



AI Gore: Where Sustainable Investing Goes From Here

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by Emily Chasan

At the end of last year, sustainable investing was having its biggest moment. Climate change was a hot topic and green energy stocks were hitting new highs. Then Covid-19 hit and everything changed.

The global pandemic may be just what's required to address the environmental crisis once and for all, says former U.S. Vice President Al Gore.

Gore, as the chairman of \$19.8 billion asset manager Generation Investment Management, has been investing directly in this arena for the past 16 years. He says in this conversation with Bloomberg News's Emily Chasan that the coronavirus is unlike anything before — a once-in-a generation opportunity to rethink, reset and redesign the global economy.

Comments have been edited and condensed for clarity and length.

Emily Chasan: You work on looking at these sustainability trends all year, but just a few months ago everything stopped. Which of these long-term trends have seen significant changes during that time?

Al Gore: There is a rising awareness of the need for change. The data confirms the pandemic has triggered fundamental changes in consumer and social behavior, that's matched by an acceleration in innovation by governments and businesses. We find that there is a growing awareness that the world's collective social and economic fate is inextricably linked to that of the natural world.

EC: What has this shown you about how people change behavior and listen to scientists? Does this reveal anything about your long-time fight on climate change?

AG: The pandemic drove home that when the scientists — in this case epidemiologists and virologists — are giving you a clear warning that you have to prepare for something that's headed your way, it's best not to ignore them. Their advice can't be just brushed off.

We also find that we're going to have to reduce greenhouse gas emissions annually over the next decade by almost as much as we've seen emissions drop during the pandemic. Luckily, there are some fundamental changes in technology and business that give us an excellent chance to do this.

EC: Let's start with health then. Generation has spent a lot of time investing in the health-care space, and in some senses, this is all related to creating a planet where humans can live healthy lives. What has changed in your view on health-care investing in this period?

AG: In many ways, the burden of this crisis has fallen unequally, reinforcing and revealing, and highlighting the existing unfairness across societies. Addressing these historical injustices has to be at the center of a transition to a more sustainable future. This has triggered new thinking on social safety nets and the role of essential workers. It revealed how uneven access to treatment has an enormous impact on the life expectancy for certain groups.

Weaknesses in preparedness and the capacity to respond to the type of all-encompassing crisis we are in now have relevance beyond health care. This sustainability revolution is going to have and is beginning to have a huge impact on the health sector. Interest in direct-to-consumer health care has already quadrupled over the past five years, and in April this year, Covid-19 became one of the top five drivers of telehealth.

EC: You talk about this being an opportunity to reset, rethink and rebuild. At Generation you've been investing in these trends on people's health and planetary health for the past 16 years, often without the data available that some investors think is necessary to even get started. What are the trends you are seeing today that couldn't be imagined just even a few years ago?

AG: We were founded 16 years ago, and during the 15 years we've been managing assets, we have sought to get our

clients the best return, but to do it in a way that really promotes the idea that sustainability has to be at the core of a successful investing process. We have relied for the entirety of our existence on very deep research into sustainability data, and we have found over the years that these sustainability reports that are separate from, but paper-clipped to annual reports, are too often almost useless. But if you develop your investing team in a way that emphasizes the kind of expertise that allows you to discover the ESG factors in each sector, then you don't have to rely on reports.

Just in the past six months, we've seen both the Business Roundtable and the British Academy make fundamental changes in their definition of the purpose of a corporation — abandoning shareholder primacy and insisting on a multi-stakeholder approach. There is now voluminous research showing that in nearly every sector of the economy, businesses that fully integrate ESG factors are more profitable than their peers who do not, and investors who fully integrate ESG factors are more successful than their peers who do not. This is a sea change and one consequence, which has a bit of irony attached to it, is that investors who do not integrate ESG factors are now in serious danger of violating their fiduciary duty to their clients. ESG factors are essential to the success of any business and multi-stakeholder analysis is one of the keys to discovering where the sustainability factors are having an impact.

EC: Let's talk about the energy transition. From your perspective, has Covid-19 made that easier or more difficult?

AG: While Covid-19 unleashed a huge shock to energy markets, the sustainable energy transition should continue accelerating. Policy support in recovery plans should facilitate a managed decline for high-carbon energy and a scaling up of zero-carbon energy systems. Only the European Union, France, the U.K. and Canada are presently taking decisive action to ensure the emergency response supports longer-term sustainable transitions.

As the world emerges from the pandemic, the shift to renewables is going to have a major impact on employment. Ten million dollars spent on renewable energy creates nearly three times as many jobs as would \$10 million spent on fossil fuels.

Electricity generation is a sector where the transition is well advanced. In 2019, almost three-quarters of all the new electricity generation built in the world was solar and wind. On mobility, we're probably less than two years away from electric vehicles being very competitive on cost with internal combustion engines. Forty-five governments around the world now have put in place laws signaling that within 10 years, or so, internal combustion engines are going to be banned.

And retrofitting buildings with better insulation, windows, LEDs, better architecture — these are opportunities that will pay for themselves over a three- to five-year period in terms of lower utility bills. There is a new focus on this retrofit issue because the jobs associated with this, by definition, are ones that cannot be outsourced because they are all in local communities. Between 20% and 25% of all the global warming pollution both in the U.S. and globally comes from inefficiently constructed buildings, driven by incentives contractors have to be competitive. You can fix this with regulation or financial instruments, but however we do it, we must in order to create the millions of jobs that are waiting in every community to be created.

EC: Do you think this moment really shows that people can change their behavior? What are you seeing about behavioral changes that could be consequential for the climate crisis going forward?

AG: There is a kind of a general awakening that the pandemic has triggered because it builds on changes that society was already going through. The awareness of these trends has grown tremendously and the rising generation is demanding a better world. You're seeing workforces in some companies walk out and demand that their companies do better. It is leading peoples around the world to demand that their governments and businesses and investors make some really important choices to build back in a way that is better.

We have to phase out the absurd and enormous subsidies for fossil fuel that are still in place for governments around the world, and there are now signs that those subsidies are beginning to be cut. We also are seeing a recognition by government that they have to resist the political jawboning and pressure tactics of fossil-fuel companies. It dovetails with the fact that we're crossing the tipping point on climate. This is the biggest investing opportunity and the biggest business opportunity in the history of the global economy. There's a need for a great reset that goes beyond the short-term emergency and really and truly leads to a more resilient future.

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