Feeling the Heat: Investing in the Time of Climate Change

Benefits and Pensions MONITOR Meetings & Events WEBINAR

iA Financial Group

Engagement with issuers is an essential part of ESG (environmental, social, and governance) integration, says Giampiero (JP) D'Agnillo (CFA), Vice-President and Portfolio Manager, Corporate Credit, at iA Investment Management.

He told the Benefits and Pensions Monitor Meetings & Events 'Feeling the Heat: Investing in the Time of Climate Change' – sponsored by iA Financial – "we favour active engagement with issuers on ESG topics rather than outright divesting and most issuers are really open to dialogue. The objective is to communicate what we're looking at as investors, to promote ESG disclosure, and to help them progress on this front."

iA keeps a log of the interactions with issuers and tracks the evolution of the quality of their disclosures. If the engagement does not produce any tangible results from a company or the company is not really open to engagement, "we'd maybe consider divestment."

More than that, stewardship is "absolutely key to any investment strategy, not just ESG or sustainable strategies," he says. "This is really core to how we think about investing overall and bringing to light the ESG concerns with companies we're invested in as critical to a long-term partnership between the investor and the company," says D'Agnillo.

Maggie Childe, Vice President, Head of Sustainable Investing, at iA Investment Management, says "when we're talking about engagement with companies, I like to use the word partnerships. We're coming to the table with the company as a partner and helping them understand the investor voice on what's critical in the climate change perspective or, more broadly, on ESG perspectives. Those can often intermingle with the fundamentals that you're addressing with the company."

When it comes to setting targets, they are often talking long term. A lot of these changes don't happen overnight. "Sure, they can make commitments", says Childe, and those can happen relatively quickly as committing to net zero emissions by 2050 can happen overnight. But that needs to be backed up with interim targets or milestones.

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>
> - Maggie Child

"And that's where it can get a little bit trickier when you're talking with a company because often, they don't necessarily have a crystal ball as to where policy and regulation are going or the technological advances that will be possible down the road. So, it's really trying to understand the strategic positioning of the company, how their board is thinking about these issues, and what resources they have in place to basically optimize their portfolio over time," she says. This is really critical to that discussion, as well as how they're managing capital expenditures around this issue.

It's complicated and there's many moving variables, but one of the key ways to tell whether a company is making progress or not is by some of the intangibles like culture. "Is there a tone from the top and are they incentivizing the culture within the company? Those are some of the questions that an investor can ask," Childe adds.

Alan Hsu (MBA), Managing Director and Portfolio Manager at Wellington Management, says when they engage with companies,A simple example of this might be a utility that has a significant amount of coal in its asset base. "It's very clear that those are disadvantageous from a climate perspective and a whole host of other reasons," he says.

But that utility is likely to be heavily regulated and probably entered into an extensive coal asset base many decades ago because it was low cost and plentiful. They were optimizing for low cost electricity for their ratepayers. "You could make a good argument that, from an S (social) perspective, coal did and continues to make sense. So when you push companies to get away from that type of legacy asset base and to move on to something else, it has to be just as reliable, just as inexpensive. And those types of changes occur glacially. They don't happen overnight and they would not happen overnight maintaining the same degree of cost effectiveness," says Hsu.

What Wellington is looking for is whether those companies, as an example, show incremental improvement? How are they demonstrating diversification of their power sources? Are they installing scrubbers or emission technologies that reduce NOx (pollution emitted by automobiles, trucks, and various non-road vehicles (e.g., construction equipment, boats, etc.) as well as industrial sources such as power plants, industrial boilers, cement kilns, and turbines) and SOx (sulfur oxide) emissions. "These provide a general sense that they're tackling the nature of the problem, even as they are pivoting out of those assets," he says. BPM

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