

2020 – The Year Stakeholder Governance Mattered



January 20th, 2021

Dear Honeytree Community,

From the onset our focus at Honeytree has been to invest in the most responsibly growing companies. Our investment process identifies those companies where long-term financial success is inextricably linked to making a direct positive impact on the environment, employees, supply chains, customers and society as a whole. We invest in companies that are purpose driven and operate with strong stakeholder governance.

Stakeholder Governance Drives Long Term (And Short Term) Outperformance

Companies that put employees, customers, communities and the environment first practice stakeholder governance. One problem the investment industry faces when attempting to integrate ESG considerations into their investment decision making is an unwavering belief in shareholder supremacy. This belief has fueled the idea that capitalism and impact are at odds, when in fact they are completely interdependent.

In 2020, the COVID pandemic brought a singular focus to those companies that were able to demonstrate care for their stakeholders. Some companies took extraordinary efforts to keep employees on and provide hazard pay, while others furloughed their employees. Some put employee safety first, when others disregarded it flagrantly (and advocated against it publicly) with a misguided and singular focus on short-term earnings. Some companies executed well on their disaster plans and others fumbled through.

Net Positive Impact

Below are three examples of measurable impact from companies in our Global Equity Strategy. Note that they all impact both stakeholders and the bottom line.

Illinois Tool Works (ITW) has made diversity an organizational priority, and they have been able to execute on it. In the two charts on the right, we can see their year over year change in ethnic and gender diversity in leadership roles. This level of organizational change creates real impact on the firm, employees and communities.

Progress, especially in increasing diversity in leadership below the board level is difficult for any company. We regularly see large, progressive tech companies with large HR departments who are not able to make much of an improvement year over year. This is because one, it is hard, two, they have not made it a core organizational priority, and three, they are not stakeholder governed.

ITW Diversity Data for Top 1000 Leadership Roles (Ethnic & Gender) 2012 vs. 2019



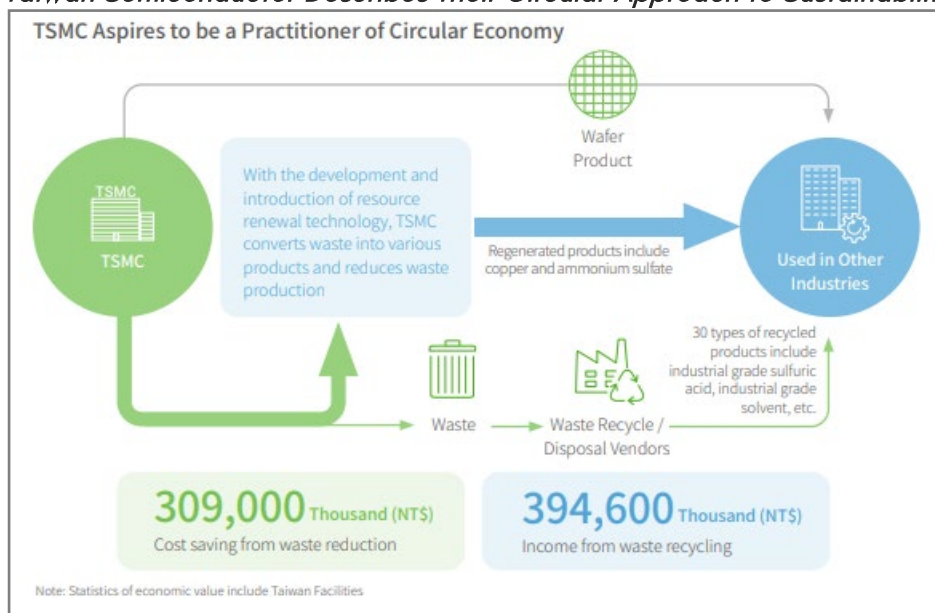
One of the new additions to our Global Equity strategy, **Edwards Lifesciences**, added in November, realized it had to change the way parental leave was used to create a better culture and retain employees over the long term. Edwards started reporting on parental leave by gender and encouraged men to take it. This addressed an issue where men were less inclined to take parental leave, and women were seen as less committed for taking it. More equitable parental leave has been shown to improve overall corporate culture and results in better retention and promotion of women. Edwards saw a 100% increase in men taking parental leave.

Edwards Lifesciences Parental Leave By Gender, 2016-2019

Parental leave								
In 2019, Edwards continued to offer all U.S. employees the opportunity to take parental leave.								
	Male				Female			
	2019	2018	2017	2016	2019	2018	2017	2016
U.S. employees 40 or under**	1305	1,102	1,022	1,291	1535	1,266	1,154	1,565
Employees who took parental leave	93	43	37	26	126	111	129	101
Employees who returned from leave	93	43	37	25	126	108	123	97

Taiwan Semiconductors demonstrates leading environmental practices with its “circular economy” approach to manufacturing. In order to truly reduce negative environmental impact, companies need to reduce inputs and outputs across their entire system from sourcing, production, emissions, transportation and the physical footprint of offices and facilities, Taiwan Semiconductors has invested heavily in renewable energy to reduce emissions, has an ambitious program to track, reclaim and reuse chemicals in the manufacturing process, and collaborates with business partners to develop waste recycling technologies in order to increase the amount of waste water recycled and reused.

Taiwan Semiconductor Describes Their Circular Approach to Sustainability



Stakeholder Governance and Impact Drove 2020 Outperformance

The companies in our Global Equity Strategy made a strong net positive impact on their stakeholders while demonstrating consistent and strong growth in their financials. We looked at company language in financial disclosures during the early parts of the pandemic, specifically the frequency of stakeholder mentions for companies in our Global Equity Strategy, and the results are displayed in the heart image on the right. The language used by the companies we hold in their spring financial reporting was focused first and foremost on stakeholders.



Honeytree Global Equity Strategy – Year End Performance To December 31, 2020

The Honeytree Global Equity Strategy outperformed the global index in 2020, returning 22.9% vs. 15.9% for the index (in US Dollars). Since inception, May 6, 2019, the strategy has returned 34.3% vs the index's 27.1%. The strategy underperformed significantly in Q4 2020 due to a lack of exposure to energy and banks, which outpaced all other sectors during the quarter.

Honeytree Global Equity, Net Returns, in US Dollars

	Q4	2020	Since Inception (May 6, 2019)
Honeytree Global Equity	8.22%	22.90%	34.33%
Global Index	13.96%	15.90%	27.06%

Our belief in purpose driven companies and stakeholder governance was clearly demonstrated as a driver of performance, even short-term performance, in 2020. Evaluating companies solely on short or long-term financial information misses a large part of why they succeed. The impact companies make on their stakeholders is inextricably linked to their financial success. A company's ability to manage their debt capacity, increase their free cash flow, and gain market share is an output of their stakeholder focus as an organization.

We anticipate the long-term turnover of this strategy to be between 20%–30% annually, however turnover in 2020 was closer to 50% for two key reasons:

1. Debt, which we are always very cautious about, became a bigger issue given the economic slow-down. We look at debt due in 5 years vs. cash on hand plus free cash flow. Both Diageo and International Paper were sold in the spring due to this concern. Although both have high quality credit, both faced the highest capacity constraint related to their near-term obligations.
2. Companies reacted poorly under stress – this was the case for Adidas which was sold in the fall. Adidas made numerous fumbles in 2020 not limited to having to step back from a government debt offering because it would limit their dividend, and having their head of Diversity resign for a lack of understanding of inclusion. Amgen, also sold in the fall, faced a congressional hearing on their executive compensation and drug prices. We now have the debt crisis of 2008, plus the pandemic induced economic disruption, to screen out high risk operations.



Honeytree Canadian Equity Strategy – Year End Performance

The Canadian Equity Strategy returned 38.8% vs. 4.7% for the TSX in 2020. While close to half the return came from Shopify, only 1 out of 12 companies in the strategy underperformed the TSX. Much like the Honeytree Global Equity Strategy, the Canadian Equity Strategy underperformed in Q4 due to no exposure to energy and financials, both of which led sector performance during the quarter. Our only bank holding across all the strategies, Equitable Group (the 1 out of 12 that underperformed the TSX during 2020), returned almost 35% during Q4 vs. just over 5% for Shopify.

Honeytree Canadian Equity, Net Returns, In Canadian Dollars

	Q4	Since Inception (Jan 1, 2020)
Honeytree Canadian Equity	2.28%	38.81%
TSX Composite Index	8.76%	4.73%

Honeytree US Equity Strategy – Year End Performance

We launched the Honeytree US Equity Strategy Jan 1, 2020. The strategy returned 20.7% vs. 17.75% for the S&P 500 over the period, lagging in the 4th quarter for the same reasons as the Global and Canadian strategies. The US Strategy also had less exposure to tech (which performed the same as the market during the quarter) and higher exposure to consumer sectors (which underperformed during the quarter), and is much more concentrated than the Global.

Honeytree US Equity, Net Returns, In US Dollars

	Q4	Since Inception (Jan 1, 2020)
Honeytree US Equity	2.51%	20.71%
S&P 500 Index	12.01%	17.75%

Portfolio Metrics at December 31, 2020

	Global Equity	Global Index	Canadian Equity	TSX Index	US Equity	S&P 500
Positions	20	1585	12	222	10	505
Average Mkt. Cap	\$80.0bil	\$13.4bil	\$10.7bil	\$12.1bil	\$119.3bil	\$66.1bil
Yield	1.28	1.78	1.29	2.95	1.14	1.52
Weighted Avg. Carbon Intensity (T-CO2/\$mil sales)	45.9	162.4	167.3	347.12	51.4	186.8
P/E Forward	29.91	20.97	20.42	24.22	28.5	27.53
US Domiciled Stocks in Portfolio	65%	66%	32%	0%	100%	100%

Honeytree has had an exciting year. We continue to onboard private clients into our strategies in Canada while working with potential institutional investors globally to secure our early institutional commitments. In 2021 we will be registering with the SEC, allowing us to build our business in the US with advisors, institutions and private clients. US institutional allocators are rethinking their manager selection processes in order to increase the assets allocated to diverse owned asset managers (currently around 1%), and we hope Canada one day follows suit.

We look forward to continued success in 2021.

Paula Glick & Liz Simmie

