



THE SUSTAINABLE INVESTOR

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SUSTAINABLE INVESTING PRIMER

Integration of sustainable investing strategies in portfolios, including Environmental, Social and Governance (ESG) analysis, is a growing and global trend. Capital continues to flow into both ESG-related funds and sustainable bonds, at a 4-year CAGR of 18% and 57%, respectively. While sustainable investments remain a relatively small proportion of global asset allocation, there is no indication that the momentum behind sustainable investing is slowing down.

Sustainable bonds are issued to finance projects with environmental and social benefits. These securities are no different than regular bonds issued by the same entity. To date, the total cumulative issuance of sustainable bonds has exceeded US\$710 B; with approximately US\$214 B in sustainable bonds issued in 2019 alone, up 45% from 2018.

There are seven prevailing sustainable investing strategies that investors employ today:

- 1. Screening:** process of selecting companies (positive screens) or excluding (negative screens) based on ESG metrics or industries that are exposed to certain practices
- 2. ESG Integration:** reflecting ESG factors associated with business risks and opportunities for a particular company or industry into financial analyses
- 3. Shareholder Activism:** approach that involves influencing corporate behaviour, through shareholder proposals, proxies or management dialogue to better align ESG practices
- 4. Norm-based Screening:** selecting companies based on internationally recognized standards, such as UN Principles of Responsible Investment (PRI) or Social Development Goals (SDGs)
- 5. Best-in-class Screening:** process of selecting companies with the strongest ESG metrics
- 6. Thematic Investing:** investment in a specific theme or asset class that addresses a specific sustainability issue
- 7. Impact Investing:** strategy of generating observable, tangible and measurable social and environmental benefits in addition to financial returns

One challenge confronting sustainable investing is the variability in corporate disclosure and quality of third-party analyses (e.g. ESG scores). From the perspective of investors, companies need to be more proactive in engaging and managing ESG-related opportunities and risks. The clear incentives for businesses are to mitigate regulatory costs and access alternative sources of capital.

NORTH AMERICAN ESG-RELATED FUND TOTAL AUM AND GREEN BOND ISSUANCE



GENDER DIVERSITY ON BOARDS ACROSS SELECT COUNTRIES AND SECTORS

“No country can ever truly flourish if it stifles the potential of its women and deprives itself of the contributions of half of its citizens.”

– Michelle Obama

Gender diversity at the board level remains a contemporary issue that confronts companies globally. There is consensus that poor gender equity policies, including the impact of the proverbial glass ceiling, comes at the expense of overall economic growth. In an equal and equitable society, everyone deserves fair treatment and access to similar opportunities. The historic marginalization of women has contributed to less leadership participation.

In 2018, France, among other countries in the European economic area, had the highest average participation of female board directors relative to any other country in the sample from leading global indices, representing 1613 companies. France surpassed both the United States' and Canada's average participation rates by approximately 18%.

It is not a coincidence that France leads the way in female board representation. In 2011, France passed legislation that mandated large companies to have a minimum of 40% female representation on board of directors by 2017. The idea of legislation to address board representation dates back to Norway in 2003; however, Norway's efforts were less effective given that soft quota requirements were more recommendations and not enforceable. In general, board diversity has gained momentum in Europe relative to North America. Although there has been significant progress in recent years, boards globally are still far from achieving adequate gender diversity.

2018 FEMALE BOARD REPRESENTATION

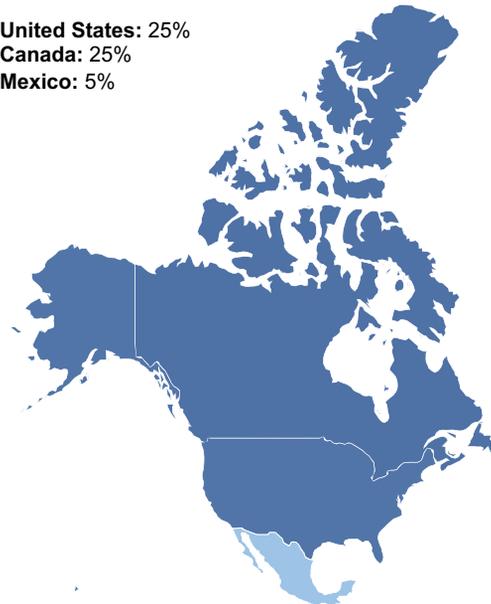
EUROPEAN ECONOMIC AREA

France: 43%
Sweden: 38%
Germany: 33%
United Kingdom: 29%
Switzerland: 28%
Spain: 22%



NORTH AMERICA

United States: 25%
Canada: 25%
Mexico: 5%



GENDER DIVERSITY ON BOARDS ACROSS SELECT COUNTRIES AND SECTORS

Overall female representation on Canadian board of directors increased from 23% in 2017 to 25% in 2018, with increases observed in all sectors. Still, there remains important differences across sectors.

The Standard and Poor's TSX Composite Index (SP/TSX Index), which consists of 348 companies, and the Global Industry Classification System (GICS) were used to examine the trends within Canadian industries between 2017 and 2018.

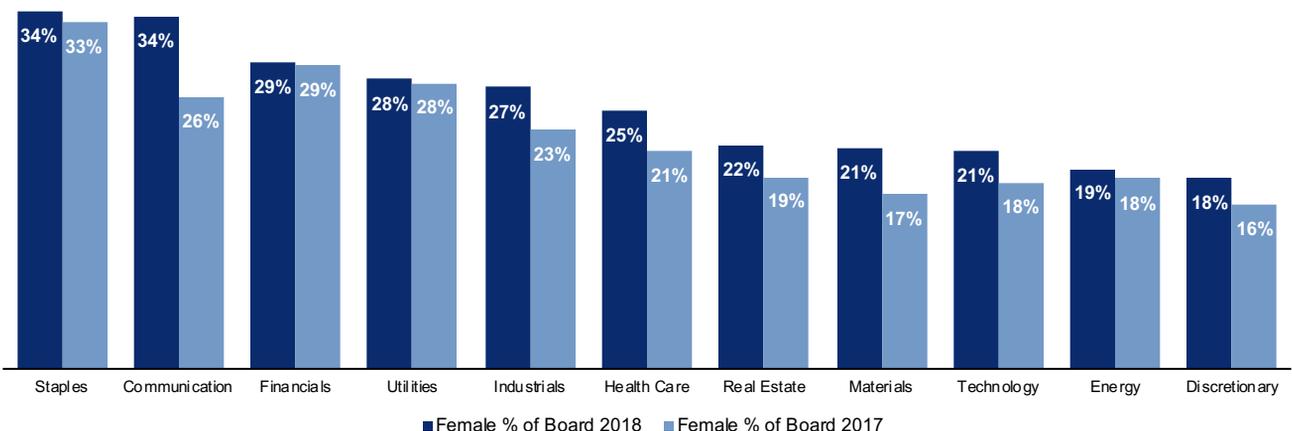
Consistent with a Statistics Canada study on the representation of women on Canadian boards in 2016, service-related sectors typically have higher female representation. In the graph below, the average female representation in 2018 for the communication services and financial services sectors were 34% and 29%, respectively, compared to the materials and energy sectors' female representation of 21% and 19%, respectively.

Academic evidence suggests mixed effects of gender diversity on boards. In a recent study by Turban, Wu, and Zhang, the authors examined the impact of gender diversity and firm performance across different countries and industries. The study found that gender diversity only improved productivity, as a measure of

company revenue and market value, depending on the level of normative acceptance. For example, in a relatively gender-inclusive area like Western Europe, the researchers found that a 10% increase in gender diversity resulted in approximately a 7% increase in market value. In countries with less gender inclusivity, diversity was found to be unrelated to performance. The authors conclude that unlocking the value of gender diversity is open to those countries and industries that are willing to accept it.

As Canada prides itself on its progressive and inclusive values, the level of women representation on boards lags significantly behind other developed economies. Within Canada, the sample data suggests that women primarily hold board positions in service-based sectors. Given the relative economic importance of natural resources and other non-service-based sectors in Canada, women remain significantly underrepresented on those boards. There are, however, some encouraging signs. The Materials sector saw a 4% increase in female board representation from 2017 to 2018, a trend we hope will continue.

CANADIAN BOARD OF DIRECTORS GENDER DIVERSITY ACROSS SECTORS



AMERICA'S TRANSITION TO A FOSSIL-FUEL FREE ECONOMY

In the buildup to the 2020 U.S. election, Democratic candidates are trying to outcompete each other in proposing ambitious energy and environmental plans, setting up a dramatic contrast to the Trump administration. Given the nature of environmental jurisdiction, the future of America's fossil-fuel free economy lies, to a large extent, in the hands of state legislators.

The U.S. has several tax subsidies that directly support the fossil fuel industry which were intended to encourage domestic energy production. Low-end estimates of direct subsidies provided to the fossil fuel industry are US\$20 B per year, with 20% allocated to coal producers and 80% to crude and natural gas extractors. In a time when renewable energy has become cost-competitive compared to fossil fuels, it questions the role of subsidies that are counter to policy goals aimed at reducing the amount of green house gas emissions.

Several states have taken the lead in paving the way for decarbonization. California is one of the leaders in this transition. Initially, California decided that by the end of 2030, half of the electricity consumed in the state would be of renewable origin. A 2018 amendment, however, promoted by California Senator Kevin de León, set a 50% renewable electricity target by 2026, 60% by 2030 and 100% by 2045.

	100% Renewable / Clean Power Targets			
	Year	Type	Status	Date
California	2045	Clean	Law	Sep-18
D.C.	2032	Renew.	Law	Jan-19
Hawaii	2045	Renew.	Law	Jun-15
Maine	2050	Renew.	Law	Jun-19
Nevada	2050	Clean	Law	Apr-19
New Jersey	2050	Clean	Order	May-18
New Mexico	2045	Clean	Law	Mar-19
New York	2040	Clean	Law	Jul-19
Puerto Rico	2050	Renew.	Law	Apr-19
Washington	2045	Clean	Law	May-19

As of today, ten states have committed to policies that target 100% renewable energy and clean power, excluding the use of fossil fuel in energy production. As shown in the table below, the 100% target is set to be reached first by D.C. in 2032, with other states aiming to achieve the goal between 2040 and 2050.

	2018 Electricity Mix		
	Renew.	Nuclear	Fossil Fuel
California	43%	9%	47%
D.C.	71%	0%	29%
Hawaii	13%	0%	87%
Maine	74%	0%	26%
Nevada	26%	0%	74%
New Jersey	3%	43%	55%
New Mexico	23%	0%	77%
New York	27%	32%	41%
Puerto Rico	2%	0%	98%
Washington	78%	8%	14%
U.S. Avg.	18%	19%	

Indeed, a lot of progress can be made in twenty years. In 2000, coal supplied half of the electricity in the U.S. with little discussion about climate change. Today, clean sources of energy have become a priority for governments, businesses and citizens amidst the global fight against climate change.

Six of the ten jurisdictions that have committed to the 100% target are already above the U.S. mean in terms of zero-carbon attributes. The slow evolution of the energy landscape makes future 20-year targets difficult to both achieve and estimate. Despite politicians' ambitious targets and regulations to limit emissions, the transition to a fossil-fuel free economy requires collective action across all states – especially carbon intensive states such as Texas and Florida. These policies are a step in the right direction, but as the impacts of climate change begin to materialize through extreme weather events and natural disasters, it is likely that more states will become increasingly proactive.



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