Liz Simmie - A True ESG Manager
The Business Brew

Liz Simmie is the Co-Founder of Honeytree Investment Management, a firm that lives ESG investing. See the end of this description for Liz' official bio.

In this episode Liz Simmie stops by The Business Brew to talk all things ESG. Unlike many "ESG" managers, Liz actually practices what she preaches. Said differently, Liz is the real deal and doesn't just use ESG as a marketing tool.

The catalyst for this conversation was Bill thinking about morality in investing. On one hand, owning assets one is proud of seems like a reasonable goal. On the other hand, how do we draw the lines? If cigarettes are bad then why is sugar OK? If tobacco is bad why is alcohol OK?

We cover a wide range of topics including:

- how ESG is bastardized due to marketing

- what real ESG investing looks like

- why ESG is as important to Honey Tree

- gender and racial diversity driving positive financial outcomes

- issues preventing companies from embracing ESG policies

- and much more.

Bill's biggest takeaway was that ESG can provide a qualitative advantage for investment analysis. We are grateful for Liz' time and hope you enjoy the show.

Thank you for listening!

Bio:

Liz is the co-founder of Honeytree Investment Management, an asset management firm focused on responsible growth, based in Toronto. Together with the team she manages Honeytree's concentrated active investment strategies for institutional and private clients. Honeytree believes what is traditionally seen as 'ESG' data is just as important to assessing a company's long term growth and risk as traditional fundamental data – and they integrate them both equally in our investment process. Honeytree is proud to be one of the handful of female led responsible asset management firms globally leading the conversation. Prior to founding Honeytree she worked at Bristol Gate Capital Partners a leading active management firm, and before that she worked in quantitative market research for Ipsos. Liz has BA in Economic Statistics and History.

[The Business Brew theme]

**Bill:** Ladies and gentlemen, welcome to The Business Brew. I'm your host Bill Brewster, joined this week with by Liz Simmie, the co-founder of Honeytree Investment Management, we're going to discuss all things ESG. I have some distrust, and I think Liz does, too. It's going to be pretty interesting because she built her firm, looking to rectify what she perceived to be some problems with the way that the industry treated ESG. We'll talk about that.

None of this is financial advice. We're not your financial advisors, we're not your fiduciary, do your own due diligence, hire an advisor, don't come here for financial advice. This is entertainment purposes only, folks. With that out of the way, Liz, how you doing?

**Liz:** Good. How are you?

**Bill:** I'm good. I'm very excited to talk to you.

**Liz:** I am excited to talk to a true ESG skeptic.

**Bill:** Indeed, I am. I had the catalyst for this conversation was, I had sent out a tweet about an investment that I have in Altria, which it feels bad even saying out loud. So, I at least acknowledge that there's something wrong morally, potentially with cigarettes. As you and I talked, you had mentioned to look into some of the sugar stats, and then we started to talk further and I said, “You know what, I like the way that she looks at the world.” Do you want to lay out the framework that you have from the beginning, and then maybe we can get into the depth and the nuance of the conversation as we go?

**Liz:** Even the best companies in the world do bad stuff. This idea that the impact can be attributed to the just the products and the services that companies produce ignores all the negative externalities that all companies produce. If you want to improve impact and reduce negative externalities, you need to invest in companies fixing them. One way to do that is the approach we take, which is we think of useful ESG data as fundamental company data. We think of workforce data and environmental inputs and outputs as bottom-line-tied fundamental company data. We use that in addition to financials to assess the long-term responsible growth of company. That's our approach in a very short nutshell.

**Bill:** Just clarify it if I'm like a five-year-old. Basically, you're looking at financials, two financials assume that they're equal, the next set of financial data-- or not next, but part of your mosaic, is how they handle the ESG side of their business, is that fair?

**Liz:** Yeah, but we treated equally. We look at diversity, women in leadership roles change year over year, alongside cash flow growth, for example. We think they're both evidence of competent governance and sustainable growth over time. Now, we're very long-term investors, we're assessing different stuff than, say, many portfolio management teams, but that's how we use the data.

**Bill:** Just so that I understand, when you are saying that they're equal, you're going to pass on a company that today maybe overearning and is cheaper but has no real diversity in it. I think that some of your thought process, not to put words in your mouth, but it's probably that is rent extraction from society and not so much a sustainable long-term outcome. Is that fair?

**Liz:** Yeah, it also points to their board and their management team not figuring out yet how to hire any women or racially diverse folks, which the ships been sailing for a while, folks. It is absolutely what you first said, it is the net economic impact on society of on equal wages, on equal leadership opportunity within corporations that's the direct impact that large and small corporations make. But we really see it as an insight into the quality of the governance team. You have a lot of large tech companies who have large diversity and inclusion teams and produce all these websites and set all these goals, but they can't move the needle on above 15% woman in tech or above 2.5% black folks in leadership. So, it's great they get checkmarks on all the ESG stuff for all the stuff that they've done, but they're not executing anything, and so that's what we're really trying to dig into with the useful non-financial data, is this team committed to anything long term? Are they capable of setting goals and are they capable of executing on them? We don't do our traditional portfolio process over here and then have an ESG set of data, or a separate ESG research team, as many firms do to complement, we truly think of the ESG inputs that we use as fundamental company data.

**Bill:** I like how you put that because it adds an element of context to the financial data that you're looking at where I could see the argument for, if two entities are trading at the same free cash flow yield with the same growth prospects or whatever, the underwritability of the growth prospect, and the entity that has a higher ESG score is probably a little bit more certain-- I know nothing certain. I think that the way that they're approaching it is arguably less risky, is that a crazy thing to say?

**Bill:** It's for a couple reasons, what we're actually looking for stakeholder governance, is this team working together for shared purpose, because then they're more efficient. Folks who've worked, folks in team sports, or folks who've worked for not well-managed corporations versus well-managed corporations understand how much stakeholder engagement especially employees, but also customers, matter to the bottom line. It's hard to do properly and it's impossible to assess with financials only. That's what we're really looking for. That's what we believe outperforms over the long run, that these purpose-driven stakeholder-governed organizations, their bottom line grows because of the impact, they're driving among their stakeholders. Again, it's very different mindset than most traditional investment approaches at the same time, the academic evidence backs it up, if you don't piss off all your employees and have lower turnover and have less women leaving the workforce and better recruiting abilities. If you save water, use less water, less waste disposal, you're saving money, this is all bottom-line stuff. But at the same time, it also has to do with that net impact that these companies make.

One of the things I found most fascinating, and one of the reasons we started our firm, and we're going to get into this in detail, is the end client, so the true end client of responsible investing, it's not about how they feel, it's not about feeling good. It's not about values. They believe companies positively impacting the world who care about their stakeholders are better investments over the long term. They're not interested in shareholder primacy models, which is most investment theory. They care just as much about making money, but their underlying belief is that companies that do bad things eventually will get into trouble. It's an additional risk. We as an industry, I have to say there are people doing this correctly, [unintelligible [00:08:05] Honeytree in the world, whether they're allocators or managers or advisors, who are building portfolios or picking managers, based on the same beliefs as us. What has happened is the large financial conglomerate globally has obviously taken an interest in ESG. The problem is, no offense to big banks, they're like the worst industry in terms of ESG, especially their asset, in terms of ESG scores themselves in-

**Bill:** Why is that?

**Liz:** -capital markets and asset management.

**Bill:** Is that a diversity thing?

**Liz:** It is. I was in a bank for about 12 months, so it was fascinating. This is mostly Canadian-US banks, but I'm sure it applies globally. The bank sides have done some work on equity. They've gone from 20% woman VPs to 30% or 40% woman VPs, and the retail and the operations in the tech side of the big banks, because they needed higher ESG scores, but they cared about this stuff. They knew they had a problem in in in finance and they could do something. The capital markets folks and the asset management folks didn't do anything. You're still at 15%, women PMs in most of the large shops, even the ESG leading managers globally-- We have a number of insurance companies and asset managers in Canada who are some of the leading ESG managers globally. They're stalled at under 15% women in senior leadership positions. They're the ones creating ESG research in the context of portfolio construction. They're leading the discussions globally. They're sitting on the diversity and inclusion panels. Yet, there are so many industrial companies and retail companies who've done so much more work and so much more improvement. It's a big mess. It's a mix of they don't know what to do. How do you how do you change your investment methodology to include non-financial data? How do you integrate it equally? How do you integrate it?

It actually impacts security selection. That's where we our-- so you have some very-- there's a large pension in Quebec. The Caisse de dépôt et placement du Québec, they're one of Canada's biggest pensions. They about two years ago tied emissions reductions to bonuses for their portfolio managers, because that's a huge initiative in Quebec, Quebec is pretty emissions environmentally focused, but they actually tied it to the bottom line of the PMs, not the ESG. Team, the PMs. To be clear, for the most part in the allocator world and even the PM world, most PMs are not ESG experts. There's a bunch, obviously who are, but for the most part, ESG teams are separate researchers who are not involved in security selection, which is a big problem. How are you supposed to use-- It doesn't work as a second-- using non-financial data does not work as a secondary consideration, especially in a shareholder-focused framework, which is why we threw out the shareholder focus, focused on stakeholders in it, then it makes sense how one would use the data in fundamental analysis.

**Bill:** For those that aren't familiar with how you approach things, and how do you look at a stakeholder company, or look at companies through a stakeholder lens that is different-- from the initial analysis, it seems to me that you and I are probably looking at securities completely differently as I currently do things. I admit that I do not know everything, so I'm open to learning. If you could educate me, I would really appreciate it.

**Liz:** This actually goes back to my old firm. My old firm, the only firm I've trained at as a portfolio manager, built a process that threw out most of traditional theory, which helps when one needed to adjust it for ESG. The reason the theory was thrown out is because there's a lot of underperformance in active management, and a lot of it comes from human bias. If you can remove some of the human bias in the portfolio construction, you can improve your chance of outperforming over the long term. Specifically, it was about reducing PM discretion. How do you systematize as much of this process while still remaining purely active, traditional fundamental management? The team built a quantamental model, this is before I joined, mostly because they did not want to hire six analysts. They were pretty cheap and small. At the same time, they wanted to remove the concept of ideas-- they wanted to systematize the process as much as possible. They used quants to cut down the S&P 500 to 50 companies and then did the deep dive on there. It's not traditional factor-based quant, it was really about identifying the highest dividend growers.

Then, you'd have a consideration set and you do the deep dive from there. We took a very, we'll call it cashflow, revenue, dividend debt-focused, fundamental deep dive to really assess whether they were going to continue growing their dividend at a high rate. The consistency of the governance team. How long term are they focused? How do they keep on doing this? What was fascinating is that fossil fuel never really showed up. Energy because of the cyclicality, obviously doesn't have high dividend growth, when we're talking like 15% plus, but also just being cyclical, didn't fit into that consistent growth model. Then everybody started launching ESG strategies. I was excited. I was intrigued. I'm a pretty progressive millennial, so this has always been something I cared about. When I was at one of the big banks, I'd gone through all the ESG products in Canada, and they were all total crap. They were all oil sands, all pharma, all companies really not making the world a better place. There wasn't any product. So, I was really excited at this time that the big banks were taking it seriously. They were looking at equity, they're doing all this stuff. Then, they just launched the same set of problematic products.

What we realized, my cofounder, Paula Glick and I, is we could take that quantamental portfolio construction, which throughout most traditional finance there, but worked, by the way. It was about 3.5% over the S&P over 10 years, annualized, with no FANG stocks, which is important. We knew that that methodology work, but we knew we could bring in non-financial data into that methodology equally, because we're really again, trying to assess the same thing, the long-term consistent growth of a company. That's what we did. We took basically exactly the same fundamental, deep dive as we would have before and similar qualification criteria, except we added in a whole bunch of non-financial stuff. We don't look at high dividend growth, because there's not enough high dividend growers, not destroying the world really, and that's why we call it responsible growth. In order to get into our consideration set, there's some fundamental requirements and functional requirements, but you need to have a board that's 30% diverse. We will not look at a company who hasn't figured out how to get to 30% board diversity, which is really not hard. I wanted to start at 40%, but we had to reduce it to 30%. We'll probably be able to put it up to 35% or 40% this year or next year.

**Bill:** Can you define diversity?

**Liz:** Exactly. Good question. Almost every ESG data set in most managers look at diversity, especially on the board through a gender-only lens. If you look at any ESG rating, or whatever, the talk is generally around women on boards. Which is fine to start, but then folks got to understand, there's a lot more to diversity. From the beginning, we looked specifically at racial diversity in addition to gender diversity. We would like to look at disability and LGBTQ, but that's only starting to be reported. Gender diversity is straightforward, except there is some nuances there. Racial diversity, that's a good question. How do you define racial diversity? We define diversity as non-male, non-- if you're not a male of the dominant race of that country. In Asia, if you're not an Asian male, you're considered diverse. It gets very tricky. Asia has awful diversity by the way, gender diversity specifically, but obviously racial diversity. That's how we have-- are those my kids screaming in the back?

**Bill:** Yeah, but it's all good. Don't worry about it.

**Liz:** We've built those data sets ourselves, because you can't buy them. Only now, only this year have I started to see a couple of producers, I think Refinitiv finally had one, but folks are still generally if you look through most of the ratings, it's about gender, diversity on board, gender diversity in management team, women in leadership year over year, and they're just starting to be able to bring in some of the racial equity data. We're lucky because in 2018 over half of our consideration set that we were looking at was reporting it. Most companies don't report it, but the good companies do.

**Bill:** Yeah, well, you're going to market what you're good at, right?

**Liz:** Well, it's interesting--

**Bill:** I don't mean that [crosstalk] I'm not saying like putting it down. I'm just saying, if you're proud of it, you're going to say it.

**Liz:** Yeah, but it became a requirement in the US. That's why. It's actually these regional standards on various things, whether it's water, or emissions, or equity. There's a California Equity Report that all the companies who operate there have to fill out every year, which goes into depth on racial diversity and gender diversity of their workforce at all the levels. As that's been required over the past couple of years, folks are just dumping that in their report. What's going to happen in the next five years is that data, pay equity, turnover, retention, geographic distribution of the workforce, and then the same set of data for the environmental inputs and outputs, is going to be standardized in the financials by the auditors. That's not me making it up, although I've been talking about it for six months, the IFRS is taking it over. The auditors who have the most money--

**Bill:** Which is the international accounting conventions for those who don’t know.

**Liz:** Yeah, those guys, the standards. There's been all these groups globally, trying to standardize ESG data. Again, it doesn't work if it's a separate set of data. It's not being considered in security selection, if it's just floating over there. The reason, the auditors are going to do it is they've already been auditing the more advanced report, so you can find annual reports that include all the data that I've talked about audited by PwC and EY. Most of the data that's in an ESG or sustainability report will be thrown out. I'm not saying this whole 80-page sustainability report is going to be translated to the audited financials but the quantifiable workforce and environmental inputs and outputs in general, we're not too far away from them being relatively systematized alongside the financials. That's where so many of the problems in the industry come from, is a lot of PMs in ESG, or firms in ESG, they still think of it separate. Their investment philosophy is considering them as secondary or tertiary inputs. Yet, they're selling equity and sustainability in future and all this stuff, there's a big disconnect there.

**Bill:** We'll come back to these people that are fake salespeople here shortly. Why do I care, Liz? I'm trying to outperform here, and I need to have the widest subset of selection that I can, and all this woke stuff is for politics, it's not for capitalism. Why should I care at all what you're saying right now?

**Liz:** What we do is very specific for concentrated active investors. If you're a concentrated active investor, the reason you should care about this non-financial data or the way we do things, is because purpose-driven companies outperform in the long run. If you're a short-term investor, if you're more focused on beating the market short term, obviously, our strategy is never going to apply given how long term focused it is, but it's really-- you described it earlier, it is additional insight into the quality of a company. If long-term consistency of growth and sustainability of the corporation is, is important to your process or your investment needs, the addition of non-financial information allows you to go deeper into that. A lot of it, again, because it's been separated, and there's been all this extra data created, it seems nonsensical, but when you go through the company reporting, and you can see progress and you can see useful data, because it's getting more useful every year, and if you come from the right framework-- it's okay to believe that diverse teams don't outperform but the academics say they do. It's okay to say that water use and waste and emissions don't matter but at the same time, they do.

But then, here's one of the first problems, I guess I've talked about a bunch of problems, but net zero. Here's one of the negative impacts. Now everybody needs to be net zero. Now everybody's planting trees, switching off their regular grid and going to buy the limited amount of renewables being produced, and then clapping their hands, saying that they're done. They've achieved a net zero. That's not the problem. We can't just go through the world tick boxing, fixing these problems. Net zero, one of the things that bothers me-- [crosstalk]

**Bill:** I think I know what net zero is, but you're talking about emissions, right?

**Liz:** Yeah. There's two types of net zero. There's marketing net zero, which is we bought all our energy from a renewable and planets and trees, but we haven't changed any of our processes like commuting, packaging, shipping, delivery, all the stuff that create business travel, we haven't changed any that of that, but we bought offsets to make up for it. What's the point? That's just buying offsets.

**Bill:** Yeah, you can't do that? I thought that was fine, right? You just stroke a check and don't change your life, and everything's good, no?

**Liz:** No. The science-based target initiative, which is what true net zero is, actually involves reducing outputs. It's fascinating what folks can do. I can't remember which company this is, but you can just redesign your packaging and reduce your shipping volume by 30%, 40%. It saves money, you can ship more and it's much better for the environment. The smart companies are thinking about it that way. Those are the companies that we want to invest in. We need to look at how they're innovating packaging and inputs and how they're shifting from virgin materials to recycled materials. Like Nike and Adidas kind of seem evil in lots of ways, but they're going to be at 100% of their products being made with recycled materials in the next five years. That's what we need companies to do. We need them to solve all the problems. We need small companies to solve a whole bunch of problems, we need big companies to solve a whole bunch of problems. Those that solve those problems also will make more money, because they'll still be around and they won't be lagging on restrictions and they won't be dealing with lawsuits and they'll be gaining market share. I just like to think of it as the impact that they make is what drives their bottom line. It's not about that they're lifting all children out of poverty. That's not what it's about. It's they're paying for decent work, they're training their employees, they're paying equitably, they're training changing their recruiting, they're doing all these things that impact far beyond their company to their community and stakeholders. That is also what ends up driving their performance.

**Bill:** One of the thoughts that's going through my head here is, on one hand-- let's just talk about offshoring labor, for example. On one hand, you're providing an opportunity for a population that otherwise would not have one. On the other, you're hollowing out the middle class here, is at least the perception, and I think some of that's true, and some of it's political. When I say here, I'm in the US here and Canada. I guess, how do you look at a situation and assess maybe what group of people should win and what group of people should lose in an equation like that?

**Liz:** That's a really good one. Most of the companies we look at obviously have some aspect of global operations. You look at regional turnover, for example, and it's always higher, the lower you go down on the-- we'll call it the pay scale by region. You might have a firm with factories in China or Vietnam, and the US and Europe. The turnover in the US is 10%. In Europe, it's 5%. In China, it's 100%. In Vietnam, it's 85%. It's really nuanced. The China production question comes up. If we have a problem with forced labor, like, we can't hold it, we can't hold like any companies in the world, because anybody producing anything in China, is both complicit with the Chinese government and at the same time, it's not their fault. So, it's really, really, really tricky. Now, just to be fair, we exclude dictatorships. We will not hold a Chinese company, but most of our companies have production-

**Bill:** Supply chain there.

**Liz:** -and clients in China. It gets the line and gets very messy in there. The outsourced or overseas, outsourcing, whether high end or low, you're right, you are creating jobs, you are creating community impact in those countries where those jobs are being sent. Hopefully, it's decent because there's lots of companies who would exploit a lot of folks, but at the same time, we're driving development, our demand in the West, obviously, China's got lots of demand-- The jobs, nobody wants to do factory jobs in Canada for $20 an hour, especially since they used to be $40, which is a whole other issue. We can talk about labor rights and stuff for two years. When the data is more thorough, when we can compare working at a semiconductor factory is very different than working in a Nike shoe factory, in terms of pay, in terms of training, in terms of specialties and all that stuff. One of the reasons the semis end up actually being quite good companies and rating high-end ESG is because they've always had that high end manufacturing. They've globally had manufacturing, in terms of regulations, in terms of safety, in terms of all that stuff is way ahead. Then you have companies like Apple who don't own their manufacturing, so they're separated from it. It's a fascinating global intersection-- a globalization intersecting with industry differences, intersecting with, “Why the heck does any of this matter at all?” Why does it any of it matter?

Well, it matters to me for the bottom line, obviously. We have to do full systems change. We've screwed up the world lots in various ways, and we have so much opportunity to increase economic capacity everywhere. A lot of that is equity and a lot of that is not killing ourselves with pollution. We cannot-- We'll always need plastic, but we can change the fact that we live every day touching 10, 15 plastic objects. We can rethink this, we can use that recycled plastic. We can think of ways to be more efficient. We'd like to think that just tech is doing all the innovation, when consumer packaged goods companies, industrial companies, all these firms have the potential to change everything and make a whole bunch of money while they're doing it. I love the nuances of ESG because they're so-- like the Altria. Booze, sugar, tobacco, right?

**Bill:** Weed.

**Liz:** I don't think weed’s that's bad, I don't understand why people have problem with it.

**Bill:** I don’t either, but this is the issue. Then some people will be like, well, it's a vice, it's got to be bad. It's like, “Well, I'm not sure that weed is worse than a pharmaceutical company.”

**Liz:** Pharmaceutical, let me talk about pharmaceuticals first. We don't exclude pot, by the way, we exclude tobacco. We also exclude companies who do things like Purdue, but we don't exclude alcohol. I know there's lots of problems with alcohol. Sugar, let me talk about sugar. Everybody knows sugars bad. But for some reason, it gets treated like it's food, so it's okay, we all eat it anyways, let's just give up. Alcohol is bad and tobacco is bad. The sugar industry, the confectionery industry, the corn syrup industry, the agribusiness related to all that have been just driving lies about sugar addiction and corn syrup and production, just like Purdue, just like the tobacco folks. Whether it's in cereals-- I think it's somewhere in the thread on Twitter, there was the stamp you could get in Canada called health check. You'd get it on cereal boxes and cookies and slightly healthier stuff. The thing is, I worked in market research before investing. We had clients, it was a branding firm who was selling a health check. You just paid them five grand, and then they put it on your box and then you were a health check in the aisle. These were--

**Bill:** Okay, hang on, wait, we've got to talk about this. Basically, what you're talking about is just motivated reasoning, stamping product approval label on?

**Liz:** Yep.

**Bill:** Yeah. [crosstalk] -product.

**Liz:** Cereal box.

**Bill:** You saw that from the inside?

**Liz:** Yeah, we had clients who were cereal or cookie or whatever, it's the same thing as ESG. How do we convince without doing much? How do we brand this as slightly healthier for you, slightly better option? It's called ESG Lite, which is most of the industry. It's here's our same process, we didn't really change much. We hired an ESG manager, we signed the PRI, the Principles for Responsible Investing, and then that makes us healthy.

**Bill:** Yeah. It's all virtue signaling.

**Liz:** Yeah. Lots of companies do that in their ESG reporting, in their CSR reporting. Some companies have a lot of employees to talk about all the good things they do, to fill out all the surveys, to check all the boxes. That doesn't make them better. That just means they hired people to fill them out. I want companies who actually care less about that but are doing the work without the advertising.

**Bill:** Yes, no, that makes sense. People that are living it.

**Liz:** Yeah, they're living it. They at their core, the board at their core knows they need more women leadership for the bottom line. We have midwestern industrial companies, who by the way, if you look at an ESG rating on them, it shows they don't disclose their equity goals, but they actually clearly disclosed their equity goals five years ago, and increased their women in leadership positions from 10% to 25% over five years, Midwestern industrial company. Facebook, Google, those guys, they're like, maybe 1% or 2% in the same period, with much more resources. But they don't believe, They're not long term, sustainably focused companies. They're not thinking 10 years out. They're not planning for growth. They're not understanding their stakeholder impact, and they're fine investments for lots of other folks, but they're not for us.

**Bill:** Why do you think that they've had such a problem in that? Like, specifically women in tech, what do you think is going on there?

**Liz:** Women used to be more than a quarter of coders in the 70s. Same thing in portfolio management. If you go back 20 years ago, it's actually higher than it's now-- [crosstalk]

**Bill:** Really?

**Liz:** -10%. Yeah. I can't explain to you how many times portfolio management folks, all guys, have said, “But Liz, women just don't like math. There's nobody applying, women are not interested in this job.”

**Bill:** That's not very good analyst if you ask me. [laughs]

**Liz:** Yeah. I like to tell my version of it because I think it puts it in context of how complex that is. My dad was an investing when I was in high school. I was in a math and science program in high school. I only applied to engineering school, and then I decided I hated physics, so I switched to arts and did econ stats, and a bunch of math and history. I loved it, but at no point was I ever interested in going into the investment industry. One, I saw no making the world a better place opportunities. Two, when I worked at my father's office, everybody was either an old dude sitting at a mahogany desk, or a support person. Even though my father was a role model in the industry, as an ideological, young college student, it wasn't even something I would have ever considered. Then, I went into market research, I did that for about four years. Then, my father needed a third person at his firm, so I joined. It was obviously the best experience possible and built my capacity, but the number of examples, not in RBC where when I worked at the bank. Here's my favorite sentence, managing director says, 2016, "This is a great event for your clients to bring their wives to." There's this assumption in the investment industry, especially in places like Toronto and New York, that a PM looks a certain way, a CEO for an asset manager looks a certain way. Women are good at ops, women are good at compliance. Then, you go to the conferences-- and the Portfolio Management Association of Canada, I guess it was 2017, I was at their conference, there was no woman on any of the panels, and it was fine. That's just normal at all these conferences, but two of the guys stood up, or stopped the talks in the middle of the talks and pointed out that there was no women.

What it is, is it's an insulated industry. Tech and investing in engineering, are very insulated industries. They also absolutely have a pipeline problem. The thing is though, you can't just say no women applied, which I see regularly. Let's call it, 40 folks asked for analyst jobs, and definitely 37 of them were dudes. How do I, as a founder, go find another 15 non-dude options when we post an analyst job? That's my job, just as finding clients. We also have to make the industry cool. The industry is not cool. The industry looks evil from the outside. There's a huge potential with-- The other thing is if we're faking sustainable finance and ESG, we're not going to appeal to any folks. That's why I speak out. I think this industry can be good for the world, I think the entire industry can be good for the world. There's so much conflict of interest and disclosure that we can tear down as an industry because this is not just an ESG problem.

One of my original passions is active manager of underperformance. Why do we keep on paying these folks? We do because we have structures and institutions, and the assets don't move quickly? Also, when you look at the industry, it's not it was 90% women portfolio managers underperforming over 10 years for the past three decades, so maybe there's some room for improvement there. It's so many things that reduce that pipeline that once hired, there's a really big turnover issue. They might be able to put 50% women in a class at an investment bank or capital markets group, but the turnover for the women is so much higher.

**Bill:** Why do you think that is?

**Liz:** Have you been on a trading floor?

**Bill:** I have, it's very dude-y.

**Liz:** I had a woman bank exec whose husband's on one of the floors in Toronto, say to me, this must have been last year, I had to tell him he can't say the word Bambi in front of our son. I know, it's done in whispers and stuff. It's really hard for somebody like me, I have a lot of guy friends, I've never understood, but there's these unspoken assumptions that, I don't know, we're different or something. It's the bro culture, like our team. We also are very bad at hiring in the investment management industry, especially in Toronto. There's a golf course in Toronto, where 50% of the male members are an advisor or in asset management. As long as you are a member of that golf club and you're a dude, you get a job, and we're not very good at HR posting jobs. People get hired through friends and acquaintances and it just perpetuates, so then all of a sudden-- We need to we need to change our hiring processes in most of the industries. You need to set up, but they don't even know that there's a problem. Just look at BlackRock's gender diversity data. They don't even know there's a problem yet they're leading the discussion on this. Hopefully in the next year, it'll become clear to the world, especially the ESG world that they're just sitting on their hands and it's really like-- Larry, I know, he cares, but if he cared, he would be doing the same work as midwestern industrial companies in terms of woman portfolio managers and racially diverse portfolio managers. They'd be talking about this. The whole thing is-- the industry, the structure, the systemic issues itself don't encourage women and diverse folks to get in. When they get in, it's-- I didn't get invited to the bar, because I'm not a guy, a lot.

**Bill:** Yeah. All right. I have to come clean with you because I've been thinking about this. I actually was going to say that. I was going to say, I think that sometimes-- I'll just say what I mean, even though I'm afraid of how it's going to come out whether or not people are going to shit all over me, whatever, it's the truth. There were times that I would think if I was at the bar and it was after work, and I don't know, there was a moment where it was like, okay, if we're going to keep going, I'm just going to go hang out with the guys, in part because I can't get myself in trouble if I'm drinking with guys. I'm not going to ruin my marriage at all, in any way, shape, or form. That's not even a possibility for me. I struggled with that thought, because I was like, well, on one hand, that's so immature and just get over it, or don't get hammered and not be able to control yourself, just be an adult. On the other hand, a lot of people have found themselves in bad situations that they didn't set out to find themselves in. It's almost like the Charlie Munger tell me where I'm going to die, so I don't go there type thing. I know that that's-- I'm fearful that I'm not articulating myself appropriately, but if we're having an honest conversation, that thought definitely intruded in my mind, and I did consciously -- there's always-- I've always got along really well with women. Growing up, I always had girlfriends and stuff around. I don't know, then there's also the part of me that knows that there is a physical attraction element to a lot of interactions, and I try to avoid it in the workplace. I don't know how much that is a factor, but I do think that it would be hard to have this conversation and not acknowledge that at least probably some mentorship doesn't happen for that exact reason.

**Liz:** Oh, yeah. Even just folks underestimate how much benefit from spending an hour after work with your boss or a colleague. What you've described is just one of those natural biases most of society has. Is it true? Maybe a little bit. I met my husband at work, but we were beach lifeguards then, so that's a little different.

**Bill:** There you go. It's hard not to, then?

**Liz:** Although I guess everybody was just trying to meet everybody then. It was in college.

**Bill:** [chuckles] Different time.

**Liz:** At the same time, as you acknowledge, if there's five junior folks at a firm, we're on a team, and one of them's not invited to drinks, regardless of what reason. They're missing out on a bunch of stuff. If they're Muslim and you think they don't drink, or they don't drink, and even people who don't drink had left out, a whole bunch of stuff, but that's an entirely separate conversation. Yeah, it's that belief, the belief that you have can be extrapolated to all aspects of gender bias. This woman won't work as hard because she's got to go home and take care of her kids, whereas nobody thinks her husband needs to go home and take care of their kids. Same thing with clients. I think it's getting better. I think the 3% or 4% of senior leadership and asset management is women. It's ridiculous. It'll be easier when it's higher, but I think guys' beliefs are changing, men of all ages. I think part of the reason-- so most folks not willing to say what you just said, it just festers in their brain, they worry about it.

**Bill:** Well, that's good, because I'm still worried about it. [laughs] I'm not trying to get cancelled out here. But I do think it's an important thing to acknowledge.

**Liz:** Infidelity is another issue altogether. You can find infidelity at not work pretty easily. It's taken me a long time, even as a progressive millennial, to get the proper language around racial equity and gender equity. I've been learning for a very long time and unlearned a whole bunch of stuff. The investment dudes who care, which is a large chunk, are just getting their feet wet in the language of equity and inclusion, and are just willing to talk about it. Five years ago, if I said, “Why am I not getting invited to the bar?” There would have been some, “No, no, no.” Now, “Well, let's just invite Liz to the bar.” There's more conversation, and here's why.

George Floyd. Racial equity is much harder talk about the gender equity, especially since there's a whole bunch of white woman diversity in financial services, there's a whole bunch of us who are quite vocal about gender equity. But talking about racial equity, for a white person, a lot of folks are just too scared to even bring it up in conversation. Same thing with gender equity, especially in investing because of all the reasons we've talked about, all these beliefs and biases. Because of last year, a lot of the open minded, looking for some way to explain the issues that they saw in the industry, because there's so much talk in all industries around racial equity last year, I've seen a really big improvement in white dudes' ability to talk about both issues and to be comfortable bringing them up. It's one thing for me to be comfortable bringing things up. It's another for it to be a bigger conversation. You've already alluded to that. Why is it such low numbers of leadership? We know there's a problem, how do we fix it?

I think the last 12 months has been very interesting, because my dad is better at talking about it, you go to conferences, and lots of old dudes talking about gender and racial equity because they've seen that there's a problem. They've seen that it's a dude fest everywhere. Every ESG firm I learn about, I go, I look at their portfolio management team, and one of the big ones in Canada has 41 PMs and one's a woman. They're selling ESG institutionally and they're a leader in ESG. You have allocators, you have senior investment folks saying, “Oh, dammit, there's really a problem here,” and calling it out.

**Bill:** Have 41 PMs, can it just be an index?

**Liz:** Yeah. [crosstalk]

**Bill:** 41 PMs a lot of PMs.

**Liz:** Yeah, we could do seven podcasts on index hogging and shitty ass active management. I have actually--

**Bill:** I knew I'd like you.

**Liz:** I actually have stronger opinions, because I come from such a nontraditional investment process. I have a lot of strong opinions about traditional theory. We as an industry have to innovate like all the other companies out there. If we're all just twiddling our thumbs, chilling crappy underperforming products for 1.2%, to whatever gullible soul shows up, nobody's going to trust the investment industry. We've got to change. One thing that's been great for the pandemic is meeting with allocators and institutional folk in the casual world. Allocators have always been more casual than the street and the asset managers and the dudes in suits. Again, that's not going to attract a broad cross section of society to the industry wearing uptight suits and running around manically and yelling at people. The Wolf of Wall Street is the perception of our industry, and that might be better than what most people actually truly think of our industry. In order to recruit and change and innovate, it's not about doing ESG, you don't need to do ESG to make a whole bunch of impact and make the world a better place. You can run a good business, hire equably, provide good jobs, great research, good product, all that stuff. Some firms are doing it but the opportunity to change the workforce, it's not about putting 50,000 girls into finance. That's not the solution. It's a much bigger problem to fix and we're really bad at it.

**Bill:** Yeah. The other thing that I dealt with, my wife was at a big firm as an attorney and there was a guy who early in her career started to mentor. Then, it turned into like, "Well, you should come meet me for dinner," whatever. It rubbed me the wrong way, it rubbed her the wrong way, which is why it rubbed me the wrong way. As it is, I don't know it, it was difficult. Then finally, she left that firm. Then, I didn't have any problem with any of the guys at the next firm, that was a firm full of respectable humans and not schmucks. There's a fair amount of schmucks out there. I guess I was worried that I was a schmuck back in the day, I'm less concerned now than I was, but a younger me was more worried.

**Liz:** Yeah, there's bad actors, both male and female, in all firms. In good firms, culture stops them from being total assholes all the time. In poorly managed firms, they get to be assholes all the time. That's one of the things that we're looking for in our research. We can't do an employee survey and figure out who all the assholes are and make sure they're being controlled. It's the culture, it's the shared purpose, it's the beliefs and the norms of an organization that allow people-- that don't drive them away from the firm, like your wife.

**Bill:** Yeah, that firm's retention was shit and it deserved to be, that was a terrible firm. The one she joined was okay, but when it was acquired, it turned into something not very good.

**Liz:** Exactly.

**Bill:** For a while, they may have turned now.

**Liz:** Anybody who's been through reorgs, the large corporate reorgs or private equity takeover, whatever, knows that at some point, the bottom line gives way to just shitty organizational management and lack of shared purpose. It's fascinating, it's a hard-to-quantify academic topic, but when you've lived it, and you've had to avoid, it doesn't matter if you're a retail worker or a law partner, it's the behavior in an organization, whether from an individual or a group or the organization as a whole, impacts productivity. It impacts retention. It impacts hiring ability. If you get a bad reputation, your hiring pool's going to be decreased severely. It's really hard to see too. The dudes, the PMs and the analysts, don't see it. Again, most guys are great. I've got to underline. Toxic folks, guys who do inappropriate stuff, women who do toxic stuff and inappropriate stuff, they're very small part, but because there's more dudes and investing in tech, and fewer woman. The sexist targeting of the bullying-- because these bullies, these jerks who do bad stuff, do bad stuff to guys, too. It goes through more sexist framework, so it's just compounded versus if you had 50%--

**Bill:** It's like a bully is a bully.

**Liz:** Yeah.

**Bill:** That's an interesting comment. You're saying the type of person that bullies would bully anyway, when a sexist element is introduced, that's how they tend to bully.

**Liz:** Yeah. They are the ones who are going to talk over a woman senior to them, and then suck up to the guy senior to them. They're just those dudes. A guy who's going to be inappropriate in one workplace is going to be inappropriate all the workplaces, it doesn't matter how management-- The good management team who realizes it, is going to fire him, and without $50 million severance. It's one of the things we're not looking for. Google, there was a big piece in The Atlantic, maybe two years ago, 18 months ago on Google's board. When those two senior guys had a big sexual harassment, and I can't remember the details issue, there was only one woman on Google's board. She spent a year saying, “Guys, we need to fire these guys. We need to get rid of them. They've done a whole bunch of bad stuff.” Because she was the only woman on the board for a while, everybody's like, “Ah, it's not that bad. It's not that bad.” Then they paid them off each $50 million, and fired them a year later, but why did they spend a year debating it, and so you can just see how the bro culture protects people.

What you want is, you want a board who's capable of firing a CEO when he's inappropriate, not brushing it under the rug. It's not because it makes us feel good, it's because that's a better-managed organization. They literally have policies for when people do bad stuff, and they can manage it and then they lose less senior lawyers, they have less turnover, they're better able to attract, and they understand that it's part of the bottom line. Also, that you can't be an asshole at work. Too many companies are not well managed and allow that behavior to just go-- these people who do bad stuff, they're not doing it as publicly as possible, like bullying and toxic behavior. It's gaslighting. They're doing it undercover from trying to be in a position of power and it's hard for folks to see. It's hard for good folks who can-- even if they're in direct management, directly related to the rules, that's just like high school sometimes. Behavior-- and good teachers in good community speak up and work against it.

In bad communities-- who was it? Somebody was talking yesterday. You can have teacher encourage bullying. There's bosses who encourage bullying. There are CEOs who say, “Oh, that doesn't matter.” It's a whole big mess and it very much applies to the investment industry, but it applies to any role. It speaks to our role as employees in the bottom line. If we're worried or not engaged, or people are causing problems, or for me, it's like efficiency issues, if I'm looking at management doing really stupid stuff, that impacts your work. How engaged in an organization can you be? That's how governance intertwines with our severe lack of equity in our industry. We need to change it.

We're the fourth public equity or public market asset manager in Canada founded by a woman, only the fourth. More probably the fourth or fifth long-only ESG manager, founded by a woman in the world. What is it, 99% of institutional assets go to white male led founded firms in the US of institutional assets. Even though many of these foundations and folks are focused on racial equity, or gender equity and things like that. We will get there one day, hopefully before I die. Women represent some significant women managers, well-known firms represent some significant portion of that. But again, we were lower than we were 20 years ago, for a woman portfolio management, yet it's a really good role for woman. I don't care how many podcasts or speaking things I have to do, this industry has so much opportunity, but we can't change it in the structure that it is. We literally have to throw most of it out and rethink the wheel. I think that's true of lots of industries, but it's particularly given our responsibility, given the assets we manage, given our role in the world, we can probably benefit the most. Just from client service perspective, the wirehouses in Canada, and I'm sure there's the same in the US, lose 90% of the widows because--

**Bill:** Huh, why?

**Liz:** Here’s why. Women are evidence based. We're not interested in some cool guy's new theory and because we're outsiders. Let's say you and I are married, and we go into our advisor and the guys, like, “Yeah, macro this. Yeah." You're like, “Yeah, yeah, that makes sense.”

**Bill:** [crosstalk] -by macro, don’t do this to me. [laughs]

**Liz:** You know what I mean?

**Bill:** I'm just kidding. I got love for some macro people.

**Liz:** The woman's they're going, “Why are these guys talking about anything other than our actual investments and financial planning?” A lot of retail gobbledygook that's shilled is very short term, very story based, not very logical, evidence-based approach to investing. People think women aren't interested. Women are just not interested in the story, sales pitch hocus-pocus stuff that is frankly a lot of sales pitches in investing, so they get treated as second-class citizens in an advisor's office, in retail. The MD who said, “This is a great event for your clients and their wives.”

My mom worked for a firm that was founded by two women and they had lots of money. Them and a couple friends were with a large advisor, one of the wirehouses, and they were all married. Most of the assets in all the accounts were theirs. They sold businesses, they made lots of money. Their advisor switched banks, so they decided to go switch banks. When they got the call, like wirehouses call all the clients that are leaving to try and keep them with the book, they all got-- their husband got the call. If the bank had any concept of anything, they would have clearly labeled on those accounts that you should be calling the wives first.

**Bill:** Huh. They never had the point of contact with the person that was actually leaving on the widow side.

**Liz:** Yeah, and so they can call the dudes, but the dudes all just laughed at them because they're like, “You're talking to the wrong person.” Some of them may have even considered talking to some of the-- so that's what I mean. And this is recent, this is 2017. This is not in 2012. My mother has a PhD in marketing statistics from Kellogg. She knows some math, okay, just some, just a little bit. Every finance personality, probably including my dad and me, but every finance person has treated her has never spoken to her-- she loves the governance stuff and stakeholder stuff, don't get me wrong, she loves what we're doing now. They've always looked down on her, yet she literally is more math qualified than frankly anybody in the investment industry that she's actually come across. It's a fascinating mess. We can fix it, but we need to acknowledge the problems first. You need to set goals, and then you need to work towards them. It's very simple, and at the same time, it's extremely hard. It's easy for us because we're starting from scratch. I don't need to take a team of thousand and restructure it and figure out how to go from 12% woman PMs to 18% woman PMs, but it's no different than building a client base. Your clients are stakeholders, your employees are stakeholders, your communities are stakeholders, your shareholders are stakeholders. They all matter. And too many investment firms, don't think employees matter that much.

**Bill:** Sorry, can I circle back to something that you said about the boards? Because you'd mentioned bro culture. At Google them not listening to the woman on the board, is there any evidence that gender diverse boards are more willing to attack divisive issues as opposed to like Country Club friendliness in the boardroom?

**Liz:** Yeah, there's a bunch of studies, and it's a critical mass in the group. It doesn't work with one woman. It's around three. Again, it depends on the board size, board could be 6, it could be 15. What if your entire board is 50% women and 50% guys, but they all came from Ivy League schools? That's not diversity, that's not a diverse experience, you still have just as many blind spots, maybe with a little slight gender advantage. There are a lot of board appointees who are [unintelligible [01:02:46], who are token, you see it on Canadian boards all the time. “There's not enough woman who are qualified out there.” Well, you're just not looking. There are tons of women who are qualified to be on boards. They've just not known that corporate director's a big opportunity for them, they haven't been recruited and their buddies at the golf course because they don't go aren't talking about it. So many boards are filled with, and nonprofit corporate doesn't matter, are filled with golf club buddies, whether they be woman's boards filled with gardening guild or junior league friends, or the golf boards-- some of the nonprofit large boards in Toronto are the absolute worst. They make large banks look functional, because it's all just like, “My 10 party planning friends and I are just going to do this.” There's so much conflict of interest. I've had to resign from a board for a variety of issues. It's so important in my governance training. I did a lot of nonprofit governance training, just so you know, that's where my passion for governance as a topic and specifically stakeholder governance comes from. It doesn't come from the investment industry. It comes from being on multiple boards in the nonprofit sector, including really crappy ones that had issues, but we went through transitions.

Most nonprofit boards act as a management board. Frankly, most corporate boards act as a management board. A board's job is governance on behalf of the stakeholders, which is always long term and their job is to supervise the CEO, and set long-term priorities for the organization. It's very simple, but it's impossible to execute for most groups of people, whether they are the highest ESG scoring company in the world, or a firm like Honeytree. Governance is really hard and messy because it's not just numbers, its people, its systems, its biases, its productivity, it's all that stuff. But the science is there. You need a critical mass of outsiders, who have an outside perspective, whether that's because they've got a disability because they went to a different school, because they've got different sex organs, because they have a different training experience. Outsiders remove the blind spots, doesn't mean they're smarter, or more qualified or less qualified.

**Bill:** Yeah, just a different perspective.

**Liz:** Yeah. You don't build a baseball team with 25 of the best pitchers for a reason. You don't want the 25 best batters. You need fielders too. So, a board or management team, or an organization is the same. In 10 years, we're going to have a lot more science on this. The academics, the quantification, functional teams is in the early stages. There's some studies and stuff being done, but it's really this mesh of organizational behavior, little bit of finance, a little bit of human dynamics, psychology. That's why it's such a messy science. But I think a lot of people have experienced with what good governance is in their jobs or their nonprofit or their organizational work, and understand it better than-- there's framework that we've created-- not us, but the ESG industry has created on governance, which is, it's what's CEO comp, is the board independent, is the auditor, audit committee independent? That's what they see is governance. I hope what I've explained as governance is this magical, mystical bubble that sits over all of it, that is what drives long-term success. But it's tied to all these other inputs, it's not some-- and that's why I don't like the term ESG, even though I literally use it thousand times a day, is because it buckets all these measures, these non-financial measures forcibly into a bucket when there's so much overlap between them that those inputs themselves and with the financial.

**Bill:** Yeah, that makes sense. The standard problem of when you try to describe a complicated problem in a simple way, it gets reduced to a whole bunch of checklist items. Then, the actual solutions to the problems get somewhat lost but the people that are claiming to solve them can go out and say, “Hey, we're solving them.” And they're actually not doing anything, but they got a checklist that says that they are, and like the cereal box, that's their label and go out and sell it. Right?

**Liz:** That is ESG. Yes.

**Bill:** I guess what was some of-- I had floated, what are people's biggest problems with ESG. What were some of the responses that you thought were-- I thought it was interesting how many people agreed with you on a lot of things. Most of the complaints were-- This is on Twitter, for those that don't follow. Liz is *@LizSimmie* in case you want to look her up. I'm *@BillBrewsterSCG*. Most people are talking about the implementation of ESG, as opposed to ESG as a problem or something to concentrate on. That was an interesting set of comments back to the question.

**Liz:** Yeah. No matter where you sit on your political beliefs or even religious beliefs, I think that a wolf in sheep's clothing bothers everybody equally. I think people who are skeptical like you, and people who are really into it like me, when we look at what's available and what's being communicated, it doesn't make any sense. We can see it for the same reason, because the seller doesn't believe in it innately. So, as it's executed, it's a bit of a mess, and so that's where all these questions and skepticism and disbelief or lack of product fit come from. It's been quite consistent, no matter who I talk to, no matter what their role-- Not PMs, though PMs either think ESG is really stupid, or that they're doing it right, just to be super clear. There's not very many PMs-

**Bill:** There's no one in the middle?

**Liz:** -like me, who-- I know we're doing it right. There's not many PMs like me, who will say that ESG is great, but everybody else is doing it wrong. You tend to be on one side or the other. I just think people--

**Bill:** Well, that makes you enemies, Liz. People don't like to hear that they're doing things wrong.

**Liz:** I think people who have not been indoctrinated with ESG or have not been-- one of my important benefits is I knew nothing about ESG before we started Honeytree. I knew what inputs mattered, without looking at an ESG data set, what we wanted to use in the portfolio construction, but I didn't know anything about that framework. The more I learned about this framework that everybody's using, the more disenchanted I get with it. I understand exactly what everybody's looking at. I are triggered to start the firm. One of the big banks released a gender equity ETF, and one of the large pensions put in $100 million to seed it. The reason I remembered is because we launched ETFs. I launched ETFs for our firm at about the same time, and I was so excited. I was like, “This big bank cares.” I don't know why I thought they cared, but this they care, they're doing it right. Then I open the top 10 holdings, and RBC and TD are number one and two. Now I could talk about banks and ESG scores for 10 years.

**Bill:** Yeah, you already did, but that doesn't sound like top two potential there.

**Liz:** They are again, bankside fine, and everybody just ignores the cap, they don't even report the capital market stuff or the asset manager stuff. Again, Canada has a diversity issue in our corporate world, like across the board, just to be super clear. Our boards are 10% less diverse than US boards, gender and racial equity. Anyways, RBC and TD, on a Canada scale, they're not awful. They've got more than one woman on the board. OpenText, which you probably heard of, some of your listeners will have heard of, Canadian tech company in Waterloo, just does lots of-- Anyways, my brother-in-law works at OpenText. I was so excited to see OpenText in the third position. I was like, “My brother-in law works for like an equitable tech company. That's amazing.” I go to the website. This is my early stage of-- how do you do ESG. One woman on the board, and the head of HR was a woman. I was like, “This is just total bullshit.” That's what people are doing. They're saying, “I'm excited.” They're either saying, gender equity, ETFs are stupid, and the industry stupid, and they're all doing it wrong, why are they using any of this data? Or, they're saying, “Why are they putting these companies in here? What are they thinking?”

Now, the underlying idea was to get Canadian companies to try and improve their gender equity on their board, or in leadership, and so you'd be on this index and companies would improve. The problem is you put one woman on the board or as a third position, because there's no choice. That's that disconnect, so you could see where somebody like you would be skeptical, and somebody like me would be skeptical for both the same and different reasons looking at that product. That's happening over and over and over. It's not about you care about specific set of values and I care about a specific set of values, and we need a product to meet each of our needs, and so direct indexing is the only option. It's a great option for direct indexers, by the way. It's what are these PMs even doing and building this portfolio? I can blatantly see that they don't care. That's what happens. Even you, even a non-- I'm not saying you're not progressive, even a gentleman--

**Bill:** Yes, I'm progressive, come on, Liz. Geez.

**Liz:** Who was raised in a very conservative environment--

**Bill:** Here I'm being honest, I'm putting myself out here.

**Liz:** Even somebody who was raised in a very conservative environment would go to that ETF because again, conservatives care about gender equity too. Conservative folks can care about the environment, conservative folks care about-- Well, I mean, they think that some parts of the progressive spectrum are virtue signaling, which we all are in some capacity. Folks believe academic research and they can't articulate it, but they see the disconnect between the end product and the intent, and the provider and the end goals. Everybody in the ESG industry is cheering BlackRock. Yay, BlackRock, yay, 2015 net zero, blah, blah, blah. Everybody out of the industry-- not everybody, but a whole bunch of folks who don't believe in ESG responsible are like BlackRock, are they diverse? What are they doing for the environment? Why are they leading this conversation? Skepticism is deserved across with the exception of maybe about 11 firms globally deserved, and it's not that different than the active management world, but because we're selling morality, it's a little easier for folks to see. It's a little harder for folks to pick apart track records and holdings and portfolio construction on the active side, but it's a lot easier to see when somebody has not really thought of ESG in their ESG product.

**Bill:** Yeah. I can see that. I think the other thing that's somewhat tough when I think of ESG is like-- I don't know, let's assume that Facebook did have women and minorities in sufficient proportion. If you were to look at what politically has happened throughout the world, since social media became growing like a weed, I'm not going to say it's causal, but it's certainly correlated with an increase in polarization on both sides. I don't know, is that ESG that seems to be tearing at the fabric of society instead of social? But then, here, I've built everything that I have on the back of Twitter, and it's made me a much better investor. I would argue person-- I wouldn't be sitting here with you if it wasn't for Twitter. On the other hand, I see the downsides of the tools. Parsing what is good and what is bad and how to outweigh.

The other thing too, is it's the typical weather forecast. Everybody pays a lot more attention to the bad stuff than the good stuff. There's a lot of positive things from different firms that maybe don't get enough attention and all the negatives are amplified. I think some of the subjective parts about this problem are part of what makes it tough. What's your total investable subset universe? It's got to be kind of tiny, relative to all the securities in the world, right?

**Liz:** My dad asked why we didn't want US strategy first, and then I said, I told him we couldn't find 20 US companies that would qualify under our criteria.

**Bill:** I don't mean to laugh, but it's sad.

**Liz:** No, it's true. I knew we wouldn't be able to. We built our strategy around avoiding companies like Facebook, and not because of the social media, because of Cambridge Analytica. And not even doing that, it was the lack of disclosure around it. 18 months of hiding that security breach shows us the governance is incompetent. For that reason alone, they just don't make our qualification criteria. Now, I think the social media question, don't get me started on leaning in on Sheryl Sandberg. If woman just work harder, we'd all achieve senior roles everywhere, like, that's how it works. Just so you know, women don't work hard enough. There's no structural inequity that limits our ability to achieve senior leadership roles. Just so you know, that was sarcastic.

**Bill:** I can tell. [laughs]

**Liz:** Social media is sugar and wine, or booze. Okay, booze is bad, it kills a lot of people. However, so do cars, so do factory emissions, so do smog, so do pharmaceuticals, so do hospitals, so does a whole bunch of stuff.

**Bill:** Booze also leads to procreation. Just saying.

**Liz:** Yeah, and procreation is good, actually.

**Bill:** That's right.

**Liz:** Productivity growth, I've studied a lot of geography and history and the world was not going to max out, people need to understand how productivity and growth work a little bit better. I think the problems with social media, specifically Facebook tied back to their crappy governance, they never had any idea what they were doing, and just because you can grow quickly and make lots of money doesn't-- the negative externalities are huge, but from an investment perspective, it's very specifically the disclosure that's an issue with them, and then they've got really shitty diversity improvement too. People act like there wasn't problems before social media as well. While they're amplified, I think there's a particular issue in foreign governments meddling in stuff, globally, for whatever reason, sales, elections, whatever. That's a problem. However, that existed long before. Propaganda and influence cross border has always been an issue. There's something to be said for the loss of journalism and the increase of, I don't know, what do you call it? Whatever the news media is now, because we've defunded and TV-- the transition we've gone through. I think there's a lot of problems with social media, just like I do with traditional media. At the same time, there's so many opportunities. Growth, networking, businesses, communication. I'm very pro influencer economy, I think. I worked in market research, I worked with on large scale advertising and positioning things. The waste that goes into a TV commercial, a million dollars to shoot some 30-second Canadian TV show because everybody wants to go to Tahiti or whatever. The whole industry is a mess. It's great that we've thrown the advertising--

**Bill:** You would say that an influencer is a net positive on the world because they're already in Tahiti or something, and then they can post the picture as opposed to flying like a whole crew there?

**Liz:** Well, you and I are influencers. We're not in Tahiti.

**Bill:** I know, it's scary that I'm an influencer. I don't know why people listen to me, but I do appreciate it. Shoutout to listeners.

**Liz:** [chuckles] Now, we don't we don't make five grand a post on Instagram for showing off our cooking stuff. That's interesting business opportunity, but the benefits-- I didn't figure out FinTwit-- I've been on Twitter for a long time, but I was more of like a news reader, like an aggregator, had a couple friends and stuff, 100 followers. It wasn't until I discovered FinTwit by accident somehow, like somebody referenced it. I guess this is around when we started Honeytree because you need free marketing channels, if you're going to start your own asset manager, that I discovered--

**Bill:** Yeah, props for that, by the way.

**Liz:** Yeah, thank you.

**Bill:** That takes a lot of guts.

**Liz:** Yeah. It was lucky. When I joined my previous firm, they were at $50 million. I saw what the early disaster to a billion looked like, which helped a lot, but yeah, it's a really crazy decision and totally ridiculous. I am very proud of myself for that.

**Bill:** Good. I hope you continue to succeed.

**Liz:** We're doing what we need to do. Our track record is doing what it needs to do.

**Bill:** Yeah, inquire people. We won't cite the returns here, but it's worth inquiring about.

**Liz:** Yeah, we're doing our SEC registration right now.

**Bill:** Nice.

**Liz:** We've got a couple.

**Bill:** Can I say that? Or, do I need to edit that?

**Liz:** What, the SEC?

**Bill:** That people should enquire?

**Liz:** I think you can say whatever you want. You're not registered.

**Bill:** Okay, cool.

**Liz:** I can't remember what we were talking-- Oh, I just remembered what we were talking about before.

**Bill:** Just going back to the influencer comment so we don't get too far off track. I had asked whether or not the influencer economy is a good thing, because it reduces maybe carbon emission or something like that. Is that how you're thinking through some of the reasons that you're a fan of the influencer community or am I totally off base there?

**Liz:** If anybody understands the traditional advertising business, the whole thing's most of a waste. It made sense in a time where TV was our only medium, and newspapers were our only medium. But influencers, even just on scale, you could pay-- there's 30 big agencies in the US, they get millions and millions of dollars for advertising. But if brands cut that budget, and start paying smaller advertisers-- Now, I'm not saying the health influencers, mums of Instagram are the right target here, but a reshuffling and a reorganization of advertising dollars spend can always be healthy, in a variety of ways in voices, in access, in income and equity, in reduction of production costs. I mean, nobody's had a choice in the last year, you can't send crews, actually you can send crews anywhere, you've been able to do production shoots in Toronto, and movies have been shooting here all during COVID. Even though we have lockdown, but the disruption of the traditional structure, I think is important.

The advertising's traditional structure has been completely disrupted. That's a good thing for all aspects of ESG and financials that nobody needs to spend a million dollars on an ad. What folks were spending on Superbowl ads, I did some Superbowl ad testing, and it's a waste of resources. But that's just how everything was done for so long, and then it got disrupted. I'm not saying influencers are actually good for ESG, but certainly the traditional structure was not itself ESG friendly. You just have to look at *Mad Men* and the agencies are not the guilty ones in miscommunication about cigarettes or drugs or anything like that, but they certainly enabled it. One of my favorite stories about Purdue is the two brothers who started the company. One invented medical marketing. He built, before then, all of the medical ads for doctors were very technical. They brought in, one of the brothers brought in the *Mad Men* style emotional appeal marketing and pioneered it for medicine, so that went hand in hand with lying about their product and driving sales. So, advertising and marketing play a huge role in destroying the world, not in and of themselves, but how they're used by Purdue and the companies of the world to sell products. Then ultimately, there's a huge negative externality and then we as a society pay.

One thing, I'm going to go slightly off topic because pharma, pharmaceuticals are considered some of the highest impact investments in the world in a public equity sense, so are oil sands companies, and so are real estate companies. That's a different topic. Pharmaceutical companies are considered impactful, because it's really easy to say, their products save lives even if they kill a bunch of people in the process. But nobody cares in that analysis about price fixing, or price gouging or tying prices to comp so that-- I don't know if you saw much of the recent congressional stuff, even the one pharma company that we thought was not involved in price fixing, the execs were pushing the prices so that they got over their quarterly. [crosstalk]

**Bill:** Yeah, so this was an incentive issue. Yeah.

**Liz:** That's one of my biggest issues with the industry is, look, they're saving lives, but we're going to ignore all the other stuff that they do. Pharmaceuticals kill a lot of people. I don't know if anybody's looked up the stats in Canada and the US, but a lot of people die. Not from oxy drug overdoses, from in hospital or regular medication, stopping taking the drugs, taking too many drugs, mixing medications, being given wrong, there's a whole bunch of reasons. This idea that pharma is innately good and making the world a better place is completely misfounded. I think that applies to most industries.

Even electric vehicles. Electric vehicles are 100% impact, because their product-

**Bill:** Yeah, this one’s interesting to me.

**Liz:** -is renewable. Nobody--

**Bill:** From a coal plant.

**Liz:** Yeah, nobody cares about how the batteries are made, how the cars are charged, how the charging system's being built, how it's displacing public transit, worker safety. I could go on and on and on. That's true across the whole renewable spectrum of products, whether it's windmills or cars, or whatever. To say that their impact in medical supplies company or scientific companies, not because they're not directly curing people is ridiculous. The pharmaceutical companies need a whole bunch of material. We're escaping from the traditional structure and it's fascinating to watch it in real time, and both the data that the companies are producing, and the industry trying to catch up in terminology and how we talk about this. It's a really big mess. It's a hot mess, that's what I said in Twitter a bunch of times yesterday.

**Bill:** That's a good example of something that's got pros and cons to it. Would you be open to may be saying, “I'm willing to change my opinion on--” let's say pharma. I mean, I know that it's hard to say on an entire industry, but let's say management incentives come out, and the proxy show that things have changed, and they're more concerned with ESG, like true ESG as you define it. Is that a scenario? Would a proxy filing be a catalyst for you changing your view on something? Are you going to wait to see that proxy filing and those incentives actually flow through an organization before you give them credit?

**Liz:** It's a good one.

**Bill:** I mean, I know that there's no like specific answer. I'm just trying to think about how you think through this stuff, because they're really murky decisions. I'm just curious.

**Liz:** Yeah. The specific incentives are the issue. It's that somebody was able to take advantage of them in the first place, for whatever reason. It's usually short-termism. It's this quarter, this year, this bonus, whatever. We're trying to basically avoid any company that displays that at the management or governance level. Can they fix it? Yeah. Is it as simple as adjusting comp? No, because the same dudes are going to find a way to do something else again, and at the expense of whichever stakeholder is being negatively impacted. The answer is yes, we accept change. Yes, we will add somebody when we don't-- when there's a material change in something that was an issue before, but at the same time, what does this tell us about the board or the management team that happened in the first place. Yeah, so yes and no, I guess, to your answer.

**Bill:** Yeah. I guess, an example that popped into my head is Wells Fargo. You look at the board. In that entity, the whole board turned over, as did management basically. Would that be a scenario that maybe you'd say, "Okay, well, we'll start looking here, we'll follow it." I'm not saying like Wells Fargo is a security you're looking at. I'm just thinking of a scenario where there's a large amount of organizational change. I'm sure it's like dating somebody or trusting somebody that's wrong to you in the past, you say, "Okay, well, I'll trust, but I'll verify, I'll watch it over time. If you prove it out, then maybe I'll enter a position a little bit later, once I'm convinced that you're living what you're saying." Right?

**Liz:** Yeah. I think the best example of that in our strategy is Costco. Costco, if you asked me two years ago, I would have said, it's the cause of all the world's problems.

**Bill:** Really?

**Liz:** Packaging, individual-- I was not a Costco shopper, just to be [crosstalk] at that point. My perception. This is true of all grocery stores by the way, I think the grocery industry in general. It's cheap chicken and plastic and individually wrapped containers, and not really about whole foods and health and properly-- we've really bad produce sourcing in Canada, and I'm really picky produce eater. My sisters both work in the food industry. I have very strong opinions about food. Part of that belief was Costco's really just overpackaged stuff in for suburban people with big houses and giant pantries. Then, I went through a period of kitchen minimization. The pandemic accelerated a little bit, but I was sick of buying kids lunch stuff, prepackaged. My husband and I are pretty picky on a couple things and the pre-packaged, so many wrapper lunch, and I love cooking. Just so you know, I'm a big cook and baker, I love doing that stuff. So, we started maybe 18 months or two years ago started only making muffins and cookies and stuff for snack, reducing that packaging. As a result, we reduced-- our kitchen became less waste, more whole foods just reinvigorated it. Then we checked out Costco, and over the past year, I realized that it's actually not only is the food the best quality, the operations are more efficient, the packaging is more efficient, and it's actually the cheapest place to buy whole foods, groceries at definitely the highest quality, way better than whole foods in our way. I always knew the employees were well compensated. I always knew that it was one of the best retail places to work in Canada and the US.

Then, COVID happened, and they were the first ones to stand up and make sure their employees had masks and safety. The mask debate's a different story. The point is, they were so stakeholder focused, they were so employee focused in the beginning of the pandemic, that while they are rated low on most ESG scales, it was extremely clear from that action alone, and of course my experience shopping there-- I ranted about Costco a little bit online. The avocados are just amazing, I cannot explain to you. That action alone, it pointed to so many aspects. Costco was on our consideration set, and we had to fire somebody and so they joined in May. Things can happen like that.

Taiwan Semiconductors, we excluded Taiwan until the election last year because the non-China-friendly group won the election and China didn't invade them, we decided Taiwan was not a dictatorship and so we allowed Taiwan Semiconductors in. It's literally the only company in Asia that qualifies on our diversity criteria, and so while-- we don't want to be entirely US and Europe strategy although, for a variety of reasons. We talked about this earlier. We exclude lots of stuff, but again, we're running a 20-position portfolio, so we're excluding everything, so we're comfortable with lack of exposure to certain things.

**Bill:** Yeah, that's pretty cool that you end up with those two companies in the portfolio. It's a pretty good example of how going through a process, looking at it-- like those are two great companies. Taiwan Semi, you got some China risk, let's all hope that that doesn't materialize, because I don't think that would be particularly great for the geopolitics.

**Liz:** Everybody's got a big risk, if China materializes themselves into Taiwan.

**Bill:** That's right. I don't think anybody wants that. That's very cool that you ended up with two really quality companies that are-- it's hard to see how they're displaced over the next 5 to 10 years, and arguably, nothing is forever. Those, I think, are high degree of certainty, from a business standpoint, is you can get within their industries.

**Liz:** Yeah. They care, they have strong stakeholder governance models. They neither are very good at reporting stuff, or getting boxes checked, Taiwan Semis a little bit better on some of the environmental stuff, but they're building their company for their customers and their employees. They realize how important retention is. how important training is, how important worker safety is. They also understand their role in the entire mess. Packaging reduction, shift to organics, Taiwan Semi reusing as much of their output energy and output waste materials back into the production process.  They're not perfect. Again, the best companies in the world have giant flaws, but they're going in the right direction. You can really see it in Costco's-- just their membership growth and retention, and how they've set up their business. It's not just smart, it's a well-run business, even though it's retail. The other grocery stores in Canada pay way less, didn't have disaster pay, refused to have masks, and have much higher ESG ratings than Costco. But I will happily draw a line in the sand and say Costco is a much better more long-term-focused company than all those grocery stores, even if it's 30 points less on an ESG score, which is why ESG scores are-- ESG scores are mostly practiced in somebody checking all the boxes, and nobody at Costco cares about checking boxes, then that's how it works.

Sherwin-Williams, which is not in our global, but as in our bench, we've got a little US portfolio. They don't have a marketing department. They don't have anything. They don't care about any of this stuff. Banks have very big marketing departments and CSR departments, and so they check boxes much better, and fill out all the stuff in the right places so when the scores are done, they are higher.

**Bill:** Yeah, that is the bullshit of it all. It's how institutionalized and back slappy it is. It's like, it's not about whether or not it's reality, it's about whether or not you can sell it as reality. That's what pisses me off at the end of the day.

**Liz:** Here's my favorite example, because everybody listening will understand this. We at the beginning, put both Nike and Adidas in the strategy. I think I mentioned earlier, they're going to be at 100% recycled inputs for all of their goods, that reason alone environmentally is huge. But here's what's happened. Colin Kaepernick, okay, nowhere in any ESG score other than our system. Does Nike get any credit for that? Nike also has actually done a really good job on racial equity in the leadership level on VP and workforce, especially given where they're located. But Adidas has a much higher--

**Bill:** What do you mean especially given where they're located?

**Liz:** Well, they're West in Coast.

**Bill:** Yeah. what is that you think that on average, the West Coast is not doing a good job? I know the tech is not--

**Liz:** No. If you look at the diversity of the local area.

**Bill:** Oh, okay. Sure.

**Liz:** If you're headquartered in San Francisco, or-

**Bill:** Yeah, you're choosing from a bunch of white people and--

**Liz:** -Chicago, or New York or Toronto, you've got to 30% to 40% or 30% to 50% non-white population. Whereas is Washington is not that.

**Bill:** That makes sense.

**Liz:** Even the black population varies hugely by state in the US and specifically on that level. Adidas has much higher ESG score, and always has had on any system doesn't matter what you look at. Nike gets docked for the family ownership by the way. They get no benefit for Colin Kaepernick and most ESG systems, really dock scores when there's a founder involved in the board.

**Bill:** That makes no sense.

**Liz:** It makes no sense at all. Adidas is all independent, so they must be great at governance. Here's what's happened over the last year. We fired Adidas. We have not fired Nike. We fired Adidas because their head of equity inclusion, said a whole bunch of non-equitable stuff and had to resign. Nike has not had that. Nikes got a lot- every company has harassment and other issues, it's how they deal with it, too. Nike's got that sports issue. Nike's a lovely, messy company, but I'm happy to stand behind them for a variety of reasons. Adidas screwed up something with their COVID loans. They were going to get a government loan, and they realized that couldn't pay a dividend. Anyway, we fired them for being scatterbrained, but they're still much higher rated than Nike, but their team's less diverse, it's that governance, it's that board independence that's getting docked. Nike has more racial diversity in leadership and so as a result has less total gender diversity and leadership. Most of the rating systems only look at gender diversity.

**Bill:** Gender, yeah. Man, these are stupid.

**Liz:** -fascinating. Anyways, I'm very comfortable standing behind Costco and Nike, are they perfect? No. But the traditional assumptions about ESG and about them are wrong, and dock them unfairly, and make them look not as good as companies that are much worse than them on an ESG rating scale, which is why we don't use ESG ratings. We use mostly primary-sourced research from company publications.

**Bill:** What's cool about what you're saying is, hopefully over time, you can demonstrate that you can generate alpha from almost a variant perception on ESG, that would be a very cool way to attack alpha.

**Liz:** Yeah. If you can isolate a subset of outperforming companies in a disciplined process, and not throw that out the window at some point when you get nervous, which I think is hard to do, you can outperform over the long term, but your thesis has to be right, your selection process has to be right and how you manage it needs to be right. The good thing for our team is, we're only inventing how we shoved ESG into it. We know the process itself works. It works because of that focus on consistency and governance, which should be the focus of sustainable investments, you would think. But again, traditional finance theory comes into all these teams, and says, well, valuation-- it's really funny, you have teams running valuation analysis on all the ESG components now-- Again, a valuation methodology, that's primary valuation focus, which is lots of shops in Canada, I think you guys skew a little less value. We have a lot of traditional shops that are very value-- deep value, value heavy. That's a shareholder primacy model. It also is a model that doesn't measure humans that, well, it's very good at measuring factories. It's not just the value, guys, it's all of traditional finance theory at best where human capital, it doesn't acknowledge the art and the mass that is organizational development and leadership and stakeholder engagement. Nobody measures-- people would laugh if you looked at employee engagement scores or employee awareness scores in portfolio construction. But at the same time, if they're doing a good job with their internal stakeholders, they might be doing good job with their external stakeholders. If they're not doing a good job with their internal stakeholders, if they have people complain about car service or airlines, all this kind of stuff, if they're not taking care of their employees, they're not going to take care of their customers, and over time, they're going to lose business. That, I think, it's intuitive if as long as you ignore traditional finance theory.

**Bill:** Yeah. I think that if someone believes the pitch that you're making, which I think is a reasonable pitch to make, you could argue that somebody that's looking at these things through traditional valuation metrics, is probably going to undervalue the quality of the company and that is part of where the alpha will come from out of this strategy, I would think, as long as you're correct on ESG metrics, and you have a variant perception on those. It's a number of steps that I can say, “Yeah, I can totally see how Liz outperforms over time.” It's just got to work.

**Liz:** Companies that are better managed have executable disaster plants that they've practiced. The best example, a lot of nonprofit boards would not have had a pandemic preparedness plan. But my mom's on this nonprofit board, a pretty large health services organization. When the pandemic happened, they pulled out their pandemic preparedness plan. They executed on it. It seems so simple. I think we can all think of 10 companies that that might not have had a robust plan, and if they did, when they pulled it out, they hit a bunch of walls during the pandemic, whether it's opening and closing, worker safety concerns, furloughing, lack of ability to manage supply chain disasters, all this kind of stuff, lack of backups. You can't measure that till the shit hits the fan. You cannot measure an organization's ability to respond to disaster. The great thing about last year's everybody had to, and so you got to see it real time. That's what we focused on in the annual letter is, it was the year that stakeholder governance was clearly connected to the bottom line for everybody. It's not that companies that are treating their employees badly can't make a whole bunch of money. It's about the sustainability of that over time and we're just trying to avoid those investments in hold. A lot of a lot of ESG investors hold bad companies trying to change that. We haven't talked about engagement yet. We need to talk about that. You have Canadian Pensions, who are leading ESG investors holding private prisons, holding old folks' homes, holding all this stuff.

**Bill:** Oh, gosh. That’s crazy.

**Liz:** They say that they're engaging, they're working with them to-- they're not. Private prisons have no place in Canadian Pension or ESG portfolio.

**Bill:** Yeah, that’s insane.

**Liz:** The old folks’ homes, we have a Canadian strategy that was put together as a joke. An old folks’ home came up on the consideration set a year and a half ago. I was like I think I'm pretty sure ownership doesn't care about people because it's all been sold off to large corporations, used to be provincially managed. Well, they all went down 60% or 70%, last year, but the pensions were all holding them. My issue is if the pensions have these teams working on ESG and engaging with their holdings like they say that they're doing, do you think they would have noticed all the issues with old folks’ homes and advocated for them in the year before COVID, when all the funding was taken away for inspections, but, of course, they don't care. They just care about the bottom line. They don't care about the long-term impact of these companies on retention, or customers dying. Anyways, and they all died in COVID. It was very specific to Ontario and where a lot of these nursing homes are from. That's why I get very skeptical about the folks, the big institutions who say, “Well, you can't divest. You got to hold the company and change it.” Well, then change them. Don't sit there and use engagement as an excuse to fit your traditional theory beliefs about sector exposure. That's two totally different stories.

**Bill:** Yeah, that's a good point.

**Liz:** That's one of my big issues with the ESG industry, especially the large pensions and allocators. You can hire 30 or 40 ESG experts, they can look at all the risk and stuff. But if this is how you're executing your investments, you don't really care.

**Bill:** Yeah, that's a good point. To your point on engagement, first of all, how do you engage with a private prison? I'm not sure how you possibly can, if you're going to bill yourself as ESG? Then, two, what are the metrics that somebody can judge your engagement on? How do I know that you're engaging, rather than just being able to say, "Oh, we're engaging," like, "Okay." What does that even mean? You're going out to dinner with these guys and having steak?

**Liz:** Right. It's really funny. Most of the world's leading ESG managers, who all their assets are ESG, who are leading all the ESG conferences, or impact or whatever, their annual ESG reports are, let's say, 12 pages, of which 8 to 10 are their engagement summaries. They're not reporting their team diversity, they're not reporting any of the environmental stuff. They're just reporting the engagement stuff they've done. Now, at one end of the spectrum, engagement can work. A long time ago, and still now, nuns and quakers go and buy company stock and show up and cause hell at the meeting. Sometimes it works. It can add safety mechanisms to guns, it can do some other stuff. For the most part, these engagement reports are being produced instead of looking at actual ESG data and investing in companies making the world a better place and they're used to justify traditional finance beliefs.

There's a place in the middle where it works, so one thing the Canadian Pension, CPP, who I love to throw under the bus at the same time, they've done a couple good things. CPP and a couple other pensions was that you were-- Oh, sorry, let me close my Outlook. I forgot about that.

CPP, I don't know, let's say four or four of those pensions, decided maybe five years ago, that they were just going to vote against every board slate that didn't include a woman. And it's worked. Now, they're moving on two women. One day, they'll figure out racial diversity, but you can see where-- now, who wants to invest in a company that needs to be forced by a pension to put a woman on their board, is the other end of the spectrum. That's obviously what we're not looking at, we would only invest in a company that has been willingly disclosing their diversity data for a long time. Most of the engagement activity, most of the engagement activities are around votes, some activist votes, and then of course, the big folks meet the teams and pretend they care about ESG. But a lot of the votes, the successful votes are pensions and big investors getting companies to disclose their diversity data. Amazon still won't disclose their diversity data. You have all these activists. There's a purpose there, at the same time, if you're an ESG investor, why are you investing in a company that won't disclose basic stuff that you need to assess anything? You can see where the whole-- it's that traditional theory against what do we do with this data against-- and they've always been big engagers and proxy voters anyways, prior to the ESG era. They need teams to show up and talk everywhere. That's why it's messy.

We engage on reporting and specific issues within the company. We only hold companies that we don't need to micromanage. My cofounder and I, there was something on a proxy vote, I'm trying to remember what it was. I said, “If they're going to bring a board member on that we have to vote against, we're probably going to fire the company.” If we don't trust them enough, their nominating team enough, that we need to micromanage board selection, [unintelligible [01:52:29], whatever is being voted on, then we shouldn’t own that company.

**Bill:** Yeah, they shouldn't qualify anyway.

**Liz:** Yeah. We're lucky that's our approach and it allows us to-- I was trained in a shop that never met management anyways, to reduce the human bias of going golfing with the CFO kind of thing. I'm a big believer in that. At the same time, forced arbitration, there's so many issues that govern that are problems for the industry, racial equity, all this stuff, so we can engage on that. At the same time, most of our companies are leaders in that and figuring it out-- that's why we picked them. We have a very particular opinion on that. It's both good and bad, but it's a lot of the-- it's the private prisons, or whatever. CalPERS, I think was doing that too, two years ago. CalPERS, which is the leading ESG pension in the US, was like, “Let's go visit the border prisons," which I think are even worse than the private prisons. “Let's go see if we should divest from them.” That's where the investment industry is. There's nothing wrong with investing in anything, but there's a big problem in saying that you're ESG, are sustainable and long term committed--

**Bill:** Yes.

**Liz:** --Holding that shit. Unless you're a nun fighting to get guns changed or something like that, then you can do whatever you want.

**Bill:** 100%.

**Liz:** That's my--[crosstalk]

**Bill:** That’s what I hate. I hate fake stuff because it's like you're a halfway crook. You can't say that you're one thing and then the other. That doesn't fly with me. Where do you see this all going? One thing that I was thinking about is, let's say that this ESG theme goes throughout institutional allocators, they sell all their cigarette holdings, the stocks implode, these companies still have huge cash flows. Somebody comes in and buys some of the shares, the company buys their shares in, that person that just broke the prisoner's dilemma just became a rich guy or girl because they cheated in a-- so there's a lot of incentive to not participate. On top of that, you've got indexing, which by definition doesn't care about anything. How does this all change the world? What difference does it actually make outside of potentially creating an opportunity for you to outperform? Which would be a very cool output, because it's clear that you believe in what you're doing.

**Liz:** The Business Roundtable, I think it was last year, the year before, I think it was BlackRock driven. There was a bunch of folks involved. There's been a couple initiatives like this that are really focused on changing the business perspective from shareholders to stakeholders and changing the perspective from short term to long term, because it's better for the bottom line, also it's better planning, and better leadership, and all that kind of stuff. That's where it should go. What we shouldn't-- if we want to be more efficient and more productive, we cannot have CEOs sending memos two days before quarter end driving production. That's just not good management. We can't have Facebook's board twiddling their thumbs for 18 months on a data breach, because it's bad for a whole bunch of stuff. We have to fix problems, because they cost us whether it's corporately or as customers, as employees, or a society. The benefit of that is productivity and growth. If we continue to keep women or racially diverse folks as a minority representative in some of our most profitable businesses and far under our natural abilities in terms of leadership roles and things like that, we won't grow economically. Financial productivity, you'd have to look at the jurisdictions that have-- Quebec has universal childcare now. That increased woman's workforce participation, something like 5% in the 10 years that it was implemented, people don't understand how much tax revenue increasing 5% of the workforce who was previously not participating in actually adds. It adds far more than the cost of childcare.

The same is true for any individual or group or population, whether they're outsourced in the Philippines, whether they're factory workers in Texas, it doesn't matter. The more training, the more capacity any of those employees have, that's what drives productivity. My end goal is to-- it's not going to happen for most of the industry, but is to provide this mindset in asset management, that the long term is good, that governance matters, that maybe we're doing a whole bunch of things wrong, but we can make them better, that you can invest in companies-- that companies changing the world for the better are in a better investment long term, that there's a risk and a cost to all these negative externalities of companies who don't care about their stakeholders. Really, I think, and I think I'm doing a pretty good job of it is, just even talking about stakeholders in our industry, just the shift alone, helping facilitate that shift from shareholder primacy to stakeholder governance will make everybody's lives better, because customers and employees matter to the bottom line.

When you treat them as capital or when you treat them as a secondary thought or not that important, you lose out on opportunities as a company. I think anybody who studied governance or leadership science or sports leadership, understands this intuitively, the sum together, the parts together, are what matter. A corporation is just a team. If the team's not working effectively, if they're not driving towards same goal, they'll hit a roadblock. I just think the industry will move because of the science, not the whole industry, but enough of it towards the discourse. At the same time, it's the stakeholders who are going to drive the change. It's the mothers, it's the millennials, it is the students and faculty at endowments at schools who have driven, I don't know where 30 US schools gone fossil fuel free. It's fascinating. We only have one in Canada. It's the union reps who are going to realize they've got a 7% holding in Amazon. It's the foundation's working on-- there was a Toronto Star article, which is great this week. Well, there's a large-- who's a billion-dollar foundation in Canada, it is the leader in impact investing, leader in ESG, works on racial equity, poverty, gender equity, specifically in Canada. 80% of their funding goes to white-led charities in Canada. The city, Montreal where they are Toronto is 50% non-white. That's where we are. That's why when people say ESG is done and figured out, I'm like, “No, it's not.” We are so early in the asset transition. They haven't even figured out supplier diversity in their managers yet. The US is big on that, by the way, everybody in the US cares that I'm a woman, nobody in Canada cares that I'm a woman.

You can see how it's being driven. We can do whatever we want as an industry, but at the same time, it is being driven by the end stakeholder, and I get to see it firsthand, because we talk to a lot of these institutions obviously, but the same thing happens for an advisor. This is what happened to me when I was an advisor for a year. I had gay and lesbian clients who wanted ESG portfolios, and they couldn't really articulate, but they knew what they didn't want. We were slowly making products and stuff, but it's what the end client wants. We have not done a good job of articulating it and providing the right product set. I think, in 5 or 10 years, we might have a small reasonable selection of non-lying ESG, people who are really living it. Again, there's some of this around the world, but it's hard to find. It will attract a broader group of people to our industry, it will-- obviously, I have an outperformance argument here. But it's really-- so if we can get rid of traditional theory, I think we also-- not get rid of traditional theory, if we can-

**Bill:** Yeah, but think differently.

**Liz:** -unbox ourselves from the constraints of traditional theory as an industry, in our investment processes, we can also do that in the rest of our business. I think that's why I think the stakeholder thing matters so much, and it amounts to I don't like to talk about this as values and personal beliefs. It's not, this is bigger than all of us. It's how we're productive as a society, and companies are just a little microcosm of it, and you can see it operating, but it's about community. It's about community communication, it's about sharing. One of my friends is a Mennonite, and he's one of the leading original impact investors in Canada. I sent him some stuff early on about us trying to discuss impact. He's like, “Well, what it is, we live to serve the community. Every aspect of what we do has to be to make the world a better place for everybody. Our investments, our community work, our jobs, our business." Those, the Quakers in the Mennonites and the nuns and those have been leading the real conversation, and then it got hijacked by the stupid banks. Now hopefully--

**Bill:** [laughs]

**Liz:** --and so now hopefully what an asset managers, and so--

**Bill:** I can't imagine banks ever doing something like that. Come on.

**Liz:** I can talk about banks forever. There's hope, it's going to happen. I'm going to point out that the number of media inquiries I've got for just my rants on Twitter on this topic suggests that there's so much appetite for a different discourse on this. There's so much deserved skepticism, because the products don't match the end clients’ needs. That's what folks-- even if the person looking is not an end client, somebody like you can still see where the disconnect is. That's going to catch up to everybody eventually. Hopefully, there's a whole bunch of cool boutique ESG shops out there with a variety of strategies for everybody to invest in, maybe with some diverse owners, and you can change the industry.

**Bill:** Well, that's awesome. I I'll tell you what, I respect people that are authentic and are doing something that they believe in. It's very clear that you are, and from that perspective, I'm rooting for you. I don't know if you've totally changed my portfolio in one conversation, but I do look forward to speaking with you over time. I would just encourage people that have listened to this and liked it to really think about what Liz said with the end client. Because if it's something that resonates with you, it's probably going to require finding an active manager that cares about this and implements it in the right way, because index funds are not going to do this, and neither is a big industry that's incented to just keep the status quo. The vote with your money and your dollars and your time would be my non-financial advice advice.

Liz, I do appreciate you stopping by. There's a couple things we didn't talk about. Maybe you'll come back and we'll talk about them at different time?

**Liz:** Absolutely. This is my favorite topic, especially when I don't need to be super nice about it because sometimes I have to. When I'm around the industry, I might have to tone my insults down a little bit. Given you're not going to get 46 CEOs of ESG funds listening to this podcast, I can get away with more stuff.

**Bill:** You don’t know that, maybe, if it's successful enough, but you can always let your hair down here. There's no rules on this podcast platform. So, I appreciate you coming on and being honest. Thank you.

**Liz:** Thank you for having me.