21st Century Investing

What’s in it for me? Learn to invest in ways that help – not hurt – the world.

Do you remember when the rallying cry of investors worldwide was “Greed is good”? It wasn't all that long ago – just a few decades, in fact. But now, with the social and environmental implications of unchecked greed becoming all too obvious, the cultural climate has changed. What’s more, the literal climate has changed too. That’s where these blinks come in. They’re a how-to guide for investors who want to change things, change them for the better, and change them for good. It’s not enough to divest from fossil fuels and pursue do-no-harm policies. Adding a few socially conscious companies to your portfolio doesn’t cut it either. The issues facing the world today can’t be tackled piecemeal; they need to be tackled as systems – and these blinks show us how. In these blinks, you’ll learn

why sustainable investment doesn’t go far enough; how to identify which issues to target; and how divestment helped to end apartheid in South Africa.

System-level investing strengthens the social, financial, and environmental systems that society depends on.

Close your eyes for a minute and try to imagine your average investor. What kind of person do you see? Forget about the superficial stuff like the investor’s appearance. Instead, ask yourself whether the person you’re imagining has a strong social conscience. Is this average investor altruistic and civic-minded? Are they caring and committed to changing the world for the better? Unfortunately, the answer is probably no. If the investor you imagined was self-interested, greedy, and just looking to make a quick buck, then you’re not alone. For too long, many investors have matched that caricature – and that’s where system-level investing comes in. The key message here is: System-level investing strengthens the social, financial, and environmental systems that society depends on. Too many investors have short-sighted and purely self-serving goals. They invest to maximize their returns – and, if they manage a fund, their clients’ returns. These investors comply with the law, sure. But as far as they’re concerned, that’s where their obligations to the wider world end. System-level investors, on the other hand, take a different view. Instead of focusing on short-term financial gains, they invest in ways that strengthen the systems that make human life sustainable and fair. If this sounds a lot like sustainable investment to you, that makes sense. System-level investing and sustainable investing do overlap – both have explicit environmental and social concerns, and both suggest that making a quick profit shouldn’t always be the most important thing. But system-level investors go further. They’re not necessarily fund managers or high-powered Chief Financial Officers; a dabbling hobby investor can be a system-level investor too. But what sets them apart is that they’re more active, targeted, and relentless than sustainability investors – they don't just buy shares in renewable energy companies and stop there. System-level investors campaign for new public policies to make companies get in line. They advocate for progressive industry standards. And they collaborate with like-minded investors, coming together to make change. In short, they aim at systemic solutions. Short-term gains that come at the expense of vital systems like health care, consumer safety, and climate stability are no gains at all. In fact, they're serious losses. System-level investors realize this, so they invest in ways that make our fundamental systems stronger and more resilient. We'll take a look at how they do that in the next blink.

Target your investments based on consensus, relevance, and effectiveness.

It's all well and good to say you want to strengthen the world's most vital systems – but actually putting your money where your mouth is? That's a different story. The problem isn't simply that people tend to get cold feet when their money's on the line. There's also a more fundamental issue: lots of us just don't know where to start. The thing about systems is that, by nature, they're big. And by virtue of being systems, they're also complex and interconnected. So how can you, as an investor, go about trying to change something so large and so tangled? How can you decide where to focus your investments? Well, if you stick to three main criteria, it's hard to go wrong. The key message here is: Target your investments based on consensus, relevance, and effectiveness. The first principle to bear in mind is what the authors term consensus. It's pretty straightforward. If there's widespread agreement that the issue you're examining is legitimate and important, then you can say that it meets the criterion of consensus. For example, there's general agreement that improving access to health care around the world is a worthwhile goal – in other words, there is a consensus that it's important. The second principle is relevance. This one is really a financial consideration; an issue is considered to be relevant if it has the potential to affect diverse investments in a significant way. It's not enough for an issue to threaten one single class of investments, like real estate, for example – it should have implications for a wide range of industries and different types of assets. Third, there's effectiveness. This principle amounts to asking how much influence you, as an investor, can actually have on the issue in question. How likely are you to be able to create change? Are there other like-minded investors out there you can work with? Is the public aware of the issue – and inclined to help? In short, don't choose a hopeless case; pick battles you can win. If you apply these three guiding principles – consensus, relevance, and effectiveness – you'll be well on your way to identifying the systemic issues that you can, and should, focus your investments on.

Bonds can help fund systemic improvements.

In the previous blink, we touched on the importance of assets. We said you might consider a systemic issue relevant to your investment strategy if it had the potential to affect assets of various types – not just real estate or stocks. But assets aren't simply valuable things that can fall prey to systemic changes. We can also use assets to try and make important systems more resilient, as well as to avert some of the threats that jeopardize them. Of course, assets come in many forms: venture capital, real estate, stocks, bonds, private equity, or cash. In this blink, we'll focus on just one – a type of asset with the potential to do serious good for systems and the people who benefit from them. In this blink, in other words, we’ll focus on bonds. The key message here is: Bonds can help fund systemic improvements. As you might know, a bond is a loan to a government or an organization that can itself be traded among investors. Bonds are pretty simple. Instead of going to a bank, an organization can sell bonds to raise capital. In doing so, it agrees to make both regular interest payments and to pay off the sum of the loan when the bond expires. Conventional investors like bonds because they’re a pretty secure form of investment and can be a handy way of balancing out the risk profile of a portfolio. Sustainable investors like bonds because they can help support nongovernmental organizations (NGOs) and contribute funds to the development of vital infrastructure – like transport and sanitation systems, hospitals, and schools. Naturally, these benefits also appeal to system-level investors, who go one further. System-level investors look to new forms of bonds, like the green bonds that financial institutions began to issue in 2007, as a way of financing true systemic change. These bonds fund environmental projects like sustainable transport, water treatment, and renewable energy. In fact, green bonds laid the groundwork for so-called COVID bonds – a unique type of bond designed to fund a nation’s recovery from the effects of the global coronavirus pandemic.

System-level investors should pay attention to portfolio construction and investment beliefs statements.

So far, we’ve looked at some of the principles that guide system-level investors, as well as the usefulness of bonds in funding systemic development. But what about the tools that traditional investors use? Can they be repurposed to drive systemic change? This blink shows that they can. In particular, we'll look at how portfolio construction and investment beliefs statements can be used by a system-level investor. Portfolio construction means choosing specific investments that combine to make up your portfolio. And investment beliefs statements are a type of document that financial institutions use to explain the reasons behind their investment decisions. Both concepts are familiar to even the conventional investor – but they have some unique advantages for system-level investors too. The key message here is: System-level investors should pay attention to portfolio construction and investment beliefs statements. As we mentioned, an investment beliefs statement (IBS) lays out a financial institution’s understanding of the markets and its role within them. In short, it lays out the institution’s investment philosophy in plain words. For system-level investors, this is welcome news. First of all, an individual investor can use an institution’s IBS to check whether her values align with the investment decisions it’s likely to make. Is this institution going to invest in fossil fuels, for example? Or does it show a commitment to sustainable sources of energy? In fact, a retirement fund named CalPERS, in California, does just that. Its IBS states that “responsible environmental practices are important to risk management.” It commits to “making wise use of scarce resources” and “addressing systemic risks, such as climate change.” These are the kinds of assertions that a system-level investor should be on the lookout for. And what about portfolio construction – the other element of traditional investing that we mentioned at the start of the blink? Well, it traditionally involves risk management, which means picking investments that are unlikely to lose value. For a system-level investor, systemic risks should be factored into this analysis too. For example, given the danger that fossil fuels pose to our environment, a system-level investor might consider whether investing in even the most stable oil company is truly “risk-free.”

Investors can use standards setting to demand reform.

Most investors aren't CEOs. They don’t sit on the boards of multinational companies. Their power is limited; if they want to make systemic change, they usually need to do it indirectly. The question is how to do it. Well, as we mentioned, system-level investors need to unite. They need to find a common cause, agree on a broad plan of action, and work together to see it through. You might remember that when these investors are considering which issues to tackle, one of the criteria they take into account is effectiveness. They have to ask how likely they are to succeed in bolstering a given system – and in averting the dangers that threaten its smooth running. In order to answer that question accurately, system-level investors first need to evaluate the methods they have at their disposal to influence the system. One of the most effective is what's called standards setting. The key message here is: Investors can use standards setting to demand reform. Consider the story of Reverend Leon Sullivan, a civil-rights activist who spearheaded a slew of anti-racist campaigns in the second half of the twentieth century. One of his favorite methods for tackling discrimation was standards setting. Standards setting refers to the practice of divesting from companies, industries, and countries that pursue damaging and undesirable policies. The aim is to deprive them of capital and support, which soon forces them to change their ways – for the benefit of the system as a whole. That’s exactly what Leon Sullivan did. In 1971, complaints about General Motors’ overwhelmingly white board of directors led to his appointment as the first Black board member. Within a few years, he turned his sights on effecting systemic change in South Africa – where apartheid was still in full force. At the time, GM was one of the biggest employers of Black South Africans. Disturbed by the discrimination they faced, Sullivan developed what became known as the Sullivan Principles – a simple list of requests designed to ensure Black employees were treated equally and with respect. Anti-apartheid investors refused to do business with companies that fell short of the Sullivan Principles, and a number of large US public pension funds stopped investing in any firm that obeyed the apartheid laws. It was campaigns like these that ultimately forced South Africa to pass legislation ending its policy of racial segregation. The Sullivan Principles’ success in the anti-apartheid movement show that when investors present a united front, standards setting can work.

Always question the conduct of financial managers.

If you’ve been reading the news lately, you’ll know it’s getting increasingly hard to ignore the damage that unchecked, short-term profiteering is doing to our societies and our planet. In many ways, it’s good that we’re being spurred into action. It's also a good thing that financial institutions are cottoning on and making their products and services more palatable to investors with social and environmental concerns. But sustainable investing’s sudden popularity comes with its own problems. For one, the popularity of these causes means it can be hard to distinguish between the people who really care and those who are simply riding the wave of public enthusiasm. The key message here is: Always question the conduct of financial managers. When it comes to evaluating the intentions of financial managers, there are a few important questions you should always ask. The first thing you need to know is whether a manager has an explicit and straightforward policy regarding systemic challenges. This can come in many forms. Ideally, it'll be something like the investment beliefs statements from earlier, but it doesn't have to be that cut-and-dried. A sincere commitment to system-level investing can be set out in any kind of on-the-record public statement – preferably one that's clear, actionable, and detailed. But it's your job to consider these statements with a critical eye. Exercise your judgment. Does the manager in question actually behave in accordance with her professed policies? Does she see to it that the impact of her organization is tracked and reported on? If not, be wary – her apparent commitment to systemic investing might be little more than lip service. Finally, to be worth your while, it's not enough for a financial manager to simply aim at systemic change. She needs to be able to show a record of actual success. Has the manager influenced the system positively? Has she worked with her peers, NGOs, and other stakeholders to design workable solutions? If the answer to those questions is yes, you might be onto a winner.

Final summary

The key message in these blinks is that: Investment strategies that seek to make a quick buck at the expense of society and the environment have had their day. Instead of investing at the cost of vital systems, today's investors need to find ways to strengthen them. You can do this by identifying worthwhile issues to tackle, choosing the right assets, and making use of portfolio construction and investment beliefs statements. What's more, you can also use standards setting to force industries to adopt higher standards – all while keeping the spotlight on self-professed "responsible" financial managers.