

TRANSCRIPT

PENSIONS FOR PURPOSE PODCAST, SERIES 2, EPISODE 13 LESSONS FROM A LABOUR-LED CANADIAN FUND

Laasya Shekaran, Pensions for Purpose: Hello everyone, and welcome back to the Pensions for Purpose Podcast. I'm your host, Laasya Shekaran, and on today's episode, I'm joined by Geneviève Morin, CEO of Fondaction.

Fondaction is a fascinating Labour-sponsored Canadian pension fund, who support Quebec workers and their efforts to save more for retirement, and to invest in a way that meets both their financial needs, while also thinking about environmental and social needs.

Now, there are a lot of lessons we can learn from Fondaction and apply to our own UK pension system, especially given the increasing focus we're seeing on getting UK pension schemes to invest in a way that supports the UK economy. So welcome, Geneviève. It's great to have you here.

Geneviève Morin: Thank you, it's great to be here with you, Laasya.

Laasya Shekaran, Pensions for Purpose: Brilliant. My Pensions for Purpose co-host for today's episode is Richard Giles. Welcome, Richard, it's great to have you back on the podcast.

Richard Giles: Hi Laasya, it's great to be on the podcast, and to see Geneviève again. I loved our conversation earlier in the year, and I'm really looking forward to this one too.

Laasya Shekaran, Pensions for Purpose: Absolutely. So, Geneviève. It would be great to start at the beginning with some background on Fondaction. Perhaps you could start by just telling us about Fondaction, how did it come into existence, and what is its goal now?

Geneviève Morin: Certainly. Fondaction, as you mentioned, is a Labour-sponsored investment fund. So that is an original model that was created in the province of Quebec in Canada. The idea goes back to the end of the 1970s and beginning of the 1980s. There was, at the time, a very severe recession, a wave of plant closings at a time when the unemployment rate was already well above 10%, and there were also important bankruptcies, where the workers not only lost their jobs, but also their pension funds, which were tied to their employers.

So, combining these, an idea emerged in the Labour movement: we should control our pensions ourselves, and we should invest them in businesses and maintain and create jobs right here in Quebec. That is the basic idea behind the concept of a Labour-sponsored investment fund. There are two such funds in Quebec. Ours, Fondaction, was created in 1995, with the specificity of being committed to sustainable development.

If I want to just summarise the main characteristics of a Labour-sponsored investment fund, it's entirely voluntary, so that's the difference between some pensions. The fund is offered through deductions that pay in thousands of businesses, but each person has to choose to contribute or not. Once people invest, they can't take their money out until they retire or reach 65, and governments encourage people to invest in the fund by offering a tax credit, which reimburses 30% of the investment, which makes the fund a particularly accessible savings opportunity.

In exchange, governments require Labour-sponsored funds to invest at least 65% of their net-assets in Quebec businesses, mainly through private equity, and since the tax credit is limited to the first \$5,000 CAD, which is £2,700 per person per year. It means we have to reach out to

a large number of people, and this is where the strong link between the fund and the Labour Union comes in. Through the Labour Union, we can recruit a network of militants who explain to their coworkers the importance of saving for their retirement, and encourage them to choose Fondation to do so because of the way the money is invested for sustainable development in Quebec, in accordance with their values. In a nutshell, that's the concept.

Our final actions goal is to use the fact that the Labour-sponsored fund is a particularly accessible savings product to encourage people to save for their retirement, especially those who need it most. We want to have an impact on the life of people who do not have access to a pension fund at work, for middle- and lower-income people.

We want to harness those savings and invest them in the Quebec economy in ways that make it possible to fulfil people's needs while respecting the limits of the planet. At this time there are more than 225,000 people who have together accumulated more than £4bn CAD in Fondation.

Laasya Shekaran, Pensions for Purpose: That's absolutely fascinating. The number that really strikes me there is the 65% one, the idea of at least 65% of the assets being invested in Quebec businesses. In the UK, we recently had the Mansion House Accord come up, where pension funds have committed to investing about 5% of their assets in UK businesses. That's a really big deal here, so it's fascinating to see how much this has been put into practice where you are.

Geneviève Morin: Big geographic concentration as well as private equity also; this is usually a much lower number in pension funds, but with us it's 65%.

Richard Giles: Could we dig into that a little bit more, Geneviève: this dual objective that you have to both deliver pension benefits to Labour employees, but also to use the investments for specific purpose, and how do you balance the two dual objectives?

Geneviève Morin: It is important to balance the two, Richard. We understand that the money is important to those who've saved it, and they want, and they need returns.

It is especially true when we work, as Fondation does, to help middle-class people save. So, to us, it's all about choosing the right companies, choosing those business models that are sustainable in the long run, and that therefore we'll be able to both bring environmental and social benefits as well as financial returns. Our strategy is based on the conviction that the most resilient and performing companies over the long-term are those that integrate a broad approach to risks and opportunities, particularly those related to environmental, social and governance issues.

There are also companies that contribute to sustainability or intentionally create impact through their products, services or practices, which provide products and services that are consistent with an economy that can fulfil people's needs, while respecting the planet's limits. So, to invest in these companies, we must first ensure that they take into account environmental, social and governance criteria, and that they do the right things, which is the responsible investment part - but we go further. We target companies that also do the right things, companies that offer solutions to environmental and social issues. That's what we call sustainable investment, and when we go even further with intention, intentionality and measuring impact investment.

This is achieved by taking into account tangible and intangible financial and extra financial factors; we have exclusions and performance thresholds that are expected of companies and

asset managers. We focus on a selection of investment themes like climate change, affordable housing, health and sustainable agri-foods, and we invest in sustainable and impact companies. We offer tailored support to improve overall company performance, and our selection criteria for the external managers, for our investments in public markets and the nature of the mandates we entrust to them, are also geared towards sustainability.

Richard Giles: Can I just explore that a little bit further? One of the questions we have in the UK is around concessional return or concessionary returns. Just to be clear for the listeners, we're not talking about concessionary returns here?

Geneviève Morin: Not at all. We're talking about choosing companies that have a competitive advantage in the long run. So, for example, resources are becoming scarcer. For the companies that use less resources when they produce their costs are lower, and they have a competitive advantage over the long run. So, they have an environmental advantage, and at the same time they produce a financial return and have competitive advantage for the future.

It's the same with the companies that create waste; if they use it and reuse it in their product, or if they find some benefits that can arise from the waste like in circularity, they are also having an advantage. It's basically about choosing the companies that see the opportunities, not just the risks.

Laasya Shekaran, Pensions for Purpose: You've mentioned a couple of times there that you're looking at companies that are resilient over a long-term time horizon. I think it becomes quite important to realise that sustainability goals financial goals are actually aligned when you look at a longer time period. What I guess we sometimes see in the UK market, and in other places as well, is that there's perhaps too much of a short-term focus, and that results in people thinking that investing in such an activist way, in such a sustainable way, is actually at odds with fiduciary duty.

I'm curious: how do you reconcile this discussion? Is this something that comes up in Canada as well as in the landscape that you're working in?

Geneviève Morin: Well, of course, fiduciary duty is often used as a way to stop innovation and make sure that people keep investing in the same way with the same assets that they used to have. Fiduciary duty should really be about aligning financial resources in the best interests of beneficiaries, and we believe beneficiaries are not only concerned with having money when they retire; they're also concerned about the environmental and the social state of the society in which they will retire.

Nobody wants their money to have a negative impact on people and the planet. They want their money and their savings to have a positive impact.

It always amazes me how fiduciary duty is not invoked when we see, for example, that there are still many funds who continue to invest in sectors that are harmful to the planet, such as fossil fuels, even though it's quite clear environmental risks is an integral part of modern fiduciary duty. I believe that Pensions for Purpose actually addressed this recently in the Impact Investing Principles for Pensions, for example.

Richard Giles: Yes, it's super interesting. When you talk about the parallels of the discussion that you're having in Canada with what's happening in the UK, there are so many common parallels. If I just step back in terms of what's happening in the UK, I think there's a theme towards more acceptance around this idea of a dual purpose, and it comes up in different ways.

We see place-based investing that local authority pension schemes are doing, and different types of pension scheme are investing in climate opportunities.

We see more stewardship around climate, and we've recently had 17 DC Master Trusts come together to commit to invest in UK private markets, called the Mansion House Accord, which is very significant. We've got a debate around fiduciary duty here, and how to interpret that, which is central to these points. If I package all that together, I think there's more acceptance in the UK around these issues, and that it's acceptable to consider a dual purpose, but many of us would take a different view. We're in this interesting inflection point. Where is it acceptable to consider secondary purpose or a dual purpose alongside the primacy of financial returns? This is how we've considered these things in the past. It's a really interesting debate, and to listen and to learn from others around the world is great.

Laasya Shekaran, Pensions for Purpose: For us, a lot of this comes down to not just looking at fiduciary duty and what the purpose is for investors, but actually expanding that to look at the purpose of business more generally. So, whether that's the investee companies within a portfolio, or the businesses involved in running a pension scheme, looking at what their purpose is, and whether they should more directly have an environmental and social license to operate alongside that financial objective.

Geneviève Morin: Indeed, true costs are not being reflected in all of the prices right now, and the markets are not working properly to address that, but we are starting to see that more and more, with the risks becoming so much more visible now.

Richard Giles: It'd be great to talk a little bit more about risk, but I just before we do that, the question on my mind is what happens when short-term performance doesn't meet expectations, which you've been investing in for a long time? I imagine that does happen from time to time. How do you manage that communication, and hold true to your beliefs in those situations?

Geneviève Morin: I mentioned how Fondation is a voluntary pension fund in the way people choose to invest with us, and we have a strong link with a union, which makes it possible for us to have a network of militants in workplaces everywhere.

So, it's really about explaining to people what their money is doing and always talking about both the financial returns and the environmental and social returns, and making them proud of the whole package, and able to see the whole package. We also like to attract people's attention to the fact that they should look at 5 to 10 years returns, not six months or a year. Over five years, we've had 5.8% return in the past 5 years and 10 years, 5%. Basically, we are providing enough of a return to compensate for inflation and more.

At the same time, we are creating these environmental good returns and social returns, and helping those companies reshape the social landscape around here in Quebec. People are very proud of that, and it's always great. One of the big advantages of the local aspect is that people can actually see the companies. They know the companies. They know the product. It's close to them, and they can identify, and that also helps them make it concrete. We're not talking about the environment in just a general way: we're talking about their place, the land around them.

Richard Giles: You mentioned risk a moment ago, Geneviève. How do you think about risk as a large long-term investor, and balance risk in your decision-making?

Geneviève Morin: When this podcast will be out, countries will have 16 days left until Earth Overshoot day. In 16 days, on 24 July, all ecological resources and services that can be regenerated by the earth this year will be used up. In Canada, our overshoot day was last March. Every year, we use more natural resources than the earth can renew in 12 months, and we consume 1.75 planets, and this is our biggest risk. The economy and the environment are deeply connected, and without a healthy environment we face several serious risks that can undermine long-term growth, stability and human wellbeing.

So, four degrees warming will impoverish the average individual by 40%, and if we keep it to two degrees, the average global GDP per person will be reduced by 16%. We have to invest for a positive future, otherwise we're continuing to finance an old economy that's leading us straight into the wall. What we need is not just transition; we need a transformation. We need a radical change. So, the economy will change, and it's the businesses that are ready to seize that change and the businesses that are already creating the opportunities that will be the winners of tomorrow.

How does that change come about? We have to redefine finance, especially as you mentioned earlier short-term versus long-term. The pace of financial markets is not adapted to synchronise the challenges and the solutions that we need for our environmental and social crisis.

It's strange, because the money is invested for the long-term. The money is in pension funds, it is in life insurance, and yet the pressure on short-term returns is strong. Just because there's still one last dollar to be made with an oil company, due to short-term stock market fluctuations, it doesn't mean it's a right sector to be in: this is a sector that has no future. As financial, we have a responsibility to allocate capital to certain projects rather than others. We need to choose projects with this longer-term perspective that are still going to be useful, and there in 15-20 years. Even if that means stepping away from the indexes for a few quarters, and in terms of risk - well, we always talk about volatility, but on a longer term, horizon volatility is not that important.

Again, what really matters are systemic risks - the risks linked to deforestation, climate change, social divisions. When you take a longer-term view, these risks become a major concern, and it's only by taking a longer-term approach that we can hope to help mitigate them.

We also need to move on defining success. Success is not necessarily maximising whatever consumption, or having a big car and a big house. Success is having impact.

Right now, what gets measured is not the impact. We have an economy that is measured with gross domestic product (GDP) and GDP is geared towards growth, accumulation and consumption. It's not aligned with wellbeing, and so we need to start aligning our investments in our performances with social, environmental and economic benefits. We have to start measuring things like inequalities between people. How we take care of our elders and children, our health and the quality of natural environments. Finance can have an impact on all of those, but we need to measure them too, and we need to start seeing them as a whole.

Laasya Shekaran, Pensions for Purpose: Wow! There's so much there for me to take away. Even just the concept of Earth Overshoot Day, and it's very scary how close we are to that. It's clearly something that wasn't in the minds of people when many economic and financial models were first written. Those are the models that we still use to this day. They are models that assume we have an infinite amount of resources that we can exploit, and we just know that is not true, but we seem reluctant, as you say, to redefine finance, and to change those models,

and the way we think about finance, even though we know it's no longer fit for purpose. I think there's quite an important call for action there. For those of us working in the financial system to actually be honest about the flaws that exist within our current way of thinking and redefine those.

Geneviève Morin: I understand in the UK, there's also a growing group of people who are talking about the systemic risks and trying to tackle those, right?

Laasya Shekaran, Pensions for Purpose: Yes, absolutely. I think, especially, we personally at Pensions for Purpose, are doing a lot of work on systems and governance change. It's one of our key areas of focus, and we're convening interested parties to work on that more, but we're also seeing more research - for example, from the Institute and Faculty of Actuaries. Here they've done research, looking at systemic risks associated with climate change, and their analysis has showed that if we carry on the way we are, UK GDP could fall by 50%. This very much outweighs most of the short-term stock market fluctuations that we look at. I think there is definitely growing awareness of it. We're also seeing an increasingly more consolidated market. The concept of universal ownership is becoming more important to the UK investors as well, but it's really hard to change a system when you're used to things being a certain way. I think human behaviour comes into this as well, which can be difficult to work with.

Richard Giles: This narrative, and this podcast is part of the narrative, needs to change. That's why we're delighted to be able to put on these types of discussions out for our members to talk about a different narrative, that we need to create out of, which will be born a more positive system. We definitely see the value in having these conversations and creating that new narrative.

Laasya Shekaran, Pensions for Purpose: For sure. Another thing you mentioned, which I know is something that frustrates Richard a lot of the time, is how GDP growth is used as a proxy for positive change for the whole country, whereas actually, we're not really measuring the right thing there. The reason we want growth should be to improve outcomes for all people, but it doesn't necessarily work that way in practice, and perhaps we're focusing on measuring the wrong things.

Geneviève Morin: Indeed, and well, talking about the GDP, I mean, we're funding members of a collaborative initiative in Quebec with more than 15 organisations called the G15 plus. It's businesses, unions, academics, activists and civil society. We've all been working at redefining progress beyond GDP by the creation of new indicators of wellbeing.

The flaws of GDP as an indicator, you're right. It's definitely not a good indication of a population's wellbeing. It informs us about the value produced by Labour and capital, but it's silent in its nature on the fulfilment it brings to the members of a society. It provides no information on the impacts in the long-term on the planet. Our wellbeing indicators now measure food insecure households, mental health, education and skills as their underutilisation of the workforce, temporary employment, income, inequalities, housing, living conditions and access to nature. To name a few examples, the idea is to provide a much more complete way of looking at our economy.

By trying to direct the economy just through the GDP is like trying to drive a car by looking only at how many kilometres per hour you're going. It's important also to know the direction. It's important also to look through the windshield and have a better view. We think that this example of the indicators: it provides a way to have this larger view of what is happening with our economy, so we can work on the various aspects.

Laasya Shekaran, Pensions for Purpose: Yeah, that's absolutely brilliant. I'm very keen to be hearing more about this and also sharing it with our network here in the UK. I think it's such an important way of looking at it. I want to find out more about how you have dialogue with civil society, because I think that's a different as well in terms of how many other investment funds approach their strategies. Why is engaging with civil society so important to you, and how do you actually go about doing it?

Geneviève Morin: To us finance is an important lever to bring about a more sustainable economy, but the financial sector cannot be the one defining what this economy looks like.

If we want to bring about transformation in the most optimal manner, we believe in forging connections between the everyday experiences of most people, the real economy and the financial sector. It's all about engaging all of these together to realise what progress really is. This way we have a more resolute, rapid and efficient mobilisation towards change. As I explained, for example, the indicators of wellbeing. That's an example of how we do this type of engagement and discussing together. We've also created something called the Canadian Impact Investing Working Group.

Basically, we find that impact investing has an immense potential to bring about positive change by aligning financial objectives with a clear intention to achieve social and environmental impacts. We want to foster collaboration, innovation and the adoption of best practices to scale the impact investing field in Canada. In our first year, the group identified the barriers to scaling impact at home with its members. We're now working on ways to address these barriers, such as misconceptions that impact investing comes with concessions on return, or that it's not compatible with fiduciary duty.

Talking and engaging with the community is also a way to innovate and find solutions. We find it very important to look at the problems from everybody's perspective and try to find what is missing in the financial sector. For this to happen in energy efficiency, which is natural, it should happen all the time; it brings down the costs, and it brings down the carbon footprint. It's a good thing, and yet people are not doing it. We engage and ask the question, why is it not happening and we ended up with all these questions and answers, and looking and talking with the people who were involved in energy efficiency. We ended up developing a fund called SOFIAC, which accompanies the businesses throughout the whole energy efficiency program, and that fund has been so successful in Quebec and Canada that we've started one in France recently. So there are solutions, they're out there, but it's not by doing the same thing over and over again that will solve the problems. It's by innovating, and to innovate, you need to talk to people who are outside your little group.

Richard Giles: We're in a really interesting political moment, and some we don't need to get into all of the current issues, but one of those is a pushback on ESG. I wonder if you know two things. One is, what do you think is going on there, and, secondly, how do Fondation address that pushback?

Geneviève Morin: We live in North America. So, we're very aware that sustainability is facing headwinds these days. Some of that is a reaction, because I mean, the economy needs a major transformation, and at when you really think about it, when you look back and you can see just how far we've come, there is so many good news. We've got science on our side.

That's the basis, so it's a moment of pushback. But it's an opportunity to reinforce what's been achieved, maybe to better communicate too, because we need to understand that the way that we've been going at sustainability has not necessarily been taken into account in social aspects. There are people who felt left out, and we need to find ways to solve the crisis and have a just transformation. We're still seeing very good aspects, I mean total value of a sustainable investment. Products reached over \$7tn in 2023, which was a 20% increase from 2022. The sustainable finance market is still projected to grow at a compound annual rate of 19.8% between 2025 and 2034.

There are now fifteen jurisdictions that have adopted International Sustainability Standards Board standards voluntarily or mandatorily, with reporting starting in 2024 or 2025, including Canada and the United Kingdom. There are an additional twenty-one jurisdictions that are also planning to adopt the standards soon.

What actually brings me the most optimism is to realise that now renewables are now cheaper than fossil fuels in many regions. So, being ESG-aligned is now more attractive, regardless of what your political stance is. ESG is increasingly market-driven, not just policy-driven, and that's a very good thing. Companies are adopting ESG practices to improve resilience, efficiency and brand value, regardless of political shifts.

The reality has not changed. There is scientific consensus that our planet has limits, and we're exceeding them every year. There are heatwaves and flooding and wildfires and other natural disasters, which are creating enormous economic damage and claiming lives. It is clear the long-term decisions that pay off remain the same, even in these turbulent times. What we do is we continue to work, and we work with partners and other leaders, such as Mirova and Triodos Investment Managers. We're working with Triodos right now on a joint venture focused on natural capital, more specifically on regenerative agriculture and forestry. So, basically, we're staying the course, and it's not that we're not concerned. We're all concerned, but we stay focused.

We have a long-term view. So, for a few years it's going to be hard, but the companies that will be ready to take and seize the opportunities once the door opens again. Those companies will be winners, so we continue to innovate, and we continue to help them because sustainable finance is not a fad - it's the finance of the future.

Laasya Shekaran, Pensions for Purpose: That is just a brilliant note to end it on. I think a lot of the time, the positive stories don't make as good headlines, so we don't hear about them as much, but they're so important for us to remember to remain optimistic about.

This has been such a fascinating discussion, and I think there's so much that we can learn from what you're doing, and from what you're thinking about. The way you have your dual mandate of financial returns and the impact your focus has on making beneficiaries proud of their pensions. I love that idea, and really redefining what we mean by success. If there was one thing you wanted our listeners to take away from this discussion, what would it be?

Geneviève Morin: Well, I think when we shop, we're aware of our choices - we read the product labels, and we want to make healthy choices. We want to buy local to support our farmers.

We understand that an environment like if we recycle, it's better than throwing things away, it contributes to positive change. People now have to realise it's the same with money. In terms of

reduction of a carbon footprint. For example, investing \$40,000 in savings in a greener portfolio versus a regular index - it's one flight to London from Montreal, or a full year of vegetarianism.

It's choices. We make our savings have power, and when we unite our savings with those of people who have similar objectives, we create pools representing millions and billions of dollars which can be directed towards investments that will be profitable and help make the economy fairer, more inclusive and greener. So, it's important to choose who manages your money and how.

It's important to understand that in the long-term, the companies that innovate are ahead of regulations; offer solutions to their customers' problems, which produce at lower costs because they use less resources; that can respond to calls for solutions to climate issues; and seize the opportunities arising from today's challenges. These companies will be the economic champions of tomorrow.

Laasya Shekaran, Pensions for Purpose: Brilliant, thank you so much for joining us. It's been a fascinating discussion. Listeners, if you want to make sure that you never miss an episode, hit the follow button, and remember, you can find us wherever you get your podcasts. Thank you for listening, and we'll see you on the next one.

Geneviève Morin: Thank you, Laasya and Richard. It's been a pleasure talking with you.