Mike:	**00:01:00**	Hey, there. Good to see you Mr. Butler.
Adam:	**00:01:02**	Yes, sir. Happy Friday.
Mike:	**00:01:03**	On a lovely Friday. So, I guess …
Adam:	**00:01:05**	We had a guest?
Mike:	**00:01:06**	We do, we have a guest.
Adam:	**00:01:08:**	He was here.
Mike:	**00:01:09**	We definitely have a guest. He was here.
Adam:	**00:01:11**	We lost him?
Mike:	**00:01:13**	Yeah. I'm sure he'll be back on. Obviously, Jon Aikman works with ReSolve in the ReSolution portion of the business, which is focused on some of the opportunities in the ESG space. And I guess in Jon's absence, for the moment, we can just warn everybody that we'll be having a nice wide-ranging conversation on all kinds of topics, and that this isn't investment advice, but rather a pursuit of some education and entertainment with respect to the investment domain.
Adam:	**00:01:49**	What are we covering today, Mike? What's the theme?
Mike:	**00:01:51**	Well, you know, I think that in the ESG space, I was certainly someone who has struggled with what ESG is, what it stands for, is it all just sort of posturing? And come on, come around a long way and understanding that it's a complex space, actually. And it spans more than within environmental or social or governance. There are a number of different things that happen, or criteria to investigate and talk about. And things that have sort of fascinated me are the idea of peace, justice and strong institutions. And the idea of reduced inequalities in something like litigation funding, are very interesting sort of topics or things, items that are coming out of this greater ESG landscape. You know, I think there's a bit of a focus on the neat new thing, right? Whether that be solar, or battery technology. And they're the kind of the shiny new thing that might solve the problem in the long term. But we've also got a traditional industry for which most of the planet still runs on, that's carbon-based. And so what are the incremental improvements that can be made there? And do you just abandon funding in that area, which we're seeing in some of these areas where I think BP said they're not investing in hydrocarbons anymore. So, where does that leave the world that is so sort of based on that hydrocarbon system and the delivery mechanisms and systems that are in place and have been in place for 100 years, to deliver energy to a global economy?

Adam: **00:03:51**

It's funny because it seems like for once, policy is running ahead of technology, right? I mean, typically, because of the accelerating nature of technology and its complexity, lawmakers struggle to keep up with the, you know, creating laws that are consistent with the norms, and the workflows and the behaviors of citizenry. Right? In this case, you have a global, environmental, social governance movement that is sort of fumbling towards objectives that are moving a little bit away -- more away from shareholder yield maximization and toward more of a *protection of the commons* type joint objective, for economic productivity.

And in this case, the governance is anticipating technology, but I guess, I think in some ways, we've seen that it's anticipating the adoption or scaling of tech, at a more rapid pace than has actually been realized. And so now you get into these situations, as you alluded to where the boards of major institutions like, for example, the University of Toronto Endowment, which is such a small in the grand scheme of things, but I think is illustrative of the direction of large institutions in general. And we have seen announcements from a variety of much larger institutions over the last couple of years. But they've just said, they are divesting of all carbon-based energy, equity investments. Right?

Mike: **00:05:34**

Right. Notre Dame did that several years ago too.

Adam: **00:05:37**

Right. Yeah. And I'm sure there's dozens of other examples that have sort of under our radar, right? And much more to come, right, the tsunami is building. So, obviously, there's a clear -- there's a dream to move away from carbon-based fuels, and the CO2 and methane and other contaminants that are maybe contributing to anthropomorphic climate change. And of course, we're focusing on climate, but there's obviously social and governance objectives as well.

But these policies are running ahead of the scale of the tech in order to build in substitution for the existing infrastructure and energy sources. And so that may be explaining what we're observing and a lot of the commodity curves, right, not just a major explosion in prices higher, but also major shifts in the curves of these commodities, that are suggestive of the fact that the industry doesn't believe that new production is coming online to satisfy demand anytime soon. Right? Jon, welcome.

Mike: **00:06:48**

Welcome back.

Jon: **00:06:49**

Thanks, Mike.

Backgrounder

Mike: **00:06:52**

So, we were just giving sort of the general lay of the land a little bit. And some thoughts on how the sort of landscape from an emotional standpoint is changing more quickly than maybe the development in tech and the potential for the transition away from carbon-based fuels, in this case, we were talking about. But obviously, ESG is so much more than that. And maybe, why don't you give us a little background about yourself and who you are, and your sort of expertise in this field. And then sort of give us a lay of the land, if you will. You've got that colorful sort of chart that lays out a much broader landscape with respect to the sort of responsible investing, if you will, beyond just ESG? And maybe start that and set the table for us?

Jon: **00:07:51**

Sure. Well, thank you very much for having me. It's great to be here. And my background started off in kind of law and investment banking, working for some of the major firms, *bulge bracket* firms in London. And after that, I went to work in kind of academia a little bit. I'm a faculty member at the University of Toronto and at Queen's University. And I teach in a variety of different areas that involve finance and technology, as well as impact investments, and ESG is a big focus. You know, most recently, really been involved deeply in alternative investments and ESG investing in general with ReSolution.

So, kind of a long story background. Originally, my experience was in, my education experience was in science, quantitative aspects of it from physics to math, as well as philosophy. And so I find that there's an interesting juxtaposition between the things that are going on right now in terms of the core finance and making sure that things make sense from a financial perspective. And then on the other side, looking at these kind of larger societal goals that we're trying to achieve. So, that's kind of my background. I've been teaching for about 10 years, 12 years or so. And I wrote a book on the financial crisis back in the day for Bloomberg, about the fallout from Lehman Brothers, which was really about a really interconnected world. And some -- actually, there are some parallels between ESG and some of the challenges that we faced before that maybe we can talk about later.

But with that, that's kind of my background and how I come at it is I think that ESG matters. I think it's really important to solve some of these big problems. They are huge problems, they are technology based, and sometimes they're business case based. Until people kind of put their heads to work and shift their thinking from things being waste, to potentially things being biofuel, that's the type of thing that you have to worry about.

And you have to close some of the loopholes that people have been exploiting. Like what major corporations and even nations have been doing to the oceans is absolutely tragic. Because if you fall off a cliff in no man's land of legal liability for things that you dump in the ocean. And now we know that the ocean is one of the most important areas for us to consider when we're thinking about life on earth, and what this climate change means for the future. So, there are a whole host of issues related to that. I guess,

Mike: **00:10:50** I'm going to share that sort of 17 different parts of sort of the ESG landscape, and maybe you can elaborate on some of those to set the table a little bit.

Jon: **00:11:04** Sure. I mean, the broad perspective of ESG, it's environmental, social and governance, and a lot of people think that the real focus today has been on E, environment. And the problem is there, clearly, and it's definable, and people define it as carbon emissions, greenhouse gas emissions. And, to some extent, that's a really narrow view of what ESG is, because you have what are -- these are known as the 17 SDGs or social, the *Sustainable Development Goals* put up by the United Nations. And now you have a lot of work at a government level and an international government level, trying to bring people to tackle some of these specific problems. But there's a broad range of different things to think about, and things that you can focus on.

And the SDGs and all the colors there really speak to that, that there are a variety of different areas that are interconnected, and also very, very diverse. So, you can be investing in children's education, or you could be reducing the carbon footprint of a concrete company, or investing in social justice or looking at issues of work, like *Life Below Water*, some of these areas that are interconnected, in a kind of broad sense, but hard to tackle, one by one. So, these are really important goals to think about. And they're setting targets based upon these goals of what we want to achieve.

Adam: **00:12:47** I think it's helpful, if you will, if you wouldn't mind, because it's not like this idea of, I'm going to sort of throw it all into the idea of responsible investing. I don't know why, but let's just use that. But I think it's useful to sort of almost spell out a bit of a term sheet, right? Because what is the difference between ESG and SRI and impact investing, just as an example? Are they different things? Are they mutually reinforcing? Like, how should people think about that?

Jon: **00:13:16** It's a really good question of what is ESG. And you have kind of different definitions in the United States and in Europe and internationally. So, you really need to know what people are talking about. The base level, where everyone's kind of a responsible investor today, is we've recognized that there are certain risks associated with things like climate change, or not addressing some of these. So, a responsible investor will say, there are risks associated with not addressing ESG. The hotel I invest in maybe underwater in 10-20 years so I need to take this to heart. Then there's like socially responsible investments, kind of moving up the chain saying, look, there's risks, but there's also opportunities. And I want to take advantage of some of these opportunities as well.

Impact investments is a very complicated area where you're shifting further along, and you're starting to say, not only do I want to make money -- not only do I think that there are risks and opportunities, but I actually want to solve a tangible problem. And you'd say, well, what -- it could be something as simple as saying, hey, I want the amount of plastics that I pull out of this particular river, I want to count that. I want to have a turbine and I want to use it for that. And I'm going to measure -- I'm going to weigh the plastic and I'm going to tell you that I pulled 50 tonnes or you know, hopefully more out of that river, right?

And then on the other side, there are things like really innovative social issues to address. Like in the United States you have a huge problem with over-criminalization. And so there are minorities and there are populations, socio-demographic populations, poor people, uneducated people who typically wind up in the criminal justice system. There are catastrophic numbers on the actual impact of whether you get bail or not. If you don't get bail, you are likely to plead guilty, much more likely to plead guilty. And so it's one of these key considerations. 70% of the people in prisons, according to the statistics I've looked at, and the fund manager that I've talked to who focuses on this, 70% of those people that are incarcerated are incarcerated not because they committed a crime, but because they committed a technical breach. They were late for court, they missed a meeting with their parole officer or someone they had to check in.

So, they try and solve this problem by saying, look, the thing that we're going to measure as impact investors, is we're going to measure how many people do we help get bail? And so what did they invest in? They invest in a technology that helps remind people to go to their court appointments or to go different places. And believe it or not, it's just that simple**.** Sometimes the people that are there are not functioning very well. Like, it's like turning to a heroin addict and saying, hey, make sure you show up on Tuesday at four, right? Like they have other things going on in their lives. You're penalizing them kind of like, not because of any sort of crime, but because of the problem that they're kind of suffering through. So, they're interesting challenges where they're trying to solve things like that. And that's radically different from saying, hey, what was the carbon footprint? How much did you pull out of this carbon sequestration plant? Or, you know.

Adam: **<u>00:16:58</u>** So, is ESG investing sort of the umbrella category for all of those different objectives? Or is ESG something specific on its own right? It's distinct from the other categories that you just described?

Jon: **<u>00:17:13</u>** I think that that's the umbrella. The umbrella is to say I'm an ESG investor. And then you really have to dig down and say, what do you mean by that? And are you just trying to avoid risks like, hey, we think that oil is going to be -- these oil fields, many institutional investors, part of the thing, one of the things I do is I sit on a pension endowment. Very enlightening to think about adding ESG as a policy to an investment portfolio. More and more institutional investors are doing that, and they don't all agree on what that means, right? They don't agree.

Like, say we have an ESG policy, and you'll have to look at it because some of them are saying, we have to divest from any sort of bad investments. And others are saying, we have to consider it as a risk or not only is it a risk, we need to look for opportunities in this space, and things like that. So, you really have to look at it.

And when you think about these kinds of investments, the interesting thing is that if you start to move from kind of just risks and opportunities and then into, *I want to make a real difference, like an impact,* then you can kind of turn the corner, and then all of a sudden, quite quickly, you're no longer focusing on economic results because you've taken -- you're really just trying to solve this specific problem. And then at that point, you're quite close to charity, in the work that charities do, right? You're saying I want to allocate to solve this homelessness problem.

Adam: **00:18:38** Well, see, this is where I think definitions get tangled up, because I think so much of this gets resolved through an acknowledgement of a mismatch in time horizons from an investment perspective, right. So, I mean, so many of the problems that ESG investing is trying to solve, come down to externalities that result from companies making decisions based on project timelines that are measured in the term of the current CEO or the term of current management, so that current management is able to realize a payout or pay off on these investments during their tenure and realize the you know, the benefit of -- the economic benefit from short term shareholder value maximization, right?

Whereas, in reality, if every company were accounting for this, the environmental, social, well, governance is slightly different, but the environmental and/or social cost of these sort of short-term investment goals and ignoring the potential long term implications, then we wouldn't be having these same types of problems, right? Because they would be -- the long term ramifications will be explicitly built into the economic models. And so from that perspective, you don't need to think about ESG as running explicitly counter to economic objectives. It's just accounting for economic costs and opportunities that are outside the typical investment horizon of the company.

Jon: **00:20:45** I think that's fair. Yeah.

Mispriced Assets

Mike: **00:20:46** Yeah. Is it also sort of a mispricing of the underlying asset, not reflecting the environmental burden?

Adam: **00:20:55** Oh, yeah, absolutely. Because the companies have not historically been held accountable for the externalities that they manifest. Right? So, regulation that enforces that type of accountability is obviously another way to go. Because the challenge is, it's not just management, it's also investors have time horizons that are too short to care about the types of problems that this short sightedness creates, right. And so if you don't have a shareholder, if there are no private stakeholders that are incentivized economically, to take the right steps to account for long term externalities, then they have to be taken by regulation and government intervention, right?

Jon: **00:21:46**

Well, just as a simple example, I mean, you can run a business where you have a lot of garbage, and you take that garbage, and then you dump it in the ocean, and you don't pay for it. And you have a competitive advantage because if you can, you know, there are many countries that do just that, they just dump it in the ocean. So, it's the goal too that's changing. And I think that you're right to think of it as questioning what are the rules? And right now, the rules are really nebulous, to some extent, because they all kind of fit under this umbrella of your ESG, or if you're very -- people get very focused on impact and what impact you're going to have. If you're claiming an impact, that's a serious claim. And you have to kind of have external validation for your claim.

But yeah, I mean, really, right now, this is all being driven by the *United Nations Principles of Responsible Investing,* recognizing that you can't have kind of unrestrained capitalism that doesn't take these externalities into consideration. We have an island of plastic floating in the Pacific that is the size of Texas as a result of the legal loophole that doesn't hold people accountable for dumping in that way. So, people have been taking advantage of it, and they still do.

Now, the only thing that could kind of deal with that is kind of an international treaty on water rights, and who owns that water. We've agreed that international waters -- you can imagine when they were written up, no one ever anticipated that we were going to be utilizing super tankers to transport goods all over the world. But when that becomes your primary means of trade, whether that's super tankers or you've got your cargo from China transporting wherever, or from the United States, it's really to say, maybe you really need to rethink the legal framework that you have. Today, the UNPRI's is, really to say there are only specific things that they require you to do. And typically, people think that the focus is on the E of ESG.

Clearly, the thing that scares most people is the E like, an unsustainable planet. A dead ocean scares people. But the focus to date has been on G. It's been on, sign up and report. And so sometimes these things are, in general, there's a lot of goodwill that goes into these things. This is a better planet when we try and solve some of these problems. However, other actors are gaming the system and using this as a sword, rather than a shield to protect things, right? They're using it as a competitive advantage. So, sometimes the question is who's most green, and it's this game that it sometimes comes down to, that, in a bad way, it comes down to saying, are you doing greenscaping? Are you just trying to look green?

And so, to your point, you're right, that you have a lot of CEOs coming forward and saying, hey, I am -- we are carbon neutral, or our target is to be carbon neutral. But the truth is, they don't really see a way through current technology or innovation to really get there. They're just making -- and look, if they don't get there, it's 15 years away, they retire and say "oops, sorry, missed it." But in a way, these bigger problems aren't just about creating good businesses for the future, they aren't just about going forward. They actually have to solve some of these problems, like the emissions have to be dealt with in some ways.

Mike: **00:25:49** How do we deal with the sort of the temporal unfairness of developing nations of today versus our developing nation of yesterday, where the US, the Western sort of more developed civilizations polluted heavily, took advantage of the opportunity to create an industrialization that had sort of less burden. And now we're saying to these developing countries in the world, oh, well, yah, you can't do that. And you have to bear the cost, the extra cost, these extra externalities on your much less developed, much less wealthy society. So, how do we deal with that? Is it -- Oh, let me just put it, how do we deal with that?

Adam: **00:26:42** Well, I mean, they tried to raise a fund to assist developing nations, right? And, like, I think Canada is spearheading this, right? And they were, I think, they came in like at less than 10% of their goals, right? So, the West wants the East to be more accountable, but we're not willing to incentivize it, apparently.

Mike: **00:27:09** Well, and it should be on our dime, right? If we're the ones sitting here as a richer society that can deal with these externalities, it would seem to me anyway, that we should be not only telling Indonesia, or I don't mean to pick on any individual, these developing countries that have less wealth, and are in the process of coming through that growth phase and industrialization and coming from third world to second world to first world, it's probably on the developed nations to subsidize that in some way, shape or form. But I don't know, I put it back to you guys for your thoughts.

Jon: **00:27:48** I mean, it's a really interesting question. It is, how do you make poor nations follow these best-in-class rules? And they're not following them. And they have no intention of following them.

Mike: **00:27:59** Well, they can't. I mean, how do you follow the rules if you can't. It's sort of like the probation, the guy who's got ADD and has never been treated and doesn't show up for his appointments. It's kind of not fair that he's in prison for that. It's kind of not fair that we're going to suggest that these poor nations have to follow these rules. And so what happens, they have more starvation, they have a lower quality of living. Like, what do we do? I mean, that's the reality.

Jon: **00:28:28**

If we set the standard, the question will be whether we set -- right now we have like a *Delaware Effect*, right, which is really the lowest cost producer wins. And no matter what you do to the environment, that's okay. If you have to move towards a *California Effect* where you set a standard by which you say, you don't follow it, we don't buy it. Right? Like, you don't have ethical operations, we don't buy from you. The key consideration here, even though I think you're absolutely right, that there's this inherent unfairness, there's also this challenge of China being by far the largest emitter, now we know that. But China's almost three times what the US is, in terms of emissions.

So, it really is, the balance to navigate is you can get Europe and the US and Canada on board. You still have a very small percentage of the world. You get China to deal with it, and that's 27% of the emissions globally, which is the bulk of it. And they're going to say, look, we've manufactured and we've done well, because we didn't follow any of these rules. So, now you want to do that, you want to put these strings on us? And the question will be is it a competitive inhibition? Or is this -- it can be both an inhibition and you'll just have to spend money to deal with some of these problems. Or is this a new thing that's going to lead to lots of innovations that are really great for the world, like, that we can make a switch to kind of smarter power, smarter energy and smarter technologies in that way.

At the same time, we need to put it in the framework of recognizing that there are these huge trends happening, like in terms of money printing by many of the developed nations, and nations all around the world. There's been almost a catastrophic amount of money printed, leading to inflation and different challenges. Just with the United States about almost 80% of all the money, all the M1 that they've produced ever was produced last year since the pandemic. So, you've seen a rise from their $4 trillion level to close to $20 trillion.

And then when you think about it, that during the pandemic, you had developing nations, there was an unprecedented need for money from the pandemic to deal with this. So, you the IMF had never had so many requests for funds. So, there was literally over 150 nations that came to the IMF and said, I need emergency financing. And the IMF really said no, to a lot of them, because the IMF didn't know if it's going to have the money to do that. And effectively, the IMF is the United States. And the United States was hit so hard by the pandemic that it was really challenging. And the United States was the one that was printing all of this money and dealing with these kind of astronomically low interest rates going forward.

And then if you compound that, so there's this huge rise in debt, there are these huge economic challenges, and then you think about the technologies that do exist right now. And many of the technologies that we rely on, are kind of, in some ways, they're catastrophic to traditional jobs. If you think about all the people that have been replaced by an iPad, like all of the kind of -- there's a huge challenge with dealing with new technology coming in. You may say, oh, look, it's green, right? Electric vehicles are green, isn't it great? But think about the fact that 20 million people have, as a major part of their job description, is driving. And Tesla has no, they've already stated look, millions of our cars in the near future will be automated. They're going to be entirely automated.

And so the question will be, what do you do with all these people that suddenly are really struggling in a fundamental way to just find decent work? And are we in a world where reasonable economic growth is really possible without looking for some of the traditional sources, like the things that made even Canada wealthy, which was this huge supply of oil and all these natural resources that we have? If we're suddenly saying that gold's bad, and you can't do it because of the poisons, and you can't touch the tar sands because of carbon, then we may find that there is a real economic price to pay for going green.

ESG, Private Credit and Inflation

Adam: **00:33:22**

So, I want to, we're a little over 30 minutes in, so I want to make sure we get to sort of the bread and butter of what you're working on at the moment, right. So, tell us a little bit about the strategy that you're working on. And so ESG in a private credit context, how to deal with inflation, what are the things you are focused on? What is the sort of niche value prop of this strategy that you're launching?

Jon: **00:33:55**

Right. Well, more and more people need an alternative to traditional bonds. Institutional investors and private individuals need to make real returns. And if you look at the returns of bonds on a real basis, they're pretty abysmal, and it's pretty, pretty value destroying. If we have 5% inflation and investment grade bonds are two or 3%, if you're lucky, you're still net losing. So, private debt is really important in an interesting area. There are inefficiencies in that market, because we have kind of an inefficient allocation of capital traditionally, in North America that smaller entities get far less -- small and medium sized entities get far less capital than they probably should receive. And it's because they're private, and they're difficult to access. So, the public, large public's get tons, private and smaller get vastly less, and it costs and it takes -- is a challenge to kind of access some of these markets. But there's a significant premium in this market because it is difficult to tap.

So, I'm focusing on alternative credit in the private markets and focusing on some of these ESG areas. There are certain areas where there are clear mis-pricings. They have abandoned certain parties, because they believe that they may be deemed bad or not good ESG. But we can focus on ESG in one of two different ways. You can either just say, look, let's dump all your money into Tesla, and just hope that EV works out. Or you can -- I think that sometimes it makes sense to think about it in a different way and think about it not as being a best-in-class investor, but how do you help these firms get up to the next level? How do you help them become more profitable, and you can build in a couple of different features into the private debt, one of which is protection for inflation. And the other aspect is, you can make tangible benefits for them, if they do hit certain ESG targets. So, sometimes all they need to do is kind of make a plan to shift in that direction.

And to me, the really important value proposition is not to just say, hey, everybody, let's forget all other sectors, and let's just focus on this one that happens to look good today. But let's try and make all these different traditional sectors better. And that and if we can turn the dial on some of these major areas, you know that that's, that's a really significant advance too. So, I think it's both a really interesting investment opportunity to invest in some of these areas that are neglected. And there is a significant premium for investors. So, investors who are thinking about what sort of alternative -- what's my alternative to bonds? If I look at bonds, and I'm today going to get 1%, and I know inflation is five, then why would you ever invest? Why wouldn't you just throw your money out the window? Because on a real basis, that's not --

I mean, when someone like Bill Gross refers to US Treasuries as trash you know we have a big problem. We've been on a 40-year ride down, and now it's going up. So, people need to think carefully about what areas will give them inflation protection, because it's going to be a key consideration going forward. And there are reasons why the traditional areas haven't kind of moved in the way we would think, like the traditional commodities -- some commodities have, some commodities have not. Gold has typically not kind of provided the inflation hedge that we would have thought in a kind of a hyperinflationary kind of money printing scenario, that would be one that -- that would be a traditional staple of any sort of portfolio if you were worried about inflation. But it really hasn't shown that trajectory. And I think that that may be because the technology has changed as well. And that people are using alternatives to gold for their inflation hedges. Like cryptocurrencies are a good example. Cryptocurrencies have kept up with the money printing and even more, whereas some of the other more traditional asset classes have not.

So, when I look at the market, and I see that equities look very, very challenging, very high valuations, bonds are incredibly low yields and pose a lot of risk. And then I think the tradition, some of the traditional alternatives in that way, seem to be subject to a secular change away from them. I think that there are ways that you can navigate this kind of strange market and do well, but I think people have to take inflation seriously. We've been asleep to it for a really long time, because it's been so low. And because there has been really a loose economic policy. But now we see the signaling of a couple of different challenges, which are a more hawkish approach to rates, for obvious reasons related to inflation.

But then also this kind of regulation is going to force people at a difficult time to make tough economic decisions for ESG purposes.

Mike: **00:39:50**

And how do you think that balance is going to play because a lot of the -- in the more traditional industries that you're talking about, whether those be energy-related, gold-related, copper-related, there's going to be this push and pull. Right now money is leaving the system, potentially. They are not investing in new projects to continue production levels, which probably leads to higher prices, which is good, potentially, from the profit perspective. And then -- so they've got to make some advancements in the way they do things, enhance the way their government governance works and environmental considerations.

So, there's going to be a draw down on the profitability of the business because of that, maybe, potentially. I'm assuming there would be. At the same time, so we're providing funding, we'd like a return. Because production is shrinking because everyone's moving away from it, I think there's some magic in there. It's just a matter of walking that tightrope between the increases in potential costs, and the potential for returns. And then bringing that back to the investors real rate of returns, gosh, that that's one of the places where, if you look through the 70s, where we had a stagflationary environment where growth was choked off by the growth in some of the resource costs, that's a great place to get some real returns vis-a-vis that bond portfolio or even stock portfolio. So, I know there's a lot there, but I swing it back over to you to maybe comment on how you walk that path between those two dynamics.

Jon: **00:41:34**

Well, you're right. I mean, I guess, from a trading perspective, or investments perspective, I guess it reminds me of something that Marc Lasry -- I talked to -- he said, any time people make investments for non-economic reasons, there is a trading opportunity. Any time people are going to systematically make non-economic decisions. So, we're going to create a bubble in certain, what are deemed to be popular ESG areas, without question. Governments are going to mandate it. If a government has -- so, think about the policy here. The policy is, yeah, we got to do this good ESG stuff, so we're going to cut down on the cost of capital for these firms that are going to do that. And we're going to punish the firms with higher cost of capital and higher taxes and different things for the firms that are not, sounds like a good idea.

But then if you kind of go back in history, and you look at when they try to do things like this before, you can see that, we need to remember that the financial crisis was driven by the US home price crisis, which was really driven by the fact that subprime was promoted, and that the biggest buyers of subprime at the end of the day happened to be Fannie and Freddie Mac, and that you had government institutions that were fostering these investment decisions, and supporting them economically.

So, Barney Frank, the author of *The Dodd-Frank Act*, was on the record, prior to the crisis, saying, if we are going to make a mistake in you know, putting people in homes or not putting them in homes, we are going to put people in homes who can't afford them, rather than not giving them a home at all. So, they financed subprime because subprime met the government policy objective. And that allowed so much financial engineering and other things to take place because they thought they were solving a specific problem. What problem did they really think they were solving? Homeownership, the tax base in the United States, this huge problem of -- they knew that, look, if you have people in a certain area that own their homes, your tax rate goes -- your tax base goes up, your unemployment rate goes down, your incarceration rate goes down, there are all these positive effects that they want to get at.

And so that led them to support this idea of hey, subprime is not a bad idea, because we're giving people a chance. When it metastasizes through the entire system, you can see that you can develop an aberration with very good intentions. So, the good intentions may be in the way that they think of ESG, and they're going to create bubbles in certain areas without question, because there just is more capital chasing certain areas than there are opportunities right now. And then if you can find your way to transitioning and calling yourself kind of an ESG opportunity in a legitimate way, then you have this ability to raise capital at a lot lower level. And then if people are willing to give you a premium on the equity side, then think about it, it's a perfect world. Your whack goes down, your returns go up, you look great.

And yet, what's really happened, you've probably deprived a lot of good businesses, good traditional businesses, and created a lot of hurdles for them that maybe you'll regret later, because you're going to start financing and finding new opportunities in earlier stage companies, in innovations and things like that. And you're going to have to be ready not to think of it like a venture capital investor, because you're going to have to think about long-term, like true kind of developing infrastructure, and you're going to have to allow for mistakes. And that always is a painful process. There's never been a time when investing in early stage companies has been a certainty. There are just a whole host of things that go wrong with that.

And right now we're dealing with a bunch of new opportunities, some of which are great and very interesting. Others are not going to work. And if you just want to go around with a hammer and hit everything that looks like a nail that has an ESG tag on it, then I think you're going to create these opportunities for trading. So, I would see it as, hey, while this wave goes on, I think that you do have to invest somewhat in some of these opportunities. But there are going to be some neglected high-value companies that can, not not-compete on a best-in-class basis. But if I can take a cement company or a steel company and turn the dial slightly, I will likely have made a much more significant impact than I would if I thought I'm only going to invest in what I deem to be, oh, sustainable cities or something that is a kind of a more nebulous link to these kind of overarching goals.

So, I think there are going to be opportunities on both sides. And I think we're going to have to read the tea leaves as we go forward to make sure that we understand exactly what's happening. And the good thing is that there's a ton of new data that helps you manage kind of large portfolios of sometimes smaller investments, which typically in the past would have been almost impossible. Now, we can do that, and we can do that really efficiently. Which creates this interesting opportunity in ESG, and private debt. So, that's my thinking.

Adam: **00:47:29** What are the qualities, the characteristics within the ESG framework that investors might want to hone in on as the strongest predictors of future outperformance? I don't know if you've done a lot of work on that in the equity space, but are there -- if you have, we'd love to hear that. But even in the debt space, what are some features or qualities that investors might want to really dig into as being the best indicators of future economic growth or future performance?

Jon: **00:48:14** Well, I think sometimes for things like that, it goes back to the same area. I would think that there are certain regions that are good, there are certain sectors that are good to consider that they're, like technology, in general, is a good sector. If you see that there are certain sectors that are outperforming inflation, obviously, it's much easier to just go along with those high performing sectors, that we're going to see that there are massive investments in things like -- there already been massive investments in things like windmills and solar, we're going to see some of the alternatives to build it out.

Because as you alluded to before, there's a looming problem, that we're not there in terms of technology to meet our energy needs for the future. And we're going to need other alternatives. And I would imagine that your people are going to suddenly realize that we've made certain mistakes in the way we have looked at the future of ESG. Meaning, I think you need nuclear. I think that you're going to find that some of these features are -- you're just not going to get there. And you're not going to get off oil either. Oil is still going to exist. The question will be about sequestration, about other things that in fact, can help solve some of these bigger problems.

If you looked at, like, and you may find that there are some strange opportunities that have a big impact. There are things -- the example is, it's when the mindset changes from things that are waste or garbage are of no value to things that have great value. And that happens sometimes, and it happens with the implementation of technology. So, who, like, name one company that lists data on their balance sheet as an asset. And they don't, right? It's a reason why we know that Google and Facebook and Apple, and Amazon, they have huge data sets that are immensely valuable, and yet, they don't recognize them at all.

And the same sort of thing happened with biofuels, right? Chicken farmers, turkey farmers used to pay people to come and collect the waste product, get it out of here, right. And then they would take the truck, they'd have waste on the side. Then they'd pick it up, they'd drive away, they'd peel that off and say biofuel, and then they'd sell it to someone. Right? And then that, that was what they did.

Mike: <u>**00:51:14**</u> Validus Power, right, taking the flare gas, that's available in the oil and gas regions, and producing that into the various contents, but also converting it on site to electrons, and there's some mining of cryptocurrencies going on with that. So, it's a very interesting potentiality there to take, like you say, take things that are waste and just turn them entirely from waste to a profit center. That's magnificent, really. That's where that I think there's some serious sauce.

Jon: <u>**00:51:52**</u> Yeah. Look, if we viewed that island off in the Pacific, as an asset, if you could take that and turn it into something and sell it to someone, then that thing would be torn apart in like, a year or less. We have the technology to do that. The problem is, where do you take it? Where do you store it? What do you do with it? And so you need innovations around things like that to solve that specific problem, I think.

Imagine, like nuclear plants that used to think like the time between 03:00 AM and 05:00 AM was waste, right? You needed to keep those reactors going, no one was using the power. So, what are they doing now? They're doing smart things. They're starting to say, look, we can pump water up a hill, and we drop it down in high time. So, we utilize this time to store energy, and what do we have, clean energy that just pours down, goes into the lake, it's not hot, no issue.

So, those kinds of innovations that are natural resources, and just take a little bit of innovation and a little bit of infrastructure spend, those are the things that we should be really focusing on, those are interesting opportunities. And there are more and more of those types of opportunities. So, I see kind of investments in that kind of infrastructure level, particularly in energy and others and linking to things that are inflation hedged, like crypto, is a very, very appealing proposition for the foreseeable future, I think.

Mike: <u>**00:53:25**</u> It's interesting. It's almost as though -- So, we've talked about bubbles and how they form and whatnot. But bubbles in the investment paradigm serve a great service. Like, they actually serve the point of massive technological advancement, but in a very sort of smattered way, and then we don't know what's going to work or how what the implications are. But at the end of it, we've got this great sort of new infrastructure. The railway did that, the laying of all the fiber optic cable and internet, we had no idea what the implication.

Maybe we need a massive ESG bubble in order to, or maybe we're in the middle of something like that, I don't know, in order to advance the technology sufficiently in ways that we don't know at the moment, as you were alluding to very early on in our discussion Adam, to actually solve the problem. Maybe that's the way finance serves its purpose is, there is no way to avoid some sort of excess in order to solve the problem in the intervening period.

Jon: **00:54:32**

Yeah, I think you're right about that. Any sort of investment in serious technology or serious capital expenditures to have good businesses is a good idea. All too often government projects are really kind of consumption-based investments in certain ways. Which are terrible, obviously, because we end up in a worse place. We end up financed with debt, and we end up with a business that doesn't work and there are no assets left to deal with or to distribute. So, it's kind of a terrible scenario from that perspective.

I think that an excellent example of what can happen, to your point Mike, is really like the example of the history of refrigeration. The history of refrigeration is fascinating, because you used to have this huge industry where guys with giant saws would go up to northern lakes and cut them up. And that was a huge employer. They cut up clean water, clean ice from these lakes in Northeastern US and even Canada, and they'd ship it all over. And that developed the cold storage that allowed all sorts of new trade to happen. It was a big employer. And that went away, like, so quickly, with the advent of refrigeration. And just that one development changed the world dramatically, changed all these employments, these professions, these towns radically changed. So, I think that that's where we're at. We're going to need to be prepared for some of those significant things.

And the great part of it is like, thank god that AI came up when it did, and it's become developed and open. Thank god, it was opened up to the world in a way, because then we can solve different problems with that. We can see much more into the data than we ever could before. So, I think with tools like that, with infrastructure and transparency that comes from kind of the blockchain type developments, with huge developments in data, and the ability of us to have supercomputers to compute all this information, utilizing these tools, I think that we have a good chance of developing a lot of the solutions for tomorrow. So, those are the kind of, if I were to think about where would I want to focus and what would I want to invest in, I think it's where those things kind of come together. And those would be interesting opportunities.

But again, I think that you're going to have to kind of take a longer viewpoint on some of these as an investor. Like, I don't think that you can think of it as a really liquid strategy, and that you're going to need to be okay with some challenges with some of these investments. But they hold a really great promise. And when they're government supported, and if they can solve a real plight, you know, economic need and they are efficient companies, then they should be incredibly attractive investments for the future.

Mike: **00:57:39** So, allocators and investors and boards should think about this more along the lines of maybe a true private equity investment with that kind of timeframe and capital calls? Is that, would that more…?

Jon: **00:57:55** To my mind, I think that generally it's smart to extend your liquidity profile to meet your needs, whatever the institution you're working with, pension, endowment, charity, whatever it is. So, looking at these alternatives really does make sense. Should you think of it as a longer term investment? Absolutely. One of the things that I have done that was really enlightening, and also very valuable, was to work with a First Nation on their goals. And First Nations are thinking 150 years out. That is sometimes, you know, all too often pensions or endowments, think of things in terms of, what are we going to do in five years or 10 years? Or how are we going to answer this quarter? How do we do this quarter?

And the truth is, that doesn't really matter because your liabilities are so far out. What you really want to achieve is so far out there, that you really need to think about what you want to leave for the next generation, not what you want to leave next quarter. I mean, they're not incentivized the next quarter. They just don't want to feel like they've made silly investments, and be embarrassed by that. But it's really important for people to take a much longer viewpoint.

So, should they be looking, you know -- I think you should be investing in ESG and thinking about it as though if I were to put this away for 10 years, or 20 years, where will it be? Because we are just at the tipping point now of when this is coming in. And there are going to be a whole host of amazing things coming forward. This is going to be an important area, you know, for our generation. This is the issue. The technology of our generation is AI and big data and the *Internet of Things* and robotics. But the goals, what we invest to achieve, I think will have a lot to do with ESG.

And that's why I think it's important to kind of be an early player rather than late. Because if you're late -- I think you are going to get -- I'd rather be an early investor where it's undervalued, rather than a late investor, where I pay too much because I have to. So, I think we're going to have to, and I think we're going to find that there are all sorts of regulations and taxation that come up as a result of these kind of policy measures, in part because they're poorly constructed right now, and they're incomplete. Like, they really are.

They're asking you to sign up to the UNPRI, but they're not really going to tell you what the targets are. Like, oh, sign up with us, agree to do it, and we'll let you know, next -- in a couple years, what you actually have to do. Now, that's a pretty -- that is what they're asking people to do. And they're actually asking them to pay for the honor of being part of the PRI. Right? So, you can say yeah, I'm a signatory. Right?

But that's kind of, to me, they have a real challenge, because the overwhelming majority of focus on ESG has been on equities. And equities that are ESG focused have done very well, and will continue to do very well. And there'll be more capital allocated, because more and more people are just going to dump into either funds, or ETFs, that give them access to that, whatever they consider that to be. But there are all these other areas that are going to pick up from an ESG perspective. The private equity, the private debt, infrastructure, real assets, all of them are going to start to turn the dial in their own way.

And so when I think of where I want to be as an investor, I would like to be earlier in that process, with good companies that have collateral, and are smart enough to make that kind of transition going forward. Because I think that a good company that's operating well, that can kind of twist the dial and start to do things a little bit better, is sometimes better than this kind of pie in the sky company that is kind of a moonshot, that just is telling you that they're going to solve the world problems.

We want to make the world a better place is like a tagline for every startup. But rarely do they actually. They run out of gas before they get to the moon. So, I think that the real opportunity is finding these neglected gems that can transform, that can use kind of private equity, private debt strategies, to get to that next level and to be really valuable to the company's future.

Mike: **01:02:39** And that's the reasoning for your orientation towards debt. I mean, debt would not help the moonshot company, right? They're going to need the first leg of financing, they're paying some financing rate on it, but there's no potential that they're going to be able to meet those funding obligations other than the next round of financing down the road. Whereas**,** these more sort of gems in the rough, as you say that might be slightly neglected are good assets, good operating companies that need to move the needle positively in the social responsible ESG way.

And thus, in doing so, might incur lower funding rates in the future, might have some sort of technological advancement that improves the bottom line, and thus, they can meet the funding requirements, and maybe some portion of inflation hedge on those funding requirements in a private debt context.

Jon: **01:03:32** Yeah, I think that's exactly right. That there is that opportunity. You're going to see inflation kick in. You want your portfolio in general to have some inflation hedge. And so this is a good opportunity because rates are so low and they're increasing. And private debt has the ability to invest on an inflation hedged basis. So, that on either portfolio level or a loan by loan level, so you get access to kind of -- I think what you really want as an investor, you want to beat inflation. It's no good to be investing in high quality bonds that just consistently fail to hit inflation targets.

Adam: **01:04:15** And yeah, I mean, obviously the model for basically every credit or debt portfolio, you know, I have yet to see any of them that prioritize in inflation hedging. So, I think that's a really great rabbit hole for us to explore in more depth, right. So, first of all, how do you incorporate inflation hedging into the actual private credit portfolio? But then how can you complement traditional private debt with other types of debt-like investments that have built in inflation hedging characteristics?

Jon: **01:04:57** That's a great question, Adam. So, there are different levels. You can think of it as *investment by investment* and thinking about each loan as a bespoke loan and can be inflation hedged, that you're making. So, each brick in the wall can be partly inflation hedged from that perspective, that you embed you -- well, you embed CPI into the terms of the loan, and you can…

Adam: **01:05:26** So, you effectively structure it like a treasury inflation protected security. But instead of the Treasury owing, the company will owe, and you'll adjust the principle by whatever happened to CPI. And then the distributions then will escalate, as inflation picks up. Is that the general rule?

Jon: **01:05:50** The general structure is just that to say, you can do it piece by piece. It's not to say that everything will be perfectly inflation hedged. It just should give you a *bulk inflation hedge* on the investment. And that's something to think about, will be, how do you build that portfolio? You still want to do all the same sort of things that you do in a normal portfolio of geographic and sector diversification. And then if you embed that in the kind of the financing that you give these entities, then that's an important feature for the investment proposition.

But it also makes sense from the other side of the equation in private debt being that, they don't have other opportunities, and typically, they're going to have variable rate kind of interest in any event. And typically, in areas that have high inflation, the typical company is adjusting their contracts to deal with inflation as they go forward anyway. So, you're actually just spurring the company to do what they should be doing anyway. Like, companies get lazy and think, oh, it's a contract, I just don't -- I know inflation is up, but I just want to give you the same deal for certainty. But if they know that their cost of capital changes according to CPI, then it just makes them more…

Adam: **01:07:21** Holds their feet to the fire.

Jon: **01:07:22** Yeah, they're just -- you're doing exactly what you should be doing. You should be monitoring the contracts. You know, we're monitoring the contracts that we lend to them that they want to allocate for their different investments, and they need to be thinking about inflation as well. So, we want to invest in smart companies, and smart companies that are on a high trajectory are comfortable with that. If you just want to really go for the biggest/lowest rate, and you're a big public company, I think that those big public companies are actually going to face significant inflation as well. But if it does have that kind of trickle-down effect, then having a reasonable inflation hedge built into your contracts is not something bad for these companies, it's something that they just are going to have to deal with in their regular business going forward.

Mike: **01:08:14** Well, and if they have the ability in their business to adjust to the inflationary concerns, whatever their business be, it would give them an advantage in their terms, because they would be able to embrace that. It may not be an investment risk for them.

Jon: **01:08:27** Right. And it would change. Sorry. It would change, to your point, exactly right. If you think about periods of hyperinflation times like that, there were periods of time, like you go back to the Weimar Republic, where people were being paid twice a day, because inflation was so high. I mean, if in fact, you hit strange scenarios like that, look, your lenders can't be morons, as well and just let you go with kind of a low fixed rate. You're dealing with that, and your clients are dealing with that too.

So, it's just about matching - what you should be doing in any event. It's not in any sense a bad thing. It's just to make them cognizant that, hey, you're going to have to look at your contracts. And no, maybe you shouldn't be signing up to these long-term fixed contracts to think about that, that you really should be maybe thinking that we're entering kind of a different time, a different time when inflation is an issue, where interest rates aren't just going down. We've hit the natural end point. We're at the bottom of the ski hill. We've just got to go back up from here.

Adam: **01:09:36** So, what are some alternative investments that are complementary to the sort of private credit portfolio that you're envisioning that also very directly tie into the ESG objectives, and that complement the portfolio also from an inflation hedge perspective, do you think?

Jon: **01:09:58** Well, it's a great question. And some of them, like an example might be that you have certain types of, kind of government mandated payouts or contractually agreed payouts, certain things like if you think about the areas that are difficult to finance for one reason or another, like litigation financing being an example of one. So, you …

Adam: **01:10:23** So, what is that?

Jon: **01:10:24** Litigation financing is where someone has maybe suffered an injury, they have a claim against their insurance company, and they need to borrow money against their current needs, right? So, they don't want to lose their home. They want to keep their kids in school, they want to keep food on the table, they're disabled, and they don't have any income coming in. So, the question would be, well, how do you lend to someone like that? And traditional banking would say, you have no asset to lend against.

The thing that you can do is, is look at it differently and say, hey, this claim that you have against this insurer has, if we look at it statistically, 98% of these pay out, and in fact, they pay significantly. And part of that is that you can view that as the asset or the collateral for this kind of loan. Subject to the payment, the settlement of this case, you have effectively, a -- you have a proxy for kind of an alternative credit type product. The two features that make it interesting is that the payouts that they're going to be receiving are inflation adjusted.

And on the other side, when someone goes to court, and they can't pay for things, they are in a very difficult situation. And so judges and governments have agreed, look, this is a good thing. This is helping people get access to justice. You've been injured, they owe you. And so oftentimes, not, you know, some insurance companies are good, some are bad, some play this game of chicken, where they try and grind you down into place such that you're so, you know, you just want to go on with your life, you want to keep your home, you're in financial distress, no one's going to help you in your time of need. You can come in and say, look, we'll lend to you based upon this asset that you're going to get in the future, and you don't have to worry about paying us now. So, judges have said that that's good.

And if you think about it from kind of, in SDG, Sustainable Development Goals, it fits really into kind of the idea of justice and reduced inequalities. Because these kind of pains only happen to people in low income brackets that are challenged, or have no other assets. Now, they shouldn't be put in a worse position than someone who has financial means that, you know, they're both victims. One of them kind of sits it out and just waits for the proper settlement. Pay me when you're going to pay me. And if they realize that sometimes this person doesn't have the ability to fight, then it just becomes a waiting game.

Adam: <u>01:13:23</u> Well, it's such an asymmetrical battle, right? Like, you've got this huge machinery on one side, the insurance company, that has all this process. Everyone in the insurance company that's fighting on the insurance company's side is getting a regular paycheck, right? They're made whole every month. The victim is having to fight this battle alone. They feel like they're up against Goliath, and they're under equipped, they're under informed, there's an asymmetric information situation.

And so if we're able to sort of, first of all, provide some slack in the form of an economic loan to that individual as they go through the process, and then take advantage of expertise and economies of scale by consolidating a portfolio of these victim loans together so you've got an organization that has many employees that are experts in fighting on behalf of victims and against insurance companies to ensure fair payouts. Your likelihood is that you're going to get, you know, fairer payouts to all of the people involved. And while the victims are going through the process, they're not suffering and getting squeezed in the way that they would be if they were fighting this battle alone against this asymmetrically powerful Goliath. So, it just seems like a win-win.

Mike: **01:14:46**

And it's not just insurance companies and health claims, right? You've got all of the claims with respect to terminations, right? People are terminated fairly or unfairly or think that there's something -- So, you undergo some sort of termination and have to think about, well, what am I going to do? Do I just take it and eat it and move on? Or do I fight it? And that's something where you are burdened with the entire cost of that. You have the outcome of one, rather than the insurance company has, or the company that's going through the firing process has the opportunity of many, They're looking at that saying, hey, we're going to use the legal system as a sword, not a scale. And we're going to continually be at the very low end or the zero end of payouts, and we're just going to wait.

Ten people we're going to let go. Six people are just not even going to bother, four people are going to think about it, we're going to hold those four people to the fence. One might, one might come to a settlement where we're worse off. Well, nine out of 10 times we're better off, and we have the machinery to do it. And so they're playing the numbers, and the individual is not able to sort of have a fair outcome in that circumstance. And it happens a lot more than I think we'd like to admit. I mean, I think that's a fairly pervasive thing. And if you have capital assigned to arb that, then you will have fairer payouts more regularly made across the board because there's a threat of consequence.

Adam: **01:16:29**

And I think there's a real opportunity for active management here, right, that's the other thing. This is a highly inefficient market. If you've got an expert team that can assign probabilities of payouts and assign expected sizes of payouts, then you're in a position to generate higher average returns through …

Mike: **01:16:52**

And look at how it's done now, right. In class action suits, literally a syndication of law firms comes together, because they're fighting with the same issue. You know, a law firm may be able to take on two or three of these class action suits where a lot of it is pro bono cost initially. And so they want to take on 20, but there aren't 20. And so 10 firms get together and they use the services of one another in order to defray the risks on any individual case. So, they've got 10 cases that they're involved in, but they're involved at 1/10 in all 10 cases, and they're going to get some sort of payout. But that's super inefficient, right? Law firms aren't capital raising machines, these are entrepreneurs in the legal sense, looking at a return on capital and deciding whether they're going to do something or not do something. And so again, capital provides the opportunity to arbitrage that, narrow that down and become more -- have a more efficient legal system.

Adam: **01:18:01** The law firm itself has a high cost of capital. Yeah.

Jon: **01:18:03** Yeah, that's exactly right. You can invest in the trees, or you can invest in the forest, in that you can finance some of these larger cases, which have, like a million plaintiffs, each of which is owed $10, or $50, or whatever it is, right? Think about a data breach case.

Mike: **01:18:27** Yeah, Capital One.

Jon: **01:18:29** Right, or Facebook, or lots of those. But then you also think about securities class action. Securities class action is a neglected area, but really important, like really important to hold people to account; people who are lying and hurting people.

Mike: **01:18:45** Environmental abuses.

Jon: **01:18:47** That's one of the big new areas that people are really focused on. Like, the environmental impact of what they're doing, and did they take the environment into account. That's now ingrained in board policy, right? If you don't do that, you could be in breach of your fiduciary duties, you suffer a loss as a result of that. And that's a class action. So, bottom line is it could be individual cases, it could be lawyers that are individually have a portfolio of cases, or it could be giant law firms that kind of come together. So, it is a big area, it is understated, and it is an inefficient area in terms of the allocation of capital. So, that's why these are interesting areas, given the risk reward and the payoff. And if you have the unfortunate experience of going to law school like I did, and you know about all these different kinds of claims, then you can make a better assessment of what you think should be the result.

And all too often, to the point that Mike made earlier, the objective of many of these institutional defendants is not necessarily to beat the case, it is to beat the man. And when you're in a situation like that, that's a pretty nasty place to be in. And it is a good place to think about it saying, hey, I'm doing a good thing. Judges agree, courts agree, the UN agrees that we're doing things that matter for people. You don't want someone being fired and treated badly that suddenly just kind of walks away and finds another job because they're in distress. You actually want them to be able to get some compensation for …

And if you can do that now, okay, capital accordingly that that is similar to, but even has a better payoff sometimes than -- it definitely has better payoff than kind of traditional bonds. And it has kind of like a bond-like aspect with an equity option kicker embedded in that. So, it is kind of, and it's an interesting play, and it is a market that is still not developed because of kind of the nature of the market, I think, that I don't think it will ever be efficient.

Mike: **01:20:59** How do you think that you would deal with -- I mean, the challenges I would think that the law firms themselves would syndicate the really good stuff because they would have a high degree of confidence. Now, maybe that's not true. So, I'm just throwing it out there for consideration. And then the stuff that's sort of B and C related where they're not like quite sure, let's go to the investment guys for this stuff. I mean, maybe that's the same in oil and gas origination and re-origination too, I don't know.

Jon: **01:21:31** Well, you could get different types of insurance you can get and then you get the financing. The real challenge is that if you have a real case, it can take you years to get there. And so you kind of, you need to explore all the different avenues. And it is often the case that it's not the distress of the plaintiff that comes forward, it's the distress of the lawyer. And they need capital. Or think about having a portfolio of these private injury, you know, personal injury type claims that you know that there's a payout, but it's going to take some work and you're, call it, two/three years away from getting there.

But you're cash poor right now and you can't take on, you can't grow your business, and you also can't really service your firm in the way you probably would want to. You can't grow your firm, you can't take on new cases, you can't hire new associates to help you. So, it can be an important area for them on a business level as well as on a case by case level. But it is a really inefficient area, and it does provide attractive risk adjusted returns. Historically, it's been one of the very interesting risk premia areas.

Adam: **01:22:48** Yeah, it really resonates with me, actually. Any other different types of strategies that you think might be complementary to a portfolio that -- of ESG private credit, ESG-oriented, legal loans?

Jon: **01:23:07** Yeah, I mean, there are complementary strategies. Like if you think longer going further out, I think that kind of consistent with the strategy we discussed, like having like a ESG private equity is something to really think about carefully. Interestingly, private debt can lead to private equity if you are investing at the right times. If you're looking for kind of opportunities to invest when you don't want to get into a bidding war with other private equity firms, then coming in kind of like, similar to like the *Oak Tree model*, or other investors that will come in. When they see a company is challenged, they can lend at higher rates, because it's obvious they have some issue they need to tackle. You give them the capital that they need to turn the corner. But if they don't turn the corner, you're happy to kind of step into the shoes of management and plug it in kind of a private equity strategy from that perspective as well.

So, I think that that is a strong kind of equity kicker to some of these opportunities. Because even if they fail and you are the senior creditor on this or the only creditor sometimes, then you can end up really owning the company and really being the equity holder coming out of that. And if you know how to implement the right strategy, like you tell them what the appropriate strategy is, you hope they do it, but if they don't, then you get the opportunity to plug in your own management and do that yourself. So, I think that that's good optionality as well.

What that does require from investors is to think about the liquidity needs and whether that fits with what they want to do, but you know, from an investment perspective, it makes complete sense. Because the worst thing, you know, bad decisions in private equity, typically are all made around investments that are made in high valuations that don't end up paying off. And that those are the things that people remember and that cause long term lagging of their benchmarks, or they were they just didn't perform well at all.

So, that's something that navigates one of the key risks for private equity is to actually get access through kind of that private debt aspect. And there are great opportunities in Canada for that, because you want to invest in a company, like I would view it, like I'd want to invest in a company that I'd want to own, right? They may be dealing with a temporary setback, and you hope that they make it and they hope they turn around. But if you don't, you're okay with that, in the sense that maybe you restructure, maybe you keep the management on and maybe you just take a different strategy going forward, or you renegotiate in certain ways. So, that's an opportunity.

Adam: <u>**01:26:06**</u> So, if you're a company, and you are contemplating the need to raise debt, and are interested in how to reconfigure your operations in order to comply with ESG objectives, then where can a company like that find you for guidance and potential capital?

Jon: <u>**01:26:31**</u> Sure. Well, they can email me or they could just contact me on Twitter @ ReSolution_ESG, I think is my details. My details are posted there. So, I'm happy to talk to anyone. I really think that there are a lot of companies that are great companies that just aren't getting the capital that they need. And if you are a kind of a traditional company, and you want to make that turn towards ESG, there's a real opportunity there as well. There are things you can do to transform your company. And it's going to be important for you to think about how do you do that.

And we've definitely -- I've helped everyone from kind of miners do that. We've had like rare earth metals and others that actually have a really important use case. Like, you can't build some of the turbines, some of the windmills without them. And so it is -- There are things you can do to do that. You can source different energy, you can change your company in important ways, or just set targets as well that will help you meet those objectives. And then market that as well, so that your cost of capital can reduce and you can do well in the future, given the regulations.

Mike: **01:27:50** Yeah. And thinking about it from the standpoint of the amount of capital that is being set aside for these types of investments, is growing at a fairly large rate. So, this is an opportune time for companies to be thinking in this way in order to access capital markets, in ways that maybe have not been either quite so obvious, or quite differentiated.

Jon: **01:28:17** Yeah, I think that's right, that sometimes it can be implementing a new technology, sometimes it has to do with your HR policy, or what you're going to do. Other times, it's just a slight strategic change. But the truth is, on some cases, there's no easy way around it, it's an investment you're going to have to think of. But I think that the investment in this, this is a secular change. We are not going back to the way things were, and they're going to make it more and more difficult if you're not in tune with some of these ESG factors. So, if I can help anyone with that, I think that's great. I know that you're very thoughtful in this area, and I appreciate the opportunity to discuss all this with you.

Mike: **01:29:02** Great.

Adam: **01:29:03** Well, we'll continue to climb the learning curve with the assistance of generous experts like yourself. So, thanks so much for joining us today and sharing your story and your vision and helping us learn more about this timely theme.

Jon: **01:29:19** Thanks a lot, Adam. Thanks, Mike.

Mike: **01:29:20** Thanks, guys. Have a great weekend. Cue the music.