

INSIGHTS FROM CFA SOCIETY SINGAPORE

# Book Review: *21st Century Investing*



By Matt Lyons

turns”, but system-level investors go further by setting “explicit goals for their impact upon systems”.

Burckart and Lydenberg argue persuasively that systemic issues have important implications for future returns. For example, they refer to a report from the Cambridge Centre for Risk Studies which suggests that social unrest associated with unemployment among millennials could reduce the value of US equity portfolios by as much as 23 per cent.

Issues such as water quality and climate change can likewise affect investment outcomes or present a systemic risk. Investors should take heed.

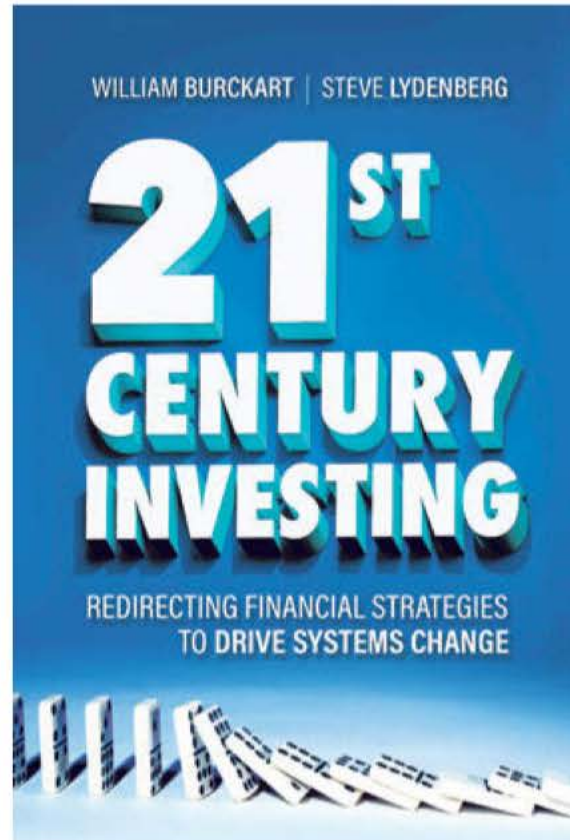
The book sets out a road map for becoming a system-level investor with six specific steps:

1. Set goals
2. Decide where to focus
3. Allocate assets
4. Apply investment tools
5. Leverage advanced techniques
6. Evaluate results

These steps are described in some detail, and examples of how best-in-class investors are currently implementing them are presented.

Essentially, system-level investing is an evolution of responsible or sustainable investing that considers not just how ESG factors affect an investor’s portfolio, but also how investors can affect the wider world, for better or worse.

*21st Century Investing* might be most valuable when illustrating theory with practical examples. It presents interesting case studies on ways in which investors focus on long-term value creation (Norges Bank Investment Management), the



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integration of ESG (Allianz), and how to influence public policy (Calpers and Aviva Investors). Clearly, what is achievable depends on size.

A “universal owner,” such as Japan’s Government Pension Investment Fund, can exert influence over external managers and other investors in ways that small investors cannot.

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worlds of sustainable and system-level investing are in comparison with that of conventional investing.

No mention is made of the more than US\$100 trillion managed by the signatories to the United Nations’ PRI (Principles for Responsible Investment) nor of how sustainable investment has reached US\$35.3 trillion in assets under management in five major markets in 2020, as reported by the Global Sustainable Investment Alliance (GSIA).

Numbers such as these would demonstrate that sustainable and system-level investment already constitute a significant part of the global investment universe.

Although the book refers to a flagship movement, much of what is discussed will already be familiar to many investors.

■ System-level investing seems closely related to impact investing, which the GSIA defines as “investing to achieve positive social and environmental impacts”

■ Portions of the six-step road map echo other frameworks, such as the PRI’s “Investing with SDG Outcomes” (Step one: identify outcomes, step two: set policies and targets, et cetera.)

■ Many of the techniques described can be found in a standard ESG toolbox. The authors put the label “diversity of approach” on actions taken by New Zealand Superannuation, but the combination of ESG integration, monitoring of managers, research, engagement, industry collaboration, and so on, reads like a standard collection of sustainable investing tools.

Little attention, moreover, is given to difficulties experienced by many sustainable investors, includ-

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ing data inconsistency and the problem of “greenwashing.”

This book deals with important issues. One of its strengths is that it clearly articulates why non-financial considerations should be included in investment analysis.

Furthermore, it presents an array of tools that can facilitate the integration of these considerations into the investment decision-making process and help the investment community play an important role in ameliorating social and environmental problems.

These tools might be familiar to experienced sustainable investors, but the book nonetheless admirably describes an evolution in investing that is likely to have a profound impact on the world in the 21st century.

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