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**MONEY MATTERS**

**TIMES ARE A’CHANGING – SO MUST WE – OR ELSE!**

Following on from my last article (Code Red – How savers can save the planet) a most unusual announcement has come out from a major fund house advising the closure of a long-time successful fund and its merger into a newer fund. The fund that is closing is an energy fund that has historically and successfully invested in the world’s major oil companies and companies that support them. Why close the fund? Ten years ago it had assets under management (AUM) of US$2.5 billion. But by April this year the AUM had fallen some 85% to just US$392 million.

Why would investors flee such a fund? Well, performance is undoubtedly a major factor; the fund lost money in five of the past seven years. But there is another reason. Investors have woken up to the fact that they have a part to play in saving the planet from the destructive forces we have seen this year in the form of out-of-control wildfires, violent storms and unprecedented floods that have affected all continents, widely attributed to climate change as a result of the burning of fossil fuels.

Bali has escaped these but it hasn’t escaped the pandemic as a result of which it has been one of worst affected in the world in terms of economic and social damage. But can we blame the pandemic on climate change? Perhaps not but there could well be a link between deforestation and loss of wild animals’ habitats that have brought them and their ailments into closer contact with humans. The environment is being destroyed at the same time as the burning of fossil fuels is destroying the atmosphere.

***So where has the money gone from energy funds?***

Much of it has stayed with energy but has moved from energy derived from fossil fuels to energy derived from alternative, clean sources such as wind farms and solar energy. Critics mocked their early developments saying they were less effective and more expensive than easily available and plentiful oil supplies. But that is no longer the case thanks to increased production and economy of scale. Critics will still argue that you will have no power if the sun doesn’t shine and the wind doesn’t blow. But with interconnected networks there will always be somewhere that the sun is shining or the wind is blowing.

***Energy storage and hydrogen***

A few days ago I followed an online presentation by a private but potentially public company that is investing heaviliy in energy storage plants around the UK and Ireland, with plans to expand further. This is a further key to balancing out supply and ensuring demand for electricity is ensured despite the vagaries of sun and wind.

Hydrogen and geothermal are further potential sources of energy to be exploited. With mass production, batteries are likely to become cheaper which in turn will reduce the cost of electric cars so it will not cost an arm and a leg to buy one. Owning a Tesla is not on my shopping list at the moment.

***So where else is the money going?***

While a large part is going into alternative energy funds, some of which returned up to 80% last year to investors, money is also flowing fast into any fund that focuses on the now familar ESG sector (Environmental, Social and Governance). The ‘E’ part is the most obvious investment target as it embraces everything from the protection of the land and oceans to the atmosphere and the impact of humans on climate change. The biggest threat perhaps is the rise in temperature which if not reversed, or at least halted, will result in more natural disasters and of greater intensity than we have seen this year.

But also important are the S and G parts of ESG. Savvy and responsible investors wish not only to place their money where it will benefit themselves and the planet but they also want to ensure that companies or funds they invest in are benefitting society in general, and not just a few. They want to see respect for human rights, equal opportunities irrespective of gender, orientation or race. They do not want to be associated with companies involved in child labour or with poor employment practices. They want to invest in companies that are well-governed and show responsibility towards all their partners in society, including employees, shareholders, the public in general and not to forget, the environment.

***A few caveats***

The move to ESG investing is unstoppable, particularly after the recent climate events and the backdrop of the pandemic. It is not exactly a gold rush or even a stampede, given the fact that many investors tend to stick with what they have got and what they are familiar with. Neverthess, the money pouring into ESG funds is considerable and there is always a danger of a ‘bubble’ if too much money is chasing a limited number of qualifying companies or funds. However, I think we are a long way from a bubble as there are so many fields being developed, but we should not expect a repeat of the extraordinary returns seen in 2020.

Another factor that has come into play has been ‘greenwashing’, where institutions dress up their assets a little and give a ‘sustainable’ label to the fund in order to capture a chunk of investors’ money going into the asset class. Rating companies like Morningstar help in measuring ESG but formal international standards are not yet in place. Hence there are different shades of green and a little study is advisable before selecting companies or funds.

To give an example of the ‘grey’ areas in assessing a company’s right to being considered ESG compliant, let’s consider one (any one) of the major oil companies. You might think immediately there is no way the company deserves an ESG label. But what if the company declares it is winding down its polluting oil activities and investing heavily in alternatives? I guess the answer lies in how seriously they are making the move or whether it is just cosmetic to make them look good. At least it shows they are aware that they are now in the public’s eye. I wouldn’t mind betting that the next oil company advert you see on international TV will be telling you nothing about its oil products but instead how it is focusing on alternative ‘green’ energies.

That, at least, implies we are making progress!

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