

# ACTIVE VOICE *from Putnam Investments*

## Covid, Community, and Climate (C3)

*In our third and final installment of the C3 Project (Covid, Community, and Climate), Active Voice engages Katherine Collins, CFA, MTS, Head of Sustainable Investing at Putnam.*

*Katherine's road to leadership in the sustainable investment industry is unique, it's fair to say. She has served in leading roles at world-renowned investment firms while serving as board member (and newly elected Board Chair) at the Santa Fe Institute, the world's leading research center for complex systems science; as a Member of the Dean's Council at the Harvard Divinity School, where she earned a Master's in Theological Studies; as Founder of Honeybee Capital and the Honeybee Capital Foundation ("Reconnecting Investing with the Real World"); and on boards of several other organizations dedicated to enlightened investment, social change, and personal growth.*

*Katherine is the author of "The Nature of Investing: Resilient Investment Strategies Through Biomimicry." In this groundbreaking work, she describes investment processes overtaken by "mechanized finance" and the harvesting of microsecond trading advantages. In response, she posits investment processes rooted in "biomimicry" — a realignment of investing with the real world that values resiliency over rigidity and elegant simplicity over synthetic complexity.*

*Katherine's team has an admirable investment track record, and two of their strategies are represented in Putnam's first-ever offering of active exchange-traded funds (ETFs): Putnam Sustainable Leaders ETF invests in companies demonstrating leadership in material sustainability issues; Putnam Sustainable Future ETF invests in companies creating solutions to essential sustainability challenges.*

### **Catherine Saunders**

Head of Public Policy and Advocacy  
Putnam Investments

## Climate and sustainable investing – the interview

### **How has your sustainable investment practice evolved as you have added to your analytical capabilities?**

**KC:** When I began my investment career, our process was to study the world, assess changing dynamics, and connect this real-world context with specific investment opportunities. Thirty years later, we have more data, improved risk-management tools, and a range of new technologies. We've effectively "flipped" the process to think of the stock market as a world unto itself, instead of a small part of a bigger picture. Today, the task is to re-center our approach, placing a recognition of the broader setting at the heart of our investment process. We aim to understand our investments in a more complete way, by studying the challenges and opportunities presented by current circumstances and by identifying companies that help to demonstrate leadership and develop solutions to meet those challenges.

In terms of where sustainability "sits and fits" in the investment process, we believe certain ESG issues are relevant to investment analysis and that these issues often vary depending on the company, industry, asset class, and investment approach. To gain investment relevance and investment merit, we focus on two key ingredients: research that is context-specific and forward-looking. By taking this integrated approach, we believe we have an opportunity to identify and invest in companies that are improving their own prospects by creating something of value in the world.

### **Did the Covid-19 pandemic shine a harsh light on key sustainability issues like community, diversity, and social justice?**

Covid-19 has been a terrible phenomenon. We knew we lived in an interconnected world, but the pandemic has illustrated these interconnections more sharply and has inspired deeper empathy in many settings. The experience has also revealed how social justice, climate, health, and our economy are all closely related. It's noteworthy that within sustainable investing, social issues — the "S" in ESG [Environment, Social, and Governance] — have been under-researched compared with the "E" and "G," for which we have developed tidier metrics.

Today, we are deepening our research into many investment-relevant social issues. Examples include extended research we've pursued on mental health and racial justice, which are both longstanding and complex crises in the U.S. that are newly top-of-mind for many CEOs. These social issues are not side issues; they are integral to the health and effectiveness of economic, financial, social, and environmental systems.

### **In a recent interview for Active Voice, we asked Putnam CEO Bob Reynolds about ESG — was it an investment solution, an investment category, or a management philosophy? He responded, "All of the above." Katherine, how did you decide to direct your career in sustainable investment toward Putnam?**

When I began speaking with Putnam, I had two key considerations: where would ESG analysis sit within the investment process, and how would I find similar sustainability considerations reflected in Putnam's corporate activity? Any organization today has an opportunity to align their sustainability strategy with the group's core mission, and without that alignment, ESG can become an exercise in paperwork instead of benefit. For an active investment company, it makes sense that ESG analysis has the most value when it is designed to be investment-relevant and to sit within the heart of the investment process.

With this in mind, the Putnam team committed to sustainability as a core investment function, integral to creating research and building investment products — not as an adjunct to the investment process. Bob — our CEO — had only one question for me, and it was quite straightforward — can sustainable strategies generate outperformance? I outlined why, when done in a context-specific and investment-relevant way, I believed that they could.

Putnam also has a profound cultural commitment to sustainability amongst employees and in terms of our client-focused activity. It isn't always easy to discern this from the outside. Yes, there are identifiable markers for a sustainable culture, such as diversity and inclusion (D&I) data and other metrics. But, in order to work, I believe sustainability has to be deeply rooted in the culture.

For me, the number-one positive is the depth of collaborative spirit within Putnam. When bringing forward my ideas about sustainable investment, I thought I would spend years on “internal convincing.” After all, at most investment firms there are a lot of sharp elbows, and of course, sustainability research has to be held to the same high standards as all other research. But once we determined the investment relevance, Putnam’s collaborative culture allowed us to get right to work.

**Some traditional threads of ESG investing took the approach of excluding certain activities and companies. Your approach is different, anchored by principles of materiality (sustainability issues that are likely to impact financial condition or operating performance). How do you describe your approach?**

In the early days of ESG, investment approaches often centered on the exclusion of certain activities or products — for example, avoiding harmful products like tobacco. As active managers, we spend most of our time thinking about the opposite question — what we are investing in, and why?

Starting with an exclusionary process is not a creative or joyful process, and it has limited investment merit as well. It’s much more interesting, and potentially more rewarding, to consider what we are for, investing with highly active processes and building concentrated portfolios with high-quality investments. This is the North Star of our sustainable investment practice.

Again, our goal is to pursue the outperformance I described to our CEO. Our investment thesis is that by focusing on relevant, material sustainability issues and on forward-looking trends, we have the chance to identify companies where excellence in sustainability could make the company’s financial prospects stronger over the long term.

**As part of your due diligence around materiality, you have written some 140 letters to company CEOs. How do these exchanges benefit shareholders?**

As active investors with a focus on sustainability, a robust dialogue with corporate management is at the heart of our process. We discuss many strategic issues on an ongoing basis, and within our process, sustainable strategies are not an addendum or a separate activity. They are integral to these exchanges.

Our letters are a tangible marker of interaction with corporate leadership. But they are only the tip of the iceberg in terms of the long-term dialogue that we are undertaking. ESG and sustainability are deeply embedded in our investment process, and this is a form of engagement that complements our proxy-related engagement and our overall stewardship activity.

**Sustainable investment is not just a U.S. phenomenon; it’s global. With new leadership in Washington, what are the prospects for sustainability and ESG around the world?**

Climate change is a critical global issue that investment practitioners, corporate leaders, and political leaders have focused on for many years. It’s important to remember that global policy shifts don’t turn solely on U.S. decisions, and that predictable frameworks are needed to effectively allocate capital over time.

Large, innovative companies often operate globally, and so as investors we need to think at the global level too. While the challenge and opportunity of sustainability transcends borders, each investment market and nation has unique policies, regulations, financial personalities, and varieties of innovation. It’s a rich tapestry of elements that is always evolving.

We haven’t solved the climate challenge, but we do have global collaboration within a clear and increasingly active set of frameworks. And this is producing results. For example, renewable energy accounted for about 90% of capacity additions worldwide in 2020, with the biggest additions in China and the United States, despite very different policies in these two countries. (IEA, Renewable Energy Market Update 2021).

**In one of our first meetings, you said that in your investment work you were privileged to spend a majority of your day doing “what I was called to do.” And you’ve got an enviable investment performance track record to show for it. How do you describe your calling?**

Thanks very much for hearing that, Cathy. I have a graduate degree from the Harvard Divinity School. When I tell people that, some are surprised and interested, while others seem a little confused. For me, my work fulfills a personal mission. I daily ask myself the same question I asked when I first considered working at Putnam. What can I uniquely contribute, given my personal experience?

I’ve made a deep and long investment in building the technical skills of fundamental research and active portfolio management, and a similar investment in building fluency in systems thinking and sustainability. Using these skills, I get to pursue great investment performance, to exercise my commitment to regenerative business practices, and to illustrate a philosophical alignment between these areas. I am grateful to be able to devote myself to this mission on behalf of our clients and shareholders.

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