

TRANSCRIPT: EPISODE 98

15 October 2020 (pre-recorded 14 October 2020)

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[INTRODUCTION]

Ryan Lightfoot-Brown (RLB): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Ryan Lightfoot-Brown and I have the pleasure today of being joined by Jamie Jenkins, the Elite Rated manager of the BMO Responsible Global Equity fund. Jamie, thank you very much for your time today.

Jamie Jenkins (JJ): My pleasure, thanks a lot.

[INTERVIEW]

[0:21]

RLB: Biodiversity has been a huge theme this year, spurred on by the effects of lockdown, the reduction of human activity and some excellent documentaries, as well as the ongoing push anyway. It encompasses the 8 million or so plants, animals and bacteria species on the planet and their ecosystems. And these can protect against the spread of disease - very relevant this year - I mean over 25% of prescribed medicines in developed countries are derived from wild plant species. So it is very important. In the [BMO] Responsible Global Equity fund that you run, you have this as a theme in the fund, how do you find ways of investing in that?

JJ: Well, thank you for the question. I mean, resource efficiency is one of the themes that we have in the fund and, of course, biodiversity is very closely connected to this issue. And you know, we see a number of huge sustainability challenges that the world is confronted by, but we see a number of fascinating companies coming up with innovative solutions that we think can start to move the needle back in the direction of a more stable, safer and more sustainable planet. And so this is a big focus for us, and it has been a big focus for us particularly this year.

RLB: And have you got an example of one of those companies and what it is doing to move the needle?

JJ: Absolutely. Well, if we think about resource efficiency - it's connection to climate change and its attendant relationship with the issue of biodiversity - one area that has been a consistent focus of

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ours and remains a really high conviction area for us is, is the water, is the theme of water. Now, water is increasingly seen as a precious global resource. We see more and more chances that water is going to form the basis of geopolitical flashpoints around the world. And it's so key to economic development trends. And so, water is not a new sustainability theme, but we think it is more relevant than ever that companies and people, more importantly, have access to safe and reliable access to water. And we see some really strong long term trends underpinning this theme, which I can expand upon if you like.

[2:55]

RLB: Well why not actually? Yeah, how are you tackling the theme of the global water shortage in the fund?

JJ: Well, you know, what we've noticed from the, from the theme of water is, is that yes, it's a global challenge, but it's also a local challenge. It really matters to people's lives, whether they're in emerging markets or developed countries. It was only a few years ago that we saw the closest instance of a major global city running out of water. And that was Cape Town, which approached day zero for water access. And that was pretty scary, I think.

Some recent world health organisation statistics suggest that yeah, around 800 million people around this, around our planet, still lack access to basic water services. That's an astonishing figure when you think that it's a basic human right. So that's something we think companies can really address. And not only access to water, but we see huge inefficiencies in terms of water supply infrastructure. We estimate that over 6 billion gallons of water a day are lost due to pipeline leaks in the US alone. And we know that there's significant water distribution loss across Europe. Speaking to some of the companies recently, it's estimated to be as high as 23%. So, you know, we think companies need to step up and provide better products and solutions to conserve water, which is indeed a precious global resource.

RLB: So, with those concerns over the global water shortage, have you got perhaps an individual company that highlights the best way of tackling this?

JJ: Yes, absolutely. So, one of our top 10 holdings is a US-listed global water technology company called Xylem. Now this is a company that is a \$15 billion market cap company, and it is absolutely committed to solving water, which is very closely related to SDG 6 [The UN's Sustainable Development Goal 6 - clean water and sanitation for all]. Now, we see a really pressing need for investment and modernisation across the water value chain and Xylem has many of the products and solutions in terms of delivering better access to water and ensuring that where we have too much water, we can get rid of it, and where people need water, they provide the infrastructure. This is both relevant for developed markets and emerging markets where there's a huge greenfield opportunity of infrastructure build out. You know, there is cyclical to the water cycle, but we

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think it's going to be less volatile than global GDP. And this company only has an estimated 10% market share of what we think is about a \$60 billion addressable global market. So there's a huge runway of growth ahead of Xylem.

[5:58]

RLB: And now sort of moving on to sort of your portfolio, you're a very active manager, so as well as choosing and investing in companies that you think are meeting these needs, you do a lot of company engagement, particularly in the last few months, you've been doing this around labour issues. What exactly have you been talking about with your companies and what progress has been made?

JJ: Okay. Well, I mean, we've been talking about these issues for a number of years now. And it's interesting that the pandemic, I think has put the spotlight even more on labour issues. There are certain sectors where, you know, we've already had very long standing concerns about the potential for labour abuses. Maybe we'd call out the apparel and textile sector, as such a sector, where there's scope for abuses. But our fund is relatively under exposed to those types of companies.

However, you know, we have been looking at supply chain oversight and one of the companies that we've had some very detailed conversations with is a Japanese electro-optics company called Hoya Corporation. It has a very substantial supply chain across Southeast Asia. It covers Thailand, the Philippines, Singapore, and when we've had a number of conversations, it became clear that the overall oversight and audit of their own companies and their outsource partners were in our view insufficient. And so we made that explicitly clear to the company. We had four meetings with them in 2019, we've had a number of other meetings in 2020, and we have demanded that - or suggested - that they institute much more rigorous supply chain oversight, both internal audit and the use of external consultants to ensure that there are as few labour risks and abuses happening in their supply chain because electronics and electronic assembly of devices can still be quite a manual process. And this is a company that's been setting up factories in Vietnam very recently.

[8:23]

RLB: Okay. And perhaps following on from that, human rights are also a big subject at the moment. How are you tackling any abuses with human rights that you see with your companies?

JJ: Well absolutely human rights is, you know, super, an area of great interest for us. And we speak to most companies about this. Obviously there's been a huge momentum behind adherence to the Modern Slavery Act and ensuring companies are complying with such newer regulations.

I mean, you know, one area in particular where we've been engaging with companies around human rights risks is another company we have in the fund, it's called Umicore, which is a Belgium-listed

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materials company that is very deeply embedded in the electric vehicle battery material production cycle. And the reason why it's so relevant for Umicore is that it sources quite a lot of its cobalt from the Congo.

And it was the first company in the world to introduce a sustainable procurement framework for cobalt, which is designed to obtain external validation for its approach to ethical cobalt sourcing. But it's still extremely, it's a high risk area the procurement of cobalt, because of the difficulties in validating the origination of that source of cobalt. There's a difference between if you like ethical cobalt and artisanal cobalt, which is frankly, a terrible label because artisanal cobalt is basically cobalt that's produced by individuals in very dangerous conditions. And once cobalt goes into a battery and into a vehicle, it's really hard to know the origination of it. So, we're speaking to them about the protocols they're putting in place to ensure that they are minimising the risk of human rights, abuses and dangerous labour conditions in countries, such as the Congo.

[10:40]

RLB: That's really interesting, thank you. And it perhaps actually leads me on to my final question, which is technology companies of which we've discussed will be a huge proponent of that cobalt. They currently make up about a third of the fund at the moment. What type of technology company are you investing in?

JJ: Well, you know, we've got a very, I think we've got a really interesting position around technology. You know, it's an area where we have a high degree of conviction in individual names, but that's not universally the case. We typically have taken a view that a number of the very large, very globally influential digital platform groups are not particularly attractive investments right now because we see huge risks of regulation coming down the track at them, in particular, we see companies such as Facebook and Alphabet as right in the regulator's crosshairs, and we prefer to invest in a number of the enabling companies, such as the world's largest chip foundry company called Taiwan Semiconductor. This is a top five holding for us. It is absolutely the gateway to most of the innovation we see in global technology. It is far and away the leader in terms of chip design, low power chip design that's going into the latest 5G handsets, into the high powered computing, increasingly into cars and factories of the future. And so, Taiwan Semiconductor would be a name we really like in the space.

We also like the some of the technology companies are operating in the payment space. So such as companies such as MasterCard and PayPal who are really driving a lot of innovation in terms of digital payments, which is improving people's access to finance, allowing people who don't necessarily have global bank accounts to still participate in the global economy, so we like those companies. And we also, you know, like some of the big technology enablers like Accenture and Microsoft, we've obviously seen the value of Microsoft with its Microsoft Teams offering and the way that the world has moved on to a video platform for face to face meetings. But you know,

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innovation is the watch word in technology. It always has been, but we feel the pandemic has probably accelerated digital trends by about five years in only about five months. So we are really investing and putting our money with those companies that are at the forefront of delivering innovation into consumers and companies' hands.

RLB: Well, thank you, Jamie, as expected, that's been, that's been really very interesting. So thank you very much for your time today.

JJ: My pleasure, thanks for your interest.

RLB: And if you'd like to read more on the Elite Rated BMO Responsible Global Equity fund, please go to our website fundcalibre.com, and for more from our Investing on the go podcast, please don't forget to subscribe..