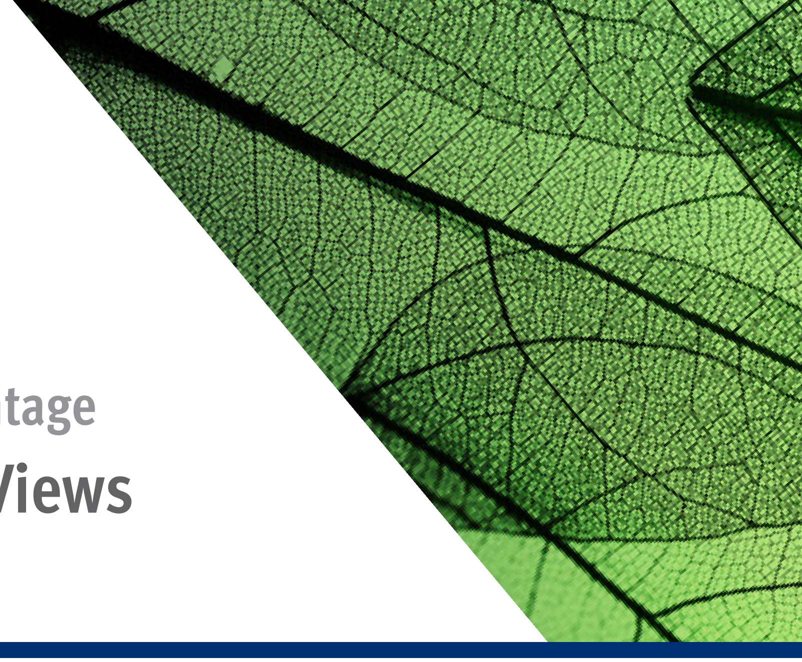
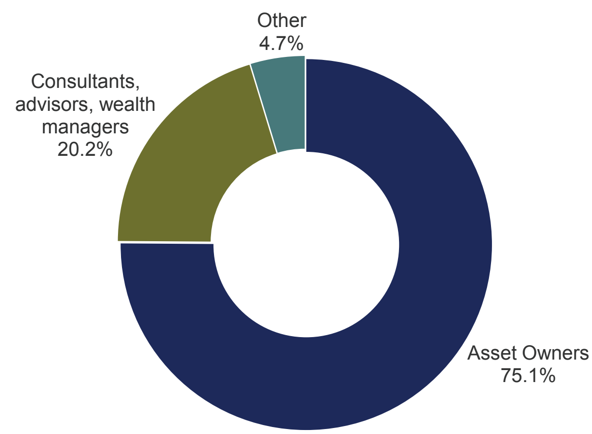


2018 Responsible Investing Survey

Charting a Sustainable Advantage

Canadian Institutional Views in a Global Context

Recently, RBC Global Asset Management (RBC GAM) surveyed institutional investors in Canada, the United States, Europe and Asia about trends, attitudes, and opinions regarding responsible investing. As the Canadian institutional asset manager within RBC GAM, Phillips, Hager & North Investment Management (PH&N) was instrumental in engaging Canadian audiences. We are pleased to present a closer look at the Canadian results.

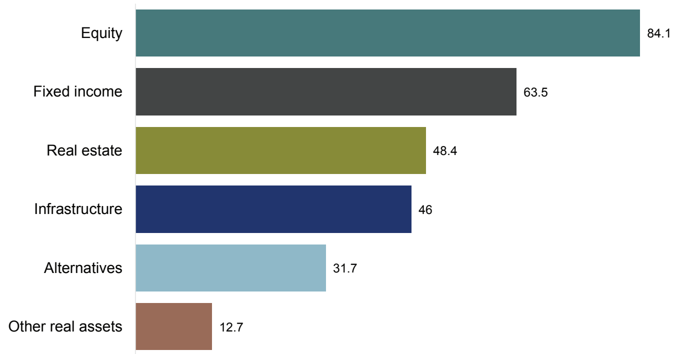


Responsible Investing - Charting a Sustainable Advantage is RBC GAM's third annual survey of institutional investors' perceptions and intentions with respect to responsible investing. The results reveal that institutional investors overwhelmingly believe that environmental, social and governance (ESG) integrated portfolios are likely to perform as well or better than non-ESG integrated portfolios and that the adoption of responsible investing – including ESG integration, impact investing and engagement – is growing steadily. It is clear that institutional investors' focus is shifting from "whether to implement" to "how to implement" a responsible investment approach. Moreover, there is a growing interest in applying ESG principles to diverse asset classes, including fixed income and real estate. Importantly, many institutional asset owners consider they have a duty to contemplate a responsible investment approach. This may have significant implications for how large institutional asset pools are allocated, as well as the advice and service provided by consultants and asset managers.

For this year's report, RBC GAM, including Phillips, Hager & North Investment Management, surveyed 542 institutional asset owners and investment consultants in the United States, Canada, Europe and Asia. The distribution of the 193 Canadian respondents is shown at right.

Interest in responsible investment persists overall, and is proliferating beyond equities: Consistent with 2017 survey results, 74% of Canadian respondent use ESG factors "somewhat" or "significantly" in their investment decision-making. This falls squarely between European respondents (85%), and American and Asian (66% and 50%, respectively) respondents, a recurring theme in this year's report. This same group of Canadians reported using ESG factors across a

For which of the following asset classes do you incorporate ESG factors into the portfolio management process?



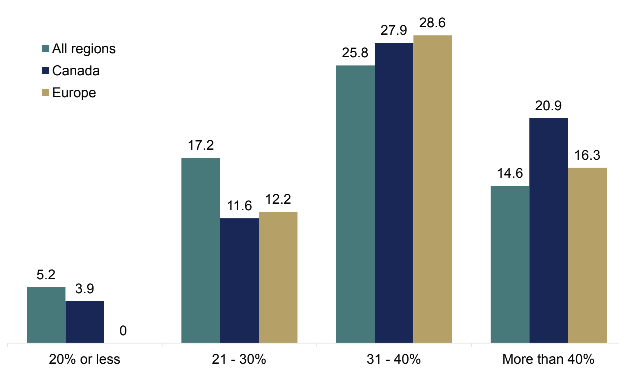
number of asset classes, as shown at left, not just in equity decisions. When asked if it is important to incorporate ESG factors into both equity and fixed income portfolios, 86% of Canadian institutional asset owners agreed, although one third of these thought it nonetheless more relevant for equities. In fixed income investing specifically, the application of ESG factors was notably lower among Canadian institutional investors (63%) than European (72%), but higher than among the Americans (52%). At 63%, this represents a significant rise from our 2017 survey, when only 50% of Canadian institutional investors thought it important to apply ESG in fixed income investing.

Performance potential has become a stronger selling point: Among Canadian institutional investors, the same number as last year (91%) believe that ESG integrated portfolios are likely to perform as well as or better than non-ESG integrated portfolios, but a growing contingent of Canadian respondents believe that integrating ESG factors can help generate "alpha", or return in excess of the benchmark (30%, as compared to 21% last year).

The top reasons cited by Canadian institutional investors for incorporating ESG factors were 1) fiduciary duty (58%) and 2) to lower risk and increase returns (53%). This marks a change over last year when "mandate from trustees/key stakeholders" was the primary driver cited by 49% of Canadian respondents.

Canadian institutional investors support gender diversity on corporate boards (77%), and shareholder proposals were cited as the top means by which to encourage it (41%). These results are consistent with last year, and also with global responses this year (75%). In addition this year, we asked respondents about non-binding diversity targets and discovered that almost two thirds favour targets. Moreover, three quarters of Canadians and Europeans who favour targets would like them to be higher than 30%. Only half of American respondents favouring targets would like to see them that high.

What would be a reasonable non-binding target for the board of an issuer to adopt regarding gender diversity?



Engagement continues to be preferred to divestment: Across all regions, institutional investors responding to the survey indicated that engagement is more effective (45%) than divestment (8%). These results are consistent in Canada, although slightly lower than last year when half of Canadian respondents expressed a preference for engagement.

Short-termism is at odds with the long-term nature of ESG horizons: "Short termism" refers to the notion that corporations are overly focused on short-term financial results. 90% of institutional asset "owners" in Canada believe this, according to our survey, and the majority attribute the phenomenon to short-term earning pressures coming from investors, executives, and/or the board, and also to poorly designed executive compensation plans. In other regions, respondents were most likely simply to blame investor pressure.

Exclusion screens are still used in a targeted manner: While negative screens are generally not the favoured approach (83% of Canadian and U.S. survey respondents said that they do not require asset managers to apply any, versus 61% in Europe), they continue to be used in a targeted way to exclude issuers involved with munitions, weapons and tobacco primarily. Perhaps not surprisingly given the significance of fossil fuels in our economy, these screens are unpopular in Canada where only 23% of respondents who use screens apply a fossil fuel screen; but are more popular in Europe (45%) and the U.S. (62%).

Conclusion

The 2018 RBC GAM survey results affirm that responsible investment – and the integration of ESG principles in particular – continues to gain traction in Canada and globally, and remains an important topic for institutional investors and their investment managers, consultants and advisors. The survey also reveals that the remaining barriers to adoption are more likely adequate resources and access to quality information, than philosophical opposition to the idea. Institutional investors and their advisors appear increasingly to value ESG integration and expect it to factor into the investment decision making applied within the portfolios for which they are responsible. As industry acceptance accelerates toward the mainstream, we can expect greater demand for ESG-related investment research and its application in the portfolio management process.

Methodology

RBC Global Asset Management (RBC GAM) and BlueBay Asset Management LLP in partnership with Pensions & Investments developed a survey of 23 questions around the topic of responsible investing. The survey was distributed during the months of June and July of 2018 to institutional asset owners, consultants, clients, P&I Advisory Panel members, and members of the Pensions & Investments database throughout Canada, Europe, Asia and the United States. Signet Research, Inc. collected and analyzed the results of 542 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 +/-4.2%.

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