The role of investors in promoting sustainability

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Sustainability and the role of investors

- Globalisation has made corporations more powerful than governments.
- So leadership within companies in promoting sustainability is vital.
- Did you know that institutional investors (pension funds, insurance companies, endowments) on average own as much as 50% of listed equity markets internationally?
  - SO
- Collectively our influence over companies is significant.
- Investors can also play a role in influencing regulators and policy makers on key decisions around sustainability.
We all play a role in promoting sustainability

The multiple self: company directors are also consumers, they may support charities of some sort, they are investors and they vote! If we join up our functions across our lives we will achieve more.

Investors can be a powerful voice in the public debate (e.g. climate change) but most of the time we sit on the sidelines and corporate lobby groups dominate.

Compulsory Super + Compulsory to Vote: Australia’s rules are tough compared to other countries. The groundwork is there for us to be tough on sustainability.

Did you know that Super Funds in Australia have more than $1.3 trillion AUM? That is as big as our annual GDP and the total equity market capitalisation in Australia.
Warming up to become a powerful voice

- In large part institutional investors have been slow to recognise and use their power in a positive way, but this is changing
- Examples of positive change:
  - The Investor Group on Climate Change and its role in supporting the pricing of carbon and policies to support a transition to a low carbon economy
  - The UN Principles for Responsible Investment and locally the Australian Council of Superannuation Investors promoting the integration of Environmental, Social and Governance issues
  - The Carbon Disclosure Project, which is focused on improving disclosure from companies on environmental metrics
  - Investing in thematic funds that promote sustainable development and engaging with companies directly to improve standards
A conservative industry by nature

- There are some blockages in institutional investors going further
  - The industry is conservative
  - There is a fear of change (the ‘status quo’ bias)
  - Too many decision makers with vested interest in the current system
  - A reluctance to be different to other funds (the ‘herding’ effect)
  - A concern that sustainability might lead to lower returns
  - A concern by trustees of getting sued for breaching their ‘Fiduciary Duty’
  - A disconnect between sustainability objectives and investment
  - A lack of interest or voice coming from members – i.e. the general public
What are we doing at our fund?

• CSF has a policy and implementation plan and is developing a process for thinking about systemic risks – with sustainability at the core – our 5 key pillars for action are:

  1) Education and communication – of our members and ourselves on these issues. We have a long way to go on this goal

  2) Integration – we ask our investment managers to integrate environmental, social and governance issues into their decisions

  3) Active ownership – we vote our proxies and engage with companies on long-term sustainability issues

  4) New investment opportunities – we allocate some capital to areas that support sustainable development such as renewable energy, sustainable infrastructure, energy efficient real estate

  5) Collaborate with other investors to promote system change
How ‘savers’ could make a difference

- Processes would change faster if the general public became more vocal on sustainability issues – that is, the savers who pay into the Super funds – it’s their money after-all!
- Most Super funds do not hear from their members on issues related to sustainability. It may happen from time to time but it is rare.
- If Super funds were asked questions by members about sustainability issues then the Trustees of the funds would place a higher importance on the issues.
- Basic questions to ask Super funds: Do you have a policy on Sustainable Investment? What are the key issues the Fund looks at and why? Does the Fund measure and report outcomes?