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Driving sustainable and responsible investment

Singapore Management University

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Appealing to the moral imperative is futile. Sustainable investment funds should work on target's self-interest

When **Robert Rubinstetin**, Chairman of sustainable investment firm Triple Bottom Line (TBLI) Group, was asked to give a talk in the Netherlands to an insurance industry audience, he decided to talk about the threat of flooding in the low-lying country.

"They said, 'It's not a problem, we don't cover saltwater damage," recalled Rubinstein at the recent SMU Sim Kee Boon Institute (SKBI) for Financial Economics seminar, "*ESG & Impact Investing: Current Status & Lessons Learned*". "I got upset and thought it was an incredibly stupid way of thinking.

"So I put it in a way they understood: 'But you cover mortgages. If 100,000 homes are underwater, they'll have no value and you'll have a huge loss on your books.' 'Oh!!'

"You really have communicate in the language that they understand and not be judgemental about it."

PUTTING A VALUE TO VALUES…AND SELF-INTEREST

That exchange, Rubinstein mused, highlighted the futility of the moral imperative argument to get corporations and wealthy individuals to put money into sustainable investments. But recent performance of Sustainable and Responsible Investment (SRI) assets has been encouraging, with average Compound Annual Growth Rate (CAGR) of 11.9 percent in most of the developed world between 2014-2016, he said.

Interest in SRI has been driven by unsustainable global consumption of resources, where "the only way to keep this up is a conflict for resources or massive resource efficiency, which represent phenomenal investment opportunity", Rubinstein noted. "There's not enough resources at this level of consumption to fuel growth."

What has gotten the attention of the wealthy, both individuals and organisations, is how rising carbon costs could impact profits. Big investment funds are paying attention to Environmental, Social and Governance (ESG) and SRI initiatives "because there is demand and great opportunities," Rubinstein said. "Why so much activity? Because for the first time carbon has a clear cost where it did not have a cost before. We are seeing a lot of things coming together collectively which are pushing this focus on sustainability."

Even so, Asia appears to be lagging the rest of the world in ESG investments. Citing green bonds as an example, Rubinstein laments the region's lack of interest in the instrument: "One of the main reasons is because in certain Asian countries there is no active NGO community to pressure corporates, unlike in Europe." That plays a significant role in how many corporations actually feel the need to issue green bonds."

He added: "Nobody I spoke to has ever said, 'I want my investment to make life miserable for everyone and I'm working at that for 24 hours a day.' Most investors are trying to achieve their goal, whatever that may be, and when they realise that they can integrate their values with their investment, and they can find professionals and fund managers who can do that, it's not hard to convince these investors."

MEASURING IMPACT, SPARKING CHANGE

Of funds and companies that do take ESG investments seriously, Rubinstein sometimes has issues about how impact is measured. He gave the example of a bank on whose board he used to sit and which invested in sustainable growth. The bank had withdrawn its interest in the Japanese supermarket chain Takashimaya because it sold whale meat.

Rubinstein: "I see you off Takashimaya from your investment universe, why?"

Bank: "They sell whale meat. We have a 100 percent ban on whale meat."

R: "What about cigarettes?"

B: "We have a 100 percent ban on that too."

R: "Are you taking off supermarkets that sell cigarettes?"

"The percentage of sales cigarettes make up at a supermarket is far higher than that of whale meat. So there are a lot of grey areas."

So how can someone who wants to drive sustainable investment make funds and financial institutions look beyond narrow interests and truly consider the triple bottom line of "people, planet, and profit"?

"I always tell the MBAs, 'If you want to change the companies don't go work for them and try to change them from within,'" Rubinstein exhorted. "That's like scratching at a safe with a plastic spoon; you're not going to get anywhere.

"What you need to do is, when they come to recruit you, ask values-based questions of that interviewer. If you refuse to work for them because of values, that will have more impact in changing the company because you have leverage over them. If they see that the students that they want are not that excited about a red BMW, that will fundamentally change things. It takes time."

He concluded: "Leave your job if the values are not aligned with yours or if things aren't moving fast enough because such a statement is more powerful than trying to change things from within."

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