

# Sustainability Brief

**Sustainability** is the universal or umbrella term that covers many related acronyms. Most common: ESG<sup>(a)</sup> (broadly used in the U.S.), SRI<sup>(b)</sup> (broadly used in Europe), and CSR<sup>(c)</sup>.

## Why is it important for companies to pay attention to Sustainability?

- ✓ Growing focus in mainstream investor assets under management (AUM)
- ✓ Competitive positioning, differentiator, perception, counter misconception
- ✓ Pro-active focus on elements useful to analysts and investors
- ✓ Financial correlation, ROI, EV, SV
- ✓ Increasing exchange/regulatory/legal disclosure, supply chain mandates<sup>(1)</sup>
- ✓ Risk avoidance, both from corporate and investor vantage <sup>(2)</sup>

### <sup>(a)</sup> **ESG = Environmental and Energy + Social Responsibility + Governance**

*We suggest company emphasis on "E", because information better correlates to investment analytics and complements traditional operations improvement measurement standards. "S" is subjective, likelier to attract unconstructive activists, and prone to "green washing". "G" should be well established with legal oversight.*

## Growing body of evidence as to the importance of Sustainability

- \$20trn AUM available global capacity of ESG-focused investors seeking to invest in sustainability-focused companies and sustainability performance improvement.<sup>(3)</sup>
- 72% of S&P Index companies publish corporate sustainability reports as of 2013, up from 52% in 2012 and 20% in 2011, as do over half of Fortune 500 companies.<sup>(4)</sup>
- ESG leading companies also outperform peers and lead in superior stock price.<sup>(5)(6)</sup>
- Mainstream sustainability investors now often seek risk-adjusted performance returns inclusive of "sin" stocks or "dirty" sectors, ignored by exclusion strategies.<sup>(6)</sup>
- ROI Cases: Baxter estimates a return of \$3 for every \$1 spent on "E" environmental initiatives. Johnson & Johnson shows 19% internal rate of return on CO<sub>2</sub> projects.<sup>(7)</sup>

The term **Sustainability** avoids the misunderstandings of common acronyms.

<sup>(b)</sup>SRI (Socially Responsible Investors or Sustainable and Responsible Investing or Sustainable, Responsible and Impact Investing); <sup>(c)</sup>CSR (Corporate Social Responsibility or Corporate Sustainability Report or Corporate Self-regulation Reporting.)

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## Notes

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"How today's investors are framing conversations on corporate sustainability", by Ernst & Young. [http://www.ey.com/Publication/vwLUAssets/Investors\\_with\\_long-standing\\_interests\\_in\\_environmental\\_and\\_social/\\$File/Corporate\\_Sustainability.pdf](http://www.ey.com/Publication/vwLUAssets/Investors_with_long-standing_interests_in_environmental_and_social/$File/Corporate_Sustainability.pdf)
- (2) "Finding the Value in Environmental, Social, and Governance Performance", by Dinah A. Koehler and Eric J. Hespenheide, Deloitte Review, 2013. <http://www.deloitte.com/us/FindingthevalueinESG>, abridged <http://news.iwfinancial.com/risk-management-investing/deloitte-review-points-to-growing-importance-of-esg-research-as-a-factor-in-risk-management/>  
"Sustainability Goes Mainstream: Insights into Investors Views", by PriceWaterhouseCoopers, May 2014. <http://www.pwc.com/us/en/pwc-investor-resource-institute/publications/sustainability-goes-mainstream-investor-views.jhtml>
- (3) Over 1,200 UNPRI signatories have committed \$34trn AUM to ESG-focused investing (~25% of total global financial assets), of which \$13.6trn AUM has been invested (most current available figure), leaving approximately \$20trn un-invested/available capacity. Breakdown of \$13.6trn AUM invested: \$8.8trn Europe, \$3.74trn U.S. (~\$1 in every \$8 or \$9 U.S. AUM), \$0.6trn Canada, \$0.5trn all other.  
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- (4) "72% of S&P Index Companies Publish Corporate Sustainability Reports", by The Governance & Accountability Institute, June 2, 2014. <http://www.ga-institute.com/nc/issue-master-system/news-details/article/seventy-two-percent-72-of-the-sp-index-published-corporate-sustainability-reports-in-2013-dram.html?type=123>  
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- (5) GS Sustain Sustainability Investment Framework [http://www.unglobalcompact.org/docs/summit2007/g\\_s\\_esg\\_embargoed\\_until030707pdf.pdf](http://www.unglobalcompact.org/docs/summit2007/g_s_esg_embargoed_until030707pdf.pdf)  
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- (6) "Sustainability Goes Mainstream: Insights into Investors Views", by PriceWaterhouseCoopers, May 2014. <http://www.pwc.com/us/en/pwc-investor-resource-institute/publications/sustainability-goes-mainstream-investor-views.jhtml>  
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- (7) "An ROI-based Business Case for Sustainability", by Bob Willard, October 2012 CSRWire. <http://www.csrwire.com/blog/posts/576-an-roi-based-business-case-for-sustainability>,  
"Finding the Value in Environmental, Social, and Governance Performance", by Dinah Koehler and Eric Hespenheide, Deloitte Review, 2013. <http://www.deloitte.com/us/FindingthevalueinESG>  
Baxter - <http://thinksustainability.ca/wp-content/uploads/2013/02/sustainIssuePrint.pdf> (p.9)  
Johnson & Johnson - <http://www.jnj.com/sites/default/files/pdf/2012-JNJ-Citizenship-Sustainability-ANNUAL-REPORT-June2013-FINAL062413.pdf> (p.30)