

ESG? Just Make Things Better

I've been attending ESG conferences these last couple of months, speaking, a bit tentatively, at some of them. I've been thinking a lot about ESG and don't really know what to make of it. It seems to try to capture many things in many ways and in doing so makes things complicated and hard to do. There are too many contradictions, complications, competing needs, and dilemmas. It's too complicated for me. When I speak to other ESG investors or fund managers these days, I just ask them what they are trying to achieve. If they are trying to make things better somewhere without making a big mess somewhere else, that's good enough for me. Whether I think they can do it is another matter.

The trade-off between returns and impact has been another major topic that's increasingly come up. I used to think that ESG would make more money on a risk adjusted basis but that thinking was too theoretical. Hearing the thoughts of other investors, experts and fund managers, I've come to tweak my thinking. Or at least consider an alternative view. I do believe that any long term investment must consider all the facts and factors, environmental and social ones included. Why invest with half the picture. In shorter time frames, is it possible to abandon sustainable investing? In 2021 investing in most extractive industries like energy and metals would have made a lot of money but this could not have been foreseen. Once the risks were considered, perhaps it wouldn't have made sense to abandon environmentally conscious investing. All things considered, is it that any part of an optimal strategy is itself optimal? Mathematics suggests it must. If we buy this argument then investing sustainably must yield better financial results. What about concessionary returns then? I think this is not an investment concept. It is instead the application of business as a tool to a non-financial problem. Whereas a social or environmental problem

might be solved non commercially and funded through philanthropy or through the public purse, business presents a more efficient and lower cost solution if for nothing more than from the financial and operational discipline that business brings. So what I used to mash into a single concept is now two, in my mind. Investing commercially requires us to invest sustainably. Efficient philanthropy requires us to apply commercial discipline. To be successful at either, we need the clarity of this distinction.