Immoral Money

Last week Stuart Kirk, Global Head of Responsible Investing at HSBC, hit headlines with an explosive 16 minute speech during which he argued that investors should not be concerned with climate risk. His controversial presentation was met with widespread condemnation from the industry, not least his own employer, who have since suspended Kirk pending an investigation. Noel Quinn, CEO of HSBC, has gone on record to state that Kirk's views are at odds with his company's climate strategy. If reports suggesting that the presentation was, in fact, approved up to two months before the event, the truth might be less clear cut. What is certain is that the whole affair has been incredibly embarrassing for HSBC, who find themselves at the centre of a debate into just how seriously they, and the wider financial services industry, are taking climate change.

Kirk's opening gambit is that, unlike many of his peers, he views responsible investment through a 'very financial and investment view'. All well and good, but to ignore climate risk is to ignore the very risks that Kirk professes to care about. The central pillar of his argument is that the 2-3°C of warming projected by most peer-reviewed scientific studies will not pose a significant risk to the financial system. He doesn't question the science of climate change – that sea level rise, reduced agricultural yields and more intense heatwaves and wildfires are inevitable consequences – but instead argues that humans will adapt to these new threats while continuing to enjoy endless economic growth.

Nobody would argue that the human race lacks resilience. But it is also worth noting that we, as a species, have to date enjoyed a remarkably benign period in Earth's history. In the 7,000 years prior to the Industrial Revolution, as human agriculture flourished, global average temperatures varied by around 0.5°C. Modern humans have caused the equivalent warming in the last 25 years, and roughly 1.2°C in total since the onset of the Industrial Revolution. As the mercury rises further, we push further into unchartered territory for our species.

A few slides later, Kirk makes clear his complete reliance on human adaption. Or, as he puts it: 'Who cares if Miami is six metres under water in 100 years? Amsterdam has been six metres underwater for ages and that is a really nice place. We will cope with it.' Ignoring the fact that Miami is built on porous limestone – building an Amsterdam style dike would be akin to building a wall atop a sieve – perhaps, in this specific example, he's right. The United States is a very wealthy country, it has the billions required to beef up flood defences (though even this might not be enough, as demonstrated by New Orleans in the aftermath of Hurricane Katrina). But what about elsewhere? Does Bangladesh have the resources required to defend thousands of kilometres of at risk coastline, and the families that depend on that coastline for their livelihood? What about other species(?) – almost every faction of the global economy is ultimately dependent on the natural world. Will bees, an essential cog in the global agricultural system, be able to adapt in a warming world? What about fisheries, or the forests that have so far prevented an even greater quantity of CO_2 from trapping heat in the atmosphere? Kirk's argument for human adaption is short-sighted. Yes, a few wealthy countries may well have the resources to adapt in the short term, but he fails to consider all the other variables on which a functioning global economy depends.

Without providing much evidence, Kirk states that 'Apocalyptic warnings are ALWAYS wrong'. There have been occasions where the mainstream media have made extreme claims related to climate change. The vast majority of these are based on a lack of understanding of the underlying research – speak to the scientists who conducted the study, and it's highly likely they will give you an entirely different summary. Kirk refers to these scientists, many of which

have spent their professional careers advancing our understanding of climate, as 'nutjobs'. This from a man who acknowledges his one 'sop to responsible investing' is that he has a beard.

Despite Kirk's comments, the truth is that in many cases, scientists have underestimated the pace of change. Take the arctic, which is experiencing unprecedented warming. To date, climate models have predicted a slow and steady increase in regional temperatures. But on the ground, the opposite is true – the arctic is warming at 4 times the rate of the global average, with the rate of change often exceeding the worst-case model scenarios. It is perhaps ironic that Kirk cites Y2K as evidence for this anti-catastrophist stance, given the risks presented by Y2K were severe, and avoided only with forward planning and significant investment.

Kirk goes on to argue that HSBC's loan book is too short-term to be exposed to the effects of climate change. To quote: 'At a big bank like ours, what do people think the average loan length is? It is six years. What happens to the planet in year seven is actually irrelevant to our loan book.' But as evidenced by the rapid changes in the Arctic, or the sweltering heatwave in Northern India and Pakistan, the effects of climate change are becoming more volatile, and more extreme. With the increasingly unpredictable nature of a warming world, does Kirk genuinely believe that HSBC need not consider climate change in the medium term? At Whitechurch, we would consider this a breach of our fiduciary duty.

Kirk's speech has highlighted the need for fund selectors to apply rigorous due diligence when selecting 'sustainable' investment products. Regardless of how sustainable the fund itself may appear to be, if the asset manager continues to invest in activities that do not align with the fund mandate, purchasers of that fund risk indirectly funding those activities. While HSBC has, quite rightly, found itself in the spotlight as a result of Kirk's presentation, it is not alone in preaching sustainability on the one hand, while continuing to loan to carbon-intensive industries with the other. It is the responsibility of fund selectors to ensure that we select products that reflect our clients demand for sustainable investments both at the fund, and fund house, level.

For information on Sustainable Investments, please visit our website or contact a member of our Business Development Team:

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