PRICEVALUEPARTNERS

Mission creeps **14th June 2021**

"Did IQ's just drop sharply while I was away ?"

- Ripley, *Aliens* (1986).

If you missed it the first time round, here is an opportunity to (re)acquaint yourself with Chris MacIntosh's handy guide to the future, *A forecast for the next decade*. While we pride ourselves on taking the occasional prisoner during any skirmish on current investment trends and inanities, Chris is not so altruistic. Here is how he begins:

1. The world we've all experienced has been dominated by the Western success model. All models have their strengths and weaknesses, and over time these change. Nothing is static nor is it linear. This one has been no different. What has become increasingly evident is that this model has over time decreased in its resilience. It has been overwhelmed by socialism, which has created an entire society that is incapable of withstanding any hardship, even low intensity hardships. This societal structure lends itself towards societies seeking out and championing more of what has been instrumental in its weakness, namely socialism. Read my report entitled What Happens Next on it here. We are now in the final throes of its life. The next final step is authoritarian Marxist rule, and final collapse. Coming out of a collapsed society is rarely rapid. Remember; the USSR lasted 80 years.
2. The manufactured hysteria over Covid-19 is being used to extend the life of this dying economic system through what is being sold to an unsuspecting public as "The Great Reset".
3. The ESG trend (read this, this, this and this if you're not up to speed) is part of this "Great Reset" package. It is simply Marxism in new packaging, with an enormous marketing budget. It's now dressed up with buzz words such as "sustainability", "inclusivity" and "equality" and the now much promoted "build back better".
4. In order to ~~fool~~ convince people, strong narratives are required. All have been building for years now and one such part of this Marxist agenda is of course "man-made climate change". This has been a tried and tested model. It was originally labelled as Global Warming, but when the *absurdity* and *inability to pretend* it existed in the face of overwhelming evidence to the contrary (no warming), the buzz word was neatly

> transitioned to Climate Change. Importantly, it allows for the instilling of terror in a populace… and once sufficiently terrorised, people are incredibly malleable..

So far, so dystopian.

Now the central bankers – who might as well be cockney rhyming slang – are gut-barging their way into the debate. John Plender for the FT takes up the theme:

> The humbling of ExxonMobil by activist investors who voted outside directors on to the board to accelerate the oil company's response to climate change raised activism to new, unexpected heights last month. Around the world institutional investors have been ramping up stewardship efforts across their portfolios, with an increasing focus on the transition to net zero greenhouse gas emissions by 2050.
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> Yet the high tide of activism has yet to touch one group of very big public investors — namely the central banks that have accumulated large portfolios of securities since the financial crisis and topped them up in response to the coronavirus pandemic.
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> Among the leading central banks only the Bank of Japan is a really significant force in its domestic equity market, owning around 10 per cent of Japan's benchmark Topix index. At some leading Japanese companies it owns as much as a third of the free-floating shares. Jesper Koll, a senior adviser at exchange traded fund specialist WisdomTree in Tokyo, points out that these stakes are huge but mute. The BoJ, he says, will never raise its voice at annual shareholders' meetings.
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> The central bank is thus running counter to one of the government's important policy objectives: improved corporate governance. It is, says Koll, an experiment in financial socialism.
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> At other big central banks such as the Federal Reserve, the European Central Bank and the Bank of England, corporate bond holdings are the chief focus of climate change concerns. Most of these purchases were undertaken to help drive down long-term interest rates and to compress risk premia — the reward for holding longer dated IOUs — with a view to easing financial conditions while increasing inflation. They raise important questions about stewardship..
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> Yet Andrew Bailey, governor of the Bank of England, pointed out in a speech last week that there is increasingly persuasive evidence that climate risk is systematically underpriced in financial markets. So "continuing to replicate the structure of the sterling corporate bond market without taking explicit account of the climate impact of bond issuers is no longer in fact a truly 'market neutral' approach".
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> It is in the BoE's Monetary Policy Committee remit to consider how, subject to achieving its inflation target, it could support the transition of the UK economy to net zero emissions. As part of this it is proposing to change the composition of its corporate bond portfolio while incentivising companies to take action to secure an orderly transition to a net-zero economy.

> This will involve portfolio targets for emissions. The Bank will also aim to purchase green corporate bonds and will consider excluding issuers involved in activities judged incompatible with transition to net zero. Another strategy will be to tilt the portfolio towards issuers with stronger relative performance in pursuing the goal of net zero. Action will be escalated to incorporate more stringent requirements for issuers who do not meet them.
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> How effective this will be is moot. The Bank of England's portfolio is £20bn, or just 6.5 per cent of the sterling corporate bond market. But it hopes that its example will influence other larger investors. In bond markets, unlike equity markets, the investor's leverage with the investee company diminishes once the money passes to the borrower. So there is a risk that portfolio companies may prove resistant to the Bank's moral suasion.
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> Then there is a wider question about mission creep and whether this and other measures central banks take to recognise the impact of climate change could distract them from their core objectives relating to inflation and employment..

As value managers, we would like to thank all those gigantic asset gatherers out there using ESG, woke politics and climate change as a virtue-signalling excuse for not having a defensible investment philosophy. Thanks for the bargains, guys !

And we would like to thank central bankers for.. well, for nothing. They had one job – suppressing inflation – and the months to come will reveal just how spectacularly they have failed in that one core mission. If we had crashed and burned our credibility so comprehensively, we would probably be looking to distract the electorate too. What a farce.

Tim Price is co-manager of the VT Price Value Portfolio and author of 'Investing through the Looking Glass: a rational guide to irrational financial markets'. You can access a full archive of these weekly investment commentaries here. You can listen to our regular 'State of the Markets' podcasts, with Paul Rodriguez of ThinkTrading.com, here. Email us: info@pricevaluepartners.com.

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