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Intellectual Capital Blog

Trump president: long live sustainable investing | 14 November 2016

CIO WM Research
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Given the election of Donald Trump, some have started to question the sustainability of sustainable investing (SI). In this post we argue that if one understands the drivers of the growth in SI, it becomes clear that such concerns are unwarranted.

The first point is to consider what Donald Trump, even with Congress behind him, can and cannot change as president:

- Clearly he can change a number of policies that can influence the profitability of particular industries.
- However, he cannot change the evolving expectations and demands from consumers, employees, investors and civil society.
- It is unlikely that he will able to significantly affect deeply rooted technological trends.

The reason sustainable investing has experienced such a spectacular growth in recent years is that an expanding portion of society understands the sustainability challenges the world is facing and is beginning to do more and more about it. As consumers, they are demanding sustainable behavior and products from companies. As employees, they are showing a preference for socially and environmentally responsible firms. As investors they are increasingly seeking to incorporate environmental, social and governance (ESG) factors into their investment decisions. Some investors are doing this out of conviction that it is the right thing to do, others because they want their investments to drive change for the better, and yet others because they believe that companies with satisfied customers, employees and financiers are likely to be more competitive in the marketplace.

Last week's election changes nothing in this respect. Broad ESG investing (ESG integration approaches) thus remains as relevant as before the election. Moreover, a fraction of the investment community will continue to demand impact investments that seek the double bottom line of attractive financial returns and positive impact on the environment or society. It is even possible that the election will stimulate such demand as progressive investors may view their portfolios as a substitute for policies they disapprove of. It is also conceivable that investor support for shareholder engagement and activism in ESG issues will grow.

The elephant in the room concerns some select sustainability-themed investments, which may well experience setbacks in the near term. Renewable energy, for instance, will face policy headwinds as the Obama clean power plan will likely be scrapped by the Trump administration. However, in the bigger scheme of things, this is only a temporary setback (maybe 2-3 years). Given progress made in renewable energy in recent years (costs are down approximately 80% over the last decade), it is technology and the economic rationale (cost competitiveness) for renewables that will be the key drivers over the next decade, not public policy. Investments in energy savings (energy efficiency) likewise will remain attractive because they make business sense. Nor can public policy help revive the coal industry in any meaningful way. Coal has faced the most pressure from cheap natural gas, which is expected to continue.

However, it is likely that the US will fall behind in achieving its climate goals, making it less probable that global temperature rises can be contained to 2 degrees Celsius. So far, most climate-related investments have been in climate change mitigation (preventing CO2 emissions). A Trump presidency could have the effect of focusing investor attention on climate change adaptation, i.e. increasing our ability to deal with the adverse consequences of climate change. Potential beneficiaries could include investments in water infrastructure and resilient agriculture.

In sum, we see no stopping the trends underlying sustainable investing at this stage in its evolution. However, practitioners will likely have to adapt their strategies in some areas.

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