

CIBC SUSTAINABLE CANADIAN EQUITY STRATEGY

Portfolio commentary as of December 2023

Overview

- The financial industry continues to recognize the importance of environmental, social and governance (ESG) factors in the assessment of company and industry performance. While 2023 introduced some opposition and polarization on the subject, it was mostly just noise. Over the last year, we saw significant developments across several key areas of responsible investing.
- Climate continues to gain importance for market participants, with more direct integration of climate related considerations within the investment process. Client demand for climate specific strategies is also increasing, with asset flows increasing significantly compared to five years ago. We expect the demand for these strategies to remain strong amid favourable policy environments and long-term structural tailwinds.
- Government policy is reshaping industries, with the US Inflation Reduction Act being an example. Through tax credits and incentives, the economics of many clean industries and technologies have structurally changed, spurring investment at never-before-seen levels. In Canada, the 2023 federal budget and the National Adaptation Strategy (NAS) provided similar tailwinds to industries with key roles to play in shaping a future clean energy economy. We expect policy action to continue in the coming years, as countries continue progressing towards their net zero commitments.
- The past year has been one of maturity rather than rapid growth for responsible investing. Looking ahead to 2024, we expect continued policy maturation along with greater transparency around ESG factors, and increased focus on emerging investor issues around human rights and biodiversity. We expect the climate transition to remain at the forefront as one of the largest economic transitions in history. As these factors continue to garner attention, it's critical for asset managers to develop the capabilities necessary for including these risks and opportunities throughout the investment process to help make the most informed investment decisions for clients.

Performance

- The Sustainable Canadian Equity Fund outperformed the S&P/TSX Composite Index in Q4. Sector allocations and strong relative performance from the fund's materials and consumer discretionary holdings were the largest performance drivers during the quarter.
- Allocations to Agnico Eagle and Endeavor Mining were positive, as both names provided double digit returns in Q4, outperforming the broader Materials sector. In the consumer discretionary space, the fund's highest conviction names include Restaurant Brands and Magna, both of which outperformed the sector in Q4 as well.
- Over the quarter, markets broadly moved upwards, with 10 of 11 Global Industry Classification Standard (GICS) sectors posting positive returns in Q4. Energy was the only sector to post a negative return in Q4, which, given the fund's fossil fuel exclusion policy and structural underweight to the sector, provided a significant tailwind to performance. While this structural underweight to energy has proved challenging at times from a relative performance perspective, the strategy continues to provide investors with lower exposure to carbon risk through reduced exposure to fossil fuels and emissions. As the world tackles the climate crisis, the strategy should benefit from its low exposure to transition risk over the medium and long term.

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