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Editor's note: the reference to Banor SIM has been added by the journalist.

ESG FINANCE

"The impact of sustainable investing? Only verification in the field will tell us"

by Andrea Di Turi

"*Expert Will Smith (Westbeck Capital): We check things like the quality of relationships with local communities and the "social legitimacy" of businesses*

Will Smith, Banor Capital

The impact of sustainable investing? Only verification in the field will tell us. "I've never in my entire career seen public and private capital move together on the same path quite like this", reveals Will Smith, partner at the London-based advisory firm Westbeck Capital Management. Smith, who works in Italy with Banor SIM (a member of the Italian Sustainable Investment Forum), has seen all manner of comings and goings in the finance world, having cut his teeth as a trader on the London Stock Exchange in the late 1970s. However, he's seen nothing resembling the sustainable finance boom of recent years – the "path" he refers to above, which marks the triumph of ESG. It also reaffirms today's rush to support tomorrow's sustainable economy, ecological transition and, in particular, the energy transition from fossil fuels to renewables. But the pace has to be stepped up, if United Nations Secretary General Antonio Guterres is right, commenting on the latest alarming IPCC climate crisis report.

He said in no uncertain terms that the report "must sound a death knell for coal and fossil fuels before they destroy our planet". November's COP26 will be the litmus test of whether world leaders can take the drastic decisions that are now needed. The same goes for finance. "From an investment point of view, I don't expect any new ideas", states Smith, "because it's clear which way COP26 must go. I hope that China and India will join Europe and the United States, which are spearheading the way to decarbonisation, as evidenced by their post-pandemic stimulus plans aiming first and foremost at decarbonisation targets. But what I do expect at this time are a series of announcements on climate issues, which is fine if it gets the transition question into the front page headlines. I do hope, above all, that the big winner of the summit is awareness".

Awareness that many investors seem to have already acquired, because it is they who are asking for more sustainability in finance. Or rather, demanding it. "Fund managers", he continues, "have realised that people want their investments to have a positive impact. And it's up to the managers to see that this happens while also ensuring decent returns. Because people looking at sustainable finance want investments which are aligned with their values with lower risk and good returns. And I see absolutely no reason why ESG funds can't deliver on all these counts. I can't think of an area with more growth potential than energy transition over the next 10-15 years. Let's be clear, decarbonisation is going to be hugely expensive. Moving from fossil fuels to clean energy will need an estimated one to two trillion dollars of investment per year. But it's also a huge investment opportunity".

Smith reels off many such examples of companies and sectors for whom global and increasingly accelerated energy transition represents the best guarantee of future profits for investors. A prime example is electric car battery manufacturers, which already have orders for many years to come from the world's largest car makers, because electric vehicles are the future. The same goes for producers of electric car fast charging points, whose widespread presence on roads and motorways will lead to a quantum leap forward for electric mobility. There are also the companies which make wind turbines and build wind farms, activities that are also very capital intensive. There is a problem, however, that the sustainable finance boom has only helped to amplify: greenwashing. How can investors be confident that their money is actually going where it supposed to go? And that the impact will be the one promised? Especially in a market where people are competing by saying basically, “my investment portfolio stocks are more ESG than yours”. The European response has been regulatory, with the Action Plan on Sustainable Finance. Perhaps, though, that's not enough yet because, as we all know, every law has a loophole. “It's definitely a problem”, warns Smith. We also use various external ESG rating agencies, but their ratings are often inconsistent. So, we also use our own protocols and metrics. Our experience is that ESG analysis allows you not only, for example, to steer clear of the most polluting companies, but it also helps you avoid a number of risks, since it guides you towards the best managed companies. As a responsible investor, we see it as part of our job to seek dialogue and discussion with the management of the companies we invest in, regarding major sustainability matters, such as quality of governance. Above all, we do all we can, pandemic restrictions allowing, to see for ourselves on the ground how companies behave where they have their plants in the world. For example, we check the quality of relationships with local communities and ascertain their “social legitimacy” to operate, which is fundamentally important in mining industries. Nothing can replace checking it out personally and seeing it with your own eyes”.