

TRANSCRIPT: EPISODE 99

22 October 2020 (pre-recorded 19 October 2020)

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[INTRODUCTION]

Chris Salih (CS): Hello and welcome to the Investing on the go podcast, I'm Chris Salih and today we're joined by David Harrison, manager of the Rathbone Global Sustainability fund. Thank you for joining us today David.

David Harrison (DH): Thanks Chris. Lovely to be here.

[INTERVIEW]

[0:15]

CS: I wanted to start by talking about the fact that it's five years since the UN Sustainable Development Goals were introduced. Could you please tell us what the aim was with these and how successful they've been in the past five years and perhaps also, maybe where they also need to make some improvements?

DH: Yes, it's a great question. So, the United Nations Sustainable Development Goals, or the UN SDGs were introduced in 2015, like you say. And then I guess the, you know, the biggest aim of them was a kind of a call to action, so there's 17 goals covering everything from resource efficiency, tackling climate change, thinking about sustainable infrastructure and reducing inequality and these were important, because they were kind of one of the first global frameworks that has been adopted and being very clear in what they're trying to achieve, you know, there's 17 of them. Their specific focus on individual issues, whether it might be around kind of water usage, say inequality, other specific goals around innovation. And they've been incredibly important, we believe, in bringing the sustainability conversation forward because of their global nature. And the fact that kind of gives you a, I guess, a level playing field to talk about these issues.

I'd say in terms of, you know, how much we've achieved and where we need to get better. And if you look at the most recent UN report on the sustainability goals, you can see on some of the goals you know, we're falling well short. So some of the action around climate change, some of the action around what we're doing to the environment, but other goals we're doing better, you know, particularly around access to healthcare, gender equality in government, for example. So clearly

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Covid brings in a new dimension to this as well. You know, this is not a time that we can relax on these goals. And so, you know, there's clearly a lot to do. We've only got 10 years left to help try and achieve them.

If you think about the successes with respect to perhaps the investment community and how we think about, we can use the goals for a positive change in our investments. I think there's been a lot of success. You know, firstly, you know, the way we do our job, we've integrated the UN goals into how we manage the fund. And it allows us really to, when we speak to companies around the world, to have a common framework, a common language. So I think the UN goals from that respect have been very, very powerful. And also, you know, we would argue that the UN goals for accelerated you know, subsequent regulation and legislation. So if you think about, you know, EU taxonomy and some of the climate specific goals that are coming through and in Asia and the UK, for example. The UN goals have been very strong in driving this.

In terms of, you know, how they might be improved and finessed in the future. You know, there's 17 of these goals. Some of them are kind of, very, almost, cause conflicts with what they're trying to achieve. You know, for example how we manage, how we achieve zero poverty, but also do that in a way that we do in a very responsible way in terms of our carbon emissions, how we treat the environment, these are things I think we need to think about for the future. And the other thing I think we need to improve further is disclosure. So we think about companies when we go to see them, you know, is there a common disclosure standard? Should they be required to integrate the UN goals into how they run their businesses? These are the things with the we'd like to see in the future.

[4:16]

CS: Ok. You touched on it a bit then could you maybe just talk to us a bit more in detail in terms of how these relate to the fund following its launch a couple years ago and sort of how they work in practice for the fund? Maybe give us an example or something along those lines, if possible?

DH: Yes. So we kind of use them in two ways on a day to day basis. Firstly, you know, I've mentioned that these goals are a great global framework, so we can compare maybe a business in the US, a business in Asia, across different sectors. So an industrial company with a chemical company or a healthcare company. And when we go to meet a management team we will use the UN goals as a key tool really to identify if a company is sustainable or not. More and more companies that are using the UN goals in their annual reports. And we find them as a great way, really, to kind of separate the companies that are walking the walk, versus those that might potentially be greenwashing. We want to know from the management team, you know, are these goals integrated into ensure financial returns, how to build your business, as a tool in that kind of global language in terms of investment, they're very, very powerful. So that's the first thing as a practical tool.

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The second thing is that we've integrated the UN goals back onto our own sustainability framework. So we can show our investors in the fund, you know, how much the fund is exposed to each UN goal, how that changes over time. So it's really to give our investors that complete transparency about the positive impact we're achieving stock by stock and a portfolio level.

[5:58]

CS: We spoke back in April at the height of the sort of first wave of the pandemic. And we talked about company responses - for example, how they were treating employees, et cetera. With furlough schemes ending and the like how is company practice continuing? And is it still as good or has economics and survival sort of taken the front seat?

DH: So this is something that we engage with our companies all the time. So back in April, we spoke about this, that we'd reached out to all our companies. We wanted to know really about how they were behaving to all their stakeholders. So like you say, you know, their employees, supply chains and wider communities. And that's something that we keep doing so that, you know, that is part of our daily work as engagement, holding companies to account, making sure there's commitment from senior management and that's commitments ongoing. We're still seeing that with the companies that we own. And it's a prerequisite that they continue to do that. If a company doesn't live up to that behaviour, then it won't be in the fund, it's something that is really important to, to our kind of investment philosophy. So yeah, we are seeing it for kind of a lot of our opportunities.

I'd say you know, from, from a wider point of view, a couple of things, I think very importantly and positively, what this has raised has been the issue of company behavior, you know, people talk about the, you know, ESG, the S part being highlighted through Covid and we have highlighted those issues. And that's something I think we have to kind of take forward and build on in the future and hold companies to account. I think, unfortunately there will always be examples of companies that don't think about the S part. They don't think about their behavior to stakeholders. They might often be in very challenged kind of areas of the economy or a company that's facing a very uncertain financial future, but it goes back to again, you know, in terms of our strategy, why we focus on quality, why we focus on high quality companies that are more financially secure, they can think about these ESG issues at times of stress. And it's really integrated to their core operating kind of DNA as it were.

[8:17]

CS: You mentioned the high quality companies there, the fund has sort of performed well since the sell-off in February/March. Could you maybe give us background about why that's been the case and what specifically has worked for you?

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DH: Yeah, so kind of from that quality point, I think that there's two big drivers. The first is that quality, you know, I often speak about, it's central to our investment philosophy about owning durable franchises. So, we run companies that have strong market positions, good management teams, and that quality focus has clearly helped us. You know, clearly we're going through a time of volatility and stress, and what we're seeing is that many of our companies are actually coming out of the crisis in a strong position. In many cases, their ability to work with their customers, you know to our previous point work with all their stakeholders, that is something that has been rewarded in the market. And again is a core part of our philosophy and will remain so.

I think the other point really is that we're invested in companies that are exposed to stable end markets. So if you think about a business, it might be a wind turbine business, like Vestas the Danish wind turbine business, you know, renewable energy is growing. It will continue to grow, or, you know, in the healthcare space, we own a business called Thermo Fisher Scientific in diagnostics and testing. Again, at a time of global uncertainty, this business is seeing kind of a rising revenue stream and can provide that kind of comfort to investors. So I think that quality focus and that exposure to kind of sustainably growing end markets is really important.

I would say, you know, I think that the future is even more exciting. We're seeing a couple of key trends come out of this crisis. So one of them being increasing focus on green infrastructure, for example as there's more fiscal stimulus, more of it is green infrastructure. Yet the starting point is really low. If you look at kind of global renewable penetration it's still below 10% in many cases. So we see the runway for growth being significant over the next five years. Or, in another area if you think about vehicle electrification you know, electric vehicles, the percentage of the overall fleet is still very, very low, but companies that are really accelerating that move away from carbon intensive vehicles, we think kind of the opportunities set over, over the next 10 years is really significant. So, you know, we benefited, but like I always say, we're very long term managers. And we think that the future is really exciting.

CS: That's great, David, thanks for joining us today.

DH: Thanks very much.

CS: And if you'd like to learn more about the Rathbone Global Sustainability fund, please visit fundcalibre.com and while you're there remember to subscribe to the Investing on the go podcast.