

2016 Canadian investor survey

New insights into what investors want from disclosure

Our 2016 study asked Canadian institutional investors whether or not they incorporate environmental, social and governance (ESG) issues into their investment decision-making – and if they do, how they do it, where they get their information and how useful it is.

RR DONNELLEY

simplelogic™

Overview

The 2016 study of Canadian institutional investors has its roots in proxy disclosure.

In 2012, the United Nations-supported Principles for Responsible Investment (PRI) began a series of studies to look at how companies are bringing Environmental, Social and Governance (ESG) elements into their compensation of executives.¹

In September 2014, the Ontario Teachers' Pension Plan participated on a PRI panel in Montreal talking about the same subject.²

And in October 2015, at an event in Montreal, la Caisse de dépôt et placement du Québec, Ontario Teachers' Pension Plan, PSP Investments and British Columbia Investment Management Corporation were all talking about what they're looking for in executive compensation: a link

between corporate strategy and pay, including material ESG metrics, and consistency between the MD&A, CD&A and sustainability reporting.³

This study explored this idea of corporate strategy, material ESG metrics and pay for performance further. Our goal was to learn whether or not Canadian institutional investors incorporate ESG issues into their investment decision-making – and if they do, how they do it, where they get their information and how useful it is.

Who we spoke to

The survey was conducted between August and December 2015. The working group included people from the Canadian Coalition for Good Governance, The Clarkson Centre for Business Ethics and Board Effectiveness, Rotman School of

What we learned

1 Canadian institutional investors DO consider ESG issues when making investment decisions (see page 4)

The institutional investors who completed this survey were clear: 65% of them often or always consider environmental and social issues, and 95% often or always consider governance issues, for *all* investments.

2 Different kinds of people are reviewing ESG information (see page 6)

ESG information is mostly being used by portfolio management teams – 70% review environmental issues, 65% social and 80% governance for every investment. 94.4% of investors said, however, they were more likely to scrutinize ESG disclosure if an issuer is in a high-risk industry.

3 Investors are using ESG information in several ways (see page 8)

Investors were consistent across ESG issues – 100% of them said they sometimes or always look at all three to assess risk, and when deciding whether to invest in a company.

4 Investors are getting this information mostly from third parties, but it's not giving them what they need (see page 10)

Only 30% of investors find the ESG information companies provide good enough to help them assess materiality to the company's business. 75% of respondents said they prefer to get ESG information from third parties, but that it's not giving them what they need to understand materiality.

5 Investors are consistent in what they want from ESG information (see page 12)

Investors told us they're looking for clear information about how ESG issues are strategically important to the company: they want a clear link between ESG issues and corporate strategy, risk management and operational context.

Management, CPA Canada, SimpleLogic and RR Donnelley.

We received responses from 24 Canadian institutional investment management firms representing over \$1.7 trillion in assets under management, including some of Canada's largest pension funds, mutual and pooled funds and other investment managers.

The survey was completed mainly by members of the investment team (40%), senior management (30%), members of the governance team (20%), as well as one board director. Respondents were mostly active investors, and more than 75% said they hold their investments for five years or more.

What it tells us

The Canadian investors who completed this survey told us that they definitely look at ESG issues when they make investment decisions – and they want to know how these issues are related to the company's strategy, risk management and operations.

This isn't surprising considering the growing body of research around the world linking sustainability and corporate performance, including a recent report from Harvard Business School (*Corporate Sustainability: First Evidence on Materiality*), which demonstrates that companies that focus their efforts on material sustainability issues increase value for both the company and its shareholders.

But the Canadian investors in this study said they're not getting the information they need from the company's securities filings or from their CSR reports.

That doesn't mean Canadian companies aren't considering ESG issues in their corporate strategy, risk management and operational context, or in their executive compensation programs.

This study makes it clear that there's a gap between the ESG information companies are providing, and what Canadian investors want to know.

However, if they are, it's not coming through in their reporting.

This study indicated that there's a gap between what companies are providing, and what Canadian investors want to know. The question is how best to provide it.

One approach is to include material ESG metrics in the MD&A. The Sustainability Accounting Standards Board in the U.S. has already issued provisional sustainability accounting standards for 90 industries in 11 sectors, and a guide for companies to implement them in their 10-K reports. The Global Reporting Initiative (GRI) is also providing guidance on materiality (*Defining Materiality: what matters to reporters and investors*).

Another approach is to publish an integrated report following the principles of the International Integrated Reporting Council (IIRC), but to date, very few North American companies have taken the leap.

Without a change in regulations or a push from investors, companies aren't likely to change their reporting any time soon. The concept release issued by the U.S. Securities and Exchange Commission in April 2016 is encouraging.⁴ But this study indicates that Canadian investors could be pushing harder to tell companies what information they're looking for to help them make more informed investment decisions.

Who we talked to

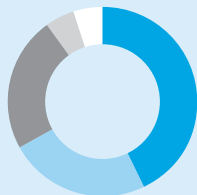
We surveyed a group of 24 institutional investors representing over \$1.7 trillion in assets under management, including some of Canada's largest pension funds, mutual and pooled funds and other investment managers.

The survey focused on Canadian institutional investors. Respondents included mostly active investors, who said they invest over a range of time horizons depending on asset class and investment strategy. Their definition of long term ranged from less than a year to more than 20 years, but the majority defined long-term investing as between five and 10 years.

The survey was conducted between August and December 2015 and completed mainly by members of the investment team (40%), senior management (30%), members of the governance team (20%), as well as one board director.

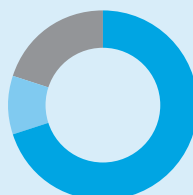


Mostly asset managers



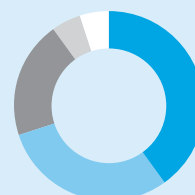
- 43% Public pension fund
- 24% Asset manager
- 23% Mutual or pooled fund manager
- 5% Private pension fund
- 5% Segregated fund manager

Mostly active investors



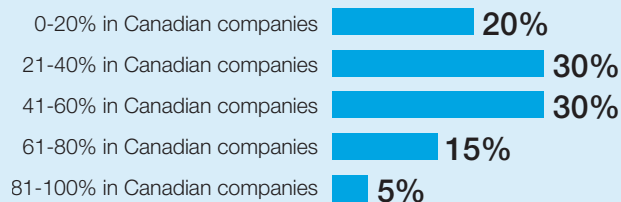
- 70% Mostly active
- 10% Mostly passive
- 20% A combination of both

A mix of respondents

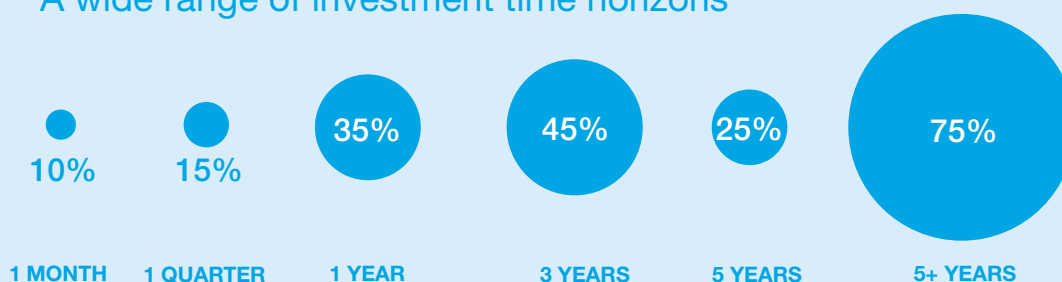


- 40% Member of investment team, including portfolio managers
- 30% Senior management
- 20% Governance team
- 5% Board director
- 5% Other
- 0% Sustainability or ESG analyst

Not just investing in Canadian companies



A wide range of investment time horizons



A variety of definitions for long-term investing

“Vis-à-vis an existing hold period, at least 1-2 years, however we analyze the prospects for existing and future investments over the much longer term. So the definition depends on the context in which the term is used.”

“We have various investment teams that would each answer differently. Greater than 3 years would be a good rule of thumb.”

“Long term would be considered anything beyond 3 years. This allows one to evaluate a company’s strategy and execution over a reasonable timeframe.”

“We target to invest a significant portion of our assets (42%) in private assets which increases our hold period to more than 5 years. The hold period in public equity may be shorter than that depending on the investment strategy.”

“Greater than five years, however horizon varies by asset class and investment strategy.”

“Time frame is unique to each investment mandate. Long term, to me, means more than 5 years.”

“Our definition of long term depends on the asset type. For instance, our typical hold period varies from 5 years (principal investments) to over 20 years (infrastructure).”

“While we take a strategic, longer-term focus with a view to the 5-10 year horizon, we also review our portfolio positioning on a shorter-term, more tactical basis each quarter.”

“We invest with a long (>10 years) horizon; while in the shorter term (6 months) we make tactical allocations to modify the plan’s risk levels.”

“Long term would be more than 10 years in my view. However, we have assets that would take an even longer-term view.”

“Given that we manage assets for our life insurance company and for our pension fund, we have a 20+ year investment horizon.”

1

What we learned

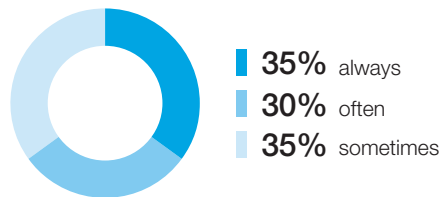
Canadian institutional investors DO consider ESG issues when making investment decisions

The institutional investors who completed this survey were clear: 65% of them often or always consider environmental and social issues, and 95% often or always consider governance issues, for *all* investments.

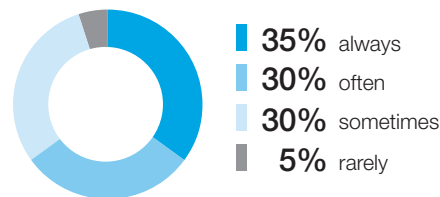
Supporting that, 78% said that at least one investment decision they had made in the last 12 months was significantly influenced by a company's ESG factors.

Of the few who said they rarely or never consider ESG issues when making an investment decision, most said it was because reliable information isn't available (85% for environmental, 73% for social), while 50% said information about environmental and social issues isn't comparable to peers.

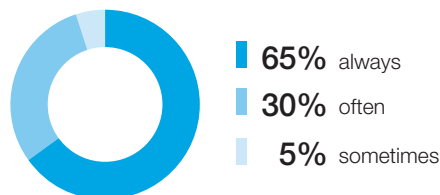
Environmental



Social



Governance



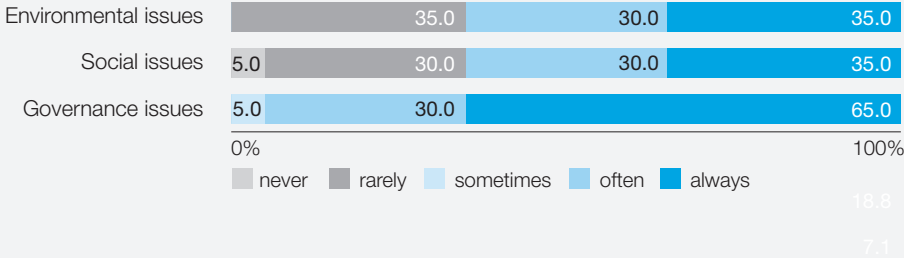
INTERNATIONAL PERSPECTIVE

Canada is part of an international trend

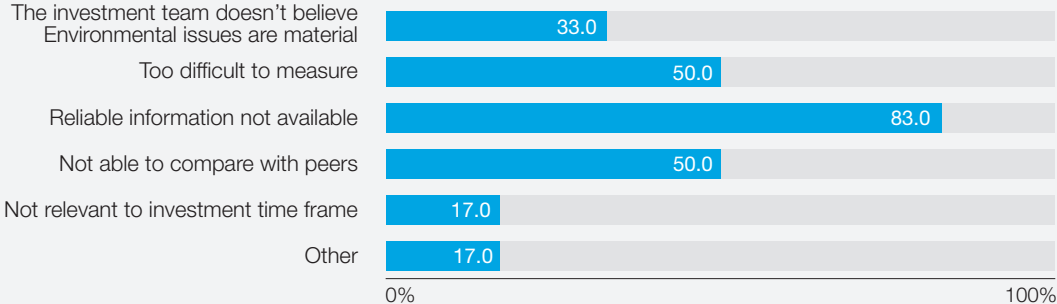
Canadian institutional investors seem to be following an international trend: 1,380 investment managers, asset owners and other investment-related organizations around the world (79 from Canada) had signed the United Nations-supported Principles for Responsible Investment (PRI) as of April 2015. These companies represented \$59 trillion in assets, an increase of 31.1% from April 2014, and over 800% since the principles were launched at the New York Stock Exchange in April 2006.

unpri.org/about

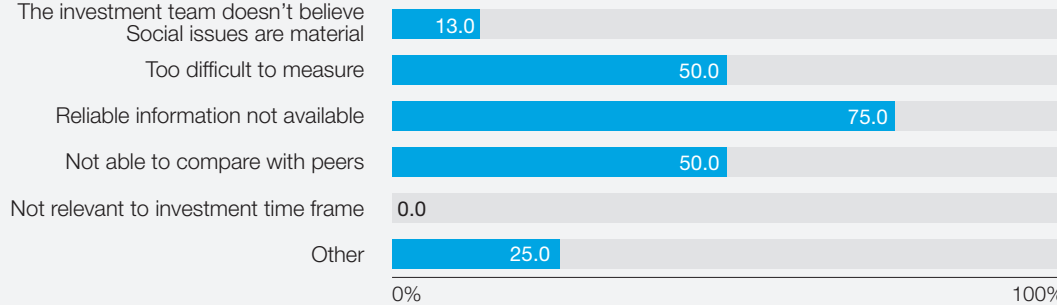
Question 1 | To what extent do you consider the following when assessing an investment?



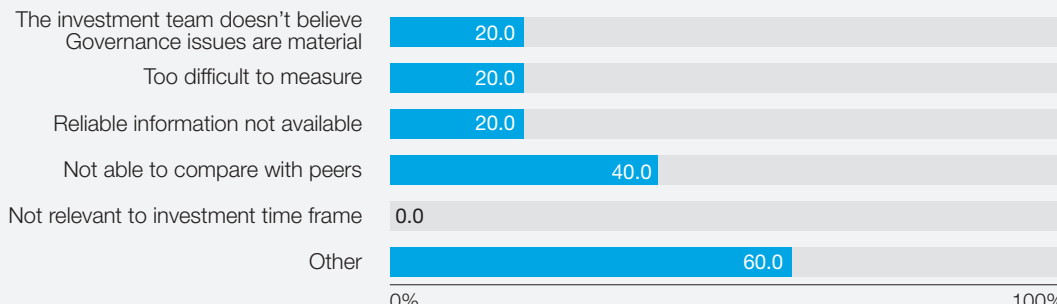
Question 2 | If you never or rarely consider Environmental issues, why don't you?



Question 3 | If you never or rarely consider Social issues, why don't you?



Question 4 | If you never or rarely consider Governance issues, why don't you?



2

Different kinds of people are reviewing ESG information

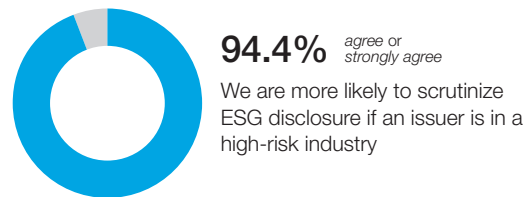
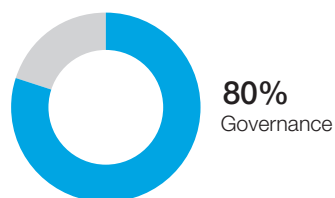
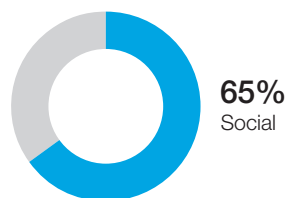
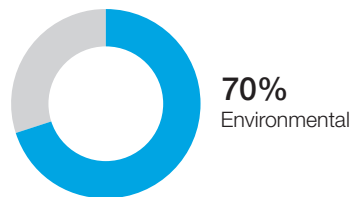
Respondents said portfolio management teams review ESG information most often, and significantly more than sustainability and ESG analysts. The investors we surveyed told us that their portfolio management teams review ESG issues for every investment (70% said portfolio managers review environmental issues, 65% review social issues and 80% review governance issues for every investment). While the governance team reviews environmental and social issues, it focuses mostly on governance issues (50% said the governance team reviews governance issues for all investments).

94.4% of respondents said they were more likely to scrutinize ESG disclosure if an issuer is in a high-risk industry. The risk management team is also more likely to review ESG issues for riskier investments, and considers environmental, social and governance issues almost equally.

Senior management and the board of directors are also more likely to be involved when the issuer is a riskier investment: management looks more at social and governance issues, while the board focuses more on governance.

Portfolio managers use ESG information the most

Percent who review for all investments



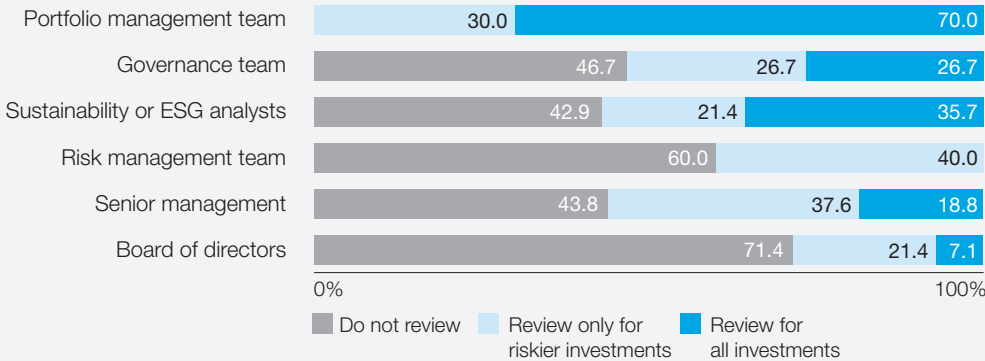
INTERNATIONAL PERSPECTIVE

Recent CFA Institute data supports Canadian findings

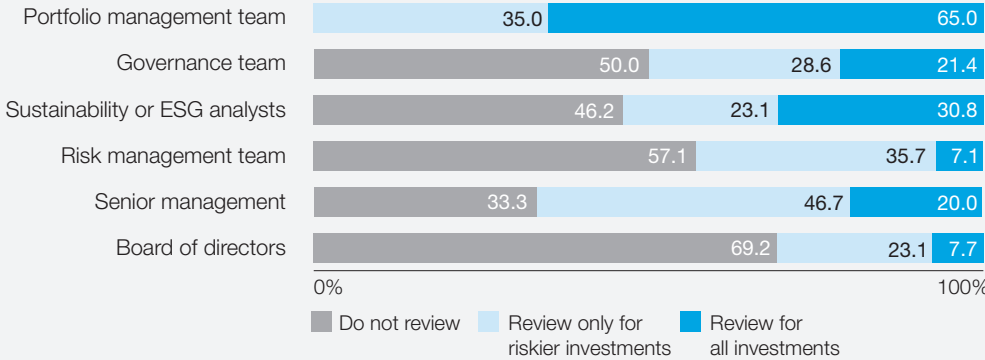
In a June 2015 study conducted by the CFA Institute, 73% of the members surveyed (portfolio managers and research analysts – 65% from North America) said they take ESG issues into account in their investment analysis and decision-making, with governance being most common. 63% of them do this to help manage investment risks.

cfainstitute.org/ethics/Documents/issues_esg_investing.pdf

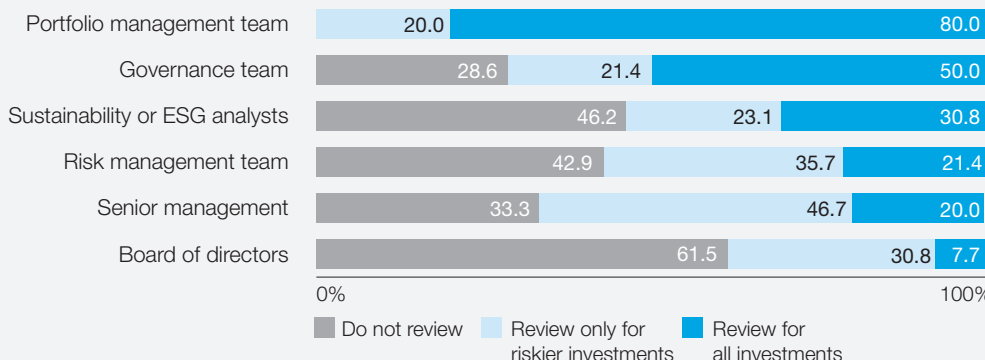
Question 5 | When do the following people review Environmental issues?



Question 6 | When do the following people review Social issues?



Question 7 | When do the following people review Governance issues?



3

Investors are using ESG information in several ways

Investors were consistent – 100% said they sometimes or always look at environmental, social and governance issues when assessing risk and when deciding whether to invest in a company. Looking at the company's reputation was also high on the list.

Almost 100% of investors said they sometimes or always consider the environmental, social and governance issues of a company when thinking about their *own* reputation. Almost all consider all three issues when engaging with a company.

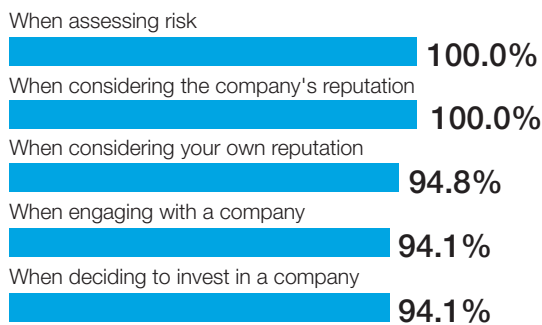
When investors consider ESG issues

Percent who review sometimes or always

Environmental



Social



Governance



INTERNATIONAL PERSPECTIVE

Studies support the link between sustainability practices and corporate performance

A March 2015 meta-study of 200 ESG research reports by the University of Oxford and Arabesque Partners identified several key links between sustainability practices and performance:

Sound sustainability lowers the cost of capital

90% of studies

Solid ESG practices result in better operational performance

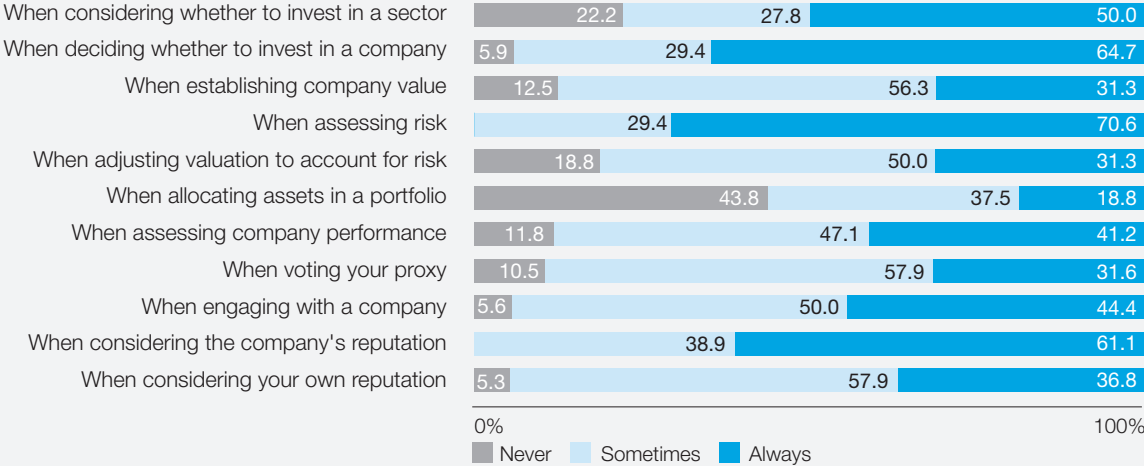
88% of studies

Stock price performance is positively influenced by good sustainability practices

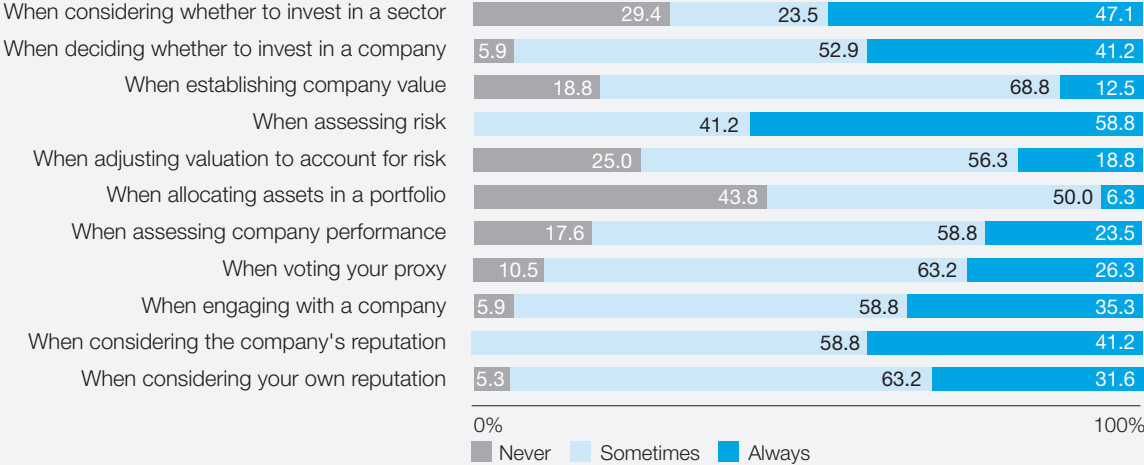
90% of studies

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2508281

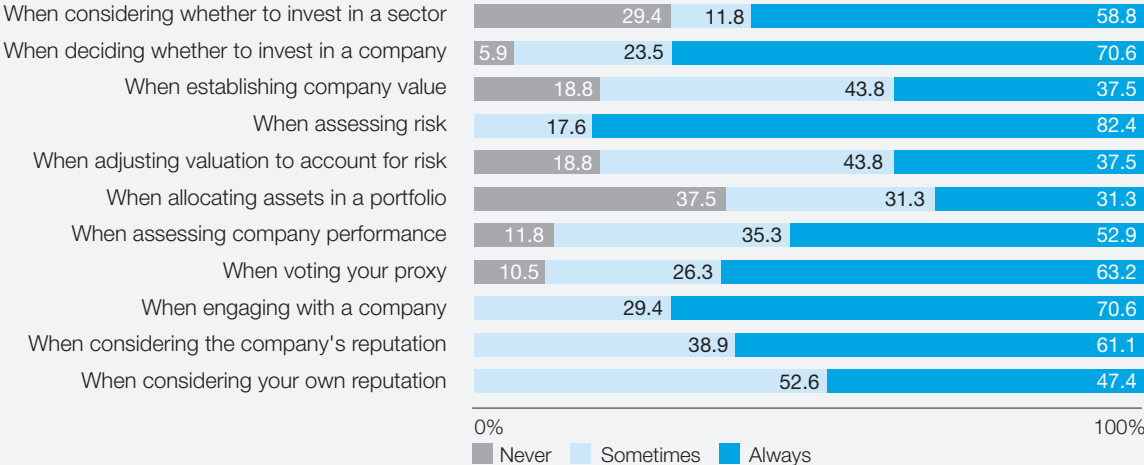
Question 8 | When do you consider Environmental issues?



Question 9 | When do you consider Social issues?



Question 10 | When do you consider Governance issues?



4

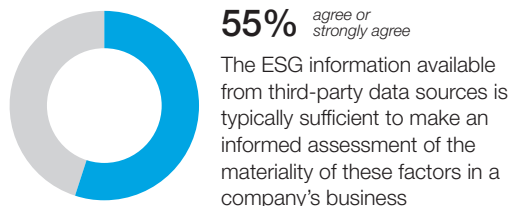
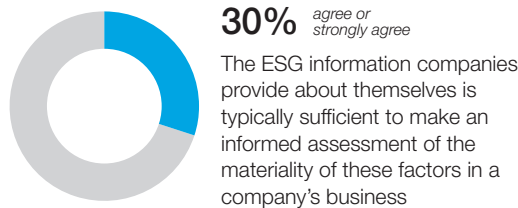
Investors are getting their information mostly from third parties, but it's not giving them what they need

Only 30% of investors find the ESG information companies provide good enough to help them assess materiality to the company's business.

Only 36% of investors find the company's CSR/sustainability report useful for assessing ESG issues when assessing company performance – ranking sixth on the list after external sources of information and the company's securities filings.

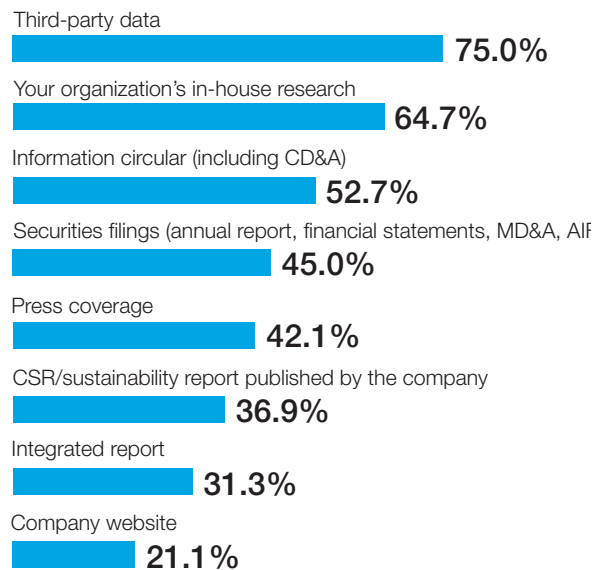
75% of respondents said they prefer to get ESG information about companies from third parties. MSCI ESG Research, ISS and Sustainalytics were the most frequently cited sources of third-party data.

And yet, only 55% of them agree that the third-party data they use is sufficient to help them assess its materiality to the company's business.

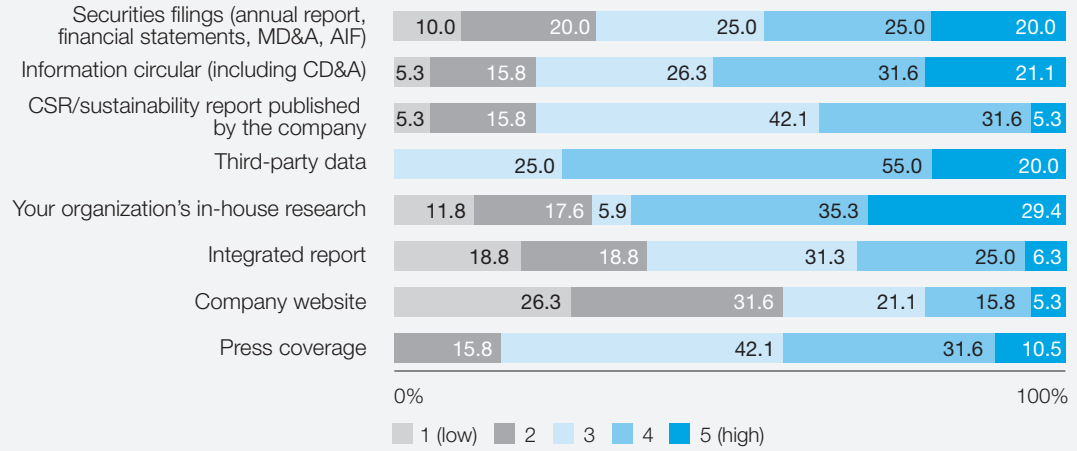


Where investors get ESG information

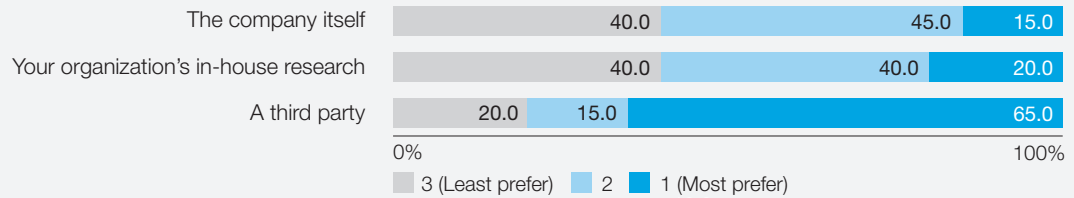
ranked 4 or 5 out of 5 on a scale of 1 to 5



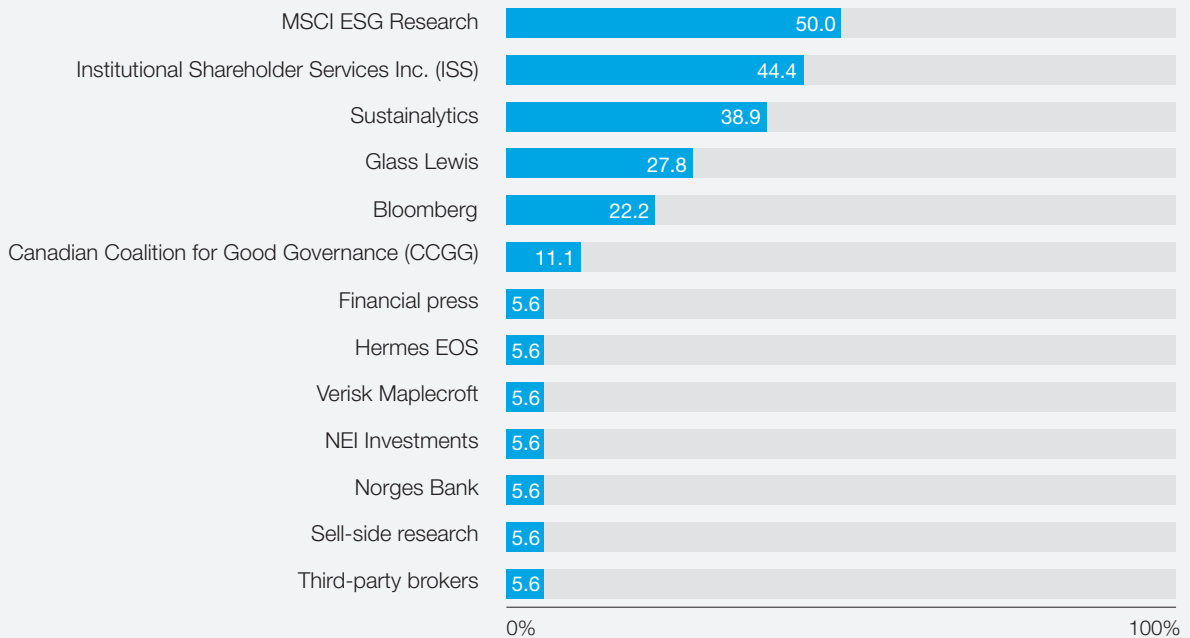
Question 11 | How useful is each of these in helping you assess ESG issues when you're assessing a company's performance?



Question 12 | Where do you prefer to get ESG information about a company?



Question 13 | Please list any third party sources that you use to get ESG information about a company.



5

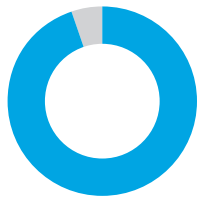
Investors are consistent in what they want from ESG information

85% of investors said that the quality of a company's ESG disclosure has an impact on their perception of management and/or the board of directors.

They're looking for clear information about how ESG issues are strategically important to the company: they want a clear link between ESG issues and corporate strategy, risk management and operational context. Detail and transparency also rank high.

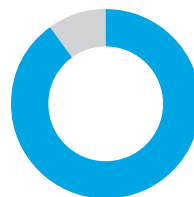
But 70% of investors said that the information companies provide doesn't give them what they need to make an informed assessment of the materiality of these factors in their business. Companies may be integrating ESG into their corporate strategy and risk management, but that's not coming through in their reporting.

Clear link to corporate strategy



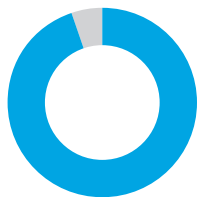
94.8%
ranked 4 or 5
on a scale of 1 to 5

Detail and transparency



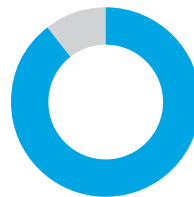
90.0%
ranked 4 or 5
on a scale of 1 to 5

Clear link to risk and risk management

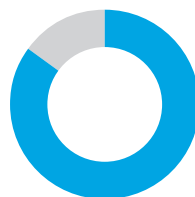


94.8%
ranked 4 or 5
on a scale of 1 to 5

Clear link to operational context

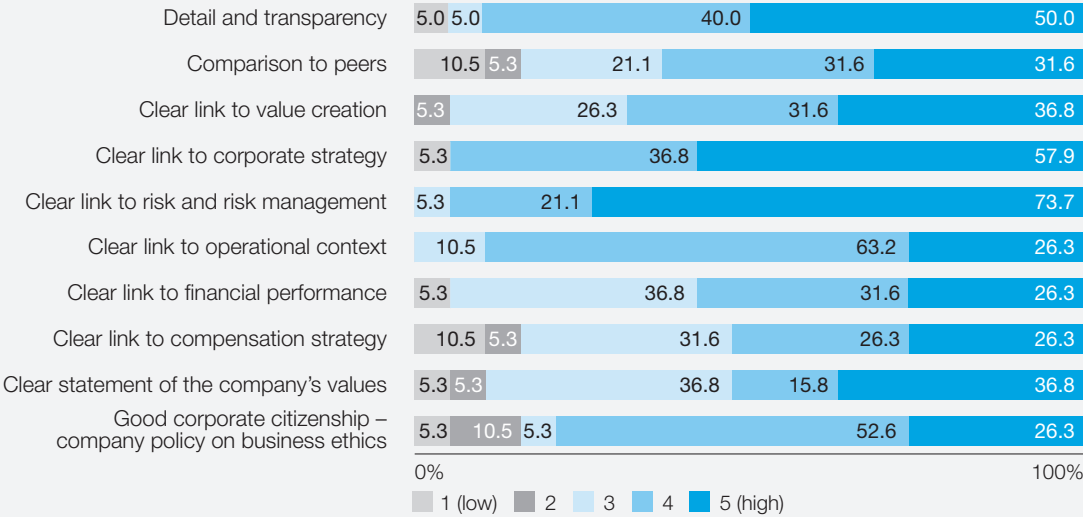


89.5%
ranked 4 or 5
on a scale of 1 to 5



85% *agree or strongly agree*
The quality of a company's ESG disclosure has an impact on our perception of its management and/or board of directors

Question 14 | What are the most important features you're looking for in ESG information?



INTERNATIONAL PERSPECTIVE

The importance of materiality

A study of approximately 2,300 companies in six sectors conducted by the Harvard Business School in 2015 (*Corporate Sustainability: First Evidence on Materiality*) demonstrated that companies that focus their efforts on material sustainability issues increase value for the company and for their shareholders.

According to the study, a growing number of companies believe that sustainability issues are strategically important, and release an extensive amount of environmental, social and governance (ESG) data. However, as companies release more and more ESG data that may not be material from an investment perspective, the materiality to the value of the firm is regularly questioned.

In fact, according to the Sustainability Accounting Standards Board (SASB), the Harvard researchers found that just 20% of the items in the sustainability data set they used (MSCI KLD) were material by SASB standards.⁵

“To make informed decisions in today’s capital markets—where long-term value is a function of not just financial but natural, social, and human capitals—investors need to be able to differentiate between material and immaterial sustainability factors. Furthermore, they need to be able to assess corporate performance on those factors.”⁵ *Jerome Lavigne-Delville, SASB*

hbswk.hbs.edu/item/corporate-sustainability-first-evidence-on-materiality

Question 15 | To what extent do you agree with the following statements?

a The ESG information companies provide about themselves is typically sufficient to make an informed assessment of the materiality of these factors in their business



b The ESG information available from third-party data sources is typically sufficient to make an informed assessment of the materiality of these factors in a company's business



c In the past 12 months, at least one of our investment decisions has been significantly influenced by a company's ESG factors



d The quality of a company's ESG disclosure has an impact on our perception of its management and/or board of directors



e We are more likely to scrutinize ESG disclosure if an issuer is in a high-risk industry



10% 100%

■ strongly disagree ■ disagree ■ neither agree or disagree ■ agree ■ strongly agree

For more information

For more about investors and ESG

CFA Institute

Environmental, Social and Governance (ESG) Survey.

June 2015.

https://www.cfainstitute.org/ethics/Documents/issues_esg_investing.pdf

Oxford University and Arabesque Asset Management

From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance.

March 5, 2015. Clark, Gordon L. and Feiner, Andreas and Viehs, Michael.

<http://ssrn.com/abstract=2508281>

Harvard Business School

Corporate Sustainability: First Evidence on Materiality.

March 9, 2015. Khan, Mozaffar and Serafeim, George and Yoon, Aaron.

hbswk.hbs.edu/item/corporate-sustainability-first-evidence-on-materiality

Principles for Responsible Investment

PRI member statistics:

<https://www.unpri.org/about>

For more about ESG and reporting

Principles for Responsible Investment (PRI)

unpri.org

Sustainability Accounting Standards Board

sasb.org

International Integrated Reporting Council

integratedreporting.org

Global Reporting Initiative

globalreporting.org

1 *Integrating ESG issues into executive pay, Guidance for investors and companies.* Principles for Responsible Investment (PRI). June 2012.

2 *Executive pay: aligning incentives with strategy.* Session at the annual PRI in Person conference in Montreal, Canada. September 2014.

3 *Linking performance to ESG criteria for executive pay.* Session at Responsible Investor Conference in Montreal, Canada. October 2015.

4 *SEC Concept Release on Business and Financial Disclosure Required by Regulation S-K – SASB commentary*
<http://www.sasb.org/wp-content/uploads/2016/05/Reg-SK-Key-Messages-FINAL.pdf>

5 *The Jury Is In: Materiality Matters.* Jerome Lavigne-Delville, SASB. March 17, 2015.

Working group

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CPA Canada

Matt Fullbrook

Clarkson Centre for Business Ethics and Board Effectiveness

Rotman School of Management

Catherine McCall

Canadian Coalition for Good Governance

Research sponsors

RR DONNELLEY

RR Donnelley Financial Services is the preferred global provider of financial disclosure solutions, helping our clients efficiently meet their regulatory obligations and streamline their SEC reporting process. With a global network of service professionals and innovative technology, RR Donnelley is uniquely positioned to assist companies with all of their financial communications needs.

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SimpleLogic Inc. specializes in simplifying complex information. Founded in 1997, SimpleLogic creates award-winning work for leading companies across North America, and continually sets new standards for plain language disclosure. They speak regularly about the value of clear communication and consult with regulators, law firms and industry organizations.

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