



SEEING THE FOREST THROUGH THE TREES

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When we evaluate companies in the world of responsible investment, the ideal investment provides better options for a greener world without consuming vast resources. In our institutional socially responsible investment (SRI) funds, we own West Fraser Timber—a forest products company with operations in Canada and the United States. Although we are sometimes asked “Isn’t a company that cuts down trees a poor choice for an SRI fund?”, we believe forest products companies score well when evaluated under an environmental, social and governance (ESG) lens. Here are two big reasons why.

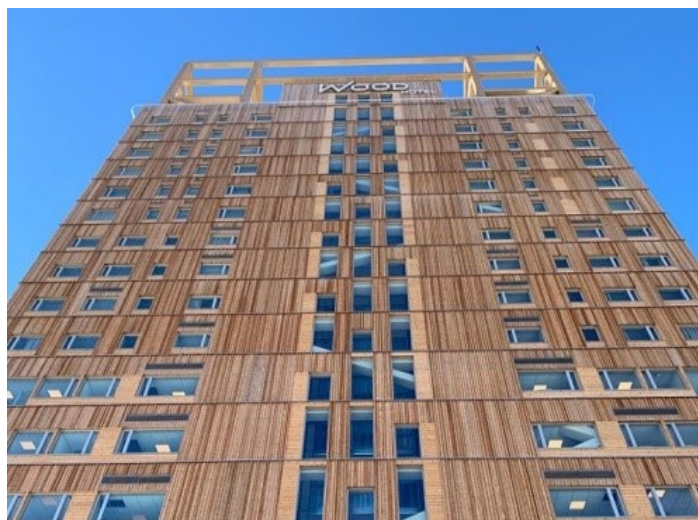
A concrete alternative

As a building material, timber makes an excellent alternative to concrete and steel. Concrete and steel are both heavy greenhouse gas emitters and use highly energy-intensive processes to create their products. On the other hand, trees absorb carbon dioxide as they grow, making them *negative* emitters of greenhouse gases. If timber is harvested in a responsible way, carbon is captured and stored forever by using it as a building material.

Concrete alone is responsible for 7% of global greenhouse gas emissions, due to its energy intensity and the decomposition of limestone in the creation process¹. The cement industry is the third-largest industrial energy consumer globally². The steel industry accounts for another 8%³ of greenhouse gas emissions, with half of steel production destined for construction purposes.

Could timber really replace concrete and steel in big cities? The world’s building codes are evolving, and tall timber is “growing up” in cities. We had the pleasure of visiting the University of British Columbia campus in the spring of 2019, where an 18-storey hybrid mass timber residence was recently completed. Others are constructing wood buildings, as they also see the benefits of the material. Google Sidewalk Labs (a smart city technology firm) is planning to build the “first-ever mass-timber district in the world”. The Mjostarnet tower

in Norway is currently the tallest wooden office tower/hotel, standing at 85 metres high or about 18 storeys. It’s constructed of ‘glulam’ or wooden beams laminated together. Amsterdam and Vienna are also proceeding with projects similar to the one in Norway.



Mjostarnet tower in Norway

Paper or plastic?

Paper products make an excellent alternative to single-use plastics. Increasingly, governments are taking action to ban plastic straws, and paper straws make a perfect substitute. While this is one simple example, customers and companies will increasingly look beyond plastic packaging, and paper-board or paper-based alternatives are an economic and sustainable choice. This is becoming a customer-driven trend as well, as youth prefer cartonboard over plastic packaging when choosing food products⁴. We suspect that paper products will steadily replace plastic materials. While not a perfect outcome, we believe it’s the better alternative for single-use purposes.

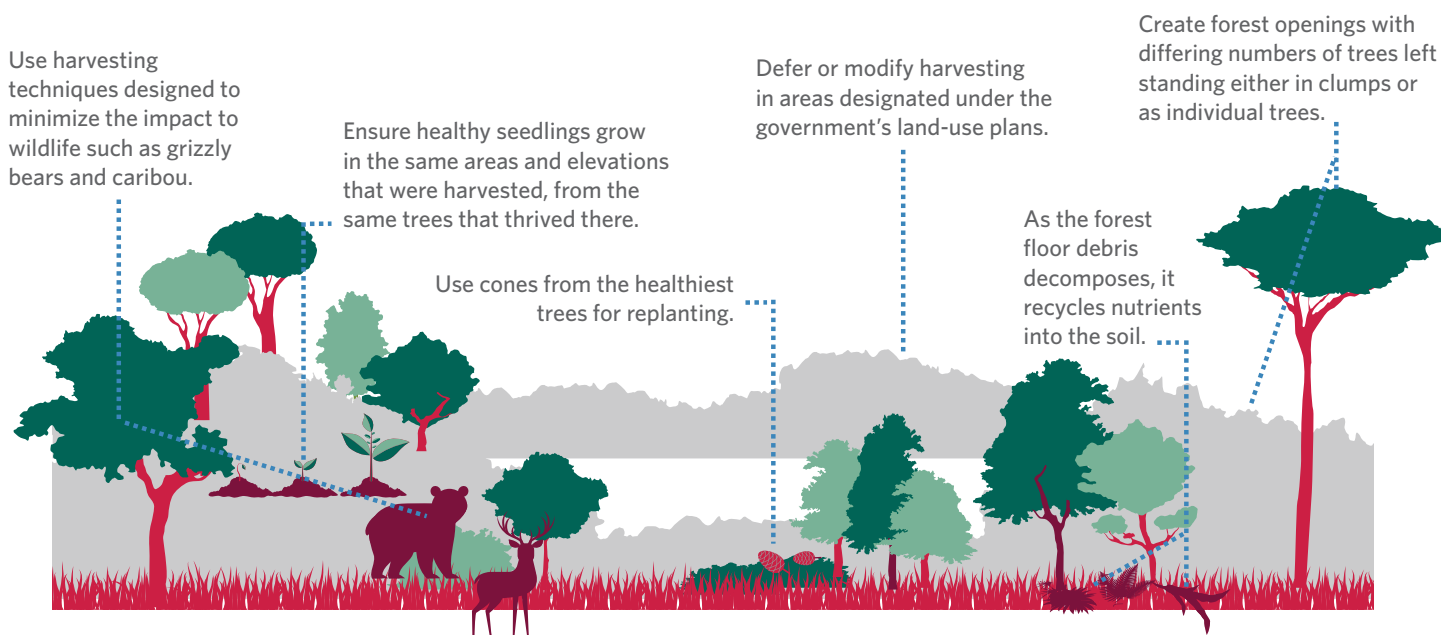


Transitioning to a green economy

It's also important to address the potential negatives of the forest products industry. When forests are the targets of illegal and unsustainable logging or land conversion for agriculture, greenhouse gases are released. These contribute to climate change. The negative impact is manifested by loss of biodiversity, soil erosion and marginalized indigenous and local communities. However, if forests are harvested in a sustainable way, as they are by North American and European forestry companies, we see these investments as appropriate from an ESG risk and opportunity perspective.

As political and corporate leaders recognize the importance of transitioning to the green economy, we believe the forest products sector offers a good 'bridge' alternative. West Fraser, with businesses across the forest products sector, conducts its operations in a socially responsible manner. In addition, it's attractively valued with a solid balance sheet and we believe it presents a good fit for our SRI portfolios.

Creating sustainable forests



Less than **half of 1%** of Canada's managed forestlands is harvested in any year. Healthy, young, regenerating forests pull more carbon per unit area (i.e. they are *negative* greenhouse gas emitters) than almost any other type of land cover.

¹ Source: International Energy Agency

² <https://www.iea.org/publications/freepublications/publication/TechnologyRoadmapLowCarbonTransitionintheCementIndustry.pdf>

³ <https://www.economist.com/leaders/2019/01/05/why-more-buildings-should-be-made-of-wood>

⁴ <https://www.storaenso.com/en/newsroom/news/2019/6/young-people-want-to-buy-their-food-in-paperboard-packaging>

Infographic information source: <https://www.westfraser.com/responsibility>

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