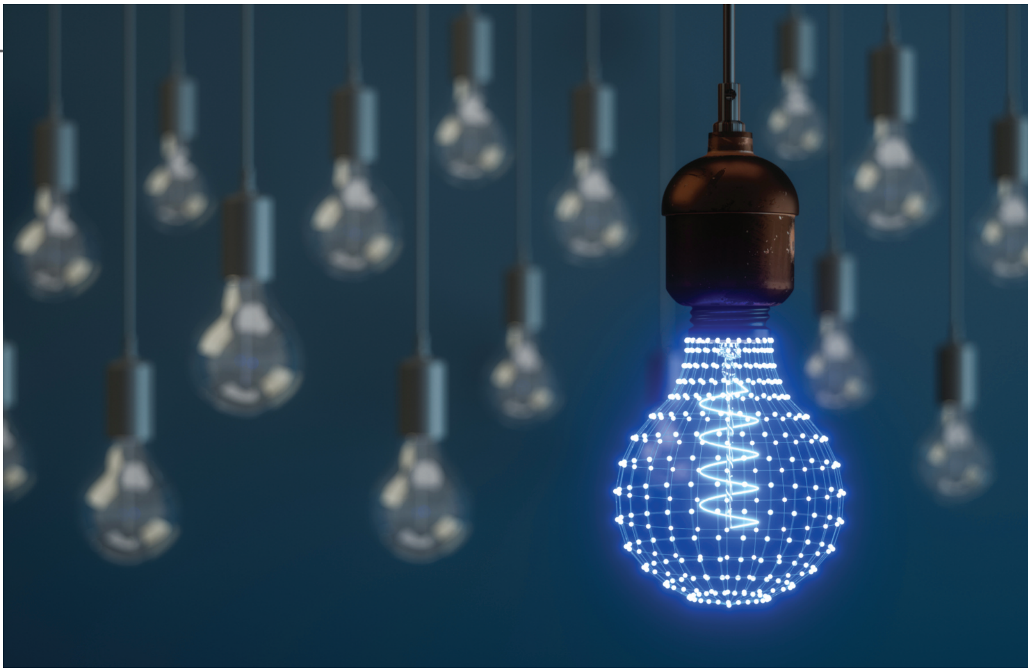
ODLUM BROWN REPORT

12 2021



Electricity is All the Buzz

After several years of no growth, demand for electricity in developed countries is on the rise. We believe this trend will accelerate as electricity is used more extensively to meet our energy needs and help reduce our collective greenhouse gas emissions. Electricity has become the preferred choice of consumers and governments to power our economies as we transition away from fossil fuels.

A shift from gas-powered to electric vehicles (EVs) is a notable example. Demand for EVs is likely to surge in the years ahead, with car manufacturers planning to add at least 100 new electric car models in the next three years. At present, only 2.5% of the vehicles on the road in the United States are electric, and 5% of new cars sold are electric. President Joe Biden recently set a target of 50% for new cars sold being electric by 2030. The expected growth of electric vehicles would be enough to dramatically reshape how we consume energy, but it could be just the tip of the iceberg.

According to the International Energy Agency, roughly 63% of the world's electricity is currently generated from fossil fuels. Nuclear and hydro consistently provide about 25% of our needs, and other renewables, such as wind and solar, represent 12%. This mix is changing fast, and renewable power generation is growing exponentially, displacing coal-fired power plants.

Bloomberg estimates that the world needs to add at least 12,000 gigawatts (GW) of renewable energy by 2050 to meet growing electricity demand and reduce our dependence on coal. Total installed renewable power worldwide is just 3,000 GW today. Moreover, we believe this forecast will likely prove to be too conservative. Rapidly declining cost curves for solar, wind and storage mean that more places will be able to economically add renewables without government support or a sharp increase in electric utility bills.

The United States is a leading developer of renewables and is aggressively reducing its carbon footprint. Renewables increased from 10% to 20% of generation between 2010 and 2020. Over the same time period, coal fell from 45% to 20%. Natural gas has been used as a bridge fuel, increasing from 25% to 40%. We expect the growth of renewables to accelerate, as improving technologies have not only made wind and solar feasible, but in many cases, the lowest-cost option, too.

While it is easy to conceptualize switching from coal plants to zero-emission wind and solar farms, the transition won't be easy. We need to build a smarter grid in order to connect renewable sources of electricity to consumers. This means incorporating advanced software to efficiently manage less predictable renewable power supply and match it with surges in demand. It also necessitates a more resilient grid with additional long-distance transmission lines, as well as energy storage to manage intermittency issues, allowing electricity generated during windy and sunny days to be saved and used at more appropriate times. We're already seeing a growing network of EV charging stations so drivers can access power at all hours of the day. All of these changes should benefit electric utilities as they make investments to revamp their networks. *Continued on next page*

ODLUM BROWN
Investing for Generations®

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Season's Greetings!

From all of us at Odlum Brown, we wish our clients, friends and partners the very best for a wonderful holiday season, and a happy and prosperous new year.

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Odlum Brown's 28th Annual Address

Every year, we enjoy welcoming clients and friends from across BC to our Annual Address presentation series. Following the success of this year's event and given the continually evolving public health landscape, we will be hosting our Annual Address virtually in February 2022.

We look forward to engaging in more interactive dialogue with clients, other attendees and our highly regarded Equity Analysts, in addition to sharing thoughts from President and CEO Debra Doucette (Hewson) and Executive Vice President, Director, Investment Research, Murray Leith.

Please stay tuned for more details, and we look forward to connecting with you in the new year.

To participate in these emerging trends, we have identified two electric utilities uniquely poised to benefit and grow.

American Electric Power (NYSE:AEP) AEP is a leading installer of renewable power and is one of the largest regulated electric utilities in the United States. With 40,000 circuit miles of transmission lines and 223,000 circuit miles of local distribution lines, AEP delivers electricity to 5.5 million customers. Together, the transmission and distribution businesses make up roughly 75% of earnings. We believe these are some of the most valuable transmission lines in the United States, which will only grow in value. The remaining 25% of earnings comes from independent power generation.

Solar and wind are the fastest-growing sources of new power generation. These projects tend to require large open spaces, often far removed from populated areas, making transmission lines critical to bringing renewable power to the market. Additionally, every dollar invested in AEP's transmission and distribution network provides a robust regulated rate of return and predictable earnings growth.

AEP was once synonymous with thermal coal. In 2006, 70% of its power generation came from coal-fired power plants, but that has fallen to roughly 40% today and will be reduced to 15% by 2030 as plants are shut down. Management's aim is to make AEP one of the most ethical businesses in the industry. It backs this goal by setting an extraordinary target of adding 16 GW of renewable power by 2030, enough electricity to power almost three million homes. This will bring AEP's generation mix to 54% renewable power. We expect management to look for more options to completely eliminate its coal exposure and add even more renewables.

While it is encouraging that a major U.S. utility is taking steps to support a more sustainable future, it is also very profitable. By making regular investments in its assets, we believe AEP will be able to grow its earnings and dividend by 7% annually.

AES Corporation (NYSE: AES) AES is a leading developer of renewable power and is focused on providing innovative solutions for the industry to help accelerate the shift to a more sustainable future. We think the company has one of the best growth profiles in the sector, targeting up to 9% annual earnings growth.

AES's current backlog of renewable power projects is 8.5 GW and is one of the best in the industry. The company has also identified another 37 GW of development opportunities. These projects primarily consist of wind and solar power generation, along with utility-scale batteries. The company currently has coal in its power portfolio, but intends to reduce its exposure to 10% by 2025 and ultimately replace all coal with renewables.

Beyond its impressive renewable project backlog, AES is unique due to its entrepreneurial culture and focus on innovation. For example, the company spent several years, with partner Siemens, building an industry-leading battery storage business called Fluence. Fluence was recently brought to the market through a very successful IPO and is now valued at roughly US$6 billion. AES still owns a 34% stake in Fluence, and we expect the business to grow at a very attractive pace.

Fluence isn't the only exciting opportunity. The company believes it has a similar growth opportunity through its investment in Australian-based 5B, which provides prefabricated solar solutions. The business allows utilities to install solar panels three times faster and use half as much land. The company currently owns 25% of 5B, and we think the outlook is very promising.

Uplight is another innovative company partially owned by AES. This business provides backend software support to over 80 of the world's largest utilities. The technology enables an efficient connection of solar and wind-generated electricity to power grids with an ability to manage load variances. It also offers a customer interface that provides personalized information about customers' energy use. Uplight makes electrical networks smarter and better able to handle the complexities brought on by renewables and a more engaged homeowner. AES has a 30% ownership stake in Uplight.

We think the businesses AES owns will provide significant value on their own. Additionally, they give AES the ability to provide industry-leading storage and best-in-class solar installations, and to enable smarter grids, which are significant competitive advantages when bidding on future renewable power projects.

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Year-End Tax Tips and Deadlines

With December upon us, here are a number of tax considerations and deadlines to remember for the 2021 tax year. Please note that December 31 is a Friday this year.

DON'T MISS THE 2021 DEADLINES!

Item	Deadline	Notes
Tax Installments	December 15	To avoid interest and penalties
Tax-Loss Selling	December 29	To reduce 2021 net taxable capital gains
Charitable Donations	December 31	To receive a charitable donation tax credit
Carrying Charges	December 31	To deduct from 2021 income
Income Splitting	January 30, 2022	To pay accrued 2021 interest on spousal loans
RRSP Contributions	March 1, 2022	To deduct against 2021 income
If you turn 71 in 2021	December 31	For contributions to your own RRSP and converting to a RRIF or annuity; see notes 6 and 7 regarding spousal contributions.
RESP Contributions	December 31	To receive 2021 enhanced Canada Education Savings Grants; see note 9 if beneficiary turned age 15 in 2021.
RDSP Contributions	December 31	See note 10 regarding government grants and bonds.

Payments, Expenses and Other Transactions

1. Tax-Loss Selling Tax-loss selling entails selling investments with unrealized capital losses before year-end to offset capital gains realized during the year. To ensure that your capital losses can be reported in the 2021 tax year, trades on Canadian securities exchanges must be placed no later than December 29, 2021, as trades typically take two business days to settle. Different dates may apply to foreign exchanges.

Beware of "superficial loss" rules. The capital loss on an investment will be denied if you buy an identical investment during the period that begins 30 days before and ends 30 days after the sale settlement date and you still own that investment at the end of the period. These rules also apply if the identical investment is purchased by or transferred to your RRSP, RRIF, TFSA, spouse, or a company controlled by you or your spouse.

If you are caught by the superficial loss rules, the denied loss amount is generally added to the adjusted cost base of the identical investment purchased, in essence deferring the loss until the ultimate year of disposition.

Any unused capital losses in 2021 can be carried over to offset capital gains from the three preceding years (i.e., 2020, 2019 and 2018) or in any future year. While this strategy may be advantageous from a tax perspective, ensure that tax-loss selling makes sense from an investment perspective as well.

2. Charitable Donations The first $200 of annual donations are eligible for a 15% federal tax credit, plus applicable provincial credit (5.06% in BC). The federal donation tax credit increases to 33% to the extent that the individual has taxable income in the highest tax bracket. For example, any portion of donations over $200 that were made from income over $216,511 (federally) and $222,420 (provincially) for a BC taxpayer in 2021 can receive combined tax credits of 53.5%. Otherwise, donations in excess of $200 are eligible for a 29% federal tax credit which, when combined with the applicable provincial tax credit, can result in tax credits worth between 43.5% and 50.0%.

Charitable donations can be made "in kind" by donating eligible securities. Capital gains arising on donations of eligible securities are non-taxable, and the donor still receives a donation tax credit for the market value of the donated securities.

3. Carrying Charges Investment-related expenses, such as fees to manage non-registered accounts and charges and interest paid on money borrowed for most investment purposes (other than in registered accounts) must be paid by December 31 to be deductible in 2021.

4. Income Splitting The deadline to pay 2021 interest on spousal loans is January 30, 2022. This should not be confused with pension income splitting rules, which allow recipients of eligible pension income to allocate up to 50% of such income to a spouse or common-law partner for tax purposes. Eligible pension income includes payments from a registered retirement income fund (RRIF) and life income fund (LIF) where the account holder is 65 years of age or older at the end of the year. It also includes life annuity payments from a registered pension plan at any age. *Continued on next page*

As a proudly BC-based firm, we have been devastated to see the impact of recent adverse weather events on our province. To assist in the response to the catastrophic flooding affecting our communities, **Odlum Brown has made two special donations:**

- **$25,000 to United Way BC's United for BC Flood Response Fund, and**
- **$25,000 to the BC Search and Rescue Association.**

Our hearts go out to all of our communities across BC that have been impacted.

To learn more about the United for BC Flood Response Fund, visit **donate.uwbc.ca/flood.**

To learn more about the BC Search and Rescue Association, visit **bcsara.com.**

5. Capital Gains If the capital gains inclusion rate is raised from 50% to 75%, as has been speculated for a number of years, this could impact investors such as those holding securities in non-registered accounts. While realizing capital gains in 2021 could reduce exposure to potentially higher future inclusion rates, ignoring potential transitional provisions such as grandfathering gains accrued to a certain valuation date, deferring capital gains and the resulting taxes to a future year may be appropriate for clients with longer investment horizons.

To learn more about factors to consider when deciding whether or not to take any pre-emptive actions in your portfolio, a recorded presentation is available on our website at **odlumbrown.com/financial-planning/capital-gains-2020**.

Contributions to Registered Plans

6. Registered Retirement Savings Plans (RRSPs)

The maximum RRSP contribution limit for 2021 is $27,830. If you contribute to a spousal RRSP, making a 2021 contribution by December 31 reduces the income attribution period for that contribution by one calendar year, versus waiting until 2022. If you have a considerable amount of contribution room or if you expect to be in a higher tax bracket in the near future, consider making the maximum contribution this year, but deduct the contribution over multiple years, depending on your expected taxable income and credits.

7. RRSP Contributions After Age 71 Although you can no longer contribute to your own RRSP after December 31 of the year in which you turn 71, you can contribute to a spousal RRSP if you still have contribution room and your spouse or common-law partner is not older than 71 in the year of contribution.

8. Tax-Free Savings Accounts (TFSAs) There is no deadline for TFSA contributions. You must reach the age of majority (19 in BC) to open an account; however, the accumulation of contribution room starts at age 18. Unused contribution room is carried forward to future years.

If you were eligible for a TFSA in every year since 2009 but have never contributed to one, you may have up to $75,500 in TFSA contribution room available for 2021.

If you plan to withdraw from TFSAs in the near future, consider making the withdrawal in December 2021, rather than in 2022. Since TFSA withdrawals increase your contribution room the following calendar year, this will enable an early re-contribution, as early as January 1, 2022, rather than having to wait until 2023.

9. Registered Education Savings Plans (RESPs)

The federal government provides a 20% Canada Education Savings Grant (CESG) of up to $500 annually ($1,000 annually, if catching-up past unused CESG room) for beneficiaries age 17 or younger at the end of the calendar year, up to a lifetime limit of $7,200 per beneficiary.

If your child turned 15 in 2021 and you have not contributed a minimum of $2,000 or at least $100 per year in any four years to the RESP, then December 31, 2021, is your last chance to contribute enough funds to maintain CESG eligibility on future contributions in 2022 and 2023 (ages 16-17).

The enhanced CESG (eCESG) is available to moderate-income families on the first $500 of annual contributions. Since eCESGs cannot be carried forward, contribute by December 31, if eligible.

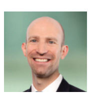
10. Registered Disability Savings Plans (RDSPs)

RDSPs are tax-deferred savings plans that you can use to help provide long-term savings for an individual who is eligible for the disability tax credit. Lifetime contributions of up to $200,000 can be made by anyone until the beneficiary turns 59, but the contributions are not tax deductible.

The federal government provides assistance in the form of Canada Disability Savings Grants (CDSGs) and Bonds (CDSBs) until December 31 of the year in which the beneficiary turns 49:

- CDSGs up to $70,000 are provided on a matching basis, based on the contribution amount and the beneficiary's family income, subject to annual limits.
- CDSBs up to a lifetime limit of $20,000 are provided to low-income beneficiaries. No contributions are required to receive the bond, subject to annual limits.

Interested persons should consider opening/contributing to an RDSP by December 31 in order to receive government assistance for the current year and up to 10 previous calendar years, particularly if the beneficiary is age 49 by December 31, 2021.



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