Sustainable Investing

"Investing for a Sustainable Future" by Gregory Unruh, David Kiron, Nina Kruschwitz, Martin Reeves, Holger Rubel, and Alexander Meyer Zum Felde is the latest report in *MIT SMR*'s Sustainability & Innovation project which is, in partnership with BCG, an exploration of how sustainability pressures are transforming the ways we all work, live, and compete.

From the Executive Summary of this report:

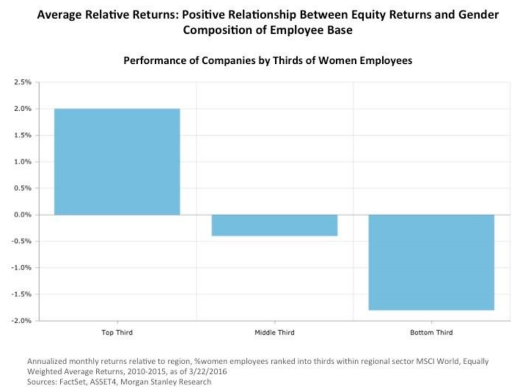
"This global executive study on corporate sustainability from *MIT Sloan Management Review* and The Boston Consulting Group (BCG) presents an in-depth analysis of investors' new ability to connect sustainability performance with corporate performance, discusses how investors are using sustainability performance as a key criterion for making (and leaving) investments, and identifies what corporate leaders can do to stay relevant to sustainability-oriented investors. Below are six key findings that emerged from our 2015 survey of more than 3,000 managers and investors in organizations from over 100 countries.

- Managers' perceptions of investors are out of date
- Investors believe that sustainability creates tangible value
- Investors are prepared to divest
- There is a lack of communication with corporations and investment firms and between them
- Sustainability indices are losing their luster
- Although a sustainability strategy is considered important, few companies have developed on"

And from the Conclusion:

"Investors want to hear about a company's sustainability progress and are factoring that progress into their decisions to invest. Executives need be in sync with this investor mindset and raise awareness about their company's sustainability progress. As Arabesque Partners' Eccles puts it: 'If you think sustainability is important, it is incumbent upon you to put it out there and make the case.'"

Gender Diversity



Also very recently Morgan Stanley issued a report "Why It Pays to Invest in Gender Diversity." "Moving the debate from the theoretical and into the empirical, Morgan Stanley's Sustainable + Responsible Investment (SRI) and Global Quantitative Research teams have collected and analyzed data on this issue from around the world, and created a proprietary gender-diversity framework for ranking more than 1,600 stocks globally."

This new approach demonstrates that more gender diverse companies offer similar return with lower volatility, with significant implications for investment and corporate behavior.

The report notes that one of the challenges in studying the relationship between gender diversity and financial performance is the lack of data and data standards—a problem common in all research that is looking for a relationship between ESG performance and financial performance. It also flags the "Global Conundrum" that "Despite improvements, women are still significantly underrepresented in the workplace, accounting for roughly a third of all employees globally and less than a quarter of management positions. Yet, a company's percentage of female employees is positively correlated with its return on equity," says Eva Zlotnicka, lead analyst on the SRI report, "A Framework for Gender Diversity in the Workplace."

SASB's Provisional Standards

Directly relevant to the data problem above, establishing standards for ESG performance is the mission of the Sustainability Accounting Standards Board (SASB).

It recently achieved an important milestone in completing its process of establishing provisional standards for all 10 sectors, subdivided into 79 industries. I write about the significance of this in my Forbes piece "What The World Needs Now: Sustainability Accounting Standards." I start by noting that markets depend on standards and that today's capital markets wouldn't exist to the extent they do without financial accounting standards. It logically follows that if we want the capital markets to support sustainable strategies for companies and investors to help create a sustainable society we need standards for the material ESG factors that affect performance.

CDSB’s The Climate Statement

Standards are a necessary but not sufficient condition for enabling the capital markets to support the development of a sustainable society.

Picture: Actor and climate activist Leonardo DiCaprio speaks at the United Nations Signing Ceremony for the Paris Agreement. (Photo by Spencer Platt/Getty Images)

In a previous post on Forbes, “Why Its Time For Boards To Take A Stand On Sustainability” I argued that company boards of directors should produce an annual “Statement of Significant Audiences and Materiality.” Right in line with this is the work of the Climate Disclosure Standards Board (CDSB) urging fiduciaries of both companies and investors to produce a Statement on Fiduciary Duty and Climate Change Disclosure (The Climate Statement). I write about this in my Forbes piece “Corporations And Climate Change: Who Will Lead The Way?” and I ask all of you to encourage companies and investors you work for or know to sign The Climate Statement.