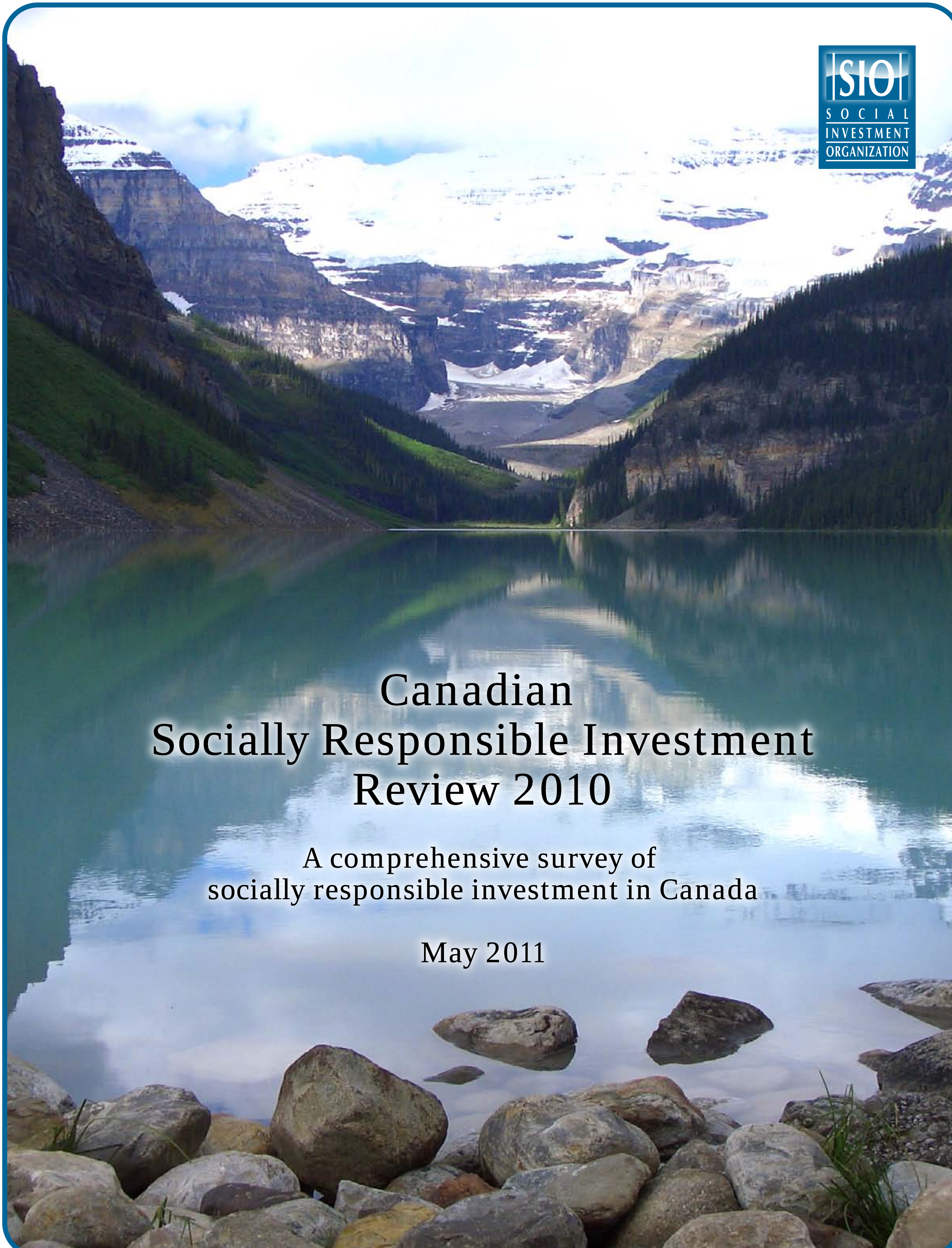

Canadian Socially Responsible Investment Review 2010

A comprehensive survey of
socially responsible investment in Canada

May 2011

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SOCIAL INVESTMENT ORGANIZATION

Contents

Sponsors

The Social Investment Organization gratefully acknowledges the funding of its sponsors, without which this study would not have been possible.

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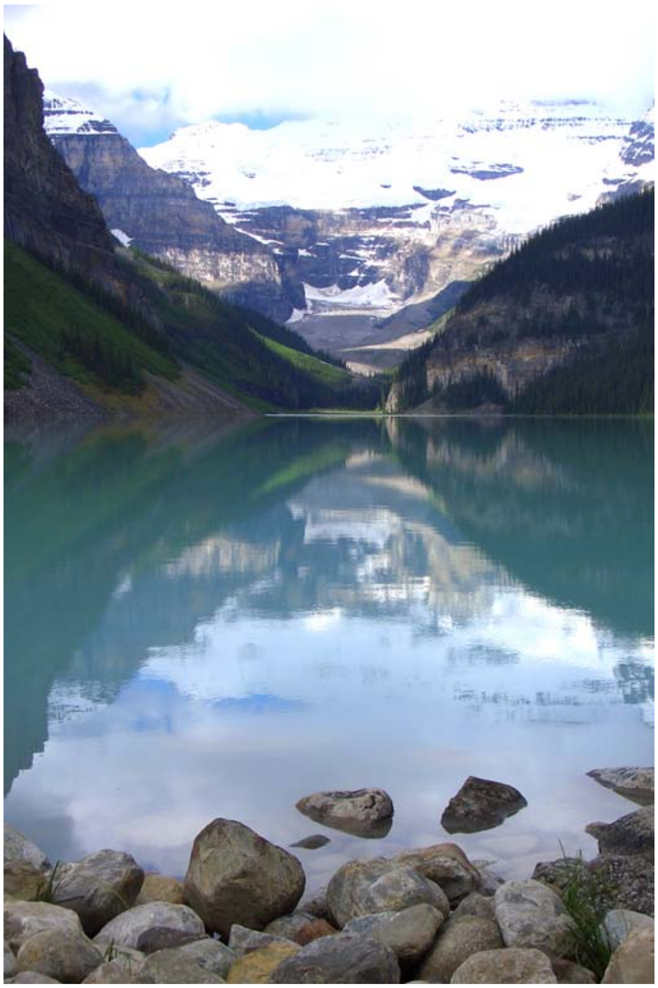
SRI shows resilience in the face of economic and financial turbulence



In the last two years, socially responsible investment (SRI) weathered the economic and financial turmoil caused by the international credit crisis.

Our last report tracked SRI assets at the peak of the market. Within months after the effective date of our last survey, financial markets were rocked by institutional failures and an economic crisis of historic proportions. SRI was not immune to this turbulence.

Yet, two years later, SRI in Canada continues to command about one-fifth of the assets under management in the financial industry.

Some sectors, most notably impact investing and renewable energy income trusts, have recorded impressive growth as Canadians search for sustainable alternatives to conventional investments.

Meanwhile, growing numbers of institutional investors continue to demand socially responsible investments from the asset management industry, and the pension sector grows in its sophistication in dealing with environmental, social and governance issues.

As well, advisors and fund companies are offering a growing array of products and services for individual investors interested in investments in accordance with their values.

This report is the only comprehensive survey of socially responsible investment (SRI) in Canada. Now in its sixth edition, the document has been produced by the Social Investment Organization every two years since 2000.

The study is based on data collected between September 2010 and February 2011 through a survey of money managers and impact investment providers. The results were combined with various publicly-available data on pension funds, mutual funds and renewable energy income trusts.

As well, data on sustainable venture capital deals were obtained from the leading expert organization in this area, the Cleantech Group LLC.

The total of all these sources were used to arrive at the final estimates contained in this report.

2010 Highlights

As at June 30, 2010…

Total Canadian assets invested according to socially responsible guidelines: $530.9 billion.

SRI holds steady at about one-fifth of assets under management (AUM) in Canada: 19.1% of total AUM in Canada in 2010, about the same level as in 2008.[1]

Comments:

SRI has held steady, showing resilience in the face of the unprecedented turmoil in the capital markets brought about by the credit crisis of 2008.

SRI continues to gain traction as a reliable, mainstream tool for value enhancement, risk management and the realization of social and environmental goals.

Assets managed by pension funds under responsible investment policies are at $453.4 billion, or 85% of the total.

Comments:

Canada's large, publicly managed pension funds have been early global adopters of responsible investment strategies and continue to represent the lion's share of SRI in Canada.

These policies include a number of *Broad SRI Strategies*[2], including shareholder engagement and proxy voting, environmental, social and governance (ESG) integration and thematic investments, such as green real estate, and sustainable infrastructure and private equity.

Asset management firms investing funds under SRI mandates represent about $46.3 billion or about 9% of the total.

Comments:

Most of this money is managed under the *Core SRI Strategy* of social and environmental screening, on behalf of high net worth individuals, insurance companies, religious organizations and foundations. The remainder is managed under ESG integration strategies (*Broad SRI*) under mandates more focused on a comprehensive risk-return strategy.

SRI retail funds managed on behalf of individual clients in the retail market total $25.3 billion or 5% of the total.

Assets for SRI mutual funds total $12.4 billion, roughly half of the total in this category.

Renewable energy income trusts, which invest in a pool of diversified investments focused on the production of clean energy, represent $12.9 billion of the total.

Comments:

Retail investment funds include SRI mutual funds, some of which have been the longest-standing and most experienced SRI investment managers in Canada.

These represent *Core SRI Strategies*, driven by best-of-sector approaches, negative exclusions and thematic investments based on environmental considerations.

Many of the SRI mutual fund companies are experienced at a mix of approaches, however, blending *Core* screening strategies with *Broad* approaches of ESG integration, shareholder engagement and proxy voting.

[1] For details on the assets under management calculation, see Appendix B, Methodology.
[2] See Appendix A for a discussion of *Core* and *Broad SRI Strategies.*

Impact investments, focusing on the social or environmental impact in local communities represent $4.5 billion or about 0.8% of the total.

Comments:

This category includes the well-established social finance sector in Quebec, as well as innovative forms of lending and investment to finance non-profits, social enterprises and social purpose businesses throughout English Canada. Both are considered *Core SRI Strategies.*

This is a small but fast-growing segment of SRI, and reflects the dynamism of the impact investment movement worldwide as local communities come to grips with changing economies and widespread demographic, cultural and social change.

Sustainable venture capital accounts for about $1.4 billion of the total. This reflects the value of such deals since 2006 and represents an increase of $265 million in the last two years.

Comments:

Cleantech investments aim to profit from sustainable innovations in products, technologies, or manufacturing methods. Sustainable venture capital is a *Broad SRI Strategy,* with investors generally interested in seeking profits through sustainable innovations.

Summary of SRI Assets in Canada ($billions)

Canadian Socially Responsible Investment Review 2010[3]

	2010	**2008**	**2006**	**2004**	**2002**	**2000**
Core SRI Strategies						
Asset managers employing social and environmental screening[4]	36.2	27.6	36.5	21.2	16.7	11.3
Retail investment funds	25.3	22.2	18.1	14.8	9.9	10.4
Impact investments	4.4	1.4	0.8	0.5	0.07	0.09
Socially Responsible Lending[5]	NA	3.0	1.9	1.3	0.1	NA
Total Core SRI Strategies	**66.0**	**54.2**	**57.3**	**37.8**	**26.8**	**21.8**
Broad SRI Strategies						
Asset managers employing ESG integration[6]	10.1	10.3	12.7	NA	NA	NA
Pensions/endowments employing ESG integration, ESG proxy voting or corporate engagement, or economically targeted investment	453.4	513.5	396.8	25.4	24.1	27.2
Shareholder Advocacy[7]	NA	NA	NA	2.1	0.5	1.0
Sustainable Venture Capital[8]	1.4	1.1	0.6	0.1	NA	NA
Total Broad SRI Strategies	**464.9**	**524.9**	**410.1**	**27.6**	**24.6**	**28.2**
Total Core and Broad SRI	**530.9**	**579.1**	**467.4**	**65.4**	**51.4**	**49.9**

[3] Total SRI assets and pension/endowment assets for 2006 and 2008 were re-stated in the current report as a result of a change by a major institutional investor in the reporting of its assets.
[4] Net of assets invested in SRI mutual funds.
[5] SIO discontinued this category in 2010 following the acquisition of Citizens Bank's assets by TD Financial. This concluded Citizens Bank's ethical lending policy, one of two such policies in Canada. Vancity continues to maintain its ethical lending policy.
[6] This category was created in 2006. Previous surveys failed to distinguish between screening and integration. Some integrated assets may have been included under screened assets in previous years. Net of assets in integrated mutual funds.
[7] Assets involved in SRI shareholder advocacy initiatives have been included under ESG integration since 2006.
[8] SIO changed the reporting on this category in 2010. Previously SIO simply reported the value of deals announced in the previous two years as provided to it by the Cleantech Venture Network. In 2010, it decided to report the accumulated value of deals reported to it in the previous five years, reflecting the practice of venture investors to typically hold their investments for a five-year period.

Pension Funds

Pension funds represent the lion's share of socially responsible investment (SRI) in Canada, with assets under SRI guidelines of $453.4 billion.

Canada has a large and well-respected system of public management of our public pensions. These institutions represent some of the largest investment managers in Canada, as well as some of the largest institutional investors in the world.

Many of these institutions have been early adopters of responsible investment policies and continue to show leadership in responsible investment worldwide.

The approaches taken by these funds include a number of *Broad SRI Strategies*. The most common is proxy voting and shareholder engagement with companies on environmental, social and governance (ESG) issues.

Some other strategies include integration of ESG into the analysis and selection of investments, encouragement of greater ESG research by brokerages, and the use of ESG analysis in alternative portfolios, such as real estate, infrastructure and private equities.

Many of these funds also participate in investor collaborations on ESG issues, such as corporate governance, climate change, carbon disclosure and extractive industries disclosure.

Many of these funds are signatories to the United Nations Principles for Responsible Investment (UN PRI)[9], a global coalition of signatories on responsible investment, which has compiled a list of responsible investment principles for institutions to follow.

These principles define the commitment of signatories to the UN Principles for Responsible Investment. They include:

- incorporation of ESG issues into investment analysis and decision-making processes;
- incorporation of ESG issues into ownership policies and practices;
- pursuit of appropriate disclosure on ESG issues by the entities in which the institutions are invested;
- promotion of acceptance and implementation of the principles within the investment industry;
- collaboration to enhance the effectiveness of institutions in implementing the principles;
- reporting on activities and progress towards implementing the principles.

Estimating SRI Assets

To determine whether certain pensions fall within the definition of SRI for the purposes of this report, the SIO analysed public documents of a number of pensions and endowments to determine the answers to a number of questions:

1. Does the pension have a responsible investment policy?
2. Is there evidence that the pension is implementing its policy?
3. Specifically, is there evidence that the pension is
   a. integrating ESG analysis into its portfolio selection process;
   b. engaging with corporations on ESG issues;
   c. voting its proxies under ESG guidelines; or
   d. using ESG for at least a portion of its alternative investments, such as real estate, private equity or infrastructure?

This is the same methodology that SIO used in 2008.

[9] The Principles for responsible Investment, an initiative of the UN Environment Program and the UN Global Compact. http://www.unpri.org/

Our study found $453.4 billion in pension assets invested under responsible investment policies, a decline from $513.5 billion in 2008. The decline is reflective of the decrease in assets as a result of the effects of the financial downturn in 2008. All of the funds included in the 2008 report are included in 2010.[10]

Our estimate is composed of assets of the following pension funds. Since not all pensions have the same reporting date, it is not possible to confirm the assets for June 30, 2010 (the effective date of assets used elsewhere in this report). Therefore, we have included the reporting date for the assets for each institution included. Profiles of each are included below the chart.

Pension Fund Name	Assets	Reporting Date
BC Investment Management Corp. (bcIMC)	$79.7 billion	March 31, 2010
Caisse de dépôt et placement du Québec (CDP)	$170.7 billion	Dec 31 09
Colleges of Applied Arts and Technology (CAAT) Pension Plan	$4.9 billion	March 31 10
Canada Pension Plan Investment Board (CPPIB)	129.7 billion	June 30 10
Fonds Bâtirente	$0.8 billion	Dec 31 09
Ontario Municipal Employees Retirement System (OMERS)	$54.3 billion	Dec 31 09
OPSEU Pension Trust	$12.0 billion	Dec 31 09
Assets held by various construction industry pension funds invested in Concert Properties	$1.3 billion	est. Dec 2010

[10] **A methodological note**

This methodology does not provide a comprehensive universe of responsible pensions. However, we believe we have arrived at a good estimate of the large responsible pension and endowment assets in Canada . We believe assets of small and mid-sized pensions and endowments are captured in the assets of the asset manager survey. The pensions and endowments identified in this section are large enough that they generally manage their own assets. Where outside managers have been identified, SIO has taken care to ensure that the assets are not double-counted with information provided to us under the asset manager survey.

Where pensions were found to have responsible investment policies, and evidence of implementation, all assets were included in the study. We recognize that not all asset classes directly fall under the responsible investment policy, nor would all equities fall within a proxy voting or corporate engagement policy. However, without submitting extensive questionnaires to the pensions, it would be impossible to estimate the specific assets subject to the responsible investment policies. In addition, in some cases, the policies call for broad implementation of the responsible investment principles across asset categories, encouraging pensions to take a holistic view of their commitments under these policies. We believe that a responsible investment policy, combined with evidence of implementation, is sufficient to warrant inclusion in this report.

British Columbia Investment Management Corporation (bcIMC)

Total Assets Under Management: $79.7 billion as of March 31, 2010

The British Columbia Investment Management Corporation (bcIMC) provides investment management services to the British Columbia public sector and is one of Canada's largest institutional fund managers.

bcIMC was among the first investment managers to endorse the UN Principles for Responsible Investment (UN PRI) in 2006. To meet its UN PRI obligations, bcIMC is an active shareholder, voting its proxies and directly engaging with companies to convey its views on three broad themes: climate change, human rights and shareholder rights.. According to its 2010 Responsible Investing Report, bcIMC carried out intensive discussions with 124 companies on ESG issues; and voted at 1,576 shareholder meetings, at which 31 per cent of the votes cast were against management. bcIMC views engagement as the foundation for bringing about corporate change where necessary. However, bcIMC may consider divesting, excluding or underweighting a company's shares in cases where constructive engagement efforts fail to resolve the financial or reputation risks inherent in a company's policies or activities, and it is determined that continued company ownership is not in the best interests of bcIMC's clients. For example, in 2010, bcIMC established a policy to divest of shares of landmine and cluster munitions manufacturers, in keeping with international treaties signed by Canada prohibiting the development, manufacture and distribution of such products.

bcIMC works toward ESG change and encourages improvements in the integrity of the overall capital markets through public policy initiatives. For example, through formal submissions to government, regulatory bodies and industry associations, it communicates on best practices in areas such as governance, transparency, accountability and risk management.

bcIMC often joins with other investors to share ideas and resources for promoting good ESG practices. Some of these collaborative organizations include the Social Investment Organization, Canadian Coalition for Good Governance, Asian Corporate Governance Association, UN Environment Program Finance Initiative, Investor Network on Climate Risk, Institutional Limited Partners Association, and Responsible Property Investing Centre.

In its response to the 2010 UN PRI questionnaire, bcIMC outlined some key activities related to ESG integration in investment decision-making (Principle 1):

- bcIMC's real estate, commercial mortgage and strategic investment portfolio managers systematically include ESG factors in their investment due diligence and capital allocation decisions.
- They seek private investment opportunities in alternative and renewable energies.
- The fixed income team incorporates governance issues in their analysis of credit risk.
- bcIMC manages a specialty public equity fund that is modeled on the S&P500 index but incorporates ESG screens.
- bcIMC's strategic plan and annual department business plans must include activities, measures and targets for responsible investing, and to drive take-up, their employee compensation plans expressly reward achievement of these ESG plans.

Further, bcIMC was one of a number of global pension funds to support a major study by Mercer identifying how climate change will affect strategic asset allocation in the future. The study was released in early 2011.

Caisse de dépôt et placement du Québec

Assets Under Management: $170.7 billion in December 2009

The Caisse de dépôt, serving Quebec public and private pension funds and insurance plans, is one of the largest institutional fund managers in North America and one of the world's 10 largest real estate asset managers.

The Caisse lays out its statement on SRI in its Policy on Responsible Investments (RI). The Policy focuses on corporate engagement on ESG issues, seeking to improve the social records of the companies in which it invests, and setting expectations on companies to uphold human and social rights.

The Caisse points to its Sustainable Development Action Plan (2009-11), as mandated by the *Quebec Sustainable Development Act.,* The Plan specifies sustainable development actions to be taken. In the case of RI these include general awareness of RI issues, internal training, research, and contribution to discussion on RI.

The Caisse has been a signatory to the UNPRI since 2006, and has endorsed the Carbon Disclosure Project since 2006. It also follows responsible procurement practices and has an environmental property management policy. In its Policy on the Principles Governing the Exercise of Voting Rights of Public Companies, proxy voting is encouraged and voting guidelines and results are published, which is estimated to have influenced about 4,000 companies to date.

Colleges of Applied Arts and Technology (CAAT) Pension Plan

Total Assets Under Management: $ 4.85 billion as of March 31, 2010

CAAT is a multi-employer defined benefit pension plan, managing pensions for employees of Ontario's community colleges and other college related groups.

In March 2007, CAAT adopted a Responsible Investment Policies document, later amended in March, 2010. CAAT is a supporter of the International Labour Organization's (ILO) Conventions and is a member of the Canadian Coalition for Good Governance.

CAAT states that it encourages the incorporation of ESG ideas when meeting with investment managers and pursues corporate engagement (and is a signatory to the Carbon Disclosure Project and the Extractive Industries Transparency Initiative).

CAAT says it actively uses its proxy voting practices to promote ESG principles and disclosure of practices by voting for proposals that support the ILO principles, the Ceres Principles on the Environment and the OECD Guidelines for Multinational Enterprises.

Canada Pension Plan Investment Board (CPPIB)

Assets Under Management: $129.7 billion on June 30, 2010

The CPPIB invests in over 2,900 public companies worldwide to independently manage the CPP funds on behalf of all Canadians.

The CPIBB has extensive guidelines for responsible investing in the form of their Policy on Responsible Investing (2005) and has "built an engagement capability and encourages improved performance on and disclosure of environmental, social and governance factors."

The policy is based on a risk-return viewpoint and aims to integrate ESG factors into investment management portfolios, engage extensively (directly, collaboratively and through proxy voting) with corporations and maintain transparency in reporting. Implementation of this policy is evident as noted by the 2010 Report on Responsible Investing.

A major part of the CPPIB's initiatives are related to engaging companies in which they invest in "focus areas" of extractive industries, climate change, executive compensation and in the future, water. In addition, the CPPIB has participated in several Canadian Coalition for Good Governance executive compensation engagements in 2010, has been a participant in the UN PRI Engagment Clearinghouse focused on adherence to the UN Global Compact, and co-hosted the International Corporate Governance Network (ICGN) conference in June 2010

Finally, the CPPIB uses its Proxy Voting Principles and Guidelines to vote its proxies. In 2010, the CPPIB participated in 3,245 meetings with over 30,000 agenda items and voted against 11% of them.

Fonds Bâtirente

Total Assets under Management: $0.780 billion as of December, 31 2009

Bâtirente's responsible investing policies are laid out in the Guidelines on the Active Management of Social, Environmental and Corporate Governance Risks as well as its Declaration of Principles and Procedures for Corporate Social Responsibility and Corporate Governance, based on incorporating ESG issues into decision-making, ownership policies and disclosure (both adapted in 2005). Bâtirente states that it takes an "extrafinancial risk" point of view, taking into account ESG factors to enhance the financial performance of companies it invests in. Bâtirente analyzes the performance of its portfolios based on its Guidelines, identifies least performing companies and engages with them to mitigate extra-financial risks. In addition, Bâtirente is an active participant of many national and international initiatives dealing with the impact of corporate ESG issues including UN PRI, Boreal Leadership Council, UN Global Compact, Carbon Disclosure Project, Extractive Industries Transparency Initiative, Committee on Worker's Capital, and Euresa. Since 2008, proxy voting rights have been delegated to the Groupe investissement responsable, which votes according to Bâtirente's guidelines.

Ontario Municipal Employees Retirement System (OMERS)

Total Assets under Management: $54.25 billion as of December 31, 2009

OMERS is one of the biggest institutional investors in Canada, with a diversified global portfolio of more than 2,800 stocks and bonds and over 400,000 members.

OMERS has adopted socially responsible investing (SRI) beliefs in its Enterprise Statement of Investment Beliefs. To this end, OMERs engages with companies on ESG issues and states that it has integrated these issues into the analysis and decision-making components of its operations.

In addition, it states that consideration is given to ESG issues as a part of its due diligence when researching investments and monitoring performance as well as when bidding for or making investments in physical assets in Canada.

ESG factors are also cited in the OMERs proxy voting document, stating that these factors will be examined on a case-by-case basis and that proposals that request disclosure or development of policies related to ESG factors will generally be supported. Results regarding proxy voting is regularly published, and in 2009, OMERS voted on 19,178 items at 1,990 shareholder meetings.

OPSEU Pension Trust

Total Assets Under Management: $12 billion as of December 31, 2009

OPTrust is one of Canada's largest pension funds, providing services for over 82,000 members and pensioners.

In 2007, OPTrust set out its approach to responsible investment in its Statement of Investment Policies and Procedures. In 2009, an explicit Statement of Responsible Investing Principles (SRIP) was launched that articulates OPTrust's general approach to responsible investing. Building on the understanding that environmental, social and governance (ESG) issues have the potential to affect the performance of the Plan's investment portfolios, the SRIP identifies specific areas of concern. These include workers' rights, working conditions, fundamental human rights, corporate governance issues and other social and environmental risks.

OP Trust states that the SRIP, which applies to all of OPTrust's assets, is an expression of support for high standards of corporate governance, a strong record of shareholder voting and continuing efforts to promote the integration of ESG factors throughout its investments. For example, in 2009, OPTrust achieved BOMA BESt (Building Environmental Standard) certification for 36% of its directly owned real estate portfolio.

OPTrust continues to actively exercise its voting rights for all of its public equity holdings according to its Proxy Voting Guidelines, which address a range of social, environmental, and corporate governance concerns.

As part of its commitment to addressing environmental, social and governance issues, OPTrust participates as an active member in several organizations that carry out research and advocacy in this area. OP Trust is a signatory to the UN Principles for Responsible Investing and the Carbon Disclosure Project, and is a member of the Canadian Coalition for Good Governance and the International Corporate Governance Network.

Pension Funds that Invest in Concert Properties

Total Assets Under Management: $1.3 billion (Est. December 31, 2010)

Concert Properties is a property development company that is owned exclusively by Canadian union and management pension plans and was established in 1989 to build affordable housing and provide jobs for unionized workers. Labelling itself as the *"developer with a difference"* Concert is committed to the preservation, restoration and enhancement of the environments in which it builds.

In addition to generating economic returns, Concert is dedicated to environmental sustainability and social causes.

The company is considered one of the best examples of economically-targeted investment in Canada, primarily for its explicit role in generating urban revitalization. For example, Concert has been responsible for transforming 33 acres of industrial land into a residential community in Collingwood Village in Vancouver, and has undertaken numerous land infill projects to prevent urban sprawl.

In addition, Concert supports community organizations in the neighbourhoods in which it has a presence, and builds spaces like hospices, training facilities for the St. John's ambulance team, office space for the Vancouver Community Crime Prevention Centre and other such amenities.

Pension plans that are shareholders in Concert Properties

- Boilermakers' Pension Trust Fund
- Bricklayers and Masons Pension Plan
- Carpentry Workers' Pension Plan of B.C.
- Ceramic Tile Workers' Pension Plan
- Local 213 Electrical Workers Pension Plan
- Floorlayers' Industry Pension Plan
- Heat & Frost Local 118 Union Pension Plan
- IWA - Forest Industry Pension Plan
- Labourers' Pension Plan of B.C.
- Marine and Shipbuilders Local 506 Pension Plan
- Operating Engineers' Pension Plan
- Piledrivers, Divers, Bridge, Dock & Wharf Builders Pension Plan
- The Plumbers Union Local 170 Pension Plan
- The Pulp and Paper Industry Pension Plan
- Shopworkers Industrial Union Local 1928 Pension Plan
- Teamsters (Local 213) Pension Plan
- Teamsters Canadian Pension Plan
- Telecommunication Workers Pension Plan
- United Food and Commercial Workers Union Pension Plan

Asset Management

The investment management industry in Canada is a major player in the management of assets held by Canadian institutional and individual investors.

Benefits Canada Magazine estimates that total non-mutual-fund assets of the industry in Canada was $1.2 trillion as of June 2010, nearly half the total assets under management (mutual funds, pension funds and asset management) of $2.74 trillion included in this report.

Asset management firms and advisors employ a range of SRI approaches, including negative and positive screening (*Core SRI Strategies*), integration of environmental, social and governance (ESG) factors into the investment process, shareholder engagement and proxy voting (*Broad SRI Strategies*).

Between these two approaches, we have identified $46.3 billion in socially responsible investments managed by the asset management industry, an increase from $37.9 billion in 2008.[11]

[11] **A methodological note**

To determine the value of screened assets under asset managers, SIO surveyed 209 money management firms in Canada using information from past surveys and updated information from the *Benefits Canada 2010 Leading Money Managers Directory* and the *Benefits and Pensions Monitor 2010 Annual Report and Directory of Money Managers*. In addition, we also surveyed our own advisor members. The money managers received an email from SIO asking them to fill out an online questionnaire, which was followed up by telephone. We received positive responses from 31 firms and "do not participate" responses from 28 firms, for a total response of 59 firms. This data was added to other publicly-available data to compile the estimates included herein.

Asset managers: A summary of socially responsible investment strategies

SRI approach	2008 ($bil.)	2010 ($bil.)
Screened investments	27.6	36.2
Integrated investments	10.3	10.1
TOTAL	37.9	46.3

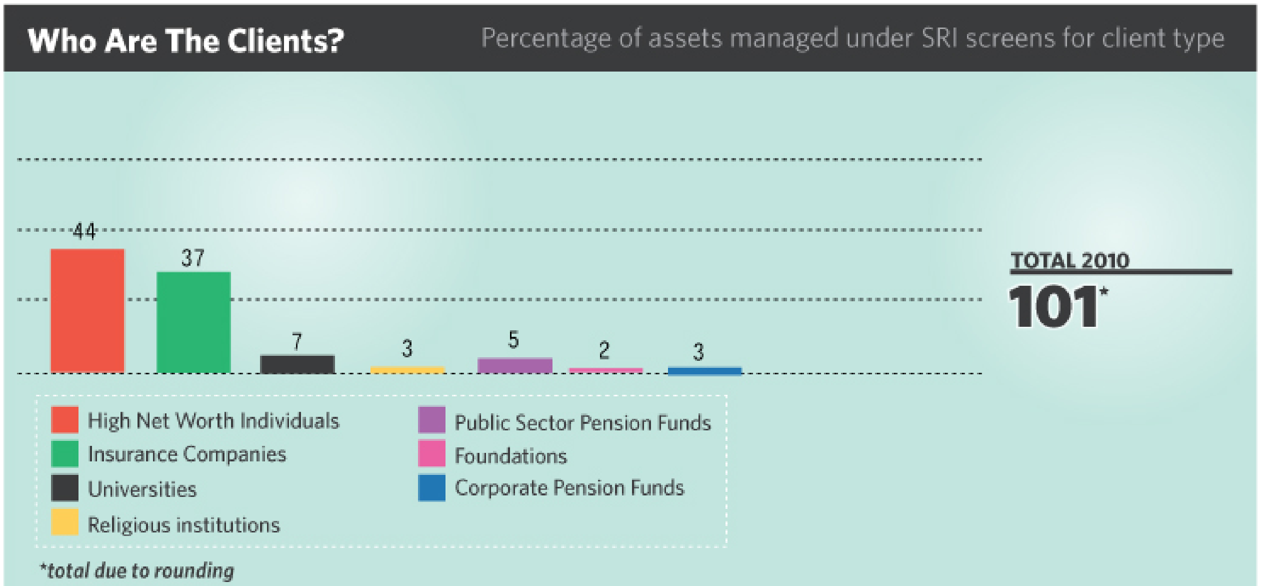
Asset management firms invest on behalf of a wide variety of clients, including mutual funds, insurance companies (both for insurance company clients and the companies themselves), high net worth individuals, endowments and foundations, corporations, pension funds (both in pooled and segregated accounts), trust funds, sub-advised funds of various kinds, and other client types.

***Core SRI Strategies*: Screening**

Total screened assets managed by asset managers was $36.2 billion, up from $27.6 billion in 2008 (net of assets already counted in the mutual funds portion of the study).

Most of these assets are managed on behalf of high net worth clients, primarily by a single, large asset manager screening for tobacco alone. The next largest client type is insurance companies, which include investments on behalf of insurance companies' clients and, in some cases, company assets. Universities also make up a large part of the screening client base following recent divestment campaigns at universities on tobacco and Sudan issues. Religious institutions, public sector pension funds, foundations and corporate pension funds are other client types in screened accounts.

In terms of screens, tobacco is the most popular, and is included in more than 55 per cent of the screened assets reported in the survey. This is not surprising, given the preponderance of this screen by a single large asset manager and the fact that it is included in screening by more than one university asset manager. Human rights and the environment are about equal in weight, followed by military issues, and a number of other screens.



What are the issues?

Percentage of assets included under various screens[12]:

Tobacco	55.5
Human rights	13.0
Environment	12.4
Military/weapons	3.9
Sudan (investments contributing to atrociites)	2.7
Alcohol	2.3
Pornography	2.1
Nuclear energy	1.6
Gambling	1.0
Community relations	0.9
Corporate governance	0.9
Employee relations	0.9
Animal welfare	0.8
Customer relations	0.4
Diversity in workforce	0.4
Product safety	0.4
Aboriginal relations	0.3
Abortion/contraception	0.3
TOTAL	**99.8**[13]

[12] We asked asset managers to provide us with an estimate of the assets they invest according to various screens. Many managers reported to us that they screen across many issues, which is typical for managers using the services of environmental, social and governance (ESG) rating companies. To provide an estimate of the attractiveness of various screens, we added the total assets for all screens and calculated the percentage of assets of the total held in each individual screen.

[13] Total due to rounding.

The survey found 22 asset managers offering screened accounts in 2010, down from 25 in 2008, 28 in 2006, and 37 in 2004.

As we stated in the *2008 Review*, we believe that the period between 2004 and 2006 represented a period of increasing specialization for the industry, in which certain firms abandoned the SRI market, and others made the investments necessary to build the research and sales staff capable of dealing with the additional demands of SRI clients. While there was some further consolidation of the industry in the last two years, this process appears to have slowed.

***Broad SRI Strategies*: Integrated Analysis, Shareholder Engagement and Proxy Voting**

Traditionally, when responding to requests from clients for SRI services, asset managers have imposed a set of negative or positive screens on their client portfolios based on particular values-based issue areas of interest to those clients. In recent years, however, many asset managers have begun to take a different approach, integrating environmental, social and governance (ESG) factors into their portfolio analysis.

ESG integration is the use of ESG analysis and information to identify non-financial risks and returns posed by social, environmental and governance issues. This information may also be used to select portfolios based on ESG weightings, or to manage portfolios with shareholder engagement strategies that use ESG factors to vote proxies, or to engage with corporate management.

These strategies are new financial tools traditionally ignored by conventional portfolio managers. But they can be powerful tools to create additional value or mitigate risk to improve the long-term financial performance of investment holdings.

In many cases, the holdings are held as part of a buy-and-hold strategy, which makes it difficult to exit companies facing ESG problems. In addition, there are some managers who also use these strategies on behalf of values-based clients (religious institutes or union-trusteed pension plans, for example) that also want an ethical approach to proxy voting or corporate engagement as an expression of their social mission.

To determine whether asset managers use ESG integration as part of their strategies, we asked firms a number of questions in regard to their use of ESG information and analysis. This is summarized below.

ESG Integration by Canadian asset management firms[14]

Number of firms that replied yes to the following questions:

Does your organization include ESG research in your investment evaluation process?	22
Does your organization include ESG factors in the process used to select investments for your portfolios?	23
Does your firm have a proxy voting policy that addresses ESG issues?	23
Environmental (greenhouse gas emissions, energy use, toxic pollution, impact on biodiversity, etc.)	21
Social (community donations and engagement, employee health and safety, human rights, customer relations, product safety, etc.)	22
Governance (executive compensation, independence of board members, share structure, etc.)	23
Does your firm pursue shareholder engagement strategies on ESG issues? Engagement activities typically involve communication with senior management or boards of directors.	16

Twenty-three firms reported to us that they use ESG factors to select investments in their portfolios. Twenty-three also reported to us that they have a proxy voting policy that addresses ESG issues, and most of these include environmental, social and governance issues in this policy. As well, 22 firms said they include

[14] 30 firms responded to this question

ESG research in their investment evaluation process. Only 16 said they pursue shareholder engagement on ESG issues.

With 209 firms in the survey it is not possible to determine with certainty how many firms in Canada use ESG integration as part of their investment strategy. However, we believe we have captured most of the firms who do use these strategies, and are willing to respond to our survey as a result. This means that about 11 per cent of firms in Canada are employing ESG integration strategies of various kinds.

The survey also found that asset managers manage $10.1 billion on behalf of clients under ESG integrated strategies. In some cases, firms reported to us that they apply such strategies to their total assets and for all mandates. Without more detail on the particular applications of these ESG strategies, and the client mandates involved, we are not in a position to include such assets in this report as SRI assets.

A number of firms reported to us the breakdown of client types for ESG integration mandates. However, the amount of assets reported in this question was so small that it did not yield enough data to make meaningful conclusions on this.

Retail Investment Funds

For individual Canadian investors, there are three common ways to invest responsibly: socially responsible mutual funds, socially responsible retail venture capital funds and renewable energy income trusts.[15]

Socially responsible **mutual funds** are professionally-managed, diversified pools of investments. In this way, they are very similar to conventional mutual funds.

But SRI mutual funds offer an additional level of analysis and investment by investing according to particular screens to exclude or include particular companies or industries based on pre-determined ethical choices, or screens.

In addition to this screening process, some fund families choose to enhance their SRI activities through socially responsible shareholder engagement or community investment. Socially responsible shareholder engagement can take the form of proxy voting or engagement with companies on environmental, social or governance (ESG) issues, or through a process of proposing resolutions with companies on ESG issues for debate and a vote at corporate annual meetings. Some socially responsible mutual funds further enhance their SRI activities by investing a portion of their assets in community investments that create economic development benefits in local communities.

Retail venture capital funds are professionally-managed pools that invest in small- and mid-size companies in the startup or expansion phase of their development. This group of funds has grown out of the labour-sponsored venture capital funds that offer federal and provincial tax credits in many provinces in Canada.

Socially responsible retail venture capital funds employ the same investment strategies, but use additional analytical tools to include social or environmental criteria in their investment selection process.

In some cases, socially responsible labour funds employ a series of negative or positive screens to determine investment worthiness. In other cases, funds use a social audit process to examine the employment, community, supplier and customer record of potential investee companies and this social audit information is used to determine investment worthiness along with the company's financial strength.

The third major area of socially responsible retail funds includes **renewable energy income trusts.** Income trusts are pools that hold investments in various businesses and flow the earnings through to unitholders to reduce or eliminate corporate tax payable.

Income trusts operate in many sectors of the economy, but they have become very popular in the energy sector as a way of flowing oil and gas or other income through to unitholders.

They have also become one of the chief means to create investment capital for renewable or low-emission energy sources such as hydroelectricity, co-generation, alternative fuels, thermal energy, wind, biomass and district energy. These sources of energy are of great interest to socially responsible investors, who want to make investments in companies that respect the environment, and reduce greenhouse gas emissions.

[15] **A methodological note**

The Social Investment Organization uses the following definition to identify socially responsible mutual funds: In order to be defined as a "socially responsible mutual fund," SIO stipulates “that a fund must use one or more SRI strategies as part of its investment selection process, and that these strategies must be communicated in the fund's prospectus.”

Socially responsible retail venture capital funds must “invest in sustainable cleantech companies, or companies with good performance on employment, community, supplier or customer-relations issues.”

Renewable energy income trusts must include at least a portion of their investments in companies focusing on sustainable energy sources, such as hydroelectricity, co-generation, alternative fuels, thermal energy, wind, biomass and district energy. Assets are total assets of the trusts, including current assets, property, plant and equipment and long-term assets.

For the purposes of this report, SIO has included the assets in this category within *Core SRI Strategies*. Socially responsible mutual funds generally contain negative and positive screening strategies, two hallmarks of the C*ore SRI Strategies* approach.

Interest in retail venture capital funds is driven largely by their favourable tax treatment, but socially responsible retail venture capital funds contain the additional benefit of a socially responsible approach to investment selection as well as a strong regional development focus.

Likewise, income trusts also provide generous tax treatment (at least until January 2011, when the federal government stipulated that they would receive the same tax treatment as corporations).

However, renewable energy income trusts also offer the additional environmental benefit of investment in a diversified pool of renewable energy projects, making them suitable for environmentally-focused portfolios.

SRI Retail Funds 2010 and 2008 ($millions)

Fund Type[16]	2010	2008
SRI Mutual Funds	4107.4	5536.7
SRI Retail Venture Capital Funds	8322.4	8240.4
Renewable Energy Income Trusts	12896.5	8408.7
Total	**25326.3**	**22185.8**

At the end June 2010, retail investment fund assets totalled $25.3 billion, a 14-per-cent increase from 2008.

As in 2008, most of the increase in this category is attributable to growth in renewable energy income trusts. Investor interest in these trusts has increased for two reasons: first, the yield-generating capability of income trusts appeal to investors, such as those aged 65 and over, who are seeking high income investments, and second, because of growth in renewable energy as a result of the rising cost of oil and public policy initiatives such as the Ontario Green Energy Act.

The Ontario Green Energy Act created a feed-in-tariff for electricity generation based on solar, wind, biogas and water projects, making Ontario one of the most attractive jurisdictions in the world for the production of renewable electricity.

The income trust sector is undergoing significant change, however, with the announcement on Oct. 31, 2006 that the tax advantages to the sector will end in January 2011. With these new rules, most trusts are converting to corporations as the favourable tax treatment comes to an end.

Assets for socially responsible retail venture capital funds grew to $8.3 billion, an increase from $8.2 billion in 2008.

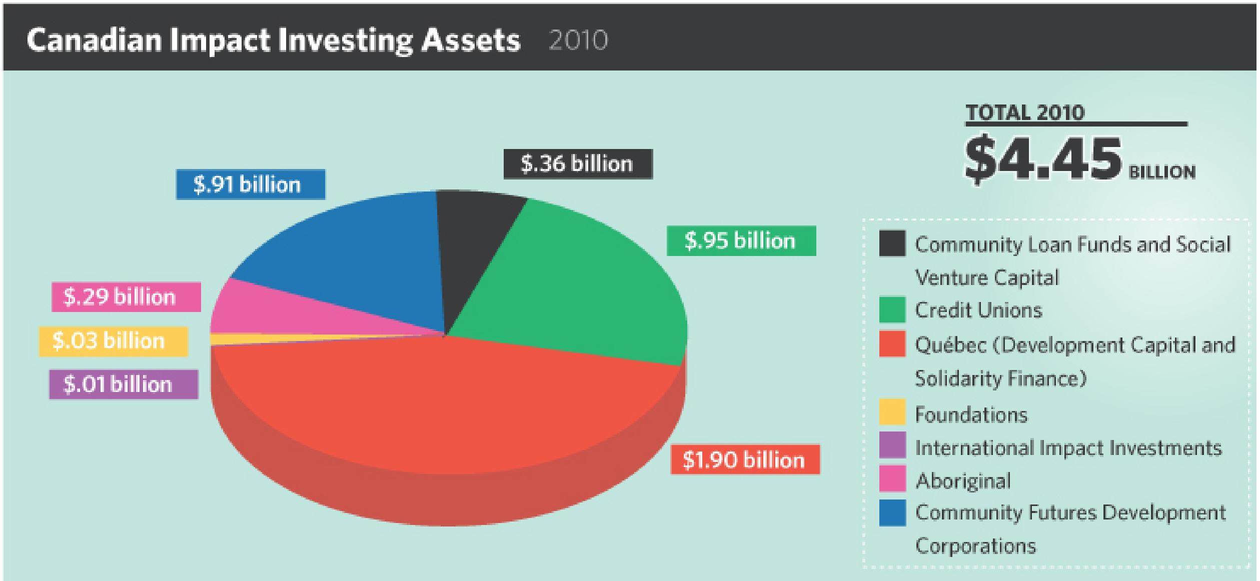
Investor interest in retail venture capital funds has ebbed in recent years as a result of changes in tax regulations regarding the regime for labour-sponsored venture capital funds. This is especially true in Ontario, where the province announced in 2005 it would eliminate the 15% provincial tax credit for investments in labour-sponsored venture capital funds in 2012.

Assets for SRI mutual funds on June 30, 2010 were $4,107.4 million, down from $5,536.7 million two years earlier. This was a direct result of the decline in capital markets in Canada and worldwide as a result of the global credit crisis, which had its roots in the collapse of the sub-prime mortgage markets in Canada and around the world. The resulting credit crisis forced equity markets into a protracted decline, affecting values of conventional and SRI mutual funds.

For example, between July 2008 and June 2010 (the period of this report), the Toronto Stock Exchange Composite Index fell 19.5 per cent from 14,034.11 on July 2, 2008 to 11,294.42 on June 30, 2010. Mutual fund values recovered substantially by the second quarter of 2010, and continued to recover through to the end of 2010.

[16] For details, see Appendix C, which includes achart of SRI mutual funds and retail venture funds, and a chart on renewable energy income trusts.

Impact Investing



Impact investing can be broadly defined as investments aimed at solving social or environmental challenges while generating financial return.[17]

Examples of impact investing include community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a social purpose or enterprising (i.e. revenue-generating) non-profits.

This is the first year that the term impact investing is used to identify this area of socially responsible investment; however, the change in terminology does not represent a corresponding change in focus or methodology – for the most part, the same organizations and activities have been surveyed this year.

This being said, every year that we conduct the survey we are able to capture a more comprehensive group of actors in the impact investment sector. This year, for the first time, we are able to include international impact investment by Canadian investors and the direct impact investment assets managed by Canadian foundations -- thanks to earlier work supported by Community Foundations of Canada and Philanthropic Foundations Canada.[18]

Also for the first time, we are separating out the assets of Quebec in our segmented data. Quebec has a unique history with respect to impact investment and this history has given rise to categories that are not easily comparable to other provinces.

As articulated by Dr. Marguerite Mendell, this history is largely rooted in agricultural cooperatives formed in the early 20th century.[19] However, it is also a function of the unique power and influence of social movements, community groups and organized labour.

As just one example, the Caisse d'économie solidaire Desjardins was created in 1971. Its mission is to contribute to social justice and

[17] This definition is drawn from the Global Impact Investing Network. http://www.thegiin.org/cgi-bin/iowa/investing/index.html

[18] *The State of Community/Mission Investment of Canadian Foundations A Report of Community Foundations of Canada and Philanthropic Foundations Canada*. Coro Strandberg, April 2010.

[19] The Social Economy in Quebec. VIII *Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública, Panamá, 28-31 Oct. 200. Marguerite Mendell*

solidarity by supporting collective and social enterprise and the cooperative movement. On December 31 2009, the Caisse reported assets of $545.2 million, of which $331.6 million (65%) were loans allocated to collective enterprises. The Caisse invests primarily in cooperatives and nonprofits, including social and community housing. In order to achieve its mission, the Caisse mobilizes savings of its 12,537 members, including 9,801 individuals and 2,736 collective enterprises. The Caisse has also created the Fonds de soutien à l'action collective solidaire in which depositors forego their interest to benefit collective initiatives.

As it has evolved, the social economy has a clear identity in Quebec that is associated with collective enterprises. Given the unique history and character of the impact investment landscape in Quebec, this report uses terminology and definitions that are most meaningful to that context. The Quebec portion of the impact investment review was undertaken by Dr. Marguerite Mendell, Associate Professor and Vice-Principal of the School of Community and Public Affairs, Concordia University.

For the purposes of the report, impact investing is considered to be one of the *Core SRI Strategies.* This is because of the explicit concern with social or environmental impact as the key motivating factor for impact investors.

Assets

The research found a total of $4.45 billion in impact investing assets in Canada, a dramatic increase from the $1.4 billion in 2008.

While there has certainly been growth in many of the individual segments of impact investment over the last two years, a large part of the increase is simply an improvement in our ability to capture the full range of actors. As indicated above, this is the first year that impact investing assets of foundations are being reported.

Categories

Impact Investment Assets by Category	Assets (millions)
Aboriginal Funds	285.7
Community Futures Development Corporations	910.6
Community Loan Funds and Social Venture Capital	348.8
Credit Unions	951.5
Foundations	32
International Impact Investments	5.6
Quebec- Development Capital	1,049.1
Quebec-Solidarity Finance	850.5
Total	**4,447.8**

Aboriginal Focused Funds

Many aboriginal funds were capitalized by government, in a similar fashion to the CFDCs to inspire and invest in community and business development. In this scan they were separated, given they deal with a specific population. Also in this category is the CAPE Fund, which is a private-sector investment fund initiated by 21 of Canada's leading companies, individuals and US-based Foundations.

Community Futures Development Corporations (CFDCs)

The CFDCs are community-based, not-for-profit organizations that are each run by a board of local volunteers. They are staffed by professionals who encourage entrepreneurship and the pursuit of economic opportunities. Funding and original capitalization has been provided by the Government of Canada.

Ui8yCredit Unions

Credit Unions were founded on seven cooperative principles in the early 1900s to meet the needs in underserved communities. Since that time, they have worked hard to offer the same products and services that banks do and to reduce differences between them. A few however, have identified community investment as a component of their work and are involved in micro-finance and community renewal activities.

Community Loan Funds and Social Venture Capital

Community funds were started in the 1990s and are the most diverse of all the community investment organizations, providing loans and equity for business, housing, training, social enterprise and employment generation. They provide various training programs and asset development initiatives. They include local community funds, peer lending circles and community investment funds, where share capital is raised.

Social venture capital refers to financing provided to businesses or non-profits that have clear social and environmental objectives. Like other impact investors, social venture investors seek a "blended" return of positive social and environmental impact as well as financial reward.

The reason community funds and social finance are grouped is because quite often investment organizations seek to both support businesses or non-profits with a clear mission of positive social change while at the same time serving borrowers who are disadvantaged or underserved by mainstream markets.

Ecotrust Canada, for example, describes itself as operating at the intersection of conservation and community economic development, "promoting innovation and providing services for communities, First Nations and enterprises to green and grow their local economies."

Foundations

As defined in Coro Strandberg's *The State of Community/Mission Investment of Canadian Foundations* (see footnote 22 on preceding page), community/mission investment is defined as direct investments in community, or social/environmental enterprises consistent with the mission of the foundation. These

In focus

La Caisse d'économie solidaire Desjardins

The *Caisse d'économie solidaire Desjardins* was created in 1971. Its mission is to contribute to social justice and solidarity by supporting collective and social enterprise and the cooperative movement.

On December 31 2009, the *Caisse* reported assets of $545.2 million, of which $331.6 million (65%) were loans allocated to collective enterprises.

The *Caisse* invests primarily in cooperatives and nonprofits, including social and community housing. In order to achieve its mission, the *Caisse* mobilizes savings of its 12,537 members, including 9,801 individuals and 2,736 collectives enterprises.

The *Caisse* has also created the *Fonds de soutien à l'action collective solidaire* in which depositers forego their interest to benefit collective initiatives.

investments may be program-related investments which *anticipate* a below-market rate of return, or market-rate investments in mission-related enterprises.

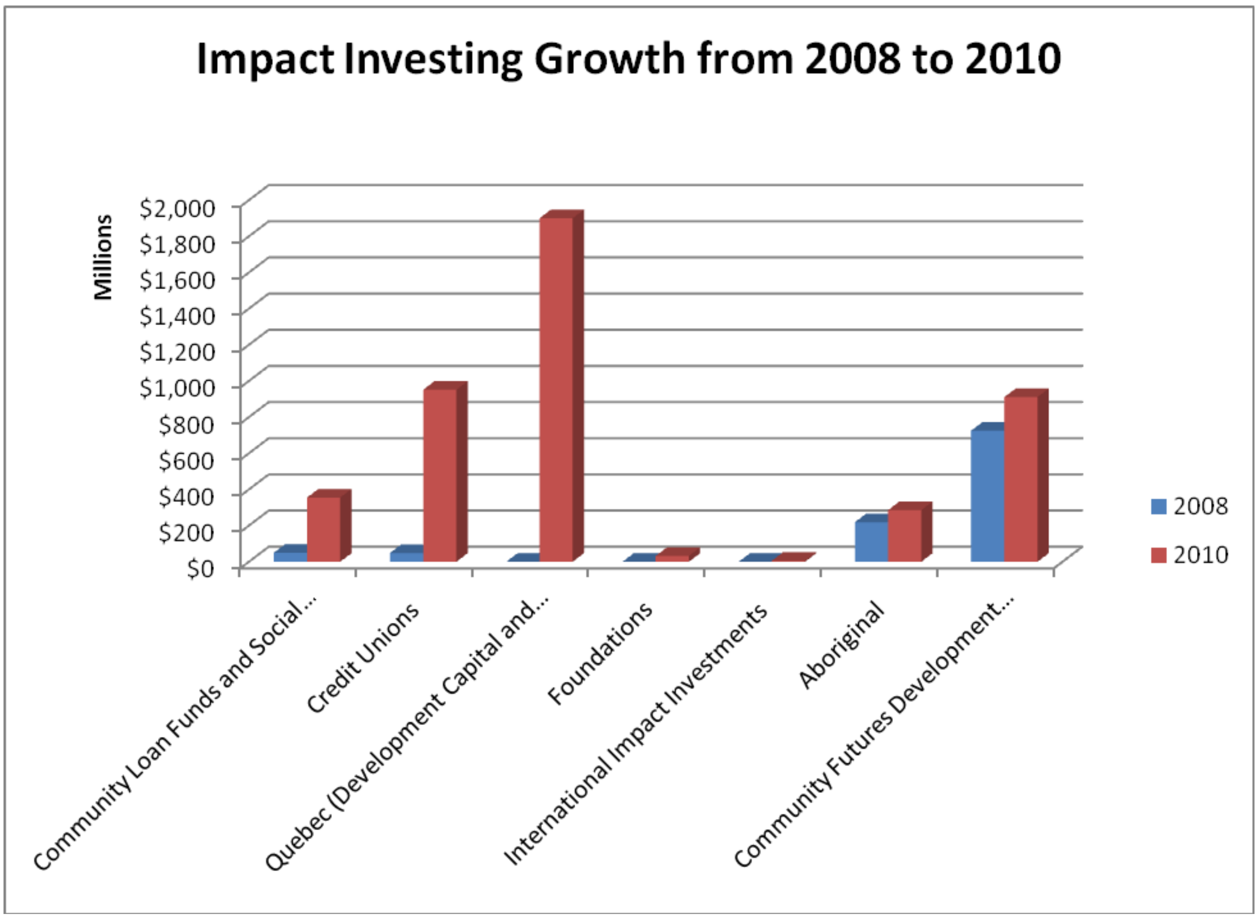
International Impact Investments

This category represents Canadian investments in impact investments overseas and includes investments by organizations such as Mennonite Economic Development Associates (MEDA) and Oikocredit Canada.

Quebec

In Quebec, the two main categories of impact investing include ***development capital*** and ***solidarity finance***. In both development capital and solidarity finance, investment decisions are taken on the basis of socio-economic and financial objectives. Development capital, however, invests primarily in private enterprises whereas solidarity finance refers to those financial institutions that invest primarily in social economy enterprises (collectively owned enterprises and nonprofits).

There is, of course, overlap between these two categories. Some major funds target both private and collective enterprises (Fondaction, for example) reflecting the growing recognition of the positive financial returns generated by social economy enterprises that fulfill socio-economic objectives. These funds could be considered *hybrid* but are not classified as such when examining their investment portfolios.



Growth in Impact Investing

The above chart shows significant growth between 2008 and 20010. However, as can be seen in the above chart, for three categories, Quebec, Foundations, and International Impact Investments, there are is no comparable data for 2008.

It is also important to point out that while there appears to be dramatic growth in the Credit Unions segment, the change is largely a function of the addition of Vancity's community investment assets – assets that were not captured in the 2008 survey. In fact, because of the inclusion of assets not captured in the past, and some adjustments to the categories of impact investing, such as separating out the assets in Quebec, it is difficult to make meaningful conclusions about the extent of growth in the industry.

A large part of the growth in the Community Loan Funds and Social Venture Capital area is due to the inclusion of bond issues by the Toronto Community Housing Corporation (TCHC). TCHC bonds are a unique example of impact investing and an exciting area of growth in this area. While the bonds are sold to conventional institutional investors with competitive rates of return, the financing supports clear social purpose business activity. TCHC is Canada's largest social housing corporation. It is home to 164,000 tenants in 58,500 households -- about six per cent of Toronto's population. In 2007, it completed its first-ever bond offering through a $250-million private placement and in February 2010, the TCHC raised an additional $200 million. These funds are used to provide long-term financing to social housing and revitalization projects.

As noted by impact investing consultant Thom Haubenreisser, these bonds are a good example of how traditional capital markets can play a role in social finance and an example of what can be done when real estate has been fully amortized and the land has value which can then used for re-development.

It is notable that the growth in the Community Futures Funds has been organic and the result of the strong performance of the underlying loan portfolios.

Sustainable Venture Capital

Sustainable venture capital is similar to conventional venture capital in that it is typically private equity capital provided to early-stage, high-potential, growth companies generating high rates of return through an exit strategy, most likely an initial public offering or a sale of the company.

Venture capital investments are generally made as cash in exchange for shares in the invested company. Venture capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms.

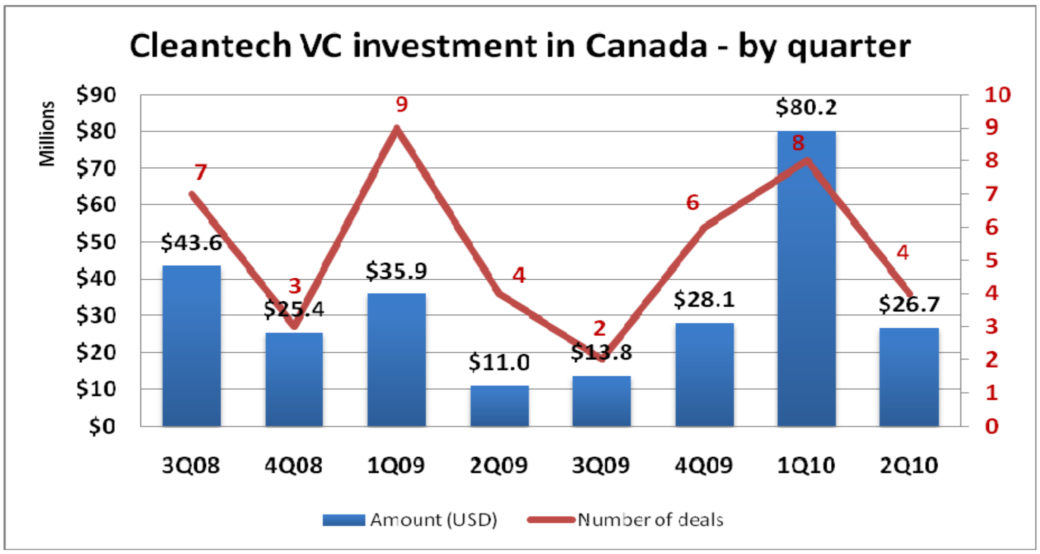
In addition to high rates of return, sustainable venture capital investors also seek investments related to sustainable development. According to EuroSIF, the European sustainable investment forum, venture capital for sustainability is "a specific area within venture capital where profit objectives are supplemented by a mission which has direct impacts on sustainability."[20]

Thus, sustainable venture capital is an investment theme, in which investments are made in companies producing products and services optimizing natural resources and minimizing environmental impacts.

Sustainable venture capital is also related to the development of clean technology, or cleantech. The Cleantech Group LLC, which has monitored the development of cleantech, states:

"Cleantech represents a diverse range of products, services, and processes, all intended to:

1. Provide superior performance at lower costs, while;
2. Greatly reducing or eliminating negative ecological impact, at the same time as;
3. Improving the productive and responsible use of natural resources."[21]



For the purposes of the report, sustainable venture capital is considered one of the *Broad SRI Strategies*.

Sustainable venture capital is an attractive investment for conventional institutional investors and high net worth individuals who are interested in high returns while investing in interesting innovations related to important economic and sustainability trends. As such, investors are attracted to sustainable venture capital for high potential returns while realizing some sustainability benefits.

[20] EuroSIF, Venture Capital for Sustainability 2007. http://www.eurosif.org/images/stories/pdf/venture_capital_for_sustainability_2007_report.pdf

[21] Cleantech Group LLC. Definition of cleantech. http://cleantech.com/about/cleantechdefinition.cfm

Cleantech Industry Segments

Segment	Industry
Energy Generation	Wind
	Solar
	Hydro/Marine
	Biofuels
	Geothermal
	Other
Energy Storage	Fuel Cells
	Advanced Batteries
	Hybrid Systems
Energy Infrastructure	Management
	Transmission
Energy Efficiency	Lighting
	Buildings
	Glass
	Other
Transportation	Vehicles
	Logistics
	Structures
	Fuels
Water and Wastewater	Water Treatment
	Water Conservation
	Wastewater Treatment
Air and Environment	Cleanup/Safety
	Emissions Control
	Monitoring/Compliance
	Trading & Offsets
Materials	Nano
	Bio
	Chemical
	Other
Manufacturing/Industrial	Advanced packaging
	Monitoring and control
	Smart production
Agriculture	Natural pesticides
	Land management
	Aquaculture
Recycling & waste	Recycling
	Waste Treatment

Source: www.cleantech.com

To estimate the value of investments in this sector in Canada as at June 30, 2010, SIO asked the Cleantech Group LLC to provide the value of cleantech deals in Canada in the period between 3rd quarter 2008 and the 2nd quarter 2010. This year, we added the value of these deals to the value of deals previously reported in the 2006 and 2008 Reviews. This is consistent with the practice in the venture capital industry to hold investments for approximately five years before exit. We believe this provides a better assessment of the assets of the sustainable venture capital industry in Canada, and the growth of this industry over time.

Sustainable Venture Capital Overview (assets $billion)	2010	2008	2006
	1.4	1.1	0.6

Conclusion

In the years following the financial collapse of 2008, investors have been looking for alternatives to the "business as usual" approach that got us into this mess. Investors understand that the collapse was caused, in part, by a failure to understand the fundamental environmental, social and governance (ESG) trends driving corporate prospects.

Predatory lending that preyed on the financial illiteracy of low income people and poor governance practices that encouraged executives to assume unwarranted risk helped to create the conditions that led to the eventual collapse. At its essence, the market failure of 2008 is an example of an ESG crisis created by inattention to environmental, social and governance fundamentals.[22]

At the same time, Canadians and people around the world are consumed with issues of globalization, energy demand, the constraints posed by climate change, and the needs of billions of people in emerging markets. The BP spill in the Gulf of Mexico caused a reawakening in environmental consciousness.

Here in Canada, governments at all levels and Canadians generally are coming to grips with the enormous environmental and social problems posed by the oil sands, a petroleum resource of huge potential benefits, but also one of massive potential costs.

It is in this context that SRI now finds itself.

It was not immune to the gyrations in the capital markets caused by the financial crisis of 2008. Our last report tracked SRI assets in Canada just a few months before there was a historic collapse in share prices and investment markets. Many of the funds and asset managers included in this report suffered declines in their asset values, along with conventional investment managers and the market as a whole.

Yet in spite of the difficulties, there are signs that SRI stands to benefit from the current context.

Impact investments, such as community loan funds and social venture capital, are thriving as investors look for alternatives to the investment approaches that led to the collapse of 2008. Renewable energy income trusts thrived in this period as investors sought to profit from rising oil prices and government initiatives to encourage alternatives to conventional energy.

Pension funds are implementing ESG integration strategies and managing their investments using shareholder engagement and proxy voting on ESG issues. Such practices are helping pension funds to identify long term ESG risks and to manage them effectively.

At the same time, growing numbers of institutional investors and high net worth investors are turning to asset managers to implement SRI mandates for them. Likewise, sustainable venture capital grows every year. And growing numbers of retail investors are asking for SRI mutual funds and retail venture capital funds from their advisors.

As a result, SRI is showing resilience in the face of tough times, holding on to about 20 per cent of assets under management. SRI continues to show promise as an alternative to traditional thinking about finance and investment through investment screens, integration of environmental, social and governance issues in the investment process, corporate engagement, proxy voting, impact investing and sustainable venture capital.

[22] A full review of this issue was commissioned by the Social Investment Organization in 2009. The resulting report is on the SIO website. CR Strategies, *The Financial Crisis: an environmental, social and governance perspective*. http://socialinvestment.ca/documents/FinancialCrisis-AnESGPerspective-CRStrategies-June2009.pdf

Appendix A

The Concept of SRI

Socially responsible investment (SRI) follows two broad conceptual paths.

One is rooted in a **values-based approach** to investment, selecting and managing investments according to pre-determined views of the ethical consequences of investment choices.

The other is a **fiduciary view**, based on belief and evidence that the incorporation of environmental, social and governance issues into the investment process will help to mitigate risk and enhance return.

Following our methodology from 2008, the SIO drew on these two traditions of SRI in organizing this year's report. Our report includes *Core SRI strategies*, which are rooted in values-based decisions about investment selection and management, as well as risk and return considerations; and *Broad SRI strategies*, which are primarily rooted in a fiduciary analysis of environmental, social and governance (ESG) factors based on risk and return.

Core SRI Strategies

1. **Screening based on exclusionary or inclusionary criteria.** This is investment selection based on the application of pre-determined social or environmental values to investment selection. The pre-determined screens are rooted in values-based choices by investors to exclude or select particular companies or sectors because of their impact on stakeholders or the environment.

   In this category, SIO includes assets covered under single screens, such as tobacco, as well as comprehensive screening methodologies based on stock selection on a best-of-sector approach. Positive screening is also included in this category, reflecting a desire to include particular companies or sectors because of the benefits they provide to stakeholders or the planet.

   Positive screening also includes theme funds, such as renewable energy income trusts, that employ positive screens to invest in particular sectors.

2. **Impact investing.** Impact investing can be broadly defined as investments aimed at solving social or environmental challenges while generating financial return. Examples of impact investing include community investing, where capital is specifically directed to traditionally underserved communities, or individuals who are unable to access mainstream sources of capital, or financing that is provided to businesses with a social purpose or enterprising (i.e. revenue-generating) non-profits.

Broad SRI Strategies

1. **Integration of environmental, social and governance (ESG) factors into stock portfolio analysis and management.** This strategy incorporates non-financial information into the process of analysing and managing investment portfolios. Analysts look at ESG data to gain greater insight into the risks and opportunities presented by particular investment choices. In some cases, this leads to changes in portfolio construction based on conclusions about risk and return.

2. **ESG corporate engagement and proxy voting.** This strategy employs shareholder power to influence corporate behaviour through corporate communication, shareholder proposals, proxy voting policies and divestment. Investors employing such strategies usually want to control known risk factors, or to encourage management to pursue opportunities presented by ESG opportunities.

   In recent years, many institutional investors have adopted a much more aggressive stance on governance issues. With this in mind, the SIO does not include assets subject to governance policies solely, if environmental and social issues are ignored, in its calculation of assets under management using broad SRI strategies.

3. **Sustainable venture capital.** This is the placement of funds – primarily private investments outside the public markets – in start-up firms and small businesses that produce products or services that optimize the use of natural resources while reducing environmental impact. The dominant form of this investment strategy is termed Cleantech, an investment theme that draws inspiration from a number of sectors, but is rooted in the belief that investment in sustainable industries and processes will earn above-average returns over time.

A final note about definitions

The definitions included in this report are meant to be categories for use in the SRI industry, not for marketing purposes for the investing public, or for stakeholders with an interest in SRI. Proponents of one or more of these strategies will present them in different ways, using different language and concepts that appeal to interested investors or stakeholders. But for the purposes of this report, we have presented these strategies in a fairly technical way to help readers understand the differences between these strategies.

Appendix B

Methodology

Core SRI methodology

Between September, 2010 and February 2011, SIO surveyed asset management firms and community investment providers. SIO emailed a questionnaire to participants, and followed up by telephone. Survey participants were assured that their responses would remain confidential, and that assets would be aggregated and no company would be identified.

The survey results were combined with publicly available data on assets of retail SRI investment funds, which is part of a quarterly report on SRI fund performance compiled by the SIO.

In order to be included in the quarterly report, a mutual fund must have social or environmental criteria included in its investment objectives, as set out in its prospectus. SRI retail venture capital funds must employ screening or social auditing as part of their investment selection process.

Asset information on renewable energy income trusts were found in their June 2010 interim reports. In order to be defined as a renewable energy fund, at least a portion of the business of the fund must be derived from hydroelectricity, co-generation, wind power, biomass, geothermal or combined cycle power production.

Data on impact investing was obtained from a survey of community investment providers across Canada and was combined with publicly-available data on Community Futures Corporations, Nova Scotia CEDIFs and aboriginal capital corporations. Data on the Quebec social finance sector was obtained from a survey by Prof. Marguerite Mendell, Concordia University.

Broad SRI methodology

Pension funds with publicly-available SRI or responsible investment policies were identified and assessed according to the definition of Broad SRI. Asset manager data on integrated assets was taken from the survey of asset managers described above. Data for the sustainable venture capital portion of the report was obtained from the Cleantech Group LLC. SIO thanks the Cleantech Group LLC for providing this data.

Double-Counting

To address the problem of double-counting (SRI mutual funds also counted as screened assets of investment managers, for example), SIO asked money managers to report the percentage of screened assets they manage that are held in mutual funds. This number was then subtracted from the total screened assets under management.

There may be some double-counting due to assets managed primarily in-house by institutional investors that use investment management firms for a portion of their assets. However, we believe this amount to be insignificant.

Another source of double-counting may be found in some of the assets of money managers or pension funds investing in renewable energy income trusts. However, again, we believe this amount to be insignificant.

The sustainable venture capital estimate also includes some small amount of assets invested by SRI retail venture capital funds and renewable energy income trusts. Once again, we believe this amount to be insignificant.

Under-estimation

Assets were totalled from actual findings and organizers did not extrapolate survey results to the entire universe of potential respondents. With this in mind, we feel that the survey under-estimates total socially responsible investment assets. There are a number of reasons for this:

- Some money management firms reported that they manage screened assets but declined to disclose the total for privacy or competitiveness reasons.
- The survey did not attempt to comprehensively measure screened assets in private portfolios managed by individual stock brokers.

- There are some small asset managers not included in the Canadian Pension Directory that manage assets using socially responsible investment screens or policies. Because they are not listed in the Directory and are not members of the SIO, they have not been included in the survey.

As a result, SIO believes that the total of socially responsible investment assets contained in this report is under-estimated.

Assets under management calculation

The total of SRI assets under management was calculated using the following formula. The total AUM includes the Benefits Canada survey of asset managers total industry assets (minus the assets that are managed for mutual funds). To include mutual funds, the IFIC total industry assets are used from their June statistical report. To include pension assets not included in the Benefits Canada survey, the total industry assets in the annual PIAC composite asset mix reports are included. This creates an asset total for the asset management industry, the mutual fund industry and the pension industry.

Total Assets Under Management (AUM - $billion)	**2010**	**2008**	**2006**	**2004**	**2002**
Benefits Canada total industry assets[23]	1,648.83	1,654.50	1,800.72	1,403.83	1,169.41
Benefits Canada mutual fund assets[24]	408.67	428.45	473.53	365.98	296.88
Net **Benefits Canada** assets (total assets minus mutual fund assets)	1,240.16	1,226.05	1,327.19	1,037.85	872.53
Pension Investment Association of Canada (PIAC) total assets[25]	911.63	942.94	794.14	595.45	528.46
Investment Funds Institute of Canada (IFIC) total assets (June 2010)[26]	591.80	639.00	535.70	435.50	385.30
TOTAL AUM	2,743.59	2,807.99	2,657.03	2,068.80	1,786,29
SRI assets for inclusion in calculation	**2010**	**2008**	**2006**	**2004**	**2002**
Canadian SRI Review (CSRIR) total[27]	530.87	579.13	467.41	65.40	51.42
Impact investing, SRI lending and sustainable venture capital[28]	5.76	5.56	3.35	2.35	0.20
Net SRI assets for inclusion in calculation	**525.11**	**573.57**	**464.06**	**63.05**	**51.22**
% of AUM assets (% net SRI assets of total AUM)	**19.1%**	**20.4%**	**17.5%**	**3.2%**	**2.9%**

[23] Total industry assets, Benefits Canada annual survey, November each year
[24] Total assets identified as invested in retail individual investor mutual funds
[25] Total assets of all funds December 31 of the previous year, PIAC publications page, www.piac.org
[26] IFIC June 2010 Analytical Package
[27] Total from the CSRIR final report, restated using new Caisse de dépôt et placements du Québec estimates
[28] This is restated using the new estimate for venture capital assets

Appendix C

SRI Funds in Canada
June 30, 2010
Mutual Funds and Retail Venture Funds using social and environmental criteria to select investments

	Asset $mil.
2010 Target Date Portfolio	
Ethical Select Conservative Portfolio Port F	0.0
Cdn Dividend and Income Equity	
Ethical Canadian Dividend	246.7
Ethical Canadian Dividend -F	2.5
Canadian Equity	
Desjardins Environment	165.6
GWL Ethics (G) DSC	10.4
GWL Ethics (G) NL	8.4
IA Clarington Inhance Cd EqSRI CI-A	4.9
London Life Ethics (GWLIM)	79.9
Meritas Jantzi Social Index	72.8
PH&N Community Values Cdn Equity	52.4
RBC Jantzi Canadian Equity	25.7
RBC Jantzi Canadian Equity D	NA
Canadian Equity Balanced	
Acuity Social Values Balanced	62.9
Ethical Balanced	345.1
Ethical Balanced -F	1.9
Ethical Select Cdn Growth PT	NA
IA Clarington Inhance Growth SRI-A	18.6
IA Clarington Inhance Mt Inc SRI -A	27.3
SocieTerra Growth Portfolio	71.8
Canadian Fixed Income	
Ethical Select Conservative Portfolio	91.1
Meritas Canadian Bond	42.4
NEI Canadian Bond	274.6
NEI Canadian Bond -F	88.2
PH&N Community Values Bond	118.6
Canadian Fixed Income Balanced	
IA Clarington Inhance Con SRI Pt-A	4.7
SocieTerra Secure Market Portfolio	27.2
Canadian Focused Equity	
Acuity Alpha Social Values Portfolio	13.7
Acuity Social Values Canadian Equity	37.4
Ethical Growth	291.3
Ethical Growth -F	1.6
Investors Summa SRI ClassTM A	44.6
Investors Summa SRI FundTM A	1054.8
Canadian Focused Small/Mid Cap Equity	
Acuity Clean Environment Equity	74.7
Mavrix Sierra Equity	3.2
Canadian Money Market	
Meritas Money Market	4.3
CANADIAN MONEY MARKET FUND AVERAGE	
91 DAY TREASURY BILL INDEX	
Canadian Neutral Balanced	
Ethical Select Cdn Balanced PT	NA
IA Clarington Inhance Bal SRI Pt-T6	0.8
Meritas Balanced	17.8
PH&N Community Values Balanced	14.6
SocieTerra Balanced Portfolio	70.1
Canadian Small or Mid Cap Equity	
Ethical Special Equity	249.9
Ethical Special Equity -F	5.5
Global Equity	
Acuity Social Values Global Equity	16.6
BMO Sustainable Opportunities Class	2.8
Criterion Water Infrastructure -A	NA
Ethical Global Dividend-A	6.7
Ethical Global Dividend-F	0.2

Ethical Global Equity	31.1
Ethical Global Equity -F	1.6
Ethical Select Global Growth Prt	3.2
HSBC Global Climate Change-A	NA
HSBC Global Climate Change-I	7.1
IA Clarington Inh Gl Eq SRI Cl-A	7.1
Investors Summa Global SRI-A	10.2
Investors Summa Global SRI Class A	5.2
Mackenzie Univ Sustainable Opp CI	17.4
Meritas International Equity	25.9
PH&N Community Values Glb Equ	50.3
RBC Jantzi Global Equity	8.9
RBC Jantzi Global Equity D	NA
Scotia Global Climate Change	8.0
Scotia Global Climate Change -F	NA
TD Global Sustainability -I	10.2
Global Small/Mid Cap Equity	
BMO Sustainable Climate Class	4.7
Investors Summa Glob Environ Leaders CIass A	3.5
Global Equity Balanced	
Ethical Select Global Growth Portfolio	3.2
SocieTerra Growth Plus Portfolio	29.2
RBC Jantzi Balanced	29.1
RBC Jantzi Balanced D	NA
Global Neutral Balanced	
Ethical Select Global Balanced Portfolio	2.9
Ethical Select Global Balanced PT F	NA
International Equity	
Ethical International Equity	44.0
Ethical International Equity -F	0.9
Miscellaneous	
Creststreet Alternative Energy	NA
Criterion Global Clean Energy CH-F	NA
Criterion Global Clean Energy -P	NA
Retail Venture Capital	
B.E.S.T. Total Return Fund Inc.	8.5
Fondaction (QC)*	699.4
GrowthWorks Atlantic VentureBal-443	29.2
GrowthWorks Canadian	83.1
Solidarity (QC)**	7294
Working Opportunity Balanced Ser 1	70.3
Working Opportunity Balanced Ser 2	67.2
Working Opportunity Growth Ser 1	32.5
Working Opportunity Growth Ser 2	38.2
U.S. EQUITY	
Ethical American Multi-Strategy	37.9
Ethical American Multi-Strategy -F	0.2
Meritas U.S. Equity	11.3
TOTAL Assets	**12,429.8**

Notes

Compiled by the Social Investment Organization using information from www.globefund.com, July 2010

Funds are widely available to the investing public. Pooled funds and funds for accredited investors are excluded

*Fondaction assets from Fondaction (www.fondaction.com) effective May 31, 2010.
Information provided by fund news release dated July 13, 2010.

**Solidarity assets from Solidarity Fund QFL (www.fondsftq.com), effective May 31, 2010.
Information provided by fund news release dated July 5, 2010.

Renewable Energy Income Trusts in Canada[29]	Assets ($billions), as at June 30, 2010
Algonquin Power[30]	0.9831
Altagas Income Trust[31]	2.648
Boralex Power Income Fund[32]	0.7735
Brookfield Renewable Power Fund[33]	3.5423
Capital Power Income L.P.[34]	1.6579
Innergex Renewable Energy Inc.[35]	0.8932
Macquarie Power and Infrastructure Income Fund[36]	.7052
Northland Power Income Fund[37]	1.6933
TOTAL	**$12.8965**

[29] All information taken from quarterly reports posted on the company website or from *Globefund*
[30] http://www.algonquinpower.com/financial/reports/2010/APUCQ22010Report.pdf
[31] http://www.altagas.ca/sites/default/files/Print_AltaGas%20-%20Q2%20-%20July301413.pdf
[32] http://www.boralex.com/data/DocumentsFinanciers/en/44_BLX%20Interim%20Report%20Q2-2010.pdf
[33] http://www.epcor.ca/en-ca/about-epcor/investor-information/Documents/EPCOR%20Q210%20Financial%20Statements.pdf
[34] http://www.brpfund.com/_Global/21/img/content/File/BRPF%20Q2%20Interim%20Report%202010%20FINAL.pdf
[35] http://www.innergex.com/sites/documents/pdf/Version_finale_combin%C3%A9e_anglais_O.pdf
[36] http://npifund.com/Assets/Document/Filings/2010/2010_Q2_Northland_Power.pdf
[37] http://www.macquarie.com/dafiles/Internet/mgl/mpt/Public/Document/investor%20center/SF/QuarterlyReport_2010Q2.pdf

Appendix D

Asset Managers who have agreed to be listed in this report

- Aberdeen Asset Management
- Acadian Asset Management
- Acuity Investment Management Inc.
- Addenda Capital Inc.
- Baillie Gifford
- Beutel, Goodman & Company Ltd.
- BNP Paribas Investment Partners Canada Ltd.
- Connor, Clark & Lunn Investment Management
- Cordiant
- Desjardins Group / Mouvement Desjardins
- Dexia Asset Management
- Doherty & Associates
- Fiera Sceptre Inc
- Genus Capital Management
- Gryphon Investment Counsel Inc.
- Guardian Ethical Management
- GWL Investment Management Ltd.
- LaSalle Investment Management
- Legg Mason Canada Inc.
- Martin Currie Inc.
- McLean Budden Ltd.
- Morguard Investments Limited
- Natcan Investment Management Inc.
- RBC Global Asset Management Inc. and Phillips, Hager & North
- SEAMARK Asset Management Ltd.
- Sector Capital Management
- Sprucegrove Investment Management
- TD Asset Management Inc.
- Vancity Investment Management

Appendix E

Impact Investing Providers who have agreed to be listed in this report

- ACCESS Community Capital Fund
- AgeChem Finances Inc.
- Alterna
- Assiniboine Credit Union
- Canadian Alternative Investment Cooperative
- CAPE Fund
- Capital Croissance PME
- Caring Capital
- CCEC Credit Union
- Centre for Social Innovation Community Bond
- Community Futures Development Corporations
- Desjardins Innovatech S.E.C
- Edmonton Community Foundation
- Edmonton Financial Literacy Society
- Fiducie du Chantier de l'économie sociale
- Fonds d'intervention économique régional (FIER)
- Fonds d'investissement de la culture et des communications
- Fonds Montrusco Bolton de petite capitalisation
- Fonds régional de solidarité FTQ
- Investeco
- Island Savings Credit Union
- Jubilee Fund
- Members of the Association des centres locaux de développement
- Members of the Réseau des SADC et CAE
- Momentum
- Ottawa Community Loan Fund
- PARO Centre for Women
- Renewal 2
- Renewal Partners
- Saint John Community Loan Fund
- Social Capital Partners
- Société de développement des entreprises culturelles (SODEC)
- Société Innovatech Québec et Chaudière-Appalaches
- The Community Forward Fund
- Tom Webb Self Directed RRSP
- Vancity

Appendix F

Financial Advisors who have agreed to be listed in this report

- Jocelyn Bartel, Partners in Planning Financial Services Ltd.
- Ross Campbell, Assante Capital Management
- Gordon Dobbin, Investors Group Financial Services
- Patti Dolan, Mackie Research Capital Corp.
- Gary Godard, Wellington West Capital
- Betty-Anne Howard, Independent Planning Group
- Brian Jackson, Independent Planning Group
- Sterling Rempel, Future Values Estate & Financial Planning
- Gail Taylor, CIBC Wood Gundy

Appendix G

Asset Manager Survey

Organization and contact information

Your organization's name
Your full name
Your job title
Your 10-digit phone number
Your e-mail address

ESG assets under management

What were the values of screened assets and ESG integrated assets under management at your organization for Canadian client portfolios as at June 30, 2010 (in millions of Canadian dollars)?

In order to avoid double-counting of SRI mutual fund assets, please indicate the amount of assets listed in the previous question (screened or ESG integrated) that were invested in SRI mutual funds (in millions of Canadian dollars) as at June 30, 2010.

ESG screens

Some clients ask their investment managers to screen companies or sectors based on specified ESG screens. Do you apply ESG screens for at least one of your clients?

If you answered "yes" to the questions above, indicate the total client assets for which you applied ESG scrreens in each of the issue categories below, as at June 30, 2010 (in millions of Canadian dollars).

Aboriginal Relations
Abortion/Contraception
Alcohol
Animal Welfare
Community Relations
Corporate Governance
Customer Relations
Diversity in the Workforce
Employee Relations
Environment
Gambling
Human Rights
Military/Weapons

Nuclear Energy
Pornography
Product Safety
Tobacco

Provide any additional comments regarding your ESG screening process here, and let us know if there are additional issue categories in your screening process not listed in the previous question.

ESG in investment evaluation & selection

Does your organization include ESG research in your investment evaluation process?

Does your organization include ESG factors in the process used to select investments for your portfolios?

Please provide any additional information about ESG integration at your organization.

ESG screens by client type

Corporate Pension Funds
Foundations
High Net Worth Individuals
Insurance Companies
Public Sector Pension Funds
Religious Institutions
Unions
Universities

Integrated ESG analysis by client type

Corporate Pension Funds
Foundations
High Net Worth Individuals
Insurance Companies
Public Sector Pension Funds
Religious Institutions
Unions
Universities

Corporate proxy voting policy

Does your firm have a proxy voting policy that addresses ESG issues?

If you answered "yes" above, please describe your policy.

If you answered "yes" to the question above, indicate which ESG areas are included in the policy.

Environmental (greenhouse gas emissions, energy use, toxic pollution, impact on biodiversity, etc.)

Social (community donations and engagement, employee health and safety, human rights, customer relations, product safety, etc.)

Governance (executive compensation, independence of board members, share structure, etc.)

Shareholder engagement

Does your firm pursue shareholder engagement strategies on ESG issues? Engagement activities typically involve communication with senior management or boards of directors.

If you answered "yes" above, describe your shareholder engagement strategies.

Permission to disclose organization name

Individual responses are confidential and aggregated results will be published. However, the SIO would like to append a list of participating organizations to the Review. Do you give the SIO permission to list your organization as a survey participant?

SIO

SOCIAL INVESTMENT ORGANIZATION