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Canadian Institutional Investors:
ESG Imperative, Integration and Opportunity

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Cynthia Shaw-Pereira is Director and Head of Client Solutions Design for BNY Mellon Global Risk Solutions. Cynthia is responsible for building client-centric data, performance and risk measurement solutions for sophisticated institutional investors across North America. Cynthia's specific areas of focus include Environmental, Social and Governance performance and compliance oversight, navigating data complexities across multiple asset classes and geographies, and supporting clients as they navigate data and technology needs and develop their overall data strategy goals and implementation roadmaps.

Cynthia represents our asset servicing and digital enterprise at Canada's Responsible Investment Association (RIA) and participates in the RIA's Canadian Responsible Investment Working Group, at which asset owners, asset managers, insurance companies and other industry stakeholders collaboratively explore responsible investment topics prevalent in Canada. She is a frequent speaker at industry conferences and events on topics related to performance and risk analytics, ESG and responsible investing, and is a regular guest on CIBC Mellon's Industry Perspectives podcast series.

Mathieu Pacheco
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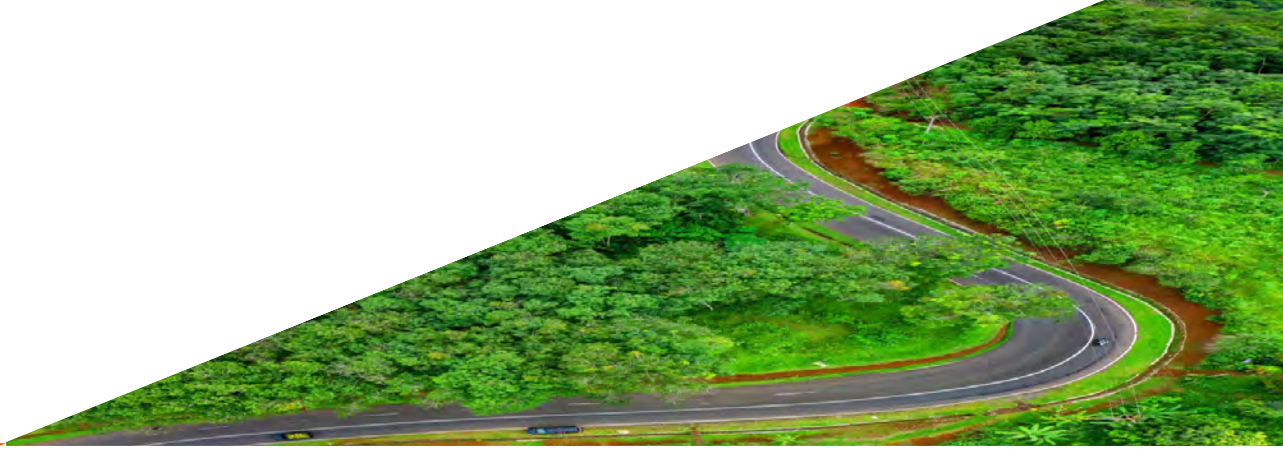
Mathieu Pacheco is Relationship Executive at CIBC Mellon based in Montreal and is responsible for large, sophisticated asset owner and asset manager clients in Eastern Canada. Mathieu is tasked with partnering with clients, sharing best practices, and helping clients grow their business by identifying industry trends. Mathieu has more than 20 years of experience in global custody, performance analytics and operations management.



Introduction

Even as environmental, social and governance (ESG) investment practices have been rising in the consciousness of investors and market stakeholders for a number of years, the past two years have seen a rapid spike in focus and engagement. From an increased focus on corporate governance, to global and domestic pledges to achieve carbon emissions targets, to acknowledgement by investors around such topics as diversity, equity, shareholder engagement, indigenous perspectives, inclusion, human capital, workforce and more.

The ESG Imperative

Macroeconomic Factors Driving ESG Considerations

- Climate change
- Limited natural resources
- Retail and institutional demand

- Aging populations
- Proportionately large population increases
- Workforce disruption

- Geopolitical disruption
- Cybersecurity threats
- Social media and shareholder activism

An increasing array of institutional and individual investors are mobilizing around the business case behind considering ESG factors in investment decisions. According to the 2020 Canadian RI Trends Report, there were $3.2 trillion in responsible investment assets under management (AUM) in Canada with a 48% growth over a two-year period. This represents 61.8% of Canada's investment industry. Canadian investors have become more particular about how they deploy their capital and seek to deliver returns with ESG factors as a key consideration.

As organizations consider their investment allocations, investment management, performance/compliance monitoring and operational efforts in the years ahead, the opportunity to align their purpose with what they do and how they do it will likely continue to rise — as will pressure from data that increasingly correlates value and values around the incorporation of ESG factors. Investors' rapidly evolving attitudes and explorations of ESG have set their influence on a macro level. The ESG Imperative is driving change not only in the way organizations go about their business, but also in the way it defines itself and thinks about its own role in the world.

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Mathieu Pacheco
Relationship Executive

Recent Developments

Canada has 'overall' seen very strong momentum in the ESG space. Large asset owners and asset managers have issued an array of ESG commitments. In October 2021, Canadian investors representing $5.5 trillion in assets under management — including investment fund managers, asset owners, asset management divisions at all five of Canada's major banks, insurance companies, foundations, and others — issued an "unprecedented" call for increased climate accountability in the corporate sector[1]. Facilitated by the Responsible Investment Association, the **Canadian Investor Statement on Climate Change** calls for an urgent need to accelerate the transition towards a net-zero economy.

Canada is increasingly a locus for global ESG momentum: the North American office of the International Sustainability Standards Board (ISSB) was located in Montreal, further cementing the regional hub as an ESG centre of excellence[2]. Canadian market participants are driving forward with an array of innovations to achieve their goals. For example, TELUS issued Canada's first sustainability-linked bond, raising C$750 million and committing to reducing its greenhouse gas emissions by 46% from 2019 levels by 2030, or else the interest payable on the notes will increase by 1.00% per annum[3]. Likewise, in March 2022, the Canadian federal government issued its first green bond, raising C$5 billion in an oversubscribed offering[4].

Canada's Office of the Superintendent of Financial Institutions (OSFI) and the Bank of Canada (BoC) echoed this sentiment in the results of its pilot project on climate scenario analysis entitled, **"Using Scenario Analysis to Assess Climate Transition Risk."** According to OSFI's press release, the pilot was an important step in helping Canada's financial sector improve its ability to analyze economic and financial risks affecting financial institutions that could arise from climate change. OSFI has announced that it will communicate the next steps in its climate-related risk assessment work.

The 2021 Ontario Budget discussed ESG disclosure requirements and stated that the Ontario Securities Commission (OSC) would begin policy work to inform further regulatory consultation on ESG disclosure. The Canadian Securities Association recently closed its comment period for National Instrument 51-107 Disclosure of Climate-related Matters. The proposed Instrument would introduce disclosure requirements regarding climate-related matters for reporting issuers (other than investment funds).

> "The last decade has brought about increasing acceleration and promise in the ESG space. For example, we are seeing an increased focus on carbon intensity reduction targets and net zero targets, which are enhancing the efforts we are seeing across portfolios – the entire risk assessment is changing quickly and clients are going beyond the balance of financial and non-financial risks. I look forward to seeing where the next ten years takes us."

Patricia Fletcher
Chief Executive Officer
Responsible Investment Association

According to the **Bank of Canada's Financial System Survey** highlights, respondents listed climate change and ESG as the top new developments that they have started monitoring within the past year. This is consistent with the increasing influence of climate change considerations on the investment decisions that market participants make, as mentioned in the 2021 Financial System Review.

Conflict in Ukraine

The Russian invasion of Ukraine will impact the global geopolitical and market environment for years to come. In late February 2022, Russian actions in Ukraine led Canada and other global markets to enforce and update sanctions on entities involved in violations of Ukraine's sovereignty and territorial integrity.

In our capacity as a member of various industry groups, we are closely monitoring the Government of Canada, the U.S. Department of the Treasury's Office of Foreign Assets Control, and other official bodies in order to be able to respond expeditiously to any additional official guidance.

We also provided clients with access to regular information about the market situation as well as access to details regarding their exposures and holdings. Detailed and timely investment data was critical to help clients respond to regulatory requirements, as well as to underpin actions taken in response to the crisis — such as confirming an absence of exposures or an intent to divest them.

A cold war world: Implications for Canada

by Andrew Grantham and Avery Shenfeld

Our hopes are for a quick end to Russia's invasion that preserves the life and liberty of the Ukrainian people. But as long as Putin or his ilk are in power, what won't end soon is Russia's increased isolation from the democratic world. Even if the current sanctions are eased, the corporate world won't be rushing back into the Russian market, and Russia's former customers in Europe and North America will be hesitant about relying on supplies emanating from that country if they can find alternatives. At least for this year, the world will also be dealing with a major hit to supplies from Ukraine as well.

For the global economy, the overall impact will be felt in higher inflation and slower economic growth. On the inflation front, elevated oil prices haven't lifted the Canadian dollar, so there's been no cushioning impact on other import costs for Canadians. The war-driven spike in energy and food prices will likely see headline inflation break through 6% and stay much more elevated through the spring than originally expected. While national accounts data suggest that there's a substantial pool of savings with which to cover those costs, some of that money has been used as down payment on a house, spent on paying down debt, or invested in retirement funds that are unlikely to be drawn down.

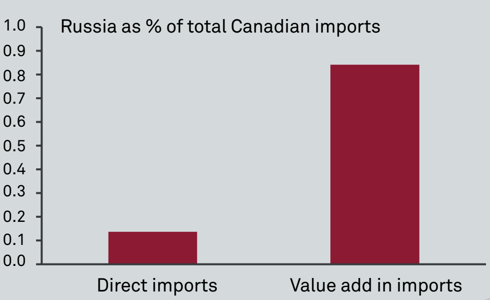
But to what extent will the negative shock to consumers be offset by Canada's status as a resource exporter? Clearly, elevated resource prices are at least a short-term gain for corporate profits in that sector, and the additional revenue will flow to shareholders and government tax coffers, potentially raising spending by those recipients. But for real GDP, our focus here, we also need to look at where there might be opportunities to increase production volumes or capital spending in Canada, and we'll draw on the observations of CIBC's equity research team for some early insights on that.

Rivals in Trade, Not Partners: Although Canada is an open economy in which trade flows play a major role in cyclical turning points, its direct trade with Russia is trivial. Imports from that country account for only 0.1% of total inflows. Even adding in the Russian content in imports from other countries, likely tied to Russian raw materials used in manufacturing elsewhere, only lifts that share to 0.8% (Chart 1). So, worries about supply chain issues this year will be much more a story about Covid disruptions in China than on sanctions against Russian exports. Similarly, Russia is not a major destination for Canadian exports, although a slowing in the US and Europe emanating from the war and its lift to inflation will be felt.

But Russia does still matter for Canada's trade because, as they are on the hockey rink, the two countries are rivals in a host of sectors. Russia is of course a major exporter of energy, and both it and Ukraine are breadbaskets for the world's grain consumers. Russia accounts for around 20% of global trade in unwrought nickel, where prices have spiked as a result of the war, but also more than 10% in fertilizers, coal, palladium, and lumber. Russia's share in all of those exceeds its share in global trade for crude oil and petroleum products. The country also has an important share in aluminum, copper, iron, and steel.

For more information, read the **article.**

Chart 1: Canada's modest reliance on Russian exports



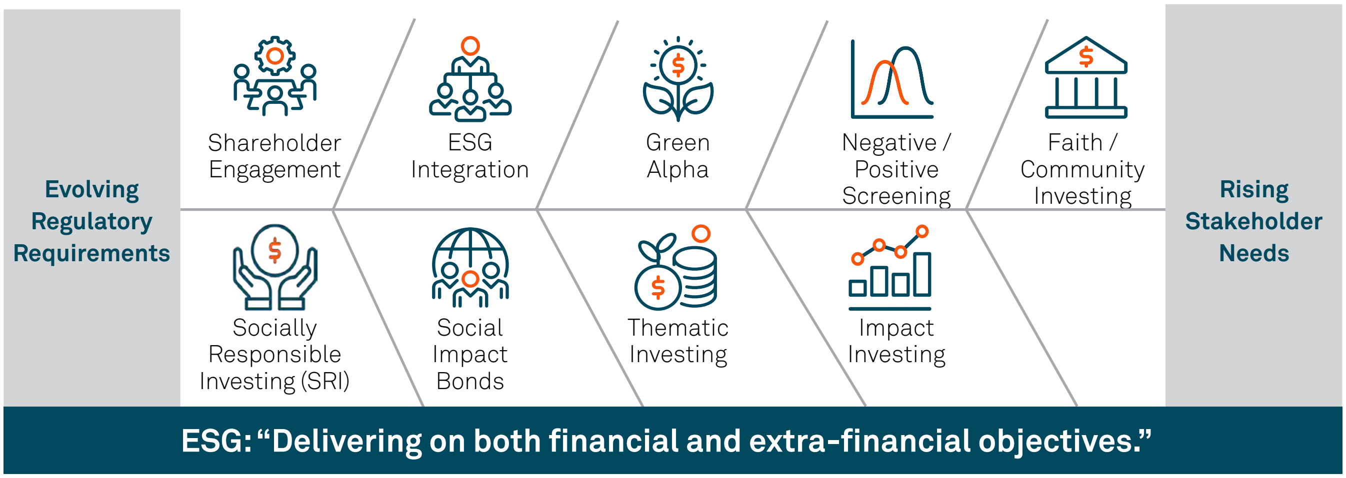
Source: Statistics Canada, CIBC

March 21, 2022

Avery Shenfeld
Managing Director
and Chief Economist
CIBC

ESG Remains Challenging, Complex, Contradictory for Clients

Despite rising momentum, most clients struggle to make sense of the data, expectations and taxonomy



Even amid the rising focus, the ESG data landscape remains fractured and at times even contradictory. Data-driven and data-hungry investors face multiple challenges including the availability of raw data and the lack of standardization on how to disclose, measure and integrate non-financial data to inform sustainable investment decisions.

ESG Integration

There is a commitment to sustainable investment across the globe, with the gap narrowing between the evaluation of ESG and adoption levels. Responsible investing has taken its place as the predominant investment approach among Canadian investors.

There are many types of responsible investment strategies out there, including ESG integration, shareholder engagement, negative screening, norms-based screening, positive or best-in-class screening, thematic ESG investing and impact investing, among others. In many cases, responsible investors are applying more than one strategy in their investment processes. In Canada specifically, ESG integration practices are the most prominent RI strategy, and it represents about 95% of all reported 'responsible investment' AUM according to the RIA.

Investors are demanding transparency on ESG issues and are looking for additional investment options that may lead to positive ESG outcomes. Asset managers and issuers can expect demands for greater transparency around ESG investing in portfolios from internal and external stakeholders. As pension funds work with external managers, many intend to be more hands-on than in the past. For example, voting proxies, issuing formal policies, incorporating screening or scoring related to ESG into manager selection or review, or formally requesting additional information regarding how managers incorporate ESG factors into policies. Other asset owners and managers are engaging directly with the management and Boards on their portfolio companies or even engaging third party firms to support reviews. This not only relates to performance, but to broader issues such as governance and the consideration of non-financial or values-driven factors (for example, faith-based investors seeking investments that generate returns and align with their religious beliefs or Indigenous institutions incorporating their community values into their fiduciary duties).

ESG integration is not a binary concept, there are many different ways of integrating ESG into an investment process. Some investment managers or teams are mapping external ESG data to their positions and creating ESG reports, others are integrating ESG throughout their end-to-end investment processes, from research and trade ideas to portfolio construction and compliance.

With respect to integration practices, it does take place across all asset classes, but when it comes to traditional asset classes, it is evident that they are more prevalent in the equity space than in fixed income[5]. However, fixed income ESG integration is gaining rapid traction, with green bonds gaining momentum and Canada's first sustainability-linked bonds and frameworks coming to market - and oversubscribed - in 2022.

There are variations in ESG methodologies, frameworks, and reporting, which can be scarce or inconsistent. Institutional investors and market stakeholders in Canada are keenly aware of the need to achieve consistency, shared standards and best practices. The myriad of ESG definitions, organizational focus areas and stakeholder demands make standardization a still-elusive challenge, however, further compounded by a shifting and conflicting regulatory and legislative expectations across regions and borders. Our enterprise is seeing clients seeking greater precision and a finer lens to assess managers based on their ESG integration approach. Thematic ESG factors are relevant to our clients' investments, including each of the ESG pillars:

E	ENVIRONMENTAL	Commitments to net zero, climate change, pollution, bio-diversity, or other sustainability factors (e.g., sustainable forestry, blue hydrogen)
S	SOCIAL	Health & safety, labour relations, diversity, equity & inclusion, Indigenous perspectives, workforce, human capital and talent, charitable giving, and military conflict.
G	GOVERNANCE	Policymaking, Board composition, transparency and disclosure, vendor oversight, the distribution of rights and responsibilities among different participants in corporations

Responding to ESG Integration Challenges: Valuable Data, Simplified Solutions

The complex challenges facing institutional investors looking to engage more deeply with ESG include the growing need for both greater consistency in, and increased access to relevant data. With rising investor interest, an array of ESG metrics, data sources, scoring methods and reporting standards have proliferated. Investors typically have a need for at least some degree of customization to reflect individual preferences, standards to support the ESG investment process, and demonstrability of ESG representation in sustainable investments in accordance with the needs of their own internal and external stakeholders. Asset managers, insurance companies and other institutional investors can expect demands for greater transparency around ESG investing in their portfolios from internal and external stakeholders. Asset owners face particularly complex demands, with rising awareness and demand from plan members, related sponsor organizations and stakeholder groups to better measure, report, and act on ESG goals.

In some ways, the pursuit of better ESG data and technology outcomes is only one example of a larger data challenge facing institutional investors. The pursuit of innovative and sophisticated investment and organizational strategies continues as some are turning to advanced technology and data tools to streamline operations, access new market opportunities and gain competitive advantage. Target outcomes include greater agility, enhanced resiliency, and a desire to better future-proof technology operations against the emerging needs of tomorrow. Addressing data challenges and ESG challenges may go hand in hand for many.

Increasingly, investors want to customize their sustainability investments to their own priorities and objectives. This in turn requires the data collection, alignment to priorities, measurement/scoring and potentially even third party review. In order to create transparency between investors, allocators, managers and other stakeholders, institutions will need to achieve alignment between sustainability objectives and the solutions and data that are being provided.

Enormous data challenges:

Why are different scorecards or taxonomies used when looking at portfolio companies? Clients must consider data because ultimately it will be used to conduct due diligence to decide if the data is a fit in terms of their sustainability objectives. We also see clients increasingly using data to navigate and balance their financial and non-financial tolerances. For example, assessing the investment risk, and the opportunity cost of foregoing an investment relative to the potential impact to the achievement of priorities for portfolios that meet organizational sustainability or ESG goals. Ultimately, each investor, manager and service provider has to make an assessment to understand their place in the data handling chain.

What are the ultimate stakeholder obligations: for reporting, organizational engagement, investment activities and more? Stakeholders will need to ask hard questions such as **"do we primarily focus on a reporting requirement or are we trying to tie the data to an investment decision?** Or **"How do we align ESG data to more than a sustainability investment or reporting team and connect it across our entire investment process?"**

Fortunately, progress has accelerated with the challenge, and industry groups are moving quickly to align and collaborate. Participants should watch for further progress toward shared standards in Canada and globally.

What are the Challenges of ESG Adoption?

#1 Challenge: Information Inadequacy (Data, Evidence, and Knowledge)

- Knowledge and Sophistication
- Supply of Suitable Managers and Strategies, 'Greenwashing'
- Change of Mindset – "Trade-off Expectation" versus ESG Opportunities (e.g. Green Bonds)
- Emergence of Social Factors (Diversity, Equity and Inclusion), Acceleration of ESG Focus Areas
- ESG Harmonization – Guidelines, Quality, Consistency, Comparability of Data

New challenges are emerging in ESG every day, including rising data volumes and the need to manage unstructured data sources. To be usable or viable, unstructured ESG data must be incorporated into analytical calculations, internal and external reporting. Particularly for organizations seeking to incorporate ESG into an array of investment and business processes, ESG data cannot be evaluated in isolation and will need to be connected to other content in the investment process. To add to the struggles of managing data, third party ESG data providers use varying methodologies and as a result, lead to a variance in scores.

In Canada and globally, we continue to see demand from institutional investors looking not only to bring in unstructured data, but also connect multiple sources of it and derive their own scores similar to creating their own benchmark to evaluate the impact of ESG on their investment decisions. As more firms consider how to incorporate ESG into their everyday processes, they are faced with the challenge of determining which sources of ESG information best align with their investment approach and workflows.

According to research[6] from the Chartered Financial Analyst Institute and United Nations Principles for Responsible Investment, the lack of standards around ESG data verification and the demonstrability of the ESG factors shaping investment portfolios are among the key barriers to greater ESG integration into investment processes. The lack of standards can also lead to claims of "greenwashing" or "social washing," which can impact trust and credibility and in turn expose everyone to risk. The need to create a foundation for trust — and shared definitions against which to test it — is a critical focus area for industry working groups like the International Sustainability Standards Board. Investors, stakeholders, regulators, service providers and more continue to work toward a shared basis for measurement of ESG investment outcomes.

Technology is also widely regarded as a route to the greater transparency that stakeholders — including Boards, investors, counterparties, regulators, and others — are now demanding. New tools that connect asset managers and investment finance teams with detailed information about the way their funds are performing — and how they are managed — offer exciting advances in this regard. Timely access to investment information — across asset classes, geographies, managers, and markets — can position organizations to better manage risk and access opportunity. Beyond the significant advantages that data can bring to investment performance, the transparency and reporting enabled by sophisticated oversight tools can also position organizations with evidence in support of their compliance with governance, regulatory and policy requirements.

The Government of Canada addressed this in its 2022 Federal Budget, which states that Canada's Office of the Superintendent of Financial Institutions "will consult federally regulated financial institutions on climate disclosure guidelines in 2022 and will require financial institutions to publish climate disclosures — aligned with the TCFD framework — using a phased approach, starting in 2024." Furthermore, the Government of Canada will move forward with requirements for disclosure of considerations, for federally regulated pension plans.

Besides managing ESG data barriers, another challenge that is cited in ESG integration is the concept of 'investment horizon.' Studies have shown that companies are not sacrificing performance by incorporating ESG into investment decisions, however value creation and value appreciation may not be seen for another decade or so[7].

By embedding ESG into a long-term strategy, investors eliminate the need to try to arbitrage data, i.e., choose some data and start benchmarking on that basis. If the methodology of the data set is exposed, then organizations can disclose how they are making decisions based on the data their stakeholders are relying on.

> "Technology plays a critical role in collecting and compiling ESG data. At the core, ESG investment challenges are often data management problems. Our enterprise is supporting clients by sharing data management expertise, thematic perspectives from Canadian and global leaders, and most importantly helping clients ask thoughtful questions about their data operations for ESG – and in many cases about their investment processes more broadly."

Mike Garneau
Vice President
Relationship Management

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We’ve been focused on what the data and analytics solutions need to be for our clients to help them navigate the evolution of ESG. Our enterprise application introduces the concept of ‘crowdsourcing metrics’ to address the sustainability challenges and allows investors to compare their priorities and in turn work to realize their strategies – it allows clients to harness the wisdom from the crowd and use it to create data for different clients, so that you can actually see how others are using various ESG factors in their analysis. As with any group, both overall and relative performance are important as is the ability to compare and benchmark against peers. Performance measurement is a key consideration for Boards, Trustees, shareholders and other stakeholders regarding progress and opportunities. Taking that ESG data in from multiple sources into actionable portfolio monitoring, analysis, and reporting, will really power their investment process and portfolio review process.”

Cynthia Shaw-Pereira
Director and Head of
Client Solutions Design

PODCAST

Integration of ESG into Investment Strategies for Asset Owners

CIBC Mellon relationship management leaders Darlene Claes-McKinnon and Mathieu Pacheco host a wide-ranging discussion of the evolving perspectives for asset owners in Canada looking to integrate ESG into their investment processes. Featured expert speakers include Marc Gauthier, University Treasurer and Chief Investment Officer, Concordia University; Mark Sevestre, General Manager of the Mississaugas of the Credit First Nation Community Trust and Founding Member, National Aboriginal Trust Officers Association, and Cynthia Shaw-Pereira, Director and Head of Client Solutions Design, BNY Mellon.

Environment and Climate Action: Canadian Institutional Investors Take a Stand

Across the spectrum, investors are demanding transparency on ESG issues and looking for additional investment options that may lead to positive ESG outcomes. Some investors are pursuing impact investing as a way to drive innovation in alternative technologies that may reduce the environmental impact of more traditional solutions. As millennials and Gen Z accumulate wealth, financial services firms may see opportunities to shift strategies and create values-based investment options and products[8].

COP26, the United Nations Climate Change Conference, concluded in November 2021 with a global agreement to accelerate action on climate this decade. Countries, cities, corporations, asset owners, and asset managers are making and strengthening their commitments to achieve net-zero emissions by 2050.

Carbon reduction commitments have made progress, especially in the pension fund space. With longer investment horizons, pension funds are aware of the risks and know that the financial security of their participants is imperative.

Throughout industry segments, we continue to see clients develop their responsible investment policies. This includes decreasing their exposure to carbon emissions and reducing their carbon footprint of the **long-only investment portfolio compared to the benchmark by using data to arrive at a carbon emission estimate on a quarterly basis.** They are engaging with their managers to understand their ESG methods and how they are going to achieve their objectives. They are hiring talent within their organizations to drive their goals forward and further their ESG objectives. Some clients are still performing negative screening, and some are performing negative screening on the back end but are using an ESG integrated approach on the front end. It has become part of their risk management practices to make sure they understand their risk exposures.

> "The recognition that climate change poses a material risk to investors, plan members and the financial system is helping to drive the ESG Imperative among institutions."

Mathieu Pacheco
Relationship Executive

Social Impact: Investing in Human Capital as an Alpha-driver

While social factors can be seen by some investors as intangible, they can also be seen as factors that deeply impact long-term financial performance.

Through challenging times such as the COVID-19 pandemic or the conflict in Ukraine, the relationship between employees and employers, social justice and other social factors has been brought into sharper focus. Organizations face risks to their reputations related to actions taken — as well as where stakeholders deem actions or statements insufficient. Institutional investors in particular face pressure to invest or divest based on values-based factors.

The social component of ESG has historically been related to external factors for an organization — protections against child labour in the supply chain, achievement of key diversity goals in Board participation, or charitable and community engagement.

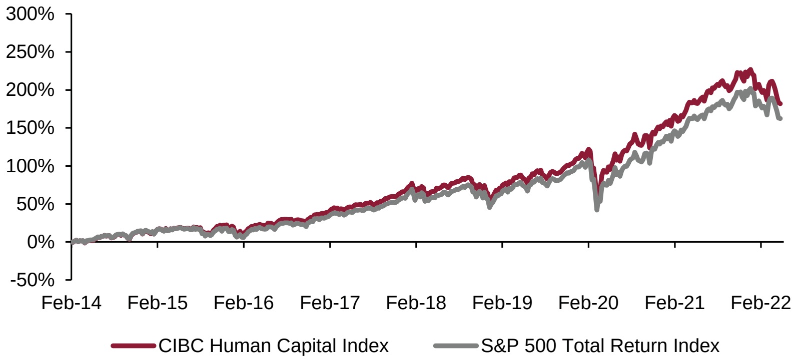
The S increasingly also focuses on how an organization treats its own employees. The outlook for 2022 is one where employees, workforce and talent are rapidly coming into sharper focus. Headlines point to the "Year of the Employee," "The Race for Talent" or "The Great Resignation." Many organizations are confronting both challenges and opportunities related to retaining or capturing top talent that can help drive organizational outperformance.

Expectations for organizational response to a humanitarian crisis or war increasingly include demands for organizations to leverage or remove their capital — divesting from regions or industries amid stakeholder pressure.

But can the S or people factors also drive financial outperformance? The CIBC Human Capital Index was jointly developed by CIBC and Irrational Capital based on cutting-edge behavioural economic research on large data sets. The index quantifies and values the "human capital factor," linking corporate culture and employee goodwill to fundamental, financial and equity performance. With a lack of measurement tools of these intangible assets, and the emergence of CIBC's Human Capital Index, there are now opportunities to drive and measure growth.

In analyzing 15+ years of data from 1000+ companies, the research has demonstrated that strong signals are often found in characteristics that are difficult to quantify and not easily reportable. The statistical linkage between how a group of people describes their corporate culture and subsequent excess returns is at the core of the Human Capital Factor.

Illustrative Performance Human Capital Index vs. S&P 500 Index

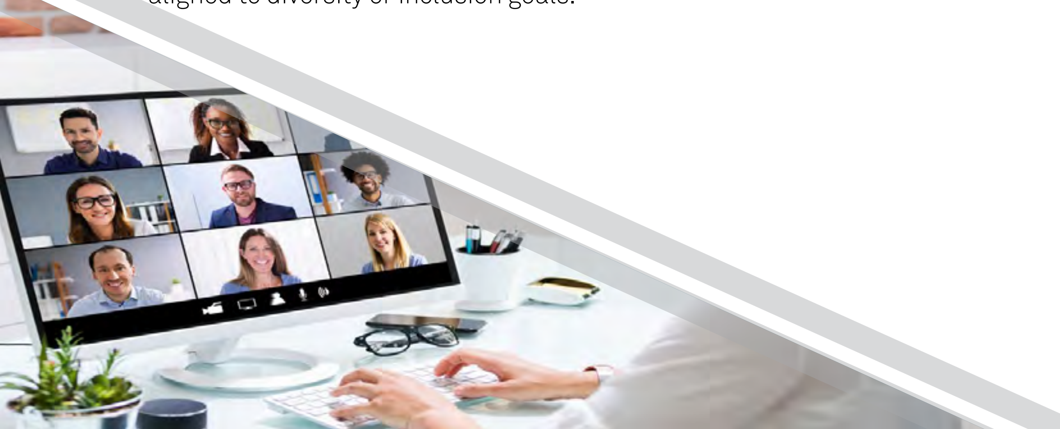


Workplace culture, how to motivate/control/verify remote work, rising demand among employees for greater flexibility, management views on how/where/when employees work, and the role of the physical office are shifting. The same challenges — COVID-19 and the need for organizations to work remotely over an extended period — have produced significantly varying organizational stances in terms of how often organizations will require employees to work in the physical office. Across it all, the power, value and opportunity of human capital, employee engagement and corporate culture have reached new heights as a critical success factor.

Good Governance Goes Global: Corporate Call for Accountability

Governance-related considerations emphasize robust governance structures, responsiveness and engagement with shareholders and transparency. A corporation's purpose, the role and makeup of Boards of directors, shareholder rights and how corporate performance is measured are core elements of corporate governance structures.

In North America, there has traditionally been a greater emphasis on governance issues, particularly around management quality. At an individual level, it becomes more complex and disparate; one investor may be focused on measuring, managing, and reducing carbon footprints, while another may be seeking to deploy capital and investments to organizations that are aligned to diversity or inclusion goals.



Governance in Action: Sanctions on Russia

Organizations around the world have prioritized supporting people and communities directly impacted by the invasion of Ukraine. Investors and stakeholders looked to their pension and investment institutions, counting on them to take action and act rapidly in a manner consistent with shared values.

The Canadian Government imposed sanctions on Russia under the Special Economic Measures Act in order to respond to the gravity of Russia's violation of the sovereignty and territorial integrity of Ukraine, and grave human rights violations that have been committed in Russia. All Canadian financial institutions are prohibited from engaging in any transaction with the Russian Central Bank. In addition, Canada imposed an asset freeze and a dealings prohibition on Russian sovereign wealth funds.

Our global enterprise supported clients as they took action, providing regular market updates and context to clients. Likewise, CIBC Mellon leadership, operations and enterprise resiliency teams worked to assess potential impacts to asset servicing operations and client services in Canada, taking the necessary steps to comply with applicable legislation and regulation; to protect our operations, and to support our clients in the face of this highly dynamic and fast-moving situation. We thank our clients for their engagement and for their participation at our various update forums.

ESG Audit Assurance

According to PwC's research, ESG standards are top of mind as the mandatory assurance of corporate nonfinancial statements comes into effect. It is happening in the European Union, for both asset managers and larger companies as part of the European Green Deal. In the near future, it may not be enough simply to have ESG targets on DEI or emissions reduction; stakeholders will demand these be benchmarked, measured, disclosed, tracked over time, and assured.

To address the disparate reporting among companies, some of the world's largest institutional investors have publicly expressed support for moving to a single global standard. Several have encouraged companies to report their ESG information using the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

Once organizations decide on the ESG data they want to disclose, they need to take steps to ensure their disclosures are accurate and reliable. This in turn requires developing policies, processes, internal controls, and governance similar to those they have for collecting and disclosing financial information. Implementing these procedures and ensuring the data is "assurance-ready" takes time. Best practice is to include a pre-assurance phase in the reporting timetables to ensure the right outcome. Because the audit committee has the most experience overseeing these kinds of matters, it is best positioned to oversee ESG disclosures, controls, processes, and assurance.

The audit committee's framework to effective ESG oversight according to PwC[9]

DISCLOSURES

- What has management identified as the company's ESG risks and opportunities?
- Which ESG frameworks or standards are they using? Why have they chosen a particular framework?

PROCESSES AND CONTROLS

- How is the company collecting ESG information?
- What are the data collection policies?
- What controls are in place to ensure that ESG information is reliable and complete?

ASSURANCE

- Have investors or other stakeholders requested assurance over the ESG reporting?
- If so, have they indicated what level of assurance they prefer?

The I in ESG: Indigenous Perspectives, Responsible Investment, and Economic Reconciliation

Canada marked the first National Day for Truth and Reconciliation in 2021 — encouraging Indigenous and non-Indigenous Canadians to reflect on meaningful reconciliation as a renewed process that respects Indigenous sovereignty. This call to action was imperative and in many ways transformational as it fueled momentum. Focus has been further accelerated by Canadian and global awareness of historic injustices and current inequities.

For many Canadian market participants, the discovery of children's bodies at former residential schools brought new urgency and focus to Indigenous peoples and institutions. As the Canadian social finance and investment landscape evolves, this includes supporting market participation and greater engagement by and with Indigenous settlement corporations and trusts, increasing recognition of the role that capital markets play in driving outcomes — and in turn increasing participation from Indigenous institutional and individual investors. An array of Indigenous and non-Indigenous organizations are looking to offer financial and investment solutions in support of Indigenous opportunities, ranging from expanding access to retail financial services, deploying investment capital to better position Indigenous organizations and communities for success, or adapting services to meet the specific needs of Indigenous stakeholders. Some stakeholders have raised questions related to whether the incorporation of an Indigenous fiduciary lens, Indigenous principles or other Indigenous decision-making criteria should be considered with the "S" aspect of ESG, or whether to introduce a framework that appends an Indigenous "I" in ESG.

Indigenous Market Engagement

For further reading, in "Impact Investing in the Indigenous Context: A Scan of the Canadian Marketplace," Purpose Capital examines developments that create the opportunity for more economic development to occur in a framework aligned with Indigenous values of collective responsibility and environmental stewardship.

When large institutions can get behind efforts to align corporate practices with reconciliation, the results can be significant. For example, 98% of shareholders voted in favour of a **resolution** on Indigenous inclusion and reconciliation at TMX Group Ltd. The RRII, SHARE and NATOA will continue to build on this win as these organizations seek to ensure reconciliation goals are included in corporate equity, diversity, and inclusion practices across Canadian capital markets.

CIBC Mellon has been pleased to engage with Indigenous and non-Indigenous clients seeking to enhance engagement and outcomes for Indigenous peoples in Canada. Download our podcasts at **anchor.fm/cibcmellonperspectives** or contact your relationship manager.

PODCASTS

Together with senior Indigenous market stakeholders and non-Indigenous institutional investors, our podcast explores opportunities to incorporate and engage with Indigenous perspectives, informed by the principles of Truth and Reconciliation.

Podcast Episode 1:
Indigenous Institutional Investors in Canada
ADVANCEMENT, EDUCATION AND OPPORTUNITY

Trish Roberts and Lavina Yip of CIBC Mellon review and discuss commentary from Jaimie Lickers (CIBC), Mark Sevestre (Six Nations of the Grand River and National Aboriginal Trust Officers Association) and Andrew Hoffman (Leith Wheeler Investment Counsel).

Podcast Episode 2:
Indigenous Institutional Investors in Canada
TOWARD ECONOMIC RECONCILLIATION

Trish Roberts of CIBC Mellon discusses investment operational trends among Indigenous institutional investors as well as explore further expert insights from Jaimie Lickers, Mark Sevestre and Andrew Hoffman.

Alternative Investments, Alternative ESG Data Challenges

ESG factors have historically been applied to liquid investments like equities and fixed income[10], but institutional investors are increasingly incorporating ESG criteria when investing in alternative asset classes. There continues to be substantial evidence to suggest that incorporating ESG factors into your investment decisions can strengthen risk management and lead to financial outperformance[11].

With ESG much more strongly on the radar for alternative fund managers — in particular as a result of pressure and enquiry from asset owners looking to incorporate ESG into manager and investment review within their fiduciary duties — the industry is looking at the gaps in this asset class coverage that require further attention. Effective governance and values alignment are central to private equity investing as managers face high expectations for both returns and conducting their investments with necessary governance to meet the needs of their LPs.

Our global enterprise has engaged in conversation with clients and stakeholders to understand how the pandemic has changed their view on the ESG factors and metrics they consider to be material. For example, do they look to the share price for public equities, investment multiples for private equity, or credit ratings for bonds? Information that could be considered material, including climate-related risks, forward looking information that is expressed by targets, goals, projections all provide valuable information to stakeholders — which could be investors, consumers, plan members, or communities.

"The ESG Imperative drives particular challenges for the alternative investment space and varying complexities across the asset classes. There are significant challenges related to data, reporting and consistency. That said, the long term nature of many alternative classes can bring strong alignment opportunities in terms of ESG outcomes for investors with long horizons. Alternatives strategies requires effective and ongoing management, contextual data, and perhaps most important engaged professionals who can lean into understanding the complex challenges ahead."

Megan Gentilesco
Global Head of Private Equity and Credit Fund Services

Conclusion

In Canada, investors are increasingly looking at how ESG metrics can inform the oversight of assets. Investors are on the lookout to achieve financial returns while also incorporating and mitigating ESG risk, generating long-term value, and creating positive impacts on society. Demand is growing for investors to take ESG factors into account, thanks in part to interest among end investors, pension plan members and other stakeholders to align investment decisions with their values.

ESG investing has emerged as a key method for pursuing portfolio resilience. Particularly in the context of economic and systemic social risks, but also incorporating ESG considerations into investment decision making to align investment objectives with organizational values. Sustainable or responsible investing is resilient investing, it is represented in company fundamentals and in the management of material risks, which, in aggregate, gives a company a better chance of thriving in the future.

Many institutional investors are at a tipping point as the value proposition on ESG continues to rapidly change and develop. As more organizations consider how to incorporate ESG into their everyday processes, they will still be faced with challenges in determining which sources of ESG best align with their investment approach. Therefore, looking ahead, we anticipate continued and evolving discussions with our clients on their approaches.

Questions for Institutional Investors to Consider

1. How do you see the role of ESG factors in your investment or risk management processes?
2. How has the pandemic changed your organization's or your stakeholders' views on ESG?
3. What is your organization's view on the future of ESG?
4. What is your organization's carbon footprint?
5. Is your organization aligned to the Sustainable Development Goals?
6. How is your organization engaging with Indigenous stakeholders?
   - Does your organization seek free, prior, and informed consent (FPIC) for projects impacting Indigenous stakeholders?
   - Do you deploy capital, investments, or solutions to Indigenous stakeholders?
   - Is your organization engaging or incorporating the principles of Truth and Reconciliation, specifically its Call to Action 92 to Corporate Canada?
7. For multi-jurisdictional plans with operations across market regions with differing approaches to ESG, how will the plan navigate those complexities?
8. How does ESG figure into the organization's future investment, performance, compliance, and reporting requirements?
9. What are the implications for your organization's investment information data strategy?

Appendix: Definitions and Resources

Source: **https://www.un.org/sustainabledevelopment/**

Data and Analytics ESG Solutions

BNY Mellon Data and Analytics Solutions has developed an ESG Data Analytics offering, a cloud-based application that incorporates investors' ESG preferences and leverages data as an asset. This application provides investors with crowdsourced information – providing the ability to learn how portfolio managers and business users are interacting with and interpreting ESG data – and the ability to demonstrate their use of ESG factors, from policy development across to portfolio implementation. The application solves for three key client needs – customization, standardization, and demonstrability.

Podcast Corner:

CIBC Mellon Industry Perspectives:
Work in Flight: The Integration of ESG into Asset Owner Investment Models

CIBC Mellon Industry Perspectives:
ESG in Focus: Incorporating Non-Financial Factors into Investment Processes

BNY Mellon Perspectives:
Finding Value in Values

Investing in the Future of Intangibles:
The Value of Human Capital and the CIBC Human Capital Index

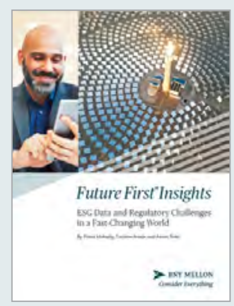
Whitepapers:

CIBC MELLON: EVOLVING ESG EXPECTATIONS

BNY MELLON AERIAL VIEW: THE INCONVENIENT TRUTH ABOUT ESG

RIA: 2020 CANADIAN RESPONSIBLE INVESTMENT TRENDS FORECAST

ESG DATA AND REGULATORY CHALLENGES IN A FAST-CHANGING WORLD



TRUTH AND RECONCILIATION COMMISSION REPORT – CALL TO ACTION #92

FUTURE FIRST℠ INSIGHTS: A DATA DRIVEN APPROACH TO RESPONSIBLE INVESTMENT

HOW ESG IS DRIVING INVESTOR EXPECTATIONS IN A POST-PANDEMIC WORLD

2022 - THE GROWTH OPPORTUNITY OF THE CENTURY

For more information:

Contact your Relationship Manager or visit **www.cibcmellon.com**

[1] https://www.riacanada.ca/investor-statement-climate-change/

[2] https://www.montrealinternational.com/en/news/montreal-will-host-the-new-international-sustainability-standards-board-issb/

[3] https://www.telus.com/en/about/news-and-events/media-releases/telus-closes-its-inaugural-sustainability-linked-bond-offering

[4] https://www.canada.ca/en/department-finance/programs/financial-sector-policy/securities/debt-program/canadas-green-bond-program.html

[5] https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/insights/why-fixed-income-is-relevant-for-responsible-investing.pdf.coredownload.pdf

[6] https://www.cfainstitute.org/en/research/survey-reports/esg-integration-emea

[7] https://www.fcltglobal.org/resource/decarbonization/

[8] https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/insights/asset-management-transformation-is-already-here-the-product-lineup-is-realigning.pdf.coredownload.pdf

[9] https://www.pwc.com/us/en/services/governance-insights-center/library/sustainability-esg-reporting-audit-committees.html

[10] https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/insights/why-fixed-income-is-relevant-for-responsible-investing.pdf.coredownload.pdf

[11] https://www.riacanada.ca/research/2020-canadian-ri-trends-report/

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