Original portraits by Joanne Tod, "Helen Kearns" and "Susan Bell."

GROUNDED *in* EXCELLENCE

A discussion with Helen Kearns, CEO, and Susan Bell, President, Bell Kearns & Associates Ltd.

By: Anne Maggisano & Lisa Ritchie

In the fall of 2021, Burgundy's vice presidents Lisa Ritchie and Anne Maggisano sat down with Helen Kearns, CEO, and Susan Bell, President, of the investment advisory firm Bell Kearns & Associates Ltd. Helen and Susan provide perspective on the importance of strategic planning, risk management and long-term thinking in investing. They also share their deep knowledge of investing in alternative asset classes as well as what they are seeing on the ground regarding environmental, social and governance (ESG) scrutiny of portfolios.

Anne Maggisano (AM): Let's start with each of your paths into investing and how you got to where you are today.

Susan Bell (SB): I was fortunate to be raised in a family where many of my relatives were in the investment business. Naturally, my interest was piqued very early on. At age 19, I got a stock tip from a friend who "knew someone who knew something," who said, "I think you should buy this penny stock that is trading on the Vancouver exchange; it's a mining company." So, I said to my dad, "What do you think?" And he said, "Give it a go, Susan. See how it turns out." I took my $200, I bought my penny stock, and it immediately went to zero. My father said, "That is going to be the best lesson you ever learn because it was early, it was not a lot of money, and you saw what can happen."

So that was my earliest taste of investing. I still wanted to pursue a career in the industry. I've now been with Bell Kearns for almost 20 years. I feel very fortunate to have been promoted to President earlier this year and am a major shareholder of the firm. Before Bell Kearns, I worked at a firm led by the investment guru Dan Richards. That was a great training ground for me. I studied and became a CFA charterholder. And I have to attribute a lot of my growth and development to my dad as a wonderful mentor for me throughout and to this day.

Today I work directly with clients, and one of the things I derive the most pleasure from is meeting with families and individuals and knowing that we are helping every member of the family for the very long term. That gives me a very great sense of satisfaction and fulfilment.

Lisa Ritchie (LR): Your dad was so brilliant to let you make that mistake early in your life, Susan. Helen, what was your path into investing?

Helen Kearns (HK): I had a different path into the investment business. I was a business journalist and covered Canada for Businessweek Magazine for a number of years. That was a great foundation, because to be able to find a great idea, communicate it effectively, and have someone want to read the story from beginning to end was great training. When I was invited to join the institutional sales desk at a major Canadian brokerage firm, I accepted. What I didn't realize was that there was only one other woman in Canada on an institutional sales desk. So, it was challenging, but the fact is that I was enormously confident in my ability to identify great, high-performance ideas. I have been very fortunate in the industry. I was the first woman in Canada to lead an institutional sales and trading team globally, and I've also had the opportunity to serve on the boards of some of Canada's largest pension plans, on the board of the Toronto Stock Exchange and two of Canada's universities. I was particularly honoured in 2019 when I became the fourth woman to be inducted into the Investment Industry Hall of Fame. I have had a long and wonderful career in the industry. And now, of course, here at Bell Kearns, it is a continuation of bringing great investment thinking to clients, and I love that.

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AM: Let's talk about your investment philosophy. At the core of your investment philosophy is a belief in active investing vs. passive investing.

SB: We believe that passive investing does have a role to play in the investing industry, but for the clients that we work with, we believe that they can achieve a superior risk-adjusted return over the long-term using active management. And beyond that, it is about applying the skillset to identify those long-term outperforming managers. Helen and I also believe there are a lot of ancillary benefits for our clients when working with an active manager, top of mind being education for families. Active management gives you access to people and resources in the industry who are thinking about companies and businesses every single day. It gives you added knowledge and perspective.

HK: I will just pick up from there and talk about the importance of diversification. We build a disciplined investment framework, inclusive of a diversified portfolio, that helps our clients make informed decisions. Diversification to us is really the acknowledgment that you don't know what's going to happen in the future. No matter what happens, your diversified portfolio is going to be able to withstand that uncertain future. That is a big statement. But last year (2020) was a real test of that philosophy, and thankfully our clients came through with shining colours. And they have confidence in that long-term structure, within which they are diversified by geography and asset class.

The financial industry and the media spend an enormous amount of time and energy trying to figure out what is going to happen in the next week, the next month, even the next day. This makes for a lot of noise and distraction. We help our clients to invest with a very clear focus on the long term. And we help them construct portfolios that will flourish over that long term. This is the key element of our thinking, and I can't emphasize it enough. The centerpiece is risk management, and the focus is the long term.

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LR: How would you define long term with your clients?

HK: It is more than three years, and five to ten years at least. One of my favourite charts, in fact the only one we have up in our office, is a long-term chart of the performance of all of the investible asset classes going back to 1950. When we show clients how different asset classes have performed over this long time horizon, it helps them to understand that if we build a diversified portfolio, they are going to make it through difficult times. But that is a message that has to be repeated constantly because people are human and checking one's emotions can be very challenging when it comes to investing.

AM: We experienced both extreme fear in the depths of the March 2020 crash and extreme greed as equity markets rebounded. How do you manage the emotions of fear and greed as investors?

HK: It really comes back to our initial conversation with our clients around risk. This conversation is our most important one because it is the center pole upon which return expectations, portfolio construction, everything else is built. And that risk conversation is often not just with one person: it's with a family, and it's multi-generational. Different generations might have different ideas about risk. So, we have to tickle out: Where do we all land? Where do we all agree?

AM: How do you manage that risk conversation with different generations? When you are working with multi-generations and different time horizons, are you trying to reach consensus around risk tolerance? Or is it structuring different portfolios for different generations?

SB: Typically, there is a defined pool of investible family assets. The intent is to have that pool of assets invested for the very long term. We are able to counsel that this money is not intended for any one of their individual retirements or short-term goals. So, they have the benefit of thinking super long term, similar to an endowment fund that will exist for many, many years.

And then the second part is that we have the benefit of regular conversations with our clients. Every quarter, we sit down with them and have conversations around risk which may be difficult for the family members to have on their own. Our job is to make sure that we are bringing out the different voices around the table. Good wholesome conversations on a frequent basis gets us to the right answer for each family.

HK: This is why having a framework for decision-making is so critical to long-term investment success. It takes the emotion out of investing. In this framework you have all of the pieces for making informed decisions – from governance, to asset mix, to manager selection. When I first joined the investment management industry, I thought my experience researching companies and understanding how stocks behaved was going to be my major strength. I was wrong. It is this decision-making framework that is the strength and the key to achieving long-term investment success. And I will share that from my experience on the pension boards of Ontario Teachers' and now AIMCo (Alberta Investment Management Corporation), it is no different. The conversation always starts with risk.

AM: How do you define risk?

SB: Classically, one considers volatility as one component of risk, but one also considers permanent erosion of capital. We have to be cognizant of both. We believe we can minimize the risk of permanent loss of capital significantly through diversification and by selecting managers who place capital preservation at the core of their investment philosophy. When it comes to the volatility component of risk management, this is where we have to make sure we know our clients' tolerance. We talked about our goal of achieving risk-adjusted returns over the long term, which means we want to maximize return but within a client's risk appetite. And that varies quite a bit amongst our clients. They all have significant portfolios intended for the very long term, but we have a saying, "You need to be able to sleep at night." If you can't, there is a problem with how we have set up the portfolio.

AM: We are in a time where monetary and fiscal stimulus is flooding the markets with a lot of liquidity and there are implications for different asset classes. What is your take on our current moment?

SB: There are lots of things to worry about today. Perhaps a global pandemic is going to go down as one of the biggest events in our careers, but there has never been a day in our investing careers where there wasn't something to worry about. As a result, our focus is more on having portfolios in place that can get through tough periods and will be resilient no matter what comes. It's focusing on the long term, having diversification, and constructing an asset mix for clients that is determined first and foremost by their risk parameters and tolerance.

LR: Interest rates have come down over the years, and investors are searching for yield. Have your clients shown an interest in investing in alternatives?

HK: Yes. We have all read about how Ontario Teachers' Pension Plan has shifted much of its allocation from fixed income to alternatives, and so it's logical that our clients ask: What about that for me? First of all, we have to go back to the conversation around risk. In the context of the investment framework, we need to ask: is an allocation to alternatives appropriate for your portfolio? Does adding alternatives meet your investment objectives? Not every client is comfortable with the illiquidity that comes with an alternative investment. We have some clients for whom it is not at all suitable, and then we have others where a portfolio of alternatives works very well in diversifying risk and enhancing returns.

When I joined Bell Kearns, Rob (Bell, founder) and Susan had already been researching alternatives for years. We set out on a deliberate path to become very knowledgeable about this asset class and identify high-quality managers. So now we have relationships with these managers. It is incredibly beneficial for our clients.

AM: One of your skills is your ability to choose investment managers. What qualities do you look for when assessing investment managers?

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SB: There are four P's that we feel are foundational – assessing the people, the process, the philosophy, and the performance. I would say that too often it is the performance side that people overemphasize. We feel that the other three P's are extremely important too. For example, if there is a terrific performance record, is the same person who created that track record still at the firm? Is there an alignment of interest with the clients at the firm, for example, from ownership? How about compensation? Is the manager's compensation tied to long-term performance or short- term? These are some of the metrics that we assess thoroughly because ultimately, they drive long-term performance for clients.

HK: All of that adds up to quality. If we can introduce our clients to the highest quality and the best-in-class managers in the world, many of whom reside right here in Canada, that's what we want to do all day long. Our firm collectively has over 200 meetings with managers each year. We are constantly validating current managers and meeting with new managers. In many respects, we are talent scouts for quality.

AM: You have the perspective of selecting asset managers from all around the world. What are some trends that you are seeing in the global asset management industry?

HK: In terms of trends, we are seeing consolidation in the industry. At the same time, we are seeing a lot of new products being released into the market, and often, by entities that have inherent conflicts. Complexity has gone up. When we assess a new product, we ask the question: What is the motivation, the goal? Is the purpose of the new product to add value to clients, or to gather assets for the firm releasing it? Clients benefit from having our independent counsel lead them through this complexity.

LR: Are you seeing a rising demand from your clients for Environmental, Social and Governance (ESG) integration into their investment portfolios?

HK: There is a spectrum for how our clients are thinking about ESG – all the way from being purposeful and intentional about investing with specific environmental and social outcomes, to "I'd like to understand ESG and the reporting around it better."

What is clear is that ESG has moved into the mainstream. For us, we need to monitor how managers are implementing ESG into their decision-making. We have sizable relationships in Europe where ESG is more advanced than here in Canada. Some European fund managers we follow have integrated ESG into their investment decision-making. It is providing us with an understanding of what integration means.

Pension plans are measuring their carbon footprint in very material terms. They have clear goals on reducing their carbon footprint. These big pools of institutional capital, along with the social awareness, are driving change very quickly.

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SB: I would say that more and more it's the younger generations that are bringing ESG up in conversation at meetings. We provide a forum for discussion and encourage listening and collaboration. You often come to a better decision by respecting different ways of looking at the same topic.

AM: You have made a huge impact on the investment industry. How do you think of your role as leaders for women?

HK: The investment business is a fantastic business for women. We would be thrilled to see more women choosing the investment industry as a career. There are so many different opportunities to succeed, including the possibility of running their own investment firms. Ideas and smart thinking - they are gender neutral.

Some of the best research analysts I have worked with are women. Women are also excellent at connecting and building relationships, which is a huge part of success in this industry. I think that reporting on diversity and inclusion will open doors for women in a way that we haven't seen before. It's a great time for young women to get into investing.

SB: I've heard high-school age women say: "But I'm not good at math." There is a perception that you have to be an A+ math student to choose investing as a career. That is not the case. To every woman who says, "I'm not good at math," I say "It doesn't matter. Keep going."

Helen and I teased out some words that describe what makes a successful long-term investor, and the ideas we came up with were: be curious, calm, patient, have a plan in place, and surround yourself with experts you trust. These five ingredients are major contributors to long-term success for investors.

There was a McKinsey study last year that found that for families with wealth in excess of five million dollars, nearly 40% of that wealth was managed by a woman in the household. That is a number that has increased over time. It serves as proof that this is an area of growing confidence, interest and engagement for women. This is something that Helen and I cheer about. **M**