

RBC GAM Corporate Governance & Responsible Investment Group

The existence of the RBC Global Asset Management (RBC GAM) Corporate Governance & Responsible Investment Group represents an exciting commitment from RBC GAM to integrate environmental, social and corporate governance (ESG) considerations more formally into our investment processes and into how we manage our clients' money. The group oversees and contributes to all activities related to corporate governance and responsible investing. ESG considerations have been important to many institutional clients for some time and demand has continued to grow for us to integrate these into investment processes formally and to become more active and engaged business owners. RBC GAM already devotes considerable resources to the analysis and management of issues related to governance and responsible investing, although the scale of our commitment may not always be immediately obvious. The existence of the Corporate Governance and Responsible Investment Group is important for our response to existing client needs and will enable us to meet future requirements, while highlighting our commitment to ESG considerations and contributing to the public dialogue and research in regards to ESG issues.

Why integrate ESG considerations?

You might wonder why we feel a need to integrate ESG considerations *more formally* into the investment process. In recent years, it has become apparent that issues once considered peripheral risks are often material and can impact the performance of companies and overall portfolios. For example, some community relations and environmental practices may traditionally have received little or no consideration in assessing the investment risk of a company. It is now recognized that those types of risks can be very significant for many companies, particularly in the Energy and Materials sectors. In these sectors, for example, poor relations with a local indigenous community or a leak from a pipeline or tailings pond can lead to cancelled projects, increased costs and damaged reputations – all of which can impact investment performance. RBC GAM believes that companies that effectively manage ESG risks will more effectively manage all risks, so a company's approach to ESG factors may be indicative of the quality of its overall management and board. On a portfolio basis, we believe that incorporating ESG analysis into RBC GAM's investment process can contribute to a reduction in overall portfolio risk and superior long-term risk-adjusted returns for clients.

The three pillars of RBC GAM's ESG strategy

Our Corporate Governance & Responsible Investment Group's activities are concentrated in three broad areas – integration, engagement and reporting – which are described in more detail below.

1. Integration

RBC GAM's integration efforts focus on providing detailed ESG information to investment teams to assist them in integrating related factors into their investment decision-making process. The group considers the quality and depth of the ESG research that is required and is engaged in building the tools to make that research accessible and useful. These tools will help RBC GAM identify, monitor and manage ESG risks both on an individual company and portfolio-wide basis.

RBC GAM's proxy voting process already incorporates a robust ESG analysis. Although RBC GAM's proxy voting analysis has focused primarily on corporate governance issues, environmental and social factors are also considered, and RBC GAM regularly supports many shareholder proposals relating to ESG issues. Going forward, the group will look for opportunities to expand the ESG issues currently included in the proxy voting policy, analysis and execution, and also consider how the proxy voting may support our engagement activities.

2. Engagement

Engagement means talking directly with companies regarding their ESG practices in order to influence how they conduct certain business activities. RBC GAM has always engaged the companies in which we invest our clients' assets on a variety of issues. Traditionally, we have concentrated on corporate governance issues, including executive compensation (particularly equity compensation plans), board independence and shareholder rights issues.

The methods and focus of our engagement strategy will evolve, but we will continue to focus on companies in which we have a substantial investment and that have material ESG issues that represent a real investment risk. RBC GAM continues to engage companies directly and through organizations such as the Canadian Coalition for Good Governance, and will also look to work with other investors and organizations to maximize both the effectiveness and efficiency of our engagement efforts.

3. Reporting

Currently, we provide a limited amount of ESG reporting to clients, including proxy voting. The demand for this type of reporting has increased significantly over recent years and it is expected to continue to grow. RBC GAM intends to expand its reporting capacity to include more thorough coverage of our corporate governance and responsible investing initiatives.

We recognize that beyond the basic promise of fulfilling our responsibilities as fiduciaries, integrating ESG fundamentals into security selection creates value within the research process. Good businesses have good ethos, build strong franchises with their employees and clients, minimize surprises and generate wealth for their investors. Good ESG is good business.

For additional details, please contact your PH&N IM institutional portfolio manager,
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