Socially responsible investing goes mainstream

FINANCE | A clear conscience doesn't necessarily mean a lower rate of return, wealth manager says

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Divesting from a sector considered bad for humanity – whether tobacco, oil or firearms – is only one side of the coin when it comes to responsible investing.

The other side is redirecting those investments into something beneficial.

Microsoft (Nasdaq:MSFT) founder **Bill Gates** recently said divesting from fossil fuels won't do much to reduce greenhouse gas emissions. If investors really want to make a difference, he suggested, they should put their money into technologies and sectors that will have a positive impact.

In other words – impact investing.

While impact investing can do a world of good, if it results in new clean energy technology or improved human health, it can be risky. That's why non-specialized investors will want a fund manager who is experienced with socially responsible and conventional investing and who knows how to balance risks and profits.

After all, your money won't do much good if it's gone.

"The risks of misallocations if impact investors do not anchor themselves to market returns are serious," **Wendy Abt**, founder of **WPA, Inc.**, writes in the *Stanford Social Innovation Review.*

"Without a fiduciary-like focus on achieving market returns for their clients, fee-charging intermediaries – advisers, investment bankers, gatekeepers, and asset managers – effectively receive a license to underperform and rationales for doing so."

It's a myth that impact investments generate lower returns than other kinds of investing, says Mike Thiessen, partner and director of sustainable investment for Genus Capital Management | CHUNG CHOW

There is a popular perception that impact investing necessarily means having to accept lower returns on investments in exchange for a clear conscience.

"That's what everyone thinks, but it isn't the case," said **Mike Thiessen**, partner and director of sustainable investment for **Genus Capital Management**, a private wealth management firm. "This is a question that we have to answer with every single client."

Genus has analyzed how its Fossil Free CanGlobe Equity Fund performed against other indexes and found it has not sacrificed returns for going fossil fuel free.

"We've only been able to do the study back about seven years, but in that seven-year period the sustainable portfolios have been able to outperform the index," Thiessen said.

Socially responsible investing is no longer some small fringe sector for the wealthy woke crowd. It has gone mainstream.

According to the 2018 biennial *Report on US Sustainable, Responsible and Impact Investing Trends*, ethically driven investing now accounts for $12 trillion of the $46.6 trillion in total assets under professional management in the U.S. – a 38% increase since 2016.

Genus has seen similar growth. Of the $1.5 billion it has under management, one-third – $500 million – is in the area of fossil-fuel-free, socially responsible and impact investments, up from just $75 million six years ago.

"It's the fastest-growing part of our business," Thiessen said.

Wal van Lierop, a clean-tech venture capitalist who has invested in everything from fusion energy to carbon capture companies, welcomes the trend toward socially responsible and impact investing.

But he warns that investors who are serious about putting their money into good causes need to scrutinize their portfolios to ensure there isn't a bit of greenwashing going on, especially with the big banks.

Broadly speaking, Thiessen said, "responsible" investing simply cuts out the "bad stuff" like fossil fuels, tobacco and firearms. A responsible investment portfolio might still include big banks that finance fossil fuel companies or insurance companies that insure pipelines.

The next level up is environmental, social and governance investing, which is more proscriptive.

"This is where you're actually writing it into your investment policy statement that we're not going to be investing in certain industries," Thiessen said.

Impact investing takes socially responsible investing one step further by not only cutting out the "bad" stuff but also actively investing in "good stuff." That typically includes sectors like renewable energy, health care and certain agrifoods.

"Impact investing is less cutting things *out,* but more putting companies *in* that you really want to support," Thiessen said. ■

Divestment can't dam ocean of oil demand: analysts

FINANCE | Less virtuous investors are always ready to snap up offloaded fossil fuel stocks, observers say

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At first blush, Norway's decision to shed billions worth of oil and gas holdings might sound like a big win for the fossil fuel divestment movement.

And it might smack of hypocrisy.

After all, Norway's $1 trillion sovereign wealth fund – the largest in the world – is also commonly called the "oil fund," because it was built on oil revenue. Norway is Europe's second-largest oil producer and exporter, behind Russia.

But Norwegian pension funds are now bowing to pressure from the divestment movement and shedding at least some of its oil and gas investments. So are insurance companies.

AXIS Capital Holdings Ltd. (NYSE:AXS) announced last week that it will no longer insure new oilsands projects or pipelines associated with the oilsands.

Four Canadian oilsands producers have been targeted for divestment by Norway's **KLP** pension fund: **Suncor Energy** (TSX:SU), **Cenovus Energy** (TSX:CEV), **Imperial Oil Ltd.** (TSX:IMO) and **Husky Energy Inc.** (TSX:HSE).

It's not the full-on divestment that organizations like **350.org** have been pushing for, however. The KLP fund is only punting companies that are primarily in oil and gas exploration and production, especially in the area of oilsands.

Norway's sovereign wealth fund will keep its investments in integrated majors like **Exxon Mobil Corp.** (NYSE:XOM) and **Royal Dutch Shell** and, of course, Norway's own **Equinor ASA** (Statoil).

Low global oil prices mean lower profits for oil and gas producers and exploration companies, which may explain why Norway is holding onto its investments in large integrated oil and gas companies. They can still be profitable, even when oil prices are low, because their refining and petrochemical businesses benefit from lower oil prices.

Most big banks, university endowments and pension funds have rejected divestment proposals, generally citing fiduciary duty to their clients.

After all, divesting from a profitable sector like oil and gas could hurt pensioners and universities more than oil companies.

There are also serious questions about whether divestment will have any serious impact on greenhouse gas emissions. **Microsoft** founder **Bill Gates** – who has invested heavily in sustainability – doesn't seem to think it will.

"Divestment, to date, probably has reduced about zero tonnes of emissions," he recently told the *Financial Times.*

For every pension fund or university endowment that sells off oil and gas stocks and bonds, some less virtuous fund manager will see a potential bargain and snap them up. As long as there is a demand for oil, there will be profits to be made from it, and some investor somewhere will put money into it.

The $75 million that Norway's KLP pension fund plans to divest from Cenovus shares represents only 0.66% of the company's total market cap, something that could be made up in a few days of trading.

"The decision by KLP pension fund to divest its shares in our company will have minimal impact on us," **Grady Semmens**, a spokesman for Cenovus, told *Business in Vancouver* in an email.

It could become a problem, however, if the divestment movement gains serious momentum. The oil and gas sector in both the U.S. and Canada have already seen a decline in investment capital in the last few years, said **Jackie Forrest**, senior director at **ARC Energy Research Institute.**

"I think the concern is that there are limited sources of capital, and as more groups divest of the oil and gas industry, or certain companies, it just makes capital more scarce and hard to get," she said. "So, yeah there's a concern for sure."

Wal van Lierop, founder of **Chrysalix Venture Capital**, thinks the divestment movement could pose a real threat to the Canadian oil industry, especially if interest rates ever go up. The issue with Alberta's oilsands isn't just their carbon intensity – it's also their high costs.

Right now, low interest rates mean it is still relatively easy to finance projects, he said. But a combination of high interest rates and divestment could begin to put a serious squeeze on the Canadian oil and gas industry.

"I think it [divestment] will have a significant impact in Canada," he said.

He points out the industry has made its own divestments, with majors like Royal Dutch Shell and **ConocoPhillips** (NYSE:COP) selling off their Alberta oilsands assets.

"Isn't it a canary in the coal mine that most of the internationals have, in the meantime, left?"

Van Lierop added there is a danger that natural gas and liquefied natural gas – something he thinks is a necessary bridge to decarbonization – could get also caught up in the divestment movement.

But the divestment movement might have a serious leakage problem. Even if divestment starved some oil producers of capital in some parts of the world, it wouldn't reduce the world's demand for oil. ■