

Sustainability Now Podcast

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Mike Disabato

What's up everyone. Welcome to Sustainability now, where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato, and this is the second part of a four part series of our recordings from the Sustainable Finance Summit in Montreal that was put on by Finance Montreal. Last week's episode featured Doctor Sarah Kapnick, who's the ex-chief scientist of NOAA and now global head of climate advisory at J.P. Morgan, and John Morton, head of nature finance and investment at the World Wildlife Fund. If you missed it, go listen. You don't need to listen to get this episode. This isn't some sort of HBO drama, but it's a good one. This week, however, is just as nice because we have my conversation with Eric Usher, who's the head of unify the Unep Finance Initiative, and Brian Kernahan, who's the chief sustainability officer at Manulife Investment Management. And the Eric Usher section addresses the idea that if you only read the headlines, you might think that the whole climate finance project was being quietly abandoned. Banks are walking back their net zero pledges. Airlines are dropping their targets. ESG has turned into something that people say in a lower voice. Or maybe you have to change the podcast name of. But the folks who actually move the capital are telling a much different story. They say the retreat is mostly noise and that underneath it, the money is still flowing in the same direction, partly because it turns out to be a more profitable direction. So Eric discusses all of that, and then we hear from Brian Kernahan, who makes the case that people factor social factors like housing and affordability belong in an investment decision as material inputs, and not just soft overlays that people like to tell stories about. He points to the firm's true America affordable housing deal as a concrete example. And he also looks at the T I s d framework. This is a new social disclosure standard that follows the tcfd for climate and the TNF for nature. His core argument is that social inequality data are roughly at the place that climate data was ten years ago. And so this shared framework, the T I s, f d is what will finally make social data inequality data more measurable and will allow investment decisions to be made and capital to be moved toward those priorities. But first, sit back, relax, and enjoy the dulcet tones of Eric Usher, head of the Unep Finance Initiative.

Mike Disabato

Eric, thanks so much for joining me.

Eric Usher

My pleasure. Mike.

Mike Disabato

So you're someone that helped build the Green Climate Funds private sector facility, the Unep, fi, uh, bank issuer investor convening, excuse me, five hundred and fifty of those individuals. You, you you set up the net zero Asset Owner alliance, uh, which mechanisms have generally moved the most capital in the last few years? They seem to have been doing things. But what I would like to hear from you right

now is, uh, which of those aspects that you've been working on delivered more, which delivered less and your thoughts in both, right?

Eric Usher

I mean, we've been around for over thirty years. In nineteen ninety two, we were formed where a number of banks, um, attended the Rio Earth Summit in Rio de Janeiro and saw that something was happening around this notion of sustainable development. And they needed a platform to be learning following these, these intergovernmental processes, like on climate change, uh, but also to feed in. And, uh, we operate, um, under a set of UN principles. The first one establish principles for responsible investment. Um, which is, um, essentially how ESG is being embedded within the capital markets. And then more recently, principal Sustainable insurance and Principal Responsible Banking. There's been a lot of evolution over the decades, a lot of progress, a lot of challenges. And I, you know, I think today, obviously, it's a very complicated market situation. But to some extent, we see, um, the fundamentals, essentially the signals are largely pointed in the right direction. Yeah. You know, politics, you, you, you know, supporting signals sometimes, uh, contrary signals. But if you look at the landscape and we are global and we see the picture looking in, uh, APAC region and across emerging markets, um, um, Europe, they're all moving at slightly different speeds, but in terms of sustainability or climate integration into, uh, bank or insurance business practice into the capital markets, uh, largely it's all systems go today, which might be a little bit contrary to, to what some believe in terms of, if you're looking just at your, your social media feeds, there's a lot going on under the hood and people are a little bit quieter, a little bit more, more careful in how they're planning. Um, and the reality is this is not about a separation from business value. This is about creating business value. And actually I really want to commend the work of MSCI. You do a lot of important research which helps provide the data that provides the signals to be moving forward.

Mike Disabato

That's good. That's that's nice to be talked about nicely. Always in this with, you know, I cover airlines as part of my mandate. And, uh, some of them have retreated from the net zero guidance that they've put out. When you see companies or investors moving away from a net zero guidance, net zero issuance, uh, can you talk about that a little bit, what that does to the overall push for net zero as sort of, you know, three years ago, the main mechanism people were using?

Eric Usher

Yeah. I mean, I think, you know, business has always set business objectives, you know, objective a target if a target is business relevant, then it's an objective. And and the vast majority of those who set targets over recent years are implementing them today. There are there are some rationalisation. And, you know, there's, um, I think there is some in the financial markets who, um, set objectives with the expectation that the, the policy formation would go more rapidly. And of course it hasn't in many areas and there's been some contrary signals. So I think that has led to a little bit of slowing down. But I mean, the banks we work with in total, um they've set four hundred and fifty net zero targets across sectors like um power with more than ninety targets set, about sixty in oil and gas, about half of that in coal. A lot in agriculture, in um buildings, um uh, real estate. So um there's a lot

going on. Of course today it's more about how do you deliver. Um, and it's not so much about setting the objective. That's almost the easy part. It's really about what does it mean? And really, you know, whether you're an investor or a lender or insurer, um, it's really about what your clients do or what your assets do. If you're on the investor side and what sort of levers do you have on them? So it's not so much about your target. It's about how do you help facilitate your clients to set business objectives and follow through. And of course, that's where the financing opportunity is. And that's that opportunity is greater than ever before.

Mike Disabato

Have those murmurs changed a bit with the closing of the Strait of Hormuz? I'm sure you've seen all the headlines where it's like, this might usher in the end of oil, what that actually means. And have have conversations changed now again because of that? Yeah.

Eric Usher

Yeah, absolutely. Look at the data. If you are a importing oil and gas country, particularly if you're in emerging markets, look at the trends, look at the numbers on electric vehicles. I think sometimes in North America, there's a feeling that the electric vehicle market is softening. Uh, look abroad. Look at the numbers. I mean, they're, um, we're, um, well over fifty percent, um, uh, in places of sixty percent places like China, places like I mean, across Europe, but even places like Ethiopia, um, importing countries are turning off the oil, um, need and are shifting to, to, to electric. Um, and I mean even, um, globally, nine percent of um, truck transport registrations last year were electric, you know, just a couple of years ago, we thought, okay, for light, you know, passenger vehicles, okay, but you can't do the heavy stuff. Look to China. But it's not only China, but look at the registrations. And you see the world is changing very fast. And be careful a little bit how once again, you look at the headlines, you need to take a global picture. And I would say yesterday, Barb's van, um, uh, from up, you know, mentioned that, you know, in Canada, we think we're doing a better job on on climate, but actually US corporates are doing better than Canadians in terms of listed companies on various climate measures. And the reason for that is, um, if you look at the indices, the US companies are more global than the Canadian. The more the global signals are you need to be doing climate disclosure, you need to be taking steps forward even in a in a period of uncertain politics, you're, you're serving more than one market. You need to work across your jurisdictions.

Mike Disabato

Uh, with, with the blended finance piece, how hard is it to, uh, you know, there's, there's obviously with resilience and adaption, there's the, the obvious business opportunities that are there. But then there's the ones that are as important, but sort of have a much more societal benefit than they do, let's say, operational benefit. How do you kind of take, uh, I guess, constituents that you work with through the conversations when it's so needed for society to do it requires a blended finance which private and public finance coming together, but it might not have the same sort of return as installing a hydroelectric dam or something like that.

Eric Usher

Yeah. I mean, I think we all know, um, clear eyed that, um, first of all, the capital is in the private markets that the scale that's needed. Uh, but you are not going to mobilize that capital unless, you know, the economic case is there. So it's not about coming in and subsidizing an industry. Um, it can be incentives to help bring down the costs in certain judicious ways of, of moving new markets forward. That's really what the role is of, of blended finance. But we would, I would give the image of a piece of paper, um, in terms of solving the global climate, um, mobilization challenge, you have to put the private sector at the center of the piece of paper. And then, um, you need enabling environments, you need systems of law, you need various things for private capital to flow. And then after all of that, there might be some risks that the private sector just can't handle. And that's what blended finance is for. But it's quite important that the goal be about crowding in the private sector. And the best way to crowd in the private sector is to have institutions and governance that create an enabling environment for capital to flow. So in an individual transaction which is blended, so which uses public and private resources, it shouldn't be about that transaction. It's the question is that help create the market for private sector to then be able to take over in totality over time.

Mike Disabato

You know, I wasn't able to attend, but you were just able to see John Kerry, the ex secretary of state turned investor, and he just spoke at this conference. I'm wondering what your thoughts were about his speech. Um, I'd assumed there was some nod to macro considerations in the US, something like that. I know he's he's all about green investment now or some aspect of it.

Eric Usher

Yeah. John Kerry um um, geothermal, deep geothermal, which I know in North America there's a lot of excitement around it. Um, it's baseload power and a lot of potential, um, and various other approaches. Um, so I think it, um, you know, um, it's, uh, in the end, um, it's, it's capital, it's opportunity that's going to solve. Um, I think the, the financial sector, one of the learnings from recent years is certainly finance doesn't solve the issue on its own. And so you do need enabling environments. You need, you need, uh, government conviction. And this comes and goes in different places. But if you take, take a global view, you see that actually, um, the market is moving forward. Um, some places will take longer than others, but if you sit back and wait, uh, you're, you know, quite likely to be out of business. So you really need to lean into this space and, uh, read the signals, uh, and have the information that you need. And, um, maybe just to come, I mentioned MSCI. Um you guys do um analysis around cost of capital of, of ESG leadership. And we think that's very important. And you've, you've analyzed the principles for responsible banking. Um, so the three hundred and fifty banks globally who are implementing these principles and on one, you found that they, they are ESG leaders, sixty one percent of them are in your top quartile. Only one percent is in the bottom quartile. So they're walking the talk. But the more important data you've issued is on the cost of capital, which is to show that these these responsible banks on average, have cost of financing, which is so out of whack, which is one hundred basis points lower than non. So essentially, I think the message here and actually we heard another data point this morning from the Institute for Sustainable Finance here in Canada, is that integrating sustainability and climate is just good risk management. It's good business. And uh, you know, if you can convince your CFOs that, you know,

this is a better way to manage your company in a couple of markets are going to reward you with lower cost capital. That's what excites them, and that's what gets the organization moving. What Maya from the Institute for Sustainable Finance talked about is on Liberation Day last year, they analyzed what was the impact on Canadian corporations who had been doing climate disclosures based on the Tcfd. And their data showed that actually they outperformed. So on the same similar messaging to to MSCI research basically shows that companies who are integrating these climate sustainability factors are doing better. They're being better received by financial markets because they're basically seen as better run organizations.

Mike Disabato

Right. Eric, thanks so much for joining me. I really appreciate it. Thanks for taking the time.

Eric Usher

My pleasure. Michael.

Speaker 4

Yep.

Mike Disabato

So we're back at the Sustainable Finance Summit that's put on by Finance Montreal and Mike Disabato Sustainability now. And I have with me Brian Kernahan, who is the chief sustainability officer at Manulife Investment Management. Thanks so much for joining me.

Brian Kernohan

Of course. Thanks, Mike, for having me.

Mike Disabato

Of course. Um, so really what we're going to be focusing on is Manulife underwriting of social resilience or affordability. And I kind of wanted to obviously bring that up first then. And when you're actually underwriting an investment, does social resilience or affordability show up as a number that moves the decision, or is it is it a qualitative overlay that it's on the model? You talk about it, you reference it, but it doesn't move that quantitative number in the same way.

Brian Kernohan

Yeah. So as with most of this topic, um, the answer is yes. And all of the above, uh, and it's very dependent on, on the investments themselves. So let me let me break that down just a little bit in terms of how I mean by that. So generally speaking, you can think about any investment as really being, um, inherently multifactor. Uh, it includes people related considerations, um, the social considerations alongside other environmental, uh, and factors such as climate or nature, etc.. So we're looking for, um, in our fully kind of integrated model. We're looking for any factor that is material. And, um, that's why it's dependent on the investment. If the investment is in a sector that is heavily, uh, people dependent, then you may very well have a decision that is being based on labor or wages or something like that of a company relative to its ability to perform, which is what we're ultimately looking for. Um, I think more importantly, uh, to the heart of the question is, you know, how do we, how do we do that in a way that I think is credible? Uh, and really, um, were

able to, um, know when, uh, a factor should be, uh, weighted heavily or not. And that really speaks to kind of asset class specific tools and processes. And, and admittedly, when you think about social or people related, um, you know, I think the market is a little further behind. Um, I think climate's been a discussion for, uh, many, you know, several decades, uh, nature has been fast rising. And I think part of what we're here today talking about is how do we get people factors, uh, human rights, um, kind of more on par with how they are thought about in a more systematic way. Um, not that they haven't been, but it's a question of, um, you know, do we have the right tools in the toolbox? So that's really been the focus.

Mike Disabato

Is it making it more explicit and able to actually show? I would think that there could be a possibility of someone not purposely allowing mission creep to happen, but saying. Of course this helps out people. We give them jobs. Let's say, you know, how do you kind of prevent that from bleeding into maybe more of the concrete human rights aspects that that you would want to be looking for? And if you could use an example maybe of, of one that, that maybe had a concrete example of a local benefit and, and contrast that with something where it does benefit people, of course, but it doesn't have that same sort of explicit intention.

Brian Kernohan

Yeah. I think, um, I think part of what, what we're seeing is a movement towards being, um, more explicit, um, or consistent maybe is the right word. Um, because I think where it needs to be, where it's a material factor and where it needs to be, um, considered from a fiduciary perspective, I think it is. And that's the nature of being explicit. But I think if you, if I turn the word to the more consistent, I think that gets at the heart of, of it. And, and that's, I think where you can have an example. Well, I'll talk while we're in Canada today. Uh, we're we're I'm based out of the US and and I'll use an example from the US. Um, where in the US there continues to be kind of a fundamental and chronic oversupply of housing. You know, we were talking about affordability, affordability yesterday, exacerbating this, this, this, this problem, the, the undersupply of housing exacerbates rising construction costs and elevated interest rates and, and political headwinds, um, and kind of rent burdens, etc.. So, so recognizing that macro trend in terms of trying to be explicit or consistent with how we think about the investment opportunity around housing, um, you know, we, we, we've reported in, in some of our, our recent reports, uh, partnering up with true America where we co-launched this anchor point residential, um, project, which is really a vertically integrated platform focused on preserving income related, uh, or income restricted housing through the acquisition of of a GP stake in this what I what I mean by that is that's a that's an explicit, consistent approach to a macro trend that is directly looking at people and the affordability of their ability to be in a home. Right. And so that is one that, um, through a, a more. Consistent process, framework oriented process like that, which the task force on inequality and social related financial disclosures, or T I s f d is trying to illuminate, allows us to kind of look at that deal, look at those kind of opportunities through the lens of what the primary output will be here, which is, you know, getting people into, into housing. Not everyone will. Not every deal will have that level of explicit, uh, input relative to people. And I think that's what we're trying to do is differentiate and make sure that when those instances like that example occur, we're prepared

to analyze it on the merits of what it's delivering, in this case, housing and make a good investment because ultimately people will benefit.

Mike Disabato

Is so t s t l f l s f t that's the. Could you could you give just a spell out that acronym state about. Is it a taxonomy? And then after you're done with that, what I was curious about when you were talking about that is, is there a lookback procedure in the t s, f t where you actually have to follow up on whether or not those, those, uh, properties are being used as to, as they said they would be used.

Brian Kernohan

Yeah. So let me, let me, um, let me talk about t l s f d here in a moment and then I'll get to the point of how it gets utilized. So the task Force on Inequality and social related financial disclosure. It's a mouthful. Um, but it is. Um. The third, if you will, of such disclosure frameworks. So it's, uh, a tested process. The first was the task Force on Climate related Financial Disclosures. Tcfd. And then the later one was t n f d the task force on Nature related Financial disclosures. So now we're kind of talking about, if you will, this third systemic risk climate being one, nature being one, and then inequality being the third. And what t l s f d in its very early days is trying to establish is a framework by which um investment managers, asset owners, corporates can look at the issue of inequality and social factors through a consistent disclosure framework. And so this isn't about prescriptive how you manage those issues. This is um giving us a framework by which we can think about how do we strategically address this through governance? What measures and, and targets might we be setting on this? Um, what is our governance of this? And how do we assess risk related to people and, and, and inequality. Those factors um, really allow companies, asset managers, asset owners to, to be comprehensive and its treatment of, uh, material factors that are related to people and inequality. So, so it's a, it's a, it's maybe a long overdue. Uh, disclosure framework. Um, because it'll, it'll kind of propel, we hope and believe that it'll propel a lot more thinking on this to understand risks, but also to understand opportunities like that housing example that I gave. Right. Where are those opportunities existing? Because if you don't recognize an affordability gap of housing, you know, you may not be looking for those opportunities. So that's what it's intended to do. It's a multi-stakeholder process. Um, uh, it's intended for the financial sector, uh, and corporates to disclose against, um, but to get to your latter half of your question, you know, what, what you do with it is really dependent on how your business model operates. So let me talk about how Manulife would, would integrate this, um, and how we already integrate tcfd and TNF d. So we use it as a way to organize our thinkings to make sure that we do have the proper governance to consider people factors. We think we do. This is not new. It's not like we woke up yesterday and said, oh, people matter. So let's make sure we consider people. Um, but it will give us a chance to be thoughtful about do we have the right governance, the right policies and programs in place to do it? Um, it'll also allow us to, to look at the risks, um, across different sectors. Again, we probably have a good sense of what those are, but we'll, we'll, we'll through it, through the use of this framework will be more explicit about that. Um, and then we'll start to look at the data, the measurement piece. It'll, it'll, it'll cause us to say, do we have the right data? More importantly, it'll, I think, and this is what we saw with climate and nature, it'll force the broader ecosystem of, of finance to think about data. It'll provide. It'll, It'll cause providers,

MSCI and others to think about, okay, are we delivering the right kind of people data to our clients so that we then have the best information available? And then finally, you know, it'll allow us to find those opportunities as I described. So it, if it, it probably all of those bits and pieces are happening. They're happening at Manulife. I think they're happening in other firms. So we're not suggesting that they're not this will be just more consistent for our clients. This allows them to see a similar kind of thought process across different managers. Maybe they're shopping for a new manager, right? So now they can have a benchmark against, okay, this manager is using T I s f t or t, C, F, D and tnf d. This one is not. Does that mean they're better or less, you know, doing less. And it gives them a chance to at least have some comparability, which I think is a tangential benefit of this beyond how they get used.

Mike Disabato

Yeah. I would think there'd be good with a look back procedure in there. And then, well, I do want to get into that. But the consistency point I think is well taken. You don't want to have people that, for lack of a better word, you don't have people that are looking at people in varied ways and they say, well, this is important to us. This might not be important to someone else. So those frameworks obviously are so important. But, but yeah, to, to that look back question and, and really, it just what I'm curious about is you mentioned it, the governance around having to look at this data again. I mean, I'm sure it's quite easy for someone to say, yeah, of course it's going to help people out. And then New York, there's a big scandal around, uh, some buildings. If they wanted to build in an area, they had to make a publicly available park. Yeah, yeah. And it turned out that they just kept those parks closed. And so they said, well, we made it. But you didn't say anything about having us to keep it open. So, uh, any thoughts around that? I mean, yeah.

Brian Kernohan

So, so again, this, the idea of look back, the idea of monitoring, as we would call it, um, is, is something we already do. So we're not needing we don't need a framework like this to force us into realizing the importance of monitoring. Post-investment. So it is a it is a tool that we can use to help make good investments, to identify opportunities to identify risks. Um, but it also then creates the same kind of opportunity for our monitoring, which is to make sure that if you make an investment, like I described for housing, right? Are we in fact seeing the execution that that's what the housing is being used for, right? As designed for affordability, closing that affordability gap. So that would be part and parcel. We would just build it into the governance related to T, I S, F, D or Tcfd or t n f d. Um but fundamentally our investment life cycle includes due diligence to make the investment, monitoring it while we have the investment on behalf of our clients and then on exit, making sure that we have, have, have done what we said we would do for the client. So so if if that's not happening, I do think a t I s f d type framework or more consistency and application of this will help. Um, we pride ourselves on doing it day in and day out anyways.

Mike Disabato

Yeah. Yeah. I mean, the t s I t I s f d will at least give those who haven't or wanting to get into this space, I assume a bit more of a scaffolding with which to to.

Brian Kernohan

Yeah, it's going to be it'll drive action. Uh, we've seen it with nature and climate. And so I, I've long thought that um, the, the social, um, space, um, uh, needed this. Um, and so we were very happy to see it emerge, um, a few years ago and we're proud to sit on the steering committee to help kind of shape it. And we're out looking for public comments on the first draft of the framework. And it's very much, uh, you know, open for input. Um, and, uh, it needs to be a multi-stakeholder collaborative because if it doesn't work for the users, um, then it's no good and it won't drive that action that we're looking for.

Mike Disabato

So great. And so if you're out there and you have the ability to comment, please do. And, and Brian, thanks so much for taking the time to talk with me today. And I really appreciate the discussion.

Brian Kernohan

Thanks, Mike. I really appreciate the opportunity.

Mike Disabato

And that's it for the week. Big thanks to Eric and Brian for talking to me at the Sustainable Finance Summit in Montreal. Thank you so much for listening to the second part of this four part series. Part three will happen next week. I know I said it would probably be Tuesday, Thursday, Thursday, but I think what we're going to do is a week tenor to make things a bit more spread out so people don't get sick of us. But if you like what you heard tuned in, subscribe to our podcast wherever you get them and don't forget to rate and review us. Thanks again and talk to you next week.

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