COVID, and a changing of the guard for ESG

James Penny, UK CIO, TAM Europe Asset Management explains.

With COVID seemingly, potentially, hopefully in the final chapter of this two-year pandemic, there is a lot to look back on and a lot to reflect on when it comes to investing. Specifically, investing for a better tomorrow which I think we can all agree has been crystallised in the goals of so many investors.

The last two years have proved a battleground of social, viral, and economic challenges which has, on so many levels, pushed the topic of ESG into the spotlight for almost every fund house and investor, not to mention households, across the globe. I think it's a bizarre turn of fate but the turmoil coming out of 2020 and 2021 can quite easily be slotted directly into the E, S and G of ESG.

The induced coma that governments put their economies into, and the massive rescue package for them, has forced intense public scrutiny on company earnings. Namely, stake holder vs share holder. Questions are being asked, such as 'Is it still morally defensible to pour a company's profits back to shareholders, when deploying these profits internally to better the work life balance of one's employees would surely prove far more responsible and, in the long run, more cash generative?' The ramifications of both responsible and irresponsible capital deployment in the COVID pandemic ping off both the social and governance elements of ESG.

On the environmental side of the pandemic, just go and look at a "before and after" satellite photo over large cities to see the jaw-dropping effects on pollution levels from the forced lockdown. People living in north India have, for the first time in decades, been able to see the Himalayas, and residents of Venice can now see the bottom of the iconic canals for the first time in their lives.

All of this has served as a simple reminder of how we treat the planet and thus fostered a far wider and more engaged debate on environmental awareness and stewardship in tomorrow's world.

So how does this translate into investing?

Green investing has, to date, seen investors handsomely rewarded as ESG stocks on the whole have outperformed traditional stocks. Even in the stock market volatility of Q1 when COVID panic was at its peak, ESG stocks didn't sell off as much as their mainstream counterparts. Yes, the current value rally and inflation fears have taken some of the shine off the growth orientated ESG trade, but all good things have to take a breather at some point, don't they? One shouldn't deduce that the ESG trade is over, far from it.

Looking to the future, a lot of the funds still standing after these tumultuous years are seeing the next generation of money managers beginning to take the helm on tactical and strategic decisions when it comes to where money is put to work. These investors are much more prepared and galvanised to make sure every dollar is making more than just an impact on the funds returns, but making a positive imprint on where it's invested and who it benefits.

So what's next for ESG?

Well, considering the above, if a larger and larger cohort of companies on listed stock exchanges start to realise that embedding ESG policies at their core make them more profitable and successful entities, it's going to quickly see ESG companies become common place. Sequentially, the funds we buy will increasingly become invested into these same ESG minded companies. If this happens, ESG investing could well cease to be a thematic play and simply take up the centre ground in markets. So much so that it could render ESG strategies with a negative screen as obsolete.

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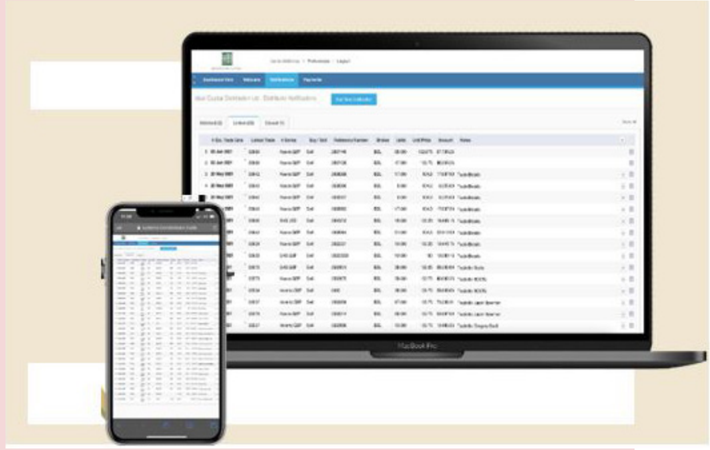
Technology can be cool but why is it not more useful?

support to advisers? We firmly believe that efficiency and accuracy are cornerstones of good commercial relationships and advisers should not tolerate product providers who do not invest in both transparency and ease of use.

Technology which automates the fee payment process (both for the manufacturers and the advisers) is crucial and should be number one on a due diligence list when assessing the capabilities of manufacturers. Fees are the lifeblood of the business; providers should invest as much in ensuring they have an efficient and accurate solution for the advisers as much as for their own portfolio management. This includes not only timely and accurate payment solutions but also transparency and clear information flows. The internet delivers so much to us in this way across so many different channels that advisers should expect no less.

Bedford Row Capital and its advisers have the benefit of access to Bondstream™; a state of the art, adviser, manufacturer and transaction management system. The daily reconciliation of investments and associated impact on fees is available real-time in a cloud-based solution. Bondstream™ supports funds as well as structured products and creates a commercial advantage for the advisers who use the system; painless, accurate and transparent fee and production information. This includes valuations, product availability and automation at the back end to support multiple manufacturers.



Everyone likes to talk about Blockchain. Yes, Bondstream includes blockchain. As an old school tech guy, my response is "so what". Can advisers be paid every week with 100% accuracy? Yes. That is what technology is for. Serve your customers and build relationships; it actually isn't that hard.

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