

Trends and Themes in Responsible Investing

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The following is a summary of a panel held on June 15, 2022.

Maggie, you're a recent addition to the team at iAIM. Can you discuss your role?

- I've been involved in environmental and social issues since the 1990s and in sustainable finance since 2012.
- Our Chief Investment Officer, Alain Bergeron, has been building a very strong and talented team, and as part of this growth he created the Head of Sustainable Investing role that I now occupy. My role is focused on building out iAIM's environmental, social and governance (ESG) capabilities, but I don't do it alone – it's something we have collective ownership of as a team.

Maggie, what are some recent developments advisors should be aware of?

- I think ESG investing is entering a maturation phase right now, which means you're going to see more attention from regulators and increased standardization of ESG accounting, data and ratings.
- In today's environment, diversification is not enough to manage risks like climate change and systemic inequality. Our overriding question today is how to make our capital markets more sustainable and the role we as investors can play in that process.
- The regulators are focused on two key areas:
 - o Transparency and disclosure by corporate issuers
 - o Transparency of ESG funds
 - There's been an explosion of interest in ESG funds and the regulators see that they have a role in ensuring investors have clarity on what they are investing in. A big concern is greenwashing – which refers to the practice of presenting a fund as a responsible investment when in fact it has only a superficial commitment (if any) to ESG principles.

Marc, with oil prices where they are, it's been a tough year for fossil fuel-free funds like the IA Clarington Inhance SRI suite. Can you speak to some of the performance challenges as well as some of the opportunities you're seeing as you look ahead?

- Most ESG-focused funds are going to shy away from certain sectors and industries, such as energy and mining. This results in an overweight to some of the remaining sectors of the benchmark.
- It's important to understand that every investment style or approach will tend to underperform in certain types of environments – there is no such thing as a portfolio that will perform well in every type of environment.
- We're trying to maximize our clients' returns over a three- to five-year time horizon, and having an active approach puts us in a very good position to do that.
- We believe that companies focused on ESG tend to be run by management teams that think and act for the long term. When we invest in a company, we want management to be looking out five to 10 years.
 - o The strongest companies today are where they are because of the investments they made five or 10 years ago.
- When companies look to minimize their carbon footprint, they may not see the payoff in the short term. But over the long term, they will see the benefits.
- The same is true of companies that focus on a strong, sustainable culture and employee engagement. Costco pays its employees very well, and in this tight labour market, where attracting and retaining talent is very difficult, having a strong culture and low employee turnover is a massive benefit.
- The governance component of ESG is particularly important for mitigating risk. By focusing on high governance standards, we are very well positioned to insulate ourselves from the Enrons of the world.

Maggie, ESG investing has been getting some backlash in the press recently, most notably from Elon Musk. How would you respond to some of this negative sentiment?

- The major ESG rating providers have their own methodologies and metrics for assigning ESG scores. What this means is that one provider's rating may not match that of another. It's up to the fund manager to understand those differences and supplement them with their own internal analysis.
 - o In the case of Tesla, the company was removed from the S&P ESG index because governance metrics were overweighted.
- When investing in foreign state-owned entities, particularly in emerging markets, it's very important to run an ESG risk assessment around issues of human rights, for example.
- I think we're going to see increased regulation and oversight of the ESG rating industry as part of the maturation phase I mentioned earlier.

Marc, can you speak to the impact high oil prices have on renewable energy development?

- We believe high energy prices are driving an acceleration of renewable energy adoption. We're seeing this on both the corporate and government level.
- It's not just high prices that are driving this trend, it's also the speed of those price increases. The price of oil has almost doubled in only the last 6–7 months.
- Even before the price of energy skyrocketed, we saw corporations and governments setting ambitious emission reduction targets, with renewable energy seen as playing a key role in hitting those targets.
- High energy prices have simply fast-tracked the motivation for moving away from fossil fuels and more towards renewables.
- The war in Ukraine has also highlighted why we need to decrease our reliance on fossil fuels, and especially fossil fuels from Russia, which is the largest natural gas exporter and the second-largest oil-producing nation.
 - o This is particularly true for European countries, which rely on Russia for a lot of their energy.

- We have a lot of conviction in our current renewable holdings and we've been increasing the weightings of some of the names that have seen their valuations derated.
- We have several high-quality renewable companies on our watchlist and are looking at the current selloff as a potential opportunity to add these names at attractive entry points.

Can you elaborate on how the “S” in ESG factors into your analysis?

Maggie Childe:

- In recent years our primary focus has been on equality and diversity and inclusion.
- Another big issue has been human capital and how to retain it.
- Respect for human rights across supply chains has also been a major area of focus for us.
 - o Even if you're investing in solar panels, you could find yourself running into human rights issues depending on where they are made and by whom. This illustrates a very important point: the E, S, and G are all intertwined and cannot be looked at in isolation.

Marc Sheard:

- This is a big part of what we do, as we believe that companies that focus on treating their employees well will have stronger performance potential in difficult markets and over the long term.

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