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PANEL SESSION TRANSCRIPT

EMERGING TRENDS IN CAPITAL MARKETS. HOW HAS THE PANDEMIC CHANGED THE WAY THEY OPERATE?

Speakers:

- **SAMEER CHOPRA | Head of Asia ESG Research, Bank of America Securities**
- **KATE HOWITT | Portfolio Manager, Fidelity**
- **CRISPIN MURRAY | Head of Equities, Pendal Group**
- **Moderator: JILL CAMPBELL | Group General Manager Investor Relations, ANZ Banking Group Limited**

David Scott:

Well, welcome to session four of the 2020 AIRA virtual conference. I'm David Scott, an anchor at Osby's. Well to say 2020 has been a challenging year is an understatement. So in many ways, the world has permanently changed, including how we socialize, communicate and how we work. I think today is an example of that. The question now is has the pandemic permanently changed the way that capital markets work and operate? To get their views, we have an all-star panel for you to going that very topic. Today we're joined by Crispin Murray head of Equities at Pendal Group, Kate Howitt Portfolio Manager at Fidelity, and Sameer Chopra, MD, and Head of Asia ESG Tesearch at Bank of America - Merrill Lynch. Moderating today's panel is Jill Campbell, Group Manager Investor Relations at ANZ Bank. Thank you so much for joining this panel. Jill, I'll throw that over to you.

Jill Campbell:

Thanks, David and welcome everybody. We're going to start with observations from each of the panelists, and then we'll move into a discussion. And then finally, when we get to the last 15 minutes of the session, we'll go to Q&A. And so without further ado, Crispin, I'm going to ask you, there's been, to go to David's point to say that it's been changeable is an understatement, and then we all had to pretty much turn on a dime with this. How are you finding that the way that you and Pendal Group go about your roles today and deal with the market's changed.

Crispin Murray:

Thanks Jill and hello to everyone. Good to be involved today. So the first thing is clearly the pandemic has represented a massive amount of change and need to respond and react. But I still think ultimately a lot of it comes back to fundamental principles. So I don't think it's necessarily changed how we invest. It's just accelerated everything we need to focus on. Second thing I'd say is, I understand that you guys in investor relations have a very tough job. You sit between two very large sets of egos and your job is to try and manage the messaging in a way that people actually listen to what the other side is trying to say. And I think that's clearly been made harder in this environment.

Crispin Murray:

The first thing I'd say is the sort of framework we use when we're sort of analyzing, is we sort of have about five key areas that we're sort of thinking about, and we're always thinking about the Delta what's changing. And I think I would really just emphasize to think about that for your own businesses. So we look at the cycle, some of the cycles have really deteriorated, some have actually improved. You know, the housing cycle in the U.S. is booming, we've seen online retail booming. So that understanding the nature of that is the first point. The second thing is industry structure. So when you get dislocations, like we've seen in the last few months, there's going to be players in an industry who struggle and get weaker and others are actually able to take advantage of that. So even if your industry has been hit hard, if your position within it has improved, that is something which is worth sort of thinking about and emphasizing. The third thing we look at is sort of self-help, which is euphemism for cost.

Crispin Murray:

And one of the things I always say to people is that's one of those controllables and probably the message here is when things are getting harder, it's always preferable that a company is seen to be doing something about it. So that when you get the bad news, that there is at least some element of recognition of, okay, our business has got harder, we've got to incur some greater headwinds from revenues or something else. And we're thinking about how we respond to that, and we're doing something about it rather than just leaving that section blank. The fourth thing is capital allocation. And I think what's sort of been interesting is that the initial reaction was to be very defensive understandably, in terms of preserving capital, trying to reduce the debt and so forth. And I think that is now beginning to shift.

Crispin Murray:

We actually felt that in some cases, companies would not so much too quick to raise money, but just raise too much money. There was almost a mindset that if we're going to raise it, we might as well get an extra 20%, just a good measure in case something bad happens down the line. And to me, that's a little bit of a cop-out for companies in that it's sort of saying, look, rather than us having the pressure to sort of manage some more difficult environment. We're just going to dilute shareholders more to sort of give us more of a buffer. And I think that ultimately does impact on value.

Crispin Murray:

And that the final thing we look at is innovation. And I think it's a sort of a cliche now of the times, but you know, all those sort of big long-term themes that people have been sort of focused on over the last couple of years have all sort of been accelerated. And it certainly feels that last sort of nine months, we're sort of on dog time, everything's sort of accelerating far more quicker than we're used to. And so I think understanding where innovation sort of sits in your business and how you can take advantage of it, or whether it's a threat and what you're doing about it, those are the things that we're looking for.

Crispin Murray:

So I find observation is that we're always just looking for transparency, honesty, we're not an investor who sort of feels that all the answers have to be given to us on the day. And we're happy to hear if something requires some investment or something's going to cost a little bit more why that is the case, what are the consequences, and that there's ownership of that. I think people are very tolerant of that as long as it's subsequently delivered upon. So for me, the final message is, don't feel like you've got to overly control the message or hold back on information because I think people just end up assuming the worst and that actually impacts on the rating. So I'll stop there, Jill. Thank you.

Jill Campbell:

Okay, thanks. That's all really useful stuff. So, I'm going to move to you, please.

Kate Howitt:

Yeah. Thanks Jill. You know, it's kind of ironic. One of the immediate impacts of this is AIRA has invited me a couple of times in the past to be part of this conference and I've always wanted to, but I've always been overseas. So like the biggest change is no travel and actually being around for stuff like that, which is really good in some ways. So I work for Fidelity and just since I've got you all here, there's two parts to Fidelity. There's FIL, there's FFR, and FIL sources funds outside of the U.S. and invest everywhere, FFR sources funds from within the U.S. and invests everywhere. So you've got two Fidelity sets of people looking at your company. And so if you get a substantial, you always want to check if it's FIL or FMR. If it's FIL come talk to us, if it's FMR, there'll be some other one. I mean, they're our cousins, but we have separate capacity to own, which is why we have to stay separate. So just with that little disclaimer, out of the way.

Kate Howitt:

So we, the FIL part, we manage about a half a trillion in funds under management, and we have 400 investment professionals around the world. When I think about this year, we all are all about the fundamentals; what's going on with the company, what's your story. That's how we invest because we're active managers, but the equities world is incrementally but consistently, moving towards investors who don't primarily think about arbitraging present value. So whether that's passive flows or whether it's quant or ETF or factor, they're all investing against some other proxy about performance rather than coming up with a, well, I think this company is worth this and it's cheap or expensive, and therefore, that's all I'm going to try.

Kate Howitt:

So that is changing things. So I think that's accelerated this year. You've got a lot more technical impacts going into markets. And then you've also got more retail interaction than you've had in previous years. From the flow point of view, there've been massive flows into equities from the kind of March-April bottom, but when new money comes into the market, it doesn't generally come in via active. Partly that's because again, we're getting more and more constraint in the universe. It generally comes in through these other participants and so it will come in buying an index or buying a factor, and so you can see that.

Kate Howitt:

So I kind of feel like it's a bit like, maybe it's just cause I've booked my flights to Queensland and my mind's on a beach, it's when the water comes in and it hits a breakwater and it shoots up. You can get some of those impacts, you get a basket of buying and then when one of the stocks is illiquid, that stock will be up 8% in a day on kind of no news flow. It's just these technical liquidity factors happening more and more. So when you get that question, why is the share price doing that, the only true answer is more buyers than sellers or more sellers than buyers. So don't get sucked into having to give a reason to management because it's not people like Crispin and me sitting there going, oh, suddenly this stock is worth 8% more, it's that you've got flows coming in and hitting low liquidity. So traded liquidity is lower. It's never really recovered from the financial crisis, and we found that real liquidity is even lower. And that's even excluding days when the stock exchange isn't working.

Kate Howitt:

You've had a lot of factors, growth versus value is huge. ESG flows are another massive impact. But I think if I say, okay, so it hasn't been a year about fundamentals for Pendal, the stimulus designed to flood money in two asset classes to overcome these terrible fundamentals. So what does that change for you and IR? I guess I would say, not much. Like the North Star of investor relations, I think is you set the strategy that will maximize value for your business. You guys have to figure that out. That's your job. You don't do that in reference to what the market wants. Then you communicate that clearly. Here are our assets, here's our strategy to maximize the value of those assets. And then you let investors self-select around you. So if the market is chasing growth, don't try to be a growth stock if you're not a growth stock, you'll blow yourself up. And if the market's chasing yield, don't over pay out if actually what you need to do is reinvest. You've got to figure out what to maximize value.

Kate Howitt:

Now, I definitely echo what Crispin said. You know, the corollary to that is play the long game. So the simplest version of that is under promise over deliver. Don't make everyone excited by telling them more now, keep stuff up your sleeve. You know, the management teams that get the most admiration are ones that are able to say, and here's what I prepared earlier. I've had the strategy bubbling along in the background for three years and never really told you about it, and here it is, it's now about to add value. That is so much better than the CEO who goes out there with Vaporware of, oh yeah, we're going to do this, we're going to do that, and it turns out it's all just kind of aspirational stuff.

Kate Howitt:

So my key thing is like, don't manage to the market. My caveat to that is you do have to get on board the ESG train. The flow's coming into this market. I mean, we see it in London, in European clients, like there is just hasn't been an RFP for years that doesn't include ESG considerations and it is becoming more and more of a factor. That doesn't mean, like if you're an energy stock, you're still going to be an energy, right. You've still got to articulate your link to the sustainable development goals. You've got to have your de-carbonization plans. You've got to have your modern slavery in place. You've got to file.

Kate Howitt:

Even now, there are still too many Aussie companies that get E rated on ESG because they just aren't filling out the right forms. Now we do our own internal ratings, so we'll look through that and we'll make our own view. But we still, you know, clients will say, why do you own these E rated stocks in your portfolio? Well, there's nothing wrong with them, they just are too busy running their business to file the forms. That is increasingly not a tenable approach to take.

Kate Howitt:

On the really practical side of this year, international conferences don't work so well when you're trying to Zoom in at three in the morning. It turns out you pay the money to fly to the other side of the world to reset your body clock. So that's a bit that's not working well. Other than that, the Zooms are actually working really well for us because we're so globally dispersed. So it's so much easier for us to have our regional and our global counterparts joining in on the meeting. I mean, this week we've had our Silicon Valley tech trip and typically I would fly over there. Whereas now I just have to get up a couple hours early and I can sort of tag along to the meetings with Google and Amazon. So it's actually makes global integration a lot easier for us.

Kate Howitt:

We have officially switched to dynamic working. And dynamic working means you can choose from here on in whether you work from home or whether you come into the office and you don't have to like sit down with your manager and thrash it all out. You can just make that choice. I have really enjoyed not having to deal with the commute and all of that kind of stuff. And I'm going to keep it up, I'll go in to the office when I need to. But it really, really, really depends if company meetings are like this, I'm good with it. I can look them in the eye and I can feel like I'm having a conversation. However, unfortunately, what we're seeing now is that management teams are going back into the office. So when we have a Zoom, they have it in the conference room and all I see is tiny little management spec faces, and that doesn't really work. So we would have a preference, a really strong preference, if you're going to do a Zoom call, you do it like this where you've got people on the individual screens so that we can make best use of the technology. Going back to having conference calls in a conference room, we don't think that works well. So I'm going to leave it there.

Jill Campbell:

Okay. Thank you. And then Sameer got very excited because the ESG mode was mentioned and that's his whole thing. So I'm going to throw to you now Sameer, please. Oh, you're on mute doll.

Sameer Chopra:

All right. Can you hear me now? Great. Morning. Good afternoon.

Sameer Chopra:

Look what I'd say in terms of 2020 is we've had really good disclosure this year. March was really tough, right? Like the world kind of came to a sudden standstill. And I would say reflecting back, it's been a really good year in terms of company disclosure. We've had very informed markets. And one of the ways you can look at that is, if you look at where the company earnings have changed through the results season, this year's reporting season in August was relatively benign, right? Like that the total amount of ad exchanges that happened across the whole ASX given to about 1%, like we moved our earnings numbers by 1% on average through the reporting season. And broadly speaking bar a handful of stocks, the moves in the market through reporting season were also sort of benign. Which kind of tells you that there was good guidance in place. People came in sort of with really good expectations around what to expect on numbers, and people had no expectations in terms of 2021.

Sameer Chopra:

In many companies did offer a guide and we were okay with it. We came into it expecting that most companies would probably not guide because it's an uncertain world. My one bugbear as an analyst in August is that there are way too many companies reporting numbers at the end of August, and last week of August is just a nightmare. Because I want to listen to the results call and I want to listen to what the other questions were, like and what is bugging the analysts from Goldman's and what is bugging the analyst from UBS. That's gold. And so we actually really want to dial into all of these calls. You get a lot of gems from that. So I would say where it's possible to bring it forward, the kind of results it's good. I'd be happy with that. We see a lot of that in the U.S. where the companies put out their basic disclosure early on, and then the annual report follows when it follows kind of thing. So you only need to kind of tie the two together.

Sameer Chopra:

Kate mentioned conferences. I think the way the world is kind of changing, you know, two, three years ago, there was a lot of Aussie conferences. So you could take Australian companies to the U.S. or London or Hong Kong, and there'd be like Australia day. I think that world is maybe behind us. And nowadays there's a lot more interesting themes. So if there's a particular theme around payments, for example, which Australian companies can play into that payments theme. If there's a theme around electric batteries, which Australian companies can kind of play into that. Because people are buying themes, but like buying an ETF, people are just saying, I just need exposure to online and give me all the stocks that are involved in online. So I would say from a conference perspective, I'd encourage people to look yourselves into thematic conferences, see if we can get a slot for the Australian companies as part of a story that's playing out globally.

Sameer Chopra:

And then what worked well for us was the conference calls worked well during results season. It was interesting just given the, you could stock work earlier from home, we were hosting calls at 7:00 AM, as well as a company conference calls for investors. And we had both Australians and Americans dialing in at 7:00 AM. Most people don't mind getting up, dialing in, spending half an hour listening into what the company's got to say, and then drop the kids off and do whatever you got to kind of do before getting back into it. So that's kind of worked well and I am going to spend a minute on ESG because you know, I am the ESG guy.

Sameer Chopra:

What I'd say is ESG floor this year, even during COVID, has been really strong. So the amount of money that is ESG dedicated is up three fold this year versus last year, it's just been constant. And I reckon we're just at the start of it. 2021 is going to be very climate driven. Climate change is going to be front and center and there's a lot of excitement around it. And ESG is going to shift. It used to be, we would only speak to long lease, and last year I spent most of my time speaking with credit on ESG and this year, almost all my conversations have been with hedge funds. So you've got very different universes of the market now becoming very sort of ESG aware.

Sameer Chopra:

And the final point I'd say on ESG is the best meetings I've hosted as a south side analyst this year have been ESG meetings. We've hosted a number of CEOs come and talk about ESG in their company, and that's been phenomenal. Like you get a very different appreciation of the company when a CEO sits down and talks about what was it like managing employees during COVID. What did they do right for their employees during COVID, how they think about climate change. So yeah. I'll pause there and pass back to you, Jill.

Jill Campbell:

Thanks-

Kate Howitt:

Can I pick up on a couple of those points?

Jill Campbell:

Yeah, please.

Kate Howitt:

Yeah. So just on that last point. I totally echo that ESG has so much more force coming from the CEO and the Chairman. And when you sit there and ask a question about modern slavery and you get told, oh yeah, we'll have someone come back to you on that.

Kate Howitt:

That's, yeah. That's not a great answer on any of those sorts of questions. So we are looking for true ESG integration. And then on the August, you know, on everything, like people, there are more time slots than 10 and 11 on Wednesday, Thursday, Friday.

Jill Campbell:

What?

Kate Howitt:

Everyone gets those time slots. And you sit there going, I've got five companies. I mean, I'm a generalist, so all of these companies are reporting. So most sectors are pretty good of not having the two largest companies reporting in that sector on the same time. But even just with everyone trying to get those key slots, you'll actually do so much better if you space it out because then you'll actually get an audience of people who are keen to listen. So, you know, spread it out. Monday is a day of the week too.

Jill Campbell:

Is it? I dare say, these are strange concepts. I don't understand.

Jill Campbell:

One of the things that, one of the very few things that we can collude as a banks is I'd say, me bringing Andrew or Sally and saying, when we could travel, we're going to be in Sydney on this day. If we could not be bumping into each other, because we recognize that it's great that we all want to go and see Crispin or you or whoever, but you guys have got limited bandwidth. It's also in our own best interest if you're in the right frame of mind for the meeting.

Jill Campbell:

On the ESG thing, it's such a broad church of stuff. So depending on which rabbit hole you want to, and that's not to dismiss it. We have an annual ESG day that Shane, our CEO, presents at and we have another group executive this year. It was the head of our retail and commercial business. We take it very seriously. We did two round tables recently to do with our updated climate change carbon policy and again, CEO, and in that case, the head of our institutional business. So we deal into it, but that's kind of one arm of it.

Jill Campbell:

So Sameer again, and I'll ask each of you because I'm sure you will get this. When you say ESG flows or ESG is becoming more important, how does that actually play out for you? So actually maybe Kate, I might start with you. What does that mean for you in terms of how you have to manage your fund or what you have to do as a fund manager?

Kate Howitt:

Yeah. So globally we have been doing sustainable fund launches or repurposing funds to be sustainable. And so Fidelity Management was like, hey, let's do that in Australia, and we talked to our sales and marketing guys here and they go, what are you insane? That would be stupid because as soon as we launch something sustainable, then all our clients are going to go, so your main vehicle is not sustainable?

Kate Howitt:

So actually, the asset owners here are also pretty advanced in their thinking and the future is everything is sustainable. Like it's just whether it's you as a corporate or us as a fund manager, having ESG as a core part of what you do is now table stakes. So our view is that in this market everything has to go sustainable, it's not different funds. Now within that, there are different flavors, right? So there are exclusion funds that don't want to own anything in the energy sector. And then we tend to be more on the, we want to engage, we want to see that, you know, an energy firm is engaging with that and tackling and charting a pathway to decarbonize. So there are different kind of flavors of it, but it's still got to be part of it, is our view.

Jill Campbell:

And so do you report differently to the extent that you have, you're responsible to the people that gave you the mandates?

Kate Howitt:

Yeah.

Jill Campbell:

Are you reporting to them differently now and on different things than you would have in the past to demonstrate that-

Kate Howitt:

Well, from a practical point of view, modern slavery, right? So the difference between the UK modern slavery legislation and the Australian modern slavery legislation, is that here fund managers are considered part of the supply chain.

Jill Campbell:

Yes. Well, I didn't want to say about the slavery thing and Fidelity, but you brought it up. So...

Kate Howitt:

Well, you know, that's because we take that obligation seriously and actually like one of our funds is large enough that it is a modern slavery reporting company in its own right.

Jill Campbell:

Yeah.

Kate Howitt:

So we are subject to the same reporting obligations that you are as corporates and that, you know... What you're putting on your supply chain is what our asset owners are putting on us. And that's a higher evidentiary burden than we face in the UK, that's what it is. So yes, we having, you know... They're larger and more sophisticated, so if you're managing money for southern world fund or for industry funds, then yes their reporting requirements very high and very extensive.

Jill Campbell:

Crispin, if you think about, you know, have you been in situations where you've either gained inflows or alternatively seen outflows as a result of ESG moving money around? Or how would you say that they renewed or were they up to focus on ESG type matters has impacted you?

Crispin Murray:

Yeah. Well, first thing I'll say is we've had products in this area for 19 years. And so it's one of those examples of an overnight success story.

Jill Campbell:

That took a while, yeah.

Crispin Murray:

I share the sentiments from Sameer and Kate. I think I've got a few observations on this, so yeah, there's no doubt as a business opportunity it's great. I think the mindset you can have, as Kate said, is you can have the exclude or you can have the engaged approach and respectively we do both. The amount of time allocated towards this has gone up substantially. Our clients are very much in partnership with us in terms of wanting to know how we're thinking about specific voting intentions, what we're doing, why we're doing. We've probably written, I think five letters to boards this year where we've had a situation that we were concerned about. So we sort of find now that directly going to the board and putting it actually on notice is a really powerful tool in terms of focusing the mind.

Crispin Murray:

I still believe that there is way too much box-ticking that goes on.

Jill Campbell:

Yes.

Crispin Murray:

But we've gone from the mindset of this is a sort of a bit of a nuisance discussion to, okay, we need to be seen to be doing something. But the need to be seen to do something phase often incorporates, here's a 40 slide pack I'm bringing my ESG people with me as sort of chaperones, and we're just going to swamp you with information. But if you actually boil it down and say, what are we actually doing here, what do we want differently? Or how are we forcing our suppliers to change the way they do business to reduce their emissions or to improve the way they source products and so forth, there's actually not that much tangible there.

Crispin Murray:

And so my message would be, yes, we still, you know, you've got these third party ratings and everyone wants to get a better rating and that's sort of important, but yes, you've got to do something tangible. You actually got to show that you can't solve all these problems, but a Santos can sit there and do carbon capture and maybe lead the way in terms of technology that could make a meaningful difference.

Crispin Murray:

... and maybe lead the way in terms of technology that could make a meaningful difference. So that should be their focus point and other companies, really drill down on specific areas that they can say, "This is what we're doing." And that's actually more tangible than us trying to placate 20 different other metrics. So that would be my really strong encouragement for people.

Crispin Murray:

And the final thing I'd say is there's still an element of we're embracing ESG, but if there's any attempt to put up a third party vote, it's immediately taken as a negative and we've got to fight, and it's this ego thing, that we can't be seen to not control everything about the processes. And I understand that you don't really want things to taken out of your control, but I think there needs to be a little bit more effort to sit down with asset owners, fund managers, some of these sort of groups and say, "What is it that you're looking for us to achieve? Let's draw up some of these sorts of motions for the AGM, that we're giving you a bit more input into." That we can then adapt and support rather than having it all at this arms length-

Jill Campbell:

Yeah. It depends on who's putting the resolution Crispin, because what we see and we've got it with a group that's put a resolution to our AGM again this year. When you sit with them privately and we do that often, they will look you straight in the eye and say, "We don't actually have a problem with ANZ. We have a problem with the federal government not taking climate change seriously and we're going to use you as an amplification point to make that point." And so I think the issue, and I think ... so you've made a good point and your point's the right one, it's looking at who these organizations are that are throwing these resolutions on and why and what the implication of them would be-

Crispin Murray:

Let me, sorry Jill, just jump in because the interesting thing, so I understand what's going on here, the lever effect, which is now you put these motions up and now there's lists of which fund managers have voted against climate motions. And so suddenly you're in the FT as being someone who's voted against 10-

Jill Campbell:

Well you've voted against world peace effectively.

Crispin Murray:

Asset owners are also signaling and we can't keep sending out this message. So what my point is, is I'm not saying necessarily work with some of those groups that are just trying to leverage political capital. But if you sit down with asset owners and bring them and show them that they can get some wins with the company and therefore they're under less pressure to react to some of these motions that you don't agree with, because they can point to progress that they've made directly with the company. And so to me, that's a step that you should all consider, because what you're doing is you're giving your investor, your shareholder, the opportunity to demonstrate to their underlying member or their investor, that they're doing something. And if you try to just control everything, you're ending up creating more intention, which will come back and I think, cause problems.

Jill Campbell:

Sure. And I want to go to Sameer because this is obviously his bailiwick, this is one of the reasons or the reason why we do the round tables and the ESG days and all of that, so that we can have a broader discussion about the fact that we take it very seriously and there's been a lot of progress. The challenge is then just recognizing ... and I appreciate the frustration these groups have and why they feel that this is one of their avenues to be heard because they don't have a lot of others.

Jill Campbell:

Sameer, just to go you, the way I think about ESG and I'm generalizing here, is ultimately it should demonstrate that any company has their head around a series of operational risks, be they, whatever. So you'll have the risk of not fulfilling your social obligations as a company, the risk of not dealing into the climate change piece, in whatever way that you're able to do that and how that impacts you. Likewise, you could make the same statement and say everything comes back to governance, I guess. But it's really about operational risk management in many ways, and you're dealing into financial and non-financial metrics. So if you think about the so what of this, given all of the different rabbit holes you can go down with ESG, I guess, what are you hearing in terms of clients? What do you see as an effective way to negotiate that broad church of interests?

Sameer Chopra:

Yeah, I think people are starting to customize what they look at from an ESG perspective. There's some common stuff like remuneration and board structures, you apply them across all companies. But just to give you an example, when I meet with, I'm going to name a few names just by way of example, if I'm catching up with Wesfarmers, we spend time on carbon and then we spend a lot of time on supply chain because they have deep, interesting supply chains. If we're catching up with Xero, we spend no time on carbon and most of our time on data security, because they have a lot of data. If you spend time with Coles and Woolworths, we'll spend time on plastics, recycling and they play a big role in indigenous employment. So you tick and tack depending on the company and the sector, and then board, CEO, remuneration are common themes, climate change is broadly common across most sectors, and then everything else is customized, just one or two topics and that's it.

Jill Campbell:

Okay. That makes sense. Because I think every company struggles with what's my role in this, what's the most effective area for us to really use our influence or exert our influence. Ian, I see that you've come back on screen. Did you want to have some people ask questions?

Ian Matheson:

Yes. We've got quite a few questions that have come in Jill, a number around ESG, not unsurprisingly. First one is, could Kate or Crispin comment on the relevance of surveys such as Dow Jones sustainability index or carbon disclosure project. Do you use these and are you aware that they are used extensively by other investors or is ESG review being done internally?

Kate Howitt:

Well, we do our own ratings. We used to buy in sustainalytics and MSCI, but we got frustrated at how backwards looking they were and how devoid of fundamental context they were, so we do our own. We'll use, I mean, it's like the fundamental side where we'll use that data, if there's something specific that we're after. But I think you've also got to ... there's a lot of jockeying right now because it's so new, there are a lot of people trying to build business models out of this, and it's not clear how to evolve. And even the underlying reporting standards, all of that will progress very rapidly. And I know that you guys are in overload of everyone wanting everything expressed in all these different ways, and I think it will coalesce hopefully pretty quickly, but for us, I'm not aware that we use those specific ones much.

Ian Matheson:

You're really using the data feeds from Dow Jones and sustain ... sorry, from Morningstar ... sorry.

Kate Howitt:

No, it was MSCI, but we get MSCI, so we analyze our portfolios against MSCI ratings and we do buy in carbon intensity data and that nuts and bolts data, but I'm not exactly sure the source of that.

Ian Matheson:

I gather MSCI data's on Bloomberg now.

Sameer Chopra:

You got to pay for it.

Ian Matheson:

Yeah. One other-

Crispin Murray:

Sorry Ian, can I just maybe quickly say something there? So I think what we're going to see, we're similar, we do our own ratings, we use Sustainalytics, the top quartile of sustainalytics ratings are all infrastructure and REIT companies. And so, it demonstrates that it's not really capturing the essence of management, it's just capturing the nature of the business. What I would say is that we're going into a world where passive is very keen to be seen to be ESG friendly, so what they want is ratings and standardization, so they can create passive funds, ETF funds. And so that will create an incentive, but it will also create an arbitrage because there's going to be a big disconnect between the reality of how companies are managing their risks and how they're rated. There's no standard way of doing it in my view, I think it just gives a false sense of security that you're investing in the right companies. So our view is that you can create value by playing that arbitrage and getting companies that are under rated on the broader metrics.

Ian Matheson:

Jill, one final question. How important is it for smaller ASX in New Zealand listed companies, to cover off ESG issues in their disclosures?

Kate Howitt:

Hugely, because otherwise you're just going to get screened out of so many processes or you ended up getting an E rating and then in my quarterly fund reviews, I get queried why I hold E rated stocks. So, yes, sorry, if you're listed now, then this is part of the game.

Crispin Murray:

And if I can jump in also, I mean, there's no doubt when we screen, that there's a lot of smaller companies are miss rated in our view, and so that's where there is the biggest gap. And I think this is a cost of capital story. If you think about what's happened in the last 20 years, index funds have created a shift towards the momentum and growth stocks, it's not the exclusive factor, but that requirement to constantly, if a flow comes in, you're automatically buying the index and therefore the stock that's gone up the most recently gets more capital going into it. And if we go more and more to ESG based index investing, you're going to have the same thing, that the highly rated companies will get higher ratings and the lower rated ones will miss out on capital. So if you want your cost of capital to be held down, you have to do it.

Ian Matheson:

Jill, might have to close the questions, when we're one minute away from close.

Jill Campbell:

Sure. So unless anybody had some wrap up comments, I know I found that really, really useful because I get asked at least once a week by someone internally about the so what of ESG, in terms of how should we think about this from a fund manager perspective? And whether any of the others ... are we doing meetings the right way? Should we do them by video? All of these things. So hopefully everybody else on the call, on Zoom got a lot from that. I'm very happy to ask if ... sorry, answer any follow-up questions if anyone wants to put any questions to me and I'm sure that the panel are equally happy. So Ian, I think I'll hand back to you-

Crispin Murray:

Can I jump in? I know we're tight for time, but there's one other message I really would like to reinforce.

Jill Campbell:

Please.

Crispin Murray:

I would say my biggest frustration with investor relations is when a company sees itself in one light and thinks that this message is the message everyone wants to hear. And not enough attempt is made to actually canvas the investors as to say, "Well, how do you actually see the company? What are the issues? Or how would you frame our story?" And not just the larger shareholders, talking to the people who are very credible investors who don't own the shares, because I think sometimes there's too much of a bunker mentality in companies and they sit there and they don't understand why their ratings too low. And then you got to say, "The ratings below what we think it is, it's our fault because we're not listening to what investors are telling us."

Jill Campbell:

Okay. That's good advice. Thank you. I think we're out of time Ian, so with that, do I hand back to you or float off into the distance.

Kate Howitt:

Sorry, one more on that. Totally agree with Crispin, but it's much more effective for you guys to pick up the phone and have a chat, then employ someone to do a perception survey. Just call us.

Ian Matheson:

Okay. Thanks very much, Jill, and to all the members of the panel, as always some fantastic insights and tips from you all. So thank you very much. We'll now close this panel and we'll have a few minute transition to the last call of the day, which should not unsurprisingly is on navigating EGI and stewardship through the COVID lens. Thanks very much everyone, we'll see you in a couple of minutes.

Sameer Chopra:

Thanks, Jill.

End.

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