A workbook for the values-driven investor

ESG and responsible investing

WEALTH **INSIGHTS**

Analysis and insights into the trends, forces and factors shaping the world and your wealth

RBC Wealth Management

Align your investments with your personal values

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A resource for you

The winds of investing in the United States are shifting as Americans increasingly seek to align their portfolios with their personal values and what they feel is best for their community, their neighbors and our planet.

Environmental, social and corporate governance (ESG)

This philosophy, known as responsible investing, isn't new; its roots go back nearly 250 years to the colonial era when many Americans opposed slavery, alcohol and gambling. It's been popular in Europe for decades and embraced by large, institutional investors in the U.S. And while individual investors have shown interest in responsible investing over the years, the events of 2020 sparked renewed interest in this theme as the effects of racism, inequality in access to health care, legal justice, climate change and extreme wealth imbalance reshaped society—and investor values.

Making a difference in the world

Responsible investing is an attractive choice for investors who desire a personal, values-based connection to their investments. This approach may be right for you if you seek to make an impact on things you care about, whether that's the environment, diversity, equality in business, geopolitics or other concerns.

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Social and environmental issues drive the growth of responsible investing

Where we put our money has the power to transform the future. This idea is reshaping the investment landscape amid a growing awareness of the social impact of our financial decisions.

Climate change

Extreme weather, from wildfires and hurricanes to flooding and record-breaking temperatures, threatens to devastate entire communities and economies. As well as its impact on the environment and people, climate change is one of the biggest threats to economic stability.

Corporate governance

Governance issues encompass ethical standards for the way companies are run—from board independence and diversity to workplace equality and financial stability. At the management and leadership level, it means putting systems in place to ensure accountability, strong oversight and transparency.

Human rights

People are now holding companies to a higher standard, and demanding they demonstrate a true commitment to racial equality and justice—beyond words, donations or media hype.

Social justice

Some investors refuse to do business in countries with a record of human rights violations. Others want to invest in companies that provide their workers with fair wages and decent working conditions.

Sustainability

Consumers increasingly demand sustainable practices from the companies they purchase from and invest in. They want to support firms with ethical business practices that protect air and water quality, land and public health and prioritize combating climate change and sustainability. When it comes to responsible investing, sustainability has attracted the most attention.

How to get started with responsible investing

It's all about your personal values and confirming that your financial advisor understands your thoughts on environmental, social and governance issues in order to align your investments accordingly.

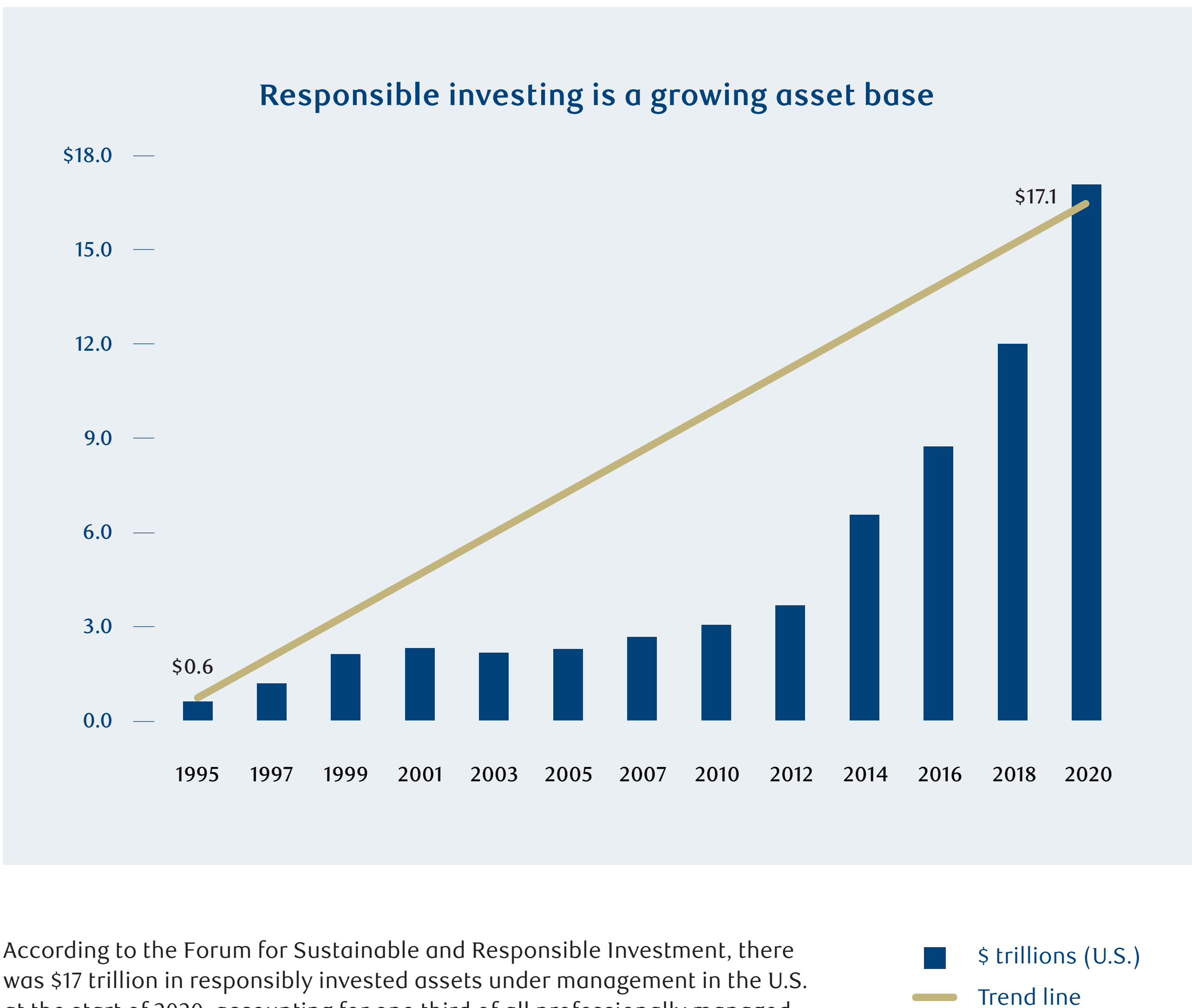
On pages 9–11 of this workbook, you can jot down your thoughts about what responsible investing looks like to you.

Responsible investing is big—and gaining momentum

1 in 3

At the start of 2020, 1 in every 3 dollars were managed in responsibly invested assets.

A generational transfer of wealth and shift in investor values set the stage for continued growth. With an estimated $17 trillion invested in assets in North America alone, sustainable investing has moved out of the shadows into the mainstream. And with women investors and younger generations—namely millennials and Generation Z—controlling more assets, responsible investing is expected to become a dominate investment theme.



According to the Forum for Sustainable and Responsible Investment, there was $17 trillion in responsibly invested assets under management in the U.S. at the start of 2020, accounting for one third of all professionally managed assets in the country. This represents a 42% jump in assets since 2018.

Women and millennials are at the forefront of change

In a recent RBC Wealth Management client survey, 61% of our clients said they are interested in increasing the share of ESG investments in their current portfolio. And the vast majority—86%—want more information about it. Women investors are particularly interested, with 73% telling us they believe responsible investing is the way of the future.

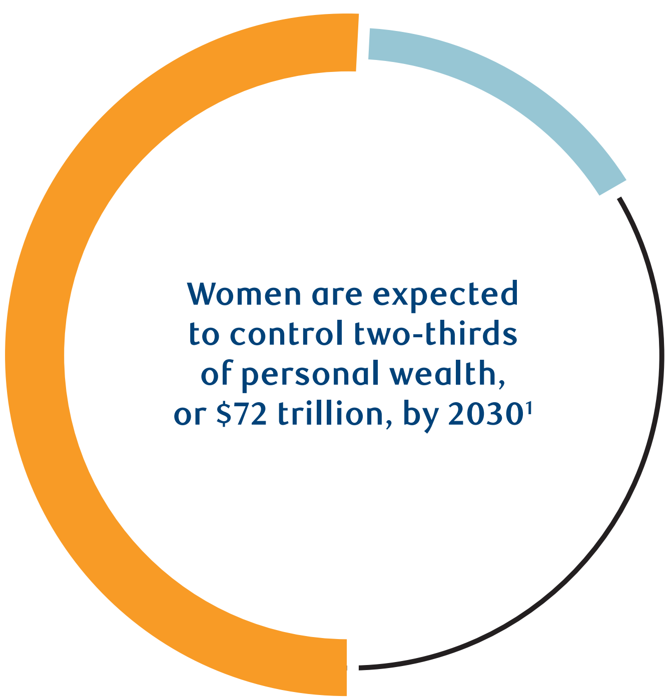
Millennials gravitate toward socially responsible investing

90%

of affluent millennials said they are interested in gaining returns on their investments while also promoting positive social and environmental outcomes.[2]

47%

of millennials feel so strongly about responsible investing that they would move their brokerage account to gain better access to responsible investing.[3]



Today, women control 51% of personal wealth

By the year 2030

Women are two times more likely than men to consider investments that deliver both positive returns and a positive impact.[2]

Women control 51% of personal wealth in the U.S., and are expected to control two-thirds, or $72 trillion, by 2030. That's about a third of the global total, and more than double the wealth controlled in 2010.

What’s your motivation?

People have different reasons for choosing to invest for sustainability and impact. In addition to earning potentially attractive returns, you may want to:

- Align your portfolio with your values or goals
- Invest in companies with responsible environmental and social practices
- Support specific issues or causes you care about
- Target innovations that help solve social or environmental challenges

The new normal

While some investment fads come and go, the trends driving the need for sustainable business practices are here to stay, driven by strong interest among women and millennial investors. Corporate leaders also understand that businesses have a key role to play in tackling urgent challenges such as climate change.

Three different approaches to responsible investing

There isn’t a single approach to responsible investing, and there isn’t a single way to define it. These three approaches are very different.

Impact investing

Socially responsible investing

ESG integration
(see page 7)

Impact investing

Impact investing attempts to tackle social or environmental issues while generating financial returns for investors. It uses empirical data and looks at actual impact data when building an investment portfolio or investing in a project. There is a commitment on the investor’s part to actively manage that investment.

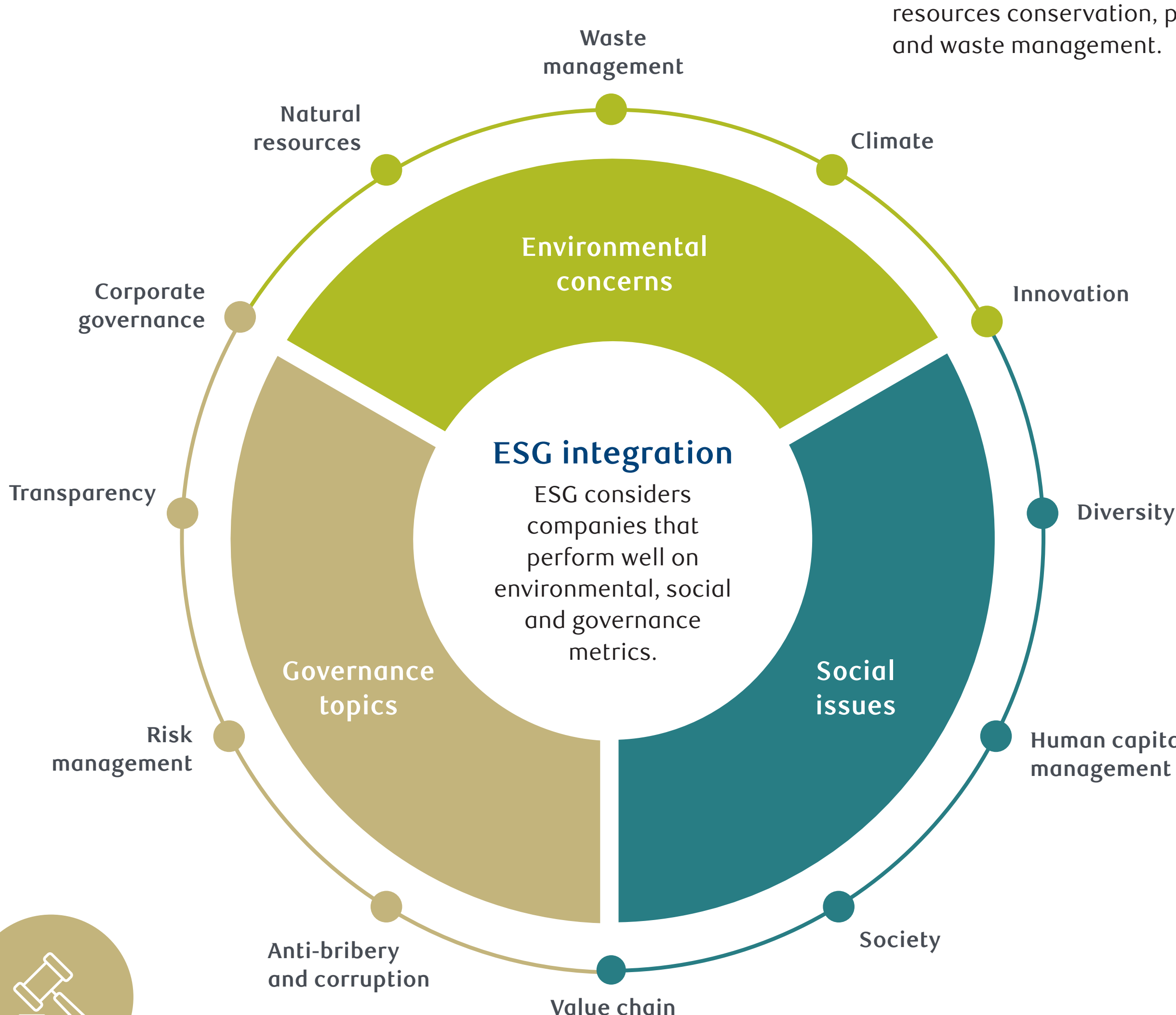
Socially responsible investing

Socially responsible investing is the earliest form of responsible investing. This approach creates or withdraws support for companies that do or don’t meet personal values.

Environmental, social and corporate governance (ESG) integration

Of the three main approaches to responsible investing, ESG integration seeks to value a company based on its environmental, social and governance practices, and is the most popular among investors. They look for companies with leading environmental, social and governance metrics compared to their peers.

Environmental concerns, including climate change, natural resources conservation, pollution and waste management.



Governance topics, such as accounting practices, board accountability and structure, executive compensation, corporate ethics, regulatory compliance and transparency.

Social issues, such as corporate philanthropy, community relations, workplace health and safety, human rights and diversity.

Align your investments with your personal values

Responsible investing appeals to those who want to invest their money in companies that reflect their values. There are two sides to responsible investing—investing in companies that you feel have ethical business operations while avoiding companies that you think lack ethical business practices, products or services.

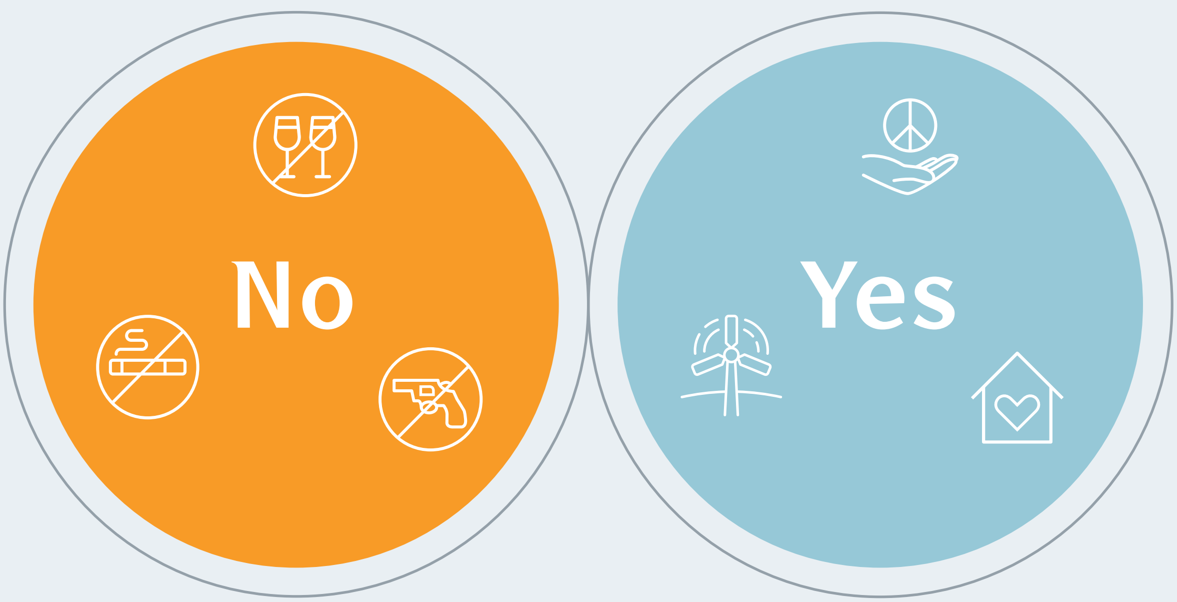
For example, if you think tobacco is bad, you may avoid investing in companies that produce tobacco products. Instead, you may choose to invest in companies that are working to green their supply chain and manufacturing processes. Or as a socially responsible investor, you may want to put your money in a company that has found a way to reduce greenhouse emissions.

Portfolios with purpose

Responsible investing can help individual donors, families, foundations and philanthropic organizations put more capital to work for social good. Even better, it can deliver philanthropic impact alongside financial returns, which can enable reinvestment of those funds in pursuit of even greater social good.

Negative and positive screening: An example

Taking a values-based approach helps confirm you achieve the impact you desire.



Industries that values-based investors commonly exclude or avoid in their portfolios may include tobacco, alcohol or weapons.

Values-based investors may seek to include industries that value renewable energy, human rights, social housing and more.

Evaluate what's important to you

Today, an increasing number of investors want to know that their money is really making a difference through socially responsible investing. But how do you invest in companies that are good citizens and align with your values? And how can you determine what's most important to you? The following exercises can help you develop an approach that reflects your unique values.

My values

Choose five values that are most important to you:

☐ Accountability	☐ Community	☐ Environment	☐ Giving back	☐ Security
☐ Adaptability	☐ Compassion	☐ Equality	☐ Nature	☐ Trust
☐ Altruism	☐ Connection	☐ Ethics	☐ Peace	☐ Vision
☐ Authenticity	☐ Dignity	☐ Fairness	☐ Respect	☐ Well-being
☐ Beauty	☐ Diversity	☐ Generosity	☐ Safety	

Write your own: ______________________________

My gifts

What is your ideal giving plan? How do you expect this to change over time?

My legacy

What values do you hope to leave to the next generation?

My impact

What impact do you want your legacy to have?

Investment and sustainability questionnaire: A starting point

These value-based questions can help you understand what's important to you and chart a course toward your financial goals.

About you

What do you think of when you hear the term responsible investing?

What issues are you passionate about? What motivates you?

What type of organizations and institutions have you been involved with (nonprofits, universities, associations, religious organizations)? Why are these organizations important to you?

Your ideals

Do you believe that companies that treat employees, customers and the environment responsibly can be better investments?

Are there specific companies or industries you admire? If so, why?

What you want, and don't want

Do you have specific issues you'd like to address through your investment choices?

____

____

Are there specific securities or investments that you absolutely do not want to own?

____

____

What's most important to you?

Please rank the following according to what's most important to you—number from 1 to 14:

____ Peace and justice

____ Renewable energy

____ Climate change

____ Natural resources conservation

____ Human rights

____ Employee rights

____ Gender equality

____ Clean water and sanitation

____ Animal cruelty

____ Poverty and hunger

____ Innovation and infrastructure

____ Education

____ Sustainable communities

Write your own: ____

Have you made any lifestyle changes to support specific ethics-based, philanthropic, social or environmental initiatives (e.g., committing to volunteer work, boycotting certain products, or adding solar panels to your home or office)?

____

____

Your objectives

What are your main objectives for including responsible investments in your portfolio?

☐ Support faith-based principles

☐ Support progressive social initiatives

☐ Support environmental concerns and/or conservation efforts

☐ Support sustainability in a general way

☐ Support specific philanthropic interests

Frequently asked questions

To help you get more familiar with ESG and socially responsible investing, here's a quick guide answering the most common investor questions.

Q Does responsible investing mean compromising returns?

A No. In fact, responsible investing products have performed at least as well as traditional funds. Major studies have found a clear correlation between strong sustainability business practices and company performance. These include:

- Stock price performance often goes hand-in-hand with strong governance practices, strong environmental performance and high employee satisfaction.
- Companies with high ESG ratings have a lower cost of debt and equity, along with improved operational performance.
- Companies that prioritize sustainability also manage environmental, financial and reputational risks better, smoothing cash flows.[4]

20%

A major study found that sustainable funds experienced a 20% smaller downside deviation than traditional funds over a 15-year period. In other words, when the market would drop, these funds would decline, on average, than traditional funds.[5]

Past performance is no guarantee of future results.

Q Does responsible investing limit my investment options?

A No. Actually, responsible investing options are expanding rapidly. There are currently more than 400 sustainable funds available to U.S. investors, with many more investment options on the horizon, according to Morningstar.

These investments are found in all major asset classes:

- Equities
- Fixed income (corporate bonds, green bonds, etc.)
- Money market and alternatives

Investment vehicles include:

- Mutual funds
- Private equity funds
- Exchange traded funds (EFTs)
- Pooled funds
- Real estate funds
- Hedge funds

RBC Wealth Management has a collection of ESG Select Portfolios developed to provide you with globally diversified multi-asset class strategies. These strategies are based on our strategic asset allocation framework, which invests in ETFs, and mutual funds selected and monitored by our ESG committee.

Choosing socially responsible investments for your portfolio is similar to how you would choose your other investments. The first step is to meet with your financial advisor to discuss your goals.

Q What questions should I ask?

A That depends on what's relevant to the company and the industry it operates in. For example, if you're looking at a food and beverage company, you would want to look at water usage and wastewater management. Or in the case of oil and gas companies, are they investing in clean technology or research and development? One way to get a real sense of what companies are doing is to compare them against their peers.

Q How do I know if a company is socially responsible?

A You can visit a company's website to look at annual reports and other corporate reports. You can review the board of directors to see if there's the appropriate level of gender diversity. Or, do they have a plan to deal with the impacts of climate change on the business? Many companies are now creating separate reports on their approach to environmental, social and governance issues.

Q How can I make sure principles of social justice are accurately reflected in my portfolios?

A Investors who want to keep it simple may want to consider pre-constructed ESG portfolios. For investors looking for more choice, there are a number of ESG mutual funds or ETFs for them to consider as they construct their own portfolio. And those seeking to take it to the next level can get even more customized via managed accounts.

Q How do I get started?

A Choosing socially responsible investments for your portfolio is similar to how you would choose your other investments. The first step is to meet with your financial advisor to discuss your goals. Part of that discussion will be your investment time horizon, risk tolerance and other preferences you have as an investor.

Our commitment to socially responsible investing

RBC Wealth Management supports the merits of responsible investing. RBC is committed to community involvement, diversity and inclusion and environmental responsibility to help the world become a better place—for both current and future generations.

To help make good on our commitment to have a positive social and environment impact, we have pathways for you to invest capital in a more responsible manner.

Your next chapter

Every successful journey begins with a starting point, a destination and a plan to get there safely. Planning for a lifetime means more than just numbers on a page. Our goals-based wealth planning approach focuses on what matters most to you. Regardless of where you are in life—whether you're just starting out, raising a family, or enjoying retirement—your financial advisor crafts a plan that charts a direct course to your goals, yet flexes when life throws you a curveball. A financial advisor you trust, with a plan you create together, can help you accomplish your financial priorities.

A wealth plan can help you:

- Document and prioritize your goals
- Explore your values and bring purpose to your money
- Stress-test your goals and scenarios
- Establish proper asset allocation to diversify and minimize risk
- Understand outcomes, avoid unnecessary risks, rebalance and chart your progress
- Answer retirement questions with confidence
- Protect what is important to you and leave a lasting legacy

My notes

Thriving in every life stage

Use this checklist as a starting point to begin planning.

Key financial pillars	Working toward tomorrow	Approaching retirement	Thriving in your encore years
Accumulate and grow your wealth	☐ Begin with the end in mind; define your goals, plan, save and invest with regular reviews ☐ Have an emergency fund of at least six months of expenses in liquid investments ☐ Save strategically by taking advantage of employer-sponsored retirement plans; max out your contributions and receive the employer match ☐ Leverage a Roth IRA or Roth 401(k) in your early career years	☐ Align investments, track and rebalance regularly to help offset the impact of inflation ☐ Increase your savings rate and take advantage of catch-up contributions at age 50+ ☐ Optimize your tax-deferred savings with other investments for better after-tax returns today and in the future ☐ Use a Roth conversion to build flexibility and tax diversification into your plan	☐ Understand the probable outcome of your comprehensive wealth plan; review annually ☐ Consider consolidating accounts with one financial provider to simplify your financial life ☐ Use the bucket strategy to restructure your assets into portfolios to meet your near-, intermediate- and long-term needs
Fund your lifestyle today and tomorrow	☐ Monitor spending levels with a set budget and eliminate unproductive debt ☐ Take advantage of an HSA and consider deferring the use of those dollars to fund your health care expenses in retirement ☐ Model expected retirement expenses into your wealth plan, factoring inflation and expected lifestyle changes	☐ Create a plan for your retirement paycheck and determine when to start Social Security ☐ Understand the impact taxes will have on your retirement paycheck ☐ Consider an annuity to help manage income and longevity risk ☐ Create a retirement budget to cover your needs, but allow flexibility for your wants and wishes	☐ Manage your spending to cover your needs, goals and priorities ☐ Plan ahead for Required Minimum Distributions starting at age 72, as well as any related taxes or increases in Medicare ☐ Create your retirement paycheck in a tax-efficient manner and revisit your paycheck strategy annually
Protect what is important to you	☐ Evaluate your options for health, disability and life insurance coverage ☐ As your income, wealth and family grow, plan for adequate life insurance to cover your liabilities and provide for your loved ones ☐ Consider property and casualty insurance; as your estate grows, you may need umbrella insurance	☐ Have a plan for supplementing Medicare with a Medigap plan, plus coverage for dental and vision care ☐ Consider the impact that a long-term care event could have on your plan and evaluate your need for long-term care coverage ☐ Use credit strategically to manage the impact of the unexpected; establish a credit line before you retire ☐ Re-evaluate your life insurance needs	☐ Enroll promptly in Medicare at age 65 and claim Social Security by age 70 ☐ Avoid selling assets in down markets by using a credit strategy or insurance cash value to supplement income ☐ Discuss your care and caregiving wishes with your family; have a plan for funding your care needs
Create a lasting legacy	☐ Take care of your estate essentials by establishing a revocable trust, will, health care directive and power of attorney ☐ See that your assets are properly titled and beneficiary designations are current ☐ Think about a gifting plan that is impactful and aligned to your values	☐ Revisit estate-planning documents, asset titling and beneficiary designations to confirm intended outcomes ☐ Consider the benefits of various trust structures to protect your assets, transfer your wealth and facilitate your estate settlement ☐ Couples should have a plan that considers different scenarios for survivorship; include housing and care needs	☐ Make sure your estate plan is aligned with your wishes and updated to reflect changes in your family ☐ Understand gift and estate tax thresholds and take advantage of wealth transfer exclusions and deductions ☐ Consider various gifting strategies, including the benefits of a donor advised fund and qualified charitable distribution

About Wealth Insights

Your financial journey is informed by both a clear understanding of where you are today and the strategic options that can fuel your tomorrows. At RBC Wealth Management, we are committed to delivering insights that educate, equip and engage you for that journey.

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[4] Does socially responsible investing hurt investment returns? RBC Global Asset Management. October 2019.

[5] Morgan Stanley Institute for Sustainable Investing – Sustainable Reality - Analyzing Risk and Returns of Sustainable Funds. August 2019.

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in consultation with your independent tax or legal advisor.

Due diligence processes do not assure a profit or protect against loss. Like any type of investing, ESG investing involves risks, including possible loss of principal.

Asset allocation, diversification and rebalancing do not assure a profit or protect against loss.

The RBC Select Portfolios provide investors with globally diversified multi-asset-class strategies with a view toward integrating Environmental, Social and Governance factors into each investment. In certain RBC ESG Select Portfolios, the mutual funds may be manufactured or managed by RBC Global Asset Management (U.S.) Inc., an affiliate of RBC Capital Markets, LLC. Investors should consider the investment objectives, risks, and charges and expenses of a fund carefully before investing.

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