The Canadian Coalition for Green Health Care
Coalition canadienne pour un système de santé écologique

Sustainable Investment **Primer** **Tool 1**

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Why Healthy Capital matters and **the business case for Canadian health care foundations**

PEACH
Fondation Familiale Trottier Family Foundation
Canada Climate Law Initiative | L'Initiative canadienne de droit climatique
Quinn + Partners

WHEN CAPITAL AND CARE DRIFT APART

Health care foundations are entrusted with more than capital. They are entrusted with public confidence, donor trust, and a mission rooted in care. While philanthropic strategies reflect these values, investment portfolios are often built using conventional financial criteria alone. This can create a growing gap between mission and capital.

This gap is not intentional, but it is increasingly visible. Donors are asking sharper questions. Expectations around transparency are rising. Exposure to controversial sectors, governance failures, or climate-related risks is harder to overlook. Together, these pressures introduce reputational and governance risks that exist regardless of financial performance.

In today's landscape, sustainable investment is expected — foundations without it risk questions, scrutiny, and reputational harm.

ABOUT THIS TOOL

The Sustainable Investment Primer **provides a clear introduction to sustainable investment for health care foundations**. It explains how sustainable investment can support a foundation's mission while targeting competitive, market-rate returns. The Primer outlines the business case, key risks, and governance considerations, with sources included for further reading. This tool reflects input from participants in the Healthy Capital Community of Practice.

HOW TO USE

Use this primer as an **education brief for health care foundation decision-makers** (board and investment committee members, and staff). It is designed to support informed discussion on sustainable investment and environmental, social and governance (ESG) integration and can be used in collaboration with Tool 2 and Tool 3.

Used together, the three tools are designed as a practical set.

Tool 1 builds a shared baseline on the "why" and the business case

Tool 2 supports a deeper, guided discussion on common questions

Tool 3 provides ready-to-adapt language to translate decisions into updated investment policy and implementation

SUSTAINABLE INVESTMENT DEFINITION

> Sustainable investment is the integration of ESG considerations into the selection and management of investments[1]. This includes selecting and monitoring external managers. A majority of institutional investors in Canada apply this practice because of the benefits of ESG integration:
>
> - Enhances traditional asset management without replacing core investment principles
> - Provides deeper insights into risk and long-term value creation
> - Aligns with evolving stakeholder expectations

ESG FACTORS USED IN SUSTAINABLE INVESTMENT

Sustainable investment uses **financial** and **material non-financial** factors to strengthen investment decisions, manage risk, and capture value-creation opportunities. Material sustainability factors are those that can significantly affect the financial, economic, reputational, or legal position of an issuer, security, investment, or asset class. Examples include:

- Climate, greenhouse gas emissions, and transition to a low-carbon economy
- Human rights and labour practices
- Water management
- Community relations
- Land use and biodiversity
- Executive compensation
- Diversity, equity, and inclusion
- Data privacy and cybersecurity

DRIVERS FOR SUSTAINABLE INVESTMENT

1 Fiduciary duty (risk management and oversight):

Foundation fiduciaries have a duty to take into account financially material risks and opportunities when stewarding investments of a foundation's capital.

In light of widely accepted evidence that ESG and climate factors can be financially material—including systemic risks that affect sectors, regions, and overall market returns — ignoring these factors can undermine prudent decision-making.

Canadian regulators, such as the Office of the Superintendent of Financial Institutions (OSFI)[2] and the Canadian Association of Pension Supervisory Authorities (CAPSA)[3], **have recognized climate-related risks in their guidance, reinforcing that ESG and climate considerations can be relevant to fulfilling fiduciary duties.**

This aligns with investor practice: FTSE Russell's 2025 Sustainable Investment Asset Owner Survey[4] found risk management was a leading motivation for applying sustainability considerations (54%), and fiduciary duty was cited by 42% of respondents — reinforcing that many asset owners treat these factors as part of prudent oversight.

2 Opportunities (value creation):

Sustainable investment can also be a value-and-performance strategy: FTSE Russell's 2025 Sustainable Investment Asset Owner Survey found financial performance was the top motivation for applying sustainability considerations (56%), with many respondents linking these considerations to better risk-adjusted returns.[5] Beyond performance, it can position portfolios to benefit from long-term trends — such as the clean energy transition — while reducing exposure to assets that may be left behind.

3 Investor demands (trust and alignment):

The Responsible Investment Association (RIA)[6] reports that 77% of respondents agree that companies with good ESG practices are better long-term investments.[7]

Investor demand is a major driver of sustainable investment growth: it ranks as the second-highest driver (45%).

In the RIA's 2025 report, the influence of younger investors increased from 2023, with 34% of respondents identifying "younger investors/plan members" as a top three RI growth driver.[8] We believe foundation donors would share similar views.

Over the next two decades, the "great wealth transfer" will move an estimated USD 84 trillion to younger generations, empowering millennials, Gen Z, and Gen X to drive investment preferences.[9] In Canada, an estimated CAD 1 trillion of personal wealth is set to transfer from baby boomers to their heirs between now and by the end of 2026.[10] As younger investors increasingly prioritize environmental and social considerations alongside financial returns, these shifts reinforce the alignment of sustainable investment with the expectations of current and future donors and healthcare employees.

MYTHS AND FALSE PERCEPTIONS AROUND FINANCIAL RETURNS

Does a sustainable investment strategy or product generate lower financial returns than its traditional equivalent[11]? No, this is a false myth.

EVIDENCE

From funds (Morgan Stanley):

Morgan Stanley's Sustainable Reality analysis of approximately 99,000 funds found that, in the first half of 2025, sustainable funds had median returns of 12.5%[12], outperforming traditional funds at 9.2%.

From companies (McKinsey):

McKinsey's review of the 10,000 largest global companies (2016 – 2022)[13] found that "triple outperformers" — companies that achieve stronger growth and profitability while also improving their ESG performance – delivered about two percentage points higher annual excess total shareholder returns than peers that excel only on financial metrics.

From academic research (NYU Stern):

A meta-analysis by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management, covering more than 1,000 studies (2015 – 2020)[14], finds that most studies report a positive or neutral relationship between ESG and financial performance, with very few showing a negative link. A related NYU Stern review of 1,141 primary peer-reviewed papers and 27 meta-reviews (2015 – 2020) similarly finds that sustainable investment performance is, on average, indistinguishable from conventional investment (with roughly one-third of studies indicating outperformance).[15]

The benefits are more evident over longer time horizons. ESG integration strategies focused on material issues tend to perform better than simple exclusion or negative screening, and sustainable investment often provides downside protection, especially during social or economic crises.

From academic research (University of Waterloo):

A 2023 study by Wirjanto and Cao tested three ESG strategies — best-in-class, thematic, and ESG integration — using Dow Jones stocks from 2014 to 2019[16]. Portfolios that incorporated ESG information outperformed the standard Dow Jones Industrial Index (DJIA) benchmark and were more resilient during periods of market stress, including COVID-19. Thematic sustainable investment showed the strongest and most consistent performance of the three approaches.

KEY TAKEAWAY

Taken together, this evidence suggests that integrating material ESG factors is consistent with — and can support — a health care foundation's objective of achieving resilient, market-rate financial returns.

CURRENT STATE AND PROJECTIONS

Over the past decade, sustainable investment has moved from niche to mainstream.

The largest sustainable investor association, the UN-supported Principles for Responsible Investment (PRI), now counts more than 5,300 signatories worldwide, representing roughly USD 140 trillion in assets under management[17] — over half of global institutional AUM — signalling that large asset owners and managers increasingly see ESG as part of standard practice. At the same time, the public debate on ESG has become polarized in the U.S. — and Text Box 1 (next page) summarizes practical takeaways for navigating that backlash.

Globally, ESG-labelled assets surpassed an estimated USD 30 trillion in 2022 and are projected to exceed USD 40 trillion by 2030, or roughly a quarter of total assets under management.[18]

This near-term momentum is echoed by Bloomberg Intelligence's 2025 ESG Investor Survey, where nearly 85% of respondents expect ESG-linked AUM to grow over the next two years (and two-thirds expect growth in climate-focused AUM).[19]

In Canada, sustainable investment now represents the majority of professionally managed assets.

According to the RIA's 2024 Trends Report, about 71% of Canadian assets under management — roughly CAD 4.5 trillion at the end of 2023 — were managed using a sustainable investment approach.[20] The 2025 update shows this trend deepening: 96% of surveyed investors now use ESG integration, covering 87% of their AUM, with RI assets among respondents growing 15.9% since the previous survey.[21] This figure includes institutional and retail investors, including pension funds, mutual funds, asset managers, and some of the largest investor types. All investors can practice sustainable investment.

Text Box 1: Navigating ESG backlash

ESG backlash is the wave of political and regulatory pushback that reframes ESG as "activism" rather than a lens towards managing financial risk.

It started in 2021, when several USA states presented bills barring state investments in firms perceived to boycott fossil fuels. Between 2021 and 2023, 318 anti-ESG bills were introduced across 38 states, though fewer than 10% became law. The return of Donald Trump in 2025 intensified anti-ESG rhetoric. Amongst the many measures taken since their election, we note the withdrawal from the Paris Agreement and support for electric vehicle subsidies.

This backlash has prompted many financial institutions and companies to shift or mute public ESG language and reconsider their stances towards ESG. The backlash has had some repercussions in Canada, but is less pronounced due to greater consensus among investors regarding perceived ESG risks and fiduciary duty.

In Canada, most institutional investors are staying the course. At The Association of Canadian Pension Management 2025 National Conference, 93% of polled asset owners/ managers/consultants said they remain on an ESG integration journey, and 78% said their ESG priorities had not changed year-over-year — suggesting continuity amid noise.

The shift is often communication, not core practice. Across Canada and globally, most investors are refining how they communicate sustainability, while continuing to integrate material factors, strengthen measurement, and use stewardship/engagement to manage risk and long-term value.

NEXT STEPS FOR FOUNDATIONS

If you are interested in adopting a sustainable investment approach, consider these practical first steps to start the conversation with the investment committee and the board:

1

Discuss your investment beliefs

related to sustainability and the risks and opportunities they represent.

a. You can prepare for this discussion by educating yourself and your organization on the topic by collecting information from your service providers, advisors and managers, and by researching how your peers are integrating ESG
b. This discussion should lead to an alignment among fiduciaries

2

Embed those sustainable investment beliefs

in your investment policy and outline your intentions to integrate a sustainable investment approach in your investment processes and when selecting managers. You can incorporate these commitments in your ISP or in a stand-alone sustainable investment policy.

3

Communicate your updated policy and intentions

with your investment managers and request that they align and report back.

KEY TAKEAWAY

These first steps allow your foundation to move forward in line with common industry practice, pursuing financial objectives and reflecting your mission in how its capital is invested.

REFERENCES

[1] Responsible Investment - What is Responsible Investment? (RIA, 2025)

[2] OSFI: Office of the Superintendent of Financial Institutions

[3] CAPSA: Guideline for Risk Management for Plan Administrators

[4] FTSE Russell: Eighth Annual Sustainable Investment Asset Owner Survey 2025

[5] FTSE Russell: Eighth Annual Sustainable Investment Asset Owner Survey 2025

[6]The Responsible Investment Association (RIA) is Canada's industry association for responsible investment, representing investment managers, asset owners, and advisors committed to integrating ESG considerations. Its institutional members collectively manage more than $45 trillion in assets globally (2025). The RIA publishes an annual Trends Report based on survey responses from Canadian institutional asset managers and asset owners.

[7] 2024 Canadian RI Trends Report (2024) and What is responsible investment?

[8] 2025 Canadian RI Trends Report (2025)

[9] OliverWyman Forum: The Great Wealth Transfer Will Amply Green Investments (2025)

[10] Financial Post: How much money do you need to have generational wealth?

[11] A traditional investment strategy or product is defined by not systematically integrating environmental, social, and governance (ESG) factors. It does not mean it never does; it means there are no defined processes to do so, not necessarily clearly defined processes and experts.

[12] Morgan Stanley: Sustainable Reality (2025)

[13] McKinsey & Company: How do ESG goals impact a company's growth performance (2023)

[14] NYU STERN: ESG and Financial Performance (2021)

[15] SSRN: Does Sustainability Generate Better Financial Performance? Review, Meta-analysis, and Propositions (2022)

[16] University of Waterloo: Doing good really does pay: the financial case for sustainable investing (2025)

[17] UN PRI: Annual Report (2025)

[18] Bloomberg: Global ESG Assets (2024)

[19] ESG News: Bloomberg Survey: 85% of Investors Expect ESG AUM Growth in Next Two Years

[20] 2024 Canadian RI Trends Report (2024)

[21] 2025 Canadian RI Trends Report (2025)

ABOUT THIS TOOL

This tool was co-developed with the Canadian Coalition for Green Health Care to empower health care foundation boards across Canada to learn and build capacity to integrate sustainable investment practices and align the capital they manage with their foundation's health-focused missions.

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