

ALL PORTFOLIOS MAKE AN IMPACT—
IS YOURS POSITIVE OR NEGATIVE?



ABOUT GENUS CAPITAL



Genus Capital Management Inc., Canada's fossil free investment leader, was founded in 1989 and is an independent investment management firm based in Vancouver. We are passionate about creating innovative investment solutions that meet our clients' changing needs. With more than \$1.6 billion (as of Dec 31, 2019) in assets under management, our clients include leading environmental organizations, foundations, institutions and individuals across Canada.

Some years ago, as the effects of climate change became more apparent around the world, some of our clients, such as the David Suzuki Foundation, began to see the impending environmental impact of their investments. As a result, Genus started building sustainable portfolios over 20 years ago. In 2013, we enhanced our socially responsible strategies and created Genus Fossil Free® to better align clients' investments with their values and help address some of the world's pressing socioeconomic and environmental challenges.

Today, Genus Capital is at the forefront of Canada's Divest-Invest movement, with a complete suite of Fossil Free® funds tailored to meet the needs of investors looking to divest from the world's worst polluters and invest in a sustainable, clean energy future.

ALL PORTFOLIOS MAKE AN IMPACT.



Investors are making a positive impact or a negative impact on society and the environment with each allocation of capital. Many investors screen out industries or companies that don't align with their values or they may integrate environmental, social, and governance (ESG) risks into their investment process. They do this in order to remove the negative impact. Other investors strive to make a positive difference through impact investing.

Instead of doing positive impact investing and negative impact screening, we need to start optimizing a unified overall score –your net impact. This net impact score accounts for the destructive nature and the beneficial nature of investments in one metric.

IMPACT OF INVESTMENTS



Individual investments can be negative and positive toward the world. Investments, such as stocks in tobacco or other harmful industries, are destructive to consumers' health, employees, and/or the environment. These investments have a negative impact on the world. The reverse is impact investments in areas such as education, innovative health care, or renewable energy. Companies in these industries are making the world better, safer, and cleaner. Some examples of positive impact investments in the Genus Fossil Free High Impact Equity Fund are below.



RenewableEnergy
ie. VestasWind



GreenBuildings
ie. BerkeleyGroup



EnergyEfficiency
ie. Citrix



HealthCare
ie. JazzPharmaceuticals



Education
ie. BenesseHoldings

There is also a grey area since some companies have both positive and negative impact. Many utility companies emit large amounts of carbon by burning fossil fuel but also have a solar or wind power division. Food companies can have junk food brands and nutritious food brands.

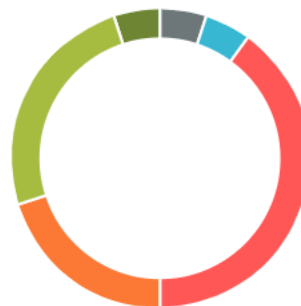
HOLISTIC IMPACT

PORTFOLIO APPROACH

Portfolios as a whole can also vary between negative and positive impact. In order to figure out the net impact, we need to look at the entire portfolio. Just having a few positive impact investments doesn't mean you necessarily have a positive net impact.

Portfolio Example

Seeking Climate Action Impact



If this investor is targeting Climate Action impact...

Contributors:

Green bonds, Cleantech VC
& some impact in equities

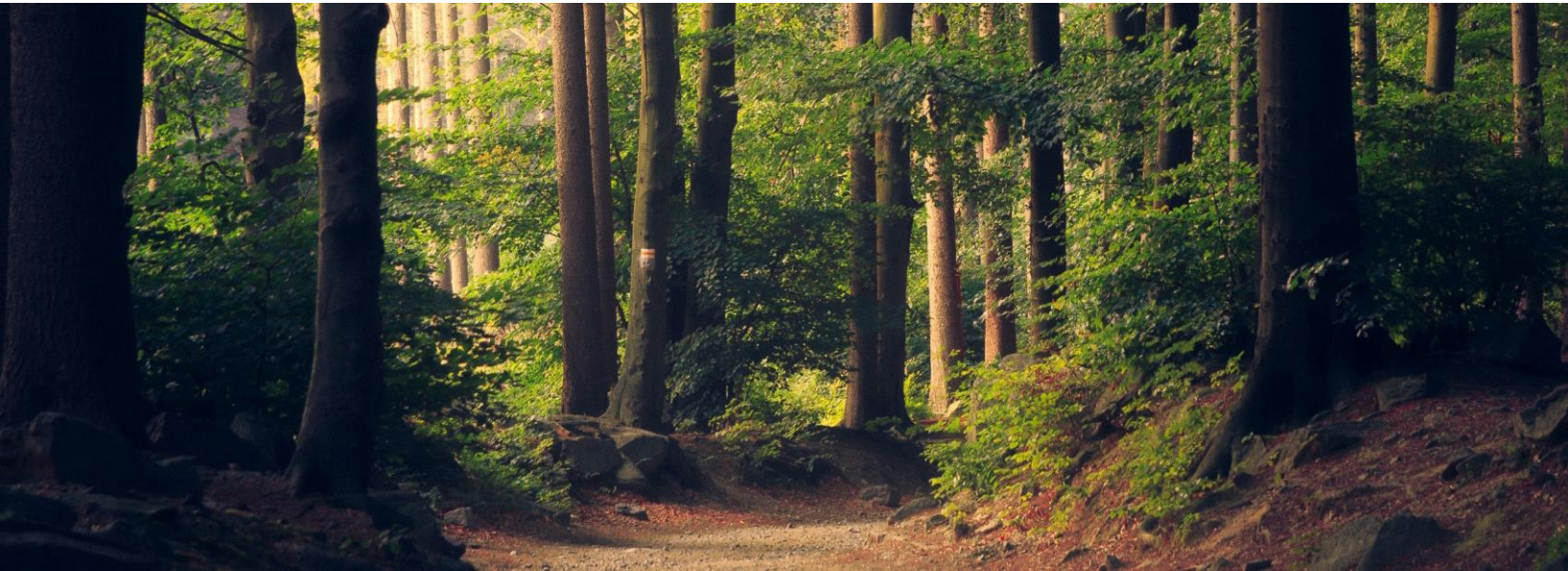
Detractors:

TSX (30% fossil fuels), Global
equities (10% fossil fuels) &
Canadian bonds (energy, utilities)

 **Overall Negative
Net Impact**

In the example above, the investor is seeking climate action impact so is holding 5% of the capital in a cleantech VC fund and 5% in green bonds. These investments could be making a lot of excellent impact in the area that the investor is passionate about. However, the portfolio also holds Canadian and Global funds that will hold a lot of securities that counter-act any climate action impact. The investor is better off looking at the entire portfolio and trying to increase the net impact, instead of just the positive impact.

HOW DO WE FIND⁷ NET IMPACT?



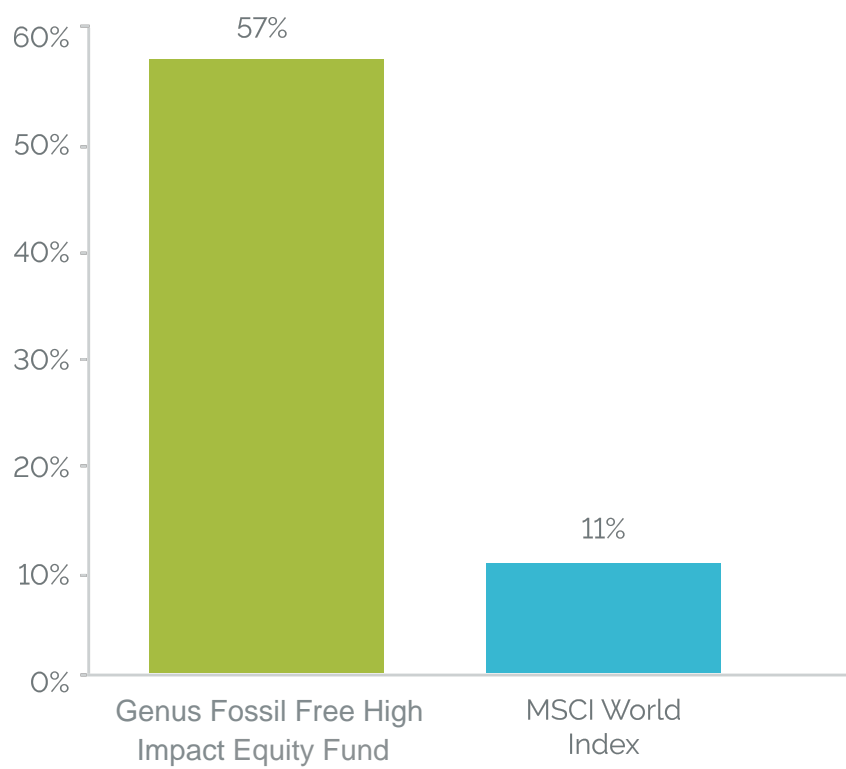
One of the top impact framework norms (in 2020) has been linking impact to the UN Sustainable Development Goals (SDGs). These are 17 goals confirmed by the UN in 2015 which vary from Health and Wellbeing to Climate Action.

United Nations Sustainable Development Goals



Some investors and asset managers, including Genus, rate a company’s positive impact based on the portion of its revenue that comes from an impactful product or service that contributes to an SDG. For example, Vestas Wind Systems makes all of its revenue through designing, manufacturing, and installing wind turbines so its impact revenue is 100%. It is contributing to Affordable and Clean Energy. Other companies may have an impactful business line, such as a technology company with an energy efficiency project, so impact revenue may be just 20-30%.

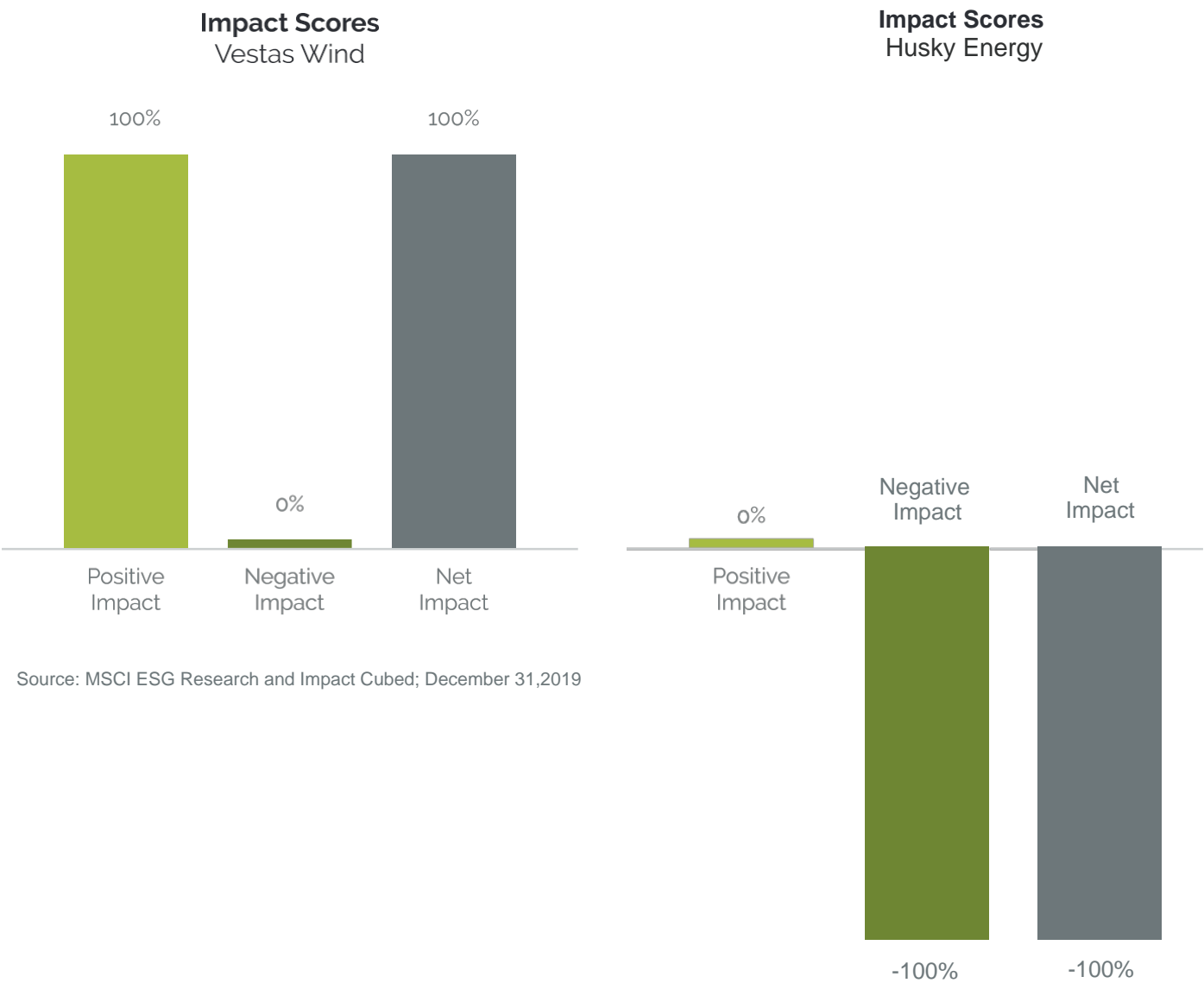
For a portfolio, we can take the weighted average impact revenue of the holdings to determine the total positive impact. The portfolio positive impact revenue for the Genus Fossil Free High Impact Equity Fund is 57% vs 11% for the MSCI World index (as of Dec 31 2019).



Source: MSCI ESG Research and Impact Cubed; December 31, 2019

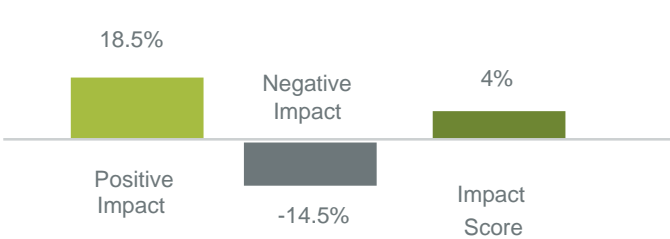
Measuring positive impact is important but we need to integrate the negative impact as well in order to get the holistic view. Using the same SDG framework, we need to determine the portion of revenue from destructive products. In order to do this we worked along with the data provider Impact Cubed to determine the product and services that are negative and calculate the portion of negative impact revenue that is made by each company.

Some companies have a lot of impact. Vestas Wind is 100% positive and Husky Energy is 100% negative.

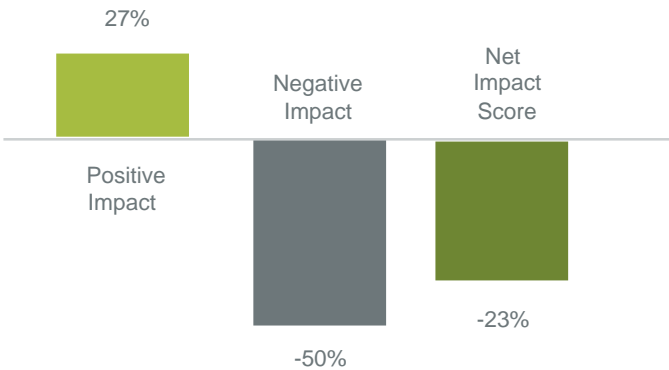


Many companies have a mixture or have neutral revenues.

Impact Scores
XcelEnergy



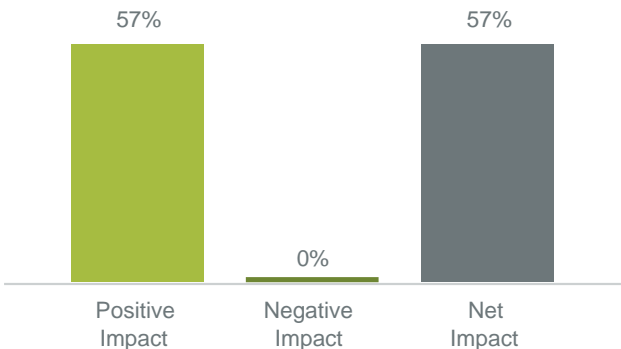
Impact Scores
Nestle



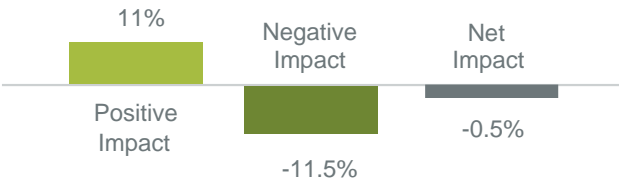
Source: MSCI ESG Research and Impact Cubed; December 31,2019

For portfolios, the net impact score varies significantly. The Genus Fossil Free High Impact Equity Fund strives to optimize positive impact and has no negative impact so the net impact is 57%. MSCI World, the benchmark for the Genus Impact Equity Fund, has positive impact of 11% but negative impact of -11.5% . The net impact is then -0.5%.

Impact Scores
The Genus Fossil Free High
Impact Equity Fund

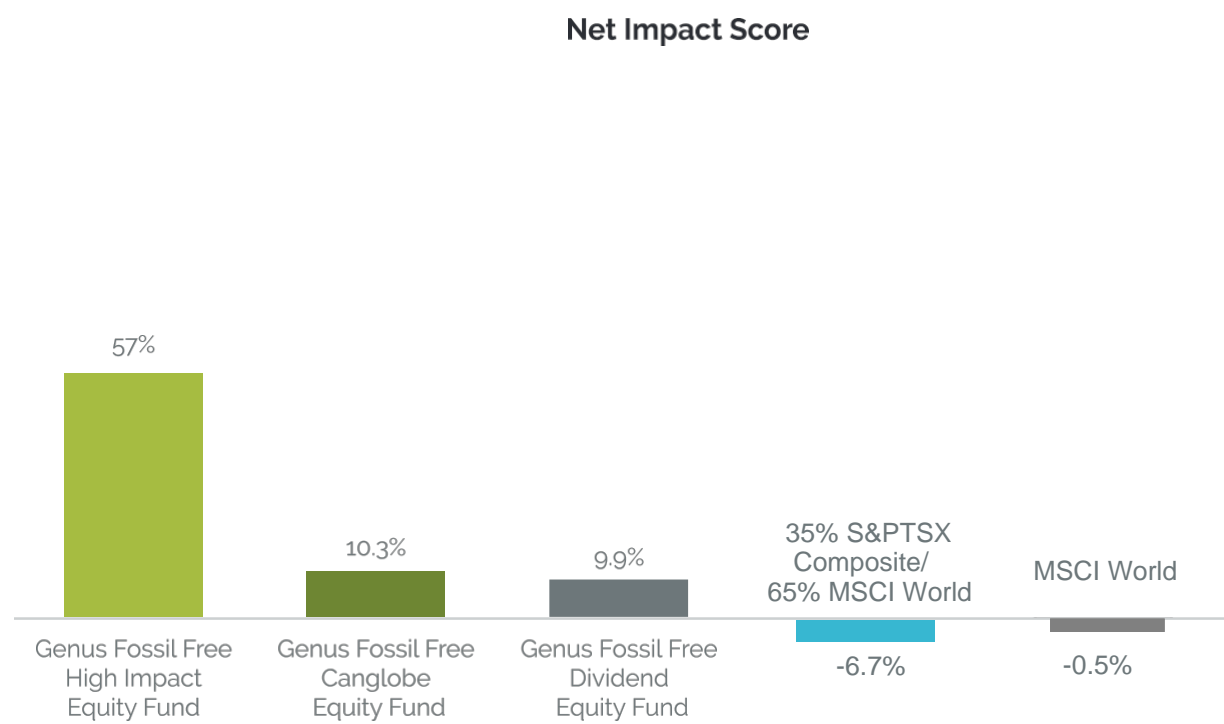


Impact Scores
MSCI World



Source: MSCI ESG Research and Impact Cubed; December 31,2019

The Genus Fossil Free Canglobe Equity Fund and Genus Fossil Free Dividend Equity Fund focus on lowering negative impact so they have a negative impact score of 0%. When you add the positive impact revenue, these funds have net impact scores of 10.3% and 9.9%. Their benchmark, 35% S&P TSX Composite/65% MSCI World, has a net impact score of -6.7% mainly due to its larger negative impact.

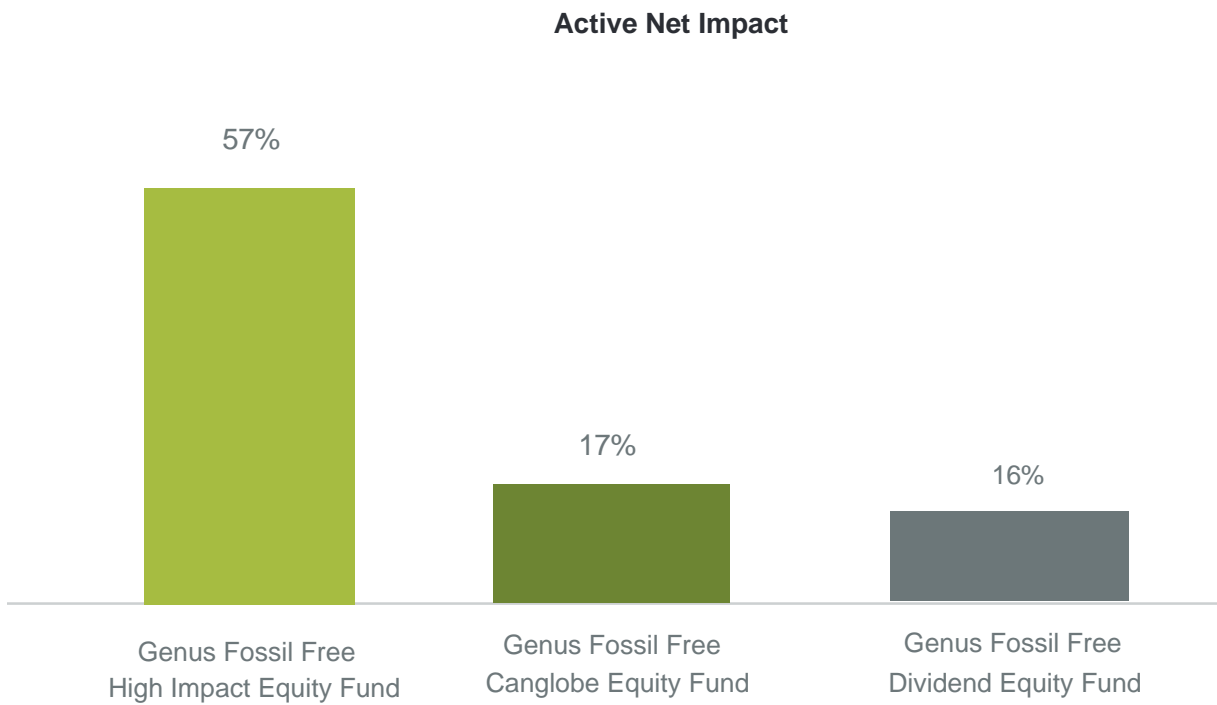


Source: MSCI ESG Research and Impact Cubed; Decemeber 31, 2019

Many other sustainable and impact funds in the industry have positive impact holdings but also hold negative impact companies, such as oil producers and junk food. Therefore they would likely have low net impact scores.

Just as investors review active financial returns to compare their portfolio’s return to the market, investors can also review their active net impact. Active net impact is a portfolio’s net impact minus the net impact of the benchmark. This allows an investor to figure out how well they are performing on a relative basis.

Since our Genus Fossil Free funds have a net impact higher than the benchmark, they have a positive active net impact.



Source: MSCI ESG Research and Impact Cubed; Decemeber 31, 2019

IN CONCLUSION



Net impact is what actually matters.

Investors that want a positive impact need to not only increase the “good” investments but they need to decrease the harmful investments.

All portfolios are impact portfolios.

What is the impact in your portfolio?

IMPORTANT DISCLOSURE

The information contained within this document was compiled from sources Genus believes to be reliable and accurate. We provide this information with the understanding that we are not engaged in rendering legal, accounting, or tax services. In particular, none of the examples should be considered advice tailored to the needs of any specific investor. We recommend that all investors seek out the services of competent professionals in any of the aforementioned areas. With respect to the description of any investment strategies, simulations, or investment recommendations, actual results may differ as described in our materials. Past performance is not indicative of future results. Every investment program has the potential for loss as well as gain. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision.

© Genus Capital Management Inc., 2020