

Canadian Asset Owners Embrace ESG Investing

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BY ALISTAIR ALMEIDA

Segment Lead, Asset Owners

Alistair Almeida is Executive Director & Segment Lead, Asset Owners, for CIBC Mellon. Alistair is responsible for working with Canadian asset owners as they grow and evolve, connecting with and supporting multi-national pensions as they engage in Canada, and for growing and expanding CIBC Mellon's presence in the Canadian asset owner space.

Institutional investors have become more receptive to environmental, social and governance (ESG) information and investments over the past few years. Recently, many have opened up to a more proactive approach, targeting assets, investments and projects that promise to make a positive impact on the world around them, Canadian pensions included.

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Do you see increased interest in Canadian pension funds investing in ESG-focused companies?

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 institutional investors. Leading Canadian pension plans and other institutional investors are increasingly at the forefront of the ESG conversation, seeking to push the industry and their providers forward as they face rising demand from their members to do more.

In addition to the joint statement by eight of Canada's largest pension plans for increased transparency we also saw Canadian investors representing \$5.5 trillion in assets under management at all five of Canada's major banks, insurance companies, foundations and others – issued a call for increased climate accountability in the corporate sector. We have also seen an array of Canadian plans actively engage on topics like carbon emissions and net-zero commitments, Indigenous reconciliation across the corporate sector, enhanced corporate governance, diversity and inclusion such as Board composition, and making strategic allocations that achieve both financial and extra-financial objectives. There is much ahead, and 2022 should bring further engagement as investors but also regulators, governments as well as plan members further increase their engagement with ESG.

Many have called for ESG reporting standardization. In your opinion, what needs to be done to have global disclosure and standardization of ESG metrics?

This has been a long term area of challenge but we are seeing positive and accelerating progress around the challenges associated with clear, compatible and reliable ESG data. Investors' rapidly evolving attitudes and explorations of ESG have set their influence on a macro level. It 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.

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. This demand will only fuel the momentum for more stringent ESG reporting measures and continue to drive the standardization of ESG metrics. This applies to both private and public markets. There is much effort ahead, but we see very positive progress, for example, the placement of the International Sustainability Standards Board office in Montreal. This new organization will set sustainability disclosure standards for companies worldwide, further reinforcing the key role and opportunity for Canada and its institutional investors to be global leaders in this space.

What is your 2022 outlook for Canadian pension plans' ESG investing?

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. This not only relates to performance, but to broader issues such as governance and the consideration of non-financial or values-driven factors. The field of ESG is not static and the definitions and measures for it are likely to evolve. Investors should watch for further announcements, especially as the Canada's Office of the Superintendent of Financial Institutions announced in an industry letter that it will issue draft guidance on climate risk management for federally regulated financial institutions later this year.

If You Have Further Questions

If you have further questions, please reach out to your relationship manager or visit www.cibcmellon.com.

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