CIBC Sustainable Canadian Equity Strategy

Portfolio commentary as of March 2025

Overview

- The 30th Conference of Parties, where signatories of the Paris Agreement will meet to discuss progress, will be hosted in Brazil at the end of 2025. It will be an important milestone for the global ambition to achieve net zero emissions. We expect Carbon Dioxide Removals (CDR) to be an important part of the discussion and overall plan to scale decarbonization efforts across markets and believe they will be an increasingly essential part of achieving global climate ambitions as energy systems and industry move towards net zero. As a result, the CDR industry is undergoing rapid maturation in order to achieve the scale required for achieving these goals. Estimates for the required today and of removals in a net zero economy are as high as 10 gigatons per year by 2050.
- Nature-based CDR solutions are proven and feasible technology-based should continue to scale accordingly as they mitigate the worst effects of climate change in the near-term. Certain novel or technology-based CDR solutions are viable today at a smaller scale, but more innovation and improved economics will be required before they are commercially viable. Under the current landscape, we see nature-based solutions dominating the CDR market until at least 2030 but anticipate novel CDR will continue to improve from both a technological and cost perspective, resulting in increased market share over the long term.
- Overall, we believe that CDRs are a key sector in the transition economy, and a combination of nature-based, novel, and hybrid approaches will be needed to address residual emissions in 2050 and beyond. While the current investment universe is limited, strong support from market participants have the industry poised to scale and grow, enabling greater liquidity and transparency within carbon markets. We believe this will ultimately result in a larger opportunity set for investors in the coming years as the role of CDRs in climate transition plans and global decarbonization efforts becomes clearer.

Performance

- The Sustainable Canadian Equity fund outperformed the S&P/TSX Composite Index in Q1, mainly driven by strong relative performance from the fund's holdings across several sectors, including Materials, Industrials, Consumer Staples, and Communication Services.
- Within Materials, overweight allocations to gold producers was a significant tailwind, outperforming during the quarter as gold prices rose to record highs, likely driven by a flight to safety amid broad economic uncertainty. Other top performers included Waste Connections, Quebecor, and Maple Leaf Foods.
- Despite gains early in the year, only 4 of 11 GICS sectors posted positive returns in the quarter – Materials, Utilities, Energy, and Communication Services. In addition, dispersion between the top and bottom performing sectors was large. Impacts of the fund's sector positioning was negligible in Q1, despite Energy being the third-best performing sector. The strategy continues to provide investors with lower exposure to carbon risk through reduced exposure to fossil fuels and emissions.

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