



Insights, Tacit Thought | Weekly Investment Insights

Sustainable Investing

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Environmental factors have become more and more important to investors as the science has highlighted the impact of their (our) actions today on future generations.

At Tacit, we spend a lot of time considering the implications of changes in peoples' behaviour on asset prices. Ultimately, demand and supply dictate prices and any change to either of these factors can lead to prices moving up or down.

Now, ultimately, the world would be in a significantly better place environmentally had oil not been a core component of so much economic activity to date. However, revenues from oil have helped many countries provide opportunities to citizens that would not have existed otherwise: Russia, Jordan, Britain et al would have significantly smaller economies today and therefore less scope to help improve the lives of their citizens over time. We must remember that the technology to provide clean energy just did not exist in 1970 when oil became a staple of the global economy.

Where we differ at Tacit from many is that we see the move to sustainability and environmental improvements as a journey. As the infamous joke goes: If I were you, I wouldn't start from here!

Every company and government will have a positive and negative impact on the world. It is just not possible to have only positive influences on the world. Microsoft, for example, has committed to reversing its carbon footprint going back to the mid-1970s, through changes in business practices going forward. This is, in itself, an acknowledgment of the damage its working practices may have had in the past. It is not impossible, improbable as it may sound, that some of the fossil fuel companies of today will become clean energy companies of the future and do something similar to Microsoft over the coming decades.

It is for this reason that our approach to Environmental and Social factors is pragmatic and forward looking. We focus on how companies and the fund managers embrace these factors and imbed them into their day-to-day processes and thinking. This embedded thinking about the flow of future capital has the consequence that the portfolios we manage have incrementally become more aligned to recognised Environmental and Social factors without us explicitly mentioning them. We prefer to focus on the impact that not including these factors could have on asset prices rather than shouting about the problems of yesterday.

A forward-looking approach such as this will, we believe, provide strong returns for clients, but also, we can be content that we have played our small part in nudging the world into a better place over time.

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