



Evli Podcast: Series 3

Transcript

Episode 1: The changing role of responsible investing and ESG

Petter von Bonsdorff: Hello and welcome to the third series of the Evli Podcast. I'm your host, Petter von Bonsdorff. This is Evli.

In the next three episodes of the series we will explore the changing role of ESG and Responsible Investing in our industry. We will get you up to speed on Evli's updated ESG strategy and then we will talk about implementing ESG and ESG reporting. In the final episode, we will meet with Accelerando Intelligence to talk about transparency and clarity in ESG.

Today, we start the series with two of Evli's hard hitters: Mrs Outi Helenius, Head of Sustainability, and Kim Pessala, our Head of Institutional Clients.

Welcome to you both and I think we should open the floor so you can explain your roles at Evli. Can we start with you, Outi?

Outi Helenius: Sure, thanks Petter. So, at Evli I am responsible for all of the ESG related matters. On the team I have two analysts working with me and we are constantly developing Evli's ESG procedures and all of the engagement done at Evli.

Petter: Kim.

Kim Pessala: Thank you, Petter. I am responsible for the institutional clients in Finland, the Nordics and Europe. I've been with Evli for 25 years, I started in '95 and at that time I can tell you that when it came to ESG, the only thing we looked at was the 'G' part, the governance issues. Today, when I look at what ESG stands for at Evli today, it is on a totally different planet.

Petter: Thanks. It's fantastic to have you here and we can start this series devoted to ESG talk. So, let's kick off things by putting the cat well and truly among the pigeons. Has ESG simply become about 'Greenwashing?', Kim?

Kim: My simple answer to that question is, no. But as we all know, the trendy phrase 'Sustainable Investment Solution' is super strong. Sustainable investment has been attracting a lot of assets lately on behalf of the Traditional Investments Fund. So, a lot of Asset Managers like to highlight how green they are and how everything they do is somehow related to ESG.

For me, greenwashing is a way to capitalise on environmentally sound products by conveying a false impression that, for example, an equity product is environmentally sound. For us it's pretty easy to fight against the greenwashing: look at the facts and back up your claims. Report details on your investments and how they have a positive impact on the ESG. It is also important that you have some exclusion policies. There are some companies that are harmful for the environment.

Some of those companies you just have to exclude. We practice 'engagement,' but with some companies we know it wouldn't matter how much we engage them, it wouldn't stop them from acting harmfully and polluting the environment.

Petter: I have to ask you a question, Kim, about fighting greenwashing. Is it really the fund manager's job to fight green washing? Isn't it the regulator's task?

Kim: I think it's everyone's task. The regulators are actually doing great work here. Sometimes I wonder if they are doing too much work when I look at what the EU is demanding us to report and they are steering money into more green investments. I still think that ESG should not just be about nice words and fancy reporting. It should also have a positive impact on the SDG, the Social Development Goals. And, of course, everyone should be able to understand it. It should be very transparent. It's also important that our ESG values should be aligned with most of our clients' values.

Petter: So, transparent and easy to understand. Outi, what's your take on greenwashing?

Outi: I would say that if you really want to prevent greenwashing, you have to be clear and exact. What are the ESG indicators that you are taking into account and what is the impact

of these ESG indicators on your investment strategy? If you have that well-defined and communicated clearly to the client, then everyone has the same understanding of what we do with ESG and how we tackle the SDGs that Kim discussed earlier.

I would also emphasise what Kim says about 'transparent reporting.' Without this it is hard for the client to see that we are doing what we have been promising.

Petter: A question to you. It's a yes, no question. Is it greenwashing or ESG pretension if a fund manager has no reporting on ESG matters?

Outi: That is tricky because there could be several reasons why you don't have reporting in place. For example, if you invest in the small or micro-cap companies in the EM markets, those companies don't report anything. I would say that it is still important to have some reporting in place because, as I said, otherwise it's difficult for external forces to see that you are doing the things you promised.

Kim: I would say, no. Of course, it's good to have reporting and one may wonder how the process works if there are no indicators in place. I would be more worried if there was just fancy reporting and no ESG integration into the portfolio and with investment strategies. That is greenwashing.

Outi: So, basically, you need to have both in place, the ESG integration and the reporting.

Kim: Exactly.

Petter: Great. Now, as we record this the world is gripped by the Covid-19 pandemic, the likes of which we have never seen. So, I ask you, why are we talking about ESG at this point in time?

Kim: We must remember that Evli's mission is to increase client's wealth sustainably and according to their individual targets. The mission statement was updated this year with emphasis on creating wealth sustainably. It's about making responsible investment decisions and integrating responsible operations into everything we do. We believe at Evli that incorporating sustainable issues in managing client's wealth is the optimum solution, in the long run, to achieve long term targets.

The importance of incorporating ESG issues in investment strategies is increasing all the time. Companies realise that it has a positive effect on their business and shareholder value. We are all aware of the environmental challenges the world is facing and inevitably we want to take our responsibility on the path to a cleaner environment. Responsible investing has been a part of Evli's investment strategy for decades. In recent years the importance of ESG has exploded.

Petter: You say we want to take responsibility for our path to a cleaner and more sustainable environment. Is this why we want to talk about how Evli is sharing the burdens?

Kim: Yes. We want to take small steps towards a cleaner future.

Outi: Well stated, Kim. I would also emphasise here that nowadays we have much more information available than, for example, 10 years ago. Responsible investing actually started from excluding different companies due to the simple fact that ESG instigators were still evolving at that time, so nowadays we have huge amounts of ESG data available, and you can even build investment strategies slowly based on ESG indicators. The other thing that I have been thinking about is, for example, 20 years ago we did not have any access as to how companies manufacture products and what is the underlying supply line. Nowadays, as everyone has mobile phones, it's possible to go to the place where the clothes are manufactured, at the front of the factory and take pictures, view how employees are treated, the working hours and BOOM upload it to Twitter, for example. So, what has changed and why we are talking about ESG now is because it has become a material issue that you need to take into account when making investment decisions.

Petter: So, it's actually the investor's desire to understand that their equity or capital is not abusive and actually put into good work?

Outi: Yeah, Yeah. Exactly.

Petter: Let's move on to talk about then what has actually changed. We're talking about an updated strategy but what have we updated and why? If we can start with you, Outi.

Outi: Sure. I would emphasise that Evli has had a strong approach to responsible investing, so this is not something new for us. When I joined Evli...

Petter: When was that?

Outi: That was roughly five years ago. 2015. My task was to talk to portfolio managers and discuss how they were taking ESG matters into account. One of them told me, 'Outi, I don't have anything relating to ESG in my investment strategy'. However, when we went through his work, we actually discovered several governance related factors and environmental checks that he always does when doing investments. He just didn't know that was ESG.

Petter: That's interesting. So that's how the mode of the day changes.

Outi: Yes, and this year we made a slight update to our strategy. Responsible investing was made one of our focus areas. Then we set four targets for the coming years. So, first we want to deepen the ESG integration in portfolio management. The second goal is to improve our ESG reporting for funds and for our client portfolios. The third target is to set separate climate targets and the fourth one is to launch ESG specific funds, for example, the 'Green Bond' fund that we just launched one month ago.

Petter: Hey, this is more than a mouthful. Are we really doing all this?

Outi: Yes, yes, we are. Because actually we have already been seeing the new reports for our funds. So, these are now available on our website. You can go and look there.

Kim: Back to the question, Petter. Why are we updating our strategy? Because we feel this is very important and probably the most important issue our industry's facing looking forward. What are we doing? We are raising the bar to the level of how we want to analyse and be more transparent when looking into ESG issues. But it's not very easy for the portfolio managers because ESG is not black or white. There aren't any checklists to follow and most of the information is non-financial and it's not always easy to find and understand how companies are dealing with the ESG numbers and analysis. We've worked very hard to be able to provide the best tools and analysis for our portfolio managers, so that they have a good understanding of what their fund's ESG position is.

Petter: Do you mean, Kim, that Evli seeks to define ESG or do we want to be clearer about what the investor is getting in terms of ESG?

Kim: I think the most important thing is that investors understand how we look into ESG and what we demand from companies when we look at different ESG criteria.

Petter: So, clarity and transparency of analysis is what we are seeking.

Outi: And if I may add here, this year we have been buying some new ESG data. And it is simply due to the fact, as Kim was saying, that ESG is such a complex thing that you can't rely on one ESG provider. So, now we have two ESG data providers who both give their own opinions on how companies are rated based on ESG instigators.

Petter: Okay. I'm going to pitch you against each other because Kim, you were saying that there is no checklist. Outi, you're saying that there is data. How do we combine this? Kim, you're referring to knowledge and Outi you're referring to usage of knowledge. Can you explain?

Outi: Well, basically I would say here that it is really hard to compare different companies based on their ESG indicators. For example, I have a paper company and I have a grocery store, which one of them is more responsible? I don't know. Actually, that is the place where the ESG data providers comes into play. So, they cannot try to make the companies and their ESG indicators easy to compare, easy to measure. And, of course, since they are trying to quantify some information that is usually not quantitative, then we end up with a situation that is that it's not black and white.

Petter: Okay.

Kim: I would say the challenge is also that there might be even too much ESG data that companies are publishing. It's a zoo of ESG data and many times it's not audited and it's really hard to back up where numbers come from. So, the portfolio managers have to just take more time to do a deeper analysis of what the company is doing and how to compare different sectors regarding the ESG data.

Petter: Okay. Now, let's go further here. I think this data is really cool, but let's roll on still. I want to get a little controversial again and stir up emotions. It has been said that ESG is merely an investment strategy. Kim, is this the case?

Kim: No, it's not just an investment strategy. Although it's true that ESG is a part of every investment strategy in Evli. It is extremely central in how we achieve and build our clients' long-term solutions. But I would say that ESG is much more than just that in Evli. Evli is a company that wants to carry its own responsibility in how we shape a better future. We are a strong believer that raising the standard of responsible investing also has a positive impact on Evli's values. Effective and visible ESG practices are also increasingly important to an employer's brand. Young, talented employees nowadays demand that the company they work for has high responsible standards.

Petter: Do they ask you for this in interviews?

Kim: Yes. It definitely helps when you are going to interview.

Petter: So, you get interviewed?

Kim: Yes, that actually happens. Especially with the younger, talented people. They want to know that the company has sound practices.

Petter: Okay. Little hint to everybody seeking work in Evli: ask.

Kim: Another aspect is that we Finns are very lucky to be living in a country where we always have clean air, water and we are close to nature. And looking forward, we know that climate change is by far the biggest threat that we are facing. So, inevitably we feel that we all have a responsibility to act now to slow this trend from temperature rising. We have just published our climate change principles where we clarify how, at Evli, we measure the impact and report on climate change-related issues.

Petter: Okay. Let's rephrase here a little bit, Outi. Can you continue on climate change because I moved over from the question there? What kind of a starting point does that provide?

Outi: Yeah, that's right. We published the climate change principles roughly one and a half years ago. But I think that actually, to be honest, those aren't enough. That is the reason we have set in place that we want to have clear climate change-related targets and define our ambition to do our own work related to climate change. This work has just started, so we don't have anything ready yet, but I think the coolest part in this development work is that we have the whole organisation working on it. We have the portfolio managers, we have Kim, we have me, we have even our CEO. They're trying to define what would be the best way to tackle climate change-related issues. What targets we can set, what are the indicators that we should follow? So, I think that this work just started now.

Petter: Okay. So, in short then ESG is not an investment strategy, but more a way to direct investors' money. Would you agree to that?

Outi: Yeah, and a way to make sure that everything is taken into account.

Petter: Ok. To sum up, my final question to you both is this, why is it important to look backwards in order to move forward? And how has Evli dealt with all these tricky aspects? I'm going to give this to you, Outi, because you were talking about moving forward just a second ago.

Outi: Yeah, sure. I think that it is important to look backwards in order to understand what has worked well and what hasn't. If I think about us at Evli, one aspect that we have always believed in is that ESG needs to be done in a systematic way. That is the reason we have been building the ESG database now for four years. Of course, that has taken some time. So it's not the fastest way to do it, but, on the other hand, when we have the ESG database available, it will be easier to build the tools and the reporting based on it.

Petter: Do you also build processes for using the data?

Outi: Yeah. Because, for example, nowadays we have limit controlling based on the ESG database that we have. So, for example, when we say that we are excluding the tobacco companies, the portfolio managers can't even invest into them because we have the ESG data in the trading system integrated. And regarding responsible investing, I think it is

always really, really important to be moving forward. You always need to develop your processes and how you are doing the responsible investing.

Petter: Thank you. Now Kim, what is your take on why it's important to look backwards and then go forward?

Kim: Well, Petter, ESG is seldom black or white. Navigating responsible investing values is not easy. What is right or wrong? What is the general value among our investors and clients? Our history has shown that one should not be too fast in implementing new, fancy issues. Instead, we always want to understand the facts and implications before we change our ESG principles. We might be a bit slow in changing our ESG standards, but our course is steady, and we think that's the right strategy to move the world to a more sustainable future.

Petter: To slowly go forward and apply strategy changes. Is this what our investors can expect also in the future?

Kim: Yes. We do nothing very fast and without looking into the implications. It's almost dangerous to do hasty changes in ESG principles and starting to exclude big sectors. Finally, when talking about Evli's responsible investing principles, one should always remember Evli's core value about honesty. We feel that candour is the highest level in Evli's responsible investment strategy, and there shall never be any hidden agendas. I think that's really important when talking about ESG responsible investing, that we are very open and true to our clients

Petter: Hear, hear. That was 'words and no song' as we say in my language. Well, thank you, Outi. Thank you, Kim, for today. Today, we discussed that ESG is a forceful trend from many directions. This calls for ESG work at the asset managers' level that is impactful, easy to understand and transparent. We also discussed that investors want to know that their capital is going into good causes and not being abused. And not only are investors keen to understand the ESG message of Evli, but also of others like future employees, shareholders, and even the broad public. Good strategies are not easily created. We also heard from Kim here.

This ends the conversation for this time. Thank you very much. Once again, these will be found as written blogs on our home pages where you can find them. And in

the next episode, we will talk with two real portfolio managers about how to implement ESG strategies. Thank you very much. My name is Petter von Bonsdorff.

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