How and where will millennials invest: the missing link between RI and financial education

Breakout 1B

Brad Barber, Associate Dean and Professor of Finance, Graduate School of Management, University of California, Davis
Mikael Homanen, PhD Candidate, Cass Business School
Roger Otten, Senior Policy Advisor Investments, ABP
Michael Viehs, Associate Director, Hermes Investment Management

Moderated by Katherine Ng, Head of Academic Research, PRI
"Nobody ever asks: 'How's Wally?'"
Global risks
Planetary Boundaries &
World Economic Forum
Limitations

• Investors are “rational” and want the highest return/risk combination
  • Investors will forgo returns for ethical preferences\(^1\).

• Unsystematic risks seem unimportant; ESG

• What are the **societal impact** of collective investing according to the MPT? (e.g. climate goals)
  • Expectations of returns; time-horizon? Ability to sustain returns? A sustainable economy?

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Improving the curriculum

• **Critical thinking:** Limitations of the MPT
  - Are you “rational”? What do you care about? What is the impact of your investments?
  - Highly important global risks such as climate change, how do they impact society and the economy?

• **Awareness:** Investments shape tomorrow’s economy

• **Broader perspective:** Integration of other sciences
  - Science-based climate targets
Pipeline Impact on Current Investment Practices

• Critical thinking & Awareness -> increase pool of socially responsible investors

• Broader perspective -> Knowledge and use of other sciences
  • E.g. Energy poverty & science-based targets
Oil and gas groups must do more to support climate accord

Investors are embracing their responsibility for supporting the Paris agreement. It is time for the entire oil and gas industry to do the same.

companies in this sector to clarify how they see their future in a low-carbon world. This should involve making concrete commitments to substantially reduce carbon emissions, assessing the impact of emissions from the use of their products and explaining how the investments they make are compatible with a pathway towards the Paris goal.
Investment industry preparation

• Integrate ESG in the risk/return equation

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<th>Information</th>
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<tbody>
<tr>
<td>Tailored to WEF and planetary boundaries</td>
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<tr>
<td>Comply or Explain, SASB</td>
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<thead>
<tr>
<th>Risk preferences</th>
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<td>Option A</td>
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<th>Portfolio</th>
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A material model for the responsible investor

Matthew Worthington-Smith, University of Cape Town
The context
A model informed by South African insights
1. When and where is MPT most useful in practice?
2. What are the limitations of MPT?

The black swans of tail risk

Lonmin

Steinhoff
2. What are the limitations of MPT?

The Marikana Massacre at Lonmin mine

- The Marikana Massacre took place on the 25th Anniversary of the nation wide miners’ strike (August 2012)

- 47 total deaths including two security guards

- The Farlam Commission was initiated to investigate the lead up to the massacre

- The reasons for the tension between the miners, mine owners and trade unions were due to a lack of engagement by the mine owners with workers seeking higher pay given their appalling working conditions as well as the lack of community development around the mines.
2. What are the limitations of MPT?

The Steinhoff implosion

- Possibly South Africa’s largest corporate meltdown
- Steinhoff wiped out R200 billion rand (approx. $13.25bn) during December 2017
- The scandal arose over the auditors refusal to sign off on the financial statements and the subsequent resignation of the CEO Markus Jooste.
- This added to the scandals South African auditors were dealing with at the time, which included KPMG being complicit in the State capture.
3. How can these limitations be addressed to improve traditional financial education?
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A Material Model for the responsible investor
<table>
<thead>
<tr>
<th>Category</th>
<th>Issue</th>
<th>Materiality</th>
<th>Leadership response</th>
<th>Total score</th>
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<td>Context</td>
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<td>3</td>
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<td>Customers</td>
<td>Treatment of customers</td>
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4. How do you believe current investment practices will be impacted by the changes in the knowledge and capabilities of the talent pipeline?

- Allocate capital to more maturely managed firms
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- Allocate capital to more maturely managed firms
- Leaders will have to apply their minds to better standards of reporting
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- Allocate capital to more maturely managed firms
- Leaders will have to apply their minds to better standards of reporting
- Better ESG integration through broader research
5. Three main actions the investment industry could take to be prepared for this change.

1. Online structured training for current investment professionals
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1. Online structured training for current investment professionals

2. Developing a crowd-sourcing platform for gathering materiality information
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1. Online structured training for current investment professionals

2. Developing a crowd-sourcing platform for gathering materiality information

3. Elevate the proposed model to industry standard whereby it can gain acceptance across the global market
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Considering the two presentations in terms of likelihood, innovation and strength of impact, which is the future for responsible investment?

- Presentation 1: Saphira
- Presentation 2: Matthew
Join us for the Welcome Reception

Coaches depart at 18.45. Please gather at the hotel check in area from 18.30.