CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

CIFSC Responsible Investment Identification Framework

The CIFSC identifies funds that apply one or more responsible investing (RI) approaches. In recognition of the different interpretations and definitions of responsible investing, the CIFSC considers responsible investing to be an umbrella term that encompasses sustainable investing, ESG investing and any other strategy that would fall into one or more of the approaches listed in this document.

Scope and Intent

The CIFSC's intent is to develop a pragmatic standard that assists Canadian investors and their advisors in identifying investment fund products that have disclosed RI investment approaches in their regulatory filings and related offering documents. The CIFSC notes that:

- The scope of this framework is limited to investment funds offered in Canada
- This is an identification framework and not a labeling standard.
- The framework is not intended to assess the efficacy of the implementation of any approaches identified.
- The Responsible Investment Approaches are not mutually exclusive. Investment products can be identified as using more than one of the approaches listed.
- Only investment funds that have disclosed a sustainability-related Investment Objective are captured in this framework – the universe of Canadian domiciled investment funds that consider ESG-related information encompasses a broader set of funds than those identified here.
- The framework is complementary to, and not in conflict with regulation and related guidance from CSA Staff Notice 81-334 and is broadly aligned with global developments such as the CFA Institute's Global ESG Disclosure Standards for Investment Products[1] and the CFA Institute's Definitions for Responsible Investment Approaches.

For additional clarity and to assist investors and fund manufacturers, Appendix A outlines the specific sections of the CFA Institute's Global ESG Disclosure Standards for Investment Products corresponding to each CIFSC RI Framework responsible approach, as well as illustrative related terminology referenced in regulatory guidance under CSA staff notice 81-334.

Identification Framework

In broad terms, RI, ESG investing, or sustainable investing mean that some combination of environmental, social, governance, and sustainability factors are incorporated into the investment process. Environmental criteria measure the impact that a company has on the environment, or the impact that the environment has on the company. Social criteria measure how well a company treats its employees and customers, deals with human rights, avoids corruption and the impact a company has on the community where it operates or the impact the community has on the company. Governance criteria evaluate the leadership of a company, executive compensation, board oversight, board diversity, internal controls, and shareholder rights.

To be identified under the CIFSC Responsible Investment framework, a fund must have an investment mandate stated in the Investment Objective portion of a fund's prospectus relating to a responsible approach, and/or a separate document compliant with CFA Institute's *Global ESG Disclosure Standards for Investment Products* or other widely accepted disclosure standards. For non-prospectus funds, the CIFSC will consider other regulatory offering documents such as an

[1] Though the CIFSC encourages transparency by fund manufacturers such as through the use of CFA Institute's Global ESG Disclosure Standards for Investment Products, a claim of compliance with these Standards for a given investment fund is not a requirement to be identified under this framework.

offering memorandum. Additional information will be considered provided it is not contradictory to the publicly available information in regulatory or disclosure documents. In addition, the fund's stated responsible investing approach must meet the criteria for at least one of the RI approaches listed below.

Responsible Investment Approaches

Each Responsible Investment Approach in this document consists of two parts:

1. **Definition**: a description of the criteria for fund identification under the RI approach and some insight as to how the approach is typically implemented.
2. **Fund Universe**: examples of the types of funds that might be identified under the approach, and common terminology that these funds are using.

ESG Exclusions

Definition

Investment funds that use ESG exclusions have specific sectors, industries, materials, geographic regions, or companies that are not permitted in the portfolio based on clearly defined ESG criteria which can be qualitative or quantitative in nature and disclosed clearly in regulatory documents. As examples, these funds cannot hold securities issued by companies or governments that receive revenue from the sale or production of excluded materials or operate in excluded sectors or industries. Exclusions based on legal requirements, or exclusions that would result naturally from the investment mandate will not be considered. Screening rules should not be applied to the aggregate portfolio but rather at the individual security level (for example, a screen using governance scores would stipulate the necessary governance score of each investment, not the average governance of the investments in a portfolio).

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: exclusions, negative screening, norms-based screening, and others.

ESG Best-in-Class

Definition

Also referred to as positive screening, these funds generally invest in securities that meet specified desirable quantitative or qualitative ESG-related criteria that determine what holdings are permitted. A fund should not be characterized as best-in-class unless its threshold for inclusion requires at least better-than-median rank or better-than-average performance in the industry, sector, or other appropriate peer group.

The term "best-in-class" refers to the investment process defined above and not to investment funds' ability to meet their investment objectives or anything to do with their performance relative to peers.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: best-in -class, ESG leaders, sustainability leaders, ESG index tracking, environmental leaders and others.

ESG Thematic Investing

Definition

In general, thematic investing is underpinned by the belief that economic, technological, demographic, cultural, political, environmental, social, and regulatory dynamics are key drivers of investment risk and return. Thematic investing is an approach to selecting assets that are strongly connected to these dynamics. Trends tend to be medium to long term in duration, regional or global in scope, and cross-cutting with respect to traditional industry or sector boundaries. Examples of ESG trends include climate change and the shift to a more circular economy. Fund managers using this approach should be able to clearly demonstrate how a significant portion of assets in the portfolio are connected to stated ESG trends. ESG Thematic funds have a specific focus on themes that fit into one or more of the Environmental, Social or Governance buckets but generally do not focus on all three.

Disclosure of broad commitments to global agreements like the United Nations Sustainable Development Goals (which encompasses 17 distinct goals) would not constitute an ESG Thematic Investing fund by CIFSC's definitions.

Fund Universe

Funds with the following strategies and terminology may be identified under this approach: environment leaders, board diversity, cleantech, women in leadership, low carbon and others.

ESG Related Engagement and Stewardship Activities

Definition

Broadly speaking, stewardship is the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend. In the context of CIFSC's definition for investment funds, those that conduct ESG-related Engagement and Stewardship activities use the fund's position of ownership to influence the company to make decisions that increase the company's positive impact on ESG factors. This can include collaborative efforts with peers and/or informing the board and management of specific ESG issues. The goals of the engagements, including the ESG issues that are addressed and the process for monitoring the issues, should be documented, clear and should be reflected in formal dialogue with the company's board and management and/or by voting on shareholder proposals.

Per guidance from CSA Staff Notice 81-334, these activities must be disclosed at the fund level as opposed to at the firm level.

Fund Universe

Funds with any of the approaches outlined in this document may be considered provided they meet the above definition.

Impact Investing

Definition

The fund invests in companies or projects that intend to have a measurable positive environmental and or social impact as well as the intent to generate a positive financial return. Funds must have a stated impact measurement and management policy. Examples of metrics used to track positive impact might include: renewable electricity capacity added (measured in MWh), an increase in water treated, saved, or provided (measured in megaliters), or an increase in affordable housing units (measured in number of units).

Impact investing requires a “theory of change”—that is, a credible explanation of the investor’s contributory and/or catalytic role, as distinct from the investee’s impact. Allocating capital to investees that have a net positive impact is not impact investing unless there is a credible expectation that the investor will play a contributory or catalytic role in generating an improvement over the status quo.

Fund Universe

Funds that usage terminology that include impact, positive change, and others would be considered for identification under this approach.

Process for New Funds and Fund Reviews

New Funds

New funds will be reviewed monthly as they are launched as part of the CIFSC’s new fund process. The CIFSC will consider regulatory documents, documents following widely accepted disclosure standards, and any other available information to determine if the fund fits into one or more of the Responsible Investment Approaches.

Funds requesting identification through widely accepted disclosure standards not mentioned in this document are encouraged to clarify what standard is being used.

The Committee notes that fund of fund products do not automatically inherit the approaches inherent in component funds. Instead, the Committee seeks parent fund-level disclosures outlining the Responsible Investment Approach(es) used, specifically in the investment objectives and investment strategy portions of a prospectus or equivalent regulatory document.

Fund Reviews

The CIFSC will review any requests to have funds added or removed from the RI list on a monthly basis. As part of the review, the committee will ask for reasoning and evidence supporting the request. This can include any changes made to the Responsible Investment Approach(es) as detailed in publicly available regulatory documents or marketing materials and/or changes to the portfolio.

Appendix A: Approaches and References to CSA Guidance and the CFA Institute's Global ESG Disclosure Standards for Investment Products

CIFSC Responsible Investment Approach	**CSA Staff Notice 81-334 - Illustrative Common ESG Strategies***	**Key disclosure requirements in the Global ESG Disclosure Standards for Investment Products likely to be relevant to the CIFSC Responsible Investment Approach **:**
ESG Exclusions	Negative screening (sometimes referred to as exclusionary screening or ESG exclusions)	ESG Screening Criteria – 2.A.9-10, ESG Investment Universe – 2.A.8, Sources and Types of ESG Information – 2.A.6.
ESG Best in Class	Best-in-class (sometimes referred to as positive screening or inclusionary screening)	ESG Screening Criteria – 2.A.9-10, Portfolio Level ESG Characteristics – 2.A.11-13, Portfolio Level Allocation Targets – 2.A.14-15, Sources and Types of ESG Information – 2.A.6.
ESG Thematic Investing	Thematic Investing	Portfolio Level ESG Characteristics – 2.A.11-13, Portfolio Level Allocation Targets - 2.A.14-15, ESG Screening Criteria – 2.A.9-10, ESG Investment Universe – 2.A.8, Sources and Types of ESG Information – 2.A.6.
ESG Engagement and Stewardship Activities	• Stewardship (sometimes referred to as active ownership) • Proxy voting • Shareholder engagement	Stewardship Activities – 2.A.16-18, Sources and Types of ESG Information – 2.A.6.
Impact Investing	Impact Investing	Environmental and Social Impact Objectives – 2.A.19, Sources and Types of ESG Information – 2.A.6.

*Note from CSA Staff Notice 81-334: "The above terms and definitions have been included for illustrative purposes only, and the Notice does not require or endorse the use of the above names and definitions for these ESG strategies, or the ESG strategies themselves. As further discussed under "Investment objectives and fund names", an ESG-Related Fund's description of these ESG strategies must be written using plain language so that investors can understand the fund's investment strategies."

** Disclosures made under these requirements of the Global ESG Disclosure Standards for Investment Products does not guarantee that a fund will be identified by the CIFSC under a particular approach. A claim of compliance with the Global ESG Disclosure Standards for Investment Products is not a requirement for a fund to be identified.

Appendix B: ESG and Sustainability Scores

The CIFSC re-iterates that the Responsible Investment Identification framework is disclosure-based. As such, the identification of responsible investments relies on what is stated by investment fund manufacturers on regulatory filings or other documents. Investors and their advisors are encouraged to conduct their own research on investment products to determine if they are suitable for their specific investment objectives and gain an understanding of whether a fund is meeting stated responsible investment objectives. Several CIFSC members currently provide sustainability scores for Canadian-domiciled investment products without cost to retail investors. Methodologies for these ratings are available here:

Fundata
Morningstar
Refinitiv

The CIFSC acknowledges that the above providers are a subset of available ratings methodology, however we believe this list represents the majority of providers who actively cover Canadian-domiciled funds. Moreover, the CIFSC welcomes all ratings providers to submit links to their methodologies in addition to aiding the committee in identifying Canadian-domiciled responsible investing funds.

The CIFSC also recognizes the perceived conflict of interest in including links to 3rd party ratings methodologies. To this end, we remind stakeholders that fund-level ratings from the above providers are available free-of-charge to retail investors, to their benefit.