

2020 Global Investment Conference



2020 Virtual event coverage



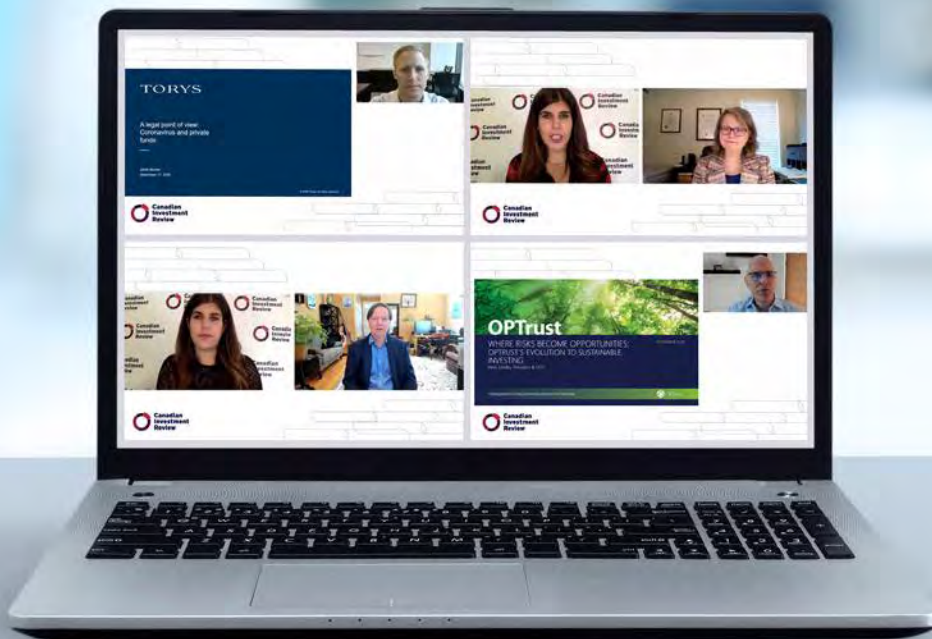
**Canadian
Investment
Review**

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Introduction



by Yaelle Gang

A lot has changed since the first Global Investment Conference 25 years ago. Canadian pension plans' asset allocations, risk mitigation strategies and geographic reach have evolved tremendously. While challenges and opportunities have always come along with investing abroad, the coronavirus has made the global investment landscape even harder to navigate.

The virtual Global Investment Conference was an opportunity for plan sponsors to hear from expert speakers

about investing in an interconnected world. Presentations covered a range of topics including geopolitical risk, the rise of China, emerging market equities and global fixed income.

Many presentations highlighted a growing theme: the importance of considering environmental, social and governance factors when investing. In particular, the presentations explored the often overlooked "S" in ESG and how the pandemic is shining a new light on social issues.

The coronavirus has shown investors that it's hard to look even six months into the future. But pension plan sponsors have the challenge of ensuring pension benefits are available to members for the long run.

What will the next 25 years of global investing look like? The sessions at the Global Investment Conference offered insights into what plan sponsors should consider when investing for the long term across asset classes and borders in an increasingly complex environment.

How financial institutions can navigate a shifting geopolitical order

Erik Brown
Research analyst
Global Risk Institute



The geopolitical systems and institutions that formed after the Second World War are coming under fire and a shift in global order is underway, said Erik Brown, a research analyst at the Global Risk Institute.

In particular, China and other emerging markets have increasing political and economic power to influence global outcomes. "Although that has immense benefits in terms of human equity and prosperity, it does also increase the likelihood for disfunction. For those familiar with the geopolitical thinker Ian Bremmer, this is essentially what he refers to as the G-Zero World, one in which no critical mass of states exists to take up that mantle of global leadership."

The shift in global order is particularly important for financial institutions, Brown said.

"The global order . . . served as a kind of moderating force. It reduced geopolitical volatility. And with its retreat, geopolitical shocks are more substantial in their effects on market, credit, liquidity, regulatory and other risk factors."

For global investors, countries that were once considered safe to invest in may become more challenging. Three accelerating trends investors should

watch over the coming years are a breakdown in transnational cooperation, economic segmentation and the possibility of a popular backlash, Brown said.

For example, the U.S. and China are seeing a breakdown of cooperation and increasing trade tensions. "The problem is, of course, if you can't get those two parties to the table, it becomes much more difficult to address other transnational problems, whether we're talking about climate change, financial crises, future public health crises and for financial institutions, issues like climate disclosure, [anti-money laundering], foreign investment treatment, data governance. In all these questions, institutions benefit from at least some alignment across countries and regions and of course that requires cooperative action, which is lacking in the current context."

The pandemic has shined a light on supply chain vulnerabilities and prompted calls for reshoring production, and this is playing into existing tensions, which are not limited to just China and the U.S., Brown said. "All of these trends do not bode well for 'business as usual' in terms of economics and economic globalization. But arguably they also signal

a greater role for the state in the market, because of course it's the state that has the power to raise those economic drawbridges, and we've seen a hint of this in the run-up to the 2020 U.S. elections."

Further, the virus has highlighted disparities not only in the economic fallout, but also in exposure to the pandemic. "The global financial crisis left a lot of those lasting economic cleavages, which were exploited by a lot of populist parties through the 2010s. If COVID-19 cleaves even greater economic dislocations, and if public policies either fail to address those inequities or unintentionally increase them, it could instigate an analogous backlash further down the road."

Trade-offs between investment opportunities and geopolitical constraints will grow in frequency and complexity, Brown noted. And institutional investors must remember that local and global issues are intertwined. "Geography is pretty poor insulation against geopolitical risk in a networked world and I defer to Richard Haass, who's the president of the Council on Foreign Relations in the United States, when he notes that the Vegas Rule does not apply in global affairs. In other words, what happens there does not in fact stay there."

Why institutional investors should be wary of inflation

Campbell Harvey Professor of finance Duke University



In the wake of the coronavirus crisis, the stock market has recovered to pre-pandemic levels for various reasons, but institutional investors shouldn't be overly optimistic and must keep risks top of mind, said Campbell Harvey, a professor of finance at Duke University.

Some reasons for the stock market recovering include fiscal stimulus, expectations for a robust recovery, the growth of technology stocks, the resurgence of retail investors and the rise of momentum investors, he said. "All of these reasons for the stock market being high are valid reasons, but what I worry about is the downside. . . I see the risk of people being overly optimistic, people essentially downplaying information that they shouldn't be discounting."

Further, a debt overhang is a risk. "That is essentially [when] there's just so much debt that it's really hard for companies to go out and finance viable projects that could lead to robust growth."

But the primary risk facing the economy is a surge in inflation, Harvey said. While inflation didn't manifest

following the global financial crisis, this time is different. "I really worry about extrapolating from a single data point. The [quantitative easing] this time is unlimited. That's a lot different than in the past. And again, just because we haven't seen inflation in the past, we cannot assume that we will not see it. And it is true that the bond market has completely ignored this."

Investors are facing an environment fraught with risk, he said. "You've got a stock market that could be exhibiting irrational exuberance. You've got bond prices that are very high. Nothing is really safe. You buy a 10-year government bond, you think that's safe? No way. If there is a pop in inflation, that is a very risky investment."

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Despite the unusual times, Harvey believes the economy will recover, but there has been damage done. "Some of the damage is just accelerating what we already thought was going to happen. Many of the firms that have gone bankrupt are firms that were going to go bankrupt anyway. But there's another level of damage. And that is the small- and medium-sized businesses that have gone out of business that don't make the headlines in the media, yet account for half of the employment in the U.S. and probably a similar amount in Canada."

To think no structural damage has been done to the economy is naïve, he added, encouraging investors to look at history and notice the differences, not the similarities. For instance, the

coronavirus recession is short with more certainty about a resolution. "However, we can't be wearing rose-coloured glasses. There is damage. And that needs to be taken into account."

The key to predicting long-term trends in a fast-paced world

Ben Drury
Client service director
Baillie Gifford



The coronavirus pandemic has taught investors that looking even six months ahead can be a challenge, so how can plan sponsors take a longer-term view?

"The further ahead you look, the more variables there are and the more embarrassing your predictions might turn out to be," said Ben Drury, client services director at Baillie Gifford.

"It's perhaps unsurprising, therefore, that in the financial industry, most of our effort is spent trying to assign probabilities to near-term events, figuring out the direction of U.S. trade policy or the likely outcome of an upcoming election, for instance. But although these things can seem important, on a 20-year view all of these things are likely to pale into insignificance and instead what really matters are the potential disruptive transformations that could significantly change our lives, economies and societies."

To help take a longer-term view, plan sponsors shouldn't focus on the precision of when a change will take place, but instead what the magnitude or impact of the change might be, Drury noted. "When trying to predict change,

trying to identify the moment when it becomes mainstream, the tipping point or the 'when' is often much harder, but arguably less important than the 'what.'"

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As a starting point, plan sponsors can look at the structural shifts in society that are already underway and set to continue. Further, it's key to note that the adoption of new technology can be very quick. "The moment that we see technologies come out of the lab and gain a foothold in the real world, their exponential adoption curve has already started and the odds of that technology being ubiquitous a decade or two later has already fallen dramatically," Drury noted. "And after that, for us [as] investors, it becomes about identifying the resulting winners and losers."

Drury also emphasized the importance of thinking big and considering the range of industries that are transitioning from fragmented regional players to a smaller number of players operating at a global scale. "For example, over the last decade, we've seen this in media with the rise of Netflix, we've seen this in advertising with Google and Facebook, and in e-commerce with Amazon. And we believe that the same dynamics, which helped drive success in these companies, are likely to affect a much broader range of industries over the coming decade and beyond."

Further, optimism is important. "As professionals, and probably just as humans, we have a tendency to perceive radical change as a threat. Especially where we have significant amounts of capital exposed to industries which are starting to see returns come under pressure."

But many emerging trends will present opportunities for new sources of return. "An approach which tries to capture some of these opportunities at an earlier stage is likely to be more productive and better rewarded than those that simply try to track the indices."

How has coronavirus impacted private equity markets?

Jamie Becker

Counsel, private equity and pension fund investments

Torys LLP



The private equity market was on a hot streak coming into 2020 and despite the economic wreckage caused by the coronavirus, fundraising has generally held up, said Jamie Becker, counsel for private equity and pension fund investments at Torys LLP.

"There was concern at the beginning of the pandemic that [general partners] would turn inward and focus on their own portfolio and [limited partners] would also stop their fund investment activities. Travel restrictions meant that GPs couldn't go and market to LPs and LPs couldn't go do onsite due diligence or meet the investment team," said Becker. "Luckily, that hasn't actually played out and the first half of 2020 actually raised more capital than the first half of 2019, albeit in fewer funds."

The fundraising has been driven largely by established managers, whereas smaller, emerging managers are finding it more difficult to raise capital in the current environment.

Generally, the concept of the denominator effect exists with private equity, Becker noted. "The denominator effect suggests that an institutional investor's private equity allocation is fixed as a percentage of its overall portfolio. As the portfolio decreases in value, the absolute value of the private equity

allocation goes down along with it."

But the coronavirus hasn't led to investors adjusting their private equity allocations. Some reasons for this include the crisis being temporary in nature, so LPs aren't adjusting their portfolios and public markets have more or less bounced back to where they were before the coronavirus, Becker said. Further, institutional investors have learned lessons from the global financial crisis. "In the [global] financial crisis, funds that were launched tended to outperform funds that were launched before or after. Managers were investing at the bottom of the market, so there's a lot of opportunities, and those funds performed very well. We've heard from our institutional investor clients that they don't want to make that same mistake again and pause their fund commitments like they did in the [global] financial crisis and miss out on this great vintage of funds."

Co-investments were very popular going into the coronavirus crisis, but the pandemic has made merger and acquisition opportunities scarce, so fewer co-investments will likely occur going forward, Becker said. "LPs that we represent who had a steady stream of co-investment opportunities before the pandemic have seen that completely

dry up, although we're seeing a bit of an uptick now."

For the few opportunities that do exist, many LPs will be trying to get access and the GPs will be able to dictate the terms, Becker added.

And when it comes to the secondary market, fundraising has been strong since the first half of 2020. "It's actually stronger than the rest of the fundraising market. The two biggest funds that closed in the first half of 2020 were actually secondaries funds. Given the strong fundraising and the existing dry powder in these funds and the shorter investment periods that secondaries funds tend to have to deploy capital, we expect that the secondary market will continue on its upward trajectory."

LPs facing liquidity needs may be looking to sell more of their interests into the secondary market, Becker said, noting GPs are also going to access the market for liquidity.

GPs can also get liquidity through preferred equity financing. "This is another secondary market tool that was popular pre-pandemic. Given heightened needs for capital these days with portfolio companies, we expect to see more preferred equity financing as things go forward into late 2020 and early 2021."

The benefits of looking beyond borders in fixed income

Gregor Dannacher

Global corporate credit portfolio specialist,
fixed income division
T. Rowe Price



With developed market bond yields sitting near zero, pension plan sponsors seeking better returns and increased portfolio efficiency may find what they're looking for in global fixed income, said Gregor Dannacher, global corporate credit portfolio specialist for the fixed income division at T. Rowe Price.

Dannacher highlighted how globalizing fixed income allocations can provide return potential and diversification benefits. "Most Canadian investors have already embraced globalizing their equity allocation," he said. "Now the time has come to make similar shifts within fixed income allocations."

Plan sponsors can take several routes to incorporating global fixed income in their portfolios, including using global multi-asset credit or a subset of it – global high yield, Dannacher noted.

"Most Canadian investors have already embraced globalizing their equity allocation. Now the time has come to make similar shifts within fixed income allocations."

Many other developed markets offer higher yielding opportunities when looking at select 10-year global government bonds hedged to Canadian dollars. Further, when considering yield-to-maturity across various fixed income sectors, global high yield offers more yield and income potential, with slightly more volatility compared to many other sectors.

Further, when comparing the rolling 12-month correlation of global high yield and emerging markets to the broad Canadian market up to the end of July 2020, it's clear the markets are moving in different ways most of the time, Dannacher added.

And while multi-asset credit or global high-yield allocations introduce more credit risk to an overall portfolio, the extra yield picked up can help smooth out overall returns and lead to more portfolio efficiency, he said, noting multi-asset credit also generates equity-like returns with half the volatility of equity.

Dannacher cited a T. Rowe Price study on forecasting fixed income returns. "The yields you invest at today and the subsequent return experienced over the next five to ten years is very highly correlated, somewhere between 75 and 98 per cent correlation depending on the fixed income sector. To me, that is an incredibly good crystal ball."

Applying this insight to today's reality, with government or investment-grade-type bonds yielding one to three per cent and multi-asset credit yielding four to six per cent, these are the good indicators for return expectations in the years ahead, he said. "Further if you assume the same sort of standard deviation of returns going forward, you will find that the efficiency or Sharpe ratios of global [multi-asset credit] sectors screen well. Conversely, some of the lower-yielding sectors may not be able to generate appealing absolute return streams most institutional investors need to meet their constituent or plan objectives."

Duration is a hidden risk lurking in the lower-yielding bond sectors, Dannacher said. Plus, for plan sponsors looking to global high yield, the opportunity set has expanded over the past 10 to 15 years to over \$5 trillion and the credit quality of the market has materially improved too. But differences do exist across regions, industries and companies, he added, noting flexible, active asset managers can take advantage of inefficiencies. "One of my favourite sayings in investing in credit is, 'Delivering returns is not only just about what you own in a portfolio, but it's also about what you avoid.'"

The role of strategic credit in mature DB pension plans

Alex Veroude

Chief investment officer, North America
Insight Investment (part of BNY Mellon Investment Management)



The pension industry is at a turning point, with the asset value of defined contribution plans growing, while defined benefit plans are shrinking.

"In a decade's time, you will have a situation where DC will be almost \$50 trillion in size, but DB will be \$10 trillion in size and there will be big changes to long-term investing," said Alex Veroude, chief investment officer for North America at Insight Investment, part of BNY Mellon Investment Management.

Once a DB plan is nearing the end of its life, it can't make as long-term illiquid investments and it has a lower risk tolerance, which leads to a different investment management style – one that traditionally relies more on fixed income.

As fixed income portfolios grow in importance, it's becoming more difficult to produce returns.

Yields were already near historic lows when the coronavirus hit and now the pandemic has meant that rates will likely stay near-zero for numerous years and the stock of negative-yielding fixed income assets will increase too, Veroude said.

Against the challenging economic backdrop, many DB pension plans still require liquidity, reduced risk and growth. "They can't afford to put all their money in zero per cent yielding stuff. And that's a pretty tricky task that we've seen almost every pension plan struggle with."

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As such, plan sponsors are looking for good-quality cash flows that are useful to them and allow them to maintain liquidity, he said, noting that based on his experience, he is seeing pension plan sponsors take a strategic-credit approach that looks beyond traditional

fixed income to other contractual assets with a high degree of cash flow certainty. "Most pension plans these days are looking for credit solutions, but ideally not too risky because they're coming out of government bonds. And they want to stay as close to government bonds as possible."

In a strategic-credit approach, investors combine all of their fixed income assets, including traditional global bonds and global alternative lending, in a single portfolio. They also focus on enhancing the yield of traditional bonds by moving away from a traditional benchmark and holding to maturity.

Ultimately, the goal is a best contractual cash flow approach that allows plan sponsors to calculate cash flows precisely, similar to the level of certainty they'd expect from an annuity payment. "What they're doing is . . . [keeping] the risk of capital loss very low by focusing primarily on investment-grade type of risks, not necessarily investment-grade corporate bonds, but investment-grade type of risk, i.e., defaults are very rare and really shouldn't happen at all."

A look at the impact of coronavirus on the structural case for emerging markets

Nicholas Field

Emerging markets strategist and fund manager
Schroders



Historically, the structural case for investing in emerging markets was centred around the idea of convergence – that over time, relatively poor countries will grow their economies and the corporate base in those countries can take advantage of superior returns, said Nicholas Field, emerging markets strategist and fund manager at Schroders.

Emerging markets' share of global gross domestic product has grown from about 25 per cent in 1980 to nearly 45 per cent today. But the convergence experience hasn't been the same for all emerging markets.

A country can't just grow from nothing; growth happens in stages, Field noted. "The usual pattern is that you start off with a cheaper workforce and you use that to develop an export base. And then you use the money from the exports to invest and build up a capital base. And it's that capital base growing, which gives you that superior growth."

A factor that investors can pay attention to is urbanization. But when looking at emerging markets' GDP per capita and urbanization levels, it's clear many countries still have plenty of runway for

convergence, Field noted.

Several factors can drive success for an emerging market: having a young population that is aging, consumes a lot and can be used for labour; the ability of a country to use labour effectively; infrastructure; policy and government stability; rule of law; and property rights. "There are a lot of factors that you need. And you don't need all of them to be perfect, but you need quite a few of them."

But there are no guarantees a country will be able to converge, because globalizing is stalling and tensions between the U.S. and China are rising, Field said, noting China is supplying the world with a huge amount of manufactured goods, so the value of manufacturing is dropping and other countries may not be able to see export booms big enough to employ lots of people. "This is part of the reason why you're getting the tension between not just U.S. and China, that's the strong bit, but also China and other places."

The coronavirus is changing the long-term outlook for emerging markets because it is leaving countries with much more debt in both the developed

and developing world. And it's impacting poorer countries more because they have less ability to cushion the blow. "It's very difficult to say exactly how things are going to pan out, but it does seem that both within the emerging markets country to country and within individual countries, . . . the poorer you are, perhaps the longer lasting the effect is going to be."

The makeup of the emerging markets index is also changing, with countries like China rising in significance, while other countries, like those in Latin America and Eastern Europe, have become less significant. Further, the composition of the types of companies within the index is changing, he added.

"But what does this all mean in terms of what you're actually looking at for investing now? You're not just investing in a bunch of poor countries, which could grow a lot. You may get some of that. But you're also investing in a much more, in a sense, diverse group of countries than you had available 20 years ago, representing a more diverse set of sectors, representing a new economy and old economy and representing an increasingly large part of the world."

What trends should investors watch in China's economic recovery?

Catherine Yeung
Investment director
Fidelity International



While speaking at the *Canadian Investment Review's* 2020 Global Investment Conference in September, Catherine Yeung, investment director at Fidelity International, provided an overview of key trends for investors to watch, given the rising prominence of China in global portfolios.

In the wake of the coronavirus crisis, e-commerce usage across the country has accelerated, said Yeung. "One of the interesting things that has emerged from the second quarter reporting season, which just recently came to a close in China, was how e-commerce companies in particular had really grown their earnings. And earnings revisions [are] also looking attractive into the third quarter," Yeung noted.

Another trend for investors to keep an eye on is the geopolitical tension between China and the U.S. "Now this isn't anything new," she said. "The relationship has changed over the past couple of years and regardless of the outcomes of the U.S. elections in November, we continue to see this relationship really morph into more of a competitive one. So the ramifications [of] this really do need to be understood by investors."

Specifically, the ongoing rivalry between the two countries will likely result in periods of market volatility. And while global markets will react to the outcome of the U.S. election, whoever wins likely won't change the long-term nature of the relationship.

Yeung explored current issues, including the dispute about WeChat. If WeChat were to be banned in the U.S., it wouldn't dent the earnings profile of the business because the volume of U.S. users pales in comparison to the total users in China, she noted. "But what we could see is if all of a sudden you can't advertise as, let's say, a U.S. brand, like a consumer brand, in China on WeChat or the domestic version of WeChat, then that has big ramifications for the U.S. companies. So this whole kind of discussion about de-globalization has potentially more of an impact on the individual company."

Another shift for investors to monitor is corporate governance changes in Asia. Particularly in China, significant improvements have been made regarding how companies reward minority shareholders, she said, also noting the rising importance of social factors for

Chinese companies.

While working with Chinese companies directly, Yeung said she's seen a willingness from management teams to want to improve. "It's almost like this need and desire to want to improve, and to want to have the flexibility, and want to be seen on the global stage as a good place to invest, especially with that sustainable angle . . . It's not all companies by the way across China and certainly not all companies across Asia, but you are seeing an improvement. I think it's really refreshing, and I think it's a really positive move in the right direction."

Another trend Yeung is observing is that the mainland stock market, or China's A-shares, has done very well year-to-date. And big pension funds are gravitating to the same kind of A-share names that are included in large global indices.

However, investors must be mindful about portfolio diversification, not just across asset classes, but even within a particular market, Yeung said, noting that having a value tilt as well as owning popular names makes sense as long as this is underpinned by good fundamentals and a margin of safety price-wise.

What does coronavirus mean for the future of sustainable investing?

Eli Angen

Principal, responsible investing,
strategy and risk
Ontario Teachers' Pension Plan



Before the pandemic hit, momentum was building to fight climate change, said Eli Angen, a principal in responsible investing, strategy and risk at the Ontario Teachers' Pension Plan.

Angen pointed to the decreasing cost of the energy transition and greater societal and business awareness about climate change.

"Sustainable investing has been on a bit of a tear between 2012 and 2018," he said, noting according to data from the Global Sustainable Investment Alliance, global sustainable investments have grown from about \$13.3 trillion to \$30.7 trillion.

When the world locked down in response to the coronavirus, people stopped flying and driving and the total energy demand across the world decreased substantially, he added. However, emissions are starting to rise again.

When it comes to the recovery, if the world doubles down on sustainability, the emissions decrease can be permanent, Angen noted. "But if you aren't really focused in how you build back, then you just tend to get a rebound into the behaviours we previously had, and even an exacerbation, because people may not be comfortable with transit. So

if everyone's going back to the office, you'll see an uptick in driving."

From the perspective of the Ontario Teachers' Pension Plan, many portfolio companies have been hit hard by the pandemic and the focus has been keeping the lights on, Angen said. However, despite the shift in priorities, ESG still remains an area of focus for the pension plan and many other investors. He pointed to a Mercer survey from 2020, for example, that found a dramatic increase in the number of investors considering integrating ESG in their investment process.

The recovery's direction coming out of the coronavirus with regards to ESG depends on government actions, he noted.

"[China is] always an important part of this conversation and I see two stories playing out here in competition," Angen said. "On the one hand, traditionally, to stimulate GDP they have doubled down on heavy industry, coal-fired power, steel, cement, things like that. Regional governments are very familiar with how you deploy that capital, how you get that support out to people and get that economic movement. On the other hand, the development that they've had has meant that they have a much larger

middle class and that middle class is far less tolerant of the health and environmental impacts, especially the air pollution health impacts, because that's such a direct day-to-day problem. And so there's a much greater push back the other way to phase those out to invest more in the renewable energy, more in [electric vehicles] and more in the clean energy future. It remains to be seen where that shakes out."

What countries like China and the U.S. do when it comes to the economic recovery is going to set the stage for the coming decade of the energy transition. "It's really important to track what's happening there, because it will be the biggest determinant."

Overall, the coronavirus response has shown how fast the world can move. "While the emission drop that you've got because of a shutdown and economic activity is very much not how you would want to try to address climate change, it does give you a sense that we can cause those sorts of dramatic societal shifts that are required to address climate change. So [COVID-19] has, to a degree, kind of opened the window to how dramatic the change can be and that we are capable of doing that."

OPTrust's sustainable investing evolution

Peter Lindley

President and chief executive officer
OPTrust



The interest in environmental, social and governance investing has risen exponentially over the past 20 years, but ESG investing is still in its early stages, said Peter Lindley, president and chief executive officer of the OPSEU Pension Trust.

"As a long-term investor, our role is to look far ahead at challenges and opportunities that can affect our members and their retirement security across multiple generations," Lindley said. "And we believe that the meaning of fiduciary duty, which is central to us as a trust, has evolved and that supporting sustainability is in the direct interest of our members."

OPTrust adopted its first proxy voting guidelines in 1997, but over the past five years, the push to ESG investing has really accelerated. The organization decided early to have the sustainable investing function sit within the investment team. "This is not the usual case. Typically, under a values-first approach, many investors view sustainable investing more as a communications or public affairs role. And if you think of it more [as] a value-first approach, it's often viewed as a risk or sometimes a legal role. But putting the sustainable investing team in the larger investment group has helped us to foster a culture

in which all sections of our investment team work together with a shared responsibility to continually improve our abilities to analyze risk and conduct our due diligence."

The OPTrust made its first renewable energy investment in 2007 and now roughly 30 per cent of its infrastructure portfolio is invested in renewable energy. But perhaps the most unique aspect of the organization's approach to sustainable investing is a step it took in 2019 to introduce a new sustainable investing and innovation team to the organization. "The team is building on our existing approach to responsible investing, while identifying investment opportunities at the intersection of sustainability and innovation," Lindley said.

The organization has allocated capital to the new team and given it the mandate to look at opportunities across different asset classes. "Typically, within organizations, you have different specializations by asset class, and we feel that innovation and disruption does not always fit neatly into standard asset class divisions. So . . . where we see cross-asset class issues or opportunities, the SII team will either manage them, or invest appropriately or will help the other teams involved manage those issues or opportunities. And we

feel that this, as a refreshed mandate, reflects OPTrust's commitment to overcome the challenges that we face as long-term investors, but also gives an opportunity to think about doing things differently."

Lindley highlighted how the OPTrust believes ESG issues are not only risks to manage, but can also be investment opportunities. "We feel the need to look at ESG from both sides of the coin, risk and opportunity. In particular at the intersection of sustainability and innovation, [is] where the opportunities lie."

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The team is starting by focusing on the theme of climate change. "While climate change is the immediate focus, additional things which will be explored in the future, as resources and time permit, will include topics such as longevity risk or the future of work and technology-driven disruption."

How to make an impact with public equity investments

Marc-Olivier Buffle
Senior product specialist,
thematic equities team
Pictet Asset Management



Impact investing has been a common concept in the private markets space, but now public equity investors can make an impact as well.

At its essence, impact investing is investing in assets with the intention of generating both measurable social or environmental impacts alongside financial returns. "It's a very broad definition, it leaves a lot of space for interpretation, but that is what most investors in the world understand as impact investing," said Marc-Olivier Buffle, senior product specialist on the thematic equities team at Pictet Asset Management.

Both impact investing and thematic investing in the public equities space take similar approaches, he said. And the work starts with intent. For example, an investment strategy can have an intent to have a positive impact on the environment, while also aiming for capital appreciation.

Once the intent is determined, the investor must develop an impact framework, Buffle added, bringing forward an example of how investors can use the planetary boundaries framework developed by the Stockholm Resilience Centre

to decide what to invest in, or not, as part of an environmental strategy. "What the planetary boundary does is basically identify nine environmental challenges that we are faced with in the world."

Asset managers can then look at the framework and decide to only invest in companies that fall within the sustainable boundaries of operations. And finding out which companies fit within the safe operating space requires a lot of fundamental research, he said.

In addition to the framework, investors can use a thematic screen to select companies that engage in certain types of activities, which is very different than using standard third-party environmental, social and governance ratings.

Many ratings are based on how companies run operations instead of on the products themselves, Buffle said, noting both impact investing and thematic investing don't focus as much on the operations. "I mean it's not like they don't look at the operations, but the most important thing is actually the outcome. It's basically the product and services."

Another interesting element of thematic investing is that by defining a

specific theme, an investor is by definition potentially not investing in many other activities, Buffle noted.

On top of selecting screens and exclusions, investors can actively engage with companies they choose to invest in. "Active ownership is a very important approach that is a way to actually have a direct impact on the companies and on the world [in] the end through the companies that you invested in."

Overall, plan sponsors that want to determine if an investment approach is sustainable or has an impact must look under the hood. "Both thematic investing and impact investing are extremely tangible because you are investing in companies that are specialized in certain types of products and services."

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Operationalizing the “S” in ESG

Catherine Jackson

Advisor, sustainable finance practice
Mosaic Governance Advisors LLC



In the world of investing that incorporates environmental, social and governance factors, environment and governance have been very prominent parts of the conversation to date. And now, the pandemic is shining a new light on the importance of considering social factors in investment decision-making.

At the *Canadian Investment Review's* 2020 Global Investment Conference, Catherine Jackson, an advisor in the sustainable finance practice at Mosaic Governance Advisors, spoke about how pension funds can operationalize the “S” in ESG.

Organizations can work to align their goals with their stakeholders, she said, noting she defines stakeholders as those who the pension plan has a fiduciary duty to. “It’s a narrower definition, and the reason for more narrowly defining it is if you don’t define it narrowly, you invite other stakeholders to take control over your narrative.”

Once objectives are defined, investors can integrate social elements through investing in companies with strong social purposes and practices, engaging to improve existing portfolio companies’ social practices and avoiding certain companies not aligned with ultimate goals.

To align ESG initiatives with stakeholders, pension funds can incorporate

stakeholder surveys, attend roundtable conversations with members and beneficiaries or get views from advisory groups to help with investment decisions, Jackson said. “This comes down to the idea that everyone who is in the financial sector is not the sum of everybody who should be influential on the financial sector.”

Pension funds can also engage with companies they’re invested in. Jackson highlighted an example of a Canadian pension fund that is putting the “S” into action through a policy for their investee companies about the effect of the pandemic for workers. “They’ve gone fairly deep in, not setting out their own expectations, but some of the issues that they would hope that their investee companies would be thinking about. On worker health and safety, for example, what are the deep cleaning procedures that are being used? How are the physical distancing protocols being effective and overseen? And [with] respect to cutting jobs, are there alternatives being considered like job rotation [and] rotational furloughs? For those [who] have been furloughed, are benefits still being provided? Is the retraining of employees being offered?”

The pension fund is also relaxing its expectations about share-buybacks

during this time, signalling their understanding of the financial issues at risk, she added.

In addition to engaging proactively with companies, institutional investors can also divest from certain companies. “An engagement strategy should have goals and milestones, but it should also include some consideration if engagement fails.”

Organizations can also use exclusions, Jackson noted, pointing to the example of PGGM, a Dutch pension fund for the health and welfare sector. “In 2013, their clients decided that given that health care and health was so important . . . that they would divest from tobacco and any company engaged in the production of tobacco or tobacco products.”

Overall, pension funds need to build capacity and interact with their stakeholders, she said. “And then, based on that, develop your house view on sustainability, including the S factor, social issues. Be selective about what those are. You can’t do everything; you can’t divest of everything; you can’t, and probably shouldn’t, invest in everything; you are paid to have a judgment here and to that extent you should be selective about which issues you can get behind.”

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