
CAN CAPITALISM POWER POSITIVE CHANGE?

While some see capitalism as the problem, Lee Qian, joint manager of Baillie Gifford's Positive Change Strategy, sees it as the solution to many of the pressing problems society faces. He tells Iona Bain why



The developed world's relationship with capitalism is becoming increasingly complex and inconsistent. We reprimand Big Oil, Big Pharma, Big Tech, Big everything. Yet we love the choice and convenience these bring to our lives.

Lee Qian doesn't take the transformative power of capitalism for granted. When he was growing up in Nanjing in the nineties, two out of three people in China lived in poverty. "We lived in an apartment which didn't have central heating and my parents' bedroom was our living-room."

Fast forward to 2020 and China has changed beyond recognition. The poverty level is below 20 per cent, living standards have vastly improved and the country hosts some of the world's fastest growing and most innovative companies. "Even some of the poorest people in China now have better living conditions than my parents had," says Lee.

He has seen first-hand how Chinese businesses, particularly the big ‘platform companies’ such as Alibaba and Tencent have helped transform the world’s most populous country: “Chinese businesses have made a tremendously positive impact on society. They have created benefits broadly for the whole of society.”

Lee’s own journey took him to the West, and to Edinburgh, where he co-manages Baillie Gifford’s Positive Change Strategy.

In the world of Positive Change companies are backed for their potential to drive society forward as well as to offer returns. Take Kenya’s Safaricom, one of the 30 or so “truly exceptional” investments in the portfolio. It started off as a telecoms business and now derives a third of its revenue from providing mobile financial services. Lee explains: “It’s used by millions of people in Kenya to pay for goods and services and send money to loved ones, enabling them to participate in the economy more efficiently. It’s also a great business opportunity.”

For Lee, purpose and profit can go hand-in-hand. Ørsted, once known as Danish Oil and Natural Gas, has increased profits thanks to its pivot towards renewables and investment in turbine manufacturing to bring down the cost of offshore wind. Other examples include: Bank Rakyat, which provides responsible microfinance loans to households and businesses in Indonesia; HDFC which invests in affordable housing in India; and Discovery, a South African insurer, that rewards you for going to the gym rather than the pub.



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Is this what responsible capitalism looks like? Lee thinks so, as he and his team strive to find the (mostly) good guys. Of the famous FAANGs - Facebook, Apple, Amazon, Netflix and Google – only the last one makes the cut. “Think how Android smartphones are used by millions of people in emerging markets, creating a more equal society in the long term.”

While Lee concedes Alphabet (Google’s parent) could pay more tax rather than “thinking up ways to minimise it,” overall, he still believes this is outweighed by its positive impact on society.

Then there’s one of the Positive Change’s standout companies, the electric carmaker Tesla. With its ‘rock-star’ founder and altruistic goals, it’s an obvious choice: many superfans have already bought into the firm’s vision with just a few taps on their phone, thanks to new trading apps.

So why shouldn’t investors cut out Lee and his colleagues and invest directly in the changemakers? The problem is that for every Elon Musk, there are many more ‘social impact’ gurus who don’t live up to their hype.

“The biggest risk for long-term investing is permanent loss of capital, by investing in a company that doesn’t have good technology or the right people and could actually go bankrupt. Most of our research takes months if not years, from starting to look at a company to the point where we actually invest.”

And where do tracker and index funds, promising lower fees for a new generation of investors, sit in all of this? Lee wonders how funds investing in hundreds of companies with “minimal research behind the scenes” can drive positive change compared with just 34 handpicked global game-changers.

It’s a fair point, and one to be resolved if we genuinely want to solve the world’s problems. Lee says: “The younger generation is fortunate to be growing up in a period of relative prosperity and stability, able to think more about environmental social and sustainability issues. We are more aware of them because we have a window to the world in our pockets.”

For Lee, it’s what you do with that information, and your money, that counts. “I want to demonstrate that you can do good for the world and do well financially at the same time.” Perhaps – finally – there’s a form of capitalism that we can all get behind.

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