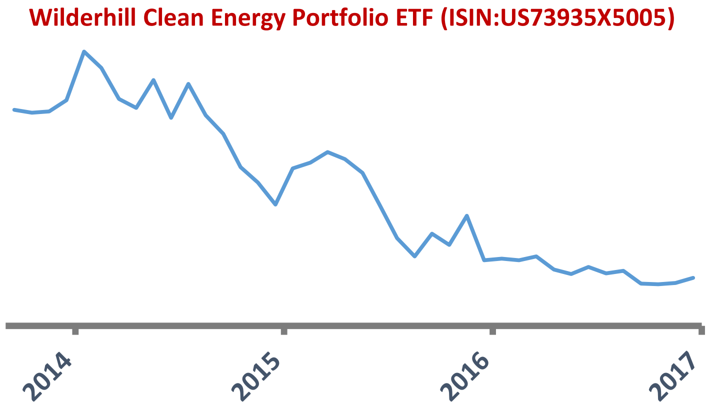
Modern Activist Theory in Clean Tech

Socially Responsible Investing is growing fast, and like any child some of its more radical ideas are maturing into more pragmatic character traits as it enters the fourth of its seven stages of life. As methodologies establish themselves and consensus gets built more traditional investors start to demand compliance.

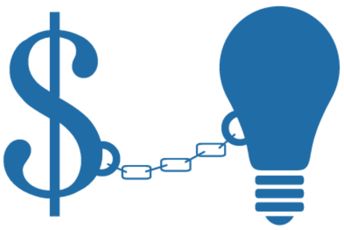
This is a double edged sword for Managers, no longer are Investors ready to take losses on the basis of a positive Impact Report.

Investors now demand SRI compliance and a Positive Return.

Activist Shorting funds have been very vocal, they have to be as it is part of their strategy, about their positioning and the reasons for it. However the motivation for these transactions seems to be punitive rather than constructive.



In order to maintain a constructive bias we could look at traditional Activism, however this method is only effective if the size of the holding is significant enough for one's voice to be heard. More importantly Activism is primarily focused at the Finance side of the company in question.



Companies are made of two principal components, Ideas and Finance. Whilst Finance can prosper or fail for numerous reasons, **Good Ideas** are impervious. The State of California understood this a long time ago, and in January 2017 voided non-compete laws. They understand that great people, or ideas, can be trapped in badly run companies and if you want the sector/state to prosper you need to have a process which allows **Good Ideas** to flow from badly run companies to good ones.

This is especially important in Clean Tech as a large proportion of the industry is crowded with new ideas, companies and an unprecedented speed to market. The vanguard in most new sectors was traditionally Private Equity, however even PE has found the sector incredibly difficult to analyse and the newswires are littered with stories of PE and VC retreating from Clean Technology.

The harsh reality is that Clean Tech is close to un-investable, but why? Similarly to the dot-com boom Investors bought into great ideas ignoring bad finance. Ultimately no matter how good the idea is, even if it isn't properly backed it will fail.

Volatility and Risk of Ruin is simply too high.

So how does one marry a strong belief in Clean Technology with Socially Responsible Investing whilst attracting capital by generating good returns for the Investor?

Traditional Activism is simply too slow, the industry moves too fast. We have to accept the old principals of Constructive Destruction but marry these to the new tech space where we understand that **Good Ideas** can be trapped in badly run companies. Once we do so then we can tackle the next big problem, Capital.

There is a limited amount of Capital in the world, and if you adhere to the PRI and Impact principals it is your duty to deploy this to the greatest benefit of the wider public.

The PRI (Principals for Responsible Investing) which is supported by the United Nations and the United Nations Environment Program stated:

UNITED NATIONS UNEP

(on Short Selling) Significant amounts of research by academics and regulators have been undertaken in the hope of reaching unbiased conclusions on the impacts of shorting. Broadly, this research has supported short selling as a legitimate activity that is an integral part of efficient and well-functioning markets.
https://www.unpri.org/download_report/3972

Despite substantial evidence to the usefulness of Short Selling in Equities the method is still fraught with controversy, especially in the SRI space.

It has been suggested that Hedge Funds should short non SRI companies for the benefit of SRI companies. However similarly to Activist Shorters this has a purely punitive effect, as the non SRI company doesn't hold any **Good Ideas** which are of benefit to the wider public and consequently liberating them is inconsequential. Great for Policing but not a strict SRI benefit.

Hedge Funds should short companies with **Good Ideas** shackled by Bad Finance.

This is the only way to accelerate the transference of **Good Ideas** to companies with good finance who will be able to bring to market products with true positive social impact.

At the moment Clean Tech is moving too fast, new disruptive innovators appear with incessant regularity forcing giant leaps in obsolescence, leaving companies stranded with old technology in such a short period of time that traditional Activism is unable to intervene.

The side effect of this process is extremely positive for Investors, as it lowers volatility and dramatically increases returns. Doing so is the only way to attract significant Investment into one of the most important industrial movements of this generation.