CIBC

CIBC SUSTAINABLE GLOBAL 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 reman 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 technology 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 Global Equity fund underperformed the MSCI World Index in Q4. Headwinds from relative performance of the fund's financials and technology holdings were the biggest factors contributing to underperformance this quarter.
- Within the financials sector, the fund is overweight to insurance names, which underperformed other segments of the sector. An allocation to AON was the biggest headwind to performance as the company experienced some volatility after it announced an acquisition plan in December. Within technology, the fund's allocation to Samsung was a headwind, but was mitigated by allocations to Apple and ASML which both outperformed peers in Q4.
- The fund's structural underweight to the energy sector provided some benefit in Q4, as the energy sector underperformed the broader market, posting a negative return over the quarter. While this structural allocation 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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