

Sustainability is an important investment proposition



Earlier this month I had the opportunity to discuss sustainability in investment with Mr. David Blood, Managing Partner, Generation Investment Management based in London. Prior to co-founding Generation, David served as the co-CEO and CEO of

Goldman Sachs Asset Management from 1999 to 2003. The Chairman of Generation is former Vice President of the United States Hon. Al Gore. Mr. Gore is the author of the critically acclaimed book, "Earth in the Balance" and took the lead on environmental issues for the Clinton-Gore White House. Generation, has an investment philosophy that integrating sustainability research into a traditional equity framework makes sense in a concentrated equity strategy.

When asked about the reasoning for Generation's investment philosophy being centred around sustainability, Mr. Blood noted that "sustainability issues can materially impact a company's ability to generate and sustain profitability and deliver returns to shareholders. By sustainability issues, we mean long-term economic, environmental and social challenges. They include, for example, future political or regulatory risks, quality of human resources management, risks associated with governance structure, the environment, mergers and acquisitions, and stakeholder relations. By broadening the spectrum of information we consider in our investment process to include sustainability research, we have more conviction on a company's management quality, business quality and valuation".

Mr. Blood increasingly expects mainstream financial markets to adopt a similar approach. "The interests of shareholders, over time, are best served by companies who maximise their financial performance by strategically managing

their economic, social, environmental and ethical performance. After all, these factors can directly affect a company's ability to generate revenues, manage risks, maintain license to operate and sustain competitive advantage. In fact, we believe that sustainable development will be the primary driver of industrial and economic change over the next 50 years". In sighting some examples of large companies that have already begun integrating sustainability into core business, he highlighted General Electric designing products to enable their clients to compete in a carbon constrained world, Novo Nordisk taking a holistic view of combating diabetes not only through treatment but also through prevention and BP investing \$8 billion over five years into alternative energy projects.

When asked about significant sustainability challenges facing companies, Mr. Blood noted that "in the oil and gas industry, we believe climate change is the most significant driver of change. In the healthcare space, we concentrate on ethical marketing practices and clinical trial construction. And for financial services companies, we focus on human capital management practices and the culture of the firm...we believe companies that understand and address the risks and opportunities associated with these trends will be the ones to succeed in the complex world of tomorrow". I personally cannot argue with that sentiment.

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