ESG is a Process and a Promise

April 29, 2021

Beutel Goodman

It has been a challenging year for most of us. Our daily lives have changed drastically with the threat of COVID-19 affecting our families and our business operations. Notwithstanding the global pandemic, there have been widespread public outcries for social justice – and climate targets are moving full-steam ahead around the world.

Canada has committed to net-zero emissions by 2050, along with 120 other countries. Climate change is now seen as one of the biggest threats to business growth and businesses are responding with their own initiatives.

Many corporations, aligning themselves with the Paris Accord and the UN's Sustainable Development Goals (SDGs), are setting ambitious targets. 90% of S&P 500 companies now publish a sustainability report and it is not uncommon to see emissions targets, diversity goals and large investments earmarked for environmental or social initiatives.

Investors are taking note, too, becoming increasingly aware of Environmental, Social and Governance (ESG) factors as both drivers of value and important risk considerations in their investment portfolios. Surveys suggest responsible investing may be the new normal, as most asset managers are now integrating ESG factors into their investment process. Canadian firms are seeing the most growth in terms of this integration.

ESG Integration at Beutel Goodman

At Beutel Goodman, we have recently taken large strides forward with our public commitment to responsible investing. However, ESG integration is not new to our process. We have long taken sustainability issues into consideration by evaluating potential risks and opportunities in our investment analysis. Whether it is evaluating board effectiveness, environmental impact assessments or consumer safety measures – materiality, or the magnitude of impact relative to the overall company, matters.

We recognize that firms with strong management of ESG issues perform better. The body of evidence to back this up is strong and growing. However, there is some confusion about the various styles of responsible investing because the terms to describe them are often used interchangeably. While ESG, socially responsible investing (SRI) and impact investing are related, they are each also unique.

Responsible investing, which includes ESG, is often mistaken with ethical investing, which includes SRI. In ethical investing, negative screens are predominantly applied based on ethical, religious or other moral exclusions. Most commonly, these restrictions focus on weapons, tobacco, fossil fuel companies and other so-called "sin" stocks. At Beutel Goodman, we employ a value-based approach to ESG analysis, and currently do not apply exclusionary screens to any of our investments.

Through our inclusionary approach, ESG analysis does not compete with our disciplined fundamental analysis. Instead, ESG complements and strengthens our strategy. We consider it part of our duty to our clients to consider material risks and relevant information in investment decision making.

The research responsibilities are shared across the entire investment team, where we perform our own in-depth research and analysis. We also use external ESG data providers to supplement our own efforts. Our goal is to deliver superior risk-adjusted portfolio performance over the long term. We believe our integrated approach leads to better-informed investment decisions.

Our process and approach to ESG leads us to avoid companies and sectors with major ESG issues. Many of our prominent strategies have earned high ESG fund ratings using the MSCI methodology.

MSCI ESG Fund Ratings	
Beutel Goodman Balanced Fund	A
Beutel Goodman Canadian Equity Fund	A
Beutel Goodman Fundamental Canadian Equity Fund	A
Beutel Goodman American Equity Fund	A
Beutel Goodman International Equity Fund	AAA
Beutel Goodman Income Fund	A

MSCI Fund Ratings are the property of MSCI and provided here for informational purposes only. For more information, please see the disclaimer at the end of this document. Note holdings information used is as at September 30, 2020, which is the most recent data currently available.

Engagement on ESG is Essential

In addition to integrating ESG into our investment process, we also believe in being cooperative partners with the companies we invest in. We practice active ownership by engaging on material issues and exercising our proxy voting rights. We believe there are opportunities to gain by connecting directly with companies on their ESG issues rather than simply screening them out of our portfolios. Some of the common, recurring engagement themes include governance, management of climate-related risks and labour relations, disclosure, transparency and accountability.

We are proud signatories to the United Nations-sponsored Principles for Responsible Investing (PRI). In line with the PRI, we report on our activities and progress. We have published our Responsible Investment Policy, Proxy Voting Guidelines and our inaugural Annual Responsible Investment Report for 2020 on our website. We aspire to increasingly participate in collaborative engagement initiatives that are aligned with our active ownership philosophy and ESG engagement priorities, including diversity and inclusion, climate change and other issues.

As long-term investors, we are committed to evolving how ESG fits into our investment process. Through active ownership, we will continue to encourage transparency and seek disclosure on ESG issues. ESG has been a critical part of an intelligent investment philosophy and we have increasingly formalized how it is ingrained into our process. We believe it can continue to make a difference for both the world and our portfolios.

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