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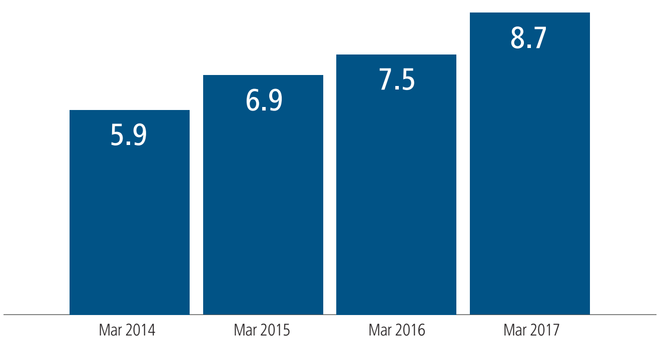
Rising Interest in SRI

The practice of intentionally investing for competitive financial returns and positive social impact is not new. For many years, Canadians interested in such have sought to align their investment needs with their values. These investors chose to allocate capital to solutions that incorporate Environmental, Social and Governance (ESG) factors.

Within the past several years there has been a rapid increase in the demand for Sustainable, Responsible and Impact Investing (SRI) solutions. From 2014 to 2016, SRI assets grew by 49.0%, with an annual compound growth rate of 22.0%.[1] Both institutional and retail investors are pushing the growth of SRI assets. In Canada's retail market, AUM in SRI mandates increased from $7.5 billion to $8.7 billion from March 2016 to March 2017.*

AUM – SRI Mandates, Canadian Retail Market (in billions)



* Source: Simfund as of March 2017

Who's Driving SRI Demand?

"Smart money" from institutional investors has been going into SRI investments for years. Pension funds and other large institutional investors have long used sustainable investment criteria as key factors in their decision-making. Recently, we have seen more retail investors putting assets in the SRI sector. In 2014, 86.9% of global SRI assets were institutional while 13.1% were held by retail investors. By 2016, retail SRI investments represented 25.7%, almost double the level from two years earlier.[1]

Growth in the SRI space has been driven by increasing investor interest across the board but two groups appear to be leading the charge: women and millennials. Millennial investors, in particular, are demanding that their money also contribute to positive environmental and social impact.

A 2017 Environics Research Group survey, commissioned by Mackenzie Investments, found that 75% of Millennial investors in Canada said it's important for advisors to offer socially responsible investments. Also, 37% of Millennials said SRI funds will become more important to their portfolios in the next two to three years. Our research also found that women are driving significant interest in the SRI space: 66% of women investors said SRI funds will become more important to their portfolio.

Performance Penalty?

Sustainable, Responsible and Impact Investing combines the objectives of seeking positive returns and addressing social challenges around the world. While there has been a notion that investing with ESG factors meant sacrificing returns – in effect, a performance penalty – this is not necessarily the case. A 2013 study by Sebastian Rathner found that when comparing SRI funds with traditional funds, almost 72% do not show any significant performance difference. For the remainder, SRI funds outperformed almost as often as underperformed.[2]

It is important to differentiate negative screening and ESG integration. The former involves implementing a list of exclusionary securities deemed not to align with investor

[1] Source: 2016 Global Sustainable Investment Review

[2] Rathern, S. 2013. "The Influence of Primary Study Characteristics on the Performance Differential Between Socially Responsible and Conventional Investment Funds: A Meta-Analysis" *Journal of Business Ethics*, Vol 118, P.349-363

values. The latter involves examining ESG factors as part of a fundamental bottom-up analysis. A 2015 study addressed the difference, finding that, "portfolios constructed with securities from companies that perform well on ESG factors display characteristics that may improve risk-adjusted returns."[3] Looking at results over a 15 year period, additional research, "found that tilting a portfolio towards stocks with best-in-sector ESG characteristics provided an advantage over conventional portfolios, while a portfolio focused on shunning stocks associated with tobacco, alcohol, gambling, firearms, military, or nuclear power resulted in a disadvantage relative to conventional portfolios."[4]

As higher quality and measurable ESG data from companies becomes available, research suggests firms that address key issues and risks within ESG criteria tend to perform better financially in long term.

Mackenzie's SRI Solutions

To address the growing interest of Canadians in the SRI space, Mackenzie launched three solutions that use sustainable, responsible and impact investing to achieve their objectives:

- Mackenzie Global Sustainability and Impact Balanced Fund
- Mackenzie Global Leadership Impact Fund
- Mackenzie Global Leadership Impact ETF

These solutions integrate ESG factors into their investment analysis. For example, Mackenzie Global Leadership Impact Fund and ETF aim to invest in companies that promote gender diversity within their executive leadership. Mackenzie Global Sustainability and Impact Balanced Fund uses a flexible approach to SRI equity and fixed-income investments.

Mackenzie SRI solutions aim to generate competitive risk-adjusted returns while supporting societal and/or environmental changes.

[3] De, I. and Clayman, M.R. 2015 "The Benefits of Socially Responsible Investing: An Active Manager's Perspective" *Journal of Portfolio management*, Vol 24, No 4, P. 49-72
[4] Statman, M. and Glushkov, D. 2016 "Classifying and Measuring the Performance of Socially Responsible Mutual Funds"

Talk to your financial advisor about Mackenzie's new SRI solutions.

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