November 2020

The Strategist

CHRIS RAPER & ASSOCIATES
RAYMOND JAMES

Building A Sustainable World Through An Environmental, Social and Governance Lens
Staying Pragmatic & Recognizing the Gray

By: Alex Vozian

Most readers will appreciate that continuous improvement is part of our DNA – it is just who we are. Over the years our investment management process has witnessed multiple upgrades, so we are excited to share with you our latest thinking on environmental, social and governance (ESG) factors, and our efforts to invest in those companies that are working towards a more sustainable world. ESG has become a big part of the investment landscape in recent years and it is often referred to as socially responsible investing, or SRI. We use both interchangeably.

Long time clients will be aware that the potential investee companies we study go through a careful analysis of six major groups of factors:

1. Corporate Culture – looking at management behaviour, talent development, insider ownership, compensation that is aligned with shareholders.
2. Competitive Moat – we want companies that are really hard to displace, i.e. the disruptors and near monopolies of our time. Is the moat getting stronger or weaker?
3. Edge – do we understand the business well enough, and how likely are we to witness major negative surprises?
4. Industry Tailwinds – how favourable is the industry outlook in general, and how well is the company positioned to capture market share?
5. Dividend Growth – i.e. the "rent cheques", which are only sustainable to the extent that earnings grow over time.
6. ESG – the inclusion of "sustainable investing" (ESG) framework; is largely focused on directing money into companies that are making a positive difference in the world.

While sustainable investing became our sixth formal factor of quality in 2020, that is not to say we have been oblivious to sustainability concerns. We have never invested in tobacco or a coal company, and we would pick a Canadian natural gas company over a Saudi oil company – natural gas is cleaner and Canada's energy producing environmental standards are amongst the highest in the world. We have been capturing the corporate governance and workforce issues via our corporate culture assessment for years – our first quality factor.

Our ESG scores rely largely on the opinion of two ESG assessment leaders – MSCI and Sustainalytics. That said, we do not accept their scores without thinking. We try to stay pragmatic – while some people advocate a zero carbon world tomorrow, we think the honest answer is that we are decades away from getting there. Pragmatically speaking, natural gas is a net positive if it is replacing coal. **While many ESG espousers are vehemently opposed to nuclear power, one of the smartest guys on the planet, Bill Gates, sees the benefit of its zero carbon emissions**. Personally, Chris sides with Gates.

In short, there is a lot of grey and what we once thought to be environmentally friendly, e.g. bio-diesel, has sometimes turned out to be environmentally disastrous. We burned the rainforest to produce palm oil. Michael Shellenberger in his book, *Apocalypse Never: Why Environmental Alarmism Hurts Us All*, details a litany of such disasters, as does Michael Moore's Planet of the Humans. Yes, both have their critics and yet their research suggests that they are not totally wrong. Accordingly, we do adjust the ESG third party scores when we have a variant opinion.

One thing we can say is that we are confident that formal addition of SRI/ESG investing will serve all of us well. Here's why: we need companies that are making a positive difference in the world. The more people invest on the basis of ESG factors, the more those companies attract capital, and the higher their stock prices go – that's good for investment performance. Interest in sustainable investing has increased almost threefold in 2018 vs. 2012, while the COVID-19 health and social crisis has accelerated the growth. (Source: https://www.visualcapitalist.com/rise-of-sustainable-investing/)

What if you are in the total skeptic camp? The best quote we have heard on SRI is, "It doesn't matter what you think about ESG. The clamour will only increase, fund flows will accelerate, and we need to set our cynicism aside and be mindful of the consequences. It's going to be with us for a long time to come". In other words, buying begets buying.

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Update on the Team

As we head into the colder months, we are making an effort to maintain some normality in this new COVID era. On any given day you will find the whole team working from our office… while following all of the required social distancing and sanitizing measures, of course. While we are still restricted from hosting in-person meetings, we are hopeful that things will improve over the coming weeks and months, and we will be able to safely open our doors in the not-too-distant future.

But with this sense of familiarity comes some big changes – we recently said goodbye to two of our valued team members, Allison McMillan and John Bataller. We are grateful for the years they dedicated to us and our clients, and we wish them all the best with whatever comes next!

Stepping up to the plate is existing Raymond James talent Alexander Slade, who is assuming the role of lead trader and trade systems developer. As an additional team resource, Raymond James tax expert Debbie Wong (vice president, Tax Consulting) will be available to our clients for complex tax and financial planning situations.

2020 Year-End Tax Planning Opportunities

2020 has been one of the most unpredictable years in terms of tax administration and tax policy due to the swift passing of pandemic relief measures and unstable Canadian and U.S. governments. There has been much speculation about income tax increases in future years to recover pandemic costs. Whether those increases result in new capital gains inclusion rates, personal tax rate increases, the elimination of the principal residence exemption, corporate tax rate increases, or some other tax measures, no one can say for sure. What we are pretty sure of, is that tax rates are going up.

That makes tax planning increasingly important. Let's take action today, while the existing tax legislation is in place. With deadlines fast approaching, now is the time to take advantage of tax-advantaged investments, tax-deferred growth opportunities, and charitable giving opportunities, among other strategies, to maximize deductions and credits for your tax situation. Reviewing your investments in light of your goals, the tax policy environment, and the economic landscape can help us see where adjustments need to be made to position yourself for 2021 and beyond.

Raymond James' 2020 Year-End Tax Planning Opportunities guide outlines some of the important tax and financial planning moves that can help prepare you for the upcoming tax season, and better align your finances with your short- and long-term goals.

Specifically, it touches on the following major planning categories:

- Income Tax Planning
- Investment Tax Planning
- Financial Planning
- Retirement Planning
- Education Planning
- Additional Tax Considerations for U.S. Citizens
- Estate Planning and Charitable Giving
- Business Owners

Should you wish to discuss any of the above in more detail and/or learn how these planning strategies might be beneficial to you, please don't hesitate to reach out to one of our relationship managers, Erika or Larissa – we would be happy to schedule some time to determine the next steps.

Quarterly Reminders

Upcoming Holiday Closures

- Friday, December 25th (Christmas Day)
- Monday, December 28th (in lieu of Boxing Day)
- Friday, January 1st (New Years Day)