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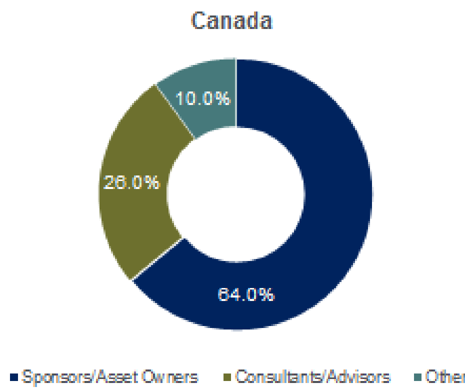
Responsible Investing: Canadian Institutional Views in a Global Context

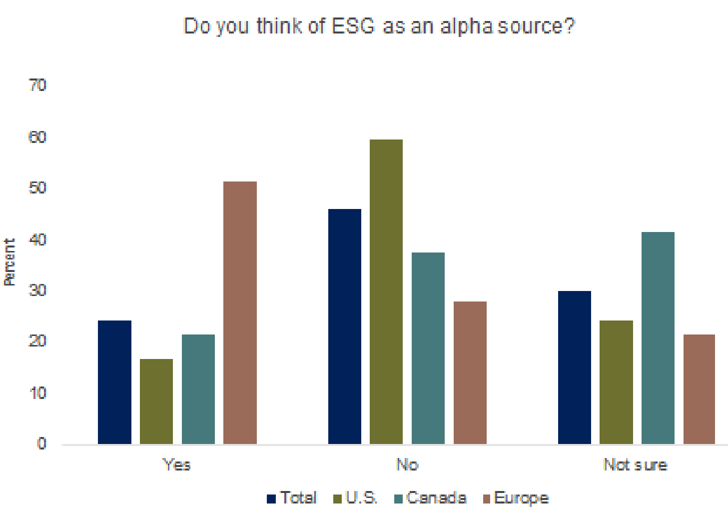
Recently, RBC Global Asset Management (RBC GAM) surveyed institutional investors in Canada, the United States, and Europe about trends, attitudes, and opinions regarding responsible investing. Phillips, Hager & North Investment Management (PH&N), the Canadian institutional asset manager within RBC GAM, was instrumental in engaging Canadian audiences, and we are pleased to present the Canadian perspective in the global context.

The survey results revealed notable trends that differentiate Canadian institutional investors from their U.S. and European counterparts. Among the 434 survey respondents, the 100 Canadians are distributed as shown at right.



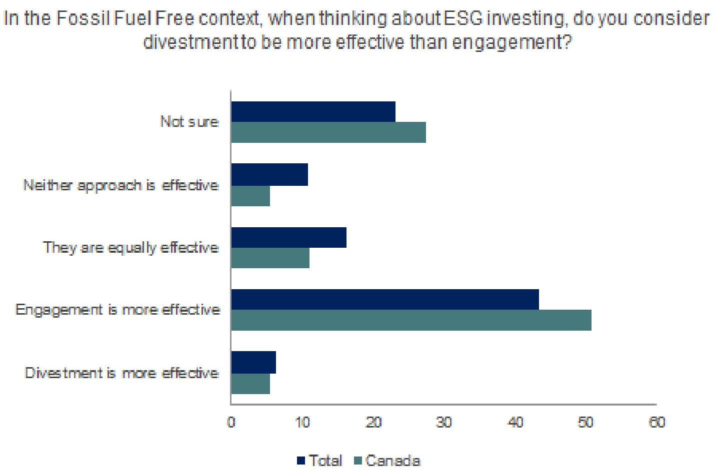
Canadian institutional investors hold largely favourable views on factoring environmental, social, and governance (ESG) considerations into investment decision-making, aligning more closely with European than American opinion overall: 73% currently use ESG-based investment approaches “significantly” or “somewhat,” while the comparable result was 84% among Europeans and 49% among Americans. The high level of adoption is supported by the views of two-thirds of Canadian respondents who consider ESG to be a risk mitigator within their investment portfolio (versus 28% in the U.S. and 77% in Europe).

That said, Canadian institutions do not appear poised to dramatically accelerate their adoption of ESG-based strategies in the coming year. Even though 14% expect to increase their allocation to asset managers who incorporate ESG into the investment process, over one-third (37%) are unsure of their near-term plans. In comparison, 49% of Europeans and 25% of Americans expect to increase ESG-related allocations.



While 91% of Canadian respondents believe that ESG investments are likely to perform as well as or better than non-ESG investments, only 21% consider ESG to be a source of alpha. The chart at left shows that a significant 41% of Canadians are uncertain on this front, making them less settled than European respondents (among whom one-half supported ESG as a source of alpha, and only one-fifth were uncertain) or American respondents (among whom 59% did not see ESG as a source of alpha, and about a quarter were uncertain).

The main reason cited globally for *not* incorporating ESG analysis into portfolio decision-making is a lack of requirement by trustees/key stakeholders, followed by an unclear value proposition, then a strict preference for financial analysis; the inverse of these reasons was cited by those who *have* adopted ESG criteria. In Canada, however, respondents cited an absence of specific investment guidelines as the primary reason for not incorporating ESG criteria, while Canadians who *do* employ an ESG-based approach were more likely than their global counterparts to cite a mandate from trustees/key stakeholders as the primary driver (49% versus 31% in the U.S. and 39% in Europe). When asked specifically about fixed income strategies, almost half of Canadian respondents (49%) confirmed that it is important to incorporate ESG, while the other half split evenly between “No” and “Don’t Know.”



Given the large role of fossil fuel industries within the Canadian economy and capital markets, opinion about the Fossil Fuel Free movement is noteworthy. Globally, respondents all agree that the Fossil Fuel Free movement is likely more than a short-term fad. In Canada, however, institutional investors are more likely than their global peers to view engagement with investee companies as more effective than categorical divestment – i.e., 51% of Canadian respondents favour engagement, versus 42% in the U.S. and 38% in Europe.

A majority of Canadian institutional investors (80%) support gender diversity on corporate boards, but are divided as to how best to achieve this goal: 43% prefer requests to companies via shareholder proposals, 40% favour market forces, and 12% look to governments to regulate. In this regard, the Canadian perspective was closer to the view in the U.S., where market forces prevailed (48%) over shareholder proposals (42%). In Europe, preferences were more evenly split three ways.

The survey results suggest that responsible investing is an important topic of discussion between Canadian consultants and their institutional clients, although ESG is not yet among the primary criteria for consultants advising on manager selection. In the survey questions directed specifically to consultants, it is clear that conversations about ESG are happening, initiated both by clients and by consultants, and that Canadian consultants are significantly more likely than their global counterparts to instigate these discussions with their asset owner clients (28% in Canada versus 8% in the U.S. and 9% in Europe). Interestingly, although 44% of Canadian consultants and advisors anticipate using ESG factors routinely in 1–3 years as a material criteria in manager selection and all claim to consider ESG factors currently, over half (56%) cite ESG issues as being of tertiary importance today.

Overall, the survey reveals rising interest in responsible investing, while also exposing ongoing uncertainty about the nature of ESG integration and its value proposition for institutional portfolios. By far the most common question about ESG asked by institutional clients of their investment consultants globally is whether an ESG-based approach will negatively impact investment performance. Clearly, as ESG-infused investing becomes more mainstream, proponents must do a better job of articulating the links between ESG factors, corporate performance, and expected portfolio outcomes.

For survey results or questions, please visit rbcgam.com/cgri or institutional.phn.com, or email institutions@phn.com.

RBC GAM /PH&N in partnership with Pensions & Investments (P&I) developed a survey of 27 questions which was distributed during July and August, 2017, to more than 9,500 institutional investors in Canada, the U.S. and Europe (including asset owners, plan sponsors, consultants, wealth managers, P&I Advisory Panel members, and members of the P&I database). Signet Research, Inc. collected and analyzed the results of 434 respondents and determined that the findings from the survey could be accepted as accurate at a 95% confidence level within a sampling tolerance of approximately +/-4.7%.

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