



# RESPONSIBLE INVESTMENT QUESTIONS FOR FUND MANAGERS

## A Guide for Foundations

### Purpose of Guide

The purpose of this Guide is to:

- 1) Orient foundations to preliminary questions they can raise with their current fund manager as they begin their responsible investment (RI) journey; and
- 2) Provide a list of possible responsible investment questions to supplement standard investment specifications for foundations going to the market to select a new fund manager.

The Guide is divided into two sections for ease of use. The first section is designed to help foundations who are new to RI and would like to engage their current fund managers in a discussion about the possibility of implementing an RI approach. The second section is for foundations who seek to go to the market to assess the different RI offerings provided by Canadian fund managers.

### Background

Canadian foundations are becoming increasingly interested in responsible investment and seek to engage their fund managers on the opportunity of integrating social, environmental and governance factors into their investment portfolios. Community Foundations of Canada has launched a responsible investment website ([www.responsible-investment.ca](http://www.responsible-investment.ca)) for foundations, which defines the following approach to RI:

- **ESG integration** – considering environmental, social and governance (ESG) factors in investment policies and decisions
- **Screening** of industries or companies a foundation specifically wants to support, or screening out industries and companies – tobacco, for example – that are contrary to the mission of a foundation
- **Shareholder engagement** – using the position as a shareholder to engage companies on issues that are important to a foundation
- **Proxy voting** – actively voting proxies or working with fund managers to ensure that a foundation’s proxies are voted in a way that is consistent with their mission

- **Community investing** – using some of a foundation's assets to invest directly in the local community through things like mortgages for low-income housing, community loan funds and green infrastructure.

*(Note: This Guide addresses the first four RI methods and does not include reference to community investing as this typically warrants a specialized approach.)*

Foundations developing their RI approach have found it useful to discuss their interest with their current fund managers to determine the opportunities and implications of an RI policy and program. Thus, a number of fund manager questions have been proposed to aid this process.

Foundations further along the RI path may be interested in implementing a robust RI approach. Part 2 of this guide provides a comprehensive list of questions to this end, which could be used as a basis for inclusion in a Request for Expression of Interest or Request for Proposal process.

Historically foundations have avoided responsible investing due to concerns over legal and performance barriers. However, these issues have been largely resolved as a result of three watershed UN-sponsored global studies which revealed that ESG issues can influence shareholder value; that there is no performance penalty from taking ESG factors into account in the investment process; and that integrating ESG considerations into an investment analysis to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions<sup>1</sup>. Further, from January 2000 – January 2010, the Jantzi Social Index, a socially screened, market capitalization-weighted common stock index that consists of 60 Canadian companies that pass a set of broadly based ESG rating criteria, achieved an annualized return of 5.01 percent. Over the same period the S&P/TSX Composite and the S&P/TSX 60 had annualized returns of 4.98 percent and 4.83 percent respectively.

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<sup>1</sup> “Show Me the Money, Linking Environmental, Social and Governance Issues to Company Value”, Demystifying Responsible Investment Performance”, and “A Legal Framework for the Integration of Environmental, Social and Governance Issues Into Institutional Investment”.

## **Part One: RI questions to ask your fund manager when starting out**

Many foundations start their RI journey by discussing their interests with their current fund manager. The following are some questions to ask your fund manager as you move down the RI path.

### 1. Services

What RI services do you provide?

### 2. Client Experience

What is your RI experience with clients?

### 3. Policy

Do you have a policy which explains your approach to environmental, social and governance (ESG) performance of investee companies?

### 4. ESG Integration

How do you incorporate ESG matters into your risk management framework and investment process?

### 5. Screening

What positive and negative screens can be applied to investments? How are the criteria defined and applied?

### 6. Proxy Voting

How do you evaluate shareholder proposals dealing with ESG issues?

### 7. Shareholder Engagement

What is your approach to engagement with companies on ESG issues?

### 8. RI Investment Performance

What is your RI investment performance track record?

### 9. Costs

Are there additional costs to the client for RI services, and if so, what are they?

### 10. Portfolio Audit

Can you conduct an ESG portfolio audit to determine the degree of alignment between our current investments and potential RI investments and what impact this would have on overall performance?

**For Fund Managers New to RI**

Some fund managers may be new to Responsible Investment. If that is the case, the following questions for your fund manager may help get you both started on RI:

- Would you be willing to assist us in implementing an RI program with our investments with you?
- Do you have access to ESG research that you could use to integrate into your investment selection process?
- Do you have other foundation / endowment clients for whom you could provide this service and thus spread the costs of it?
- What proxy voting services do you use now and are there ways for us to utilize this to support our RI program?
- Over what period of time would it be reasonable for us to implement an RI program across our whole portfolio?

## **Part Two: RI questions to include in the fund manager selection process**

Foundations further along the RI path may seek to go to the market to identify prospective fund managers with RI offerings and an RI track record. The following are some questions which could be incorporated into a Request for Expression of Interest (RFEOI) or a Request for Proposal (RFP). They are intended to supplement standard investment requirements within the RFEOI / RFP.

### 1. Services

- 1.1 What RI services do you provide?
- 1.2 Do you provide RI services under customized segregated accounts and / or pooled funds (both prospectused and non-prospectused)
- 1.3 Are these services available in Canada?

### 2. Experience

- 2.1 What is your RI experience with clients?
- 2.2 Please indicate the RI Assets Under Management, both segregated and pooled (broken down by pooled fund)

### 3. RI Policy

- 3.1 Do you have a policy which explains your approach to environmental, social and governance (ESG) performance of investee companies? If so, please provide a copy.

### 4. ESG Integration

- 4.1 How do you incorporate ESG matters into your risk management framework and investment process?
- 4.2 What procedures do you have in place to systematically monitor ESG issues at companies? Is this monitoring conducted by a dedicated internal ESG team, by financial analysts, outsourced?
- 4.3 How is ESG factored into portfolio construction?

### 5. Screening

- 5.1 What positive and negative screens can be applied to investments? How are the criteria defined and applied?

### 6. Proxy Voting

- 6.1 What is your proxy voting policy regarding ESG matters? How do you evaluate shareholder proposals

dealing with ESG issues? By what means would it be possible to assess your ESG proxy voting record? Do you regularly update your proxy voting guidelines to reflect current ESG issues?

6.2 Are you able to exercise voting rights in accordance with trustee instructions (either according to the foundation's guidelines or by permitting the foundation to direct votes on an individual case)?

### 7. Shareholder Engagement

7.1 Do you engage with companies on ESG matters? If so, which companies and on what ESG issues?

7.2 If you are engaging, are you doing so on your own, or as part of a group?

7.3 Do you disclose your engagement activities to your clients or publicly?

### 9. Resources and Research Methodology

9.1 What resources do you commit to ESG research and how are they applied, e.g. do you have dedicated RI staff and if so, how many; is ongoing RI training available to all or key staff?

9.2 How many staff have experience with RI, and if so, what is the nature of the experience?

9.3 What ESG research services do you use if any?

### 10. RI Investment Performance

10.1 What is your historical RI performance if any?

10.2 Can you provide examples of securities which have been purchased or sold based on ESG criteria, in which ESG factors played a role, over the last reporting year?

10.3 Do you measure the sustainability impact of your RI funds? If so, how is this conducted?

10.4 Do you track your performance against established RI benchmarks? If so, which ones?

10.5 Have you assessed the carbon risks / intensity of your portfolio? If so, how is this information used as part of the investment decision-making process?

### 11. Reporting

11.1 How do you assess and report your RI performance?

### 12. Collaboration

12.1 Are you a PRI signatory (UN Principles for Responsible Investment)? If not, please indicate why not. If so, please provide the most recent report on progress. Would you consider joining this year if not?

12.2 Do you collaborate on RI with other interested parties, e.g. other fund managers, research organizations, collaborative organizations, etc.? If so, on what projects or initiatives?

12.3 Are you a member of the Social Investment Organization?

12.4 Are you a signatory to the Carbon Disclosure Project?

### 13. Costs

13.1 Are there additional costs to the client for RI services, and if so, what are they?