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My Financial Life: Making Sense of Responsible Investment. February 13, 2019.

Producer:

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From alumni UBC, this is My Financial Life, a podcast mini-series about personal finance. On this episode of My Financial Life host Kirk Lapointe, the editor in chief of Business in Vancouver and adjunct professor at the UBC School of Journalism speaks to UBC alumnus, Ian Robertson, a vice president, director and portfolio manager at Odlum Brown Limited.

Kirk Lapointe:

Today on the program we welcome Ian Robertson. He's a vice president, director, and portfolio manager at Odlum Brown. He's been a leader in what we know as responsible investment. He has vast experience in helping investors determine whether funds can be most ethically applied. We want to talk about the subject today. It's a bit of a complex one, but the idea is to help those just entering the field of investment. Thanks a lot for joining us Ian.

Ian Robertson:

It's my pleasure to be here.

Kirk Lapointe:

Let's start by getting our definitions straight on this, how do you define ethical investing?

Ian Robertson:

So ethical investing has a very long and strong history. It goes back more than 100 years, started with largely religious organizations. And when they invested, chose not to invest in certain companies or certain sectors that didn't resonate with their values. And that carried on sort of quietly as a part of the investment industry for some time. And in the '70s, when the Vietnam War was on, a broader group of society came together and said, "We actually want to avoid stocks that are involved in the Vietnam War companies that may manufacture arms or munitions.

Ian Robertson:

And so it broadened out a bit from its historic religious base. And then we can think back to the apartheid issue in South Africa and largely led by campuses, including I remember when I was at UBC, lots of protests to divest from companies that were involved in South Africa. And so responsible or ethical investing broadened out even more. And then over the last 20 years or so, it's become even more widespread where people invest in or screen out companies that are environmentally or socially, and now also including governance issues - CEO pay would be an example.

Ian Robertson:

So companies that don't resonate with their values from an environmental or a social perspective might be screened out and others that really do resonate with people's values might be screened in and emphasized a little more. That's the history of the ethical and then socially responsible investment and believe it or not, it's actually a little different than what we now call responsible investment, which has a slightly different investment industry background, and I could talk about that ...

Kirk Lapointe:

Yeah, no, I'd like to know what the difference is in there. I think of a lay person might just see them all as the same piece.

Ian Robertson:

... yeah, absolutely. And that's generally they're sort of used interchangeably, but they do have different backgrounds and they do mean slightly different things. So the first part, this ethical or socially responsible investing is really a values based thing, right? It's avoiding companies that really don't resonate with you or, and emphasizing ones that you do think are good making positive change. Responsible investment has its background in - the coordinated part of it - in a United Nations backed organization called the PRI, Principles for Responsible Investment. I've been to their offices in London, England, and they got a lot of the leading investment firms to sign a pledge. And they adhere to six principles. And the roots of it are actually an investment analysis. And so the core of what the PRI coordinates leads ... so companies sign on to be members of the PRI and adhere to these principles ... the core of it is integrating environmental, social, and governance factors into the analysis. So there's no moral judgment there. They're really just saying we're going to take account of it. And the theory there is that just by taking account of it, by asking companies, it helps with the transparency that companies are just, if they pay attention to these things, they're naturally going to get a bit better of it. It's sort of shining that sunlight on these practices. And also the same companies when they own stocks, if they invest in these companies, then they also use their ownership stake, their voice, their proxy votes, to engage with companies and tell them we want you to do a little better on this. We want you to be a little more transparent. Tell us how much water you use, tell us what your supply chain management policies are when you're sourcing tee shirts from another country.

Ian Robertson:

How do you ensure that the factory conditions are good, or what do you do with toxic waste or how much water do you use, those kinds of things. And that leads straight to the other main part of the PRI's work, which is really to help the whole investment field become more transparent. So it's focusing on these issues and trying to bring sunlight to them and make them more transparent. And that helps everybody: the companies behave better, governments have more information to work with as they set policies to good policies, to nudge companies to have better behavior. And so that's the difference, the ethical roots versus the more investment analytical responsible investment field.

Kirk Lapointe:

So as an advisor, as an investment advisor, reassure me here that you're not paying a big premium in order to involve yourself in this responsible field that the returns are still there for you.

Ian Robertson:

The returns are absolutely there 100%. I will give one qualification. So the first thing I would say is if you have stock portfolio, if you're working with an advisor and you're choosing stocks to put into your portfolio, you have every right to have stocks that you're comfortable with, and not have stocks that you're not comfortable with. The thing you want to pay attention to, and this is where it comes back to the performance is that you still generally want to adhere to good principles of diversification.

Ian Robertson:

You want companies in different sectors, maybe that work in different parts of the world that are diversified to make sure that you get the best return with the lowest amount of risk. There've been a lot of studies, some they used to show a little bit of underperformance, more recent ones have showed a little bit of outperformance. In my opinion, the performance of ethically screened funds' investments are going to be very similar to ones that are not. And in all likelihood, you as an investor will do better because you're more comfortable with what you have. You're more likely to have confidence in it, to hang on in tough times. And so you should have exactly the same performance, and your own behavioral aspect will actually lead to a better outcome than if you have things that you're not comfortable with.

Kirk Lapointe:

Yeah, you talked earlier about some of the ways in which these funds are identified globally and a little bit of a seal of approval that seems to exist on some of them. How difficult is it though to really align your value system with your investment?

Ian Robertson:

Well, it's... That's a very good question. So if you're working with an advisor and you're picking stocks directly, actually having investments in your portfolio that resonate with you and avoiding ones that don't resonate with you, is quite easy, but it does beg a second question, which is how do you know exactly what company's practices are behind the scenes? Beyond that sort of brand's name. And there are third party information providers that provide letter grades really on their behavior. But it costs money to get that kind of information.

Ian Robertson:

So some advisors will pay for that. Some firms will pay for that. Some funds will use that as an input to make sure, first of all, that they're analyzing companies well, they're getting all the information. This is information that's not necessarily in their financial statements, it's qualitative information. So they'll make sure that goes into the analysis and it can also be used as a kind of ethical screen. Are there controversial things in their background? Do their practices resonate with what their image is? We have that kind of research at my office, and it's surprising sometimes what the perception of some companies versus when you look under the hood, so to speak and see some of the operations.

Kirk Lapointe:

So you say, it's a bit difficult to look under hood. You've got to get some advice and all that at the risk of really giving you a commercial here, is it necessary to have assistance in all of this, can you really try to go it alone, all that easily?

Ian Robertson:

Well, not easily, but you certainly can. If you think of the three broad channels through which investors access the markets, they can go to a discount broker and they're going to get charged whenever they do a transaction, a very small commission. And they're essentially doing all the work themselves. And that's great for those that want to do that and do the work, they can do it. And with some digging, they can find out these types of qualitative issues as well and make their own judgment. Just like they're making a judgment on the valuation of a company, looking at its income statement and its balance sheet. So sure, absolutely. Many other people will go to some kind of value added advisor if they're buying stocks directly with... Historically we would call them stock brokers, but probably financial advisors is a better term these days, sort of more inclusive term.

Ian Robertson:

And they're going to get value added advice on, is this company worth investing? Is its valuation good? And they'll also be able to get more information about a lot of these qualitative aspects. Not all firms and not all advisors will have access to this, but more and more, this is also the type of information that financial advisors are offering. And the third channel is that you can actually delegate the management of your investments to a portfolio manager. And that portfolio manager is invariably going to ask you, do you have any ethical concerns? Are there things that we should avoid or is it just an open mandate, you want to get the best return? And different people will have different responses to that. So those are sort of the three channels and it's different levels of work for the individual.

Kirk Lapointe:

Yeah, do you find that typically the kind of investor that this attracts is somebody that actually does nurture the investment a little bit more as a little bit more on top of it, all the time looking for the behavior of a company, whether it's running into any issues on the lookout for other companies that might be like-minded, is this a more active investor in your view?

Ian Robertson:

That's a very interesting question. In my experience it's actually been slightly different. It's been issues that bother people. So for example, it is that supply chain management, where people think of the labor practices that get highlighted from time to time and in factories for all kinds of companies that we buy products from. Often it has to do with CEO pay, which makes the headlines from time to time. And people say, "These companies I invest in, I just get the sense that I don't have any input into the pay level of a CEO." But of course they do. They get... It's a small vote, but if they have 100 shares, they get 100 votes or 1000 shares, 1000 votes. And for the size of some of these large companies, that's a small amount, but collectively, and this is the sort of ethos of responsible investment is that collectively it can make a difference. And so having an advisor that will work with you to nudge these companies in a better direction, whether it's through the analysis side, when you're asking companies these questions, or later on, once you own it with that vote is a way to... So my experience has been that it's really different issues that bother different people and that they want to screen out different types of companies or engage the companies if they do want them to say, "Hey, I don't like that behavior. Let's see if we can use our little vote to nudge it in a better direction."

Kirk Lapointe:

So if you're going to employ an advisor in this case you direct that advisor to always be on the lookout for wild CEO pay or a labor practice issue, or keep your heads up for those kinds of things that are bothersome to you. What I wonder about too, is it's not just an investment issue. Of course it can be a divestment issue. How difficult is it to get out of certain funds or stocks when you start to feel like they're not aligned?

Ian Robertson:

Yeah, the actual... So if you have individual stocks in your account, in your portfolio, very easy, very easy to do it. There may or may not be a transaction cost to do it, but to actually sell those stocks very easy. If it's within another, like a mutual fund or an exchange traded fund, you don't really have a mandate to get them to divest, but you could move to another version that didn't include those stocks. So you can do ...

Kirk Lapointe:

Yeah, and then you have to go to a whole other fund, right?

Ian Robertson:

... that's right. Yeah, that's exactly right. And more and more there are different options geared to the different value sets broadly speaking that people may have. So low carbon ones are popular these days for people that say, "I want to do my bit for climate change. So I want to have a low carbon fund or investment portfolio." But it does beg a second question, Kirk, which is, does it actually do anything? So again, the first point is you don't have to have anything in your account in your portfolio that really bugs you. You really don't. As long as you still stay broadly diversified, you'll do just fine. But the question about whether it does anything and when you divest from oil companies, for example, if you sell all of them, it in all likelihood doesn't actually have any financial impact on that sector or on those companies because you're selling it.

Ian Robertson:

Someone else is buying it. It's a bit like I use the analogy of if you have a carnival oil based paint, which we don't really use anymore, because it's the solvent based, and it's not good for the environment, but if you have a carnival in your garage and you just move it to your neighbor's garage, the world is no better. You've just made yourself feel better. It's not in your garage anymore. And that's really the analogy of what happens when you sell. And so the theory behind divestiture as well, if can get enough people to sell, then maybe it will make a difference.

Ian Robertson:

And there are some studies that show that including one from a professor named Rob Henkel, who is at UBC in the faculty of commerce or Sauder I should say, showing my age there, that says, "In theory if you can get 20% or so people to divest from this, it's going to start to have an impact on the cost of capital." The problem with the world of finance is it's largely anonymous. And when you're selling somebody else is buying it and it's just going somewhere else. And so the true value in a divestiture campaign is really the publicity. It's the signal to politicians and to others, "We mean business with this. Come on let's let's get going."

Kirk Lapointe:

And is that better in your view than simply trying to wage a bit of a public misery campaign for that company as a shareholder to get them to get out of a particular activity?

Ian Robertson:

Well, I think it's a very effective PR platform to get companies to move and to get governments to move. So again, I don't think it actually has an impact on their finances, but certainly... I mean, all of us have read lots and lots, and it happened at UBC as well, campaigns to get endowments, university endowments, to divest from oil. And the value in that is tremendous that get people thinking and really what we should be thinking is, "Okay, great. Maybe I want to be part of this and tell people I've done it. I still want to get the broad investment returns, but I'm happy to divest from this sector or another one that bothers you."

Ian Robertson:

But the key question we need to ask ourselves is what are we going to do as individuals? Are we going to ride our bike to work? Are we going to out largely a plant based diet? Are we going to fly less often? Those kinds of things. I mean, those things really do move the needle as well.

Kirk Lapointe:

Yeah, I guess my last question to you would be, it's one thing to be either investing or divesting in these funds. But if you don't lead a congruent life with that, are you really making much of a difference?

Ian Robertson:

No, you're not. I mean, we shouldn't overstate how much difference things like divestiture... I mean, really what we're doing when we divest or screen ethically is we're trying to nudge somebody else to do something. And companies are big. Don't get me wrong. They have a tremendous impact on the environment, but we also need to look at our own actions and say, "Ah, yeah, I should take the bus to work."

Kirk Lapointe:

Nudge yourself first, yeah.

Ian Robertson:

And you can do both. We really should do both, yeah.

Kirk Lapointe:

Yeah. Ian it's been a pleasure talking to you today. Thanks a lot for your help today on the podcast.

Ian Robertson:

It's been my pleasure, Kirk. Thanks.

Producer:

My Financial Life is a production of alumni UBC. Thank you to our host Kirk Lapointe, editor in chief of Business in Vancouver and adjunct professor at the UBC School of Journalism and our guest, Ian Robertson of Odlum Brown Limited for participating in this episode. We would also like to thank Odlum Brown Limited for sponsoring this week's episode. On the next episode of My Financial Life, Kirk will speak to Amanda Butler of alumni UBC's travel partner, Worldwide Quest about the topic of travel hacks and managing your travel finances. Episode three of My Financial Life drops next Tuesday.