

## Foresights from Foresters Asset Management

# A Year in Review through a Responsible Investment Lens



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Ms. Pennington is responsible for overseeing the equity, fixed income, asset allocation and alternative investment strategies for the group. In total, Ms Pennington is accountable for over \$10 billion CAD in assets under management. Ms. Pennington was previously Chief Investment Officer, Managing Director, and Head of Equities at CIBC Global Asset Management Inc, covering all portfolio management and research efforts and managed the Canadian all-cap equity mandates. Ms. Pennington has also held various senior roles at Mackenzie Financial Corp., including Chief Investment Officer at Howson Tattersall Investment Counsel, and was a founding partner of Synergy Mutual Funds.

### 2018 in Review

Foresters Asset Management (“FAM”) formally incorporated a Responsible Investment (“RI”) framework into all of our imaxx™ funds in 2018, including both our equity and fixed income portfolios. For many years, investors have eschewed responsible investing, using the excuses that responsible investing is “too subjective” or “could hurt performance”. Both of these excuses are proving to be dated concepts.

In fact, there is a growing body of evidence that thoughtfully incorporating ESG – Environmental, Social and Governance considerations into security selection actually benefits long term risk-adjusted returns. And while we recognize that there are many different opinions on what constitutes “responsible”, we believe that there are some basic good corporate “behaviours” that most investors can agree upon. In keeping with Foresters’ focus on communities, we also incorporated some basic product exclusions like tobacco, weapons, pornography and gambling. By simply eliminating the worst offenders, while maintaining diversified portfolios, we increase the quality of our portfolios, while “doing the right thing”.

### Importance of ESG in investment analysis

A company who consistently exhibits poor environmental practices, relative to others in the same industry, likely; 1) is not on top of their operations, 2) is recklessly disregarding their community or, 3) has inadequate corporate policies or governance. Quite frankly, the end result is the same. Not only are they likely to hurt the community and people around them, but from an investment perspective, they may face lawsuits, fines and/or increased regulation. You can then see how investment performance and “doing the right thing” are well-aligned over the long term.

Companies who hire and train local community members can contribute to the broader long term wealth and sustainability of a community, while reaping the rewards of a loyal work force.

Companies who embrace diversity not only expand their talent pool, but there is empirical evidence to demonstrate that companies with a diversified workforce and leadership team tend to engage in more fulsome analysis and have stronger profitability. We encourage the companies we invest in to set diversity targets, and within FAM, we believe that our investment decisions are enhanced by the broad perspectives that come with the very diverse backgrounds of our team.

Quite frankly, it took significant time and effort from our entire team to design and incorporate ESG into our investment process, but we are really encouraged by our experience so far! We have already exceeded our expectations, both in the impact that responsible investing has had on our investment returns, and in the willingness of companies to partner with us by incorporating positive initiatives that we believe, will contribute to sustainable communities over the long term.

## Partnering for Positive Improvement

We believe that by partnering with the companies we invest in, we can help influence positive change. While there are certainly companies that simply do not meet our requirements for investment, there are also many companies that are eager to accept support for making positive changes with respect to environmental, social and governance policies and practices. Where we believe we can help support these positive changes, we will engage with the company, as opposed to simply selling the stock. In these circumstances, our unitholders may benefit as the long term quality of the underlying investment is improved, and we hope, in some small way, we are contributing to a more positive environment.

## RI in Action

When we formally committed in 2018 to incorporating responsible investing into our investment processes, we eliminated a number of companies including **Wells Fargo** (business ethics, customer, employee and community incidents), **Johnson & Johnson** (customer incidents), **Alimentation Couche Tard** (tobacco), **Citigroup** (business ethics), **Lockheed Martin** (weapons), and **Raytheon** (weapons). We subsequently eliminated **Facebook** (data privacy & security issues). The ongoing controversies, particularly at **Johnson & Johnson** and **Facebook**, demonstrate how eliminating companies on an ESG basis can flag issues in a timely way, and indeed, ESG screens are frequently flagging issues and concerns well ahead of the market.

We flagged several other companies for further engagement. We believe “what gets measured gets managed”. Some smaller companies are well-intended, but may lack the resources to create best practice policies that would ensure that positive behaviours are entrenched in the long term corporate culture, even as people change over the years. We have been able to help some companies access resources to efficiently develop long term policy frameworks for environmental, safety and community engagement practices. Finally, we also flagged some companies for close monitoring, as they are showing evidence of implementing positive changes.

In the case of **Johnson & Johnson**, we did not believe we could influence change and we therefore sold the stock. The company had been flagged for product safety concerns and has been, and is, the subject of multiple lawsuits. Importantly, according to our own research and that of an external third party, Sustainalytics, “the company did not appear to have taken any material proactive measures to mitigate future associated risks”. Of particular concern were allegations that the company may have known for years of product safety concerns without taking appropriate action. The repeated nature of similar claims across a variety of products created enough concern for us to eliminate our position.

In contrast, an example of an ideal corporate partner from our perspective, has been **Killam Apartment Real Estate Investment Trust**. On the surface, Killam did not screen well based on our third party screen, mainly because of their lack of formal published and well-communicated environmental, social and governance policies. Killam is now developing, and communicating, policies to ensure the long term sustainability of their core values, including supporting affordable housing, green initiatives, charitable contributions, educational support for families, etc. The company has an energy efficiency specialist and has implemented additional energy and water saving initiatives. An ESG discussion has been added to Killam’s 2019 strategic planning meetings. Consistent with Foresters Asset Management’s philosophy of continuous improvement, the team at Killam has committed to continue to identify ways to thoughtfully incorporate “responsible enhancements” that are consistent with furthering both shareholder objectives and the health of the community. We expect that Killam’s commitment to the long term implementation of their core values will result in a significantly improved ESG rating when the company is re-evaluated in 2019. Unitholders are benefitting from the outperformance of the Killam stock held in our various portfolios.

In summary, 2018 has been a challenging year of extremes, market volatility and seemingly continuous bombardment of opposing views. It has been a true pleasure to find common ground and come together through incorporating responsible investing into our funds. While we are early in the journey, our team is encouraged by the positive experience and results so far. We are optimistic that responsible investing is not only the right thing to do but is resulting in positive long term investment decisions.

For more information, please visit [imaxxwealth.com](http://imaxxwealth.com)

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