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FUTURE OF INVESTING

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RESPONSIBLE INVESTING

Painting ‘greenwashers’ into a corner

The rising importance of environmental, social and governance issues, aimed at improving corporate behaviour, has led to charlatans “greenwashing” company credentials to attract investment

IAN FRASER

The term “late capitalism”, first used by German economist Werner Sombart in the early-1900s, is coming back into vogue. The phrase is increasingly being used to describe the problems facing the modern global economy. These include gaping inequalities of wealth, stagnant real wages, aggressive and convoluted tax avoidance by global corporations, surveillance by tech firms, abuses of human and workers’ rights, rip-off products sold by the finance sector, and environmental destruction such as the transformation of the oceans into a dumping ground for plastic waste.

There are plenty of scapegoats for such ills. But inadequate corporate governance and, in particular, investors’ and corporations’ obsession with short-term performance are increasingly being seen as among the root causes. And a growing band of investors believe they’ve found a cure.

The thinking is that, if environmental, social and governance (ESG) factors are ingrained in investors’ thinking, then a triple-win will follow – more valuable companies, more value for end-investors and, ultimately, a more sustainable system.

Colin Melvin, founder of Arkadiko Partners, a consultancy that works with investors to improve their stakeholder relationships, says: “For much of my career, investors’ unspoken purpose was if you maximise value, everything else will be fine. The problem with that is you spin off massive externalities and damage your own wellbeing, individually, corporately and systemically. We’re now living with the consequences of that. The investment industry is changing because we know we cannot continue to behave in that way.”

ESG investing was given a shot in the arm when the United Nations’ Principles on Responsible Investment (PRI), which Mr Melvin helped to develop, were introduced in 2006. PRI chief executive Fiona Reynolds says this boosted ESG investing into the mainstream, at the same time as bringing greater transparency to financial markets and corporates, as investors were increasingly expecting the companies to increase disclosure about their treatment of employees, supply chains and their environmental standard.

It was given a further booth three years ago when 195 countries signed


Thomas Richter/Unsplash

the Paris Climate Agreement. Then, in 2015, a study by George Serafeim, Mozaffar Khan and Aaron Yoon of Harvard Business School demonstrated that socially responsible investing goes way beyond altruism, demonstrating that corporates which invest materially in ESG issues outperform their peers in terms of share price, and sales and profits growth.

According to the Global Sustainable Investment Alliance, $23 trillion was being responsibly managed as of 2016, up 25 per cent from 2014. Nearly two thirds of that ($15 trillion) was negative or exclusionary screening, with 45 per cent ($10.4 trillion) in ESG integration strategies. Impact investing – investing in a company with a view to generating a measurable environmental or social impact alongside a financial return – was a smaller but the fastest-growing category.

One of the biggest challenges facing the sector is the lack of clarity about what constitutes good corporate behaviour and what constitutes an ESG fund. The nebulousness has left the door open to “greenwashing”, when corporates and investors exaggerate or misrepresent their ESG credentials, essentially enabling them to win investor support on false pretences. For example, a “closet” index-tracker fund might well own shares in oil firms, tobacco manufacturers and banks that fund fossil fuel extraction, but still be able to mislead investors by characterising itself as environmentally sound.

Ms Reynolds supports regulatory intervention to stamp out such charlatanism. She says the climate-related financial disclosures that are being spearheaded by Bank of England governor Mark Carney and the Financial Stability Board are already making a difference. “I suspect they are going to become the norm for reporting on the financial-related risks associated with climate change,” says Ms Reynolds. She also supports the European Commission’s plan to introduce a rigorous taxonomy for green assets. “That will send very strong signals about what Europe expects,” she adds.

Sony Kapoor, founder of think tank Re-Define, is less convinced that ESG investing is the silver bullet for changing corporate behaviour, but does welcome the EU initiative. “I think there would be a significant benefit, as we’ve seen with ISO standards in manufacturing or energy ratings on electronic goods, in having some standards from a credible external source,” he says.

In June the UK government announced it would make it easier for pension fund managers to dump shares in oil, gas and coal companies in favour of longer-term investment in green and social-impact opportunities to avoid the risk of stranded assets, while France last year issued a dedicated green bond that comes with a radical self-imposed transparency requirement.

But as European policymakers strive to codify and embed sustainable thinking into investors’ behaviour, the United States under President Donald Trump is moving in the opposite direction. The US Department of Labor, which oversees American pension policy, recently said ESG investing is not always a prudent choice and that ESG factors should not be too readily considered economically relevant by fiduciaries.

The Main Street Investors’ Coalition, founded in May, is also seeking to undermine ESG investing, arguing that the movement is leading investors to play politics with other people’s money, sacrificing returns for ideology. However, Nell Minow, vice chair of ValueEdge Advisors, disputes such arguments calling the coalition an “astroturf” organisation with fake grassroots. “It’s a corporate-funded group with no real ties to retail investors and its advocacy is as fake as its name,” she says.

Many US pension funds, including the giant public sector funds of New York State and California, remain firmly committed to ESG investing. Mr Melvin concludes: “A core dysfunction within our economies is the operations of athe financial system, and the short-termism and transactional focus that’s baked into it. The whole fund management sector, not just a part of it, needs to adapt if we are to avoid the massive externalisation of costs that we’ve seen as a consequence of the ways in which the system has been operating up until now.” ◆

Should ESG disclosures be subject to some level of independent verification?

Survey of global portfolio managers and research analysts

Percentages do not equal 100 due to rounding

CFA Institute 2017

FUTURE INVESTORS AND ADVISERS

New faces of wealth ma

Wealth management is changing with the advent of artificial intelligence and a new generation of investors

JOE McGRATH

Future investor

UK millennials have it rough. They battle a higher cost of living than previous generations and a well-documented struggle to scrape together deposits to buy a house. But this generation are also set for a windfall.

A report in June, entitled *The Generation Game* by financial group Sanlam UK, concludes that millennials are set to inherit some £1.2 trillion in the next 30 years, with around 5.1 million people anticipating windfalls of at least £50,000 in fixed assets.

With such a volume of cash changing hands, the profile of the typical investor will certainly change, so approaches to investing will need to adapt.

Jonathan Polin, chief executive of Sanlam UK, says the report demonstrates the scale of the intergenerational wealth transfer that the UK is set to see over the next few decades.

"This level of inheritance is unprecedented, and its transfer presents both opportunities and challenges for the financial services industry and society more generally," he says. "That it comes at a time of societal, political and economic upheaval simply adds another element of complexity and uncertainty to an already extraordinary picture."

The Sanlam report is the latest in a host of surveys documenting an imminent intergenerational wealth transfer, but senior investment executives are cautioning against treating millennials as one big homogenous group with identical investment behaviours.

73%
of female wealth management clients feel their advisers misunderstand them

PIMFA 2017

> **"This new group of investors is likely to have a much greater number of women**

"The future investor will, as now, have many faces," says Simon Gibson, chief investment officer at advisory group Mattioli Woods. "Some will want to do it themselves, while others will value their time more and prefer someone else working for them."

This new group of investors is likely to have a much greater number of women, according to a report by consultancy group EY. This will require a marked change in how firms communicate with clients, according to Anne McClean, a financial planner at Charles Stanley.

"There is plenty of research to show that women aren't engaging with investment. I have a lot of female clients of all ages and I can tell you that the issue isn't one of interest but of language. As an industry, our language isn't their language," says Ms McClean.

Financial commentators recognise the new generation will have very different attitudes to technology than the generations before them and that this will impact on their approach to portfolio construction.

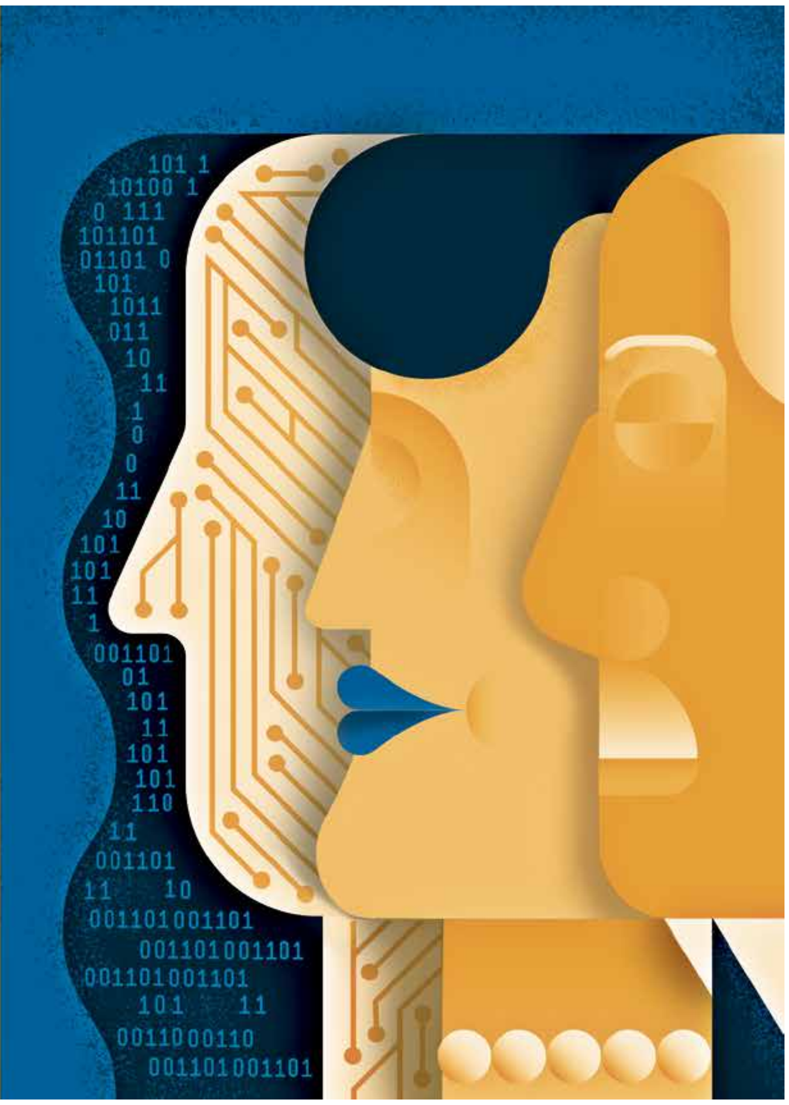
Holly Mackay, the founder of consumer advice website Boring Money, says machines and artificial intelligence are likely to play a much greater role in investment planning in the coming years, and the new breed of investors are more likely to trust them.

"There is a US-based firm that launched last December which offers advice to clients for $10 a month. It's game-changing," she says. "For those with simple affairs, there is no reason why a machine cannot be programmed with tax and investment rules to help people with less complex needs, and learn to become more effective over time."

Ms Mackay says advisers will still play a role in the investment planning process, but this is likely to be refined into developing and teaching these machines so they evolve and become more than just a static computer program.

She adds: "Those with complex needs, particularly around pensions, which remain hellishly complicated, will probably still need the individual touch, even in ten years' time. The game of charging people 1 per cent to put together a portfolio of funds is over."

anagers and investors



67%

of UK millennials feel wealth management has little or no relevance to them

PIMFA 2017

Future adviser

UK wealth management and investment advice groups need to work much harder to engage with the millennial generation.

That was a conclusion from the *Millennial Forum Surveys*, published at the end of 2017 by the UK's Personal Investment Management and Financial Advice Association (PIMFA).

The research, conducted with 802 millennials across the UK, found that 67 per cent of respondents felt wealth management had little or no relevance and nearly half of those in this category said they held negative perceptions of the industry.

Certified financial planner Colum Wilde, founder and chief executive of Clever Adviser Technology, says the younger generation's view that wealth management had no relevance to them correlates with a general reluctance to save among younger age groups.

He explains that this was previously noted in a psychology paper, written by US behavioural economist Shlomo Benartzi, which found that young people view their older selves heading into retirement as strangers. Neurological research supports this.

An overwhelming message from the PIMFA survey is advisers of the future will need to do more to engage with the client in future decades, in terms of technology, customer relationship and portfolio composition.

Jake Wombwell-Povey, chief executive at investment group Goji, says the next decade will see increasing numbers of advisers using technology to support the service that they offer.

"Technology will start to become bionic," he says. "Advisers will supplement and support their client service offering with more technological applications.

"We will always value the human touch, so advisers need to use technology to drive efficiencies in commoditised services, like onboarding, reporting and compliance, while also supporting an increasing concierge-style offering in areas where customers really value advice."

While Goji is a relative newcomer to the investment industry, Mr Wombwell-Povey's sentiments are echoed by senior figures at far more established brands. Tracey Reddings, head of front office, UK and Ireland, at Julius Baer International, says: "The wealth management industry should be focusing on innovation not just disruption, harnessing technology to heighten the human touch, not remove it.

> **Advisers will supplement and support their client service offering with more technological applications**

"Technology allows us to be more efficient and communicate globally with ease and speed, so rather than focusing on people versus technology, we should be concentrating on the benefits of enhanced interaction, heightened machine intelligence, processing speed and security to create a better customer experience."

While much of the focus of industry commentators is focused on enhancing their existing role, there is evidence to show that many of the next generation of investors will want to avoid the human element altogether, opting for fully automated robo-advice.

A 2017 report by Loughborough University on the future of advice concludes that the preferred combination of technology–human capabilities is likely to evolve because tech will become more sophisticated. But it adds: "Some commentators believe that focusing on softer cognitive tasks will only protect human workers for a relatively short time."

So are we heading to a completely automated advice sector? Not completely, according to the Loughborough report. The researchers say that while technology may be the first port of call for some fundamental functions, it is unlikely to take over completely because of its creative and social limits.

As Kuber's chief executive Dermot Campbell concludes: "People still want face-to-face contact, but I see digital tools emerging to facilitate human advice, rather than just robo-advice." ◆

CRYPTO SCAMS

Watch out there's a crypto cheat about

Investors eager to cash in on the cryptocurrency boom risk being scammed by tech-minded fraudsters – here's how to play it safe

Vincenzo Lombardo/Getty Images

CLARE GASCOIGNE

Get this: "Hello! I am in need your help with a substantial business transaction. I am offer you a share of $10 million held in a foreign account and only to be released into a UK account. Please to be sending me your bank details for excellent business. This is a genuine offer! Blessings!"

You can spot it's a scam, right? But while most of us can recognise an unknown princeling's email as a con, it seems we struggle in other areas. Crypto is the latest tool to hand for the scammers; more than £87,000 is lost to binary options scams every day in the UK, according to figures from the Financial Conduct Authority (FCA), and the amount is rising.

"This is an incredibly raw market," says Fred Ellis, intelligence analyst and financial investigator with City of London Police. "The underlying technology is sound, but a lot of companies that in any other walk of life wouldn't get looked at twice are selling on the back of bitcoin's reputation."

Financial scams are, of course, as old as time. From tulips to penny stocks, many people have lost a great deal of money to silver-tongued salesmen. Now digital technology offers tricksters a way in. Simon Taylor, founder of digital consultancy 11:FS, who also helped create Global Digital Finance, a trade body consulting on a code of conduct for crypto assets, says: "A lot of people are not digitally literate and that creates a lot of vulnerability."

Interestingly, initial coin offerings (ICOs), the means by which crypto companies raise money, are changing the age profile of investment scam victims, as much of the hype around crypto happens on social media. According to the FCA, under-25s were six times more likely to trust an investment offer they received via social media compared with over-55s.

This year has seen an explosion in ICOs, which raised $11.8 billion in the first five months of 2018, more than double the $5.5 billion such offerings raised in all of 2017, according to *The Wall Street Journal* analysis of nearly 900 offerings listed on ICOBench.com.

"It is similar to the investment boom in Latin America in the 1820s," says Charlie Hayter, chief executive of Cryptocompare, which charts prices and data from global crypto exchanges. "It's as if a whole new region of the world is opening up. This new form of digital birth certificate that exists anywhere and any time is a revolutionary concept transcending global boundaries and has rapidly increased the ability to move capital, but you have to be incredibly careful."

The fact that some ICOs are scams does not, of course, mean that all are, but when a market is this new, many products will fail.

"Some ICOs are launched by people who are not used to dealing with this kind of money, but suddenly find themselves holding $10 million from Pakistan," says Mr Ellis. "They may not be fraudulent, but if the product fails they still have the money."

It can be impossible to distinguish between the good, the fraudulent, the well intentioned, whose skills may not be up to making a brilliant idea work, and the just plain incompetent. With absolutely no investor protection or regulation, it is up to investors to do their homework.

The first and most important piece of advice is not to invest anything you are not prepared to lose; there is no safety net here. Key to success is the people involved.

"Look at the core people in the team," says Mr Hayter. "It needs more than an icon heading it up. You need to go beyond social media, which is just noise, to find out about the team."

But don't take anything on face value, as scammers have been known to impersonate key crypto figures, so check when social media accounts were created. Search out the forums that exist to discuss crypto and make sure you understand token economics and the process; check out the Action Fraud or FCA's scamsmart website as well.

"You're walking around the net with a briefcase full of cash and need to understand how to protect yourself," says Mr Taylor. "Get educated about the process; for example, do you understand how to 'lock' your briefcase?"

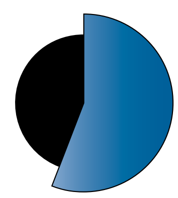
Most ICOs rely on a white paper to sell their pitch; read it very closely. "It will often focus on a problem, but not give any details about how it will solve the problem," says Mr Ellis.

In fact, read lots of white papers, since the scammers often simply cut and paste. Don't be fooled by jargon or a "buzzword salad"; if you don't understand it, don't buy. White papers should be concise and easy to read, and any that make promises of big returns, particularly alongside pictures of fast cars and luxury watches, need even more careful scrutiny.

Make sure the team is happy to undergo an audit, both of their white paper and their code as transparency and openness are a sign of good intent. Are they making an effort to comply with standard investment regulations, such as know your customer, even though there is no legal necessity to do so?

Ultimately, normal investment rules apply. Until you know your personal investment goals, your risk appetite, how long you plan to invest and what level of profit or loss you are happy to accept, you should not be putting money on the line. Don't buy what you don't understand and remember the oldest line in the rulebook: if it looks too good to be true, it is. No matter what the unknown princeling says. ◆

> "Remember the oldest line in the rulebook: if it looks too good to be true, it is

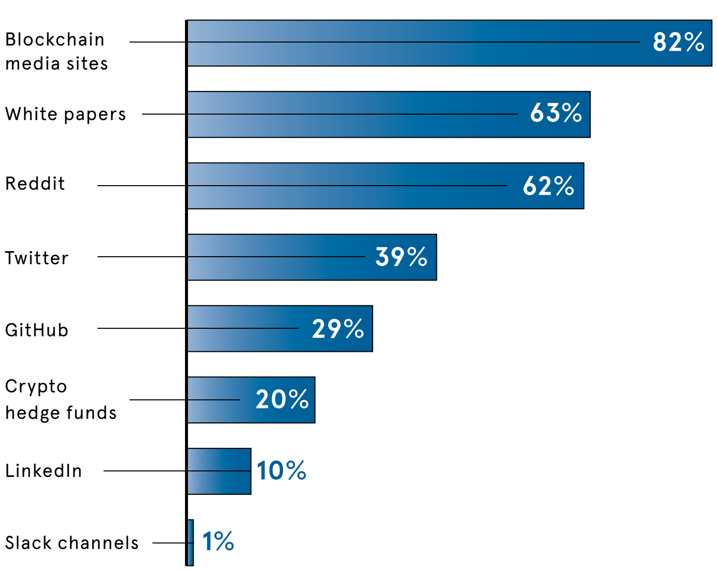


56% of crypto projects that raise money through token sales fail to survive longer than 120 days

2,390 initial coin offerings examined

Boston College 2018

What investors use to learn more about token/ICO projects



CoinDesk 2018

Commercial feature

Property P2P lending: a new choice for investors

Whether fed up with the hassle of buy-to-let or nervous of the ups and downs of the stock market, peer-to-peer lending could help

In today's turbulent environment, it might seem like the trade-off between risk and return isn't as favourable as it once was, with political and economic upheaval across the globe seeing volatility jump, according to Reuters.

Even for investors with a medium-term investment horizon of, say, five years, the risk of loss that the equity markets bring might be too much to bear.

It's why many alternative and potentially more stable asset classes have proved popular with investors over the last few years, such as energy, infrastructure or property. Investors have been hesitant in the past to consider such investments, as returns are traditionally difficult to benchmark, and they can be less liquid than the likes of equities. However, new technology is managing to overcome these barriers to entry.

Take peer-to-peer (P2P) lending, for example. By connecting those with money to invest with those looking to borrow, it allows you to target what could amount to a healthy, inflation-beating return, with less of the ups and downs of the stock market. And transaction costs are often minimal, too, with many platforms totally free to use.

Property-backed P2P lending in particular has proven popular because the loans are secured on bricks and mortar. It means, should the borrower be unable to repay the loan, the property can be sold to help pay the debt, ultimately reducing the risk to the investor.

However, remember that your capital will still be at risk and investments in property can be affected by market conditions.

The P2P sector came to being in 2005 and has seen dramatic growth since. In 2015, it was also approved to be included within the ISA wrapper, so interest earned through eligible P2P platforms can now be tax free. In 2016 alone, people in the UK invested £3 billion through P2P lending platforms, according to a 2017 report by *MoneyWise*.

Octopus Choice is one example. It enables everyday investors to invest their money in a diversified portfolio of property loans. To reduce the potential for downside, all loans are made with a maximum loan-to-value ratio of 76 per cent, although the current July 2018 average is closer to around 61 per cent. This means the value of the asset would need to fall quite some way before any capital would be lost.

What's more, Octopus invests 5 per cent of its own money in every loan and this is put at risk ahead of an investor's. It's totally free to use, too, and you're able to request a withdrawal at any time, but it's important to note that with any of these sorts of offerings, instant access can't be guaranteed.

So far, Octopus Choice has helped more than 5,600 people invest more than £196 million, earning £5.27 million in the process. Although it must be noted that past performance is not a reliable indicator of future results. And P2P lending, like all investments, comes with risks. Octopus Choice is not a cash savings account; your capital is at risk and interest is not guaranteed. You may get back less than you put in.

Is the property ladder leading you nowhere?

P2P lenders are also expecting an influx of interest from the unsettled buy-to-let sector. A raft of new legislation introduced in 2016 may have dramatically reduced the appeal of being a landlord. Stamp duty was increased by 3 per cent for those buying second homes, while landlords were told they are no longer able to make tax deductions for wear and tear.

Furthermore, higher-rate taxpayers are now unable to offset their mortgage interest against rental income, when calculating the amount of tax to pay. *The Financial Times* reported in June that already buy-to-let is falling in popularity as a result of these tax changes.

And it's not hard to see why. Research from Octopus in May shows that if house prices grow at 2 per cent a year and not 3 per cent, and the buy-to-let property in question is yielding 4.5 per cent, the investor could lose money after all costs are incurred. Whereas data from the Bank of England suggests yields are now at their lowest since records began in 2001.

With some buy-to-let investors beginning to see a strain on their returns and all the work that can come with being a landlord starting to feel like too much effort for too little reward, it might leave some asking the question: is there a better place for me to put my money?

New choice

So, whether you're a buy-to-let landlord who has decided the returns are no longer worth the hassle of renting, or a stock market investor who's tired of the heartache brought on by the volatile stock market, the growing P2P lending sector might finally have provided the alternative you've been looking for.

Sam Handfield-Jones
Head of Octopus Choice

5.6k
people invested more than £196 million, earning £5.27 million

5%
invested by Octopus alongside investors in each loan

£3bn
invested by people in the UK last year on P2P platforms

> The growing P2P lending sector might finally have provided the alternative you've been looking for

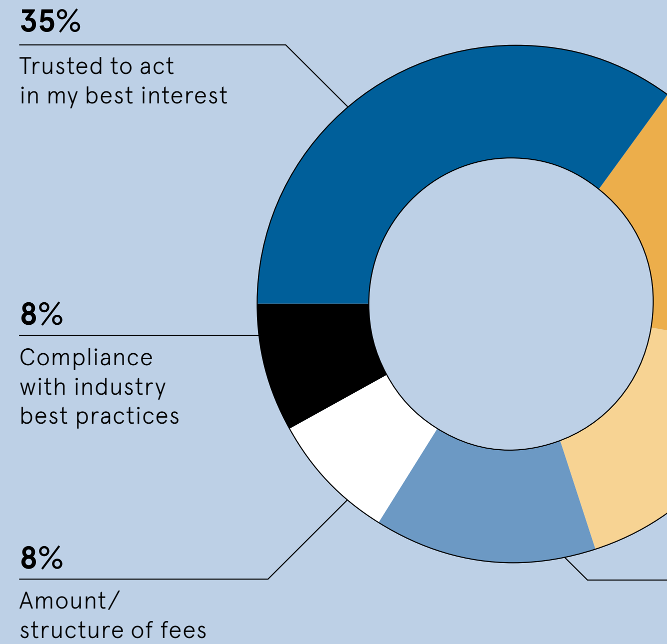
Take a look at octopuschoice.com or download the Octopus Choice app to find out more

CHOICE
by octopusinvestments

WHAT INVESTORS WANT

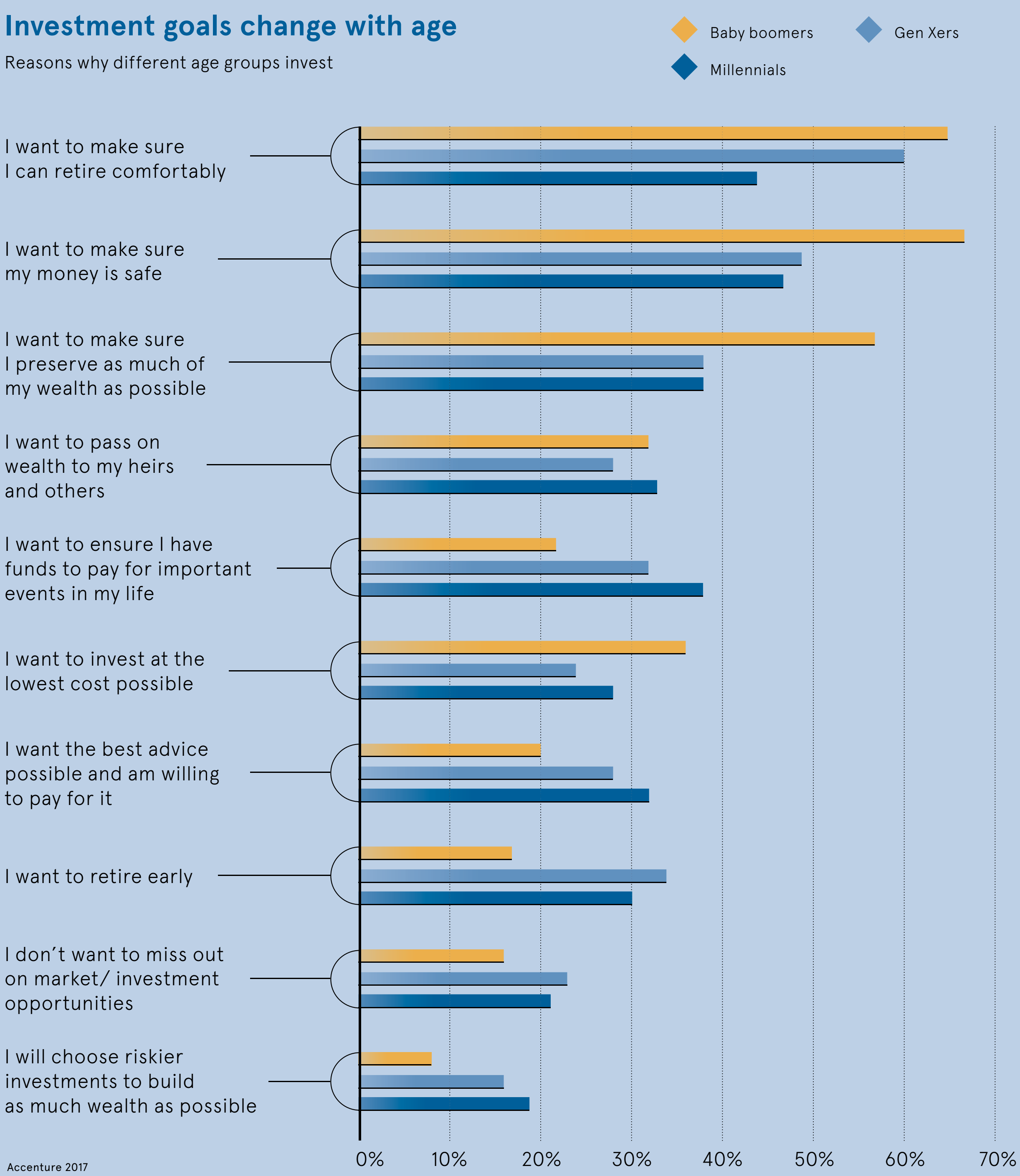
Attitudes and approaches to investing have changed dramatically over the years, and investment goals can vary wildly depending on age or geography. This infographic explores what investors want from their advisers and why they invest

Most important attribute when hiring an ad



Investment goals change with age

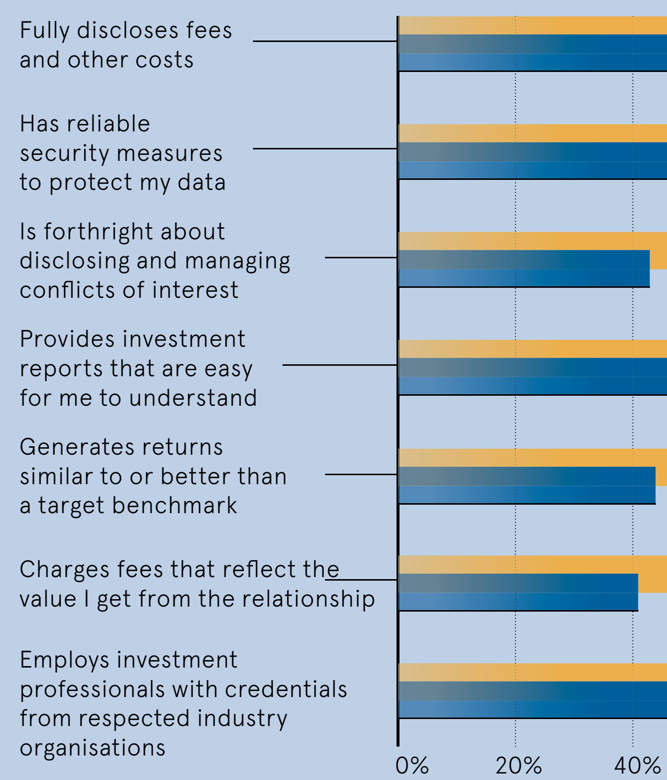
Reasons why different age groups invest



Accenture 2017

What investors look for in their advisers

Importance and satisfaction of the following factors

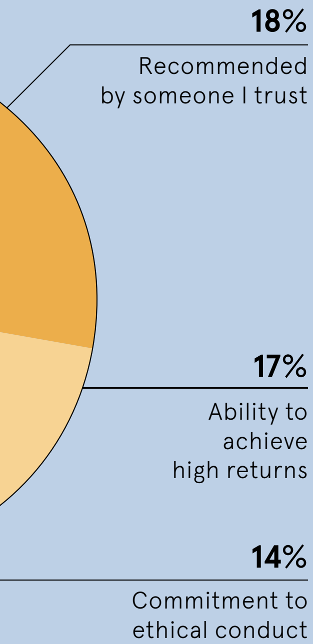


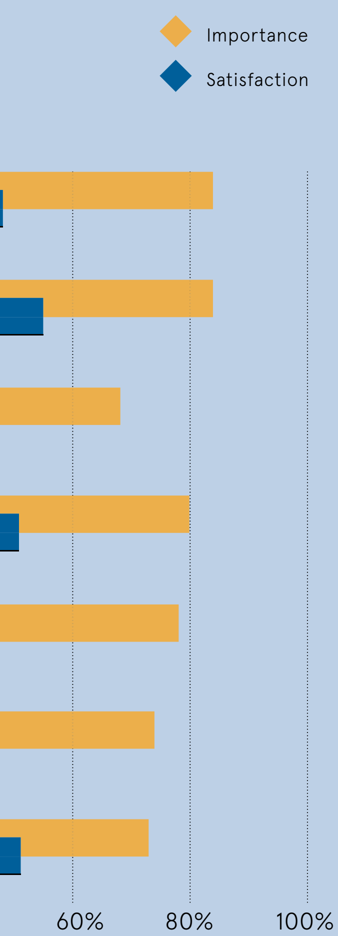
Top reasons to leave an investment mana

47%
Underperformance

43%
Lack of communication/ responsiveness

viser/asset manager





ager

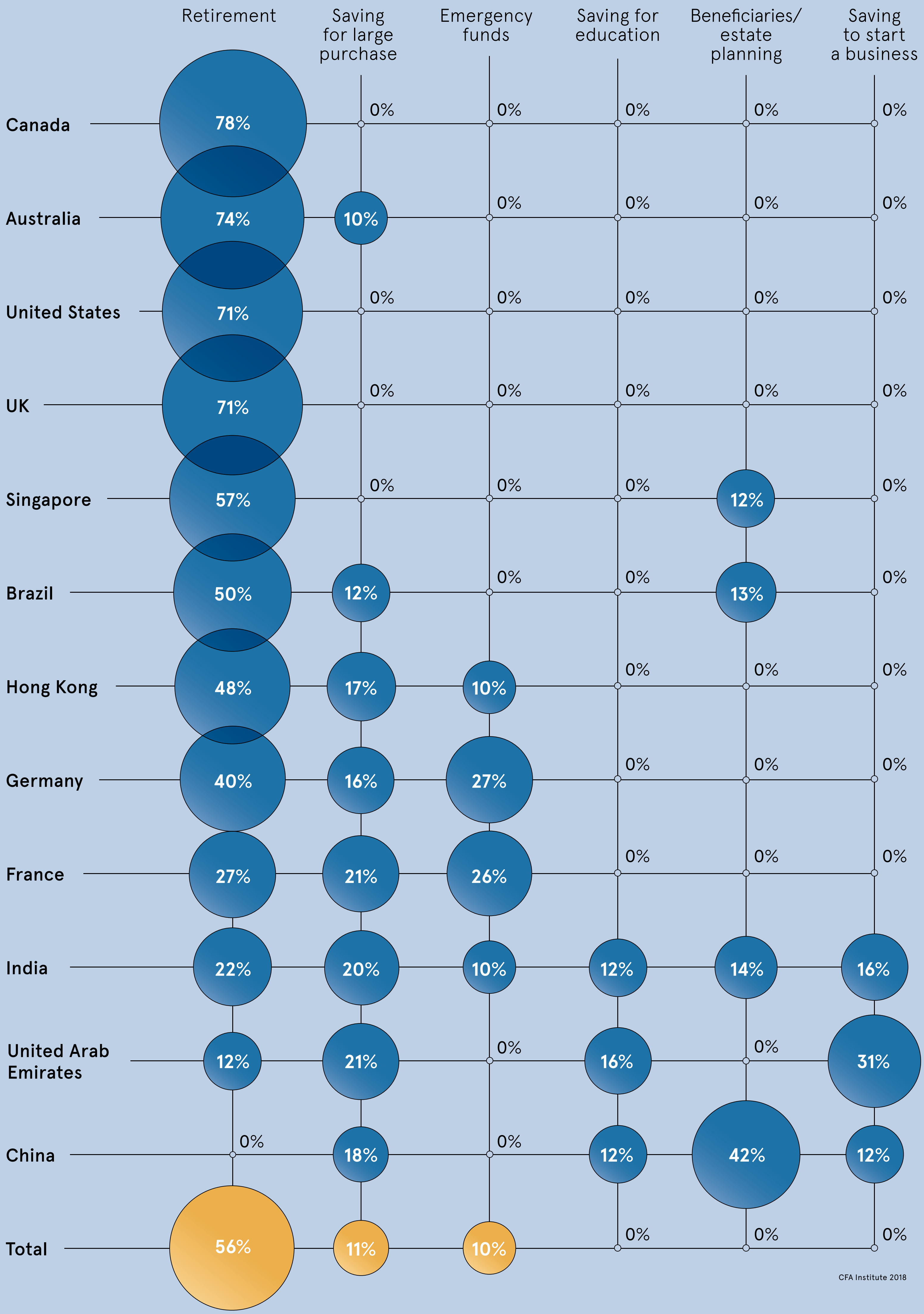
40%

Data breach

CFA Institute 2018

Investment goals vary with geography

Percentage of goals ranked first by 10 per cent or more of investors



CFA Institute 2018

SUSTAINABILITY

Jump-starting the off-grid money supply

Impact investing is a major opportunity for developing economies and provides basic services to the poorest people

HEIDI VELLA

More than a billion people still live without access to electricity, according to the World Bank. Living without this necessity has a detrimental effect on their health, education and earning potential.

The World Health Organization, for example, estimates that around 3.8 million people a year die prematurely from illness attributable to household air pollution caused by solid fuels and kerosene used for cooking.

Yet there are solutions to serve those with no access to the grid. Off-grid solar systems, battery storage and solar or bio-powered cooking stoves are transforming the lives of rural communities in sub-Saharan Africa and beyond.

Two of the most successful providers include Greenlight Planet, a for-profit firm that designs, distributes and finances solar home energy across South Asia and Africa, and ZOLA Electric, formerly Off-Grid Electric,, which uses mobile money to sell solar-powered electricity as a service.

The United Nations' Sustainable Development Goal 7 aims to ensure access to affordable, reliable and modern energy for all by 2030. Bloomberg New Energy Finance estimates that to achieve this $350 billion is needed: $130 billion for grid extension, $165 billion for micro-grids and $55 billion for solar home systems.

To achieve the goal, financing for clean energy firms like ZOLA Electric is fundamental. Yet for these start-ups, securing finance is often the main challenge.

Typically, local banks are unwilling to lend as they don't yet understand the technology, and Western investors are put off by the risk, volatility and low returns associated with working in developing nations and this frontier sector.

However, innovative finance modelling is unlocking money from financiers who are under increasing pressure to measure the carbon impact of their portfolio.

US-founded SunFunder has demonstrated a successful model for unlocking investor funds with blended finance.

The company uses what it calls "catalytic capital" from foundations and impact investors, such as Facebook and The Rockefeller Foundation, to take first risk, and diversify and reduce risk for other financiers.

"We raise funds from investors in different tranches and they receive higher or lower returns based on the risk they are taking," says Nico Tyabji, director of strategic partnerships at SunFunder, which had raised more than $62 million in debt funds by the end of 2017, while maintaining a 100 per cent repayment rate to investors.

The money the firm has raised has been invested into 37 different companies, including d.light and ZOLA Electric, as a combination of working capital, boutique structure finance and for pay-as-you-go consumer financing.

SunFunder is hailed as a leader in innovative financing for this frontier sector. However, Mr Tyabji says it has had to work hard to build a track record to attract and then combine various investors for different outcomes. What it wants to be, in the long term, is a regular asset class, but in an emerging market.

This model builds on the idea that if there is £1 billion of concessional finance from philanthropy or social impact funds, then commercial finance by a factor of 50 can be unlocked, says Giles Bristow, director of programmes at Ashden, a charity supporting pioneering sustainable energy firms.

> **"Innovative finance modelling is unlocking money from financiers who are under increasing pressure to measure the carbon impact of their portfolio**

"The question is how do you go deeper and encourage capital to the next wave of energy companies coming through?" Mr Bristow says. "We are going to need new solutions for more patient and risk-tolerant funds."

He refers to the Bank of Merrill Lynch as a good example of this. The bank has made a $125-billion ten-year commitment to finance low-carbon businesses and solutions that address climate change with green bonds, catalytic financing, equity and debt capital.

Another is KOSAP, a World Bank programme that uses a mix of grant and loan financing for remote grid development in Kenya.

New funds are being made available, but challenges for companies lie in proving their business model in regions where traditional data is lacking, and potential customers have no credit history and often no official paperwork.

"To make a safe investment, reliable data is needed to determine whether customers pay and what the default rate is and so on," says Dario Traum, senior associate from Bloomberg New Energy Finance. Fortunately, data flowing back from this nascent sector has been positive, Mr Traum says.

The advent of mobile phone payment systems, such as Angaza, which provides pay-as-you-go soft and hardware platforms to solar power sellers, are creating new data and a massive opportunity, he adds.

ZOLA Electric is a solar-as-a-service company providing clean energy to rural Tanzania and Rwanda

According to Ameya Upadhyay at Omidyar Network, a philanthropic investment firm, seeing the transaction data of ZOLA Electric and d.light supported their involvement in both companies.

Non-traditional sources of data, such as how someone uses their mobile phone, can provide information on their credit worthiness to help make a lending decision, he adds.

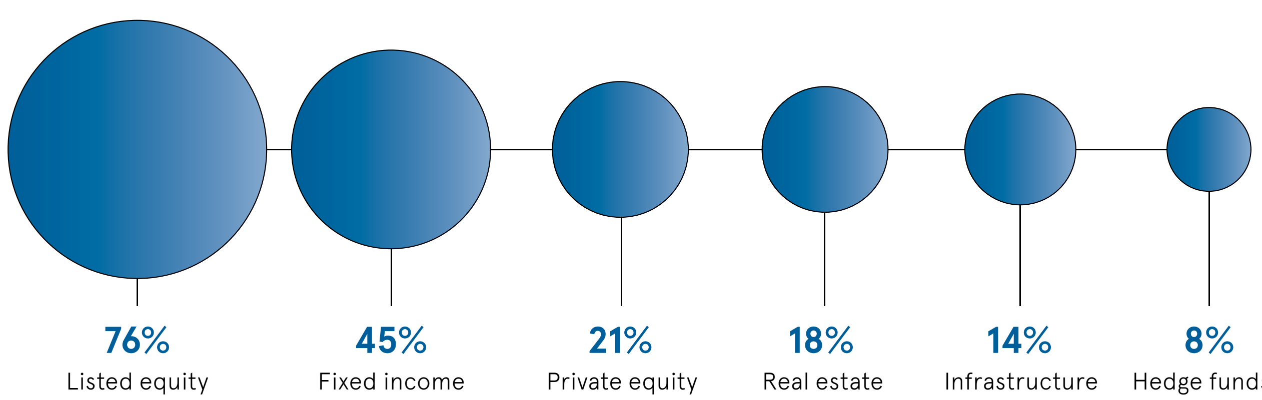
Omidyar has also invested in Pula, which uses satellite data to provide crop insurance to the unbanked and uninsured market of 1.5 billion smallholding rural farmers.

It's early days, but data, technology and innovative financing can enable new markets that benefit the unelectrified, says Ashden's Mr Bristow.

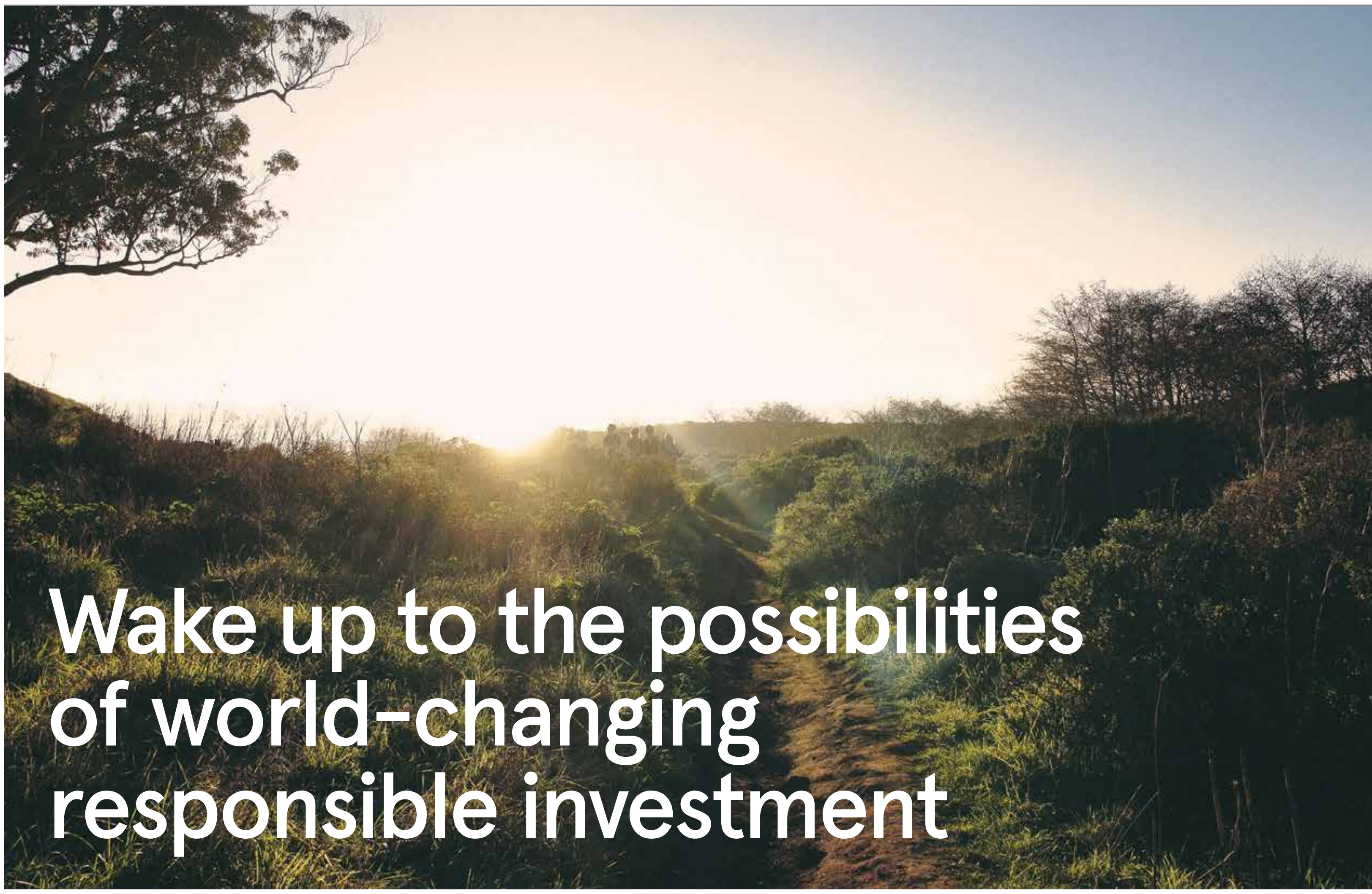
But governments, major financial institutions, philanthropy and commercial investors, as well as specialist funders, are needed to stimulate investment. "Because evidence is gathering that this sector can make money and grow globally," he points out. ◆

Most common asset classes for ESG analysis

Percentage of portfolio managers and research analysts who integrate ESG analysis into the following asset classes



CFA Institute 2017



Wake up to the possibilities of world-changing responsible investment

20%
increase in energy demand over the past ten years

174
countries agreed to collaborate to limit this century's global temperature rise to well below 2C above pre-industrial levels

66%
of European cities currently have plans in place to combat climate change

The UK has much to gain from responsible investment, says **Naïm Abou-Jaoudé**, chief executive of Candriam Investors Group

Naïm Abou-Jaoudé
Chief executive
Candriam Investors Group

Many people, fatigued by the recent scandals, volatility and vagaries of the financial markets, have lulled the investor inside themselves to sleep. Now it is time to come out of hibernation and wake up to the possibilities of responsible investment (RI), especially for investors in the UK who have some catching up to do.

Increasingly alarming daily headlines warn of the dangers of global warming, energy consumption and carbon emissions. Time is of the essence. There is only one world and everyone feels the urgency to act for change.

Consider that in 2017 Earth Overshoot Day – when humanity consumes more resources from nature than our planet can renew and regenerate in one year – was reached on August 2.

Less than a decade before, in 2008, it fell almost three months later, on October 26. The 2018 date is expected to be August 1, the earliest since records began; little wonder when energy demand has been dialled up by 20 per cent in the last ten years. Resources are being used faster than ever before. Ultimately, humans are living on credit and that is unsustainable in the long term.

Individuals, organisations, governments and public bodies around the world are finally taking a stand to combat the harsh realities of global warming and dwindling natural resources.

Following the 2015 United Nations Climate Change Conference, for instance, 174 countries agreed to do their bit to limit this century's global temperature rise to "well below 2C above pre-industrial levels" and policymakers have been increasingly supporting economic growth. Further, 66 per cent of European cities currently have plans in place to combat climate change.

In the corporate world, barely a week passes without a major announcement from a big-brand organisation about its sustainability efforts. For example, adidas sold one million pairs of trainers made from ocean waste last year, while Volvo revealed plans to cease production of all petrol and diesel cars by 2019. Even in early-July, Starbucks just announced it plans to save one billion plastic straws every year by eliminating them from its 28,000 stores around the world.

Individuals, too, are improving their consumption habits. And the finance community is also catalysing powerful change. I believe we are rapidly approaching the tipping point where RI is no longer niche, but the norm.

Allocation of capital is increasingly merging the traditional strategy based purely on value with one based on values, which is focused on sustainability and creating long-term positive impacts upon the environment and society at large. That is because a greater number of stakeholders across the globe wish to invest in this way.

It should be noted that in the UK, where in general investors still tend to place a higher value on potential financial returns, there is much potential for RI.

As the popularity of RI has mushroomed in the last five years, plenty of greenwashed participants have joined the bandwagon, looking solely to chase marketing and business objectives. Meaningful RI is possible, provided the investor uses specialist asset managers who are genuinely socially committed, savvy and innovative enough, rather than it being a marketing exercise.

It is vital for investors to discern the serious players, such as Candriam Investors Group, which boasts a 20-strong team dedicated to a granular analysis of environmental, social and governance (ESG) factors way beyond financial statements and prospects for every single investment.

> "Evidence shows there is a positive relationship between a company's ESG performance and its financial returns

Indeed, Candriam is a pioneer in this space, having launched its first RI strategies in 1996. Over the years we have significantly increased our range of RI capabilities, and right now we provide our investors with the broadest scope of RI portfolios and services in Europe. Some €30 billion (£26.5 billion), a quarter of the value of the assets we manage, is invested in institutions leading the way in sustainability.

Candriam offers a holistic approach. Our core conviction has been that investment opportunities and risks cannot be fully evaluated using traditional financial measures alone; to ensure a complete view of each organisation's prospects, it is imperative to consider its ESG practices.

Evidence shows there is a positive relationship between a company's ESG performance and its financial returns. However, it is crucial to stress that the full value created by RI funds will not be realised within six months; these are long-term commitments. They can offer good returns, but it is important not to benchmark them against investment strategies that capture short-term market effects.

Developments in climate change, wellness, electric vehicles and so on will not happen quickly. The essential longer-term view might come easier to younger investors, such as millennials, who take action with their own future in mind.

RI represents a win-win situation, though, whereby both the investor and the planet benefit. That is why leading RI asset managers, who have the knowledge and tools to identify the likely long-term winners early, are well worth seeking out.

There is great momentum for change, but time is running out. Everything is in place for sustainable growth acceleration, though the transformation at stake, for which expert asset managers can be pivotal, requires enormous amounts of funding.

Investment firms and their clients, including you, have a huge role to play in making finance great again and, moreover, improving the state of the world for generations to come.

For more information please visit candriam.co.uk

CANDRIAM INVESTORS GROUP
A NEW YORK LIFE COMPANY

Candriam's five-point commitment to responsible investment

01 Candriam's first responsible investment (RI) strategy was launched in 1996.

02 Candriam thinks holistically about investments, looking for factors way beyond those found in traditional financial statements.

03 Candriam's 20-strong, dedicated and expert RI team is one of the most important, influential and sophisticated in Europe.

04 Candriam innovates constantly with RI; recently Candriam launched the first SRI Global High Yield fund.

05 Candriam dedicates 10 per cent of its own fees from RI funds to RI research and education.

ARTIFICIAL INTELLIGENCE

Machines still need human intelligence

Artificial intelligence has been used in trading algorithms for years, but it could reap even greater efficiencies beyond the trading desk

JOEL CLARK

Walk into a hedge fund or asset management company and you will find a wide range of sophisticated technology.

At one end of the spectrum, things still feel fairly conventional. Portfolio managers make decisions on behalf of investors, wandering over to the trading desk when they need to access the markets, where dealers will size up the incoming order and call up a reliable bank counterparty to get it done on optimum terms.

Within more advanced firms, there may be none of this dialogue, as almost everything, from portfolio management to order entry and execution, is done electronically. The humans who remain are merely guardians of the machines, stepping in when markets get dicey or trades need rerouting.

This is a gradual shift that has played out over recent years as automated trading has increased, leveraging artificial intelligence (AI) and machine-learning techniques to build more intuitive systems that can make trade decisions faster than the blink of an eye. Some investment firms have embraced technology faster than others, but within the next few years, many more could find themselves moving towards the advanced end of the spectrum.

“AI offers the potential to automate very low-value repetitive tasks and provide data-driven insights on liquidity and execution, all of which can be very valuable to an investment management trading desk in seeking the best possible deal for investors,” says Matthew Hodgson, a former banker and now chief executive of data analytics startup Mosaic Smart Data.

Automated trading is not new, of course. It has been on the rise among the top investment banks for many years, with significant investment in algorithmic tools that can be used to execute trades according to certain pre-defined criteria. Traders have found they can make cost-savings and reduce market impact in certain circumstances by using smart algorithms rather than relying on human reactions.

“We have always incorporated simple machine-learning models into our execution algorithms and use of these tools on trading desks is fairly high as a means of managing the relationship with brokers, evaluating trading tools and matching them with the portfolio management objectives,” says David Mechner, chief executive of algorithmic trading provider Pragma Securities.

Given the potential for technology to create a competitive advantage, financiers often tend to create a hype bubble around particular concepts. After a long period exploring the possibilities of blockchain, it is now AI that dominates conference agendas and industry conversations. If machines can be programmed to be smarter than humans, they ask, what impact might this have on trading?

As in other sectors, AI can be used simply to save costs and create efficiencies or it could be used more aggressively to beat the competition. While AI might have the potential to replace human decision-making in fast-moving financial markets, it remains to be seen to what extent financial institutions are willing to hand over the reins to machines.

The potential for machine-based decision-making on the trading desk is now widely accepted, but some believe the investment management function may be the next frontier.

“It is at the asset managers and hedge funds that the portfolio decision-making takes place and there is an opportunity to automate that process, but this segment of the market is far more complex and fragmented than the exchanges and banks, so the transformation will take longer,” says Stephane Leroy, co-founder and chief revenue officer at algo-trading provider QuantHouse.

Bringing AI to investment management would seem to be a natural progression, however. Automation began originally at the stock exchanges where technology was first used to match buyers and sellers, and after that it extended gradually to banks with the development of automated trading strategies. But with so many more asset managers than banks, it could take many years for automation to pervade the buy side.

“The trading world is already highly automated, but applying AI to investment management is much more complicated. Markets are always changing, so the strategies that worked yesterday won’t necessarily work tomorrow, and data is much more limited,” says Mr Mechner.

A lack of reliable data could well be the sticking point in the deployment of AI beyond the trading desk, as machines rely on real-time data to make effective decisions. Without that data, an algorithm would be like an expensive sports car that remains in the garage without any fuel, says Mr Hodgson.

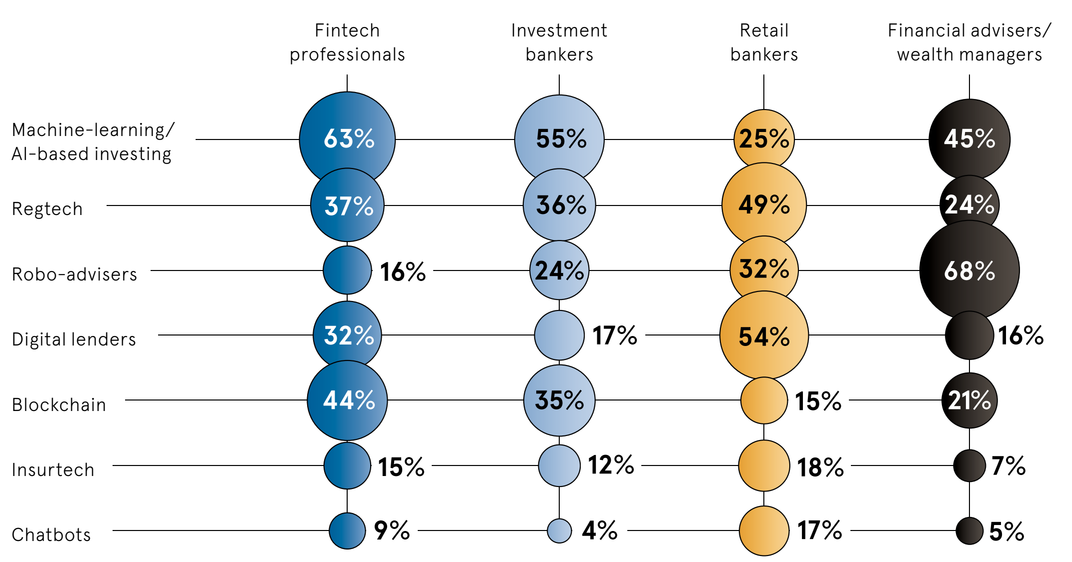
“Running AI effectively depends on having expertly designed algos that are constantly reiterated to get an optimised outcome. If you have a clean data set with common definitions of business drivers, you are in a very strong position,” he says.

Increased adoption of AI will ultimately rely on individual firms building the necessary knowledge base and embedding a culture that embraces innovation to progress and compete in modern financial markets. This could well be a gradual, generational shift.

“Knowledge will be a major barrier because investment firms don’t typically employ large numbers of engineers, and have limited experience of statistics and mathematics, which are key components of AI. Beyond the early adopters, it will be a long time before we see machines replacing humans on a widespread basis,” Mr Leroy concludes. ◆

Most important technologies disrupting the financial world

Percentage of different industries who believe the following are important to their sector



LinkedIn 2017

OPINION COLUMN

‘We need to save more in pension schemes that consider and manage ESG risks and opportunities’

There are significant changes afoot in how UK pension funds address environmental, social and governance (ESG) issues. These changes mean people’s pensions should soon be invested in ways that reflect the risks to investments from things like climate change, but also the opportunities in areas such as electric vehicles.

The driving force was a statement from the Law Commission last year that said the law requires pension schemes to consider “all financially material factors”. Such as what? Well, we already know the probable financial impact of climate change is huge. If we are to keep climate change to well below 2C then we can only burn a third of the oil owned by oil companies, so two thirds of their oil must stay in the ground.

That is clearly material to pension schemes invested in oil. More widely, the governor of the Bank of England has said that perhaps a third of the value of global shares and bonds is exposed to changes in the use of oil and other hydrocarbons that are essential. When you consider other issues – the need to use less plastic, not to deplete non-renewable resources, to treat stakeholders in all countries well and not just those in the West – the scale of value at risk from the range of ESG issues is huge.

In response to the Law Commission, the government has proposed far-reaching changes in pension schemes investment. From October 2019, trust-based pension schemes will need to say how they take account of financially material ESG considerations including climate change; outline their policy on engaging with the companies in which they are invested, typically through their fund managers; and from 2020 report on how they have done this.

For the fast-growing contract-based pensions market, the Financial Conduct Authority will consult on similar measures. These are significant changes and they should change pension investment for the better; by October 2019, more than 4,500 trust-based schemes will need to have announced their new policies.

The good news is that the UK is a world leader in ESG fund management, and pension schemes can access a wide range of approaches to managing ESG risks and opportunities. Some of these grade companies on their impact and deliberately exclude the worst, so those managers will not invest in companies that pollute or contribute heavily to carbon emission or are bad employers. Others identify areas that will benefit from the necessary changes, so they might invest client money in energy efficiency or water-saving technology.

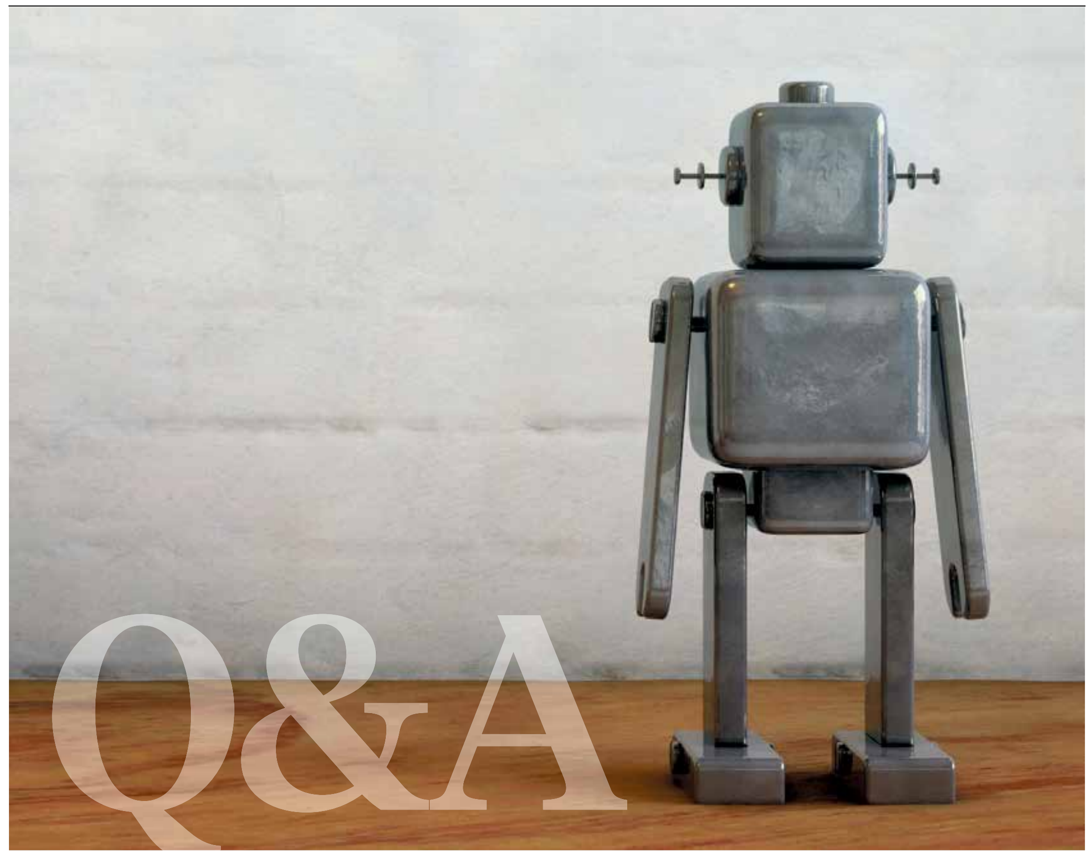
And increasingly, managers are integrating consideration of ESG factors into all aspects of their decision-making and apply this to every company no matter what its business. Pension schemes will need to look at their fund managers and identify those who “get it”. They will fund many excellent firms and they must fire those that come up short.

Another area is also developing. The Law Commission said the law allowed pension schemes to consider non-financial factors, perhaps ethical matters, as long as there was no risk of significant detriment to the scheme and the members shared the concern.

The government now plans to make pensions schemes publicly outline how they will consider members’ views. This could take us into new territory because the issues may well prove to be contentious; what if there is a vocal minority on an issue? But the direction of travel is welcome. As a nation, we need to save more in pensions, and people will probably be happier doing that in schemes that consider and manage ESG risks and opportunities and which are open to considering members’ views.

Simon Howard
Chief executive
UK Sustainable Investment and Finance Association

Commercial feature



Make robo work for you

As interest in robo-advice grows, **Anthony Morrow**, chief executive of online financial adviser evestor, says customers need accessible and affordable financial advice more than ever

For too long, mystery and mistrust have dogged the financial services industry. As a result, consumers still struggle to understand what constitutes advice, what they’re paying for and whether it is suitable for them.

In an era where we’re growing older, but worryingly saving less, we urgently need to make regulated financial advice simple to understand and accessible to everyone, regardless of income or savings pot.

Online advice has the potential to fill the advice gap and provide access to these services to the large swathe of population for whom traditional channels are too expensive or too exclusive.

However, this does not mean they should come to expect a second-rate service. There should be no difference between the services provided online and those expected from a face-to-face adviser, and customers should not be afraid to ask questions before selecting an online platform.

Is investing right for me and if so, which is the best product for my circumstances?
Alarmingly, around a quarter of people have no savings at all for a rainy day and the average person in the UK owes £8,000, on top of any mortgage debt. Providing appropriate advice is key to offering a service that meets the customer’s individual needs. This can mean telling them not to invest if they don’t yet have their financial foundations in place.

Advice should not only cover proposed investment strategies, but also the potential risks. The customer should be able to say they are fully aware of the potential outcomes, positive or negative.

How much does the service cost and what will I get for this?
Navigating the complexity of different fees and charges can be a minefield for savers. Firms still have a long way to go when it comes to fee transparency. Customers need to understand exactly what they are paying for and what the fee includes, as well as whether there is a chance of it increasing further down the line.

The best way to do this would be to banish multiple fee structures altogether. A simple all-in cost disclosed immediately on advice being given or an account opened would make it much easier for people to understand what they’re paying for, as well as to compare costs.

Are there human advisers available?
Customers must consider whether their needs can be met by a digital-only offering. Combining online with a human element can be a valuable tool in providing reassurance or validation when it’s needed. It also helps to serve customers who have more complex needs or whose circumstances may change.

What happens if I want to access my money?
Sometimes life can throw a curveball and an element of flexibility is key when it comes to investing money. While most platforms and advisers can allow almost immediate access to your investments for a fee, there are many “exotic” investments that have restrictions on when you can withdraw your money, sometimes after several years.

Before choosing a platform, it is worth finding out how long your money needs to be in your account before you can access it early and how much it is likely to cost you to do so.

Who is responsible for the decisions made?
Worryingly, many online services are simply execution only, focused on managing assets regardless of whether the customer should actually be investing at all or whether the product, and the investment risk, is right for them.

Online advice is an undoubtedly exciting development, but to be truly successful, firms must offer a proposition which engages with customers and a service that meets their unique needs.

5.4m
people occupy the affordable advice gap

Citizens Advice 2015

For more information please visit evestor.co.uk

evestor

IMPACT INVESTING

Delivering impact in investing

Profit-for-purpose organisation ClimateCare is creating mini economies that deliver social and environmental benefits in hard-to-reach areas

BENJAMIN CHIOU

Whether we like it or not, plastic is useful. And it's versatile, used daily to keep food fresh, make contactless payments, hold shopping and to brush our teeth. Yet, despite a turning point in consumer attitudes towards waste, plastic continues to litter streets, rivers and oceans, and is causing irreversible damage to the planet.

From the shocking scenes of *Blue Planet II* to global campaigns against single-use straws and disposable coffee cups, the public is waking up to the impact that plastic can have on the environment. But while a reduction in demand for excessive packaging may have a small impact at the source, prompting food and drink manufacturers to curtail their use of unnecessary material, the sheer amount of plastic leakage into the Earth's oceans continues to grow.

According to the Ellen MacArthur Foundation, 32 per cent of plastic packaging escapes collection systems worldwide and, if current trends continue, the weight of plastic in the oceans could surpass the weight of fish by 2050.

Numerous high-profile projects have been set up to scour the oceans for plastic in an effort to mitigate its impact. Making ocean clean-ups profitable, however, is another matter and could represent the Holy Grail for responsible investors, delivering a measurable benefit to the planet while making a financial return.

ClimateCare, ranked the number-one B corp in the UK, and as such is committed to rigorous standards of social and environmental performance, accountability and transparency, wants to do just that. It is developing a surprisingly simple way to commercialise the recycling of ocean-bound plastic waste in problem areas such as Nairobi and Dhaka, where rivers are constantly swamped with rubbish and drainage systems are choked with discarded material.

Much like deposit return schemes trialled elsewhere, local rubbish pickers will be paid in cash to retrieve plastic destined for rivers and hand it over to networks of recycling centres. Once recycled into pellets, companies are then encouraged to buy the materials to reuse as part of their supply chain requirements.

The plastic pellets are then sold at a fixed price to corporates, with profits split between ClimateCare and impact investors, typically high-net-worth individuals, who invested initially to get the project off the ground.

"Our job is to deliver impact," says ClimateCare's chief executive Edward Hanrahan. "We try and create that loop where the projects deliver benefits for both society as a whole and the end-consumer or corporate that would have otherwise had to pay for the impact anyway."

The incentives for corporates are clear, Mr Hanrahan says. They are taking plastic out of the system at a fixed price through long-term contracts and don't have to rely on virgin polymers, securing themselves against the potential costs from impending plastic legislation worldwide.

Then there's the obvious reputational benefit. "Each piece of plastic has a trackable provenance on it, so you can know which project it came from or which river it didn't enter," he says.

"What corporates have to understand is that they have a role in causing these large societal issues. They need to size their own impact and take a commensurate level of responsibility. Our job is to help them do that and deliver it as cost effectively as possible for them.

"Supporting our programmes helps businesses manage risk, take responsibility for their climate and social impacts, and engage staff and stakeholders with a CSR [corporate social responsibility] programme that delivers measurable, independently verified outcomes."

Meanwhile, giving those below the poverty line a living wage not only improves access to education and financial inclusion, it also builds self-serving local economies.

"There's a great opportunity to pay people on the ground to pick up the plastic where there are no waste

ABOVE LEFT
ClimateCare's CookClean project distributes efficient cookstoves that reduce carbon emissions and tackle indoor air pollution

ABOVE RIGHT
ClimateCare chief executive Edward Hanrahan


GULSHAN KHAN/AFP/Getty Images

management systems in place, creating a model where members in the community start to produce less waste and earn a living wage."

ClimateCare, founded 21 years ago, has so far deployed more than $100 million to deliver social and environmental impacts, and was originally set up to invest in carbon asset development programmes, creating markets for generating and selling carbon credits to corporations.

In a typical project, investors and concessionary finance provide the upfront capital to kick-start projects, which are either set up by local entrepreneurs or ClimateCare itself. These projects are helped off the ground and, once up and running, are commercialised through the sale of "outcomes" – recycled plastic pellets or carbon credits – at the highest possible price to corporations or governments looking to offset their own plastic usage or emissions.

"If corporates don't want to invest upfront in projects or take any risk, there's a role for impact investors to come in and provide that upfront capital and then we commercialise on the other end," Mr Hanrahan explains.

The organisation is working on a number of projects that also deliver multiple outcomes, tackling poverty, improving health and protecting the environment simultaneously. One such project is aimed at reducing the reliance in developing markets on open fires or inefficient stoves to cook food or heat homes, an everyday occurrence for more than three billion people worldwide.

In Ghana's capital Accra, ClimateCare is working with a local business to scale up production of the CookMate, an efficient stove that uses up to 50 per cent less wood and charcoal than the average stove, partly due to its "pot skirt" design, ensuring heat is delivered directly to the pot.

In addition to easing fuel bills and reducing the pressure on the country's rapidly deteriorating forests, CookMates create fewer smoky fumes that lead to indoor air pollution, which kills 13,000 people across Ghana each year. By slashing the time spent collecting fuel and cooking, tasks often performed by women, the project is also helping tackle gender inequality by reducing unpaid worktime for women. Meanwhile, a new factory has been built to produce the stoves, creating job opportunities for surrounding communities.

In total, the project is expected to help 300,000 families across Ghana by 2020, reducing carbon emissions by 130,000 tonnes a year. Carbon credits generated by the project are sold to either corporates or governments, and profits are either realised by investors or reinvested in the project.

"At the end of the day the financial elements around it for the corporate are less important than the fact that it is a real avoided emission, a real public health improvement or a real tonne of plastic taken out of ocean-bound supply," says Mr Hanrahan.

"What that does is it moves from the old aid model of payment upfront, where the public sector [or corporate] is taking the risk of delivery, to a payment-for-outcomes model. This results-based finance method removes the risk of non-delivery or wasted aid from the public sector and moves it to the private sector. I think that is a big opportunity for the social-impact world where aid or subsidies can be paid at the end."

> **If corporates don't want to invest upfront in projects or take any risk, there's a role for impact investors to come in**

So what advice would Mr Hanrahan give those thinking about impact investing? While there are lots of new technologies and exciting innovations out there looking for investment, "many of the solutions needed on the ground are low tech or proven tech", he says.

"You absolutely have to consider an impact investment in the same way you would consider any mainstream investment. Look at the track record of the company you are investing in, the management team, and the ability to deliver both the impacts and the return on investment. To deliver maximum impact you should look at tried-and-tested mechanisms that are proven in the market and can deliver measurable positive outcomes at scale." ◆

Commercial feature

Peer-to-peer lending is attracting investors

Peer-to-peer (P2P) lending is growing in popularity and has become an important asset class for future investors. More people are seeing it as an attractive alternative investment, particularly when compared to the low returns available elsewhere, says **Stuart Law**, chief executive and founder of Assetz Capital

Rising interest rates in the United States had brought hope that the UK might follow suit and improve rates for savers. But Brexit has dashed this optimism by keeping rates lower for longer here. Furthermore, Bank of England governor Mark Carney even said recently that a disorderly exit from Europe might prompt the Bank to slash rates again, not raise them.

So some of those who remember base rates at 5 per cent are realising they may not live to see them again. Furthermore, rising prices since the Brexit vote mean deposit rates are currently well behind inflation and savers are losing money in real terms.

An increasingly credible option is P2P lending, even though it is an investment, which comes with risk to capital, rather than a bank account. Assetz Capital's target rates start from 4.1 per cent gross a year and our highest-returning automatic investment account offers a target of 6.25 per cent.

£44m

of interest earned by our investors in the last five years

£13m

transferred to Assetz Capital's ISA from other ISAs since December, out of a total of more than £45 million invested

While not directly comparable, due to the differing risk profiles, the average time deposit account currently pays only 0.9 per cent, according to Bank of England figures. The £44 million interest that our investors earned in the last five years is certainly welcome in this new low-interest-rate world.

P2P lenders can offer these better rates as they have much lower overheads than traditional banks and generally deduct around 1 per cent a year from the borrower, then pass the rest to the investor.

In this context, it is not surprising that the decline in subscriptions to cash individual savings accounts (ISAs), which has been a trend since 2011, accelerated last year, according to HM Revenue & Customs figures. Our latest Investor Barometer survey also revealed that the proportion of investors who put money into cash ISAs fell from 52 per cent in quarter one this year to 37 per cent by the end of quarter two.

In contrast, Assetz Capital's ISA, which launched in December 2017, has already attracted £13 million transferred from other ISAs and more than £45 million in total.

Investing in P2P lending can help the economy too, particularly through business lenders like us. By funding small and medium-sized enterprises (SMEs) that the banks have frozen out, P2P has become a substantial source of capital for these companies, and is helping deliver new jobs and economic growth.

Funding to SMEs from the traditional banking sector has shrunk since the financial crisis and continues to fall alarmingly, most recently due to banks' uncertainty over Brexit. Rather than boosting SMEs, banks took a staggering £319 million funding out of the SME economy in the first four months of this year alone, according to Bank of England figures.

Alternative finance has been increasingly filling this funding gap for some time and now lends much more new money to businesses than the banking system. Assetz Capital is just one lender, but its new loans to SMEs were around half those of the entire traditional banking system over the last year and a half. Since we started six years ago, we have lent well over £500 million to SMEs.

There is a long way to go before P2P becomes mainstream and it still represents only a fraction of the £500 billion ISA market.

P2P lending is not a single investment solution; it should be part of an overall investment mix. If you move from a cash ISA to a P2P lending account, you are moving from savings to investment with an associated risk of capital loss. But equally many people seek a potentially higher return from their capital and want to avoid it falling behind inflation.

If you understand the risks, want fair returns, and an opportunity to support economic growth and new jobs, P2P lending is a great way to achieve it. We are part of the solution.

It is clear investors agree and are voting with their feet.

For more information please visit assetzcapital.co.uk

assetz capital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