ROB MAGAZINE

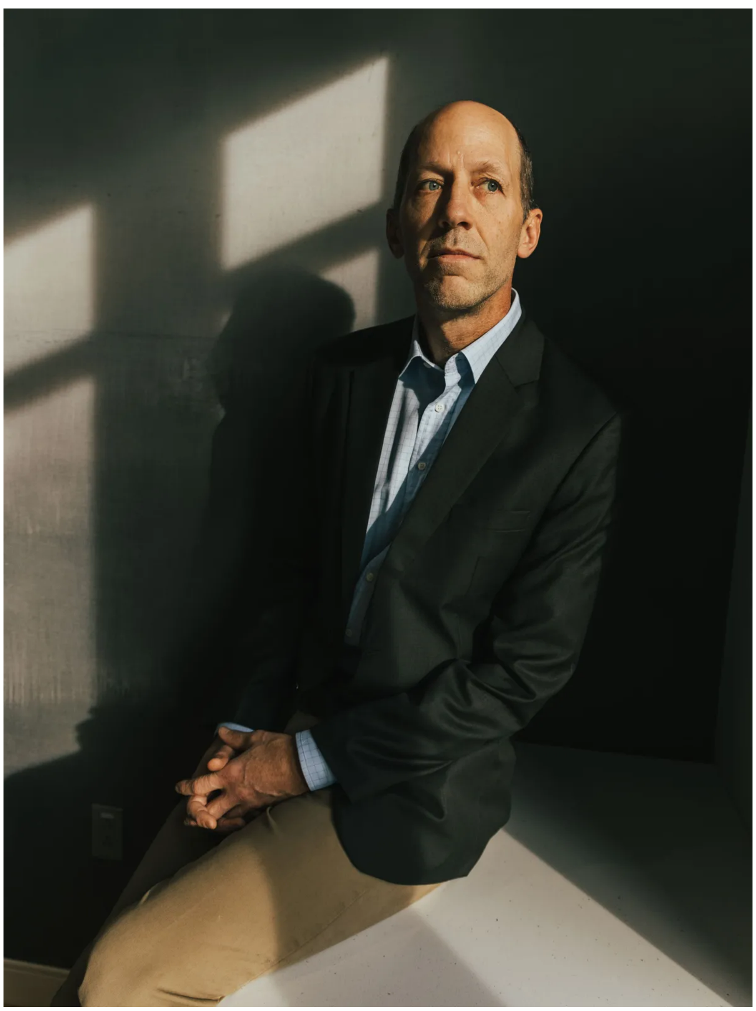
ESG is the latest investing megatrend, but Mackenzie's Gregory Payne succeeded with a more targeted approach

SHIRLEY WON

SPECIAL TO THE GLOBE AND MAIL

PUBLISHED FEBRUARY 27, 2023

Gregory Payne | Senior vice-president, portfolio manager, co-lead of Mackenzie Greenchip team Mackenzie Investments



BAILEY MCLEAN/THE GLOBE AND MAIL

Environmental, social and governance (ESG) investing has surged in popularity in recent years. But Gregory Payne, a value manager who has focused on environmental thematic investing since 2008, sees better opportunities in a narrower range of companies that make stuff for a low-carbon economy or are part of the energy transition to renewables. He and John Cook co-manage the nearly $2.2-billion Mackenzie Greenchip Global Environmental All Cap Fund, which has outpaced the MSCI All Country World Index since late 2018. We asked Payne, 52, how his fund has outperformed, and why he favours China-focused solar firms such as JinkoSolar and Canadian Solar.

Why did you gravitate to an environmental versus an ESG strategy?

ESG is based on how companies behave, and it doesn't matter what they do. They just must be judged as good actors. You could buy an oil sands company because it uses the least water per barrel. Environmental investing is owning companies that address challenges such as environmental degradation, population growth and resource scarcity. ESG strategies own health care, tech and consumer discretionary companies that are often household names, and can be subject to hype and high valuations. The utilities, industrials and materials sectors, where we typically find stocks, are often overlooked and not subject to the same euphoria.

What's the secret to beating the index?

We invested in solar stocks at a low point in 2018, after Donald Trump put tariffs on solar imports and China reduced subsidies for the sector. We've had takeovers, including AVX and KEMET in electronic components, and deals involving Hanwha Q Cells, Kaz Minerals and Suez. Our value-investing style came back into favour last year, but stock picking helped in prior years. Our fund has done well with 20% to 25% in U.S. companies versus more than 50% for our index and peers.

Why do you favour China-focused solar-panel makers when U.S.-based First Solar is often the go-to name?

Solar is a global market, with the U.S. representing 15%. China is a big part of the success story in building an ecosystem and supply chain around solar. JinkoSolar and Canadian Solar trade at a fraction of their revenue, versus First Solar trading at more than five times. The China-focused firms are heavily discounted by North American investors, who prefer U.S. companies and may have anti-Chinese sentiment. On this bias, there's a value opportunity. And there is 85% of the market for Chinese companies where they do just fine.

What about allegations around the use of forced labour in China's Xinjiang region, particularly to produce polysilicon for solar panels?

In Xinjiang, JinkoSolar has a silicon wafer plant, and Canadian Solar has a solar farm, but both disavow direct use of forced Uyghur labour. This allegation is more relevant to Daqo New Energy, which we also own. Half of global polysilicon comes from Xinjiang. It is a concern, and we are doing our best to learn more about it. However, our companies don't lend themselves to manual labour in the first place. They hire engineers, managers—those sorts of jobs.

Why do you like nuclear despite fear of potential disasters and attacks by environmentalists?

We own French utility Engie because it's a leader in renewable energy, but it operates Belgium-based nuclear plants whose lifespans are set to be extended for 10 years. We support expanding the life of old plants because nuclear provides attractive baseload power, free of emissions. We also feel there has been an overreaction to safety concerns. Small modular reactors aren't yet a scalable, economic alternative.

Why don't you own electric-vehicle stocks?

Because of their high valuations. We place more emphasis on hybrid vehicles, smaller batteries and public transit. We own Hitachi, Alstom and Siemens, which provide rolling stock and rail-signalling systems. Mass transit needs to be more in the picture than converting our auto fleet to EV with massive, material-intensive batteries. If EVs take off, we still have a tailwind from electronic circuitry and components. We own Onsemi, Infineon Technologies and STMicroelectronics.

Your time is valuable. Have the Top Business Headlines newsletter conveniently delivered to your inbox in the morning or evening. Sign up today.