# CONVERSATION GUIDE ON RESPONSIBLE INVESTMENT

For investment specialists only

BY NATIONAL BANK INVESTMENTS

# IN THIS GUIDE, YOU'LL FIND

- Ways to spark your clients' interest in responsible investing
- Simple ways to explain to your clients how responsible investing can meet their needs and objectives
- Data and case studies to fuel discussion

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# WHY TALK ABOUT RESPONSIBLE INVESTING?

Even though responsible investing has been around for many years, it's in your best interest to talk more about it. In fact, according to a 2023 survey conducted by the Responsible Investment Association (RIA), 70% of people with investments have little to no knowledge of responsible investing. Many people want to know where their money is being invested and how their investments can make a difference, but they don't bring it up.

Discussing responsible investing is a great way to connect with the values of clients who are interested in these issues. It's also an opportunity to distinguish yourself in your practice by showing that you are sensitive to environmental, social and governance (ESG) issues.

If you offer, or want to offer, responsible investment solutions, this guide aims to lead you through four simple steps in your conversations with clients. Before you start the discussion, make sure you are familiar with the ESG characteristics of the products you offer.

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# STEPS TO APPROACHING RESPONSIBLE INVESTING

# 1

## Gauge the client's interest and goals

First, determine if your client is interested in responsible investing. By addressing the subject as part of the KYC questionnaire, you'll be able to more easily identify the approaches that may be suitable for them, while having the opportunity to answer their questions.

### Speak simply

The concept of responsible investment and the term "ESG" are not meaningful to everyone. According to a study by Morningstar, people tend to talk about specific themes related to them, such as renewable energy, ethical governance practices or gender parity. That's why it's important to stay away from specialized jargon when talking to clients and to be sensitive to the issues that concern them.

**Here are some questions you can ask:**

*"If you could contribute to improving society and the environment while also achieving your financial objectives, would you be interested?"*

**If the answer is yes, continue with the following questions to better determine their preferences:**

*"Have you heard about responsible investment?"*

*"What does responsible investment mean to you?"*

*"Do you have opinions about certain companies and their activities?"*

**If the client has objections or preconceived ideas, refer to the myths and realities section.**

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# Explain the different approaches to responsible investing

Work with your client to explore the different approaches and their goals and limitations to determine which ones are best suited to their needs.

| | Definition | Objectives | Limits |
|---|---|---|---|
| **ESG integration** | Takes account of environmental, social and governance (ESG) criteria in investment analyses and decisions. | Primarily aimed at optimizing risk-adjusted returns. | Does not necessarily contribute to resolving ESG issues, but allows for better risk control and investment opportunities. |
| **Exclusions/ negative screening** | Excludes issuers, sectors or countries based on ESG criteria, norms or standards. | Allows you to avoid investments that don't correspond to certain preferences or convictions. | Limits portfolio diversification by excluding companies or sectors, and prevents us from exercising our power of influence as a shareholder. |
| **Engagement** | Uses shareholder or bondholder rights and influence to promote sustainable practices and create long-term value. Engagement can be carried out through voting rights, shareholder proposals and dialogue. | Aims to create long-term value by encouraging companies to prioritize ESG criteria. According to one study, about 60% of environmental or social shareholder engagement activities lead to actions taken by companies. | Requires a lot of resources. It can take time for companies to implement the requested changes. |
| **Best-in-class/ positive screening** | Invests in issuers, sectors or countries that demonstrate better ESG performance compared to their peers, a benchmark index or a predefined level. | Allows you to allocate capital to companies that have the best sustainable practices and raise the standards for others in the same industry. | Favours companies that already have good practices, rather than investing in those that have the potential to improve. |
| **Thematic investing** | Targets issuers likely to benefit from trends linked to sustainable development. | Targets underlying trends with high growth potential. | Represents limited investment opportunities. Should only be a small part of a portfolio. |
| **Impact investing** | Invests with the intention of achieving a measurable positive environmental and/or social impact while seeking an attractive financial return. | Allows you to make a concrete contribution to solving sustainability issues. | Represents limited investment opportunities. Should only be a small part of a portfolio. |

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## Enrich the conversation with information about responsible investing

Educate clients about the potential of responsible investing. They may use different terms to express their needs. Make sure you're familiar with the terminology, while keeping in mind that there is no consensus on its use in the industry.

**Responsible investing**

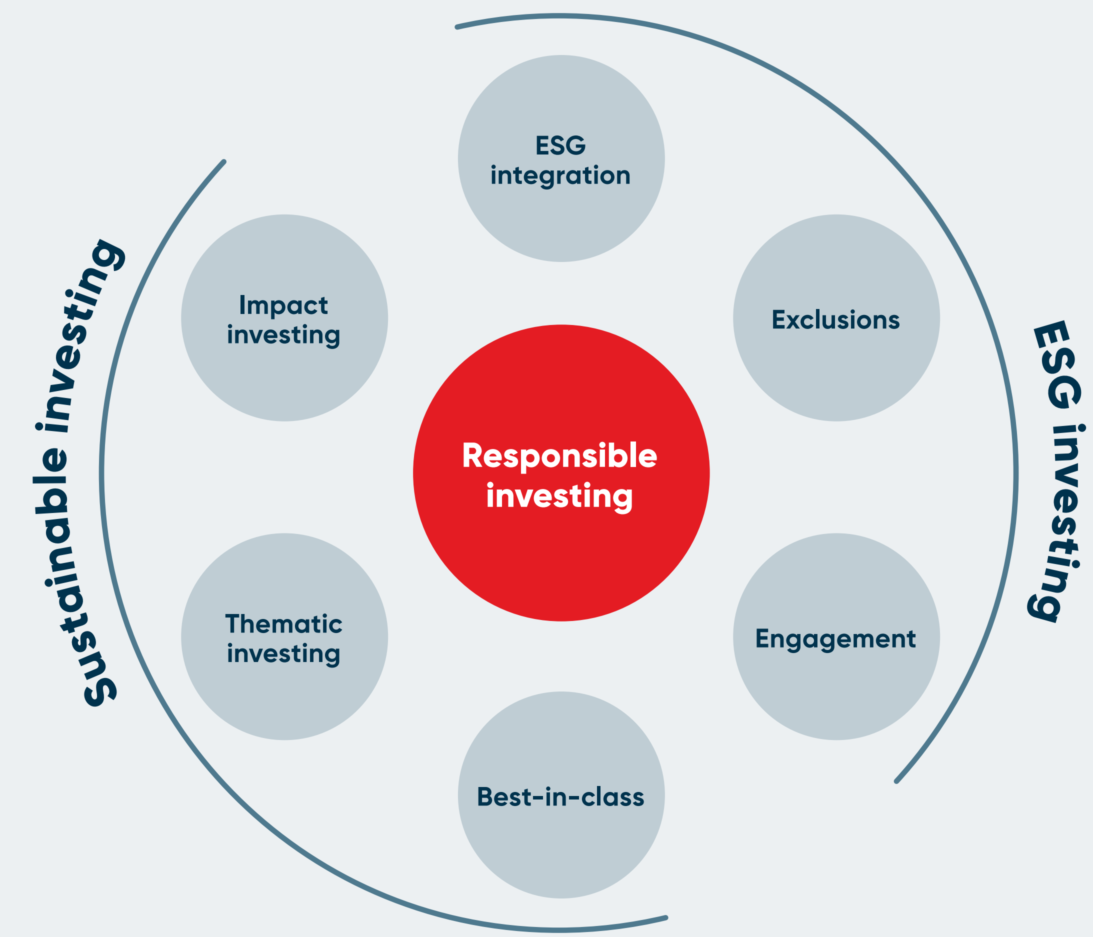
Responsible investing is an umbrella term that refers to multiple investment approaches: those that respect ESG criteria and those that contribute to solving sustainable development issues.

→ **Sustainable investing**

These are investments that contribute to sustainable development, meeting the needs of the present without compromising the ability of future generations to meet their own needs. This concept brings together approaches to concretely solve ESG issues, i.e., thematic and impact investments.

→ **ESG investing**

These are investments that rely on ESG criteria as material risk or performance factors (which have the potential to affect a company's financial position). This concept does not necessarily imply a positive intention or goal. It can include approaches such as ESG integration, exclusion screens, and shareholder engagement.



**Demonstrate how a greener, fairer and more inclusive economy can also translate into business opportunities.**

### → The energy transition

It consists of gradually abandoning fossil fuels in favour of renewable energy. This transition is necessary to achieve the goals of the Paris Agreement to limit global warming.

According to some scenarios, by 2035, one in two new cars could be electric, representing a $6 trillion market in the U.S. If we look at the entire automotive ecosystem, many sectors are benefiting from the energy transition. For example, manufacturers of microchips, batteries and charging stations benefit from this growing market.

### → The circular economy

This business model aims to decouple economic growth from the exploitation of natural resources in order to reduce its impact on the environment. It's based on two main mechanisms:

1. Rethinking our production and consumption patterns to use fewer resources and protect the ecosystems that generate them.
2. Optimizing the use of the resources already circulating in our societies.

Every year, more natural resources are consumed worldwide than our planet can produce, the equivalent of more than 11 tons per person. Between 6 and 20 million jobs could be created through the transition to a circular economy.

### → Reducing inequalities

Some social groups or individuals receive treatment that gives them an advantage or disadvantage compared to others. This phenomenon generates a vicious cycle, where disadvantaged individuals have a harder time accessing certain services, such as education, health or financing, which exacerbates inequalities. Rising income inequality causes economic volatility and political polarization, both of which influence investment performance.

Investing in health, education, social protection and decent jobs, especially for youth, migrants, refugees and other vulnerable communities, reduces inequality.

**Smart agriculture**

Smart agriculture relies on advanced technologies and data-driven operations to optimize the sustainability of agricultural production.

Given population growth, agricultural production will need to increase by 60% by 2050 to feed the population. How can we do more with less? For example, some companies offer precision machinery, which helps maximize the use of agricultural land.

**Sound governance**

Sustainable business practices are about ensuring that we conduct business in a compliant and ethical manner, considering economic, social and environmental impacts, while respecting individual human rights.

Adopting sustainable practices reduces the risk of exposing yourself to controversy or scandal. In 2016, following the scandal regarding the sale of personal information to Cambridge Analytica, Facebook/Meta's stock fell by 24%.

Consult concrete examples of companies in NBI Sustainable Funds.

## How do you respond to client objections?

Take the time to debunk some myths and provide explanations for any questions that may be raised.
Here are some:

| | Myth | Realities |
|---|---|---|
| **Fees** | Responsible investing is more expensive than traditional investing. | According to a study by Morningstar, the fees associated with responsible investment funds are generally equal to, or sometimes lower than, those of traditional funds. |
| **Returns** | Responsible investing means leaving money on the table. | Several studies show that responsible investing not only offers returns comparable to those of other strategies, but it also reduces downside risk and adds more value over the long term. |
| **Exclusions** | Responsible investment is only about excluding sectors or companies that are harmful to the environment and society. | While some responsible funds have exclusions, many others rely on voting rights and the influence of shareholder status to encourage better practices. The different approaches to responsible investing can be used alone or in combination. |
| **Trend** | This is just a passing fad. | Responsible investing is an underlying trend that addresses the major challenges of our era, such as climate change, the energy transition, diversity and inclusion, data protection or corporate social responsibility. It is supported by regulators, financial institutions, international organizations and other stakeholders. |
| **All or nothing** | To truly make an impact, all of my investment products need to be responsible. | The power of responsible investing lies in capital accumulation. If one person feels like they are not making a difference, their investment, combined with that of 1,000 others, sends a signal to the market and confirms the importance of this type of investment. |

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# Offer responsible investment solutions

Based on the client's feedback, you can determine which investment approaches are best for them. Now that you know more about their interests and preferences, ask them the following question to better understand what investment solutions to recommend:

Visit our website to learn about the range of sustainable investment solutions.

**"Which of the following choices best suit your goals?"**

- Optimizing the risk-adjusted return of my investments
  - → **ESG integration**
- Align my investments with my convictions, while optimizing risk-adjusted returns
  - → **ESG integration**
  - → **Exclusions**
  - → **Shareholder engagement**
- Benefit from business opportunities generated by the transition to a greener, fairer and more inclusive economy
  - → **Best in class**
  - → **Thematic investing**
  - → **Impact**

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## Resources

- Responsible Investment Association
- UN PRI
- Canadian Investment Funds Standards Committee (CIFSC)
- NBI Sustainable Solutions
- NBI sales team

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