

How the Pandemic is Changing What it Means to be a Sustainable Investor

Speaker Key:

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Time code	Speaker	Text
00:00:00	DP	Sustainable investing continues to come of age in 2020, but in a year marked by the harrowing effects of a global pandemic, and growing social unrest, our definition of what it takes it invest responsibly may be forever changed. On this episode of Inside Perspectives, Kevin McCreadie, AGF CEO and Chief Investment Officer is joined by AGF Portfolio Manager, Martin Grosskopf, and Judy Goldring, AGF's president and head of global distribution, to discuss the landscape for sustainable investing moving forward.
00:00:34	DP	I'm your host, David Pett. Let's get into it. Welcome, Kevin, Judy and Martin. Thanks for being here today. Judy, you've done this before. Martin, you haven't done this before. So, thanks for joining us. I think it's safe to say the pandemic has changed the way all of us think about the world over the past few months, and how we go about our daily lives.
00:01:01		But what has it meant for sustainable investing? That's what I want to talk about today. Over the past few years, environmental, social and governance factors, or ESG for short, have become much more ingrained in the decisions that investors make about their portfolios. Has the past few months solidified ESG's importance, or has it sidetracked this momentum, given everything else that investors are being forced to contemplate? Kevin, maybe I'll just start with you on that. Any thoughts?

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	KM	You know Dave, I don't know, I think it's brought a greater awareness, frankly, to these issues.
00:01:29		And I say that in the theme of, I think when the world stopped, as we moved into the shutdown, people looked around and noticed that there weren't that many cars on the street. Friends comment in California that they hadn't seen the skies that blue in so long. And so, I think you created an awareness for many people visually because of it. And I think the second thing was we all had time to slow down and look around and think about some of these issues. I think that we immediately felt an impact of it. Then I transition to, maybe away from that component of it, but the other letters in ESG, which are the S and the G.
00:02:00		They kind of blur here a little bit on the next issue, which is really around how companies handle keeping their workforce safe and healthy throughout this. How they prioritise getting employees home, getting them out of harm's way from the virus, and how to help them through this in terms of the family situations that they all felt. So, I think we'll look back at that and say, that trend is going to be something we'll think about, look at, and review how companies handled it.
00:02:25		I don't know that it has diminished anything. If anything, it's heightened the awareness on a lot of fronts.
	JG	Yes, and actually David, if I could pipe in as well, I think the G part of ESG certainly has much greater height and attention to so many social issues, given the social unrest in the United States in particular. So, I think it's an interesting time that we are really looking at proper governance, we're looking at oversight, we're looking at ensuring people have voices around the table. So, it is a time of real change from that perspective too.
	DP	And then Martin, what's your thought on this, as someone who is actively investing in the sustainable space, how have you seen the last few months play out from an ESG or sustainable standpoint?

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00:03:00	MG	Well, I think we need to recognize it's within or through a progression in the financial markets of integrating ESG for 20 years. So really, it's picked up dramatically even prior to the present crisis. But I'd say there's a number of factors related to COVID that I think are waking people up a little bit, especially around the dynamic between health and environment. This is clearly something that environmental scientists had been flagging for years, and markets weren't paying attention to it.
00:03:30		But the potential for a global pandemic was pretty well written about, at least in the academic community. So, I think there's now a much broader that poverty, environment, health, that there's relationships between those, and that the financial markets have an important role to play. And especially when we're 12 trillion into stimulus, you hope some of that stimulus is directly at actually solving the problem as opposed to just putting a Band-Aid on the issue and getting us to the next potential pandemic or significant environmental risk.
00:04:02		I think there is a general recognition that there's secular trends, and more capital needs to flow to solve some of these issues. They can't be ignored. They're not just marginal issues, they have a tremendous impact on financial projections and capital. So, I think that is something that COVID has really brought to the floor.
	DP	And maybe that's a good stepping off point, to talk a little bit about the political landscape that we've seen unfold over the last few months, with respect to some of the massive stimulus that we've seen.
00:04:29		There's a sense that a lot of that stimulus is being targeted now towards ESG initiatives or factors. Do you see that continuing to be the case, and does this represent a sea change in terms of how governments engage with the sustainable side of things?
	MG	I do think that, as you said, it's targeted. If you look at the Canadian government, rather than single out specific industries, what they basically said is, we need to help the energy sector, it's important to Canada, but let's help in a way that helps the environment too.

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00:05:00		Let's clean up some of the problems that have been out there environmentally, put money to work there, keep people employed while we're going through this patch and the softness. I think that there are places where governments have tried to target it. I've seen it in a couple of other places in Canada, but I think there's more to be done there. We're going to be in this a lot longer, and so probably until somewhere into next summer, maybe at the earliest before we get to a level of an inoculated population around the world, where people can get economic activity back to what we knew was normal.
00:05:31		And so, I think between now and then, there will be opportunities to try to put money to work to further some of these initiatives. I think a lot of it is going to be not just about the environment sustainable issues, it's also going to be about, back to the social issue. How do we make sure people aren't being, again, forced out of the system, because they've not been able to work while the virus has gone on, and how they would not have gone into bankruptcy, how it would not further the inequality issues that out there. And so, I think there is going to be a greater component of this, certainly as we move forward in time, because it's going to take longer.
00:06:01		Some of those issues will be addressed probably more forcefully by governments, in this again, growing deficit issue that we'll face around the world.
	DP	And let's break that down a little bit more from a corporate perspective, and Judy, maybe I can get you to weigh in here. But when we think of E and the S and the G, it seems to me that a lot of the focus in the past has been on the E part of it. Going forward, do you think that there will be more focus on the S and the G part of things, given what we've seen in the US with the protests, and things of that nature?

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00:06:32	JG	Yes, definitely. I think in the past, most recently what we've been seeing is a disproportionate impact of the pandemic on women in particular. Women are being forced out of the workplace at record numbers. A full 80% in the US of those workers who have chosen not to go back to work are women, and we need to ensure that we protect the progress that had been made up until now, trying to keep women in the workplace. And so, the importance of ensuring that we look at governance broadly, ensuring diversity.
00:07:00		And then you layer in the activities in the US and the social unrest, and the need to ensure in Canada that we have good BIPOC representation, that we are looking to people of colour, the Black and Indigenous, and ensuring that they have a voice around the table. It's an important component for sure of good, strong corporate governance.
	KM	I'd say one more thing to add to what Judy just said, which is, this was an unusual situation. The knowledge workers as I call them, so think of people in the legal community, finance community, etc, they were able to pick up, go home and work, keep their incomes, keep their salaries, and actually probably save a lot more money than they've ever saved, because they couldn't go out and spend.
00:07:31		Whereas, parts of the other ends of the economy, the service workers who have to work in the restaurants, the bus boys, the dry cleaners, the hair salon worker, who was forced into harm's way and had to literally be taken out of the workforce, lost their income, and while there were subsidies to help, you've really created a furthering of the have and have nots in an inequality standpoint. And so, it's not just about the people who've lost, and to Judy's point, the people who won't come back to the workforce because they have to make a choice to either take care of their children, etc.
00:08:03		These are real issues that I think if we don't deal with them now, we're going to have decades-long ramifications.

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	DP	Martin, from an investor's standpoint, when you're looking at factors related to the E and the S and the G, going forward, when you're assessing companies or looking for investments, how does that play out for you? Do you see the focus maybe shifting towards a little bit more of the S and the G going forward, and maybe it has been in the past?
00:08:27	MG	Well, you know, from a portfolio standpoint, we're always looking for the issues that drive the financials more obvious. So, environmental issues, because often there's regulatory, because there's often a lot of technology involved in meeting the regulation, it's often a more material driver from a financial standpoint. But that's not to say that the social or governance issues aren't also important in deciding what capital to work. And I think if you look at it from the large asset owner perspective, so the largest, for instance, pension funds in the world.
00:08:57		They're increasingly focused on that social dynamic. I think one of the areas that is perhaps not as well explored, and probably will be in the future, is around margins versus wages. There had been this view that creation of wealth was something that could happen and bring everybody along. Clearly, the rates of inequality in various segments in the world have now gotten to the point where we really haven't seen this since the aristocracy era, back 100 years or more before.
00:09:30		So, we're now at a level of inequality where we know that wealth creation in itself doesn't necessarily lift all boats. It creates further dispersion within economies. And I think that is the tension that needs to be grappled with in the financial community, where of course we want companies to have the best margins possible. But if that is at the detriment of workers in terms of maintaining jobs or paying a liveable wage, then perhaps we need to reassess what we mean by success in creating wealth.
00:09:57		And I think that's the bigger dynamic that is only beginning to be discussed in the markets.
	DP	That's a difficult conversation to have, between an investor and a company that they might be investing in. Does that change the dynamic going forward a little bit?

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	MG	Well, for sure. It's a seriously difficult discussion. Just think of what a fiduciary responsibility is at the pension fund level. It's to the retirement of those individuals, but those individuals are within the context, in a fairly good situation. Over half of society probably doesn't have access to pension.
00:10:34		I think that tension is something that increasingly will be discussed.
	KM	I'll add to what Martin said, I think that tension has been more visible recently, certainly if you look in Canada and the US with the push on minimum wage. It's now not appropriate to not pay your workforce at the right level of a sustainable wage. And so, the shareholder has to look at that and say, it's not only helping, it's the right thing to do, versus this trade off of, I can boost my margin at the expense of a large employee base.
00:11:01		So, I'd say the awareness over the last probably two years, certainly in the US and Canada, is starting to take hold on that. And that tension, while it's there, I think it's a good one.
	MG	And increasingly, we have the large pension funds who are asking their asset managers to engage with the corporates on that issue. To say, you've got through COVID reasonably well, but what was the share of the pain that was felt through the organization, and how many people did you have to furlough and lay off? And by the way, was their pain taken by senior execs as well?
00:11:32		Those issues are definitely being asked now.
	DP	And within this environment, Judy, it's not a balance that needs to be struck, but on the one hand you do have some brands and some companies that there's quite a bit of virtue signalling out there right now. But this needs to turn to action at some point. But sometimes, that's a bit of a process. That's not something that you just flip a switch on.
	JG	Yes, I think there's a lot of, just even ourselves, we're looking internally, what can we do better? How do we train our teams better?

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00:12:02		How do we ensure that there's an awareness about biased behaviour that just is implicit in some of the things that we all do? How do we give people tools to address those issues? It really is about training the workforce and making sure that we're all acutely aware and turning it into action. So, how else can we corporately support organizations that meet the values that we're wanting to promote and address these issues at the core? How do we address systemic issues by again, aligning with organizations from a corporate sponsorship perspective?
00:12:30		We have been spending a lot of time identifying those organizations that match our values, that meet the goals and objectives and do look to make change through real action. And it's a process, it's not something that can happen quickly. We all need to take our small steps towards making change.
	DP	Is the market willing to let that process take its course, if you will, or is there some impatience starting to build in the market in terms of these initiatives going forward?
	KM	I think there is a little less patience with the next visible commitment, the next visible pledge.
00:12:58		We're in an era where there is a tremendous number of those, and they're all directionally good. I think nothing really gets going without rhetoric initially, but increasingly, certainly investors, consumers are willing to go beyond the rhetoric, beyond the pledge and say, what have you accomplished? Even down to the corporate level, when we're engaging, we have to go beyond simply saying, yes, we raised it as an issue, but also say, well and here's how we followed up. Here's how we ensured there was an impact from our engagement, and here's what this company is actually doing.
00:13:32		I think it's definitely moved on a little bit.

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	MG	And I think from my perspective, looking at it through the lens of the end shareholders who are in our funds for instance, they are going to look for us to be that steward, to have that engagement. These issues are important to many of them, and becoming more important, especially by some demographics. As we bring younger kids along into the investing space in terms of how they start to save, these issues are incredibly important. Not to say that they're the only ones.
00:13:57		But these are going to be vocal groups, and I think it's the responsibility of all of us to address their needs as we engage companies and the portfolios that we own.
	DP	I'm just curious, Martin or Kevin or Judy, when you're now engaging with companies or looking for new investments, do you envision scenarios where a company might be really good on the environmental side or the E side of the equation, but maybe not so great on the social or governance side of things, and all of a sudden you have a bit of a dilemma facing you in terms of weighing a ledger, if you will?
00:14:30	MG	Yes, there's no perfect companies, that's the reality. There's no perfect people. I always bring that up when speaking. There's an expectation that the company is going to be pretty good in some areas and needs to be brought along in others, especially for the type of investment that we're looking for in my fund, they need to be pretty far along in all aspects. But they're never going to be perfect in all of them. Engagement has to, for us, investing in the company that has the right product or solution, has the right management focus or attitude around these issues, and is willing to continuously improve on them.
00:15:00		And in some cases, there's actors in the market that don't have that philosophy.
	DP	And I'm guessing to add to that is the fact that what is deemed as being good, let's say on good governance, is always evolving here too as well, right?

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	JG	It has to, and I think we owe it to the investors, we owe to our children, to always be seeking to improve and always be looking to the reality of some of these systemic issues, and making sure we're addressing them in some capacity, the way we're capable of doing so.
	KM	And I think we're moving into an era after this pandemic of greater accountability.
00:15:35		Boards are going to look and see; how did management do? And to Martin's earlier points, how do they take care of their employees? How are they thinking about social issues? How are you thinking about the makeup of your workforce, the diversity of your workforce? Are you an inclusive firm? Do you take care of the environment as we move forward? Do we think about, in certain industries, what does it look like to have a carbon footprint that's different than the one you have today? I think as we move out of this, there's going to be a greater focus on accountability on the governance side, hopefully.
00:16:00	MG	One aspect I think that also needs to be further discussed really is the dichotomy between firms that have the capability in a certain respect to address these issues, and those that coming out of a crisis, are financially unstable. So, it's not as simple as saying, every company should be at the same level. The reality is some dealing with growing concern issues. And so, those perhaps are prioritized over trying to meet some particular stringent standard, whether it's social or environmental.
00:16:30		I think investors need to be nuanced in how they approach these issues.

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	KM	And I think there are going to be give and takes. If you think about the current pandemic, initially people weren't driving, they were staying home. Now people are fearful of mass transit. Is that a long-term trend or a short-term trend? So, as the world re-opens, do they drive more, instead of being able to transport people in a larger fashion, in a more environmentally friendly way, do people go back to old habits? So, I think there are many trade offs in here that we have to think about as we move forward, post-this, from all of the letters that we're dealing with on the E, the S and the G.
00:16:57	DP	And maybe that's a good way for us to get into some of the themes and factors that are resonating a little bit more since the pandemic hit. Martin, I know that you have a thematic approach and there are themes that you're looking at with your strategy. Do you see some themes becoming more emphasized going forward than others? How does that potentially play out going forward?
	MG	I think any of the themes that we track, we view as long term secular opportunities, but they all go through cycles. I mean, you look at something like investment in water is going to ramp up obviously, especially as drought increases in regions due to climate change.
00:17:34		But that being said, tax revenue at the municipal level is critical for spend for instance, on water treatment and wastewater. There's always these nuances to the longer-term opportunity, and so we're always trying to position to benefit both the near term and also keep that focus on the long term. But there's no doubt some segments of the economy now are going through incredible disruption around sustainability themes.
00:17:58		There's nothing that's more obvious to people than transportation, where you now have the largest auto manufacturers in the world who are essentially not spending on combustion technology and only spending on battery and electrification. These are massive themes that worked their way through entire new supply chains and provide downside risk to the old supply chain.

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	DP	And then you mentioned EVs, and Kevin mentioned mass transit earlier, those types of dynamics, I'm just curious, people are obviously a little bit nervous about mass transit now.
00:18:31		Does that limit opportunities in that realm of this particular sector, and put a great deal more emphasis on EVs and that type of transportation, maybe more so than it would have otherwise?
	KM	So, maybe I'll take a crack at that. We're only going to know this years from now. When the world normalizes, many companies are going to a flexible work environment. That means people will work from home a few days perhaps, come back to the office a few other days. They may not buy a mass transit pass for a month.
00:18:58		They may decide to drive. And so, what does that trade off look like for the environment, if more people are getting in cars? Maybe that is the spur to get EV adoption quicker, as people start to think about those issues. So then, because of something like that, I'm not going to my office every day, I don't need to get on the train, and they think about the environment, maybe it does take the option out. We won't know a lot of this stuff, I think, for a bit in front of us, but clearly there are going to be outcomes here from this that will be long-lasting for sure.
00:19:27	MG	And I think the pressure from governments, urban planners, individuals who try to ensure we have healthy cities, is towards reducing automobile use in the course. And it's almost regardless of whether it's an EV or not. An EV is better, but there's a tremendous emphasis right now on improving walking, cycling lanes. There will be a hit to mass transit, there's no doubt, but I think the funding for mass transit, the economics of it will be negative in the short term but the government will be stepping in with more funding there.

Time code	Speaker	Text
00:19:54		We saw in Canada that there was \$10 billion allocated to the Canadian infrastructure bank towards green spending, and part of that is to electric buses. So, there will be an interest still in getting those emissions out of cities, ensuring we have the most efficient forms of transit, and then overtime coaxing people back on. I mean, plexiglass, separated seating positions, there's all sorts of ways that you can make it a bit more palatable and get people back to using public means of transportation.
00:20:25	JG	I think from a city perspective, if we just think about what we've seen in Toronto, they have literally fast-forwarded bicycling lanes in their plans five years faster than what they would have done if it weren't for the pandemic. And so, there's a huge positive from that perspective in terms of enhancements overall to the city and to the environment. And the mass transit long term, I have to believe it's going to pick back up long term, but there will be a short term, mid term impact to it for sure.
	MG	And I think you're going to see a mission profile come back probably faster than people expect. That's the reality is if there's going to be more miles driven in suburbs, where most miles are driven in any case, but we know that that's going to happen.
00:21:04		So, it just pushes that emissions issue again to the floor, because yes, we had a reprieve for a six-month period, but we know that the pickup will come probably faster that people expect. And yet, we still want to get a handle on those emissions and reduce them. We're seeing the impact of not doing that in California and Australia, in prone regions, it's just becoming more obviously every day.
	DP	We've got a little bit more time here, but maybe just a quick thought on health and wellbeing as a theme or a sector going forward.
00:21:33		It feels like there's going to be a great deal of emphasis on this now that we've gone through such a harrowing experience over the last few months.
	JG	How many people do you know have bought a Peloton bike in the last six months?

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	KM	Can you even find a Peloton bike or a bike of any kind to buy right now?
	JG	True.
	MG	Good point. The bike inventory situation, we have some investments in the cycling industry, and it's unreal.
00:21:58		If you go into a bike store today, they don't have bikes, they don't have parts, they don't have clothing. People are recognizing not only do they want to get healthier, and this goes through food as well, they want to have healthier options, but the linkage with immunity. We can't just rely on a vaccine; we still don't know when that will be broadly available. And there's ways to improve your immunity to viruses that have more to do with your lifestyle. So, I think this is just bringing those issues to the floor.
	KM	In surveys of our own workforce, you hear people talk about what they have felt through the pandemic.
00:22:30		One of the things we hear is that people have been eating healthier at home, haven't been going out to restaurants obviously, and so they've been cooking more, cooking healthily. We've seen a number of people not only eating healthier but are taking better care of themselves. Sleeping more, getting more exercise. So, I don't know, maybe this was a great wakeup for us all as we had to slow down. Some of these will be sustainable. I don't think people are going to go back to some bad practices, perhaps.
	DP	And on that note, we've seen things like pandemic bonds arise over the last few months. So, the market is taking that to heart to a certain extent, this evolution if you will.
00:22:58	MG	Yes, I think investors are looking for opportunities to direct capital and make that visible to their stakeholders. And so, pandemic bonds are very recent obviously, but green bonds, transition bonds, these are areas of finance that are evolving very quickly, and where you have that confluence of interest of corporates, investors, and the ultimate owners of those products who want the financial return, but they want it linked with something that's providing an impact associated with it.

Time code	Speaker	Text
00:23:30	JG	Well, and we can even look at the increased demand for ESG ETFs. In the US in particular, we saw when money started moving back into the market after the market lows in March, we saw about 62% of the money going back into ETFs went back directed to ESG ETFs, and so investor appetite right now is huge in this area.
	DP	That's an interesting point. We compare what's happening on that front during this crisis with what happened during the financial crisis, it's almost night and day, right Martin, in terms of the resilience of the space?
00:24:03	MG	Well and also the maturity of the space is so much different than it was back in the great financial crisis. We actually had a flare up in green investments in 2007. So, it was just that they were not yet as cost effective as they are today. There weren't as many of them, they were often less liquid, they were smaller cap, less mature management teams, and you paid the price for that at the end of 2008 and into 2009.
00:24:26		But this time around, you're dealing with more established entities where penetration rate is increasing, where there's regulatory support, and where the pricing dynamics are much better.
	DP	Maybe I'll just get a final thought from each of you.
	KM	I think the space has changed. Not only are we thinking about it, but we always said, is it here to stay? It is here to stay. These are real issues that are important to our investors. They're going to be important to our kids, as Judy said, and I think we have a duty to take it all seriously as a society. So, I think this is different in the last decade, and I think it will evolve as we come through the pandemic.

Time code	Speaker	Text
00:24:58		What are the issues that we're going to have to face in the short term? Think of all this PPE, think of all the masks, think of all the plastics we've had to deploy to put up screening in offices and restaurants. How are we going to deal with that in the short term? In the long term, the issues that people face now are going to be heightened, and I think we're going to have greater accountability and greater awareness of it because of this. So, I think hopefully on a trend that we don't look back on like in 2008.
	JG	Yes, and my excitement about this area, the attention that we're seeing at this point, really has heightened what I think currently is still a high degree of confusion in how the nomenclature has been working and what E means, what S means, what G means, what is social impact investing, what is thematic investing in the ESG space, etc.
00:25:35		So, across the whole spectrum of ESG, I think one of the good outcomes will be clarity around what exactly are investors looking for, how is it defined, and how are companies adhering to it? We should see that greater clarity held in this space as well as we continue to move forward. Now, with the kind of attention that the investors are looking for and the interest that they have in this space.
00:25:55	MG	From my perspective, I think Judy is dead on. There's confusion or there has been in the past around what people are doing and what they're calling it from an ESG or a sustainability perspective, but if we just look at the investment opportunities, they're becoming much clearer than they were 10 years ago in terms of driving capital within various segments of the economy. I think almost regardless of what you call it, there's simply a tremendous opportunity here to put capital to work and get that financial return.
00:26:26		But do it in a fashion that is hopefully helping to solve some of these bigger systemic issues. And I think that's what's really exciting, despite the fact we're in a crisis, but as we come out of it, I think that's what investors will be looking at.

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	DP	And that feels like a good place to end. Thanks again to Judy and Martin for joining us, and Kevin. Until next time. For a full transcript of today's episode, visit AGF.com/podcast and don't forget to subscribe to hear more from us at Apple podcasts, Spotify, Google Play Music, Stitcher, Podcast Addict, and Pocket Casts.
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