# Responsible investing

## A workbook for applying ESG data to your investing portfolio

WEALTH **INSIGHTS**

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

Wealth Management

# Add choice to your portfolio with ESG data



## 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.

## Responsible investing

More people are turning toward responsible investing—an umbrella term encompassing the approaches used to deliberately incorporate environmental, social, and governance (ESG) data and considerations into a portfolio.

This philosophy goes 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 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 to incorporate an additional layer of analysis, material ESG factors, as well as 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.

# 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.

### Extreme weather events

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, a warming climate 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, the theme of sustainability has attracted the most attention.

### How to get started with responsible investing

Understand the definitions within this space and talk with your financial advisor to learn more about the applications of responsible investing in order to align your investments accordingly.

On pages 11–13 of this workbook, you can jot down your thoughts about what responsible investing looks like to you.

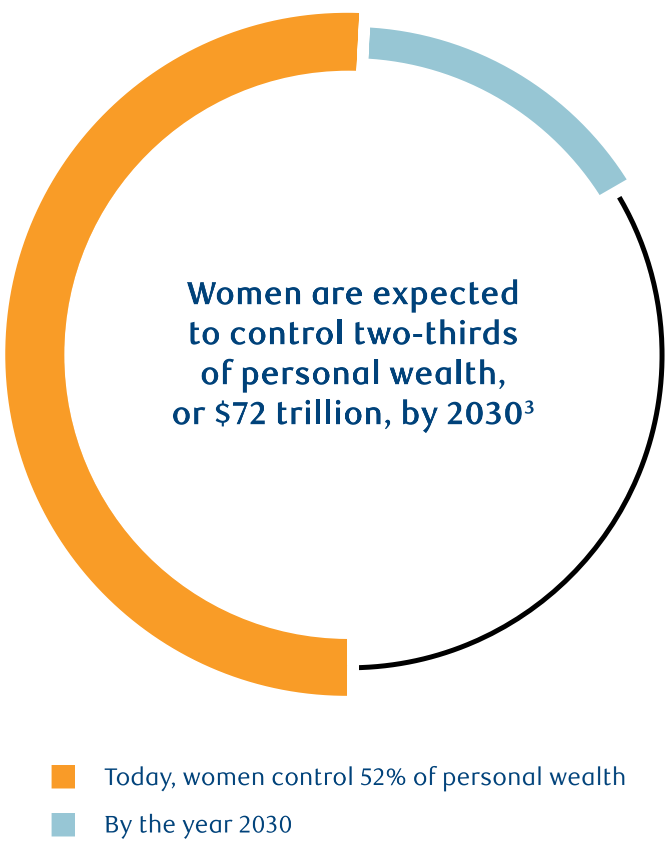
### Natural disasters are increasingly common and costly

Extreme weather events cost the U.S. nearly $150 billion each year or $1 billion every three weeks, compared to every four months in the 1980s, says U.S. National Climate Assessment.[1]

# Women and millennials are at the forefront of change

**A generational transfer of wealth and shift in investor values set the stage for continued growth**. With $84 trillion dollars expected to transition from baby boomers to their heirs by 2045 according to Cerulli Associates, now is the time to start engaging the next generation with discussions to help proactively accumulate, sustain and protect the family wealth. Conversations about responsible investing can help bridge multigenerational wealth.

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.




**Women control 52% 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.

### Millennials gravitate toward responsible investing

**84%**

of high-earning and high-net-worth millennials said it's important to consider ESG factors and that ESG investments are an integral part of their investment strategy.[2]

**80%**

of high-earning and high-net-worth millennials said that ESG guides all or most of their investment decisions.[2]

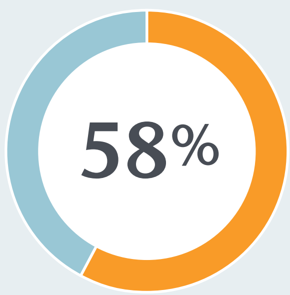
**$84 trillion** is expected to transition from baby boomers to their heirs by 2045.

# Survey results are in

**For four consecutive years, RBC Wealth Management-U.S. has surveyed clients** to gain more insights into their knowledge of and interest in responsible investing and the applications of Environmental, Social, and Governance (ESG) data.

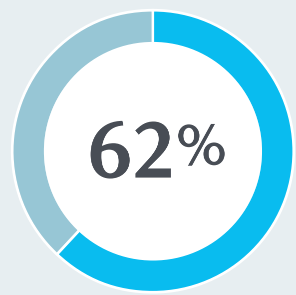
The results of our 2024 survey are based on 1,086 responses, reflecting a 4.3% response rate. Out of these respondents, 51% are high net worth clients.

## Key findings from the 2024 survey:



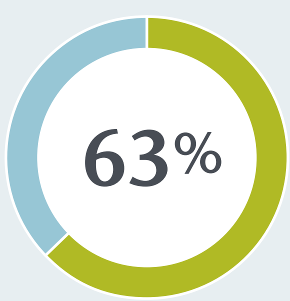

### Achieving financial goals is #1

58% of men and women equally agree achieving financial goals is, by far, the most important factor when choosing investments, more than the professional recommendation of the investment, fees, risk profile, and past performance combined.



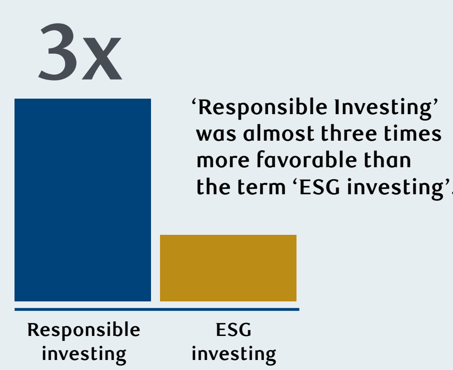

### Women have a strong interest in responsible investing

Women are significantly more likely to have a discussion with their financial advisor about responsible investing compared to men.




### Impact investing rose to the top

63% of those surveyed are most interested in taking an impact investing approach, compared to ESG screening & exclusion, thematic ESG investing and ESG integration. (Learn more about each approach on pages 6–10.)




### "Responsible investing" is meaningful

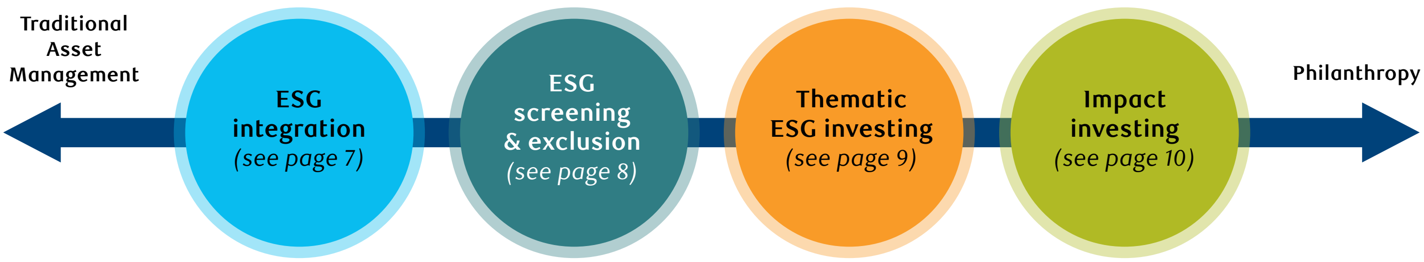
The term responsible investing has a much more favorable impression among those surveyed compared to other terms: sustainable investing, impact investing, or ESG investing.

# What's your approach to responsible investing?

Responsible investing is an umbrella term used to describe a broad range of approaches for incorporating ESG considerations into the investment process using ESG data. It's an additional layer of analysis to help identify potential risks and opportunities.

## Responsible investing approaches

There are four main responsible investing approaches, and each applies ESG data differently. These approaches are not mutually exclusive; multiple approaches can be applied simultaneously along the spectrum of the investment process.




### ESG integration

Systematically incorporating material ESG factors into investment decision making to identify potential risks and opportunities and help improve long-term, risk-adjusted returns.

### ESG screening & exclusion

Applying positive or negative screens to include or exclude assets from the investment universe.

### Thematic ESG investing

Investing in assets involved in a particular ESG-related theme (i.e., water, climate change, gender equity, clean energy) or seeking to address a specific social or environmental issue.

### Impact investing

Investing in assets that intend to generate a measurable positive social or environmental impact. Investors look to measure impact alongside return, which differentiates it from philanthropy.

### Determining your approach

Each of the following reasons may lead to a different responsible investing approach. You may want to:

- Incorporate ESG data alongside traditional financial analysis
- Align your values and financial goals
- Invest in companies with responsible environmental and social practices
- Support specific themes, issues or causes you care about
- Target innovations that help solve social or environmental challenges
- Drive market returns and earnings potential

RESPONSIBLE INVESTING APPROACHES

# ESG integration

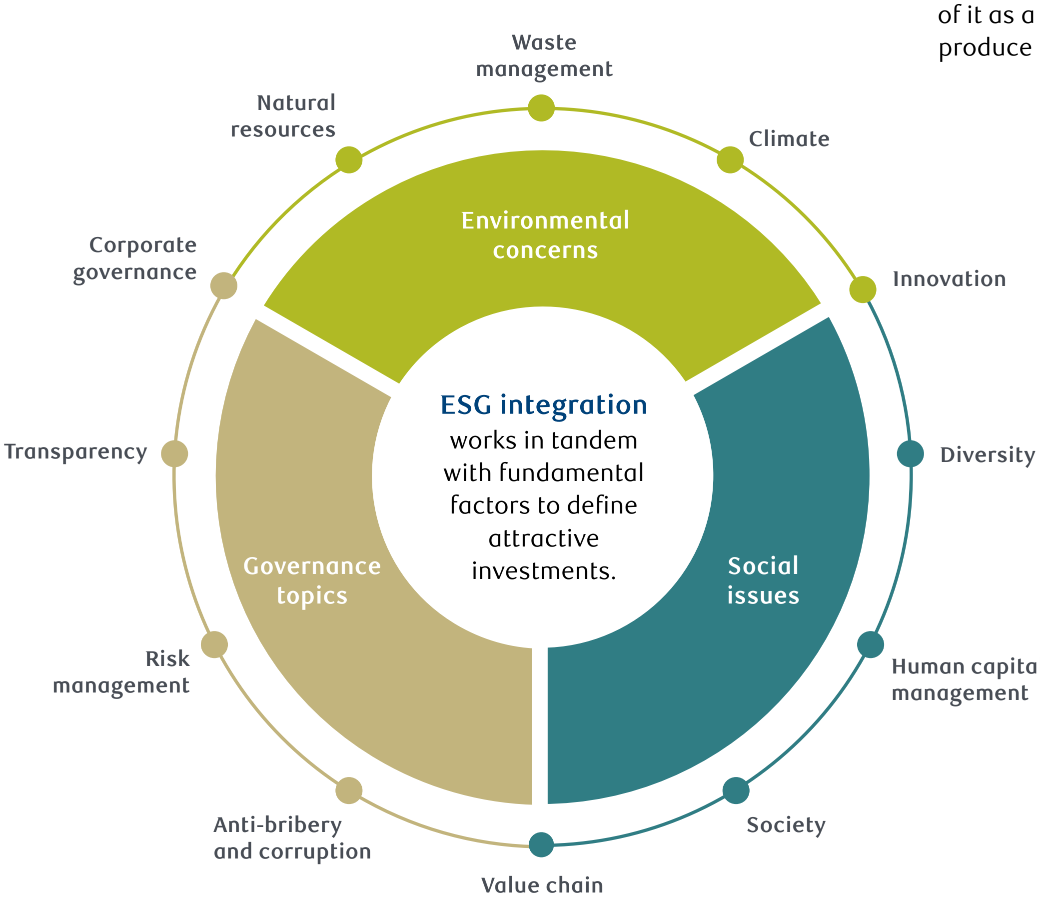
**ESG integration combines ESG data alongside traditional financial analysis.** ESG integration is about understanding the material or 'extra-financial' ESG factors that are important to future earnings of a company as it helps create a clearer picture to better understand the potential impacts to long-term value.

This process looks to mitigate risk and identify growth opportunities through seeking leading or improving ESG metrics compared to peers. It does not eliminate sectors or companies that some may expect or deem objectionable.

### An ESG data example

Looking at a company's water usage metrics to determine if they are using water efficiently.

Water is a material factor for a beverages company that uses a high percentage of it as a main input to produce their product.




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

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

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

RESPONSIBLE INVESTING APPROACHES

# ESG screening and exclusion

**ESG screening & exclusion is a values-based approach that is accomplished by applying positive or negative screens to include or exclude assets from the investment universe.** ESG screening and exclusion can include religious, faith and norms based investing. This strategy is about incorporating and aligning values into an investment portfolio, and certain factors may or may not fit with your predefined values.

It is important to note that this approach naturally limits an investment universe when categories are removed. This can impact the volatility of a portfolio and potentially cause unintended consequences. Prioritize the screens most important to you when using this strategy.

### Portfolios with purpose

The ESG screening and exclusion strategy can help individual donors, families, foundations and philanthropic organizations put more capital to work for social good.

### Investing in line with your values

Using ESG measurements, you may screen specific companies or sectors in (positive screening) or out (exclusionary screening) of your portfolio based on set criteria. For example, you may avoid investing in companies that earn revenue from producing tobacco products based on your defined set of values. On the other hand, you may choose to invest in companies that are leading their peers based on ESG metrics.


**Positive screening**

Values-based investors may seek to invest in companies that are leading their peers based on ESG metrics.

**Exclusionary screening**

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

RESPONSIBLE INVESTING APPROACHES

# Thematic ESG investing

**Thematic ESG investing involves assets included in a particular ESG-related theme or seeking to address a specific social or environmental issue**. Themes can range across a variety of ESG factors and include gender diversity, religious values, clean energy, low carbon, fossil fuel free, solar, wind and water, and more.

**In 2021, over 2 billion people live in water-stressed countries**, which is expected to be exacerbated as a result of climate change and population growth.[4]

## Sustainable investing and sustainability

These terms fall under the application of thematic ESG investing. Sustainability emphasizes the responsible use of natural and socioeconomic resources without depleting their availability for the future.

In 2015, the United Nations issued 17 Sustainable Development Goals (SDGs) designed to give countries a blueprint for a sustainable future for the next 15 years of environmental and social development around the globe. Some investors use the SDGs as a way to align interests and measure impact.

## Sustainable Development Goals (SDGs)

SDG themes include: zero hunger, clean water and sanitation, climate action, sustainable cities and communities, life on land, life below water, and more.



Source: United Nations Department of Economic and Social Affairs.

RESPONSIBLE INVESTING APPROACHES

# Impact investing

**Impact investing includes investments that intend to generate a measurable, positive impact, with a specific environmental or social issue in focus**. "Impact" is the primary objective. The concept of "additionality" is the measure of change relative to the amount of money invested, and it is essential to impact investing. An investor will look to define the desired outcome, identify how to measure success, and report the impact achieved.

### Philanthropy

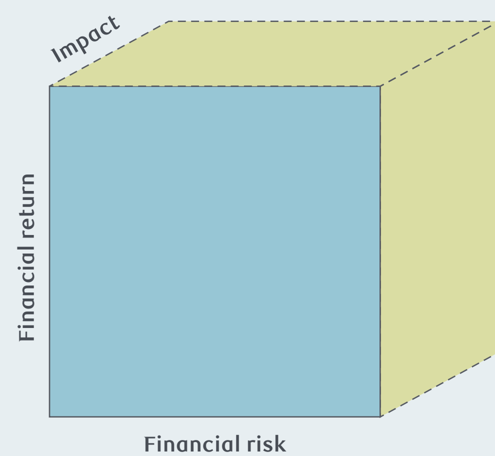
Philanthropic investing is the narrowest form of impact investing, maximizing impact with no return expectations as money is directed at a specific cause.

### A third dimension of performance

Impact is the third dimension of measurement alongside traditional risk and return, differentiating impact investing from philanthropy which maximizes impact with no return expectation.

**Traditional investing**


**Impact investing**




### Measuring impact investing

Impact is often associated with a number or metric to show measurement being generated. Currently, impact investing strategies are more common in private investments compared to public markets.

| Impact investment example | Measurable impact |
|---|---|
| **Low-income housing loans** | Number of homes constructed |
| **Equity investment in solar farms** | Tons of $CO_2$ replaced / clean power created |
| **Investment in a water filtration company** | Gallons of water purified |

# Evaluate what's important to you

**Today, an increasing number of investors want to know that their money is really making a difference through 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 to responsible investing 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 | ☐ Transparency |
| ☐ Authenticity | ☐ Dignity | ☐ Fairness | ☐ Respect | ☐ Vision |
| ☐ Beauty | ☐ Diversity | ☐ Generosity | ☐ Safety | ☐ Well-being |

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? How do you define this term?

Which approaches to responsible investing align with your financial goals? Select all that apply to you. (Refer to page 6 for definitions of each)

☐ ESG integration

☐ ESG screening & exclusion

☐ Thematic ESG investing

☐ Impact investing

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 select the themes most important to you:

☐ 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

☐ Market returns and earnings potential

Write your own: ______________________________

Have you made any lifestyle changes to support specific values-based initiatives (e.g., volunteer work, screening certain products, purchasing an electric or hybrid vehicle, 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

☐ Add an additional layer of ESG data to my financial analysis

☐ Support sustainability in a general way

☐ Support specific philanthropic interests

☐ Support strong governance practices and corporate ethics

☐ Invest in innovative technologies to improve the planet for future generations

# Frequently asked questions

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

Responsible investing approaches won't always outperform peers and benchmarks, but they won't always underperform, either. They come in all shapes and sizes and will perform according to their respective approaches.

### 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 responsible 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.[5]

### Q: Are there enough investment choices within this space?

**A:** Yes, responsible investing options are expanding rapidly. There are many 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 (green, social, sustainable, sustainability-linked bonds)
- Money market and alternatives

**Investment vehicles include:**

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

### Q: Does RBC have any portfolio solutions in this space?

**A:** RBC Wealth Management has a collection of Responsible Investing Select Portfolios developed to provide 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 Fulfillment committee.

In 2023, RBC Wealth Management launched two guided discretionary equity portfolios designed for investors seeking long-term capital appreciation by investing in a concentrated portfolio of stocks. The stocks chosen for the portfolios are selected based on the integration of traditional financial and extra-financial ESG factors across the investment-making process (ESG integration).

### 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 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 my principles are accurately reflected in my portfolio?

**A:** Investors who want to keep it simple may want to consider pre-constructed responsible investing portfolios. For investors looking for more choice, there are a number of responsible investing 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 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. Refer back to page 6.

Past performance is no guarantee of future results.

# 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<br>☐ Have an emergency fund of at least six months of expenses in liquid investments<br>☐ Save strategically by taking advantage of employer-sponsored retirement plans; max out your contributions and receive the employer match<br>☐ 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<br>☐ Increase your savings rate and take advantage of catch-up contributions at age 50+<br>☐ Optimize your tax-deferred savings with other investments for better after-tax returns today and in the future<br>☐ Use a Roth conversion to build flexibility and tax diversification into your plan | ☐ Understand the probable outcome of your wealth plan; review annually<br>☐ Consider consolidating accounts with one financial provider to simplify your financial life<br>☐ 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<br>☐ Take advantage of an HSA and consider deferring the use of those dollars to fund your health care expenses in retirement<br>☐ 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<br>☐ Understand the impact taxes will have on your retirement paycheck<br>☐ Consider an annuity to help manage income and longevity risk<br>☐ 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<br>☐ Plan ahead for Required Minimum Distributions starting at age 73, as well as any related taxes or increases in Medicare<br>☐ 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<br>☐ As your income, wealth and family grow, plan for adequate life insurance to cover your liabilities and provide for your loved ones<br>☐ 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<br>☐ Consider the impact that a long-term care event could have on your plan and evaluate your need for long-term care coverage<br>☐ Use credit strategically to manage the impact of the unexpected; establish a credit line before you retire<br>☐ Re-evaluate your life insurance needs | ☐ Enroll promptly in Medicare at age 65 and claim Social Security by age 70<br>☐ Avoid selling assets in down markets by using a credit strategy or insurance cash value to supplement income<br>☐ 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<br>☐ See that your assets are properly titled and beneficiary designations are current<br>☐ 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<br>☐ Consider the benefits of various trust structures to protect your assets, transfer your wealth and facilitate your estate settlement<br>☐ 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<br>☐ Understand gift and estate tax thresholds and take advantage of wealth transfer exclusions and deductions<br>☐ Consider various gifting strategies, including the benefits of a donor advised fund and qualified charitable distribution |

# 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.

### Primary questions or concerns

## 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.

### Contributing authors


**Angie O'Leary**
**Head, Wealth Planning**

**Kent McClanahan**
**Head, Content Strategy and Responsible Investing**

**Daniel Gottlieb**
**Content Manager**



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