TALKING WITH

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Talking biodiversity and digitisation with Abbie Llewellyn-Waters, Head of Sustainable Investing at Jupiter Asset Management and Richard Romer-Lee, Chief Executive Officer at Square Mile.

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HOW DID YOU GET INTO THE INDUSTRY?

There were no stockbrokers in my family and I wasn't paritcularly aware of financial services until I took a business development role at Jupiter. It was only a few months before I realised much of the fascinating stuff was happening in investments. When an analyst position came up in 2006, I jumped at it, and I was given the opportunity to take on a green equities analyst role on the UK equity desk. At the time it was very much the hub of Jupiter's product range, with veterans of investing all around me – the likes of Tony Nutt, Philip Gibbs and Ian McVeigh. It was an extraordinary learning opportunity.

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WHY IS INVESTING SUSTAINABLY SO IMPORTANT?

The global economy is living beyond its planetary bounds and there is significant societal inequality which has been exacerbated by the pandemic. If there is to be a resilient economic framework to meet the needs of the global population, it is essential to consider a number of factors at the point of investing. These include the impact of companies and how they mitigate their environmental footprint. We also look at how they run an inclusive economic construct through their supply chain, from their employees, suppliers and customers.

WHAT MAKES A SUCCESSFUL SUSTAINABLE INVESTMENT FUND MANAGER?

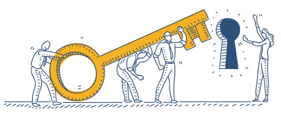
It's hard to decide capital allocation without owning research. This is a fundamental part of our investment approach, and a core part of our authenticity. If a client challenges us on a stakeholder aspect I want to be fully informed to be able to answer without having to defer to somebody else for an explanation of how we arrived at a certain conclusion. Part of this is access to companies' CEOs and CFOs so they can answer questions, rather than sustainability specialists in the company. I like the management team to give me an indication of these issues. Even asking very simple questions can tell you a huge amount about their cultural integrity of some of the stakeholder balance areas.

HOW DID YOU BECOME INVOLVED IN RESPONSIBLE INVESTING?

I worked on the environmental solutions range for the first ten years. It was very exciting to be able to work on something which I was passionate about. In 2017 I stepped off to design and launch the Global Sustainable strategy which was to serve a different client need.

HOW DO YOU WEIGH UP THE VARIOUS CONSIDERATIONS IN MAKING DECISIONS TO INVEST?

We focus on materiality and the relevance of considerations for each business, but it's not a scorecard approach. Does the management team understand the materiality of the impact of the business, its social licence and has it done something to adapt and lead transition? When looking at natural capital and biodiversity, for example, we started with water intensity, as it is measurable, as a key input into our framework. If we look at semiconductor manufacturing, it is very water intensive as each layer of wafer of a semiconductor must be washed for all impurities, which can use huge amounts of water. We wanted to invest in those companies with the highest water efficiency among their peer group as we anticipate water will eventually become commoditised. The better businesses own systems that are less reliant on fresh water. That's just one example, we also look at culture. Companies with more progressive policies tend to have happier workforces, be more productive, have loyal customers, resilient revenue and generate more attractive economic return over a cycle.



HOW DO YOU DEFINE SUSTAINABILITY?

It's the highest quality companies leading the transition to a more sustainable world. We define high quality by those companies who balance the needs of three key stakeholders: the planet, upon which we depend; people, with whom we all coexist; and profit, which we all require for our long-term savings. The overarching sustainability objective is to invest in those companies who mitigate the environmental impact and support an inclusive economic framework. We don't only invest in the solutions – other parts of our business do that. Instead, we invest in companies implementing solutions, which is much more behavioural focused and challenging, hence the need for as much transparency as possible.

WHERE ARE YOU INVESTED?

There are three large structural positions.

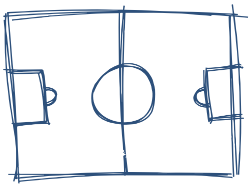
1. We like preventative healthcare companies enhancing patient outcomes with an overall reduction in healthcare costs borne either by state or individual. Think vaccines, diagnostics and monitoring equipment.

2. Secondly, financial inclusion, with a focus on digitisation of cash, such as mobile payments. There are over 1 billion adults who still remain outside of traditional financial services. In order to address this social inequality, we look to invest in financial innovation.

3. Thirdly, digitalisation of an industry which enhances resource efficiency – machine vision systems, industrial automation, processes and software solutions.

WHERE ARE YOU LOOKING TO INVEST NEXT?

We are embedding biodiversity more meaningfully into our framework. The first iteration of the Taskforce on Nature-related Financial Disclosures (TNFD) has recently been launched. There's also the upcoming COP15 convention for biological diversity – we're interested in the guidelines on deforestation. Following recent academic consultation, we have focused on deforestation on a direct and supply chain basis. We engaged across the portfolio on how companies are thinking about deforestation. It led us to do a fact-finding review of our investments. For example, a Brazilian bank who brought in wrongful deforestation – which occurs at the rate of a football pitch every 60 seconds – as a covenant to their loans to companies with footprints in the Amazon basin.



WHAT SHOULD INVESTORS LOOK FOR WHEN CHOOSING A SUSTAINABLE FUND?

Transparency. Funds should be able to demonstrate how clients' savings are supporting the transition to a more sustainable world. For instance we produce a very thorough annual Impact Report to help our clients understand their investment footprint.

WHAT CAN INDIVIDUALS DO TO MAKE A DIFFERENCE?

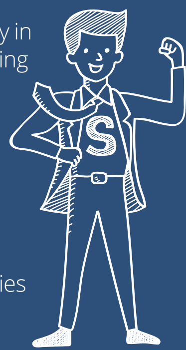
Easily the most powerful action is to align your pension to sustainable outcomes – there are trillions of dollars of investors' capital across the asset classes in pensions. If a wall of capital moves, then companies and economies will move, and broader stakeholders should be better represented. The key is to think long-term – a five-to-ten-year view at least. Some of the short-term events and knee-jerk reactions are inevitable, especially with what's going on in the world at the moment.

HOW CAN ADVISERS HELP THEIR CLIENTS SEEKING TO INVEST FOR NET ZERO?

Advisers should be able to find asset managers with a clear Net Zero target – the Institutional Investors Group on Climate Change (IIGCC) provides a framework and tool kit for the Net Zero Asset Managers Initiative. This is a good starting point to finding Net Zero alignment.

WHAT ADVICE WOULD YOU GIVE TO YOUNGER PEOPLE STARTING OUT IN FUND MANAGEMENT?

Take every opportunity to learn each day, especially in an asset class like global equities - you will be learning about cultures, countries, industries, everything. Be curious and ask questions. You have to be resilient– the markets are constantly changing. It's about controlling what you can, having and acting upon the information available to you and building experience and knowing and sticking to your investment process – particularly if it's long-term. Ultimately, we are stewards and while the role carries a lot of responsibility, it is a privilege.



WHAT SHOULD THE INDUSTRY DO TO IMPROVE FEMALE REPRESENTATION IN FUND MANAGEMENT?

Only approximately 5% of assets under management are now managed by lead female portfolio managers. It's woeful given 51% of society is female. The industry needs to commit to inclusivity and innovate ways to help address the structural hurdles women face. A good starting point is getting maternity and paternity leave to match and then encouraging and normalising participation in paternity leave. There's still low participation in paternity leave in the UK. Sweden seems to manage just fine. Another important consideration is the retention of performance track records – preserving them over periods of parental leave.

HOW DO YOU RELAX?

Spending time with my young family. We are very active and love being outdoors. Walking in the woods, exploring coastal paths, riding bikes, kayaking, open water swimming.