MARKET COMMENTARY

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"Kingwest's success can be attributed to three principles that the firm has abided by for over 35 years: put the client first, think sensibly, be patient."
- Richard Fogler, CIO

Investment Manager Profile

Kingwest has been investing capital in Canadian and US securities markets through 7 market cycles with one consistent investment process and we have been earning returns well above what the market indices have delivered over a comparable time frame.

We manage $1.7 billion on behalf of institutional and high net worth clients.

Kingwest has grown under stable employee ownership since 1982. Long-term thinking drives our approach to investing, building client relationships and growing our business.

Investment Philosophy

We believe an actively managed, value based approach, using clearly defined and consistently applied thinking offers investors the best opportunity for long- term outperformance.

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Sustainability and Investing for the Long Term

Richard Fogler, Chief Investment Officer
Tim Regan, Managing Director

In the first nine months of the year our Canadian Equity portfolio rose 19.4% and the US portfolio jumped 16.4% in Canadian Dollars. This is roughly 2% ahead of the markets on both sides of the border.

The robust post pandemic recovery in the markets seems to have paused for now. Where will the market go in the short-term? As always we don't know, but our focus on the longer term gives us great confidence in our portfolios looking two to three years out. The economic recovery may be choppy but it is well under way and will continue for another year at least. While yields moved higher late in the quarter, rates are extremely accommodative and remain low compared to historical standards.

During the quarter in the US we exited Lazard Ltd as the stock price approached our appraisal value and we made new investments in Fiserv (US) and Superior Plus (Canada) – both attractive on an as-is basis and both should add substantial shareholder value over the coming years.

At Kingwest, we look at the world from the perspective of a business owner. Investing in public securities is after all just buying a fractional ownership of a business. We believe the most sensible way to approach investing then is from the perspective of the whole business, as an owner would.

Why you may ask? Do you take better care of a house you own, or a house you rent?

Owners invest for the long-term, renters have a shorter view. Owners may sacrifice near term profitability while investing in developing enduring assets, renters seek to maximize the near term. Owners are concerned about their environment; renters seldom are.

In this letter we want to discuss how this long-term, owner mindset applies to our focus on environmental, social and governance issues (ESG).

Kingwest committed to the United Nations Principles for Responsible Investment four years ago, "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

Risks related to environmental, social, and governance issues can have a measurable effect on a company's market value, as well as its reputation. Companies have seen their revenues and profits decline, for instance, after worker safety incidents, waste or pollution spills, weather related supply chain disruptions, or as other ESG related incidents come to light. ESG issues have harmed some brands, which can account for a large portion of a company's market value. Are companies today positioned to succeed in the face of risks stemming from long-term trends such as climate change and water scarcity?

When ESG factors focus on risk management, the process is to exclude companies, sectors, or geographies that are particularly risky with respect to ESG factors. Investing with sustainability in mind reduces risk.

But does sustainable investing sacrifice superior returns?

We believe sustainability is about making a positive impact with everything we do, from how we act as a firm to the investments we make on behalf of our clients. In our portfolios our goal is value creation, in everything we buy and everywhere we buy it. We have the power to help create a sustainable and more prosperous world for all through our role in the financial system by allocating capital to areas that seek to deliver both social value and maximize investment value.

Sustainable investing looks not only at the profit a company generates but also how it generates that profit. Reported profit is not the end; it is only the beginning. Thinking this way involves a fundamental shift in the conventional way that companies are viewed, and valued.

A company's activities can present risks that may translate into financial costs. Identifying these risks and opportunities helps us calculate their real long-term potential earning power. For instance, we have steered clear of investing in tobacco stocks even though they have on many occasions over the years looked cheap on the surface. Over time tobacco stocks have performed remarkably well. But in our view a business that kills its customers is unsustainable. It is just a matter of time, and that time is unpredictable, but when the time comes the market will recognize the destructive nature of the business and mark the stock prices accordingly.

There are three main techniques for portfolio construction and management: negative screening, positive screening, and proactive engagement. At Kingwest we use a combination of the three but mostly emphasize proactive screening.

Negative screening is primarily used to constrain risk. It entails excluding companies, entire sectors or geographies based on their performance with respect to ESG factors. Negative screening was the basis for many of the earliest sustainable investing strategies. The availability of ESG data (for example, carbon emissions) now allows investors to apply more nuanced and sophisticated screens, filtering out companies that do not meet their standards or are below industry averages for particular ESG factors.

Where value creation is a focus, then positive screening — integrating the financial implications of ESG performance in fundamental analysis — is the most warranted technique. With this approach, many of the same research and analysis activities that we perform to choose high quality assets are extended to cover material ESG factors. In this way, we can seek out assets with outstanding sustainability-related business priorities such as high energy efficiency.

We also try to improve the performance of portfolio companies in dialogue with management about potential improvements. During our regular company meetings ESG issues of one type or another always form part of the conversation, whether it relates to reducing fossil fuel intensity or other ways to build profitability.

At Kingwest, we each have the responsibility for ESG related issues as part of our research effort. It is normal course for us to fully account for all drivers of risk and return and those include ESG factors. Our Investment Committee meetings focus on the risks associated with each potential and existing investments and those risks have always included ESG related factors. So, we don't just look at reported revenues or profits — the key is what problem the business is solving for its customers: does it increase societal efficiency while creating value for customers? Companies that create value will be rewarded with new revenue and profit opportunities.

We have always looked at our investments in terms of decades, not days or quarters, or even years. Put simply, what is the point of passing on wealth if future generations are to inhabit a degraded world? So, when asked if we should aim for higher returns or responsible investing, our reply has always been that they are two sides of the same coin.