Evli Podcast Series 3

Transcript

Episode 3: An external perspective

Petter von Bonsdorff: Hello, and welcome to the third and final episode of Series 3 of the Evli podcast. I'm your host, Petter von Bonsdorff. This is Evli.

In the two previous episodes, we discussed the changing role of ESG and RI in our industry. We explored why it's the right time to address the issues surrounding the matter. We talked about Evli's updated ESG strategy, we then took a deep dive into Evli's way of implementing ESG and RI and discussed how our strategy is intricately linked to customer strategy.

To wrap up the series, we wanted to get an external perspective on the matter. We believe this to be crucial in gaining a wider understanding of the metrics and reporting that is required in the industry. To that end, we are joined by Philip Kalus, Founder and Managing Partner at Accelerando Intelligence, a leading European fund distribution consultancy, all the way from Valencia, Spain. However, he's not with me today in the studio, although he would have liked to come to Helsinki. He has joined us over the phone from Spain. Welcome, Philip.

Philip Kalus: Hi, Petter. Many thanks for the kind introduction first of all, probably kind of disappointing to you, but I would find it hard to take the plane up to Helsinki leaving Valencia, a beautiful day, 27 degrees.

But anyway, many thanks for the kind intro and also many thanks for having me on this podcast. Just a quick intro on myself. I'm Founder and Managing Partner of Accelerando Associates, a boutique consultancy advising asset managers and all aspects of European fund distribution, safes, models, focus points and broader proposition. Before I set up Accelerando back in 2004, I was employed in the asset management industry for 12 years. By pure coincidence, I grew up six years on one side of the table and six years on the other side of the table working in European fund sales based in London and working as a Portfolio Manager and Fund Selector in Germany. So, all in all, I have 27 years of experience in the asset management industry. Since

2008, I have lived and worked in Valencia, Spain, which is simply much nicer than Frankfurt or London, but that's probably a different story.

Petter: Thank you, Philip. Now, I have visited you in Valencia, so I do agree to have an office in the suburbs of Valencia beats at least Helsinki in January any day. So, that's a good choice. Now, ESG is the subject of this podcast series. So, let's get started with this one and I start off with a very general, but open question.

Philip, in your view, where does the ESG and RI sector sit at present? The floor is yours, please.

Philip: Ok. Well, ESG and ESG Marketing certainly remains to enjoy its day in the sun but at least in our view, there's way too much talk the talk. Certainly, many asset managers walk the walk, more or less. But it's still a relatively early stage for many asset managers in this aspect.

And we also see a lot of differences in reality. For example, some asset managers are already quite advanced in terms of the G or the E in the ESG, but not equally on the E and the S and the G. Next to walking the walk, it's also very, very important for asset managers to provide evidence, to investors. For example, in terms of ESG funds reports. Here, it's important to say, not just in terms of ESG funds only, but actually on all funds available. And you've done some research on that and what is currently publicly available in terms of ESG reports on an overall industry level, is in fact incredibly disappointing. So, when you access asset manager websites, you may find…

Petter: Do you mean how they have implemented ESG?

Philip: I refer much more to the evidence. So, I mean, everybody talks about ESG, certainly. Yeah. And then you look at asset manager website, you see a lot of ESG marketing stories, you see some info graphs, broad messages. If you dig deeper, you find some policy statements on some aspects. But if you really, from an investor point of view, if you really look for evidence, what is the asset manager really doing in terms of ESG and what kind of footprint does this have in a specific fund?

Then, what is actually publicly available is incredibly limited. And I think that the industry has quite a lot of work to do on this in general terms.

Petter: So, in order to be credible, in your opinion, the asset managers should be open to reporting on a general level. Is that what you're saying?

Philip: Yes, absolutely. Absolutely. And I think it's absolutely crucial, not only on an overall level, some asset managers are doing that, but also on a fund level. I think just displaying broad policies and broad ESG messages is not good enough for professional fund buyers.

Petter: Would you call that some kind of greenwashing or ESG washing?

Philip: Not necessarily yet. It depends a bit on case to case. But I think it's really important for the professional fund buyers, the fund selectors, is really to understand, okay, how does this work now in that fund, what's the footprint in that specific fund? How does it compare, for instance, to a benchmark? Because it's incredibly hard for fund buyers, at least as of now, to make the incomparable comparable. And the only way to achieve that is more detailed specific ESG reports on the fund and the review.

Petter: Interesting, Philip. So, what more can be done by asset management companies? And do you think there's a danger of investors then being misdirected?

Philip: Oh, yes. Well, I think first of all in terms of what can be done as mentioned earlier, it is all about walking the walk and not just talking the talk. I also think that many asset managers should be more honest on where they really are in terms of ESG. Just to give you one example, if one asset manager has, for instance, one ESG fund with some 20 or 30 years of history but only one fund out of, for example, 200 funds, it would be simply wrong to claim decades of ESG experience. At least on the asset manager’s company or overall fund management level. In terms of what can be improved, I think one of the key areas, as mentioned earlier, is the evidence and the other one is data and data control.

Just to give you one example, just last year, in Q4, a major US asset manager faced some real public media pressure for labelling some funds on its website as sustainable, while that was simply not true. It wasn't correct. It turned out it was a mistake by the data and the rating agency, an external one, which provided the data to the asset manager. And it was quickly corrected, but the harm was done. It was a major, excuse the word, it was a major shit-storm in professional media. And for us here at Accelerando, we simply found it stunning that nobody had spotted that. It is just a liability of the asset manager that any data and ratings regarding ESG or otherwise, are correct.

Petter: So, you would suggest, then, a credible ESG approach by asset managers should be holistic? It should be all embracing, all the products and all the processes, for example?

Philip: Yes and no. It depends a bit on the case. I mean, there are funds where it doesn't make sense or where the ESG enhancement would be very limited. But if we talk about more mainstream funds, typical fund ranges, composed of global equity, US equity, European equity, etc., certainly yes. And I think that in general it's just a question of time. I'm incredibly confident that in a relatively short period, one to three years, we will see that anyway.

Petter: But let's then have a look a little bit backwards before we go forward. So, now we're in a situation where ESG is being talked about very much in the industry. So, I was just thinking that going back to the origins of responsible investing and ESG, although it has come into mainstream thinking over the past 15 years, this is not a new thing. Do you think?

Philip: No, no, not at all. I mean, churches, faith-based investors have been applying kind of sector exclusions for quite some time already. Just take a look back at history. Ancient Jewish laws already addressed it in the 16th century, the Quakers followed their faith when investing already at that time. So, the origin goes back or has quite a long history. In terms of more recent history I think there was one very important point in the late sixties, during the Vietnam War, which basically sparked a number of very large US institutional investors to completely shy away from military or defence investments.

Petter: Oh, right.

Philip: And we saw a couple of new laws coming into place in the late sixties and seventies. Of course, they were already in the eighties and nineties. Responsible investments and ESG certainly grew in scale. But it very much remained the theme for either faith-based investors, or, let's call it purpose sponsors such as Queen Banks, for instance.

Petter: Well, what do you think, then, has driven the sector's growth in recent years?

Philip: Well, I think there were two major break points for ESG and both happened around 2007, 2008. The first one was, I think, reputational risk. Just after the Bill and Melinda Gates Foundation scandal back in 2007 for owning stocks of companies causing major harm, for instance, in the Niger Delta. It was a major issue and the media storm also caught some very large asset managers in the United States.

In general, just this media attention, all this reputation risk in essence has led to much more thought on avoiding reputation risks, not only by asset managers, but also by large asset owners.

And secondly, the second break point, literally at the same time or very shortly after, more 2008ish: ESG as an additional source of risk identification, risk avoidance, gained a lot more traction following the global financial crisis. There was a lot of evidence on the benefit, the risk-reducing element of ESG at that time. And I think that…

Petter: Are you now talking about the risk reduction for asset managers?

Philip: Yes. For asset managers. Yeah.

Petter: So, for the investors into the asset managers for risk reduction. Okay. 2007, you said…

Philip: 2007, 2008, that time. And obviously because of the evidence which was there on the benefit of the risk reduction, benefit of ESG considerations, the momentum has grown in the following years, 2009, 2010, etc.

Petter: Then again, if we look at measurement and reporting of ESG at the asset managers. The growth of ESG reporting in this case should have an increased importance for asset managers, especially for their clients. What's your take on this?

Philip: Absolutely. There's probably not much to add there. Absolutely. This is also coming back to the first talking point. I think it's very much about providing the evidence transparency and clarity.

Petter: Evidence, transparency and clarity. With these three words, what about the future, then? So ESG and Responsible Investment has been around for a while. What's different this time?

Philip: I think two things. I think certainly awareness has grown on the investor side, but also on the asset management side. Also, purpose is becoming of increasing importance. But at the end of the day, it was EU regulation that is real driving force. We could call it a complete game changer, not only for asset managers, but also for institutional investors alike. Just think of taxonomy regulation, disclosure regulation, suitability rules, labels for retail products, etc. It's massive. There's so much in the pipeline. It's a real massive programme.

Petter: So, then, in the long-term are you saying that responsible investments and ESG are here to stay or are even going into mainstream?

Philip: Absolutely. A clear yes. ESG is here to stay and that is really what has changed over the last 20 years. It has really moved from niche to mainstream and there's no way around it. And I think we mentioned it earlier, we really expect ESG to be integrated across the vast majority of funds available in Europe, across all asset classes.

Interestingly, if it really happens that ESG is just a major part or an important part of portfolio management, I think that a lot of the current ESG-focused marketing campaigns will disappear in a couple of years. In that context, I quite like the example of cars and low emission marketing. Low emissions are met, of course, now – it is simply expected. And basically, all the talk about the little emissions has literally disappeared. And I think we will see something very similar happening in the asset management industry. ESG or integration and the rigour of the ESG integration will become simply a matter of course. It will be expected. If you don't have that, if you don't do that, you simply can't pitch.

Petter: So that's a pretty clear picture of the future. Where we are going? In a few years' time, we won't be campaigning on ESG matters but if we don't tick the box we're never going to be there without our investors. At Evli, this is actually where we would like to have our investors. So, who is there to direct the responsibilities? Where can an investor go if he's bought into misconduct as you mentioned?

Philip: Well, in reality, I think everybody needs to take ownership here. It's not just the data or rating agencies, it's also the fund managers using it. And generally, you see that ratings experienced some negative media traction recently and some recent prominent fallouts. And certainly, that raises some question marks.

However, the main takeaway here, not only for fund manager but also for fund buyers, is that it's not to fully rely on one singular external rating provider. Also, users of ratings must fully understand the underlying methodologies and also potential limitations. But I think that the real point is that everybody needs to take ownership. Everybody needs to do their homework, the data, the rating providers, the fund managers using it. But also fund selectors in terms of not just relying on these external ratings.

Petter: For that, you as an investor will probably need to call for transparency to start with.

Philip: Yes, that's why we made a point earlier on evidence, because there's so much talk the talk. But, if it comes down to very concrete levels of hard facts, things become often very blurry and that's why we make that call for very specific ESG reports on individual funds. It's all about evidence clarity and also resilience.

Petter: Yeah. Today we have discussed the importance of evidence, transparency and clarity in asset managers' ESG reporting. We also touched upon the EU as a major game changer in how ESG is going to play out in the coming years. And in a few years' time, we're probably going to be very mainstream on ESG and everybody will expect us to have it.

And this will end the podcast series of Evli. You will find them on Evli's blog spaces and also you will find the literature surrounding our ESG. So, please tune in and have a deep dive into whatever Evli can offer on ESG in terms of extra literature and also on fund reporting. Now, for my part, I would like to say, thank you to all our listeners.

My name is Petter von Bonsdorff and this is Evli.

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