The State of Responsible Investing at Canadian Foundations

Opportunities Abound

GROW INVESTMENTS FOR A SUSTAINABLE CANADA

CEGN
Canadian Environmental Grantmakers' Network

September 2018

by Sandra Odendahl

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The objective of this report is to illustrate how philanthropic funders are currently using their endowments to support a sustainable future for Canada, what they see as challenges and opportunities going forward, and how the Canadian Environmental Grantmakers' Network can support them.

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Acknowledgements

CEGN would like to acknowledge the financial support of the Ivey Foundation and the Lawson Foundation for the development of this report. We are very grateful to Sandra Odendahl for undertaking the research and writing of this report. We also thank a number of individuals for their review of the report, including Sara Lyons, Jory Cohen, Desmond Wilson, John Cook, Dustyn Lanz, Lauren Dobell, Karen Shelstad and Andrew Craig.

Foreword

The Canadian Environmental Grantmakers' Network (CEGN) is a membership group of 65 funders from across Canada and the United States. Our members represent a diverse group of philanthropic organizations from private, public, and community foundations, as well as corporate foundations and both federal and provincial funding programs. With our members, we work to strengthen the impact of philanthropy in support of an environmentally sound and sustainable future for Canadians. CEGN does this by catalyzing collaboration, building and sharing skills and knowledge, and growing investments for a sustainable Canada.

Our focus on growing investments is two-fold: i) increasing environmental philanthropy and: ii) encouraging a shift to the responsible investment of foundation endowments. This landscape assessment by Sandra Odendahl is intended to lay the foundation for future initiatives by CEGN in this area. While a number of CEGN members and other funders are pioneering the field of responsible investing, there is still a long way to go to align the mission and investments of foundations. CEGN welcomes the comments of funders and others as to how the network can best advance responsible investing by philanthropic organizations.

Pegi Dover
Executive Director
CEGN

Andrea Moffat.
Vice President. Ivey Foundation and
Chair of CEGN's Board Committee
on Growing Investments for a
Sustainable Canada

About the Author

Sandra Odendahl, P.Eng., CFA, is the President and CEO of CMC Research Institutes, an environmental technology and innovation company that facilitates scale-up of technologies that reduce carbon emissions from industrial sources. She has over 20 years of experience in environmental science, corporate sustainability and responsible finance. From 2008-2016, she headed the Royal Bank of Canada's Corporate Sustainability, Social Finance and Social Innovation teams. At RBC, she was instrumental in developing and leading the bank's strategy for incorporating environmental considerations into RBC's business operations, industry financing, risk management and community activities.

Sandra is Chair of the Board of The Atmospheric Fund and a board director of the Ontario Clean Water Agency. She also enjoys serving on many expert panels and advisory groups. She has an M.A.Sc in chemical engineering from the University of Toronto, and is a Chartered Financial Analyst (CFA).

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Executive Summary

Responsible investing, also known as sustainable investing, is a rapidly growing practice, representing almost 40% of all assets under management in Canada.[1] Responsible investing represents an opportunity for mission-driven organizations, such as charitable foundations, to drive positive social and environmental impact through their capital assets. However, data shows that only 12% of responsibly invested assets are held by foundations and endowments.

In July 2017, CEGN commissioned a high-level review of responsible investing activities among Canadian foundations. The study set out to learn how philanthropic funders are currently using their endowments to support a sustainable future for Canada, and what they see as challenges and opportunities going forward. The study included an online survey, personal interviews and desktop research.

What we found was a deep desire among Canadian grantmakers to better align their foundations' investment portfolio with their social mission. Among respondents to CEGN's survey, 83% reported that they were following some type of responsible investment strategy, primarily screening, environmental, social and governance (ESG) integration or impact investing.[1a] Typically, grantmakers reported first adopting a responsible investing approach because staff, management and/or the board pushed the foundation to use the investment portfolio to support the institutional mission. Several study participants observed that as a younger generation takes the helm at foundations, on their boards, and on investment committees, there is even greater interest in exploring responsible investing. Overall awareness of E, S and G issues is another driver, rising in recent years with discussions of environmental and social issues, including climate change, appearing more frequently in the business pages of newspapers, and as large pension funds adopt ESG screening strategies.

While an organization's staff and board were instrumental in adopting a responsible investing strategy with their endowment, the finance committee of the board was often cited as a major obstacle. Traditional finance professionals on foundation boards or investment committees were described as hesitant to embrace responsible investing because they erroneously assume it will lower returns. Investment managers were also accused of being poorly informed about, or resistant to, helping foundation endowments develop a responsible investing strategy. However, in many cases a failure to adopt any kind of responsible investing strategy was simply a matter of resource constraints and competing priorities, particularly at small foundations.

[1] RIA. February 2017. 2016 *Canadian Responsible Investment Trends Report*. https://www.riacanada.ca/trendsreport/

[1a] This high response rate may be partly because those foundations already active in the field of responsible investing were more prone to answer the questionnaire; and it may also be the result of the growing prevalence of ESG integration in a large number of mainstream investment products.

Our study found that the supply of responsible investment products for foundations and endowments is growing quickly, with most new products following an ESG integration strategy. However, foundations complain that there is a shortage of customized products that meet the specific environmental, social, governance and financial (risk and return) impact needs of these organizations. Forty percent of survey respondents admitted that while they held responsible investments, they were not sure that their responsible investing strategy was mission-aligned. Mission-aligned impact investments are in short supply. A study participant opined that the supply of impact investment options in Canada is so limited that Canadian impact investors all end up with the same handful of investments. However, with the overall growth in responsible investment products, there are signs of more customized, higher impact options that may help with mission-alignment.

Going forward, expect to see a growing number of foundations work to align their investment portfolios with their missions. But they will need help. CEGN is well-positioned to support its members in their transition to mission-aligned investing through a wide range of activities including:

- Launch a responsible investment event series that covers a selection of topics and is designed for foundation staff, board members and investment managers;
- Launch a webinar education series for members. Invite CEGN members with more responsible investing experience to share best practices in addition to other experts; and
- Develop a members-only repository of examples of responsible investment tools including, but not limited to, statements of investment beliefs, responsible investment policies and legal agreements.

This report ends with a curated list of resources that may be helpful to foundations interested in responsible investing. We hope that the findings of this study help CEGN members increase their impact and effectiveness and spur creative new approaches to driving environmental and social change.

Overview of Responsible Investing

History

Responsible investing (RI) is the umbrella term for an investment approach that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. Responsible investing is also commonly referred to as sustainable investing (SI) or socially responsible investing (SRI). It can also sometimes be called values-based investing or mission-based investing.

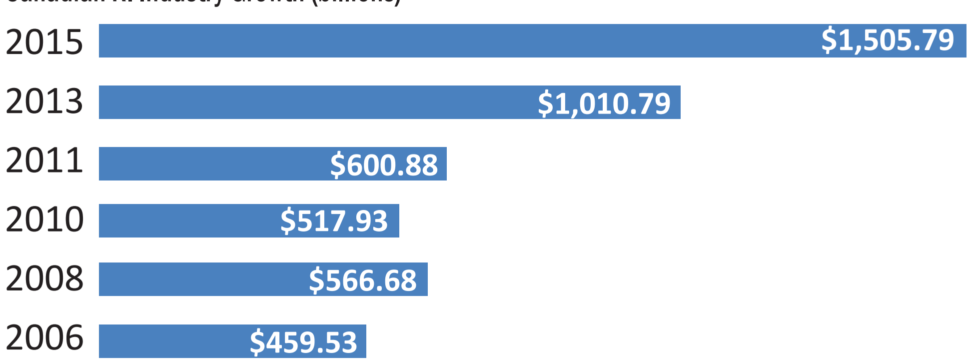
Responsible investing traces its roots back at least 200 years to the money-management practices of the Methodists. John Wesley, the founder of the Methodist movement, urged his followers to shun profiting at the expense of their neighbours. Consequently, they avoided partnering or investing with those who earned their money through alcohol, tobacco, weapons or gambling – essentially establishing a negative screening process for investing.

Size of the Market

Responsible investing is a growing segment in Canada, representing just over $1.5 trillion, or almost 38% of all assets under management (AUM) at the end of 2015.[2] This $1.5 trillion in responsible investments includes investment dollars where even just one environmental, social or governance screen was applied. So, while there are signs of positive momentum in RI, it is difficult to know just how much growth can be attributed to capital shifting to investment strategies to drive meaningful social, environmental or governance-related change.

[2] RIA, 2017. ibid

Canadian RI Industry Growth (billions)



A large proportion of the responsible investing marketplace is driven by pension funds, which hold about 80% of all sustainable/responsible investments, according to the Canadian Responsible Investment Association (RIA).

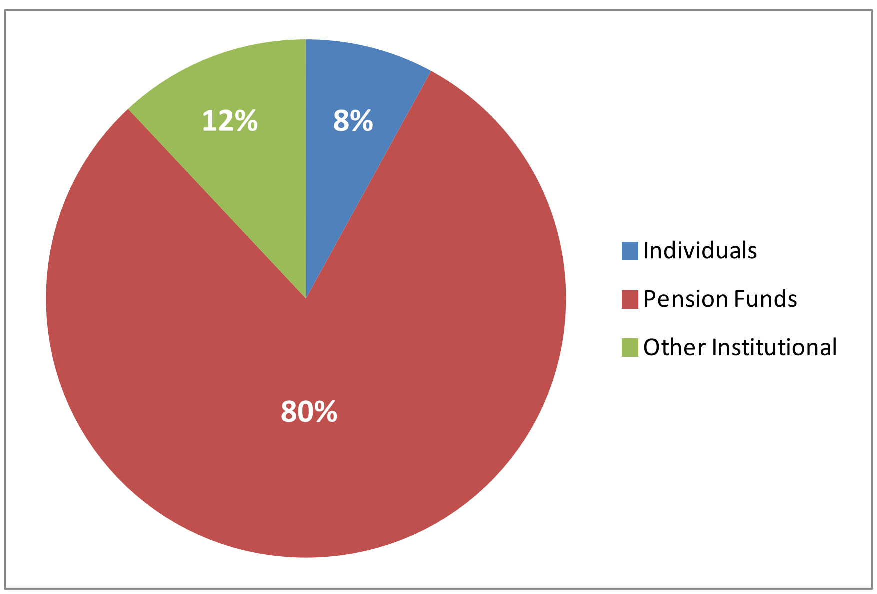
Features of Responsible Investments

Considering E, S and G Issues

Many investors have incorporated environmental, social and governance issues in their investment analysis for years. For example, it is a well-established practice to assess a company's reputational risk, exposure to regulatory developments or the impacts of large-scale demographic shifts on its business. As a result, some ESG analysis is built into traditional investment analysis frameworks and is done as a matter of course for investment products that may or may not bear a "responsible investment" or "sustainable investment" label. ESG practices are becoming so widespread that it would be unusual to find a large investment firm that has not implemented them in one form or another.

What has changed in recent years is a broad growing interest in how companies manage their ESG issues, from the general public, non-governmental organizations, policymakers and the media. Another recent change is that references to ESG analysis now typically refer to a systematic consideration of a wide range of ESG issues, rather than simply including one of them.

Assets in Responsible Investment in 2015



Thinking Long Term

ESG issues tend to be long-term considerations that do not fit well with short-term investing—that is, an excessive focus on quarterly earnings and a lack of attention to long-term value creation. ESG issues tend to affect financial performance over longer periods. For instance, the poor governance of a large company is more likely to affect the company over the long term than in the next quarter.[3]

Asset Allocation

According to the RIA's *2016 Canadian Responsible Investment Trends Report*, responsible investing can be done across all asset classes, with equities accounting for 40% of the total assets in responsible investing in 2016. Fixed income is the second biggest responsible investing asset class with 27% of total, while real estate is third with 11% of the total. The RIA reports that venture capital/private equity is showing the greatest growth in assets, now comprising 7% of the total, versus 4% in 2014. Details are indicated in the chart below.

[3] CFA Institute, 2016. *Environmental, Social, And Governance Issues in Investing: A Guide for Investment Professionals.* Accessed at: http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2015.n11.1

Allocation of Responsible Investments to Various Asset Classes

Asset Class	Responsible Investing Allocation (%)
Equity	40
Fixed Income	27
Real Estate/ Property	11
Venture Capital / Private Equity	7
Infrastructure	3
Hedge Funds / Alternatives	1
Money Market	1
Commodities	0
Other	10

(RIA, 2017)

Financial Performance

There is solid evidence that sustainable and responsible investors do not have to pay more (or accept less) to align their investments with their values, or to avoid companies with poor environmental, social or governance practices.

In 2015, Deutsche Asset & Wealth Management and Hamburg University conducted a meta-analysis[4] of over 2,000 empirical studies on ESG and corporate financial performance since the 1970s. They found that the majority of studies show a positive relationship between ESG and corporate financial performance (CFP). *"The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a nonnegative ESG–CFP relation. More importantly, the large majority of studies report positive findings. We highlight that the positive ESG impact on CFP appears stable over time."*

A 2012 report[5] by RBC Global Asset Management (RBC GAM) reviewed a large body of empirical literature related to the question: "*Does socially responsible investing produce lower investment returns?*" The researchers at RBC GAM looked at four distinct areas of research to address this question:

- the performance of SRI indices relative to traditional market indices;
- the performance of SRI mutual funds relative to traditional mutual funds and/or market indices;
- the relative financial performance of hypothetical SRI stock portfolios against conventional portfolios; and
- evidence of any linkages between corporate social responsibility and improved financial performance.

The chief finding of their research was that responsible/sustainable investing does not result in lower investment returns.

Responsible investors can compare the performance of a number of ESG equity indices against widely used indices such as the S&P/TSX Composite or the MSCI USA Index. Many years of data illustrate that ESG equities generate returns comparable to traditional equities, but performance varies by ESG index and the specific period under consideration.

[4] Gunnar Friede, Timo Busch & Alexander Bassen, 2015. ESG and financial performance: aggregated evidence from more than 2000 empirical studies, *Journal of Sustainable Finance & Investment*, 5:4, 210-233, DOI: 10.1080/20430795.2015.1118917. http://dx.doi.org/10.1080/20430795.2015.1118917

[5] RBC Global Asset Management, 2012. *Does Socially Responsible Investing Hurt Investment Returns?* http://funds.rbcgam.com/_assets-custom/pdf/RBC-GAM-does-SRI-hurt-investment-returns.pdf

Comparison of Annualized Gross Returns of Selected RI to non-RI Benchmarks [6] [7]

Index	1-year ending June 29, 2018	3-years ending June 29, 2018	5-years ending June 29, 2018
MSCI KLD 400 Social Index	15.25	12.08	12.97
MSCI USA IMI	14.93	11.65	13.34
Jantzi Social Index	14.59	9.18	10.94
S&P/TSX Composite	10.41	6.96	9.24

6 MSCI Indices, MSCI KLD 400 Social Index performance as of June 29, 2018, http://www.msci.com/resources/factsheets/index_fact_sheet/msci-kld-400-social-index.pdf (accessed July 2018).

7 Jantzi Social Index Total Returns to June 30, 2018. http://www.sustainalytics.com/jantzi-social-index/jantzi-social-index-june-2018-total-returns/ (accessed July 2018).

Responsible Investing Strategies

There are many different ways to incorporate environmental, social and governance considerations when deciding where to invest capital. Responsible investing can be divided into the following strategies:

- negative screening;
- positive screening;
- social themed;
- environmental themed;
- impact investing;
- ESG integration; and
- engagement and shareholder action.

Negative Screening

Negative screening strategies involve deliberately eliminating investment in companies based on their products or their operational behaviour. It can mean excluding sectors, companies, projects or countries from a portfolio based on their products or services being at odds with ethical, moral or religious beliefs. For example, a fund or endowment manager may decide to exclude specific sectors such as military weapons, tobacco or fossil fuels, or not to invest in a country involved in human rights abuses. Fossil fuel divestment – the removal from a portfolio of securities of companies involved in extracting fossil fuels – is a form of negative screening.

The other type of negative screening involves screening out companies which perform poorly on selected environmental, social or governance factors, compared to their industry peers. This type of negative screening focuses on operational behaviour. For example, a fund manager may exclude from a responsible investment fund any companies in the bottom quartile for environmental performance. The fund manager may use proprietary research or more likely purchased research to get those environmental scores.

Positive Screening

Positive screening, which is also known as "ESG screening" and "best-in-class" strategy, has become more popular than negative screening in recent years. Positive screening usually involves analysis of the environmental, social and governance behaviours of a business. As with negative screening, portfolio managers may create their own internal ESG measurement system or purchase ESG data/scores from third-party providers.[8] An example of the use of positive screening is the Dow Jones Sustainability World Index (DJSI). It is based on the largest 2,500 companies in the Dow Jones Global Total Stock Market Index (DJGTSMI). The DJSI World Index covers the top 10% of these companies in terms of economic, environmental and social criteria, which equals about 300 companies.

Social and Environmental Themed Strategies

Thematic investing is the approach of choosing investments based on companies and sectors that the fund manager believes will benefit from long-term, structural trends. In responsible investing, thematic strategies focus portfolios on certain themes related to the environment, social issues or governance opportunities. Examples of thematic portfolios might include water technology, clean energy, gender balance and advances in medicine. In each case, investments are made in companies that are seen to be benefiting from long-term trends in each of these social or environmental areas. Therefore, thematic investing both supports companies that lead in the thematic area and also seeks to outperform in the long term.

Sample Investment Strategies for Foundations with an Environmental Mission

- Avoid investing in companies that are carbon-intensive
- Use investment managers who assess companies on environmental performance and risk
- Invest in public or private equity funds that finance companies providing clean technology and environmental services
- Join investor coalitions calling for companies to mitigate the risks of global climate change and toxics
- Support shareowner resolutions brought by environmentally concerned investors
- Invest in community investing institutions that finance environmental projects
- Support shareowner initiatives that call for more sustainably harvested, fairly traded products

(Adapted from: US SIF, 2014. p15. Unleashing the Potential of US Foundation Endowments)

Impact Investing

The Global Impact Investing Network (GIIN) defines impact investing as investments that are made into companies, organizations and funds with the intention of generating measurable social and environmental impact alongside a financial return. Impact investments can be made through a wide range of asset classes, including public debt and equity, private debt and equity and real estate. Impact investing is often viewed as a form of thematic investment. However, instead of choosing investments that will benefit from predicted E, S, or G trends, impact investment strives to <u>drive</u> measurable E, S or G impact/trends through targeted investments.

[8] Greenchip Financial, 2016. *Task Force Report on Sustainable Investment Taxonomy.* http://greenchipfinancial.com/wp-content/uploads/2016/09/Sustainable-Investment-Taxonomy-Report.pdf

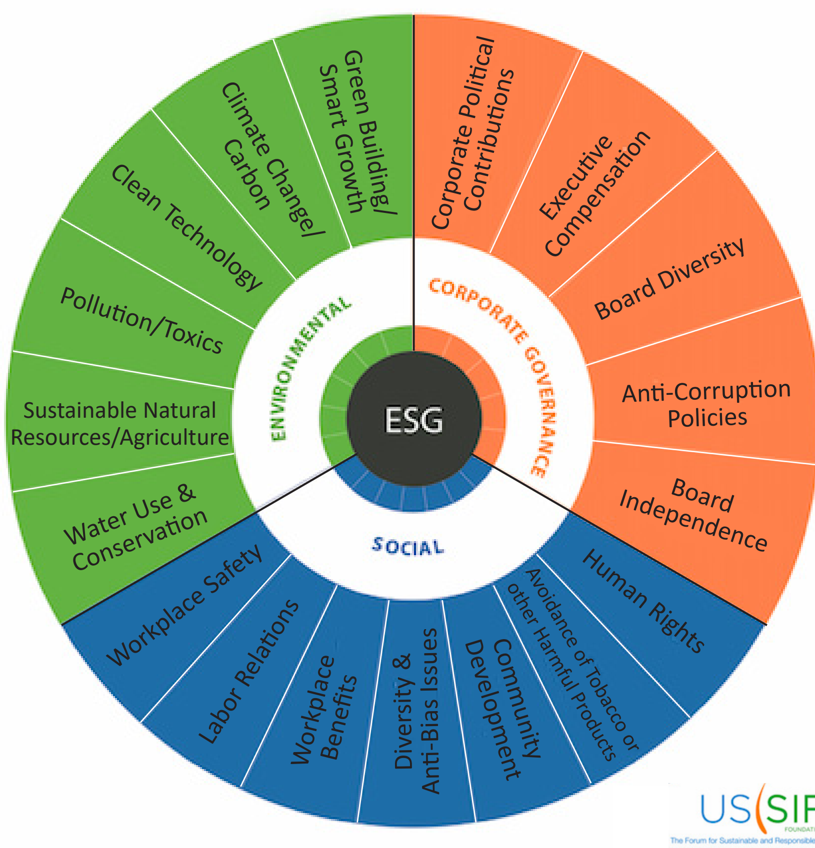
A key feature of impact investments is that the impact is deliberate and measurable. In making impact investments, the investment manager places capital into companies, projects or programs that can deliver the social or environmental impact desired by his/her client, while considering their financial risk and return appetite. Measurement is a big part of impact investing—sophisticated impact investors demand that investment managers or social entrepreneurs quantify the impact, whether on individuals, families, the community or the environment.

ESG Integration

ESG integration is now the leading RI strategy in Canada with $1.46 trillion AUM.[9] ESG integration refers to the explicit inclusion of environmental, social and governance factors into financial analysis. ESG integration combines ESG data, research and analysis together with traditional financial analysis in making investment decisions. Integration must be verifiable by a transparent and systematic process informed by ESG research and analysis. Integration is different from screening, in which companies are 'screened in' or 'screened out' of an investable universe.

[9] RIA. February 2017. ibid

Examples of ESG Criteria Used by Sustainable Investors



The ESG integration complements traditional fundamental analysis. For example, a value-oriented, emerging markets fund manager could apply ESG considerations to his/her fund in order to identify new risks or to give greater weighting to certain operating behaviours that are linked to long-term outperformance.

Shareholder Engagement

Shareholder engagement, where asset owners use shareholder power to influence corporate behaviour, is the second most popular responsible investing strategy in Canada. Shareholder engagement provides foundations with an opportunity to influence corporate behaviour on important environmental, social and corporate governance issues by directly engaging in dialogue with company management and boards of directors, filing or co-filing shareholder proposals, and voting proxies guided by ESG criteria.

According to a report by Ernst & Young, as of June 30, 2017, more than 850 shareholder proposals were submitted by investors for consideration by U.S. companies in 2017.[10] Proposals on environmental and social topics accounted for the largest category of proposals submitted, at 49% of the total, up from 41% in 2016 and 43% in 2015. Proposals related to environmental sustainability accounted for 14% of all shareholder proposal topics submitted, with corporate lobbying, political spending, pay inequality and other corporate diversity topics rounding out the rest of the ESG-related proposals.

Shareholder advocacy coalitions are an important way for foundations to collaborate with other investors to file ESG-related resolutions. Shareholder Association for Research and Education (SHARE) is the best known of these in Canada, offering a proxy-voting service to enable clients to exercise their voting rights and influence how companies manage issues and form policy. Canadian foundations may also wish to work with U.S.-based coalitions such as Ceres Investor Network on Climate Risk (INCR), and Confluence Philanthropy through its Proxy Power Program and Proxy Stewardship Initiative.

[10] Ernst & Young, 2017. EY 2017 *Proxy Season Review*. http://www.ey.com/Publication/vwLUAssets/ey-2017-proxy-season-review/$File/ey-2017-proxy-season-review.pdf

Responsible Investing at Canadian Foundations

In July 2017, a responsible investing survey was distributed to CEGN's 61 members and 30%, or 18, responded. This is considered a good response rate, as market research experts generally expect internal surveys (of employees) to receive a 30-40% response rate, while external surveys average a 10-15% response rate.[11] Survey respondents represented members with endowments ranging in size from less than $10 million to over $250 million, plus three respondents that do not have endowments but invest in the community. An additional 20 grantmakers, investment advisors, asset managers and consultants were personally interviewed in August 2017 to obtain their in-depth views on responsible investing.

Extent of Responsible Investing

Among respondents to CEGN's survey, 83% reported that they were following some type of responsible investment strategy. The majority of those employing responsible investing were doing so with over 65% of their endowment capital.

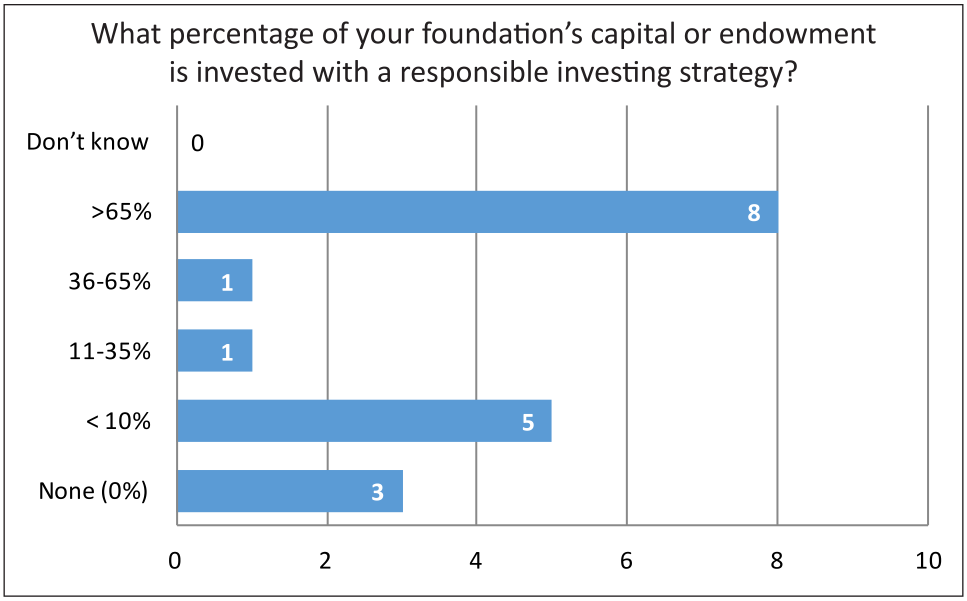
Responsible Investing Strategies

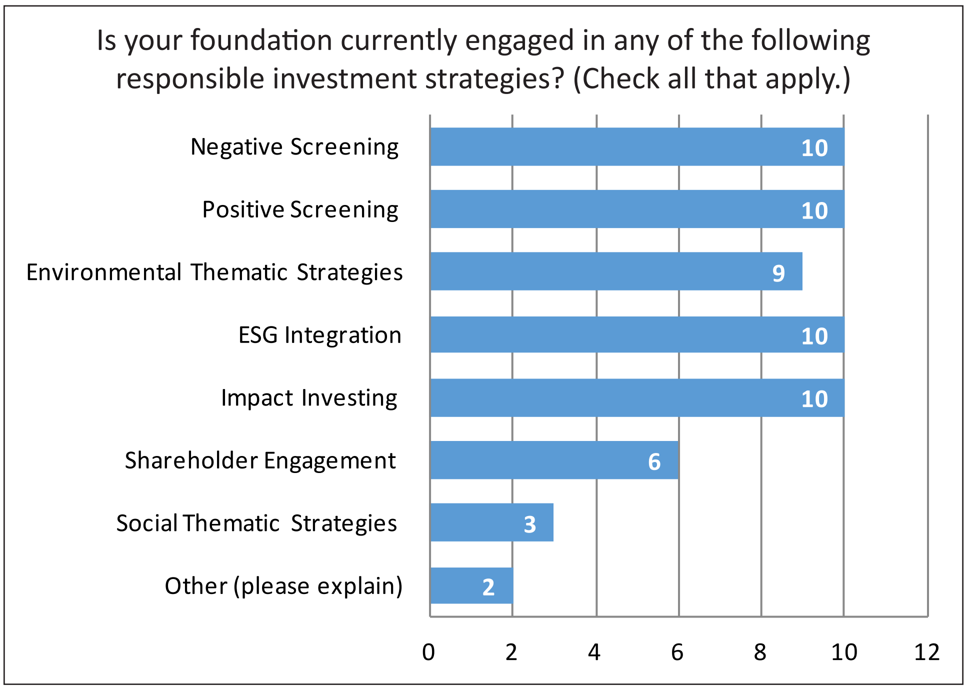
The top responsible investment strategies reported by respondents were positive or negative screening, ESG integration and impact investing. The least common strategy was socially themed investment.

Other responsible investment strategies that were mentioned include one foundation that provides loan capital to charities, and one respondent who did not specify what other strategy his/her organization uses.

None of the grantmakers participating in our study expressed an interest in accepting lower financial returns as they embarked on (or continued with) a responsible investing strategy. One respondent stated *"(We are doing this because) we can earn as high returns with these (E, S and G) parameters as without."*

[11] Cameron, C. RBC Client Knowledge and Insights. 2017, October 9. What is a Good Survey Response Rate? Personal Communication.





When asked which, if any, new responsible investing strategies they were considering in the next year, survey respondents overwhelmingly selected impact investing as the strategy they planned to explore or expand upon. In the survey, CEGN defined impact investing in the same way that the Global Impact Investing Network (GIIN)[12] does: *"Responsible investments made with the intention to generate a measurable, beneficial social and/or environmental impact alongside a financial return. While the term is sometimes used to refer to direct private investments, we refer here to a broader concept of impact investments which can be made in a wide range of securities from private equity to public debt and equity."*

[12] Global Impact Investing Network (GIIN), 2017. What is Impact Investing? https://thegiin.org/impact-investing/need-to-know/#s1

What Drives Responsible Investing?

There are several reasons the investors participating in our study adopt a responsible investing approach, with the most commonly cited reasons being: (1) a widely held (staff, management and board) desire to align investment portfolios with institutional mission, and (2) the demands, or at least lack of resistance, of the board.

> "People within foundations have wanted to do this (responsible investing) for ages, but boards often stopped them. The "Old Boys' Club" on many boards hampered progress."
>
> CEGN Responsible Investing Survey, 2017

Staff and Board Interest

One survey respondent pointed out that while the organization's staff and board were interested in adopting a responsible investing strategy with their endowment, the finance committee of the board explicitly was not. This is a theme that arose frequently in private discussions with foundations and endowment representatives: Investment committees tended to be populated by conventionally trained finance professionals, who foundation staff viewed as highly risk averse, and resistant to considering any investment objectives other than the financial performance of the endowment.

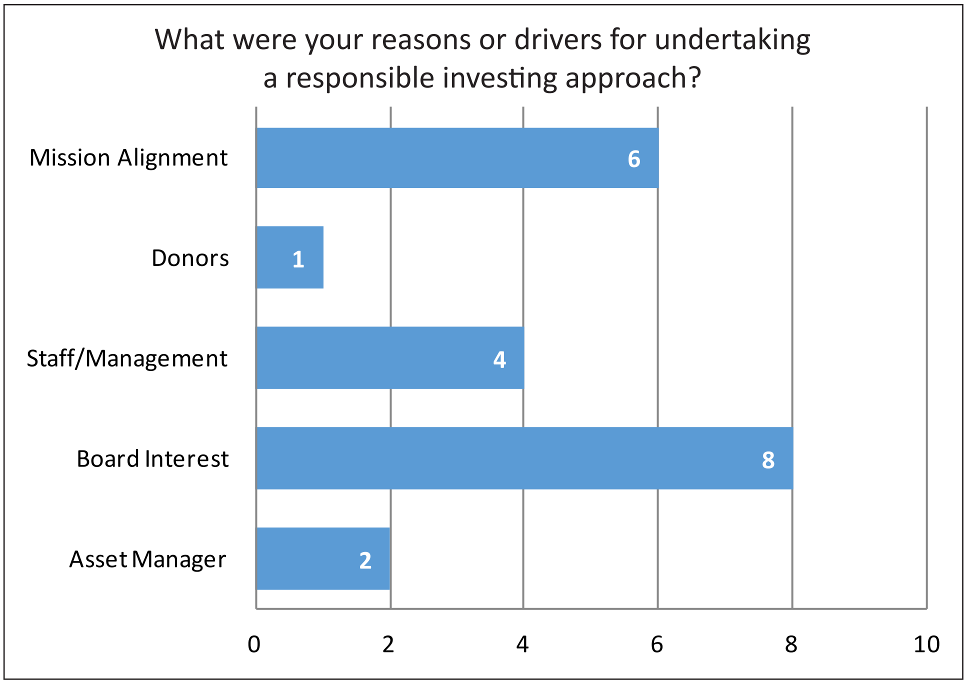
The Younger Generation

Another common theme was that the younger generation of board members or family members, in the case of family foundations, often instigated the push for better mission alignment of the organization's investment portfolio. One interviewee predicted that as foundation board membership turns over and younger members are appointed, there will be greater interest in responsible investing across Canadian foundations.

"Everybody's Doing It"

Investment managers and advisors cited ESG integration in mainstream markets as another important driver of responsible investing by foundations, in that it has created a "safe haven" for otherwise nervous boards and investment committees. Seeing large national or provincial pension funds adopt ESG screening, and observing discussions of environmental and social issues including climate change in the business pages of newspapers, has created greater awareness and acceptance of the merits of considering E, S and G factors in investing strategies.

Interestingly, while a desire for better mission alignment was cited most frequently as a reason for responsible investing, 40% of survey respondents could not confirm that their responsible investments were aligned with their granting strategy. In other words, even foundations adopting a responsible investing strategy are not necessarily investing in a manner that drives the same environmental and social impacts as their grant-making.



What Holds Responsible Investment Back?

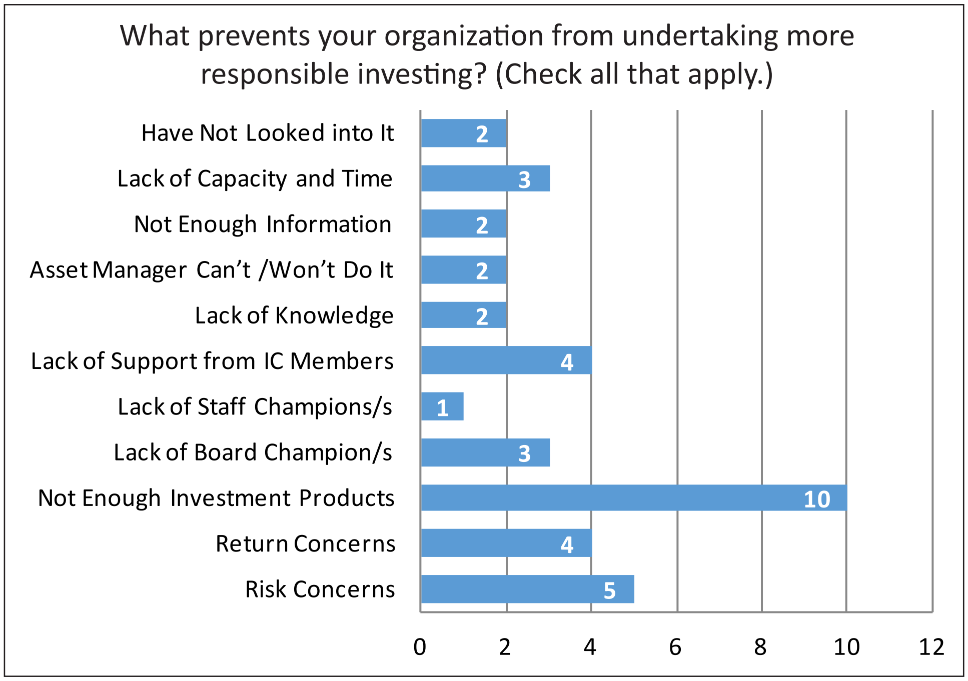
Product Availability

The Canadian Responsible Investment Association (RIA) produces quarterly analysis on the performance and size of Canadian Responsible Investment Mutual Funds, ETFs and Retail Venture Funds. To be included in the list, the fund must have a clear responsible investment strategy supported by official documents (such as the prospectus and fund fact sheet), and the fund company must be a member of the RIA. In Q2 of 2017, the list included about 220 funds, and a year later, the list shows over 270 different responsible investment products available in Canada.[13] However, in spite of this large and growing number of options, our survey respondents cited "Not enough investment products" as the biggest factor preventing their organization from undertaking more responsible investing. After looking more deeply into product availability, and discussing it with a range of grantmakers, investment advisors and product developers, it appears that the problem may be more accurately characterized as: (1) a lack of awareness of available products and (2) a dearth of customized products that meet specific ESG, risk and return desires of an organization.

Forty percent of survey respondents could not confirm that their responsible investments were aligned with their granting strategy.

CEGN Responsible Investing Survey, 2017

[13] RIA, 2018. *RI Funds – Quarterly Performance Reports for 2018 Q2.* https://www.ria-canada.ca/wp-content/uploads/2012/08/RIA-Canada-Report-Q2-2018-Final.pdf



Investors looking to purchase public equity funds or individual stocks that incorporate overall ESG integration will have no trouble finding a product that meets their needs. However, our study identified gaps among all the other types of responsible investment products.

For foundations and endowments that are interested in aligning their investment strategy with their specific social or environmental mission, the supply of customized products is limited. For example, of the 200+ responsible investment products identified by the RIA in 2017, only a handful offer environmentally themed investment. One foundation that has been a leader in impact investing observed that the supply of impact investment products (investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return) in Canada is so limited that Canadian impact investors all end up in the same investments. An investment manager pointed out that many impact investment opportunities currently available are in private markets and are thus very illiquid. He felt that this makes it difficult for foundations and endowments to incorporate these investments into their strategies. However, this challenge could be overcome by ensuring the proportion of investments in illiquid securities such as private equity was kept to a relatively modest amount.

One big reason for the shortage of customizable responsible investments is thought to be the relatively high cost of developing these products for a small market. Applying custom environmental, social or governance screens to a group of securities to create a custom fund can be quite complicated and expensive. In response to this challenge, one investment company we spoke with has developed a low-cost solution that involves buying the Index and eliminating the stocks that do not meet the investor's social, environmental or governance thresholds.[14] Other creative low-cost strategies will likely be developed as more investors ask for them.

Awareness

A theme that arose repeatedly among our survey participants was that investment managers were not as well informed about responsible investing strategies and product options as foundations would like. Low awareness among investment managers translates to low awareness among their foundation and endowment clients. In several cases, this had resulted in the foundation switching investment managers to one that understood, or was willing to make the required effort to understand, the responsible investing marketplace. One investment advisor pointed out that most investment advisors in Canada might have one to two clients who are requesting information about ESG products. Thus, it is difficult for mainstream advisors to justify doing the work to stay informed and aware of developments in the responsible investment area. This will change as more clients ask for ESG products.

> Virtually all respondents (17 out of 18) said that their board would want to learn more about responsible investing if they knew they could make an impact with their endowment.
>
> CEGN Responsible Investing Survey, 2017

Just over half (56%) of survey respondents believed that their leadership team understands responsible investing very well. However, virtually all respondents (17 out of 18) said that their board would want to learn more about responsible investing if they knew they could make an impact with their endowment.

Several study participants said that the skill set of their existing staff did not include responsible investing expertise and that they were challenged by not knowing where to begin as they looked at doing more responsible investing.

Several investment managers and foundation staff expressed a concern that poor understanding of responsible investing strategies and products is driving well-intentioned investors to park their money in "generic ESG funds", or funds that only use ESG integration. While ESG integration is an important addition to traditional financial analysis, it is not designed to encourage a specific environmental, social or governance related outcome. Using ESG inte-

[14] 18 Asset Management. 2017. http://www.18assetmanagement.com/sites/default/files/PDFs/US-Passive-Ethical-Strategy-Fact-Sheet.pdf

gration as the only responsible investing strategy can therefore mean missing an opportunity to place investment dollars into investments that align with the specific mission of the foundation or endowment.

Confusion Regarding Fiduciary Duty

A growing number of institutional investors are seeking to align their investment portfolios with the values of their funders and beneficiaries. However, confusion persists among investment decision-makers about the extent to which their fiduciary responsibilities allow consideration of social or environmental factors alongside financial return. Fiduciary responsibility involves having a particularly high standard of care and loyalty in someone else's interest. In the financial advisory and investment management field, it is a strict requirement to put a client's interests ahead of one's own. There remain some investment professionals who believe that they will sacrifice financial returns if they apply environmental, social or governance considerations when managing an investment portfolio or endowment. As a result, they may also consider this a violation of their fiduciary duty to maximize the financial return of the investment portfolio.

Legal and academic experts have examined the question of whether responsible investing can coexist with exercising fiduciary duty for at least two decades, and across several jurisdictions. The short answer to the question is: Yes. A 2005 study examining the legal framework of fiduciary duties by leading U.K. law firm Freshfields Bruckhaus Deringer[15] concluded that "*integrating ESG considerations into investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.*" Freshfields' work covered nine jurisdictions: Australia, Canada, France, Germany, Italy, Japan, Spain, the U.K. and the U.S. According to the study, trustees <u>not</u> considering ESG factors may be compromising their fiduciary duties. More recent studies, including one by Murray Gold and Adrian Scotchmer of KoskieMinsky LLP – Climate Change and the Fiduciary Duties of Pension Fund Trustees in Canada – make the same point.[15a]

In 2007, Benjamin Richardson, of Osgoode Hall Law School in Toronto, wrote a chapter on "The Fiduciary Duties of Pension Funds" in *Banking and Finance Law Review*.[16] His research concluded*: "Contrary to common perceptions on the subject, SRI does not always or necessarily conflict with fiduciary duties of pension funds. Moreover, fulfilling fiduciary obligations can actually require careful attention to corporate social and environmental performance."*

[15] Freshfields Bruckhaus Deringer, 2005. *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (Geneva: UNEP Finance Initiative October 2005). http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf

[15a] Murray Gold and Adrian Scotchmer, *Climate Change and the Fiduciary Duties of Pension Fund Trustees in Canada* (Koskie Minsky LLP, 2015) https://www.turnbackthetide.ca/tools-and-resources/whatsnew/2015/KoskieMinskyLLP.pdf

[16] Benjamin J. Richardson, 2007. Do the Fiduciary Duties of Pension Funds Hinder Socially Responsible Investment? The Fiduciary Duties of Pension Funds, in *Banking and Finance Law Review*. pp 145-201

A 2015 study by the UN Principles for Responsible Investment (UNPRI) confirmed, "*Integrating ESG issues into investment research and processes will enable investors to make better investment decisions and improve investment performance consistent with their fiduciary duties.*"[17]

In 2017, the Ivey Foundation supported a project called the Commonwealth Climate and Law Initiative (CCLI) with Oxford University and Osgoode Law School. The CCLI is a research, education, and outreach project focused on four Commonwealth countries: Australia, Canada, South Africa, and the United Kingdom. The CCLI examined the legal basis for directors and trustees to account for physical climate change risk and societal responses to climate change, under prevailing statutory and common laws. It also provided a practical assessment of the materiality of these considerations and the potential implications for company and investor decision-making.[18]

> "I give presentations on responsible investing strategies to ICs [investment committees] made up of bankers and finance people who nod and then usually say: "Interesting, but I don't think this is the right approach for us."
>
> Investment Manager

Risk/Return Concerns

Participants in our study frequently stated that traditional finance professionals on their boards or investment committees were hesitant to embrace responsible investing because they believed it would result in lower returns.

Study after study has shown that responsible/sustainable investing does not result in lower investment returns. Like traditional financial investments, responsible investments cover many asset classes and investment styles, with a wide range of risk/return profiles. However, unlike conventional investment approaches, responsible investment gives investors the opportunity to generate positive social and environmental impact alongside financial returns. In selecting the best approach for their portfolios, investors must carefully assess what kinds of investments align best with their missions and values, asset allocation requirements and appetites for risk and return.

We asked a number of investment advisors, research firms and asset owners how they benchmark the performance of their sustainably invested assets. All of the interviewees reported using conventional investment performance benchmarks such as the S&P or TSX, or no benchmarks at all. One research analyst pointed out that the distinction between ESG benchmarks (like the Jantzi Social Index) and traditional benchmarks (such as the S&P 500) will eventually disappear as ESG integration becomes a standard part of all investment analysis.

[17] UNPRI, 2015. *Fiduciary Duty in the 21st Century.* https://www.unpri.org/download_report/6131

[18] Janis Sarra and Cynthia Williams. 2018. *Directors' Liability and Climate Risk: Canada - Country Paper.* https://ccli.ouce.ox.ac.uk/wp-content/uploads/2018/04/CCLI-Canada-Paper-Final.pdf

Another investment manager explained that it is not feasible to use a benchmark when doing high-impact, long-term private equity investments. Firstly, the 7- to 10-year time horizon of such investments defies most benchmarks, and secondly, "success" in the eyes of the investor may mean a significant measurable social impact with a modest financial gain.

Resource Constraints

Many study participants cited lack of time and people as the main reason they were not further along in their responsible investing journey. In addition to staff constraints, volunteer investment committees simply do not have the bandwidth to tackle a new investing strategy. Not surprising, this is a particular challenge for the smaller foundations and endowments. To help address this challenge, a few foundations are collaborating on impact investment due diligence to share the workload and insights.

Inertia

In personal conversations with grantmakers, investment advisors, product developers and consultants, the one barrier that came up every time was inertia. It is simply too difficult for these organizations, their boards, and their investment managers to undertake the work required to implement a responsible investment strategy when the status quo appears to have worked well for decades.

What Major Trends Are Emerging?

We asked grantmakers, investment managers, consultants and product developers what trends, gaps and opportunities they are seeing in the responsible investing area in Canada. Their responses are summarized below.

Growing Selection of Products Using ESG Integration Strategies

There has been a huge uptick in the availability of responsible investment products. There are currently over 270 different responsible investment products available in Canada[19] while four years ago, that number was closer to 120 products.[20] Asset owners at foundations report that they are regularly contacted by fund companies offering responsible investment mutual funds, most of which employ ESG integration strategies.

Among the new mutual fund products that have proliferated in recent years, grantmakers have found a small but growing number of low-carbon and fossil-free fund options. Fossil-free equity and bond funds are now offered by some of the largest mutual fund companies including BMO Bank of Montreal, MD Financial and RBC Royal Bank.

While there are a growing number of responsible investment products available in Canada, our study participants expressed a desire for several options that are currently hard to find, including:

- a responsible investment exchange-traded fund (ETF);
- more fixed-income choices;
- impact investment options in public markets; and
- products delivering social impact, such as addressing income inequality or Indigenous communities.

Many investors said they would like to see more disclosure and transparency regarding the responsible investment strategy and approaches used in designing fund products.

[19] RIA, 2018. *RI Funds – Quarterly Performance Reports, 2018 Q2*. https://www.riacanada.ca/wp-content/uploads/2012/08/RIA-Canada-Report-Q2-2018-Final.pdf

[20] RIA, 2014. *RI Funds – Quarterly Performance Reports, 2014 Q2*. http://riacanada.ca/wp-content/uploads/2014-Q2-RI-Funds-in-Canada-EN-FINAL.pdf

Foundations Carving Out a Percentage of the Endowment for Impact Investing

> "When our board suggested we try impact investing, we started with a 5% allocation. Then it was 10%, and finally we decided to try to go for 100%".
>
> Impact Investment Manager at a Canadian foundation

In December 2010, the Canadian Task Force on Social Finance[21] recommended that *"Canada's public and private foundations should invest at least 10% of their capital in mission-related investments (MRI) by 2020 and report annually to the public on their activity."* A number of the foundations that we spoke to for this study have carved out a percentage of their endowment capital to be used for responsible investing, or in some cases, specifically for impact investing. The starting point for most responsible investing was 3-5% of the endowment. Many grantmakers and investment managers cited this as a good strategy for foundations to get started with responsible investment.

A Desire to Better Understand Climate Change-Related Risks and Opportunities

Climate change presents enormous economic, social, and financial implications for countries around the world. The physical effects of climate change – including unpredictable storms, flooding, drought, fires and water scarcity – could be disastrous for businesses and their investors and lenders. In addition to these physical risks, businesses and investors must also consider non-physical climate change risks in four areas: government regulation, economic markets, technology and reputation.

Assuming the global economy continues to shift toward a low-carbon path over the coming years, businesses may face unexpected challenges. This risk to operators of businesses is called "carbon risk", and its magnitude and impact will depend on their business model and ability to adapt. Climate change-related risks that may adversely affect financial returns for investors and lenders are called "carbon asset risk."[22] When asked whether they feel they can readily access information about climate change risks and opportunities for their investments, only 44% of foundations surveyed answered in the affirmative. However, an overwhelming 89% said that they would be interested in better understanding how climate change could affect investment performance.

Efforts are underway to address investors' desire for better climate change information. Securities legislation in Canada already requires disclosure of financially material climate change-related information in securities filings and financial disclosure documents.[23] However, some responsible investors seek climate-related information that may affect their investment decisions but not be financially material. The Financial Stability Board (FSB) established the

[21] Canadian Task Force on Social Finance, 2010. *Mobilizing Private Capital for Public Good.* https://www.marsdd.com/wp-content/uploads/2011/02/MaRSReport-social-finance-taskforce.pdf

[22] WRI & UNEP FI Portfolio Carbon Initiative, 2015. *Carbon Asset Risk: Discussion Framework.* http://www.unepfi.org/fileadmin/documents/carbon_asset_risk.pdf

[23] CSA Staff Notice 51-354. April 2018. *Report on Climats change-related Disclosure Project.* http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20180405_51-354_disclosure-project.htm

Task Force on Climate-related Financial Disclosures (TCFD) in December 2015 to develop recommendations for voluntary climate-related financial disclosures.[24] The TCFD mandate was driven by a need for disclosure that is consistent, comparable, reliable, clear, and efficient, and provides decision-useful information to lenders, insurers, and investors. The Task Force released its final recommendations in June 29, 2017, which included a process for securities issuers to identify and integrate climate related information into disclosure.[25] The TCFD also issued supplemental guidance for select sectors.

Fossil Fuel Divestment

Recognizing the risks associated with the world's reliance on fossil fuels and associated carbon dioxide (CO_2) emissions, a range of investors has begun divesting assets in fossil fuel activities.

Unfortunately, fossil fuel divestment alone is unlikely to have any impact on greenhouse gas emissions, climate change or the financial standing of fossil fuel producers.

Such divestment discounts the fact that most of the CO_2 emissions associated with carbon fuels come from the combustion rather than the production stage.

Everything that is produced, consumed or moved in the world requires energy and often emits CO_2. Therefore, divesting from fossil fuel companies is not a robust low-carbon strategy. More impactful strategies might be to divest of companies that waste fossil fuels when producing products or services or to invest in companies facilitating the transition to a low carbon economy.

Using the UN Sustainable Development Goals (SDGs) as a Framework for Impact Investing

The UN Sustainable Development Goals (SDGs) were established in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.[26] The 17 SDGs are interconnected, and achieving them will require the partnership of governments, private sector, civil society and citizens.

During the design and drafting of these goals, the UN acknowledged the potential of global investment capital to contribute to positive change.[27] UNCTAD estimates that meeting the SDGs will require US$5-7 trillion in investment each year from 2015 to 2030. While government spending and development assistance will contribute to this figure, new flows of private sector capital will be crucial to meet some of the global challenges put forward by the SDGs.

The US-based Global Impact Investing Network (GIIN) has evaluated the role of impact investing to achieve the Sustainable Development Goals. GIIN found a growing number of US institutional investors are already actively leveraging the SDG goals as a framework for their impact investments, helping them to set investment priorities and guide impact measurement practice.[28] According to GIIN, "*The SDGs offer a simple and attractive entry point for investors not yet engaged in impact investing to begin to build an impact investing portfolio, hopefully driving more private capital toward achieving the SDGs.*"

[24] About the Task Force on Climate-Related Disclosures. https://www.fsb-tcfd.org/about/

[25] TCFD. June 2017. *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.* https://www.fsb-tcfd.org/publications/final-recommendations-report/

[26] UN Sustainable Development Goals Knowledge Platform. Accessed July 31, 2018. https://sustainabledevelopment.un.org/

[27] Amit Bouri, CEO of GIIN. September 8, 2017. Driving capital to impact investing with an eye on 2030. In "Pensions & Investments" online. http://www.pionline.com/article/20170908/ONLINE/170909881/commentary-driving-capital-to-impact-investing-with-an-eye-on-2030

[28] GIIN, September 2016. *Achieving the sustainable development goals: The role of impact investing.* https://thegiin.org/assets/GIIN_Impact%20InvestingSDGs_Finalprofiles_webfile.pdf

Investors align their investments with the Sustainable Development Goals by shifting their focus from evaluating the E, S and G aspects of an investment, to investing for specific social, economic or environmental outcomes. This could represent an approach for foundations and endowments seeking greater mission-aligned impact from their investment portfolios. The UN Principles for Responsible Investment (PRI) has published a helpful briefing document on this topic, entitled: *Aligning Responsible Investment with the UN Sustainable Development Goals.*[29]

[29] UN PRI. 2017. *Aligning Responsible Investment with the UN Sustainable Development Goals.* http://www.unepfi.org/wordpress/wp-content/uploads/2017/11/Aligning-investment-with-the-SDGs.pdf

How to Get Started: Advice from Foundation Colleagues

We asked grantmakers to share advice with other foundations on how best to get started with a responsible investing strategy. Here is what they told us:

Decide What You Care About

This is a very important starting point for any mission-related investment strategy: Ensure that the management team and the board agree on which environmental, social and/or governance issues are most important to the foundation. This should be aligned with the outcomes and impacts that the organization seeks to achieve through its granting activities.

Know What You Own

It is good practice to do an evaluation of exactly what is in an organization's investment portfolio and see how it fares against whichever ESG factors are deemed most important. A couple foundations reported that they were pleasantly surprised to learn that up to 30% of their portfolios were already being ESG screened as part of their investment manager's regular process.

> "Keep it simple! Connect with other foundations and beg, borrow or steal their responsible investment polices! Start by investing in funds that the leaders have invested in so you can tap into their due diligence."
>
> Grantmaker who recently started responsible investing

Update or Create a Statement of Investment Beliefs

The statement of investment beliefs outlines the philosophy that will guide the management of the foundation's endowment. The statement will describe risk tolerance, returns sought, time horizon, liquidity and responsible/sustainable investment approach. It establishes alignment among the foundation management and board on what they are trying to accomplish with their investment portfolio. For example, Harvard University Endowment's statement of investment beliefs includes the following statement on responsible investing:

We believe that a university has an ethical responsibility to invest in companies that are consistent with its role and values, and to avoid entities with practices that are antithetical to its role and values. Harvard's priorities include reducing greenhouse gas emissions, promoting cross-cultural understanding, respecting worker's rights, solving public-health challenges, and supporting intellectual freedom.[30]

Update the Investment Policy

The purpose of the investment policy statement (IPS) is to assist the foundation's board in effectively supervising, monitoring and evaluating the investment of the endowment assets. The IPS typically delegates responsibility for managing the foundation's assets to professional money managers, and guides the investment management of the assets toward the desired results. The investment policy statement will cover things like performance objectives, annual distribution for granting, asset classes allowed and prohibited, investment guidelines on the weighting of the portfolio to different asset classes and geographies, responsible investment goals, and investment manager selection. Foundations should not have to create this from scratch, as there are several good examples available from leading foundations and investment companies. Only 50% of our survey respondents had a responsible investment policy in place.

Talk to Your Investment Manager

Foundations can ask their current investment manager to add ESG to due diligence questions in the investment review process. The investment manager can also help the foundation staff and board learn about what is already in the organization's investment portfolio and what alternative products are available, given its social, environmental or governance objectives. In several cases, foundations reported that a lack of support from their investment manager in this regard helped trigger a search for a new manager.

Look for Impact Investing Opportunities in Your Own Backyard

Two foundations described how they first got involved in impact investing by providing a loan to an existing grant recipient. Under the right circumstances, this type of private debt investment to a known entity may be an appropriate starting point.

[30] Harvard University. STATEMENT OF INVESTMENT BELIEFS: The Purpose of a University Endowment & The Fair Harvard Fund. https://responsibleharvard.com/the-fair-harvard-fund/statement-of-investment-beliefs/ Accessed September 18, 2017.

Spread the Word!

Grantmakers will want to let their stakeholders know that they are leveraging the endowment to create a bigger impact and to support their organization's mission. By publicly describing their responsible investment strategy on their website and through other communication channels, they can encourage other foundations and endowments to take action.

Recommendations on How CEGN May Better Support Funders

All study participants were invited to provide suggestions regarding how CEGN might help move more capital into responsible investing. Responses consistently fell into four categories, with the greatest demand being for more education. The recommendations were:

1. education and information
2. investment tools
3. collaboration and partnerships
4. convening

Provide Members with Information and Education

The specific educational topics cited were:

- climate change-related risks and opportunities for portfolios
- how to determine what you own and how it stacks up in terms of ESG – what are the assessment and benchmarking tools that can support this understanding
- understanding the various responsible investing strategies and how they differ
- case studies of successes *and* failures in responsible investing
- offer training specifically for investment committee members and boards on understanding responsible investing

Develop and Share Investment Tools

- post examples of statements of investment beliefs
- post samples of responsible investment policies
- share samples of legal agreements
- prepare a guidebook on getting started in responsible investing

Facilitate Partnerships and Collaboration

- develop a mechanism for prospective impact investors to share impact investing opportunities
- develop a mechanism for impact investors to share their due diligence

Convening

- host events where foundation staff, board and investment managers discuss various responsible investing topics
- informational events/webinars
- web links to responsible investing information
- invite successful impact investors (Joel Solomon of Renewal Funds was mentioned) to speak to members about their journey and to share advice
- hold fun and engaging pitch sessions where prospective high impact firms/funds pitch to prospective investors within foundations

One respondent also suggested that CEGN could play a role in supporting policy that creates tax incentives for impact investing.

Based on the responses of CEGN members, it is recommended that CEGN focus on the following three strategies in the near future:

1. launch a responsible investment event series, covering a selection of topics and designed for foundation staff, board members and investment managers;

2. launch a webinar education series for members. There are indications that CEGN members with more responsible investing experience may be willing to present along with other experts; and

3. develop a members-only repository of examples of responsible investment tools including, but not limited to, statements of investment beliefs, responsible investment policies and legal agreements.

Resources and Services for Investors

All study participants from foundations were keen to read more and learn more about responsible investing. Those in the early stages of adopting responsible investing were most interested in tools and resources that could make it easier for them to get started. Even experienced responsible investors were interested in knowing what leaders were doing and what strategies and tools could help them in their work. There is a tremendous amount of information available to investors interested in responsible investing and the following are selected examples of resources that may be helpful.

Investment Guidance for Foundations and Endowments

All In: Examining a 100% Impact Portfolio. 2018. Jointly created by members of the Responsible Investment Association. https://www.riacanada.ca/wp-content/uploads/2012/08/All-In-100-Impact-Portfolios.pdf

DivestInvest Philanthropy Guide demystifies the path away from fossil fuels. Australian Environmental Grantmakers Network. https://aegn.org.au/2016/12/divestinvest-philanthropy-guide-demystifies-the-path-away-from-fossil-fuels/

Endowment and Foundation Investment Guide. 2015. Fiera Capital. https://unitedchurchfoundation.ca/wp-content/uploads/Fiera-Capital-Endowment-Foundation-Guide_-EN.pdf

Fiduciary Duty In The 21st Century: Canada Roadmap, 2017. UNPRI, UNEP FI, Generation Foundation. https://www.unpri.org/download?ac=1387

The Impact Investing Guidebook for Foundations. 2017. Purpose Capital, Philanthropic Foundations Canada, and Community Foundations of Canada. http://impactinvesting.ca/foundations/

Putting Responsible Investment into Practice: A Toolkit For Pension Funds, Foundations and Endowments. 2008. SHARE. http://www.share.ca/files/RI_Toolkit_WEB.pdf

The 21st Century Investor: CERES Blueprint For Sustainable Investing. June 2013, Updated June 2016. CERES. https://www.ceres.org/resources/reports/21st-century-investor-ceres-blueprint-sustainable-investing

Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact. 2014. US SIF Foundation. http://www.ussif.org/files/Publications/unleashing_potential.pdf

Impact Investment – Capital as a Force for Good: Moving from Theory to Practice by the Catherine Donnelly Foundation. https://www.catherinedonnellyfoundation.org/ImpactInvest.pdf

ESG's Evolving Performance: First, Do No Harm. https://static1.squarespace.com/static/596a07c029687fd47a2d41cc/t/5b76dc0140ec9a72896d3ab5/1534516225871/WP_ESG_2018.07.pdf

Advisors, Consultants and Investment Managers

Advisors Specializing in Responsible Investment: The Canadian Responsible Investment Association (RIA) provides two designations for qualified RIA members who successfully complete the PRI Academy's RI Essentials course: Responsible Investment Advisor Certification (RIAC) and Responsible Investment Professional Certification (RIPC). https://www.riacanada.ca/certified-advisors-and-professionals/

Confluence Philanthropy: Confluence supports and catalyzes a community of private, public and community foundations, families, individual donors and their values-aligned investment managers. Members are committed to full mission alignment when prudent and feasible. Based in the United States, Europe, Latin America, Canada and Puerto Rico. Confluence members collectively invest around the world. http://www.confluencephilanthropy.org/

Marigold Capital: Marigold Capital is a Canadian firm that offers strategic consulting and fund management in the private-market impact investing space, with a focus on social justice in domestic and emerging markets. Marigold's mission is to create a more prosperous society, enabled by diversity and inclusivity. https://marigold-capital.com/

MaRS Centre for Impact Investing: MaRS is growing the impact investment market in Canada. It creates innovative ways for investors to fund social enterprises and charities with investments that create both a financial return for them and a dividend for society. https://impactinvesting.marsdd.com/

Purpose Capital: Purpose Capital is a Toronto-based impact investment advisory firm that mobilizes all forms of capital to accelerate social progress. http://purposecap.com/about/

Shareholder Engagement Services

Shareholder Association for Research and Education (SHARE): SHARE is a Canadian leader in responsible investment services, research and education. It works with a network of institutional investors helping them become active owners and develop and implement responsible investment policies and practices. https://share.ca/services/shareholder-engagement/#

Institutional Shareholder Services (ISS): ISS is a global provider of corporate governance and responsible investment (RI) solutions for asset owners, asset managers, hedge funds and asset service providers. ISS' solutions include: objective governance research and recommendations; RI data, analytics and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management; and reliable global governance data and modeling tools. Institutional clients use ISS to apply their corporate governance views, identify environmental, social and governance risk and manage their complete proxy voting needs on a global basis. https://www.issgovernance.com/about/about-iss/

Membership Organizations

The Canadian Coalition for Good Governance (CCGG): CCGG is the pre-eminent corporate governance organization in Canada, representing the interests of institutional investors. CCGG promotes good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders and to promote the efficiency and effectiveness of the Canadian capital markets. http://www.ccgg.ca/

C2C, The Climate Solutions Collaborative: C2C is a working group of philanthropies, investment managers and family offices that are working to accelerate the flow of capital to address climate change. Working group members commit to make investments that measurably reduce emissions and support one another in deploying this capital through strategic thinking, resource sharing and due diligence. C2C is a joint project of Confluence Philanthropy and CREO Syndicate.

CERES Investor Network on Climate Risk and Sustainability: The Ceres network is comprised of more than 130 institutional investors, collectively managing more than $17 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. https://www.ceres.org/networks/ceres-investor-network

Global Impact Investment Network (GIIN): GIIN provides numerous resources for impact investors. Membership in the U.S.-based GIIN provides access to a diverse global community of organizations interested in deepening their engagement with the impact investment industry. https://thegiin.org/

Philanthropic Foundations of Canada (PFC): PFC is a member association of Canadian grantmakers, including private and public foundations, charities and corporations. PFC seeks to support Canadian philanthropy by encouraging public policies that promote philanthropy; increasing awareness of philanthropy's contribution to Canadians' well-being; and providing opportunities for foundations to learn from each other.

Community Foundations of Canada (CFC): CFC is a membership organization, comprised of 191 community foundations across the country. This national network is helping Canadians invest in building strong and resilient places to live, work and play.

UN Principles for Responsible Investment (UN PRI): UN PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. https://www.unpri.org/about

Responsible Investment Association (RIA): RIA members include financial institutions, mutual fund companies, investment management firms, financial advisors and other organizations and individuals who practise and support responsible investing. https://www.riacanada.ca/

Toniic: Toniic is the global action community for impact investors. It serves individuals; family offices, foundations and funds by helping members discover, evaluate, nurture and invest in financial products. Toniic helps to increase the velocity of money and services into impact investing to address global challenges. Members of Toniic share portfolios and learn how to best align financial assets with personal values.

Research and Ratings Services

MSCI: MSCI is an independent provider of research-driven insights and tools for institutional investors. It can provide institutional investors with an environmental, social and governance integration tool to help them mitigate risk and enhance long-term value creation. MSCI's ESG ratings help investors identify ESG risks and opportunities within their portfolio. It researches and rates companies on a 'AAA' to 'CCC' scale according to their exposure to industry-specific ESG risks and their ability to manage those risks relative to peers. https://www.msci.com/

Sustainalytics: Sustainalytics is a global ESG and corporate governance research and ratings company. It supports hundreds of the world's foremost investors who incorporate ESG and corporate governance insights into their investment processes. http://www.sustainalytics.com/

Thomson Reuters ESG Research: Thomson Reuters provides structured and standardized ESG research data. It believes that responding to issues like climate change and executive remuneration can be as important as traditional financial metrics when evaluating corporate performance. Its ESG database contains information on over 6,000+ global companies and over 400 metrics, including all exclusion (ethical screening) criteria and all aspects of sustainability performance. https://financial.thomsonreuters.com/en/products/data-analytics/company-data/esg-research-data.html

Glossary of Terms*

Carbon Asset Risk: Potential for a financial intermediary or investor to experience financial loss due to unmanaged operator carbon risk in its clients or investee companies.

Carbon Risk: Risk of financial loss to an operator of a physical asset due to non-physical climate change-related factors (predominantly policy, market and technology).

Endowment: A financial endowment is a donation of money or property to a non-profit organization for the ongoing support of that organization. Usually the endowment is structured so that the principal amount is kept intact while the investment income is available for use.

Equities: Stocks or any other securities representing an ownership interest. Public equities are traded on stock markets. Equity in a private company (not publicly traded) is called private equity.

ESG: Abbreviation for Environmental, Social and Governance criteria or factors, incorporated into investment analysis, policy or management.

ESG Integration: ESG integration combines ESG data, research and analysis together with traditional financial analysis in making investment decisions.

Fiduciary Duty: A duty of loyalty on a person who has been entrusted to look after the best interests of someone else. It usually arises in circumstances where one person is vulnerable to the other because of the personal nature of the relationship or because of the broad scope of authority given to the other. A person who has a fiduciary duty toward someone else as well as authority to make decisions on that other person's behalf, must place that other person's interests ahead of his/her own when exercising that authority.[35]

Financial Stability Board (FSB): The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. It was established in April 2009 as a successor to the Financial Stability Forum (FSF).

Fixed Income Security: A fixed-income security, commonly referred to as a bond or money market security, is an investment that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity.

* The following sources were used for this glossary:

31 RIA 2017. ibid

32 Investopedia.com

33 US SIF, 2014. *Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact.* http://www.ussif.org/files/Publications/unleashing_potential.pdf

34 Global Impact Investing Network—GIIN

35 Investment Fund Institute of Canada, 2011. Fiduciary Duties and Financial Advisors Frequently Asked Questions and Answers

Fossil Fuel Divestment: Selling currently held stocks and other investments in fossil fuel companies.

Impact Investing: Impact investments are responsible investments made into companies, organizations and funds with the intention of generating measurable beneficial social and/or environmental impact alongside a financial return.

Mission-Related Investment (MRI): MRIs are market-rate investments that support the mission of the foundation by generating a positive social or environmental impact. These investments are made from the foundation's endowment. MRI opportunities exist across asset classes in cash, fixed income, public equity, private equity and venture capital, and real estate.

Negative Screening: Responsible investment strategies that involve deliberately eliminating investment in companies based on their products or their operational behaviour.

Positive Screening: Also known as "best in class" investing, positive screening refers to investing in sectors, companies or projects selected from a defined universe for their positive ESG performance relative to industry peers.

Shareholder Engagement: The active exercise of the rights and responsibilities of corporate share ownership, including options such as filing or co-filing shareholder resolutions or engaging directly with corporate management through correspondence, dialogue and meetings over issues of concern.

Task Force on Climate-Related Disclosure (TCFD): The TCFD was established in December 2015 by the FSB to develop recommendations for voluntary climate-related financial disclosures. Its mandate was driven by the need for disclosure that is consistent, comparable, reliable, clear, and efficient, and provides decision-useful information to lenders, insurers, and investors. The FSB selected the TCFD's 32 members from across the G20 to include both users and preparers of disclosures. The TCFD issued its recommendations in June 2017.

Thematic Investing: Choosing investments based on companies and sectors that the fund manager believes will benefit from long-term structural trends.

Venture Capital: Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Though it can be risky for the investors who put up the funds, the potential for above-average returns is an attractive payoff.

Appendix A: Survey Questions

1. What is the size of your endowment in CAD dollars?
- <$10 Million
- $10.01 - $50 Million
- $50.01 - $100 Million
- $100.01 - $250 Million
- > $250 Million
- Not available/applicable (please explain):

2. How is your endowment currently invested? (check all that apply)
- Global equity funds
- Global bond funds
- Global balanced funds
- Canadian equity funds
- Canadian bond funds
- Canadian balanced funds
- REITS
- Individual stocks and bonds
- Private equity
- Private debt
- Other (please specify):

3. What percentage of your foundation capital or endowment is invested with a responsible investing strategy?
- None (0%)
- < 10%
- 11-35%
- 36-65%
- >65%
- Don't know

4. If you have adopted a responsible investing strategy, please share your reasons for undertaking this approach (i.e. Has the direction been influenced by Board member interest; staff interest; asset manager interest; grantee interest: or other reasons?)

5. Is your foundation currently engaged in any of the following responsible investment strategies? (check all that apply)
- Positive Screening (based on ESG ratings; carbon footprint or other factors)
- Negative Screening based on product sold (i.e. fossil fuels; ethical exclusions such as tobaccos, nuclear, etc.)
- Social Thematic Strategies (i.e. Community Housing, Improved Health Outcomes, etc.)

- Environmental Thematic Strategies (i.e. renewable energy; energy efficiency; water technologies; Green Bonds)
- ESG Integration (identifying and mitigating environmental and social risks; and identifying opportunities)
- Shareholder Engagement (i.e. proxy voting; corporate engagement)
- Impact Investing (defined as responsible investments made with the intention to generate a measurable, beneficial social and/or environmental impact alongside a financial return. While the term is sometimes used to refer to direct private investments, we refer here to a broader concept of impact investments which can be made in a wide range of securities from private equity to public debt and equity.)
- Other (please explain):

6. If you checked off any of the boxes in the preceding question, please briefly explain the reasons for your work in any of these areas.

7. Is your foundation considering any of the following responsible investment strategies in the next 12 months? (check all that apply)

- Positive Screening (based on ESG ratings; carbon footprint or other factors)
- Negative Screening based on product sold (i.e. fossil fuels; ethical exclusions such as tobaccos, nuclear, etc.)
- Social Thematic Strategies (i.e. Community Housing, Improved Health Outcomes, etc.)
- Environmental Thematic Strategies (i.e. renewable energy; energy efficiency; water technologies; Green Bonds)
- ESG Integration (identifying and mitigating environmental and social risks; and identifying opportunities)
- Shareholder Engagement (i.e. proxy voting; corporate engagement)
- Impact Investing (defined as responsible investments made with the intention to generate a measurable, beneficial social and/or environmental impact alongside a financial return. While the term is sometimes used to refer to direct private investments, we refer here to a broader concept of impact investments which can be made in a wide range of securities from private equity to public debt and equity.)
- Other (please explain):

8. If you have some of your endowment invested in responsible investments, are the investments aligned with your granting strategy? (e.g., if your granting is focused on fresh water ecosystems, does your responsible investing also focus on that?)

- Yes
- No
- Don’t know

9. Does your organization have a Board-approved policy statement related to responsible/sustainable investing?
- Yes
- Yes, and willing to share it with CEGN
- No

10. What prevents your organization from undertaking more responsible investing? Check all that apply.
- Risk concerns
- Return concerns
- Not enough investment products
- Lack of Board champion/s
- Lack of staff champions/s
- Lack of support from Investment Committee members
- Lack of knowledge
- Asset Manager can't /won't do it
- Not enough information
- Have not looked into it

11. Is your foundation interested in better understanding how climate change could impact investment performance?
- Yes
- No
- Not sure

12. If there is interest, do you feel you can readily access information about climate change related risks and opportunities for your endowment investments?
- Yes
- No
- Not sure
- Do not need it

13. How well do you feel your senior leadership team understands responsible investing?
- Very well
- Somewhat
- Not well
- Not at all

14. If your Board knew that your organization could make a positive impact with its endowment as well as its grants, would they want to learn more about responsible investing?
- Of course!
- Not really
- Don't know

15. A significant amount of investment dollars are needed to help finance a lower carbon economy and meet ambitious targets for carbon reduction. This is often called climate finance. How interested is your foundation in climate finance?

- Not an area of interest for us
- Somewhat interested
- Very keen
- Already involved
- Don't know

16. Do you think your investment managers have access to enough data on the environmental, social and governance impacts of the companies in which they are investing the endowment?

- Yes
- No

17. What could CEGN do to help your organization move more capital into responsible investments? Check all that apply:

- Nothing. We will never do that.
- Organize informational events.
- Provide web links to responsible investing information.
- Offer opportunities to collaborate with other foundations to develop responsible investment beliefs
- Share examples of how to update Investment policies.
- Make connections to organizations undertaking responsible investing.
- Share case studies of successful responsible investing strategies.
- Host events with foundation asset managers to discuss responsible investing.
- Other ideas:

18. Please share any other comments, insights or suggestions with us.

19. Please provide your name and contact information, for potential follow-up conversations with CEGN.

Appendix B: Interview Questions

For Discussion With All Interviewees:

1. What drives a foundation (or "your foundation") to seek to invest their endowment in alignment with their charitable mission?
2. Why (top 2-3 reasons) do endowments ("your endowment") not invest in accordance with the foundation's mission?
3. What trends in foundation and endowment investing are you seeing? What is driving these trends?
4. What do you think is the easiest way for an endowment to start responsible investing?
5. What kind of responsible investment strategy could have the greatest impact?
6. Do you think there are enough responsible investing options for endowments in Canada?
7. Where are the gaps and opportunities with regard to product?
8. What do you think is the best way for an environmental grantmaker to make positive impact with his/her capital?
9. In your experience, are investment advisors equipped to advise and manage endowment responsible investment portfolios?
10. What is the single biggest thing CEGN and its members could do to help increase the $ invested in alignment with foundations' missions?

Additional Questions Where Appropriate:

Funders

11. Is your endowment currently invested with a responsible investing strategy? Why or why not?
12. Are you considering responsible investment strategies in the next 12 months? Why or why not?
13. Has your foundation ever used shareholder engagement tactics (file or co-file shareholder resolutions, actively vote their proxies, engage in dialogue with corporate management or join shareholder coalitions) to get companies in your investment portfolio to improve their ES or G performance? Why or why not?

Product Developers

14. What are the challenges and opportunities associated with developing responsible investment products for institutional investors?
15. Are you seeing a demand for more sophisticated products?
16. Who is demanding these and what are they looking for?

Investment Advisors

17. What are the challenges and opportunities associated with advising institutional clients on responsible investment strategies?

Benchmarks

18. Are you seeing clients shift to using ESG benchmarks from traditional benchmarks?
19. Do you know why?
20. What are the challenges with doing this?

Canadian Environmental
Grantmakers' Network

CEGN works to strengthen the impact of

philanthropic support for an environmentally

sound and sustainable future for Canadians

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