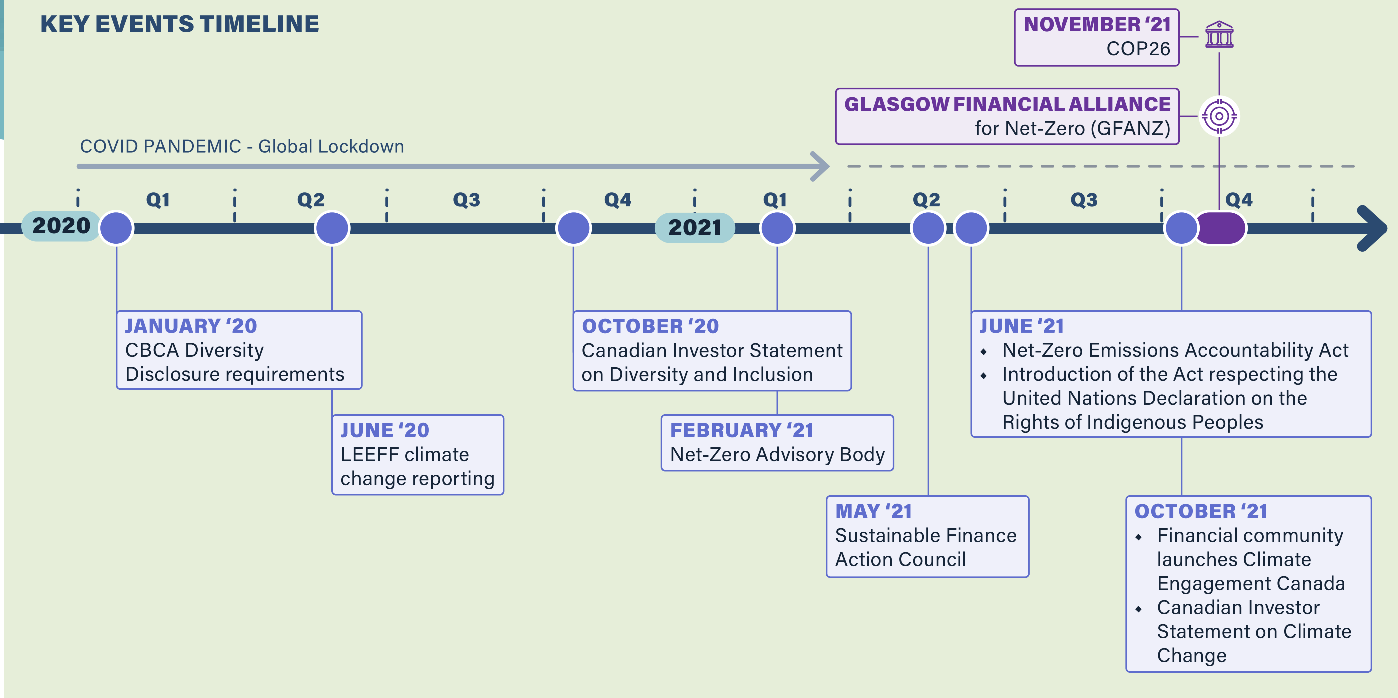
CANADA

KEY EVENTS TIMELINE



10 Year Reflections

Significant milestones in Canada include:

2015 - Indigenous Reconciliation:

- Canada's Truth and Reconciliation Commission (2015) Call to Action #92 called upon Canada's corporate sector to adopt UNDRIP as a reconciliation framework. This would include committing to meaningful consultation and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects; ensuring equitable access to jobs, training, and education opportunities in the corporate sector, and, providing education on Indigenous history, residential schools, UNDRIP, Treaties and Aboriginal rights, Indigenous law, and Aboriginal–Crown relations.
- In 2019, British Columbia passed the Declaration on the Rights of Indigenous Peoples Act. In 2021, the federal United Nations Declaration on the Rights of Indigenous Peoples Act came into force.

2019 - Sustainable Finance:

- The next phase of growth for RI and sustainable finance saw the launch of the Final Report of the Expert Panel on Sustainable Finance. The report provided 15 recommendations to the federal government to mainstream sustainable investment in Canada. The creation of the Sustainable Finance Action Council (SFAC), the development of Canada's Green and Transition Taxonomy, and the launch of Climate Engagement Canada (CEC) are all examples of actions resulting from recommendations of this influential report.

> *'Over the last 10 years, the growth of responsible investment in Canada has been primarily bottom-up.'*

Over the last 10 years, the growth of responsible investment in Canada has been primarily bottom-up - driven by investors who are incorporating ESG factors in their investment analysis and decision-making intending to improve risk-adjusted returns for their clients/beneficiaries.

In 2019, the conversation around sustainable finance accelerated with the launch of the Final Report of the Expert Panel on Sustainable Finance. The report provided 15 recommendations to the federal government to mainstream sustainable investment in Canada. The creation of the Sustainable Finance Action Council (SFAC), the development of Canada's Green and Transition Taxonomy, and the launch of Climate Engagement Canada (CEC) are all examples of actions resulting from the recommendations of this influential report.

Recent years have seen greater scrutiny and regulation in the industry. Climate is seen as a systemic risk, greenwashing has come under the regulatory microscope, and disclosures around diversity measures are being extended to personal characteristics other than gender. Indigenous rights and reconciliation, including economic reconciliation, are garnering greater attention from responsible investors as they seek to implement actions under Call to Action #92 from Canada's Truth and Reconciliation Commission.

10 Year Forward Look

RI in Canada is at an inflection point where the future growth of the industry will be characterised by greater transparency, standardisation and integrity. Canadian responsible investors view the greatest deterrents to growth of responsible investment to be: concerns about greenwashing, the current lack of standardised ESG disclosure frameworks, and the lack of reliable ESG data. Looking ahead, we expect scrutiny around greenwashing claims to increase and be addressed by regulation. We also expect to see a shift in alleviating responsible investors' concerns, with progress on improving ESG data with standardised reporting, as definitions are refined, and as gaps in regulation are filled.

We will be watching for the implementation of the ISSB disclosure requirements, globally and in Canada, providing responsible investors with access to the reliable, consistent, and comparable ESG data they have been asking for. In addition, the GSIA, CFA Institute and the PRI have been collaborating to harmonise global definitions for RI strategies. Confusion and misunderstanding due to inconsistent terminology/definitions have likely contributed to perceptions of greenwashing. Adoption of this common language will provide much needed clarity to the market.

Understanding and addressing the interactions of climate, nature, and society are vital to achieving Canada's commitments to net zero. This will require a transition of the whole economy. Ensuring sustainable jobs for communities negatively affected by the transition, preserving biodiversity and respecting Indigenous rights and economic inclusion will be key to the "just transition" in Canada, in addition to the commitment of significant capital from domestic and global investors.

Policy & Regulatory Drivers

ESG and responsible investment has been receiving increased attention from regulators in Canada. In 2020, corporations governed by the Canada Business Corporations Act (CBCA) with publicly traded securities became required to provide information on the corporation's policies and practices related to diversity on the board of directors and within senior management. This includes the number and percentage of members of the board and of senior management who are women, Aboriginal persons, members of visible minorities and persons with disabilities. Canada became the first jurisdiction in the world to mandate diversity disclosure concerning specific personal characteristics in addition to gender.

In 2021, the CSA published for comment proposed climate-related disclosure requirements for issuers. In 2023, they announced the intention to conduct further consultations to adopt disclosure standards based on ISSB Standards, with modifications considered necessary and appropriate in the Canadian context.

The federal government formed the Net-Zero Advisory Body and the Sustainable Finance Action Council (SFAC) in 2021.

The mandate letter for Canada's Minister of Finance and Deputy PM Chrystia Freeland, issued in December 2021, includes several provisions for sustainability, making this the first-ever sustainable finance mandate for Canada's Minister of Finance.

The IIROC (Investment Industry Regulatory Organization of Canada) published updated Know Your Client (KYC) rules in November 2021, where they accepted the RIA's proposal to position clients' ESG preferences and personal values as part of their potential investment objectives.

In January 2022, the Canadian Securities Administrators (CSA) published guidance for investment funds on their disclosure practices related to ESG considerations, where funds use ESG strategies, market themselves ESG-focused or have investment objectives that reference ESG factors.

In January 2022, OSFI and the Bank of Canada published a report highlighting the fact that Canada's financial institutions are at risk of "sudden and large losses" as the global economy transitions away from carbon emissions.

Industry Collaboration

The RIA launched the Canadian Investor Statement on Diversity and Inclusion launched in October 2020, committing signatories to integrating diversity and inclusion (D&I) into their investment processes, as well as strengthening D&I practices within their own organizations. As of December 31, 2021 there were 53 institutional investor signatories representing over $3 trillion in assets under management (AUM).

In October 2021, the RIA launched the Canadian Investor Statement on Climate Change with 36 institutional investor signatories managing more than $5.5 trillion in assets. The statement includes expectations of institutional investors and investees with regard to climate change management, oversight, and accountability.

Also in October 2021, Climate Engagement Canada (CEC) launched. CEC is a finance-led initiative that drives dialogue between the financial community and corporate issuers to promote a just transition to a net zero economy, setting a new bar for climate engagement in Canada. The CEC is based on Canada's Expert Panel on Sustainable Finance's recommendation for a national engagement program, akin to the global Climate Action 100+ initiative. In partnership with Shareholder Association for Research and Education (SHARE) and supported by Ceres and the Principles for Responsible Investment, the CEC launched with 27 Founding Participants representing more than $3 trillion in assets.

The Canadian Investment Funds Standard Committee (CIFSC) published a Responsible Investment (RI) Identification Framework in 2022 that defines six non-mutually exclusive RI approaches with the aim to provide clarity for investors who wish to invest in products following responsible investment strategies.

Customer Drivers

The responsible investment market in Canada is dominated by institutional investors. Canadian retail mutual funds and ETFs represented a very small subset of all funds in Canada as of December 31, 2021, with total AUM of only $34.5 billion (source: Morningstar). However, 2021 was a year of significant product launches and positive asset flows into retail RI funds: 73 Canadian-domiciled RI products launched in 2021, bringing the total to approximately 240 funds.

Despite this relatively small retail footprint, individual interest in responsible investment is quite high. RIA has been tracking continued individual investor perspectives on responsible investment through our annual Investor Opinion Surveys. In 2021, 73% of respondents expressed interest in responsible investment, while about one-third of respondents said they currently own responsible investments There is a notable advice gap: 77% of respondents said they want their financial services provider to inform them about responsible investments that are aligned with their values, but only 27% said they had ever been asked if they were interested.

Market Drivers

In Canada, reported Canadian RI AUM was $3.0 trillion as of December 31, 2021, similar to the $3.2 trillion reported as of the end of 2019. As a proportion of all professionally-managed assets in Canada, responsible investment estimated market share was 47% in 2021.

Responsible investors cite risk management as their principal motivation for incorporating ESG factors into their investment decisions. The second-highest ranked reason was to improve returns. Put together, responsible investors are incorporating ESG factors into their investment decision-making for the opportunity to generate better risk-adjusted returns.

Meeting fiduciary obligations was the third-ranked reason to consider ESG factors. Over time, the idea that investors incorporating ESG factors is consistent with, not in conflict with, an investment manager's fiduciary duty, has become more widely accepted in the investment industry. Modern fiduciary duty arguably requires investors to consider all relevant information and material risks in investment analysis and decision-making, which includes considering relevant, material ESG information and risks. Responsible investors' stated motivations are consistent with ESG integration being the most prevalent responsible investment approach in Canada.

History of the Canadian Responsible Investment Association (RIA)

The RIA's predecessor, the Social Investment Organization (SIO), was established in 1990 to advance socially responsible investing (SRI) in Canada - with a focus on what we now term negative screening as a means for investors to express their values in their investments. The SIO played a central role in building and developing SRI in Canada for 23 years.

In 2013, the SIO was rebranded as the Responsible Investment Association to evolve with the industry and encompass the broader scope of responsible investment, which incorporates environmental, social and governance (ESG) issues into the selection and management of investments.

RI in Canada has grown tremendously, largely linked to the global growth. Since we started counting RI AUM in 2006, assets have grown from CAD$460 billion to CAD$3.0 trillion (as of December 31, 2021). Find out more about RIA and its work on its website.