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Canadian companies are warming to responsible investing, RBC survey finds

DAVID MILSTEAD INSTITUTIONAL INVESTMENT REPORTER

Canadian institutions are growing more committed to making investment decisions by applying responsible investing criteria as part of their decision-making mix – but there are cracks showing in the global commitment to the concept.

RBC Global Asset Management's annual survey on responsible investing trends found that 80 per cent of Canadian respondents use environmental, social and governance (ESG) principles as part of their investment approach in 2019, and the number who "significantly" rely on ESG factors jumped five percentage points to 26 per cent over 2018.

While firms that have adopted ESG principles strengthened their commitment, the survey found, there was an increase in negative sentiment toward ESG among firms who don't use it, particularly in the United States.

The proportion of respondents who said an ESG-integrated portfolio would perform better than a non-ESG-integrated portfolio dropped to 28.9 per cent from 30.9 per cent in the 2018 survey. (Canada was the primary exception, where 33.6 per cent of respondents said an ESG-integrated portfolio would perform better, up from 24.6 per cent a year ago.)

The portion of respondents who think an ESG portfolio will perform worse than a non-ESG portfolio increased significantly, to 17.8 per cent from 10.4 per cent in 2018. The number of respondents in the United States who doubt the efficacy of an ESG portfolio rose to 22.1 per cent from 18.4 per cent last year.

RBC and its partner, BlueBay Asset Management LLP, surveyed nearly 800 institutional asset managers, their clients and other industry participants for the survey. Signet Research Inc., which analyzed the data for the two, estimates a sampling error of plus or minus 3.5 percentage points with a 95-per-cent confidence level.

"I think what's important to note is that while the growth has slowed down, the numbers are still high – we have 70 per cent globally either significantly or somewhat integrating ESG, which is still quite a large number," says Melanie Adams, RBC Asset Management's head of corporate governance and responsible investment. "We're not having the significant growth year-over-year that we've seen in other years. But investors who have adopted ESG integration are committed to this."

Another factor, Ms. Adams believes, is the global chase for “alpha,” or outperformance, and the belief among many that superior returns are growing harder to find. Investors who say they don’t think an ESG portfolio can outperform may be skeptical that any one investment strategy will definitely outperform another.

Ms. Adams also noted other regional differences: When investors were asked what they considered to be the most important ESG factor, U.S. respondents said cybersecurity, while Europeans answered climate change, and Canadians, surveyed in the midst of the 2019 SNC-Lavalin controversy, answered anti-corruption.

Other surveys that show growing importance of ESG, or similarly themed investing concepts, have picked up on its global adoption, with the pocket of resistance in the United States. Aon PLC’s 2019 Global Perspectives on Responsible Investing survey found 44 per cent of U.S. respondents indicated that responsible investing plays “no role” in their investment decision-making, compared with 29 per cent in Canada, 27 per cent in Continental Europe and 11 per cent in Britain.

Cidel Asset Management, a Toronto-based investment manager with more than $6.5-billion in assets, has embraced the use of ESG, says Arthur Heinmaa, the firm’s chief executive officer and chief investment officer.

“It’s a key piece of constructing our evaluation of any company," he said. "You have to look at all the different elements that play into it, and particularly with ESG, you have to look at it both ways: how a company relates to the environment, but also how the environment may impact the company over time.“

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