

Ethical investment podcast – Transcript

00:00:00 Speaker 1

Hello and welcome to our first investment podcast. We know that the world of pensions and investments can be quite daunting, so we're here to hopefully make it a little easier to understand.

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Today we're joined by Aleck, who works here at USS investment management. We've also got Zahra and Nick from BMO chatting to us today. BMO manage a significant portion of our members money that's invested in the ethical investment options.

We've got a few questions they'll be answering about our ethical investments in the investment builder, which is the defined contribution part of USS. Aleck, can you start by telling us a bit about yourself and your role at USS?

00:00:34 Speaker 2

Thanks Faye, absolutely. My name is Aleck Johnston and I support the trustee in designing and governing the investment options available within the USS Investment Builder. Ultimately, in my role as head of DC investment product here at USS Investment Management, I need to ensure our funds are suitable for our 90,000 plus members, helping them to build and grow their savings for a better retirement, whether or not they want to actively engage in their investments or not.

I've been in this role for just under two years now and I'm passionate in helping to inform and empower individuals to make the investment choices that ultimately help them secure a better financial future. I suppose with that in mind, it really is, you know a great opportunity today to be doing this podcast with yourself, Zahra and Nick to take a bit of a deeper dive into some of the investment options that we make available to our members.

00:01:31 Speaker 1

Great, thanks for that Aleck. And Zahra and Nick, can you tell us a little bit about BMO and what your roles are?

00:01:36 Speaker 3

Great, so in answer to your question Faye, we are the Bank of Montreal Global Asset Management, which we will abbreviate to BMO for short going forward. We have been engaging voting and investing in responsible assets since 1984 when we launched our first ethical portfolio in the UK, you know, we believe that responsible investing is a mindset. It's not an asset class, and this view is aligned with our cultural values and embedded in our organisational philosophy, both from top down and bottom up.

Now onto the intro. So my name is Zahra Sachak and I am the lead relationship contact for your ethical investments with BMO, I work hand in hand with Nick Henderson, who is the lead portfolio manager for the responsible global equity funds. And with that I will now hand over to Nick to introduce himself and talk about the fund.

00:02:33 Speaker 4

Thanks very much Zahra and hi everyone, it's a pleasure to be talking to you today. My name is Nick. I've been working at BMO for 13 years now so managing the responsible global equity strategy. So that is a roughly 2 billion two and a half billion pound fund that we run that is really focused on sustainability. It's looking to deliver a twin pronged returns really based on financial outperformance and if we can deliver as well non financial performance by driving ESG improvements, environmental, social and governance improvements in the world around us then so much the better. So that is the focus of what we do and I've been doing that since I joined the business over 13 years ago.

00:03:16 Speaker 1

Great thank you for those introductions. So should we get straight to the questions? Aleck, What actually is ethical investing?

00:03:23 Speaker 2

Essentially, ethical investing is the practise of selecting investments based not only on their ability to deliver a good financial return, but also factoring in other things such as you know values or moral principles in the investment process. There's been a real explosion in these types of investment funds and products in recent years. As Nick said, particularly around, you know environmental, social and governance factors. When selecting the underlying companies and sectors that individuals may want to invest in.

However, specifically in the context of the USS Investment Builder, we have investment options available to members that meet some clearly outlined requirements within our USS Ethical guidelines. Now, the ethical guidelines stipulate that these investment options will avoid investing in certain companies and sectors such as arms and the production of fossil fuels or the production and sale of tobacco. Now if individuals listening to this podcast today want to find more detailed information on the USS Ethical guidelines, they can navigate to the fund Information section of My USS for more information.

00:04:36 Speaker 1

And can our members choose to ethically invest their investment builder contributions?

00:04:40 Speaker 2

Absolutely, and that's why we have the USS Ethical guidelines to support members in investing alongside those requirements and many people do, around 8% of members within the investment builder have some or all of their pot invested in funds aligned with the USS Ethical guidelines.

Now there's two ways that members may wish to invest in accordance with the ethical guidelines.

The first one is the Do it for me option. Now members who enrol in the pension scheme will automatically unless they choose otherwise, go into the default investment option. However, we run parallel to that, an ethical lifestyle option which effectively manages risk and return through our members' career and life to the point of retirement and the Do it for me the option that is ethical will adhere to the ethical guidelines in doing that.

Alongside that we have a Let me do it option and fund range and in terms of ethical investments, there is the ethical Global Equity Fund, which obviously again meets those ethical guidelines. members can log on to My USS to read the investment guide or look at the latest quarterly

investment reports and really get more information on these options available to them, both ethical and the wider options on my USS.

00:06:03 Speaker 1

And why do we actually offer this to members?

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It's really important that we, as individuals working at USS and the trustee listen to and continuously listen to the needs of our members. Ultimately, we're designing and making available investment options to meet members requirements and help them to build that secure financial future that they want and obviously need to retire with. So when launching investment builder in 2016, we carried out some extensive research. Including member surveys and asking individuals what their views were on an array of topics and areas. This research informed the range of fund options available and that we make available today, including the ethical options.

Some members listening to this may think actually I recently participated in a survey and that was because very recently our team looked to retest and extend some of those questions to see how we can look to continue the development of the investment options in the coming months and years to build on the work. That clearly has already been underway.

00:07:14 Speaker 1

And does investing ethically cost anymore for members?

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No Faye, I think this is quite typically a common misconception and I think we want to be very clear to our members that the costs for investing ethically in the USS Investment builder are like for like when compared to similar investment options in the investment builder range. So when I talk through the Do it for me option of the default or the ethical lifestyle investment option, the costs of those are exactly the same to our members and for them to invest in. In addition to this, I suppose this is a good opportunity to reiterate that currently the sponsoring employers of the scheme have committed to subsidising most of the fund investment manager costs for the foreseeable future within investment builder. There are some exceptions to this such as transferring of benefits from another scheme. But I thought I'd just take this opportunity to make that point.

And if individuals want to go on and see what the latest costs and charges information are for the funds. Again, all of this information is contained on uss.co.uk and within My USS.

00:08:19 Speaker 1

Great, thanks for talking us through that Aleck. That was really interesting. So can you tell us where BMO comes into this?

00:08:25 Speaker 2

When we launched the investment builder, there was clearly a very extensive process to procure and select the best underlying investment managers to manage assets on behalf of the scheme and ultimately our members money and BMO were appointed to manage a significant portion of the

assets that sit within our ethical investment options, both within the Do it for me and the Let me do it USS ethical global equity fund.

And so, as Nick alluded to, there is a, you know, an equity portfolio and a bond portfolio that they manage on behalf of our members. And if I'm honest, you know we've got them here with us today, so I'll probably stop talking now, and it's probably best if we hear directly from them what it is they do and how they do it.

00:09:10 Speaker 1

Absolutely, so thanks Aleck for answering those questions. So Nick, we know that BMO align with our investment builder ethical guidelines. But can you tell us a bit about your approach to ethical investing?

00:09:21 Speaker 4

Sure, absolutely Faye, the way that we look at investing in a sustainable manner, it bears it back down to three words, which is to avoid to invest and to improve. So first of all we look to avoid companies with a damaging or unsustainable business practise, so we have a number of different exclusionary criteria, product based or conduct based for that business so that we can look to avoid sort of tail risks associated with ESG controversies or indeed the products that they are producing. Such as tobacco, such as fossil fuels and so on, so that's an area we look to avoid. We then look to invest in companies, really proactively thinking about the products and services that they are putting into the market to help address sustainability challenges which are wide. From climate change to ageing demographics and the impact that it is having upon health care markets and so on, these are a long standing challenge.

But the answer to them is innovation, and if we can find those companies that are innovating, that are really bringing something new and additional to the market to address these challenges, we think the opportunities are really strong for these businesses and so that is why we look to invest in those businesses. And then finally, a really important tenant of our ethical investing standpoint is to improve, is to work with companies to improve how they operate from an environmental, social or governance perspective so that they put themselves on a path to an even greater future by embracing opportunities and mitigating risks into the future.

00:11:13 Speaker 1

Great thanks for answering that question for us Nick. So, what's something that's often misunderstood about ethical investing?

00:11:20 Speaker 4

Absolutely. I think you know, as Aleck alluded to earlier. You know, not only is the he mentioned that the cost associated of the you know the way in which you invest in this way, the cost can be something that is misunderstood and there's very much a preconception you have to pay more for these for these sorts of funds. Plus, I'd agree that you know absolutely, that's not necessarily the case. But then I think the other misconception is often that by investing in this way, there's a preconception that you are inherently making your investment returns worse off, that you're giving up investment performance, and I think this stems from the fact that we're not going to invest in certain sectors, but I don't think it really aligns to the fact that you are inherently giving up returns that you're investing in this way.

00:12:08 Speaker 1

So leading on from that quite nicely, could you tell us a bit about your investment performance?

00:12:14 Speaker 4

Yeah, of course. So yeah, I mean that follows on quite well. I mean, this is something we have been working at for a long time and we're pleased to have seen the process that we have put in place for the for the strategy is bearing fruit. We are outperforming our comparator benchmarks and our comparator funds.

Over the five, if I take the last five years, for example, the fund has returned over 18% on an annualised basis. So each year we've averaged over 18% return.

Versus the comparator benchmark, which is a little bit short of 15%, so those are both gross of fees, but you know some relatively handsome outperformance for the fund over that period. And really, since inception this fund, the inception goes back to the 1980s so we've been doing it for a while.

So what we're trying to do is look to the long term, look for those companies that are delivering upon really great opportunities relating to sustainability challenges and so you know we're pleased with the long term performance that we've been able to deliver thus far.

00:13:27 Speaker 1

And do you invest in any companies that our members would be familiar with?

00:13:31 Speaker 4

We do I think, a company called PayPal, so PayPal is I'm sure many have heard of it in terms of the online payment facilitator and we've been invested in PayPal for a number of years.

It previously was part of eBay and spun out of eBay. And yeah, we think it's an incredible business in the way that they enable small and medium sized enterprises and they you know, particularly at the start of the pandemic, a lot of sort of bricks and mortar small businesses had to have an online presence very quickly and create the payment mechanisms to allow for that and PayPal deliver that, but it is now the mainstay of my online purchasing because it makes life so easy and you know you store your payment, your credit card payments there in a much more safe environment than by putting them onto individual business websites. So I think there's names hopefully that resonate with the with the listeners.

00:14:37 Speaker 1

Yes, I'm sure a lot of our members have used PayPal before, so what's the most interesting or unusual investment that BMO have made?

00:14:45 Speaker 4

A good question. Yeah, so I think one that is at the forefront of my mind is the issue that buildings impact upon the environment. Now we always think that transport is probably one of the largest emitter of greenhouse gas emissions.

But actually, buildings is probably one of the largest, at around 30/35% of global greenhouse gas emissions.

So from the construction to the use of buildings and real estate, it's one of the largest greenhouse gas emitters. And one of the major issues is the use of buildings, and I don't know how many people when we were back in the office and you know, I'm sure some of that will return.

And yeah, you go, middle of the winter, you leave the office and you're sitting on a train going home or whatever and you see the amount of office lights that are still on and you know, there's probably not many people in those office building. Now, something we've invested in, this company called Acuity Brands, they provide LED lighting into real estate into buildings and it's amazing, the technology that comes into what can be done so, for example, actually funny enough the sun's just come out in my home here and what would be great is I don't need the same lighting when the sun comes out from behind the clouds.

So you want the lights to automatically dim when the sun comes out, so you have the same amount of light within the room, but less energy intensity going on within the lighting and so that's something that Acuity Brands provides and, and they're seeing some really strong growth as a result.

00:16:29 Speaker 1

And have you got anything exciting coming up that you could share with us?

00:16:33 Speaker 4

I think something that's really exciting, that we're delighted with, that actually is slightly in the rear view mirror, but very, very present right now is we very recently launched an impact report for the fund, so we've done I think 5 or 6 ESG profile and impact reports for the fund.

And yeah this is this is it's available on the BMO website for sure, and what it does is it goes into the fund and the strategy in a really, I think, hopefully a really granular but very accessible way to be looking at the fund about the companies we're investing in, why we're investing in them through an ethical lens and then also what we're able to do with these businesses to engage with them and to drive improvement so do take a look. It takes a while to put these documents together, I think they're really insightful and we've had some good feedback thus far from the 2021 version. So yeah, it's pretty exciting and do take a look.

00:17:39 Speaker 1

We recently announced our ambition to be Net Zero by 2050. How does BMO align with this?

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Yes, of course, so in December 2020, similarly we announced our ambition to reach net zero emissions by 2050 or sooner across all our assets under management. It's something that is front and centre of what we're doing and how we're looking at the portfolio. You know, climate change is absolutely critical to the world around us, but also to our investing companies. And I think you know the health and the performance of the funds.

00:18:17 Speaker 1

Well, thank you so much for that. That was really interesting to hear about BMO and your ethical investing. Aleck, where can our members find information on which companies that BMO actually invests in?

00:18:27 Speaker 2

I think the best place Faye is if members log into My USS and access our quarterly investment reports, they can see all of the investment options that are available to them, and if they go in there and look at the specific ethical funds, there's actually some links to the BMO microsite that they've created specifically for USS members.

And on there, individuals can access the impact reports and ESG profiles that Nick talked about, but also the specific underlying factsheets that our ethical funds invest in, and that will have things like top ten holdings that members can go in and have a look at.

Personally, I found that conversation incredibly illuminating between yourself Faye, Nick and Zahra, so thank you so much for your time. At USS, we're always looking at ways in which we can improve our investment strategy so if our members do want to give us feedback on this or anything else, then our doors always open, and so with that said, Faye, over to you.

00:19:24 Speaker 1

Great thanks Aleck. I'd just like to say a big thank you to you, Zahra and Nick for chatting to us today that was really interesting and hopefully our members have found that useful.

For our members listening, if you'd like to find out more about where your contributions are invested, just visit the how we invest section of our website. There's lots of information there. You can also log in to My USS and sign up to our email news and updates. They're designed to make understanding pensions a bit easier. Thanks for listening.