Time for a change

Alan Whittle, Unburdened Solutions, looks at some of the key issues involved in sustainable investment advice

A quarter of a century ago, we were still grappling with the internet becoming part of our lives. Now we carry it with us in our pockets, a fundamental change has taken place to how we live our lives because of it. We know from various studies that people are interested in their relationship to climate change, and that they are becoming increasingly interested in how this relates to their money. Like the adoption of new technologies, once awareness and adoption becomes commonplace it is a tide which cannot be turned.

Whilst the corporate world tells us we need to make changes to our lives, it often seems reluctant to turn this lens on itself. This accusation, frequently targeted at oil and gas companies, retailers and industry is something which could easily be levelled at the investment management industry and financial services profession. After all, it's hard to wean society off its addiction to the money created by oil and gas when alpha is in short supply, or you're focussed on tracking an index which includes these businesses. With so much money invested without any real regard for the negative impact it represents, the effort of those investing for positive change sometimes feels like tinkering at the margins.

If the present situation were one which we could allow to remain for 20 or 30 years, it might be acceptable for such marginal effort to be acceptable. Yet the evidence available indicates that the situation is such that we can't let the slow drip gradually wear away the established rock. I would argue that a torrent of activity which will tear away the persisting paradigm of finance is on the horizon.

The replacement of the present paradigm is sometimes hindered by overt efforts from some companies to make themselves more appealing to those who want to "go green" where the actions taken all too often amount to no more than putting lipstick on a pig. Whilst the Advertising Standards Agency (ASA) and FCA have tightened up on overt instances of greenwash, there is still much more to be done. It doesn't take long to find examples of people being sold things which don't quite match up with what they have been led to believe they are getting.

A significant challenge we face is the persistent conflation of ESG and Sustainable Investing; one of the challenges which the FCA's SDR is supposed to address. Yes, sustainable approaches to investment will take into account the environmental and social characteristics of investments, but they do more than just measuring the carbon score of companies in an investment index and "tilting" the portfolio towards those companies who have a lower score. Taking into account ESG scores is not investing with the intention of "directly or indirectly improving or pursuing positive environmental and/or social outcomes" it's just investing with an eye on an important set of metrics which may become material. Don't get me wrong, I'd rather that people had portfolios which take into account ESG factors over ones which don't, but we shouldn't pretend that these are sustainable.

Investing in the least-worst option can still have negative consequences for people and planet. To put it in financial terms, you don't short stocks you are holding for the long run or buy and hold stocks you are shorting. Investing in companies whose products and services are continuing to contribute to pollution just because they aren't as bad as others is at best short-sighted and at worst limits the incentive for such companies to engage with truly transformative change in the way they do things. After all, if they are still making money for their shareholders and apparently their shareholders are happy with them doing so, then they must be doing something right?

Working in sustainable finance, I am regularly reminded of the Sullivan Principles and the efforts made to challenge investment in apartheid South Africa. One of the challenges levelled at divestment is that there will always be someone who will buy the shares you sell. Someone will want to own them, who is quite happy to snap them up at whatever bargain basement price you are willing to sell them at. Whilst this doesn't apply if you've made sure that you don't own these companies in the first place, the fear that someone else might profit in the short term from the ownership of a company you don't want to hold shouldn't be a reason to continue to hold. All too readily we appear to have forgotten the lessons of the dot-com crash almost

25 years ago: The price of a company can still collapse to zero if the world ceases to recognise it as having value.

We are likely to continue to be somewhat reliant on oil and gas for some time to come, yet the paradigm shift towards clearer forms of energy appears to be well under way. Why would we continue burning fossil fuels, and supplying fossil fuel extractors with renewable energy to extract more fossil fuels, if we can heat our homes, power our transport and cook our food using energy which doesn't come from sources which are as polluting? I am not so naïve as to think that such forms of energy are perfect, but we should not let the desire for perfection stand in the way of progress. If we are moving towards greener forms of energy, it is difficult to see why we would want to invest our money, or our clients' money, in companies who aren't recognising these changes, whose purpose is to perpetuate an outdated paradigm, other than just a naïve desire for short term financial reward.

There will always be those who don't want to change, and those who are frightened of being the "first movers". As in technology, so in finance. Yet the first movers in the financial world made the change to a more sustainable way of investing a long time ago, they saved for comfortable retirements, they invested for their future and their children's futures. Sometimes they made less money than investors who didn't invest with an eye on sustainability, sometimes they made more.

Whilst it is not a financial planner's job to tell their clients what is right and wrong, we need to recognise that these issues are becoming increasingly important to many people. This means that we need to do more than greenwashing a portfolio with an ESG tilt by calling it sustainable. Shoehorning a client into a CIP because it has a good ESG score, when the client really wants to invest sustainably, is a matter of integrity. Educating ourselves about what we are investing client money in, educating clients about the different options which are available to them, not just going with the least-worst option because it happens to be convenient, should be important to all financial planning firms. Yes, some people will be happy with an ESG screen, or an ESG tilt, just like some people are happy with a Nokia 3310, but they're not likely to be happy if what they thought they were buying was the latest iPhone. With increasing awareness of environmental issues, more people are going to start looking inside the box they've been sold and not all of them are going to be happy.

About Alan Whittle

Alan is the founder of Unburdened Solutions, a Training and Consultancy services provider to financial planning firms. A Chartered Financial Planner and Fellow of the Personal Finance Society, with an MSc (Distinction) in Financial Planning and Business Management from Manchester Metropolitan University, Alan's dissertation examined Motivations for Responsible Investing. A lifelong academic, Alan's passion is Impact Investing, the focus of his current PhD research, for which he has recently submitted his thesis for examination. He maintains an active interest in wider forms of sustainable and ethical investment, the application of behavioural science and to financial planning in general. Alan also holds specialist qualifications in Compliance and Sustainable Finance.

Alan is a member of the PFS Sustainability Panel and a Subject Matter Expert on Financial Services Compliance. A regular contributor to PFS and CII publications, Alan is currently the PFS North Scotland Chair and a recipient of the CII Distinguished Service Award.

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