Rebalance with sustainable investments

Event Summary

Our recent webinar on sustainable investing featured insights from the Mackenzie Greenchip Team (on equities) and the Mackenzie Fixed Income Team (on bonds).

Key takeaways from the event

- Investors are already paying attention to equities, but the vast majority of the energy transition will be financed by debt.
- Labelled debt includes green bonds, social bonds, sustainable bonds and sustainability-linked bonds. Each issue includes a specific "use of proceeds" which is audited. Annual issuance of labelled debt now surpasses that of the entire US high yield debt market.
- Demand for power management equipment has steadily increased. Simpler semi-conductors have seen much higher demand but low supply, which presents an attractive investment opportunity.
- There has been a huge increase in the production and sale of solar modules. There was 140 GW of installation in 2020, 178 GW in 2021. Installation in 2022 topped 260 GW, blowing past expectations of 200 GW. Estimates for 2023 are now over 300 GW, with expectations for much higher growth in the future.
- Nuclear energy now accounts for about 10% of global power generation, with just over 400 reactors around the world. However, with an average age of around 40-50 years old, significant investment is needed to refurbish existing power plants and build new ones. This solution requires governments to partner with large industrials and may present a good long-term investment opportunity.

Why it matters

- Companies adapting from an environmental perspective have seen greater stability in both their stock price and credit rating.
- 2022 was the worst year for fixed income on record. Yet in terms of relative performance, the green bond sleeve outperformed its benchmark by more than 650 bps, demonstrating exceptional downside protection.
- In recent years, investors have expressed more interest in labelled bonds vs. traditional bonds. As a result, labelled debt has often been over-subscribed. This has helped stabilize prices, as seen in the sell-off of March 2020, when labelled debt and high-quality debt held up better than other types.
- A well-diversified energy transition portfolio must look beyond wind and solar, which garnered over $300 billion (USD) in investment last year. More than $1 trillion (USD) was invested into renewable infrastructure, industrial efficiency and other clean technologies.
- The Fixed Income team participated in the world's first ever conservation bond, colloquially called the "Rhino Bond". The aim of this bond is to finance activities to protect and increase the population of the critically endangered black rhino, while also contributing directly to biodiversity, and bringing jobs to local communities in a rural and underserved region of South Africa. In addition to the coupon paid by the World Bank, the bonds pay extra basis points depending on the growth of the rhino population: as the black rhino population grows, investors are rewarded with additional yield from a very safe, low-risk investment.

What you can do

- Investing in the great energy transition through both the debt and equity may be the most prudent approach for most investors. A balanced fund, like the Mackenzie Greenchip Global Environmental Balanced fund, can accomplish this with lower levels of risk than an all-equity approach.
- The strategy's sector and geographical exposures are very different from most benchmarks. The equity exposure is overweight industrials and utilities, while the fixed income sleeve provides broader sector exposure. Geographically, the equity sleeve is overweight Europe, the locus of most environmental innovation, and underweight the US. In the fixed income sleeve the strategy is underweight Europe and overweight North America, where better green bond opportunities are currently found.
- In 2022 the fund returned -6.1% (net), beating 91% of peers as well as its benchmark by 890 bps, while demonstrating excellent downside protection during a prolonged down market (performance figures from Morningstar, from January 1, 2022 to December 31, 2022). See Fund details for more information.
- The Greenchip and Fixed Income teams have been investing with a sustainable lens for much longer than many other management teams in Canada, for more than 15 years and five years, respectively.

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