

ODLUM BROWN REPORT

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Investing for Generations®



Doing Good is Good Business

The following was adapted from Equity Analyst Stephen Boland's Annual Address presentation, available on our website at odlumbrown.com.

Jackie Robinson was a terrific ball player: a league MVP, a six-time All-Star and a World Series champion. But what he's best known for is breaking the colour barrier. In 1947, he became the first African American to play Major League baseball in the modern era. His commemorative statue outside Dodger Stadium includes the following quote: "A life is not important except in the impact it has on other lives."

It's an inspirational notion on a personal level and applies to companies too. Businesses have a tremendous impact on others. They impact their employees, shareholders, the communities in which they operate and the environment. This impact gets considered in ESG investing, which stands for Environmental, Social and Governance. ESG investing has gained prevalence, and it essentially looks at whether a company is a good corporate citizen.

More and more, we're asked if we at Odium Brown consider ESG factors when making investment recommendations. The answer is yes! We have to when making long-term decisions. If someone buys a stock and plans to sell it in six months, they may not be interested in how that company behaves because they probably won't be around to see the consequences. As long-term investors, we tend to own companies for five or 10 years, sometimes more, and are therefore more likely to experience the impact – good or bad – of a company's actions.

We don't want a company dumping chemicals in a lake; eventually, they're going to have to clean it up. We don't want a company mistreating its employees; turnover is costly, and so is bad morale. We don't want a company cutting corners on safety.

Remember the BP oil spill? In 2010, an oil rig exploded in the Gulf of Mexico. Eleven people died, a hundred million gallons of oil leaked and a thousand miles of coastline was damaged. An independent report on the incident found that the disaster was preventable, but BP "did not possess a functional safety culture." Simply put, the company was too focused on short-term profit. BP's stock was cut in half following the explosion. Since then, the company has paid \$70 billion in lawsuits, fines, remediation and other costs. To put that into perspective, BP's market cap today is \$75 billion.

Bad behaviour can have terrible consequences. On the other hand, being a good corporate citizen can pay off. Starbucks, for example, has long put corporate responsibility and humanity at the heart of everything it does.

When we started learning about Starbucks, we could see it was a fast-growing, profitable coffee chain. However, we ultimately learned more about what makes it special. For example, Starbucks was the first company in America to provide comprehensive health insurance to all employees – including part-timers. Howard Schultz, long-time Starbucks CEO (now retired), once recounted the time he visited a store and a barista broke down in tears as she told him her story. She had been living in her car when she applied for a part-time job at Starbucks. Her husband was sick, and they couldn't

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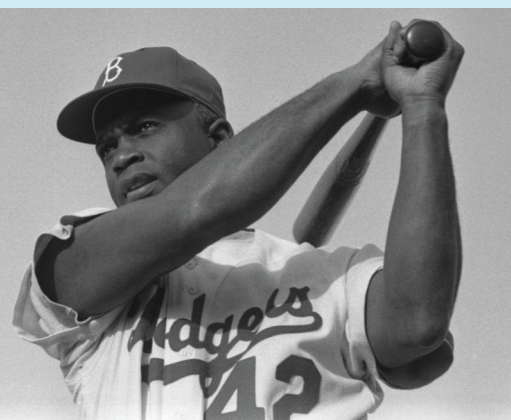
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afford his medical bills. Getting the job at Starbucks, with comprehensive health insurance, changed their lives. She went on to become a district manager and buy a home.

Taking care of employees is a core value of Starbucks. The result is that employees are more likely to take care of customers, and that connection between a customer and an employee is key to the overall experience. If it goes well, the customer is more likely to come back, and more willing to pay a premium. It becomes a cycle – this customer retention helps Starbucks earn a good profit, which allows it to keep supporting employees. Case in point, during COVID-19 lockdowns last spring, baristas were paid whether their stores were open or not.

Unilever is another prime example that being a good corporate citizen can be profitable. Unilever is the parent company behind Dove soap, Degree deodorant and other well-known household brands. Ten years ago, the company created a Sustainable Living Plan, a set of targets and strategies to grow the business and reduce its environmental footprint. Unilever was one of the first big consumer product companies to truly consider the environment in a meaningful way. They were criticized for it at the time: investors wanted them to focus on profits, not the environment. Unilever proved they could do both by creating win-win solutions.

For example, packaging. Unilever found a way to put the same amount of deodorant in a smaller can and created concentrated cleaning products so consumers could buy a smaller bottle and add water at home. Unilever wins – they spend less on packaging and transport because the product is smaller and lighter to ship – and the environment wins. Over the last decade, Unilever has cut waste per consumer use by one-third. The Sustainable Living Plan is now core to the company, and its scope has expanded beyond just looking after the environment.

For years, Dove has aimed to promote better self-esteem. They've partnered with psychologists to create self-esteem workshops that have reached 60 million young people. Dove runs campaigns to challenge the negative views people have about the way they look. One such campaign is called "Change One Thing." The camera opens with a curly-haired girl who confesses she'd like to have straight hair. Then appears a straight-haired girl who wishes she was blonde. Then a blonde child who wants freckles, and so on and so on, until the last child wants curly hair and we're back to the beginning. The campaign ends by asking why we all want to look like someone else. It's a powerful

message – and another win-win. When a brand stands for something positive, it often sells better. Dove's revenue has been growing by 7% a year, which is almost unheard of for a brand of its size.

Corporate responsibility runs deep at these companies; it's in their DNA. And more companies are moving in similar directions. General Motors is transitioning to electric vehicles. Utility company Algonquin Power is moving toward renewable energy. CCL Industries, maker of product labels for companies like Unilever and Heineken, is investing tens of millions of dollars to create labels that can be easily removed from plastic bottles, making them easier to recycle. It's hard to eliminate plastic, but there's an enormous opportunity to recycle more of it, and that should create demand for CCL's solution.

Some of this may sound like feel-good corporate promotion. Some companies are more genuine than others, but ultimately corporate responsibility matters. Our awareness and sense of responsibility as a society continues to grow too. More and more consumers are supporting businesses that have a positive impact on the world, and shunning those that don't. The world is more connected than ever, and companies can't hide bad behaviour like they used to.

Still, there are shades of grey. We all know companies that are bad corporate citizens but have excellent shareholder returns. And there are many well-intentioned companies that make poor investments. Just like people, no company is perfect. Our Research Department may at times even recommend a company that's done something questionable on the expectation of improvement. There will always be room for debate – we all have our own views and priorities – and you can work with your Odlum Brown Investment Advisor or Portfolio Manager to build a portfolio that you feel good about.

Jackie Robinson was a great ball player, and he moved the world forward. Not all of our recommendations will have that profound an impact, but, generally speaking, doing good is good business, and we will continue to seek companies that step up to the plate and embrace that philosophy.



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Visit odlumbrown.com to view all six Annual Address presentations from our team of highly regarded Equity Analysts.

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Home Office Expenses in the Time of COVID-19

With the spread of the COVID-19 pandemic, many Canadians unexpectedly found themselves working from home and wondering whether they could deduct home office expenses on their income tax returns.

In response to these unique circumstances, the Canada Revenue Agency (CRA) has issued guidance and new forms for claiming home office expenses for the 2020 tax year. This article explores the existing tax provisions and temporary alternative measures.

When are home office expenses deductible?

Traditionally, taxpayers have been entitled to deduct home office expenses from employment or self-employment income where all of the following conditions are met:

- The employee's contract of employment requires them to maintain a home workspace and to pay the related expenses;
- The employee has received a signed form T2200 – Declaration of Conditions of Employment from their employer; and
- The workspace is where the employee "principally" (more than 50% of the time) performs their duties of employment, or the employee uses the workspace exclusively for earning employment income and for regularly meeting customers or clients.

Eligible expenses

Where the above criteria are met, an employee is entitled to claim the following expenses as they relate to the home office space:

- Electricity
- Heat
- Water
- Internet access fees
- Maintenance and minor repairs
- Rent

In addition to the above, commissioned employees may also claim home insurance, property taxes and leasing costs for certain electronic equipment including cell phones, computers and tablets.

The above is not an exhaustive list. The CRA identifies on its website additional costs that may be eligible as expenditures.¹

Calculating expenses: The detailed method

The detailed method of calculating expenses allows employees to deduct the actual expenses incurred, pro-rata, for:

- the proportional size of their home workspace relative to the total finished area of the home and
- the portion of the year the space was used for employment purposes.

This is done to exclude the personal portion of home expenses. For example, where the space used for employment purposes for the entire year represents 10% of the home's square footage, 10% of the eligible expenses may be deducted from income. Where multiple eligible employees share a workspace within the same home, the same expense cannot be claimed in full by more than one employee, but must be shared.

Costs which relate exclusively to the workspace, such as office supplies, do not have to be calculated using the pro-rata method and can generally be deducted in full.



Using the detailed method requires employees to track and itemize their expenses and to keep the related receipts. The CRA regularly conducts limited-scope reviews and audits of an employee's deductible expenses and may request the supporting documentation.

What changed for 2020?

Acknowledging the vast number of employees working from home in 2020 who may be unable to meet the above criteria, the CRA has temporarily simplified the requirements. For 2020, an individual will be considered eligible to claim home office expenses where:

- The employee worked from home in 2020 due to the COVID-19 pandemic;
- The employee worked more than 50% of the time from home for a period of at least four consecutive weeks in 2020; and
- The employee was not reimbursed for their deductible home office expenses.

The CRA has also introduced a new and temporary flat-rate method of calculating the portion of home office expenses eligible for deduction. For the vast number of employees who were neither prepared to track their home office expenses, nor familiar with which expenses qualified, this is welcome news. In addition, the CRA has introduced a simplified version of form T2200 to ease reporting for individuals who continue to use the detailed method.

Temporary flat-rate method

Using this method, employees may claim \$2 per day worked at home up to a maximum of \$400. Where multiple eligible employees work from the same home, each may claim up to the \$400 maximum without reduction for shared spaces and expenses. This can increase a household's overall tax deduction. The temporary method does not require expense tracking or retaining expense receipts.

Which method to use

Maximizing the available deduction may depend, in large part, on the expenses you are eligible to claim.

For example, John paid \$17,100 in rent over the course of 40 weeks while working from home and uses 150 square feet of his 750-square-foot apartment (20%) as his home office. During that time, he worked an average of 40 hours per 168-hour week (24%). John's available deduction would be approximately \$820

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(\$17,100 x 20% x 24%). If John used the temporary flat-rate method, his deduction would be restricted to \$400.

Now assume Jane is a homeowner who incurred \$3,600 of eligible expenses over the same 40-week period as John. Her home office is 300 square feet out of 3,000 square feet total (10%) but is used exclusively for work purposes (i.e., no personal use). Jane’s available deduction would be \$360 (\$3,600 x 10%). If Jane had used the temporary flat-rate method, her deduction would have been \$400.

For an individual with higher costs (such as rent) and a proportionally larger home office, the detailed method may be superior, and vice versa. Calculations aside, you may favour the simplicity and lack of documentation necessary for the temporary flat-rate method.

For more information, please contact your Odlum Brown Investment Advisor or Portfolio Manager.



RICHARD MYERS CPA, CA
Tax and Estate Planner
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¹ <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/work-space-home-expenses/expenses-can-claim.html#h-2-1>

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Odlum Brown in the Community – One Year Later

March is Epilepsy Awareness Month, and on March 26, 2021, Odlum Brown team members will participate in Purple Day, an annual event dedicated to raising funds and awareness for epilepsy.



Purple Day is one of the many community initiatives our Odlum Brown team members passionately support, yet one year ago, we realized we would need to do things differently. While we were used to gathering at the office in our purple attire, we were all of a sudden dispersed to our home offices.

As with so many things over the past year, we re-imagined Purple Day, collecting and sharing selfies of our team members wearing purple in their home offices, many with their new “colleagues” – dogs and children

alike. Not only did we continue our support of a great cause, we also experienced a renewed sense of positivity and connection.

Ever since Purple Day 2020, we have carried on this new tradition, participating virtually in initiatives like **BC Children’s Hospital Foundation’s JeanUp; Green Shirt Day** for organ donation awareness; and **CKNW Kids’ Fund Pink Shirt Day**. These have been fantastic opportunities to engage with one another and our communities, and showcase our support on social media.

We have also continued to support our many community partners across BC and Canada as they have adapted to continue their important work virtually. Community engagement is a core value at Odlum Brown, and we are committed to highlighting partners across our locations in their efforts to enrich the communities where our clients and team members live and work.

We invite you to follow us on social media for more community content and sponsorship information – and maybe even a glimpse of your Investment Advisor wearing purple at home later this month:



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