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Think Tank Podcast: the awareness of the society to conscious consumption

TRANSCRIPT

Nisha Pillai [NP]: Welcome to Julius Baer's Think Tank Podcast. In this series we'll be walking you through the mega trends of the future, and bringing you closer to our network of thought experts that are capturing the world's big changes and putting them into context for us.

I am Nisha Pillai, former BBC World News presenter and your moderator today.

How do you want to live your life? It may sound a like a somewhat philosophical question, but individuals around the world are recognising that the planet can no longer support continued current rates of consumption. More and more consumers are balancing their buying decisions with their social, environmental and political convictions.

This began with the millennials, but the baton has definitely been passed on to other generations. Material possessions are no longer the ultimate goal. Today's consumers prefer to spend in a more measured, sustainable, and responsible way.

We will be talking today with Beatriz Sánchez, Region Head for the Americas and Member of the Executive Board at Julius Baer, and Esteban Polidura, Head of Advisory and Products for the Americas, about how the pandemic has raised consumer awareness and commitment to buying ethically and sustainably – changes in behaviour that experts believe are likely to endure long after the pandemic.

[NP]: Beatriz, welcome. Have you noticed changes in consumer commitment to, and awareness of, buying ethically and sustainably over the last year? Is the society in general more committed to conscious consumption?

[Betty's answer]: Let's first start with the definition of conscious consumption. Whether or not we consider ourselves conscious consumers can be very subjective. For some, it may actually mean cutting back on consumption. For others, it may simply mean being much more aware of the consequences their consumption has. In any case, the focus is on the societal and environmental footprint of our lifestyles.

The question is not so much about what we want or what we need, but whether we can afford it from a societal and environmental point of view. Conscious consumption touches almost all areas of everyday

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life: our food and our fashion, the way we commute, and the way we travel. The question is what impact we make.

And, of course, over the past year, our view of the world has dramatically changed. The corona crisis turned our lives upside down as country after country moved into lockdown. What was normal before was not normal any more, especially for those who caught the virus. Think of meeting family and friends, think of a stroll in the city, or think of travelling. As we started lockdowns, we were forced to slow down. We had to think about what is important in life – health and wellbeing on all levels, family and friends.

Zooming out from the personal perspective, one of the biggest challenges of the crisis has been to balance health risks and wealth risks. Focusing on the first while not losing sight of the second one required massive support and stimulus packages put together by politicians and policymakers all over the world. Thanks to these packages, consumption in most countries has recovered very swiftly. According to local statistical offices, for seven out of ten of the world's largest developed and developing countries, consumption levels were higher before the most recent lockdowns than they had been a year before.

[NP]: Why do you think is that?

[Betty's answer]: Well for a number of reasons. Our research department believes that while consumption shows the strength of these countries, it does not mean consumption will be business-as-usual any longer. Digging deeper into the data, there is a lot of evidence that consumption patterns and preferences are changing faster than ever before. The world's population is definitely becoming more conscious. This is not a new trend, but, as we have seen with trends in other areas of our lives, it has clearly accelerated during the corona crisis.

[NP]: Where do you see the biggest opportunities for conscious consumption? What are the current trends that come with it?

[Betty's answer]: We recently launched the Julius Baer's Global Wealth and Lifestyle Report, that analyses consumption trends by tracking the price developments of premium goods and services in the Julius Baer Lifestyle Index and explore which lifestyle, regional and economic trends will impact our life and wealth. The rising of the conscious consumption movement is one among the insights of this report.

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We have noticed that we care much more about food today than we did in the past, and its prominence in our lives has undoubtedly risen. Think of the variety of restaurants in our cities, or the food bloggers online. We are aware of the adverse human health effects of processed food, and we care about animal welfare. We are concerned about the environmental footprint of our food, ranging from excessive water usage in fruit and vegetable production to the greenhouse gas emissions of the livestock industry.

Food is a lot about habits. Changing our eating habits is a question of both our willingness and our ability to do so. Willingness relates to individual and social values. Do I want to eat differently? Do I want to support my local farmer? You know, ability relates to prosperity. Do I have the financial flexibility to spend more money on the more expensive, locally and organically produced food?

I think that the share of organic food sales in a country provides a good gauge of how conscious the consumers are about what they eat. Organic food covers both the willingness aspect, as these consumers care about how their food is produced, as well as the ability aspect, as they are paying more than for non-organic food. Unsurprisingly, the share of organic food is the highest in prosperous developed countries, reaching up to 10 per cent in some. Growth in organic food sales in Germany, Switzerland, and the United States has outpaced growth of total food sales by a factor of 10 since the beginning of the century. The crisis provided another big boost to this trend, according to local organic associations.

However, organic food is not just a demand-driven story. Statistics show that prices of organic milk and meat are not just higher but also less volatile, thereby providing a higher and more stable income for the producers. Organic food is thus a win-win story for producers and consumers, leaving a lot of room for growth.

In addition, it seems we are more conscious about moving around, as this movement also affected mobility as well. It connects home and work, while also bringing our global economy's supply chains to life.

Our mobility needs very much depend on our living conditions, in particular if we live in a city or in the countryside. In a city, we can rely on public transportation, while in the countryside we often have no other option than using our cars. The flip side is the negative side effects of mobility, such as the emissions and pollution from cars.

The emergence of the plug-in car offers a calmer and cleaner alternative to conventional cars. Their electric motor is much more efficient than the combustion engine and their smaller carbon footprint is getting even smaller if clean energy is used for charging. Environmental and societal concerns related

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to the manufacturing of their batteries are hitting the headlines but need to be put into perspective. In particular, they need to be balanced with comparable issues in oil-producing countries. The corona crisis fast-forwarded the shift towards plug-in cars thanks to state stimulus measures, including dedicated support for cleaner mobility. Add in the growing number of more affordable, long-range, and clean electric cars over the next few years, and this decade will see the era of electric mobility truly take off.

The corona crisis has also altered how people are getting around in cities. Crowded public transportation has come under scrutiny because of potentially higher infection risks, prompting some to prefer their cars while others discovered cycling. Some of the world's cities witnessed a bike boom last summer, as commuters were embracing cycling as a cleaner and healthier way of getting around. How about after the crisis? The share of cyclists is likely to stay higher, even though some will switch back to public transportation – as will some of the drivers.

Lastly, this movement has affected the fashion industry as well.

The world of fashion tends to be fast and flashy. The insatiable demand for the newest styles has led to the rise of fast fashion, a practice that sees producers churning out a high number of collections every year from cheaper materials and cheaper labour. This inevitably has significant adverse implications for quality and tends to result in clothes that look faded, shapeless, or shabby after a few washes. The flip side of this high churn-out is excessive waste. Studies show that we use only 20 to 30 per cent of the clothes in our wardrobes, each of which is worn a mere seven times on average before it is ignored or disposed of.

Fast fashion comes with an ever increasing environmental footprint. A huge amount of water is needed for the manufacturing of the nearly 80 billion garments produced annually. Nearly 15,000 litres of water are required to produce one kilogram of cotton, which is roughly equivalent to the weight of a shirt and a pair of jeans. In addition, garment production is also responsible for water pollution due to the amount of toxic chemicals being discharged into drains, rivers, and lakes. Next to its environmental impact, the industry is often associated with poor working conditions. Garment workers in developing countries hit the headlines because of very low wages and safety issues.

That said, the rise of the garment industries has lifted many of them out of poverty. In a world of fast fashion, we are spoiled for choice. Nevertheless, some form of change has been slowly gathering pace within the fashion industry, supported by growing consumer awareness of the industry's negative impact on our animals, people, and planet. Labelled 'slow fashion', this movement seeks to encourage

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fewer purchases of garments and footwear, made of higher-quality, sustainable and locally sourced materials.

Such an approach inevitably slows down the overall pace of shopping but enhances the consumers' connection with fashion into one where ethics and sustainability matter as much as seasons and styles. While the forced slowdown of the industry during the corona crisis may have sped up the slow fashion trend, the transition of the industry is still in its infancy.

[NP]: How are companies addressing this change in consumer attitudes to spending?

[Betty's answer]: We have noticed lately that there is a big push towards better environmental, social, and governance considerations. Businesses are learning that forward-thinking environmental, social, and governance practices are more crucial than ever before, from satisfying ethical consumers to attracting investors.

And gone are the days when we flaunted what we bought. Now what we are keen to advertise are the ethical dimensions of our purchase. Have we bought something that treads lightly on the environment? Does it help disadvantaged people? Do I really need it? And is my purchase making the world a better place?

This trend started in consumer goods aimed at relatively wealthy market segments but has since spread everywhere, from high-end luxury to fast-food chains, and from pop-up restaurants to B2B companies and industrial giants. Businesses across the board are under increasing pressure to ensure that their supply chains are both transparent and ethically sound. For multinationals with global supplier ecosystems and multiple layers of subcontractors, this can be an enormous undertaking. Nonetheless, they need to do it, not least because increasingly they may be legally required to do so.

There are strong business reasons to embrace sound environmental, social, and governance practices too, also known as ESG. Companies that lead in this area tend to perform better financially. There are multiple drivers at work here. One is that ESG is simply proving to be the best way of doing things – for example, saving energy is both green and good business. But there is a whole raft of second-order reasons too. Companies that perform ethically tend to be forward thinking in other areas and are more likely to be good corporate citizens, have good reputations, and be employers of choice that attract the best talent.

For these reasons, investors like ESG too. Increasingly, they look to put their money in businesses with strong ESG track records, and even stipulate that companies put certain ESG measures in place.

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Ethically sound companies tend to be lower-risk and offer better returns. Here we profile a selection of renowned global businesses that have chosen to embrace ESG and seen the benefits first-hand.

[NP]: How do you suggest consumers to become more conscious?

[Betty's answer]: I believe that becoming a conscious consumer requires an awareness of the impact our consumption has on the environment and society. This awareness can be used to single out specific steps to choose more carefully. For food, it would mean reducing the consumption of beef and dairy because of their greenhouse gas emissions. For mobility, it would be about reducing your radius and curbing your emissions by switching to greener options such as electric cars, bicycles, or public transportation. And for fashion, it would be all about buying less and choosing high quality over low quality garments.

[NP]: Beatriz, thank you so much for joining us for an interesting conversation on Think Tank.

[Betty's answer]: Thank you, Nisha, it was a pleasure.

[NP]: Let's now bring in Esteban Polidura for his investment views. Esteban, how can investors all around the world participate in the conscious consumption story?

[Esteban's answer]: Conscious consumers are increasingly pushing companies to focus on environmental, social, and governance (ESG) parameters. Organisations are investing real money to address issues like high carbon footprint as consumers demand accountability. There are now formalised guidelines on ESG factors, internal and external staff auditing reports and senior managers with oversight of responsible investing.

Asset managers are aware of this structural shift into conscious consumption therefore, they also play an important role in fostering increased adherence to ESG factors. This explains why flows have rushed into ESG thematic exchange traded funds or ETFs. At the end of the first quarter of 2021, the assets under management (AUM) of ESG-thematic ETFs grew 40% year on year, hitting a total of USD305bn. PriceWaterhouseCoopers (PWC) actually estimates in its base-case scenario that ESG funds in Europe would increase their share from around 15% currently to 41% by 2025. However, in a bullish scenario, ESG is expected to overtake non-ESG assets over the next five years.

Finally, the norms and perceptions of conscious consumers are also pushing regulators to comply with what society wants, thereby implementing laws to enforce the norms that are being demanded. As a result, there is a complete regulatory shift from voluntary ESG disclosures to binding legislation

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requiring real action and not just a “check the box” exercise. This also strengthens the ESG thematic as a way to gain exposure to the conscious consumption story.

[NP]: And how about ESG investing? Does it really pay off?

[Esteban’s answer]: Companies that seek to meet ESG criteria tend to show higher profitability, higher dividend yields, lower idiosyncratic tail risks and higher valuations. On the latter, 80% of related studies show that equity performance is positively influenced by good sustainability practices. And for investors that focus on ESG parameters, evidence is overwhelming that sustainable investing offers superior risk-adjusted returns and thus caters particularly well to long-term, buy-and-hold strategies.

Generally, companies with strong ESG ratings outperform, as they are agile, limit risk through responsible business conduct, and take a stakeholder view that goes well beyond shareholders’ interests. For example, companies with a strong ESG background were also negatively affected by the economic slowdown caused by the pandemic, but their stocks and the respective benchmark indices continued to outperform on a relative basis. Some even posted a strong, positive performance in the face of crumbling financial markets.

Companies with strong ESG ratings have also managed to outperform on a sector-neutral basis, as leading ESG corporates are likely to be more nimble and innovative. Furthermore, their responsible and prudent business practices lead to more stable balance sheets and more robust structures in general. Companies with safe, healthy products and exemplary, sustainable business conduct to meet the demands of conscious consumers have therefore become the jewels within the equity universe.

[NP]: Thank you, Esteban, for your insights as well.

[Esteban’s answer]: Thank you, Nisha, for having me today.

[NP]: Consumers are becoming more mindful, taking the social and environmental impact of the products they buy and the services they use into consideration before making a purchasing decision. With the coronavirus pandemic forcing us all to re-evaluate our day-to-day lives and priorities, the era of conscious consumption has well and truly begun.

You can explore even more about conscious consumption and how the pandemic has raised consumer awareness and commitment to buying ethically and sustainably. The Julius Baer’s Global Wealth and Lifestyle Report analyses consumption trends by tracking the price developments of premium goods and services in the Julius Baer Lifestyle Index.

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If you have any more questions on conscious consumption, or about the Julius Baer's Global Wealth and Lifestyle Report, please do talk to your representative at Julius Baer.

Thank you for listening to this episode of Think Tank. Do subscribe to the podcast on Spotify and Apple Podcasts.

From me, Nisha Pillai, goodbye for now.