



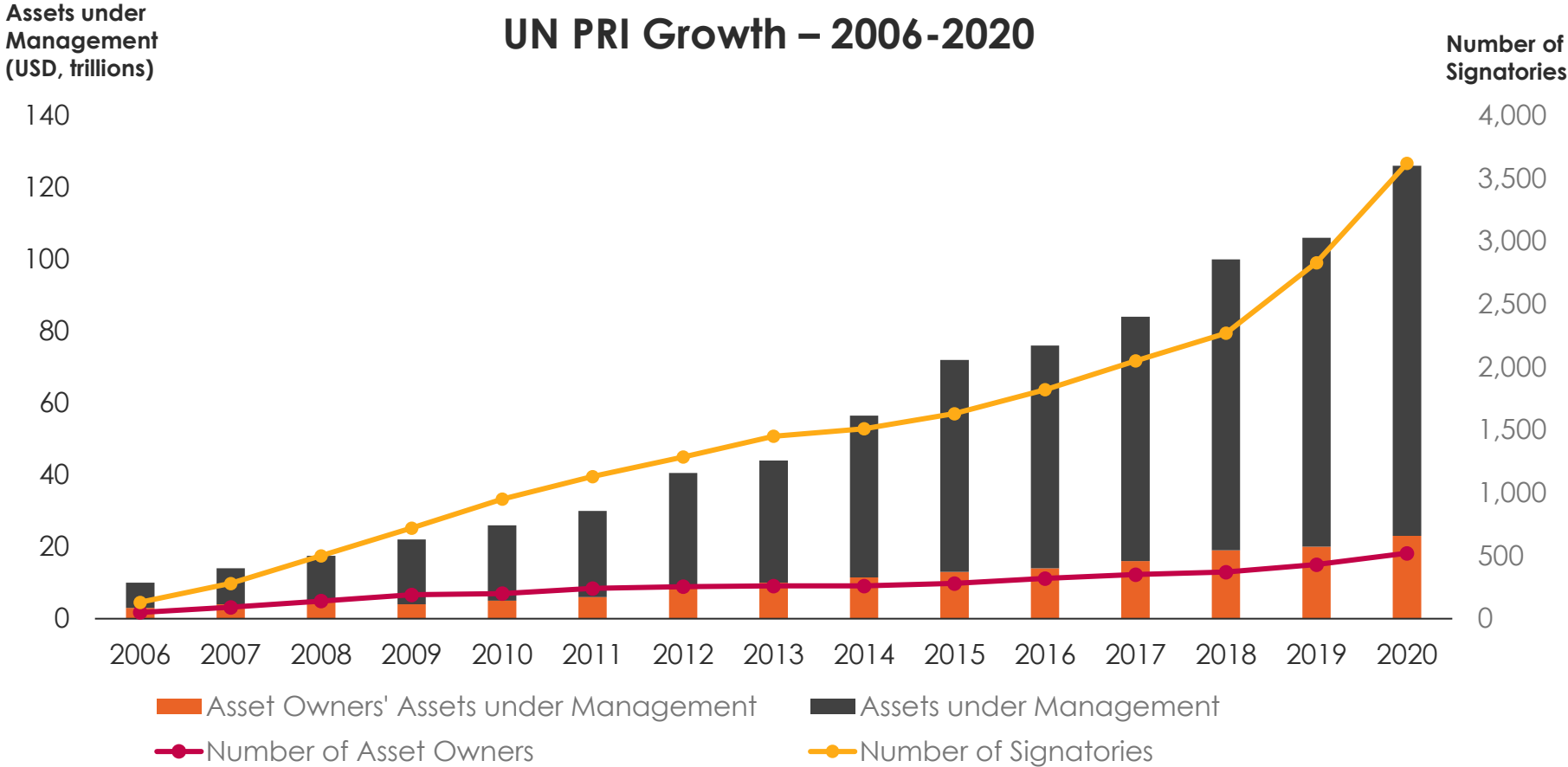
**Martin Grosskopf**  
Vice-President and Portfolio Manager  
AGF Investments Inc.

# ESG 2.0

Positioning for the Next 20 Years

January 2021

# ESG *is* the Mainstream

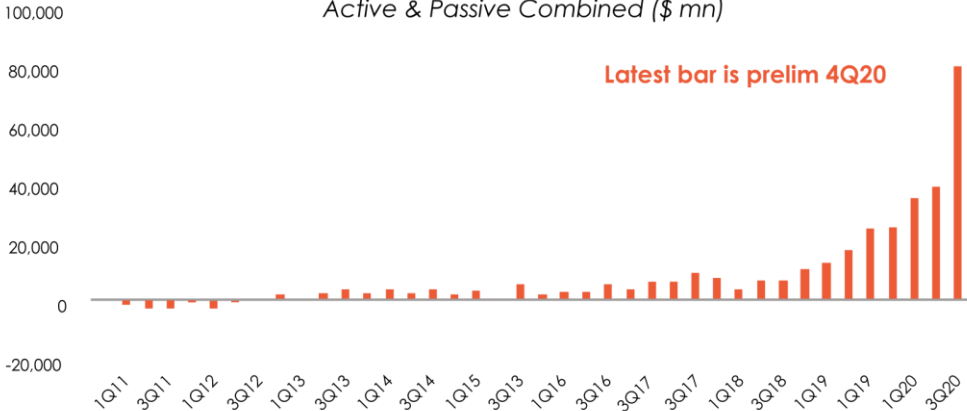


Source: UN Principles for Responsible Investing as of September 2020

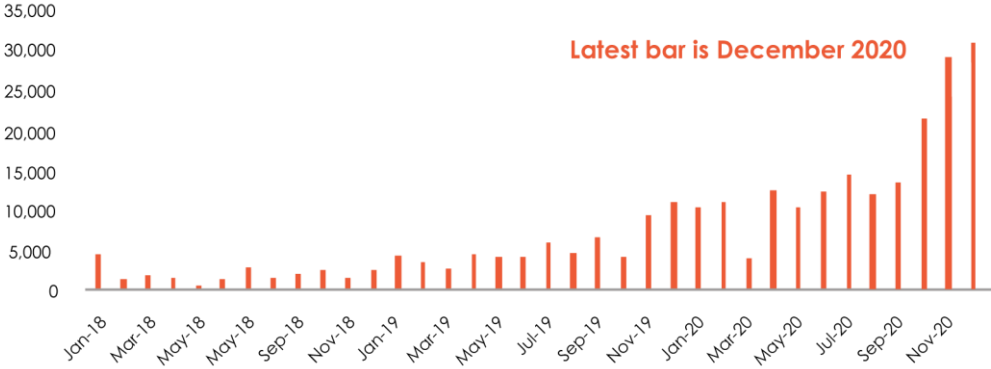
# Crises are not Made Equal – this Time Really is Different



**Dedicated Sustainable Equity Funds: Quarterly Net Flows**  
Active & Passive Combined (\$ mn)



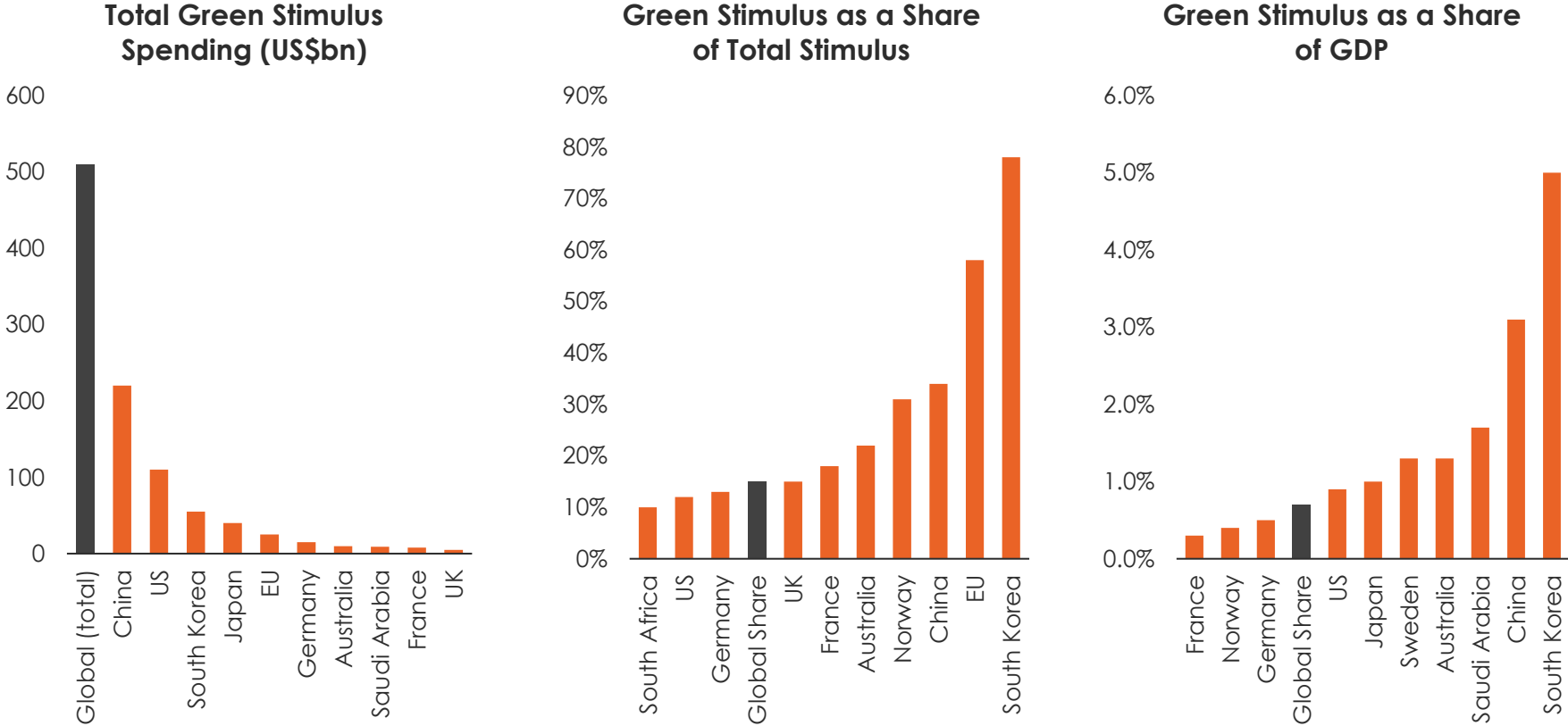
**Dedicated Sustainable Equity Funds: Monthly Net Flows**  
Active & Passive Combined (\$ mn)



Source: RBC Capital Markets as of January 2021

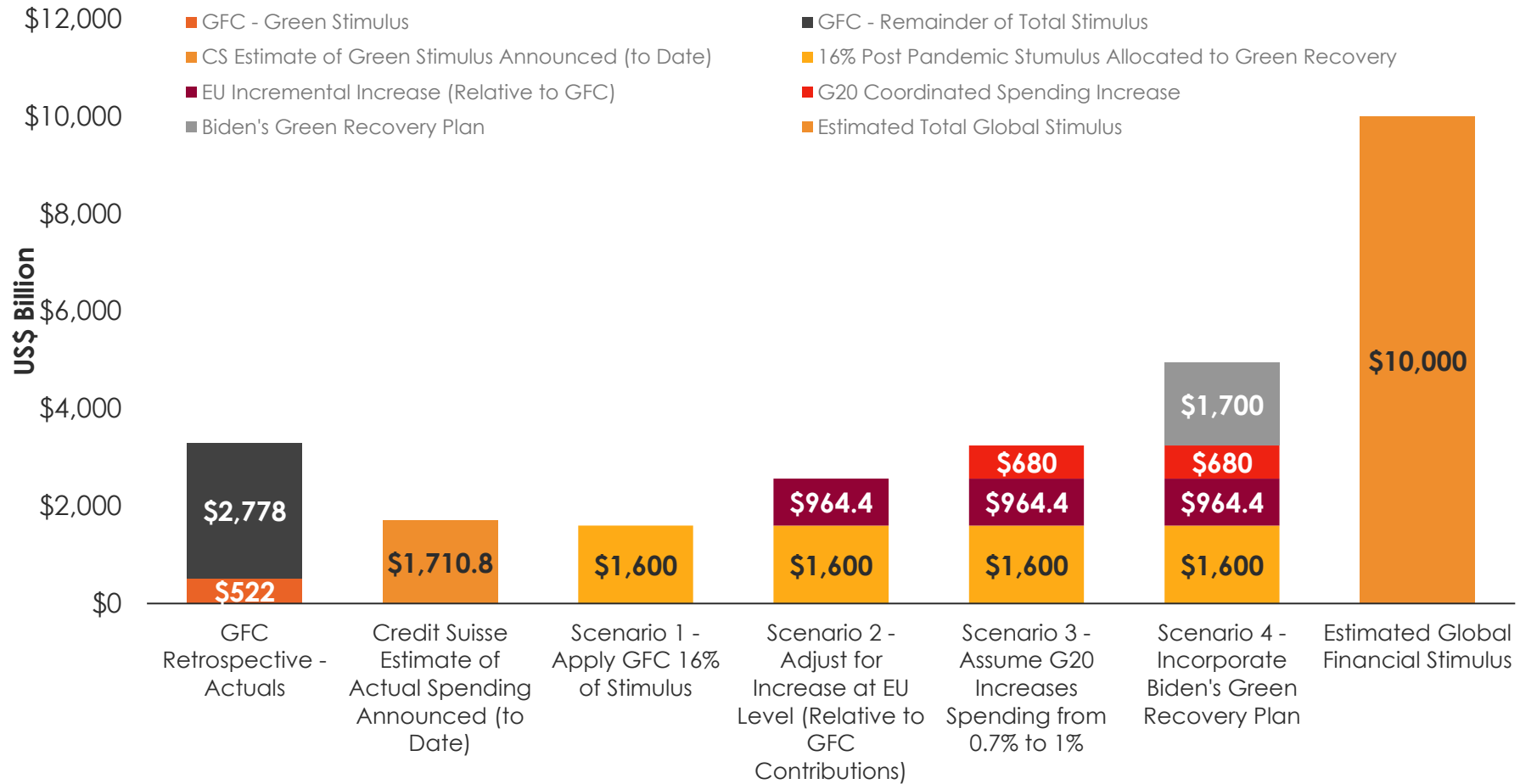
# Flashback – Global Financial Crisis Stimulus Set the Stage

## Total Green Stimulus Spending by Country during Global Financial Crisis



Source: Credit Suisse as of September 2020

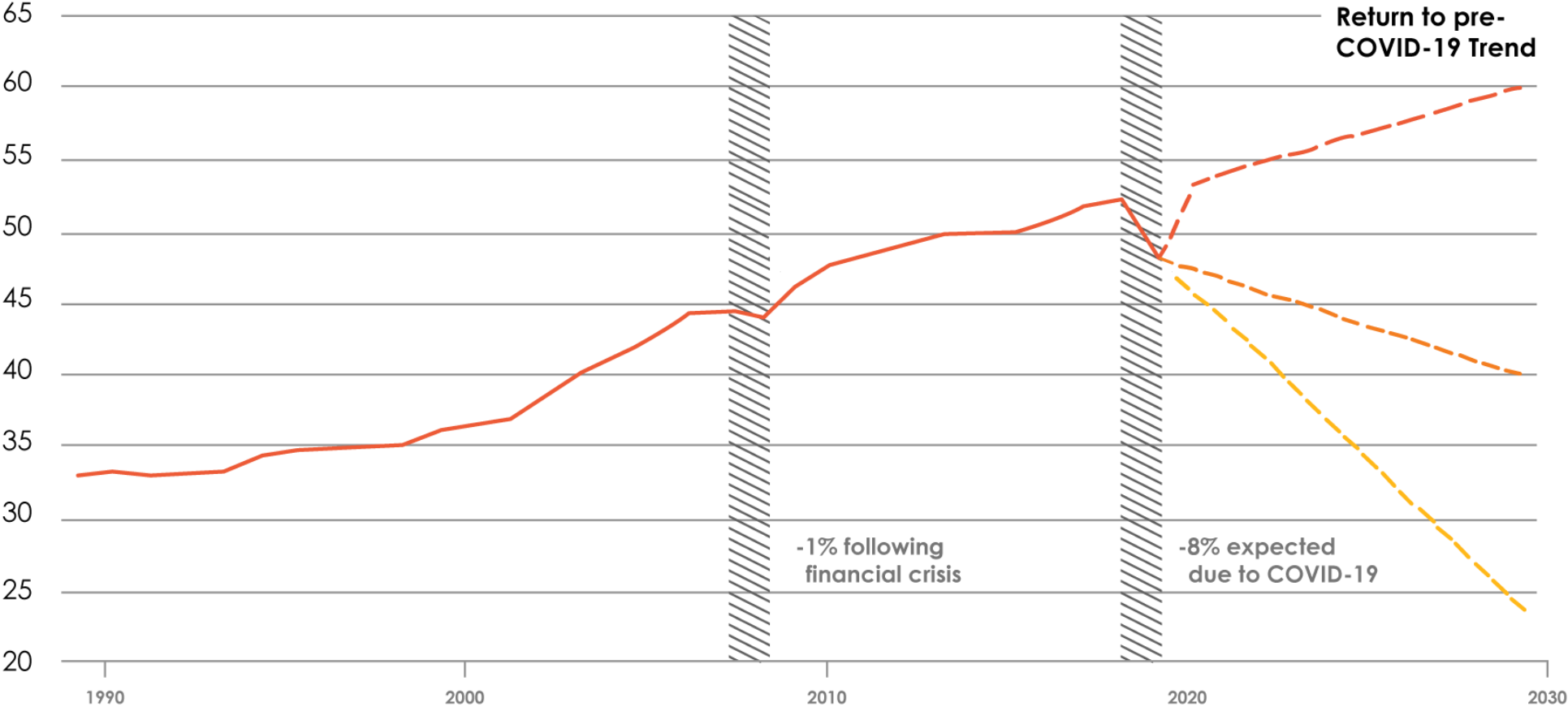
# Adding it Up



Source: Credit Suisse as of September 2020

# 2020 Provided an Emissions Reprieve

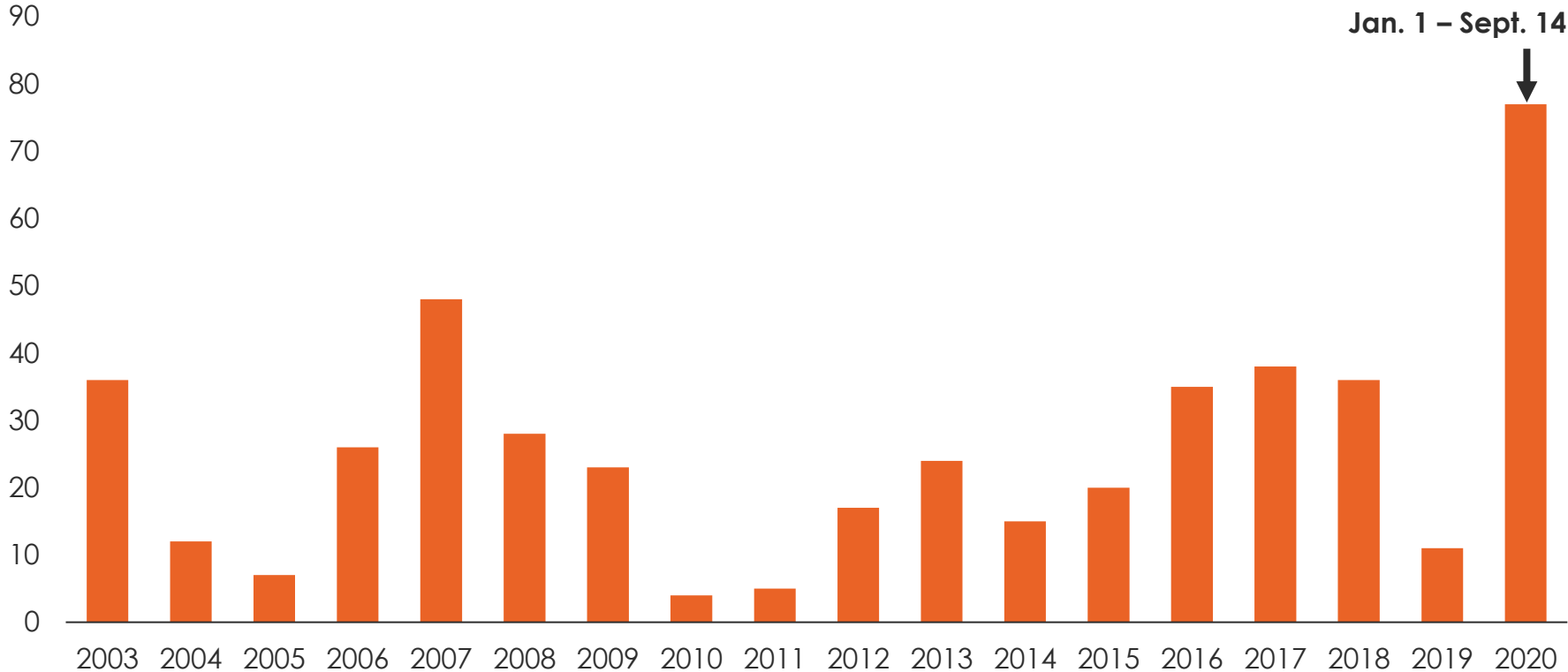
Gigatons of CO<sub>2</sub> equivalent gases



Source: World Economic Forum: *The Global Risks Report 2021*, January 2021

# Climate Change Feedback-loop is Shocking

## California Annual Total Wildfire Emissions



Source: Bloomberg NEF, Copernicus Atmosphere Monitoring Service as of Sept 2020

## ESG Ratings – Too much Emphasis?

Correlations between ESG ratings at the aggregate rating level (ESG) and at the level of the environmental dimension (E), the social dimension (S), and the governance dimension (G) using the common sample. The results are similar using pairwise common samples based on the full sample. SA, RS, VI, A4, KL, and MS are short for Sustainalytics, RobecoSAM, Vigeo Eiris, Asset4, KLD, and MSCI, respectively.

	KL SA	KL VI	KL RS	KL A4	KL MS	SA VI	SA RS	SA A4	SA MS	VI RS	VI A4	VI MS	RS A4	RS MS	A4 MS	Average
ESG	0.53	0.49	0.44	0.42	0.53	0.71	0.67	0.67	0.46	0.70	0.69	0.42	0.62	0.38	0.38	0.54
E	0.59	0.55	0.54	0.54	0.37	0.68	0.66	0.64	0.37	0.73	0.66	0.35	0.70	0.29	0.23	0.53
S	0.31	0.33	0.21	0.22	0.41	0.58	0.55	0.55	0.27	0.68	0.66	0.28	0.65	0.26	0.27	0.42
G	0.02	0.01	-0.01	-0.05	0.16	0.54	0.51	0.49	0.16	0.76	0.76	0.14	0.79	0.11	0.07	0.30

- Correlations of ESG ratings between various providers range from 0.38 to 0.71
- Disagreements were highest among governance scores

Source: Aggregate Confusion: The Divergence of ESG Ratings, MIT Sloan School of Management as of May 2020



# ESG 2.0 – a Likely Path



## Growth Phase 1

Use Case: Core  
Tracking Error: Low  
Cost Consideration: High

*Product Examples:*  
*Optimized Index*  
*Light Exclusionary Index*

## Growth Phase 2

Use Case: Core Compliment  
Tracking Error: Moderate  
Cost Consideration: Moderate

*Product Examples:*  
*Active + ESG*  
*Smart Beta + ESG*

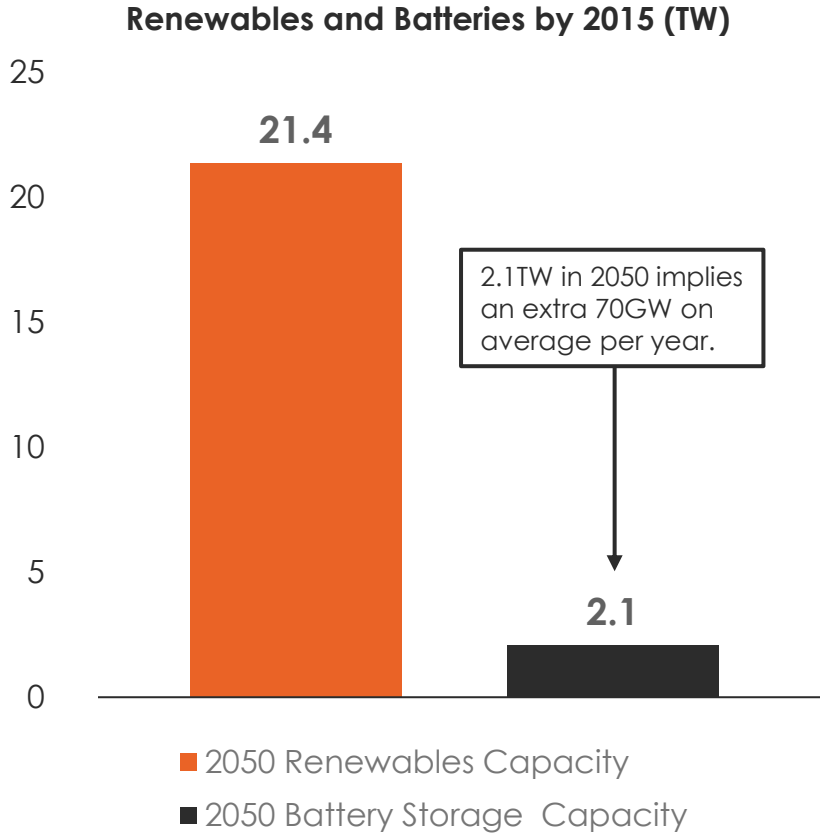
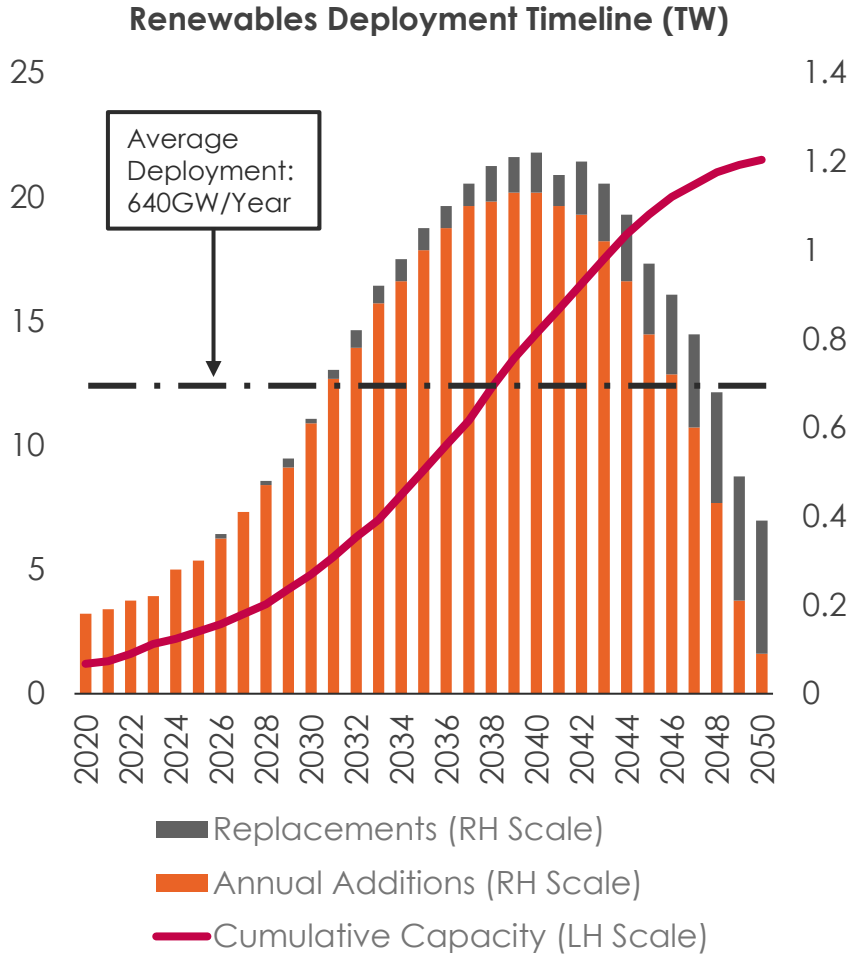
## Growth Phase 3

Use Case: Satellite  
Tracking Error: High  
Cost Consideration: Low

*Product Examples:*  
*ESG Thematic*  
*ESG-Driven Alpha*

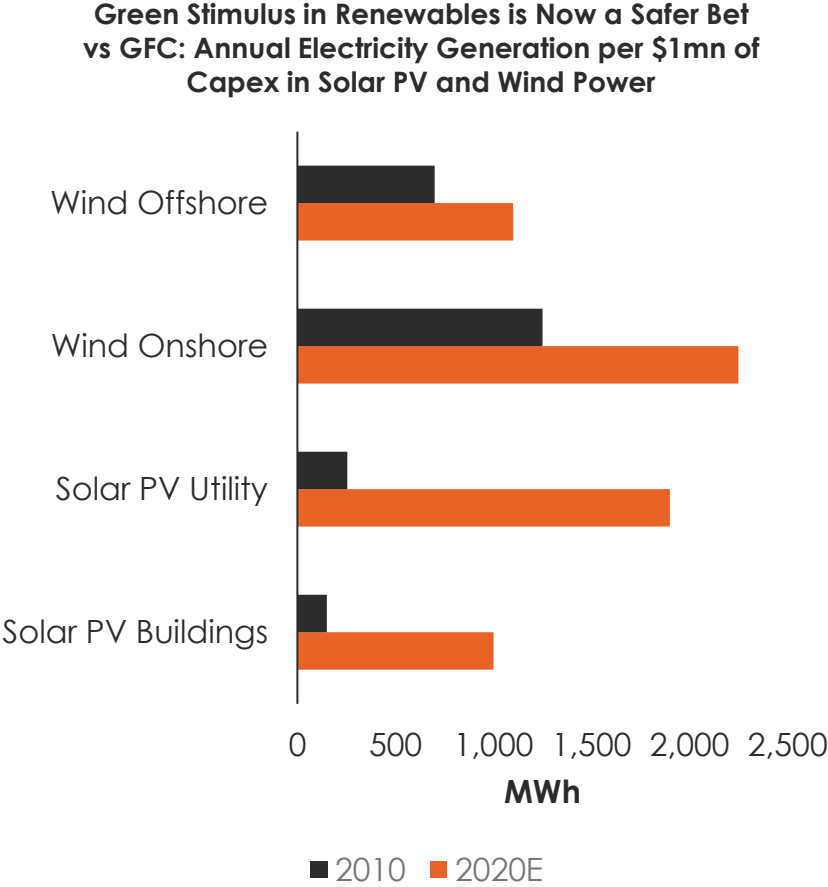
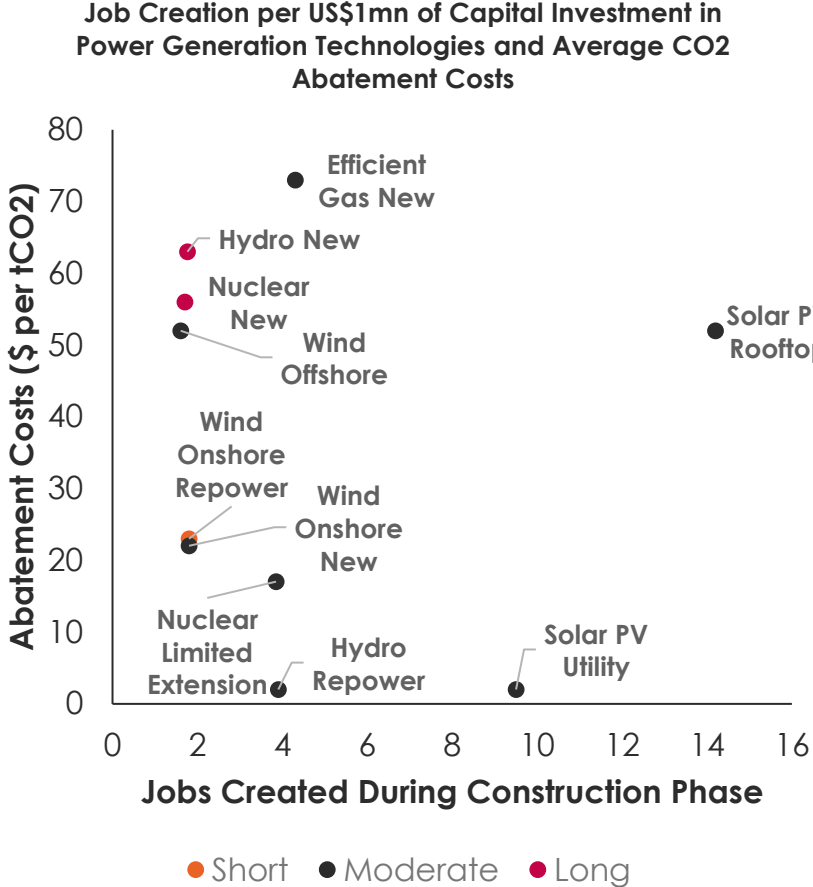
Source: Citigroup as of September 2020

# Market is Migrating to Alpha Opportunities



Source: UBS as of August 2020

# Yes, Things Really are Different



Source: Credit Suisse as of September 2020

# Thematic Approach can Capture the Alpha Opportunities



- Automation and process control
- EV & autonomous transport
- Renewable energy production
- Smart cities

- Emissions control
- Recycling
- Waste service

- Irrigation
- Water infrastructure
- Water treatment

- Access to capital
- Healthy living
- Safer products
- Sustainable food

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