

***Sustainability :***  
***Decision Making, Economics & Investments***  
***Or***  
**Sustainable, Responsible Investing for Everyone**

Bruce Doueck

May 3, 2010

# What is Sustainability?

- **Sustainability** is the capacity to endure
  - In ecology, it is how biological systems remain diverse and productive over time
  - For humans, it is the potential for our long-term maintenance and wellbeing, which in turn depends on the wellbeing of the natural world and the responsible use of natural resources
- **Implications**
  - Disrupting natural cycles generally has adverse impacts
  - Adapt or perish - ***species, products, organizations...***

# Some Sustainability Acronyms, Terms

- CSR – Corporate Social Responsibility
- SRI – Sustainable Responsible Investing
- PPP – the 3 Ps –People, Planet & Profits [also triple bottom line]
- LOHAS – Lifestyles of Health & Sustainability
- Category Portfolio
  - Green Investing
  - Wind/solar
  - Water
  - Waste recycling
  - Social Responsibility
  - Local investing
  - Microfinance
- Emerging markets
  - New technologies
  - RECS –Renewable Energy Credits
  - Carbon trading

# Sustainable Organizations

- Triple Bottom Line focus-doing the right thing for people, planet & profits
  - **Profits** for shareholders (operating cost savings)
  - Good to **People** (improved productivity, reduced absenteeism...)
  - Environmental improvement for the **Planet** (minimize footprint)
  
- Reduces risk (IAQ, insurance discounts...), enhances value, improves competitive advantage
  
- See the gold in green (Green to Gold, Daniel Esty, Yale) smart companies use environmental strategy to innovate, create value and build competitive advantage; **not just cost reduction but also revenue enhancement!**
  - Mainstream companies
    - GE, Wal-Mart, Bayer, BP...
    - Cooperative Bank of England
    - Phillips Electronics
    - Hewlett-Packard Company
  - Deeper Green companies:
    - Zipcar, Timberland, Seventh Generation, Interface, Patagonia, Starbucks

# Sustainable Decision Making

- Setting holistic goals for making decisions
- How do we make decisions?
  - Decision criteria
    - Cost
    - Return on Investment [ROI], NPV...
    - Schedule
    - Quality
    - Availability
    - Durability
    - Operation & maintenance cost
    - Risk
    - Strategic value
  - Tradeoffs & constraints





*"I already told you. Incandescents use too much energy, and CFLs contain mercury. That's why we switched to torches."*

# Sample Sustainable Decision Matrix

<i>CRITERIA</i>	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Cost [low=3]	1	3	2
Quality [high=3]	2	1	3
Life	2	3	1
Maintenance	1	2	3
Operating cost	1	3	2
Return on investment	2	1	3
Environmental impact	3	2	1
Disposal cost/impact	2	1	3
Local source	2	1	3
Strategic value	3	1	2
<b>TOTAL</b>	<b>19</b>	<b>18</b>	<b>23</b>

**Scoring:**  
**Low = 1**  
**Medium = 2**  
**High = 3**



# SUSTAINABILITY ECONOMICS

- *Economics* is the social science that studies the production, distribution, and consumption of goods and services.
- *Sustainability* meets the needs of the present without compromising the ability of future generations to meet their own needs
- Understanding of the social and ecological consequences of economic activity, and the impact of society, culture, and the environment on the economy
- *The challenge for Sustainability Economics is:*
  - to reduce consumption and resource use
  - in order to change the environmental impact of economic activity from negative (becoming less bad), to neutral (zero impact), to positive impact (net environmental impact)
  - and to reduce disparity
  - and to support cultural and societal growth
  - while raising the standard of living
  - and recognizing and preparing for the impact that the environmental and society and culture have on the economy
- *This must be done by using strategies and technology that break the link between economic growth, environmental damage and resource depletion, and growing social and economic disparities.*

# Introduction to Sustainable Responsible Investing [SRI]

- Priorities: 1<sup>st</sup> Home > business > community > portfolio [ROIs: 10-100% > 10-30% > 1-20% > 5-15% ] in expense reduction or avoided costs
- Follow traditional methodology for successful investment portfolios..with a CSR flavor
- Recent study found that socially responsible investing is growing at a faster pace than the broader universe of all investment assets under professional management. Roughly 11 % of assets under professional management in the U.S.; nearly 1 of 9 dollars are now in socially responsible investing
- Why?
  - 64% of consumers are searching for greener products
  - Corporations are:
    - Moving to Corporate Sustainability Investing/CSR
    - Using Triple Bottom Line
    - See the Green to Gold
  - Once an esoteric asset class, they're now a viable component of an overall asset allocation strategy

# Getting Started with SRI Investments

- Use asset allocation as a way to guard against too much risk in your portfolio
- Positive screens identify companies based upon practices that in some way benefit society, such as sensitivity to the environment or exemplary employee relations.
- Negative screens weed out poor SRI performers, including those that are polluters or that maintain poor working conditions.
- Possible focus areas can include: Faith, community, ethical practices, environment and
  - Shareholder Advocacy
    - Rather than passively follow the activities of the companies in which they invest, socially responsible investors often engage management in the issues they consider important.
    - A common practice is to participate in shareholder resolutions, which are petitions drawn up by groups of shareholders presented to all the owners for a vote
  - Community Investing
    - Low-income and disadvantaged communities are often underserved by traditional financial services..
    - This financing is often provided by community development banks and credit unions which focus on community development in needy areas

# Sustainable Investing: Myths vs. Facts

## **MYTH - SRI is merely a fad, It's just a gimmick**

- Green investing has definitely taken root,“ says Michael Herbst, a mutual fund analyst at Morningstar
- Today more and more companies are reporting on triple bottom line results [www.Globalreporting.org](http://www.Globalreporting.org)

## **MYTH - It's the same as ethical/socially responsible investing**

- Environmental investing is a part of a broader approach called sustainability investing, which takes into account Environmental, Social and Governance (ESG) factors.
- As for green investments, they focus on one element of the ESG universe -- the environment -- translating the implications of such key trends as climate change and water scarcity into investment opportunities.
- That's very different from the traditional socially responsible investment approach, which tends to focus on human rights issues and selects companies for investment based on specific "social" criteria.

## **MYTH - Green initiatives are supported mainly by private interest groups**

- Governments are spending billions of dollars on green technology. China has earmarked \$216.4 billion and is trying to generate 15% of its energy from renewable sources, up 7% from 2005. Green spending in the United States is \$117.2 billion, \$36 billion in Japan, \$30.7 billion in South Korea, and \$24.7 billion in the EU, according to HSBC. Worldwide, over \$470 billion has been allocated to climate change-related investments through tax cuts, credits and spending. Companies that are prepared to deal with such issues as impending water shortages in their supply chain are better positioned to prosper.

## **MYTH - Advisors and investors aren't buying into the green investing trend**

- 78% of investors polled in a 2008 survey by Allianz agreed that the political landscape increasingly will promote business investment in new environmental technologies
- 91% said that finding technological solutions is needed to address the environmental havoc the world faces. 64% classified the environmental technology sector as a buy opportunity.

# SRI Performance

- Socially responsible investors prefer companies that are good corporate citizens, but they also seek to maximize the return on their investment
- The approach looks for highly resilient companies that are likely to outperform their competitors in the long term. This includes businesses with the foresight to take advantage of emerging green trends and firms addressing ways to adapt to declines in natural resources, e.g., oil & water
- **MYTH - There's a performance penalty**
  - In the seven-year period (annualized) ending September 30, 2009, the Dow Jones World Sustainability Index was up 9.47% as compared to the MSCI World Index, up 8.84%, according to Bank of New York
  - Year-to-date through September 30, the Dow Jones Sustainability World Index is up 30.53%, whereas the MSCI World is up only 25.55%.
  - **"Two Thirds of Socially Responsible Mutual Funds Outperformed Benchmarks During 2009 Economic Downturn."**

# SRI Mutual Funds

- Mutual funds are the simplest and most common way for investors to participate in socially responsible investing. Several fund families focus exclusively on SRI
  - Environmental Funds
  - SRI Fund Families
  - Faith-Based Mutual Funds
  - Social Investing and Gender Empowerment [some studies suggest companies that promote women perform better than others]
  - Parnassus Workplace Fund : Do Good Workplaces Make Good Investments? This fund invests in companies that make the Fortune 100 Best Companies to Work For list, etc.
- Examples: Calvert, PAX, POWB, PORTX, CFWAX, CSTEM

# Opportunities at all Levels: Personal, Business, Institutional, Non-profit, Government

## Cost Reduction

### Less:

- Energy
- Water
- Materials
- Waste
- Time
- Rework
- Replacements

## Risk Reduction

- Reduced hazardous materials
- Reduced emissions
- Reduced defects & rework

## Added Revenues

### More:

- New product sales
- New service sales



## Key Takeaways

- Often the best investments are bottom up, green your world!
- Priorities: 1<sup>st</sup> Home > business > community > portfolio  
ROIs: 10-100% > 10-30% > 1-20% > 5-15% [expense reduction or avoided costs]
- Establish goals, develop plan, implement, monitor and update plan
- Consider your investment portfolio - start with a % sustainable funds first as part of a diversification strategy
- Research > Get Informed > Verify > Act

# *Resources for Sustainable Investing*

- [www.jea.com](http://www.jea.com) provides:
  - Online consumption history, online audits, factsheets, tools
  - JEA calculators, select Energy Star product rebates
- Green Money Journal - <http://www.greenmoneyjournal.com/>
- CSRwire is the leading source of corporate social responsibility and sustainability news- <http://www.csrwire.com/>
- Green Business website - [www.greenbiz.com](http://www.greenbiz.com)
- Corporate citizenship & sustainability - [www.Conferenceboard.org](http://www.Conferenceboard.org)
- Organizational Sustainability reporting - [www.Globalreportingindex.org](http://www.Globalreportingindex.org)
- Green Century Fund - <http://www.greencentury.com/?gclid=CJKqu-Ozk6ECFdtL5Qod-zDGQg>
- TD Ameritrade Screen for Green
- Lifestyles of Health & Sustainability [LOHAS] [www.lohas.com](http://www.lohas.com)
- Your financial advisor...

