



## An Important Note: SRI & ESG

Socially responsible investing (SRI), Environmental Social Governance (ESG), social investment, sustainable socially conscious, green or ethical investing, are all investment strategies which seek to incorporate social/environmental considerations (regarded as positive by proponents) alongside the financial return.

Historically such strategies resulted in below average performance and so investors had to be prepared to put their conscience before their financial wellbeing. Today it appears that is no longer the case and such investment strategies have been incorporated in almost all funds and investments, but to different degrees. Allow me to elaborate.

Perhaps most importantly, all managers are well aware of the power of public opinion and the ability of the internet to galvanize large groups of people very quickly. The nightmare scenario that all business leaders, and therefore investment managers, must avoid is waking up one morning to find that the world has turned against a company and its products. As such, I would argue, that to a fair degree socially responsible investing has become a part of all investment managers' mandates. Importantly, though perhaps cynically, this result is not dependent on any social concern, nor any care for one's fellow man, nor even any minimal moral standard. This change is a result of the capitalist system which must, and does, react to market forces.

To that end, I am finding variations on the following coming from almost all of the funds with which we invest:

As shareholders, we believe strong governance is important for shareholder rights. Investors should have the ability

to be heard if management does not run the business in their best interests. **Sound environmental practices can lower risk profiles and improve financial strength.** All companies should strive to better protect the environment in which they operate. While social considerations can be approached in different ways, at our firm this analysis involves a deep look at customers and other stakeholders. We also analyze the personal moral judgments of management and feel this is an appropriate strategy in properly assessing the sustainability of a company.

In my opinion, some form of socially responsible investing lens is now imperative for all. Ignoring it is simply too great a risk.

However, the difficulty and confusion comes from different views on exactly what is socially responsible. While most socially responsible investors tend to shy away from cigarettes and guns (but not all), there is much less agreement on whether one should avoid oil & gas companies (who produce oil but who are also investing heavily in alternative energy), pharmaceutical companies (who charge high fees for life-savings drugs but are also the ones developing them), the defense industry (which builds the army's weapons that can be used offensively, but also defensively), chemical companies (responsible for developing toxic chemicals but also world changing improvements), etc. Others stay away from companies that are not unionized and some investors even shy away from companies that acquire others as this almost always results in layoffs and hardship for some.



In short there is no clear socially responsible mandate. But this has not stopped funds from advertising themselves as being socially responsible, without providing a definition. And in today's environment, such funds have attracted a lot of money. The ambiguity has gotten to the point that the regulators are reviewing the use of these terms and these funds.

My conclusion is that a specific definition will not be possible. But the realization that ignoring these considerations could result in a negative shock to a portfolio, has resulted in socially responsible considerations becoming table stakes – an imperative, minimum standard – for all investors.

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## Market Update – April 2021

COVID, vaccines and variants continue to dominate our lives and the news. This is in addition to a long list of serious problems that vie for the headlines.

The markets however are their own 'weighing' machines. The probability of an event, the severity of such an event, and the ripples from such an event, are constantly being reexamined. And this is being done for thousands of events all across markets, companies, governments, nations and people. In addition, the 'weighing' is done by human beings who are emotional and cannot help but incorporate their optimism or pessimism of the day into their calculations. As such the markets are volatile and the level of volatility will also be volatile. It will always be so.

In April, the weighing machine had to consider the lack of vaccines in Canada, the economic effect of shut downs, the desire of the US administration to spend upwards of \$5 trillion US dollars, interest rates rising unexpectedly but then reversing, record earnings across most industries, a reassessment of how people will react to being vaccinated and

resuming a life somewhat similar to what they had before ... and much more. Many of these issues existed in March and will likely exist in May. But the market's view on each will continue to change.

My conclusion, focus on the longer-term. Invest so that the odds of success are clearly and heavily in your favour. And ignore the month to month volatility.

Looking forward, we believe the economy is in decent shape, earnings continue to impress, political uncertainty has waned, volatility has fallen from its highs, inflation remains benign and interest rates remain very low. These are good conditions and we believe that there are prudent opportunities being found by for those doing the research.

We remain neutral to positive in the short term, and positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the Month, the bond market was flat, the Canadian market up 2.5%, the US market was up 3.3%, International markets were up 2.9%, the Emerging markets were down 1.4%, the Real Estate market was up 6.9% and the preferred market was up 1.5%. (Reuters 4/30/21)<sup>(1)</sup>

Year-to-date, the bond market was down 5.1%, the Canadian market up 11.7%, the US market was up 8.7%, International markets were up 7.3%, the Emerging markets were up 2.3%, the Real Estate market was up 14.5% and the preferred market was up 9.3%. (Reuters 4/30/21)<sup>(1)</sup>

Have a great month and let us know if there is anything we can do for you,

- Meir



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#### 1. Indexes shown

Bonds FTSE Canada Universe Bond Index - CAD

Canadian Equity - S&P/TSX 60 Index - CAD

US Equity - S&P 500 - USD

International - MSCI EAFE Index - USD

Emerging Markets - MSCI Emerging Markets Index - CAD

Real Estate - Dow Jones® Global Real Estate Index - USD

S&P/TSX Preferred Share Index - CAD

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