ESG INVESTING

ESG must bring tangible action and change: the honest view from a 20-year veteran

Will the increase in environmental, social and governance investing really change the financial landscape? Is the current economic system capable of shifting its priorities to accommodate for "emotional" returns or will the bottom line continue to come first? Sasja Beslik, one of the world's leading voices when it comes to sustainable finance, shares his views.

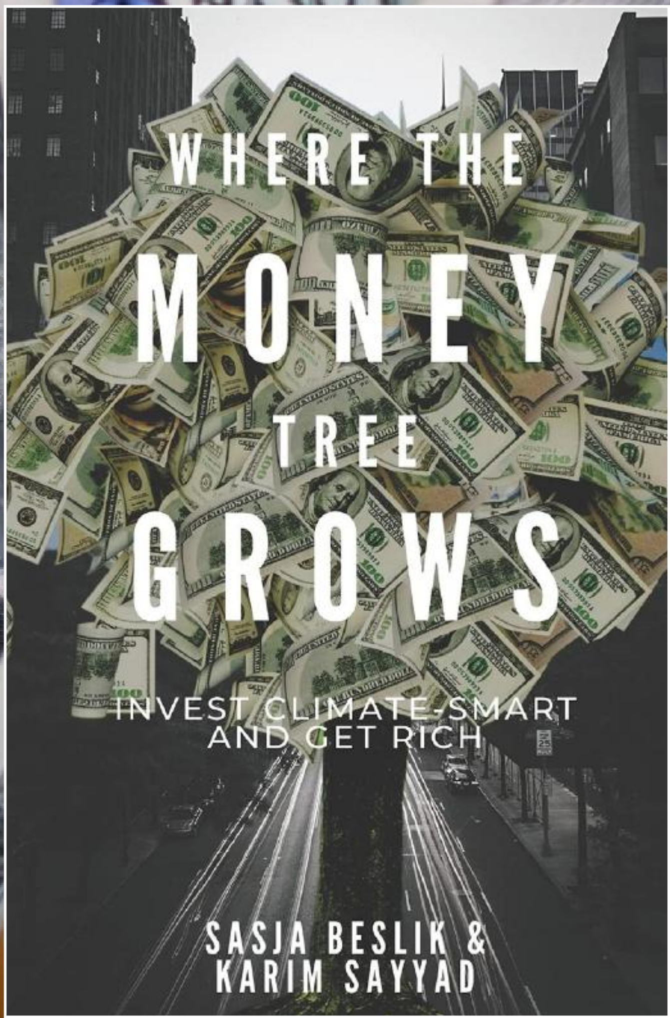
By Sasja Beslik
Senior Executive in Sustainable Finance and Author

INTRO BY JAMES OSBORNE

Sasja Beslik was on the front line of sustainable finance long before ESG (environment, social and governance investing) became the must-have strategy of the financial world and a watchword for corporate sustainability and IR professionals. Literally on the front line. With his outspoken style and deep commitment to engagement, he stands out in the ESG community for down-to-earth views on the real-world effects of the global financial system.

For sure, this didn't come from spending time with his head in economics textbooks and Excel spreadsheets: before moving into finance, he worked as a war correspondent for organizations like the Red Cross and UNICEF and then as a social impact assessment expert for oil major BP in Angola, Georgia, Nigeria and elsewhere. How this background shaped his approach to finance was evident, for example, in the 2016 protests over construction of the $3.78 billion Dakota Access pipeline in the U.S., Beslik set out for the Standing Rock Sioux Reservation on a fact-finding mission and to hear the voices of those he saw were struggling to be heard. And promptly posted them to Twitter (where he now has 200,000 followers) to raise awareness of the role of banks in financing fossil fuel infrastructure.

> **Regulation will reshape the social contract between the financial industry and societies at large.**



Where the Money Tree Grows by Sasja Beslik and Karim Sayyad is available to purchase at amazon.com

Nordea, where Beslik worked at the time, subsequently banned investment in the pipeline. His latest book, written with co-author Karim Sayyad, "Where the Money Tree Grows: Invest Climate-Smart and Get Rich" was published in August.

So who better to give us an honest perspective on where we are heading in terms of ESG and sustainable finance... and sustainable development more widely? What does he make of the recent explosion of interest in ESG and is it capable of making an impact on key topics like climate change and inclusion? What do our investment choices say about the society we want in the future? And who the hell is “we” anyway? To answer these questions, we’ve worked with Sasja to curate a selection of recent posts from his weekly newsletter ESG on a Sunday (sign up at **esgonasunday.substack.com** or on LinkedIn). Some of the posts have been edited for length.

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May 16 - One Year Of 'Esg On A Sunday'

When I started this weekly newsletter a year ago, I did not expect it to become particularly popular. But it must have hit nerve with people, because it grew fairly quickly right from the start – and it has continued with a steady growth ever since. Today, there's almost 10,000 subscribers (across Substack and LinkedIn Newsletter, the two places where I publish simultaneously).

Unbelievably, the financial sector is forced to change

Looking back at the monumental change around ESG, you can ask yourself "what were the tipping points injecting this change which will dominate the investment narrative for years to come?" I think we can say that we've witnessed a metamorphosis of a sector that obeys to one God and one God only. A sector that five years ago laughed at the notion of climate as an externality that has to be priced into investments. A sector that regarded human rights as something politicians and hippies were welcome to spend time on as long as it did not affect returns. A sector that reiterated shareholder primacy over any other interests.

When I write sector, I mean people. People are the centre of gravity in all industries, and yes, even in the financial industry. It all starts and ends with us. We build systems, we support them, we reshape them, evolve and destroy them.

We as a group, with our collective knowledge and capacity to transfer and execute insights into tangible actions, we change the world for better or for worse. Together. It is us, and this is much more profound than most of us can imagine.

© Christian Åslund / GreenpeaceProtest against Dakota Pipeline at Nordea HQ in Stockholm

How did this giant shift towards ESG happen?

Suddenly, millions of influential, wealthy and beyond imagination privileged people in the financial and corporate sectors around the world realised that "Oh, this is no good anymore.

"We need to deploy 'non-financial' metrics to understand the value of companies we invest in and run, from financial point-of-view." Just like that? Well, maybe not.

But I think one of the most relevant answers to how this has happened does not come from sudden and enormous pressure from clients (they usually don't even know what they are buying on ESG since they lack information) or from a prophetic moment in the morning-mirror for millions of people in the financial and corporate sector asking themselves how they can save the world.

If you try to track down some of the key drivers you can see the traces going back to 2008.

Politicians reacted too late and too lame, and most of the losses were paid for collectively, i.e. tax money.

After the financial crisis, politicians might have learned the lesson that self-regulation and voluntary responsibility by the financial and corporate sectors means different things to different actors.

In the climate negotiations in Copenhagen and in Paris (two of the hundreds of conferences on climate change and related consequences that I have participated in over the last 20 years) the financial industry was largely absent.

It was not there, or just there to observe. Despite its size and influence, despite its power, the financial sector does not have any climate targets discussed and agreed upon on a global level – neither from the COP negotiations, nor via any other transnational agreements.

That's changing now. It's the regulation in the EU and by now partly in the US that is the key driver behind ESG growth, both in terms of interest and in terms of assets.

Yes, those grey politicians in the different parts of the world are by all means changing the world of investments by imposing rules, sometimes in the need of improvement, yet rules that institutionalise ESG.

Not as a self-regulated nice-to-have thing you can market to clients or as an add-on. But as a law. This, if anything, is monumental, and in the years to come regulation, nothing else, forced by reality, will completely reshape the social contract between the financial industry and societies at large. It is both needed and necessary if ESG is meant to make real changes on the ground.

June 6 - who are "we"?

In the media, the social and governance elements of the climate crisis – and the systemic change we need across this beautiful planet of ours – have not yet been addressed to the extent they deserve. Yes, there have been many different statements from companies and governments, experts and scientists, very often starting with a "we". We need. We will. We believe. We doubt. We...

It's a nice way of sharing connectivity and a sense of responsibility with humanity. It has that ring of belonging, of a shared past, present and future. Yes, "we" need to feel it because it makes it easier. Same boat, same challenges, same destiny. "We" need a joint effort so "we" can save us all from ourselves...

But the question about who this "we" is, who exactly they are referring to in the many statements, is seldom addressed in the context of ESG. And it's rarely understood in a systemic sense.

Understanding the systemic transition from an efficiency point of view as well as from a real-impact point of view is a prerequisite for this process to create any tangible improvement for the people affected by this. Yes, all of us, but not really all of us, or?

Is ESG making a real difference?

The climate emergency is going to increase the existing divide between those who have resources and those who do not.

The "we" being addressed has little to do with the world's poorest communities often living on the most fragile land, politically, socially, and economically marginalized, making them especially vulnerable to the impacts of the climate emergency.

How do "they" fit into "we"? How do our investments, our ESG beacons of light and hope contribute to addressing "their" challenges? Any tangible outcomes? Any revolutionary life and habitat improvements we can show?

Last week, I had a very interesting meeting with the world's largest cocoa producer. A company that sources raw material from parts of Africa where child-labour and deforestation are endemic.

The CFO on the call looked very surprised when I asked how often they get visits from ESG investors in Africa (and they have many on the list of shareholders). The answer was short. Never. Before Covid? No.

The fundamental question that the entire ESG industry needs to face every morning the mirror is this: Are we making any real difference with these investments?

If the carbon footprint of fund X is better than the respective benchmark then that means what? For whom? In relation to what?

If 10% of a fund invests in tech leaders and we cut our portfolio emissions by X% every year then what does it mean? It sounds good, but what is the tangible outcome? For whom? If "we" invest in companies that someone has rated 'very good' with regards to human rights, and with other social issues policies in place, then what does it mean? Any results? Improvements?

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Tangible outcomes for those affected? That's what this is all about. Those are the questions we should be asking to ensure ESG is not just another tool to increase the divide, but will actually help bridge it and help secure a just transition.

July 11 - there are two types of returns...

Why is it so hard to combine real ESG with financial returns? Well, the entire point ESG is not to provide just another financial parameter to support your investment targets. Many newly baptised ESG believers still don't get this. Because the emotional part of returns is very often missing out.

All investment delivers two distinct types of return. There are the more obvious and mundane financial returns, delivering us with money to satisfy our wants and needs. But there are also hard, very hard emotional returns, the value we get from the very act of owning something. These hard emotional returns may come from a sense of satisfaction, or enjoyment, or purpose, often from the impact of we have had on the world.

A truly rational investment process should seek to maximise the combination of both financial returns and hard emotional returns, and not merely ignore the latter. Of course, we all have our own idea of purpose. For some, passing a beautiful object on to the next generation is purpose enough. For many, any investment that provides capital for others to put to productive use represents sufficient purpose to feel good about it. And for others, purpose comes only from a very specific cause that they feel strongly about.

Emotional returns may come from quietly knowing we're doing good, or from the social recognition that comes along with it. Whilst gaining social stature from doing good through our investing is perhaps less purely altruistic than doing it anonymously, it's no less valuable.

Implicit in the narrow assumption that we should maximise risk-adjusted returns is that more money is always better. And if we ignore the possibility of emotional returns this may appear to be true: the more money we have, the more we're able to satisfy our desires and aspirations.

Even if we ignore emotional returns, it is important to recognise that money is a means to an end, not the end itself. More money is valuable only because we believe it helps us get more of what we want. But what if some of what we want can already be acquired through the process of investing, rather than just from its proceeds? For those who care about supporting social or environmental progress, money is one of the means to support the causes they believe in.

We have emotions and values – also when we invest

The financially 'optimal' portfolio may be right for an emotionless robot, but is seldom the best solution for a real person. Surprise, surprise, for the financial industry. It turns out that humans have emotions. They are influenced by context and environment, and their best portfolio isn't just financially efficient, it also needs to be one that feels emotionally comfortable.

A portfolio based purely on technocratic financial reasons is unlikely to offer much comfort. Abundant evidence from behavioural finance shows that uncomfortable investors make a myriad of poor decisions along the investment journey, and achieve substantially worse returns as a result. Two of the most systematic behavioural costs are "Reluctance" and the "Behaviour Gap". So how do we acquire the emotional comfort we need? It isn't about risk and return estimates. As much as we'd like to believe in the numbers, real people rarely gain comfort from them. Instead, we decide based on stories. It's vitally important that what you invest in reflects stories that resonate with you and that you identify with. A portfolio that reflects your beliefs is what makes your investment portfolio comfortable for you, and so enables you to avoid some of the costly behavioural responses to investing.

A portfolio which expresses your values will be one you're far more likely to invest in, reducing the costs of reluctance: you are likely to invest sooner, reducing the drag of delay; and you are likely to invest more fully, leaving less of your wealth stagnant over time. But it will also be a portfolio you are more likely to stick with even as markets turn down, reducing the behaviour gap: knowing your portfolio is producing impact will make you less likely to sell in panic in stressed times.

SASJA BESLIK

Senior Executive in Sustainable Finance and Author

Sasja Beslik was born in Bosnia and Herzegovina and fled to Sweden as a refugee over 20 years ago. At the age of 20, with 20 Deutsche Mark (about $10) in his pocket and three T-shirts in a plastic bag, he arrived in Sweden.

He holds a bachelor's degree in journalism and economics at Stockholm University, and worked for several years as a war correspondent for the Red Cross and UNICEF — among other organizations.

Sasja was previously Head of Sustainable Finance at Bank J. Safra Sarasin Sustainable Asset Management before which he was Group Head of Sustainable Finance for Nordea for 10 years. Prior to that, Sasja was Global Head of Responsible Investments & Engagement at Banco/ABN Amro. His Twitter account has over 200,000 followers. He was awarded an Order of the Seraphim medal by King Carl XVI Gustaf of Sweden for his achievements in the field of finance and sustainability in Sweden.

Co-authored with Karim Sayyad, his new book "Where the Money Tree Grows: Invest Climate-Smart and Get Rich" was published in August.

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