

Investors ignore global megatrends at their peril - Matthew Kiernan

Written by Oliver Wagg

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Investors who ignore the world's megatrends, such as a rapidly warming climate, scarcer water supplies and intensifying health pandemics, do so at their own peril, leading socially responsible investment adviser Matthew Kiernan - founder of Innovest - has warned. *(Photo courtesy of RIAA)*

"All of us in this room I'm sure have been derided at one time or another for being essentially merchants of a risky, untested investment style, or investment philosophy," Kiernan, now CEO of Inflection Point Capital Management, told an audience of investment professionals at the Responsible Investment Association Australasia's (RIAA) 7th International Responsible Investment Conference in Sydney.

"The one message I'd like to leave with everybody is that at least in my view (SRI) is absolutely the furthest thing from a risk-laden approach," he said.

"On the contrary, the riskiest investment style I can think of it to proceed as if the megatrends that you will hear about later today aren't real, present and growing. Now that is risk."

Kiernan, who founded Innovest Strategic Value Advisers that was later sold to MSCI-owned Riskmetrics, has served as director of the World Business Council for Sustainable Development and was a senior adviser to the Secretary General of the UN Earth Summit in 1992.

"Companies are in an environment now of unprecedented complexity, transparency and the velocity of change in companies' competitive environments is something we haven't seen for decades, he said.

"Old dogs need to learn new tricks. The companies that survive in this environment will be the ones that are adaptable, nimble and strategic in their outlook. Investors need the tools to find those companies."

Kiernan talked of the emergence of a new "fiduciary paradigm", where not only are institutional investors not derelict fiduciaries for taking account of the global megatrends, but they are derelict if they don't.

Kiernan called for investors to incorporate strategically aware investing (SAI) strategies that embedded ESG across portfolios.

He went one step further, urging the audience to think beyond ESG issues and to apply a holistic approach to responsible investing across all asset classes.

"In my view, what we're all about is not necessarily ideological - it's simply common sensical," he said, calling this approach "21st century investment discipline" and not a discrete asset class.

"The logic of sustainability investing should be obvious to a 10-year-old child. But the great tragedy is you never have a 10-year-old child with you (when making investment decisions)."

Kiernan, the author of *Investing in a Sustainable World*, urged superfund trustees and boards to challenge their advisers and "restore the proper food chain" when constructing and implementing investment strategies.

"I've seen far too many boards that have been cowered and intimidated by the experts," Kiernan said. "It's your money or it's your stakeholders' money, they're working for you - it shouldn't be the other way around."

Kiernan cited the example of a *Wall Street Journal* league table that tracked the batting average (in baseball terminology) of analysts at international investment banks in 2008.

The best performing bank was Morgan Stanley, which achieved a score of 2.273, which meant its analysts got stock calls wrong more than seven out of 10 times.