“Environmental Investing”: Let’s Be Broad-Minded

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We’ve come a long way since April 2001, when then-Vice President Cheney declared that “conservation may be a sign of personal virtue but it is not a sufficient basis for a sound, comprehensive energy policy.” The current mood is almost exactly the opposite, as many people agree that sound conservation policies are essential to both our national security and our economic competitiveness.

This is therefore a great time to be launching the *Journal of Environmental Investing (JEI).* The *Journal* has an important mission, and I hope that it interprets that mission as broadly as possible.

Some people think of “environmental investing” very narrowly, as a type of investing that is explicitly and obviously environmental: trading carbon credits, making venture capital investments in clean energy companies, and so forth. However, that’s only the tip of the environmental investing iceberg, and even then there is room to pursue the issues broadly. For example, the carbon markets are immature markets whose basic rules are still evolving. The *JEI* will certainly be interested in questions about how to make money in those markets, but should also be interested in questions about how to design those markets to serve the interests of investors and of society at large. Recent problems in the United States ethanol industry and in the European carbon markets demonstrate that there will be lots of opportunities to explore issues where the profit motive intersects with crucial policy issues.

Moving down from the tip of the iceberg, “environmental investing” also includes the type of socially responsible investing that imposes environmental screens on “regular companies”: natural resource companies, manufacturers, even financial companies and retailers. Here again, the profit motive interacts with policy issues, as more and more companies conclude that good environmental citizenship is good for business. When Wal-Mart decides to reexamine its entire supply chain through an environmental lens, it’s not because tree-huggers have staged a boardroom coup. For this reason, it’s naïve to assume that a “socially responsible portfolio” is destined to underperform an “unconstrained” portfolio. Careful attention to environmental issues may be part of a sound long-term planning process that actively seeks out hidden risks, costs, and liabilities. Sometimes the markets wake up to reward companies that follow that approach.

“Environmental investing” also includes the more “theoretical” idea of looking at investment issues through an ecological lens. For example, long-term investors have to think carefully about the “sustainable spending rate” of a portfolio. This problem is essentially the same as the key challenge in fisheries management and forestry management: what is the sustainable harvesting rate? In all these cases, the critical objective is to avoid running out of fish, trees, or money. Fish and trees may even teach us a thing or two about money.

This leads naturally to the idea that the financial markets may be viewed as a complex ecosystem in which myriad species are interconnected in complex ways. Andrew Lo and other academics have pursued this line of thought, and the Bank of England has even incorporated ecological ideas in some of its thinking about how to safeguard the stability of the financial system. An earlier generation of economists, suffering from physics envy, looked to thermodynamics for inspiration; the current generation is more open to ideas from ecology, evolutionary biology, and the other life sciences. Of course, biology won’t unlock the “secret of markets,” because it doesn’t address our distinctively human powers and foibles—after all, fruit flies and chimpanzees don't have a market for credit default swaps, which saved them a lot of pain. Still, shifting attention from mechanisms to ecosystems is a step in the right direction.

"Environmental investing" isn't just carbon markets and start-up battery companies. The *JEI* thus has an exciting opportunity to define the area in broad terms that will attract contributors with a wide variety of backgrounds, interests, and prejudices. Carpe diem!

Biography

Bob Jaeger is Senior Market Strategist for BNY Mellon Asset Management, working with large institutional clients on issues related to investment policy and asset allocation. Prior to assuming this role he was Vice Chairman and Chief Investment Officer of EACM Advisors LLC, a BNY Mellon Asset Management subsidiary that acts as a "manager of managers" for institutional clients in the U.S. and around the world.

Bob has been in the investment business since 1983, when he joined Evaluation Associates, Inc., an investment consulting firm that was just starting to build an investment management business. In 1984 Bob was one of the founding members of the small investment group that eventually developed into EACM Advisors LLC.

From 1970 to 1982 Bob was a member of the faculty of Yale University. In 1982-83 he was a member of the faculty of the University of Massachusetts at Amherst. He holds a B.A. from Princeton, a B.Phil. from Oxford, and a Ph.D. from Cornell. He is the author of *All About Hedge Funds*, published by McGraw-Hill in 2002.