AGENDA SLIDE

Thank you for inviting me here. I really do enjoy speaking about my views on the investment business. And given my interest in the environment and climate action I especially welcome the opportunity to give you my thoughts on Green investing.

I have prepared 4 slides

- Introductory slide
- Green Investment Strategies
- How do I Invest green
- Challenges and rewards of green investing Slide

INTRODUCTION SLIDE

My name is Doug Crocker. Some of you might know me already, I have enjoyed cycling with the Probus road warriors and kayaking with the same group. I am looking forward to this summer and doing more of the same.

In 1997, I was employed at London Life when it was taken over by another Canadian insurance company. Fortunately I didn't survive the merger and In 1998 I used my severance to establish my own Asset Management Company. Over the next 10 years we grew our company to over $6 billion in assets managed. Among our clients we counted several of Canada's largest institutional funds, one of our Schedule A banks, as well as a handful of large international pension and endowment funds such as the Abu Dhabi Investment Authority and BHP a hugely large and influential Dutch public pension plan. Interestingly for this presentation, one of our domestic clients was the Vancouver based Ethical Funds who were probably one of Canada's first Green managers. We managed one of their mutual funds. That was my first experience with Green Investing. That was around 2003.

More recently and also relevant to this conversation today, I have been on the board of directors for Ontario Nature for the past 5 years. I have spent a good part of this past year overseeing the movement of Ontario Nature's endowment funds from a traditional asset manager to a green mandate. Which of course, for Ontario Nature, is how our invested dollars should be managed. In this role there were several steps. First, we rewrote our Investment Policy Statement to specifically state we wanted green investments, next we sent out an RFP, and finally we narrowed down the 10 responses we received to the selected manager to whom we are currently transitioning Ontario Nature's money. It is a process anyone can adopt in a less formal manner if you were to decide to search for a green manager. I will elaborate more on that later. It has also been an interesting experience for me because it brought me up to date on the state of Green Investing in Canada.

In this presentation I am going to use Green Investing as a broad umbrella term. You may have heard of other similar terms such as sustainable investing, ethical investing, socially responsible investing and environmental, social, and governance (ESG) investing. For simplicity I am going to group them all under a green umbrella because all of them share a major common objective. Namely they are investment approaches that seek to support businesses that are believed to have a favorable impact on our natural, social, and physical environments.

Green investing is certainly taking off. Many of the world's largest fund managers have launched green products, most of the remaining ones are considering it or claim their funds have always operated green. There is certainly increased interest from both retail and institutional investors and all investment managers believe green investing is here to stay and that it will grow.

Green investing is also now available across all investment classes. In Canada, one can find green funds in Canadian equities, global equities, fixed income and even money market funds. It's a growing trend and one every one of us who are concerned about the environment needs to consider if not support it.

So, you see there is considerable support for green investing from both the supply and demand sides. The question remains, how does it work. The theory behind green investing is a straightforward case of "follow the money". Those companies that are green will be rewarded with better returns in the equity markets, combined with cheaper funding costs in the fixed income markets. Consequently, they will gain an economic advantage over non green companies. That economic advantage is actually realized in both the conmpany's income statement and their stock price. As a result other companies will take heed and try to green their image, operations and products. As green investing spreads through the corporate world, the world itself will benefit.

GREEN INVESTMENT STRATEGIES

Now I am going to look now at the different strategies an investment manager can employ to invest green. You can see from the slide there are 5 strategies an investment manager can utilize as a green investment strategy.

I will first talk about proxy voting as a strategy to support a green investing claim. Proxies are usually voted at the AGM and certain important votes are required to take place by law. These include approval of the budget and election of the board of directors. Most of the time it is one share – one proxy. Consequently, it can be tough for a single individual shareholder to have an impact. It is even more challenging because most of the funds in which we invest, automatically turn the right for proxy voting over to the fund manager so that we as individuals do not vote. Most of those managers however will have a written proxy voting policy that they will follow and you can ask to see it. So if you are considering one investment fund versus another, you can always ask to examine their proxy voting policy and that process will enable you to determine if that manager does indeed support green investing through a proxy strategy.

Fortunately, that very accumulation of proxy votes by fund managers, especially very large fund managers, can also be beneficially green. We all know of the recent board of directors proxy vote that resulted in the election of 2 "green" members to the board of Exxon Mobil. This was orchestrated by several large asset managers who voted together to elect their own "green" directors. It will be interesting to see if they are able to elect another 2 green members when the next election is held. Imagine if the majority of the board of directors for Exxon were "green". We could witness some interesting and probably welcome changes.

Advocacy is another way that investment advisors or investment managers can influence the direction of listed companies. Shareholder advocacy groups are being established and they represent the wishes of their members and you become a member by paying an annual subscription. Companies will pay attention to advocacy groups because the group represents large numbers of their shareholders.

At Ontario Nature we joined a Vancouver based advocacy group who promote sustainable business practices on behalf of their clients. Each year we help them establish their priorities. During the year we receive notification from the advocacy group about any forthcoming company meetings and the issues that they will address with that company's management. We are asked if we wish to be advocated with that company on identified issues and we can say yes or no. The annual fee might be prohibitive for an individual, but it is possible to find a manager or advisor who is already a member of an advocacy group. Indeed, at Ontario Nature our approved manager participates with the same group that we joined. It is a great way in which you can leverage your investment interests towards green investing.

Exclusions are the simplest strategy to direct investments towards Green companies or more precisely away from non-green companies. An investment advisor can avoid certain sectors or specific companies at your direction. A fund manager will be able to say which sectors and companies they avoid as specified in their fund management policy. When Ethical Funds hired my company to manage one of their mutual funds, they would simply send us a list of specific investments to avoid and we would comply. It is an easy strategy to employ and so long as your fund managers exceptions match your desired exemptions everyone is happy.

Offsetting is a rarely employed strategy to achieve green investing but a very useful one in certain situations. It is similar to offsets in the carbon footprint world. In the investment world the strategy is pursued as a cost effective approach. We managed one such mandate for a church foundation where we bought on their behalf a very low cost ETF index fund. The ETF was a broad market index fund which invested in everything including the so-called SIN stocks (liquor, tobacco and gambling companies). The Church did not want to support the SIN stocks and we sold them against the index. The net result was a very low cost strategy with no economic exposures to the SIN companies but which delivered virtually identical performance as the indexed ETF. The downside is that the selling strategy is a highly intensive process.

My personal favourite green investment strategy is called ESG investing. ESG stands for Environmental, Social and Governance. An exact definition of those terms is still evolving but importantly they are most often hard quantitative measures. For example, Environment usually includes a carbon footprint measure. So if company A produces 2 kg of CO2 per unit and its competitor, company B produces 4 kg per unit we can definitely say company A is more environmentally friendly than company B. The same is true for the social and governance components and therefore we can rank every company that can be measured. Examples of Social factors include, community support or donations such as the Scotia Bank's ongoing support of the Giller prizes and their Small Town Hockey program. Governance factors might include board and management ethnic and gender composition amongst other factors. These are things that define good companies and the belief is that if the company is good in these factors they will be good in other aspects of their business.

Right now there are several companies that specialize in calculating the ESG rank for companies from all around the world. One of the entities is called MSCI. They evaluate and score over 35,000 companies worldwide on their ESG profile. Fund managers use this information to develop new investment fund products and also to refining their investment processes based on the ESG scores produced by MSCI and their peers. This is happening right now and the proliferation of ESG offerings has exploded because of the good quality of data underpinning it. I am looking forward to the day when I can invest in a green fund that is selected solely from those companies that are ranked in the top 5% or better of the ESG perspective. For MSCI that would still constitute 1,750 different companies. Then the fund manager might apply their normal investing rational to build a portfolio of a hundred or so companies. In this case, I could definitely say, my fund is green and I know it. And all of this has been happening in the past 10 years and it is a fantastic development which excites me because we are at just the beginning of this revolution right now.

So proxy voting, advocacy, sector and company exclusions, offsets and ESG are all strategies that managers or advisors can use to act "green". Of the five green strategies, offsets is by far the least utilized and is not well known.

I have given you an introduction into how investment professionals are incorporating green into the investing world. In the next slides, I will discuss steps and provide information that hopefully will help you end up with a green investment portfolio.

HOW DO I INVEST GREEN

Regardless of whether you go green or not, or regardless of the green strategies you end up utilizing, all investors must have an Investment Policy Statement, although Investment Advisors sometimes call it a Know Your Client form. I am going to use the Investment Policy Statement term because it is a more accurate description.

Investment Policy Statements cover important information your advisor must know about you, and your investment goals. Standard clauses within an Investment Policy Statement will include the size of your investment portfolio, the purpose of your investments, for example are your investments to generate income, do you desire capital growth or is the portfolio value to be preserved above all else. Investment Policy Statements also identify your risk tolerance, your investment horizon, and your desired asset mix. Importantly however all Investment Policy Statements have room for other specific guidelines. And that is where you can introduce your desire to have a green investment portfolio.

It is often as simple as adding your green investment desire onto your existing Investment Policy Statement with an additional paragraph or two.

The additional paragraphs should state that you wish your portfolio, both fixed income and your equity portions, to be managed with a green bias. A green bias can easily be introduced by identifying which of the green strategies you wish your investment advisor to review and implement. Personally, I think you can gain a lot of green bias by adding just three strategies to your Investment Policy Statement. First, say you wish to avoid investing in these specific companies and/or sectors. That is the exclusion strategy. I cannot tell which you should avoid and neither can anyone else. It is your decision. Second, consider finding some way to have an advocate promote good corporate behaviors and standards on your behalf. Third, request you wish to only invest in funds that have a stated green mandate or an ESG bias. That is a pretty simple and achievable package that you can fine tune to be your own.

The second step necessary to implementing a green investment strategy is to ensure you have good reporting. Compliance reporting which says your portfolio is being managed in line with your stated exemption strategies is simple to do and important. It is more challenging to demonstrate your portfolio is constructed to deliver a positive ESG bias but I have seen a few good ones. Regardless, ask for information on how you will be able to determine if your portfolio is maintained green and make sure you understand it.

Let’s talk a bit about the actual process of working with your investment advisor to green your investments.

Once you have written a preliminary addendum to add to your Investment Policy statement, head out to your advisor’s office to deliver it to them. Ask them what they think, how can they help and is there anything else you should be considering. Then you and your advisor can finalize your addendum. After that ask your advisor if they will manage your investment portfolio according to your new guidance. They might say no but if they agree you can talk to them about a realistic transition schedule which pays heed to your desire and your tax situation.

If your advisor does decline to continue to work with you will need to find a replacement. Of course, there are some investment advisors who advertise themselves as green investment advisors. You can search them out in the usual means. Ask your friends, ask your banker, ask your accountant. They might know someone or have a client who knows someone.

In the absence of friendly advice, head to the internet. Type in, what makes for a good green investment manager or something similar. Follow that query with How do I find a green investment manager in Canada. When you have a list with potential green managers you can follow the process we utilized at Ontario Nature. Send them your investment policy statement or at a minimum the additional paragraphs you have crafted and ask them to answer why you should invest with them. They will be happy to provide you with the reasons why they are the one of the best green managers available for you. Then choose your manager from the various replies you've received based on the traditional evaluation criterion, Trust, Transparency, Fees, Credentials, Performance history and References. Finally ask to see their reporting package. Check to see how they demonstrate their client money is invested in a green strategy. If you follow all those steps you will likely find yourself happily invested in a green portfolio.

An alternative to using an investment advisor is to self direct or a do it yourself investing approach. There are two strong reasons to implement a self-directed green investing approach. The first is you will absolutely be able to exactly implement your company and sector exclusions. You will purchase whichever green funds you feel are most closely aligned with your views. The second reason, is that you can save a lot of money in fees. When you are living off your accumulated wealth that is an important consideration. With the money you save in investment management fees, you can direct some of that towards an Advocacy subscription.

The downside to a self-directed implementation is that you are now responsible for everything, trading, discovering green companies and funds, and rebalancing and monitoring. Again, the internet can provide us with all that information and more. Trading for oneself is now easily handled by your bank's online discount broker. Discovering green companies and funds is now available online for free from companies like Yahoo finance, discount brokers, MSCI and Sustainalytics. Rebalancing can become an easily accomplished task by following the Couch Potatoes Investment Strategy. Seriously that is a highly regarded investment strategy that has performed as well or better than 75% of investment advisors and fund managers on a after fee basis. Portfolio monitoring is a bigger challenge but most discount brokers can help you with that as well.

At some point, regardless of whether you choose to use an Investment Advisor or you choose to adopt a self directed approach, you will likely end up investing green mutual funds, green pooled funds, or green ETFs. They are all great ways to hire top notch investment portfolio management teams. Mutual funds and pooled funds are fairly similar except that pooled funds are intended for sophisticated investors and are priced at a much lower fee. Regulatory investment rules in Canada define a sophisticated investor a by a threshold wealth level and not necessarily by investment knowledge. Pooled funds are also sourced directly from the investment manager but you should consider pooled funds if you meet the threshold level and don't be intimidated by the sophisticated investor label. The Do It Yourselfers will most commonly use ETFs. They generally have a significantly lower fee cost and they are frequently index based. ETFs have grown exponentially in the past 25 years and the companies that sell them now occupy most of the spots in any list of the ten largest asset management companies in the world. These companies all have green products available.

Importantly, all of these fund types have will have well documented investment prospectuses. Look for the funds that are self identified as green. The prospectus will outline how the fund will make their investment decisions and investment portfolio construction. The prospectus will explicitly state if the fund excludes any particular company or sector, whether or not they select securities based on ESG criteria and the prospectus will document how ESG is integrated into their portfolio construction. Pick the fund that best matches your own Investment Policy Statement. Don't expect to find a perfect match but you can probably find one that comes close.

Before I get to my last slide on the challenges and rewards of investing let me review what we have covered so far. I have discussed the 5 strategies that are available to an investment professional in order to generate a green investment. They are proxy voting, advocacy, exclusions, offsets and ESG. They are all appropriate strategies and more than one can be used at the same time. I also discussed the importance of having an Investment policy statement that outlines your situation, your goals and your green intentions. I touched on the advantages and disadvantages of using an investment advisor or adopting a do it yourself approach in order to create your green investment portfolio. Finally, I reviewed the different types of funds that are currently available as green investments funds.

Let's now turn to the challenges and rewards of green investing.

CHALLENGES AND REWARDS

When I left the investment business in 2010, ESG was a known term, but it was not useful in terms of investment or portfolio decision making or even for building of new investment products. That was largely because companies like MSCI were not yet collecting and ranking the investable universe on a consistent basis. That fact is changing rapidly. ESG investing though still relatively new is booming. The great interest in ESG has meant some investment managers may claim to be green but may not be. Even today, there are significantly fewer investment advisors and asset managers who fully and properly utilize the information being made available to them than there should be. I would like to see managers make it easier to understand how the green bias is incorporated into their investment process.

I would say of the 10 responses we received at Ontario Nature 5 of them really were not green managers at all and this was after we specifically asked for a green product. The 5 who weren't green, simply argued that because they invest in quality companies those companies are probably green. I don't see the causation working in that direction, and so an investor needs to be careful.

Also it appears that some funds are being promoted as green even if they are not, simply because of the sales interest in green investment products. I came to realize one of the main challenges in moving to a green investment portfolio is having the time and the patience to sort through and to make sense of the information we are being given by investment managers. It took us most of a year at Ontario Nature to complete the process. That is a long time partly caused by the size of the board and management team that was involved. But it is a process anyone can do, you can do it by yourself or with your advisor, it just takes a bit of time and effort.

A second challenge is that even with a strong ESG fund manager, you will likely see some companies in an ESG portfolio that will surprise you. When a green fund manager invests, they build their portfolios by using green factors such as ESG, as just one of the investing criteria they focus on. Other criteria they consider will be more traditional criteria such as economic conditions, balance sheet and income statement conditions, assessment of opportunities, etc. So, you can easily see that the "greenness" of a fund manager depends on how the green factor is incorporated and is weighted in comparison to the other factors they would focus on. This complication does make selecting and being satisfied with a green investment fund manager a challenge. One of the most common complaints I hear about green investing is that Canadian banks are often held in green funds and how can that be since all the banks have loaned massive amounts of money to the carbon energy sector. That is what is called an indirect exposure and the banks are certainly guilty. Their ESG ranking may be strong enough in governance and social factors to sometimes offset their indirect carbon exposure. Eventually, however we will see more greenness in bank's loans portfolio. Perhaps one of them will become the green market darling and outstrip the performance of the others. Eventually this will cause the others to emulate the green market leader. This is not an uncommon occurrence and it has certainly happened before. Most recently in the automotive sector, where Tesla is now the world's largest automotive company when measured by market capitalization. Not by total sales or income but by market performance which has been generated by their green product and image.

Now I want to make two comments on the benefits of green investing, as it is always nice to end on a positive note. When green funds first came out, the fear was they would underperform the market. That has not happened. In a simple test I looked at the last 5 year investment returns for the Canadian $ Global Equity Fund managed by the Bank of Montreal. The Bank of Montreal also have a Canadian $ Global Equity Green Fund which is identified, managed and sold as green. I compared the actual returns of the two funds over the identical 5 year period. The annual return for the green fund averaged 12.08% per year, which was 2.5% better than their non green global equity fund. I also did an internet search and there are many studies which conclude that green investing practices have not hindered and in fact may boost their returns relative to non green funds.

You might wonder if the trend will persist. Given the importance of ESG to today's investors, many market analysts believe green firms will outperform the broad market over the next decade simply because of increasing demand for green. That will drive the prices of green companies relatively higher and funds composed more heavily of green companies will outperform non green funds.

Finally, one of the most important benefits of green investing is that we can find investment opportunities in advisors or in funds that are more closely aligned with our own philosophical beliefs. We can all enjoy the comfort of knowing our investment dollars are being utilized by companies that are helping the world progress to a more healthy environment. I know for a fact the board members at Ontario Nature breathed a sigh of relief when we completed our move to a green fund. Now we can say to all of our donors that all of the money they have entrusted us with, to help save nature are now only invested in nature. And by itself that is probably the most critically important statement we can make.

I will end here and just say Thanks for listening.