Responsible Investment Association

2017 RIA INVESTOR OPINION SURVEY

IN FOCUS: GENDER DIVERSITY

JUNE 2017

SPONSOR

OCEANROCK INVESTMENTS INC.

Background

Responsible investment (RI) refers to the incorporation of environmental, social and governance (ESG) factors into the selection and management of investments. RI has been growing rapidly in recent years in Canada and globally, largely as a result of the growing business case for assessing ESG risks and opportunities.

The Responsible Investment Association (RIA) conducts market research as part of our ongoing effort to promote education and awareness about responsible investing. In 2016 we released the report, *Millennials, Women and the Future of Responsible Investing,* which provided valuable insights on Millennial and women investors' perspectives on RI. The *2017 RIA Investor Opinion Survey* marks our second annual survey of Canadian investors' perspectives on responsible investment.

This survey provides the investment industry with vital data on investor attitudes towards RI. The first part of this report examines investor perspectives on RI in general. The second part, *In Focus*, hones in on investor attitudes towards two important gender diversity issues–women on boards and gender pay equity.

Related Research

- Millennials, Women and the Future of RI
- Canadian RI Trends Report
- Canadian Impact Investment Trends Report
- Canadian RI Mutual Funds Risk / Return Characteristics Study Findings

About the RIA

The Responsible Investment Association (RIA) is Canada's membership association for Responsible Investment (RI). Members include mutual fund companies, financial institutions, asset management firms, advisors, consultants, investment research firms, asset owners, individual investors and others interested in RI. Our members believe that the integration of environmental, social and governance (ESG) factors into the selection and management of investments can provide superior risk adjusted returns and positive societal impact.

Foreword

By Fred Pinto, CEO, OceanRock Investments and Senior VP, Head of Wealth & Asset Management, Qtrade Financial Group.

OceanRock's family of Meritas SRI Funds embodies a compelling value proposition: Do well, doing good®. In other words, invest for competitive financial returns while making a positive impact on companies, communities, people and the environment.

As pioneers of Responsible Investing in Canada, we have long believed that the best companies to invest in are those that are committed to strong environmental, social and governance (ESG) business practices. It stands to reason that those companies tend to be more efficient and productive, more respected, better able to mitigate risk, and more likely to create sustainable value over the long term. The strong financial performance of Responsible Investments (RI) over the past decade demonstrates that they can deliver returns comparable to non-RI investments.

In addition to valuable insights on Canadian investors' perceptions of Responsible Investing, this new study includes an *In Focus* section on the issue of gender diversity and gender pay equity. Based on the responses, Canadian investors are intolerant of gender pay discrimination and want to see more women in leadership positions and on corporate boards.

OceanRock has been pursuing this issue with corporations on behalf of our investors for the last few years, through our shareholder engagement program.

It's important to note that having more women on boards and in senior management is not only about gender equity; it also makes good business sense. A greater diversity of views from independent directors is a check against group-think. And drawing from a larger pool of talent leads to better leadership and corporate governance. It's good for companies and it's what investors want.

We invite you to review these findings and help contribute to the growing understanding that ESG considerations should be incorporated into every long-term investment decision.

Executive Summary

This report examines individual investors' interest in responsible investments that incorporate environmental, social and governance (ESG) factors. Survey data shows that client preferences are increasingly shaped by ESG considerations including gender diversity – a focus area of this study. As a result, the report provides valuable insights for advisors and other client-facing investment professionals.

Survey data indicates that the vast majority of Canadian investors are interested in responsible investing (RI), yet know little or nothing about it. There is a major gap between investor interest and awareness about RI.

In an effort to close this gap, we asked investors what would make them more likely to choose responsible investments. The leading response was that they would be more likely to choose responsible investments if their advisor suggested suitable RI options. The second most prominent response was that investors would be more likely to choose responsible investments if they were more confident in their performance – a data point which reveals that investors remain largely unaware that RI performs just as well if not better than traditional investments.[1]

These findings indicate that advisors could add significant value to client relationships by informing their clients about suitable RI options and educating them about the long-term financial benefits of incorporating ESG factors into investment decisions.

This report also examines investor sentiments regarding gender pay equity and women on boards. The data shows that an overwhelming majority of Canadian investors want the companies in which they invest to pay women and men equally for equal work. In fact, more than three quarters of investors believe that companies should be required to report annually on how much they pay women compared to men, and more than half said they would consider divesting from a company with inequitable pay practices.

Furthermore, the vast majority of investors believe there should be more women on corporate boards in Canada.

[1] Hebb, Tessa (2015). Canadian Responsible Investment Mutual Funds Risk / Return Characteristics.

Key Findings

Most Canadian investors are interested in responsible investing, but they know little or nothing about it:

- 77% of investors are interested in responsible investing, yet a staggering 73% know very little or nothing about it.
- 71% of Canadian investors reported interest in impact investments dedicated specifically to solving social or environmental problems.
- This gap in interest vs. knowledge indicates a tremendous opportunity for advisors to inform clients about suitable responsible investment options. It also suggests there is pent up demand for RI, which is being held back by a lack of awareness.

Investors want to be informed about RI. Canadian investors said they would be more likely to choose responsible investments if:

1. Their financial advisor suggested suitable responsible investment options.
2. They were more confident in the financial performance of RI funds.
3. They received more information about RI products from their financial institution or online brokerage.

The vast majority of Canadian investors want the companies in which they invest to pay men and women equally for equal work. They also want to see more women in leadership:

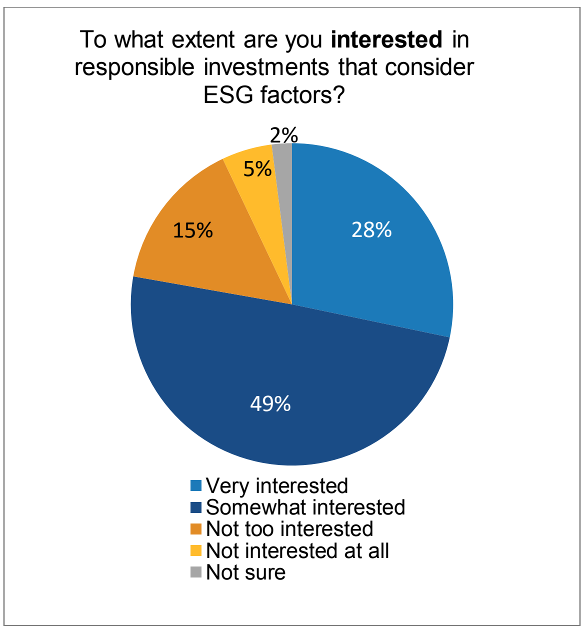
- 92% of investors believe women and men should receive equal pay for equal work.
- 76% of investors believe companies should be required to disclose how much they pay women compared to men.
- 55% of investors said they would be willing to sell their investments if they learned that a company they are invested in does not pay men and women equally for equal work.
- 82% of investors believe that women should be better represented on corporate boards in Canada.

Methodology

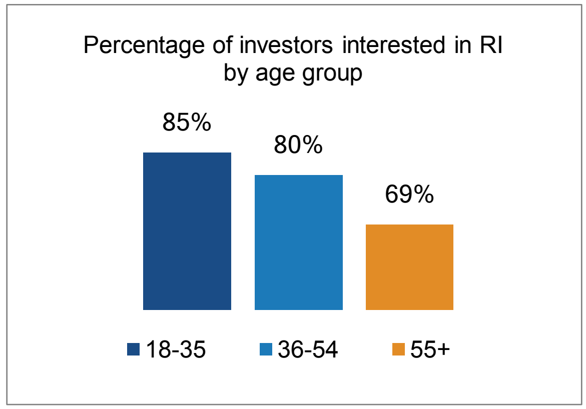
Results are based on an online survey of 1,084 Canadian investors conducted by Insights West from March 21 to March 30, 2017. Investors were defined as individuals who currently own investments such as mutual funds, exchange-traded funds, stocks, bonds, or other securities. The data has been statistically weighted according to Canadian census figures for age, gender and province. The margin of error—which measures sample variability—is +/- 3.0 percentage points.

Strong Interest in RI

Overall, the vast majority of individual investors in Canada are interested in responsible investing, with 77% reporting that they are somewhat interested to very interested in investments that consider environmental, social and governance (ESG) factors. Only 5% said they were not at all interested in RI.

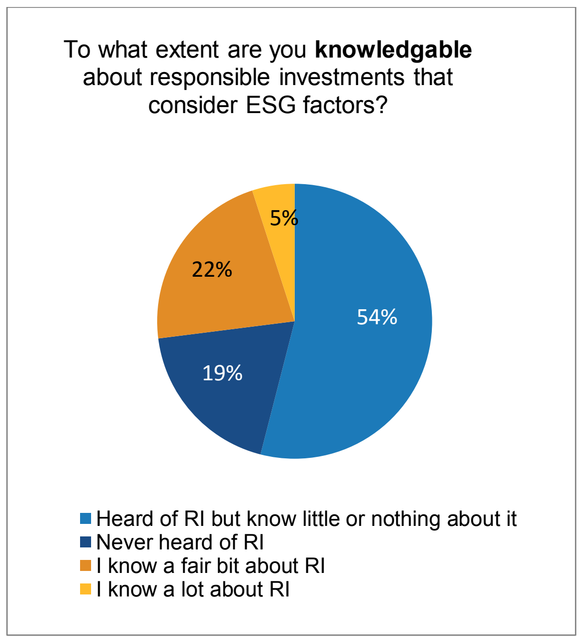


Consistent with findings from the RIA's 2016 report, *Millennials, Women and the Future of Responsible Investing*, our survey data shows younger investors are more interested in RI. 85% of Millennials aged 18-35 reported interest in RI, followed by Generation X (aged 36-54) at 80%, and Baby Boomers (55+) at 69%.



RI Awareness Gap

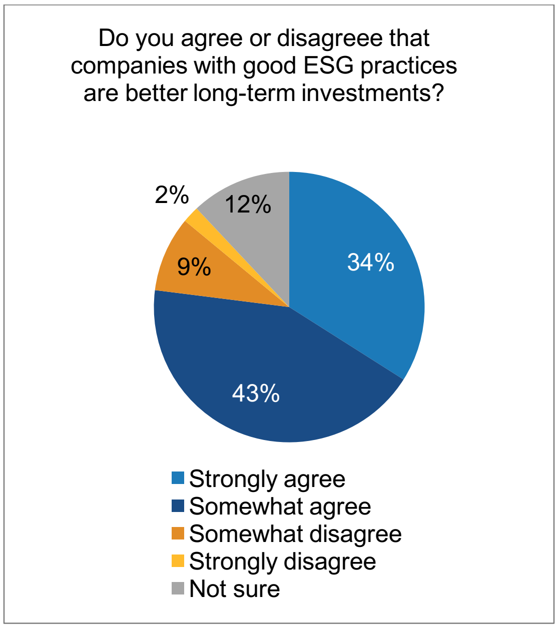
Although 77% of survey respondents reported interest in responsible investing, a sizeable 73% said they know very little or nothing about it. Only 22% of investors said they know a fair bit about RI, and a meager 5% reported knowing a lot about it. This highlights a significant gap between investors' interest vs. awareness of RI.



73% of respondents buy socially responsible brands or check product labeling for sustainability.

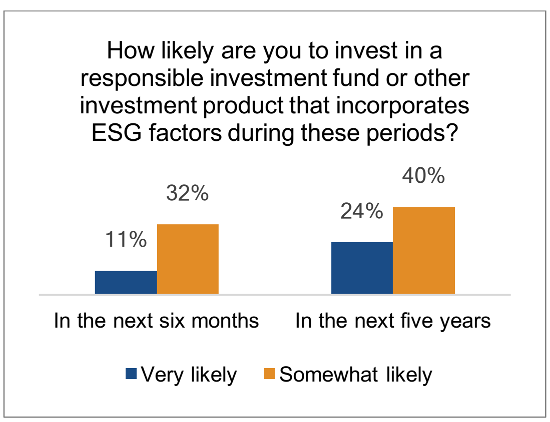
ESG and Long Term Value

A large proportion of Canadian investors see the long-term benefits of investing in companies with strong ESG performance, with 77% strongly or somewhat agreeing that companies with good ESG practices are better long-term investments.



Interest in RI by Time Horizon

The likelihood of investing in responsible investment funds rises with a longer time horizon. Whereas 43% of investors said they are very likely or somewhat likely to invest in an RI fund or product in the next six months, that number rises to 64% over the next five years.



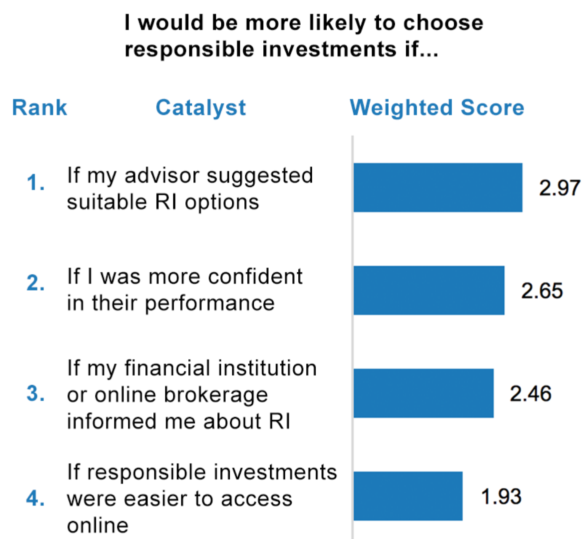
Over the 5-year period, 81% of Millennials indicated they are likely to invest in an RI product vs 49% of Baby Boomers. This suggests Millennials are 60% more likely to choose RI.

[2] [Carleton University (2015). Canadian SRI Mutual Funds Risk / Return Characteristics.]

Turning Interest into Action

Many Canadian investors are interested in responsible investing, but what would help turn that interest into action?

Upon being asked what would make them more likely to choose responsible investments, investors spoke loud and clear: They would be more likely to choose RI if their financial advisor suggested suitable RI options for them. That was the top response, followed by greater confidence in the performance of RI products, more information from financial institutions or online brokerages, and ease of access online.



Notes: Respondents ranked their choices from 1 to 4. Scores for each option were calculated by weighting each rank by the number of respondents selecting it and summing those weighted totals. The score for each option equals (number that ranked it first x 4) + (number that ranked it second x 3) + (number that ranked it third x 2) + (number that ranked it fourth x 1).

In the chart above, the first and third-place responses highlight the importance of informing clients about RI, as investors largely indicated that they rely on financial professionals for advice about RI. Financial advisors could add significant value to client relationships by informing clients about suitable RI options.

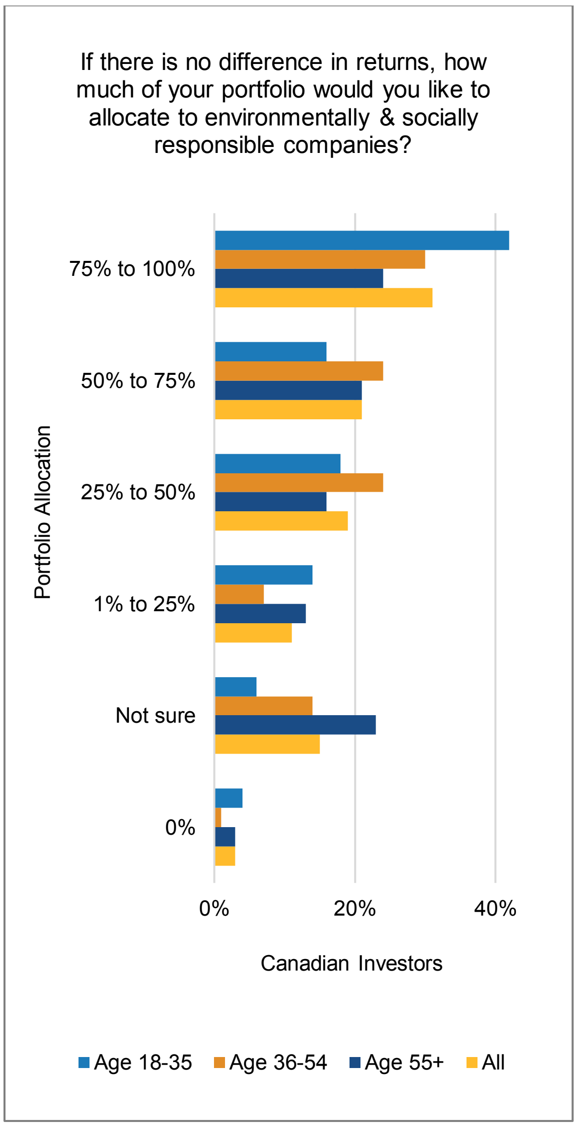
It is important to inform clients that RI performs just as well if not better than traditional investments. A 2015 Carleton University study commissioned by OceanRock Investments found that Canadian RI equity funds provided financial outperformance while simultaneously reducing risk.[2] A 2015 study by the Morgan Stanley Institute for Sustainable Investing found similar results in the US.[3]

[3] [Morgan Stanley Institute for Sustainable Investing (2015). Sustainable Reality.]

Allocation to RI

How much of their investment portfolio would Canadian investors like to allocate to responsible investments? A sizeable 82% of Canadian investors said they would like to dedicate a portion of their portfolio to RI. While 15% were unsure, only 3% said they would not allocate any of their investments to RI.

While investors showed interest in varying levels of allocation to RI, a majority (52%) of investors said they would like more than half of their portfolio allocated to RI. When broken down by age groups, younger investors are significantly more likely than older generations to allocate their entire portfolio to responsible investments.



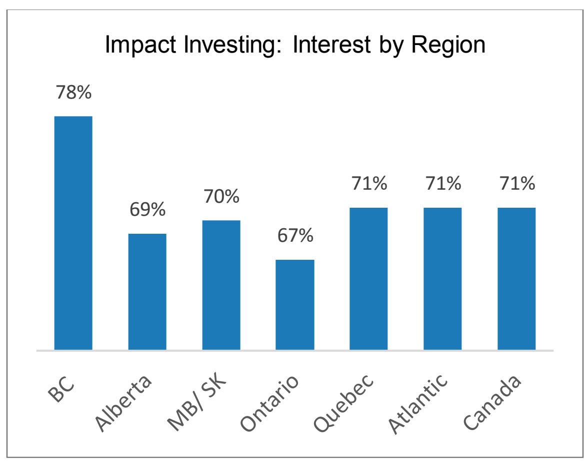
Impact Investing

Impact investing is defined as "investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact alongside a financial return."[4] Impact investing is distinct as it aims specifically at solving societal challenges, straddling a line between philanthropy and investing. An example of impact investing would be a fund that supports affordable housing or provides micro loans to entrepreneurs in low income countries.

There is growing interest in impact investing among foundations and mission-driven organizations in Canada and internationally, but what about individual investors in Canada?

The data shows that Canadian investors are indeed interested in impact investments, with 25% reporting they are very interested and 46% reporting they are somewhat interested. Combined, 71% of Canadian investors reported a level of interest in impact investments.

Millennials showed stronger interest in impact investing at 80% versus Baby Boomers at 60%. Across Canada, West Coast investors led in regional interest with 78% of investors reporting interest in impact investing.



A majority of Canadian investors would like to allocate more than half of their portfolio to RI.

[4] Global Impact Investing Network (2017).

IN FOCUS:

Gender Diversity

Canada has a long way to go to achieve gender pay parity, or equal pay for equal work regardless of gender. Recent data from Statistics Canada reveals that, in annual earnings, women working full time in Canada earn 74 cents for every dollar that men make. Another measure, the hourly wage rate, shows that women earn just 87 cents on the dollar.[5]

Canada has an even more dismal record when it comes to gender parity in corporate leadership. Data collected by securities regulators shows women hold only 12% of all seats on corporate boards in Canada. Nearly half (45%) of publicly traded companies have all-male boards.[6]

This inequality is not only a societal issue; it's also a business issue that represents an opportunity. Companies with greater gender equity tend to outperform their competitors on a number of financial measures, including:

- return on equity
- return on sales
- return on capital
- share performance
- stock price growth[7]

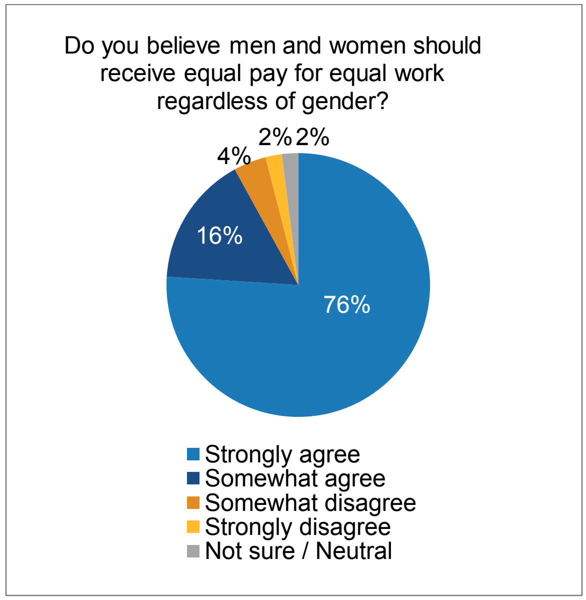
Internationally, boards with gender diversity above and beyond regulatory mandates tend to have fewer instances of governance-related scandals such as bribery, corruption, fraud, and shareholder battles.[8] Research also suggests that more women on boards helps to improve innovation, corporate reputation, and corporate social responsibility.[9]

These statistics highlight a significant opportunity for companies and investors to promote and reap the rewards from greater gender diversity. We surveyed Canadian investors to better understand their perspectives on gender diversity in corporate Canada, and to find out how these perspectives could influence investment decisions.

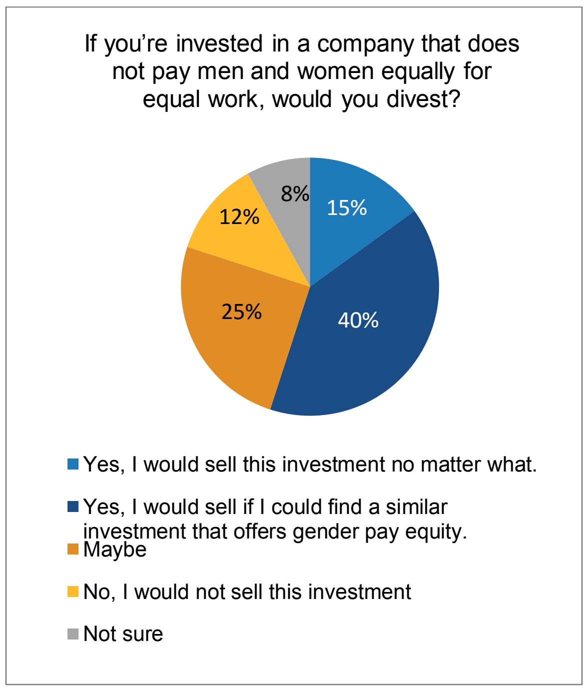
92% of investors believe men and women should receive equal pay for equal work.

Investor Perspectives on Gender Pay Parity

Nearly all Canadian investors (92%) agree that women and men should receive equal pay for equal work, with 74% strongly agreeing and 16% somewhat agreeing.



A majority (55%) of investors would be willing to divest from a company that does not pay men and women equally for equal work, while 25% said they may do so.

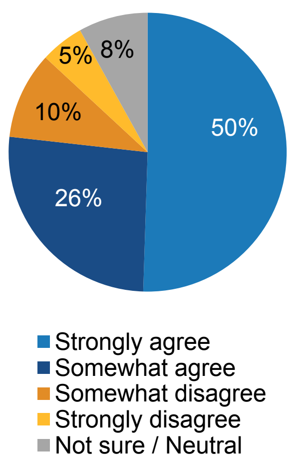


[5] Statistics Canada (2017). Women and Paid Work.
[6] Ontario Securities Commission (2016).
[7] Government of Canada (2016).
[8] MSCI ESG Research (2014). Survey of Women on Boards.
[9] Why Diversity Matters, Catalyst, 2012

Disclosure of Gender Pay Statistics

More than three-quarters (76%) of Canadian investors believe that companies should be required to report annually on how much they pay women compared to men. More women than men would like to see these disclosures at 83% versus 67%, respectively.

Do you agree or disagree with this statement? – “Companies should be required to report annually on how much they pay women compared to how mich they pay men?



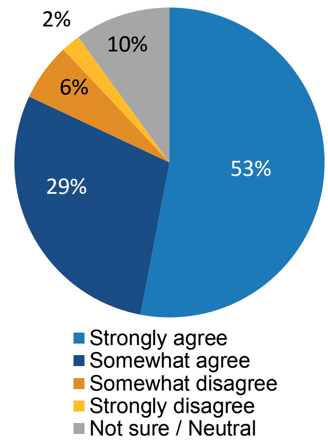
Investor Perspectives on Women on Boards

Women in corporate leadership is an issue of growing concern that has been in the spotlight lately as responsible institutional investors have been pushing for greater representation of women on boards.

The survey reveals that a large majority of individual investors in Canada believe that women should be better represented on corporate boards, with 82% of investors reporting that they strongly or somewhat agree there should be more women in these leadership positions.

82% of Canadian investors believe that women should be better represented on corporate boards.

Do you agree or disagree that there should be more women in corporate (board) leadership?

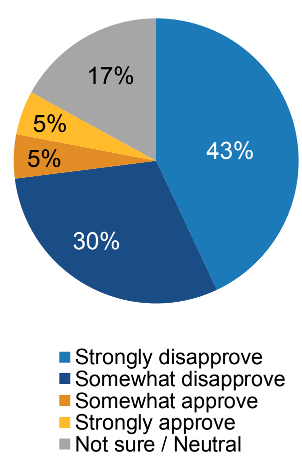


Gender Diversity and Corporate Reputation

The survey data suggests that companies with significant underrepresentation of women in leadership may be exposed to reputational risks: 73% of Canadian investors disapprove of companies with zero or very few women on their boards.

This is a signal to companies that excluding women from boards can lead to a tainted reputation among the majority of Canadian investors.

Do you approve or disapprove of companies that have zero or very few women in senior executive positions?



Conclusion

This study shows that investor preferences are increasingly shaped by ESG considerations. The data indicates that a large majority of Canadian investors are interested in responsible investing, yet know little or nothing about it.

There is a significant awareness gap that presents a tremendous opportunity for client-facing investment professionals.

Since Canadian investors rely on financial professionals for investment advice, advisors who are knowledgeable about responsible investing can add value to client relationships by suggesting suitable RI options for them. This can help to differentiate advisors' practice and strengthen client retention.

When discussing RI with clients, it would be beneficial for investment professionals to educate clients about the long-term financial benefits of incorporating ESG factors into investment decisions.

In addition, this study shows that Canadian investors are concerned about gender diversity issues including pay equity and women on boards.

Canadian investors want to see greater gender pay parity. To support this, more than three quarters of investors believe that companies should be required to report annually on how much they pay women compared to men. More than half of investors stated that they would be willing to divest of a company that does not pay women and men equally for equal work.

The vast majority of investors believe there should be more women on boards. Improved financial performance, innovation and reputation are all benefits of a gender-diverse board. Companies with underrepresentation of women on boards should consider adopting a formal board diversity policy, as doing so would have broad appeal among the investing public. In addition, companies could reduce their exposure to reputational risks by disclosing plans for increasing gender diversity in corporate leadership roles.

The RIA website provides a large selection of resources to support RI education at ***www.riacanada.ca***