

Adelaide Chui - part 1

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SPEAKERS

Pat Bolland, Adelaide Chui

Pat Bolland 00:00

Adelaide, welcome to 2023. And as we head into 2023 responsible investing is a buzzword. So you got a big year ahead here. You're looking forward to it.

Adelaide Chui 00:13

I definitely am. It seems that it is a big year ahead. But it's been. It's been like that for a number of years now. Excited kidding.

Pat Bolland 00:21

Well, okay, let's start with the basics. What is ESG?

Adelaide Chui 00:25

So ESG itself is actually environmental, social and governance. And those refer to factors that are being considered within an investment process. Literally, that's what it is the factors that should be considered when you're making an investment decision.

Pat Bolland 00:45

OK, So if environment and social and governance are the buzzwords right now, how long has it actually been around? Or is it kind of a fad?

Adelaide Chui 00:55

Yeah, no. ESG is a relatively new definition or term itself, it really does stem back as to what you had mentioned, socially responsible investing Sri. And so that's been around for centuries, if we think about sort of the Faith Based Investing where they excluded certain industries, such as tobacco, or gambling, that those would have been called the sin stocks back then. So it's been around for for many years. And really, you know, if I were to think of the year 1970s Or so you start to see investment funds come out, which were more faith based and ethical funds, where they excluded industries entirely, due to the exposure to certain industries, that has now evolved. And so if we, you know, fast forward a little bit to

the 80s, and 90s, there was a lot of academic research that came about to show that responsible investing, supported returns and didn't actually detract from returns as you were excluding certain industries, from sort of your investment universe. And then as we move on to the 2000s, it really became part of the investment process. There was a lot of risks that were highlighted, some of us may think about, like, when Erin Brockovich and had her when she...

Pat Bolland 02:22

The movie, yes, okay...

Adelaide Chui 02:24

You had the movie ... and everything, right, showing you environmental risks and litigations. And it was, it was real. And so that was when, you know, society as a whole started to understand some of what the risks were, and you know, maybe how companies may have not been been behaving well enough. And financials weren't really capturing that risk. And so that's really where you start to see that evolution and to where we are today, where it's not just environmental issues or risks, it's social, as well as governance. And you really do see that evolve. And, you know, today you're seeing more focused investments such as impact investing. So that's the the evolution timeline,

Pat Bolland 03:07

Impact investing. So we'll get to that in a second. But I want to talk about the E, S and G's ... are one of those elements, those components that you look at, that's more important than the others?

Adelaide Chui 03:17

I wouldn't say that there's one that's more important than the other, it's really dependent on the company that you're looking at, and the sector or industry, the company sits in. So for example, a bank may not have an environmental footprint, that would be as risky, or known as, say, an energy company, which would be exploring for oil reserves and such. So that obviously will be a much harsher environmental risk. But that's not to say that there aren't governance issues that could be at both companies or in both industries. So it really is coming from a holistic approach and understanding the industry and the company that you're looking at.

Pat Bolland 04:06

Okay. And then impact investing is interesting, at least as far as I'm concerned. Because your money is at work when you invest in a corporation. How popular is impact investing right now, in that, you know, you've got a whole new generation that's coming up and saying, I want change.

Adelaide Chui 04:22

Yeah, so impact investing, really did come about in around 2010 or so. And you're definitely seeing more of a desire for that and impact investing is, you know, you are looking for financial returns. But at the same time, you're also you have the intention, there's intentionality on having a measurable positive change from a social and environmental aspect. So there's an intentionality of actually striving for that positive change from a social and environmental standpoint as well as achieving a financial return.

Pat Bolland 05:00

Okay, so then how do you quantify any of those standards, whether they're E, S.. and include impact investing in the S, I suppose, and G - governance? How do you? Are there standards?

Adelaide Chui 05:14

So there isn't one global standard or set of standards today, as there are, say with financial statements that are following whether or not it's an international standards such as IFRS, or in the USA, US GAAP. So there isn't a body that sort of ...

Pat Bolland 05:31

those are accounting standards

Adelaide Chui 05:33

... those are accounting standards. And those are what you would see in your typical financial statements, knowing that it's been audited, and you can have confidence in the numbers. So there isn't anything like that, today that has been globally adopted, there are regional standards that are voluntary in nature, but the UK and the EU are moving towards codifying. So they have their own set of standards right now. That many of the investment companies need to abide by. And so that's really coming about in the past few years. Whereas North America, you know, was trying to, you know, adopt their own standards, but you know, nothing's really been, it's all voluntary today. So, from a global perspective, there is a body out there that is, is part of IFRS, that global standard that we had just talked about. And it's the international sustainability standards board, ISSB, and what they are trying to do is really, you know, deliver international standards, global standards that companies can follow, so that you're able to compare, you know, company A to Company B, globally, and it's apples to apples versus, you know, apples to oranges. And so that is coming about today,

Pat Bolland 06:53

I thought the United Nations had kind of weighed into this with their UNPRI principles of responsible investing. Is that not the case?

Adelaide Chui 07:04

No. So UNPRI, the UN Principles for Responsible Investing did come about, and I believe it was 2006 or so. And that really followed the steps of the United Nations Environment Program that came in 2005, which really came about with all of the awareness that we had just spoken about, you know, with environmental litigation, and all of that. So that really did come about then. And the UN PRI, they set out a framework. So it really is a framework where companies can sign up and ensure that their assets are being thought of from a responsible investment perspective. The standards are there, they're much more, there's more guidance there on how you report versus a framework. And so that's what is being come about. So, you MPI definitely is being used as an umbrella to sort of fall follow and have that guidance, like the standards will be overtime codified from a global perspective,

Pat Bolland 08:05

Right? So they give the direction not necessarily on a quantitative basis. I get it. Okay, so then you're a portfolio manager? Where do you start when you approach ESG? What do you look at first? Or do you look at the company first, and then say, Hey, maybe I better check the backstory?

Adelaide Chui 08:22

Yeah, I mean, it's no different from how you would look at a company from purely a financial investment perspective, you look at the company, you understand their business model and in the industry that they operate in. And with responsible investing, it actually takes into more into account more factors that may not be necessarily obvious today, only because most of the information that's disclosed today are financial and quantitative in nature. Whereas when you start factoring and ESG factors are responsible investing from responsible investing lens, it does become a little bit more qualitative. So how do you translate qualitative attributes into a quantitative attributes? And that really just comes with understanding the industry understanding the risks, and then you know, how it could impact your company, the business model, your revenues, your cash flows. So it's no different from that perspective, but it is, you know, another way of looking at it, it's basically looking at risks today that people may not have looked at holistically in the past. And so you are having more of that focus, an example would be employee turnover, right? So we all know that if you're a company that relies on his people, and that labor force is turning over or leaving, that's a risk. And so that's an easier one to quantify because you can get a turnover rate and you can see how much you're losing and training, but it wouldn't have been thought of before, to the same extent today.

Pat Bolland 10:00

Good point. So intuitively, I would think would help your investing. But does it?

Adelaide Chui 10:08

I would say it definitely does, because it identifies risks that may not have been considered until those risks show up. So again, with, you know, thinking about what your investment is worth, you really have to think forward and ahead and future and wondering how it can impact your cash flows. And so with responsible investing, you are thinking ahead, but you're taking a much more holistic approach, and its risks and factors. That may have been an externality and now we're trying to take it more holistically into a company's valuation and into an investment decision.

Pat Bolland 10:48

Okay. So if that's the case, why is it so controversial in the United States, because you've got all kinds of state run pension boards that are accusing ESG investing as hurting their returns? And especially, for instance, right now, in Texas, they're making a thing of it. And it's, you know, Democrat versus Republican, it's very political. Why intuitively, it does help over the long run with the pension plans been doing that?

Adelaide Chui 11:20

Well, I think there's definitely a lot more media that's focused on responsible investing, and I, S and G. And so, because of that attention, I think you're going to attract a lot of whether or not it's politicians or policymakers, governments to this, because it is, it is becoming important. And I think the people, society itself, and investors really, in the end are also starting to acknowledge this. And so with everything, there's always two sides to an argument, and that that will never go away. And with responsible investing, it is much more of a longer term perspective. Whereas, you know, other individuals may have a shorter term, perspective or timeline. And so it's matching up timeline,

sometimes in terms of your expected returns and what you're looking for. And then the other big part of it, I think, is just, it's its education and learning and really understanding what it is that responsible investing is. And it's not an easy, it's not an easy subject, really to understand, unless you've been either immersed or practicing it for for a long time, it's like with anything that's new to the market, it's just really trying to get your head around understanding how it can help you.

Pat Bolland 12:43

Okay, so are we ahead of the United States or behind in Canada in terms of this approach, and the ... not the popularity, but the utilization of responsible investing?

Adelaide Chui 12:56

Well, I think like, like Canadians, we do try to understand different perspectives, and different ways of incorporating, you know, how we should think, you know, things that may have existed. And so I think we're a little bit more open minded from that standpoint, not to say that, you know, whether or not we're ahead, or behind any one nation or country or another, it's just, you know, I think we have more of an easier to understand, and we know that it is important. And, you know, whether or not it's our government system, the political system, you know, it all defines in the end, like how the progress will be made, but you are getting a lot of support from society. And you know, whether or not it takes five years or 10 years to get adopted into policy, it is going that way. At least that's my perspective, I do think we are headed to incorporating more of, you know, these social and environmental governance factors into the investment decision. But, you know, I mean, if I were just to think about it, Europe is ahead because they've actually codified it, and they've put it into regulation. The US is also doing that the SEC is also looking at that in terms of some of their disclosure in Canada as well. So, you know, it's relative, I suppose.

Pat Bolland 14:24

OK, So you'd like to see more legislation surrounding that?

Adelaide Chui 14:29

I think it helps for sure. Because then there's no questioning on how it can be adopted, how it should be implemented. And there's certainty and I think with with responsible investing, the the gap we have today is really that disclosure requirement on on how things and how information should be disclosed. And so, if it helps, yeah, definitely, I would like to see us move towards and we are it's, you know, we're constantly having discussions with regulators. and policymakers to really advance this

Pat Bolland 14:51

Adelaide Chui, NEI Investments. Adelaide, thanks so much for explaining ESG for us and appreciate your time...

Adelaide Chui 14:55

Thank you, it was a pleasure Pat