An Overview of Responsible Investment: Issues, Trends, and Opportunities

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Agenda

• Introduce the RIA
• Define & explain responsible investment (RI)
• Summary of RI market trends
• The case for RI
• Current hot topics in RI
• RI resources & upcoming events
About Us

• Canada’s membership association for RI.

• Members include financial institutions, asset management firms, mutual fund companies, consultants, advisors, research firms, and other organizations interested in RI.

• We believe that RI can be a powerful tool to enhance returns, reduce risk, & catalyze positive societal change.
Our Global Network

- **The Global Sustainable Investment Alliance (GSIA):**
  - Responsible Investment Association (RIA Canada)
  - Responsible Investment Association Australasia (RIAA)
  - European Sustainable Investment Forum (Eurosif)
  - UK Sustainable Investment and Finance Association (UKSIF)
  - The Forum of Sustainable and Responsible Investment (US SIF)
  - Association for Sustainable & Responsible Investment in Asia (ASrIA)
  - Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) in the Netherlands
• To promote & advance the use of ESG criteria in Canada’s investment sector.

• To raise public awareness of RI in Canada.

• To demonstrate the value of ESG analysis to other investment organizations.

• To provide thought leadership on RI in Canada and to be a valuable resource on RI for both our members and the public.
What We Do

- Conference
- RI Week
- RI Academy
- RI Certification
- Research
- Advocacy
- Information
- Network
What is RI?

- RI is the investment industry’s response to 3 categories of major societal challenges:
  - Environmental issues: climate change, energy scarcity, environmental damage, water use...
  - Social issues: unfair pay, labour and human rights, poor working conditions, First Nations relations...
  - Governance issues: executive pay, board diversity...
- RI is the integration of environmental, social, and governance (ESG) criteria into investment strategy.
RI Terms

- Ethical investing
- Sustainable investing
- ESG investing
- Green investing
- Mission based investing
- Impact investing
- Triple bottom line
- Social finance
- Social investing
- Socially resp. investing
Asset Classes

- RI is increasingly found across major asset classes:

  - Equities
  - Cash / short term
  - Fixed income
  - Alternatives
RI Investment Vehicles

- Mutual funds
- Private equity funds
- Bonds
- ETFs
- Pooled funds
- Real estate funds
- Hedge funds
RI Strategies

- Screening
- ESG integration
- Engagement / shareholder action
- Impact investing
- Sustainability themed investing
RI Strategy: Screening

• **Negative screening**
  - Exclusion (from a fund or portfolio) of certain sectors, companies or projects based on ESG criteria
  - e.g. divestment from certain industries

• **Positive screening**
  - Inclusion of certain sectors, companies or projects based on positive ESG performance relative to industry peers
  - e.g. impact investing, best of sector
RI Strategy: Integration

- Explicitly embedding ESG into traditional financial analysis.

- Integration is different from screening in that integration combines ESG data, research and analysis together with traditional financial analytics in making investment decisions.

- Unlike screening, companies are not ‘screened in’ or ‘screened out’ of an investible universe.

- Integration must be verifiable by a transparent and systematic process informed by ESG research & analysis.
RI Strategy: Engagement

• Using shareholder power to influence corporate behaviour directly.

• Examples:
  • Filing or co-filing shareholder resolutions
  • Proxy voting that is guided by ESG objectives
RI Strategy: Impact Investing

• Targeted investments, typically made in private markets, with the explicit purpose of solving social/environmental problems.

• **Impact investing includes:**
  
  • community investing
  
  • financing for green business, social entrepreneurs, and other companies with clear ESG objectives
  
  • enterprising (i.e. revenue-generating) non-profits.
RI Strategy: Thematic Investing

- Investment in themes or assets specifically related to sustainability, such as:
  - renewable energy
  - green technology
  - sustainable agriculture
  - resource efficiency
RI in Canada

Summary of RI assets in Canada ($billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets ($billions)</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>600.88</td>
</tr>
<tr>
<td>2010</td>
<td>517.93</td>
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<tr>
<td>2008</td>
<td>566.68</td>
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<td>2006</td>
<td>459.53</td>
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<td>2004</td>
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<tr>
<td>2002</td>
<td>50.77</td>
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<td>2000</td>
<td>48.99</td>
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</table>
Total: $600.88 bn

- 31% Asset mgmt firms
- 38% Pension funds
- 12% Retail
- 11% Impact
- 9% Clean tech private

Breakdown of RI assets in Canada
RI Trends

RI AUM by retail funds in Canada ($billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>13.48</td>
</tr>
<tr>
<td>2010</td>
<td>12.43</td>
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<tr>
<td>2008</td>
<td>13.78</td>
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<td>2006</td>
<td>12.13</td>
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<td>2004</td>
<td>10.7</td>
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<tr>
<td>2002</td>
<td>9.9</td>
</tr>
<tr>
<td>2000</td>
<td>10.4</td>
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**RI Trends**

<table>
<thead>
<tr>
<th>Year</th>
<th>Impact Investing Assets in Canada ($billions)</th>
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<tbody>
<tr>
<td>2011</td>
<td>5.3</td>
</tr>
<tr>
<td>2010</td>
<td>4.4</td>
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<tr>
<td>2008</td>
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</tr>
<tr>
<td>2006</td>
<td>0.8</td>
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<tr>
<td>2004</td>
<td>0.5</td>
</tr>
<tr>
<td>2002</td>
<td>0.07</td>
</tr>
<tr>
<td>2000</td>
<td>0.09</td>
</tr>
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</table>
Why the growing demand for RI?

- Bottom line
- Materiality
- Risk mitigation
- Personal values
- Growing range of RI products
RI Performance

• The big question:
  • Is there a penalty for investing in RI?

• The answer:
  • No.
RI Performance: The Evidence

Canadian Index Comparison

Jantzi Social Index vs. S&P/TSX Composite

Value of $100 invested

Source: RBC GAM
RI Performance: The Evidence

US Index Comparison

Source: RBC GAM
RI Performance: The Evidence

Global Equity
- Average RI Global Equity
- Average Global Equity

<table>
<thead>
<tr>
<th></th>
<th>3 Month (annualized)</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>11.53 9.51</td>
<td>31.08 28.27</td>
<td>11.29 9.87</td>
<td>11.04 10.16</td>
<td>3.24 3.41</td>
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<tr>
<td>Average</td>
<td>9.51</td>
<td>28.27</td>
<td>9.87</td>
<td>10.16</td>
<td>3.41</td>
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Canadian Equity
- RI Canadian Equity
- Canadian Equity

<table>
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<tr>
<th></th>
<th>3 Month (annualized)</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
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</thead>
<tbody>
<tr>
<td>RI</td>
<td>8.13 7.59</td>
<td>17.91 16.72</td>
<td>5.07 3.72</td>
<td>11.71 10.82</td>
<td>6.97 6.21</td>
</tr>
<tr>
<td>Average</td>
<td>7.59</td>
<td>16.72</td>
<td>3.72</td>
<td>10.82</td>
<td>6.21</td>
</tr>
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</table>

To December 30, 2013
RI Performance: The Evidence

**Canadian Neutral Balanced**
- RI Canadian Neutral Balanced
- Canadian Neutral Balanced

<table>
<thead>
<tr>
<th></th>
<th>3 Month (annualized)</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>5.36</td>
<td>11.7</td>
<td>5.6</td>
<td>8.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Canadian</td>
<td>5.02</td>
<td>1.02</td>
<td>4.84</td>
<td>7.66</td>
<td>5.00</td>
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</table>

**Canadian Small or Mid Cap Equity**
- RI Canadian Small or Mid Cap Equity
- Canadian Small or Mid Cap Equity

<table>
<thead>
<tr>
<th></th>
<th>3 Month...</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
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</thead>
<tbody>
<tr>
<td>RI</td>
<td>11.7</td>
<td>21.0</td>
<td>3.72</td>
<td>10.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Canadian</td>
<td>9.08</td>
<td>21.0</td>
<td>3.72</td>
<td>16.39</td>
<td>7.7</td>
</tr>
</tbody>
</table>

To December 30, 2013
Hot Topic: Fossil Fuels

- Arguments for divestment: Burning fossil fuels exacerbates climate change and its accompanying negative E/S impacts, so we should stop burning them. There is also a growing risk of stranded assets, so we should pull our money out of FF.

- Arguments for engagement: Indeed we need to ramp down GHG emissions, but we have greater power to influence companies (and their environmental performance) through ownership. Also: since we’re burning fossil fuels in the short term, we may have a moral obligation to try to improve FF producers’ enviro performance while we wait for viable alternatives.
Fossil Fuel Free Investing

• The risk of stranded assets is a growing concern for investors.

• But fossil fuel companies account for 25% of the value of the S&P/TSX composite index.

• Result: very difficult to find a diversified portfolio free of fossil fuels.

• Another reason that FFF products aren’t widely available is a widespread belief that a FFF portfolio would be risky, volatile.
Can FFF be viable?

FFF Simulation vs Russell 3000 Index

Annualized Return Difference, rolling 10 year periods

Avg. annualized 10-year return difference
FFF +0.08%
Percentage of periods FFF higher than R3000 73%

Source: Aperio Group
Can FFF be viable?

FFF Simulation vs MSCI World Index
5 year cumulative returns for two alternatives

Source: Impax Asset Management
Hot Topic: Green Bonds

- Green bonds: fixed income securities issued by governments, corporations and financial institutions with an explicit “green” label.

- Bond proceeds are ring-fenced to finance projects with specific environmental benefits.

- The green bond market is exploding:
  - As of Dec 31, 2012: $7.8 bn
  - As of Dec 31, 2013: $15 bn
  - Projected to nearly double again in 2014
  - The green bond market is exploding:
    - Oversubscription is a dominant trend.
    - Ontario is jumping into the game in 2014.
Hot Topic: Green Bonds

Annual Green Bond Issuance (USD)

- 2007: 0.8 bn
- 2008: 0.5 bn
- 2009: 1 bn
- 2010: 3.7 bn
- 2011: 1 bn
- 2012: 2 bn
- 2013: 11 bn
- 2014 (mid Feb): 15 bn

Source: Climate Bonds Initiative
Hot Topic: Green Bonds

- Potential benefits:
  - long maturities
    attract private finance for public goods
    dirt cheap money for governments
    “green economy” stimulus

- Challenges:
  - no standardization
    what exactly makes a bond green?
Upcoming RI Events (Ontario)

- Canadian Responsible Investment Conference
  - May 26-28, Toronto
  - Student writing contest

- RI Week: May 26-30
  - CRIC, UN PRI, TSSS, U of T

- MSCI Seminar: Exploring ESG Integration
  - April 9, Toronto
Learn More

www.riacanada.ca
www.riaconference.ca

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