CIBC CAPITAL MARKETS

EQUITY RESEARCH

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Sectors:
ESG, Portfolio Strategy

Highlights From 5th Annual CIBC ESG Investor Survey

Integration And Engagement Remain The Most Popular ESG Investing Strategy Amongst Canadian Asset Managers

Our Conclusion

ESG remains ingrained within Canadian institutional investment portfolios, with 83% of respondents of CIBC's 5th Annual ESG Investor Survey stating they have some form of an ESG investment strategy. We note this is down slightly from last year, when 93% responded having an ESG strategy.

Integration and Engagement remain the most popular strategies. The prevalence of negative (exclusionary) screening declined again this year with 35% of respondents stating its use as part of an ESG strategy, compared to 42% last year and 47% the year prior.

Key Points

We highlight three additional key points from this year's survey. First, ESG scores are used sparingly by Canadian investors with 80% of respondents stating they either do not use ESG scores or use ESG scores in a limited fashion. Almost one in three stated they do not use ESG scores at all, and no one stated having an ESG strategy built solely off an ESG score.

Second, we are witnessing a more 'balanced' allocation of time/resources spent on material Environmental, Social and Governance issues. Last year, about half of investors' time was spent on 'E'. This year, 'E' and 'G' each took up just under 40% of respondent's time, with 23% spent on the 'S'.

With many asset managers now having dedicated ESG personnel, the split across E,S, and G likely converges further over the next 12-24 months. This will be aided by mandatory disclosure of non-climate-related metrics from the International Sustainability Standards Board (ISSB). On Social, we highlight indigenous rights and general Diversity, Equity and Inclusion (DEI) across ethnicity and gender as seeing increased focus in Canada this year.

Third, regulation and standard setting remain integral pieces in driving further ESG integration across investment portfolios. For topics where financial materiality is difficult to uniformly measure (e.g., nature-related issues like biodiversity or social issues such as indigenous rights), the path to adoption becomes much clearer once global standards are established. Regulation (based on these standards), in turn, helps minimize greenwashing which we identify as a key risk that could limit/reverse ESG's progress to date.

Finally, we'd like to thank our fellow CIBC Capital Markets colleagues in assisting with this year's survey. A special thank you also to Vincent Zheng and Tom Bognar (FICC) for their insights in the creation of this report.

All figures in Canadian dollars unless otherwise stated.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 22.

CIBC 2024 ESG Investor Survey – Key Takeaways

This report highlights the findings from our 5th Annual ESG Investor Survey, which garnered over 70 responses from leading Canadian fixed income and equity investors (split evenly). In summary, we characterize ESG principles as ingrained within the Canadian institutional investing landscape. According to our respondents, 80% of investment mandates have some form of ESG overlay, with Integration and Engagement the most commonly cited ESG investment strategies.

Below, we provide our three most notable findings. Results across all 20 surveyed questions are included herein as well (pages 4-21).

1. **ESG ratings/scores are not widely used in assessing overall ESG performance**

In this year's survey, 80% of respondents stated they either do not use ESG scores or use ESG scores in a limited fashion (i.e., not a top-3 indicator) when assessing ESG performance (see Question 2). Almost one in three stated they do not use ESG scores at all. This is an increase relative to last year's survey, when 70% of respondents stated they do not use ESG scores broadly.

We believe ESG "scores" will continue to be used less and less as organizations have had a few years to staff personnel after ESG went mainstream in 2020. According to our survey, most ESG research is now done in-house, with management/issuer disclosure the second most commonly cited source for ESG insights (Question 3).

Data providers will still be widely used, but less as "proprietary indicators" and more aligned to key/global accounting frameworks such as IFRS's International Sustainability Standards Board (ISSB), the E.U.'s Corporate Sustainability Reporting Directive (CSDR), Canada's' Sustainability Standards Board (CSSB), and select U.S. state regulations (e.g., California).

2. **Considerations of "ESG" are becoming more balanced across "E", "S" and "G"**

When asked how investors allocate time/resources across Environmental, Social and Governance issues, responses were evenly split between "E" and "G" (39% and 38%, respectively), with almost a quarter spent on Social considerations. This is a more even split relative to last year's survey, when Environmental issues took up half of respondents' ESG resources (Question 9).

We believe 2024 will see a further diversifying away from emissions being the "end all, be all" ESG indicator. Recommended nature-related financial disclosures were put forward by the Taskforce on Nature-related Financial Disclosures (TNFD) in September 2023. Based on findings from this year's survey, we estimate half of investors will have incorporated TNFD recommendations into their ESG decision-making frameworks over the next three years (Question 16).

On the Social side, human capital remains a key evolving theme, especially around labour relations (unions), diversity and inclusion, human rights, and indigenous rights. We anticipate these topics being more formalized this year through the International Sustainability Standards Board's set of non-climate-related mandatory disclosures.

Finally, the growth of AI (and concerns around ethical AI) provides new Governance challenges for C-Suite and board directors. Diversity and inclusion at the board level will likely also be top of mind in 2024, especially after ISS's recommendation to vote against S&P/TSX Board nominations that do not include any "apparent racially or ethnically diverse" members in the 2024 proxy season.

3. **Regulation/standards remain integral pieces in driving ESG forward**

We believe there are a number of ‘emerging’ ESG themes that are top of mind for ESG investors today, but which likely require additional policy/standards before they are formally adopted en masse within ESG-investing frameworks. We have already mentioned nature-related risks (TNFD) and human capital as themes, but we would also add carbon credits and transition finance to this list as well.

From the survey, investors’ stance on carbon credits was mixed. Investors are more agreeable to companies using carbon credits as part of their decarbonization strategies (about half agree, Question 5), but are very hesitant to invest in carbon credits themselves (about 90% would not invest in carbon credits, Question 6). In fact, investors are less likely to invest in carbon credits today relative to last year’s survey (proportion then was over 80%).

We believe this is ultimately a call on quality – investors likely feel more comfortable in companies having done the due diligence in ensuring what is truly a carbon credit if they account for them as part of a corporate net zero strategy. Investing in carbon credits specifically, however, is probably viewed as “higher risk” given a perceived lack of oversight from either regulators or securities exchanges in the voluntary carbon market. We also note liquidity concerns are likely barriers for investors tapping into the carbon credit market.

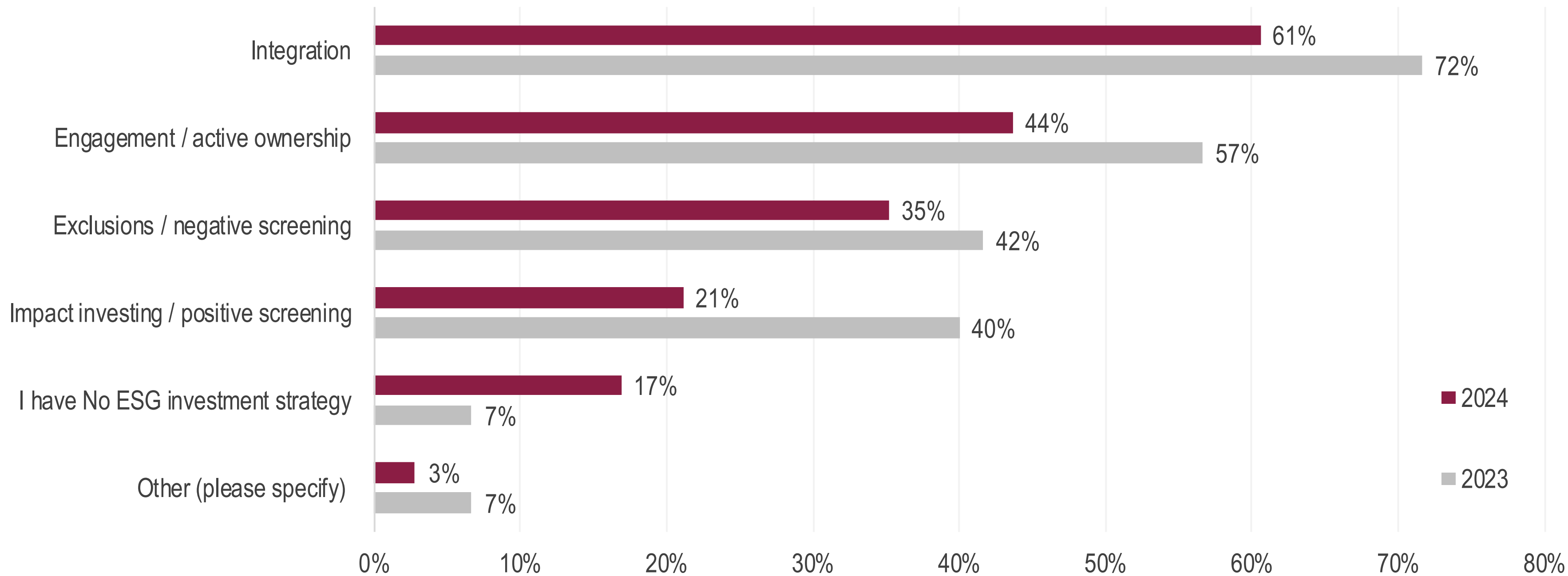
Within Sustainable Finance, we view transition finance as a key growth element, especially as COP28 moved away from investing in “green” to investing in “transition” – largely reflective of the challenge in moving away from fossil fuel energy at mass scale. According to our respondents, however, stronger growth is expected in traditional Green bonds and Sustainability-linked bonds next year (Question 13). Most likely, investors need to see better clarity from policy makers to ensure which activities are considered transition funding.

If done “right”, transition bonds could become the dominant sustainable finance product offering. Total bond/loan issuance across all ESG products (Green, Sustainability-linked, Sustainability, and Social) in 2023 was likely around US$1.3 trillion, compared to the estimated US$7 trillion to US$10 trillion required annually for the next 30 years in order to hit net zero by 2050.

2024 ESG Survey Results – Question 1

How would you define your ESG investment strategy? Please select all that apply.

Exhibit 1: ESG 2024 Survey Results – Frequency Of ESG Investment Strategies



Source: CIBC World Markets Inc.

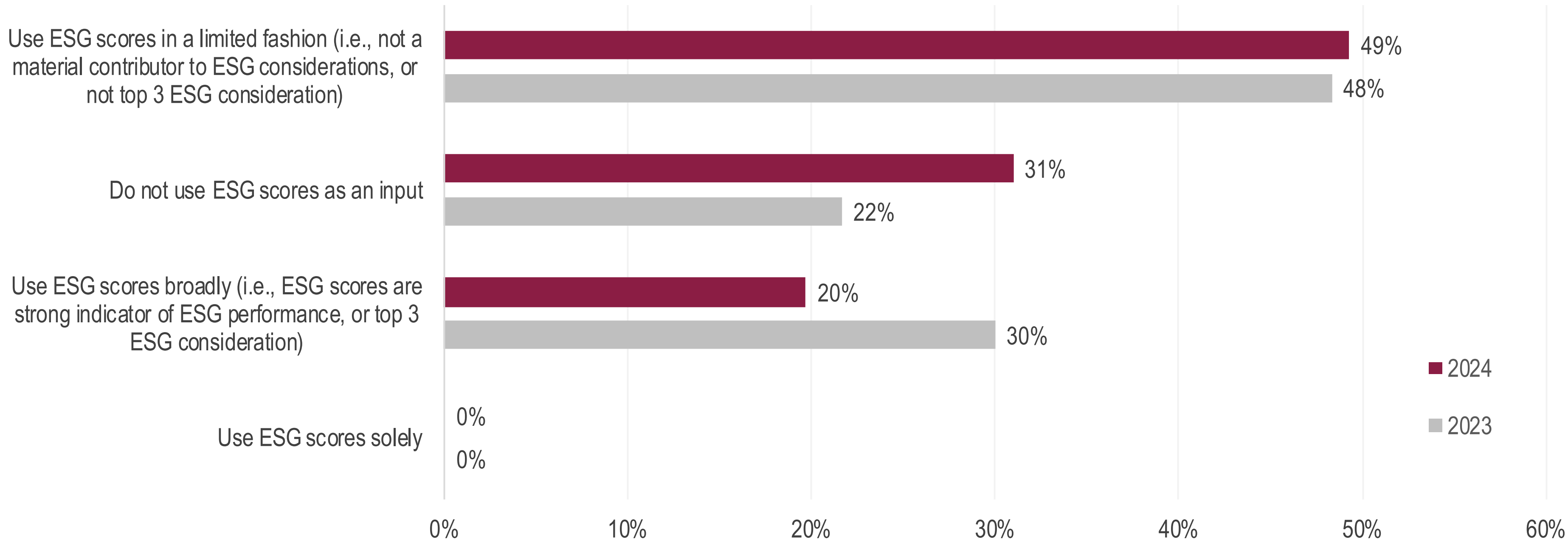
Key Takeaway

Integration remains the most commonly cited ESG investing strategy, followed by engagement/active ownership. Also, the frequency of screening (positive or negative) has fallen more on a year-over-year basis relative to other strategies. Finally, we note an uptick in responses stating they have no ESG investment strategy, but caveat this could be partly driven by sample size/variation (respondents change year over year) or changing interpretations of “ESG strategy” amidst heighted concerns of greenwashing with each passing year.

2024 ESG Survey Results – Question 2

How do you use third-party ESG scores/ratings (MSCI, Sustainalytics, etc.) as an input into your ESG decision-making process? Please select one only.

Exhibit 2: ESG 2024 Survey Results – Proportion Using ESG Scores To Varying Degrees



Source: CIBC World Markets Inc.

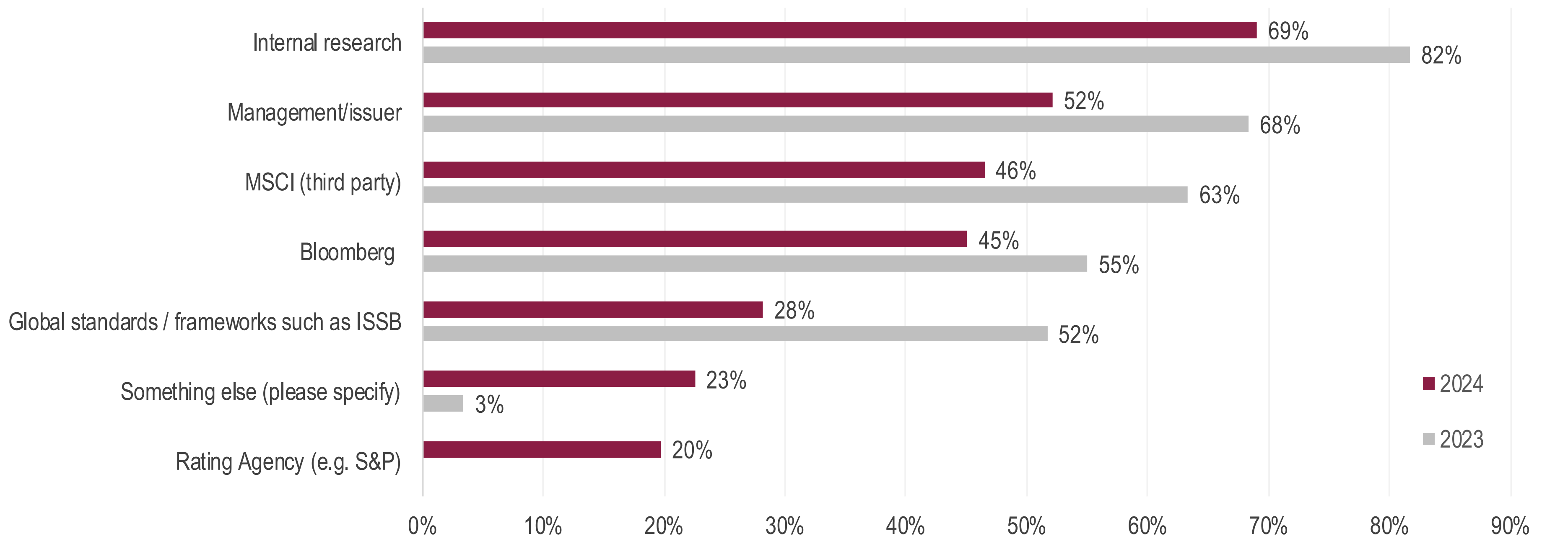
Key Takeaway

The broad use of ESG scores continues to decline. Only 30% of last year's respondents stated they used ESG scores meaningfully, compared to just 20% in this year's survey. Almost one in three stated that they do not even use ESG scores as an input into their ESG decision-making process.

2024 ESG Survey Results – Question 3

What are the primary sources that you use to identify material ESG issues and topics? Please select all that apply.

Exhibit 3: ESG 2024 Survey Results – Frequency Of Varying Sources Of Data To Identify Material ESG Issues And Topics



Source: CIBC World Markets Inc.

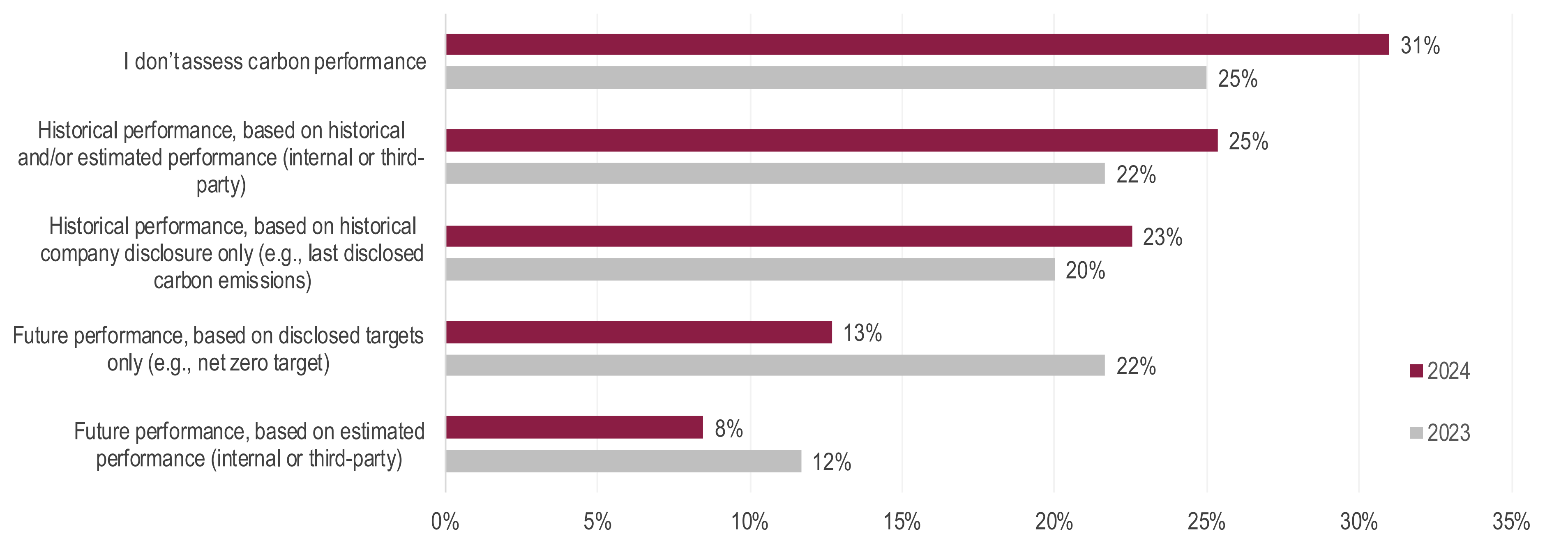
Key Takeaway

ESG investors use a myriad of data sources, most often through internal research, followed by management/issuer disclosure. Amongst the data providers, MSCI and Bloomberg are used by half of survey respondents. Over the next one to three years, we expect to see an increasing percentage of respondents highlighting standard setters such as the International Sustainability Standards Board (ISSB) or domestically the Canadian Sustainability Standards Board (CSSB) to identify material ESG issues.

2024 ESG Survey Results – Question 4

If you assess an issuer's carbon performance, what is the main source of information you use? Please select one only.

Exhibit 4: ESG 2024 Survey Results – Frequency Of How Carbon Performance Is Assessed



Source: CIBC World Markets Inc.

Key Takeaway

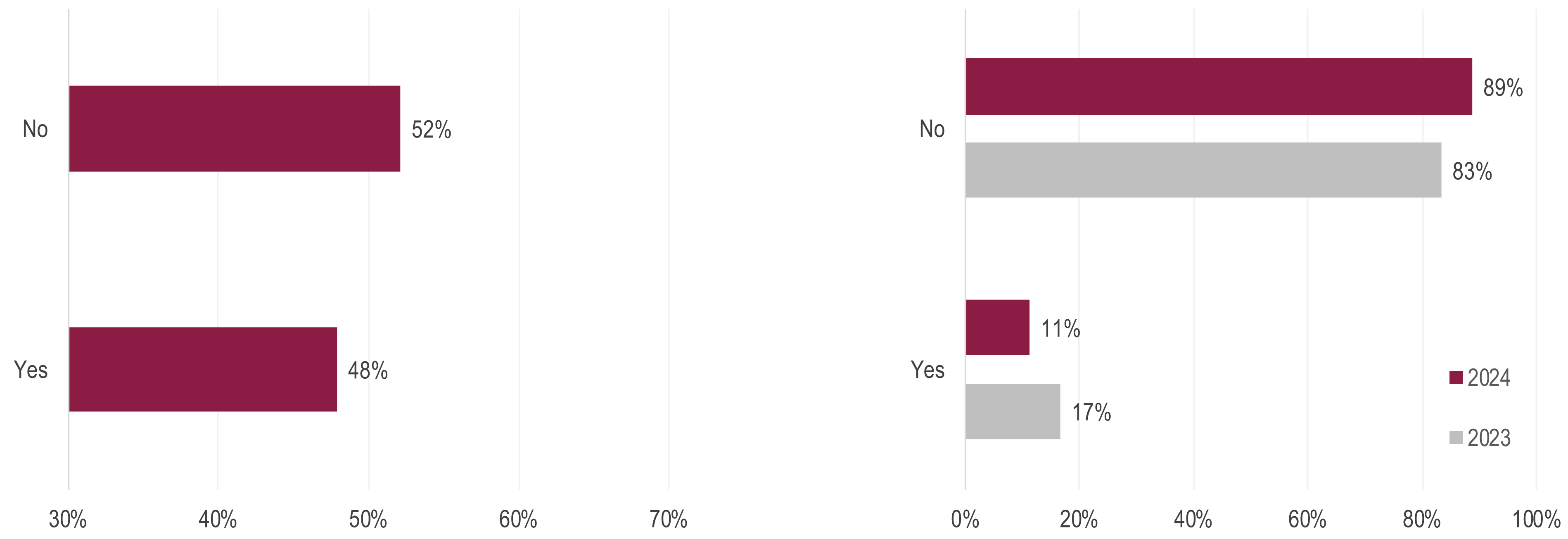
Carbon performance (i.e., emissions) tends to be the most widely scrutinized ESG metric, but how it is assessed is not done uniformly across investors. This year's survey suggests a greater focus from investors on historical carbon performance (as compared to future performance), but we note there remains a meaningful percentage of respondents that still do not even assess carbon performance.

2024 ESG Survey Results – Questions 5 And 6

As a potential investor, would you view a company's use of offsets as a suitable approach to achieve their net zero targets? (Left chart)

Do you plan to invest in Carbon Offsets? (Right chart)

Exhibit 5: ESG 2024 Survey Results – The Level Of Acceptance In Using/Investing In Carbon Offsets By Companies (Left) Or Investors (Right)



Source: CIBC World Markets Inc.

Key Takeaway

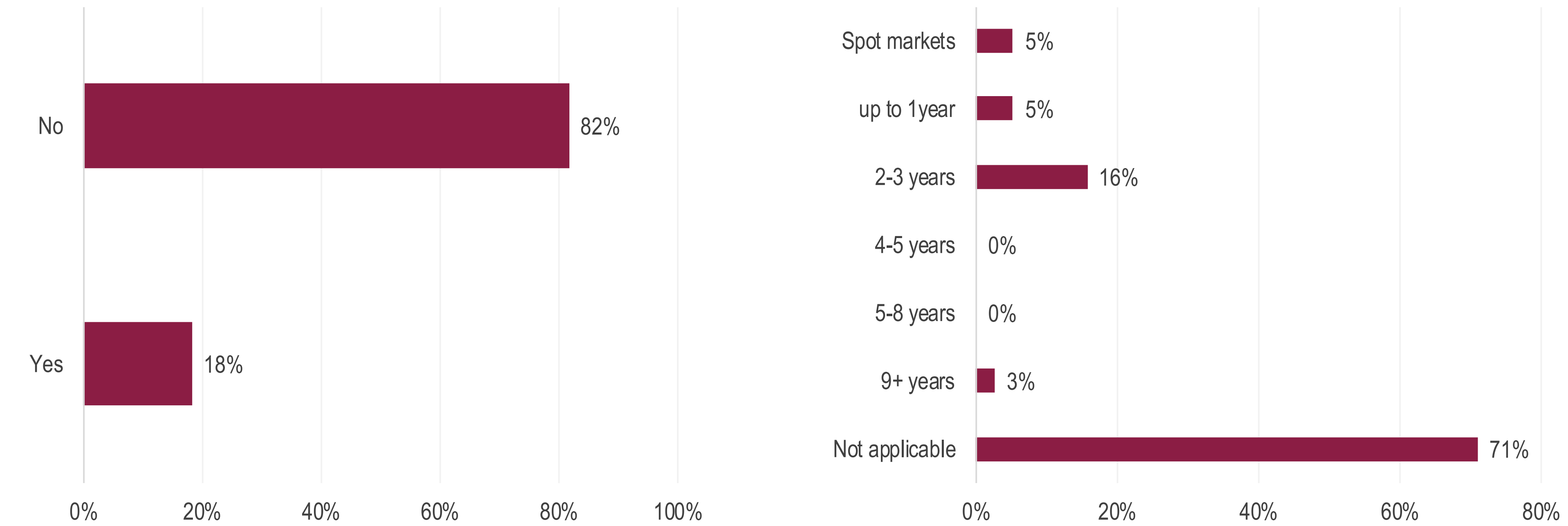
Almost half of surveyed investors view the use of carbon offsets as a suitable approach for companies in achieving net zero targets, but almost 90% stated they do not plan to invest in carbon credits (specifically). Reading the tea leaves, this likely translates to an acceptance that carbon offsets will play a role in corporate decarbonization strategies, but caveated to carbon credits that actually work. Outside of a few compliance credit markets (E.U. and California), the lack of appetite to invest in carbon credits likely reflects the reputational challenges within the voluntary carbon credit market.

2024 ESG Survey Results – Questions 7 And 8

Having invested in a portfolio of companies, would you consider using offsets as part of your own net zero commitment for those assets? (Left chart)

How many years in advance would you feel comfortable acquiring carbon offsets? (Right chart)

Exhibit 6: ESG 2024 Survey Results – The Level Of Acceptance In Using/Investing In Carbon Offsets By Investors By Vintage



Source: CIBC World Markets Inc.

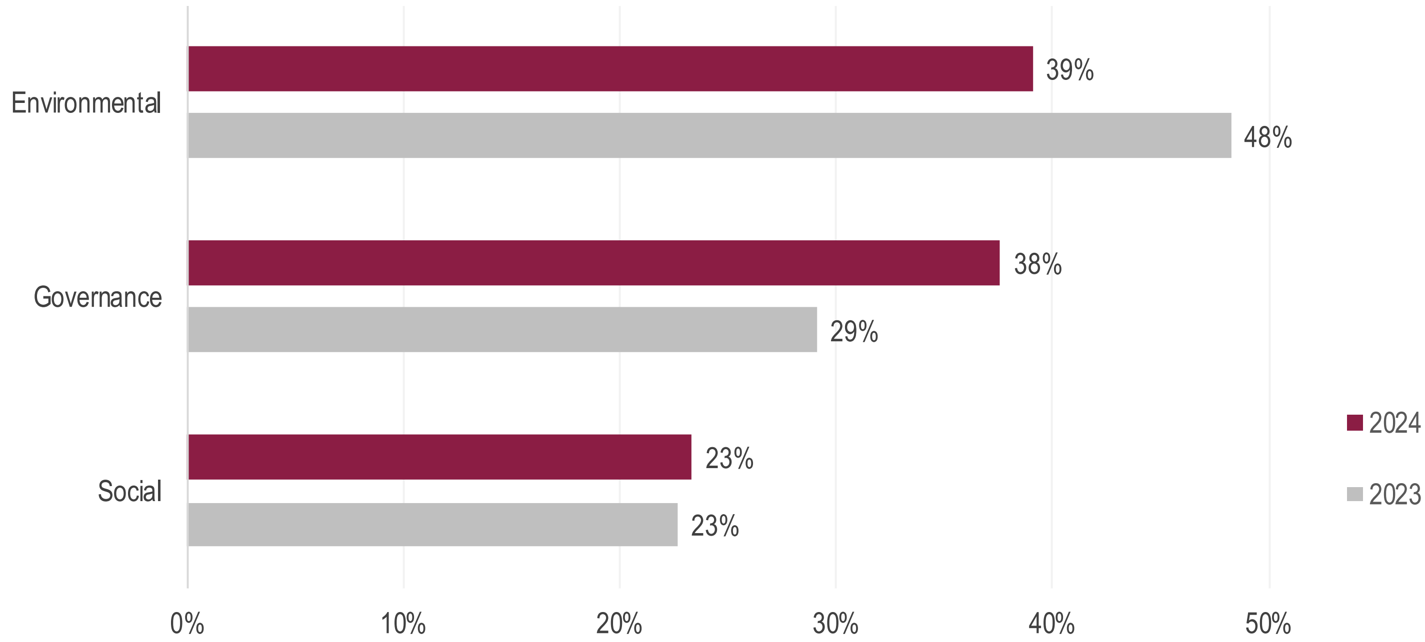
Key Takeaway

Similar to Question 6 previously, the majority of respondents are wary of using carbon credits to offset portfolio emissions. Until we see further maturity/regulation within the carbon credit market, investor appetite for carbon credits (generally) likely remains depressed over the next one to two years.

2024 ESG Survey Results – Question 9

What is the percentage breakdown of your firm's focus to each category of ESG heading into 2024?

Exhibit 7: ESG 2024 Survey Results – Proportion Of Resources/Time Spent On Environmental, Social And Governance Issues



Source: CIBC World Markets Inc.

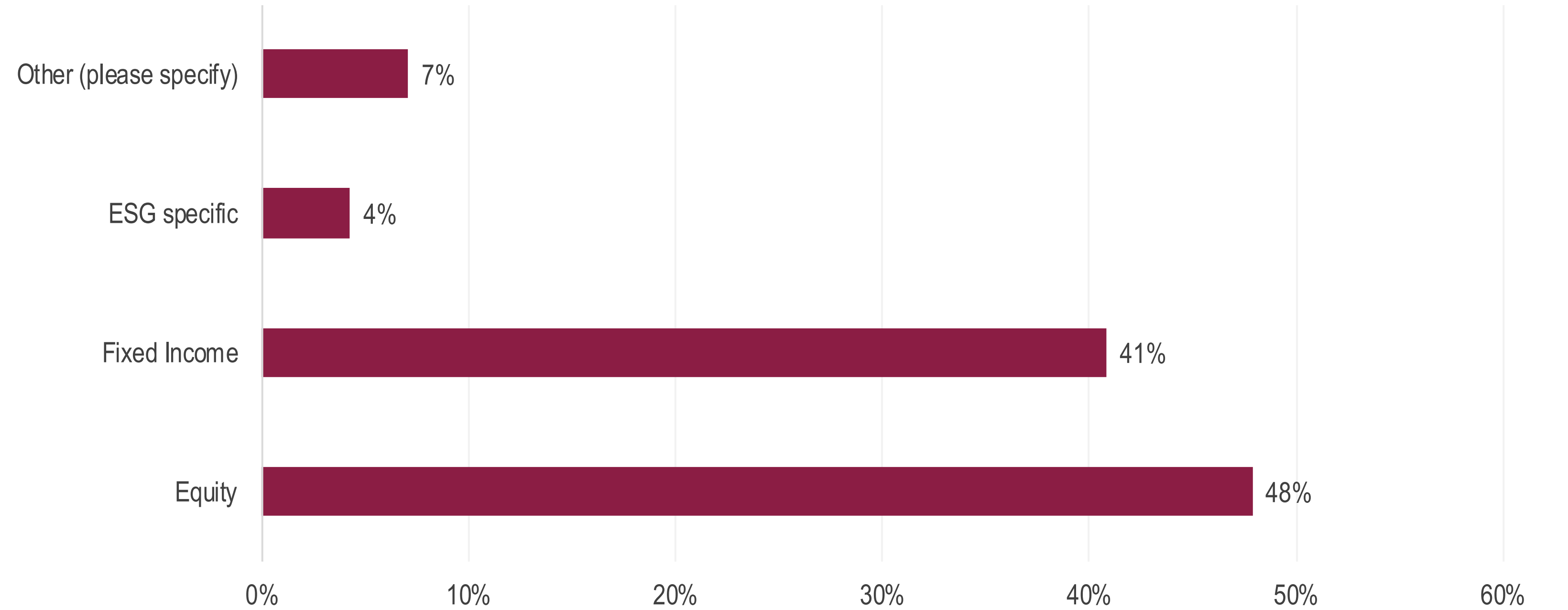
Key Takeaway

ESG investors focus as much time/resources on Governance issues as they do Environmental issues, which is in contrast to last year which saw "E" take up half of investors' resources. Generally, this year's results show a more balanced approach to ESG topics.

2024 ESG Survey Results – Question 10

In your consideration of ESG investment risks and opportunities, on which asset class are you primarily focused? Please select one only.

Exhibit 8: ESG 2024 Survey Results – Survey Respondent By Investor Classification



Source: CIBC World Markets Inc.

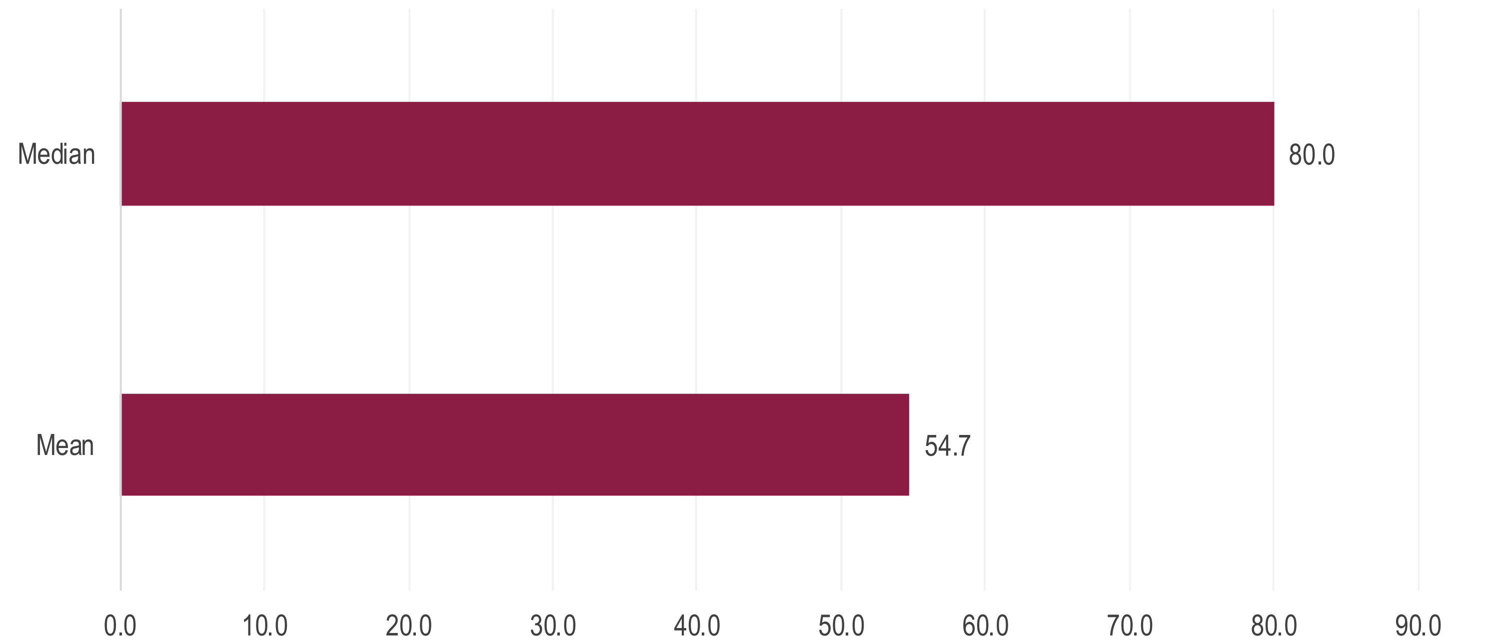
Key Takeaway

The make up of our survey is primarily weighted to Equity and Fixed-income investors.

2024 ESG Survey Results – Question 11

What percentage of your mandates have ESG as part of the investment process, i.e., have an ESG overlay or constraint?

Exhibit 9: ESG 2024 Survey Results – Proportion Of Investment Mandates With An ESG Overlay



Source: CIBC World Markets Inc.

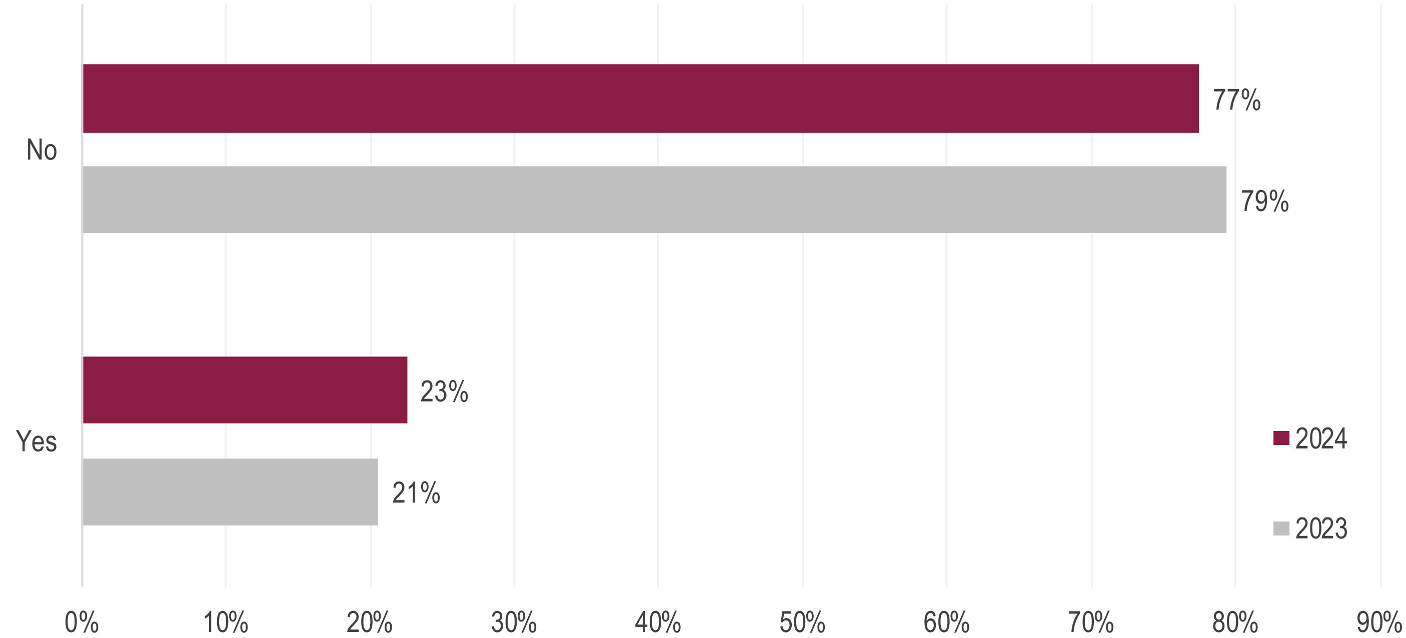
Key Takeaway

The consideration of ESG in the investment-making process is mainstream in Canada. We surmise that 80% of investment mandates have some element of an ESG overlay or constraint.

2024 ESG Survey Results – Question 12

Does your current ESG framework limit the portfolio's allocation to fossil fuels?

Exhibit 10: ESG 2024 Survey Results – Proportion With Limits On Fossil-fuel Investments Across ESG Mandates



Source: CIBC World Markets Inc.

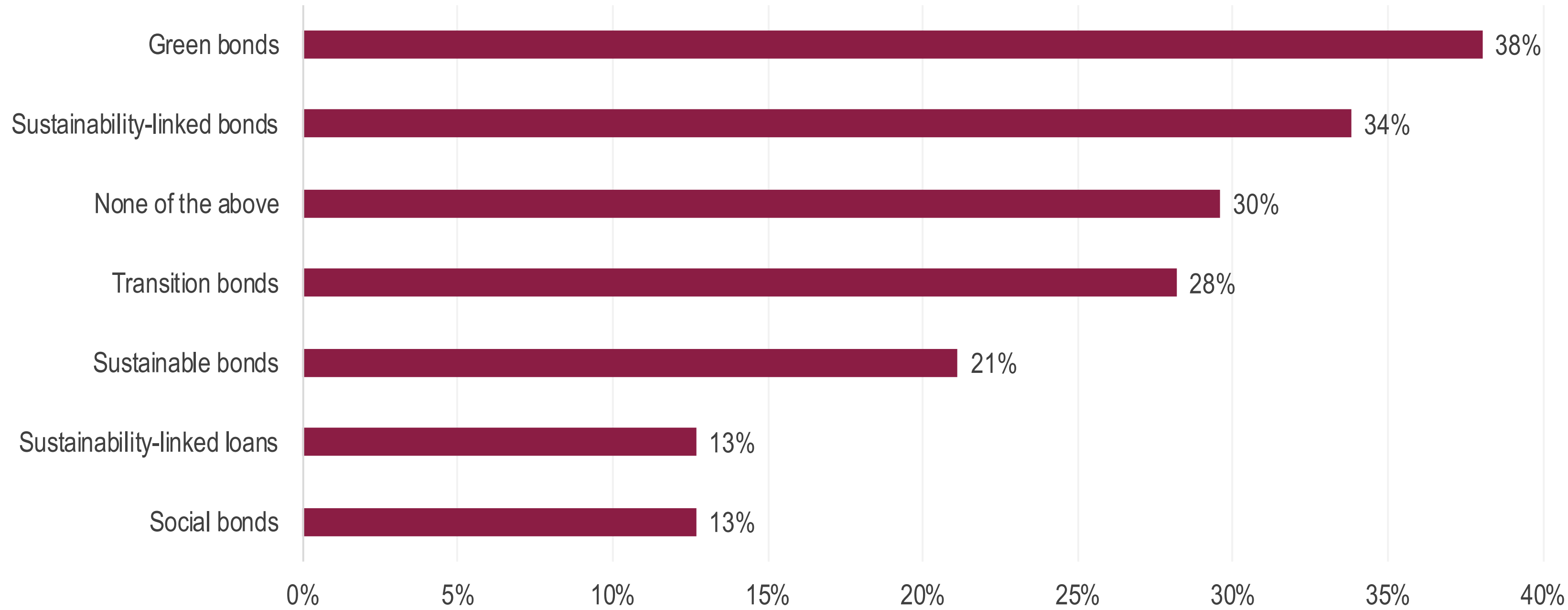
Key Takeaway

The overwhelming majority of respondents do not limit their portfolio's allocation to fossil fuels (about 80%). The proportion remains largely unchanged from last year.

2024 ESG Survey Results – Question 13

What types of sustainable finance, if any, do you see as having the greatest potential for growth in the coming year? Please select all that apply.

Exhibit 11: ESG 2024 Survey Results – Anticipated Growth In Sustainable Finance Issuance In 2024, By Product



Source: CIBC World Markets Inc.

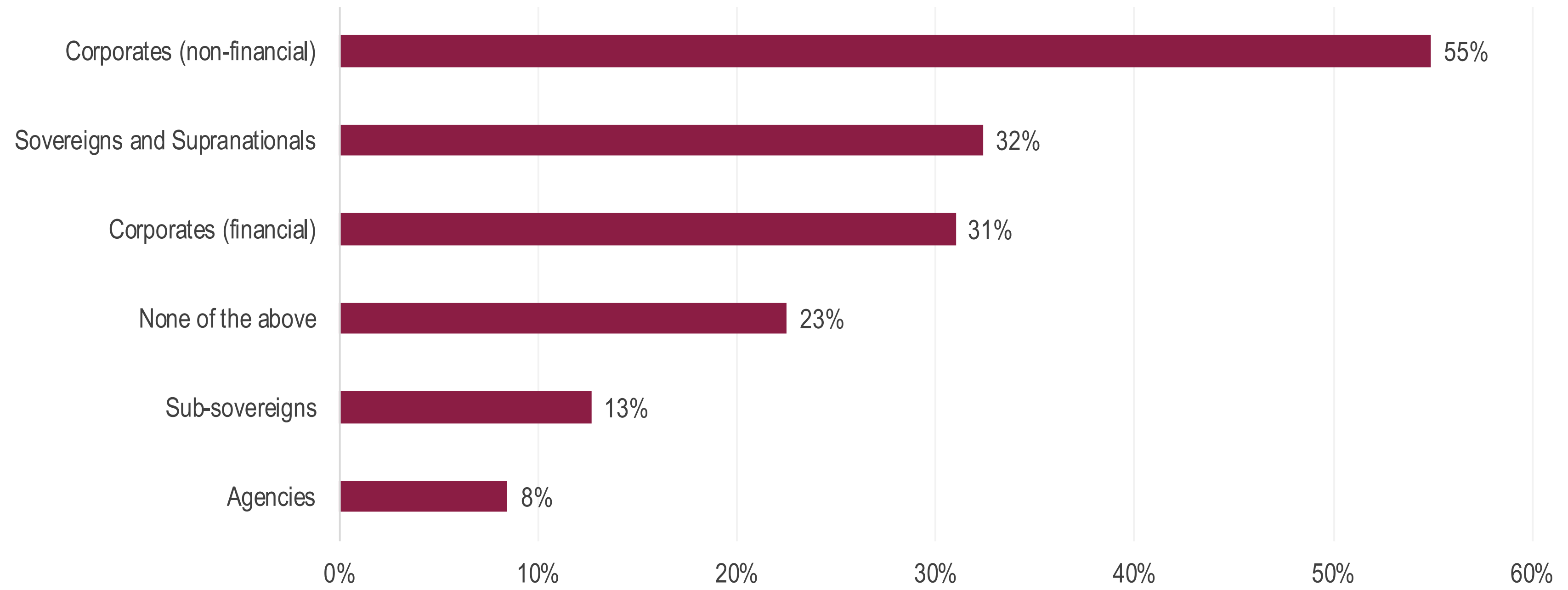
Key Takeaway

Green bonds are expected to show the strongest growth next year amongst the different types of Sustainable Finance. We also believe this will be the case as issuances of Green bonds have held up well relative to other ESG bond types over the last two years. We note there is more optimism around Sustainability-linked bonds than we expected, given the general decline in issuance of Sustainability-linked products amongst heightened concern around greenwashing.

2024 ESG Survey Results – Question 14

What sectors, if any, do you believe will experience growth in labelled bond issuance in the coming year? Please select all that apply.

Exhibit 12: ESG 2024 Survey Results – Anticipated Growth In Sustainable Finance Issuance In 2024, By Sector



Source: CIBC World Markets Inc.

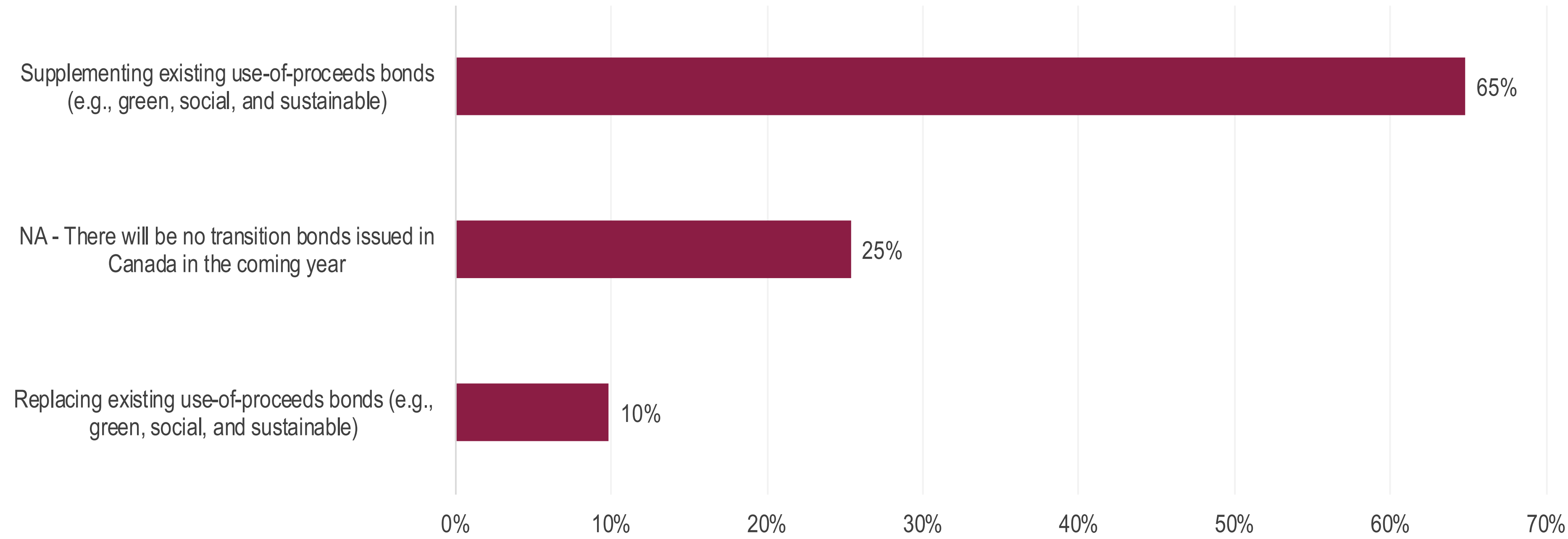
Key Takeaway

Among the different sectors, non-financial corporates are expected to see the strongest growth in labelled bond issuance next year, followed by sovereigns and financials.

2024 ESG Survey Results – Question 15

What do you think the role of transition bonds in Canada will be in the coming year? Do you see transition bonds…? Please select one only.

Exhibit 13: ESG 2024 Survey Results – Expected Use Of Transition Bonds In 2024



Source: CIBC World Markets Inc.

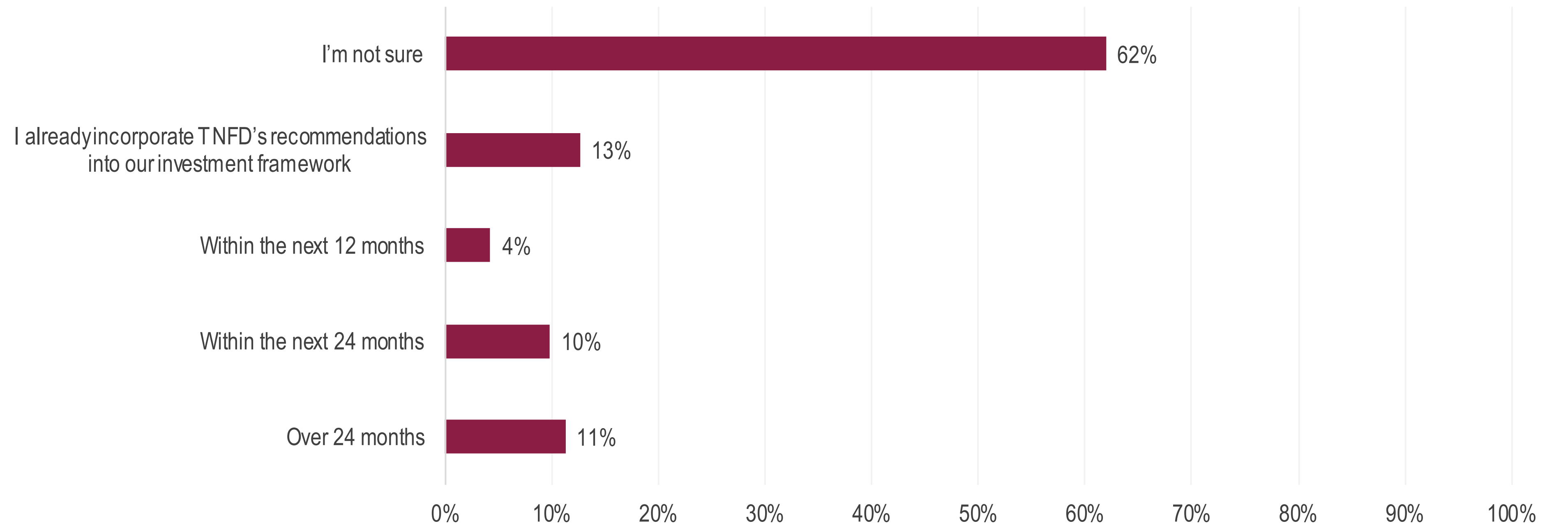
Key Takeaway

Post COP28 in Dubai, there is an increasing focus on transition finance as we shift from investing in "green" to investing in "transition" – largely reflective of the challenge in moving away from fossil fuel energy at mass scale. In Canada, investors largely expect transition finance to complement existing ESG funding sources. One in four respondents believe no transition bonds will be issued in Canada in 2024.

2024 ESG Survey Results – Question 16

Over what time frame do you plan on incorporating the Task Force on Nature-related Financial Disclosures recommendations into your decision-making framework?

Exhibit 14: ESG 2024 Survey Results – Proportionate Integration Of Recommended Nature-related Financial Metrics Across ESG Frameworks



Source: CIBC World Markets Inc.

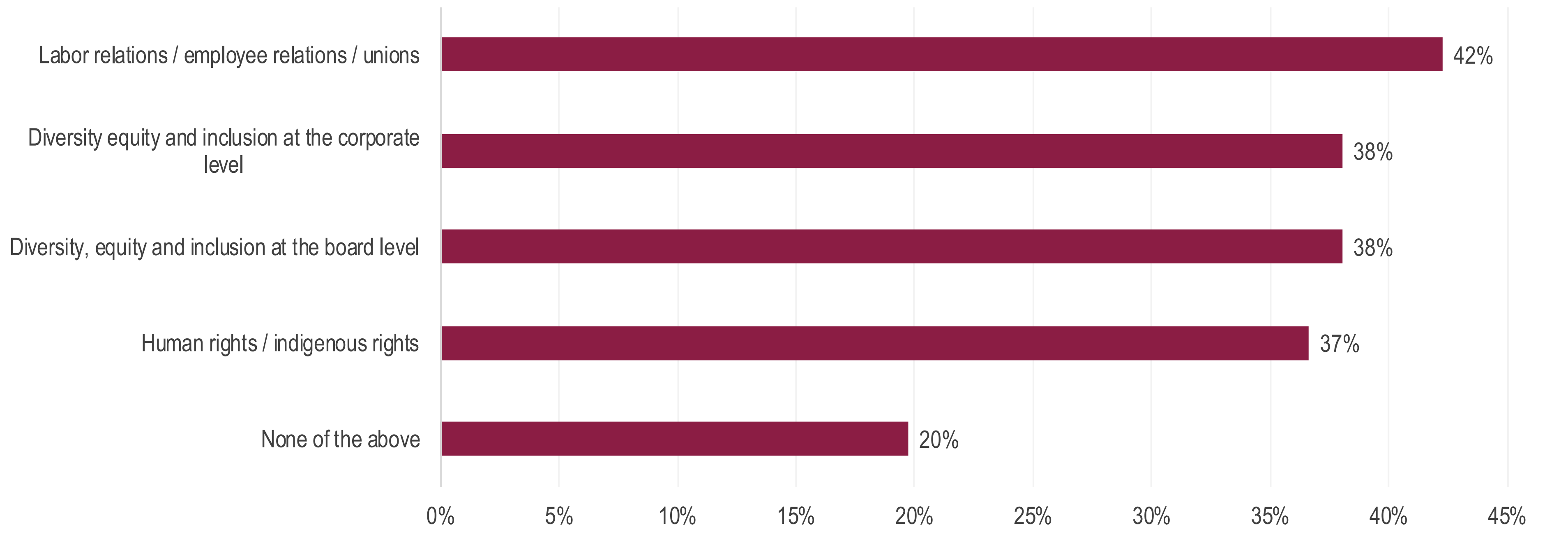
Key Takeaway

After two years of development, the Task Force on Nature-related Financial Disclosures (TNFD) released its recommendations for nature-related risk management and disclosure in September 2023 – largely seen as the foundation to assist investors in identifying/managing nature-related risks. Today, the majority of investors have not yet incorporated TNFD recommendations into their investment decision-making framework, but almost one in five will have done so by the end of this year.

2024 ESG Survey Results – Question 17

Which elements, if any, of human capital do you expect to be most engaged on in 2024? Please select all that apply.

Exhibit 15: ESG 2024 Survey Results – Expected Level Of Engagement Across Human Capital Metrics



Source: CIBC World Markets Inc.

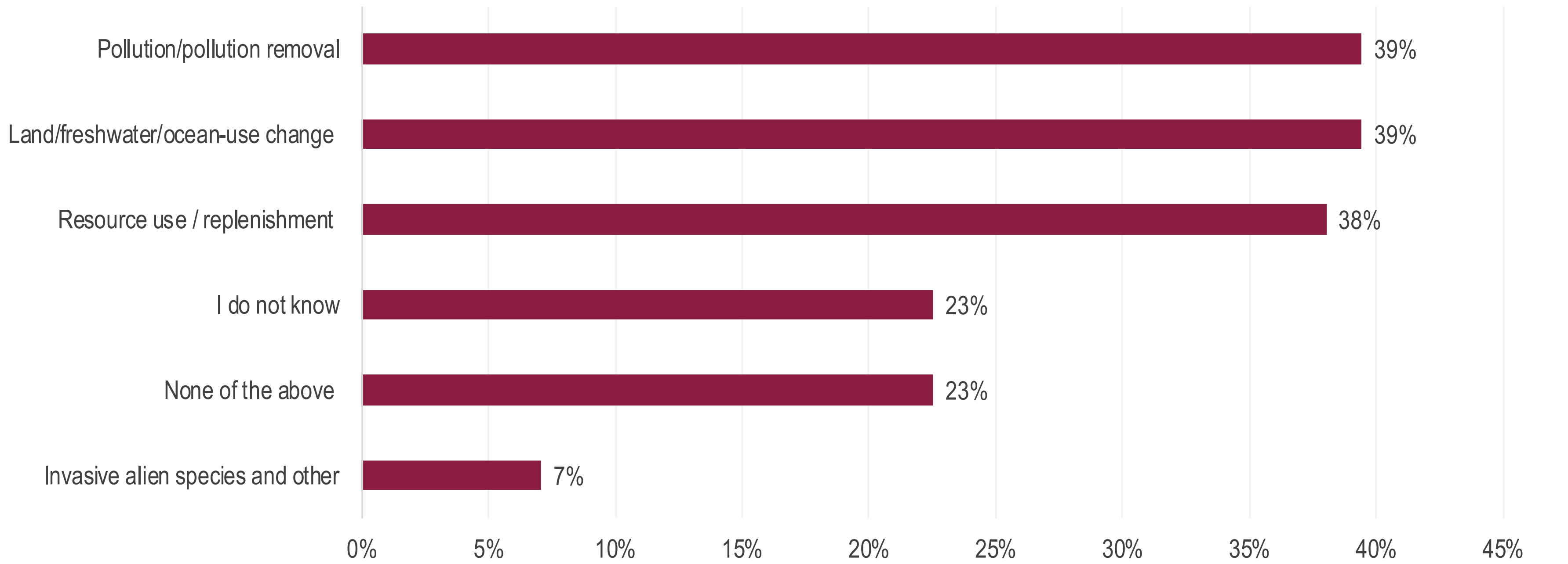
Key Takeaway

Labour relations, DEI (Diversity, Equity and Inclusion) and indigenous rights are all expected to feature prominently in 2024. While DEI is already well established as an ESG metric, we expect to see greater focus placed on indigenous/human rights issues in Canada this year (especially for the Resource sectors).

2024 ESG Survey Results – Question 18

Of the four major 'nature change drivers' specified in TNFD, which are you already incorporating into your investment decision framework? Please select all that apply.

Exhibit 16: ESG 2024 Survey Results – Proportion Of Nature-related Drivers Incorporated Into ESG Frameworks



Source: CIBC World Markets Inc.

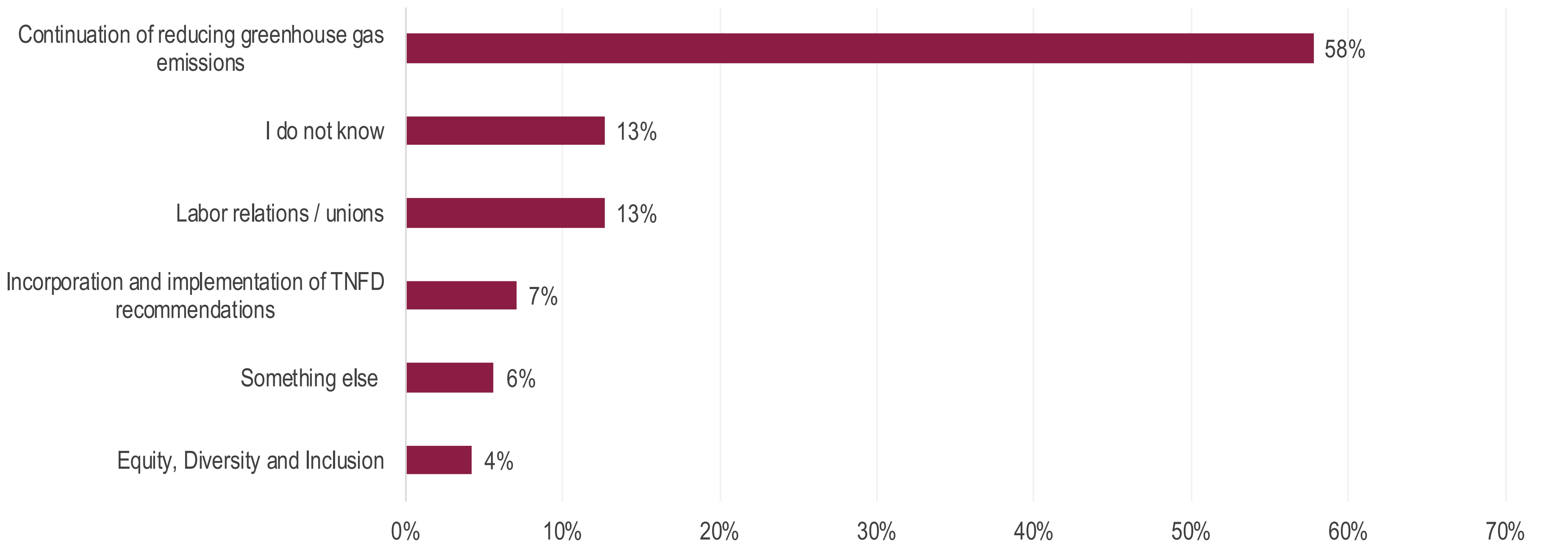
Key Takeaway

Investors are already incorporating parts of TNFD nature-change drivers, largely around resource use and pollution. We note that both of these are already included as part of SASB's (Sustainability Accounting Standards Board) original materiality frameworks.

2024 ESG Survey Results – Question 19

What do you believe will be the key ESG theme in 2024. Please select one only.

Exhibit 17: ESG 2024 Survey Results – Frequency Of Anticipated Major ESG Themes In 2024



Source: CIBC World Markets Inc.

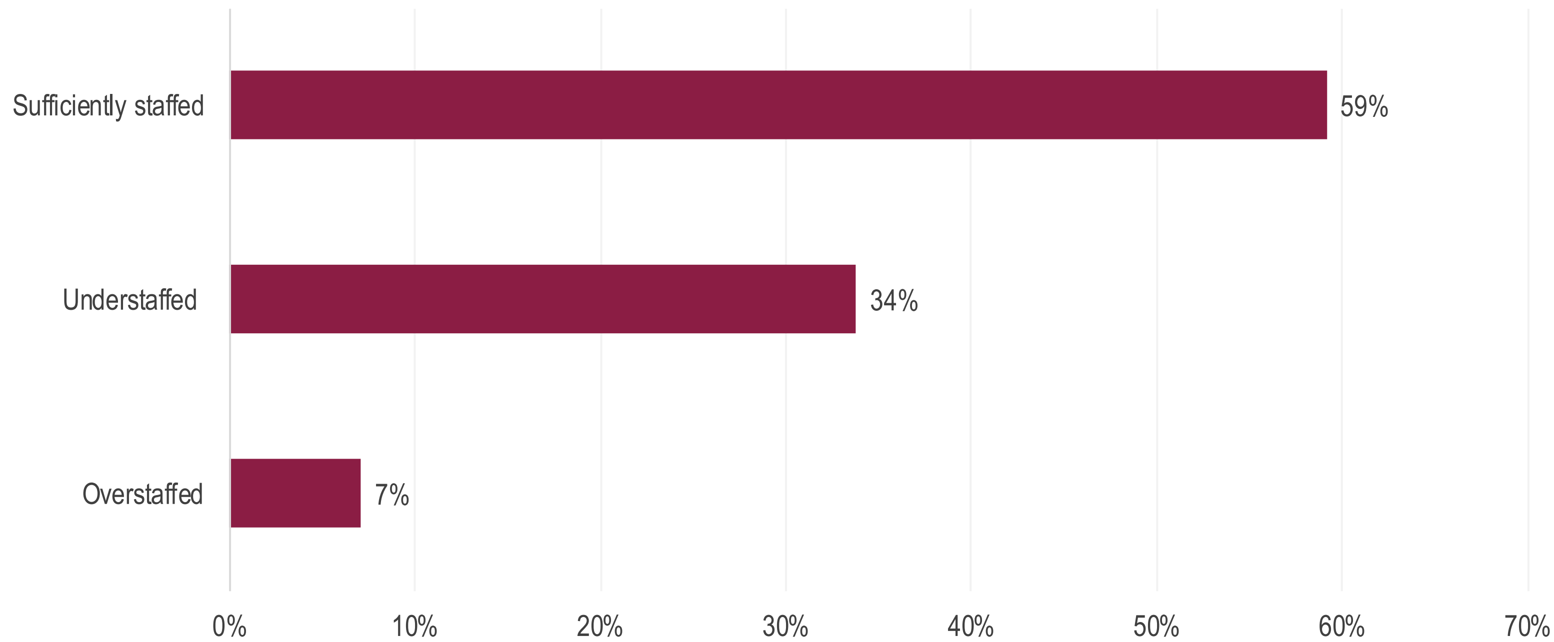
Key Takeaway

Emissions reduction is likely to remain the key focus for investors in 2024, but we note almost 30% of investors believe other non-emissions-related topics will be key focus issues. Anecdotally, we believe this is higher than what we have seen in the past.

2024 ESG Survey Results – Question 20

To what extent do you believe your firm's dedicated staffing to ESG is enough to adequately identify and measure material ESG risks and opportunities for your investments?

Exhibit 18: ESG 2024 Survey Results – Level Of ESG Staffing Across Investment Firms



Source: CIBC World Markets Inc.

Key Takeaway

After three straight years of considerable hiring of ESG professionals, the majority of investors believe they are sufficiently staffed. Only 7% believe they are overstaffed, with a further one in three believing they are understaffed.

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Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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