

Insights into responsible investing

CREATE A POSITIVE IMPACT



Wealth Management

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ESG TAKEAWAYS

Three key ESG investing takeaways from 2020 thus far

1.

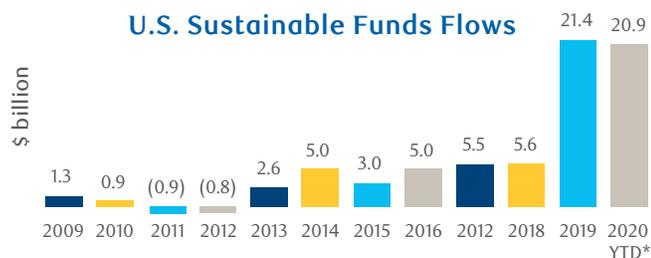
ESG growth

The growth in ESG investing continues in the second half of 2020. This growth includes flows and launches or repackaging of investment strategies.

As of end of Q2 2020, there were \$71 million new investments for a total of \$1.06 trillion in assets in ESG strategies.¹ In its July published report, Morningstar observed that with respect to the United States, first semester 2020 inflows of \$20.9 billion nearly met 2019's net flows for the entire year.²

In addition to rising AUM, RBC Wealth Management observed growth in launched or repackaged investment strategies, particularly in the ETF universe, to meet inflow demand.

In digging deeper into the growth of demand for ESG, market participants have observed, specifically, investor push to drive change via companies' direct engagement efforts. Investors want information directly from companies or regulatory bodies, causing businesses to start building metrics in house in an effort to provide good transparency.³ RBC Wealth Management believes that, in particular, social issues are at the forefront of investor demand.



Source: Morningstar Direct. Data as of 06/30/2020. *YTD 2020 as of 06/30/2020. Includes ESG Integration, Impact, and Sustainable Sector funds as defined in Sustainable Funds U.S. Landscape report, 2018. Includes funds that have been liquidated; does not include fund of funds.

Continued on page 2

2.

The 'Year of the S'

"The two major events of 2020 so far—a worldwide pandemic and urgent efforts to confront the problem of systemic racism—have spurred corporations to take the new statement of purpose from the business roundtable and quickly put it into practice," said Kent McClanahan, CFA, vice president of Responsible Investing at RBC Wealth Management, in *Financial Advisor Magazine*. This "Year of the S" has companies focusing on: community efforts to address systemic racism; improving practices around employee diversity and inclusion (D&I); and aligning employee health and safety policies in the wake of a global pandemic.⁴

RBC Capital Markets analyzes S&P 500 companies on D&I efforts. From a performance perspective, companies with stronger workforce ESG scores (where D&I policies and track records are contributing inputs) have outperformed those with lower workforce ESG scores within the U.S. and Europe since 2014.⁵ In RBC Capital Markets' ongoing company D&I review, Sara Mahaffy, RBCCM U.S. equity strategist, and the Equity Research Group observe that we are starting to see more companies publicly disclose quantitative targets on their own workforce representation.

3.

Push for better data

There is significant growth in demand for data standards and reporting quality metrics in ESG investing. The ambiguity of third-party and self-reported ESG metrics currently requires extensive due diligence to collect, clean up and normalize the data, impeding the ability for robust investment management and investor decision-making.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

RBC Wealth Management is attributing disclosure discrepancies, in part, as challenges to regulatory concerns. We have observed globally financial regulators taking action to address the difficulty with ESG data, and often in disparate ways.

With this push for better data, RBC Wealth Management has created its own ESG rating system for third-party asset managers on our wealth platform. This rating system assesses manager integration of environmental, social and governance criteria in their respective investment processes. In 2021, RBC Wealth Management aims to rank all managers according to their type of product and investment vehicles, with a separate methodology for exchange-traded funds.

In the meantime, if you are interested integrating ESG factors into your portfolios, RBC Wealth Management has dedicated, in-house resources available to assist. Please contact your financial advisor to learn more.

¹Sloley, C. (2020, August 04). ESG flows leap 72% in Q2 2020, Morningstar report finds. Retrieved October 19, 2020, from <https://citywireselector.com/news/esg-flows-leap-72-in-q2-2020-morningstar-report-finds/a1387324>

²Hale, J. (2020, July 30). Sustainable Funds Continue to Rake in Assets During the Second Quarter. Retrieved October 19, 2020, from <http://www.morningstar.com/articles/994219/sustainable-funds-continue-to-rake-in-assets-during-the-second-quarter>

³Hargrave, M. (2020, July 01). An ESG Reflection: Three Mid-2020 Takeaways for Investors. Retrieved October 19, 2020, from <https://insight.factset.com/an-esg-reflection-mid-2020-takeaways>

⁴McClanahan, K. (2020, August 7). The 'S Factor' Comes To The Fore With ESG Investing. Retrieved October 19, 2020, from <https://www.fa-mag.com/news/the-s-factor-comes-to-the-fore-with-esg-investing-57317.html?section=68>

⁵Mahaffy, S. (2020, August 25). As S&P Companies Rethink D&I Policies, ESG Funds Attract Record Flows. Retrieved October 19, 2020, from https://www.rbccm.com/en/insights/story.page?dcr=templatedata%2Farticle%2Finsights%2Fdata%2F2020%2F08%2Fas_sp_companies_rethink_di_policies_esg_funds_attract_record_flows