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THE VIEW FROM DAVOS

The dogs that didn't bark

by Dr Matthew Kiernan, Founder and Chief Executive
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The World Economic Forum has always, quite rightly, prided itself on its laser-like focus on global megatrends, the “big picture”, and, to quote the WEF’s own motto, “improving the state of the world”. So far, so good. Indeed, when it comes to diagnosing the world’s greatest economic, social, and environmental challenges, the WEF has few peers. If, however, one’s tastes run more to catalyzing solutions and real action on the ground, then Davos might not be your cup of tea.

To my mind, there is a relatively straightforward explanation for this glaring deficiency: the WEF’s consistent failure to recognize the single most powerful, but shamefully under-utilized, instrument for “improving the state of the world” – using the enormous power of the global capital markets and major investors to catalyze change.

After all, at the end of the day, it’s the folks who provide companies’ financial oxygen – the investors – who arguably shape corporate agendas, priorities, and behavior more than any other set of actors. And, in a properly functioning capitalist system (at least so I’m told), at the very top of the investment food chain should be the asset owners.

But as a group, they were nowhere to be seen. Where, for instance, are the CEOs and/or chief investment officers of the 200 largest pension funds in the world? The largest foundations and endowments? The sovereign wealth funds? Collectively, they own – and, at least in theory, control – many tens of trillions of dollars worth of assets. Moreover, they have precisely the sorts of long-term investment horizons, perspectives and global holdings as “universal owners” which should mesh perfectly with Davos’s professed “big picture”, megatrends-oriented focus. And those few who actually do attend have historically had nothing on the agenda to focus their thinking or prod them into action.

This to me is a lost opportunity of literally global proportions. The Davos agenda could have and should have been used from the very beginning to catalyze the enormous power of the global capital markets to help re-orient corporate priorities and behavior, reinforcing and accelerating, rather than undermining, the necessary transition towards a more sustainable use of the world’s physical and human resources. If it’s real change and action we’re after, why not include the owners of capital at the world’s highest-profile celebration of capitalism? It’s just a thought...

> *continued overleaf*

GLOBAL RISKS REVIEW

Head in sand is not an option

by Gordon Noble, Senior Portfolio Analyst
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One of the more valuable items to come out of the World Economic Forum was the Global Risks 2011 report. Beginning with the sobering comment that the world is in no position to face major new shocks, the report warns that because of the inter-connected nature of our world we cannot be confident that 2011 will not bring further volatility.

The report’s insightful analysis of the “water-food-energy” nexus highlights a risk that IPCM believes will become a core business issue in 2011. According to the report rapidly rising global population and growing prosperity will increase demand for water, food and energy by 30-50% in the next two decades. The prognosis is that there are dangers that economic disparities will incentivize short-term responses in production and consumption that will undermine long-term sustainability, with the potential for shortages that could cause social and political instability, geo-political conflict and irreparable environmental damage.

The demand for protein in emerging economies is likely to create a tipping point. Industrially produced meat requires up to 20,000 litres of water to produce a kilogram, compared to approximately 1,200 litres to produce a kilogram of grain. To meet the anticipated increased demand for water, food and energy, significant and perhaps radical changes in water use will be required, as well as new sources for food and energy production exploited.

One of the challenges for investors is that the Global Risks 2011 report presents such a vast array of risks that it raises the question whether it is easier to believe that none will come to pass rather than acknowledge the enormity of the challenges ahead.

The times of normality are over. The report’s advice is that it is no longer sufficient to assess risk in a traditional way, that is, looking at operational risks in the corporate context or national security challenges in the government context.

It is also no longer useful to focus on the most recent disaster. This can lead to a focus on catastrophic events, whereas many global risks could emerge over decades rather than months or years.

If, as the report suggests, that the plethora of risks that we face are beyond the planning and assessment capacities of decision-makers and risk experts alike, then a key strategy is to invest with companies whose management is focused on understanding and managing the risks and able to adapt and learn in a volatile environment. <

The dogs that didn't bark > *continued*

As a firm which pays very close attention indeed to global megatrends, we at IPCM have not been prepared to stand by completely idle in the face of this conspicuous lacuna in the Davos agenda. For the sixth year in a row (the second as IPCM) we hosted our own modest antidote: a private dinner of our "Club of Davos".

The Club is our annual "salon" for discussing both the barriers and the opportunities surrounding sustainability investing. We have been privileged to host finance ministers, central bankers, Nobel laureates, journalists, leading academics, and an eclectic mix of extraordinary individuals from all over the world.

Their insights and our conversations invariably enrich our understanding and capabilities as investors; we wouldn't miss it for the world. Topics we've addressed have included climate change, access to affordable medicines in emerging markets, opportunities for the four billion people at the "base of the pyramid", and how to construct more useful, 21st century balance sheets for both countries and corporations.

And here's the best part: the focus of the discussions is invariably on what investors can actually do about these global megatrends. Now if only we could get our dinner onto the main agenda of Davos. Maybe next year... <

ABOUT US

Inflection Point Capital Management is a new, sustainability-driven asset management boutique. A research-driven organization, IPCM builds on the knowledge base and networks of its predecessor company, Innovest Strategic Value Advisors. Innovest was ranked by the Thomson Extel survey of institutional investors as the #1 research firm in the world in the sustainability space. IPCM has offices in London, New York, Toronto, and Melbourne. www.inflectionpointcm.com

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Gordon spent three years as Senior Analyst with Innovest Strategic Value Advisors, where he focused on analyzing both companies and cross-cutting thematic issues in the Asia Pacific region. His previous experience was with a leading Australian superannuation fund, with the UN Principles for Responsible Investment secretariat, and with National Australia Bank. He was also the principal advisor to the newly-created Responsible Investment Academy in Sydney. He holds Bachelor of Economics, Graduate Diploma in Applied Finance and Investment, Fellow FINSIA (formerly Securities Institute of Australia).

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