

# Understanding Investor's Expectations for Sustainability Performance

The 2018 GOLD MEDAL COLLOQUIUM focused on Understanding Investor Expectations for Sustainability Performance. WEC would like to thank Ingersoll Rand for their generous event sponsorship. A summary of learnings and insights from this event is provided below.

## SESSION 1: RECENT TRENDS IN SUSTAINABLE INVESTING

---

Cary Krosinsky, Lecturer, Yale School of Management shared his thoughts on recent trends in sustainable investing. Cary noted that investors take a variety of approaches to investing including:

1. Value Focused
2. Negative Screening
3. Impact Investing (e.g., to address a specific social issue)
4. Thematic Investing (e.g., focused on environment, education)
5. Shareholder Engagement
6. Sustainability Integration
7. Minimum Standards

He also commented that sustainable investing is moving from negative screening, standardized disclosure, and review of past performance to a more forward-looking approach focused on value creation. Companies linking their sustainability strategies to long-term economic, technologic and demographic trends in their sector will be most attractive to investors. Companies that are benefiting include those who maximize sustainability advantaged products and services as an increasing percentage of their revenue, a goal of many WEC members such as Ingersoll-Rand, Ecolab and Unilever, as well as many industrials companies who maximize energy efficiency savings and manage their human capital well, such as Praxair.

Finally, Cary remarked on the evolution of leading disclosure standards. Specifically, Jean Rogers, founder and CEO of SASB stepped down in February of 2018, which sent a signal to the investment community. He also mentioned that the TCFD is playing out in ways investors and corporations did not expect. TCFD reports provided so far by companies and investors have indicated they are all "fine for the next 5 years" which wasn't what to the task force was expecting. Climate scenario work is nascent at best, with the effect of higher carbon pricing in Europe one mechanism being explored by some organizations. However, in an [article](#) published by Reuters, a recent study revealed that stringent limits on global warming would bolster the world economy by averting tens of trillions of dollars in damage this century from heat waves, droughts and floods.

For those interested in learning more about sustainable investing, Cary is an Executive Fellow at the Yale Initiative on Sustainable Finance which launched in late 2017 and published the latest issue of the [Journal of Environmental Investing](#).

Cary's most recent book *Sustainable Investing Revolutions in Theory and Practice* is also a useful starting point for anyone interested in the sustainability investing/financial value journey, and which was also just released in China on the request of the People's Bank of China as part of the official Green Finance Series.

## SESSION 2: HOW INVESTORS EVALUATE SUSTAINABILITY PERFORMANCE

---

Scott Tew, Executive Director, Center for Energy Efficiency & Sustainability, Ingersoll Rand, explored this topic with a panel of responsible investors and thought leaders. The panel included: Catherine ‘Simmy’ Martin, Vice-President, Senior ESG Research Analyst, Calvert Research Management; Karina Funk, Portfolio Asset Manager, Brown Advisory; Jack Robinson, Vice-Chair, Trillium Asset Management; and Cary Krosinsky, Lecturer, Yale School of Management.

Jack Robinson of Trillium, opened the session by stating that **“the goal is to invest in a stock and never have to sell it.”** Colloquium attendees can agree that this is a goal that both investors and corporations would both enjoy!

The panel discussed a variety of topics including data proliferation, performance, material issues, culture, risk management, transparency as well as, shareholder resolutions – insights on each are summarized below:

- **DATA PROLIFERATION:** Sustainability data proliferation remains a challenge for both investors and companies. Investors are unable to determine what is material and often data disclosed is not comparable. As a result, many investors are using proprietary systems to evaluate a company’s sustainability performance.
- **PERFORMANCE:** Sustainability is just another dimension to evaluate when assessing company performance. All investors are seeking companies with sound fundamentals and strong financial performance.
- **MATERIAL ISSUES:** Investors are seeking to understand: what issues are material? why are they material? and how are the issues being managed going forward? The engagement should be around those issues that are most material, not the full playing field of sustainability.
- **CULTURE:** Sustainability often provides signals about the company culture, e.g., a company that has no calls to their whistleblower line may not actually be perfect. Investors are seeking resilient management teams that thrive in challenging operating environments. Direct engagement provides investors with insight into the intangible elements of culture.
- **RISK MANAGEMENT:** Investors want to know if companies have identified and are managing material risks -- when it comes to sustainability climate is often at the top of the list.
- **TRANSPARENCY:** Investors appreciate transparency, integrity and honesty. When engaging on an issue, it is less about what happened and more about what is being done to manage it going forward.
- **SHAREHOLDER RESOLUTIONS:** Responsible investors collaborate on shareholder resolutions and use this mechanism to engage companies on material issues. Companies can expect to see an increase in shareholder resolutions, particularly relating to climate.

Between 2010 and 2012, SustainAbility produced a series of reports titled [“Rate the Raters”](#). While five plus years have passed since publication, much of the report content rings true with commentary from our panel.

Links to relevant ESG content from panelist investor sites is provided below:

Trillium Asset Management: [Approach to SRI](#)

Brown Advisory: [theAdvisory - Sustainable Investing](#)

Calvert Asset Management: [Four Pillars of Sustainable Investing](#); [Proxy Voting Guidelines](#)

## SESSION 3: COMPANY ENGAGEMENT WITH SUSTAINABLE INVESTMENT COMMUNITY

---

Carol Ryerkerk Powell, Global Head and Vice-President, Environment, Health, Safety & Sustainability, Bristol-Meyers Squibb explored this topic with Neil C. Hawkins, Chief Sustainability Officer, The Dow Chemical Company; Emilio Tenuta, Vice-President, Corporate Sustainability, Ecolab; Denise Naguib, Vice-President, Sustainability & Supplier Diversity, Marriott International, Inc.; and Jeff Seabright, Chief Sustainability Officer, Unilever.

The panel discussed a variety of topics including disclosure frameworks, investor engagement, and their partnership with investor relations -- insights on each are summarized below:

- **DISCLOSURE FRAMEWORKS:** GRI was identified as the leading disclosure framework – it was generally agreed that a common global framework is desirable. Third party data and report validation is also considered essential.
- **INVESTOR EXPECTATIONS:** All panelists confirmed that there has been a steady uptick in expectations relating to sustainability. However, institutional investors remain very interested in short-term financial performance. In some cases, Investor Relations says they are “not hearing it.”
- **INVESTOR RELATIONS PARTNERSHIP:** The depth and type of partnership sustainability departments had with investor relations varied. In all cases there was connectivity. In some cases, the sustainability team was a close in strategic partner, in other cases, the sustainability team was a knowledge broker and influencer. When sustainability was core to the company’s brand or purpose, the departments worked very closely together.

It is widely known that Unilever takes a long-term view -- Jeff Seabright, shared a few high impact outcomes:

- 75% - percentage of Unilever shareholders that remain shareholders for 7+ years
- 46% - percentage by which Sustainable Living Brands performance outpaces other brands
- 100% - percentage of palm oil used in the margarine business sold to KKR that maintained a commitment to No Deforestation

Links to strategic reading mentioned by the panel is provided below:

[Focusing Capital on the Long Term \(McKinsey\)](#)

[Inclusive Capitalism \(a variety of reports are available\)](#)