

A new generation of investors want more values for their money



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*ESG or Sustainable Investing offers an opportunity for Labour and the financial sector to work together – an opportunity both must take, writes **Matt Killeya***

Late last year Cambridge University Endowment Fund – one of the largest of its type in Europe – announced plans to “divest” from fossil fuels. The move meant it would remove investments in energy funds and all meaningful direct and indirect exposures such as investments in oil drilling and mining firms.

As Chief Investment Officer for an asset manager based in Cambridge, I followed the story closely. Students had pressurised the University to refocus the Endowment investment policies on more sustainable goals.

At the same time, on a far broader level, I witnessed the emergence of the responsible investing movement, otherwise known as Environmental, Social and Governance (ESG) within my industry. Once a niche movement, the idea that individuals and institutions should align their investments with their values hit the mainstream.

When I spoke with investors in my fund, it was rare that the topic of ESG investing wasn’t raised. What I noticed more than anything was that despite a desire for ESG investments, clients lacked a clear view about what this exactly meant. In other words, the demand was there but they wanted solutions from our side of the table - they would “know it when they saw it”.

One investment bank told me it had commissioned research after noticing its private wealth division was losing customers. It discovered the clients heading for the door were often individuals who had recently inherited family wealth. The reason: the next generation was more focused on ESG and the bank simply didn’t have the products. These new investors voted with their feet and took their money elsewhere.

Very quickly, a proliferation of ESG products has appeared. Trillions of pounds are now managed in sustainable funds. In principle this is a huge accomplishment. At the same time, there is scepticism from some quarters about “green-washing” – are these products really helping environmental and social enterprises? Or are we seeing crafty relabelling of existing products to fulfil investors’ desire for “something ESG”?

While some of this proliferation is cynical, some of it –comes from a genuine desire to do something positive. Focusing on the “E” and the climate crisis in particular, we need to be sure those products achieve what they are designed to do. We can’t simply virtue-signal (even if it makes us feel better), given the scale of the crisis.

During my time in the City, my career and my political interests have felt somewhat at odds. I’ve often joked that I worked in a reverse echo chamber - it always felt like a pleasant surprise to discover a fellow Labour sympathiser.

On the other hand, one of the easiest ways to galvanise a crowd at a political rally is to throw in a slur about bankers.

ESG investing presents an opportunity for collaboration between the City and the Labour party. Labour's Green New Deal put climate change at the heart of the Party's policy. Yet there are still pressing questions about how to achieve the ambitious changes needed in a short amount of time – most notably, to meet the net zero emissions target of the Paris agreement by 2050.

The City can play a leading role in ESG - it is a talented, experienced and innovative industry with a huge amount of expertise. We need well-designed policy on emissions transparency, carbon taxes and tax breaks for green investments. We need to bolster the way in which ratings agencies classify ESG funds and firms. Company shares can be put to use – with funds investing in firms which make more efficient use of natural resources than their peers. The ESG industry needs to be cultivated to meet this challenge and Labour needs to engage with these businesses.

On the other hand, ESG brings big “value” questions. In the Labour party we talk about a “just transition”. The need for fairness is the social “S” in ESG investing. For example, fossil fuel workers transitioning to new jobs in renewable energy shouldn't find themselves on worse pay or conditions. The transition to net zero different requires that geographies' economies be permitted different paths, with the global north doing much more of the heavy lifting.

To solve the climate crisis, we need to act fast and at scale. Community wealth building and regional investment banks are promising ideas, but you can't bring a knife to a gun fight. There are risks which only the sheer size of the global financial industry can effectively buffer, which smaller scale initiatives simply can't – after all, no-one can or should invest their entire pension into a local wind farm.

The Labour Party has a proud tradition of social justice as a core value and, in recent times, significant experience in mapping this to issues of climate change. This pool of knowledge is invaluable in making the value judgements we need to build ESG better.

Both the City and Labour have a lot to gain by working together. Labour can ensure the huge capital investment and managed financial innovation that its plans require. At stake for the City is a leading role in solving the existential issue of our time and a renewed legitimacy as a result.

Dr Matthew Killea is a mathematician, writer and investor. Until recently he was a partner and Chief Investment Officer at Cantab Capital Partners, which was taken over by GAM in 2016.