Insights into responsible investing

Wealth Management

Q3 2025

Against odds: Why responsible investing is here to stay

Responsible investing - Explained

Responsible investing is an approach to investing that intentionally considers environmental, social and governance (ESG) factors in the investment portfolio decision-making process. Responsible investing adds a layer of due diligence, using ESG data to assess risks and opportunities that could influence long-term portfolio performance. The principles behind responsible investing aren't new; they date back nearly 250 years to the colonial era, when many Americans and Canadians opposed slavery, alcohol, and gambling.

Today, responsible investing continues to evolve, shaped by market forces, policy shift, and client needs. The relevance of ESG considerations, in our view, is only growing as investors navigate an environment marked by more frequent extreme weather events, global conflicts, and rising concerns over privacy and security. We believe responsible investing remains a key priority for investors, even in the face of short-term skepticism.

Equity update:

Equity performance in responsible investing portfolios closely mirrors the behavior of the broader market, recently characterized by heightened volatility amid ongoing trade tensions and policy uncertainty. Additionally, increased political scrutiny of ESG practices in the U.S. has contributed to investor caution and a notable shift in fund flows. Global responsible investing mutual funds and ETFs saw net redemptions of approximately US$8.6 billion in the first quarter of 2025, marking a sharp reversal from the US$18.1 billion in inflows recorded in the final quarter of 2024.[1]

This pullback was mostly driven by U.S. investors, who continued to withdraw assets for the 10th consecutive quarter. In contrast, sentiment remained more resilient in Canada and Australia/New Zealand, where responsible investing continued to attract capital, with each market bringing in around US$300 million in inflows.[1]

Fixed Income update:

Sustainable fixed income has demonstrated strong resilience, as investors continue to prioritize long-term value and downside protection of fixed income products. Increased regulatory oversight, such as the implementation of amendments to Canada's Competition Act through Bill C-59, is helping to reduce greenwashing risks and improving transparency around the use of proceeds in responsible investing fixed income instruments. Global sustainable bond issuance is projected to reach US$1 trillion in 2025, in line with 2024 levels, reflecting continued investor interest.[2] Sustainable fixed income proceeds continue to be used toward climate mitigation activities that aim to prevent greenhouse gas (GHG) emissions such as shifting to renewable energy from coal.[3, 4] There is also a growing demand for financing nature-based climate solutions that focus on leveraging ecosystems and natural processes, such as wetland restoration or regenerative agriculture, as well as climate adaptation efforts that target the effects of climate change that include but are not limited to building climate-resilient real estate and infrastructure, flood defenses, and seawalls.[5, 6]

RBC's 2025 ESG Fixed Income Survey covering 50 institutional investors with US$22.1 trillion in global assets under management (AUM) revealed that ESG integration remains common practice, with over half of investors integrating ESG considerations across 50% or more of their mandates.[7] Furthermore, over 80% of respondents leverage either internal or third-party ESG ratings for investment decisions, underscoring the growing application of ESG data analysis in the fixed income space.[7]

Language and sentiment are evolving

In the U.S., anti-diversity, equity, and inclusion (DEI) shareholder proposals have surged in response to heightened political pressure and regulatory shifts, signaling growing resistance to corporate DEI initiatives. However, such proposals have received low levels of support.[8] Some companies have rolled back their DEI initiatives in response to online pressure and legal threats, and many stopped publicizing their DEI efforts out of fear of criticism. A recent global survey of 760 organizations found that 63% still prioritize DEI targets, with 31% identifying them as a top priority.[9] In response to shifting sentiment, corporate leaders are increasingly rebranding these efforts under softer language, with terms such as "inclusion" and "belonging.[9] Despite growing criticism, the consistent reporting of social metrics globally suggests enduring conviction in its long-term relevance. Furthermore, companies subject to EU Corporate Sustainability Reporting Directive (CSRD) are required to report on DEI, thus increasing the availability of this information for ESG analysis.[10, 11]

Impact investing:

Impact investing refers to allocating capital with the intention of generating a measurable positive social or environmental impact, alongside a financial return.[12] This approach seeks to identify, achieve, and track the additional impact created per dollar invested or the value created beyond what would have occurred otherwise. Impact should not be accidental and must be sustained beyond the investment period. The measurement of such impact requires the use of robust, science-based, and comparable data to drive intelligent investment design. Because it relies on ESG data, impact investing is considered a subset of the broader responsible investing universe.

The RBC Responsible Investing team attended the Global Impact Investing Network (GIIN) conference to gain insights into the current state of the impact investing market. A key takeaway from industry leaders is that the primary challenge in impact investing remains measuring and tracking the impact outcomes from investments.[13] While awareness has grown and frameworks such as the Operating Principles for Impact Management have been established, the industry still lacks standardized measurement tools, and access to real-time impact data remains limited. Generating meaningful impact is a multifaceted process that requires a thorough understanding of context and engagement from all stakeholders. A critical component is assessing impact risk—the possibility that an intervention may not deliver its intended outcome. For instance, an investor focused on expanding access to affordable education for low-income households must consider whether the community has adequate access to essential services, such as housing, food, water, and childcare—conditions that directly affect an individual's ability to benefit from educational opportunities.[13] Moreover, well-intentioned interventions could yield positive results for one group while inadvertently harming another. For example, an affordable housing project that is not inclusively planned may displace existing residents and disrupt established communities. Despite these challenges, investors increasingly have tools and strategies at their disposal to contribute to sustainable, positive change, including:

Microfinance: Providing small loans to low-income families with the intent to alleviate poverty could empower them to start businesses, generate income, and thus contributing to economic development.

Real estate: Investments that expand access to affordable housing could generate meaningful social change for low-income families. At the same time, funding circularity practices, such as reusing building materials or optimizing energy use, into construction and building operations has potential to reduce sectors emissions by up to 75% by 2050.[14]

Sustainable agriculture: Supporting companies that use sustainable farming technologies could improve global food security, reduce environmental degradation, and promote access to healthier eating options.[15]

Healthcare: Deploying capital in healthcare infrastructure and projects, particularly in regions where such services are deficient, could help improve the quality and accessibility of care and improve population health outcomes.

Demand for responsible investing remains strong

Responsible investing has become a fundamental part of how investors manage risk, identify opportunities, and contribute to long-term value creation. A recent survey from the Responsible Investment Association showed that younger investors continue to show much higher ownership of responsible investments and are more likely to approach their advisors about it proactively. However, there was also a marked increase in interest among those 55 years old and over.[16] Considering the impact of world events, two-thirds (67%) of respondent's expressed interest in responsible investing and 35% of respondents said they are more likely to choose responsible investing than one-year ago.[16] As the space matures and regulations improve, investors are now better positioned than ever to incorporate ESG data into financial decision making through responsible investing solutions. Growing demand and resilience in the space indicate to us that responsible investing is here to stay.

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