



CIBC ASSET MANAGEMENT

# Demystifying ESG and what it means for Capital Accumulation Plans

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CIBC Asset Management Inc.



# Agenda

- 1 Why ESG is going mainstream
- 2 ESG factors in practice
- 3 What does this mean for capital accumulation plans?

A photograph of a rooftop terrace during sunset. The terrace is lined with a wall of solar panels. In the foreground, there are several wooden benches. Three people are standing on the terrace, looking out at the city skyline. The sky is filled with orange and yellow clouds.

# Why ESG is going mainstream

# ESG explained



## Environmental

- Climate change
- Environmental protection
- Water and energy use



## Social

- Health and safety
- Human rights
- Privacy and data



## Governance

- Board
- Business ethics
- Diversity

# What is ESG or responsible investing?



## ESG integration

Combining ESG factors with financial analysis can ensure that an investment opportunity properly reflects all risks and may contribute to long-term financial performance.



## Socially Responsible Investing (SRI)

Investing to align with individual values. Screening to exclude companies that do not align with an investor's beliefs, such as excluding tobacco, weaponry, or gambling companies.



## Sustainable themed investing

Investing in sustainable themes that have a material impact on society. Examples of investment themes include sustainable agriculture, clean energy, and green property.



## Impact investing

Investing in companies or projects that can have a positive impact on the environmental or social challenges facing the world. The UN Sustainable Development Goals can be used as a framework.

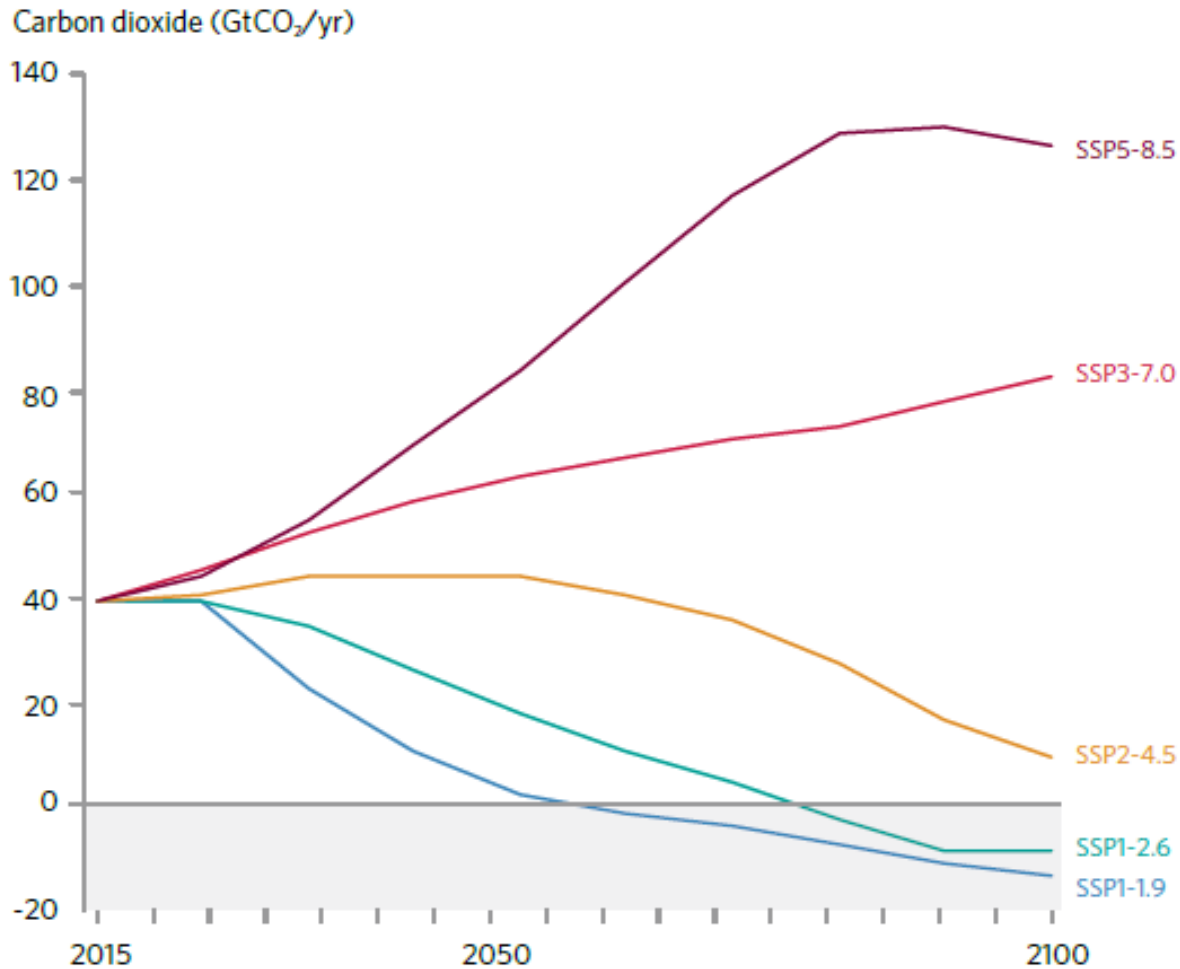


# **ESG factors in practice**

# Environmental – climate risk

Future emissions cause future additional warming, with total warming dominated by past and future CO<sub>2</sub> emissions

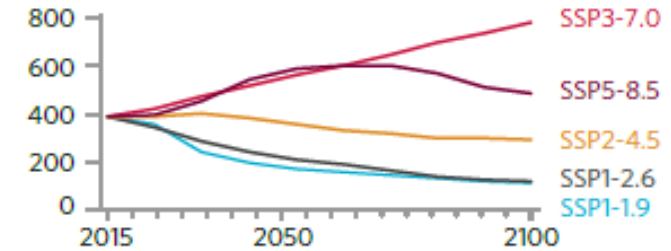
Future annual emissions of CO<sub>2</sub>



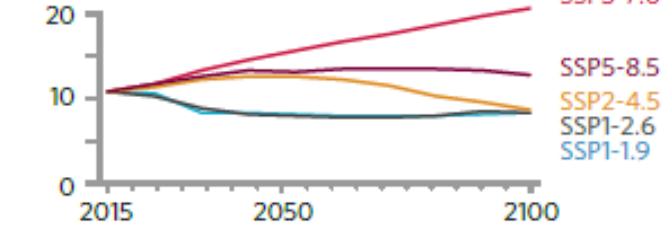
Subset of key non-CO<sub>2</sub> drivers

Selected contributors to non-CO<sub>2</sub> greenhouse gases (GHGs)

Methane (MtCH<sub>4</sub>/yr)

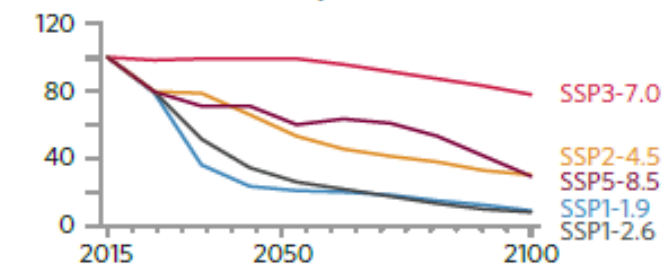


Nitrous oxide (MtN<sub>2</sub>O/yr)



One air pollutant and contributor to aerosols

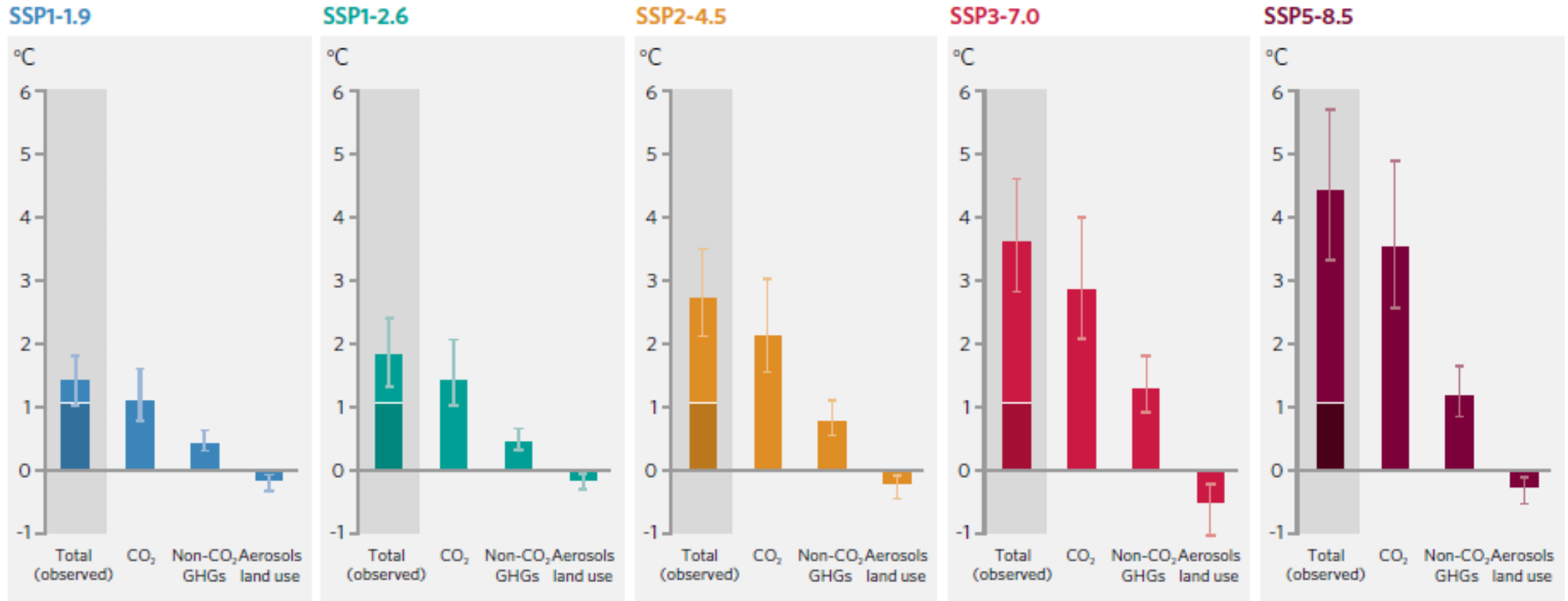
Sulfur dioxide (MtSO<sub>2</sub>/yr)



# Environmental – climate risk

Contribution to global surface temperature increase from different emissions, with a dominant role of CO<sub>2</sub> emissions

Change in global surface temperature in 2081-2100 relative to 1850-1900 (°C)



Total warming (observed warming to date in darker shade), warming from CO<sub>2</sub>, warming from non-CO<sub>2</sub> GHGs and cooling from changes in aerosols and land use.



## Environmental – climate risk

Benchmark	Network for Greening the Financial System Scenarios			Intergovernmental Panel on Climate Change Scenarios		
	1.5 degrees orderly	2 degrees disorderly	3 degrees hot house	1.5 degrees orderly	2 degrees late action	3 degrees hot house
<b>S&amp;P/TSX Composite Index</b>	-14.90%	-28.41%	-9.05%	-16.99%	-18.59%	-9.42%
<b>S&amp;P 500 Index</b>	-9.10%	-18.86%	-4.71%	-10.06%	-11.00%	-4.88%
<b>MSCI EAFE Index</b>	-17.93%	-31.43%	-15.74%	-20.00%	-21.70%	-14.94%
<b>MSCI Emerging Markets Index</b>	-29.23%	-39.39%	-22.58%	-35.26%	-35.78%	-23.97%
<b>MSCI World Small-Cap Index</b>	-17.91%	-34.09%	-10.92%	-20.05%	-21.97%	-10.71%

As at December 31, 2022  
Source: MSCI, CIBC Asset Management

## Social – Equifax

- September 2017 Equifax disclosed that a breach in systems allowed hackers to access the data of up to 145M consumers in the US, 400k consumers in the UK, and 19k consumers in Canada
- Further details arose in October 2017 that provided greater insight into the sensitivity of the data
- The fallout from the breach included significant reputational damage and included class action lawsuits and regulatory fines across all jurisdiction.
- Post breach, Equifax has made significant investments into data security and privacy measures, including a spend in excess of \$1.6B and 600 cybersecurity professionals
- The organization now has a leading and transparent cybersecurity program



# Social – Equifax



# Governance – Rogers

- Dual class shares present potential advantages and disadvantages for shareholders
- The issue was brought to light in October 2021 when Rogers faced media attention around their boardroom battle
- The media attention and legal battle resulted in share price volatility and underperformance vs the sector and questions from investors around the management team and strategy.
- Complexity of advantages and disadvantages to dual class shares requires thorough understanding of the unique governance structure of a company and an assessment of the outcome for subordinate shareholders



## Environmental and social – Pacific Electric & Gas

- From 2015-2018 the company violated codes on brush clearance and line maintenance leading to multiple wildfires
- 2018 Camp Fire was declared the largest fire in California history, resulting in 85 dead and thousands of properties destroyed
- Company filed for bankruptcy in 2019 with expected liabilities in excess of \$20B
- In 2021 the company was released from bankruptcy proceedings after reaching settlements with impacted victims' groups of approximately \$25.5B



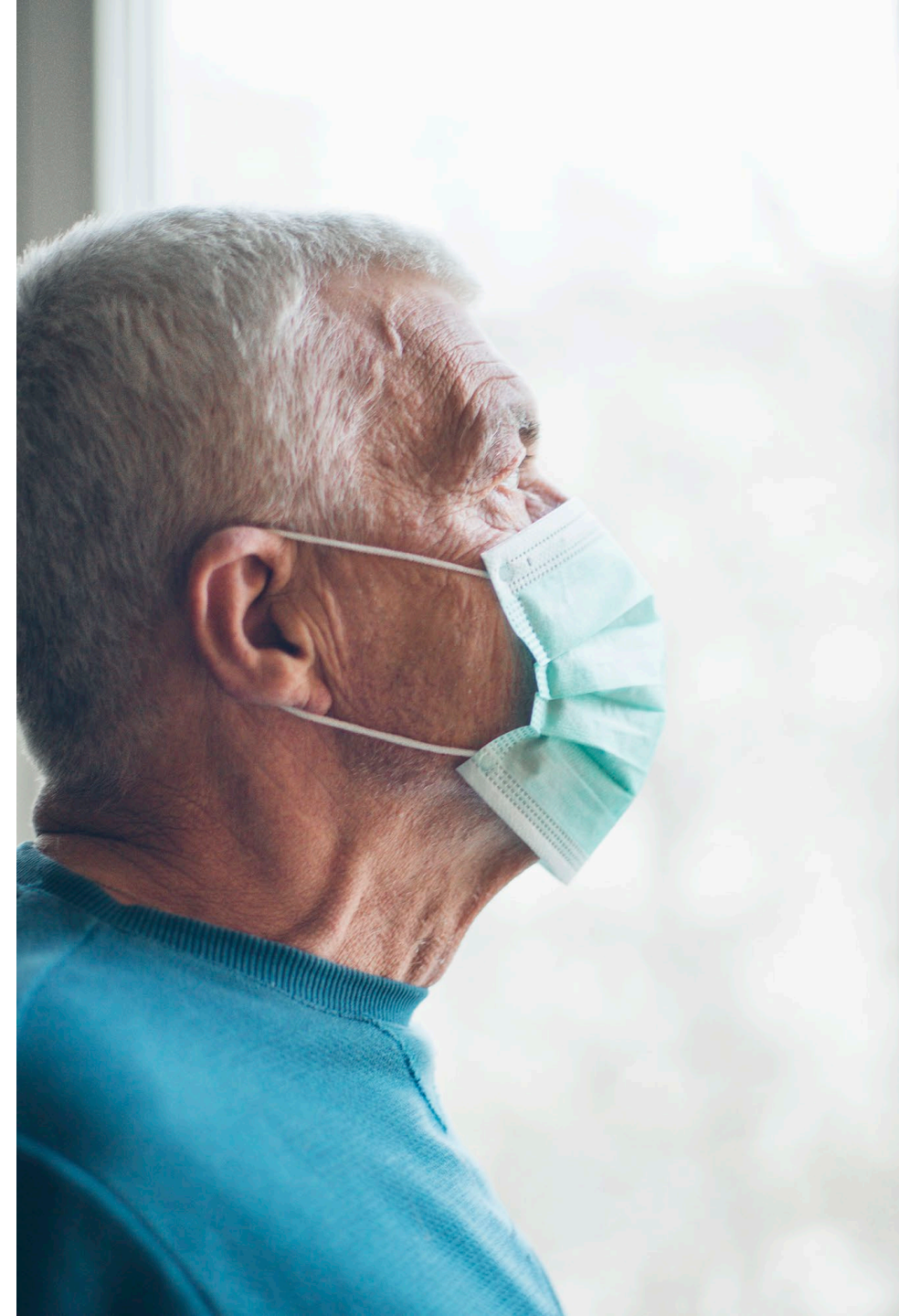
# Environmental and Social – PG&E



Date Range: Nov 2018 – Feb 2019  
Source: Refinitiv, CIBC Asset Management

## Social – Tyson Foods

- The company has been embroiled in congressional hearings and legal challenges as a result of their handling of the Covid-19 pandemic
- Tyson Foods faced allegations that they failed to follow CDC guidance to protect workers from exposure to the virus.
- Allegations arose that plant managers were wagering on the number of workers that would be infected by the virus.
- The company has faced several lawsuits from employees and their families and faced significant reputational damage as a result.
- Organizations that fail to protect employee's health and safety may face regulatory enforcement and legal costs that can impact shareholders.



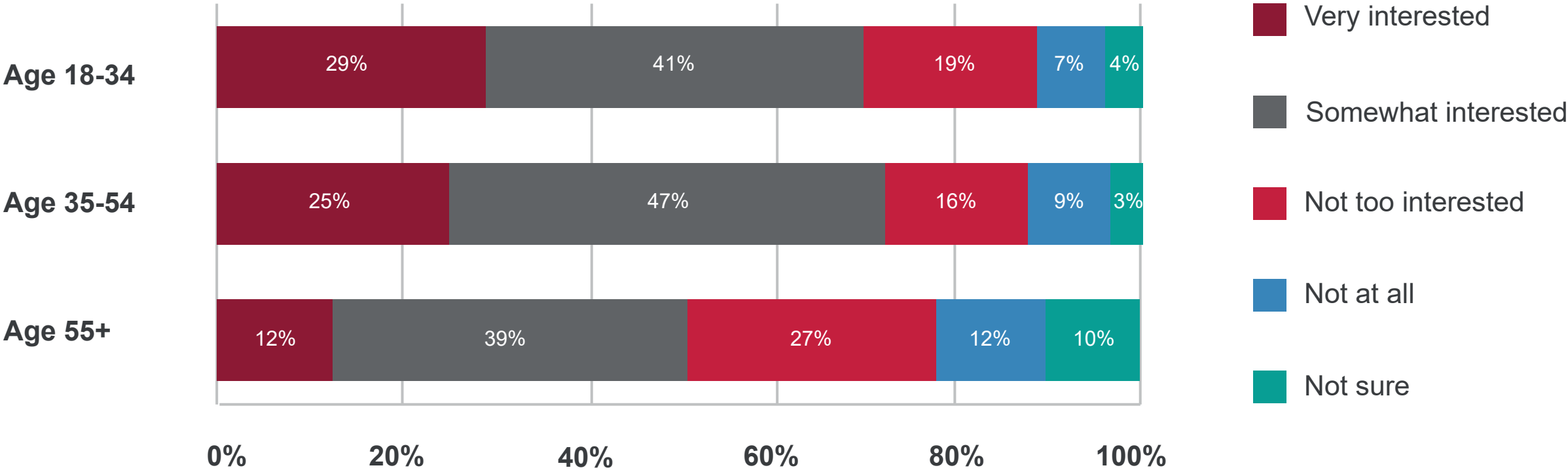


# **What does this mean for Capital Accumulation Plans?**



# Managing beneficiary expectations

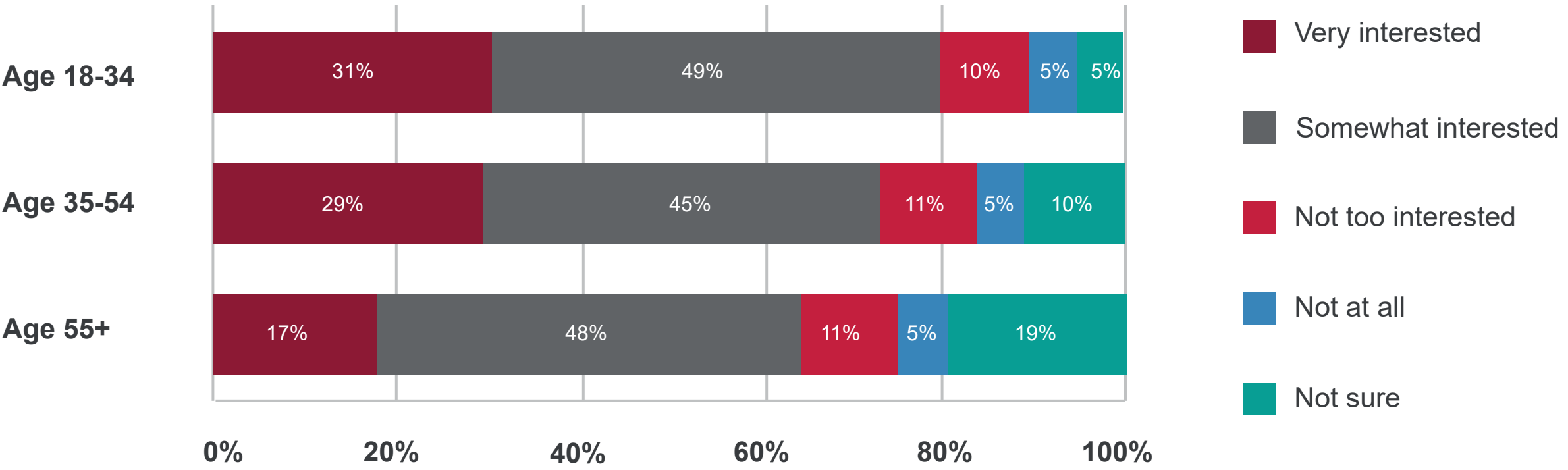
Extent of interest in responsible investments by age group



Source: RIA Canada 2022 Investor Survey

# Managing beneficiary expectations

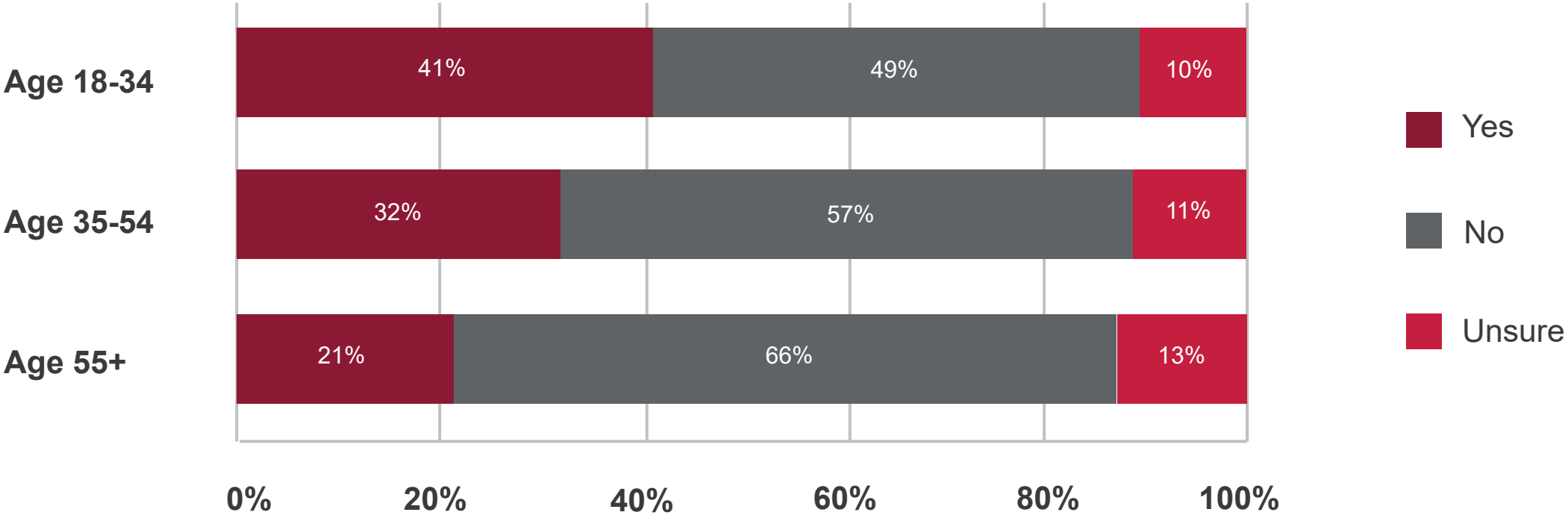
Agreement that respondents would like their financial advisor or institution to inform the about responsible investing by age group



Source: RIA Canada 2022 Investor Survey

# Managing beneficiary expectations

Percentage of respondents who have been asked if they are interested in responsible investments that are aligned with their values, by age group



Source: RIA Canada 2022 Investor Survey

# Managing beneficiary expectations

- Investors are more informed about the impact of ESG factors on their investments
- Investor values are an emerging part of the decision-making process

## How can you prepare?

- Conduct ESG training to address beneficiary questions and concerns
- Understand the record keeper's process for ESG due diligence
- Prepare resources related to responsible investing policies and ESG and stewardship reporting



**Thank you**

# Contact us

For additional information, please reach out to [aaron.white@cibc.com](mailto:aaron.white@cibc.com) or [sergio.derango@cibc.com](mailto:sergio.derango@cibc.com)



## **Aaron White**

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### **Vice-President, Sustainable Investments**

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Aaron White is a member of the Institutional Asset Management team. He focuses on sustainable investing and enhancing the firm's ESG capabilities, including policy development and implementation and client communication. He also manages and creates effective sustainable investment solutions for clients, prospects and consultants.

Prior to his current role, Mr. White held the roles of Associate Client Portfolio Manager and Director of Regional Sales with CIBC Asset Management. He consulted with financial advisors to develop investor asset allocations and optimize portfolio construction. He began his career as a Managed Solutions and Sales Support Specialist at CI Investments.

Mr. White holds a B.Ed. degree from McGill University, the Chartered Investment Manager designation, and has achieved the CFA Institute's Certificate in ESG Investing.



## **Sergio De Rango, CFA**

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### **Vice-President, Institutional Business Development**

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Sergio De Rango is a member of the Institutional Business Development team, responsible for delivering investment solutions to institutional clients. In addition to serving the traditional institutional community, he is a key resource for Capital Accumulation Plans.

Prior to joining CIBC Asset Management in 2021, Mr. De Rango was Vice President of Strategic Relationships at Standard Life Investments. Previously, he held business development and client relations roles at BMO Global Asset Management, Presima, Franklin Templeton and Manulife Financial.

Mr. De Rango holds a BSc degree in Actuarial Sciences from the University of Toronto. He is also a CFA charterholder and a member of the CFA Society of Toronto.

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