GROW TOGETHER

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President & CEO
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President's message

By Matt Evans, CFA
President & CEO
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This issue of ***Grow Together*** marks my first at the helm of CWB Wealth Management. You will notice that change is a theme throughout.

It's a theme which feels particularly suited to this moment – certainly for me personally, as I've taken on an exciting new role with our fantastic team, and more broadly for the team as a whole. As portfolio managers and planners, we are navigating a change in global economic trends with the impact of the COVID-19 virus. The recent change in relations within the OPEC+ oil pricing cartel has now incited further market volatility. While these changes in circumstance are well beyond our control, our responsibility to clients is to understand what has changed, separate the signals from the noise, and respond in a manner which creates long-term value.

> **"The task of leadership is to drive positive change. The art of leadership is to drive change without sacrificing order – to drive change that creates more value for our clients and our people, without creating undue disruption."**

These macroeconomic factors and market forces represent changes that come at us from the outside. As a client-focused organization with a growth mindset, we are also willing to proactively bring positive change into our own lives.

Our recently announced acquisition is a perfect example. On March 3rd, we announced that CWB will significantly expand our wealth management presence, our investment offering and our comprehensive financial planning capabilities for high-net-worth families across Canada with the acquisition of T.E. Wealth and Leon Frazer & Associates. Both are deeply established and highly respected investment counsellors with trusted client relationships, in many cases going back several generations. T.E. is a clear leader in complex financial planning with focused capabilities in corporate financial education and executive financial counselling, as well as indigenous financial services. Leon Frazer brings a rich heritage in dividend-focused investing, and adds valuable diversification to our established in-house asset management capabilities. While we are excited to bring these compelling new dimensions to our client experience, and it may broaden what we can do for you in the fullness of time, I would like to clearly underline that the acquisition does not change anything in the relationship between you and your advisor.

Coming into my new role, and with the prospect of acquisition-related growth coming into view, the responsibilities of leadership have been much on my mind. Here, too, we can stay with our theme. The task of leadership is to drive positive change. The art of leadership is to drive change without sacrificing order – to drive change that creates more value for our clients and our people, without creating undue disruption.

At CWB Wealth Management, we forthrightly acknowledge this tension with a pair of complementary statements comprising two of our five core values. ***Embrace the new*** is our core value recognizing that change is everywhere around us, and better is always possible. Next to this, ***the how matters*** is our complementary value statement to acknowledge that how we do things is as important as what we do. We must always balance risk and reward, and never pursue change for its own sake.

That speaks to another aspect in the art of leadership: to be clear about what will not change. Every successful organization has signature attributes that should be cherished and protected. For us, it's our commitment to put people first in all that we do; our commitment to challenge ourselves by building inclusive teams with diverse points of view; and our recognition that the quality of our results extends from the quality of our relationships, with clients and with one another. ***People first, inclusion has power*** and ***relationships get results*** round out our core values for CWB Wealth Management. Faced with change from outside and in, these are the through lines that will bind our past to our present and our future.

So what particular kinds of change do we address in this issue? Scott Blair and Imran Usmani both tackle the accelerating change frontier for portfolio management represented by environmental, social and governance (ESG) factors. Scott probes whether the trend is here to stay (spoiler alert: it is), and Imran explores the impacts of ESG factors for a specific portfolio company. Jim Grant shares the decision-making frontiers we face in managing the change from the accumulation to income phases of our retirement planning journey.

Growth is the residue of change. At CWB Wealth Management, we are growing every day to better meet your needs. With that, I am pleased to welcome you to our latest issue of ***Grow Together***.

Is responsible investing a fad?

By Scott Blair, CFA
Head of Research
CWB Wealth Management

Over the years, we have seen many investment trends rise in prominence. Some stand the test of time while others turn out to be fads. One trend that has been steadily gaining prominence for more than a decade, but only recently jumped into the mainstream, is Responsible or ESG investing.

ESG stands for Environmental, Social and Governance. Examples of key issues for ESG investors include carbon emissions (E), human rights (S) and board diversity (G). Last year alone it attracted over $20B in new money into U.S. mutual funds and ETFs. Although ESG funds still comprise less than 1% of the assets under management in U.S. funds, the increase in 2019 was four times the inflows in 2018. So what is behind the growth?

By far the biggest driver of the ESG trend revolves around our changing views on climate change. According to a global study by Pew Research Center, 67% of respondents in 2018 viewed climate change as a major threat to their country. That is up from 56% from 2013. This shift in attitude is driving some investors to seek out companies that do not just provide good return potential, but also act in a responsible way for all stakeholders.

Applying ESG investing can take many forms. Some investors choose *divestment* from whole industries. For instance, those concerned about climate change may choose not to invest in the fossil fuel industry by divesting all oil, gas and coal assets. Large investors, like pension funds, may choose *engagement* by meeting with companies they are invested in to get them to improve their practices or disclosures. The most popular method is *integration*, which involves looking systematically and consistently at ESG factors in investment analysis.

When it comes to divestment, Bill Gates said it best “divestment, to date, probably has reduced about zero tonnes of emissions”. The issues around climate change are incredibly complex and can lead to conflicting and confusing decisions, which can lead to opportunities.

For instance, the disdain for fossil fuels has made it incredibly difficult to build new pipelines in Western Canada, but the lack of new pipelines has caused curtailments which has led to job losses and low economic activity. Furthermore, we now ship more crude by rail, which is far less environmentally safe than pipelines. Parts of Canada import oil from nations in the Middle East, which have poor human rights records (fail on the S in ESG). All the while, existing pipelines become even more valuable as investments, which creates opportunities.

> **“ESG investing is definitely not a fad.”**

We do not consider ESG investing new. Good investment managers have been looking at these factors for decades and we practice *integration* in our investment process at CWB Wealth Management. Integration encourages companies to release sustainability reports and share more information with investors about their ESG impacts. As investors, we like more information from companies as it helps us better understand risks and rewards of potential investments. After all, it is important for us to have knowledge on factors like how management is compensated, whether a company has a positive safety record, and how climate change may affect company operations.

ESG investing is definitely not a fad. It is promoting real positive change by bringing a multitude of issues to light. For instance, public companies are now on top of risk in their supply chain around human rights, they take diversity more seriously by putting more women on boards, and, of course, they are monitoring their carbon footprints and making commitments to lower them.

The world is changing, but there is only so much investors can do. Many of the hot button ESG issues require decisions at the government level. Our job is to assess the value and quality of the potential investments we commit our client’s capital to. To do so, we look at all relevant information and risk factors, which includes integrating ESG, as a critical part of our investment process.

Decarbonisation: With challenges come opportunities

By Imran Usmani, CFA, CPA, CA
Research Analyst
CWB McLean & Partners
Wealth Management

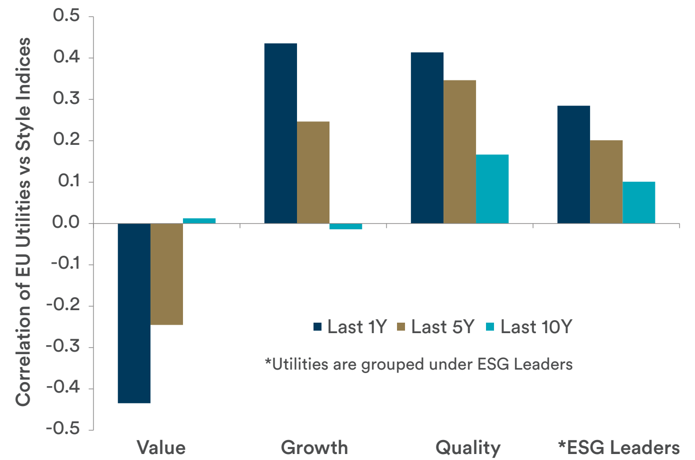
With ESG becoming a more pronounced theme, the European Utility sector is receiving increased investor attention. The sustainability debate is expected to widen over time to cover a broad range of ESG-related topics, one of the main areas of focus at present is the theme of decarbonisation.

According to the Environmental Protection Agency (EPA), electricity production generates the second largest share of greenhouse gas emissions. Traditionally, a large proportion of electricity came from burning fossil fuels such as coal. The European Union has been at the forefront of implementing climate change strategy and setting targets for progressively reducing greenhouse gas emissions by 2050. One of its member countries, Germany, adopted its coal exit law on January 29, 2020, which plans to end coal-fired power generation by 2038.

The changing regulations and increased investor focus on decarbonisation has had important implications for Utilities and for our holdings in the sector, including a German Utility, RWE. As Utilities have begun transforming their business models to conform with the new regulations and climate change targets, they also stand to potentially be the biggest beneficiaries of the ESG or decarbonisation theme. Notably in terms of stock price performance, Utilities have become less correlated to value, and more correlated to ***growth*** and ***quality*** factors in the last decade (Figure 1).

To understand how ESG created an opportunity for us in our International Equity Pool, we have to revisit our initial thesis on the name. We initiated a position in RWE in early March 2018. At the time, our thesis was predicated predominantly on value. We felt that RWE on a standalone basis was trading at an extremely cheap multiple with an adjusted EV/EBITDA multiple of 2x. In our view, the market was not giving due credit to the impact that legacy power plant closures, such as nuclear and coal, would have on electricity prices.

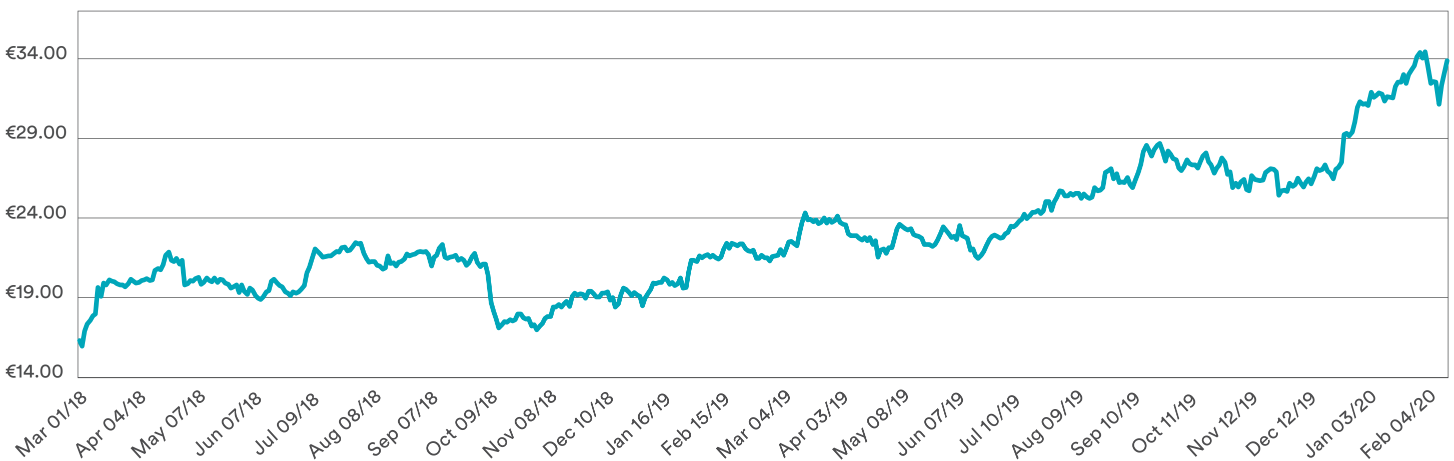
Figure 1: Utilities Correlate Closer to Growth & Quality



Source: MSCI, Morgan Stanley Research

A few days after we initiated our position, RWE and EON (another German Utility and holding of ours) announced a transformational asset swap deal. EON would acquire RWE's network infrastructure assets (the electricity transmission lines) and RWE would take over EON's renewable power generation business, while also retaining its own renewable assets. While our initial thesis was predicated around the closure of a value gap, it now revolved around a longer-term secular theme. RWE plans to continue increasing its renewable asset base. RWE's performance since our initiation is shown in Figure 2. Even after the stock's run, the company trades at an EV/EBITDA multiple of ~8x, which is still much cheaper than more established pure renewable stories. For instance, another European Utility, Orsted, trades at 14x. This is a good example of how an increased focus on sustainability factors, which can be seen as a challenge, can also create opportunities for us in current holdings that traditionally may not have been as ESG friendly.

Figure 2: RWE Stock Price Data as of March 04, 2020



Source: Capital IQ

Retirement income? You have many options!

As you move from accumulation to the income phase of retirement, now may be a good time to consider how risk plays a role.

By Jim Grant, CFP®, CIM®, FCSI®
Senior Planner
CWB Wealth Management

How should I allocate my retirement assets? What tools are available to reduce my risk? Are there alternatives to a Registered Retirement Income Fund (RRIF)? How much should I draw from my corporation or how long should I even keep my corporation?

There's an old adage about what your asset allocation should be as you get older. The rule of thumb was to take 100 minus your age and the difference is what should go into equities. So, a 20 year old would have 80% in equities, whereas an 80 year old would have 20% in equities. That somehow seems reasonable unless the dwindling amount of equities means that your portfolio doesn't generate enough return to sustain itself into a long retirement. Actuarially speaking, a 65 year old female might live past age 90, meaning you could be financing retirement for over 25 years - even longer with an early retirement!

There are many ways to save for retirement, even more if planning includes corporate assets. We will discuss two strategies: Registered Retirement Income Funds (RRIF) and a Corporate Estate Bond strategy.

Registered Retirement Income Funds (RRIF)

Your traditional options for a maturing Registered Retirement Savings Plan (RRSP) are to deregister the plan and take it in cash, convert it to a RRIF or to an annuity inside your RRIF. Converting it to cash would be the least tax efficient choice for most people. The entire amount would then be fully taxed on the withdrawal and cause you to invest that money in a tax exposed manner, unless you have contribution room in your Tax Free Savings Account (TFSA).

A more popular choice is to convert the RRSP to a RRIF and invest in a way that meets your comfort level. With RRIF minimum withdrawal calculations, you could receive your payment annually, semi-annually, quarterly or monthly. With these scheduled withdrawals, you will inevitably be forced at some point to take money out in a down period, leaving less assets to grow with the hope to make up for those losses in time. The sequence of returns as you withdraw those funds has a direct effect on the length of time your money will last, especially if the losses are in the early years. As such, a common trend is to use a blended approach. One option to mitigate the risk of down markets is to use a portion of your RRIF to purchase an annuity to generate a minimum payment. The remainder of your RRIF could be invested into equities to combat the effects of inflation and potential growth.

While there are attractive features to both annuities and RRIF withdrawals, each also have drawbacks. As a comparison, the minimum RRIF withdrawal on $500,000 for a 65 year old will produce a minimum monthly payment of $1,667. This will change based on the age and the size of the account, as it is impacted by the gains or losses of the investments within. The RRIF will eventually run out of money or, it may have a residual amount which could pass to a beneficiary or form part of the estate of the deceased. On the other hand, a registered annuity for the same individual may produce a monthly income of $2,495. This amount will continue for the life of the annuitant or to the designated beneficiary for the remainder of the guaranteed period, whichever comes last.

Corporate Estate Bond Strategy

For those with corporate assets, this strategy requires your corporation to use its surplus cash to purchase a life insurance policy. By replacing the taxable investments with a life insurance policy, you will increase the funds available to your heirs when you pass, reduce the amount of current and future tax your corporation pays, and create a mechanism to move funds out of your corporation tax-free when you pass on. This isn't just a death benefit advantage, the living benefit is that the corporation isn't paying out non-eligible (taxable) dividends from the company. As the cash within your policy accumulates on a tax-deferred basis, the death benefit payable under the policy increases. When you pass on, your corporation receives the proceeds of your policy, tax-free. The corporation receives a credit to its capital dividend account for the amount of the life insurance proceeds, less the insurance policy's adjusted cost base. Dividends can then be paid out, tax-free, to your estate out of the capital dividend account. Figure 3 is a sample illustration of a client comparing a $300,000 investment versus five deposits of $60,000 to fund the insurance policy. The $909,260 advantage of using the Corporate Estate Bond Strategy can be impressive.

As you can see, there are many creative ways to generate income beyond the traditional conversion of an RRSP to a RRIF at retirement. There are several options that can lead to a more risk-controlled environment and certain tax advantages.

It is recommended that you meet with a qualified financial planner to help you understand your present financial situationYou may have further questions from there. We invite you to have a conversation with our Wealth Advisory Services team to determine how we can help your family and your business.

Figure 3: Funding a Corporate Estate Bond

Age	Annual Deposit	Fund Value	Death Benefit	CDA Credit	Net Estate Value
61	$60,000	$ 44,916	$1,044,916	$995,984	$1,032,955
62	$60,000	$ 95,500	$1,095,500	$993,690	$1,067,582
63	$60,000	$ 154,672	$1,154,672	$993,313	$1,103,942
64	$60,000	$ 221,907	$1,221,907	$995,190	$1,142,218
65	$60,000	$294,925	$1,294,925	$999,794	$1,182,775
80		$229,355	$1,229,355	$1,035,553	$1,155,710
85		$ 68,735	$1,068,735	$947,103	$1,027,511

The comparison is between an exempt life insurance policy and an alternate investment account within your corporation. We are illustrating the Net Estate Value to highlight the advantage of considering insurance as part of your overall wealth strategy. The illustration, based on a 60 year old male, compares the net estate benefit from a corporately held life insurance policy with cash value growing at 4% vs an alternate passive investment within the corporation. The make up of the assumed alternate portfolio is 60% fixed income, 10% dividends, 15% deferred capital gains and 15% unrealized capital gains growing at an overall rate of return of 4.5%. We have assumed five $60,000 annual deposits to fund a $1,000,000 death benefit life policy vs an immediate deposit of $300,000 within the corporately held alternate investment portfolio. We've assumed the personal dividend tax rate to be 38% and the Corporate tax rate on passive income to be 50.67% for Alberta. Calculated using Yearly Renewable Term (YRT) as our cost of insurance option.

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