JUNIPER PLACE

Sustainable Investing Goes Mainstream

MARCH 2021

Photo by Robin Mathlener on Unsplash

Juniper Place spoke to Melanie Brooks, Head of Sustainability at Carn Capital, an independent investment boutique which invests in sustainable companies in the Nordic region.

Sustainable investing has recently seen an enormous surge in interest but investing sustainability can mean different things to different people. The absence of a common definition, terminology or impact measurement tool has been viewed as a potential barrier, but the tide is turning. As a result of a growing focus on sustainability issues such as climate change and diversity, accentuated further by the global pandemic, sustainable investing is becoming mainstream.

For Melanie Brooks, the absence of a single definition of sustainable investing is not necessarily a problem.

“Sustainable investing has long been an umbrella term that encompasses a range of strategies with different goals and outcomes, from ethical exclusion to ESG integration and impact investing. I think this range of definitions and approaches reflects investors’ relationship to and expectations of sustainable investing, which are diverse and often personal. Like many other things, these can vary significantly across markets, geographies, age, and socioeconomic lines. How sustainability fits into an investor’s portfolio will also vary depending on their investment horizon - if they are actively or passively managed for instance.

“I know there is a message in the market that it’s a big issue that we don’t have a universal definition, but I think that’s only natural and, to a certain extent, healthy. However, standards and guidelines are important to avoid greenwashing and hold fund managers accountable and transparent. Emerging regulation in the EU and elsewhere will help do this. At the same time, I think adhering to a single definition of sustainable investing runs the risk of becoming a very box-checking and compliance-driven exercise, which can become static or inflexible and does not necessarily reflect the values and priorities of investors.”

Brooks has been dedicated to sustainable investing her entire academic and corporate career, including a period as Head of ESG Risk for Norges Bank Investment Management (NBIM). This is hardly surprising as both her parents were scientists - her mother a natural resources conservationist with the US Department of Agriculture and her father an endangered species biologist - which she said shaped her views growing up. She adds that applying this interest in sustainability issues to finance has been an exciting and meaningful challenge.

Photo by Bermix Studio on Unsplash

Photo by ifarm.fi | View License

Over the past 10 years, Brooks says she has seen a marked change in attitudes towards sustainability within the industry.

"I think it's even become a bit cool to be involved in sustainability. If you showed that you took climate change and environmental issues seriously in investment management a decade ago, you just seemed like a tree hugger.

"But these considerations are more mainstream now. You have young people who want to invest their own money in companies that they see have a positive purpose. They want to work at companies that reflect their values, where they can contribute."

This is a key theme highlighted in the recently-published 2020 Global Family Office Survey report, produced by Blackrock in partnership with Juniper Place. This revealed that 80% of family offices said they had made the transition from sustainable intent to sustainable investment with 75% of family offices expecting the proportion of sustainable investing to increase in the coming year. And the values of the next generation are acting as a catalyst for a marked shift in attitudes to family office sustainability investing.

Improved performance from sustainable investments is also contributing to greater interest and is changing perceptions of a once regarded constraint.

"Historically, there has been a real or perceived trade-off between sustainability and financial returns whereby investors feared they would have to forego good investment returns for other types of returns that were less tangible," says Brooks.

"

You have young people who want to invest their own money in companies that they see have a positive purpose. They want to work at companies that reflect their values, where they can contribute.

"By only investing in companies with really strong sustainability characteristics, you were potentially taking on a lot of risk because the market wasn't necessarily pricing in sustainability-related risks and opportunities. Now I think it's more the opposite and we've reached this point of no return, in a really positive sense. It isn't just momentarily fashionable to think about sustainability, this has become so core to what people expect and think about companies. The way the investment landscape has become, I don't think we're going to go back to a time that this doesn't matter anymore. In this respect, the real risk is not investing in line with this movement and getting left behind."

The real risk is not investing in line with this movement and getting left behind

Drilling down into the detail of how companies operate and position themselves is important in evaluating their sustainability credentials, adds Brooks.

"At Carn Capital we only want to invest in companies with great characteristics in terms of management, market share, high barriers to entry, a healthy balance sheet and a sustainable business model. We want to make sure that they're thinking about how they position themselves strategically with regards to sustainability; that they are well positioned with everything that is happening from a technological, consumer and regulatory perspective.

"When it comes to sustainability, we think about what a company does as well as how they do it. The first part entails looking at the products and services that constitute a company's main business activities and considering how they are aligned with the ongoing transition to a more sustainable economic system. Will the business model continue to thrive moving forward, or will there be reduced demand for a company's products due to sustainability considerations?

"We then look at how they run their business and manage relevant operational considerations such as energy and natural resource management, employee health and safety and education programmes to make sure they invest and maintain their human capital. And that they have good, well-functioning boards that should serve both shareholders and the broader stakeholder base. If they don't do this, then that's a potential red flag for us as an investor."

Given the clear momentum, I anticipate reaching the point where you will no longer need to use the prefix 'sustainable' investment. At a certain point, all future investment will need to be sustainable.

Brooks says when it comes to investment considerations, there are a number of areas to consider. Sustainability is not just about environmental issues but should also encompass social and economic themes. Carn Capital looks at education, especially as the global pandemic has highlighted the need for further education and reskilling. Healthcare is another key area of interest with pharmaceutical and life science companies looking at innovative products to solve global health challenges. There are also the more traditional 'green' themes such as renewable energy and vertical farming using hydroponics.

There is currently not a 'one size fits all' measurement or approach when it comes to looking at the impact of sustainability. But there are signs of change. Large global owners of stocks, such as BlackRock, AP2, PGGM and the Norwegian Sovereign Wealth Fund (NBIM) are supporters of broad initiatives that are perceived to be relatively applicable universally. These include the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). These consider a broad set of material sustainability factors that enable investors to better understand key risks that companies face, such as in relation to climate change, and how they are seeking to mitigate them.

Photo by heylagostechie on Unsplash

Brooks agrees that both initiatives encourage the disclosure of important ESG and climate-related data that are expected to be material to investment decisions and to the pricing of assets and risk by the market.

“For many investors, and other corporate stakeholders their concern with ESG and sustainability goes beyond the direct financial risk and relates to their personal values and priorities around individual ESG topics such as diversity, human rights, access to education and clean water, for example. Not all of these things can be measured and reported in a standardised way and may not be captured by the financial materiality lens.”

She adds: “This to me will continue to be the challenge with sustainability-related metrics and reporting and helps explain why it may be difficult – and may not even be desirable – to arrive at a single or homogenous definition and measure of sustainable investing.”

Thinking about her hopes for the sector in the future, Brooks sums it up neatly.

“Given the clear momentum, I anticipate reaching the point where you will no longer need to use the prefix ‘sustainable’ investment. At a certain point, all future investment will need to be sustainable.”

About Juniper Place

Juniper Place is a technology-led investor intelligence platform that transforms the nature of asset raising for alternative asset managers and investors. We provide our clients with the insight to enable them to segment and precisely target only those investors where there is genuine mutual interest. As part of this service, we offer bespoke Institutional and Family Office investor intelligence, advisory and placement services.

Contact:

Paul Harvey, CEO
paul.harvey@juniperplace.com

About Carn Capital

CARN Capital is an independent investment organisation located in Oslo. The firm deploys a fundamental equity strategy investing in sustainable companies in the Nordics. It manages Long/Short and Long only funds ecolabeled by Nordic Swan Ecolabel.

Contact:

Melanie Brooks, Head of Sustainability
mb@carncapital.com