Giving voice to the quiet revolution: asset management, the environment and popular perceptions

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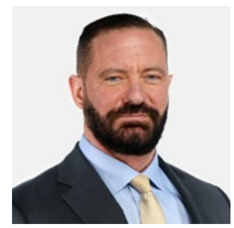

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Executive summary

- As demonstrated by environmental protests against asset managers accused of "funding destruction", the investment industry remains broadly perceived as uninterested in the existential challenges facing humanity.
- Contrary to such perceptions, asset managers have taken a lead in promoting sustainable policies and practices – especially through active ownership of and engagement with the companies in which they invest.
- It is vital that this "quiet revolution", as the University of Cambridge has described it, builds wider recognition and that stakeholders of all kinds appreciate that their interests may be aligned with those of asset managers.
- Asset managers can earn this recognition through a sincere commitment to environmental, social and governance considerations and by framing their contributions to sustainability in transparent, honest and clear terms.

“Contrary to widespread assumptions, asset managers are not fiercely determined to thwart efforts to make the world a better place.”

2. Introduction

More than a decade on from the global financial crisis, the investment industry is still popularly perceived as a self-serving entity with little or no regard for the greater good. Before the COVID-19 pandemic curtailed mass gatherings, environmental activists’ demonstrations – including several against financial services companies said to have “funded destruction” – provided a clear reminder of how negatively this sphere is viewed by many of those outside it.

Former President of Ireland Mary Robinson, now a UN Special Envoy on El Niño and Climate, even suggested that Extinction Rebellion protesters should specifically target asset management firms. This tactic, she said, would lessen the likelihood of the group alienating members of the public[1].

Such a sentiment underscores the degree to which asset managers, routinely cast as essential cogs in the machinery of “big business”, are deemed complicit in many of the world’s ills. Yet it also implies that they can bring about positive change; and what appears to be consistently overlooked, at least in the mainstream narrative, is that this is exactly what they are doing.

The first decade of the 21st century exposed the limits of capitalism as we long knew it. There is no disputing this, just as there is no disputing that the resulting backlash against sections of the investment industry was deserved. Yet capitalism always has been and still is a work in progress: it has evolved substantively in seeking to avoid the errors of the past, and asset managers have been at the heart of the unfolding shift.

This is because responsibility, sustainability and long-term thinking are becoming norms for the sector. Asset managers are spearheading what the University of Cambridge has described as a “quiet revolution”, and the reality – unlikely though it might seem to some critics – is that many investment professionals have a deep and even long-held commitment to the future of the planet and its inhabitants.

A passion for the environment is not some sort of obligatory extension of work for such individuals. Quite the opposite: work is a potent augmentation of their passion for the environment. This should be acknowledged far beyond the industry – not because asset managers yearn to be loved or are tired of being harangued by climate campaigners but because stakeholders of every kind need to comprehend that there is a massively important alignment of interests here.

Contrary to widespread assumptions, asset managers are not fiercely determined to thwart efforts to make the world a better place. In fact, many want to be central to such endeavours. In this paper, drawing both on our own experiences and on insights from leading researchers, we seek to show that the quiet revolution is well under way; we attempt to highlight a more “human” side to the people behind it; and we try to explain why it merits much broader recognition.

3. The purpose of asset management in the 21st century

3.1. The bigger picture

This paper is somewhat unusual, in so far as it features numerous interviews. We have chosen this approach because we feel that the individuals within the quiet revolution are best able to articulate their passion for the environment in their own words; and we have chosen it because we also feel that those outside the quiet revolution are best able to voice their opinions in the same vein.

Before we move on to specific perspectives, though, it is necessary to consider the bigger picture. In contemplating the relationship between asset managers and the environment, particularly with relevance to the overarching notion of the greater good, we first need to address a fundamental question: what is the purpose of asset management?

The answers proffered today might not echo those advanced in times past. Traditionally, as pointed out in a report published in 2018 by think-tank New Financial, asset managers have tended to define their purpose in terms of AUM, number of employees, size of tax payments and contributions to GDP[2].

Such definitions are akin to an airline insisting that its purpose is simply the attainment of enormous success – as opposed to, say, the safe delivery of passengers from one location to another. This manner of outlook has become increasingly outmoded and unwelcome in the 21st century, and it is nowadays seldom expressed by any business in any sector.

By way of illustration, it is worth recalling Milton Friedman’s landmark *New York Times Magazine* article, published in 1970, in which he disparaged the nascent conviction that “the pursuit of profits is wicked and immoral”[3]. His attack helped cement the dominant concept of shareholder value for another three decades or more, yet today the same argument might fall on deaf ears.

Business Roundtable, an association of CEOs of leading US companies, has delivered compelling proof of the scale of the ongoing transformation. For decades the organisation championed “shareholder primacy” in outlining the purpose of a corporation, but in August 2019 the “profits first” doctrine was formally abandoned and replaced with a commitment to benefit all stakeholders – including not just shareholders but customers, employees, suppliers and communities[4].

This represented a landmark in the inclusion of environmental, social and governance (ESG) factors in business thinking. It also represented top-level acceptance of an agenda that many asset managers have been advancing for years.

"The 'profits first' doctrine was replaced with a commitment to benefit all stakeholders – customers, employees, suppliers, communities and shareholders."

From "profits first" to positive change

Business Roundtable, an association of around 200 CEOs representing the largest and most influential companies in the US, was for many years a strident supporter of shareholder primacy. In 1997 it unequivocally formalised its "profits first" stance. Now, having radically redefined the purpose of a corporation, it advocates an approach that clearly reflects the idea of the greater good.

■ Business Roundtable Statement on the Purpose of a Corporation – 1997

"The paramount duty of management and of boards of directors is to the corporation's stockholders. The interests of other stakeholders are relevant as a derivative of the duty to stockholders."

■ Business Roundtable Statement on the Purpose of a Corporation – 2019

"We share a fundamental commitment to all of our stakeholders. We commit to... delivering value to our customers... investing in our employees... dealing fairly and ethically with our suppliers... supporting the communities in which we work... [and] generating long-term value for shareholders."

Source: Business Roundtable

3.2. Asset management in the ESG age

Investments intended to benefit the environment have existed for a long time. So, too, have other products and solutions that would nowadays come under the rubric of ESG. Yet their sophistication and application have never before reached today's heights.

ESG's impact on portfolio performance was once widely reckoned to be detrimental. Such assumptions have now all but collapsed under the weight of evidence. The contention that it "pays to be bad" – to quote one frequently cited study[5] – has been overturned by a realisation that it actually pays to be good.

In tandem, improvements in the quality and quantity of ESG data have facilitated responsible investing across multiple asset classes. They have led to a better appreciation of the available strategies and a recognition that it is possible to include investments on ESG grounds by identifying the most promising performers – just as it is possible to exclude the worst[6].

Crucially, ESG has also earned more backing in influential policymaking and regulatory circles. The Paris Agreement, the United Nations Sustainable Development Goals, the Task Force on Climate-related Disclosures and the emergence of a worldwide framework for ESG implementation leave no doubt in this respect. Such initiatives are transforming attitudes towards capital flows, risk management and transparency[7].

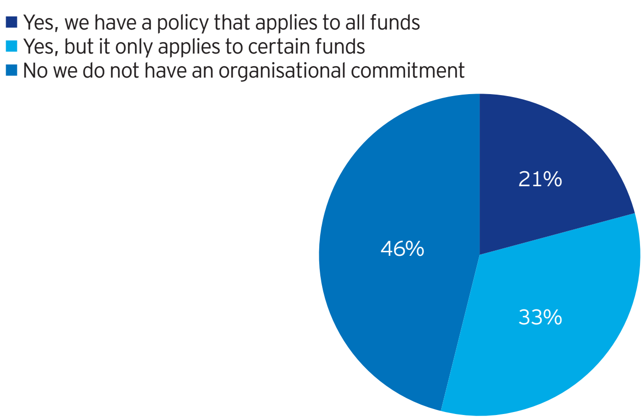
One of the most powerful weapons in asset management's ESG arsenal is active ownership – that is, direct engagement and dialogue with investee companies. This has become a key driver of positive change, not least in connection with businesses that have demonstrated poor ESG performance historically but which could be encouraged to improve their policies and practices. Research has shown that asset managers, as allocators of capital, are likely to get results when they urge the firms in which they invest to embrace ESG[8].

So how do these various dynamics shape the purpose of asset management in the 21st century? Ultimately, the purpose of asset management – more so today than ever – is to mitigate risk, generate returns and allocate capital as productively as possible.

This is how asset managers ensure that financial markets function efficiently. It is how they help ageing populations fund retirement. It is how they meet the long-term needs of the real economy rather than chasing short-term gain. And it is how they contribute to tackling the biggest challenges facing humanity – global environmental crises foremost among them.

Growing alignment

Asset managers' commitment to positive change increasingly requires meaningful acknowledgment of global environmental initiatives, of which the Paris Agreement on climate change is the most significant. More than 50% of the asset managers that took part in a 2019 survey of attitudes to climate-related financial risk reported having policies in some way aligned with the agreement.



Source: UKSIF (UK Sustainable Investment and Finance Association): Oil Pressure Gauge: 2019 Survey of Fund Managers' Attitudes to Climate Risk and Investment in Fossil Fuel Companies, 2019; based on a sample of 39 asset managers

"This is how asset managers contribute to tackling the biggest challenges facing humanity – global environmental crises foremost among them."

"Civil society has its own role to play, and it's a vital one. But the real impact comes when you're shifting trillions of dollars towards positive change."

4. Personal perspectives from inside the quiet revolution

4.1. Cathrine de Coninck-Lopez

Cathrine de Coninck-Lopez is Invesco's Global Head of ESG, with worldwide responsibility for environmental, social and governance research and engagement. She started her career in 2008 as a responsible investment analyst and joined Invesco in 2017 as Head of ESG for the company's Henley Investment Centre. She is a non-executive board member of the UK Sustainable Investment and Finance Association. She studied water science, policy and management at the University of Oxford and environmental science at the University of Nottingham.

Here she discusses how her own interest in the environment flourished, how the asset management industry's approach to climate change has developed in recent years and why the investment community's role in tackling the biggest existential threat facing the planet remains misunderstood and underappreciated.

How did you become interested in environmental issues?

I'm from Denmark. If you live in Denmark then the chances are you live near water, and that's how my interest in the environment started. We lived near a beach, and at high school I did a dissertation around water pollution and the role of regulators in ensuring water quality.

This was 17 or 18 years ago. A lot of people were environmentally aware – I distinctly remember watching a video about climate change – but the broader notion of ESG as we know it today was very much in its infancy.

Here's an illustration of that... I was also really interested in business, but at the time there were no obvious opportunities to combine business with the environment. Even the environment-focused university courses in Denmark were centred only on agriculture. So I studied in the UK, which was ahead of the curve in offering courses around environmental science and corporate social responsibility.

I was eventually recruited into the investment industry straight from university. So my work became a natural extension of my love of the environment, not the other way around.

Have you seen a shift in the investment world's attitude towards environmental issues during your career?

Yes, there's been a very significant change in how the industry as a whole approaches environmental issues in particular and ESG more generally. And what's really changed for me is the extent to which we now incorporate these considerations into investment processes.

The expectation that ESG is something you do as a matter of course has increased immensely. That kind of thinking wasn't widespread when I entered the industry, whereas it's table stakes today. And I think that's the biggest shift.

So we're moving towards a point where there might not be ESG mandates as such. Instead everything will be ESG, so to speak, but with different shades within that. Already, at a very basic level, European regulations require all investment managers to have an ESG policy. That's the direction of travel.

What about the idea of a "quiet revolution"? Do we also need more education around the investment world's contribution to sustainability?

I think we do. There's a lot of awareness around these issues generally, but the idea of linking them to finance and having a positive impact through investing isn't so well understood.

Civil society has its own role to play, of course, and it's a vital one. But the real impact comes when you're shifting trillions of dollars towards positive change.

Look at the energy sector and the trends we're seeing there in terms of capital allocation and low-carbon targets. Investors are playing a huge role in that. Companies wouldn't be engaged in these positive changes without the backing of their shareholders.

That's what we call active ownership – shareholders encouraging the companies they invest in to adopt better, more sustainable policies and practices. The investment community plays an enormous part here, and I feel that right now this isn't widely understood or appreciated.

What are the biggest threats to this "revolution"?

Political movements, trade wars and things like the US pulling out of the Paris Agreement aren't helpful. If we're not all in this together, if it's not a case of everyone believing this is important, then it's going to be difficult.

It's one thing to win the argument that climate change is an absolutely critical issue and then have another argument about how we should deal with it. At least in that scenario everyone agrees it's a problem we can't afford to ignore. But if people start thinking it isn't important, if they start thinking it isn't a challenge we all have to address, that's not good.

And does the world of finance and investment agree that this is a challenge everyone needs to address?

I don't think anybody in the investment world would say climate change and the environment aren't important. The people I've worked with all through my career have come from an environmentally aware, socially aware background – they cared about these issues before and still care about them today. It's not something we've suddenly had to take an interest in.

But might the quiet revolution be too quiet?

Maybe. But the industry will be more and more recognised as a major part of the solution if we keep educating people about what the opportunities are and how investing can make a difference.

4.2. Barbara Rupf Bee

Barbara Rupf Bee is Allianz Global Investors' Head of Europe, Middle East and Africa (EMEA) and a member of the company's International Management Committee. She began her career in financial services at JPMorgan, where she worked in private banking, and later served as Global Head of Institutional Sales at HSBC Global Asset Management, CEO of HSBC Alternatives Investment Ltd, CEO of Renaissance Asset Managers Group and Head of the EMEA Global Client Group at Deutsche Asset & Wealth Management. She joined Allianz in 2019, having previously led UBS's wealth management business in Germany.

Here she reflects on her lifelong fascination with the environment, the need for greater education around ESG and the importance of the asset managers continuing to build momentum and wider awareness as they help address the threat of climate change.

How did you become interested in environmental issues?

I've been especially fascinated by marine life ever since I was a kid. There was a university near my home where one had the ability to study ocean biology, but there were only two places available for every 200 applicants – which is I why I ended up doing economics!

But you maintained your interest in the environment…

It never goes away. If you're fascinated with this world then you also care about the negative impact that we humans have on it and how we change our ways, It's about understanding the importance of leaving places as you find them and preserving them for the generations that come after

Is a "quiet revolution" taking place in the investment world?

Sustainable investment topics in general first came up for me in the late 1990s, mostly when dealing with religious institutions, wealthy families and clients in the Nordics and the Netherlands. That's when I originally encountered socially responsible investing – SRI – and I found it extremely interesting given the positive impact one is likely to have

Back then people were sceptical about the performance of SRI in comparison with non-SRI, so the movement didn't have the initial impact I expected post-2000. And the range of solutions was limited – a water fund and some carbon-neutral product solutions, but they mostly petered out after two or three years.

Today people are very much more aware of the positive impact their investments can have. Given the choice, high net-worth individuals will more often than not opt for an SRI or ESG mandate rather than a plain-vanilla one. We are clearly at a point of heightened awareness among clients and a significant willingness to participate in the movement for change. Now we need more clarity in terms of the impact one might have in order to keep the momentum going.

Who do you think would benefit from more education about the environment and ESG matters in general?

I think it's a generational matter in many a way. Those exiting their educational path now are very aware of the challenges humanity is facing, and they're probably also the most active in their aim to create meaningful change and to address those challenges. It is the "new normal" and part of their DNA.

So I don't think the younger generation needs much more education about the need for change. They're taking this in as they're growing up. It is however more challenging have a meaningful impact on other age groups – including my own – where there's more resistance to the message that real change is needed.

But maybe the point is that we all have a part to play in educating folks in our environment about the issues at hand. It's not just a case of doing the right thing yourself – it's also a matter of distributing and sharing the message. It's up to all of us, as individuals, to ensure the information is shared and understood - because we need all hands on deck to bring about truly meaningful change. It does take people who have the courage and the passion to really take forward a cause for meaningful impact

"It's up to all of us, as individuals, to ensure the information is shared and understood - because we need all hands on deck to bring about truly meaningful change."

What are the biggest threats to this "revolution"?

The longer-term effect of COVID-19 on the global economy has made innovation even more crucial. Whatever we do in terms of improving our environment, in terms of moving towards a cleaner and healthier world, costs money – and innovation can ultimately lead us to more cost-effective solutions. The kind of evolution which we need is the sort that doesn't just increase profits but also makes a substantive, positive difference to the environment.

So the way ahead is going to depend on many things. It's going to depend on the stability of world trade and geopolitics. It's going to depend on whether we can obtain the needed funding, the imagination and the ingenuity to bring about all these meaningful changes. But many have already embarked on this road of change and have the will and drive to make the world a better place for the generations to come.

Does the world of finance and investment share this will and drive?

This is why I'm still in this industry. For me, as an employee, how my employer and the ever evolving industry is changing their views on sustainable measures is hugely important. If I didn't feel there was genuine support for a sustainable investment approach going forward in my working environment, I would find it difficult to accept.

But is the quiet revolution too quiet?

I think it's right to say that what we're doing now isn't as widely recognised as it could or should be. But the recognition will come if we maintain the current momentum – and so will the benefits in terms of real impact eventually

4.3. Dr Henning Stein

Dr Henning Stein is Invesco's Global Head of Thought Leadership. He oversees a team of strategists and researchers responsible for providing insights and perspectives to the institutional investor and financial adviser global communities. He has more than 20 years' experience in financial services and joined Invesco in 2016 from Deutsche Asset Management, where he led EMEA institutional and retail marketing and chaired the company's academic foundation. He holds a PhD in business and strategy from the University of Cambridge and is a Fellow at Cambridge Judge Business School.

Here he considers popular perceptions of the investment industry's attitude towards climate change, why these might now be unjustified and what asset managers can do to convince critics of their positive intentions.

As someone who works in financial services, how do you feel when environmental activists direct their anger towards asset managers?

I sympathise with them, first and foremost, because I share their passion for safeguarding the future of our planet. I also understand their anger – at least to some extent – because the financial services industry has given them many reasons to see it as a legitimate target. And I feel frustrated as well, because these protests reinforce the impression that asset managers don't care about the environment, society or anything else apparently unconnected with the blind pursuit of profit.

Let's consider each of those points in turn. How would you expect these activists to respond if you were to express your sympathy with them?

I think the polite answer is that they probably wouldn't believe me! But this relates directly to the second point, which is that we're seen as a legitimate target. Over the course of many decades the financial services industry has given the wider public reason to perceive it –¬ rightly or wrongly – as an entity that places profit above all else. After everything that has happened, realistically, we can't expect people to lay down their placards and start applauding us if we suddenly tell them: "Don't worry – we're really focusing on the environment now."

And is that what has happened? Has the industry completely changed tack?

No, it wouldn't be right to say that. The broader idea of responsible investing has been around for a long, long time. Jewish and Islamic law imposed ethical constraints on investments millennia ago. Arthur Cecil Pigou, who was a Professor of Political Economy at Cambridge, developed the concept of "negative externalities" in the 1920s[9]. Faith-based investors have a lengthy tradition of avoiding particular sectors. South Africa experienced mass disinvestment during the apartheid era. Incidents like the Bhopal industrial disaster, the Chernobyl nuclear explosion and the Exxon Valdez oil spillage have repeatedly demonstrated the importance of corporate social responsibility.

So these issues have always been there. It's not as if someone has suddenly flicked a switch. But what has changed significantly is that the incorporation of environmental, social and governance considerations into investment decisions was previously what we might call a nice-to-have and has now become a must-have.

"We need openness around responsible investments and the impacts they have. Then the results of our efforts should speak for themselves."

So why has this transformation come about?

Well, this is where the industry seems to be a victim of its past. It's easy for cynics to infer that the transformation has come about because we're trying to make amends for the global financial crisis or because we want to give the impression that we care when we really don't.

But the simple reality is that it's a question of necessity. The future of our planet is at stake, and we have to allocate capital with this fact uppermost in our minds.

Now, critics will point out that we could have adopted this approach many years ago. And there really isn't a convincing retort to that. All we can say, for what it's worth, is that the same criticism can be levelled against major businesses, governments, policymakers and so on – which, of course, it is – and that maybe there should come a time when we're judged on what we're doing now rather than what we might have done previously.

Is that a source of the frustration you mentioned earlier?

Yes, but not from some kind of self-pitying point of view. The frustration doesn't stem from being disliked or somehow unappreciated. It stems from the disconnect between people who are perceived as being worlds apart but who are actually working towards the same goal.

Nature has a way of reminding us that there are shared problems that demand shared solutions. We've seen this not only with climate change but with the COVID-19 pandemic. These are phenomena that require a collective response, not division.

The fact is that most people, for the reasons we've discussed, wouldn't immediately associate asset managers with positive change. They certainly wouldn't think of us as being heavily involved in trying to save the planet. But we are bringing about positive change, we are trying to save the planet, and we're actually in a unique position to make a very substantial difference – as Mary Robinson highlighted when she urged climate campaigners to put more pressure on us.

How does the industry get this message across?

I think transparency is the best way forward. We need definitive standards, and we need openness around responsible investments and the impacts they have. Then the results of our efforts should speak for themselves.

Alongside that, we just have to keep working to restore the industry's overall image. And a key element of that is to show that asset management is about people, individuals, flesh and bones, rather than an almost indistinguishable collection of faceless corporate entities.

Some people might think we're merely trying to reinvent ourselves, and I'm certainly not saying we should be held up as inspirational role-models – far from it. But the bottom line is that the industry as a whole is changing for the better, in a way that it has never changed before, on a scale that has never been seen before, with an alignment of interests that has never been experienced before.

5. Expert perspectives on the quiet revolution

5.1. Dr David Stillwell

David Stillwell is a Reader in Computational Social Science at the University of Cambridge's Judge Business School, where he is also Academic Director of the Psychometrics Centre. His research uses big data to understand psychology, particularly with regard to consumer behaviour.

In 2019 Dr Stillwell co-authored Walking the Talk: Understanding Consumer Demand for Sustainable Investing, a study encouraging financial institutions to provide far greater levels of transparency around sustainable investment performance. Here he details how his innovative research revealed an enormous, latent appetite for sustainable investing and explains why the clear, concise and consistent presentation of ESG information is likely to be key to satisfying this demand.

What motivated your recent research?

We set out to answer the question of whether investors really care about sustainability when they're making their investment choices. There's lots of survey research, but we created what we call a "virtual investment experiment" instead.

We basically replicated the experience investors have when they look at fund websites, switch between factsheets and try to decide where to put their money. Our experiment presented participants with pairs of funds, and they had to choose which they preferred. Crucially, though, one of the funds typically had a better past return, whereas the other had a better ESG profile.

The assumption was that most people would choose the more sustainable option if both funds offered similar returns, but what if the performance gap obviously favoured the less sustainable fund? We found the median investor still preferred a sustainable fund even if this would mean sacrificing up to 2.5% in returns, which is a major difference in investment terms.

"The bottom line is that consumers are ready for sustainable investment. Now the financial services industry has to make the most of that readiness."

Can we believe such a strong preference for sustainability, given that this was just an experiment?

I think so, because our study was innovative in seeking to shed light on how people really would invest their own money. Our participants were told – truthfully – that one of the choices they made was real and they could be randomly selected to receive an investment worth $1,000 in their chosen fund.

In other words, we incentivised all the participants to treat their choices as if they represented a genuine investment opportunity. This made it possible to test whether they truly valued sustainability and, if so, the strength of their preference.

So what do your findings tell us about investors' attitudes to sustainability?

The short answer is that the general public is ready to invest sustainably. Our research shows there's a sizeable and latent appetite for sustainability, even in the absence of deep expertise in investing. People want their investments to make a difference, and they value the presentation of ESG information with that aim in mind.

In turn, this presents a huge opportunity to financial institutions. It's up to them to meet this enormous, largely untapped demand for sustainable investment. And this means they need to communicate ESG performance clearly, concisely and consistently.

What information in particular is likely to help drive the shift towards greater awareness of ESG performance?

I think a vital point here is that not every investor is going to spend days poring over the minute details. More experienced investors might do that, of course, but many others would just like a very simple means of comparing ESG performance across funds and from different providers.

At the moment there are numerous ways of defining and sharing this information, which can make such comparisons difficult. So what we really need is some kind of standardisation that would allow consumers of all levels of knowledge and experience to understand what's in front of them.

Are we moving in the right direction in this regard?

Meaningful progress is most likely to stem from industry working closely with policymakers to mainstream and systemise how ESG performance is presented. A number of existing initiatives – for example, the EU's effort to produce a definitive ESG taxonomy – should help take us closer to where we need to be.

I also think it's important to be creative in deciding how to communicate this information in a straightforward manner. There are several potentially effective ways in which it could be done.

In our experiment, for instance, we used A-to-E ratings – rather like the ratings consumers are accustomed to seeing in relation to energy-saving products – and split them between environmental and social performance. Similarly, we might imagine ESG information being presented in the style of the red, yellow and green labels used on food packaging to summarise salt, sugar and fat content.

What matters in the end is that consumers care about this information and need to be able to understand and process it easily and quickly. So it's a question of making it simple rather than blinding them with science.

It was Cambridge that gave us the term "quiet revolution" to describe the investment world's growing focus on environmental, social and governance considerations. Are you optimistic about this revolution?

Certainly. And I think that when the kind of information we're talking about is finally presented in a way every investor can take advantage of – that is, when every investor is able to make informed choices about sustainability – we'll see a tipping point.

We need to get to a stage where it's normal to make ESG-aware comparisons between funds when choosing an investment such as a pension. We need every investor to be able to arrive at informed decisions about supporting particular companies or sectors with sustainability in mind. Then the "quiet revolution" won't be so quiet anymore. More people will truly understand that their investment decisions have real implications and that they can play a part in bringing about positive change.

So is the revolution significantly quieter than it could be right now?

Yes, and a fundamental message for financial institutions is that increasing transparency around sustainability performance is likely to make things agreeably louder. Ideally, the industry needs to identify robust, scientifically valid and consistent measures of ESG impact so that investors can make better choices.

The bottom line, as we said in summarising our study, is that consumers are ready for sustainable investment. Now the financial services industry has to make the most of that readiness and ensure that it translates into the benefits investors hope to realise for themselves and for wider society.

“Society gets the companies it deserves. As investors or shareholders, we have the greater responsibility that comes with the economic capital that we own or manage.”

5.2. Professor Christopher Wright and Professor Daniel Nyberg

Christopher Wright is a Professor of Organisational Studies and leader of the Balanced Enterprise Research Network at the University of Sydney. His research explores organisational and societal responses to climate change, with particular reference to how managers and businesses interpret and react to the climate crisis.

Daniel Nyberg is a Professor of Management at the University of Newcastle, Australia. His research investigates how global and societal phenomena are translated into organisational realities, with a focus on corporate responses to climate change, the politics of “fracking” and the influence of corporate political activities on public policy.

Professors Wright and Nyberg are the co-authors of Climate Change, Capitalism and Corporations: Processes of Creative Self-Destruction, published by Cambridge University Press[10]. Here they discuss why many companies still cling to a “business as usual” approach to environmental issues, how investors can help bring about change and what steps asset managers might take in further demonstrating their own commitment to the cause.

You’ve argued in the past that the corporate world’s response to climate change has been one of “business as usual”. Do you still consider this to be the case – and, if so, why?

Yes, we don’t see any fundamental shift. Of course, we’re witnessing investment firms moving away from fossil fuel, especially coal, but the key question is whether they’re moving away due to financial risks or because of genuine concerns about the environment.

The proof or otherwise of their commitment is likely to come if they detect a market opportunity, if they face criticism from shareholders or if they have a change of leadership. Whether they stick to their guns in such circumstances will really tell us if their thinking is rooted in profits or in sustainability.

We’ve seen this before. As we recently wrote in the Academy of Management Journal, good intentions are often converted into the mundane and comfortable concerns of “business as usual”. Not even COVID-19 has been widely seized upon as an opportunity to steer away from a dependence on fossil fuel. While the shrinking global economy means less carbon emissions, fossil-fuel industries are generally part of recovery packages.

Your research has repeatedly shown that companies of all kinds eventually back away from a more environmentally aware approach. How does this backtracking come about?

Our research suggests it happens over time, usually when initial promises for acting on climate change don’t fit local production practices and how these are evaluated. Corporations are still judged on their profits, and the profit motive eventually clashes with environmental ambitions.

This is why bold initial statements by CEOs and corporate leaders are gradually translated into “core business”. They’re purified to mean financial rather than environmental sustainability or diluted to fit a particular aspect of a company – say, recycling or water usage.

Even assuming that businesses can never truly set aside the profit motive, do investors have a duty to try to reform companies that lack commitment to the environment?

Society gets the companies it deserves. As citizens, we have a moral duty towards our society in terms of ensuring that it flourishes. As investors or shareholders, we have the greater responsibility that comes with the economic capital that we own or manage.

We should remember that the original purpose of incorporating firms was so society could undertake necessary development. It wasn’t to make a few people rich, which could have been achieved through private ownership. We should also remember that corporations have been very useful in enabling society to take certain risks and develop grand-scale projects. Bearing all this in mind – and considering as well the increasing inequality and myriad challenges that society faces – investors and shareholders have a duty to act responsibly and ensure the stability of the system.

Do you see more evidence of this in recent years?

We do see commitment to the environment from investors. There has obviously been increasing investment in renewable energy, for instance. On the whole, though, relatively little has happened in this area.

For example, carbon emissions were still going up until COVID-19 hit. Rather than shifting to renewables, fossil-fuel-rich nations are still planning to extract fossil fuel as part of efforts to stimulate their economies. Overall, we’re still barely scratching the surface.

You’ve previously said that companies often hide behind voluntary initiatives and that more legislation is needed. Are we any closer to a genuinely effective legislative framework?

Unfortunately not. The billions spent by fossil-fuel corporations to avoid stricter regulations have been money well spent for the industry. We’ve even seen a softening of environmental legislation in some countries, such as the US, during the past few years. So it’s still easy to destroy the planet – and maybe even easier than before in some parts of the world.

Most Paris Agreement signatory countries are failing to fulfil even modest national commitments that still wouldn’t come close to achieving the 2°C target. International agreements and leadership are scarce on details and ultimately promote “business as usual” through pro-growth and market-based mechanisms.

This implies that the logical response to the acknowledged need for future "negative emissions" is technologies such as bioenergy, carbon capture and storage and, more alarmingly, potentially disastrous "geo-engineering". In other words, the answer is to materially reconfigure the Earth rather than reconfigure the economy.

There's considerable evidence that asset managers are increasingly integrating environmental, social and governance considerations into their investment decisions. Do you regard this trend with scepticism or as encouraging – or a little of both?

While we remain sceptical as to whether this will lead to substantial change, it's encouraging that we're witnessing increasing environmental concerns. Hopefully, this will mean the asset management industry won't protest if stronger legislation is proposed.

What might it take for the wider world to believe that asset managers are committed to the greater good?

We don't doubt that individual asset managers are committed to the greater good. However, as long as they expect ever-increasing margins and growth, their ability to actually contribute to the greater good will be diminished.

Considering that the global economy is already breaching a range of critical planetary boundaries and the atmosphere can't cope with continued economic growth, de-growth in economic activity is inevitable. The question is whether de-growth is going to be managed or whether it will enforced by planetary collapse. So the argument is less about the desirability of economic de-growth and more about how it can be controlled to ensure an equitable quality of life for nine billion people.

In terms of convincing the wider world of their good intentions, maybe a more palatable message for asset managers – and perhaps a first step – would be to make fossil fuel a "sin" industry and accept that any investment in it indicates a lack of commitment. That's the sort of measure that would really make the doubters sit up and take notice.

5.3. Professor John Gathergood

John Gathergood is a Professor of Economics at the University of Nottingham. His work focuses on understanding consumer behaviour in financial markets, particularly with regard to financial innovation. He is a member of the Centre for Decision Research and Experimental Economics (CeDEx) and the Network for Integrated Behavioural Science (NIBS).

Drawing on his research, Professor Gathergood has served as an expert adviser to the likes of the Bank of England, the UK Treasury and the Financial Conduct Authority. Here he discusses the importance of financial services providers making themselves understood and the notion of "nudging" consumers towards more sustainable investment products.

What does your research tell us about the need for clarity around financial products and services?

I've been interested for some time in how consumers make financial choices in practice and the degree to which they understand the features of the financial products they use on a regular basis. We've come to refer to consumer understanding of the basic features of financial concepts and products as "financial literacy" – sometimes also referred to as "financial capability".

Somewhat concerningly, my research suggests many consumers don't grasp even basic financial concepts inherent in the design and functioning of financial products. These concepts might include the calculation of interest rates, the role of inflation in eroding potential returns and the meaning of portfolio diversification. Research also shows knowledge of financial literacy is poor even among those who use many financial products, which suggests experience of financial product usage itself isn't sufficient to build financial understanding.

Given this poor outlook for consumer financial literacy and the tendency of financial products to in some ways become more complex – for example, through the use of algorithms and artificial intelligence to determine product decisioning – there's growing pressure on providers to make their products and choices "explainable". Regulators, policymakers and consumer representation groups are increasingly putting pressure on the industry to enhance the transparency of product features.

Why is this particularly a problem today?

Two trends make the lack of clarity around financial products and services especially problematic at present.

The first is the growing complexity of financial products available to do-it-yourself retail clients. Increasingly complicated products such as structured investments, derivatives trading, more flexible mortgage options and exotic offerings such as "mini-bonds" have been introduced to retail markets in recent decades. Some of these products have very complex features that are difficult to price actuarially, which decreases the likelihood of consumers fully understanding their risk profiles.

The second trend is the increasing emphasis on individual consumers to make financial decisions. This has been seen both in long-term changes in retirement saving provision and the more recent growth of execution-only platforms that allow the trading of complex options and securities. This means consumers are increasingly expected to make important, life-defining choices for their finances while being offered a growing array of complex vehicles from which to choose.

"Nudge offers a powerful paradigm for moving investors towards more sustainable products while maintaining their liberty to make free choices."

These two problems make the appropriate design of choice architecture – the way in which choices are presented to consumers – an especially important topic. It's essential that the risks and features of products are saliently displayed to consumers in understandable terms. Indeed, research suggests that in some domains – retirement saving being an obvious example – the optimal approach may be to set up the choice architecture so that consumers don't make active choices and are instead steered by paternalistic choices through automatic enrolment.

Responsible investing arguably represents one of the most significant financial innovations of recent decades. What do financial services providers need to do to bring about more awareness of it in – and even beyond – the mainstream?

A simple principle that should be universally applied is that the underlying holdings and risk profile of an investment should be made clear to a prospective buyer. A series of standards should be established around transparency and simplicity. Ideally, the "shrouding" of risks and the creation of unnecessary complexity should be disincentivised or actively censured.

Could financial services providers "nudge" investors towards more sustainable products? And, if so, how might they achieve this?

Nudge offers a powerful paradigm for moving investors towards more sustainable products while maintaining their liberty to make free choices. The spirit of nudge is to use the tools of choice architecture and framing for public good, flipping some of the marketing techniques used against an investor's better interests – sometimes called "sludge".

For example, in ESG investing a powerful innovation may be to nudge consumers towards sustainable investments by clearly framing investments as "sustainable" and "non-sustainable". This manner of framing would invoke a strong contrast between available options. For example, pension schemes might default consumers into sustainable investments and create frictions to transitioning to unsustainable investments. There's significant scope to bring the power of nudge to ESG investing for public good.

"We need to make it easy for all stakeholders to understand our role, our intentions and the benefits of what we are doing."

6. Conclusion

Along with the investment industry in general, asset managers have attracted considerable criticism in recent years. With past sins still largely informing mainstream opinion, the scorn of the broader public – from environmental protesters to media commentators to the proverbial man and woman in the street – seemingly remains as strong as ever.

Overturning such firmly entrenched disdain and distrust will not be straightforward. The investment industry as a whole has often made headlines for the wrong reasons, and the popular realisation that it has a much more admirable side will unquestionably take time to emerge.

We therefore accept that the very idea of this paper might provoke suspicion and even incredulity among those who have long associated investment with "funding destruction", self-interest and short-term gain. We accept that claims of responsibility, sustainability and long-term thinking could themselves sound inherently self-serving. We accept that nothing can spare asset managers from accusations that they are acting belatedly or could do even more. We also accept that much of the condemnation heaped on the industry has been justified.

Yet it is equally right to point out that unswervingly negative perceptions now appear inaccurate, unwarranted and perhaps even unjust. Irrespective of what has gone before, the reality today is that asset management is at the forefront of attempts to bring about meaningful, lasting, positive change on a global scale. As explained in chapter 3, the fundamental purpose of asset management has evolved – as has capitalism itself. The vast majority of the investment community is aware of this, as is a sizeable proportion of the corporate sphere. So how do we convince the doubters?

First and foremost, it is vital that we sincerely believe in what we are doing. It should not be a case of merely going through the motions and being widely perceived as mustering some form of action that goes beyond the purely tokenistic. As we saw in chapter 4, we must drive transformation for the right reasons – not just because it might generate profits, because it is central to the zeitgeist or because it could enable us to tick a box.

Relatedly, as discussed in chapter 5, we have to grasp the potentially far-reaching power of transparency, honesty and clarity. We need to make it easy for all stakeholders to understand our role, our intentions and the benefits of what we are doing. We must persuade as many people as we can that we share their goals and that we should all work together to achieve them. In short: we have to communicate a positive, inclusive message.

The quiet revolution has been under way for several years. Maybe now is the time to make more noise about it – not for the sake of asset managers' self-esteem, not because we demand due recognition, but because how we and our efforts are regarded and understood is likely to determine our effectiveness in helping plot a truly responsible course for the future.

7. References and suggested further reading

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Von Ditfurth, M, and Hoepner, A: *Sustainable Factor Investing*, 2017

Washington Post: "Group of top CEOs says maximising shareholder profits no longer can be the primary goal of corporations", 19 August 2019

Wright, C, and Nyberg, D: Climate Change, Capitalism and Corporations: *Processes of Creative Self-Destruction*, 2015

1 See, for example, Ecologist: "XR should disrupt 'investors, asset managers'", 21 October 2019. "I see no significant move on the part of the emitters to change," said Robinson, "so I now feel it's time for disruption – and disruption takes many forms… The most effective is the investors… If they can really move the needle then it can move very fast."

2 See New Financial: What Is the Purpose of Asset Management?, 2018. The report highlighted the importance of the industry demonstrating "an understanding of how the assets it manages impact on society through such measures as ESG and socially responsible investing".

3 See New York Times Magazine: "The social responsibility of business is to increase its profits", published on 13 September 1970, in which Friedman famously lambasted "the cloak of social responsibility and the nonsense spoken in its name".

4 See, for example, Business Roundtable: Redefined Purpose of a Corporation: Welcoming the Debate, 2019, and Washington Post: "Group of top CEOs says maximising shareholder profits no longer can be the primary goal of corporations", 19 August 2019.

5 See Dimson, E, Marsh, P, and Staunton, M: Responsible Investing: Does It Pay to Be Bad?, 2015. The study compared the historic performance of the Vice Fund, with its focus on "sin" stocks, and the Vanguard FTSE Social Index Fund, with its focus on socially responsible investments, and found that the former clearly outperformed the latter during a sample period from August 2002 to the beginning of 2015.

6 See, for example, Von Ditfurth, M, and Hoepner, A: Sustainable Factor Investing, 2017.

7 A more detailed examination of these and other initiatives can be found in Lombardo, M, and Gillam, E: Sovereigns and ESG: Is the Future Already Here?, 2020.

8 See, for example, Dimson, E, Karakas, O, and Li, X: Active Ownership, 2015.

9 See Pigou, A: The Economics of Welfare, 1920. Pigou presciently reflected on the choice between "using resources for the present and [using them] for the distant future".

10 Writing in 2015, Wright and Nyberg outlined five roles to categorise corporations' involvement in climate change: producer, innovator, saviour, employer and corporate citizen.

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