OVERCONSUMPTION

INVESTING IN CHANGE, NOT JUST PROFIT

Re-set

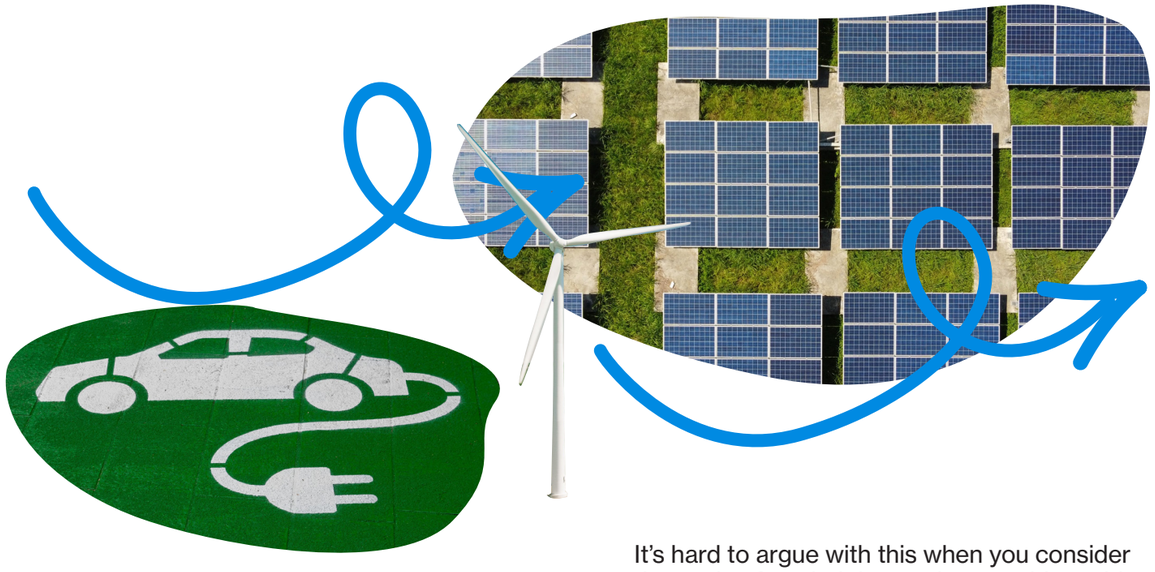
lessons from lockdown

INVESTING IN CHANGE, NOT JUST PROFIT

Switching from shopping to green investment, the pandemic saw a new wave of people putting their money to work saving the planet

For many, the onset of the pandemic disrupted the rhythm of everyday life which included, for those who had spare income, what to do with it. This forced pause led many to take stock of what resources they had and to question what they were doing with them. With shops, cafes and restaurants closed during lockdown to slow the spread of the virus, those lucky enough to keep their jobs – or even be paid to stay at home – often found themselves with more money left at the end of each month.

Surplus savings for some drove a wave of people across Europe and North America to experiment with investing – sometimes for the first time. **Over fifteen percent**[1] of current retail (non-professional) investors in the US began investing in 2020. In the UK, **22% of adults**[2] saw an increase in their ability to invest due to increased savings. The same number of adults – **over a fifth of British people**[3] – used the pandemic as an opportunity to explore ethical investing. Among under 35s, **this figure rises to 35%.**[4]



Ethical and so-called impact investing – investing in social change that benefits others – is nothing new, with its origins **traced back to the religious movement of the Quakers in the 1750s.**[5] The peculiarities of the pandemic, however, created a fertile ground for people to think and move their money so it better aligns with what's important to them. **Over half of British adults**[6] believe that carefully selecting where you put your savings is one of the best ways to protect the planet. When this question was put to 18-32 year olds, the number **rose to 58%.**[7]

It's hard to argue with this when you consider the scale of capital that savings could provide. In 2021, asset managers overseeing green funds in the UK pulled in **£4.3 billion from retail investors,**[8] the highest quarterly total since records began. In the US, between 2018 and 2020, the total amount of assets with some sustainability criteria that were being formally managed – in funds run by financial institutions, for example – **grew by 42%, reaching $17.1 trillion.**[9] Of the total $51.4 trillion in assets under management in the US, **33% are deemed to be governed in some way by environmental, social and governance (ESG) factors.**[10] In 2014, ethical investments made **up just 1% of these financial flows.**[11]

The scope to ramp this up further, however, is substantial. If all 2.4 million British people that currently hold stocks and shares ISAs – a form of tax free saving – switched to an impact investment fund, it could raise **£22 billion**[12] a year to be put to addressing the biggest challenges of our time. The need to tap into this vast reserve of capital is only going to intensify as the world emerges from the pandemic, and large amounts of investment are needed to shift whole industries towards zero emissions. The most recent research suggests the global economy needs to muster **an additional $1 trillion a year**[13] to reach net-zero by 2050.

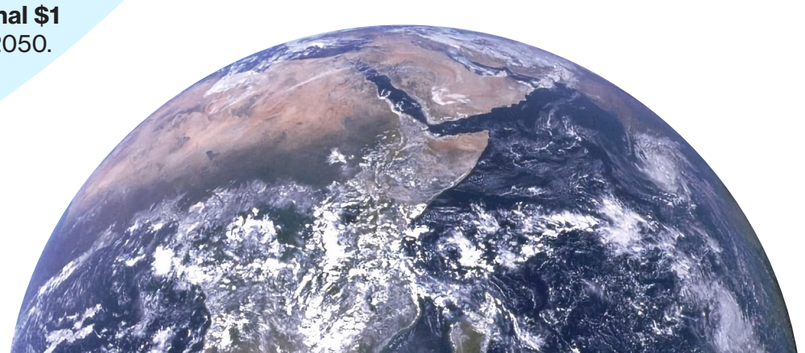
Ethical investing isn't just the reserve of younger retail investors – people old enough to be taking their pensions are flexing their financial muscles. In the UK, there is a staggering **£3 trillion invested in pension funds.**[14] Research on pensioner sentiment finds that **70% of pension savers**[15] are concerned about the ethics of their investments and want to ensure that their money is being put to the solutions of the climate crisis, not the drivers of it. This movement has been particularly strong in universities and **local authorities,**[16] where unions have helped to galvanise action and attempt to engage pension holders.

> "People are demanding that the financial institutions who manage their money, through their pensions and savings, take environmental and social issues like climate change, human rights and diversity into account and the potential impacts of this are huge. Pension funds are a large component of the financial system and a positive shift in them towards better responsible and sustainable investment policies and practices helps change the whole sector."
>
> Lisa Stonestreet, EIRIS Foundation

Big institutions and funds are also getting in on the action in response perhaps to both the clear long-term direction of travel away from fossil fuels and to growing customer demand. Nowhere is this clearer than in the world of pension funds and institutional investors, who are increasingly claiming to be committed to the full decarbonisation of their portfolios. Just last year, at the height of the pandemic, **a group of 70 pension funds from all around the world**[17] pledged to decarbonise their whole portfolios by the middle of the century, which are worth a combined $16 trillion.

Of course there are still very real concerns over the transparency and integrity of investment opportunities claiming to be sustainable, as well as worrying tales of capital earmarked as 'green' being used to prop up the very industries driving the climate crisis. But the level of interest now palpable across the world means that institutions, auditors and regulators are all rushing to provide workable frameworks for ethical and sustainable investment to build upon.

The pandemic, and the lockdowns introduced to halt its spread, gave us all a chance to reflect on how we live our lives and what we want from them. For many people this meant reflecting on where they put their money and how their money is being put to use. Ethical investing has been given a boost during the lockdowns and its importance as both an option for savers and investors, and a way of raising the capital required to transition the global economy is growing noticeably.



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