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The shifting world of responsible investment

BNY Mellon Investment Management global head of responsible strategy Kristina Church reflects on her journey in responsible investment and the road ahead for responsible investment (RI) in a changing world.

The past decade has seen responsible investment move from a specialized niche to the mainstream. From the increasingly urgent challenges facing our global environment, to rising awareness of the importance of social equality and good governance, responsible investment themes have never been more relevant.

For BNY Mellon Investment Management global head of responsible strategy Kristina Church, RI presents myriad challenges and opportunities for global investors in a rapidly changing landscape.

Yet beyond the obvious global threats of climate change and rising inequality, she says, lie less obvious obstacles that risk impeding the success of RI strategies. These include a lack of consistent global standards and definitions, regulatory divergence across markets and a proliferation of data that can raise more questions than answers about the efficacy and true value of many investments.

World events are also helping to reshape RI thinking at a rapid rate. If a global pandemic gave cause to rethink the way we live our lives and do business, then war in Ukraine and the resulting energy squeeze have also shattered some other existing conventions. As just one example, the race to divest from fossil fuels has already switched to a more pragmatic approach to energy security which may involve their continued short-term exploitation.

Systemic influence
Yet, for all this, Church is encouraged by growing awareness of the importance of RI and its place in the wider global financial system.

“The good news is that RI and environmental, social and governance (ESG) factors are increasingly understood to be material to financial considerations and an important factor in selecting and managing investments. RI is about identifying risks and future opportunities and looking for those companies with sustainable business models.

“In turn, while ESG has stirred controversy in some quarters, even driving a political polarization in some regions of the world, particularly over terminology, it is not a political position. It is a neutral, scientifically based need to analyze the financial implications of long-term thematic disruptions to the industry.”

At BNY Mellon Investment Management, Church is charged with developing coherent messaging for a multi-firm investment management company which is also part of a multi-trillion-dollar US banking group.

Commenting on her key focus and collaborative approach, Church says: "My role is to pull together the thinking of eight separate investment firms, each with their own policies, processes and values and the autonomy to develop their own responsible investing styles. I aim to help us focus on what responsible investing means strategically to BNY Mellon IM as a whole and find ways we can harness the collective multi-trillion-dollar strength which underpins the company.
"Within this, collaboration with stakeholders is key - whether this be via advocacy on the fast-changing regulatory environment or whether it be to showcase to our clients the spectrum of RI products we can provide to help them on their own responsible investment journey."

Back to basics
Although a long established financial professional – with an early career that included time at Deloitte, Citigroup and a 10-year stint at Barclays Investment Bank - Church had not always intended to enter financial services. She started her working life by qualifying as a chartered accountant and has since found her early training has proved invaluable.

"I left university with a degree in classics and felt a financial qualification would give me a strong, practical training for the future, so I joined an accountancy firm and qualified as a chartered accountant," she says.

"In fact, this proved to be an absolutely fantastic grounding for all areas of my career. Initially, I'd thought accountancy training would focus solely on accountancy, yet it was really about wider business management as well. That early vocational qualification really helped me to understand ways to read financial statements, analyze companies and has helped me in so many other areas of finance," she says.

Church was keen to marry her interest in academic research with work on the financial side and decided equity analysis was the job that would best fit those two qualities. She consequently worked as a sell-side, equity analyst for over a decade.

While Church took a keen interest in environmental matters, she also had first-hand experience on the social side – working to help mentor and support schoolchildren from often underprivileged backgrounds.

"I was always attracted to some of the key themes which now underpin responsible investing without necessarily being able to precisely define them. From the beginning of my career, I was interested in the social side of what we now know as ESG. While working at Deloitte I started mentoring school aged children in deprived areas and that gave me a real insight into the need for greater inclusivity and diversity," she says.

One of the first reports Church wrote in the mid-2000s was on the regulation of carbon emissions in the automotive sector – a topic that would become front page financial news when the so-called 'Dieselgate' vehicle emissions scandal broke in Europe in 2015.

Later, she would switch from being a sector analyst to become a sustainable and thematic analyst, exploring sustainable mobility trends, including a growing trend away from car ownership to shared mobility and smaller vehicles. In turn this would impact sectors ranging from batteries to city infrastructure, retail and leisure.

Geopolitical challenge

At a wider level, Church is all too aware of the shifting geopolitical sands which underpin RI but still sees possible opportunity for investors able to do their homework and keep pace with change. "Responsible investment opportunities tend to follow the direction of financial flows which, in turn, generally follow the regulatory policy environment. I believe there are huge opportunities in areas such as technology designed to improve industrial efficiencies and reduce emissions.

However, these do need to be constantly analyzed, based on the prevailing macro environment and the challenges it presents. That said, I believe new opportunities will flow as funding is directed to the most urgently needed areas and capital allocation reaches them," she says.
On climate, Church fears some of the damage humankind has already done to the planet may be irreversible – and believes adaptation to our new climate may be as much of a priority for investment as reversal of climate change trends. Yet she remains hopeful the concerted effort of private and public investors, governments and non-governmental organizations such as the UN can slow the pace of further destructive change.

"Sadly, science is telling us we are at the stage of really needing to focus our efforts as much on adaptation to climate damage as on mitigation. That said, this should not stop us trying to prevent things from getting any worse. We haven't yet crossed all the planetary boundaries from a climate perspective," she says.

"We have seen some devastating effects of climate damage in the last 12 months. Hopefully that will focus more attention on the importance of finance moving in that direction and can ensure that capital flows are coming in. A just transition is also important and it is time to acknowledge that many emerging markets, in particular, will bear the brunt of climate change and need effective support in their adaptation to a changed world. It isn't too late but there is a huge amount to do and it involves everybody – including financial players such as ourselves - acting together as agents of change."

Disclosure

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There is no guarantee that any strategy that considers environmental, social, and governance (ESG) factors will be successful, or that any strategy will reflect the beliefs or values of any particular investor. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities as investors that do not use such criteria.

Recent market risks include pandemic risks related to COVID-19. The effects of COVID-19 have contributed to increased volatility in global markets and will likely affect certain countries, companies, industries and market sectors more dramatically than others.

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