



MACKENZIE
Investments

Sustainable investing

Doing better, together.

Why a stakeholder lens is key to tapping the world's \$13 trillion sustainable opportunity

#BlackLivesMatter. #MeToo. #ClimateChangeIsReal. These aren't just social media hashtags - they each represent a global movement pushing for a better world by addressing systemic racism, climate change, and societal inequities. Collectively, they send a clear message: the status quo is no longer tenable. We need positive change for the better, and fast. We believe that companies that heed the call for change will thrive. Those that continue along the same path they've followed in the past will not.

How companies treat the planet and the communities they operate in will determine their future profitability. It's not just wishful thinking - it's a fact. More and more data are emerging linking sustainable business practices to value creation for shareholders. And that represents a challenge for investors who are not incorporating these factors into their company assessment process.

The hallmarks of sustainable value creation simply aren't reflected on company financial statements - or even by broad-based, third-party sustainability ratings. Rather, investors looking to build sustainable portfolios will need a new lens for assessing value creation. And we believe this new lens on long-term sustainability must be stakeholder-focused.

Here's why.

Side bar source: <https://sdgs.un.org/goals>

71 million

The number of people pushed into extreme poverty in 2020

1.6 billion

How many workers in the informal economy risked losing their livelihoods during the pandemic

35%

Percentage of people with access to credit in developing countries

4.6 million

Number of premature deaths caused by air pollution in 2016

25%

Percentage of women represented in National Parliaments

38%

Percentage growth in global electronic waste to be generated by 2030



The trillion-dollar change

Ready or not, positive change is on the way – backed by trillions of dollars. The United Nations 2030 Agenda for Sustainable Development has scoped out a clear set of 17 goals for addressing the growing global crises of poverty, inequality, and climate change. Getting there will require a massive private sector commitment of US\$5 trillion per year until 2030 (to the tune of \$50 trillion between 2020 and 2030).¹ In addition, investors are now expected to redirect existing capital to be good stewards of the companies they invest in and contribute to a sustainable future.

A group of Canada's top pension plans² - representing CDN\$1.6 trillion in assets - has heeded the call. In 2020, they collectively and publicly urged investment managers and the companies they invest in to provide consistent and complete environmental, social and governance (ESG) information to strengthen their decision-making and contribute to more sustainable and inclusive economic growth.

Right now, there are trillions of dollars of capital seeking companies that support and contribute to positive environmental, social, and governance changes globally.

As that happens, it is reshaping the investment world and how investors build portfolios.

The future of portfolio construction

Sustainable funds are no longer just a nice to have – they are fast becoming the future of portfolio construction, moving from the niche and into the core. According to Casey Quirk, global sustainable funds are on track to exceed US\$13 trillion by 2025.³

It's not just about doing good - it's about exposure to emerging and powerful changes to the global economy. The massive global transition to clean energy, for example, is creating opportunities for an entirely new generation of companies that can provide low carbon energy alternatives to power our future.

Values alignment vs. the bottom line

75%

52 of 69 Morningstar ESG-screened indexes outperformed their broad market equivalents in 2020

88%

57 of 65 Morningstar ESG indexes outperformed for the five years through the end of 2020

91%

59 of 65 ESG indexes lost less than their broad market equivalents during downside markets over the past five years. That includes the bear market in the first quarter of 2020

Energy isn't the only sector to watch. Sustainable funds are outperforming relative to broad indices across most other sectors according to data from Morningstar⁴.

This level of outperformance shouldn't come as a surprise. A recent McKinsey⁵ study found companies that focus on ESG factors generate better cash flow by facilitating top-line growth, reducing costs, minimizing regulatory and legal interventions, increasing employee productivity, and optimizing investment and capital expenditures⁶. That makes a lot of sense when you consider how stakeholders such as consumers, regulators and employees perceive companies that exhibit sustainable practices throughout their business.

Consider that:

70%

At least 70% of consumers say they would pay 5% more for a green product if it met the same quality standards as a non-green alternative⁷.

16.5%

In 2020, Fortune's 100 Best Companies to Work For[®] outperformed the broader market by 16.5% in 2020, returning 37.4% compared to a 20.9% return for the Russell 3000[®] Index⁸.

25%

A 2012 study by World Economics found that, on average, 25% of a company's market value is specifically attributable to its reputation⁹.

Inside out - the stakeholder lens

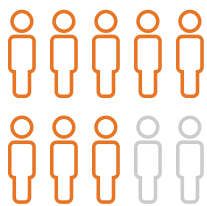
So, what is the best way to assess the value creation of a company's ESG or sustainable practices?

Turn it inside out. Ask how a company is viewed by its external and internal stakeholders and you'll get a good picture of what's going on inside and how it views its stewardship role. How does it treat the communities it operates in? Its employees? The environment?

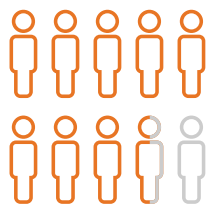
Financial statements rarely if ever answer these questions - and yet the answers are essential indicators of whether a company's revenues will be sustainable over the long term. Gaining an understanding of how a company is perceived by stakeholders can ensure its practices are aligned with those of long-term asset owners - and that those companies are focused on creating value, not destroying it.

The chart below outlines the percentage of global respondents who say it is "extremely or very important that companies implement programs to improve the environment"¹⁰.

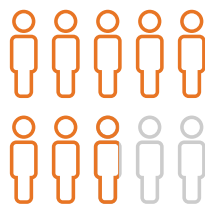
% of global respondents who believe it is extremely or very important that companies implement programs to improve the environment



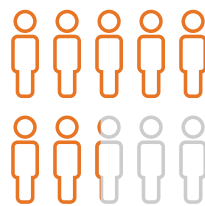
80% Gen Z
aged 15-20



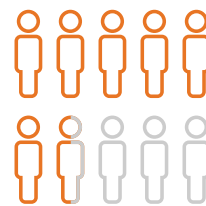
85% Millennials
aged 21-34



79% Gen X
aged 35-49



72% Baby Boomers
aged 50-64



65% Silent Generation
aged 65+



According to the Mackenzie Betterworld Team, the stakeholder lens is specifically focused on:

Corporate governance - Companies with poor governance practices create inherent risks for shareholders. Consider the negative blowback triggered by Air Canada's decision during the pandemic to award its executives with \$10 million in compensation while also laying off its workers.

Diversity, equity and inclusion - Companies must be working to become more diverse and inclusive. For example, among Fortune 500 companies in the U.S., black professionals account for just 0.8% of CEO positions.¹¹ And only 26% of S&P 500 board seats are held by women.¹²

Community relations - Poor community relations are a risk to a company's reputation and its profitability. According to a survey by Deloitte, companies that had previously experienced a negative reputation event reported a 41% loss of revenue and a 41% loss of brand value.¹³

Human Rights - Companies that engage in poor human rights practices can reflect poorly on their investors. In 2019, the Canada Pension Plan Investment Board attracted negative attention for its investment in companies hired to detain people suspected of entering the U.S. illegally - including separating parents from their children. Reputational risk is real.

Product sustainability - Consumers want sustainable choices when it comes to the products they buy. According to research by Nielsen, consumers will choose sustainable products over non-sustainable alternatives three out of four times. On average, brands can expect an uplift of approximately 5% in their shopper base by offering sustainable products.¹⁴

Environment - According to the 2017 CDP Carbon Majors report, over half of global industrial emissions can be traced to just 25 corporate and state producing entities. Such companies will only be subject to greater and greater scrutiny and restrictions by stakeholders, including regulators focused on the practices of coal, oil, and gas extraction companies. These are real threats to those businesses.¹⁵

The Mackenzie Betterworld Team's 4 steps to sustainable portfolio construction

Our team builds portfolios by following four key steps:

- 1 Avoid** industries or companies that don't align with an investor's values. This could mean steering clear of companies that are controversial or generate revenues from unsustainable business lines. This could also include businesses in adult entertainment, controversial weapons, gambling and tobacco to name a few examples.
- 2 Assess** a company's ESG performance, including the positive or negative impact they have on six main stakeholder groups - shareholders, employees, customers, suppliers, the community, and the environment. Measure how a company is contributing towards the achievement of the UN Sustainable Development Goals.
- 3 Analyze** the financials by taking a bottom up, fundamental approach, which is key for determining growth opportunities. This includes investing in financially sound businesses with a sustainable competitive advantage.
- 4 Advocate** for a better world. Use our rights as shareholders for direct dialogue with company management and board of directors to encourage improvements in managing ESG risks and opportunities to advance impact.



The bottom line

More and more, the world is waking up to the impact of poor and unsustainable business practices. Companies that do better in the world also do better by their stakeholders – including their shareholders. The push for a cleaner, more equitable world is changing how business is conducted and what stakeholders expect from companies.

Now more than ever before, companies, stakeholders and investors can all be in this together.

- 1 [United Nations, Transforming our World: the 2030 Agenda for Sustainable Development.](#)
- 2 [CEO Statement \(CNW Group/British Columbia Investment Management Corporation \(BCI\)\), November 2020](#)
- 3 [Casey Quirk: It's not easy being green, 2021 report](#)
- 4 [Morningstar Research Insights, February 2021](#)
- 5 [McKinsey Quarterly: Five ways that ESG creates value, November 2019](#)
- 6 [McKinsey Quarterly: Five ways that ESG creates value - exhibit 1, November 2019](#)
- 7 [McKinsey Quarterly: How much will consumers pay to go green? October 2012](#)
- 8 [Great Place To Work: Treating Employees Well Led to Higher Stock Prices During the Pandemic, August 2021](#)
- 9 [Simon Cole "The Impact of Reputation on Stock Market Value", February 2013](#)
- 10 [The Conference Board Global Consumer Confidence Survey, conducted in collaboration with Nielsen, Q2 2017](#)
- 11 [Coqual - Being Black in Corporate America, 2019](#)
- 12 [Spencer Stuart, 2019 United States Spencer Stuart Board Index](#)
- 13 [Deloitte - Reputation Risk As A Board Concern, 2015](#)
- 14 [Nielsen: How Can Sustainability Enhance Your Value Proposition? 2018](#)
- 15 [CDP Carbon Majors Report 2017](#)

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