

TRANSCRIPT: EPISODE 155

7 October 2021 (pre-recorded 22 September 2021)

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[INTRODUCTION]

Sam Slator (SS): I'm Sam Slator from FundCalibre and today I've been joined by Kate Elliot, who's Head of Ethical, Sustainable and Impact Research at Rathbone Greenbank. Hi Kate, thanks for joining us today.

Kate Elliot (KE): Hi, pleasure to be here.

[INTERVIEW]

[0:12]

SS: So perhaps we could start with what Greenbank is exactly, and how long it's been in existence?

KE: Yeah, sure so Greenbank is the specialist ethical and sustainable investing division of Rathbones. The team has been active in this space since the late nineties. Formerly Greenbank was established in 2004. And Greenbank provides bespoke investment portfolios for private clients, individuals and trusts. And my team, which is the ethical and sustainable and impact research team, we support the delivery of that service. So we analyse companies, the kind of from the positive and negative points of view, we look to identify ESG risks and sustainability opportunities. And again, it's my team that works very closely with Rathbone's funds. So that's the Ethical Bond fund, Global Sustainability and the recently launched sustainable multi-asset portfolios, and we provide the sustainability research and the kind of implementation of the positive and negative screens for those funds.

[1:21]

SS: And how have things evolved over time, you've mentioned there the positive and negative screening, did it start with negative screening and how has that developed over time?

KE: Yeah, I think it's fair to say that really the origins of ethical investment are in negative screening, and it developed out of kind of particularly religious groups that wanted to avoid putting their money in things that conflicted with their values. And exclusions are very much still the kind

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of the bedrock of this approach. If you talk to most clients, they still want to be sure that their money isn't going to things that they disagree with or that conflict with their values. But really kind of what has been really exciting over the past decade or so is this increased focus in positive aspects and people are really no longer satisfied with simply knowing that their investment portfolios aren't creating harm. They also want to see their money being invested in companies which are really helping to solve some of the big sustainability challenges, whether that is provision of renewable energy, educational services, healthcare provision, for example.

[2:33]

SS: And how go about reporting the sustainability of something, what does that look like in practice?

KE: Because there's so many different interpretations and definitions of what ethical, sustainable, ESG investing actually is, it can make it really difficult for people kind of, particularly if you're new to the space and you're thinking about where you might want to invest your money or invest on behalf of your clients, it can make it really difficult to kind of find opportunities that align with their values. And so we think it's really important, as a starting point, to be really transparent on the criteria for the funds. So people know, and they can understand what these funds will and won't invest in. And then we're always looking at different and kind of new ways to report on what these funds are invested in, but that can be case studies on particular companies or sectors or themes, so that people can get that really deep understanding of what those funds are invested in. Or it could be more portfolio level reporting, such as carbon footprints or breakdowns of exposure across the portfolio to different sustainability themes.

[3:49]

SS: You touched on it earlier, but perhaps you could go into a bit more detail as to how you actually work with the fund managers and their portfolios?

KE: As I mentioned, we provide the ethical, sustainable research for the fund managers, and we think that our approach offers the best of both worlds, because the fund managers have access to us as an in-house team of sustainability experts - we can really help guide them around some of the complex issues in sustainability. But then when it comes to the decisions on the screening and whether something breaches the criteria or meets the positive overlay, that's an independent decision on my team's part. So, we have a right to veto over anything that doesn't meet the stated criteria. And it provides that assurance to investors that really the funds are doing what they say they're doing. And of course, in addition to that, that screening oversight, one of the really important things that we do is the ongoing monitoring of anything that's within the portfolios, because obviously companies activities can change, their behaviours can kind of improve or get

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worse over time. And it's important that we've got that close eye on them, so that we can identify any issues at an early stage and respond appropriately.

[5:51]

SS: So would you be able to give us an example maybe of something that you've either vetoed or a firm where their behavior has changed and you've had to engage with them?

KE: I mean, the veto is probably less, less interesting because they tend to be cases where it's a particular kind of activity of concern. So it might be a diversified industrial group that's got a subsidiary involved in armaments manufacture, for example. But yeah, more interesting is the engagement area. And that's often where we've got otherwise very positive companies that maybe have had a little bit of an issue or an isolated case in one area of their operations.

And something that we've been involved in recently has been some engagement with the social housing providers. Obviously fantastic for social good that's being created through the provision of affordable housing. But what we wanted to understand was how they were responding to environmental concerns, and we know kind of in the UK, worldwide we need to have a massive push towards making our housing and building stock much more sustainable and energy efficient. So, we went out to the housing, the social housing providers, and really talked to them about what their plans and strategies in this area were. And that creates the benefits, not only from the environmental point of view, but also in terms of kind of wellbeing and affordability for their tenants. And we've seen some great shifts towards just more strategic thinking about that issue among these providers, but also much better disclosure on some of those issues. So again, making it very easy or easier than it was before to differentiate between the leaders in this space and the ones that are perhaps only responding to regulation.

[7:10]

SS: And when it comes to things like climate change, I know there's sort of big initiatives in a number of countries including our own around getting to net zero emissions. I've noticed Sky, for example, it's got a green zero badge on its latest advert - are companies getting on board with this, or are they just sort of paying us lip service because they know this is what we want, we want to see and hear?

KE: That's probably the biggest challenge that me and my team face is trying to distinguish between those companies that are genuinely kind of adopting and integrating sustainability. And there are plenty of them out there that are doing that. But differentiating them from the ones where they've just seen sustainability as the next big trend, and are kind of jumping on that bandwagon, but carrying on with business usual. And I think it's that process of differentiating is as much an art as it is a science. And that's where, one of the benefits of my team - we've got 30 years' experience

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in looking at companies from the sustainability point of view. And, over that time, you do build up a kind of a healthy understanding and the ability to kind of see past companies that are engaging in greenwash. And a lot of that is about meeting with the organisations and just probing a little bit further on, okay, you've made this big public commitment - what does that mean in practice? How is that being implemented? How is your board aware of, and kind of, overseeing those activities?

[8:43]

SS: And are there any negative impacts with all these actions with climate change, et cetera, I mean, I know it's something that we need to do. But are there any sort of unintended consequences that we need to be aware of?

KE: It's again one of the challenges of sustainability, because they're so interconnected all these different issues. And, I mean, in an ideal world, yes, you would have a situation where you get very clear kind of social, environmental, governance benefits all going hand in hand. But often there can be some quite complex trade-offs there. And it's something that we've always taken quite a holistic approach to looking at these issues. And I think the market, within the sustainable investing space, is kind of moving towards that as well, where the silos of E, S and G are really being broken down. And a real example of that is this concept of 'the just transition' which is taking the concept of kind of, as you said, we know we need to decarbonise and we know we need to, to kind of move to a low carbon world, but with that, there's going to be huge upheaval in terms of people's jobs, in terms of how that impacts communities around the world. And that 'just transition concept' is about making sure that we don't lose sight of these social elements of climate change.

[10:06]

SS: And perhaps we can just finish on what you find is the most interesting area at the moment, please?

KE: Gosh, it would probably depend on what day of the week you asked me, it's such a kind of rapidly changing area. I suppose, one of the things that we're looking at the moment is around biodiversity and we've kind of set ourselves the quite significant challenge of looking at what's a biodiversity footprint of an investment portfolio would look like? Because we had the Dasgupta review out earlier this year, really highlighting the kind of biodiversity of the risk on the same scale as climate change and something that really within the investment community, it has been quite overlooked up until now. So we're working with a number of different kind of interested funds in the space, really just trying to grapple with the methodology for that and developing some best practice to help people identify and kind of respond to those biodiversity hotspots.

SS: That's really interesting, thank you.

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KE: Thanks

SS: If you'd like to find out more about Rathbone Greenbank and the funds that it supports, please go to fundcalibre.com and don't forget to subscribe to the Investing on the go podcast via your usual channel.