Speaker 0: Hello and welcome to Asset T V's Mask Class in association with CCL A. I'm mark to your host for the next 45 minutes, and we are debating ESG. Is it dead? The proposition is that ESG has promised lots, but it's not delivered, and there's a serious backlash coming.

Speaker 0: And if that is the case, what does a, uh, resurrected for version of ESG look like? That works for investors, society and the wider environment? We'll discuss that. I'm joined here in the studio by James Carra. He is head of sustainability at CCL. A. We're also joined by Emma Wall, head of investment analysis and research at Re Lands Down, Peter, too Good Chief Investment officer at the Embark Group and Braga associate portfolio manager, Morningstar Investment Management.

Speaker 0: James, start with you. Tell us a little bit about your role as head of sustainability at CCL A. And, um, as I mentioned at the start, there's ESG

Speaker 0: is certainly under a bit of pressure at the moment. So what? What are some of those headwinds and tailwinds? Yeah, thanks, Mark. And this is a really important question. So at CCL a my job as head of sustainability is to make sure that we're delivering for our clients whether that's enhancing our portfolio for ESG integration, whether it's trying to make sure that we're aligning our portfolio of our clients values or, most importantly, how we're trying to drive change,

Speaker 0: try using our portfolio as the platform for genuinely going out and trying to build a better world. And fundamentally, I do think that this iteration of ESG probably should die. We haven't focused enough on outcomes. We aren't really delivering what our clients want, which is investment returns and genuinely delivering positive change. So use the various resurrection. It is time to build something better.

Speaker 0: OK, thank you, Emma. Tell us a little bit about how you see things from not least because as a platform, you've got a huge number of end consumers who are using your services. Yeah, So my team does equity research fund research, ESG analysis and strategic asset allocation

Speaker 0: and product specialisms. And we run a number of solutions most well known on the platform for retail investors, the Welsh shortlist of which, um, responsible sustainable criteria are part of our analysis process. I'm gonna take a slightly different view.

Speaker 0: It wouldn't be good TV if I didn't. But I don't think that ESG is dead. I do think that we need to be clear about expectations. So, like every type of investment, you don't expect all UK equity funds to be the same. You don't expect all global equity funds to be the same. Indeed, all fixed income funds be the same. But what you expect is to understand clearly what you're investing in and what the outcomes you should expect from them is. So I do think there are

Speaker 0: varieties of ESG funds. The ones that you have at CCL A are definitely a kind of a more towards the darker green and the old parlance. I think there's space for the lighter green, but I But I do think it's about being very clear about what clients and investors should expect, and that's what retail investors are asking for and we'll dig into it in more detail. But before do Emma and I bring Peter in in the round? Are fun groups good at explaining this

Speaker 0: as a as a group? I'd say no, but I'd say that there's a huge amount of variety within there. There are some that are very good. There are some that are very good at saying it's not our bag and actually I applaud that, too. Um, and there are some who are doing a really good job of it. And then in the middle I'd say there's a large grey area OK and good with your role as CO and B Group. How much time are you spending talking at the group level to groups about what they think about ESG and how much is it?

Speaker 0: You forget all that. It's about talking to individual managers, and it's all things. So the intermediary market hasn't got this fight about the issues that or not they were subscribing and and keen to promote it or they weren't so. There isn't the same battle in the advisory market, I would argue. Clients are specifically asking for it in many instances, and I don't think that's changed materially.

Speaker 0: Um, it's the same. The problem was, the press was having a debate with itself about this, and everyone was accusing everybody of greenwashing absolute nonsense. It was people advocates talking to each other. No one actually talked to the intermediaries underneath. Go to Leeds and see what's going on. Some will do it. Some won't that hasn't changed in the last three years. In my perspective, the fund groups responses and they highlighted quite well is is very interesting and different. You've got a group level version of

Speaker 0: ship and code of ethics and conduct et cetera. Then the individual manager has to interpret that underneath, and there is absolutely no way you're going to get them all to come. From this common template. They all behave differently. Every fund behaves differently. Every priority is different for a fund manager, and what has actually happened to the cynic like me is the page 38 of where they did all their good old ESG work has now moved to Page three. Very few listed companies poison rivers,

Speaker 0: actively kill people or anything in between. This is not the reality of a listed company, so there's always been a degree of ESG in most funds. What we're doing is highlighting it more proactively now, and, as James said, you want personal my preferences engagement, not exclusion. And if you want the exclusion route and the impact route, go to the Article nine version of In Europe and indeed what the FA is now creating

Speaker 0: now. That was the same 30 years ago. I used to analyse MP I global care, friends and stewardship. They were doing the same basic principles. The article nines as you will call them today. And there's this big box in the middle, like green, dark green. You can make your preferences, and that's how intermediaries see it, which is my marketplace. And when I think to the fund management groups, they know they have to respond. But as Emma said, some are staunchly not going to be there. Um, and there's others who are modifying their behaviour. And it's our job to try as much as we can to understand and explain that

Speaker 0: and Nicola, tell us a little bit about your role because I think you're putting portfolios of sustainable and responsible for the how easy is it to do that?

Speaker 1: So, um, I work on the, uh, NPE G portfolios of modernist, where we launched them four years ago, and, uh, in my experience, I've seen the environment changing a lot in terms of

Speaker 1: new fund launches and availability of new vehicles to get exposure to different uh uh, factor or geographic areas. So I would say that probably four or five years ago, it was much harder to get the exposure that we wanted. Whereas today, with the launch of passive indices tracking, uh, different geographic areas and also with the launch of new active funds, it's much easier now to build an A,

Speaker 1: um, for ESG clients.

Speaker 0: OK, thank you very much. And and em you mentioned the wealth first, How how many of the funds have you got? Would you put in the, uh, sort of responsible sustainable bucket out of those 74? And is that do you have a sort of target to grow that over time? Well, I'd say all of them have some ESNG factors integrated into their investment processes.

Speaker 0: Um, because it is a requirement. So there are certain requirements we make of all funds within all of our investment selections. Um, our investment selection process for all of our solutions, not just the Welsh shortlist. I mean, lesser known. We run portfolios for advice community. We also, um, do selections for our workplace community. Welsh shortlist is most well known.

Speaker 0: Um, but there is a minimum requirement for, um, U in UN PR. I signatories net zero commitments. Um, in things like modern slavery Bill. I mean, there's lots of requirements of both the fund group and and the fund level

Speaker 0: where you go from there, post those minimum requirements. I'd say, To be honest, we're in a kind of wait and see mode at the moment because we're all waiting for SDR. So I would very much like to see the FC a come up with a framework that works, um, for all of us and is clear and well defined. And then we will adopt that for our categorization, the Welsh shortlist, because I do think a framework only works if it is well adopted. And we're all singing from the same hymn sheet not to speak to your kind of language. But,

Speaker 0: you know, it's, um that's that's what we're waiting for at the moment. So we do have a separate section on the Welsh shortlist currently, which are towards the sort of Article nine or at least sort of article eight plus category. But we are very much waiting for SDR. Um, due any minute now, by the end of September, um and then we will hopefully adopt that, and we'll use that categorization for the Welsh shortlist and all of our solutions, given Peter's point, that most large listed companies don't go out of their way to do bad stuff

Speaker 0: might be a consequence of some of the things they're doing. But no one's sort of sat on the boardroom table trying to actively be bad. What do you think? The role of sustainability or ESG? Should I mean, how? How how do you then define it? How? How do you make companies better and investments?

Speaker 0: Yeah, I think fundamentally this gets to the core of one of the problems of sustainable investment. So talk about Light Green and Dark Green and SFDR and Article eight and Article nine. All of the problems with these approaches as the very portfolio centric and, quite frankly, no company. Well, very few companies set out to do bad, as the panellists were talking about. But quite frankly, in an unsustainable world, it's very difficult for a company to be sustainable,

Speaker 0: so it's very difficult for a whole portfolio to be build up of clean stock. So for us, this whole idea of limiting yourself to just the companies that are already doing great things isn't gonna work. What you got to do is make sure that you're investing in a range of companies and try and make them better. So one of the things that got brought up was modern slavery. Every company has a modern slavery statement. Pretty much it's a legal requirement.

Speaker 0: But what we know is there are 50 million people in the world who live in a state of one slavery. We also know that when you survey companies confidentially, like the Arid Hawk Business School did, 77% of them say that they know slavery is in the supply chain somewhere. We also know that companies are gearing up their teams on prevention because the One Slavery Act are engaging in it, building, building up resources, publishing policies. But there's mismatch between this resource and people actually finding it.

Speaker 0: So we know when you talk to companies privately, slavery is there, yet no one's finding it. No one's talking about it, and this is what we've got to build in this next step of sustainable investment of go from policy and process to actually making a difference. So for us, the question of modern slavery isn't. Do you have a policy or process? It's slavery exists in your supply chain somewhere. Have you found it? And once you've found it, have you helped those people get back into society? So for us, that's that's this difference. We don't live in a world where companies can be sustainable. We have to make them better.

Speaker 0: So how do you I mean, on on the example. How how how do you then go about dealing with that with the company? Because essentially, you must be saying I, I want somebody in the company to find the bad stuff. Tell everybody it's bad. Tell everybody who's got a sense. They're quite a decent person. It wasn't really their responsibility. Um, I mean, that's very, very

Speaker 0: difficult, isn't it? That's that's like being a short seller in a world where looking for the bad stuff in life, when everybody else is always along of stocks. Yeah, we'd explain it slightly differently. It's about investing and recognising the world as it is, rather than how we would want it to be. So again, one of the problems with sustainable investment portfolio is Is it pretends the world is in a sustainable place, and it isn't so. The headwinds, as it were for talking about one slavery in a process point of view is to start with. No one realises it's there because you have so many chains of command and everyone's trying to do the right thing.

Speaker 0: Secondly, investors don't want companies to find it becomes because it comes a problem. It becomes a controversy, and thirdly, the company definitely doesn't want to find it because it ends up in the news. So you have all of these

Speaker 0: real barriers to actually making change happen. So what you have to do is you have to cut through that. You have to talk to people who are living on the ground, seeing what the company is actually doing, what's going on in their environments and bring that back to the boardroom, where the really good people in the business who want to make the right thing happen can see. Actually, the reality that we see it is very different to the reality on the ground. So the investor can be that difference that conduit that connection, which allows the company to then go out and do the right thing in the way that it always wanted to do.

Speaker 0: Peter, when you're talking to managers who are looking at these sort of issues, how much time do they spend when they go out on trips? Actually looking at some of these ESG issues as opposed to the pure financial metrics?

Speaker 0: Um, I would say it's very varied, Mark. There are some more passionate about it than others. You can't just J as, um, there is a process. And that's, I think, a bit of a problem with the SDR framework. What is what? What are they actually going to say? And are they gonna? How are they gonna force? Pretty much what change shift articulate it actually upon Because some of it is definitely a tick box exercise done by dedicated analysts. Some of the managers actively engage themselves because they wish to be a part of the process. So

Speaker 0: terribly awful answer. But basically it's a broad church boom boom. I've got one in two, and it's broadly that, you know, there is no such thing. There's a headline level thing, UN principles, all those good things and modern slave you have to do it and et cetera, et cetera. but it remains at the behest of the individual manager, and we're getting situations now where a series of funds will recommend on our lists will suddenly say We're gonna be sustainable That sustainable looks a lot like exclusion.

Speaker 0: So suddenly overnight they put their name sustainable on the front of the fund, and actually it's excluding six or 7% of what they used to invest in, and it's the normal thing of tobacco and weapons, et cetera, et cetera. And that's where the green washing is irritating from our side because it's basically the same portfolio with some things taken out. Not that interesting, really. And is it actually contributing towards the the goal of, you know, improvement? And I would argue,

Speaker 0: Probably not. But no, it's individual houses is individual fund managers teams, and most of the time the answer is dedicated. ESG analyst broadly working alongside fund manager to give an opinion on the credentials. And that's pretty much most of the fund management group. And that's why I think it's so important that you have all three. So you mentioned that the analyst, the individual fund manager and the asset manager,

Speaker 0: the parent group so we are analysis process for defining a kind of ESG internal rating for a fund is very much dependent on the fund house as well, because I'm sure we have all met in our career. Some really dedicated, passionate fund managers who are not just bump jumping on a bandwagon. These are the things that they have personally believed and may even invested P A. For some time

Speaker 0: now because there's a marketing opportunity. They're given green light to do it within their fund. But ultimately, if they don't have the support from the asset manager from the parent group,

Speaker 0: um, then they're never going to be able to actual, you know, make an actual change or actual impact and and bring about Good, because ultimately this stuff doesn't need resource. So if your if your employer is not willing to back you with support resource through times of underperformance because they do tend to be style biases with these types of portfolios, it's never going to make you know the impact that you want it. And there's also room for opinion. There's going to be five managers standing in front of us here, including James, and they could agree with each other on any of this, and they are not. It remains an opinion.

Speaker 0: It'll be a nuanced opinion. Oh, that's acceptable in our thought. That's not acceptable at all. It's still going to be within the framework of everything we've just discussed in the same way that different fund managers have a different view on the good of the right valuation of a company. You know it. I do think it's a fact which is open to interpretation.

Speaker 0: Hence why. I think active management is so good at this stuff, but it's as you say, that's OK. Different managers having different opinions about things is OK before we quickly move on. I think this point is really important in that it has to be the firm rather than the fund that's doing it, particularly when you put change at the centre of your ESG strategy. You cannot have one fund that that believes that Net zero is a great thing and another fund that's pushing for coal to be expanded.

Speaker 0: It just doesn't work, so you have to some extent be all in when it comes to it.

Speaker 1: I would just echo that and also at morning start we assigned the the manager research team assign a EG commitment level to the firm, and so because it's important to see that kind of support from, uh, from the broader group to the to the fund to the fund managers in order to integrate ESG and impact into their process.

Speaker 0: But but it's interesting you say that, Nicola. But one of the things that's happening at the moment is a lot of groups that have said often global. Here's Here are some of the changes we're going to make at ESG level and now rowing back. Uh, from that, as as lawyers in the United States get involved, um, and and essentially pushing more of a line of our our jobs to provide choice rather than any leadership,

Speaker 0: Is that the risk of a sustainable position for them to hold a sustainable position for the asset management industry to be

Speaker 1: in? Well, I think that they, they they are a bit on fans at the moment, given the political climate in the in the U. So I, I would say that probably that's the position that they want to hold,

Speaker 1: and, uh, it's probably the best for them at the moment, I. I still think that generally, uh, asset managers are there to provide investment solution to their clients. And ultimately it's the it's clients that are going to drive what's best for them and will drive. Also the kind of exclusion or the kind of impact that funds will, uh, will, um will pursue within their own investment strategies.

Speaker 0: Just picking up on again on that point. I mean,

Speaker 0: the sceptic might say, Well, it's easy for CCL a to say because you're based in the UK and Europe. Um, it's, you know, if if you were further a field, more more of these difficulties would would would arise. I mean, when you're looking at the importance of, um at at the group level of, of where ESG fits, I mean

Speaker 0: give you a free hit here. But you're basically saying it's, uh as long as it's a smaller group, it's It's much easier to be. Yeah, I say a purist, but, uh, certainly to be, um, sort of more down the line about ESG. But at the at, at at the beginning of the I think Nicola is right right here that at the end of the day. It's about delivering on what the client wants and we know the SC A is research that 81% of people want their investments to make money and do good

Speaker 0: do good is genuinely drive change. We also know without picking on any asset managers, that making change happen is inherently a political thing. You know, climate change is something we have to address, but addressing it is inherently political. So we have to recognise that we are in trying to make that change happen, going to upset some people. We're going to get ourselves into difficult places sometimes. And so I genuinely think that it is time to choose.

Speaker 0: Asset managers can't be a little bit sustainable anymore. They have to be all in or they have to not be in in the way that you're talking about and not being in is absolutely fine. Transparency is important. It just helps the underlying investor understand who they're investing with and what it is that they're trying to achieve. So in many ways, this is actually a positive disruption in the market and I do think there is some baseline that actually we all have to accept, though because,

Speaker 0: you know, we're here to talk about investment. And I genuinely do believe that integrating environmental, social and governance factors into an investment process does deliver better long term outcomes, but also humans. I'm a parent. I'd like it to be a world in 100 years, the next generation. So I do think there is a baseline that actually, we have a fiduciary responsibility, not just for long term financial returns, but actually

Speaker 0: for the planet. I mean and and indeed, regulation is going that way. So I do agree with you in terms of things like potentially exclusion should be led by clients. And there are some clients for whom certain sectors are just completely unpalatable. That's fine. Let's design solutions for them.

Speaker 0: There should be a baseline integration of avoid scandal. It hurts your balance sheet. Be the right side of regulation or you're gonna be fined. You know, don't dump in rivers. It's unpalatable. So I do think there's baseline environmental, social and governance concerns to reduce your gender pay gap. You know, care about modern slavery, et cetera that that actually

Speaker 0: all professional investors should be taking into consideration. But this gets back to the sorry. This gets back to the core of what a sustainable investment actually is. So, like you, I'm a parent, and I don't go to bed every night saying, Don't worry, the world is going to be fine. I invest in a sustainable opportunities fund that just isn't going to genuinely drive the change that we need to see. We need to make sure that asset managers being additive to the change that is already happening and making sure that companies move forward on their journey. We don't just accept them for where they are at the moment. So

Speaker 0: there is the baseline, and there is recognising that what people want of our industry is to make the world a better place, not just to give the returns that they they expect and should expect. But I want to come on to, uh, investment and the return side in a second. And I Nicola, I'm gonna come to you on that first. But before I do, I just how far you as in the industry can go before it's getting into the dreaded word of world of politics. I mean,

Speaker 0: I mean, you you've said, you know, as a parent. I think everyone pretty much on the table here is parents you know you need. We need to have a sustainable world for everyone in the next generations.

Speaker 0: Uh, could you ever see a point where a platform such as Harry wouldn't tell people how to vote but would just say, This is so serious? Here's what everyone's proposals are. These are these are the These are the crucial issues you need to think about. And you put that out to everybody who's on the platform. You put that out, James. To everybody who's AC CL a unit holder. You said I'm not telling you what to do, but these are what we think the major systemic systemic issues are for the world.

Speaker 0: Uh, no. Is the short answer. We're its 100 listed company, and actually, being politically neutral, I think is really important. Wouldn't that be politically neutral? Not tell anyone to vote Labour, Tory lib, We do engage on certain Well, we have an amazing policy team. I should say that who engage, um, for the for the good of kind of not just HL clients, but actually all consumers,

Speaker 0: um, on a number of factors you know whether that's, uh, the launch of particular structures for investment or, UM, long term Capital or green issues. So we do have We do have a great policy team there. I think telling people how to vote would be. It's not my position to do so, however

Speaker 0: encouraging good behaviours within society, of which, you know, government is a part I think is an important part. But that's why I said I wouldn't tell you how to vote, just saying this is what we think the issues are. And I think this is very easy to get into blue or red tie, for instance, both in the UK or the U SI mean

Speaker 0: po. Politics about ESG is inescapable, but it shouldn't be party political. So going back to your point about policy, you know, we wouldn't tell people how to vote. But we are absolutely engaging with policy makers on how can we build a better environment regulatory wise to move us forward to net zero to help people who are in a state of

Speaker 0: one slavery. Actually, nudging policymakers is one of the best ways that we can make change that's inherently political, but it isn't I'm gonna vote conservative Labour or them Sceptic would say that sounds like you want a lot of political power, but without ever having to stand for election, that's power without responsibility.

Speaker 0: That's great. Yeah, yeah, yeah, it's great responsibility. It's representing our industry. It's going to policy makers and saying that we know the ESG industry genuinely needs to make change happen. We talk to companies all the time and they say the major barrier for us doing this is someone else won't do it and therefore in a more competitive environment than us. So we want a regulatory landscape which allows companies to do the right thing in a fair way. That's not

Speaker 0: policy, that that's not political. That's Gen political from a party political perspective. It's genuinely trying to make sure we're achieving the right outcome for our underlying investors who want change and want returns. OK, I promise we move on to investment. Nicola, Let's bring you into the conversation here. A lot of what we've been talking about so far has had the underlying assumption that good ESG will produce better investment returns,

Speaker 0: does it? Or is that a

Speaker 1: hope? I think as always, it depends. It depends on how you define ESG it define it depends on what you look for. And, um, generally, what we've seen in the last few years is that there is a There has been a lot of hype around ESG, especially in the last three or four years. And when we we we started to to to invest in in ESG,

Speaker 1: uh, we we made that very clear. We are valuation driven investor, and therefore, when valuations are very high, as they were in many ESG and impact markets, you should expect lower expected returns. And therefore, um,

Speaker 1: when 2002 came in with the systemic changes in interest rates at the war in Ukraine, um, that kind of valuation element started to,

Speaker 1: uh, to count again to to matter again for for investors. And we have seen a lot of price action on many impact, uh, stocks on many ESG stocks, and especially on tech stocks as well, which were a big part of many ESG products that have been launched over time. And and that's and that was one of the things. So in the end,

Speaker 1: um, if you were an ESG investor, maybe by impact funds. So you were actually tech investors buying tech companies. Uh, and, uh, putting your cash into growth stocks. But you need to be aware of those underlying exposures that you may have in your portfolios, and you need to build portfolios holistically around it, taking into account, uh, you know, the robustness against adverse scenarios

Speaker 0: And, um, Peter, as I suppose one of the the sort of paradox ESG and clean economy is that message was getting going in marketing terms. It was also the point where oil stocks were going. You have been more underweight if you tried. I mean, 40% of managers don't have oil stocks exposure, either by hard or soft exclusion. You'd be a fund manager trying to go and buy Total or BP today, even if it's not actually excluded. It's a firing range to go through to get there, so

Speaker 0: everyone looks the hard exclusions, actually, in practise. The bottom up that we do is that the truth is, a lot of managers aren't owning them anymore. It's nothing to do with hard exclusion, for for either structural reasons, they don't believe they should because they think they're declining. Return businesses which change from going to be, and I can. Or they

Speaker 0: think perhaps they should not have them in there anyway. So that that was a a AAA reversion to a to a mean because of a deep underweight, plus obviously or price booming et cetera. But that was a global environment. Index walked into 22 80 times earnings, mostly thanks to Tesla.

Speaker 0: Um, you know, I mean, that that was what you're dealing in and and the as, As I said, the the facts don't change. If it's expensive, it's expensive. And so I think you've got to be conscious, always conscious of building. And I'm involved in managing sustainable water flows, too, is one of the other things I do, Um, and it's actually exactly that point. You've got to be very cognizant of the fact that you're waltzing into this with very of very common growth and technology orientated exposures in a lot of cases, and you've broadened the church out. But really, you haven't got many UK.

Speaker 0: You can't really do regional diversification. It's getting easy, but it's still quite hard. You're ending up most of the global product. Still, for the bulk of the exposures you have because the stock universe has been narrowed down. And perhaps a debate with James is his universe isn't narrowed down in that way. It's a different kind of, um, exposure. And you've got to do the groundwork. It's not Oh, that all companies fund versus that at UK Companies Fund, they're very diverse vehicles. You've really got to do your homework. I will. But

Speaker 1: with, uh, with Peter, I think, uh, you know, one of the things that

Speaker 1: were missing in the debate I think in the last three years was, uh was the fact that ESG investing is still investing and therefore, valuation still matter. All the kind of, uh um, ideas that matter for traditional and conventional investor are still very relevant Also for ESG investing.

Speaker 1: And therefore, um, valuations are very important and it doesn't it it's not enough. If you are well placed for, uh, for delivering, you know, the future and the technologies of the future. You need to pay the right price for it because otherwise you can You can get hurt when when the markets go down.

Speaker 0: I know I. I guess for me, this is one of the problems that we have with sustainable investment, as it currently is seen in that we're sort of seeing it as a style and a style in terms of going into companies that are inherently doing the right thing. Whereas for us, the whole approach is how can you take a company and make it better, which goes back to Peter's point of. Actually, what you want to do is you don't want to just invest in the companies that are already sustainable because, quite frankly, you don't want to engage with those that have already got the answers. It's a bit like being a community development organisation. When you're a grant giver, you don't give grants

Speaker 0: the richest communities you give those to the needs that improve. So for us, sustainable investment isn't narrowing your universe to a ridiculous point where you're investing in overinflated or ESG bubble stocks. What you're doing is getting rid of the worst investing in the rest and using your ability to drive change to make them better. And for us, that's inherently sustainable because you're taking bad companies and making them slightly better, which gives you that real world outcome without driving some of the inherent portfolio biases that we're seeing in so-called sustainable funds. At the moment,

Speaker 0: I completely agree, and how much more powerful to take an oil measure and and through active engagement, encourage them to put their

Speaker 0: extreme profits of the last year into renew into renewable R and D. I mean it just the impact that you can have both in terms of, you know, the real world impact environmental impact, but also on their revenue sustainability. You know, using this as the other version of the word sustainable. You know, that's sustainable revenue, sustainable profit, sustainable dividends. You know, encouraging them to pivot to a longer term investment strategy is is a positive all round.

Speaker 0: I'd also just I mean, I know we all know this, but so it's on record. I'd be very nervous of taking any disc, discrete years' performance. Yes, yes, 2022 was very difficult for a number of funds, but in the same way that 2021 was a number, it was very difficult for a different group of funds. You know, investing is for the long term five years plus, and I know we can get very head up with one year performance, especially when it's extreme performance but ultimately ESG strategies is like any strategy. You should be in it for the long term.

Speaker 0: And James, you you were talking there about sort of making these incremental changes and improving things. So have you got an example of one? Yeah, So let's talk about something that's worked

Speaker 0: and something that hopefully will work and so has worked. We've talked a little bit about modern slavery where we're taking companies from think not knowing it's there to finding people in their supply chain to then kind of basically providing the financing that they need to get them out of a situation of debt bondage that is real world change. It helps people move forward in their lives on mental health, which is one of those under looked ESG issues we create

Speaker 0: to something called the CC, a corporate mental health benchmark which looks at how companies are helping their employees move forward to a place where they can flourish at work. And this can be seen as a really woke issue is definitely the issue of mode. But what we know is it's financially material. So Deloitte did a study where they identified that something like 5% of the UK S GDP is lost because people aren't able to bring their best Selves to work by creating this benchmark, we're able

Speaker 0: see where companies are on their mental health journey, and that's led to businesses like HS, BC, Amazon and in many ways we don't invest in them. But the best story. We're a group developing new processes and policies to actually help their employees. But is this really true? I mean everything. Whether it's the the effect of the World Cup, anything, there's always some consultant out there telling you that it's produces more money. I mean, I can remember not that long ago. I think. I think

Speaker 0: I mentioned this reading viz and they had one where they said It's absolutely disgraceful. The CB I said British Britain could be 30% more productive if British workers didn't go to sleep for anything up to eight hours a night and they sort of produced all the figures on the back. I mean, I'm being a little unfair, but is there an element that yeah, maybe human beings always have an you know, there's an element of mental health issues. There always have been. There always will be.

Speaker 0: It's not to say you shouldn't try and tackle them, but there's not going to be this pot of money at the end of, you know, at the end of doing some work. And this is why I love Asset TV because I don't think has ever been brought up in an ESG discussion before breaking new ground. Look, I mean, fundamentally, what is the reason why we do the mental health benchmark? It is one because genuinely, we think

Speaker 0: will help companies. It is very difficult to quantify the financial outcome of a lot of engagement issues, mainly because engagement for us is all about trying to head off risks before they materialise. So you're trying to make sure our company doesn't lose money before it does it, so you can't quantify that. And the other thing is, you know, our clients genuinely want us to make things better,

Speaker 0: and so they have the investment process which is there to give them returns. And you also have the engagement process which is integrated into our stock selection process, to genuinely make things better so we can get stuck in some kind of materiality analysis of a company has done this, and therefore it's given them 5% more returns this year. That's not really what we're all about. We're genuinely about trying to use our portfolio as the platform to make changes that we know are good happen.

Speaker 0: I. I would counter that, though, and say, I know it's very difficult to talk about profits. When we talk about ethics, it becomes quite a dirty word. But surely stuff like that just leads to great to better client retention and sorry, better employee retention and better employee retention. As we all know, this jobs market is a really positive thing. I mean,

Speaker 0: anyone trying to hire at the moment knows how difficult it is. So you know, it's a bit like I suppose we could have been sitting here 30 years ago, debating, you know, Well, I, I maybe wouldn't be here sitting here 30 years ago, debating on whether or not you move maternity pay from six weeks to you know. Well, six months now, a year, you know that all of that stuff helps with colleague retention, which does actually help to the bottom line. So you know. I know

Speaker 0: doing good is what you're trying to do. But also, let's not forget we're in the business of investment and delivering great outcomes does mean delivering, you know, in positive investment returns for clients. The two things are not counterintuitive. Yeah, and and the mental health work. So again, a study was done that for every $1 you spend on it, you get $6. 55 return. As an investor, I know I would take that return every single day. So it does make sense in terms of the company.

Speaker 0: Uh, it was a study done by Deloitte. So we'll we will look at their numbers, you know, details. OK? No, no, no, no. Yeah, but But on that point of looking at companies and how you can make them, you know, I mean, this idea that the

Speaker 0: the worker, if you like, is the ultimate machine. So the happier the worker, the more efficient the worker, the the more efficient the the overall machine. I mean, what what's your take on that, Peter? I mean, my take is it's all very valid, but I have to do with the real world of actually managing these people. After all, I'm now part of Lloyds, and the truth is, society has to get on top of this as well. It is I I would the counter to. It is why should companies be solely

Speaker 0: for this process? There's a lot of other things that need to line up, and I'm sorry. Not every line manager is capable of doing occupational health questionnaires on staff with mental health issues, Mark. So the truth of the matter is that it's great to sort of get this. I'm absolutely in favour of it, but you have to line society up with it as well. There's a lot of issues post covid, uh, technology machinery, kids in front of screens at three years old,

Speaker 0: I could carry on, and I would argue that they all need to be lined up. And at the moment, I think there is an element in which companies are supposed to solve all evils, and I don't think that's fair. As someone who runs businesses as opposed to has a job, I see the other side of it, and the truth is, it's it's getting a little bit too far the other way. Why are we responsible for all of this suddenly all in favour couldn't be more in favour of it all. But it would be nice to get some prompts from

Speaker 0: politicians on the other side of the fence as well. To understand and appreciate this, it's not a Tory or Labour comment. It's just society has to line up because it's a societal problem. It's not just a company specific issue, and I do to some extent think companies are being left to hang in the wind on this, and I think it's real. But I suppose somebody might say to you, Well,

Speaker 0: reason it's your problem, Peter is you own it As a shareholder, you get all the benefits of that and I get all the arguments about improving someone's mental health. But I don't think society is looking at that more generally. Sorry, I just don't think there's enough support for what has gone on an extreme pandemic. 100 year event,

Speaker 0: kids completely crushed By not going to school. We can carry on on this. Where's the focus on that? From the political side, it needs to be both. And from what I can see, companies are largely having to take the burden of this, and I don't think that's fair. Sorry. As a shareholder, I don't think that's fair. This needs to be equally spread. My own view of it at the moment is it's not being the politicians are just, I would argue, not even recognising it in some cases

Speaker 0: needs to move on, which comes back to the importance of public policy as an investor as well. So we can't just, you know, we have to take companies forward with us on the journey. But we have to take politicians with us forward on the journey. So every engagement strand also needs a public policy strand. Well, on that, I mean, do you think companies are being asked to do

Speaker 0: too much? And actually, there's a problem that if you get a company that says it's very into ESG, you think, Oh, no, they're all just going to run around issuing press releases, making more and more promises and and the core business is gonna go horribly wrong because there's always more problems out there.

Speaker 1: Yeah, well, that's a risk. That's definitely a risk. And the things that company are requested to do, um, have definitely increased over the last few decades that, that's for sure. I. I still have a

Speaker 1: a pretty traditional view of what a company should do, which is increasing shareholder value. And therefore, I would say that generally, uh, companies need to, given that they don't have unlimited resources. The end of free money is over probably, and therefore given that, uh, they should prioritise the things that really make their business better. And some of them are are obviously linked to mental health of their work

Speaker 1: workers. Because, as Emma was saying, talent retention is a is an issue in the world of, um in the current world. And so it's. It's important for companies to retain their talents, to increase productivity by appropriate policies for their workers, in order to to make them welcoming the company and to make

Speaker 1: at home when they work.

Speaker 0: And just coming back to this issue of of mental health. I mean, when we started the show that I think everybody here made a big emphasis of the difference between people that talk and people that do, and it's about doing and making well. But again, on a topic like mental health, how do you with your index. Can you tell us how? How do you dig down into it and make sure people are

Speaker 0: doing rather than talking? Because again, just as a backdrop, number of friends I've got where, if you get into a conversation with them, they go and what they get furious about as employees is the gap between what's set at the top. Look after yourself. Mental health. Make 10 minutes for yourself. All of this stuff, followed by the amount of work that keeps being chunter down the line at them, particularly online. Seven o'clock in the evening, five o'clock in the morning and the gap is massive, and the cynicism from workforce

Speaker 0: quite high up is incredibly high there. There's an amazing meme on this isn't there? Of UH, don't worry. Here's enough mental health. Webinar. Everything's OK and you know, for us that fundamentally isn't what we're trying to achieve. So we created this benchmark working with mind the UN backed principles of responsible investment with other experts, including from the Harvard School of Public Health, to try and work out kind of academically rigorously what a company's best practise genuinely can do.

Speaker 0: But then we take that out to the companies and we talk to them and, quite frankly, going back to Peter's point. You know, there are only so many rules and policies and processes that actually work to this extent. You have to have line managers that buy in and genuinely want the people who are working for them to flourish. And it's through those conversations and engagement with companies where you get to go into the nuance a little bit more that you see who is ticking the boxes and who is genuinely trying to implement it through their workforces. So for us, it is that data point.

Speaker 0: It's also getting to know the companies and trying to take them forward on that journey. And again, the biggest success story for us this year. We just released our our UK benchmark, and we're a group again, not a company that we invest in. But we think it's really importantly to act systemically on this issue, have taken the work created a working group, brought together workers who felt really struggling in this process and built a new policy that isn't just policy and process. It's all about performance in the workforce, so for us, that's that's really important.

Speaker 0: Is pay one of the elements that you look at because we would have thought as an employee, if you've got regular decent pay and long term, uh, employment contract, that would probably go a long way to

Speaker 0: reducing most people's mental health issues. Yeah, it it is. And this gets back to the fundamentally integrated systemic nature of most ESG challenges. So, you know, we have a work programme on the cost of living. We have a work programme on the living wage. These are all prioritised because fundamentally, most ESG issues relate. You know, the World Economic Forum do that amazing piece of work every single year. But they look at issues in isolation and they also look at how these issues affect each other. So yes, absolutely. Pay is a key

Speaker 0: part of what we do. Our living wage programme has led recently to two F 3 50 companies become accredited living wage employers for the first time. So again, we have to take companies on that journey and make sure change is happening. And I mean, I know we've talked earlier on, and Peter mentioned it. There's there's a danger that every problem in society gets put at at the door of a corporate, and the government says to Corporate's your job to sort it out. Here's some regulation and a few benchmarks, but,

Speaker 0: um, is there a danger when we look at some of these issues that we're actually quite backward looking? We're talking a lot about oil because that's been a big issue. But actually things like mental health come to the fore. Can you see an ESG issue that we're not talking about at the moment? But we need to be getting our thinking gap on. It will be a big one down the line. That's a big question.

Speaker 0: Um, I do think that we ignore the G too much. I think it's less, um, tangible for the retail investor, and obviously our clients are predominantly retail investors. So that's that's the sort of view of which I'm coming for and we survey our clients once every two years to see what topics they want us most to engage on because you know can't did all

Speaker 0: and the fact we do it by ES and G factors to ensure you have an equal spread because our kind of first iteration of original surveying. We gave them all factors and just the ones that affected the orangutans and the rain forest came up. Now, obviously, they're important, but they are much more cuddly than the concept of good good governance in a company.

Speaker 0: Um, so I do think that there is an issue there around and maybe this is on us actually to communicate that better and to make that a more tangible narrative of what G means and why that is so important to get right and why it will deliver a kind of good outcomes for, you know, the E and the S as well as for the end investor. Um, the E has a lot of focus. I think that's great. You know, you've got regulation at zero CFD which do focus on the on the on the E. I think the S has been slightly forgotten.

Speaker 0: Um and I do think particularly given the backdrop of the last three years with war with the pandemic with, you know, socioeconomic barriers being even more difficult to scale now that we do need to think collectively as an industry about what we do together to tackle some of the issues,

Speaker 0: and the industry has to think additive as well. There's no point is all piling into the same issues. We have to make sure that if so and so is doing this, someone else does that. So we cover ourselves across. So I'm I'm with you that the governance hasn't been looked at properly. And also social issues previously haven't been looked at in the way that we're trying to make sure that they do in the future. I

Speaker 1: I wrote an article exactly on that point last year that probably

Speaker 1: the most underappreciated factor in the ESG acronym is actually the G. Because when you have a good governance, then you can, uh you can expect that the best the best decision will be made also on the E and the side. But I think that the challenges are

Speaker 1: the following. So the E is pretty easy to, um, to understand what E means, and it's also quite easy to measure exactly what a com how a company is doing in terms of the E and the progress on that on that side, like how much is recycling? How much is a meeting? All these kind of things are easy to measure. The S, instead has been probably the most, Uh

Speaker 1: um, the least checked

Speaker 1: variable because it's very difficult to measure. A lot of those social factors are very difficult to measure and to track over time, whereas the government, I think, has some degree of measurement. But then a lot of qualitative work needs to be done, and therefore it's where I think more focus and more effort needs to be put.

Speaker 0: It's what good active managers have been doing for decades and decades. It's just in terms of the end investment

Speaker 0: understanding of it. I'd say there's a massive go Peter Particular data apply to the unlisted community, which employs 85% of the population of this country. We can sit here for hours of eulogising about the listed sector, but the reality of the situation is that the vast bulk of people are in unlisted businesses, small companies, and therefore the next challenge for this decade is how that actually translates through You can do supply chain. You can do all sorts of things within that, but I would like to actually

Speaker 0: I think it's not the biggest gap, but it's the most obvious clearing thing we need to deal with is how does it actually philtre down past the listed sector? I mean, I think there is some work in that space. So getting accredited, for example, that's something that quite a lot of unlisted companies have. But yes, the consistency of it. And where government and policy comes into that space Absolutely well, we had we had some support. Can I get a final thought from you? The one thing you'd like to leave us with from today's conversation?

Speaker 1: Yes. So I will. I will be just talking about my my experience with ESG, which is more around the investment side. I think we touch upon a few important points with regards to ESG investing. I think we still need to think of ESG investing as as investing. We need to think of the investment that we make as, um, a driver for better financial outcomes for the end client. And I would echo the point that Emma made before with um

Speaker 1: which was around the fact that, uh, it's for the long term. So you you shouldn't just jump on the bandwagon of the ESG for the next one year or 18 months. So you should think of it over the next 5 to 10 years. Thank

Speaker 0: you, James. A final thought from you. I just echo that

Speaker 0: whole panel. So what is sustainable investing? It has to be about return. And it has to be about driving change. So let's not forget that we need to make things better. So for us, fundamentally, how can we deliver for our clients? It is by giving them that return, but also helping companies on their incremental change journey.

Speaker 0: We have to leave it there. Thank you so much for watching. Do stay with us. We've got some information coming up in just a second on how you can potentially use this as part of your structured CPD. Just reminds me to thank our fantastic panellists here today. James Cora, Emma Wall, Peter Togo and Nicola Braga from all of us. Here. Goodbye for now