The Telegraph

Top money manager: 'We avoid Tesla because of Elon Musk'

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Mike Fox's sustainable fund steers clear of Tesla due to governance issues CREDIT:DAVID MCNEW/AFP

- James Connington

20 OCTOBER 2016 • 8:36AM

When funds restrict their investments to those companies that are “ethical” or “sustainable”, many investors assume that poor returns will have to be accepted as a trade-off.

But that is not necessarily the case. Royal London Sustainable World Trust is a multi-asset fund, with just over 80pc invested in global shares and UK companies and the rest in corporate bonds and cash. Among its peer group, it ranks second out of 134 funds for return over five years.

The manager, Mike Fox, applies an ethical policy that prevents the fund from investing in a variety of areas. Tobacco companies, companies involved in worker exploitation, and those profiting from countries with poor human rights records are all off limits, among a host of others.

Telegraph Money spoke to Mr Fox about the benefits of choosing well governed companies, and why he won’t invest in Tesla because of Elon Musk.

How do you pick stocks and decide weightings?

We’re looking for companies that have a positive impact on society, either through their products and services, or through showing leadership in managing their impact.

Bring those two things together, and that’s the starting point. Then we look at competitive advantages and sustainability of business models.

We run five sustainable funds, ranging from 100pc shares to 100pc bonds, and don’t have overly active asset allocation. We like people to know the weighting will be similar in a year.

Where does the ethical screen derive from?

It’s very much our own intellectual property. We then have an external advisory committee that oversees the process.

The idea of a company having a benefit to society is inherently subjective. Take Google - on one hand they’re involved in mobile technology and the knowledge surge, on the other they are involved in a taxation debate.

Whatever a company does, if it doesn’t have good governance we don’t invest in it.

For instance, Tesla recently failed our screen, as the board structure and Elon Musk’s role within the business was not acceptable to us.

Very soon after we screened it out, Mr Musk and Tesla bought a business that Mr Musk was also the chairman of. In a well governed business, that would not be allowed to happen.

Why is good governance important?

Governance hangs on two principles. Whether management is aligned with shareholders’ best interests, and that the board structure is appropriate. It’s hard to argue that the opposite is going to be positive for investment performance, so it has never been a difficult argument to make.

More recently investors have made the connection between bad governance and poor share price performance. It started with the financial crisis, then there was BP, now there is Sports Direct and Volkswagen.

Some companies have progressed. Take Starbucks for example – it has become much more socially responsible over the years in terms of supply chain and recycling.

If a company breaches your policies, will you divest immediately?

There’s a caveat in terms of time frame, but the reality is if a company breaches the process - unless there’s a compelling reason not to - then we sell straight away.

The fund aims to invest across the global, but over 85pc is in America, Britain and Germany – why?

If you’re looking for companies that have some sort of social benefit to them, you often end up in healthcare and technology.

The US is huge leader in technology, and we have tended to find more companies over there that meet our need for positive products and services. The biggest technology theme we've added to in the last month is cloud computing, where Amazon and Microsoft are leaders.

The UK is strong because governance standards are very good.

Do you have your own money in the fund?

Absolutely, I would never ask anyone to invest in anything I’m not comfortable investing in myself.

What would you have done if you hadn't become a fund manager?

I was a mathematician by trade, so I would have ended up in a university somewhere looking at useless equations.

Independent view

John Monaghan, senior investment research analyst at Square Mile

Although Mike Fox arrived at Royal London Asset Management only three years ago (following Royal London's acquisition of Co-operative Asset Management), he has presided over this strategy since November 2003.

As the name implies, this fund has an ethical tilt and its underlying investments must meet fairly stringent criteria before being approved for inclusion in the final portfolio.

The approach employed incorporates a range of screens that are designed to reduce the universe of eligible investments, based on both negative and positive factors.

Companies removed for negative reasons are fairly standard within the ethical investment arena.

These include excluding companies whose businesses are involved in the manufacturing and/or distribution of armaments, tobacco, pornography and nuclear power.

Royal London Sustainable World Trust manager Mike Fox

However, where the approach has more of an edge is to include companies that aim to benefit society through their products and services.

Analysis also takes into account how companies perform based on environmental, social and governance considerations.

This is far more subjective, but the key here is to invest in businesses that have proven records of actively pursuing best practice on corporate governance and environmental issues.

The fund holds UK and international equities that are blended with corporate and government bonds, designed to dampen overall volatility. Mr Fox invests with a three to five-year time horizon and so any investment should be considered for at least a similar time-frame.

The fund has delivered a robust set of returns over most meaningful time periods. We believe it is appropriately priced given the mandate.