CIBC Asset Management

ESG EXPLAINED

RESPONSIBLE INVESTING: GROWING IN MARKET SIZE NATIONALLY AND GLOBALLY

A SUMMARY OF RESPONSIBLE INVESTING AND ITS DIFFERING APPROACHES

While responsible investing refers to the incorporation of ESG factors in the investment management process, implementing these factors can be done in different ways. Responsible investing principles fall along a spectrum, letting investors and asset managers choose a combination of ways in which a portfolio's construction and ongoing management may be ESG-oriented.

Responsible investment approaches defined

As detailed in the table below, each responsible investment approach has a defined purpose and can be used in the portfolio management process to reach a specific outcome. For example, this could entail:

- Excluding companies and sectors that produce hazardous products.
- Focusing only on businesses that consistently exceeds employee safety standards.
- Concentrating on emerging technologies capable of minimizing carbon emission and lowering society's dependence on fossil fuels.

	Responsible Investing Approach	Description
Exclusionary	Norms-based screening	Screening of investments based on compliance with international norms and standards such as those issued by the OECD, ILO, UN and UNICEF. This may exclude investments not in compliance with norms or standards.
	Negative screening	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.
Inclusionary	ESG integration	The systematic and explicit consideration by investment managers of ESG factors into financial analysis.
	Positive screening	Investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.
	Thematic investing	Investment in themes or assets that address specific sustainability issues like: climate change, food, water, renewable energy, clean technology and agriculture.
	Shareholder engagement	Employing shareholder power to influence corporate behaviour through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that's guided by comprehensive ESG guidelines.
Impact	Impact investing	Targeted investments aimed at solving social or environmental problems. Impact investing includes community investing, where capital is directed to traditionally underserved individuals or communities, or financing that's provided to businesses with a clear social or environmental purpose.

The global landscape

The Global Sustainable Investment Alliance, an international collaboration of membership-based sustainable investment organizations, states that as of 2018, $30.7 trillion (USD) in assets were being professionally managed under responsible investment strategies. This is an increase of 34% since 2016[1]. Although responsible investing continues to gain prominence worldwide, in terms of assets managed, Europe remains the largest geographic region employing ESG factors within portfolio management.

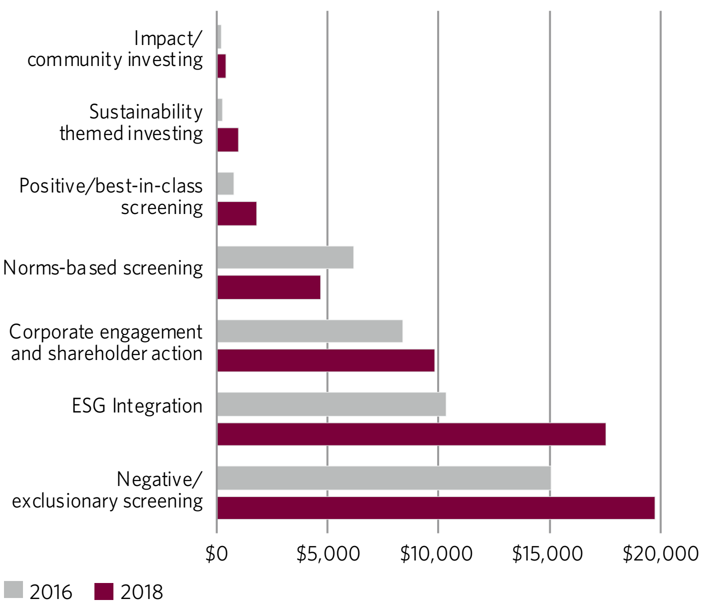
Global Sustainable investing assets, 2016 -2018

Region	2016	2018
Europe	$12,040	$14,075
United States	$8,723	$11,995
Japan	$474	$2,180
Canada	$1,086	$1,699
Australia/New Zealand	$516	$734
TOTAL	$22,839	$30,683

Source: Global Sustainable Invesment Alliance, 2018

Note: Asset values are expressed in billions of US dollars.

Responsible investing assets by approach, globally 2018.



Source: Global Sustainable Invesment Alliance, 2018

Note: Asset values are expressed in billions of US dollars.

As the chart on the left shows, negative screening is the most widely used responsible investment approach globally, given its ease of implementation. However, ESG integration is increasing. This may indicate that many asset managers are creating proprietary ESG methodologies to identify the non-financial risks of investing in companies that meet both their qualitative and quantitative criteria and continuously assessing them. Simply put, ESG Integration is a more 'dynamic' approach to responsible investing, in comparison to negative screening, revealing why it's growing in popularity.

The Canadian landscape

In Canada, the responsible investing space is experiencing meaningful growth, with total asset under managements reported as $3.2 trillion (CAD) as of December 31, 2019. This growth is spread across the different responsible investment approaches, as some approaches may be more commonly used by asset managers and practitioners.

The chart on the next page provides a look at the responsible investment approaches that are most commonly used by portfolio managers in Canada.

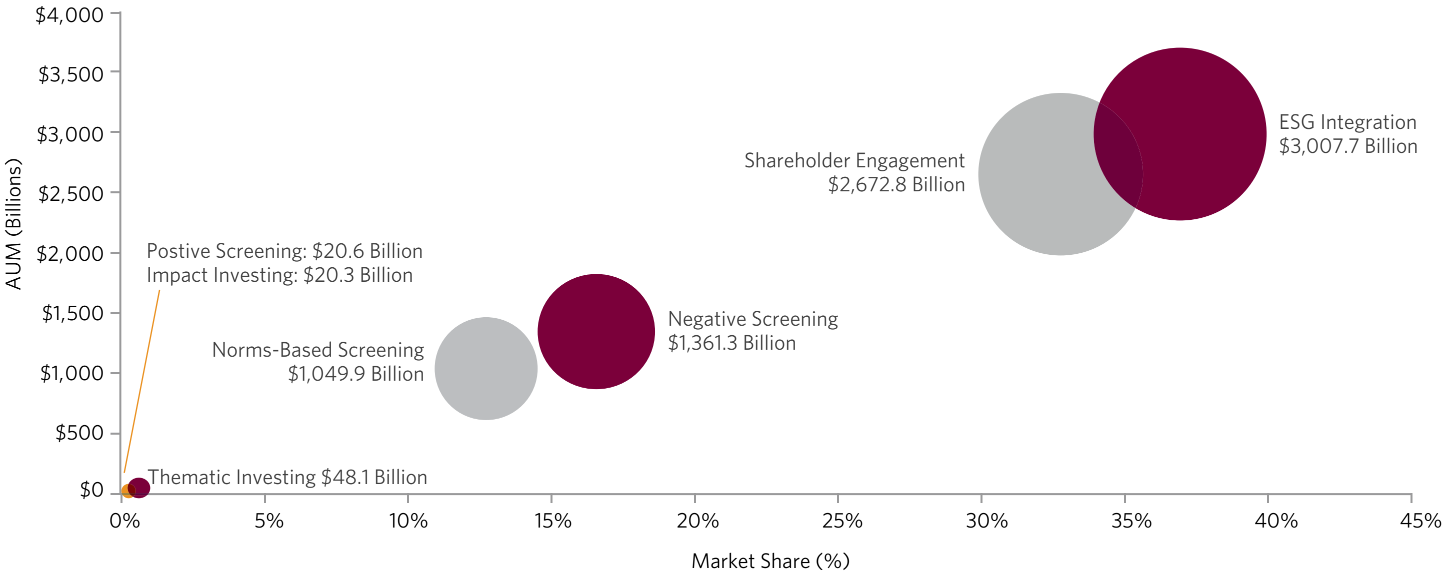
As shown, ESG integration is the most popular responsible investment approach used by asset managers in Canada. The prominent use of ESG integration highlights the growing acceptance that some risks and opportunities need to be evaluated using non-financial criteria. The second most popular approach, shareholder engagement, speaks to the growing use of shareholder resolutions and proxy voting as powerful tools capable of re-shaping a corporation's strategic direction. Increasingly, shareholder engagement is being used as a way in which stakeholder return is being realized.

Norms-based and negative screening are responsible investment approaches that encourage baseline activities. This includes removing or excluding investments that don't comply with international standards, and avoiding companies with businesses not supported by responsible investment principles, like producing fossil fuels, tobacco or military weapons. Within Canada, norms-based and negative screening are used by asset managers, although less so than previously mentioned responsible investment approaches.

[1] Global Sustainable Investment Alliance. (2018). Trends Report 2018. Retrieved April 8, 2020, from Global Sustainable Investment Alliance: https://www.ussif.org/files/GSIR_Review2018_3_28(2).pdf

Responsible Investment Strategies by AUM in Canada

Chart based on the 2020 RIA Canada Responsible Investment Trends Report



Source: Responsible Investment Association, 2020.

Please Note: Many assets are invested using multiple RI Strategies, this needs to be kept in consideration when evaluating the total responisble invesment assets within Canada or other geographic regions.

Although having comparatively smaller AUM numbers, the remaining approaches used by asset managers in Canada include: positive screening, impact investing and thematic investing.

- Positive screening, also known as 'best-in-class' investing, refers to investing in companies within a defined universe of positive ESG performers. These companies exhibit the best ESG performance within their industries.
- Impact investing seeks investment opportunities that generate measurable, socially beneficial, and environmentally impactful returns, along with financial returns.
- Thematic investing focuses on providing adaptive solutions to challenging issues like green infrastructure, energy efficiency and sustainable agriculture.

A high degree of intention is built into these three approaches, which is important for passionate responsible investors. This provides the security that their dollars are directed towards investments that: align with their values, offer attractive financial returns and are capable of positively impacting the world.

Conclusion

As illustrated by the data, although responsible investing is growing in popularity, the leading responsible investment approach may differ across geographic region. However, the primary intention in using these approaches is the same—to minimize non-financial risk, align portfolios with client values and increase long-term investment performance.

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