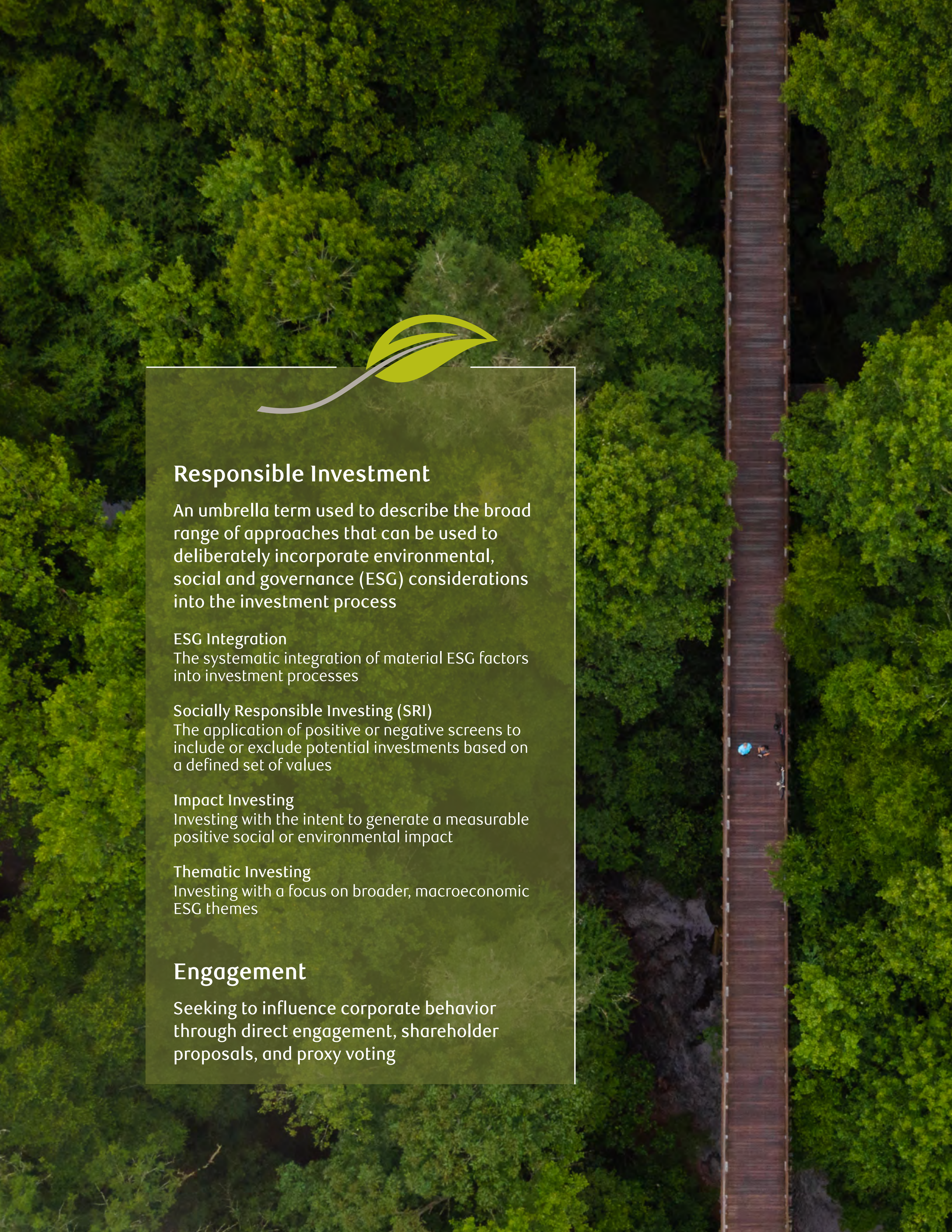
RBC Global Asset Management

Global adoption— regional divide

2020 Responsible Investment Survey

Executive Summary



Responsible Investment

An umbrella term used to describe the broad range of approaches that can be used to deliberately incorporate environmental, social and governance (ESG) considerations into the investment process

ESG Integration
The systematic integration of material ESG factors into investment processes

Socially Responsible Investing (SRI)
The application of positive or negative screens to include or exclude potential investments based on a defined set of values

Impact Investing
Investing with the intent to generate a measurable positive social or environmental impact

Thematic Investing
Investing with a focus on broader, macroeconomic ESG themes

Engagement

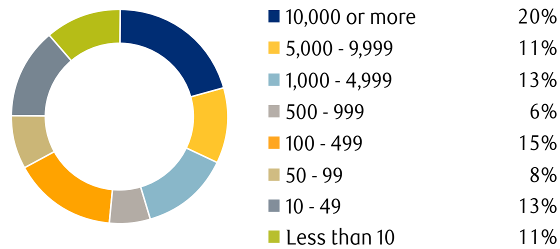
Seeking to influence corporate behavior through direct engagement, shareholder proposals, and proxy voting

Survey reflects a broad cross-section

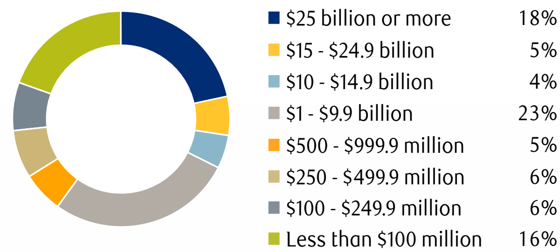
The 2020 RBC Global Asset Management Responsible Investment Survey was answered by over 800 participants from around the world, including the US, Canada, Europe and Asia. Respondents come from all corners of the investment business.

Nearly 190 of the respondents represent organizations with $1 billion to $9.9 billion in assets and 220 were from organizations with more than $10 billion. Approximately one fifth of the respondents work at organizations with 10,000 or more employees, while a similar number, or 23%, were from much smaller firms of less than 50 employees. Over 50 consultants responded to the survey and provided key information as to how they are integrating ESG principles into manager selection.

Please estimate the number of employees in your entire organization, that is, the total in all plants, divisions, branches, subsidiaries - national and international.



Which of the following best represents the current total pension retirement assets of your organization? Endowments and foundations please indicate total fund assets.



What is the primary structure of your employer's business?

	Overall %
Pension plan sponsor	12.9
Government organization	11.0
Investment manager	10.8
Non-financial corporation	10.4
Educational institution/endowment	7.5
Wealth management/wealth platform	7.4
Foundation, non-profit, charity	7.4
Consulting organization	7.0
Insurance company	5.1
Other	4.3
Other consultant, advisor, professional service provider to asset owner	4.1
Registered investment advisor	4.0
Union	2.3
Financial planning firm	2.1
Other asset owner	2.0
Family office	1.4
International organization/IMF/world bank/ development bank	0.4

Introduction

Global ESG adoption continues to climb but differs by region as Europe leads, US lags

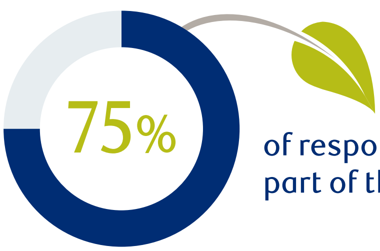
Over the past four years, the annual RBC Global Asset Management Responsible Investment Survey has shown that institutional investors around the world are increasingly receptive to responsible investment and its supporting framework. Since our inaugural year, the percentage of survey respondents who indicated that they employ environmental, social and governance (ESG) principles in their investment approach and decision-making process has continued to rise. There is one exception to this—institutional investors in the United States, where ESG adoption has been static in recent years. For much of the world, ESG adoption has become an overwhelming feature of the investment landscape. While the US lags behind in adoption, it does so within a context of broad support: 65% is a substantial majority. Still, the results in the US are somewhat puzzling given the growth of adoption elsewhere. This matter calls for continued monitoring.

Key highlights

- Adoption of ESG principles is growing—75% of respondents globally integrate ESG principles into their investment approach and decision-making, up from 70% in 2019.
- Investors in the US continue to lag well behind their global counterparts in ESG adoption—65% compared with 94% of respondents in Europe, 89% in Canada and 72% in Asia.
- Most investors believe in ESG-integrated portfolios—globally, 84% of respondents believe that ESG-integrated portfolios will perform as well or better than non-ESG-integrated investments while the remaining 16% think ESG-integrated portfolios will perform worse. In the US, however, 26% of investors think ESG-integrated portfolios will perform worse than non-ESG-integrated portfolios.
- COVID-19 impact on ESG thinking—investors who said the pandemic had made them pay greater attention to ESG factors listed global supply chain risk, climate change and workplace culture as their top three concerns.
- More investors think attaining alpha via ESG factors is achievable—55% of those surveyed agree that achieving long-term sustainable alpha through integrating ESG factors is possible, compared with 36% who said so last year.
- Growing belief that ESG factors help risk mitigation—67% of those surveyed agree that integrating ESG factors into their investments can help mitigate risk, up from 58% in 2019.
- Support for board level gender diversity targets remains constant—49% of respondents support policies that promote diversity and inclusion targets at the board level.

Acceptance of ESG factors trends upward

The proportion of investors globally who use ESG principles as part of their investment strategy reached 75% this year, up from 70% in 2019 and 72% in 2018. But for the third year in a row, the gap between investors in Canada and Europe who reported adopting ESG principles and those in the US who did so widened.

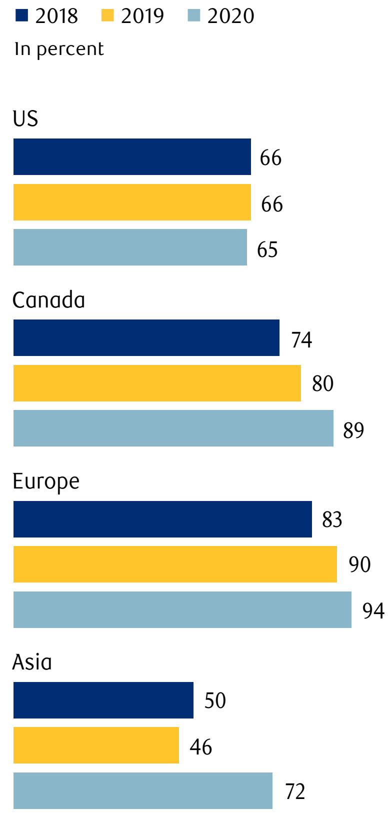


of respondents use ESG principles as part of their investment strategy.

As the data shows, European investors were the standout, with a full 94% saying they use ESG factors in their investment approach and decision-making. That's up from a strong 90% last year. The proportion of investors in Canada reached 89% this year, up nine percentage points from 2019. Investors in Asia had the greatest increase in adoption year-over-year, reaching 72% from 46% in 2019, an increase of 26 percentage points. Meanwhile, the percentage of US investors who adopt ESG factors remained stuck at 65%.

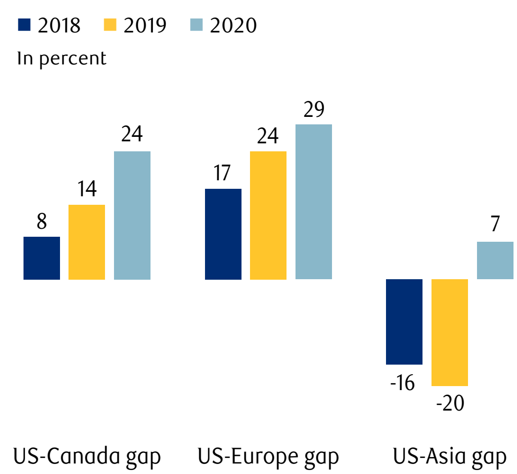
Among organizations that use ESG principles, US institutional investors trail Canadian investors by nearly 25 percentage points and European investors by nearly 30 percentage points; these are both statistically significant gaps. Use of ESG principles in Asia is closer to that in the US, at 72%, but again, the embrace of ESG by investors in Asia has increased significantly.

Exhibit 1: Institutional investors who use ESG factors

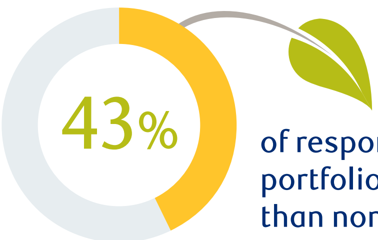


ESG factors used significantly or somewhat as part of investment approach and decision-making.

Exhibit 2: US investors lag global peers in ESG adoption



Difference in percent of investors who use ESG factors significantly or somewhat in their investment approach and decision-making.



of respondents think ESG-integrated portfolios are likely to perform better than non-ESG-integrated portfolios.

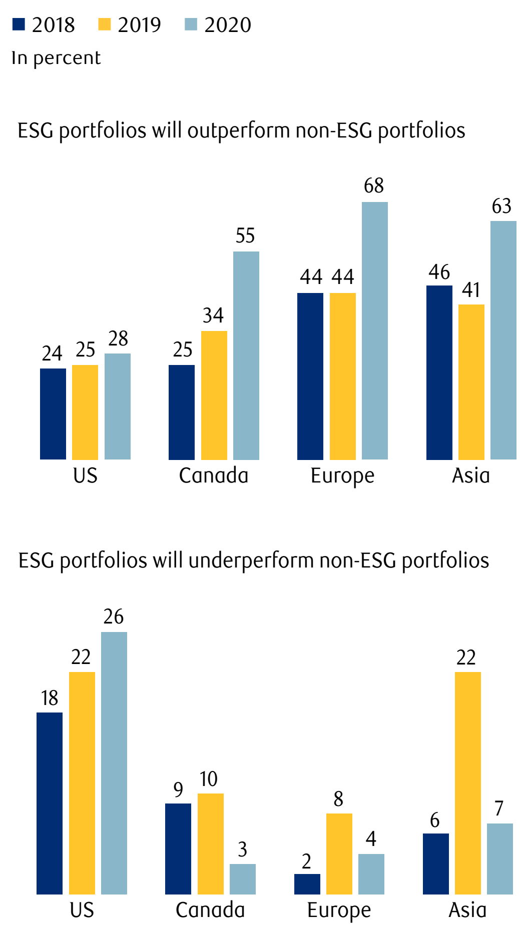
Another component of ESG investing in which US investors appear to be far behind their global peers is around performance expectations for ESG-integrated portfolios.

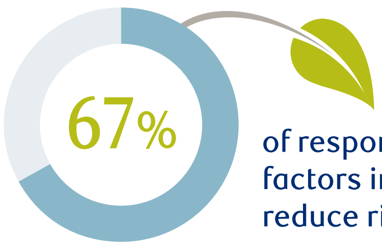
This year, 43% of respondents said they think ESG-integrated portfolios are likely to perform better than non-ESG-integrated portfolios, up from 29% in 2019, a dramatic 14 percentage point jump. But that number belies a global bifurcation. Just over one quarter (28%) of US institutional investors believe ESG-integrated portfolios are likely to enjoy superior performance, less than half the percentage who share this belief in Europe and Asia and well below the percentage who believe this in Canada. This belief rose three percentage points in the US from 2019, which is not statistically significant, while it rose significantly in Canada (+21 percentage points), Europe (+24 percentage points) and Asia (+22 percentage points).

What's more, the data is showing a trend of increasing skepticism among US investors: fully one quarter of US investors now think ESG-integrated portfolios will perform worse than non-ESG-integrated ones. By contrast, just 3% of investors in Canada, 4% of investors in Europe, and 7% of investors in Asia share that view.

Furthermore, just over two-thirds (68%) of investors in Europe said they think ESG-integrated portfolios will outperform non-ESG-integrated portfolios. That's up from 44% in both 2019 and 2018. In Canada, the proportion of investors who believe in ESG's ability to outperform climbed to 55% this year from 34% last year and in Asia, it rose to 63% from 41%.

Exhibit 3: How do you believe ESG-integrated portfolios are likely to perform relative to non-ESG-integrated investments?



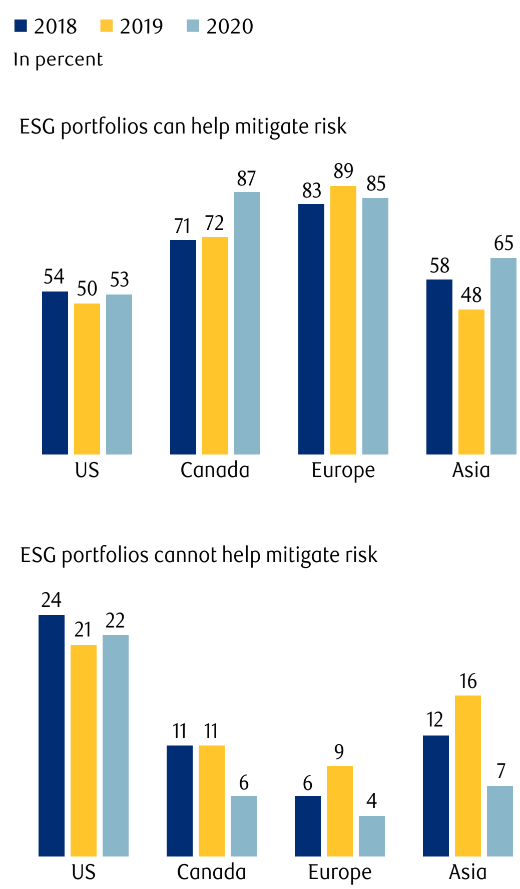


of respondents agree that applying ESG factors into their investments can help to reduce risk.

A deeper dive into how institutional investors think about ESG investing finds that more of them think ESG factors can be effective in mitigating risk. Sixty-seven percent of respondents agree that applying ESG factors into their investments can help to reduce risk compared with 58% in 2019.

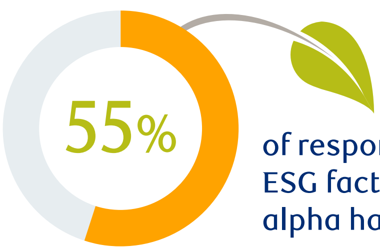
Here again, fewer US investors believe in the risk mitigation qualities of ESG than investors in Canada, Europe and Asia. Just over half (53%) of respondents in the US said integrating ESG factors can help mitigate risk compared with 87% of Canadians, 85% of Europeans and 65% of Asian investors. In this category, US investors' view was essentially flat over last year (a three-percentage point increase, which does not meet the statistical significance threshold), while the Canadian increase (up 15 percentage points) was statistically significant.

Exhibit 4: Do you believe that integrating ESG factors can help mitigate risk?



Why ESG?

The factors that are driving institutional investors to embrace ESG factors in their investment portfolios and decision-making remained constant. For the third-straight year, fiduciary duty and the belief that an ESG portfolio will help lower risk and increase returns were the top two reasons for incorporating ESG into institutional portfolios.



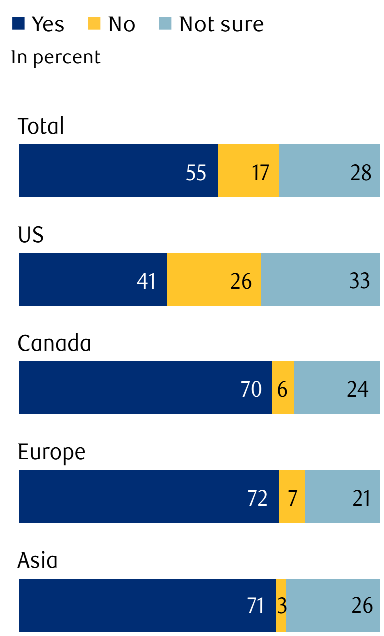
of respondents agreed that the idea of using ESG factors to generate long-term sustainable alpha has gained traction among investors.

The percentage of investors who cited fiduciary duty this year ranged from 69 in Europe to 63 in both Canada and Asia to 51 in the US. In 2019, 65% of investors in Europe cited fiduciary duty as a driving force compared with 57% in Canada, 50% in Asia and 45% in the US.

Similarly, Canadian and European survey respondents whose organizations use ESG principles were significantly more likely to believe that they help lower risk and increase returns (63% in Canada, 68% in Europe vs. 49% in the US) and to say that their boards and/or stakeholders require them (40% in Canada, 43% in Europe vs. 23% in the US). These differences were also observable last year.

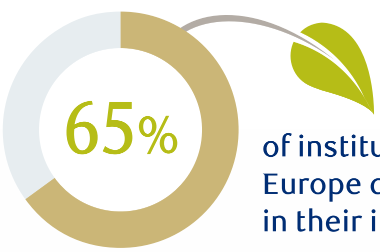
The idea of using ESG factors to generate long-term sustainable alpha has gained traction among investors. Over half of those surveyed (55%) agreed that the objective is achievable, up from just 36% a year ago. Although the US, at 41%, significantly trailed Canada, at 70%, Europe, at 72%, and Asia, at 71%, the US figure represents an increase of eight percentage points from 2019, suggesting that US institutional investors are becoming more aligned with their global counterparts on this issue.

Exhibit 5: Can ESG-integrated portfolios help generate long-term sustainable alpha?



Top ESG concerns

Among the 18 ESG concerns survey respondents were asked about, anti-corruption (a governance issue) ranked highest in 2020, followed by climate change and shareholder rights/voting. Anti-corruption moved up to the top spot from second highest in 2019. Cybersecurity (a social issue), the top-ranked concern last year, dropped to fourth this year. Climate change (an environmental issue), ranked fourth last year, but moved into the second spot this year, except in the United States, where it ranked sixth. The biggest mover up the list of concerns was shareholder rights/voting (governance), which climbed to a tie for second place from eighth last year. In spite of the global pandemic, the position of health and safety (social) remained almost the same, in fifth place for both 2020 and 2019.



of institutional investors in Europe address climate change in their investment policies.

When asked about climate change specifically, the two most popular climate-related strategies globally were investments in renewables, with 55% of respondents expressing interest, and carbon-neutral or low carbon, with 54%. Transition investments (in high-carbon companies committed to moving to low carbon) ranked third in interest, with 48%. Among regions, Canadian investors expressed stronger interest in renewables (65% of respondent) than the other options, while European investors expressed stronger interest in low carbon/carbon neutral investments (75% of respondents). Canadians, Europeans and Asians expressed significantly greater interest in the low carbon/carbon neutral and transition options than American respondents.

Despite the appetite for climate-related investments, 60% of those surveyed said their investment policy did not address climate change. Another 12% said they were not sure. Once again, regional differences were notable, with 74% of US investors responding their investment policies did not address climate change, compared with 58% of Canadian investors, 35% of Asian investors and 23% of European investors. On the flip side, 65% of investors in Europe incorporate climate change into their investment policy, 31% of investors in Asia, 30% of investors in Canada and just 17% of investors in the US.

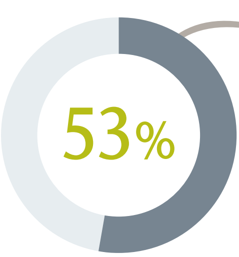
Pandemic increases focus on key risks

The 2020 RBC Global Asset Management Responsible Investment Survey was fielded within a few months of COVID-19 spreading rapidly around the globe, and institutional investors were asked how the pandemic had thus far impacted their thinking about ESG factors.

When asked to pick the three ESG factors that they focused on more closely because of COVID-19, respondents who said the pandemic had led them to pay closer attention to ESG factors listed supply chain risk (43%) and climate risk (37%) as their top two choices globally. Workplace culture came in third, with 31% of respondents citing that factor. Canadians ranked climate risk before supply chain risk, and Americans were just as likely to focus on human capital improvement as climate risk (36%). Within Europe, climate risk and supply chain risk were tied as the top concerns.

A slight majority (53%) of respondents reported that COVID-19 had made them think that companies should disclose more details about worker safety and other "social factors." A subset of them, about one third of all respondents (33%), said they believe that companies should continue with an enhanced level of disclosure beyond the current crisis. Another 19% reported that COVID-19 had not changed their thinking about disclosure of these factors because they had thought that companies should provide more disclosure before the pandemic. This position was held by a significantly greater percentage of Europeans (30%) than Americans (16%).

Considering the impact of COVID-19 on their overall view of ESG, 28% of respondents globally said the importance they place on ESG factors had increased as a result of the pandemic



of respondents agreed that COVID-19 has made them think that companies should disclose more details about worker safety, employee health benefits, workplace culture and other social factors.

Support steady for board-level diversity

Support for diversity and inclusion targets at the corporate board level was solid as more respondents favored board minority diversity targets (44%) than opposed them (28%). Similarly, more respondents favored board gender diversity targets (49%) than opposed them (26%). The remainder said they weren't sure.

Regionally, there are some differences in the level of support for diversity targets. As pertains to gender targets, investors in the US and Europe were aligned, with 44% and 48% of support respectively. Canada had the highest level of support at 60% whereas Asia was at 35%. Board minority diversity targets were supported by 47% of investors in Canada, 45% in the US, 37% in Europe and 19% in Asia. It is worth noting that a fairly significant percentage of investors were not sure how they felt about adopting either gender or minority diversity targets at the board level. These percentages ranged from 23% in the US to 46% in Asia on gender diversity and from 24% (US) to 54% (Asia) on minority diversity.

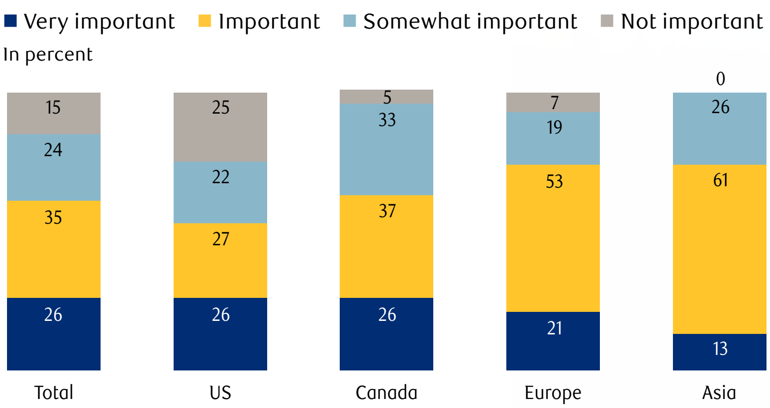
As to how to bring more diversity to corporate boards, respondents were split evenly between shareholder proposals and market forces, with about one-third (34%) favoring each of these options. Again, US preferences mirrored those in Canada and Europe. Where the US did differ from the rest of the world was in opposition to government regulations, favored as an option by just 7% of Americans, compared with 20% of Canadians, 31% of Asians and 15% of Europeans.

The US also stands out in its relative lack of interest in disclosure of diversity and inclusion policies and metrics. Between 49% and 61% of total respondents overall believe reports on diversity and inclusion policies, metrics, and racial and gender pay gaps was either important or very important. On most of these questions, US investors did not lag significantly behind other regions in the percentages calling them "very important" or "important," but for every one of them, at least one quarter of US respondents called them "not important," a level that significantly exceeds the percentage of Canadian, European and Asian investors who considered these disclosures "not important."

On the subject of disclosure, more respondents reported being satisfied than dissatisfied with the amount of ESG-related disclosure provided by issuers (43% satisfied vs. 23% dissatisfied) and the quality of such disclosures (41% vs. 26%). Satisfaction on both fronts was significantly higher in Canada than in Europe, the US or Asia. Survey respondents tended to look to shareholders (46% globally) more than government regulators (26%) or industry organizations (19%) to take the lead in influencing companies to provide better ESG-related information.

In the US, more institutional investors look to shareholders (52%) to influence companies on disclosure than in Europe (47%), Canada (39%) and Asia (25%). Asian and Canadian investors were more likely than those in the US and Europe to look to government regulators to push for more disclosure from companies.

Exhibit 6: How important is disclosure of diversity and inclusion policies for companies in which you are planning to invest?



Equities still the favored asset class for ESG

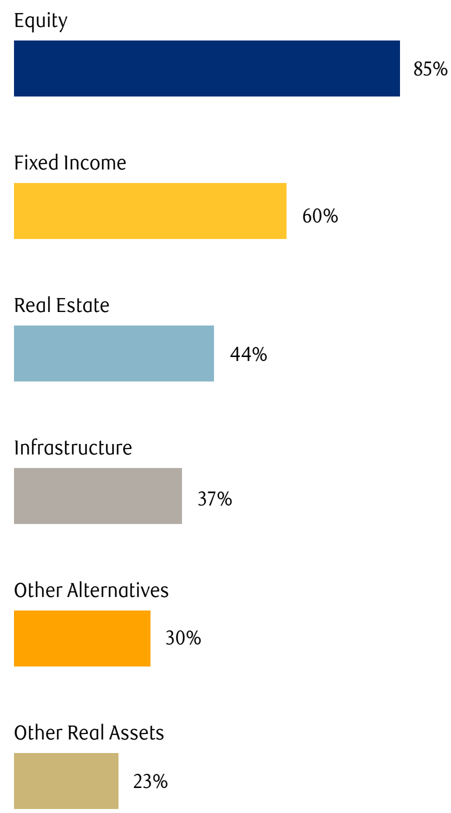
As was the case last year, the vast majority (85%) of those whose organizations use ESG principles incorporate them into management of equities. Most (60%) also incorporate these principles into management of fixed income. Less than half incorporate ESG principles into their management of real estate (44%), infrastructure (37%) or alternatives (30%). In 2019, those three asset classes also ranked after equities and fixed income, with just alternatives and infrastructure swapping positions. Regionally, Canadian and European investors are significantly more likely to incorporate ESG principles into their management of equities, fixed income, real estate and infrastructure, than US and Asian investors.

While respondents overwhelmingly agreed that ESG is important to incorporate into both equity and fixed income strategies, one third said they thought it is more material for equities, while almost none (2%) said they thought it is more material for fixed income.

Few (13%) thought there are sufficient fixed income product offerings that incorporate ESG factors (although nearly half, 47%, said they weren't sure). A majority of respondents said they believe either that ESG issues are equally material for sovereign and corporate fixed income issuers (33%) or that they are more material for corporate mandates (30%); very few (5%) said they believe that ESG issues are more material for SSA/Sovereign mandate fixed income issuers.

Exhibit 7: For which asset classes do you incorporate ESG factors into the portfolio management process?

Percent of investors globally

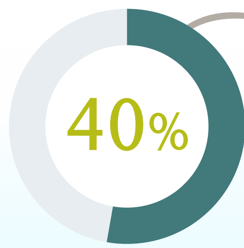


Investors have impact investing in their sights

Survey results show that investors plan to focus more on impact investing over the next several years. While just under one-third of the institutional investors surveyed (31%) said that their organization's portfolios include impact products, 40% said they plan to allocate money to impact products in the next 1-5 years, an increase from the 28% who said so a year ago.

This year's increase in the percentage of institutional investors who said they use impact products (from 27% in 2019 and 26% in 2018) could indicate that they are following through on such plans. In 2018 and 2019, the number of those saying they planned to increase the use of impact products was at nearly 30%.

In this category, US investors were also more aligned with other investors around the globe. Still, investors in Europe led all regions on expecting to allocate funds to impact investing products, with a 63% response rate. Investors in Asia came in second at 48% followed by the US at 36% and Canada at 33%.



of respondents said they plan to allocate money to impact products in the next 1-5 years.

The role of the investment consultant

The number of institutional investment consultants who employ money managers that incorporate ESG factors into their portfolio management process ticked up slightly this year, reaching 80% globally vs. 77% in each of the last two years. This year, however, 65% said they do so for some mandates, up from 50% last year. Meanwhile, the percentage who said they employ money managers that incorporate ESG factors into their investment process for all mandates dropped to 14% from 27% in 2019.

Half or more of consultants who do employ such money managers require them to report regularly on ESG practices and integration (71%), proxy voting (58%) and engagement activities (50%). Less than half (45%) require them to report on diversity and inclusion, but that is up from 21% in 2019. Overall, the study showed that consultants are increasingly asking for ESG reports from their managers compared to last year. These results are consistent across the globe.

"…number of institutional investment consultants who employ money managers that incorporate ESG factors into their portfolio management process ticked up slightly this year…"

Conclusion

The 2020 RBC Global Asset Management Responsible Investment Survey finds that global support for ESG factors has grown materially. The percentage of Canadian and European investors who use ESG principles to make investment decisions, whether significantly or just somewhat, increased in both 2019 and again in 2020. The use of ESG principles in the US, however, has remained flat over each of the last two years. Furthermore, Asia has now surpassed the US in overall ESG adoption.

> "...global support for ESG factors has grown materially. The percentage of Canadian and European investors who use ESG principles to make investment decisions increased again in 2020."

The broad trend globally continues to be for increased adoption of ESG. Given that 2020 has been, on balance, a year of continued growth for responsible investment adoption, it makes sense to ask whether the COVID-19 crisis has contributed to that growth. However, the survey results suggest that any pandemic-related impact on growth has been minimal. Instead, it was the main ESG-related concerns that drove growth. Specifically, those aggregated under the "E" factor in ESG appear to be the strongest motivators for considering ESG principles in investment decisions. This, given the many avenues for action that fall under the environmental heading, suggests that the gains made this year may be sustainable.

Respondents' profile

The 2020 RBC Global Asset Management Responsible Investment Survey, conducted from June 16, 2020, through July 30, 2020, reflects the views of institutional investors and consultants from the US, Canada, Europe, and Asia (mainly Japan). The US accounted for over half (55%) of responses followed by Canada (23%), Europe (13%) and Asia (5%).

In total, the survey reflects responses from 809 survey participants. The findings of this survey may be accepted as accurate, at a 95% confidence level, within a sampling tolerance of approximately +/- 3.4%.

RBC Global Asset Management

Contact us:
In Canada: institutions@phn.com
In the US: gamusmarketing@rbc.com
Internationally: gamukmarketing@rbc.com

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