

COVID 19 and Sustainable Investing: Close Allies or Incompatible Bed Fellows?

There is no doubt that the enforced disruption to modern living caused by the coronavirus outbreak will have environmental benefits on a scale that few activists could have hoped for in today's economy. The question now is how long this green living can continue and whether some of these positive attributes can provide building blocks for a world that will never be quite the same again.

There are certainly some indications that the market believes in the long-term potential of listed market champions of sustainability.

A preference among investors for sustainability champions is probably not the whole picture. Since the beginning of the year (to 23 March) the list of best and worst sectors has been predictable. Using the MSCI ACWI as a benchmark, consumer staples have fallen 22.4% and telcos 22.8% whereas energy is down 54.5% and financials 40.1%. These short-term, sharp moves cannot be attributed entirely to a sustainability pecking order and indeed it would be surprising if during a period of such intense crisis the world prioritised long-term adjustments over short-term support. That said, it is encouraging to note that investment flows are still net positive into ESG-focused ETFs whereas into the S&P ETFs they are standing at -30% (to 25 March, according to Bank of America).

The key beneficial outcome of this unprecedented interruption to modern living is falling emission levels. The number of stark anecdotal observations grow by the day. For example, one of the globe's busiest toll roads, the 407 ETR in Toronto, Canada, has reported a fall of as much as 66% in traffic year on year. This global slowdown in economic activity, and consequently the reduced pollution, is having significant organic health benefits. Stanford University estimates that the number of lives saved through lower air pollution in major Chinese cities is twenty times higher than the number of lives lost to COVID-19.

However, not everything is quite so supportive of the green economy. Policy-makers are currently forced to prioritise stimulus that can quickly alleviate the worst of the current stresses in society. Consequently, fiscal and monetary measures are unlikely to be aimed at green industries where the pay-off tends to be slower to come through. Yet, whilst an increase in green incentives is not a priority, and indeed some major policy moves like the EU Green Deal may see delays, these measures are being substituted by other socially supportive policies, such as unemployment benefits and debt forbearance. Some commentators have noted the contrast between the responses to the coronavirus and to the Global Financial Crisis (GFC) in terms of the social standing of the intended beneficiaries and the directness of that response. To some degree the financial response to the GFC most significantly impacted the wealth of those that needed it the least whilst consigning the 'man on the street' to nearly a decade of flatlining or declining financial prospects. The response to this crisis, on the other hand, has clearly focused on supporting individuals and small businesses, in some cases at the expense of big business and markets.

In other words, therefore, it is important to differentiate between necessary steps made by governments and central banks in a crisis and structural shifts that may see their timeframes altered, either shortened or lengthened, by these unprecedented events.

One of the key frustrations of the green movement is the slow pace of serious structural change. To some extent this is a natural consequence of the plethora of different stakeholders that are involved. A large sovereign wealth fund, a non-governmental organisation and a major investment management firm, to list three examples of many players, will have very different priorities when it comes to the green agenda. The sovereign wealth fund may wish to report the impacts its investments are creating whereas the investment manager is focused on scaling up assets under management. These differences in priorities have led to the creation of a number of bodies, all of which have credible terms of reference and memberships but which, through a multiplication of approaches, have slowed down the pace of change.

Equally, approaches to measurement can be broadly divided into two categories. In one are systems that aim at achieving the largest number of respondents through the employment of basic impact measurements; often these are criticised for being too elementary. In the other are a number of frameworks focused on more precise data points but whose demands are too onerous for many investee companies currently not set up to disclose in such granularity. In this fluid environment, a large number of companies have reached out to consultants to map their operations in relation to the UN's Sustainable Development Goals and produce favourable measurement criteria. This is something of a concern as the proliferation of data points with little oversight or standardisation does not help propel the financial system to a higher plane of disclosure. Some initiatives are, however, more constructive, for instance the Science Based Target Initiative, which provides a clear roadmap for companies wishing to develop their sustainability disclosure. Equally, certification as a B Corp gives a company the necessary incentive to reassess every aspect of its corporate footprint, as 3,300 companies have already demonstrated.

In summary, the current environment is throwing up both opportunities and headwinds for the sustainability and impact industries. The pace of regulatory change will no doubt slow whilst the coronavirus crisis rages; data disclosure will probably not improve at the same speed as may have been expected six months ago. But the natural forces of change are likely to draw profound support from some of the organic consequences of this global pandemic. What remains to be seen is whether society will permanently embrace these changes for the better.

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