



Forum for the Future  
Centre for Sustainable  
Investment

# Understanding Sustainability

## Key characteristics of sustainable finance

Brian Pearce

Director

Centre for Sustainable Investment

Forum for the Future



## What does sustainable finance look like?

### Two views

- NGO coalition in the Collevechio Declaration, ‘Financial institutions must expand their missions..to put sustainability on an equal footing to shareholder [return] maximisation and client satisfaction, and to actively strive to finance transactions that promote sustainability’
- Citigroup head of fund management Tom Jones, ‘If we spend money to do shareholder activism, Citigroup shareholders bear the expense but don’t get a unique benefit. So I’ve got to say I’ve got higher priorities. I’m not a do-gooder. I want to do what I get paid for, and shareholder activism isn’t what I get paid for’. Source FTfm 16/6/03



## There is no agreement as yet

The debate is often polarised between:

- Altruism or
- Self-interest i.e. the 'business case'

But another model has been proposed:

- Satisfying values appropriate to a professional practice:
  - Meeting the needs of clients
  - Meeting reasonable expectations of employees and developing their capabilities
  - Benefiting for the communities in which the institution works
  - Generating returns for investors
  - Minimising environmental damage and compensating for the rest
- And that asset managers have competence and legitimacy as asset managers, not social engineers or environmentalists



## What models for sustainable finance do we have in practice?

- At the level of the financial system
  - The London Principles
- At the level of financial institutions
  - UNEP Bank Declaration
  - NGOs Collevocchio Declaration
- At the level of the business unit
  - Project finance
    - Equator Principles
  - Asset management
    - HERMES Principles
    - Insight Investment's Global Business Principles project
    - USS long-term investment competition results



# The Universal Investing Model

## The Hermes Principles

- ...most investors are widely diversified; it makes little sense for them to support activity by one company which is damaging to overall economic activity. The ultimate beneficiaries of most investment activity include the greater part of the adult population who depend on private pensions and life insurance. It makes little sense for pension funds to support commercial activity which creates an equal or great cost to society by robbing Peter to pay Paul.

Source: HERMES Pensions Management



# The Long-Term Investment Model

The criteria of the USS/OTPP/PGGM 20-year Mandate Competition  
(% of competition entrants scoring points against criteria)

- Have a genuinely long-term approach 25%
- Manage risks against liabilities <10%
- Align investors' and fund managers' interests 20%
- Monitor and measure success for the long-run <10%
- Reward corporate responsible behaviour >10%
- Promote stock selection that fosters responsible investment <5%
- Take account of costs and benefits of responsible action <10%
- Monitor the impact on the social and economic environment <10%

Source: FTfm 29/9/03 and Hewitt Bacon & Woodrow



## The Stewardship Investing Model

- ‘Insight Investment believes that investors have both remarkable opportunities to contribute towards a more sustainable future, and a central but little understood, role in causing today’s unsustainable development. Investor responsibility is not an optional extra to be selected by concerned individuals, but a profound obligation for all investors, just as corporate responsibility is an obligation for all companies.’

Source: Insight Investment’s submission to the Royal Awards for Responsible Investment.



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## The Panelists

A range of views on what sustainable finance should look like:

- The business customer
  - Mr Yotaro Kobayashi, Chairman, Fuji Xerox
- The NGO
  - Mr Tony Juniper, Executive Director, Friends of the Earth UK
- The financial institution
  - Mr Bob Welsh, CEO, VicSuper
- The regulator
  - Ms Gabrielle McCorkell, Strategic Adviser, EPA Victoria