

PALOS

CONTENTS

Weekly Commentary

Issue No. 41 | SEPTEMBER 28, 2020

ESG and Responsible Investing Part 1: The ESG Movement	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By [Charles Marleau CIM[®]](#) and [William Mitchell CIM[®]](#)

ESG and Responsible Investing Part 1: The ESG Movement

The **Responsible Investment Association (RIA)** is a Canada-based investment industry association that seeks to advance the interests of **responsible investing (RI)** amongst Canadian institutional managers, advisors, and retail investors. The RIA defines responsible investing as an incorporation of ESG principles (environmental, social, and governance) into the investment analysis and security selection processes.

ESG investing is growing in popularity. On the surface, it may seem rational to subscribe to the viewpoint that while ESG may characterize a company's values, ethics, and social conscience in a positive manner, ESG principles should bear little relevance with regards to a financial or fundamental assessment of an investment thesis. Further, for investment managers or advisors who have a fiduciary duty to pursue the most suitable or most attractive risk adjusted returns, it appears sensible that financial criteria should take priority over ESG. However, there is more to this story than meets the eye. As the ESG movement gathers momentum, more investors are incorporating ESG criteria when choosing how and where to invest.

By some estimates, assets directed towards ESG mandates grew to over USD\$30 trillion in 2018 (source: The Global Sustainable Investment Alliance). As ESG screening grows, we believe companies that choose to disregard demands for ESG accountability are likely to struggle in sustaining capital investments and in attracting investor interest. Several pension funds, endowments, and sovereign wealth funds have gone on the record and stated their intentions to divest from companies that are not committed to higher principles of ESG. In an RIA investor survey, it was reported that 82% of investors would like to dedicate a portion of their investments to responsible investing and 77% agreed that companies that adhere to RI principles make for better long-term investments.

With responsible investing mandates in growth mode, one of the issues that requires attention is how can investors measure adherence to a company's stated ESG claims? While many companies have begun to incorporate ESG information into their reporting, how can investors filter between what information is accurate or credible and what information is not? Additional challenges for ESG screening relate to jurisdictional variances where matters pertaining to environmental standards and labour laws differ. What constitutes ethical behavior in one society may not apply to another. We've all heard stories about companies headquartered in a 'first world'

By Charles Marleau CIM[®] and William Mitchell CIM[®]

jurisdiction consciously evading domestic legal constraints by operating in a country with less stringent laws. The impact of such behavior is being taken more seriously by ESG conscious investors and governments alike.

To address these issues, the CFA Institute is among numerous organizations in the process of developing ESG disclosure and reporting standards that aim to provide ESG conscious investors with material information in a transparent fashion and with credible data. While we laud this initiative, we recognize that such initiatives are in the early stages and face many challenges. In subsequent publications we will take a deep dive into the impact ESG will have on investing mandates well into the future.

Next issue: *We will continue with our reports on ESG investing in forthcoming editions of our weekly newsletter. Next week, we'll take a look at the "E" part of the ESG equation.*

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.62	-4.77%
Palos Equity Income Fund - RRSP	PAL101	\$5.47	-3.18%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$8.85	15.65%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.95	-13.77%
S&P TSX Composite (Total Return with dividends reinvested)			-3.53%
S&P 500 (Total Return with dividends reinvested)			3.53%
S&P TSX Venture (Total Return with dividends reinvested)			20.65%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.65%
Canadian Government 10-Year			0.54%
Crude Oil Spot			US \$40.25
Gold Spot			US \$1857.80
US Gov't10-Year/Moody BAA Corp. Spread			270 bps
USD/CAD Exchange Rate Spot			US \$0.7470

¹ Period ending September 25, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 41 | SEPTEMBER 28, 2020

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca