Responsible Investment Association

2015 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

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ABOUT THE RIA

This report was authored and published by the Responsible Investment Association (RIA). The 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.

Statement of Purpose

The Responsible Investment Association's purpose is to:

- support the responsible investment activities of its members.
- promote and support an integrated reporting framework in which there is standardized disclosure of material ESG information.
- promote the integration of ESG factors into investment analysis and decision-making processes.
- promote the practice of responsible investing in Canada.

Learn more at www.riacanada.ca.

ACKNOWLEDGEMENTS

Project Staff

PROJECT DIRECTOR

Dustyn Lanz
RIA Director, Research and Communications

EXECUTIVE ADVISOR

Deb Abbey
RIA Chief Executive Officer

RESEARCH TEAM

Daria Smeh
CEO/Founder
LoyalTeam Inc.

Derek Wentzell
MBA Candidate
Lakehead University

Esma Mneina
RIA Junior Associate
(Summer 2014 Intern)

Supporters

Thank you to the following experts for sharing their insights: Sandra Odendahl (RBC), Jason Milne (Phillips, Hager & North), Karim Harji (Purpose Capital), Kate Martin (Credit Union Central of Canada), Benjamin Janzen (Mennonite Savings and Credit Union).

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CANADIAN Institutional Investment NETWORK

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Table of Contents

EXECUTIVE SUMMARY

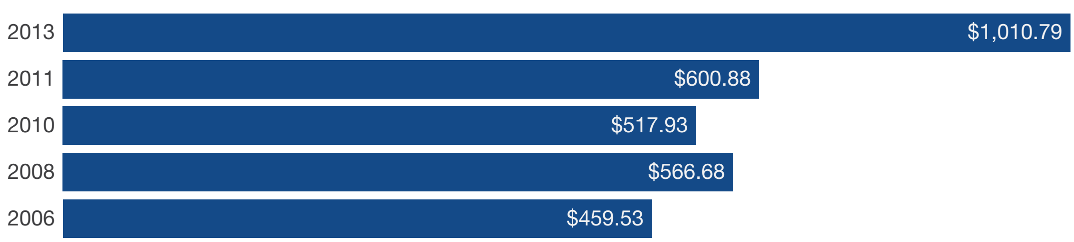
The 2014 Canadian Responsible Investment Trends Report reveals that Canada's responsible investment (RI) market is experiencing rapid growth. RI refers to the integration of environmental, social, and corporate governance (ESG) criteria into the selection and management of investments.

According to survey data, as of December 31, 2013, assets in Canada being managed using one or more RI strategies increased from $600 billion to more than **$1 trillion** in just two years. This robust growth represents a 68% increase in RI assets under management.

Highlights

- **$1 trillion in RI assets under management**
- 68% increase in two years
- 31% of Canadian investment industry
- RI mutual fund assets up 52.3% vs. 29.8% for non-RI mutual funds.
- Retail assets over $60 billion
- Pension fund assets utilizing RI strategies up 70% in two years
- Canadian impact investment assets now stand at $4.13 billion, reflecting 9.5% growth since 2012.
- 87% of impact investors who target competitive returns either met or outperformed expectations in 2013.

Canadian RI Industry Growth (billions)



The RI industry's significant growth can be attributed to at least three factors. First, Canada's large pension funds under RI guidelines grew by $288.57 billion. RI pension fund assets are at $821.27 billion, which comprises 81.2% of Canadian RI AUM.

Second, there have been many new entrants to the industry, particularly among investment managers. Whereas only 24 investment management firms reported Canadian RI assets at the start of 2012, there are now 41. In a similar trend, whereas there were only 12 Canadian investment manager Signatories to the UN-supported Principles for Responsible Investment (PRI) at the start of 2012, there are now 29. Investment management firms now account for $191.7 billion in RI assets.[1] Canadian investment managers are increasingly aware of ESG risks, and they are taking steps to manage those risks by integrating ESG factors into the investment decision-making process.

Third, qualitative factors including personal values, increased awareness of ESG risks, and generational transfer of wealth are playing an important role in the growth of RI in Canada, particularly on the retail side. Total retail assets now stand at $61.9 billion. Retail RI funds, which include mutual funds and retail venture capital funds, have grown from $13.48 billion to $17.5

[1]Note that the total for investment managers, $191.7 billion, includes some externally managed pension fund assets already noted in the pension fund total. We subtracted those assets when calculating total RI AUM in Canada, so they were not double-counted in the RI industry total of $1.01 trillion.

billion, or 29.8% over the last two years. RI mutual funds alone have increased by 52.3%, from $4.36 billion to $6.64 billion compared to 29.8 % growth in non-RI funds during the same period. Canadian investors and investment managers employ numerous RI strategies, yet four strategies stand above the rest. The dominant strategy is corporate engagement and shareholder action, which refers to the use of shareholder influence to improve corporate behaviour. This strategy is utilized in the management of 86.5% of Canadian RI assets. The top three engagement issues in 2013 **were executive compensation, human right issues, and greenhouse gas emissions.**

ESG integration is the second most prominent strategy, representing 77.5% of AUM, while norms-based screening and negative screening represent 56.3% and 50.8%, respectively.

Impact investment is a small but increasingly important category of RI. Impact investing refers to investments that provide solutions to social or environmental challenges by generating positive, measurable social or environmental impacts as well as a financial return. Canadian impact investment assets now stand at $4.13 billion, reflecting 9.5% growth since 2012. Our impact investment survey found that 87% of impact investors who target competitive returns either met or outperformed expectations in 2013. This finding supports the case that investing for social or environmental impact can generate competitive returns.

There's a growing consensus among investors that accurate valuations and proper risk management require greater disclosure and consideration of ESG issues (e.g., climate change, human rights, labour relations, consumer protection, health and safety and aboriginal relations).

This report shows that ESG criteria are increasingly being used to help managers identify risks that are not adequately addressed by traditional investment analysis. In doing so they are better able to accurately predict financial performance. And it's helping them identify opportunities to invest in sustainable businesses that are involved in energy efficiency, green infrastructure, clean fuels and other sectors that provide adaptive solutions to some of the most challenging issues of our time.

ABOUT RESPONSIBLE INVESTMENT

What is Responsible Investment?

Responsible investment (RI) is the integration of environmental, social and governance factors (ESG) into the selection and management of investments. There is growing evidence that RI reduces risk and leads to superior long-term financial returns.

In recent years, responsible investment has come to encompass:

- Ethical investing,
- Socially responsible investing,
- Sustainable investing,
- Green investing,
- Community investing,
- Mission-based investing,
- Impact investing.

Evolution of Responsible Investment

Responsible investing has changed. It isn't just about personal values anymore. It's about managing risk to long-term shareholder and stakeholder value. In a world where climate change, water scarcity and global supply chain issues dominate the business pages, that job has become a lot more challenging.

Responsible investors have long known that the integration of ESG factors into the selection and management of investments can provide superior risk-adjusted returns and positive societal impact. What's changed in the past decade is that it's being recognized as a mainstream function of good investment practice, resulting in better, more informed investment decisions.

Why? Because our world is very complex, and the tools that investment managers have traditionally used to manage risk simply aren't up to the task any more. Interpreting quarterly results just isn't enough. We need to know how the companies we invest in are managing the future: ESG analysis gives us a bigger and clearer window into their operations and the quality of their management. It's just common sense.

Global Initiatives

There's a growing consensus among investors that accurate valuations and proper risk management require greater disclosure and consideration of ESG issues (e.g., climate change, human rights, labour relations, consumer protection, health and safety and aboriginal relations).

The UN Sustainable Stock Exchanges Initiative has brought together sixteen stock exchanges including the world's largest, the NYSE Euronext, to explore how they can work with investors, regulators and companies to increase transparency on ESG issues.

The goal is to encourage responsible, long-term approaches to investment. Even stock exchanges are beginning to understand the link between profitability and responsibility. And recent research has shown that analysts are giving more positive recommendations to companies that address ESG risk.

There's a growing consensus among investors that accurate valuations and proper risk management require greater disclosure and consideration of ESG issues

RI Policy Developments in Canada

With a growing body of evidence that ESG considerations have an impact on the financial performance of securities, the UK, Australia, France and Germany now require that investment decision makers disclose the extent to which they take these factors into account. The Ontario government has recently introduced similar legislation in an amendment to the Ontario Pension Benefits Act. The Act now requires pension plan administrators to establish a statement of investment policies and procedures (SIPPs) that contains “information about whether environmental, social and governance factors are incorporated into the plan’s investment policies and procedures and, if so, how those factors are incorporated.” This could be a great boon to responsible investment in Canada, particularly if other provinces follow suit.

Ontario has also taken action to increase the number of women on boards and in senior management. Companies are now required to disclose information regarding the number of women in these positions, company policies regarding women on the board, and director term limits. The Ontario Securities Commission will enforce the new rule through a “comply or explain” model.

Responsible Investment Strategies

In an effort to clarify and standardize the language used to describe RI strategies, we have aligned our definitions with the UN-supported Principles for Responsible Investment (PRI) and our partner organizations in the Global Sustainable Investment Alliance (GSIA). There are seven RI strategies covered in this report:

1. Positive or Best-in-Class Screening

Positive screening or “best in class” investing refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

2. Negative or Exclusionary Screening

Negative screening refers to the exclusion, from a fund or portfolio, of sectors, companies, projects or countries based on ethical, moral or religious beliefs. For example, a fund or pension manager may decide to exclude specific sectors such as military weapons, tobacco or fossil fuels, or not to invest in a country involved in human rights abuses, such as Burma. This also includes screening out companies who do not perform as well as industry peers, such as best-in-class companies.

3. ESG integration

ESG is the term that has emerged globally to describe the environmental, social and corporate governance factors that concern investors and other stakeholders. The issues are ones that were traditionally considered non-financial or not material. Recent studies, however, have shown a correlation between strong ESG performance and financial outperformance.

Integration is different from screening in that integration combines ESG data, research and analysis together with traditional financial analytics in making investment decisions. Research has shown that ESG integration combined with a best-in-class approach is more likely to generate superior portfolio returns than negative screening alone or traditional socially responsible investing which has typically incorporated both negative and positive screening. The evolution of responsible investment has produced many funds that are hybrids of the various strategies. And SRI and RI are often interchangeable terms.

- Unlike screening, companies are not ‘screened in’ or ‘screened out’ of an investable universe.
- Integration must be verifiable by a transparent and systematic process informed by ESG research & analysis.

4. Corporate engagement and shareholder action

Corporate engagement and shareholder action is defined as using shareholder power to influence corporate behaviour through direct engagement, filing or co-filing shareholder proposals, and proxy voting that is guided by ESG guidelines. Many fund managers employ the following strategies as active shareholders:

- Engaging in dialogue with company management and boards of directors.
- Filing or co-filing shareholder resolutions
- Voting proxies based on ESG criteria

Canadian RI funds have been leaders in bringing forward proposals to press companies to consider the environmental, social and financial risks associated with issues like oil sands production or supply chain management.

5. Norms-based screening

Norms-based screening is the screening of investments based on compliance with international norms and standards such as those issued by the Organization for Economic Cooperation and Development (OECD), the International Labour Organization (ILO), the United Nations, etc. Norms-based screening may include exclusions of investments that are not in compliance with globally recognized norms or standards.

6. Sustainability-themed investing

RI addresses the ESG risks faced by today’s investors but there are many opportunities as well. Sustainability-themed funds invest in sustainable businesses that are involved in energy efficiency, green infrastructure, clean fuels, low-carbon transportation infrastructure and those that provide adaptive solutions to some of the most challenging issues of our time. These are investments that present solutions to our problems and are great opportunities for investors.

A recent Ceres report says that in order to avoid the worst impacts of climate change, we will need to invest an additional $36 trillion in sustainable businesses by 2050. That’s $1 trillion dollars a year in green business development opportunities for investors. In some cases, thematic funds are fossil fuel free and provide an alternative for investors who choose to exclude resource extraction companies from their portfolios.

Common themes:

- energy efficiency
- green infrastructure
- clean fuels
- low-carbon transportation infrastructure
- adaptive solutions

7. Impact Investing

The RIA uses the Global Impact Investing Network's definition of impact investing: Impact investments are "investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact along with a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending on the circumstances."[2]

Impact investments are typically (but not always) made in private markets, and aim to resolve social and/or environmental challenges. Impact investing includes community investing, where capital is directed to traditionally underserved individuals or communities, and financing that is provided to businesses with a clear social or environmental purpose.

Hot Topic: Fossil Fuel Divestment

Fossil fuel divestment is a rising trend that has emerged since our last report. In 2012, 350.org launched a campaign to promote fossil fuel divestment. The campaign has attracted much attention in the United States, and the concept of fossil fuel free (FFF) investing has started to make its way into the Canadian context.

Fossil fuel companies account for roughly one quarter of the value of the S&P/TSX composite index. This presents significant challenges to the development of FFF investing in Canada. To address increasing demand, FFF and low-carbon funds are emerging in Canada, though most are diversifying globally in order to offset the risk of removing more than one quarter of the eligible universe.

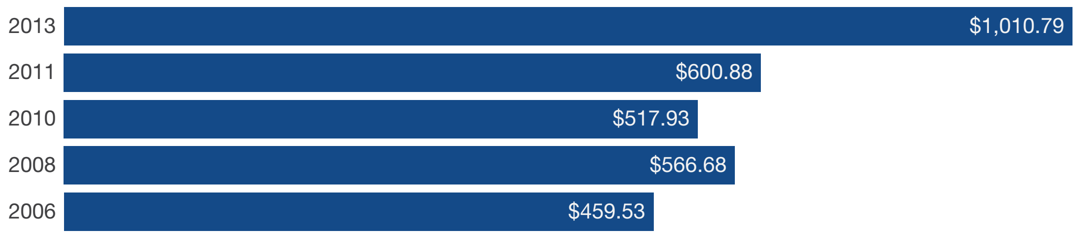
To learn more about FFF investing, read the RIA's literature review, The Climate has Changed.

[2] Global Impact Investing Network

RESPONSIBLE INVESTMENT IN CANADA

Total RI Assets in Canada

$1.01 trillion



Canadian RI assets now account for 31% of Canadian AUM.

The Canadian responsible investment (RI) industry has grown tremendously over the past two years. Total assets under management (AUM) using RI strategies have expanded from $600.88 billion at the start of 2012 to $1.01 trillion at the start of 2014. This reflects an increase of $409.91 billion, or 68%, over two years. Canadian RI assets now account for 31% of Canadian AUM.

Institutional investors account for $948.83 billion, representing 93.87% of the total. Retail investors account for $61.96 billion, which represents 6.13%. Although most of the RI industry's growth since 2012 was on the institutional side, the retail market has shown strong growth as well. Assets in retail RI investment funds grew by 30% since 2011.

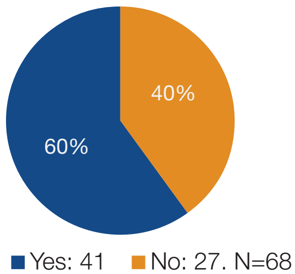
The RI industry's significant growth can be attributed to at least three factors. First, Canada's large pension funds under RI guidelines grew by $288.57 billion over the last two years, accounting for 70% of the growth. Pension fund RI assets are now at $821.27 billion, which comprises 81.2% of Canadian RI AUM.

Second, there have been many new entrants to the industry, particularly among investment managers. Whereas only 25 investment management firms reported Canadian RI assets at the start of 2012, there are now 41. In a similar trend, whereas there were only 12 Canadian investment manager Signatories to the UN-supported Principles for Responsible Investment (PRI) at the start of 2012, there are now 29. Canadian investment managers are increasingly aware of ESG risks, and they are taking steps to manage those risks by incorporating ESG issues into the investment decision-making process.

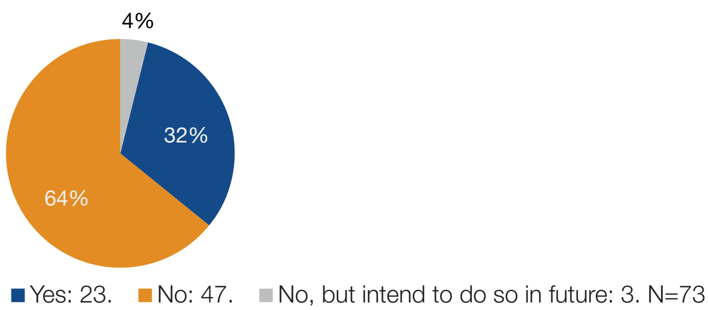
Third, qualitative factors including personal values, increased awareness of ESG risks, and generational transfer of wealth are playing an important role in the growth of RI in Canada, particularly on the retail side. Retail RI assets stand at $61.9 billion. Retail RI funds, which include mutual funds and retail venture capital funds, have grown by 29.8% over the last two years. RI mutual funds alone have increased by 52.3%, from $4.36 billion to $6.64 billion compared to 29.8% growth in non-RI funds during the same period.

In our survey of RI investment managers and asset owners, 60% of respondents reported that their organization has an RI policy statement, while 32% reported that their organization issues Requests for Proposals for RI mandates-related mandates.

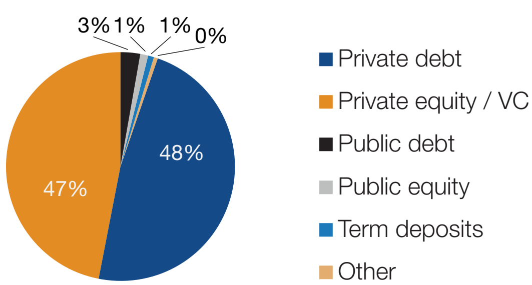
Does your organization have a responsible investment (RI) policy statement?



Does your organization issue RFPs for ESG, RI, or impact investment mandates?



Asset Allocation



* Not including impact investment. Impact investment asset allocation is shown in the impact investment section of this report.

** Other includes: Alternative/Hedge funds, Mortgages, Commodities, Derivatives,

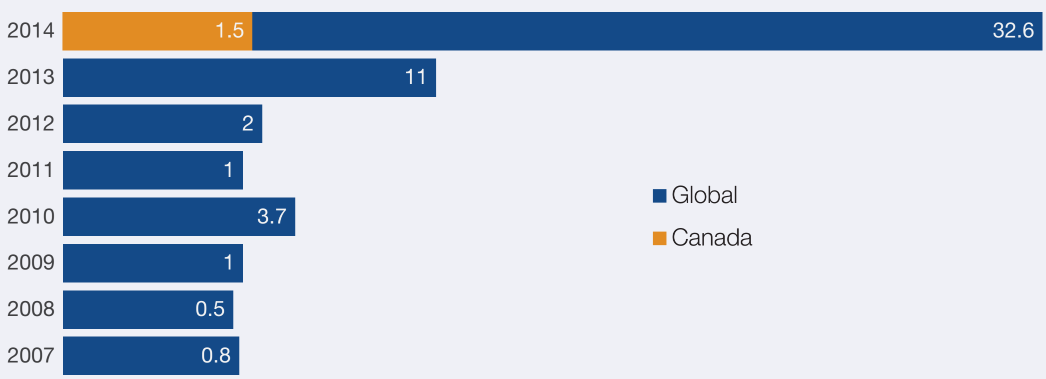
Equities are the dominant asset class, with 43% of the total. Bonds are second with 33%, while real estate is third with 11% of the total. Other, smaller RI asset classes include venture capital/private equity, infrastructure, and monetary/deposits. Details are indicated in chart above.

Green Bonds

Although bonds represent a large portion of Canadian RI assets, our survey respondents who disclosed bond allocations did not report any allocation to green bonds. Green bonds are broadly defined as fixed-income securities that raise capital for projects with specific environmental benefits. Green bond proceeds are typically invested in climate change mitigation or adaptation efforts such as renewable energy, energy efficiency, sustainable waste management, sustainable land use, clean transportation and clean water technology.

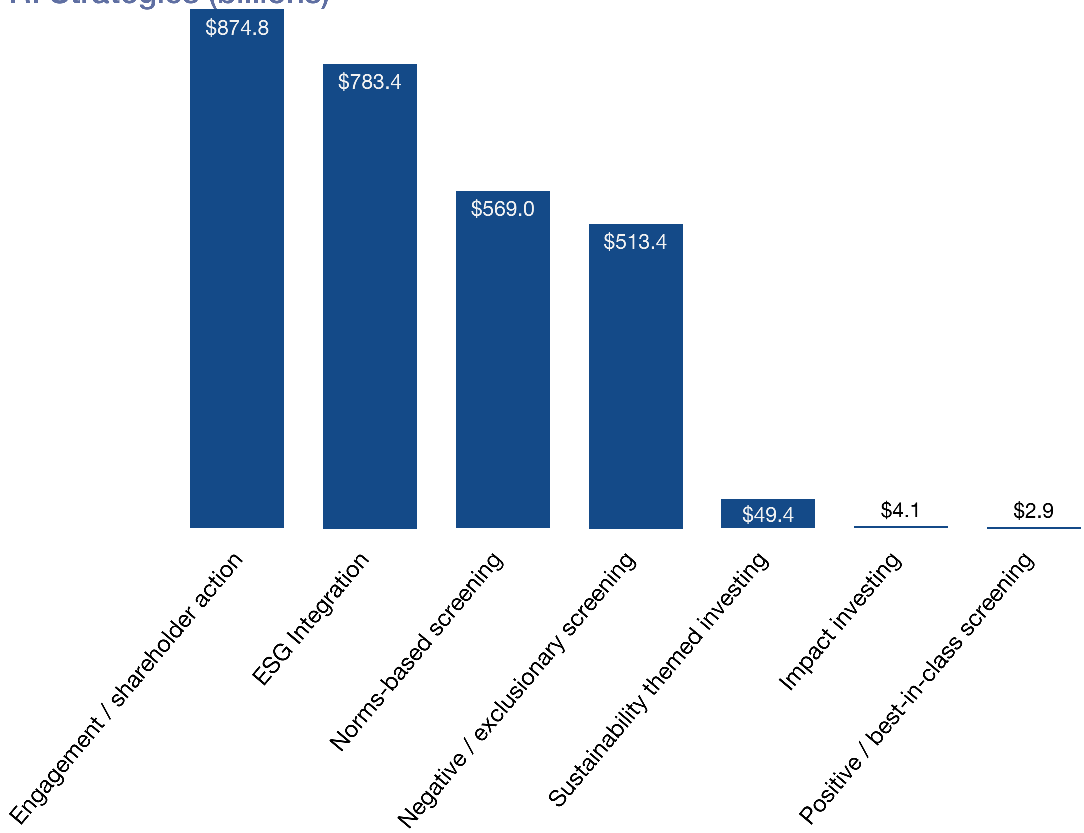
To date, there have been four Canadian issuers of labeled green bonds: Export Development Canada, TD Bank, the Government of Ontario, and Tandem Health Partners in partnership with the Government of British Columbia. These four issuances total $1.53 billion, and were all issued in 2014. All of these green bonds were oversubscribed. So although Canada was a latecomer to the green bond boom, there is proof of demand coming from Canadian investors. We can expect to see more Canadian-issued green bonds in 2015.

Green Bond Issuances to Date ($USD Billions)



Source: Global data was adapted from the Climate Bonds Initiative and Bloomberg New Energy Finance.

RI Strategies (billions)



* Total RI assets under management: $1.01 trillion as at Dec. 31, 2013

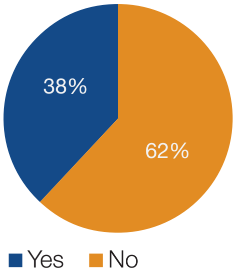
**Many assets are invested using multiple RI strategies, so these dollar amounts sum to an amount that is greater than the total reported RI AUM.

The chart above indicates the seven RI strategies that Canadian investors are using, and the dollar amounts for each strategy. At $874.8 billion, corporate engagement and shareholder action is the leading RI strategy. It is followed by ESG integration with $783.4 billion, norms-based screening with $569 billion, negative/exclusionary screening with $513.4 billion, sustainability themed investing with $49.4 billion, impact investing with $4.1 billion, and positive/best in class screening with $2.9 billion.

1. Corporate Engagement and Shareholder Action
$874.8 billion

Corporate engagement and shareholder action is defined as using shareholder power to influence corporate behaviour through direct engagement (i.e. communicating with management/boards), filing or co-filing shareholder proposals, and proxy voting that is guided by ESG guidelines. 38% of survey respondents have a formal policy on corporate engagement and shareholder action.

Respondents with a formal policy on corporate engagement and shareholder action:



N=65

Most Common Engagement Issues

Rank	# Respondents	Issue
1	16	Executive Compensation
2	11	Human Rights
3	8	GHG Emissions
4	7	Supply Chain Management
5	6	Bribery and Corruption
6	5	Water / Waste Management
7	5	Other

N= 23. Other: Board structure, environmental impact, director term limits, labour issues, hydraulic fracturing, and Aboriginal relations.

Shareholder Resolutions

Eight of our survey respondents reported they filed shareholder resolutions in 2013. Executive compensation was the top ESG issue, with 5 respondents filing resolutions regarding executive pay. Other ESG issues covered in the resolutions included: fair tax principles (2/8 respondents), separation of chair and CEO (1/8), board term limits (1/8), proxy access (1/8), human rights, greenhouse gas emissions (1/8), ESG disclosure (1/8), and rail safety (1/8).

In five of these cases, the resolution was withdrawn after successful engagement with the company. One respondent reported that their actions prompted the company to change practices related to the resolution; one reported that they intended to file additional resolutions; and one did not provide details of the outcome. So for this sample, filing shareholder resolutions was a successful method of changing corporate behaviour five out of seven times.

Proxy Voting

Most company shares carry voting rights. Shareholders can vote their shares by proxy instead of attending company meetings. There are a variety of matters that shareholders vote on each year. The most common are the election of directors, appointment of auditors and approval of executive compensation. But there are also votes relating to environmental reporting, climate change risk management and many other issues important to responsible investors. Responsible investors vote to promote change and integrate ESG into management decisions.

The RIA conducted a study analyzing Canadian mutual fund votes on selected categories of management and ESG-related shareholder resolutions appearing on the ballots of S&P/TSX Composite and Russell 3000 companies in the 2013 proxy season.

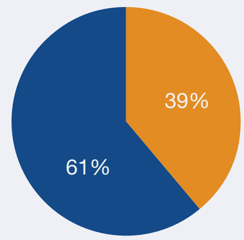
The study investigated the voting patterns of 25 Canadian fund complexes representing a cross-section of Canada's mutual fund industry. Three of these, including RIA members, Ethical Funds (NEI), Meritas (OceanRock) and Inhance (IA Clarington), are historically RI fund groups, while the remainder cover a broad spectrum of Canadian mutual fund groupings, including some of the largest and best-known mutual fund brand names.

The study revealed that across the board, RI funds support more ESG-related shareholder resolutions than their mainstream counterparts. Most, but not all, of these funds are members of the Responsible Investment Association.

Read the full study here.

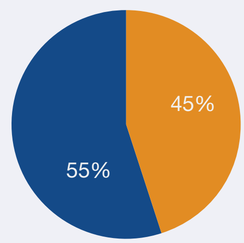
Survey participants disclosed the following information regarding their proxy voting practices.

Does your organization have responsible investment (RI) proxy voting guidelines?



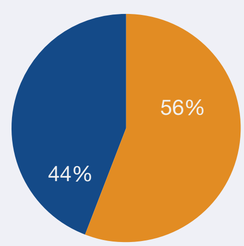
Yes: 40. No: 26. N=66

Does your organization audit its proxy voting record vis-Ã -vis its proxy voting guidelines?



Yes: 36. No: 30. N= 66

Do you publicly disclose voting records?

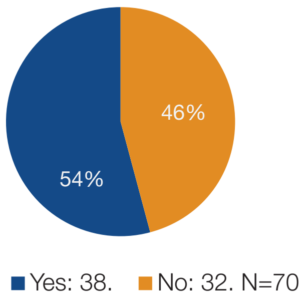


Yes: 30. No: 38. N=68

2. Integration of ESG Factors in Financial Analysis
$783.4 billion

ESG integration is defined as the explicit consideration of environmental, social and governance factors in the investment decision-making process. ESG integration must be demonstrated to be guided by a transparent and systematic process. As at December 31st, 2013, there were $783.4 billion Canadian AUM using the ESG integration strategy, with 54% of survey respondents indicating that they have a formal ESG integration program.

Does your organization have a formal ESG integration program?



3. Norms Based Screening
$569 billion

Norms based screening is an investment strategy based on compliance with international norms and standards such as those issued by OECD, ILO, UN, UNICEF, etc. As at December 31st, 2013, there were $569 billion Canadian AUM using a norms based screening strategy. The top three norms identified in our survey were the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. See the table below for a list of all norms identified in the survey.

Norms

Rank	# Respondents	Norm
1	14	UN Global Compact
2	12	UN Guiding Principles on Business and Human Rights
3	9	OECD Guidelines for Multinational Enterprises
4	5	ILO Tripartite declaration of principles concerning multinationals and social policy
5	4	Extractive Industries Transparency Initiative (EITI),
6	3	Oslo Convention on Cluster Munitions.
7	2	Ottawa Treaty on Landmines

N=38

4. Negative/exclusionary screening $513.4 billion

Negative or exclusionary screening is an approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries. There were $513.4 billion Canadian AUM under a negative screening strategy. Negative-screened assets under the norms strategy are also included in this category.

The most commonly excluded products are weapons and tobacco. See the table below for a complete list of products that were excluded by our survey respondents in 2013. Note that the table only covers products. There are other negative screens, such as conflict zones or faith-based criteria, which are not captured in the table.

Negative Screening – Products

Rank	# Respondents	Product
1	37	Weapons / Military
2	30	Tobacco
3	23	Nuclear
4	22	Gambling
5	21	Pornography
6	20	Alcohol
7	11	Animal Testing / Welfare
8	9	GMO
9	4	Other

N=42. Other: product quality, fair trade products,

5. Sustainability themed investing $49.4 billion

Sustainability themed investing is a strategy that addresses specific issues related to environmental sustainability such as greenhouse gas emissions, renewable energy, clean technology, water and waste management, and agricultural production processes. As at December 31st, 2013, there were $49.4 billion Canadian AUM using a sustainability themed investing strategy.

6. Impact Investing
$4.1 billion

Impact investing is defined a “investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending upon the circumstances.”[3] Impact investments are typically (but not always) made in private markets, and aim to resolve social and/or environmental challenges. Impact investing includes community investing, where capital is directed to traditionally underserved individuals or communities, and financing that is provided to businesses with a clear social or environmental purpose.

> we observe 9.5% growth of the impact investment industry over one year. The vast majority of these assets, 94%, are invested directly into companies or organizations with a social or environmental purpose

As at December 31st, 2013, our researchers were able to verify $4.1 billion in impact investment assets in Canada. The most comparable recent Canadian data on impact investing is published in *State of the Nation: Impact Investing in Canada*.[4] Comparing its 2012 data with our 2013 data, we observe 9.5% growth of the impact investment industry over one year. The vast majority of these assets, 94%, are invested directly into companies or organizations with a social or environmental purpose as opposed to being invested indirectly through a fund.

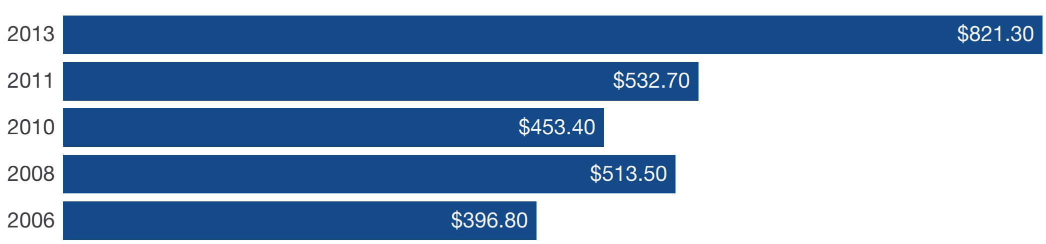
Since impact investing’s characteristics are distinct, and since the impact investing industry is different from the rest of the RI industry in both composition and scale, we conducted a separate survey for impact investing. The in-depth results from the impact investment survey are detailed later in this report in the section titled *In Focus: Impact Investment*.

7. Positive Screening/Best in Class
$2.9 billion

Positive screening or “best in class” investing refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers. As at December 31st, 2013, there were $2.9 billion Canadian AUM using a positive screening/best–in-class strategy. Only 11 of our survey participants reported using a positive screening /best in class approach.

RI ASSETS BY CATEGORY

Pension Funds: $821.3 billion



Our researchers tabulated the assets of 10 Canadian pension funds that practice responsible investing, with combined assets totaling $821.3 billion.[5] These pension funds account for the

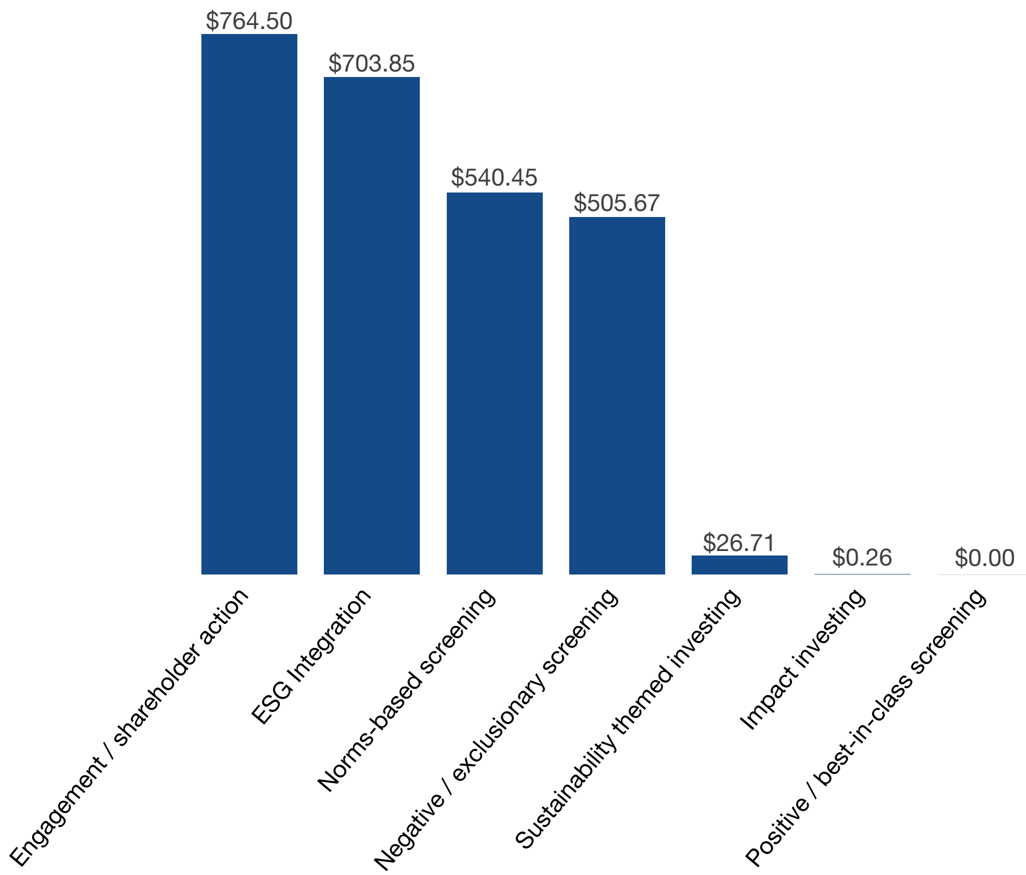
[3] Global Impact Investing Network

[4] MaRS and Purpose Capital (2014). State of the Nation: Impact Investing in Canada.

[5] There are more than 10 Canadian pension plans or funds that practice responsible investment. To avoid double counting, however, we implemented two necessary conditions for assets to be included in Pension Fund category: (1) organization must be either a dedicated pension plan/fund, or their primary business is pension fund management AND (2) externally managed assets must not be known to be managed by another organization in the Pension Fund category.

majority of Canadian RI assets, representing 81.2% of the total. Pension fund assets account for 70% of the RI industry's growth since 2011, having grown by $288.6 billion over the last two years.

Pension Funds' RI Strategies (billions)



*$821.3 billion total

pension funds primarily used one or more of these four RI strategies: corporate engagement and shareholder action, ESG integration, norms based screening, and negative/exclusionary screening.

As the chart above indicates, pension funds primarily used one or more of these four RI strategies: corporate engagement and shareholder action, ESG integration, norms based screening, and negative/exclusionary screening. According to our research, Canadian pension funds have allocated only $26.7 billion, or 3% of their assets, to sustainability-themed investments. Pension funds reported $260 million utilizing positive screening or a best in class strategy. None reported using an impact investment strategy.

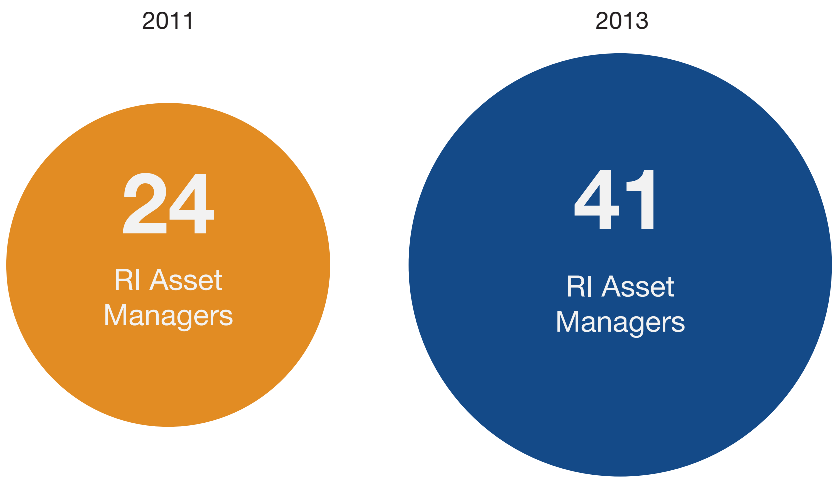
Canadian pension funds are RI industry leaders in many respects, yet some of Canada's largest pension funds still invest in producers of tobacco, weapons, and other products that responsible investors typically avoid.

Investment Management Firms

$191.7 billion

Investment management firms play a major role in the management of assets held by Canadian institutional and individual investors. Investment management firms invest on behalf of a wide variety of clients including mutual funds, insurance companies, high net worth individuals, endowments and foundations, corporations, pension funds, trust funds, sub-advised funds of various kinds, and other client types.

According to our survey, investment management firms managed a total of $191.7 billion Canadian RI assets as at December 31st, 2013.[6][7] This number reflects a significant increase over the past two years, although methodological changes make it difficult to determine precisely how much. The best available data indicates that investment management firms accounted for only $48.1 billion RI assets at the start of 2012.



Whereas only 24 investment managers were included in our 2012 report, there are 41 included in the current report. In other words, there has been a 71% increase in the number of asset management firms reporting RI AUM.

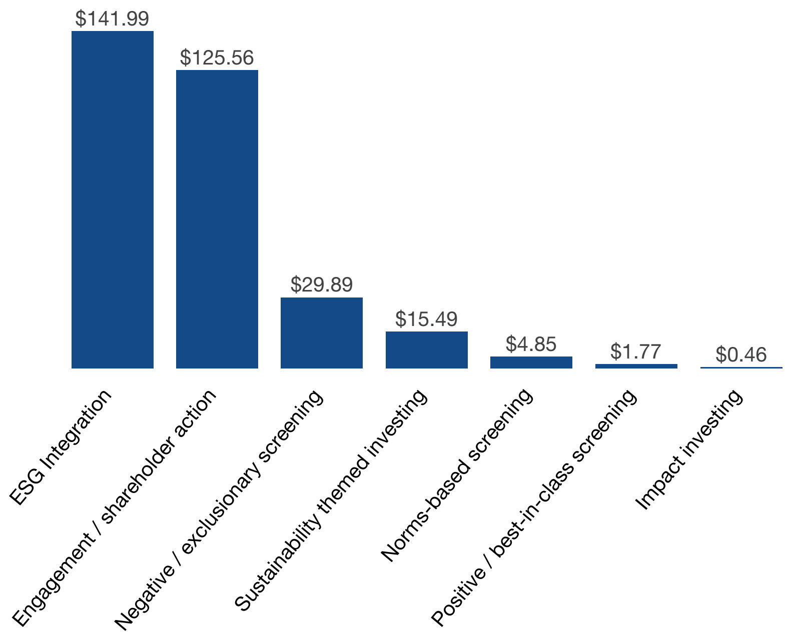
This exceptional growth can be attributed primarily to new entrants and, to a lesser degree, expanded research capabilities.[8] Whereas only 24 investment managers were included in our 2012 report, there are 41 included in the current report. In other words, there has been a 71% increase in the number of asset management firms reporting RI AUM. In a similar trend, whereas there were only 12 Canadian investment manager Signatories to the UN-supported Principles for Responsible Investment (PRI) at the start of 2012, there are now 29. Canadian investment managers are increasingly aware of ESG risks, and they are taking steps to manage those risks by incorporating ESG factors into the investment decision-making process.

[6] Due to data limitations, this number includes institutional RI mutual funds. Some asset managers did not disclose details regarding investment vehicles. This made it impossible for our researchers to provide a reliable estimate for institutional mutual funds. The researchers were, however, able to identify overlapped assets to avoid double counting.

[7] Note that the total for investment managers, $191.7 billion, includes some externally managed pension fund assets already documented in the Pension Fund section of this report. We subtracted those assets when calculating total RI AUM in Canada, so they were not double-counted in the RI industry total of $1.01 trillion.

[8] Expanded research capabilities: Due to the generous financial support provided by our sponsors, RBC and RBC Global Asset Management, the RIA was able to hire a research team specifically to increase capacity and expand the scope of our research.

Investment Management Firms' RI Strategies (billions)

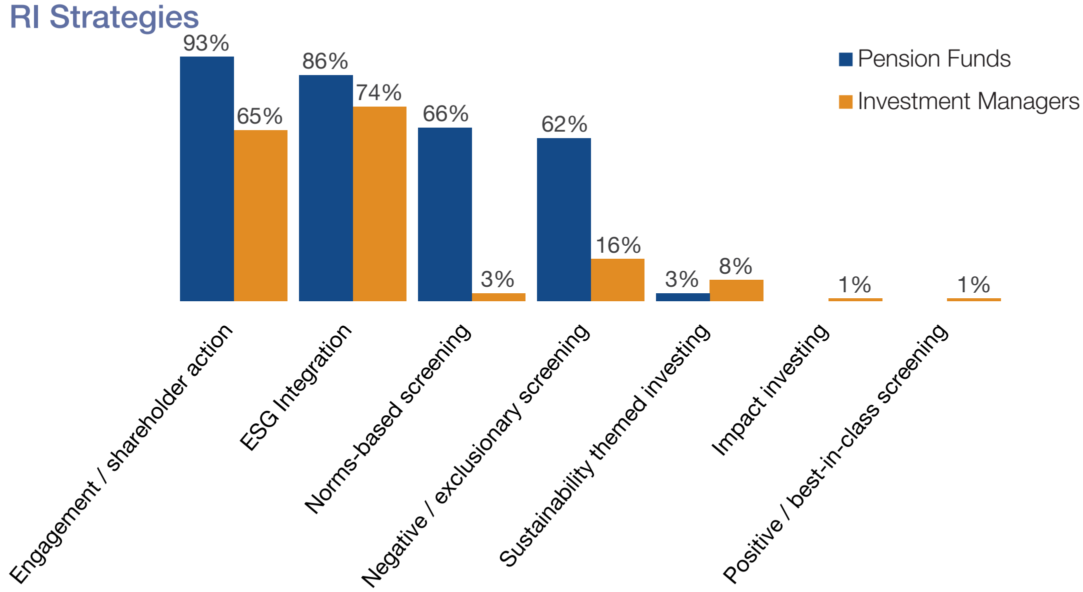


$191.7 billion total

The chart above indicates the RI strategies used by investment managers. The top strategy is ESG integration, which covers $141.99 billion RI assets. The second most prominent strategy is corporate engagement and shareholder action, which covers $125.56 billion RI assets. Investment managers largely use one or both of these strategies.

According to our research, Canadian investment management firms have $29.89 billion under a negative or exclusionary screening strategy, $15.49 billion allocated to sustainability themed investments, and $4.85 billion under a norms based screening strategy. Positive screening accounts for $1.77 billion, while impact investing covers $462 million of investment management firms' AUM.

Proportional Comparison: Investment Managers vs. Pension Funds' RI Strategies



The above chart compares the proportions of pension funds vs. investment management firms' assets under each RI strategy. The chart indicates that pension funds are largely using multiple RI strategies, while investment management firms are employing primarily an engagement or ESG integration strategy. Investment management firms are, however, allocating a greater proportion of their assets to sustainability-themed investments.

Retail RI Assets

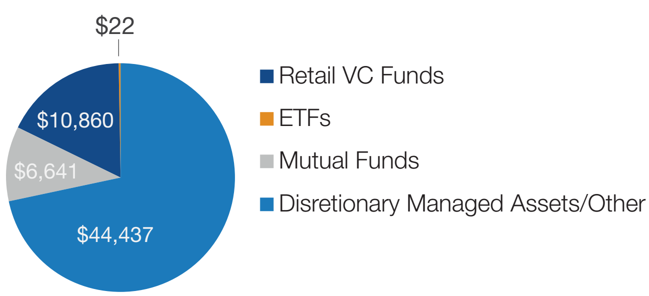
Retail investors are the historical foundation of RI in Canada and remain a strong and growing force in the market. Retail investors are individuals who typically wish to align their investments with their values. In the Canadian market, there are two basic vehicles for responsible investing – mutual funds and retail venture capital funds. RI mutual funds are professionally managed, diversified pools of investments. In this way, they are very similar to conventional mutual funds. But RI mutual funds offer an additional level of analysis and investment by using one or more RI strategies. Although there are no examples of dedicated impact investment vehicles in the Canadian mutual fund market, Meritas SRI Funds allocates 2% of its assets to community-focused impact investments.

Retail investors are the historical foundation of RI in Canada and remain a strong and growing force in the market.

Retail RI Assets

$61.9 billion

(Chart in millions)



*millions

As shown in the pie chart above, total retail RI assets stand at $61.9 billion. Retail RI funds, which include mutual funds and retail venture capital funds, have grown from $13.48 billion to $17.5 billion, or 30% over the last two years. RI mutual funds alone have increased by 52%, from $4.36 billion to $6.64 billion compared to 29.8 % growth in non-RI funds during the same period. The significant growth in retail RI assets can be attributed largely to qualitative factors such personal values, increased awareness of ESG risks, and generational transfer of wealth.

A comprehensive list of RI mutual funds and retail venture funds, including performance data, is available on the RIA website.

Retail RI Funds (billions)

Includes mutual funds and retail venture capital funds.

Retail RI Mutual Funds (billions)

Retail RI Venture Capital Funds (billions)

Retail venture capital funds are professionally- managed pools that invest in small-and-mid- size companies in the start-up or expansion phase of their development. This group of funds has grown out of the labour-sponsored venture capital funds that offer federal and provincial tax credits in many provinces in Canada. RI retail venture capital funds employ the same investment strategies as mutual funds; but in some cases, funds use a social audit process to examine the employment, community, supplier and customer record of potential investee companies and this social audit information is used to determine investment worthiness along with the company's financial strength.

ESG Criteria

RI survey participants were asked to identify which environmental, social, and corporate governance (ESG) issues they incorporate into their investment decisions. The following charts illustrate their responses.

Environmental Criteria

Rank	# Respondents	Environmental Issue
1	39	Pollution / Toxics
2	34	Climate Change / Carbon
3	29	Green Building
4	28	Clean Tech
5	26	Sustainable Natural Resources
6	15	Fossil Fuel Divestment
7	14	Other

N=52. Other: Water management, waste management, biodiversity, energy efficiency.

Social Criteria

Rank	# Respondents	Social Issue
1	47	Human Rights
1	47	Labour
2	26	EEO / Diversity
3	25	Terrorist / Oppressive Regimes
4	12	Other

N=53. Other: Accessibility, health and safety, conflict zone, social inclusion.

Governance Criteria

Rank	# Respondents	Governance Issue
1	47	Board Issues
2	44	Executive Compensation
3	26	Political Contributions
4	20	Other

N=53. Other: Bribery and corruption, shareholder rights, transparency, code of conduct.

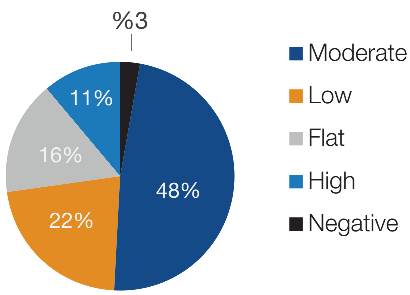
Community Criteria

Rank	# Respondents	Social Community
1	26	Community Services
1	25	Aboriginal Relations
2	15	Fair Consumer Lending
3	14	Affordable Housing
4	7	Other

N=44. Other: stakeholder engagement, fair trade, support for education.

INDUSTRY PERSPECTIVES

What level of growth in RI are you anticipating in the next 2 years?



N=63

Survey participants are largely optimistic about the RI industry's outlook for 2015 and 2016, with 59% of respondents expecting either moderate or high levels of growth over the next two years. A minority of 22% is expecting low growth; 16% expects flat growth; and 3% expects the RI industry to contract.

We asked survey respondents to identify their reasons for considering ESG criteria in the investment process. The top three reasons for considering ESG criteria are to minimize risk, client or beneficiary demand, and to improve returns over time. The other reasons are listed in the table below.

To better understand the characteristics of our survey respondents, we asked them to report which investor networks or organizations they are part of. The top three investor organizations are the Principles for Responsible Investment, CDP, and the Responsible Investment Association. Others are listed in the table below.

Reasons for Considering ESG Criteria

Rank	# Respondents	Reason
1	48	Minimize Risk Over Time
2	47	Client / Beneficiary Demand
3	44	Improve Returns Over Time
4	42	Fulfill Mission or Values
5	39	Social / Environmental Impact
6	37	Fiduciary Duty
7	12	Legislative / Regulatory Requirements

N=65

Investor Networks / Organizations

Rank	# Respondents	Network
1	46	Principles for Responsible Investment
2	27	CDP
3	20	Responsible Investment Association
4	19	Canadian Coalition for Good Governance
5	13	International Corporate Governance Network
6	4	Investor Network on Climate Risk
7	3	Global Impact Investing Network

N=65

There is demand for low carbon or FFF products with a Canadian focus and several of the asset managers in our survey are considering launching this type of product.

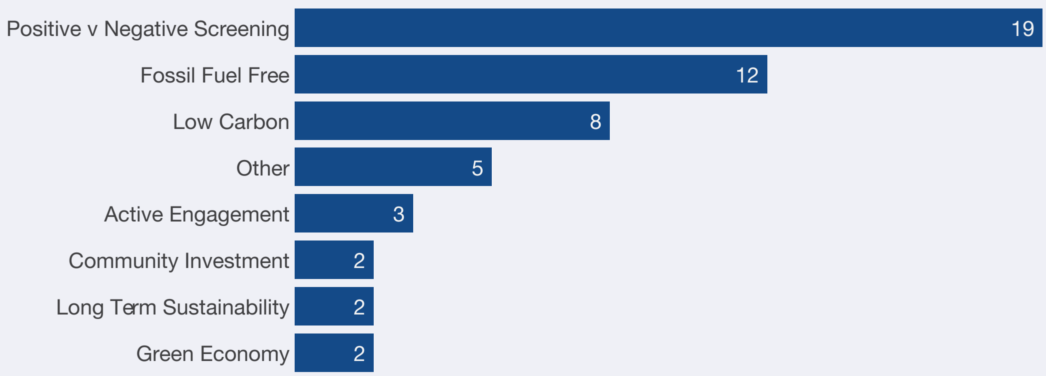
Interest in New RI Products

We asked asset owners and managers several questions to better understand the level of interest in both purchasing and developing new RI products. We were particularly interested in understanding the level of interest in fossil fuel free (FFF) products. There is demand for low carbon or FFF products with a Canadian focus and several of the asset managers in our survey are considering launching this type of product.

Asset Owner Questions

We received 54 responses, primarily from foundations and endowments, with some pension funds as well.

What kind of new products would you be interested in?

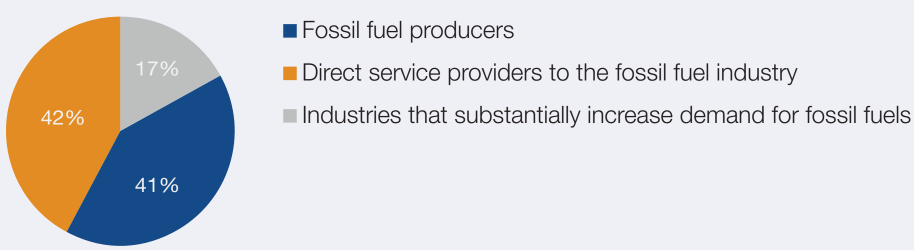


N=54. Other: Social finance bond; ESG assessments; affordable housing, tax transparency; "a fund to provide loan guarantees, patient capital, etc. to support non-profits, social enterprises etc. which cannot meet conventional financing requirements".

Would you want a single screen fossil-free fund (i.e. only screen fossil fuel companies) or a fund that also uses other screens?

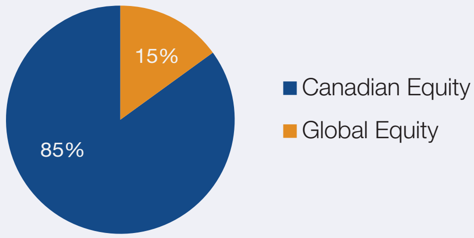
N= 12 respondents who expressed interest in fossil fuel free products.

What type of companies should be excluded from a fund to make it fossil free?

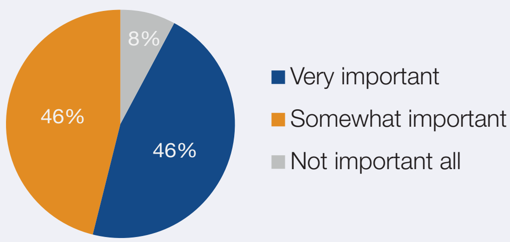


N= 12 respondents who expressed interest in fossil fuel free products.

Would you prefer a fossil free/low carbon product to be a Canadian equity fund or a global equity fund?

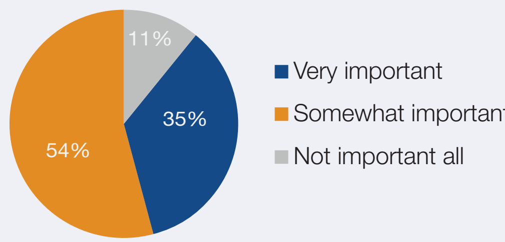


When you select an asset manager, how important is it for the asset manager to integrate ESG factors as part of its investment process?



N=52

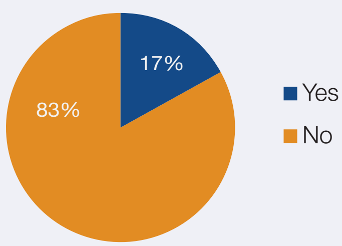
When you select an asset manager, how important is it for the asset manager to be a PRI Signatory?



N=52

Asset Manager Questions

Are you considering launching any new ESG/RI themed products in the next 12 months?



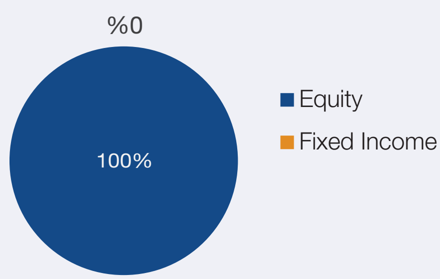
N=47

What ESG/RI issues would be incorporated in the new product(s)?

GHG Emissions	3
Supply Chain Management	2
Executive Compensation	2
Diversity	2
Human Rights	2
Bribery & Corruption	2
Other: Energy/Water	2
Other: Board Structure	1

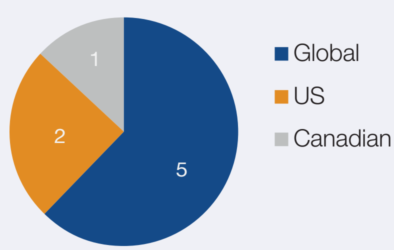
N=8 asset managers considering launching new product

Would it be a fixed income or equity product



N=8 asset managers considering launching new product

Would it be Canadian, US, overseas or global?



IN FOCUS: IMPACT INVESTMENT

Impact investment is a small yet dynamic segment of responsible investing in Canada and beyond. Impact investments are "investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending upon the circumstances."[9] Impact investments are typically, but not always made in private markets, and aim to resolve social and/or environmental challenges. Impact investing includes community investing, where capital is directed to traditionally underserved individuals or communities, and financing that is provided to businesses with a clear social or environmental purpose.

This is the RIA's first year conducting an in-depth study of the characteristics of the impact investment industry. Although impact investing was included in our 2012 report, the language has evolved towards more standardized definitions and classifications since then. In this report, we have aimed to align our methodology and definition of impact investing with the Global Impact Investing Network, the MaRS Centre for Impact Investing, Purpose Capital, and our international partners in the Global Sustainable Investment Alliance. As a result, the current data featured in this report is not necessarily comparable with the impact investment data in our 2012 report. The downside is that we have limited ability to show year over year impact investing trends; yet the upside is that our impact investment data is comparable to national and global data from 2012 onward.

as at December 31st, 2013, there were an estimated $4.13 billion in impact investment assets in Canada.

Our research indicates that, as at December 31st, 2013, there were an estimated $4.13 billion in impact investment assets in Canada.[10] The most comparable recent Canadian data on impact investing is published in *State of the Nation: Impact Investing in Canada*.[11] Comparing its 2012 data with our 2013 data, we observe 9.5% growth of the impact investment industry over one year. The vast majority of these assets, 94%, are invested directly into companies or organizations with a social or environmental purpose as opposed to being invested indirectly through a fund. These results are shown in the charts below.

Canadian Impact Investment Assets (billions)

* Source for 2012 data: Impact Investing in Canada: State of the Nation. MaRS and Purpose Capital, 2014.[12]

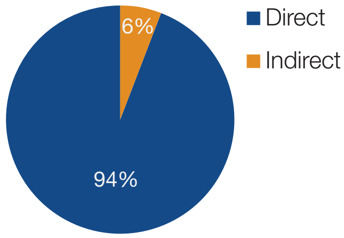
[9] Global Impact Investing Network (2014) About Impact Investing.

[10] Due to industry-specific challenges associated with data collection, we recognize that this estimate may be incomplete. There are likely additional impact investment assets not captured in this estimate. In particular, governments, credit unions, and foundations likely have more impact assets than tabulated in our estimates.

[11] MaRS and Purpose Capital (2014). State of the Nation: Impact Investing in Canada.

[12] Although the authors of the State of the Nation report may have used slightly different methodologies than the RIA, their data is the best available data for comparison.

Direct vs. Indirect Impact Investments



A diverse range of Canadian organizations practice impact investing. Québec's solidarity finance sector is the largest organizational category by assets with $1.16 billion, or 28% of the Canadian total. Development finance is the second largest organizational category by assets with $955.6 million, 95% of which are Québec development capital assets allocated to venture capital for local community development. The third largest organizational category is credit unions, which account for $698.2 million or 17% of the total. The other categories and corresponding totals are shown in the table below.

Impact Investment Assets in Canada

By Organization Type

Organization Type		Direct	Indirect	Total
Community Finance Organizations	Aboriginal Financial Institutions	$323,858,974	$0	$323,858,974
	Community Loan Funds	$29,990,900	$15,380,000	$45,370,900
Foundations		$8,810,000	$16,790,000	$25,600,000
Community Futures / CBDCs		$279,252,549	$0	$279,252,549
Quebec Solidarity Finance		$1,162,900,000	$0	$1,162,900,000
Credit Unions		$697,600,000	$560,000	$698,160,000
Impact Investment Funds/Managers		$262,696,500	$199,483,500	$462,180,000
Development Finance		$955,260,000	$300,000	$955,560,000
Non-profits		$22,900,000	$300,000	$23,200,000
Cooperatives		$100,605,000	$1,515,000	$102,120,000
Other		$51,436,250	$93,750	$51,530,000
TOTAL		**$3,895,310,173**	**$234,422,250**	**$4,129,732,423**

See footnotes for sources[13] and methodological comments.[14]

[13] Data was collected through primary and secondary research. Secondary sources include: Mendell et al., (2014) Socially Responsible Finance in Quebec; Community Futures Network of Canada; and National Aboriginal Capital Corporations Association.

[14] There are likely additional impact investment assets not captured in these estimates. In particular, governments, credit unions, and foundations likely have more impact assets than tabulated here. We were, however, unable to obtain comprehensive first or second party data for these categories.

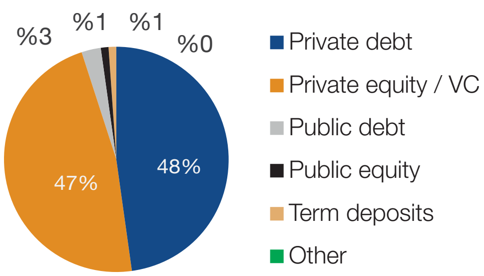
Québec is the Canadian leader on impact investing by total assets, comprising a sizeable 54.8% of all Canadian impact investment assets.

Impact Investment Assets by Province/Territory (millions)

Québec is the Canadian leader on impact investing by total assets, comprising a sizeable 54.8% of all Canadian impact investment assets. Note that the data presented below is based on office location of survey respondents, which usually, but not always indicates geographic allocation of impact capital.

Province / Territory	Assets
Quebec	$2,263.50
British Columbia	$658.30
Ontario	$438.00
Saskatchewan	$191.70
Manitoba	$168.90
Northwest Territories	$101.30
Nunavut	$91.80
Nova Scotia	$80.90
Alberta	$77.20
New Brunswick	$22.50
Newfoundland and Labrador	$14.30
Yukon	$11.70
Prince Edward Island	$4.10
N/A	$5.60
Total	**$4,129.80**

Asset Allocation



Asset allocation data was unavailable, or could not be accurately estimated, for Community Loan Funds and Quebec Solidarity Finance. Due to these data limitations, above estimates are based on 70% of total impact investment assets.

Impact investment asset allocation is shown in the pie chart above. Our data shows an almost even split between private debt and private equity/venture capital asset classes, with 48% and 47% respectively. There is one notable divergence between our asset allocation data and the data found in the State of the Nation report: our participants indicated a much lower allocation to the public debt class. This divergence is possibly due to different sample characteristics, and our lack of comprehensive first or second party data for credit unions, governments, and foundations.

Sector Allocation

Due to data constraints, sector allocation identified above is an estimate based on 78% of reported impact investment assets. Therefore this estimate represents a large sample of the assets, yet it is nonetheless an approximate estimate based on the best available information.

** Community development = non-specified community investment including local small business, etc.

The chart above provides an estimate of Canadian impact investment assets by sector allocation. Canadian impact investment capital is placed across numerous sectors, 9 of which are identified above. The top sector is the nonprofit/social enterprise sector, with 43% of all Canadian impact investment assets. This number is particularly large due to Québec's robust and established social economy. Québec's 'solidarity finance' sector is "made up of those institutions that invest exclusively in cooperatives, NPOs and associations that have socioeconomic objectives."[15] Québec's solidarity finance accounted for $1.16 billion alone.

The second largest sector receiving impact investment capital is the Aboriginal business sector, receiving 15% of impact investment assets. Organizations allocating capital to this category include Aboriginal Financial Institutions, credit unions and development finance funds. Community development is the third largest sector, receiving 12% of impact investment capital. Community development includes community-focused debt and equity financing for local initiatives, small businesses, and traditionally underserved social groups.[16] The remaining sectors receiving impact capital are shown in the chart above. The "other" category includes education, water and sanitation, and financial services excluding microfinance.

In what sectors do you plan to increase your exposure?

N=48 respondents provided 80 responses.

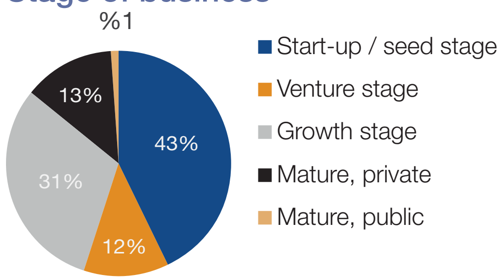
Other: Water & sanitation, arts and crafts, exporting companies, water & sanitation, environment, waste management, employment

[15] Mendell et al., (2014). Socially Responsible Finance in Quebec: 2013 Overview CAP Finance, Karl Polanyi Institute of Political Economy, Institut de recherche en économie contemporaine.

[16] Excluding Aboriginal business, which is large enough to compose its own category.

We asked survey respondents to indicate the sector(s) to which they plan to increase their exposure. The top responses were housing with 16%, food and agriculture with 14%, social enterprise/ nonprofits with 13%, and healthcare with 11% of respondents.

Stage of business



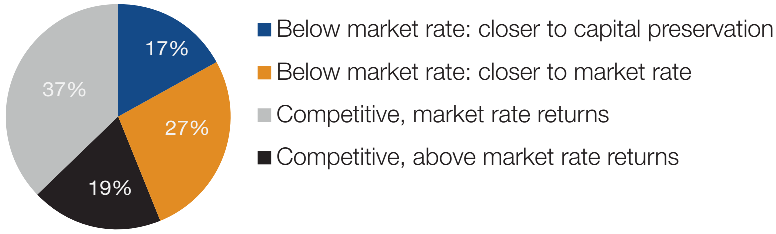
Due to lack of data, stage of business estimate based on 30% of reported impact investment assets.

of those who target competitive returns, a large majority of 87% said they either met or outperformed expectations. These findings support the case that investing for social or environmental impact can generate competitive returns.

Although we asked survey respondents to report on the stages of business to which they allocate impact capital, a minority were able to provide that data. Further, we were unable to obtain that data from secondary sources. So our estimates shown in the chart above are based on only 30% of total impact investment assets. Although this is a relatively small sample of the industry, it is nonetheless a starting point to understanding which stages of business are receiving impact investments. We hope to build on this data in future reports.

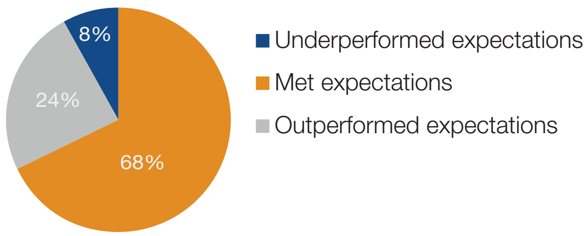
We asked respondents to indicate what level of returns they target. As shown in the chart below, a majority of 56% of survey respondents indicated that they target competitive returns, with 37% targeting market rate and 19% targeting above market rate. We then asked respondents to assess performance relative to expectations. 92% of respondents said they either met or exceeded expectations. And of those who target competitive returns, a large majority of 87% said they either met or outperformed expectations. These findings support the case that investing for social or environmental impact can generate competitive returns.

What level of returns do you target?



N=63

In 2013, how was performance relative to your expectations?



N=63

Contributors of risk to impact investment portfolios

Rank	Score	
1	153	Business model & management risk
2	78	Market demand & competition risk
3	67	Financing risk
4	53	Liquidity & exit risk
5	18	Reputational risk
6	14	Macroeconomic risk
7	5	Currency / country risk

N=65. Scoring methodology in footnotes.[17]

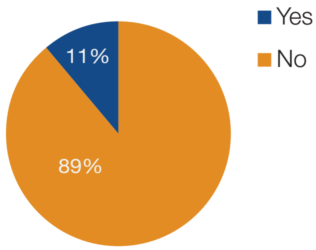
Only 11% of respondents said they encountered significant risk events in 2013.

Survey respondents identified business model and management risk as the top contributor of risk to impact investment portfolios. Market demand and competition risk were the second lrgest risk factor, while financing risk was third. The other risk factors are shown in the table above.

Only 11% of respondents said they encountered significant risk events in 2013. These risk events are listed in the table below. Again, business model and management risk is the top response.

[17] Methodology for ranked questions: In a number of cases, we asked respondents to rank their top three choices. For those questions, scores were calculated as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1).

Did you encounter significant risk events in 2013?

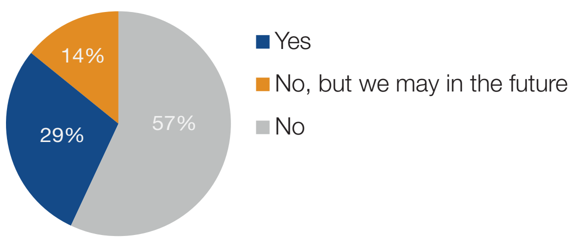


N=63

Type of significant risk events reported:

Business model & management risk	4
Currency (declining CAD)	3
Recession	2
Financing	2
Liquidity & exit risk	1

Do you provide credit enhancement?

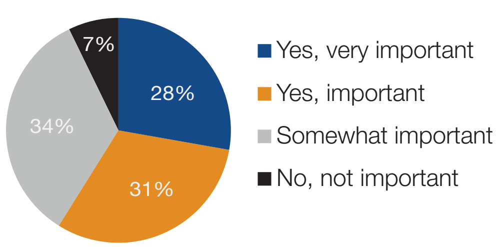


N=65

A minority of 29% of survey respondents provide credit enhancement, while 14% said they may do so in the future. The 19 respondents who provide credit enhancement primarily use guarantees and subordinated debt as credit enhancement instruments. These instruments are listed in the table below.

Guarantee	12
Subordinated debt	8
Linked deposit at a financial institution	6
First-loss reserve	3
Insurance	1

Are standardized social/environmental impact metrics important for industry development?



N=65

A majority of respondents, 59%, said that standardized social/environmental impact metrics are important for industry development, with 28% saying standardized metrics are "very important." Nonetheless, the tables below show that relatively few respondents said they use standardized impact metrics or impact ratings/certifications. An area for further research would be to examine why so few impact investment organizations are using these types of metrics.

Do you use disclosure metrics to measure social/ environmental impact?

Yes, but our metrics are not aligned with external standards	20
No, but we are considering doing so in the future	20
No	17
Yes, IRIS	4
Yes, other standardized metric	4
Yes, GRI	2
Yes, SROI	1

N=70. Other: NRCan, proprietary ESG score.

Do you use 3rd party ratings and/or certifications to guide your investments?

No	43
No, but we are considering it	15
Yes, GIIRS	5
Yes, other	3
Yes, B-Corp Certification	1

N=66. Other: Planet Rating, MicroFinanza, MicroRate, NRCan.

We asked our survey respondents to rank their, or their clients' motivations for choosing to invest for social or environmental impact. Their responses are shown in the table below. The top motivation is to contribute to local community, with sustainable development, personal values, and financial opportunity rounding out the top four reasons Canadian choose to invest for social or environmental impact.

What motivates you or your investors to invest for social/environmental impact?

Rank	Score	
1	126	Contribute to local community
2	88	Contribute to sustainable development
3	47	Personal values/mission
4	46	Financial opportunity
5	19	Looking for stable long-term return
6	19	Responsibility to client/fiduciary duty
7	14	Alternative to philanthropy
8	13	Risk management
9	7	Generational transfer of wealth
10	*3*	*Other: Increase empowerment among disadvantaged populations*
10	*3*	*Other: Global solidarity*
10	*3*	*Other: International Co-operative Alliance Co-operative Principles*
10	*3*	*Other: Build the worker coop sector*
11	*2*	*Other: Building financial capacity of nonprofits/social enterprises*
11	*2*	*Other: Job creation*
12	*1*	*Other: Enhancing Aboriginal participation in the economy*

N=65. *Italicized rows are write-ins.*

To better understand the discouraging factors in the market, we asked survey participants what factors prevent investors from demanding more impact investments. The top three discouraging factors are risk concerns, lack of viable products/options, and performance concerns. Yet our survey data also indicates that 92% of respondents either met or outperformed expectations in 2013. And of those who target competitive returns, 87% said they either met or outperformed expectations. So performance concerns may be overstated. Lack of qualified advice or expertise also placed near the top of the ranking.

What prevents you or your investors from demanding more impact investments?

Rank	Score	
1	95	Risk concerns
2	89	Lack of viable products/options
3	83	Performance concerns
4	40	Lack of qualified advice/expertise
6	12	Mistrust/concerns about greenwashing
7	*6*	*Other: Lack of interest/demand*
8	*5*	*Other: Government restrictions*
9	*3*	*Other: Small size of each investment*
9	*3*	*Other: Lack of access to patient capital*
9	*3*	*Other: Lack of awareness*
10	*2*	*Other: Lack of liquidity*
11	*1*	*Other: Non-market based investing isn't viable/sustainable*

N=67. *Italicized rows are write-ins.*

As shown in the table below, survey respondents indicated a shortage of high quality investment opportunities and lack of appropriate capital across the risk/return spectrum as the top barriers to growth of impact investing in Canada. Lack of innovative deal/fund structures and inadequate impact measurement also placed near the top of the list.

What are the top barriers to growth of impact investing in Canada?

Rank	Score	
1	100	Shortage of high quality investment opportunities
2	85	Lack of appropriate capital across the risk/return spectrum
3	45	Lack of innovative deal/fund structures to accommodate investors' /companies' needs
4	42	Inadequate measurement of social/environmental impact
5	27	Lack of investment professionals with relevant expertise
6	26	Lack of data on products/performance
7	17	Difficulty exiting investments
8	*8*	*"Business as usual" thinking / resistance from mainstream investors*
9	*3*	*Lack of support from financial institutions*
9	*3*	*Loan funding shortages*
10	*2*	*Difficulty accessing investment due to the lack of liquidity of CEDIF funds. No secondary markets*
10	*2*	*Competition in the current market*
10	*2*	*Lack of viable business models & management expertise*
10	*2*	*Over reliance on government funding for us as Not For Profit*
10	*2*	*Lack of specific short term strategic/financial benefit to investors*
10	*2*	*Lack of awareness on impact investing opportunities*
10	*2*	*Need more funds to lend out*
11	*1*	*Lack of patient capital*

N=67. *Italicized rows are write-ins.*

To counteract the barriers to growth identified above, survey respondents identified numerous mechanisms that could drive growth of impact investing in Canada. These mechanisms are shown in the table below. The top mechanisms identified are more persuasive evidence to support the business case for impact investment, and greater awareness of impact investing opportunities. Public policy changes in favour of hybrids and social enterprises, better expertise among investment professionals, and easier access to high impact opportunities also scored highly.

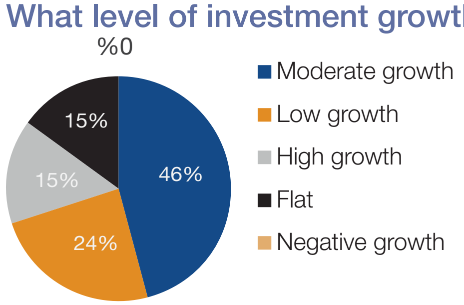
What are the top mechanisms that could drive growth of impact investing in Canada? In other words, what would make you or your clients more likely to invest for social/environmental impact?

Rank	Score	
1	102	More persuasive evidence to support the business case
2	93	Greater awareness of impact investing opportunities
3	52	Public policy changes in favour of hybrids and social enterprise
4	47	Better expertise on impact investing among investment advisors/professionals
5	41	Easier access to high impact investment opportunities
6	11	Greater adoption of standardized social/environmental reporting guidelines (such as IRIS or GRI)
7	*8*	*Increased supply of social impact bonds or other bond-like instruments*
8	*3*	*More viable business models & greater management expertise*
8	*3*	*Increase the number of market intermediaries fund between private capital end social economy*
8	*3*	*More investment opportunities*
9	*2*	*Financial literacy seeking impact investments*
10	*1*	*Greater adoption of 3rd-party ratings and/or certification (such as GIIRS or B-Corps)*
10	*1*	*Local intermediation options*
10	*1*	*Increased supply of patient capital and other bonds*
10	*1*	*Appropriate tools to assess, mitigate and manage risk*

N=67

Looking to the future, we asked each respondent to identify the level of investment growth they anticipate in the next two years. A majority of 61% was optimistic about the growth of impact investing, saying that they expect either moderate or high levels of growth. A minority of 24% was less optimistic, anticipating low growth, while 15% expected flat growth. No one indicated that they anticipate a contraction.

What level of investment growth are you anticipating in the next 2 years?



N=66

APPENDIX A: METHODOLOGY

- We collected data from over 170 investment managers and asset owners for this study. We supplemented this primary research with secondary sources such as annual reports and PRI Transparency Reports.
- To count total Canadian RI assets, we used a methodology based on the criterion of certainty: we only counted assets that we were certain about. For instance, if an investment manager indicated that their RI policies apply to “a majority” of their assets under management (AUM), we counted only 51% of their AUM as RI assets. Therefore our methodology indicates a conservative estimate of Canadian RI assets, since our cautious approach likely excluded some RI assets.
- We strived to avoid double counting. We asked respondents to report: (1) the dollar amounts of externally managed assets, and (2) the dollar amounts of assets invested in other funds (i.e. “fund of funds”). We subtracted these assets from the total, as shown in the table below.

Counting Methodology (millions)

Total RI Assets Reported	$1,150,807.28
Fund of funds overlap	$35,199.16
Externally managed overlap	$104,696.53
Additional estimated overlap	$118.30
Total double-counted assets	$140,013.99
Total RI AUM in Canada	**$1,010,793.29**

- Note that the subtotals throughout this report sum to a total that is greater than $1.01 trillion. This is because there is overlap between categories (e.g. pension funds and external managers). We subtracted overlapped assets from our total, so that our total reflects no double-counted assets.
- We counted assets only if they were verifiable by first or second party data. As a result, there were data limitations, which constrained our tabulations. Some of our numbers, therefore, may differ from those found in other reports. For instance, since we were unable to collect first or second party impact investment data for all foundations and credit unions in Canada, our numbers for these categories are lower than those found in State of the Nation: Impact Investment in Canada.
- Methodology for ranked questions: In a number of cases, we asked respondents to rank their top three choices. For those questions, scores were calculated as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1).
- The questionnaires contained very few mandatory questions. We did this to help maximize engagement; to collect whatever data respondents were able/willing to provide. As a result, respondents skipped some questions. Due to limited responses to particular questions, the corresponding data represented too small a sample size to be meaningful. Therefore this report includes data corresponding to most, but not all of the survey questions.
- All data included in this report is based on self-reporting. We investigated anomalies and verified data where possible. Although, it is often infeasible or impossible to verify that respondents data regarding RI strategies and many other
- All data shown in this report is current as at December 31st, 2013. All dollar amounts are $CAD, unless otherwise noted.

APPENDIX B

RI Survey Respondents

The following respondents consented to be listed as participants in the RIA's responsible investment study. There were more participants, whom either asked not to be listed or whose assets did not qualify as RI assets.

Aberdeen Asset Management
Addenda Capital Inc.
AGF Management Limited
Alberta Investment Management Corporation
AlphaFixe Capital
Baker Gilmore
Batirente
British Columbia Investment Management Corporation
CAAT Pension Plan
Caisse d'économie solidaire Desjardins
Connor, Clark & Lunn Investment Management
Développement international Desjardins
Desjardins Insurance
Desjardins Securities
Dolan Wealth Management
Fiera Capital Corporation
Fondaction CSN
Genus Capital Management
GLC Asset Management Group Ltd.
Global Alpha Capital Management
Global Alpha Capital Management
Gryphon Investment Counsel Inc.
Guardian Capital (Guardian Ethical Management)
Hexavest
MacEwan University
Mennonite Savings and Credit Union
MFS Investment Management
NEI Investments
NS Partners
OceanRock Investments
PCJ Investment Counsel
PSP Investments
Qube Investment Management
RBC Global Asset Management Inc.
Scheer Rowlett
Simon Fraser Univesity
Standard Life Investments
UBS Global Asset Management
United Church of Canada
Vancity Investment Management Ltd.
Victory Capital Management

Impact Investment Survey Respondents

The following respondents consented to be listed as participants in the RIA's impact investment study:
Access Community Capital Fund

ACEM, Financement communautaire responsable
Affinity Credit Union
Affirmative Ventures
Alberta Women Entrepreneurs
Alterna Savings
Assiniboine Credit Union
BC Co-operative Association
Black Business Community Investment Fund Ltd
Canadian Worker Co-operative Federation
CAPE Fund Management
CCEC Credit Union
Chantier de l'économie sociale Trust
Chebucto Pockwock Lake Wind Field Limited
Chebucto Terence Bay Wind Field Limited
Community Forward Fund Assistance Corp
Community Foundation of Greater Peterborough
Community Foundation of Ottawa
Community Micro Lending Society
Développement international Desjardins (DID)
Deh Cho BDC
E-Fund
Futurpreneur Canada (CYBF)
Gestion FONIDI inc.
Hamilton Community Foundation
Investeco Capital Corp.
Leeat Weinstock
McConnell Foundation
Mennonite Savings and Credit Union
Northwest Territories Business Development and Investment Corporation
NS Co-operative Council
Nunavut Business Credit Corporation
Nunavut Development Corporation
Oikocredit Canada
Pique Venture Management Inc.
Réseau d'investissement social du Québec (RISQ)
Réseau Québécois du Crédit Communautaire
Renewal Funds
Royal Bank of Canada
Royal Investment Cooperative Ltd.
Sarona Asset Management
Social Enterprise Fund
Toronto Atmospheric Fund
Tale'awtxw Aboriginal Capital Corporation
Tecumseh Community Development Corporation
The Calgary Foundation
The Jubilee Fund Inc
Two Rivers Community Development Centre
Women Entrepreneurs of Saskatchewan Inc.
Women's Enterprise Centre
Women's Enterprise Centre of Manitoba
Youth Social Innovation Capital Fund

APPENDIX C

We used the following data to calculate total Canadian assets under management (AUM). Data was provided by Canadian Institutional Investment Network (CIIN).

CIIN Breakdown:	
Mutual Funds	$592,853.00
Pension Segregated Funds	$433,879.10
Pension Pooled Funds	$318,258.00
Sub-Advised Assets	$240,684.40
High Net Worth	$194,484.00
Other Assets	$144,589.40
Insurance Company Assets	$142,193.00
Corporate Assets	$65,171.60
Insurance Segregated Funds	$55,182.00
Endowment & Foundations	$53,786.90
Wrap/Third Party	$15,575.00
Trust Funds	$12,750.20
Total Asset Manager AUM - CIIN	**2,269,406**

Total PIAC Pension AUM	$1,302,476.49
Less Asset Manager Pension AUM - CIIN	$752,137.10
Net PIAC AUM	**$550,339.39**

IFIC Total AUM	$999,200.00
Less Asset Manager Mutual Fund AUM - CIIN	$592,853.00
Net IFIC AUM	**$406,347.00**

Total AUM [CAD millions] $3,226,092.99	**$3,226,092.99**