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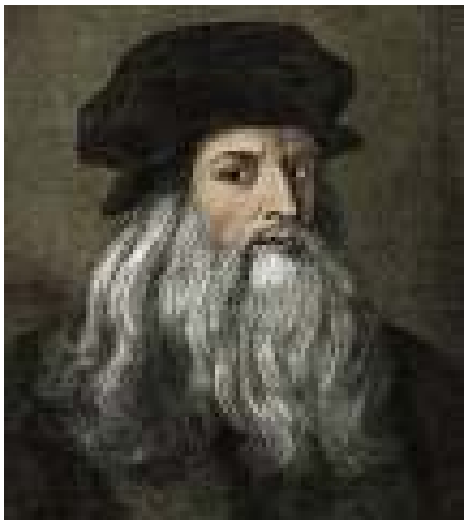
HERE'S THE THING!

We're staying with Leonardo — "Simplicity is the ultimate Sophistication", but we daren't risk keeping our heads in the sand. Some things get a little complicated and RESPONSIBLE INVESTING is one of them.



Simplicity is the ultimate Sophistication
- Leonardo Da Vinci

RESPONSIBLE INVESTING: "A LITTLE ROCKET SCIENCE HERE"

In our last issue of QUAERO JOURNAL I left you with a kind of "template" for how to think about structuring an investment portfolio suitable for your own needs. I used MY investment objectives, beliefs and risk preferences as an example and in the portfolio analytics that I provided, I noted that while "for some, there will not be enough information, I suspect that for most there will be too much". Fundamentally, I do not believe that investing needs to be a complicated business, although there are plenty of people who, to justify their own career and monetary pursuits, will lead you to believe otherwise. So here at QUAERO, we do our best to keep it simple. That said, it is at our peril that we ignore the complex, and today's subject, RESPONSIBLE INVESTING, is one of those that on its surface, is deceptively simple but when considered thoughtfully, becomes fraught with complexity.

What is "Responsible Investing"? The United Nations Principles for Responsible Investment (UNPRI) offers the following definition: Responsible Investing is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

> On 1 January 2016, 17 Sustainable Development Goals (SDGs) that were adopted by world leaders at an historic 2015 UN Summit officially came into force. With these new Goals that universally apply to all, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind, committing to the achievement of these goals by 2030. The SDGs recognize that ending poverty must go hand-in-hand with strategies that build economic growth and addresses

> a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection."[1]

The following schematic reveals the UNPRI's 17 Sustainable goals; hard to argue the probity of the implied values.

With buy-in from world government leaders, major financial institutions are following suit by adopting Responsible (ESG) Investing practices and major corporations are recognizing the need to adjust business models and management practices to keep their major shareholders, (governments, financial institutions and corporations, i.e., where the money and power reside) happy.

> In August of this year, nearly 200 CEOs ('the Business Roundtable") agreed on an updated definition of "the purpose of a corporation". Rejecting the theory of late economist Milton Friedman, who said seeking profits for shareholders would alone allow a company to prosper, keep people employed, and fuel the economy, the Business Roundtable is pulling from the idea of "conscious capitalism," which proposes that a company has a broader responsibility to society, which it can better serve if it considers all stakeholders in its business decisions.[2]

Affirming their belief in the free-market system as the basis for achieving their purpose, these companies have committed to the following 5 principles:

1. Delivering value to our customers.

[1] https://www.un.org/sustainabledevelopment/development-agenda/
[2] https://qz.com/work/1690439/new-business-roundtable-statement-on-the-purpose-of-companies/

2. Investing in our employees.
3. Dealing fairly and ethically with our suppliers.
4. Supporting the communities in which we work and protecting the environment.
5. Generating long-term value for shareholders.

Oh yes, I hear the sceptics among you regarding your disbelief in the willingness and ability of governments, financial institutions and big business to deliver on these ideals. But this time, this sceptic is choosing to believe and to put his hope in the idea that the very expression and documentation of these ideals gives communities of the world the rallying point that they need to encourage, inspire, support, argue, demonstrate and otherwise hold official bodies accountable for their actions. As we say in the investment business, "what gets measured gets managed". And finally, we have devised a meaningful measuring stick – a series of useful standards against which important players can be benchmarked, ranked and rewarded or penalized accordingly.

And guess what? We can all be players in these high-stakes games! Recently I came across an excellent paper[3] about Responsible Investing written by Peter Guay, Anthony Layton and Raymond Kerzého of PWL Capital Inc. PWL embraces "values-based investing" anchored in "evidence-based principles" that rely on scientifically proven intelligence to build portfolios targeted to capture maximum risk-adjusted returns. The paper explains the concept of ESG INTEGRATION that, as an approach to Responsible Investing, doesn't necessarily exclude poor ESG stocks but instead underweights them in favour of stocks with better ESG ratings. Numerous studies argue that by using this methodology, you can create a well-diversified ESG portfolio, free of negative risk-return characteristics. Or, if you are prepared to sacrifice optimal portfolio risk-return characteristics in favor of your ESG values, you can do that as well! And you may not be surprised that plenty of these creative solutions are now available in ETF form at reasonable prices.

CANADIAN FIXED-INCOME

50% iShares ESG Canadian Aggregate Bond Index ETF
(Ticker: XSAB, MER 0.18%)

50% iShares ESG Canadian Short-Term Bond Index ETF
(Ticker: XSTB, MER 0.18%)

CANADIAN EQUITY

100% iShares ESG MSCI Canada Index ETF
(Ticker: XESG, MER=0.20%)

U.S. EQUITY

100% iShares ESG MSCI USA Index ETF
(Ticker: XSUS, MER=0.25%)

INTERNATIONAL EQUITY

70% iShares ESG MSCI EAFE Index ETF
(Ticker: XSEA, MER=0.30%)

30% iShares ESG MSCI Emerging Markets Index ETF
(Ticker: XSEM, MER=0.35%)

As a starting point for your consideration, the PWL paper sets out a model ESG portfolio following PWL's investment philosophy by covering the total equity market, diversifying globally across a very large number of stocks and using low-cost, passively managed ETFs (see the box at left).

If the subject is of interest to you, I highly recommend the PWL paper; it's 30 pages long, well-written, very user friendly, covers the topic in depth, and you can

ACCESS THE PAPER HERE

or, you can access it on our QUAERO WEBSITE by clicking on the OUR LIBRARY/PUBLSHED WITH PERMISSION tab.

[3] Responsible Investing: Putting Your Money Where Your Values Are; written by Peter Guay, Anthony Layton and Raymond Kerzého of PWL Capital Inc., here in Montreal.

TO CONCLUDE:

PWL's "Starting Point" ESG Portfolio may, or may not, be perfectly aligned to your own investment objectives, but the point of it is to show that today, even small investors have the means to put their money (invest) where their mouth is (in accordance with their values). We can all be players with an influence on issues affecting the world's environment, social justice and governance. A tad more complexity involved in getting there, *but isn't that a beautiful thing?*

- ## OUR HOPE:

For all investors . . . sophisticated, customized and fairly-priced investment solutions. Simplicity.

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