

ESG

Investing In The Future, For The Future: Divestment And Sustainable Investing In Canada

BY: **ERIC MONTEIRO**

The COP26 UN Climate Change Conference was a major milestone in the global shift to more sustainable investment practices. For many, that focus has increasingly become about environmental, social, and governance (ESG) investing. The COVID-19 pandemic has accelerated this trend and has highlighted the intersections between health, the environment, and the economy. With that came increased demand for corporate accountability.

The fossil fuel industry has faced increased pressure from various stakeholders taking aim at the industry's ESG record.¹ Calls for divestment increased, accompanied by shareholder activism. This presents challenges and opportunities in Canada, given the economic importance of the oil and gas sector. For many, sustainable investing means divesting from specific companies, industries, and sectors based on personal values, ethical considerations, or negative ESG considerations.

However, it's much more complex.

Sustainable investing is motivated by the desire to build a more sustainable and ESG-friendly future, yet divestment considers the present – how companies score right now. Engagement, on the other hand, looks ahead and can be used to enact meaningful change to move the world forward. While Canadians want to invest for the future, they also want to invest in it.

Lose Their Voice

The main challenge with divestment is that investors lose their voice, voting rights, and opportunity to influence ESG issues. Investors must engage with companies that consider ESG factors and seek long-term, positive change. We support encouraging companies to transform business models to align to a more climate-friendly world. For many, divestment will not be the optimal approach. For example, oil and gas companies are critical to the Canadian economy and provide livelihoods to millions of people, so in fact divesting might create social challenges, forcing a tension between the 'S' and the 'E' parts of ESG.

Divestment makes a statement, but is it effective? It may reduce the carbon footprint of a fund, but not the overall economy. We need asset managers to engage with company management to ensure a transition to a more sustainable economy. Ideally, we would like them to show their support for initiatives like the Task Force for Climate Related Disclosure (TCFD) and the Net Zero Asset Managers Initiative to demonstrate their commitment as investors towards reducing emissions. The next few years present investment managers with an opportunity to live up to those commitments by setting targets and reporting on progress to investors.

Many members recognize the complexity inherent in these decisions. In a recent Sun Life survey, human rights were considered the issue Canadians flagged as the most important, along with strength of company management and climate change. So, divesting or ignoring certain sectors or companies might not address issues members care about. But a 2021 sustainability survey found that 32 per cent didn't consider sustainable factors

when purchasing investments because of a lack of awareness. There is an opportunity for sponsors, with provider support, to create awareness for members about how investment options available in group plans can and do incorporate ESG issues. By telling members how funds integrate ESG and active ownership activities, members can make informed decisions.

Potential Returns

Respondents were also concerned about potential returns with sustainable investment funds. The survey showed that strong returns are generally viewed as more important than investment by conscience in sustainable investments, especially for younger people. Specifically, 79 per cent of all respondents indicated that sustainable investments must have a strong return to be worthwhile with this reaching 88 per cent of those 18 to 34 years old. We believe this is not a trade-off – sustainable investing, done right, can lead to superior risk-adjusted returns and help manage long-term risks.

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Additionally, any constrained investment strategy – which would include divestment – will, by definition, limit the ability to seek returns, posing fiduciary risks for sponsors. Given these two perspectives, we believe a focus on value, not values, is the best approach to sustainable investing.

If the key objective is improved corporate behaviour, the most effective way

we can contribute to that is through active dialogue with company management and by exercising voting power. In that context, divestment becomes a cop-out. It takes the problem off one plate and puts it on someone else’s.

Engagement is a more powerful approach than divestment and drives sustained value over a longer period and impacts corporate activism. A vivid example is Ørsted, a Danish utility company, which generated 85 per cent of its power from coal in 2008. The company shifted its focus to renewable energy and became the world’s largest producer of offshore-wind energy. It is now among the most valuable energy firms in Europe, with a market cap that has quadrupled in just four years. It was named the world’s most sustainable energy company three years running. Divestment based on sector – in Ørsted’s case coal-based energy – means an investor would have missed out on their successful transition and strong performance. Engagement with company leadership enabled investors to help it transition towards a more sustainable



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Engagement has also positively influenced governance and business practices by demonstrating that these issues are important to their investors. Over the last decade, we've seen Canadian producers continue to grow as global leaders in R&D spending and deployment of clean technologies. They have also progressed towards improved environmental performance, relationships with Indigenous groups, employee safety, and diversity in corporate governance structures.³

Focus Areas

We suggest a few immediate focus areas for sponsors:

- Create a sustainability strategy specific to your organization's goals
- Educate your investment committee on sustainable investing approaches, including ESG integration
- Develop a sustainable investing philosophy, incorporating your role and objectives as a plan fiduciary
- Lean on providers to help find out

what matters most to your talent

- Adopt a clear policy on ESG integration and communicate, monitor, and track decisions

- Ensure investment materials are updated to include information on how funds consider ESG factors as how funds integrate ESG is important information for members, in the same way as the investment objective, asset class, style, performance, holdings and other return/risk considerations are

- Ensure members have access to robust and detailed information of how sustainable investing principles exist in their plans, either directly or leveraging your group provider

The future of energy requires engagement and collaboration across industries. Short-term thinking is part of what got us here as quarterly profits were prioritized over long-time climate change impact. Plan sponsors play an integral role in helping members and need to provide education about the various approaches and tools – divestment, ESG integration, and sustainability focused – to help Canadians

make informed decisions.

Divestment isn't the only, or even the most optimal, option; sustainable investing and engagement are powerful tools. Engagement looks beyond the past and present, but towards a future which drives meaningful change for the world. **BPM**



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1. ESG leadership in the Canadian energy sector, *Torlys Quarterly: ESG's turning point, Q2 2021*, <https://www.torlys.com/Our%20Latest%20Thinking/Publications/2021/03/esg-leadership-in-the-canadian-energy-sector/>
2. Fight not flight: Shaping a better future through ESG engagement. <https://www.sunlife.ca/content/dam/sunlife/regional/canada/documents/grs/sun-life-esg-approaches-engagement-en.pdf>
3. ESG leadership in the Canadian energy sector, *Torlys Quarterly: ESG's turning point, Q2 2021*, <https://www.torlys.com/Our%20Latest%20Thinking/Publications/2021/03/esg-leadership-in-the-canadian-energy-sector/>

ANNOUNCEMENTS



Corinne Razem
Director, Operations



Yvan Tran
Director, Data Services



Lara Dangourian
Senior Manager, Market Access

On behalf of Mapol Inc., Gordon Polk, CEO and Johnny Ma, President & COO are pleased to announce the appointment of **Corinne Razem** to *Director, Operations* and of **Yvan Tran** to *Director, Data Services*.

Over the past 10 years, Mapol has grown to become the leading private payer consulting company for the pharmaceutical industry in Canada. In their new roles, Corinne and Yvan will help champion the development of innovative solutions for our clients and guide Mapol through its upcoming phases of growth with operational excellence.

In addition, we are pleased to announce that **Lara Dangourian** will be assuming the role of *Senior Manager, Market Access* at Mapol. Lara will continue to support Mapol's clients based in Québec across Mapol's subscription services that pertain to the private payer market.

