

Live Webinar

Rethinking Modern Portfolio Theory: Addressing Market Risk is Turning Investors into ESG Advocates

October 13, 2021



Featuring:

Jon Lukomnik, Founder, Sinclair Capital, L.L.C.

Fiona Stewart, Lead Financial Sector Specialist, The World Bank Group

Moderator:

Alicia Ogawa, Director, Project on Japanese Corporate Governance and Stewardship,
Center on Japanese Economy and Business (CJEB), Columbia Business School

On October 13, 2021, CJEB held a live webinar featuring Jon Lukomnik and Fiona Stewart, with Alicia Ogawa serving as moderator. Modern Portfolio Theory (MPT) teaches us how to outperform a market index. But even beating a market index may mean losing money if a fund outperforms the market simply by declining less than the overall index. For large pension funds who need to earn a rate of return above the rate of inflation "forever" in order to support the living standards of their beneficiaries, beating the index is not good enough. MPT assumes that the overall risk of the market—due to disasters, financial crises, wars, etc.—is something that fund managers must accept as given. But there is an emerging school of thought which argues that pension funds, who must invest in virtually every stock in the market, can reduce the overall risk of the market by working to reduce climate change, social problems, and governance risk. Jon Lukomnik has recently published a book on this subject; and Fiona Stewart of the World Bank noted that more than 55 percent of global GDP is directly dependent on biodiversity and ecosystem services and that "just as with climate change, investors should be highly motivated to mitigate biodiversity loss, given the material impact nature-related risks are increasingly recognized as posing to investment portfolios." The speakers discussed these concepts, and the webinar concluded with a Q&A session. To view the video recording of the webinar, please visit <https://youtu.be/m7JJgxPICLY>.