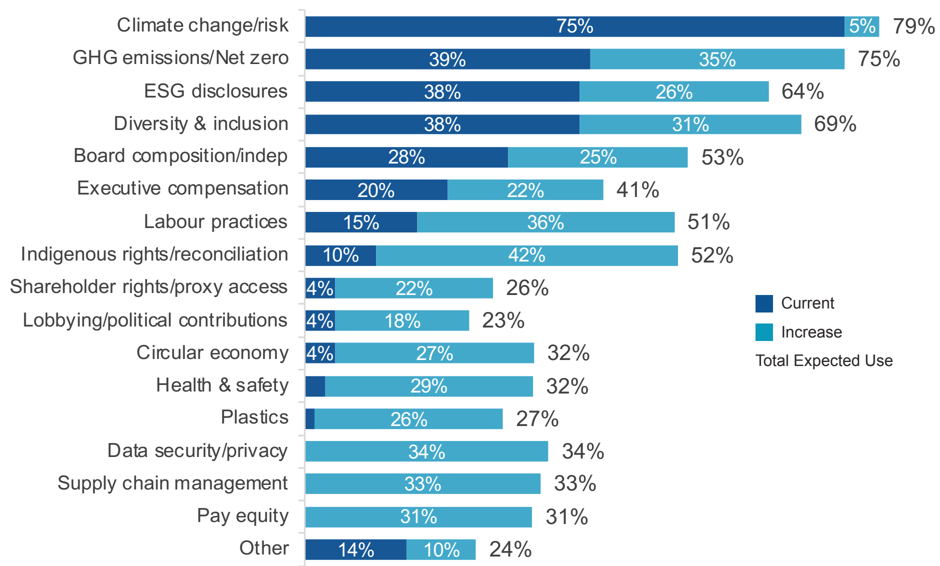
Total Value: $2,125
(in CAD billions)

Engagements on ESG issues can significantly influence a business's practices, resulting in better risk management and financial performance for the business and the investor. Corporate engagement and shareholder action ranks as the second most prevalent strategy in 2023, rising from 79% incidence reported in 2022 to 82% incidence reported in 2023. Its ranking rose from third last year, mostly due to a decrease in the reported use of negative screening.

The survey asked respondents who practice corporate engagement to identify the top three most common ESG issues in their engagement program in 2022 (**Figure 7**). The issues being addressed remained relatively consistent compared to last year, and climate change/risk has increased its lead as the number one engagement issue being addressed.

FIGURE • 7

ENGAGEMENT ISSUES - CURRENT AND FUTURE USE



Q21: (n=71) What were the three most common ESG issues in your engagement program in 2022?
Q100: (New question 2023, n=89) Please indicate which of the following ESG issues you expect to start or continue including in your engagement program over the next 2-5 years.

Respondents also were asked to identify which strategies they expected to use in the coming two to five years, and there is broad intention to increase engagement on all issues. Indigenous rights and reconciliation is expected to garner the most engagment activity, cited by 42% of respondents.

Reporting on Engagement Activities and Outcomes

The percentage of respondents who report on their corporate engagement activities has seen a directional increase in 2022 from 73% of 2022 respondents to 79% of 2023 respondents. The percentage of respondents who say they report on the outcomes of their engagements has seen a significantly positive change over the last year, from 57% to 73% of respondents overall. ***Notably, among the subset of respondents who report on their corporate engagement activities, almost all (98%) are also reporting on the outcomes of those engagements***.

This increase in transparency around engagement activities and their outcomes is noteworthy. It provides insights for clients/beneficiaries on the purpose, objectives, approach, and value generated by these engagement activities. This is another indication of the responsible investment industry's movement toward greater accountability to stakeholders.

HARMONIZING RI DEFINITIONS

Global definitions of RI strategies and approaches are being harmonized and are expected to be introduced in future versions of the RI Trends report.

In 2021, the International Organization of Securities Commissions (IOSCO) called for the global investment industry "to develop common sustainable finance-related terms and definitions, including relating to responsible investment approaches, to ensure consistency throughout the global asset management industry[3]."

In response, the Global Sustainable Investment Alliance (GSIA), CFA Institute, and the Principles for Responsible Investment (PRI) have worked together to harmonize definitions and provide guidance for usage for the following responsible investment approaches:

- Screening
- ESG integration
- Thematic investing
- Stewardship
- Impact investing

These definitions are expected in late 2023. As the RI industry matures, so too will the approach to documenting it.

3 "Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management – Final Report." Report of the Board of IOSCO, November 2021.

Negative Screening

Definition: 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.

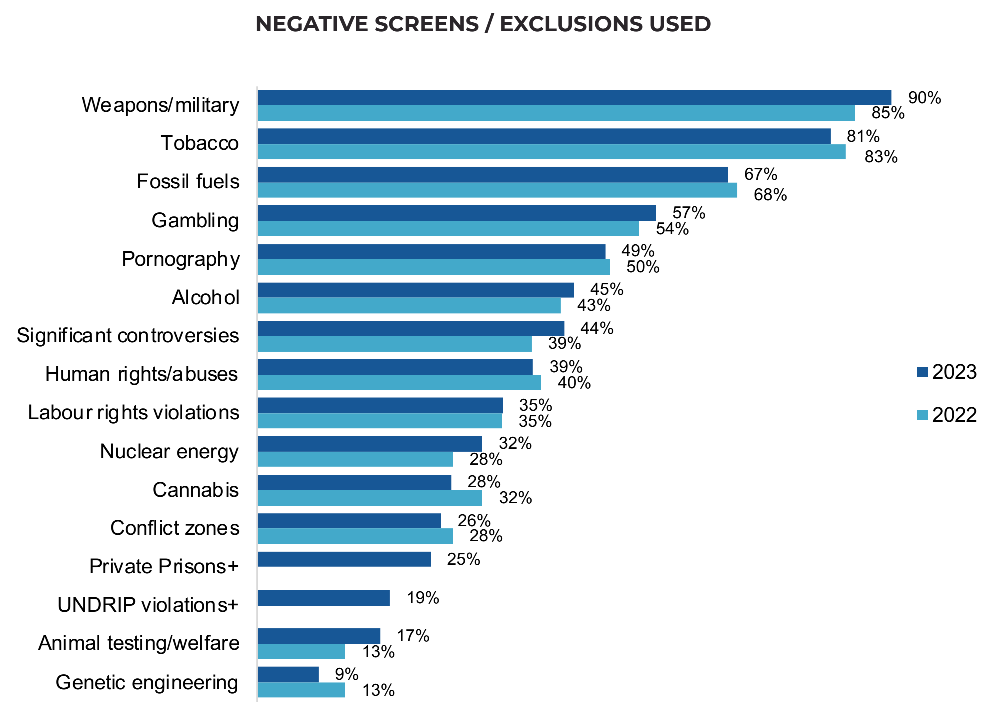
Incidence: **80%**

Proportion: **77%**

Total Value: **$738**
(in CAD billions)

The incidence of negative screening decreased this year (from 91% reported in 2022 to 80% reported in 2023), but those who reported using it also reported using it more extensively (proportional usage increased from 67% reported in 2022 to 77% reported in 2023). As a result, the total value of RI AUM using negative screening increased during 2022. In addition to this increase in overall AUM invested in the strategy, there is also an increase in the average number of issues that are being screened for in these investments, from 6.0 in 2022 to 6.9 in 2023.

FIGURE • 8



Q19: (n=69) Please indicate any and all negative screens/exclusions applied in your organization's investment decisions.

+New in 2023: Private prisons and the *United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) violations* were added to the list of options in the 2023 survey, and one-quarter of respondents who use negative screening said that they apply these screens to their investments.

Thematic (ESG) Investing

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

Incidence: 72%

Proportion: 39%

Total Value: $68
(in CAD billions)

This year the reported value of RI AUM invested using thematic (ESG) investing saw its first decline since 2013. The incidence of use increased from 67% to 72%, but in many cases, those who reported using thematic investing extensively in 2022 reported using it less often in 2023, which led to an overall decrease in AUM from $99 billion in 2021 to $68 billion in 2022.

Positive Screening

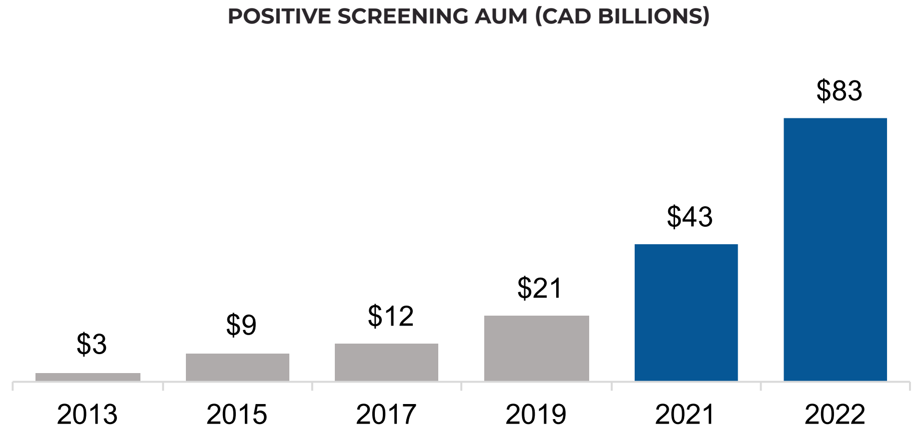
Definition: Inclusion of certain sectors, companies, or practices into a portfolio based on specific ESG criteria. For example, including companies with positive ESG performance compared to industry peers (also referred to as best-in-class screening).

Incidence: 66%

Proportion: 44%

Total Value: $83
(in CAD billions)

FIGURE • 9



Q18B: (n=68) What percentage of your RI are invested using each strategy? Calculation: total RI AUM ($) x by % in strategy and then sum all values for that strategy.

The reported total value of RI AUM that uses positive screening has increased steadily since 2013, and nearly doubled from 2021 to 2022, with $83 billion using positive screening as of Dec 31, 2022 (***Figure 9***).

Impact Investing

Definition: According to the Global Impact Investment Network (GIIN), impact investments are those 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.

Incidence:	**52%**
Proportion:	**40%**
Total Value: *(in CAD billions)*	**$14**

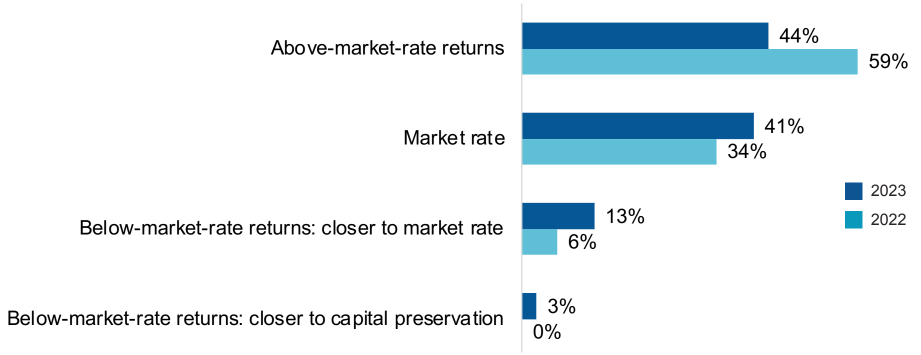
Impact investing saw a small gain in incidence in the past year (52% vs. 46%) while its proportional usage decreased from 55% to 44%. While now over one-half of all respondents say they use impact investing, they do so across a slightly smaller percentage of their AUM compared to last year.

Respondents using impact investing were asked whether their primary impact objective was environmental, social, or both. The majority (70%) of respondents say they focus on both environmental and social impacts, which has dropped from 86% of respondents last year. The shift away from this combined focus has been taken up by impact investors with primarily environmental (18%) or social (13%) impact objectives.

There has been some tapering of expectations for financial returns for impact investments. Above-market rates of return are targeted by 44% of those respondents using impact investments, compared to 59% in the previous year (***Figure 10***).

FIGURE • 10

TARGET FINANCIAL RETURNS ORGANIZATIONS SEEK WITH IMPACT INVESTMENTS



Q25: (n=39) How would you characterize the target financial returns you principally seek with your impact investments?

Norms-Based Screening

Definition: 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 United Nations (UN), International Labour Organization (ILO), and the Organization for Economic Cooperation and Development (OECD).

Incidence: 44%

Proportion: 71%

Total Value: $161
(in CAD billions)

Norms-based screening is the least commonly used RI investment strategy in Canada (by incidence) and saw a decline to 44% in 2022 from 52% in 2021. That said, when norms-based screening is used by an organization, the proportion of their investments that it is applied to (71%) is higher than that of thematic investing (39%), positive screening (44%), and impact investing (40%). This means that when measured using the total value of RI AUM, norms-based screening climbs to the fourth-ranked RI strategy, ahead of thematic, positive, and impact investing.

RI POLICIES AND PRACTICES

RI Policies

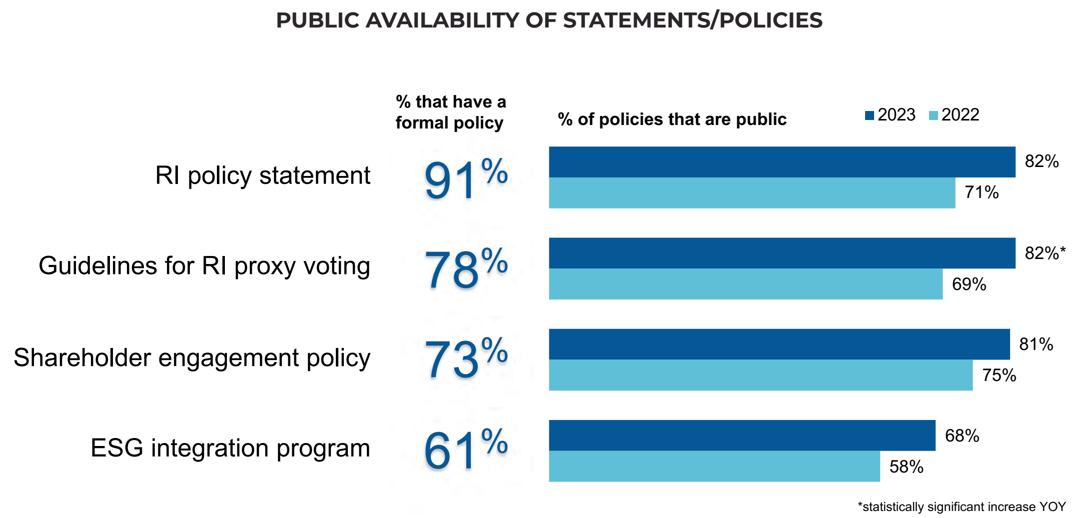
The development of policies describing how organizations are approaching RI has become a standard practice in Canada. The survey identified the following RI-related policies, and asked respondents to indicate which of them their organization had in place:

- RI policy statement
- ESG integration program
- Guidelines for proxy voting
- Shareholder engagement policy

The vast majority of organizations report having formal documentation of at least one of the four RI-related policies surveyed (***Figure 11***). Over 90% of respondents report having a formal RI policy statement, a metric that has stayed relatively steady since 2020.

What has changed in 2023 is the percentage of organizations that have made their statements and policies public-facing. All four policy types surveyed showed directional or statistical increases in the percentage of publicly available policies over their 2022 values. By providing heightened transparency, organizations are creating greater clarity and accountability around RI implementation, which is important to their end-investors and beneficiaries.

FIGURE • 11



Q16B: (n varies) (Are they) publicly available? * Question changed since 2022: 2022 data re-coded for comparison.

Whether they are public-facing or not, ensuring formal policies are in place creates a genuine capacity to influence action within an organization, which can be seen in the survey data. For example, organizations that have formal policies are more likely to:

- Use a wider variety of RI strategies
- Have a higher percentage of their assets invested in RI
- Report on engagement activities and engagement outcomes
- Be much more confident in reporting compared to last year
- Have signed onto the Net Zero Asset Managers initiative
- Measure and have targets for the carbon intensity of its portfolio
- Have GHG targets for its investments.

It also comes as no surprise that organizations with at least one formal RI policy in place are more likely to have other RI policies in place as well. ***Just over half (52%) of all respondents reported having all four listed policies***. On average, 2023 survey respondents reported using 3.0 policies, an increase from the average of 2.1 policies reported in 2022.

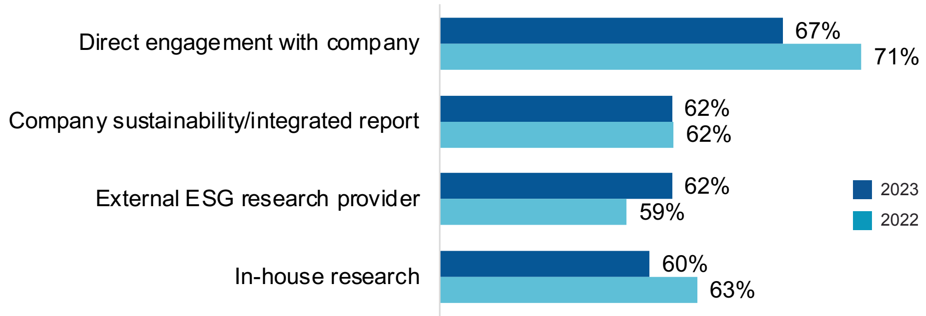
ESG Information Sources

Investment organizations are reliant on various sources of ESG information to keep them up to date in a dynamic landscape.

When asked to identify their main sources of ESG information, respondents collectively identify four leading sources of information that are all used in approximately equal measure: direct engagement with investee companies, company sustainability reports, external ESG research, and in-house research (***Figure 12***).

FIGURE • 12

KEY SOURCES OF ESG INFORMATION



Q29: (n=91) What are the key sources of ESG information you use to make investment decisions? (select top 3 – not ranked)

These leading information sources remained unchanged in the past year. Significantly less cited secondary sources of information include: other company reporting (14%), and carbon performance indices (8%), with broker research, sustainability indices, media reports, NGO reports, and the reference to controversy index being cited by only 2% to 4% of respondents.

MEDIA’S INFLUENCE

A negligible number (3%) of respondents identified the media as a source of ESG information. In fact, some respondents view it as a source of misinformation. We received several unprompted responses expressing concern about how ESG is covered in the media and some respondents cited it as a factor that impacts their confidence in their ESG reporting.

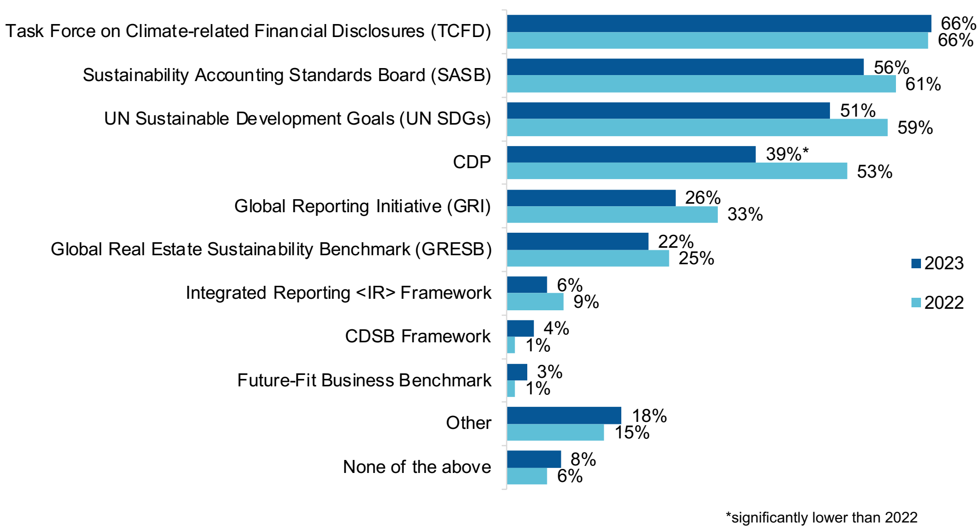
Frameworks and Standards

Frameworks and standards are used by companies to identify and disclose various ESG-related risks and opportunities in their business, and provide investors with comparable, consistent, and reliable data to gain ESG data and information for their investment analysis.

The survey asked respondents to indicate which frameworks and standards they were currently incorporating into their investment analysis, and which they expected to use in the next two to five years.

FIGURE • 13

FRAMEWORKS CURRENTLY IN USE



Q27a (n=79) Which of the following ESG frameworks did you incorporate in your investment analysis in 2022?

The Taskforce on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), and the UN Sustainable Development Goals (SDGs) are the top three most commonly utilized frameworks, with 66%, 56% and 51% of respondents indicating current use, respectively (***Figure 13***). These three frameworks have remained top-ranked since this question was added to the Canadian RI Trends survey in 2020.

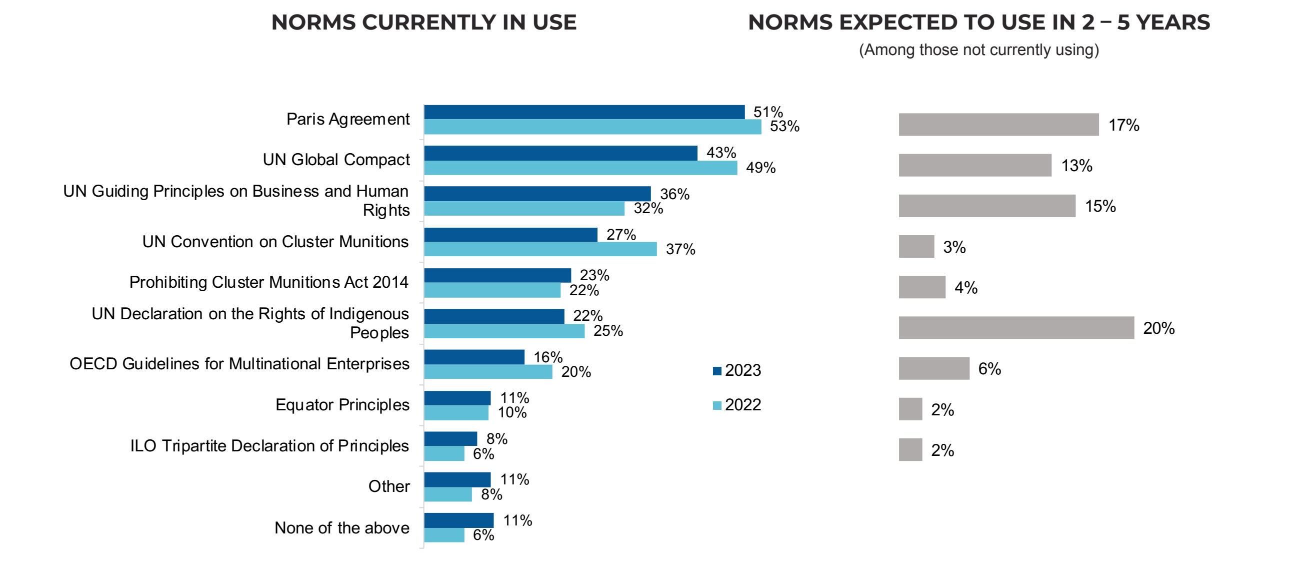
This year's survey results indicate a theme of consolidation. On average, fewer frameworks are being used by a single organization (2.9 in 2023, a drop from 3.2 in 2022).

Frameworks that were expected to launch but not currently finalized were included as options among the list of frameworks for potential future use: the ISSB's general sustainability-related and climate-related disclosures standards, the TNFD's framework for recommended disclosures on nature-related issues, and Canada's Green and Transition Finance Taxonomy. These forthcoming frameworks can expect strong uptake, with at least one-third of respondents saying they expect to use them in the coming two to five years[4].

Norms

The norms that investors consider in their decision-making have not seen the same extent of change as reporting frameworks have in the past year. Their respective use among respondents also stayed relatively stable year over year. In addition, the average number of norms used in 2023 is still 3.2, with no change since the 2022 report. The Paris Agreement and UN Global Compact are the most cited norms, at 51% and 43% of respondents, respectively (***Figure 14***).

FIGURE • 14



Q28: (n=85) Which of the following norms (i.e, international conventions and treaties) do you incorporate in your investment analysis? (select all that apply)

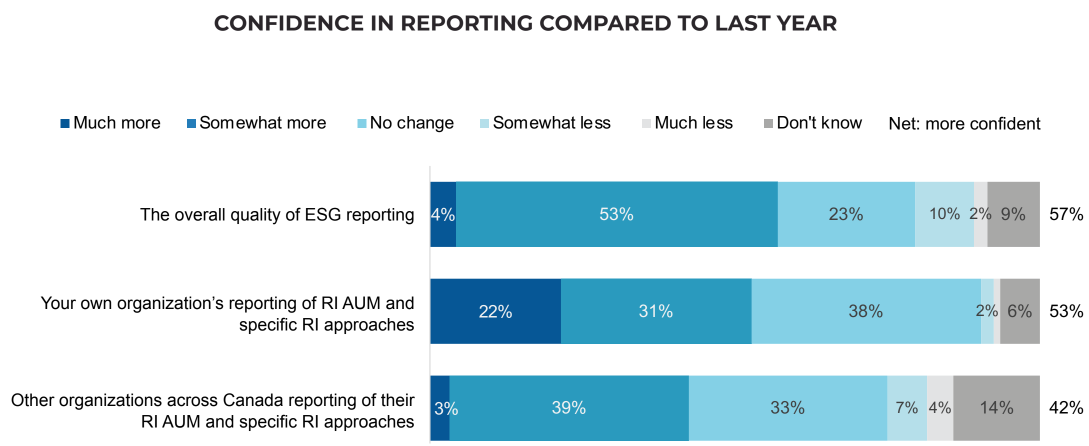
4 The ISSB standards launched in June 2023 but have yet to be implemented globally. The TNFD final framework launched in August 2023. Canada's Sustainable Finance Action Council (SFAC) released the Taxonomy Roadmap Report in March 2023, and its recommendations have not been implemented by the time of writing.

Confidence In Reporting

With concerns about greenwashing, disclosure and reliable data continuing to influence the landscape of RI reporting[5], this year's survey introduced new questions designed to understand how confident investors are about reporting.

Survey respondents were asked to rate their confidence in ESG reporting overall, their own organization's reporting of RI, and the reporting of other organizations across Canada. There is an overwhelming trend toward increased confidence over the last year (***Figure 15***).

FIGURE • 15



Q101: (New question 2023, n=93) How has your confidence in each of the following changed compared to this time last year?

Nearly 60% of respondents feel more confident compared to this time last year about the overall quality of ESG reporting (57% said they were "somewhat" or "much more" confident). Just over half (53%) feel more confident in the reporting of their own organization's RI AUM and specific RI approaches. That percentage drops to 42% when asked about their confidence in the reporting of other organizations, but that movement comes alongside an increase in "don't know/not sure" responses, with the number of "no change" and "less confident" responses holding steady.

Since January 2022, investment fund managers have had guidance from the Canadian Securities Administrators (CSA) on investment fund disclosures related to ESG considerations. As managers have implemented the guidance over the past year, this may have contributed to an increase in their confidence in their reporting of RI AUM and RI strategies.

5 See "deterrents and drivers", on page 31.

In addition to rating their confidence levels, respondents were asked to share what would make them feel more confident, and the answers were consistently centred around improved standards, with keywords like:

- Standardization
- Comparability
- Expectations
- Common language
- Regulated frameworks

As noted earlier, several new and consolidated frameworks have evolved to better meet investors' ESG information needs. This is an area to watch, to see if future adoption of those frameworks increases confidence in reporting.

What would make you feel more confident in your reporting?

> The industry continuing to progress towards a common language.
>
> \- Associate Member

> Being able to stay on top of the ever-shifting landscape. Good that it shifts but hard to always have the most current overview.
>
> \- Associate Member

> Government regulated reporting framework to ensure comparability.
>
> \- Supporting Member

> Less misinformation in the media. Responsible investing has become too polarized. It feels less risky to invest with responsible investment guidelines in mind and not disclose it as an official strategy.
>
> \- Associate Member

> More authenticity from the market.
>
> \- Associate Member

> More standardization of data with the ability to compare.
>
> \- Non-Member

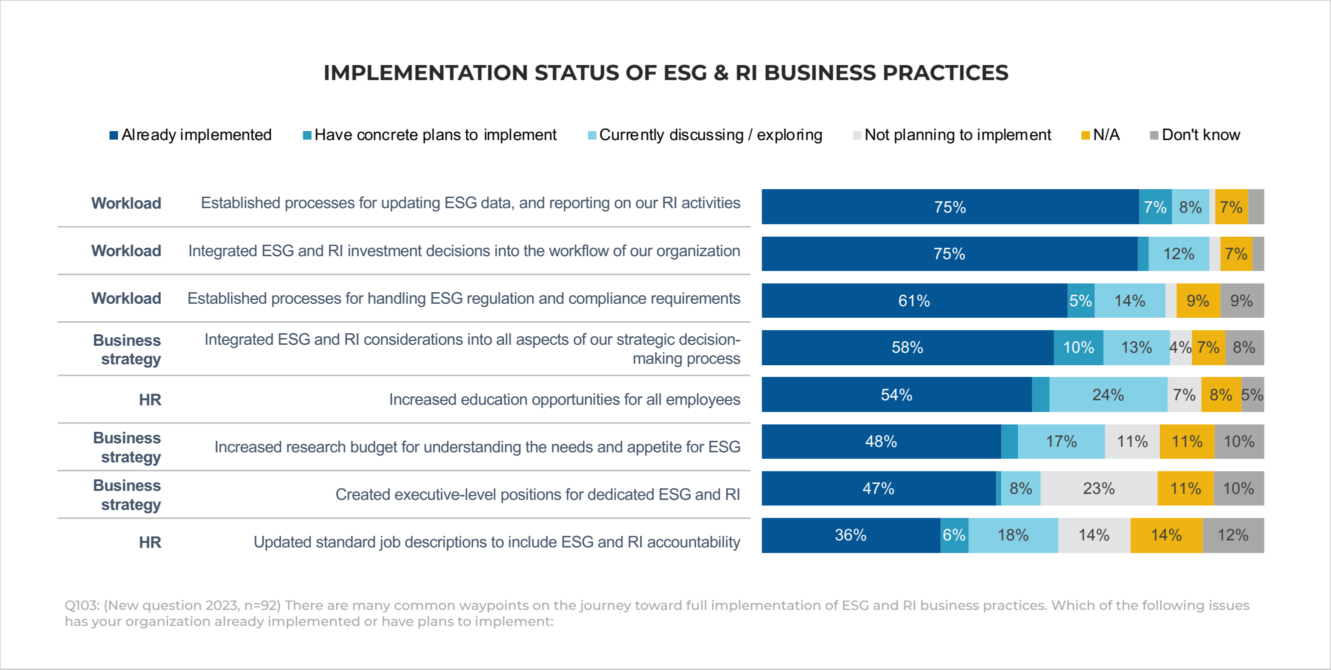
Business Practices

Organizational policies are commonly acknowledged as pivotal in shaping high-level decisions and strategies, while also exerting considerable influence on the implementation of new business practices aligned with these policies. In a new addition to the 2023 report, respondents were asked to capture progress on certain business practices that serve as waypoints on the path to fully integrating RI throughout their organization (***Figure 16***).

A full three-quarters of respondents say that their organization has:

- Established processes for updating ESG data, and reporting on RI activities.
- Integrated ESG and RI investment decisions into the workflow of their organization.

FIGURE • 16



Overall, workload-related business practices have higher implementation rates than business strategy or human resource (HR)-related business practices. It is important to note a reasonable quantity of *not applicable* and *don't know* responses in these results. There is room for movement and improvement in future years.

GHG Emissions: Tracking, Targets, and Net Zero

While an even spread of environment, social, and governance factors contribute to the overall "why" of RI in Canada, respondents continue to rank GHG emissions as the top ESG issue (by an increasing margin) in their investment decisions and engagement activities.

Before the window of opportunity to avoid the worst effects of climate change closes, significant and ongoing efforts within the RI industry to address GHG emissions are required. For the second consecutive year, respondents were asked to share the extent to which they are considering GHG emissions in their investment portfolios.

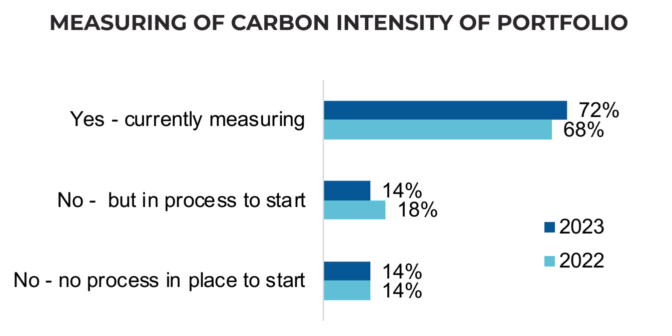
In total, 72% of respondents say they are measuring/tracking the carbon intensity of their portfolios. 39% say they have established interim GHG targets, and 33% are Glasgow Financial Alliance for Net Zero (GFANZ) alliance signatories, meaning that they have committed to a target of net zero by 2050.

Tracking

A first step toward the destination of net zero GHG emissions for an investment portfolio is to measure and track its emissions over time. There are various measures and metrics used to assess GHG emissions exposure in an investment portfolio. One such measure is a portfolio's carbon intensity[6].

Overall, 72% of respondents say they are measuring the carbon intensity of their portfolios, a slight increase since 2022 (68%) (***Figure 17***).

FIGURE • 17



Q31: (n=94) Does your firm currently measure the carbon intensity of its portfolio, or is it in the process of doing so?

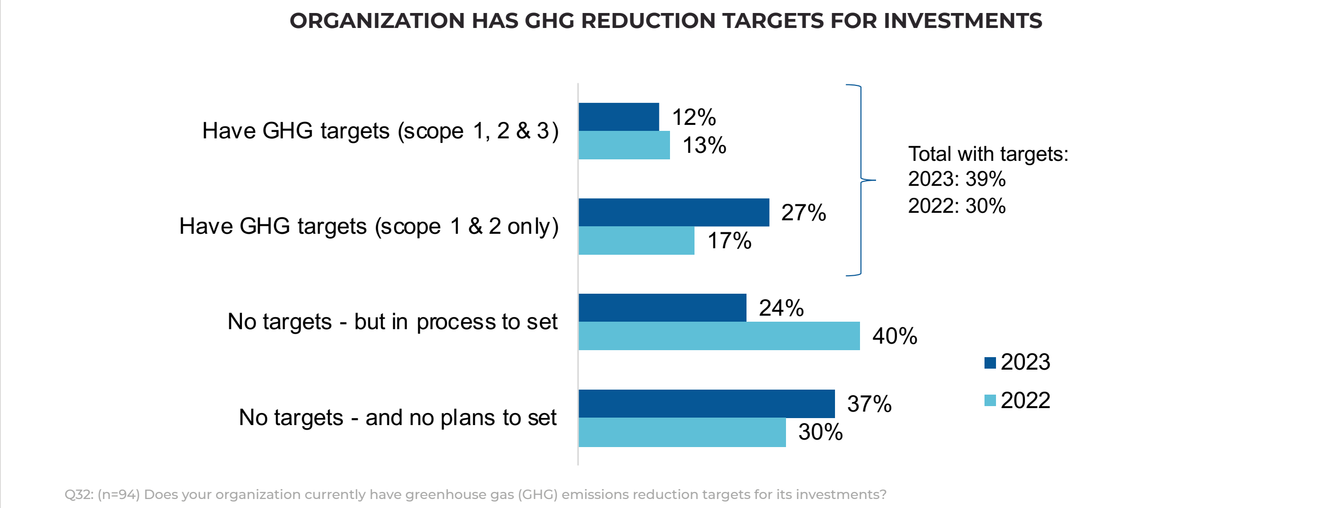
Targets

Investors can use the measurement of the GHG emissions or carbon intensity of their investment portfolio in the next step of establishing targets for future GHG emissions reductions. This year's survey identified substantial progress in establishing targets.

In 2022, 40% of organizations reported being in the process of setting GHG reduction targets. In 2023, this number significantly decreased to 24%, and the proportion of respondents who say they have already established GHG reduction targets increased from 30% to 39% (***Figure 18***).

6 The TCFD Recommendations recommend that asset owners and asset managers disclose the weighted average carbon intensity (WACI) metric for portfolios. Carbon intensity can be expressed in various ways, such as tons of carbon-equivalent GHG emissions per dollar invested. The survey did not specify a specific metric or methodology for calculating carbon intensity. Source: "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures". TCFD, June 2017.

FIGURE • 18

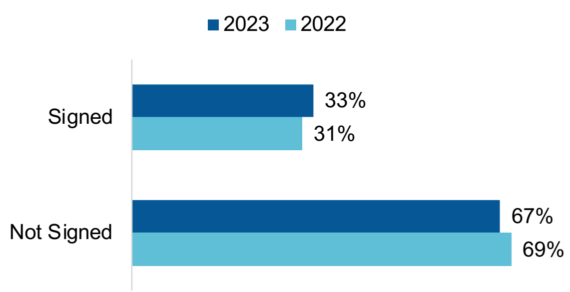


Target: Net Zero

GFANZ is a coalition of financial institutions committed to supporting the ambitious target of transitioning to net zero GHG emissions by 2050 to help achieve the goals of the Paris Agreement. Since its launch in 2021 in advance of COP26, GFANZ has grown to include eight sector-specific alliances with total membership of over 650 firms from over 50 countries. One-third of this year's survey respondents said they have signed on to a GFANZ alliance, little changed since the 2022 RI Trends Report (***Figure 19***).

FIGURE • 19

SIGNED GFANZ ALLIANCE: OVERALL



The Sector-Specific GFANZ alliances:.

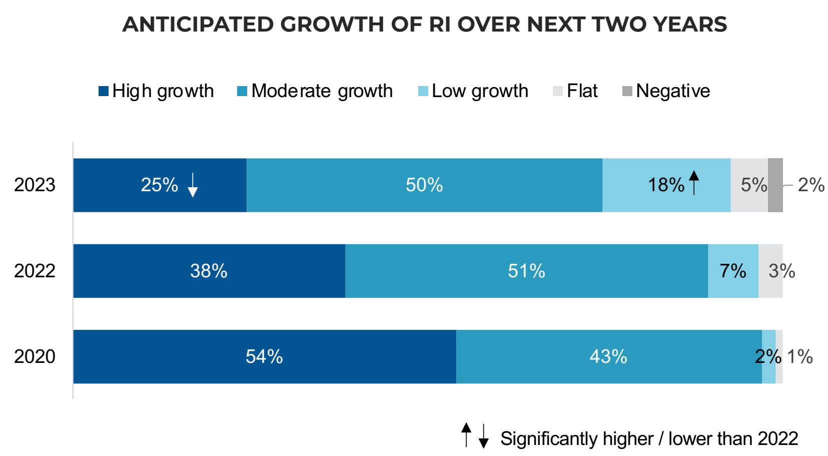
- Net-Zero Asset Owner Alliance (NZAOA)
- Net-Zero Asset Managers initiative (NZAM)
- Paris Aligned Asset Owners (PAAO)
- Net-Zero Banking Alliance (NZBA)
- Net-Zero Insurance Alliance (NZIA)
- Net Zero Financial Service Providers Alliance (NZFSPA)
- Net Zero Investment Consultants Initiative (NZICI)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

Q30: (n=94) Has your firm signed onto one of the GFANZ alliances?

RISING TO THE CHALLENGES AHEAD

As in previous surveys, respondents were asked to share their growth expectations for RI over the coming two years. Consistent with the mature state of the RI industry, respondents are moderating their expectations for future growth (***Figure 20***).

FIGURE • 20



Q35: (n=94) What level of growth in responsible investment (RI) are you anticipating in the next two years?

The proportion of respondents who say they expect high growth continues to drop, from 54% in 2020 to 38% in 2022, and now to 25% in 2023. Half of respondents still anticipate moderate growth, and more than 90% anticipate growth at some level.

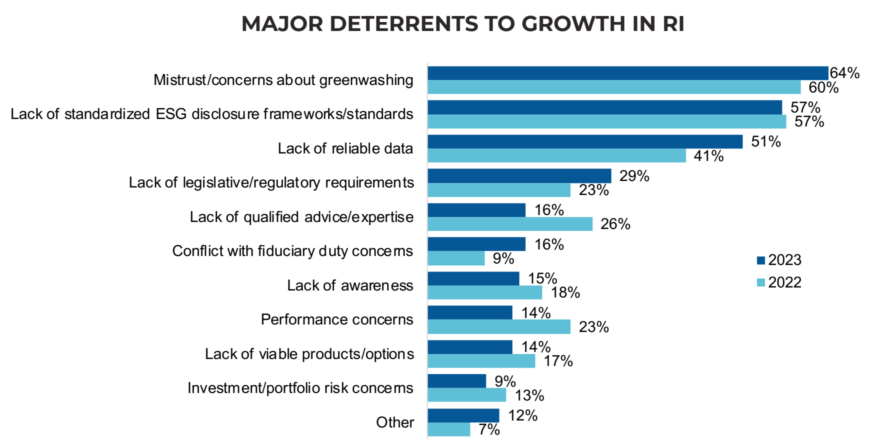
Given that RI now accounts for half of Canadian AUM, this more moderate perspective of future growth makes sense and aligns with the firmly embedded nature of RI strategies in organizational decision-making. However, there are other factors at play shaping investors' expectations.

Respondents were asked to identify what they consider the most important deterrents to and drivers of growth in RI in Canada (***Figures 21 and 22***). Mistrust/concerns about greenwashing remains the top-cited deterrent to growth overall, selected by 64% of this year's respondents (similar to 60% of respondents who selected it among their top 3 in last year's survey). Lack of standardized ESG disclosure frameworks/standards was the second-ranked deterrent overall. Interestingly, this deterrent received the most number 1 rankings, from 29% of respondents. Relatedly, lack of reliable data rounds out the top 3 major deterrents to growth in RI.

In terms of drivers for future growth in RI, 63% of respondents this year ranked climate change in their top 3, while investor demand for ESG/impact ranked second with 57% of respondents. These top 2 are unchanged in ranking compared to last year. However, regulatory guidance/requirements rose from rank number 4 in 2022 to rank number 3 in 2023 (and rank number 6 in 2020). In addition, the proportion of respondents selecting standardization of ESG disclosures rose significantly since last year, with only 10% of respondents citing it as a driver in 2022, and nearly 3 times that amount (27%) citing it as a key driver in 2023.

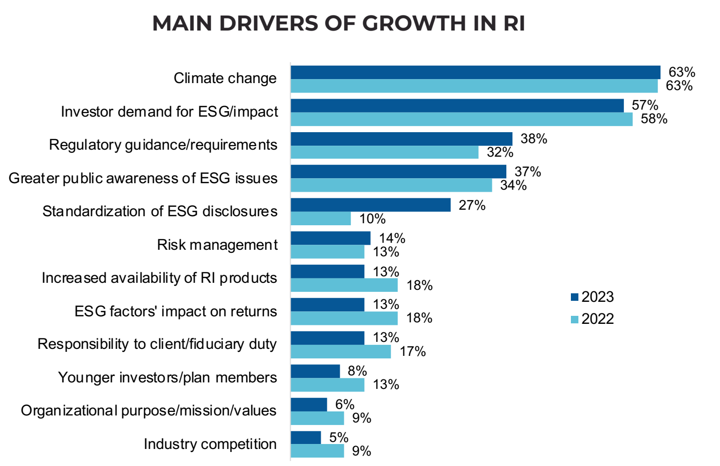
A clear story emerges from these results. As the window to avoid the worse impacts of climate change closes, the demand for RI remains strong. But incomplete and incompatible disclosure, data uncertainty, and greenwashing increasingly stand in the way of scale. To rise to these challenges, investors are counting on increased regulatory guidance and emerging standards. Based on the data before us today, it is reasonable to project that progress in these two areas will be powerful catalysts for the RI industry over the years ahead.

FIGURE • 21



Q36: (n=95) What do you think are the major deterrents to growth in responsible investment?

FIGURE • 22



Q37: (n=88) What do you think will be the main drivers of growth in RI over the next two years?

APPENDIX

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.

Respondents in 2022 and 2023

Active Impact Investments
Addenda Capital
AGF Management Limited
Alberta Investment Management Corporation
AllianceBernstein L.P.
AlphaFixe Capital Inc.
Amundi Asset Management
Aviva Investors Canada
Beutel, Goodman & Company Ltd.
BMO Global Asset Management
BMO Private Wealth
Canada Post Corporation Pension Plan
Capital Group
CIBC Private Wealth Management
Connor, Clark & Lunn Investment Management
Desjardins Investment Inc.
Developpement international Desjardins
Equality Fund
Federated Hermes
Fidelity Investments Canada
Forum Equity Partners
Genus Capital
Gestion FÉRIQUE
Global Alpha Capital Management
Guardian Capital LP
IA Clarington
IG Wealth Management
Inspirit Foundation
Jarislowsky Fraser Ltd.
Libro Credit Union
Mackenzie Investments
Manulife Investment Management
Meridian Credit Union
Munro Partners
National Bank Investments
NEI Investments
Ninety One North America
North Growth Management Ltd.
Northern Trust Asset Management
Northleaf Capital Partners
OMERS
Orbis Investments
Pictet Asset Management
Picton Mahoney
Rally Assets Inc.
RBC Global Asset Management, Inc.
Russell Investments Canada Limited
Scotiabank (Scotia GAM)
Sprucegrove Investment Management Ltd.
State Street Global Advisors
Sun Life Global Investments
T. Rowe Price (Canada), Inc.
TD Asset Management
University of Toronto Asset Management Corporation (UTAM)
University Pension Plan
Value Partners Investments
Vancity Investment Management (VCIM)
Vanguard
Waratah Capital
WC Kitchen Family Foundation
William Blair Investment Management, LLC

New Respondents in 2023

Batirente
Canso Investment Counsel Ltd.
Catherine Donnelly Foundation
CBC Pension Fund
Clear Skies Investment Management Inc.
Coast Funds
Corporation de services du Barreau du Québec
Cypress Capital Management Ltd.
Dalhousie University
EdgePoint Wealth Management
Encasa Financial Inc.
Evol
FinDev Canada
Gore Mutual Insurance Co
Horizons ETFs
HRM Pension Plan
IMCO (Investment Management Corporation of Ontario)
Kaleido Growth Inc.
Laurus Investment Counsel Inc.
Lazard Asset Management
McGill University
McMaster University
New Market Funds
Ontario Pension Board
OPTrust
Real Estate Foundation of BC
Simon Fraser University
Sionna Investment Managers Inc.
The J.W. McConnell Family Foundation
Toronto Foundation
Trottier Foundation
Vancouver Foundation
VERGE Capital
York University

Calculation of Investment Industry Size

The sum of all professionally managed assets in Canada is estimated at $5.99 trillion. This calculation is based on proprietary data provided by the CIIN, and publicly available data from the Investment Funds Institute of Canada (IFIC) and the Organization for Economic Cooperation and Developemnt (OECD). The table below summarizes the calculation.

Total Asset Manager AUM (CAD millions)	**$4,298,612**
Total Pension AUM - OECD Pension Markets in Focus[7]	**$2,101,363**
Less Asset Manager Pension AUM - CIIN	**$1,152,366**
Net Pension AUM	**$948,997**
Total Mutual Funds and ETFs AUM - IFIC[8]	**$2,123,000**
Less Asset Manager Mutual Funds and ETFs AUM - CIIN	**$1,378,673**
Net IFIC AUM	**$744,327**
Total AUM (CAD millions)	**$5,991,938**

7 "Pension Markets in Focus: Preliminary 2022 Data- June 2023." OECD, 26 June 2023. Accessed 16 October 2023.

8 "2022 IFIC Investment Funds Report." IFIC, January 26, 2023. Accessed 16 October 2023.