RBC Global Asset Management

Stewardship in action

2021 Corporate Governance and Responsible Investment Annual Report

What's inside:

- Responsible Investment: ESG in a pandemic world
  Results from our fifth annual Responsible Investment survey
- 2021 updates to our Proxy Voting Guidelines
- Direct engagements: Climate change, diversity & inclusion, and more
- Investment team insights on ESG topics

CIO Message

We are pleased to share with you our 2021 Annual Corporate Governance & Responsible Investment Report, which highlights some of our responsible investment activities and achievements over the past year. It was a busy year in responsible investment, with significant regulatory developments in several jurisdictions, a continued focus on health and safety as we begin to emerge from the COVID-19 pandemic, and a focus on climate change issues, which culminated in COP26 where we saw many governments confirm their commitment to addressing climate change.

RBC Global Asset Management (RBC GAM)[1] supports the global goal of achieving net-zero carbon emissions by 2050 or sooner and the need to achieve a just and orderly transition. We recognize that climate-related risks and opportunities are impacting the issuers in which we are invested. In April 2021, we published our first annual Task Force on Climate-Related Financial Disclosures (TCFD) report, which provides transparency and disclosure on our portfolio climate risks and our related governance and risk management practices. In October 2021, RBC GAM released its Net-Zero Ambition Statement, confirming our commitment to measure and monitor net-zero alignment in our investment approach, provide transparency and disclosure on investee net-zero alignment to our clients, and to maintain net-zero operations.

Our role as an active steward is an important part of our fiduciary duty and we continue to engage with issuers on material ESG issues and thoughtfully vote proxy ballot items. This past year, RBC GAM and BlueBay Asset Management (BlueBay) were accepted by the Financial Reporting Council as signatories to the UK Stewardship Code. Our UK Stewardship Code reports demonstrate our commitment to active stewardship and highlight our activities in this area. This past year we expanded our active stewardship activities by becoming a founding member of Climate Engagement Canada, a collaborative engagement initiative focused on engaging with Canadian companies to advance Canada's transition to a net-zero economy.

As we look ahead, we expect to see a continued focus on responsible investment and we will continue to ensure that our activities are undertaken in the best interests of our clients. We invite you to visit our Corporate Governance & Responsible Investment website where you will find additional highlights of our responsible investment achievements.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management

[1] In this document, references to RBC GAM (we, our or us) include the following affiliates: BlueBay Asset Management LLP (BlueBay), RBC Global Asset Management Inc. (including Phillips, Hager & North Investment Management), RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated subsidiaries of RBC. Unless otherwise stated, BlueBay Asset Management LLP (BlueBay) is included in this document. "RBC" refers to Royal Bank of Canada and its subsidiaries in this Report.

2021 Highlights

RBC GAM's Approach to Responsible Investment is organized into three core pillars: ESG integration, active stewardship, and client-driven solutions and reporting. As part of our commitment to continuous improvement, we continued to progress on activities under our core pillars, with some highlights included below.

ESG integration

All investment teams integrate material ESG factors into their investment processes.

Active stewardship

We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors.

Client-driven solutions and reporting

We align our solutions with client demand and provide transparent and meaningful reporting.

ESG integration

All investment teams integrate material ESG factors into their investment approaches.

Releasing our net-zero carbon emission ambition statement

In October 2021, RBC GAM and BlueBay released a joint statement confirming our support for the global goal of achieving net-zero emissions by 2050 or sooner. We also recognize the importance of a just and orderly transition to net-zero that promotes widely shared economic prosperity. Our Net-Zero Ambition statement indicates that we expect all issuers in which we are invested, where climate represents a financially material risk, to establish credible targets and action plans aligned to net-zero. We will engage with investee companies on this issue and are committed to measuring, monitoring, and disclosing the carbon emissions of our assets under management (AUM) using established methodologies and best practices.

ESG education

We continued our efforts to provide our investment teams with up-to-date information and research on ESG topics. This past year, we rolled out a monthly newsletter to our investment and distribution teams that includes both internal and external ESG updates and research. We continued our climate education series with several sessions featuring external climate experts, as well as our internal ESG network where our investment teams share perspectives on ESG topics.

Climate analytics and scenario analysis

We first rolled out our quarterly climate dashboards in 2020, and this continued to gain momentum in 2021. We are now running climate analytics and scenario analysis on over 100+ core portfolios, which includes analysis on carbon emissions (scope 1, 2, and 3), low-carbon transition risk, green revenue and investment in low-carbon technology, portfolio temperature alignment, and transition and physical climate risks under multiple climate scenarios. Education sessions for investment teams provided additional support on the use of climate data and analysis, which is being considered by investment teams as part of their investment approaches. Climate analytics and scenario analysis continue to be an important focus as the data, methodologies, and global best practices in this area evolve and improve.

Active stewardship

We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors.

Collaborative engagements on climate
In 2021, we became a founding member of the collaborative engagement initiative Climate Engagement Canada (CEC). CEC is coordinated by several investor networks including the Responsible Investment Association, Shareholder Association for Research and Education, and Ceres, and is supported by the UN Principles for Responsible Investment. CEC aims to drive dialogue between the financial community and Canadian corporations to promote a just transition to a net-zero economy. The CEC initiative complements our other collaborative climate engagement activities through our membership in Climate Action 100+. In addition, in 2021, we became a founding signatory to the Canadian Investor Statement on Climate (organized by the Responsible Investment Association), which demonstrates the collective ambition of Canadian investors in recognizing the need to accelerate the transition towards a net-zero economy.

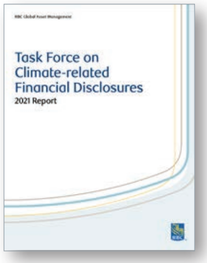
Policy engagement
Over the past year, we actively engaged with regulators and policy makers on numerous proposals related to ESG factors. Some of these engagements were conducted directly with the regulators in the jurisdictions in which we operate, such as the Canadian Securities Administrators and the proposed guidance on ESG-Related Investment Fund Disclosure, while others were conducted collaboratively through industry groups and organizations. As ESG-related regulations continue to increase in many jurisdictions, we will continue to engage with regulators and lawmakers in the best interests of our clients.

Board gender diversity
We believe that companies benefit from having boards with diverse skills and experiences because this enables unique perspectives and challenges groupthink. Over the past several years, we have addressed board gender diversity through our proxy voting and engagement activities. In 2021, in alignment with our commitment under the 30% Club Canadian Investors Group,[2] we updated the RBC GAM Proxy Voting Guidelines such that if a board has less than 30% women directors and lacks an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance Committees.

[2] 30% Club Canadian Investor Group: Statement of Intent

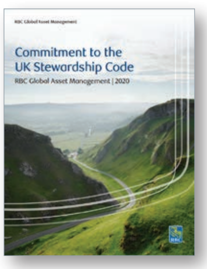
Client-driven solutions & reporting

We align our solutions with client demand and provide transparent and meaningful reporting.



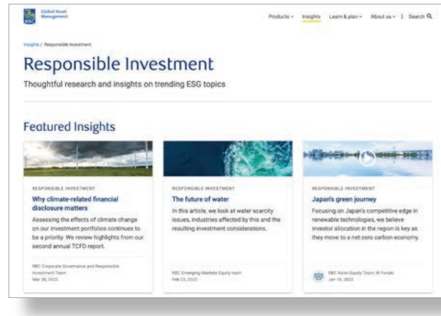
Task Force on Climate-Related Financial Disclosure (TCFD)

The recommendations of the TCFD, mandated by the Financial Stability Board, are a set of voluntary guidelines for the disclosure of climate-related risks and opportunities. RBC GAM has supported and encouraged TCFD disclosures from issuers since 2018 and became an official signatory to the TCFD in 2020. In April 2021, we released our first TCFD report, which includes disclosures on our firm polices and processes for climate-related governance, strategy, and risk management, as well as portfolio metrics related to climate change risks and opportunities. We are committed to continuous improvement and will continue to strive to report in line with TCFD best practices.



U.K. Stewardship Code

The Financial Reporting Council updated its active stewardship reporting with the rollout of the UK Stewardship Code 2020 (the Code), with the goal of setting high stewardship standards for investors. The Code includes a set of 12 active stewardship principles against which signatories must report. We are pleased to report that this past year, RBC GAM and BlueBay were accepted by the Financial Reporting council as signatories to the UK Stewardship Code. Active stewardship, including engagement and proxy voting, is an important part of our fiduciary duty. Please see our RBC GAM and BlueBay reports for details of how our active stewardship activities align with the 12 principles of the Code.



ESG thought leadership

Throughout the year we publish topical ESG-related thought pieces to provide insights and background to our clients and unitholders. In 2021, the RBC GAM Corporate Governance and Responsible Investment (CGRI) team and our investment teams published thought pieces on a range of topics, including biodiversity, the importance of engagement over divestment, carbon markets, and insights into the proxy voting season, among others. We encourage you to visit rbcgam.com/ri for our full list of publications.

Annual Survey

In 2021, we published our fifth annual survey, Responsible Investment: ESG in a pandemic world. The survey included over 800 investors and consultants from around the world, including the U.S., Canada, Europe, and Asia. Respondents were from all areas of the institutional investment industry, including pension plan sponsors, investment managers, consultants, endowments, foundations, and government organizations.

Compared to last year's growth trajectory, adoption of ESG principles appears to have plateaued. Nonetheless, this year's survey identified a group of respondents whose conviction in ESG strengthened as a result of the pandemic. We encourage you to review the full survey, but some of the broader global highlights include:

72% of global investors integrate ESG principles into their investment approach and decision-making.

96% Europe

81% Canada

76% Asia

64% U.S.

Europe continues to lead the world in ESG adoption, while the U.S. lags

Europe continues to outpace the rest of the world in ESG adoption, with 96% of respondents in Europe saying they use ESG in decision making; Canada shows a softening with 81% in this category, down eight points from last year; and in the U.S., the level of respondents saying they use ESG in decision making has remained in the 64% to 66% range for three consecutive years, indicating a potential plateau.

The COVID-19 pandemic has influenced investors' conviction

29% of investors placed greater emphasis on ESG considerations due to the pandemic

Of those 29% surveyed:

- **97%** believe ESG-integrated portfolios do as well or better than non-ESG integrated portfolios
- **88%** believe integrating ESG factors can help mitigate risk

Top five ESG concerns globally

1. **Anti-corruption**
Anti-corruption is still the top concern for investors for the second year in a row.

2. **Cyber security**
Cyber security, ranked fourth last year, climbed to the second spot this year.

3. **Climate change**
Climate change was the third-highest priority, selected by 55% of respondents, a similar level to last year when it was ranked second in priority.

4. **Shareholder rights and voting**
Another key governance concern expressed by 50% of global respondents was shareholder rights/voting.

5. **Water**
Selected by about 50% of respondents, water was the second-highest environmental priority for investors and fifth-highest ESG concern.

Mixed reaction on diversity issues and metrics

Diversity issues and metrics garnered a mixed reaction, with a softening in conviction about the value of minority and gender diversity targets on corporate boards by respondents in the U.S. and Canada. In Europe and Asia, there was continued strong support for these targets as well as for more diversity, equity, and inclusion (DEI) and ESG-related disclosures overall.

41% said boards should adopt minority diversity targets versus 35% that oppose such targets.

48% said boards should adopt gender diversity targets versus 33% that oppose such targets.

Our Net-Zero Ambition and Approach to Climate Change

RBC GAM has long had a focus on responsible investment, which is inclusive of climate change. Our strategy on climate change is set out in Our Approach To Climate Change, which sets out our commitments and actions to address climate-related risks and opportunities.

In 2021, RBC GAM took the additional step of publishing Our Net-Zero Ambition, which confirms our support for the global goal of achieving net-zero emissions by 2050 or sooner. We also recognize and support the need to achieve a just and orderly transition to net-zero that promotes widely shared economic prosperity. Our commitment to net-zero focuses on providing transparency through robust climate disclosures, supporting the transition to net-zero through our investment approach, and maintaining net-zero operations.

In support of Our Net-Zero Ambition and Our Approach To Climate Change, in 2021, we focused on expanding climate research and expertise, advancing climate analytics and scenario analysis, and establishing commitments and actions to support the global goal of achieving net-zero emissions by 2050 or sooner. Highlights of initiatives and activities in 2021 include:

- We published our first **TCFD Report**, which included the carbon emissions intensity and temperature alignment of our portfolios, as well as our climate scenario analysis.
- Investment teams assessed and monitored climate-related risks and opportunities on a quarterly basis through the **RBC GAM Climate Dashboard**, which is provided for over 100+ core equity and fixed income strategies.
- We published 10 **ESG insight articles** focused on climate-related topics, including engagement vs. divestment to address climate change, investing in net-zero, the energy transition, biodiversity and climate change, carbon markets, and more. A full list of ESG insight articles can be found at rbcgam.com/ri.
- We continued to collaborate with **like-minded investors** on advancing actions that support the transition to net-zero by 2050 or sooner. This included becoming a signatory to the Canadian Investor Statement on Climate Change and a founding participant in Climate Engagement Canada.
- We continued to provide **climate-based products and solutions** to meet clients' investment goals. This included launching new fossil-fuel free strategies in certain jurisdictions, and providing clients with customized reporting on climate-related metrics upon request.

Proxy voting

Proxy voting is a key part of our stewardship process as it provides an important way for us to convey our views to boards and management. As an asset manager, RBC GAM has an obligation to act in the best interests of our clients. Voting responsibly is part of our fiduciary duty, and we make our voting decisions independently and in accordance with our custom Proxy Voting Guidelines (Guidelines).

RBC GAM Proxy Voting Guideline Updates for 2021
Our Guidelines are updated annually to reflect our views on emerging trends in corporate governance and responsible investment. A summary of the key updates:

Executive compensation & COVID-19: Because the economic impacts of the pandemic varied greatly across sectors and industries, we believe there is no single correct approach to adjusting executive compensation plans to align with issuers' shifting corporate strategies to manage the effects of the pandemic. To ensure our investee companies were aware of our views, we included a temporary guideline recommending that compensation committees provide robust disclosure on the compensation decisions made as a result of the pandemic, the rationale behind those decisions, the level of discretion used, and the approach that would be taken regarding compensation in the future. Further, additional disclosure was particularly warranted in instances where a company made significant cuts to its workforce or furloughed employees.

Board diversity: Due to inadequate and inconsistent disclosures, it is difficult for investors to monitor issuers' progress on racial and ethnic diversity practices. As a result, this year we updated our Guidelines to encourage companies to publicly disclose information on the diversity of their board of directors, executive and/or senior management teams, and wider workforce. In addition, in line with the intentions of the Canadian 30% Club Investor Group, to which RBC GAM is a signatory, we updated our Guidelines so that if a board has less than 30% women directors and lacks an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance committees.

Climate change: This year we updated our Guidelines on climate-related shareholder proposals to reflect the nature of proposals we saw in 2020. For example, we will generally support proposals requesting that companies provide enhanced disclosure on the alignment of their lobbying activities with their climate change initiatives, including memberships in industry associations.

For additional details on our 2021 Guideline updates and key insights from the 2021 proxy voting season, please refer to our 2021 CGRI Semi-Annual report.

2021 calendar year - Proxy voting statistics[3, 4]

The table below summarizes how we have voted across key markets in 2021.

	Canada	U.S.	Overseas	Total
Proposals	3,432	11,669	21,786	36,887
Votes WITH management	2,926	9,111	19,564	31,601
Votes AGAINST management	506	2,558	2,222	5,286
% of votes AGAINST management	14.7%	21.9%	10.2%	14.3%

Overview of our voting record by issue[5]

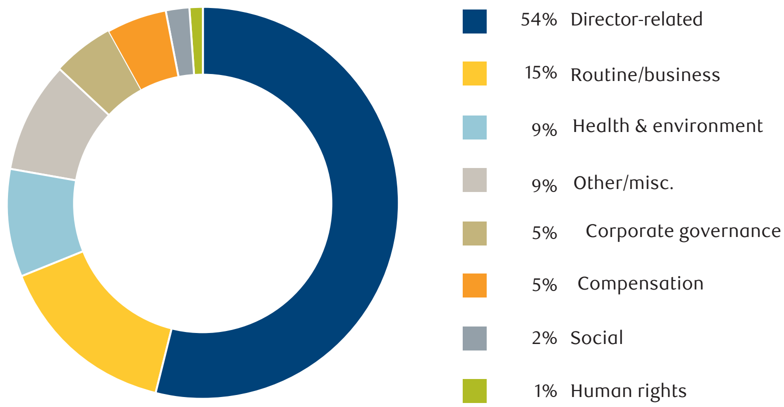
Below is a snapshot of our voting record on a set of important and frequent management and shareholder proposals. Management typically recommends voting against shareholder proposals. As a result, a vote against management on a shareholder proposal usually equates to a vote in favour of the proposal.

	Canada			U.S.			Overseas			Total		
Item category	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt
Management proposals												
Amend or approve Omnibus Stock Plan	2	19	90.5%	2	233	99.1%	5	30	85.7%	9	282	96.9%
Elect director	2,246	391	14.8%	6,554	1,864	22.1%	5,104	540	9.6%	13,904	2,795	16.7%
Approve remuneration of executives	165	15	8.3%	901	103	10.3%	677	155	18.6%	1,743	273	13.5%
Allow shareholder meetings to be held in virtual-only format	2	0	0.0%	0	0	0.0%	28	4	12.5%	30	4	11.8%
Approve remuneration of directors	0	0	0.0%	0	1	100.0%	821	54	6.2%	821	55	6.3%
Ratify or approve auditors and their remuneration	297	2	0.7%	1,100	2	0.2%	788	15	1.9%	2,185	19	0.9%
Shareholder proposals												
Require independent board chairman[6]	0	0	0.0%	1	32	97.0%	0	0	0.0%	1	32	97.0%
Provide right to act by written consent or amend articles to call special meetings[6, 7]	0	0	0.0%	3	83	96.5%	0	0	0.0%	3	83	96.5%
Report on equal employment opportunity[8]	0	0	0.0%	2	10	83.3%	0	0	0.0%	2	10	83.3%
Political contributions and/or lobbying disclosure[6]	0	0	0.0%	6	29	82.9%	0	0	0.0%	6	29	82.9%
Link executive pay to social criteria	0	0	0.0%	2	3	60.0%	0	0	0.0%	2	3	60.0%
Report on climate change or environmental policies[6, 9]	0	0	0.0%	3	11	78.6%	15	1	6.3%	18	12	40.0%
Proposals requesting non-binding advisory vote on climate action plan[10]	1	0	0.0%	2	2	50.0%	0	0	0.0%	3	2	40.0%
Human rights risk assessment or improve human rights standards	1	1	50.0%	4	2	33.3%	0	0	0.0%	5	3	37.5%
Gender pay gap	0	0	0.0%	4	2	33.3%	0	0	0.0%	4	2	33.3%
Greenhouse gas (GHG) emissions[11]	1	1	50.0%	4	2	33.3%	2	0	0.0%	7	3	30.0%

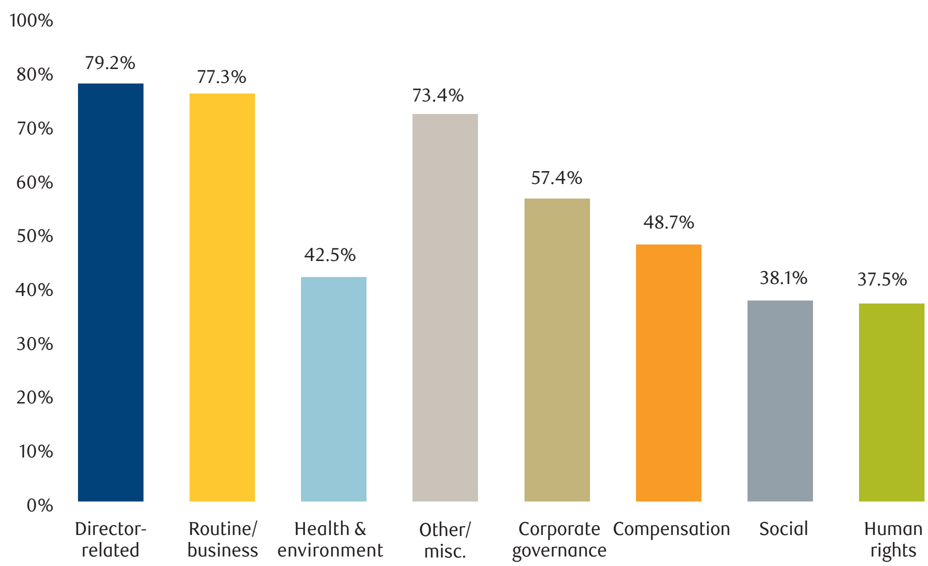
Shareholder proposals

Shareholder proposals represent a small number of overall ballot items but are an important mechanism for shareholders to request an investee company take action on material and trending issues. For context, we voted on 872 shareholder proposals out of 36,887 management and shareholder proposals in 2021. The following charts provide an overview of the types of shareholder proposals we reviewed and supported this proxy voting season.

Shareholder proposals by category



Shareholder proposals supported by category[12]



[3] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds, and specific institutional accounts.
[4] Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting, which may occur due to proxy voting administration issues in foreign markets. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions or other logistical impediments
[5] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds and specific institutional accounts.
[6] In the case of a proxy contest, shareholders are often able to vote on either a management card or dissident card. For the period under review, RBC GAM voted on the dissident card of a proxy contest that included shareholder proposals. As a result, our instructions of "Do Not Vote" on the management card were calculated as one vote WITH management under the following proposal categories: "Require Independent Board Chairman" and "Provide Right to Act by Written Consent or Amend Articles to Call Special Meetings." The following categories received two proposals on the dissident card, as a result, our instructions of "Do Not Vote" on the management card were calculated as two votes WITH management under the following categories: "Political Contributions and/or Lobbying Disclosure" and "Report on Climate Change or Environmental Policies."
[7] Management did not include a vote recommendation on one vote in the "Provide Right to Act by Written Consent or Amend Articles to Call Special Meetings," thus one of our FOR votes was counted as a vote with management.
[8] Management supported one proposal under the "Report on Equity Employment Opportunity" item category. After review, RBC GAM voted WITH management on the proposal.
[9] Management supported one proposal in the "Report on Climate Change or Environmental Policies" item category. After review, RBC GAM voted WITH management on the proposal.
[10] Management supported one proposal in the "Proposals Requesting Non-Binding Advisory Vote on Climate Action Plan" category. After review, RBC GAM voted WITH management on the proposal.
[11] Management supported one proposal in the "GHG Emissions" category. After review, RBC GAM voted WITH management on the proposal.
[12] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds and specific institutional accounts.

Engagement & collaborative initiatives

At RBC GAM, we believe that engagement through private dialogue and collaborative initiatives facilitates our understanding of how an issuer is addressing its ESG risks and opportunities, and also allows us to convey our own views to the board and management.

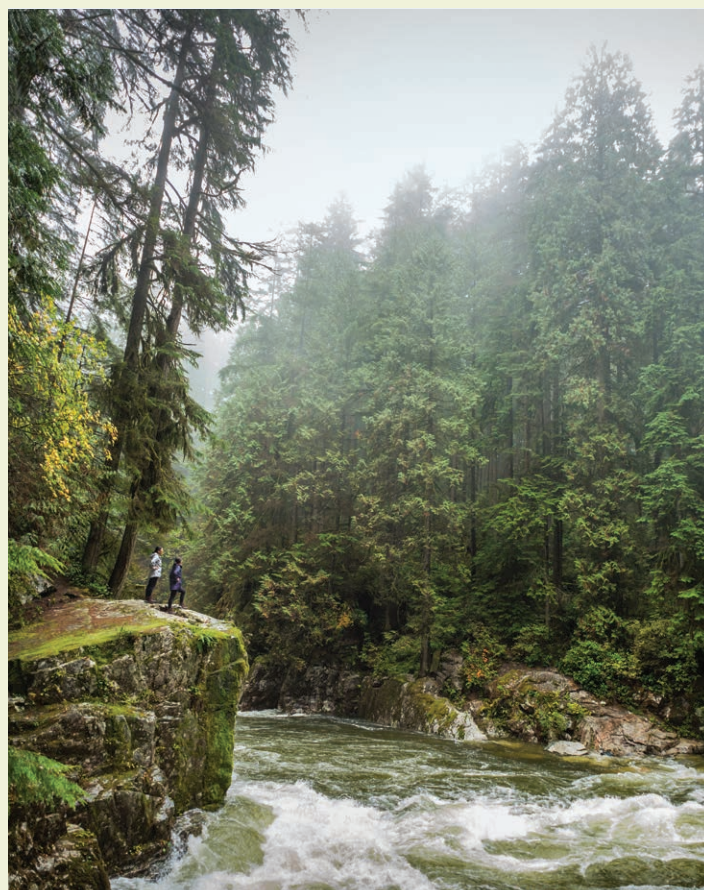
Direct engagements

Our investment teams meet on an ongoing basis with the issuers in which we are invested, and we encourage an in-depth dialogue over time. In 2021, our investment teams held over 1,650 engagements with issuers directly on ESG issues.[13] Below are a few examples of the ESG-related engagements that our investment teams conducted this past year.

Climate change

We recognize that climate change is one of the most pressing issues of our time and it remains an engagement focus for our investment teams. Our investment teams engage regularly with investee companies to discuss material climate-related risks and opportunities.

- **The PH&N Canadian Equity team** engaged with a Canadian utility company on its updated emission reduction targets and overall de-carbonization strategy. The company had historically done a good job disclosing emissions and near-term goals, but had yet to provide more meaningful long-term reduction targets. The company recently disclosed its long-term targets, which included a net-zero target by 2050. The company indicated that it has long viewed de-carbonization as a growth strategy and wanted to ensure that it was able to achieve any targets set. Further, the company felt that costs to all stakeholders needed to be considered in setting emission reduction targets. After engaging with the company, the investment team believed that the company's updated emission reduction targets and thoughtful approach to de-carbonization were significantly better than what third-party ratings implied, and will continue to monitor the company's progress.
- **The RBC High Yield Fixed Income team** engaged with a Canadian transportation company to discuss its commitment to net-zero emissions by 2050 across its operations. The team wanted to understand the company's mid-term targets and its short- and medium-term initiatives to reach its goals. The company described how it was looking to reach its goals, including increased efficiency, new green technology, sustainable fuels, and carbon offsets. The company also highlighted some hurdles to reaching its goals, such as the availability of sustainable fuels for its operations. Overall, the investment team was satisfied with the company's response but will continue to monitor its progress, especially amidst the short-term hurdles described at the meeting.
- **The RBC Emerging Markets Equity team** engaged with a Korean insurance provider on board-level ESG oversight and the company's new climate initiative. The company recently formalized board-level oversight by establishing an ESG committee, which includes the CEO and two independent directors. In addition, the company will be introducing a new coal-free strategy for both the investment and underwriting side of its business. This initiative will help the company transition from coal-related investments and underwriting to renewable energy assets. Overall, the investment team was pleased with the company's recognition of the importance of ESG, and the team will continue to monitor the company's progress through continued engagement.



[13] This figure includes instances where our investment teams engaged with the same issuer multiple times.

Diversity & inclusion

We believe companies benefit from strong diversity and inclusion policies because they promote a culture that fosters innovation, respects different perspectives, and can lead to lower turnover, higher employee morale, and the ability to attract and retain talent. Our investment teams assess and monitor the diversity and inclusion efforts of our investee companies and engage on this topic.

- **The RBC U.S. Growth Equity team** engaged with a technology company on diversity and inclusion. The company has been making strides in this area for some time, including ensuring appropriate gender representation on the board, and incorporating social initiatives related to diversity and inclusion. Examples of these initiatives include plans to publish a diversity and inclusion report, mentorship, and sponsorship programs focusing on diversity and ensuring that these values are shared by other stakeholders and business partners. Overall, the team was pleased that the company is making progress on its initiatives related to diversity and inclusion. The team will continue to monitor and engage with the company.
- **The RBC European Equity team** engaged with a small-cap Italian game publisher and developer to discuss the importance of providing disclosures on ESG metrics. While the team recognized that the company has a strong culture, there was no public disclosure on the company's diversity and inclusion policies. Management admitted that while their board was diversified, their workforce was male-dominated. The investment team indicated that they knew of other companies with this same challenge in the industry and many have partnered with ***Women in Games***, a global non-profit for women in games and Esports, to help attract more women to the industry. The team will monitor the company's progress on this issue.

Social impact

Recently, we have seen an increased number of companies around the world working to make a positive social impact in the communities in which they operate. Our investment teams engage with companies to understand these initiatives and the potential benefits to the company.

- **The RBC Asian Equity team** met with an Indonesian financial company to discuss the company's program providing microfinance loans to women entrepreneurs in rural Indonesia. The company adapted other global microfinance models to Indonesian conditions and developed a model that ensures that financing can be provided within reasonable proximity to the rural villages and that any religious financial conditions are satisfied. The company also addresses underbanked and financially illiterate areas of Indonesia, with its loans helping alleviate poverty. The investment team was pleased with the company's growth and the social impact it is making, and will continue to monitor its progress.

Corporate culture

A strong corporate culture can have material implications for the resilience of a business. Companies with corporate cultures that allow employees to thrive will have improved employee morale and productivity, ultimately resulting in stronger financial performance.

- **The RBC Global Equity team** met with a U.S. human capital software company to discuss its corporate culture. In early 2020, the investment team completed a bespoke survey of ex-employees to garner information on the company's culture. One of the unexpected concerns that arose was the high level of bureaucracy within the organization. The team raised this issue with the company, who acknowledged the issue and indicated that it had launched several initiatives to improve employee empowerment. The investment team will be following the company's progress and assessing whether the company's new initiatives have had an impact on employees and the overall corporate culture at the organization.

Improving disclosure

Transparency on material ESG issues allows our investment teams to assess issuers' strategies, risks, and values. Proper disclosure by the issuers in which we are invested helps demonstrate that they are accountable in managing their material ESG risks and opportunities. Our investment teams frequently engage on the topic of ESG disclosure.

- **The RBC North American Equity team** engaged with a Canadian financial company to request enhanced disclosure on material ESG factors at the company. The investment team provided background on what it believes are material ESG factors for the company, such as diversity and inclusion, employee engagement, and climate considerations. The investment team provided feedback on the company's existing disclosure and ESG strategy, which required improvement. The company's management team was very engaged on these issues and asked many questions. The investment team was pleased with the conversation and expects an increased focus at the board and executive levels on material ESG factors, as well as enhanced disclosure on key ESG factors.

Executive compensation

In several markets, shareholders vote on compensation plans outlining the pay and awards granted to executives. The board of directors typically has a dedicated compensation committee that is responsible for recommending, reviewing, and approving the structures and targets of top executives' compensation plans. In general, we believe these plans should be structured to reward good, long-term, and sustainable performance. Our investment teams often speak with the board to discuss the details of the executive compensation plan, especially if we believe the plan may not be meeting best practices.

- **The RBC U.S. Value and Core Equity team** engaged with an American smart home technology provider on its equity compensation plan. The RBC GAM Proxy Voting Guidelines on equity compensation require that specific criteria are met (e.g., rolling features, excessive dilution, burn rate, etc.), and in this instance, the company's plan was initially flagged as not meeting RBC GAM's criteria. However, the investment team engaged with management and learned about the company's rationale for its plan structure. The company agreed to improve certain plan aspects, and the plan was supported with the understanding that the investment team will continue to engage with the company on the compensation plan moving forward.

Health & safety

Robust health and safety policies are important for employees, as well as the communities in which a business operates. Our investment teams monitor and review the health and safety policies and procedures of the companies in which we invest.

- **The PH&N Fixed Income team** engaged with a project-specific entity, where funding proceeds were used towards a hydroelectric generation facility jointly owned with a First Nations group in Ontario. One of the key concerns of the investment team was the dam structure and safety features. The team and company management discussed the differences between the company's dam structure and higher-risk dams found elsewhere in the world. The discussion also focused on greenhouse gas (GHG) emissions, which for dams, are front-loaded in the manufacturing of the dam itself. As a result, there was a lower environmental impact from upgrading existing renewable infrastructure versus building new assets. The investment team addressed its concerns and learned more about the unique project assets and encouraged the issuer to continue its reporting and community education on hydroelectric power generation.

Environmental issues

We believe companies must recognize their impact on the environment, and we are supportive of companies adopting policies and procedures seeking to minimize negative impacts. Our investment teams engage with investee companies to discuss environmental impacts and the actions companies are taking to address such impacts.

- **The BlueBay Investment Grade Fixed Income team** engaged with a number of UK water utility companies in light of media allegations of illegal discharges of untreated sewage into rivers. The team listened to the companies' responses to the allegations and used the opportunity to discuss broader ESG risks, including efforts to address water scarcity and leakages, climate change, and customer relations. The companies were able to provide evidence of policies and initiatives to manage water pollution risks, as well as performance data to show trends over time. Challenges of managing water quality were discussed, particularly against a backdrop of competing uses from agriculture, mining, roads, and heavy industry. Overall, the engagements were informative and constructive. The investment team encouraged all the companies to consider developing a coherent sustainable finance strategy that could include ESG-labelled bonds.

Collaborative initiatives

We participate in initiatives that we believe will increase transparency, protect investors, and foster fair and efficient capital markets. Highlights of our activities in 2021 are as follows:

30% Club
GROWTH THROUGH DIVERSITY

30% Club Canadian Investor Group

RBC GAM is a signatory to the 30% Club Canadian Investor Group. This is a coalition of Canada's largest institutional investors seeking to achieve a minimum of 30% women on the boards and in senior management roles of S&P/TSX Composite Index companies by 2022.

As discussed in our 2021 Semi-Annual Report, in pursuit of the intentions of the Canadian 30% Club Investor Group, we updated our Proxy Voting Guidelines to convey our continued commitment to increasing gender diversity on the boards of our investee companies. Our threshold requirement for the representation of women on boards of directors increased from 25% to 30% in all markets where our Guidelines apply.[14] Therefore, where a board did not have 30% women and lacked an adequate gender diversity policy, we may have voted against members of the Nominating or Corporate Governance committees. This resulted in numerous engagement opportunities with our investee companies on this topic. We look forward to continuing to contribute to the 30% Club Canadian Investor Group's efforts and reporting on our progress.

Canadian Coalition for
GOOD GOVERNANCE
THE VOICE OF THE SHAREHOLDER

Canadian Coalition for Good Governance (CCGG)

Representing the interests of institutional investors, CCGG promotes good governance practices at Canadian public companies. It also seeks to improve the regulatory environment to promote the efficiency and effectiveness of the Canadian capital markets, and align the interests of boards and management with those of their shareholders. RBC GAM is a founding member of CCGG. RBC GAM's Vice President and Head of CGRI is a member of CCGG's Public Policy Committee and a member of the CGRI team is on the Environmental & Social Committee. RBC GAM is a participant in CCGG's collective engagement program and provided input for six collective engagements in 2021. In total, CCGG completed 31 collective engagements over the past year.

Climate
Action 100+

Climate Action 100+

RBC GAM is a signatory to Climate Action 100+. This investor collaboration focuses on active engagement with the world's largest publicly traded and systemically important carbon emitters, or companies with a significant opportunity to drive the transition to a low-carbon economy. RBC GAM and BlueBay are active members and have collaboratively engaged with several companies through Climate Action 100+. In 2021, these engagements included several meetings with senior management and/or the CEO to discuss progress in advancing strategies and targets to reduce GHG emissions and provide climate-related disclosures.

For example, as an active participant of Climate Action 100+, the North American Equity and CGRI teams engaged multiple times with an energy infrastructure company over the past year:

- In early 2021, discussion focused on requesting additional disclosure, such as interim targets for the company's long-term commitment to be net-zero by 2050 and carbon intensity reduction targets by 2035, amongst other climate-related strategy disclosures.
- By mid-year, a letter was submitted and a meeting scheduled with the CEO of the company. At the engagement, discussion included a request for enhanced disclosure regarding the company's strategy to transition to a low-carbon economy and their carbon intensity reduction targets.
- By the end of the year, progress had been made in that the company developed interim carbon intensity reduction targets for their 2035 commitment. The latest engagement discussion focused on requesting that the company increase disclosure on its climate-related public policies. The discussion with the company on its climate-related strategies and disclosures remains an ongoing effort.

[14] The Guidelines are applied in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, RBC GAM utilizes the local proxy voting guidelines of Institutional Shareholder Services. For more information, please see the RBC GAM Proxy Voting Guidelines at rbcgam.com/cgri

Climate Engagement Canada

RBC GAM is a founding participant of Climate Engagement Canada (CEC), which launched in October 2021. This investor-led initiative will focus on engaging collaboratively with the boards and senior leaders of Canadian companies to advance Canada's transition to a net-zero economy. We look forward to participating in CEC collaborative initiatives.

The Investment Association

BlueBay is a member of the Investment Association (IA), the trade body and industry voice for UK investment managers. Due to its engagement activities, BlueBay was invited to participate in a newly formed Fixed Income Stewardship Working Group (Working Group). The purpose of the Working Group is to inform and direct the IA's work on improving stewardship in fixed income assets by developing guidance on how stewardship in fixed income can be improved, encouraging industry to set expectations of bond issuers and hold them accountable, and helping overcome barriers to engagement with issuers. Members share insights, experiences, and best practices, with the outputs of these discussions being used as guidance for IA's forthcoming publication on this topic. We view this as an important initiative to drive forward thinking and practice on stewardship in fixed income investing.

UN Principles for Responsible Investment Initiatives (UN PRI)

BlueBay has continued to be active across a range of PRI-led initiatives to drive best practices within the fixed income asset class, as well as ensuring responsible practices when it comes to trading in soft commodities to mitigate deforestation risks. Some examples from 2021 include:

- Participation in the Securitised Products Advisory Committee set up to explore ESG best practices by sharing our insights and practices and providing input into the state of the market report. The Committee will continue to be active, building on the recommendations in the report to advance ESG incorporation for this asset class.
- BlueBay's continued membership in advisory committees looking at advancing ESG practices in corporate credit and sovereign debt investing, where efforts to determine how ESG information providers can better address the ESG needs of fixed income investors and investment consultants can better work with the fixed income ESG community are ongoing.
- Working with the PRI and the European Leveraged Finance Association (ELFA) – a trade body for the European investment industry focused on the leveraged finance market – to promote greater company ESG disclosure by convening workshops to develop consensus about the usefulness of sectoral-level ESG disclosure in investment decision making. BlueBay moderated sessions and provided input used in the development of subsequent sectoral ESG briefings summarizing the events.
- Addressing commodity-driven deforestation by joining a newly launched initiative, the Sustainable Commodities Practitioners' Group. This will be a forum for building investors' awareness and sharing current practices in responding to deforestation linked to the soft commodities value chain. BlueBay has contributed to calls held over the year and will continue to be involved into 2022.
- BlueBay co-chairs and RBC GAM is a member of the Investors Policy Dialogue on Deforestation (IPDD), which is supported by the UNPRI and is an international collaborative investor initiative focused on engaging with governments like Brazil and Indonesia on halting deforestation. The IPDD continues to secure support from investors, serving as further recognition of the importance of its activities, with membership standing at 57 investors (including RBC GAM and BlueBay) across 18 countries representing more than US$7.2 trillion in AUM as of December 2021.

Responsible Investment Association (RIA)
RBC GAM is a sustaining member of the RIA, Canada's industry association for responsible investment, and our Vice President and Head of CGRI is the Vice-Chair of the RIA's Board of Directors. As an active member, we support many of RIA's initiatives. In 2020, RBC GAM became a signatory to the Canadian Investor Statement on Diversity & Inclusion (read the full statement). This past year, RBC GAM also became a founding signatory to the 2021 Canadian Investor Statement on Climate Change (read the full statement). This latter statement demonstrates the collective ambition and action from Canadian investors in recognizing the need to accelerate the transition towards a net-zero economy within the unique context of Canada.

Regulatory initiatives

In 2021, we also provided comments on a variety of regulatory initiatives, both directly and through our affiliations. Due to the increasing volume of regulatory initiatives, we primarily commented through our affiliations in 2021, including CCGG, UN PRI, International Corporate Governance Network (ICGN), and Portfolio Management Association of Canada (PMAC), among others. We believe that collaboration with like-minded investors can give us greater influence on issues that are material to our investments, and often serves as a more efficient avenue for engagement on regulatory initiatives and policy matters. When commenting through an affiliation, our involvement varies by initiative, depending on the materiality to our investments and our level of involvement in the affiliation. For example:

- Through ICGN, we provided input on two comment letters. The first was directed to the U.S. Securities and Exchange Commission (SEC), requesting they enhance climate-related financial disclosures. We also submitted comments to the UK Department for Business, Energy, and Industrial Strategy consultation, which aims to restore trust in audit and corporate governance.
- Through PMAC, we provided comments to the CFA Institute on their consultation regarding the development of a voluntary diversity, equity, and inclusion (DEI) code.
- Through CCGG, we provided comments on numerous regulatory submissions to Canadian and U.S. regulators. In 2021, CCGG filed ten comment letters with regulators that we reviewed and, where appropriate, provided input.

In addition to our collaborative engagements on regulatory initiatives, we also provided direct comments and met with the regulator on the Canadian Securities Administrators' proposed guidance on ESG-related investment fund disclosures.

2021 CGRI Annual Report

Investment Team Insights

2021 saw no shortage of substantial developments related to ESG and responsible investment. Our CGRI and investment teams are consistently monitoring ongoing trends and developments related to ESG and responsible investment. Below are some of our investment teams' major ESG-related takeaways from 2021.

ESG-labelled debt

PH&N Fixed Income team

The ESG-labelled bond universe continued to grow rapidly through the course of 2021. The size of the global green bond market now sits at above US$3 trillion and Canada was part of this story.[15] In 2021, the Canadian fixed income universe saw its first sustainability bond issued by Bell Canada, with other issuers in the financial sector coming to market shortly thereafter. The team also saw the inaugural sustainability-linked bond (SLB), which was issued by Telus, and a subsequent launch of an SLB from Enbridge Inc.

Green bonds continued to dominate ESG-labelled issuances, with more sectors looking to use this structure, including nuclear power generation entities. The market appeared to have clear demand for these bonds, with new issuance being well received and in some cases coming at meaningful "greeniums" (i.e., ESG-labelled debt coming at a premium compared to conventional debt from the same issuer). As more companies look to take advantage of this space, the team will need to remain vigilant in understanding the ultimate use of proceeds or progression on key performance indicators to assess the value of such issuance and how it contributes to each issuer's overall sustainability strategy.

RBC Global High Yield & RBC Investment Grade team

Throughout 2021, the team continued to monitor the rapidly-evolving ESG-labelled bond universe. Given the nascence of the industry, the team payed particularly close attention to any targets included in the bonds. While many bonds the team reviewed primarily included forward-looking targets, there is a noticeable trend in issuers back-dating the measuring point for targets in order to capture projects already implemented, which often makes achieving the targets more likely or predictable. For instance, a bond might incorporate their greenhouse gas emission reduction targets for 2025, but the project to which the target is linked may have been in operation since 2018 and be on track to easily meet the 2025 target. In such a case, the team might question the robustness of the target and if it is a demonstration of new, value-additive initiatives, or existing, business-as-usual projects.

RBC European Fixed Income team

One of the notable developments in the European investment grade credit markets this year was a material step up in ESG-labelled debt issuance. According to data from Bloomberg, it comprised 28% of total investment grade issuance in 2021, in contrast to less than 10% in 2020. This labelled debt included not only green bonds, but also SLBs, social bonds, and sustainability bonds.

The team has seen labelled debt issuance across a variety of sectors, from utilities – where green bonds have been very common – to retail, telecommunications, and automanufacturers, among others.

Although standardization is emerging due to ESG-labelled bond frameworks, terminology can still be inconsistent. For clarity, references to ESG-labelled bond structures are based on the below definitions.

ESG-labelled bonds: Bonds that incorporate ESG factors either through (A) the specific use of proceeds to fund projects or initiatives with some environmental or social benefit (e.g., green bonds, social bonds, sustainability bonds) or (B) through ESG-related targets for the issuer that impact the financing conditions of the bond (e.g. sustainability-linked bonds).

Green bonds: Bonds whose use of proceeds fund projects or initiatives with an environmental benefit. Examples might include a waste reduction project or the development of a new solar field.

Social bonds: Bonds whose use of proceeds fund projects or initiatives with a social benefit. Examples might include a project to reduce health-related issues in a particular community or to fund education opportunities in low-income neighbourhoods.

Sustainability bonds: Bonds whose use of proceeds fund projects or initiatives with an environmental and/or social benefit.

Sustainability-linked bonds: Bonds that incorporate an ESG-related target for the issuer. The issuer's ability to achieve their target impacts the financing conditions of the bond. For example, the coupon on a bond may decrease if the issuer is able to reduce its water usage by 30% over five years.

[15] Game on! ESG debt issuance passes $3 trillion with record speed. Bloomberg Intelligence. June 21, 2021.

Climate-related risks and opportunities

PH&N Canadian Equity team

Being based in British Columbia, the team has recently seen the physical impacts of climate change in dramatic fashion. A number of atmospheric rivers hit the province in quick succession this winter, leading to unprecedented infrastructure outages that had crippling effects on supply chains far beyond the directly impacted jurisdictions and stretching across North America. With a warming climate these types of events will happen with more frequency, and companies need to be proactive in thinking about how they would manage through such environmental and business disruptions.

RBC Asian Equity team

Despite ongoing travel restrictions prohibiting us from meeting management teams in person, the team continues to work with their investee companies across Asia Pacific to encourage them to enhance their ESG practices and disclosures. In particular, climate-related risks and opportunities have been top of mind. In 2021, the team worked on a thought leadership initiative that analyzed the net-zero target commitments made by major Asian economies late last year, and discussed Asia's crucial role in the global climate change issue and the long-term investment opportunities that come with it.

The team was also active in participating in investor forums on ESG and corporate governance issues specific to Asia and China. The team observed governments increasingly working to improve structural social issues. For instance, Japan – with its new prime minister – and Korea – with its upcoming presidential elections – are also looking to address more social issues. Asia continues to lead global economic growth, and the recent ESG momentum adds a positive dimension to the strong stock-picking opportunities the team sees in this region.

RBC Emerging Markets Sovereign Fixed Income team

Climate change was firmly in the spotlight in 2021, and the United Nations COP26 summit in Glasgow became the focal point for media attention. Although outcomes from COP26 may have fallen short of more optimistic expectations, the commitment and attention from the world's leaders clearly reinforced the message that managing climate risk will remain a major global issue for the foreseeable future. The RBC Emerging Markets Sovereign Fixed Income team noticed that the growing awareness of climate risk, particularly during the past year, has accelerated improvements in data, reporting, and more in-depth analysis of sovereign issuers. The ability to understand and apply these material risks in sovereign analysis continues to evolve, and by extension the team's process does as well. Better coverage, accuracy, and timeliness of indicators such as emissions, exposure, and policy action will allow the team to construct a more robust framework for assessing these risks and applying them in the EM sovereign strategies that the team manages for our clients and unitholders.

RBC Global Equity team

May 26th, 2021 resonates as a particularly impactful day. That was the day that a district court in the Netherlands agreed with climate activists that Royal Dutch Shell must reduce its carbon emissions by 45% from 2019 levels by 2030. This was an unprecedented ruling that was also prospective, rather than retrospective, like the team has seen with other corporate litigation. It may mark a moment when the usefulness of litigation to affect climate change was validated.

The same day, a majority of Exxon Mobil shareholders elected three of four directors nominated by activist shareholder Engine No. 1 to the company's board with the aim of accelerating Exxon's energy transition. This served as a particularly notable signal of both the materiality of climate change for investors and the power of stewardship.

Engagement plays an important role in the team's ESG integration approach. The team expects climate change to remain a focus of our engagements in 2022, with particular emphasis on differentiating between meaningful action and "greenwashing." For instance, the team will be looking closely at issuers' net-zero commitments in this regard and pushing for science-based targets. Further, the team will be looking closely at issuers' climate transition plans, including the quality of any carbon offset programs.

RBC North American Equity team

The team witnessed significant momentum building around addressing climate change and decarbonizing the global economy. It's been encouraging to discuss with companies in both large- and small-emitting industries how they will approach and tackle the challenge to reduce emissions in their businesses.

Aligning capital, incentives, and strategy to meet the evolving emissions reduction requirements over the coming decades is playing an increasing role both in the team's analysis and, by extension, in their discussions with companies.

Assessing the potential financial impacts and opportunities emerging from energy transition across many sectors is ongoing. The team expects 2022 will bring more policies and incentives to continue to encourage and push companies and individuals to take action.

ESG data

RBC Quantitative Investments team

The team runs investment portfolios driven by quantitative and systematic investment models. The team recognizes the importance of the risks associated with poor ESG characteristics. In 2021, the team embedded ESG data into their systematic models and investment processes to minimize their exposure to the segment of the market with the poorest ESG characteristics.

One important takeaway from the team's work is the resilience of their systematic models to this ESG data. The team's strategies exploit factor premia in broad diversified equity markets. Even after tilting away from companies with the poorest ESG characteristics, there remains sufficient opportunity for the team's strategies to maintain their expected performance.

A second takeaway from the team's work is that the implications of ESG risk mitigation vary across factor strategies. For example, the team's strategies that exploit the low-risk premium almost always have a significant positive tilt to the three ESG pillars.[16] In contrast, momentum and growth factors exhibit significant negative exposures to the ESG pillars up to half the time in the team's strategies. As a result, when considering ESG characteristics, the team's risk-mitigation has less impact on our low volatility portfolio of strategies than it does on our core strategies.

The team will be continuing to invest in their ESG research with a particular focus on the implications of exposures to the climate impact of and climate-transition exposure of individual firms.

RBC Alternative Investments team

The team's rigorous fundamental analysis process allows us to evaluate potential risk-reward scenarios, and material ESG factors may contribute to those scenarios. Although ESG factors have historically been embedded into issuer disclosures and investment presentations, in the last year the team has witnessed a noticeable uptick in the disclosure of ESG data. Similarly, management teams are placing greater emphasis on the ESG factors they deem material to their success in their communications.

In the team's strategies, ESG data from third-party vendors may be more limited. As a result, the increased disclosure of ESG data directly from issuers and issuers' greater willingness to discuss material ESG issues via engagement helps the team paint a more complete picture of the material risks and opportunities in a given investment.

[16] As measured by Environment, Social, and Governance Pillar scores from MSCI ESG Research LLC.

RBC U.S. Growth Equity team

2021 was breakout year for many of the small-cap companies in the team's portfolio as they made notable strides in their "E" & "S" journeys. Many of the companies issued their first sustainability reports and discussions of ESG on earnings calls has shifted from annual, at most, to quarterly in many cases. Finally, during the last earnings cycle, there were multiple occasions in which an existing CFO changed roles and became a Chief Sustainability Officer. That may be the most telling stat, given that the CFO is generally the second- or third-highest ranking corporate officer. In the team's view, it raises the question of how sustainability may become a key skill set for executives moving forward.

Small-cap and SMID companies have trailed larger companies regard to ESG adoption, often because they have fewer resources available to devote full-time employees to their ESG efforts. This is clearly changing. However, as sustainability reports outline overall objectives and goals, it remains to be determined if these small-cap companies will be able to consistently meet their multi-year ESG targets.

There were some challenges in the small-cap and SMID space, however. There was an increasing trend of IPOs and SPACs with questionable governance practices, including ownership structures and the resulting boards of directors. The team also saw many IPOs employing dual-class structures, which limit minority shareholder voting rights, and being classified as company-controlled, which does not require the same level of standards for internal controls and overall governance. As a result, although the team saw many positive developments in regard to ESG, challenges remain.

Governance & board gender diversity

RBC U.S. Value & Core Equity team

Early in the year the team completed a project to identify all owned companies whose boards had less than 30% women. From a proxy voting perspective, the custom RBC GAM Proxy Voting Guidelines require that at least 30% of board seats be held by women and the team has been increasing their required thresholds for several years. It can take a few years to enact change at the board level, so the team has found early engagement is important and we will continue to engage with select management teams on this topic.

The team has also found that companies in their investment universe – micro- to small-cap U.S. companies – are less likely to have adopted leading governance practices that might be more common at large-cap companies. As a result, the team pays close attention to circumstances and nuances involved in governance structures and practices. One area that interested the team this year was the value of a well-connected, experienced board member who can draw from lessons learned while working on other boards. There is a sharing of knowledge that can be quite beneficial, but the team needs to balance this with potential overboarding concerns where the director can't devote sufficient time to the board.

ESG impacts of technology

RBC European Equity team

A core research theme for the team continues to be the long-term impacts of technological disruption and in 2021 the team explored the environmental impacts of technology. Technology and digitization continue to solve for key societal and economic challenges, but at times, they can seem incompatible with the world's effort to decarbonize economies and reduce environmental impacts. For instance, in an increasingly digitized world, the energy usage of technology is staggering, whether it be from computing and storage needs or cryptocurrencies. Technology can often be resource-intensive in the short- to medium-term and this can lead to alarming projections through extrapolation based on current rates. However, this same technology can ultimately result in more efficient energy usage or reductions in energy consumption over the long term. Looking at the transporation sector, the world has innovated from steam locomotives burning coal, to internal combustion engines, to hybrid technology, and now electric vehicles. Ultimately, as the world transitions to a low-carbon and more sustainable economy, the team needs to consider multiple timeframes when thinking about the environmental impacts of technology.

RBC Emerging Markets Equity team

In 2021, the team conducted a deep dive into the ESG impacts of technology. New technologies present companies, investors, and economies with both ESG opportunities and challenges. For instance, technological innovations have improved access to services, created greater food security, and improved worker health and safety. That said, these same innovations can simultaneously create more waste, use more energy, and create labour dislocations. As a result, there is an incredible amount of nuance involved. What is clear, however, is that the relationship is complex: on the one hand, technology is a vital enabler of positive social, economic, and environmental change, while on the other it poses material ESG threats. However legitimate the concerns may be, technology is here to stay. Assessing materiality by company, country, and sub-sector is vitally important when evaluating the ESG risks and opportunities within the technology industry.

Regulatory changes

BlueBay Fixed Income teams

Without a doubt ESG-related regulation directed at the investment industry was a dominant theme –especially in Europe – over 2021. Such measures by policy makers and regulators are in direct response to the need to mitigate systematic risks arising from climate change, whilst also promoting capital flows towards more sustainable economic activities and ensuring transparency of practice from market participants to prevent mis-marketing ("green-washing"). Although there is a need to establish a level playing field and promote best practices, putting this into practice is proving challenging for investors and issuers alike given the diversity of approaches to incorporating ESG (which reflects the diversity of ESG priorities and requirements among investors), the range of different asset classes, and the issues of lack of data and tools.

Given these challenges, the team has seen delays to the establishment of frameworks and implementation schedules for some of these regulations. But the overall direction of travel is clear – financial markets play a critical role in the sustainability transition, and investors will need to show how they are conducting this in a responsible and enabling manner. There are clear opportunities for those who can demonstrate a robust approach to integrating ESG into their investment practices and product solutions. Over 2021, the team has has continued to deepen its ESG investment efforts and develop more ESG-orientated strategies as our investor base continues to demonstrate interest in such offerings.

RBC U.S. Fixed Income team

The team was encouraged by the increased scrutiny they saw across the industry regarding the "ESG," "impact," and "green" labelling of investment options. Investors are increasingly interested in pursuing these strategies, but the lack of consistent terminology and transparency can make allocation decisions difficult and time consuming. The team welcomes the additional guidance and regulation, as it will encourage managers to be diligent with their frameworks and help investors more easily determine which investments align with their desired goals.

Real estate developments

RBC Private Market and Real Estate Equity Investments team

In 2021, the focus on ESG has intensified from all angles in Canadian real estate. From the occupier side, the team saw large global players seek to lease space in the most efficient and well-located green buildings. On the administrative side, governments have made significant financial pledges to green and social infrastructure. Under the Paris agreement, Canada has committed to reducing its GHG emissions by 30% below 2005 levels by 2030. From the supply side, the team sees impressive advances in smart building technologies.

RBC Global Asset Management

For more information on RBC GAM's approach to corporate governance and responsible investment, visit **rbcgam.com/cgri**.

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