MACKENZIE Investments

The Mackenzie Global Quantitative Equity Team

Our approach towards responsible investing

Philosophy: ESG factors to enhance alpha and mitigate risk

The Global Quantitative Equity team's philosophy is rooted in a disciplined, data-driven approach to investing. This also applies to the team's Environmental, Social and Governance (ESG) integration approach. Mission critical for the team is to identify ESG-related factors that they believe enhance alpha and address risks across the market.

The investment team systematically incorporates ESG factors in its stock selection model with the belief that it enables exposure to companies with stronger ESG characteristics and an additional factor to add alpha for the portfolio, as companies that are focused on sustainability typically possess favourable quality characteristics.

"ESG matters throughout the world! For us, it means favouring companies with better ESG performance than industry peers"

Arup Datta, MBA. CFA.

Senior Vice President, Head of Mackenzie Global Quantitative Equity Team

How the Mackenzie Global Quantitative Equity Team integrates ESG

The Mackenzie Global Quantitative Equity team follows a 3-step process for integrating ESG into its highly disciplined stock selection process.

1. Factor identification

ESG materiality varies between industries, as demonstrated by the Sustainability Accounting and Standards Board (SASB). Therefore, the team collects industry-specific ESG data points from sources such as MSCI and Bloomberg. In addition to the role MSCI plays as an ESG rating provider, the GQE team also utilizes MSCI's ESG assessment tool, MSCI One, in their quantitative investment process. This tool, along with the data provided by Bloomberg, are preferred over general ESG ratings providers as they offer both a broad global coverage and detailed, granular data for each company.

2. Identifying alpha

In 2023, the team upgraded its ESG model to version 2.0, introducing enhancements to more accurately assess a company's sustainability performance. The updated model now includes a supplementary score that evaluates the effort a company puts into ESG reporting, alongside the existing ESG performance score. As part of its research process, the team conducts back-testing of ESG factors deemed fundamentally material for each industry, comparing companies against their peers to determine whether strong ESG characteristics have historically correlated with better risk-adjusted returns. ESG factors that demonstrate a positive impact on alpha, based on historical data, are then integrated into the stock selection process. Additionally, the team has identified that the impact of ESG factors on alpha varies across different geographic regions, highlighting the importance of a nuanced approach in their analysis.

3. Systematic integration

Based on the conclusions from the back tested data, the team systematically integrates these alpha-enhancing ESG factors into its stock selection process using a proprietary ESG scoring framework. This approach allows the team to gain exposure to companies with stronger ESG characteristics relative to industry peers. This step of the process does not lead to industry tilts. Depending on the region and industry, the number of ESG data inputs may vary. In general, ESG has a significant weight of between 5% -10% in the overall alpha model.

Importantly, the team has a capacity to manage the overall portfolio sustainability characteristics subject to the mandate's ESG guidelines. Depending on the fund, this may include managing the portfolio according to a carbon budget, excluding controversial industries, avoiding companies involved in controversies, etc. The investment team collaborates with Mackenzie Sustainability Centre of Excellence to stay abreast of the growing ESG data landscape and to comply with sustainability requirements from clients.

The Mackenzie Global Quantitative Equity Team's ESG approach in action

CASE STUDY – Texas Instruments (TXN)

Texas Instruments (TXN) operates within the USA Semiconductors subindustry, a critical segment of the broader technology sector. Known for its innovative semiconductor solutions, Texas Instruments plays a pivotal role in advancing electronics across various industries, from consumer electronicsto industrial applications.

As of June 30, 2024, Texas Instruments demonstrated strong performance in both overall ESG metrics and specific disclosure categories, as evaluated by our ESG V2 model. The company's superior scores were predominantly driven by its environmental initiatives, showcasing its commitment to sustainable practices.

Texas Instruments' robust environmental performance, as evidenced by high scores in our ESG V2 model, highlights the company's leadership in integrating sustainability within the semiconductor industry.

Key Environmental Factors:

Climate Change Opportunities: Texas Instruments has strategically leveraged opportunities related to climate change, particularly in energy-efficient product design and innovation. This approach not only mitigates environmental impact but also positions the company favourably in a market increasingly focused on sustainability.

Sustainable Packaging: The company has made strides in adopting sustainable packaging solutions, reducing the environmental footprint associated with product distribution. This effort aligns with global trends toward minimizing waste and promoting recyclability.

Waste Reduction: Texas Instruments' waste reduction programs have proven effective, particularly in reducing material waste during manufacturing processes. These initiatives underscore the company's commitment to operational efficiency and environmental stewardship.

Learn more about the Mackenzie Global Quantitative Equity team's funds here.

4356900 MK3091 02/25