THE GREEN PAPERS

SUSTAINABLE FINANCE

GREEN TECH FESTIVAL CONFERENCE

GTF LONDON 2021
SUSTAINABLE FINANCE

GREEN TECH FESTIVAL CONFERENCE

Imagine if we could unlock the power of collective knowledge to help solve the challenges of climate change. That's the idea behind the launch of the Green Business Bootcamps which took place during the GREENTECH FESTIVAL in London on the 5th of November 2021. The following Sustainable Finance Green Papers aim to capture the key learnings, innovations and take-aways from the Finance Bootcamp hosted by Julius Bär at their stunning partner private members club, The Conduit, a stone's throw from the Royal Opera House in central London.

The Green Business Bootcamps are a set of hands-on workshops for conference attendees focussed on key sustainability topics, and were launched for the beginning of our global event series. For the launch, each Bootcamp had a different focus (energy, finance, community) and took place at three inspiring locations across London. Once attendees arrived at the locations, they were greeted with a set of three topic-themed tables, each hosted by experts from different companies. The following Sustainable Finance Green Papers represent the key learnings from the following workshops/roundtable discussions:

TABLE 1 / HIGH-PERFORMING AND GOOD FOR THE PLANET: DO WE PAY A HIDDEN PRICE FOR TRIPLE BOTTOM-LINE INVESTMENTS?

Hosts: David Durlacher, CEO, Julius Baer International Ltd; Ben Arshadi, Investment Marketing Director, Julius Bär International Ltd.

TABLE 2 / REIMAGINING CORPORATE BUSINESS MODELS SO THAT PROFIT, INPUTS AND EMPLOYMENT COMBINE TO DELIVER A SUSTAINABLE GLOBAL ECONOMY!

Host: Michael Sheren, Senior Advisor, Bank of England

TABLE 3 / HOW BEHAVIOURAL SCIENCE CAN HELP US MAKE IMPACT INVESTING MAINSTREAM.

Host: Ilona Sediha, Marketing Lead, Clim8 Invest

Note: Interested in finding out more about the Bootcamp format, check-out our recap video: https://youtu.be/anwup4YW_LI

THE GREEN PAPERS
#1 SUSTAINABLE FINANCE

GREEN TECH FESTIVAL CONFERENCE

HIGH-PERFORMING AND GOOD FOR THE PLANET:

DO WE PAY A HIDDEN PRICE FOR TRIPLE BOTTOM-LINE INVESTMENTS?

Hosts: David Durlacher, CEO, Julius Baer International Ltd.
Ben Arshadi, Investment Marketing Director, Julius Bär International Ltd.

At the first round table, CEO of Julius Baer International David Durlacher teamed up with their Investment Marketing Director Ben Arshadi weighing up if sustainable investments can really deliver equal returns compared to their classical cousins.

NO 'HIDDEN PRICE'... BUT DUE DILIGENCE DOES ATTRACT A COST

Quite quickly a consensus was reached by the participants that sustainable investments can be 'high-performing and good for the planet' and that 'you don't pay a hidden price for triple bottom-line investments'. While the performance of sustainable investments wasn't seen as a problem, one attendee contended that: "*If we do the analysis carefully, we do see that we end up paying higher fees*". David and Ben from Julius Baer then unpacked why this might be the case uncovering the fact that due to increased due-diligence, asset managers have to invest a lot more time verifying the credibility of their sustainable asset portfolios. The group also agreed that while those fees are higher, in the end it's not a 'hidden fee' and something that impact-driven investors should be happy to pay to see their capital used responsibly.

HAS ESG BECOME A DIRTY WORD?

ESG became a hot topic, as participants discussed the lack of transparency and need for a globally accepted framework for assessing and qualifying this often opaque asset class. A senior manager from Oxfam took the concern a step further asserting that ESG has often become a tool for greenwashing with many big bank ESG portfolios being padded out with large-scale investments in some of the world's biggest polluters. This stimulated a lively discussion about lack of regulation and oversight. Participants even compared the lack of transparency in the ESG market to the banking wild west that was afoot during the subprime crisis leading up to 2008. A globally aligned regulatory framework with clear definitions and open reporting was seen as the answer to the current crisis of trust in ESG markets.

TRUST IS KEY WITH SUSTAINABLE INVESTMENT SET TO BECOME THE NEW NORM

While efforts to create a robust regulatory framework need to continue, trust was seen as the central ingredient required to bring sustainable investment into the mainstream. Participants reinforced that having trained and dedicated specialist investment managers was essential in creating trust and will allow customers to begin to recognise the difference between legitimate institutions and greenwashed products. Going beyond this, the attendees in the final workshop summed up sustainable investment: It's not enough for sustainable investment to become a minimum standard or best practice, sustainability needs to become so integral to our investment world that the term itself becomes obsolete. As Ben from Julius Baer aptly summed up:

> There was a time when everybody was talking about digital marketing. Positions in digital marketing died out, because it's become so central to the job, that we just call that marketing. I'd like to see a future where 'sustainable investment' no longer needs to exist because investment itself has become truly sustainable.

DAVID DURLACHER, CEO OF JULIUS BAER INTERNATIONAL ADDRESSES THE BOOTCAMP AUDIENCE.

GREEN TECH FESTIVAL CONFERENCE

REIMAGINING CORPORATE BUSINESS MODELS –

SO THAT PROFIT, INPUTS AND EMPLOYMENT COMBINE TO DELIVER A SUSTAINABLE GLOBAL ECONOMY!

Host: Michael Sheren, Senior Advisor, Bank of England

After a presentation that generated great discussion and interest, Michael Sheren followed up by handing over the reins to participants and encouraged them to rethink entrenched business and economic models to create new approaches to help solve our climate crisis.

TRANSFORMING FINANCIAL MARKETS

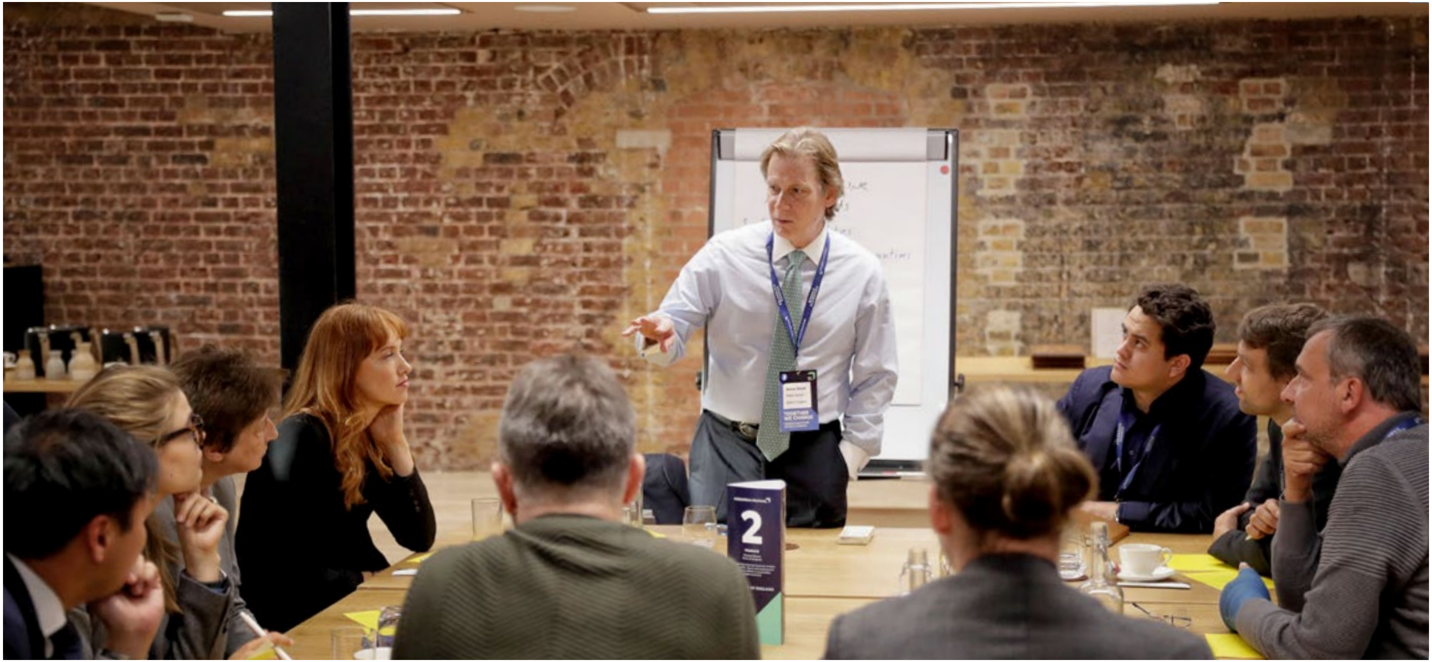
It was first agreed that success for sustainable global economies rests on systemic transformation. To achieve this, participants saw the need for the 'channelling of funds' towards projects/companies that show good environmental credentials. Pension and equity funds were one investment area that were seen as being ripe for sustainable transformation. This investment class often operates with limited customer input/oversight, however, it was identified that customers are increasingly demanding transparency and expect to know how their capital is being spent. Regulations, negative incentives (taxes) and incentives (subsidies) were seen as essential in 'levelling the playing field' after what was seen as decades of investment and support for industries that are destroying the environment.

HOW SHOULD WE BE USING FUNDS?

The discussion then pivoted to how funds should be used in an ideal sustainable financial model. Classical economics came under fire with its use of 'externalities' to write off the 'unintended or intentionally unmeasured' costs being seen as a weak cop out. 'Price Externalities' was the call from the crowd with one investment banker from JP Morgan saying: 'in the end, the use of externalities in economics is just an excuse for bad mathematics!'. Incentives and negative incentives came up again as did the need for us to carefully weigh-up the ethical implications of the financial products we choose. Investment in Green Tech was addressed and interestingly, after a poll of the table of around 12 participants, only 2 indicated that they were actively investing in this area. Finally, a leading natural capital investor from Malaysia mentioned the huge potential of allocating true value to nature. As he pointed out, carbon credits just scratch the surface. The deeper social, cultural and national value derived from protecting and realistically pricing living natural resources will be a growing trend as their real value begins to be recognised.

DEEP CHANGE AND TAXES WELL SPENT

A resounding agreement across groups was the need for deep political change and in particular governmental commitments that go beyond the next election cycle. The implementation of a universal carbon tax was seen as paramount to lasting success revolutionising business and economies. Funds generated from a carbon levy could be reinvested to support broader sustainable business and social change like modernising grid and mobility infrastructures, supporting retraining and reskilling of workers in sectors made obsolete by low-carbon economics, and large-scale investments in sustainable agriculture and land use. Overall there were lively discussions, many bright ideas and a lot of food for thought around how economies could be rebuilt to better serve our planet and the humans that share it.



MICHAEL SHEREN FROM THE BANK OF ENGLAND HOLDS HIS AUDIENCE WHILE DISCUSSING FUTURE ECONOMIC STRUCTURES.

THE GREEN PAPERS

#3 SUSTAINABLE FINANCE

GREEN TECH FESTIVAL CONFERENCE

HOW BEHAVIOURAL SCIENCE CAN HELP US MAKE IMPACT INVESTING MAINSTREAM.

Host: Ilona Sediha, Marketing Lead, Clim8 Invest

Wanting to understand how behavioural sciences can help us make impact investing cool, Ilona took a 'democracy of ideas' approach for her bootcamps. The concept allowed participants to vote in real time on which concepts should be followed up and discussed more deeply by the next group of participants (green dot stickers), and which should be left by the wayside (red dot stickers). The overarching problem that all participants focused on was the attitudinal and behavioural gap between people's concerns about climate change (over 70% of people across 17 advanced economies are concerned about climate change1) and their understanding of how much impact their savings and investments can have on the environment (only 3% think that investing sustainably is the most impactful change they can make to their carbon footprint2)

WHAT'S HOLDING PEOPLE BACK?

Firstly, the barriers to mainstream acceptance of impact investing were categorised under 'Impact Barriers' and 'Financial Barriers'. Identified impact barriers were: 1) lack of immediate feedback for positive investment actions, and 2) a perceived lack of power to change or influence sustainability issues. One participant gave a concrete example saying: 'How can I make a difference when the policies of nations like China, India and the USA are what really counts'. The final key issue was the lack of standardised and easily relatable metrics to calculate and communicate the influence of investment decisions made by consumers.

In the 'Financial Barriers' category, lack of basic financial education was seen as a key problem, with people not understanding the flow on effects of their financial and investment choices (or non-choices). A view that 'money is a dirty word' and 'something we're not open to talk about' was also put forward by several participants but received red dot stickers, showing that money is often a cultural construct and opinions differ. Green dot stickers (and agreement) fell upon the idea that Green Finance was cutting edge and therefore seen as risky and somehow untrustworthy because people implicitly (and sadly) associate profitability with exploitation. Finally, the group agreed that a critical barrier was the feeling of being overwhelmed, powerless and therefore anxious about getting started with sustainable investing.

APPLYING BEHAVIOURAL SCIENCE TO SOLVE THE PROBLEM

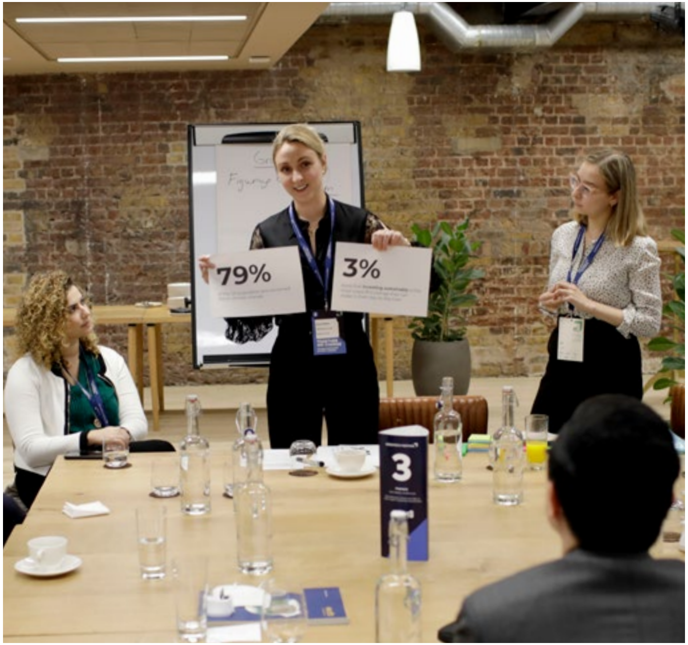
Coming into the second workshop, the new participants agreed with the findings from the first group and characterised this as society being in a state of collective paralysis. To showcase the issue through hard numbers, Ilona pointed to a recent YouGov report which found that 79% of the UK population worry about climate change, but only 3% invest in sustainable funds. With the problem laid out before them, the attendees focused on what was needed to create change. Initially it was thought that basic education could be the solution – 'simply sharp facts' were key to solving the awareness gap – but this was countered by the call for 'generative dialogues' to bring the public into the conversation to identify commonalities among diverse community members. The question was asked: 'Do we need to dumb it down to make it easy to digest?', but it was contended: 'It's really not something that's easy to dumb down'. For example: 'How do you represent a sustainable decision on Instagram?'. 'Measuring things in bananas and beer cases', said one to a chorus of laughs, but then one participant pointed out that 'we really are living in a bubble here. Here we are, a bunch of sustainability and finance experts arguing about how we can make sustainable investments cool on Instagram. We need to be asking them what they want or need to get on board.' While the group agreed that sustainable finance exists in a bubble, it was argued that 'we can reach beyond the confines of our own cage' in that we all share common values. Some of the outlined common values were: **1)** Intergenerational Compassion (young people helping old people to understand why and how to live differently); **2)** Shared Societal Values (wanting to live in a community that is safe, nurturing and reliable); **3)** Survival (we're in this together and need to trust and depend on one another). In summary, what the second group discovered over the course of their discussion is that emotions often trump facts in complex decision-making such as finance (in behavioural science it is known as the 'Affect Heuristic'), and that social norms – or what the group referred to as 'common values' – were a strong indicator of how individuals would act if given a choice.

SOLVING THE PROBLEM: ARE WE DRIVEN BY FEAR OR GOOD WILL?

The final group busied itself with solving the identified challenges: Apathy and inaction (Group 1) and the communication gap (Group 2). A challenging question was posed by Ilona on what motivates people to do something: "*Does fear drive people to action, or should we be motivating them through positive reinforcement?*". At first the group was convinced that negative messaging cannot be effective at creating lasting change and that people only take action 'while they can feel the negative effects of their current situation' (known as the 'Present Bias' in social psychology). This led to participants sticking green dots on 'positive instructions and incentives' and red dots on 'negative warnings and inducement of fear'. However, a deeper discussion followed. The closer inspection of various scenarios brought to the surface that people may need a certain level of fear and anxiety to be spurred into action. The group re-evaluated their position, proposing a 'two step approach' to activate the climate finance debate and energise the public about it. For example, pointing out the dire environmental situation at hand, and then using 'Bandwagon Effect' with the Fear of Missing Out (FOMO) messaging such as 'sustainable investment will be the biggest growth sector, get in early or it'll be too late'. However, the next step was seen as just as crucial to ensuring the longevity of behaviour and habit formation. The group proposed chunking up this big and complex issue into simple and easy steps, such as 'getting started with sustainable investment only takes 20 minutes to set up online, while making a world of difference for years to come'.

After summing up the three rounds, Ilona outlined that In addition to the storytelling and marketing campaigns discussed by the groups, gamification was an under-explored area which could be one avenue in linking the small positive steps mentioned above to reward-based behaviour change (through an impact tracker or app, for example). Overall, the current lack of mainstream interest in impact investing was seen as a huge potential, and the groups agreed that this area will see huge growth rewarding early movers in the years to come.

1. Pew Research Centre, Spring 2021
2. YouGov Research, September 2021



ILONA SEDIHA FROM CLIMATE INVEST CONFRONTS THE AUDIENCE WITH HARD FACTS.

THE GREEN PAPERS

STAY INFORMED GET INVOLVED.

If you enjoyed reading the Finance Green Paper, you may find Sustainable Community Green Paper and Energy Green Paper here. For more information about the Sustainable Business Bootcamps and to get involved in our global festival series, please follow us on: LinkedIn, Facebook, Twitter and Instagram.