Semi-Annual ESG Sentiment Study of Canadian Institutional Investors

February 12, 2025

Beyond the headlines: A deep dive into Canadian investor perspectives on ESG as we move into 2025

Throughout December 2024, our team at Millani conducted interviews with 27 Canadian institutional investors, representing a combined $4.3 trillion in assets under management (AUM) in our continued thought leadership series which provides a nuanced look into the evolving Environmental, Social, and Governance (ESG) landscape.

While media narratives have been shifting towards polarized opinions and suggesting significant shifts in ESG momentum, the reality among institutional investors is one of measured adaptation, cautious optimism, and ongoing commitments. This report highlights key insights from investors that clarify the direction of ESG-related strategies considering geopolitical shifts, an accelerating anti-ESG movement in the U.S., and some reversals of support for the financial sector's climate initiatives and corporate climate targets.

Key observations include:

- **Resilient ESG commitment:**
  Despite viewing the U.S. election as a source of volatility, 93% of investors remain committed to ESG integration, focusing on risk management rather than the reduction of ESG strategies.

- **Evolving engagement strategies:**
  Investors are adopting direct, outcome-oriented engagement, with 86% of respondents stating that legal challenges (e.g., the 2024 Exxon Mobil lawsuit related to climate proposals) will not alter their long-term, partnership-driven approach to engagement.

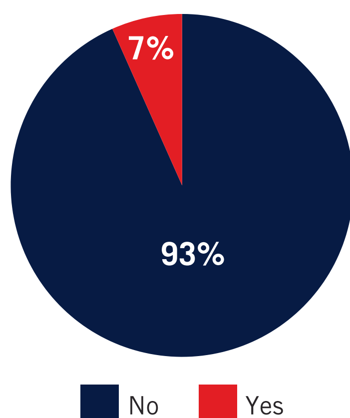
- **Shifting ESG priorities, including a focus on climate-biodiversity links and Indigenous reconciliation:**
  15% of investors are prioritizing the interconnectivity between climate and biodiversity as a dual solution, alongside a growing focus on Indigenous reconciliation and economic development, positioning Canada as a global leader in partnerships with Indigenous communities. Additionally, investors are placing greater importance on ensuring internal alignment of actions to support their engagement efforts.

Political and geopolitical influences: The impact of the U.S. election

Interviewees indicated that the U.S. election, especially with the return of President Donald Trump, has introduced a new layer of unpredictability to global markets. Interviews revealed that 93% of investors viewed the election outcomes as a significant source of anticipated volatility, particularly in terms of policies on sustainability, tariffs, and international relations. Despite this uncertainty, most investors emphasized an ongoing commitment to ESG integration, albeit with tactics focused on risk management rather than specific ESG-related investment strategies.

Figure 1
Investors do not expect volatility to ease in 2025

In the current geopolitical landscape, has the risk of volatility diminished?



No Yes

Source: Milani 2025

One asset manager explained: **"We are entering more of a defense mindset, you really have to focus on financial materiality and your fiduciary duty."**

Investors indicated that although the commitment to integrate ESG topics into investment analysis remains intact, the market should prepare for a quieter period with regards to ESG communications, as regulations become more restrictive and public-facing ESG marketing is reduced. However, many highlighted that the headlines are noise and that ESG issues remain critical to generating risk-adjusted returns.

"[The election is] not going to affect our strategy [...] ESG survived one Trump administration and will again, but our communications around it are likely to be quieter this time," noted one asset manager.

Importantly, many respondents confirmed that they believe Canada should remain aligned with global ESG standards, such as the International Sustainability Standards Board (ISSB)/ Canadian Sustainability Standards Board (CSSB) disclosure recommendations, even as many expect the U.S. to change its position. As one asset manager put it: **"We want to stay at the forefront. In Canada and the U.S., companies that want to continue their climate change efforts will have significant support. Climate change and biodiversity are still very important."**

The Exxon lawsuit: Implications for issuer engagement

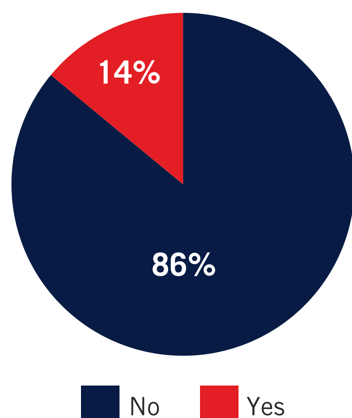
An important part of being a signatory to the UN Principles for Responsible Investment (UN PRI), with its more than 5,000 global signatories, includes integrating ESG considerations into investment analysis, engaging with issuers and executing investor rights, such as proxy voting.

In January 2024, the multinational energy company Exxon Mobil Corporation took legal action against a U.S. activist investment firm, Arjuna Capital, and the shareholder activist group Follow This[1]. This action was in an effort to stop the shareholder proposals that would commit the company to further curb its greenhouse gas emissions (GHG) and set a target on its customers' emissions (Scope 3 emissions), as well as trying to force a stricter interpretation of the Securities and Exchange Commission (SEC) rulemaking related to climate disclosures.

The lawsuit created ripples in the investment community as it put into question one of the key tenets of responsible investing—investor engagement. Nonetheless, 86% of participants indicated they were unfazed, when asked about whether the lawsuit would change their engagement approach. The core approach to engagement in Canada is focused on a partnership-driven, long-term investing approach where investors exchange and share views with investees with a goal of getting better long-term performance. As one asset manager stated: **"It [the Exxon Mobil lawsuit] will not change our approach. We view companies as partners, we give them lots of pushback and challenge them, but we consider ourselves as partners, not activists."**

1. Reuters, *Exxon files lawsuit against investors' climate proposal*, January 22, 2024.

Figure 2
Investors will not change their engagement strategy following the Exxon Mobil litigation developments



As one asset manager observed, **"the anti-ESG side is getting very strong and sophisticated,"** a sentiment expressed by many investors. As of June 2024, anti-ESG related proposals represented approximately 11% of all proposals filed, an increase from approximately 2% during the 2014 to 2021 period, creating a more contentious proxy voting environment[2]. Many investors, however, are not particularly concerned about this rise, expressing optimism that these challenges could ultimately lead to better-quality proposals overall. **"Sometimes proposals are not well researched, and this could actually improve the quality of future proposals,"** said one asset manager.

As much as investors were undaunted, some investors expressed surprise at Exxon Mobil's action, noting that it could lead to a reduction in minority shareholder rights in the U.S. There is growing anticipation that, once the new Trump administration is in place, the market should expect a pull back on the SEC's climate reporting rules, as well as the Department of Labor's requirement of retirement funds to integrate ESG. In addition, there is an expectation that the new head of the SEC may reverse policies and return to the guidelines under Trump's first administration that allowed companies to reject ESG proposals if they were not viewed to substantially affect operations. As well, there is speculation that a Republican-controlled congress may also propose new legislation that would give corporations like Exxon Mobil, broader powers to reject shareholder proposals altogether.

Even with these anticipated changes, respondents argued that investor engagement will not disappear but that it will be driven by long-term value creation rather than short-term political or legal shifts.

Climate targets adjustments: A pragmatic recalibration or "greenhushing"?

Throughout 2024, headlines highlighted large multinational companies such as Microsoft, Unilever and others stepping back from their climate targets. We wanted to understand how participants perceive these actions, and the response was rather mixed. Some expressed that it is a pragmatic recalibration by businesses, acknowledging the difficulty in meeting ambitious targets, particularly considering economic pressures and regulatory uncertainty. Others expressed concern that such actions were a potential sign of diminishing commitment and increased "greenhushing".

Generally, there were two views on why issuers were stepping back: 1) that they initially moved too fast to set the targets and potentially did not have a proper methodology behind their assumptions; and 2) they had concerns regarding disclosure regulations, such as Canada's Bill C-59 on greenwashing[3]. On the latter, investors expressed worries regarding the short-term negative effects this bill is having on their need for transparent disclosures.

One asset manager observed: **"Companies are being very cautious and pragmatic. Being more factual about their climate targets may be seen as a step back, but it is a good thing if it is actually happening."** On this last point, investors mean becoming more granular and quantitative in their climate strategies. This reflects a broad sentiment that, while some adjustments may seem disappointing, if they reflect a more grounded and realistic approach to climate target setting, it is exactly what investors desire. **"When they [corporates] step back, it is important to nuance between scaling back a lot, or just being realistic in the economic context,"** said one asset manager.

However, there was consensus among participants on how corporates that adjust their targets should anticipate that investors will engage more directly. Investors are shifting their focus from simply assessing if organizations have climate targets, to analysing and expressing a need for clear and credible transition plans, as well as the capital allocations needed to successfully execute such plans – and the reasoning for this is clear. It is because investors have also made commitments, and they need disclosures from issuers to meet their own obligations.

2. Harvard Law School Forum on Corporate Governance, *U.S. Shareholder Proposals: A Decade in Motion*, November 18, 2024.
3. Parliament of Canada, *Fall Economic Statement Implementation Act*, March, 2023.

At the time of writing, we have seen asset management firms like BlackRock stepping back from investor-focused climate initiatives[4], such as the Net Zero Asset Managers initiative (NZAM), citing anti-trust and legal pressures. This has led NZAM to suspend its activities to track signatory implementation and reporting. We also highlight the headlines of asset management firms such as JP Morgan Asset Management, State Street Global Advisors, PIMCO and others withdrawing from investor collaborative engagement initiatives like the Climate Action 100+[5]. Does this mean that they no longer care about climate change or engaging with portfolio companies on this topic?

One asset manager confirmed that is not the case, noting:

> **"Being part of Climate Action 100+ was good for our knowledge, but it is broad. We want to be more nimble when it comes to engagement, where there is value-add that is specific to the companies (we own). So, we are moving to a more direct engagement strategy."** – Asset Manager

This is an indication of the continued focus on ESG materiality in investor analysis and engagement with portfolio companies.

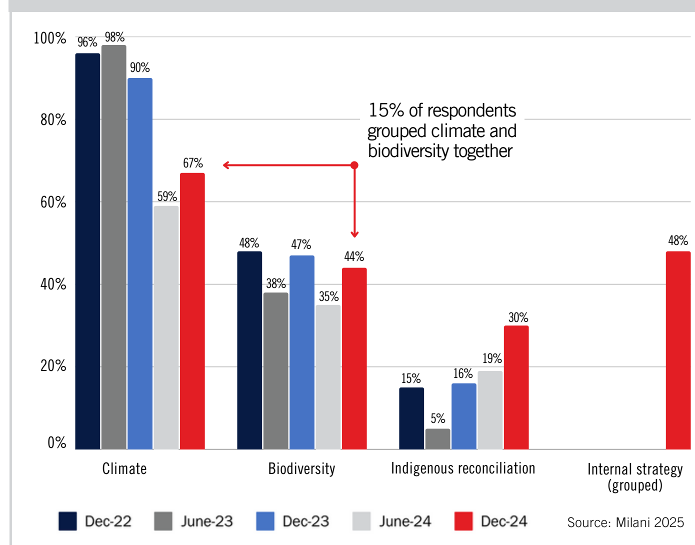
Against this backdrop, we have witnessed the exodus of most of the largest U.S. banks from the Glasgow Financial Alliance for Net Zero's (GFANZ) Net Zero Banking Alliance (NZBA)[6], subsequently followed by the six major Canadian banks. Does that mean that the banks will no longer be concerned about climate change in their business lines? Investors highly doubt that will be the case. They indicated that regulations for Canada's largest financial institutions fall under the Office of the Superintendent of Financial Institutions (OSFI), which has significant requirements related to climate-related risk management and testing[7]. This may well be the biggest difference between the Canadian and U.S. markets. This regulatory influence will continue to put pressure on the whole financial services ecosystem in Canada from banks to asset owners, to their external asset managers to issuers.

Key ESG topics: Shifting focus to internal strategy implementation

To test this assertion, we asked participants to share the top three ESG-related topics they are focusing on, or plan to focus on, in 2025. Interviewees revealed evolving perspectives.

Climate change remains a central issue for investors. That said, there is a shift on the topic, with a growing number of investors (15%) expressing an increased focus on the interconnectivity between climate and biodiversity and nature as a potential solution to climate-related issues.

Figure 3
Top ESG topics for investors in 2025



Indigenous reconciliation and economic development rose significantly in this edition of our study. We anticipate further strengthening as many investors recognize both the materiality of the rights of Indigenous Peoples regarding free, prior and informed consent (FPIC), as protected under the UN Declaration on the Rights of Indigenous Peoples. As well, many indicated opportunities for partnership and investment to support the economic development of Indigenous communities in Canada. Our observation from the UN PRI conference in the fall of 2024 is that investors globally are looking to Canada for examples of how partnerships might develop and evolve. Our study demonstrates that Canadian investors are clearly embracing this emerging trend.

However, the most striking shift was that investors are increasingly focused on their own internal strategy for implementation of ESG-related actions. Investors discussed assessing ways to further integrate climate scenario analysis in internal operations, reinforcing and focusing on direct engagement strategies, measurement of sustainability outcomes and communications with stakeholders—rather than focusing purely on ESG themes like climate change or diversity.

4. Reuters, *BlackRock quits climate group as Wall Street lowers environmental profile*, January 9, 2025.
5. Financial Times, *JPMorgan and State Street quit climate group as BlackRock scales back*, February 15, 2024.
6. GlobalData, *The six largest US banks quit the Net Zero Banking Alliance*, January 22, 2025.
7. The climate-related risk management and testing requirements are outlined in the B-15 Climate Risk Management guidelines by the Office of the Superintendent of Financial Institutions (OSFI).

Navigating the changing ESG landscape: Implications for CEOs and CFOs

As investors concentrate on refreshing their engagement strategies, they are increasingly focusing on tangible outcomes and business impacts. Meanwhile, we continue to be told that issuers no longer receive any ESG-related questions. Can this really be true?

Investors shared that ESG-related conversations are now more focused on operational and business-related questions. The emphasis is no longer on ESG policies, but on how companies address material business issues like governance and labour practices.

"We do more focused, condensed, outcomes-oriented engagement. Investors are looking for measurable outcomes, therefore the questions and the methods are different. We are becoming more sophisticated. It does not mean investors are not asking questions anymore, it means they are maturing, and you need to be listening. If you truly have a sustainable strategy, you will want to be proactive to these things." – Asset Manager

Additionally, the political backlash against ESG has prompted investors to recalibrate their approach, moving away from vocal, label-driven questions toward more strategic, outcome-oriented engagement.

"I think there are very few ESG-only meetings today. There are a lot less dedicated teams or such meetings. We still ask ESG questions, but we do not go about it as "Ok, now we are going to ask an ESG question". We just ask business questions about matters that are material to the company. Many management teams do not realize that ESG is not just the E." - Asset Manager

This is driving investors to be more strategic as noted by this asset manager, **"the backlash has made investors take a step back, but the strategy has not changed much. It is a good thing. It is creating a pause and is causing us to consider more deeply what we should ask."** This suggests that while the discourse around ESG may be changing, the focus on sustainability and long-term value creation remains firmly entrenched. For management teams and boards, this means that ESG should remain positioned as a key element of corporate strategy. Investors want to understand how sustainability factors contribute to business growth and competitiveness, not just compliance or disclosures.

There was a particularly cautious message for investor relations professionals by one asset manager in responding to the issuers' observation. They mentioned that **"it depends on who we talk to when you have questions, the EVP [Executive Vice President] or the VP IR [Vice President of Investor Relations]. If you speak with the EVP IR, they typically are the people who speak to the street. The street does not ask ESG-oriented questions, but the VP IR is in contact with investors, and that VP gets a lot of questions. That is why there is such a disconnect. [At one point] there were probably more questions about labour force and overall morale at the issuer's business. Now sell-side people are scared of being labelled as being ESG people and ask less questions."** This is a great reminder to organizations and boards. Although the headlines may lead you to believe that investors no longer care about ESG issues, you should continue to proactively seek views from multiple stakeholders to obtain various perspectives.

Investors were explicit, the future of investor engagement lies in clear, concise, and strategic communications. CEOs and CFOs have an opportunity to demonstrate competitiveness and credibility by highlighting how they will drive long-term value, aligning with investors' growing demands for measurable outcomes and business impact, whether it is labelled as ESG or not.

The importance of a Canadian transition taxonomy for investment and competitiveness

As Canada approaches a change in political leadership with the upcoming 2025 federal election, investors stress the urgency of establishing a standardized Canadian transition taxonomy. This initiative is seen as crucial to ensuring Canada's competitiveness in the global effort toward decarbonization and to attracting investment.

A clear, unified taxonomy is vital for fostering market clarity and international confidence, with 60% of surveyed investors emphasizing its role in driving capital to Canada. Without it, asset managers warn of market-driven solutions that may be fragmented or ineffective. **"Market participants are actively waiting for this promised taxonomy, and it is getting very political when it should not be,"** one asset manager observed.

Failure to implement a taxonomy could close off critical investment opportunities for Canada's decarbonization efforts. As one asset owner cautioned, **"the worst mistake would be to start from zero,"** highlighting that delays would hinder financing options. Political gridlock, however, remains a significant risk, with concerns that a new government might restart the process, undermining momentum and market confidence.

In the absence of a Canadian taxonomy, investors are relying on international frameworks like the European taxonomy or creating their own definitions, leading to greater risks of greenwashing, lack of comparability, and increased due diligence. As one asset manager warned, **"you cannot have a Bill [C-59] against greenwashing and then no official tool to label what is truly green or sustainable."**

Investors urge the government to build on the existing work by the Sustainable Finance Action Council (SFAC), stressing that a timely, imperfect taxonomy is better than waiting for perfection. Ultimately, the creation of a standardized taxonomy is essential not only for regulatory clarity but also for Canada's long-term economic competitiveness in the global market.

Conclusion: A quiet transition, not a retreat

This edition of our study highlights a pragmatic evolution in Canadian institutional investors' approach to ESG. Despite external pressures such as U.S. political shifts, regulatory uncertainty, and anti-ESG rhetoric, Canadian investors remain committed to integrating ESG into investment strategies. The focus has shifted from public-facing commitments to internal strategy refinement, risk management, and outcomes-oriented engagement.

Key themes for 2025 include the interconnectivity between climate and biodiversity, Indigenous reconciliation, and direct, material-focused engagement with issuers. Investors are prioritizing clear, actionable business impacts over generalized ESG narratives, aligning sustainability with competitive advantage and operational performance.

The need for a Canadian transition taxonomy is also emphasized, with investors warning that delays risk market fragmentation, greenwashing, and diminished global competitiveness. As Canada prepares for political and regulatory transitions, policymakers should ensure continuity and clarity to attract investment and maintain leadership in the global market.

For businesses, this is a call to continue to embed ESG into core strategy, focusing on measurable outcomes that align with investor expectations for tangible, sustainable value creation.

Contributors

Thank you to our contributors who took the time to provide their insights on key ESG trends. Our contributors represent 27 of Canada's largest institutional investors, some of which are listed below.

About Millani

Millani provides responsible investing and corporate sustainability advisory services, including ESG integration and impact, to both investors and companies.

For the past 16 years, Millani has become the partner of choice for institutional investors and corporations alike. By providing advisory services on integrating material ESG issues into investment strategies and decision-making processes, Millani helps reduce risks, increase returns and create value. Millani also regularly develops leading thought leadership on investor and disclosure trends. The firm leverages this expertise and experience to help corporations, both public and private, create strategies, engage with stakeholders and strengthen their disclosures, supporting the organizations in their access to capital and optimization of market value.

Millani's success is founded on a bespoke, client-centric approach that focuses on material issues, practical implementation, and independent advice. Our extensive capital market experience and unparalleled expertise in ESG, and its connection to value creation, position Millani at the nexus between investors and companies—making us unique in the Canadian market.

For more information, contact us at info@millani.ca or visit our website www.millani.ca.