Centre for Environment and Sustainability

UNIVERSITY OF SURREY

Welcome to the
Annual Roland Clift Lecture
Presented by
Dr Steve Waygood

#10yearson

@CES_Surrey
@stevewaygood

INTRODUCTION TO SUSTAINABLE FINANCE & INVESTMENTS

Dr. Steve Waygood

Chief Responsible Investment Officer @stevewaygood

15 November 2018 – Roland Clift Lecture, Guildford

Bellway
BARRATT HOMES
Berkeley HOMES
Whirlpool CORPORATION
STANLEY
BLACK&DECKER
nationalgrid
AEP AMERICAN ELECTRIC POWER
British Gas
CarpetRight
IKEA
Kingfisher
Topps Tiles
Travis Perkins plc
BRITVIC soft drinks
DIAGEO
TATE LYLE
TESCO Every little helps
WHOLE FOODS MARKET
PREMIER FOODS
Associated British Foods plc
Kellogg's
Pfizer
KRAFT
Walmart
JD
gsk GlaxoSmithKline
P&G Procter&Gamble
Unilever
Colgate
BMW
MOTOR HARLEY-DAVIDSON CYCLES
MARKS & SPENCER
Target.
Walt Disney
itv
Mercedes-Benz
VIACOM
Expedia
mothercare
21ST CENTURY FOX
AmericanAirlines
First
CABLE & WIRELESS
GOODYEAR
AT&T
verizon
BT
vodafone
ups
ebay
amazon
Google

Climate risk

Understanding the scale of the challenge

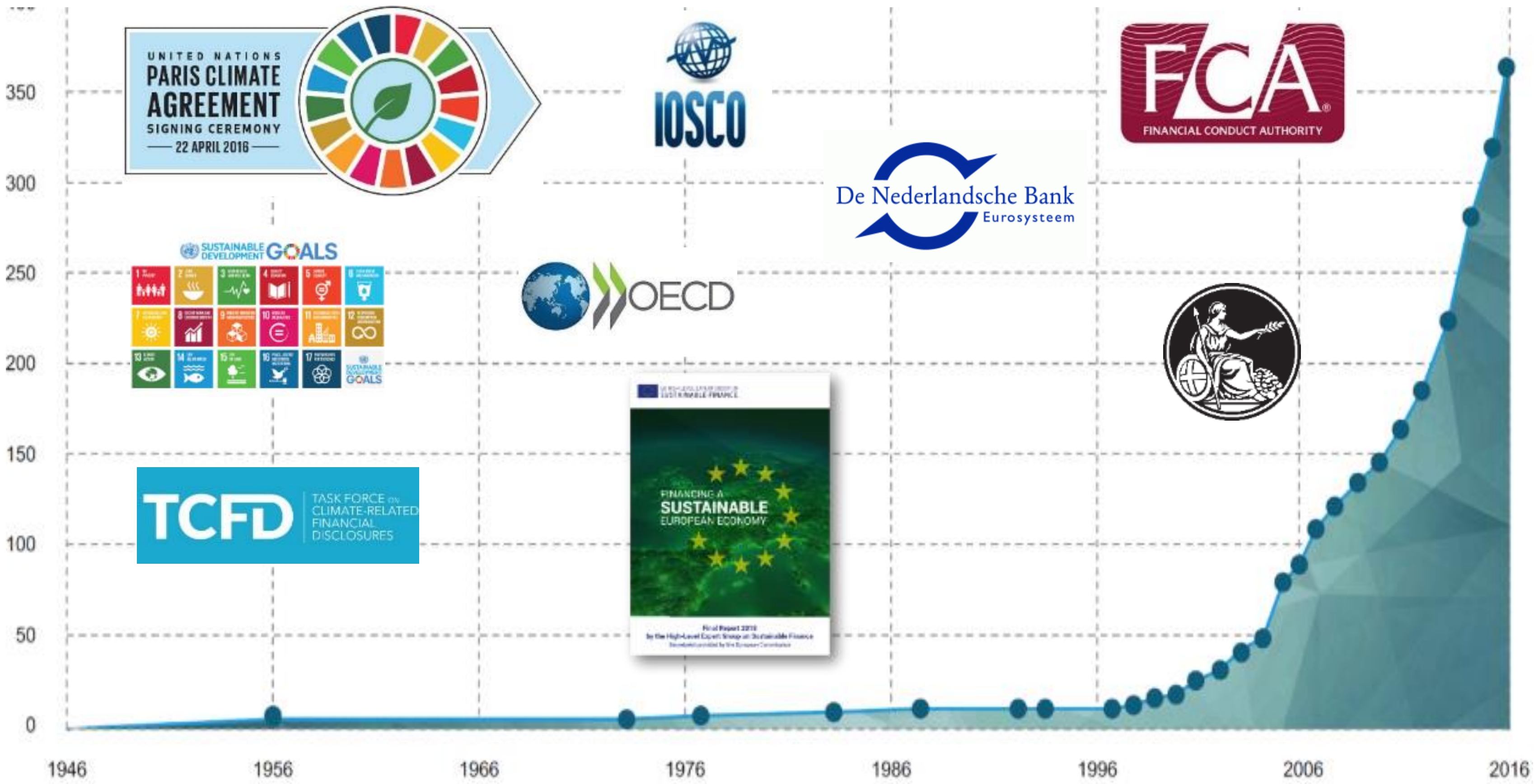
KEY FINDINGS

- The value at risk to manageable assets from climate change calculated in this report is US$4.2trn, in present value terms.
- The tail risks are more extreme; 6°C of warming could lead to a present value loss worth US$13.8trn, using private-sector discount rates.
- From the public-sector perspective, 6°C of warming represents present value losses worth US$43trn—30% of the entire stock of the world's manageable assets.
- Impacts on future assets will come not merely through direct, physical harms but also from weaker growth and lower asset returns across the board. The interconnected nature of the problem will reduce returns, even on investments unharmed by physical damage.

Thought leadership & research

Policy-makers around the world are regulating sustainable finance

Many of these rules will drive market developments



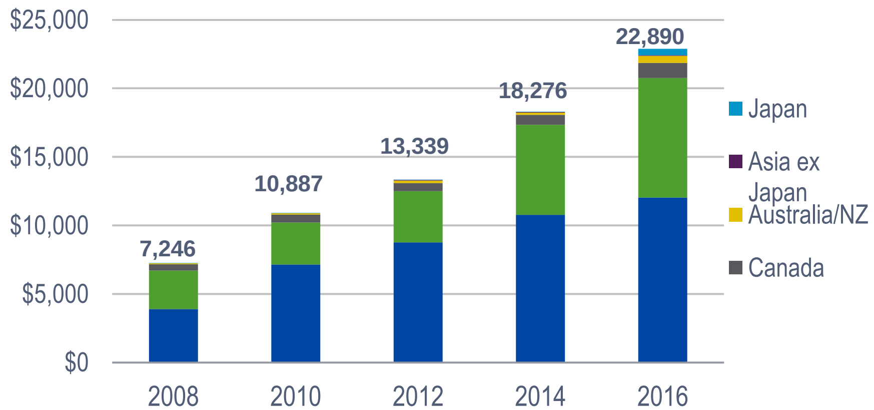
The asset flows into responsible investment continues to grow

The market is growing across regions, asset classes and strategies

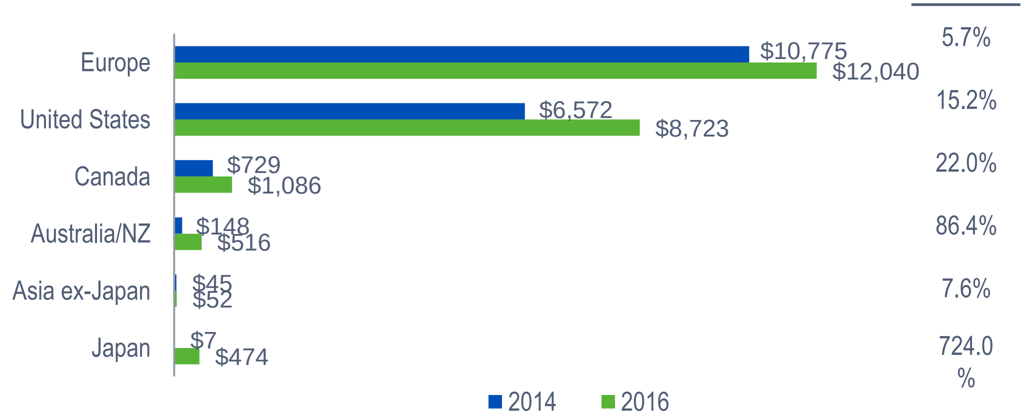
The 2016 Global Sustainable Investment Review, a survey of institutional asset owners, shows growth continues

- As of the beginning of 2016, **$22.89 trillion of assets** were professionally managed under responsible investment strategies.
- Majority of global SRI assets remain in **Europe** (53%) but the proportion in the **United States continues to grow** (38%).
- The proportion of **total global assets** under management in **socially responsible investments** was **26.3%** as of 2016.

Global SRI Assets Under Management, 2006-2016 ($bn)



Growth of SRI Assets by Region, 2014-2016 ($bn)



Compound annual growth rate of all ESG assets as a share of global assets under management is 15.5% and is expected to top 50% in 2018

Source: Pictet Asset Management's latest secular outlook

Inflows of capital into ESG index-tracking funds on BlackRock's iShares platform reached a record $390m in July, bringing total inflows since 2009 to $5.7bn

Source: Morningstar Sustainable Funds U.S. Landscape Report Jan 2018

By the end of 2017 there were 234 socially and environmentally screened ETFs and mutual funds (doubled since 2012) with $100bn in assets

Source: BlackRock's iShares platform July 2017

And their marketing and messaging on ESG is changing too

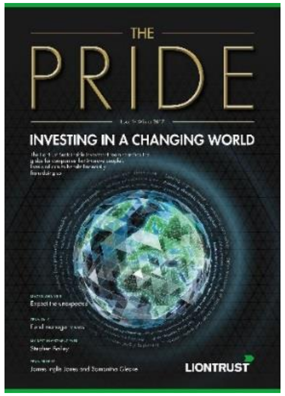
The messaging is now looking to appeal to the mainstream

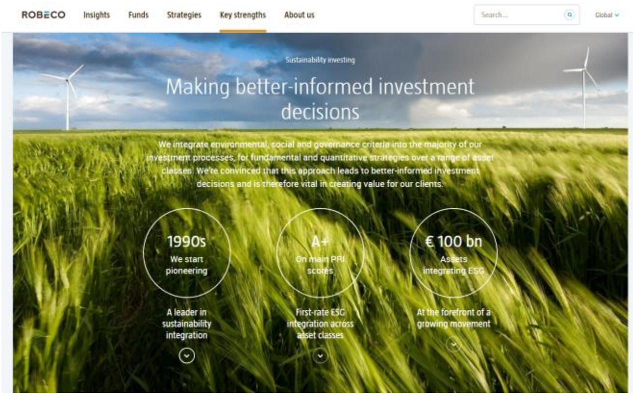
Campaigning

Visionary futures

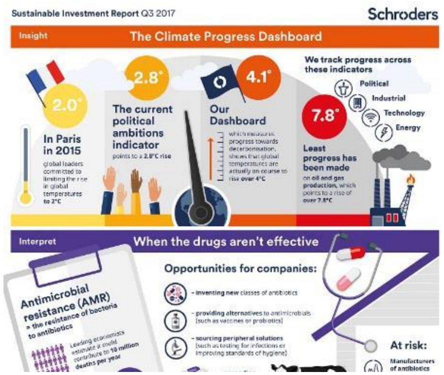
Facilitation of change

Certainty in uncertain times





Understanding



High performance

Sustainable investing is simply smart investing

Driving purpose and performance

Investors need not adjust their financial goals to invest with purpose. BlackRock's sustainable funds are designed to meet the performance characteristics of traditional investments while targeting specific social impact objectives, such as reducing the carbon footprint of an investment portfolio.

Impact is on investors' minds

Once a niche market, sustainable investing is becoming mainstream. Whether to mitigate risks, comply with regulation or target thematic impact, demand for these investment approaches has grown considerably.

BLACKROCK

What do we mean by responsible investment?

There are many different investment strategies that can all be called RI

ESG integration		• The **systematic and explicit inclusion** by investment managers of **ESG factors into financial analysis** so as to improve information ratio and risk adjusted investment returns
Active ownership	Corporate and other assets	• Use of **shareholder power to influence corporate behaviour**, including through direct engagement, filing or co-filing shareholder proposals, and proxy voting guided by ESG guidelines
	Policy-makers and wider industry	• Use of **investor voice to influence policy-makers and regulators** to address market failures through thought leading individual and collaborative campaigns at UK, EU and international level.
Negatively Screened strategies	Negative/ exclusionary screening	• **Excludes** specific investments or classes of investment from investible universe such as companies, sectors or countries • Exclusions based on **ESG criteria**
	Norms-based screening	• Screening of investments against **minimum standards of business practice** based on **international norms** • E.g. the Extractive Industries Transparency Initiative
	Positive/best-in-class screening	• Investment in sectors, companies or projects selected for **positive ESG performance relative to industry peers,** such as selecting to invest only in the top 20% ESG scores of companies in a sector
Positively screened strategies	Sustainability-themed investing	• Investment in themes or assets **specifically related to sustainability** • E.g. clean energy, green technology, sustainable agriculture
	Impact investing	• Investing in companies / projects that actively seek to **address an explicit social or environmental issue in a quantifiable way**, i.e. with measurable social / environmental returns • Several measurement frameworks exist, notably the UN Sustainable Development Goals (SDGs)

Why ESG? It impacts on financial performance

Integrating it can help spot risks, enhance returns and dampen volatility

Research finds positive correlation between ESG and performance

Our investment bank study for 2017 highlighted broker and academic research that demonstrates that companies with better ESG practices are better long-term investments. For example:

- (2016) Mozaffar Khan, George Serafeim & Aaron Yoon "*Corporate Sustainability: First Evidence on Materiality*" found that firms with good performance on material sustainability issues **significantly outperform** firms with poor performance on these issues.
- (2016**) Bank of America Merrill Lynch** study found **exposure to** 15 of 17 US **bankruptcies** since 2008 **could have been avoided** through integration of ESG in conventional analysis.
- (2016) **MIT Sloan School of Management** and Breckenridge Capital Advisors "*ESG Integration in Corporate Fixed Income*" found ESG factors were **positively correlated with measures of financial health, including risk, return on assets and leverage ratio** – and findings were even stronger **during times of market turmoil**.
- (2017) Andreas G F Hoepner and Marcus A Nilsson**, University of Reading** '*No news is good news: Corporate Social Responsibility Ratings and Fixed Income Portfolios*' used a sample of 5240 bonds from 425 US companies during the period January 2001 to December 2014 and ESG ratings provided by KLD and found that bonds issued by companies with no strengths, no concerns, and no controversies **significantly outperform the market benchmark**.
- (2016) **Barclays** '*Sustainable investing and bond returns"* found a positive ESG tilt resulted in a **small but steady performance advantage**. No evidence of a negative performance impact. Strongest positive effect of a tilt towards G, weakest for S – issuers with high Governance scores experienced lower incidence of downgrades by credit rating agencies
- (2018) **McKinsey** "Diversity Matters" examined 366 public companies across industries in Canada, Latin America, the UK, and the US and found firms in top quartile for racial and ethnic diversity were 35 % more likely to have **financial returns above respective national industry medians –** on gender diversity they were 15% more likely to outperform.

Bank of America Merrill Lynch | MIT MANAGEMENT SLOAN SCHOOL IDEAS MADE TO MATTER | University of Reading | BARCLAYS | McKinsey&Company

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Corporate history is filled with ESG-related failures that has hit the bottom line

ESG Risk Event	Date	1Y (%)
Energy accounting scandal (Enron)	8/14/01	-99.6
Telecommunications accounting scandal (WorldCom)	03/11/02	-98.6
Upper Big Branch Mine Explosion (Massey Energy)	04/05/10	-52.7
Deepwater Horizon Oil Spill (BP)	4/20/10	-28.2
Automobile airbag recall (Takata)	1/21/14	-53.5
Pharmaceutical accounting scandal (Valeant)	08/05/15	-91.5
Automobile emissions scandal (VW)	9/20/15	-26.4
Average loss to shareholders after 1 year		**-64.4**

Source: Morgan Stanley

Why ESG? It impacts on financial performance

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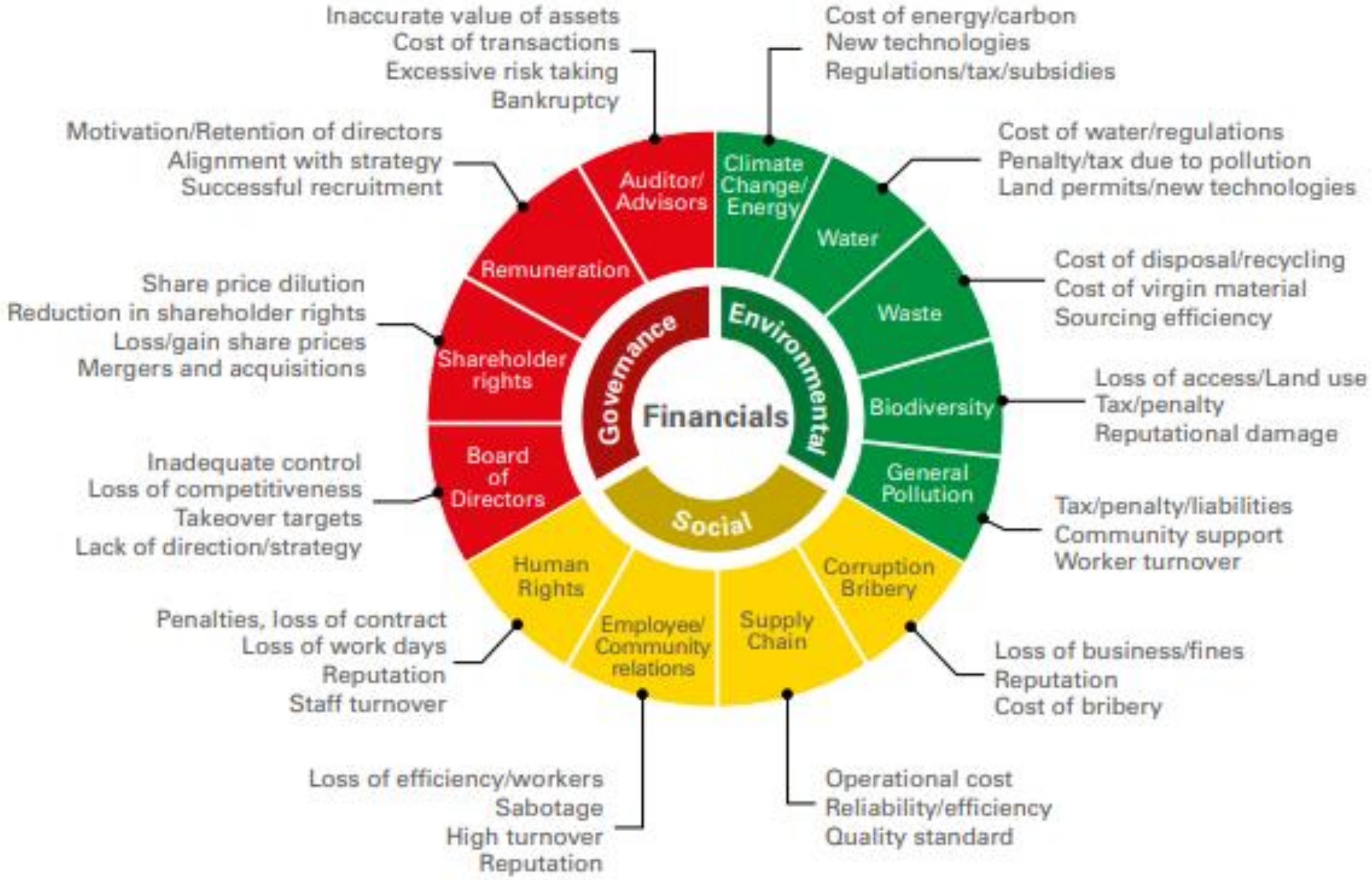
AVIVA INVESTORS

ESG isn't "non-financial"



Active owners through voting and engagement

We add value for our clients by improving the performance of our assets

AVIVA INVESTORS

Our approach

- Stewardship an integral part of addressing ESG risks and opportunities in portfolios
- Voting policy and stewardship statement approved annually by AIHL Board and Aviva Board Governance Committee
- Early signatory to the UK Stewardship Code – Tier 1.

4,151 # shareholder meetings we voted in 2017

49,352 # resolutions voted iin 2017

1,381 # engagement with companies in 2017

Voting

- Voting policy since 1994
- Tracked in database and included in ESG Heat-map
- Publish voting records quarterly

Engagement

- Engage to gather information or facilitate change
- Work with fund managers to identify priorities
- All engagement activities tracked in database

Evidence of change

Proxy Voting

VOTE

- FTSE
- EXXON
- London Stock Exchange Group

Individual engagement

- Unilever
- McDonald's
- Samsung Electronics

Collaborative engagement

- 30% Club
- PRI Principles for Responsible Investment
- access to medicine index

UN Sustainable Development Goals for 2030

A Roadmap for Sustainable Capital Markets

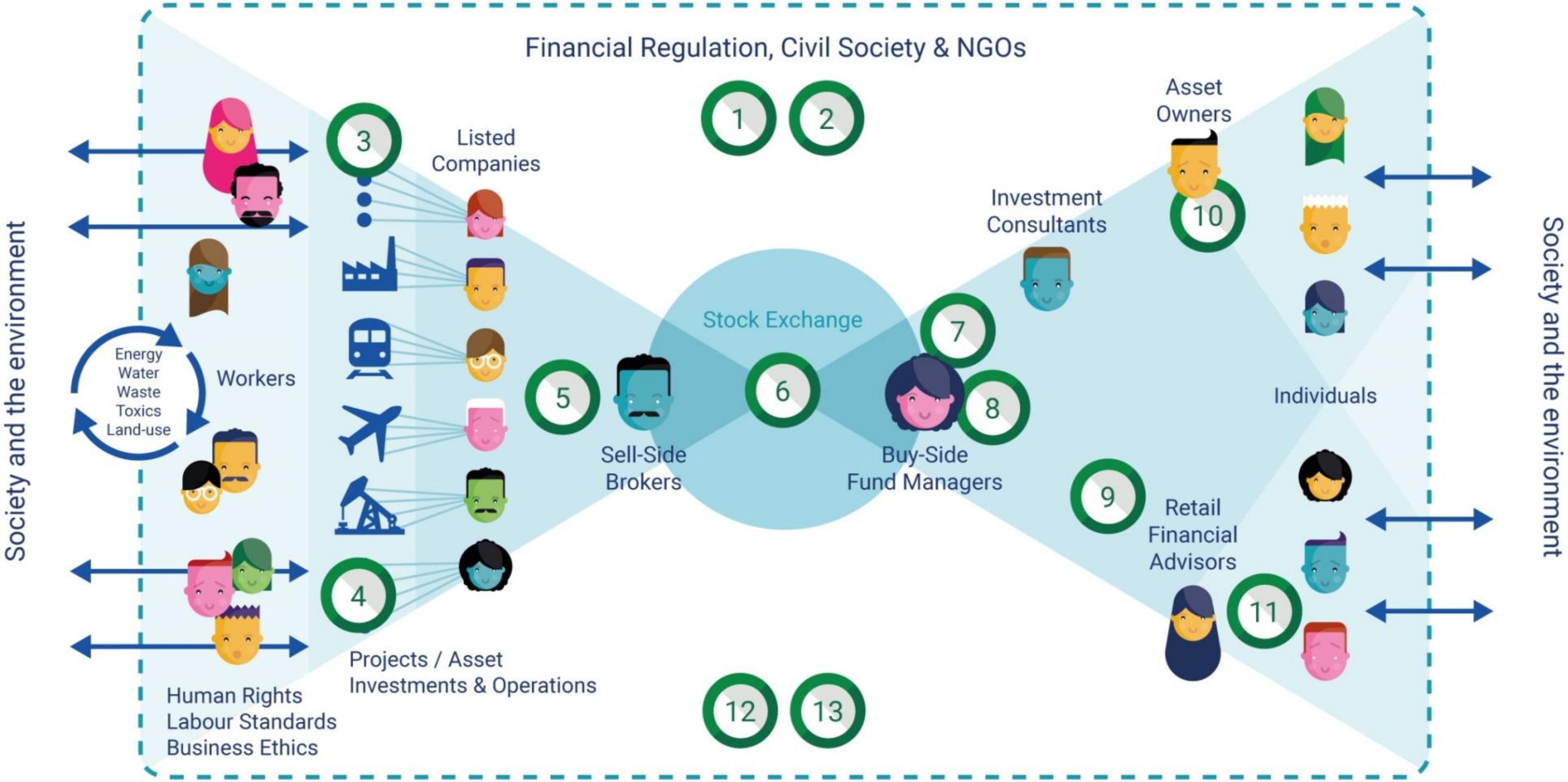
Money Talks

A sustainable finance policy toolkit

It's not enough to make the European economy more sustainable – we need a financial sector that can back it up. Sustainable finance is an idea whose time has come. This toolkit sets out ways to help make it happen.

Get started

How your money is put to work



AVIVA INVESTORS

Our 2030 Financial Fitness Tests

Test 1. **Getting Prices Right**: does the debate recognize the central importance of ensuring that the underlying price mechanisms promotes sustainable development?

Test 2. **Getting Pay Right**: are there measures that will change the incentives within the institutional participants in the capital supply chain (in particular, sell-side brokers, stock exchanges, fund managers, investment consultants and asset owners)?

Test 3. **Securing Capital**: are there investment instruments that will be sufficiently attractive to markets and/or does it look likely to generate a plausible capital raising plan?

Test 4. **Systemic Transparency**: does the means of implementation include measures that will promote the transparency of companies on their sustainability performance as well as all the transparency of all the investment intermediaries that connect the end investor to the companies that they own?

Test 5. **Sustainable Finance Standards**: will the means of implementation create the right kind of hard and soft standards that facilitate sustainable capital markets?

Test 6. **Sustainable Demand for Sustainable Finance**: will the SDGs promote financial literacy measures among the investing public in order to ensure that there is sufficient demand for sustainable finance and sufficient accountability of financial institutions for their actions in this area?

Unlocking the power of companies through capital markets and society

World Benchmarking Alliance

www.worldbenchmarkingalliance.org

The UN Sustainable Development Goals set out the future we want. The private sector will be central to their success.

The World Benchmarking Alliance will develop, fund, house and safeguard publicly available corporate SDG performance benchmarks.

Free corporate benchmarks aligned with the SDGs will help companies, investors and others drive change by raising awareness and promoting a corporate race to the top.

Successful benchmarks provide guidance on impact as well as a gap analysis. This improves understanding, promotes dialogue and drives positive change.

The WBA is itself a Partnership for the Goals (Goal 17) and includes representatives from finance, business, civil society, and government.

Aviva

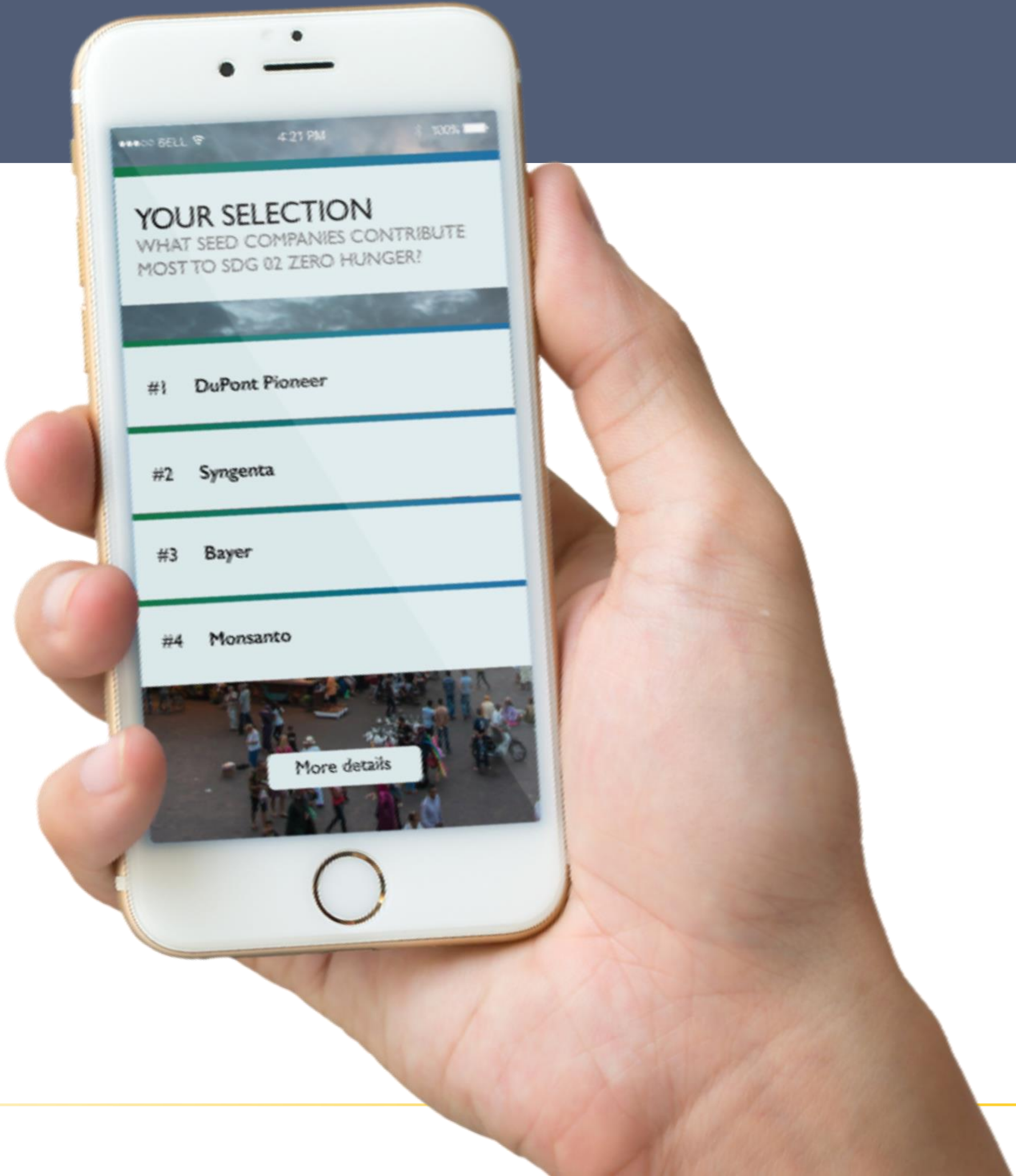
The Alliance is growing

WBA Allies: The following organisations have endorsed the concept of the WBA.

The Global Consultation

Figure 1: WBA Consultations from September 2017 to April 2018

What's next?


YOUR SELECTION
WHAT SEED COMPANIES CONTRIBUTE MOST TO SDG 02 ZERO HUNGER?
#1 DuPont Pioneer
#2 Syngenta
#3 Bayer
#4 Monsanto
More details

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