



GENERATION ETFs - Season 2 Ep. 6: Tim Nash

Mark Noble

Ethical or socially responsible investing is an increasingly hot topic right now. We seem to be reaching a tipping point where investors are willing to look beyond performance returns and truly try to understand if the money they invest is being used in a way that corresponds with their deeply-held values. For many Canadians, this means making a point of investing in companies that have made a hard commitments to social and environmental changes.

Mark Noble

With us today on Generation ETFs is Tim Nash, the founder of Good Investing. Tim is one of the country's leading voices on socially responsible investing, particularly as it pertains to individual investors. Tim works with end investors to help them build financial plans that also include finding investments that align with the social and environmental concerns that they have. As an expert on socially responsible investing, impact investing, and the green economy, he is regularly featured in publications such as MoneySense, Reuters and Advisor's Edge Report.

Mark Noble

Tim, let's just start with getting a little bit of a background about your career trajectory, currently how you run your business and particularly how it is you came to be so focused on the SRI space? It's really unique what you're doing in the Canadian retail landscape.

Tim Nash

Yeah, absolutely. So my background is, I grew up with my dad in the investment industry, so I grew up around stocks and bonds and then I studied economics and philosophy in my undergrad. So I was a bit of a strange duck there and asking some tough questions and learned very early that there were some major gaps in our economic models, specifically around social and environmental issues. So I got my BA in economics and then went to Sweden and did my master's in sustainability.

Mark Noble

Okay. So we have an academic background there.

Tim Nash

A little bit there, very much systems thinking and it was a very practical course and then came back home straight into the crash. So my plan was to come back to Canada and sort of get a job in the financial industry, focused on socially responsible, sustainable investing. And when the crash happened, I was basically completely out of luck. So that's when I started my own business.

Tim Nash

I've been at it for about 10 years now with this focus. So I've sort of persevered as the rest of the world has really caught up to me, and [that] now that's put me in a firm position where I'm able to be a bit of an authority when it comes to socially responsible environmental sustainable impact investing. So my business model now is that I'm a fee for service financial planner. I'm not a broker or money manager. I teach people how to invest their own money according to their values with this focus on socially responsible and green ETFs.

Mark Noble

And so most of your focus then would be on positioning the portfolio so that they meet some sort of progressive value approach based on the clients?

Tim Nash

Yeah, it's the combination of hitting their financial goals and sticking as close to possible as sort of a couch potato portfolio as possible. I love that sort of broad indexing strategy, but when I looked at my own money and I looked inside a lot of those traditional index funds, there were companies in there that I just couldn't stomach, whether it's guns and weapons, whether it's tobacco or on the environmental side, whether it's pipelines and Monsanto, which is now owned by Bayer. I didn't want to own those companies. So really my goal working with clients is to help them find that portfolio mix that is still going to earn those market returns and do just as well, if not a little bit better than a traditional sort of index couch potato approach.

Mark Noble

It's interesting you mentioned your background in Sweden because when we look at the growth of sustainable investing, the Nordic countries really took a charge on the institutional side to the point where basically not just every pension there, but pretty much every institution even some of the banks like Nordea bank have a full ESG SRI approach.

Mark Noble

And then globally we've seen trillions of dollars now index to, at very minimum ESG standards and increasingly socially responsible investing. But what we haven't seen is a huge amount of ESG or SRI proliferation in the retail space, but we are sort of seeing it now. We're certainly seeing you get out there a lot more. So people are clearly bringing this to the table. What do you think has prompted the sustainable theme to really catch on? Particularly I'd say in like last year and a half, two years.

Tim Nash

Yeah. I mean, so you're right that ... I would say a lot of the smart money is already moving in this direction. And even here in Canada, Ontario Teachers' Pension Plan, Canadian Pension Plan, they're all doing this ESG analysis. And I mean, why not? It's not like we're replacing the financial analysis, we're just adding this extra layer, more information equals better decisions. But really I think the gap here in Canada is in the advisor network. The banks have this sort of oligopoly, they're very comfortable selling these high fee mutual funds. And most of the advisors, when my clients go to a traditional broker advisor here in Canada, they don't have the training and they often are very skeptical to the point where I would say that they have a negative bias against a lot of these very prudent, very intelligent ESG standards. So it's a really interesting space.

Tim Nash

And I think what's happened here in Canada over the last year and a half is really two trends. The first is this movement away from mutual funds towards ETFs as more people want to sort of do it themselves. It really opens up the door to say, "Okay, what am I actually buying here? I'm not just going to buy it blindly." And then number two is that I would argue really climate change emerging as just a massive issue where, you know, and again, in Scandinavia they've known and had policies in place for over a decade now dealing with these issues.

Tim Nash

But here in Canada we're really grappling with this national conversation around climate change and what does that future look like. I think a lot of people are feeling very helpless. And so what I'm offering is a very tangible way for people to be able to have an impact both in terms of their personal financial situation, lower fees, potentially slightly better returns, and then as well kind of have this positive impact where they know that their investments are in line with those values.

Mark Noble

And there's a lot of acronyms here. I think, once you start looking at the sustainable investing space, it becomes very difficult to differentiate. There's so many terms out there, there's ESG, which we mentioned, there's SRI, responsible investing, impact investing. How do we define this sector appropriately and how do you define them with clients?

Tim Nash

Yeah, it's a mess. It's horrible. And this is one of the biggest problems because a lot of Canadians, I think, have been discouraged. There was a big mutual fund company called Ethical Funds and they were sort of the first to come out with these. And they used a strategy called Shareholder Engagement where they would still own the companies but push people in the companies in a more sustainable direction. But it just didn't match up with investor expectations because they open up the portfolio for their ethical fund and they see ExxonMobil as a top holding and it's like, "Wait a minute. I thought this was the ethical option." So it's really a big problem.

Tim Nash

And again, for me, I think that's where we need so much more education. What I've started to do is I talk about this idea of sustainable investing and I have this very firm notion in my mind of what sustainability means, but I've also had to recognize that everyone has a different idea about what these things mean. So really the language I would use is Socially Responsible Investing, SRI, that's more sort of religious or ethical, getting rid of the sin stocks, alcohol, tobacco, military. Personally I don't have an issue with alcohol, but historically some of the religious communities did.

Tim Nash

From there, the ESG is much more the financial industry acronym. So this is environmental, social governance. If I'm talking to a bank or sort of a traditional person, I'm not going to talk about ethics and responsibility. I'm going to talk about ESG analysis and understanding that there is a financially material impact where companies that have a higher ESG score are outperformers, financially. So that would be the more traditional approach. Impact investing, that's a little bit different. That's not going to be your traditional stocks and bonds. These are going to be direct investments, things like community bonds, green bonds, micro finance, where we're really making a direct investment in order to achieve that sort of maximum impact.

Tim Nash

Often the language I use just to kind of keep it simple is I talk about doing less evil. So that sort of like the SRI and ESG, right? And then I talk about doing more good. And that's going to be the thematic investments in renewable energy, water, organic food, and then also these impact investments. And so for a client it's really about finding that right balance for them, but who it's sort of doing less evil and then carving out part of your portfolio for doing more good.

Mark Noble

Got it. Right. And that's a great segue into this idea of what makes a portfolio truly ethical. Because for me, ESG, don't get me wrong, it's definitely a step in the right direction. But in some ways, I almost view it as being akin to recycling. You know what I mean? Like everyone recycles but I could still recycle a truck's worth of recycling every week. It doesn't really make it that great from a progressive standpoint. And ESG sort of seems to be the minimum, right? And there's a lot of companies in there where they can make ESG standards, but are they really progressive? So that begs the question for someone who looks at this all the time, I mean, what makes a portfolio truly ethical and in particular like how do environmental factors play into this?

Tim Nash

Yeah. So I mean, it's going to be a spectrum, right? So you're going to have some funds that are just a step in the right direction. So for example, there's some Vanguard ETFs that now have this ESG, but it's really just the tiniest step. And certainly I have a lot of clients, people who are on the kind of more sustainable, the deeper end of the spectrum, sort of the more hippies that really they're going to look at that and just blow their lid, they're going to accuse it of greenwashing like you said. And so really it depends. And for me, part of my job is about evaluating that methodology, getting into the weeds, understanding that sort of index, how that index is built, understanding that company like MSCI, which builds a whole bunch of different indexes across the spectrum, they have some at the low end and some at the deep end. So it's really understanding for each ETF, what is that methodology. And then really at the end of the day, looking at the companies inside.

Tim Nash

And what I do is step away and I'll just show you the companies inside of it. And if there's a company in there that kind of makes you have that visceral reaction and for everyone it's something different. But then we know that that's not going far enough for you. Whereas, for me, and again, it's really about letting go of my judgments and my beliefs and it's really about putting it to the client and to say, "What is ethical mean to you?"

Tim Nash

And for some people it's going to be more on the environmental side, specifically around climate change tends to be the biggest issue right now. But oftentimes it is a lot around social sides. I've had clients where their parents have died from cancer because they smoked. And so the last thing they want to do is be investing in tobacco companies, right? So again, everyone's going to have their own story. Everyone's going to have their own definition. And that's why I think it fits so well with this do it yourself investment approach because then people can really choose where they are on that spectrum.

Mark Noble

We get asked this question a lot just because we're the largest institutional investor in marijuana equities and there's no answer for it, but I'm just curious to know your opinion. What's your view on marijuana or pot stocks? Because this is an emerging sector that some people view as a sin stock or others view it as more of a pharmaceutical progressive stock. Are you getting that question a lot? Because I know there's a lot of self-directed interest and an investor interest in the space.

Tim Nash

I get it from time to time and again, it's a very individual perspective thing. And so some people love it, some people don't. Really, you know, I think it would fall under the sort of traditional sin stock category with alcohol and tobacco. However, like I said earlier, I don't have an issue with alcohol, tobacco I don't want to invest in. But I'm happy to have a beer now and again. So for me, ethically, I don't have an issue with sort of cannabis as a product. That said there some major ESG issues within this sector that when we ... a firm called Sustainalytics did a bit of a deep dive looking at the sustainability factors when it comes to the cannabis sector and there are some massive issues in terms of the amount of energy they're using, the amount of water, the chemicals, really tracking that supply chain that there are some massive issues.

Tim Nash

So to me it's a little bit unfortunate because I think that the cannabis sector could really step up and be a leader when it comes to a lot of these issues. Unfortunately, they've really been lagging. So there are certain companies, there's one TGOD.

Mark Noble

Organic growing.

Tim Nash

Exactly and at least they've now got a mandate for specific sort of organic crops. But this is going to be an issue where really on the ethical side, hey, everyone's going to have their own perspective there. But I will say that from the ESG side, I absolutely have some major concerns with the segment.

Mark Noble

And they'd be on the environmental sustainability.

Tim Nash

Mostly on the environmental. I haven't seen too much on the social. I mean, I think that they're treating their employees well and hitting those minimum standards from what I've seen. But it really would be on that environmental side.

Mark Noble

Right. And just for people to understand, I mean a lot of these companies are based in Canada and they have inside growing facilities that are using massive amounts of energy and lighting. And while of course there are people moving to greenhouses, but it hits your point, right? Maybe we have to do a little bit more balance sheet analysis to figure out whether the individual company fits your standards.

Tim Nash

Yeah. And I mean, it's one of these things where because it is such a volatile sector, it should never be more than a certain percentage of that overall mix and then it's really going to be up, I've had some clients that are gung-ho and want some exposure and I've had some that very deliberately stay away.

Mark Noble

How do you deal with the diversification aspect in your portfolios? Because if I do a straight up let's say carbon footprint screen, I'm going to end up with overwhelmingly banks and telecoms and technology companies, which are primarily service companies, right? I mean obviously Apple can hide some of their stuff with Foxconn and a couple other companies. But I mean in terms of breadth and sector diversification, there's nothing wrong with having an overweight in technology. But overall if you look at, if I was to really get into carbon footprinting I'm going to end up with heavy sector concentrations in some areas and obviously no exposure in others. How do you deal with that from a portfolio management standpoint?

Tim Nash

So it's tricky. So I think really for me it's about understanding the standard benchmark, which for me, I use the all country world index. I'll look at a fund for example, like the Horizons Global Sustainability Leaders Index ETF and that is overweight when it comes to tech and it's really underweight when it comes to things like consumer staples. And so for me it's really about understanding that if there are those sector gaps in the portfolio, how can we fill those gaps in a way that still is in line with their values. So oftentimes we will look at sort of sector specific ETFs. Sometimes it's about adding individual companies to make sure that it is sort of nicely rounded out. I've got a client that I worked with and he loved the horizons ETHI ETF but had some issues there. And so he created his own sort of model TFSA portfolio.

Tim Nash

There's a great post on Reddit where he threw it up there, but it was really about balancing it with things like the global water ETF and then looking at Canadian consumer staples, Canadian banks and Canadian real estate because he felt that those sectors were sort of underrepresented and that with a global focus, there wasn't enough exposure to the Canadian market. So really the approach that I use is using some of these sort of doing less evil ETFs as a bit of the anchor in the portfolio and then building around it to make sure that we do have proper diversification both in terms of geography and in terms of sector.

Mark Noble

Fantastic. And what are your thoughts on ESG SRI investing in fixed income marketplace? So we starting to see this quite a bit. Are you able to find sort of green debt solutions for your clients and is that worthwhile for them?

Tim Nash

Yeah, I mean, so really it gets a little bit tricky because now we would get into the area of impact investing. So these are often going to be non-liquid products, things like green bonds, community bonds, microfinance. So it's very much an emerging market. There are a lot of new options that are coming out, but typically the way it works with, let's say a green bond is that a green bond will become available, the window will open, they'll often sell out. These things often tend to be oversubscribed and quite popular.

Mark Noble

Institutions.

Tim Nash

That's it. And so once it's sold out, then the window sort of closes and we're left waiting for the next offering. So it's a little bit tricky, but there are some wonderful examples that I kind of keep my eye on. I'm going to be holding an event probably in, I believe it's going to be November 1st. I call it the Good Investment Fair, where it's almost like a farmer's market for community bonds and green bonds here in Toronto.

Mark Noble

So your clients will actually do sort of micro financing.

Tim Nash

Yeah. So there's a really cool microfinance GIC offered by Kindred Credit Union, which used to be the Mennonite Savings and Credit Union in Kitchener, Waterloo. So they've got a really creative GIC product available for retail investors where you can open up an RSP or TFSA there and invest in a GIC that's linked to microfinance.

Mark Noble

That's phenomenal.

Tim Nash

Yeah. So again, you're locked in for three years. It's a GIC rate, so it's not going to be the highest return, but to carve out five to ten percent of your portfolio for something like this, I mean it's really going to have that positive impact and is going to let people feel good even if the rest of their portfolio might not be perfect in terms of that values alignment. But as long as overall they feel that they're really having that positive impact, then it's something they can be excited about.

Mark Noble

I think we'll wrap it up just with one last question. I mean, what do you think are the biggest SRI ESG issues on the horizons for both investors and corporations? For example, I mean with liberals pled and single use plastics impact consumer product companies. Like when you're looking at things, what are you most concerned about in building these types of portfolios?

Tim Nash

Yeah, I mean I think really it comes down to which issues are going to emerge most quickly. Single use plastics is an interesting one. And I would look at a company like Cascades in Quebec. They're a publicly traded company. They do paper, but in terms of this whole like delivery service. So I love my Uber Eats or my Skip The Dishes, but the amount of waste there is just incredible. So they are innovating 100% recycled and compostable or recyclable take-out containers. So they're definitely going to be some opportunities there. And the more regulations there are in this direction, then absolutely that's where the opportunities are going to emerge most quickly. I would say here in Canada really it's about climate change that that is the biggest issue that the really, like the rest of the world is there and it's really Canada and the US and a couple of other countries like Australia that are really dragging their feet on this.

Tim Nash

And Canadian investors are very heavily exposed to carbon risk. And this is now mentioned by the Bank of Canada as one of the top five financial risks facing the Canadian economy. So, to me that's the biggest one where I would say people sort of have their head in the sand and that we've had the opportunity for over a decade knowing that these issues are happening and we kind of keep doubling down on that fossil fuel economy. And I would argue that a day of reckoning is coming. And again, it'll depend on politics and it'll depend on a number of different, certainly with the election outcome. But if we do start to see very strong movement towards shifting to a low carbon economy, I'm really worried about a lot of Canadian retail investors that have very heavy exposure to some very carbon intensive sectors here.

Mark Noble

Right. In particular you're talking about materials and energy.

Tim Nash

That's right. And also our banks that we're so overweight our financials and when I look at the balance sheets of a lot of the Canadian banks, they have heavy exposure to those sectors themselves.

Mark Noble

Okay. Fair points. Tim, this has been fantastic. We're going to need to have you come back again. I really enjoyed listening to this and I think, what I really appreciate is that you've taken these topics and made them very accessible from a retail perspective. So obviously at Horizons, we're really excited about the opportunity for retail investors to start looking at their portfolios differently, knowing that there is tools out there that empower them to invest alongside their values. And it's great to see practitioners like yourself helping them do that. So thanks so much today.

Tim Nash

Thanks so much for having me.



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