

Investors sign up to a better world

News Analysis

UN sustainability principles are now seen as helping correct the systemic failure of capital markets, writes **Sophia Grene**

As markets collapse, investors are turning to sustainable investment as a possible way out of the maelstrom.

The United Nations Principles of Responsible Investment were continuing to gather signatories, said James Gifford, UNPRI's executive director. "You might expect this agenda to have less salience at the moment," he said, "but just 20 minutes ago, the Shell pension fund signed up."

In the past month alone, owners representing more than \$1,500bn (£914bn, €1,160bn) of assets have signed up to the six principles of better long-term equity ownership, bringing the total above \$18,000bn. "This agenda is part of the solution to addressing the systemic failure that just happened," said Mr Gifford.

"We need a more responsible and sustainable form of capital markets," agreed David Blood, managing partner of Generation Investment Management, which has continued to win mandates for its sustainable investment strategies in recent weeks.

"This is clearly a horrible crisis, but it is also an opportunity to take stock and think of ways to build a more sustainable form of investment."

His prescription starts

with a simple step: changing the incentive structures in asset management to align their interests with the long-term horizons of institutional asset owners. With this in place, corporate governance should come under the spotlight, and investors should ask questions about the long-term strategy of the businesses they own.

The move to sustainable investment could also ward off more restrictive regulation of financial markets, suggested Rory Sullivan, head of investor responsibility at Insight Investment.

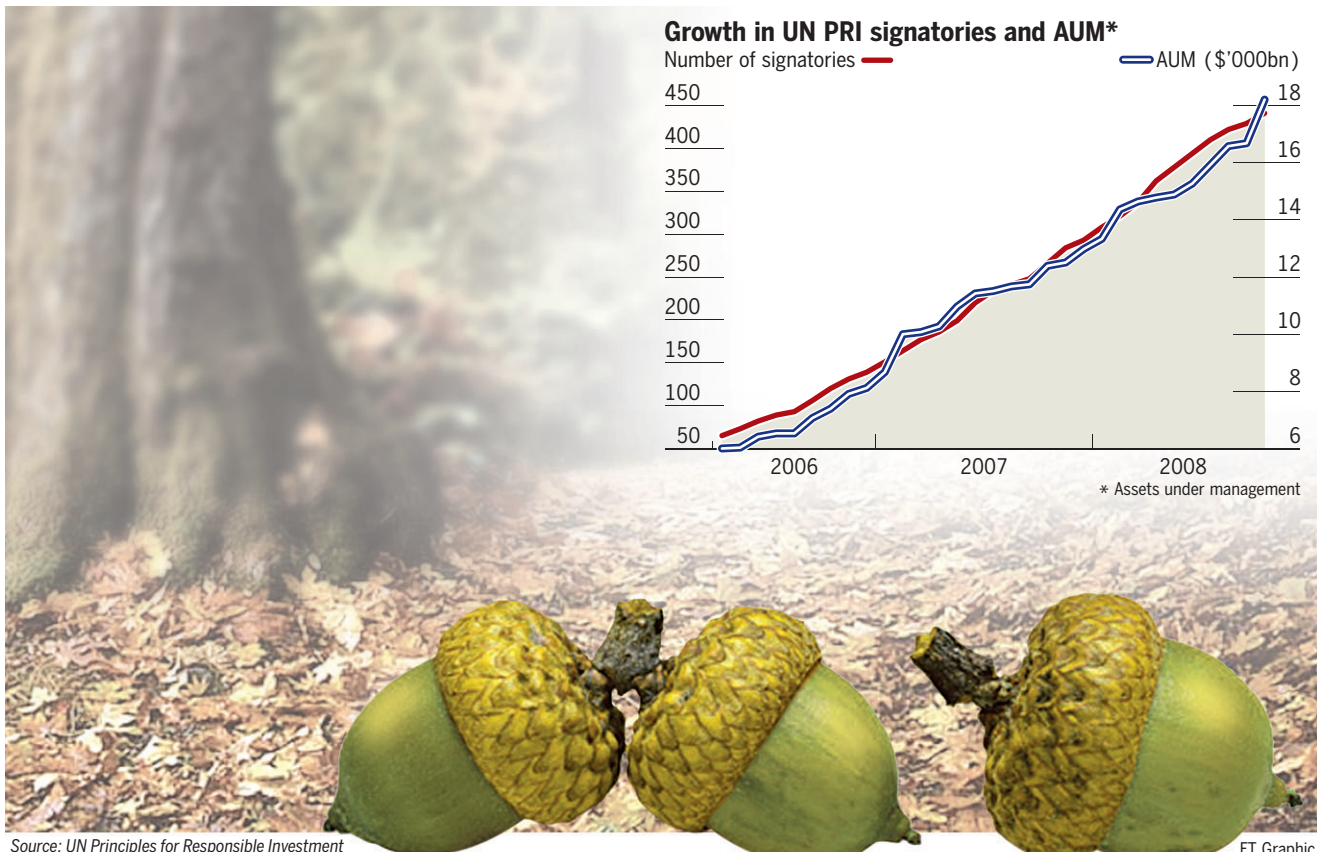
"It's up to us as investors to stand up and say what we're going to do," said Mr Sullivan.

"We need to go back to investment fundamentals. We should ask ourselves as investors, if we didn't identify the risks, why not? And if we did, what did we do about it?"

He describes sustainable, or responsible, investment as having three aspects: taking account of extra financial factors (such as climate change or governance) where they are material; ensuring the integrity of investments over the long term; and strengthening the role of investors in a dialogue with governments and other regulatory bodies about the impact of business activities.

Mr Blood claims a financial system based on these long-term principles could have avoided recent turmoil: "Increased leverage is about short-termism. We need to invest with the long term in mind."

Investing with the long term in mind requires investors to take account of factors that may not appear in company reports. Climate



Source: UN Principles for Responsible Investment

FT Graphic

change, corporate governance, reputational issues; these all carry potential risk and opportunity for companies.

Although historically the business case for integrating long-term issues has been better recognised in Europe and Australia than in the US, Mr Blood said, American investors were coming round to the argument.

One straw in the wind is that proxy voting research provider Glass Lewis recently announced it would include environmental and social data to its research service, in response to client demand. "Our clients were seeking more information," said Robert McCormick,

chief policy officer at Glass Lewis.

"It's a natural growth from shareholders looking at the overall risk profile of a company, which used to be focused laser-like on the financial accounts, then included corporate governance and compensation, and now is looking at environmental and social factors."

Another indicator is that Goldman Sachs's global investment research division is committing resources to building a sustainability index, which will form the basis of a Goldman Sachs Asset Management fund.

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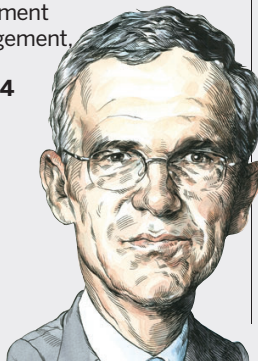
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