Strategic View: How high are sustainable financial returns?

by

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The investment ecosystem has reached a tipping point, and the interest in responsible, sustainable investing is surging. Asset owners with over $10 trillion have signed up to the UN Principles for Responsible Investment. The Investor Network on Climate Risk now has over $5 trillion behind it. The leading investment consultant to Foundations will now provide Mission Related Investing services. More corporations are institutionalizing sustainability concepts into their organizations, and business education is inching away from the blinkered study of money making toward imagining socially positive enterprises with multiple bottom lines. A recent on-line survey by Cone Inc. found that 79% of full-time workers under the age of 25 want to work for a company that cares about how it affects or contributes to society.

As the new players under this growing sustainability tent get to work, they will eventually pose the most fundamental of questions: what is the objective of investing? By custom, and at times by regulation, the answer has been: maximize risk-adjusted financial returns. With this narrow, short-term view, environmental and social considerations have been deemed in conflict with maximizing wealth. Yet, can we really thrive while ignoring the explicit bottom lines of environmental sustainability and social justice?

The easy to grab, low-hanging fruit in sustainable investing is being harvested with a single-bottom-line approach. Activities that reduce the use of fossil fuels *enhance* the financial bottom line. With $100 oil, the obvious win-win activity is energy efficiency. Wal-Mart has gone all-in for a definition of sustainability focused primarily on reducing energy use by the company, its suppliers, and its customers. This is a wonderful development, but only the first of many toward a truly sustainable economy and financial system.

Here at Trillium we are improving our own sustainability performance through an inspiring grassroots effort initiated by our newly formed Green Team. The Greens recently sat us down, vegetarian pizza in hand, as we watched the clever, concise, and internet-delivered *Story of Stuff* (www.storyofstuff.com). In 20 minutes the narrator, Annie Leonard, illustrates the social and environmental damage our current straight-line production system generates, from extraction to production, distribution to consumption, and finally disposal to landfill. She ends with a vision of an alternative production system that is circular as opposed to linear, that recycles as opposed to exploits, and that is cognizant at every juncture of the human impact of the material economy.

This kind of deep sustainability thinking prompts a recasting of the most fundamental investment questions. As investors and capitalists, we embrace investing for financial return. The evolved fiduciary question becomes: what is the best risk-adjusted, long-term financial return we can generate that is sustainable and restorative from both a human and planetary perspective? Going down this essential path means acknowledging that many legal investments are neither moral nor sustainable, damaging the soul as well as the environment, and risky in the long run. Truly sustainable investing expands the definition of wealth generation, risk and return, illuminating the complex tradeoffs we all face as individuals and institutions.