Responsible Investment Association

2015 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT

EXECUTIVE SUMMARY

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ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

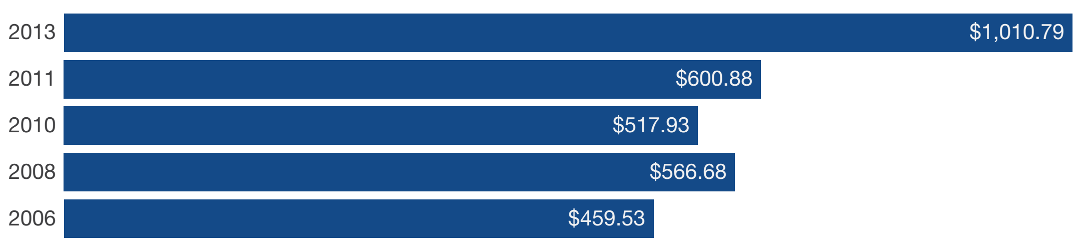
The 2015 Canadian Responsible Investment Trends Report reveals that Canada's responsible investment (RI) market is experiencing rapid growth. RI refers to the integration of environmental, social, and corporate governance (ESG) criteria into the selection and management of investments.

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.