Dispelling Responsible Investing Myths

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What is Responsible Investment?

Responsible investment (RI) refers to the incorporation of **environmental**, **social** and **governance** factors (ESG) into the selection and management of investments. RI has boomed in recent years as investors have recognized the opportunity for better risk-adjusted returns, while at the same time, contributing to important social and environmental issues.

Environmental, Social and Governance (ESG) Issues

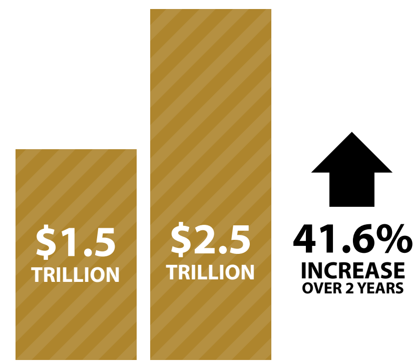
Environmental, social and governance (ESG) issues are some of the most important drivers of change in the world today. And these are not just societal issues; they are important economic issues with significant implications for businesses and investors.

RI Market Growth

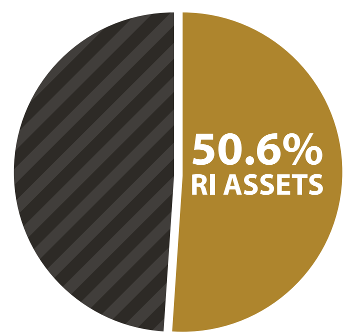
Responsible investment is growing rapidly in Canada and globally. The latest Canadian RI Trends Report showed that assets in Canada being managed using one or more RI strategies increased from $1.5 trillion at the end of 2015 to $2.1 trillion as of December 31, 2017. As for the global market, the latest Global Sustainable Investment Review showed that global responsible investment assets reached US$22.89 trillion at the start of 2016, a 25% increase from 2014.

Investor Perspectives

The latest RIA Investor Opinion Survey shows that the vast majority of Canadian investors are interested in responsible investments. The report found that:



RI ASSETS IN CANADA



CANADIAN RI ASSETS UNDER MANAGEMENT

77%	**82%**	**77%**
of investors are somewhat to very interested in RI.	of investors would like to dedicate a portion of their portfolio to RI.	agree that companies with good ESG practices are better long-term investments.

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How does RI Work?

There is no "one size fits all" when it comes to responsible investing. Responsible investments will typically use one or more of the following RI strategies:

Shareholder Engagement

Using shareholder power to influence corporate behaviour directly. For example, filing shareholder resolutions, voting proxies, and engaging in dialogue with companies to improve their ESG performance.

Thematic Investing

Investments in ESG themes such as women in leadership, clean technology, alternative energy, cybersecurity, etc.

ESG Integration

Explicitly embedding ESG issues into traditional financial analysis. With ESG integration, the portfolio manager combines ESG data together with traditional financial metrics when assessing a company's value.

Negative Screening

Exclusion of certain industries or companies from a portfolio, typically based on ethical or moral criteria. For example, many RI mutual funds exclude tobacco and weapons manufacturers.

Positive Screening

Inclusion of certain companies into a portfolio based on positive ESG performance compared to industry peers. For example, there are usually corporate sustainability leaders and laggards in all industries. A positive-screening approach would include the sustainability leaders, while a negative screening approach would exclude the laggards. These approaches are often used concurrently.

Impact Investing

According to the Global Impact Investment Network, impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Depending on an investors strategic goals impact investments will target a range of returns from below market to market rate. Examples include: microfinance, affordable housing, healthcare, education, renewable energy and more. Some impact investments would also be categorized as thematic investments.

The Benefits of RI

RI can improve risk management

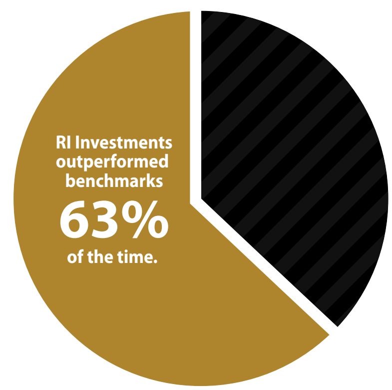
Responsible investing can reduce exposure to risks that may not be visible on a company's financial statements. That's because a company is more than just the numbers. Analyzing a company's ESG performance, in addition to financial metrics, provides a more holistic view of a company's quality of management and its long-term prospects for success.

RI can enhance long-term financial performance

All of the evidence indicates that responsible investing can lead to better returns at lower levels of risk.

Responsible Investments Can Outperform the Benchmark

Responsible investing can also lead to better long-term financial performance. In addition to superior risk characteristics, **a Carleton University study found that RI equity mutual funds in Canada financially outperformed their respective benchmarks 63% of the time.** The story was similar in other asset classes. In that study, RI fixed income and balanced mutual funds outperformed their respective benchmarks 67% of the time.



Responsible Investments Exceeded the Median Return

A 2015 report from the Morgan Stanley Institute for Sustainable Investing found similar results in the United States. The report, which was based on a review of over 10,000 open-end mutual funds and 2,874 separately managed accounts over seven years, found that responsible equity mutual funds met, or exceeded, the median return of traditional equity funds 64% of the time. It also found RI funds had equal, or lower, median volatility about two thirds of the time.

Academic Studies that Conclude ESG Performance is Indicator of Lower Risk

According to a study from Deutsche Bank Climate Change Advisors, 100% of academic studies agree that companies with high ratings for corporate social responsibility or ESG factors have a lower cost of capital in terms of debt (loans and bonds) and equity. It concludes that "firms with strong ESG performance may now be enjoying both financial outperformance (particularly market-based) and lower risk as measured by the cost of equity and/or debt (both loans and bonds) in the short run."

RI contributes to positive societal change

In addition to its financial benefits, responsible investing can also help investors contribute to positive social and environmental outcomes. This occurs by providing capital to corporate sustainability leaders. It also occurs by improving a company's ESG performance through shareholder engagement.

Responsible investors also use shareholder engagement to increase the representation of women on boards, reduce the CEO pay gap, and to achieve many other objectives related to corporate responsibility.

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