

## ACUITY'S *INSIGHTS*

### Getting Sustainability on the Financial Agenda

1<sup>st</sup> Quarter 2003, 4<sup>th</sup> Edition

*Covering Sustainable Investing: the Acuity Clean Environment and Social Values Mutual Funds.*

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In our last two editions we discussed the impact of the Kyoto protocol on investing and noted that the mainstream financial community had, by and large, ignored the issue until the fall of 2002 when having an opinion on ratification was almost a necessity in Canada. Since then we have pondered at some length why the sustainable investing community would place such importance on this issue while otherwise diligent financial analysts would choose to give it but a cursory review. If activities within the United Nations, Environment Canada and the Conference Board of Canada are any indication, we are not alone in our musings.

**The United Nations Environment Programme** has for several years led a Financial Initiative (FI) which is directed at engaging the financial community around issues of sustainability. The UN has realized through decades of project implementation that true environmental and social sustainability can only be accomplished if institutional lenders and investors are active supporters of sustainability principles. To date close to 200 financial institutions, including banks, investment firms and insurance companies have signed on to the UNEP FI Statement which commits them to upholding principles of sustainability. These signatories include several leading Canadian companies including the Bank of Montreal, Canadian Imperial Bank of Commerce, Desjardins Group, Export Development Canada, Royal Bank of Canada, Scotia Bank, Toronto-Dominion Bank. Acuity is pleased to have joined this group of signatories and will also be the Canadian representative on the UNEP FI Asset Management Working Group. This group will attempt to bridge the gap between sustainability analysis and traditional financial analysis through targeted research.

In Canada, **Environment Canada** has initiated a work program that will strive to engage the investment community around issues of sustainability. As a

regulatory body, Environment Canada has a vested interest in directing more investments toward companies that are leaders in environment performance. Other governments, most notably Australia, have begun similar initiatives.

Among Canadian industry associations, the **Conference Board of Canada** has often been an innovator in terms of conducting research and meetings around the link between sustainability and shareholder value. The Conference Board currently has a research initiative underway that will build upon a recent conference which brought CEOs from leading Canadian companies together with the financial community and NGOs (non-governmental organizations). Several of these CEOs including Rick George from Suncor and Travis Engen from Alcan, both companies represented in the Acuity Social Values Funds, lamented the fact that although they could identify a direct link between their sustainability investments and shareholder value, there appeared to be little interest within the mainstream financial community. The Conference Board will target this gap by providing case studies of the shareholder value created through sustainability investments within several of these companies.

A recent conference in New York hosted by the UNEP and the **North American Coalition for Environmental Cooperation** (which is funded by the NAFTA signatories) provided an excellent forum for linking some of these initiatives. Acuity participated as an invitee to the meeting providing input as an expert in the integration of sustainability criteria within investment decisions. The initiatives clearly have a common desire to broaden this practice to the mainstream investment community, thereby providing analysts with a more robust tool set with which to evaluate corporate performance. Just as **the National Round Table on Environment and Economy**, of which we have written in the past, is developing

sustainability indicators at the national level, the discipline of financial analysts requires a broader tool kit beyond quarterly earnings figures to assess the true value of investments.

So to get back to our initial quandary – if this makes such good sense then why hasn't it happened already? After all, an efficient market should effectively incorporate all relevant information, so why would analysts leave out sustainability data if it could have an impact on long term shareholder value?

Our advice to UNEP, Environment Canada and the Conference Board has been to focus less on the message and more on the medium. Financial and sustainability analysts may be reluctant to admit that they may be missing part of the picture. Unfortunately what is lacking is a common language through which indicators of sustainability become meaningful to financial analysis.

Part of this is training related – few financial analysts have any background outside of finance, while most 'sustainability' researchers lack investment experience. This situation is perpetuated by current social investment industry practice, which separates the 'sustainability' research from 'financial' research and the ultimate investment decision.

A common lexicon is the key to meaningful integration of sustainability within finance, to which shareholder activism can be added with great effect. A focus primarily on the latter, which has been advocated by some commentators of late, may improve the media profile of sustainability investing, but does little to further institutionalize its practice. For this to occur, the financial and sustainability communities need first to speak the same language.

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## Related Links

[www.unep.org/](http://www.unep.org/)

*The United Nations Environment Programme Financial Initiative aims to build awareness and capacity within the financial community on sustainability issues.*

[www.cec.org/](http://www.cec.org/)

*The Commission for Environmental Cooperation addresses regional environmental concerns in North America, helps prevent potential trade and environmental conflicts, and promotes the effective enforcement of environmental law, all as part of its mandate under the [North American Agreement on Environmental Cooperation](#) (NAAEC).*

[www.ec.gc.ca/](http://www.ec.gc.ca/)

*Environment Canada is the primary government portal for environmental related information.*

<http://www.nrtee-trnee.ca>

*The NRTEE is developing national indicators of sustainability designed to supplement commonly used macro-economic indicators such as GDP.*

<http://www.conferenceboard.ca/>

*The Conference Board is working on the issue of linking sustainable development (SD) and shareholder value. Through research, networks and events, the Board is helping to broaden and deepen understanding and dialogue on this issue.*

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