2021 Global Investment Conference

JW MARRIOTT THE ROSSEAU MUSKOKA RESORT & SPA

Sept. 21–23, 2021
Event coverage

Canadian Investment Review

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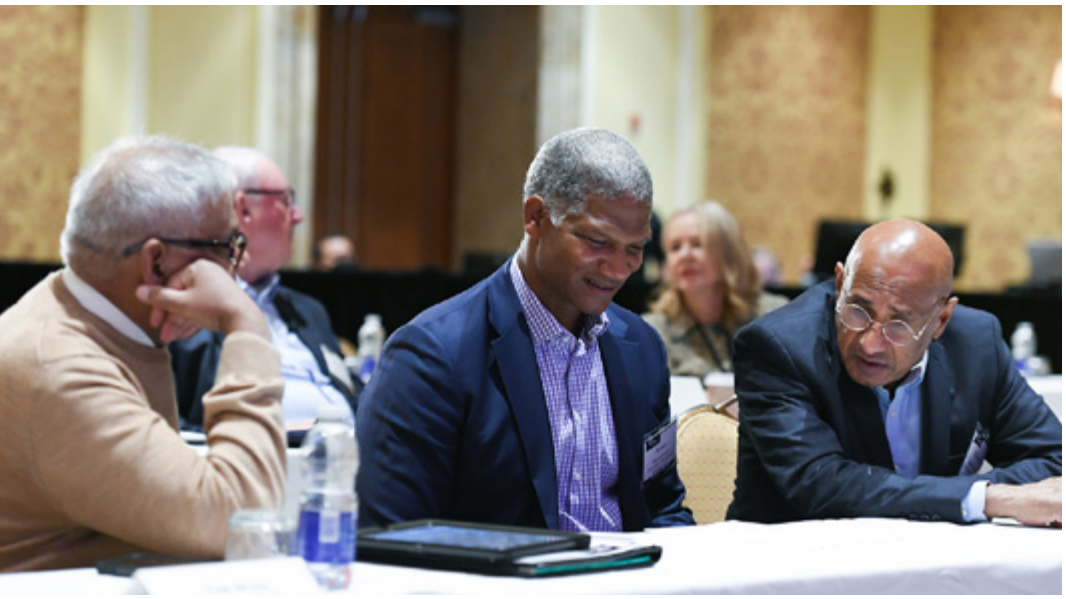
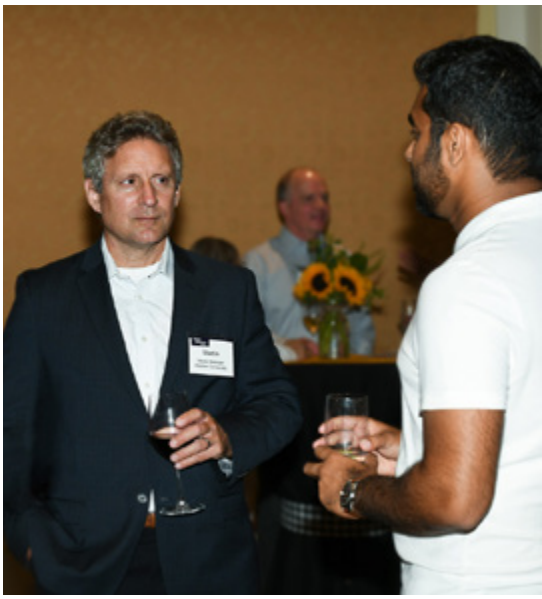




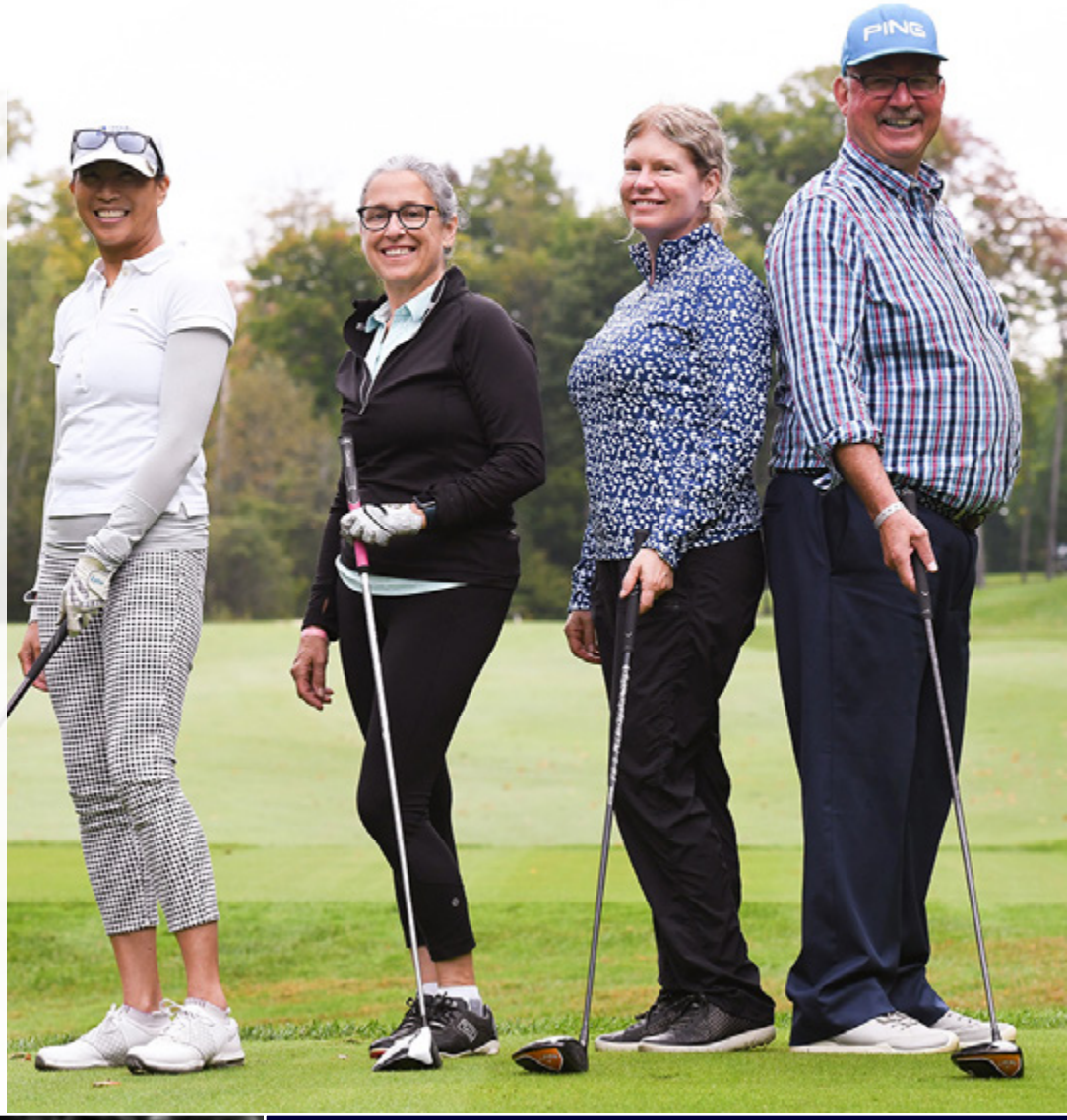
Introduction

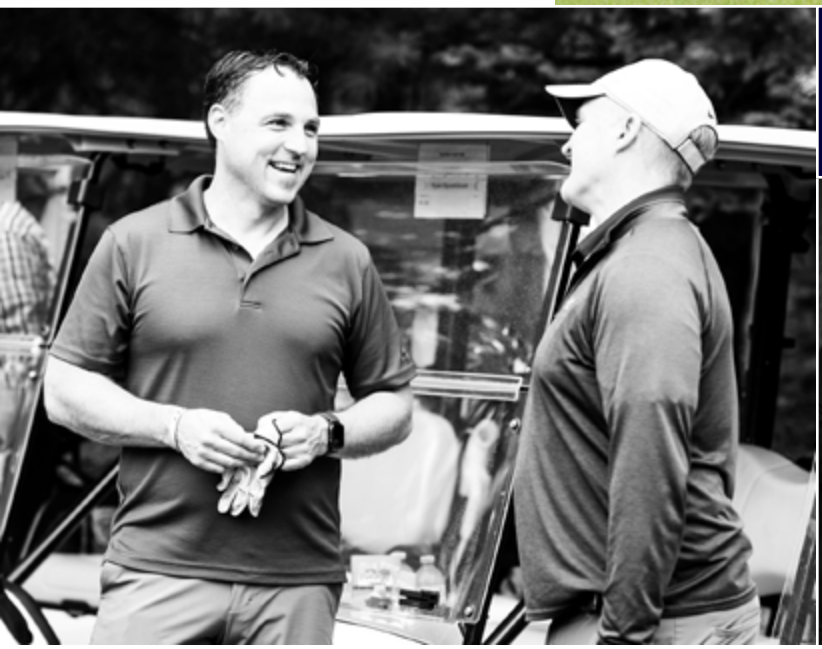
By: Gideon Scanlon
Editor, *Canadian Investment Review*

In September, delegates at the 2021 Global Investment Conference in Muskoka participated in the first major in-person institutional investment event held in Canada since the outbreak of the global pandemic.

After months of silence, important industry discussions began anew. From presentations on how to identify greenwashing in environmental, social and governance corporate reports and how to manage portfolios during the transition away from fossil fuels to ones on the investment opportunities in the world's emerging markets and the legal uncertainty surrounding pension borrowing rules, the conference covered a range of issues relevant to today's institutional investors.

In the articles that follow, we've done our best to give you a sense of the depth of these presentations. In each article, we've worked to summarize the main thrust of the persuasive arguments made by each speaker. Of course, in print, we can only capture a pale reflection of the complex ideas shared at the event. There's no replacement for attending these boutique industry conferences in person.





Above: Angela Lin-Reeve, Jeannette Briggs, Marie Hélène Noiseux and Russell Hiscock. Below: Thak Bhola, Jeannette Briggs, Russell Hiscock and Paula Moore. Left: Ryan Ogrodniczuk and David McKee.

Cutting through the ESG greenwash

Karthik Ramanna
professor of business and public policy
University of Oxford's Blavatnik School of Government

By: Gideon Scanlon

In the keynote address at the 2021 Global Investment Conference, Karthik Ramanna, professor of business and public policy at the University of Oxford's Blavatnik School of Government, described the practice of greenwashing in corporate environmental, social and governance reports as "rampant."

"I'm going to give you some fairly specific tactical tools to tell the signal apart from the noise when it comes to greenwashing. The practice is, frankly, very rampant in a lot of reporting around ESG. There are, in fact, some key conceptual differences in people's worldviews on ESG. These ideologies result in the way ESG reports are prepared."

As he sees it, the approach taken within ESG reports is indicative of the authors' acceptance of one of three ideologies about ESG. He refers to these ideologies as the long-term shareholder, corporate responsibility and pragmatic perspectives.

Dominant in the English-speaking world, the long-term shareholder view holds that ESG-efforts must be profit-driven. Most frequently held in continental Europe, the corporate social responsibility view tends to conceive of a corporation as being beholden to more than just its stockholders. The pragmatic view tends to dominate in the developing world, where companies are less driven by internal ESG commitments, but will adapt to them to secure business.

"Understanding is key. Unless you understand the ideology at the corporate level, you will never be able to make any sense of what is in those reports."

After identifying a business's particular ideology, investors may still fall into three common rhetorical traps used by companies to greenwash their reports, which Ramanna referred as the fungibility, materiality and emissions traps.

The fungibility trap involves confusing readers about trade-offs made regarding moral issues. As an example, Ramanna pointed to a mining company's report that highlighted a cut in the fossil fuel emissions of its transportation vehicles following a switch to a hybrid fleet. What wasn't indicated was that the precious metals used within the fleet's batteries were mined by indentured workers.

"What the company has explicitly done is trade-off carbon emission for indentured labour. ESG reports implicitly, and perhaps unknowingly, make these sort of moral trade-offs."

The materiality trap refers to the tying-in of financial and ESG information. Within corporate ESG reports, activities with high financial salience are less likely to be reported than ones with a much lower impact on the bottom line but a more impressive impact on ESG-related concerns.

The emissions trap relates to environmental reporting. In most reports, the emissions footprint of all links within a supply chain is estimated. Ramanna said he feels this approach is fundamentally flawed, as the estimates can't be made with any degree of accuracy. Instead, he proposed a new system under which carbon emissions information is tracked and passed from client to consumer at every level of the supply chain.

Ramanna concluded his session with a warning that ESG reports are fundamentally the product of public relations officers rather than of actuaries.

"There is no equivalent to the prudence principle in ESG reports. If anything, they are written under the imprudence principal — anticipate any good news. Quite frankly, there is no penalty for not talking about the bad news."

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Institutional investors role in reaching net zero

Lloyd McAllister
head of environmental, social and governance research
Newton Investment Management

By: Blake Wolfe

As more companies shift to net-zero commitments in the face of climate change, institutional investors play a key role in proliferating the practice through where they invest their clients' money, said Lloyd McAllister, head of environmental, social and governance research at Newton Investment Management.

However, he suggested investors make careful considerations before undertaking these efforts. "There's a tendency to mock up something and consider the job done. We have to ask ourselves what this commitment will look like. It's much more impactful to invest in companies doing the tough transition work and engaging with management teams in those different sectors rather than cutting them out, when they play such a crucial role."

McAllister also suggested that active investors hold the companies they invest in accountable to their commitments and be a steward of their clients' capital, ensuring the companies are responding appropriately to the various stakeholder demands.

However, he noted investors should avoid making their clients' portfolios net zero while nothing changes in the real economy. "That's where the tough work must take place."

He pointed to the latest report by the International Panel on Climate Change, which found not only is climate change "unequivocally linked" to increased greenhouse gas emissions, but that to effect meaningful change, global carbon emissions must be cut by 50 per cent by the end of the decade. Contrasting the report, McAllister said the latest submissions of climate action plans by international governments to the United Nations would actually result in a net increase of emissions.

"The key point is not to think of climate change as a narrow issue. It's a long-term structural driver of change. . . . The very nature of our changing energy, food, transport and building systems are so interconnected that it's like turning around a cruise liner. It takes time to change industries and consumer preferences."

As more companies make net-zero commitments, additional risks and opportunities will present themselves to institutional investors, he said. "It's a combination of changing consumer preferences, technology innovation and regulation — and these are leading to sweeping changes across different industries.

"It's not just about electric vehicles, it's about changes in aviation. It's not just about building, it's about steel and cement. It's not oil, it's cobalt, nickel and copper. Each of these represents risks that need to be managed and opportunities for those who adapt."

In addition, McAllister said stakeholders are increasingly seeing net zero as a non-negotiable item, noting that globally, roughly $43 trillion of assets under management have signed up for net-zero asset management, while 68 per cent of global gross domestic product is produced by governments that have agreed to go to net zero.

"By adopting net zero and planning appropriately, it helps a company align with its stakeholders' expectations, It also protects the company from the inevitable regulatory steamroller that will come in over the next decade [and] it helps re-position business as focused on reducing exposure to high-carbon value chains and developing a replacement revenue stream that's low carbon and future proof.

"While it may seem daunting, without a framework, natural market-based transition will take much longer. . . . [and] the cost of not doing anything is significantly more expensive than the costs of taking action today."

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China's expanding opportunity set

Anh Lu
portfolio manager
T. Rowe Price

By: Gideon Scanlon

For all its dangers, there's still considerable opportunity to be found in the Chinese investment space.

During a presentation at the 2021 Global Investment Conference, Anh Lu, portfolio manager for the Asia ex-Japan equity strategy at T. Rowe Price, said the trick to capitalizing on the opportunities in the world's most populous country is to consider the long-term direction of a number of key trends. The ones she highlighted included China's diverse spectrum of equity options, its commitment to reducing its carbon footprint and its often overlooked culture of innovation.

"We think what is actually exciting about China is the opportunity set itself. It is very deep. It has great breadth and there are many good businesses to invest in."

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As of 2020, China has more than 5,000 listed companies — more than the U.S. Since 2015, while American businesses have been in the midst of a consolidation trend, the number of Chinese businesses has expanded by about 40 per cent.

"Investors can always find idiosyncratic opportunities. It is a great way to generate alpha without having to focus too much on macro risks," she said.

It isn't just the scale of China's engagement in the market economy that has Lu convinced of its worth to investors. She's also convinced that the Chinese people have the innovative spirit needed to support its dynamic economy.

In the past three decades, China's per capita gross domestic product has expanded more than 10 times over — a feat Lu described as "historically unprecedented."

There's also an enormous amount of domestic talent, she added. "China generates the most science and engineering graduates in the world."

While there are advantages to this diversity and innovation, Lu also noted they present challenges. "Navigating China's 5,200 businesses that are listed, it can be quite confusing. The diversity is great, but it can make it very difficult to identify winners and losers."

One area that presents an exciting opportunity to institutional investors relates to the country's commitment to reaching carbon by 2060. According to some analysts' research, China will have to invest some US$16 trillion in order to reach its carbon reduction targets set for the year 2060. In Lu's mind, it seems clear that much of this investment will be front-loaded with the support of the country's capital markets.

"The imperative and sense of urgency is great in China at the moment. The implication for investors is that businesses in everything from renewable power and transport, such as electric vehicles or companies in the EV supply chain, to companies that supply industrial technology and companies that provide software for energy efficiency, will benefit from this great investment in helping to improve the environment."

Of course, beyond government spending, China economic ecosystem will also benefit from the growing wealth of its gargantuan domestic market. One group that's often overlooked is the 35 million households with two incomes and no children, she said.

"As we've learned from other economies, these households have a lot of spending power. The implication for bottom-up investors is that you should focus on companies that offer a compelling value proposition for Chinese consumers."

Predicting the future through today's technologies

Chris Evdaimon
investment manager of private companies
Baillie Gifford

By: Blake Wolfe

"The future has arrived — it's just not evenly distributed yet," wrote science fiction author and futurist William Gibson.

It's a favourite quote for Chris Evdaimon, investment manager of private companies at Baillie Gifford. He likes it so much that, during his presentation at the 2021 Global Investment Conference, he used it — with a note of his own.

"It's the 'distributed' part in the quote that's more interesting to us long-term investors."

He went on to show that the technological and structural forces that will shape the public markets tomorrow can already be seen in today's high-growth private markets. This offers a glimpse into the future only available to active investors, he noted.

"Predicting the future, or at least making hypotheses on possible futures, is a daunting task. But it isn't so much about imagining what doesn't exist yet. Rather it is about seeing what is already around us today."

To be on the right side of that distribution, institutional investors must seek to understand why technologies exist. They must be clear on the human needs that a particular technology can solve.

"The iPhone didn't succeed because Steve Jobs understood phones. It succeeded because he understood people. Our task as investors therefore isn't to spot the mobile phone in the '80s — it's to recognize the significance of mobile phones 30 years later."

Outlining four major challenges facing the world — climate change, income disparity, technology addiction and rising nationalism — Evdaimon pointed to multiple solutions developed by private sector firms, from electric vehicles and sustainable food sources to zero-fee bank accounts and social media platforms that have eschewed ad-based revenue models.

"The iPhone didn't succeed because Steve Jobs understood phones. It succeeded because he understood people. Our task as investors therefore isn't to spot the mobile phone in the '80s — it's to recognize the significance of mobile phones 30 years later."

"Today, founders realize they can derive focus and, by extension, competitive advantage, by keeping a tight-knit group of private shareholders, out of the spotlight of the public markets. Everything else being equal, they can build better businesses by staying private longer."

While the role of institutional investors in providing long-term capital to innovative businesses hasn't changed, these companies are staying private for longer, with the average business making an initial public offering in its 11th year.

In addition to the increased availability of capital making it easier for companies to raise money privately, the biggest factor is a cultural shift in the perception among company founders of being public versus private, a mindset that hinders public market investors and highlights the importance of active investment.

"Every doubling of the value of a business that happens while it's still private is a doubling that's lost to public investors," said Evdaimon. "But more significantly here, the public markets are simply unable to learn about the future these companies are creating."

"The private markets have always been a blind spot for investors limited to the public markets, [but] as companies stay private longer, this blind spot is bigger than it has ever been. It's gotten to the stage where we would argue you can't understand the public markets unless you understand the private markets. In our view, the only way to rectify this is by being an active investor in private companies."

To that end, patience and an appreciation for risk and innovation are the hallmarks of an ideal active investor.

"A company striving to do something really difficult will obviously have a greater chance of success if it has a long-term patient shareholder base, than if it has shareholders looking to maximize profit, quarter over quarter," he said.

"What their founders really need is investors who embrace risk, support innovation, invest over multiple funding rounds and encourage them to lay the foundations of future success, well beyond the IPO."

Finding hidden value in emerging market currencies

Fernando Grisales
senior emerging market portfolio manager
Schroders

By: Gideon Scanlon

This year has been a difficult one for emerging market currencies, but there are signs that 2022 will give investors reason to be optimistic.

"For the first time in 20 years, U.S. growth is outperforming EM growth," said Fernando Grisales, senior emerging market portfolio manager at Schroders, during his presentation at the event. "What has led to this performance spread? The liquidity cycle by develop central banks. There is no doubt that the U.S. has outperformed over the past 12 to 24 months."

The strength of the U.S. dollar during the pandemic-era liquidity cycle can likely be tied to the measured response of its central banks to market crises, he said. While the U.S. Federal Reserve has hardly been shy about injecting capital into its economy in recent years, it isn't alone. In the past 15 years, the global balance sheet of central banks has quintupled in size, ballooning to about 40 per cent of the world's total GDP. However, unlike the Bank of Japan and European Central Bank, the U.S. has never seen its central bank cross the 40 per cent threshold.

"We've seen many trillions of dollars, yen, euros and pounds printed and put into the market to support these markets," said Grisales. "The rate at which money has been printed [in the U.S.] has, when compared to the BOJ or ECB , been quite balanced. We've printed a lot of dollars, but is it an overstretch for the economy? Not really."

Compared to EM countries, however, the depth and strength of U.S. monetary policy was effective enough to spur a divergence in growth performance. This peaked in the early months of 2021, when the U.S. economy grew faster than all EM nations, save China.

"The local currency index was down seven per cent over the first three months of the year, but, nevertheless, we have seen a rebound. We're finally seeing growth in emerging markets. We're finally seeing vaccination rates hit 50 per cent in the largest emerging market economies."

As central banks in the emerging world begin to roll back monetary policies, EM currencies stand to see their values rise once inflation peaks. According to Grisales, there's now value to be found in emerging markets accessible to those who can see what the market misses. In the presentation, he showed how informed investors could analyze the debt profiles of prominent EM countries to determine whether the market had overlooked promising return potential.

"Growth expectations for the U.S. are coming down. Other emerging economies are rebounding, while the U.S. is at peak growth. Other regions, like EMEA and Latin America, are doing very well. You want to buy currencies from those countries that are doing well."

Continued increases in key commodity prices, including petroleum, metals and agricultural commodities, are likely to fuel the advance of countries in the developing world.

"We are expecting oil prices to reach pre-pandemic levels by 2023 — a very good sign for oil-exporting economies. Russia is actually one of our top picks as we move forward."

Though, in general, the U.S. dollar had outperformed EM currencies in 2021, Grisales noted that one EM currency had broken ranks — China's yuan. Asked if it could one day replace the U.S. dollar as the world's reserve currency, Grisales noted the dollar still has a great deal going for it.

"The short answer is that the U.S. is very large. It has 25 per cent of global GDP and is still growing. The question isn't whether the U.S. will remain the reserve currency. The question is whether it will be joined by another currency. That currency is likely to be China's. It is on track for eight per cent growth this year and five per cent growth in 2022. In two years, its growth will be equivalent to adding one entire Canada to its GDP."

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Making use of fixed income in a low-yield environment

Jeffrey Moore
portfolio manager
Fidelity Investments Inc.

By: Blake Wolfe

Despite a low-yield environment, fixed income continues to play an important role for institutional investors looking to make their portfolios work harder in a risk-controlled fashion, said Jeffrey Moore, a portfolio manager at Fidelity Investments Inc., during a session at the 2021 Global Investment Conference.

"For the bond market to hurt, there needs to be something big happening. You don't see a lot of negative returns because the bond market, in general, resets its coupons pretty quickly. You've got really good chances of a positive return, partly because you've got yield and, oftentimes, it's more than enough to offset price downsides that can happen."

Moore cited the example of U.S. treasury bonds, which rallied during a recent stock market dip. "If you look at U.S. treasuries, they're basically negatively correlated stocks. They have volatility of five to six per cent [and] even if you don't like the yield, still play a role as a diversifier. Consequently, having those bonds in your portfolio gives that extra bit of protection and gives you something very liquid when stocks have a drawdown."

Conversely, high-volatility sectors such as high-yield bonds and emerging market debt can produce massive tails, a factor that investment managers need to take into consideration when buying these products, he said.

Moore also stressed the importance of benchmarks for investors. He advised asset holders to ensure that multi-sector managers understand the identifiable volatility to help establish beta and its role in portfolios.

"I'd want a benchmark with some volatility and some tails that you can get comfortable with as a client. If you decide to give your multi-sector manager some flexibility, the first question you'll get is, 'How much beta do you have?' When you go to multi-sector, you're going to open up the beta range a little bit, but you want your manager on a pretty short leash to make sure they're doing what you want in a portfolio context."

He also highlighted why the aggregate bond market, where volatility sits between three and four per cent and offers returns between two and four per cent, should be especially appealing to investors.

"When income volatility is around one per cent, it means income can offset one standard deviation price shuffle. That's something to consider in a benchmark. It's about compounding faster than the price level — that's what you want your manager to do for you."

In addition to identifying and analyzing beta, Moore said managers need to focus on asset allocation to create an all-weather portfolio.

"This is a multi-sector product — it's not pure emerging markets or high-yield bonds. It should have that kind of volatility and tail. You want your portfolio to seek yield and low return, but you want something with low correlation to stocks and probably liquid enough that when there's an obvious event like 2020, you can liquidate."

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Pension investment and the use of leverage: A tax perspective

Matias Milet
senior partner
Osler, Hoskin and Harcourt LLP

By: Gideon Scanlon

Some four decades ago, parliamentarians voted to restrict pension funds' ability to borrow money without losing their tax-exempt status, though the reasoning has been lost to time.

"These rules have been around forever, but . . . their intended purpose [remains obscure]," said Matias Milet, a partner at Osler, Hoskin and Harcourt LLP, during a presentation at the 2021 Global Investment Conference. "When asked to suspend the government's borrowing restrictions during the pandemic, the government and [Canada Revenue Agency] officials had to ask themselves, 'Why do we have these rules?'"

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Though borrowing may be forbidden in most circumstances, there are exceptions, he noted. In general, unsecured short-term loans of less than 90 days are acceptable and mortgages for certain real property investments — ones offering pensions rental income streams — are considered to be within the existing rules. But when it comes to some property developments, like condominiums that are to be sold off after construction, pension plans may find themselves — often unwittingly — in breach. There may even be uncertainty regarding some widely used capital markets practices.

Milet noted that when a pension plan enters into transactions where it receives cash with an obligation to repay a similar amount in some cases, it has to assess the risk of it being seen as borrowing. There are very good arguments to say that many of these transactions aren't borrowings, he added, but there may be circumstances where reasonable people can disagree.

These restrictions may be changing, as the government is considering modifying the rules.

While the idea that the reasoning behind a key policy decision could be lost to history may sound perplexing, Milet pointed out that elected officials rarely get involved in considering all the details around the potential various applications of the bills they pass into law. Bureaucrats do — though they are less likely to have their words recorded than parliamentarians.

As for why there's some uncertainty over the scope and meaning of the pension borrowing restrictions, Milet referred to the philosopher who read a sign outside a park that read: 'No vehicles allowed in this park.' While cars would clearly be prohibited, he questioned whether it applied to bicycles. "There's [often] room for interpretation [over the meaning of statutory rules]. It is where the battleground is."

The secret benefit of bubble bursts

Randall Morck
finance professor
University of Alberta

MICHELLE QUANCE

By: Blake Wolfe

As much as institutional investors fear stock market bubbles, they have an important role to play.

The flooding of capital into new technologies and innovations leading up to a bubble's bursting fuels innovation — an area that most corporations don't invest enough in, said Randall Morck, a finance professor at the University of Alberta, during a session at the 2021 Global Investment Conference.

The process — known as a Kindleberger cycle, after economist Charles Kindleberger — follows a common pattern throughout history. "What Kindleberger said is, 'History doesn't repeat but it rhymes,'" said Morck.

These cycles always begin with an investment opportunity catching the eye of investors looking for a big return. As the price of this stock rapidly increases beyond what could, by reason alone, be justified, a sudden fall becomes inevitable. After the crash, normal economic growth begins again — albeit at a faster rate. This is due to the funding of the venture that initiated the cycle.

"Some people think it's a mindless cycle where we never learn and do the same thing over and over again for 400 years, but maybe that's actually the secret to why the West got rich," he said.

According to Morck, the cycles should not be seen as a historical inevitability so much as a human one. Psychology plays a large role in the historic repetition of Kindleberger cycles.

"Humans are also attracted to novelty. We're primates and primates love playing with bright, shiny things. We also find safety in doing the same thing as everyone else at the same time. It may be that the Western world, entirely by accident, came up with stock markets as a way of harnessing our primate curiosity and our willingness to move in herds in ways that flood every bright new technology in capital, allowing us to overcome chronic under-investment in innovation."

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Stock market crashes are costly, so governments and central banks often seek to prevent crashes with expansionary monetary policies to push interest rates ever lower, said Morck, noting these efforts simply create different societal problems.

One is financial system bailouts. Escalating price appreciation minus falling borrowing costs lets bubble investors keep borrowing more to buy more into the bubble. That lets the bubble keep expanding but, eventually, there's a reckoning, defaults start and creditors sitting on non-performing loans want, if not overt bailouts, indirect subsidies. Either amounts to higher taxes, a drag on economy growth.

Another is zombie firms — companies that are basically dead, "but continue to stagger along because they get blood transfusions from banks" at ever lower interest rates and central banks that "buy bonds in these firms through quantitative easing, so they keep getting capital."

Low productivity zombie firms are a drag on economy growth, too. Rather than trying to prevent the inevitable, Morck suggested that governments not fight against the economic survival of the fittest firms.

Society, he noted, would benefit more from reforms that make it easier and less personally costly for employees and managers to move from declining businesses to businesses better able to make use of their talents.

"A crisis may not be the worst thing if it wipes out these firms. It may be best to ease the move of managers and employees from these firms to new firms, rather than keeping the old firms alive."

While the crashes that end each of these cycles are obviously costly, Morck said he believes the cycles are currently the only way to ensure new ideas get the funding they require to keep the world prospering.

"It may be we need more efficient Kindleberger cycles and the way to do that is to just keep banks the heck out of it. We need regulation to keep banks away from bubbles. Current forms to legislation aren't doing that."

Business continuity plan, meet a global pandemic

Graeme Hay
chief investment officer
Teachers' Retirement Allowance Fund

By: Gideon Scanlon

As places of economic activity, flood plains have their advantages — just ask the ancient Mesopotamians or the staff of the Winnipeg-based Teachers' Retirement Allowance Fund.

"Those of you who have been to our offices will know we're right at the intersection of the Red and Assiniboine rivers. We are right in the flood plain and have had flooding risks in the past," said Graeme Hay, chief investment officer of the TRAF, at the 2021 Global Investment Conference.

Because of the threat, the pension had a robust business continuity plan — one that left the employees able to respond effectively to the coronavirus pandemic. When, on March 11, 2020, the World Health Organization declared the coronavirus to be a pandemic, the $8-billion fund's 41 employees were prepared. "By March 30, the office was essentially closed, with just a skeleton crew. Almost everyone was working from home. We wore masks and there were no group meetings, but it felt like business as usual."

While the business continuity plan may have worked, it couldn't protect the pension from the market fallout. The team quickly identified four areas of great risk.

The first area of focus was liquidity risks. As a mature plan with a one-to-one ratio of plan contributors and retirees, the plans monthly cash flow had been $17.5 million greater than its contributions prior to the pandemic. The TRAF's investment team calculated this difference could balloon to as much as $37 million per month.

"Having the cash to pay for pensions was certainly a risk we were keenly aware of, as well as for fulfilling commitments to private markets."

It wasn't just pension payments that would require dry powder. A major currency hedge was due to be settled. At the Canadian dollar's lowest point, it could have cost up to $33 million.

"We were keenly aware of how the U.S. dollar was trading," said Hay. "It would certainly have an impact on our hedge settlements. As the Canadian dollar rapidly devalued, we didn't have the liquidity to settle that hedge."

Ensuring the availability of cash in the pension's coffers required swift action. Within weeks of the WHO's declaration, the pension drew more than $275 million from universe and long-term bonds.

"We were able to invest much of the cash and benefitted from the equity rally, but it did impact our performance in 2020, though only marginally."

The second focus was on concentration risk. While the TRAF portfolio was well-diversified, with its largest allocation about 1.6 per cent of its total assets, entire sectors were badly affected by restrictions on movement.

"Retail was probably the worst-hit sector," said Hay. "We were primarily allocated to the industrial and family sectors and those did well."

The third focus was placed on operational risks. The TRAF relies on external asset managers for the allocation of its investment dollars. Fortunately, a comprehensive operational risk assessment had been conducted on the external managers in 2019.

"They found we were working with really high-quality managers and that proved to be the case. Operationally, there were no issues we ran into."

The fourth area of focus was on investment risks. Prior to the pandemic, much of the TRAF's internal due diligence monitoring work had involved face-to-face meetings. Ultimately, rather than taking on any new investment managers, the plan allocated about 7.5 per cent of its assets to existing ones.

"This was unpredictable, but we were prepared. We didn't make any drastic policy or strategy changes in terms of our investments. In many ways, we are stronger coming out of this."

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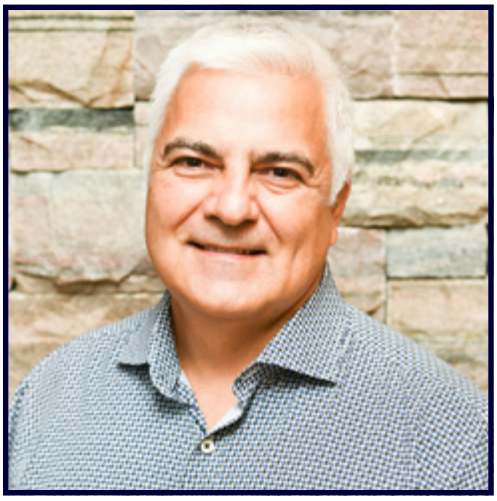
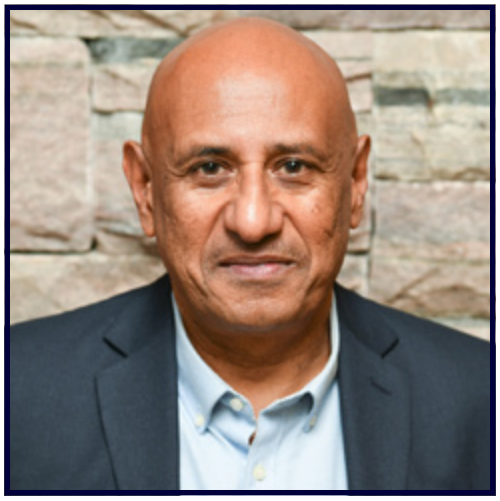
The evolution or ESG Investing





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Alain Malaket
chief executive officer
InBenefits

Rashid Maqsood
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Rexel North America Inc.

Angela Lin-Reeve
senior portfolio manager of pension investments
Royal Bank of Canada

By: Gideon Scanlon

The recent emphasis on environmental, social and governance issues among pension investors will continue to dominate industry conversations in the future, according to a panel discussion with three high-profile figures in Canada's investment sector.

"If I could rename ESG, it would be GES," said Alain Malaket, chief executive officer of InBenefits. "Governance has always been a pillar of what we do in terms of this kind of assessment."

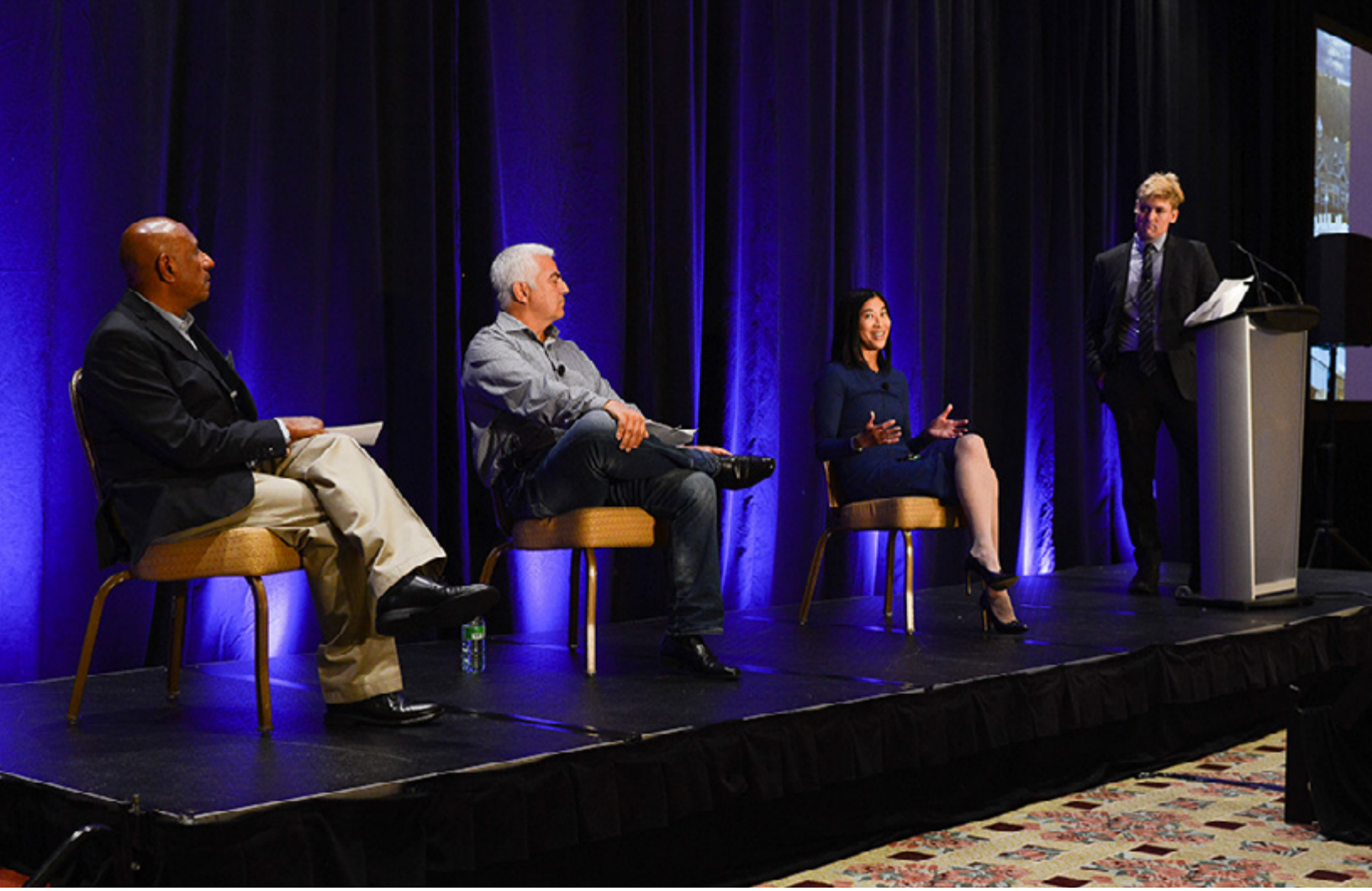
While Malaket may favour changing the order of the letters in the acronym, it isn't because he believes the environment should be considered unimportant. "The governance referred to in ESG is just a sliver of what we do. It's hard to say we put too much of an emphasis on the 'E' given that we had two presentations that touched on the global urgency in terms of climate change."

Angela Lin-Reeve, senior portfolio manager of pension investments at the Royal Bank of Canada, agreed that governance issues referred to in ESG don't cover all governance-related issues performed by the pension sector, its regulatory bodies or the government. "The government has always been involved in investing, so perhaps that is why you don't hear as much about governance issues when we talk about ESG. It's my hope that, some day — and it might take a very long time — that the 'E' and the 'S' may also drop off. It just becomes part of investing."

The approach taken by institutional investors has undergone a series of transitions in recent years, she noted. For instance, in the years leading up to the global coronavirus pandemic, there has been an expansion of the responsible investment umbrella. In addition, the development of socially responsible investment funds that base decisions on a negative screening occurred shortly before plans began incorporating ESG criteria into the investment process and into the impact investing era.

"Now, you have ESG investors who are looking for a return opportunity," said Lin-Reeve. "Further out, you have investors who want to make a social change. They might seek out impact investing without a non-financial goal. Then, there is the unicorn, which is the impact investing that serves the dual goal of making a high rate of return and making positive social change. It might take another pandemic or major world event to give us the data point to see if this kind of investing can really live up to its expectations."

Rashid Maqsood, vice-president for treasury at Rexel North America Inc., also noted the approach taken



by corporations regarding ESG investments has undergoing an evolution. "If you have been following the bond market, you will remember that, three or four years ago, there were a lot of what we call green bonds. These were more dedicated or attached to projects. What is happening in the bond market is that these bonds are enlarging. They are being issued for companies that are sustainable, not just for individual projects."

Recently, Maqsood was involved in the issuing of a more modern version of the green bond — a sustainability bond — from his company. The issuer committed to an emissions reduction of 25 per cent in three years and 45 per cent after seven years. "I think other big companies are on that path," he said. "I think the next big thing will be if the federal government gets involved. I would love to see it put a commitment behind it."

Companies can also benefit from Canada's robust corporate bond monitoring culture, he added. "In Canada, you can't just say, 'I'm going to issue a sustainable bond.' You have to build a lot of rapport with the investment community. I don't see any greenwashing in our case."

According to Malaket, institutional investors have a role to play in pushing for ESG issues to be better understood by corporate leaders. "If we actually voted proxies and if we actually took some of these initiatives with a little more commitment, I think we could change how some of the corporates are running the show. . . . I believe education is a big hurdle. We need it at decision-maker level, whether it is the boards of trustees or the chairs that are trying to lead these initiatives."

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