

# RESPONSIBLE INVESTMENT MAINSTREAM and MAINSTREET?

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# Why mainstream and mainstreet?

## In short..

- Because financial markets have turned into a gigantic casino with devastating environmental, social and governance impacts.
- Because business, finance, governments (and “consumers” as well), keep playing the sorcerer’s apprentice with complex and intertwined environmental, social and economic systems.
- Because our economic and financial systems urgently need a reform, and not just some tinkering.
- Because mainstreet unrest is on the rise across the world.
- RI MUST be expanded to all forms of investment.

# Why mainstream and mainstreet? In seven questions...

1. Is RI a Financial Sector issue?
2. Could RI be part to the solution to worldwide pressing issues?
3. What are these issues? Is the proof in the pudding?

# Why mainstream and mainstreet?

## In 7 questions...

4. What will RIO+20 deliver? And what will policy makers and business leaders do?
5. Will RI become mainstream?
6. What are the most influential factors?
7. What will you do tomorrow? What message will you convey about RI?

# 1. Is RI a financial sector issue?

- RI is indeed a financial sector issue, **but in part only**.
- It started almost two centuries ago...
  - English Quakers and later American Methodists banned «harm» and sin stocks (**MORAL ISSUE**).
  - 1933-1992 Lewis D. Gilbert fights for shareholders rights (**GOVERNANCE, SOCIAL AND FINANCIAL ISSUE**).
  - 1947 Founding of The Federation of Women Shareholders in Business (**SOCIAL AND FINANCIAL**).

# 1. Is RI a financial sector issue?

- 1972 Saul Alinsky, the Chicago Slums and Rules for Radicals (**SOCIAL AND VERY RADICAL**)
- 1977 The seven Sullivan global social responsibility principle (**DEFINITELY SOCIAL, BOTH IN BUSINESS AND FINANCE**).
- For good measure, throw in the role of RI against the Vietnam war, against apartheid and about environmental disasters and so on...
- Add some spice with the 2011 worldwide results of RI in the world (US-Sif, SIO, Eurosif, etc.).

## 2. Is RI part to the solutions to worldwide societal issues?

- Or is it?
- RI goes far above and beyond finance and economics. IT IS ABOUT CREATING A SUSTAINABLE ECONOMY
- RI is no panacea... But it helps cope with, adapt to and hopefully counter several threats, and the environmental, social and governance issues they raise.
- From sweatshops to climate change, these threats are deeply rooted in manmade problems, caused by short-term and siloed views in finance, economics and public policy.

## 2. Worldwide societal issues

### Is the proof in the pudding?

#### ✓ Demography

- 7 bn people today and keep counting to 9 in 2050
- Developing and emerging countries booming demography vs aging in developed countries.
- Just as an example, what about the nature and scope of the long term impact of China's 1-child policy?
- What about social disparities and revenue gap (99% VS 1%?)

## 2. Worldwide societal issues

### Is the proof in the pudding?

- ✓ **Environment + Energy and Resources**  
**Scarcity + Climate change**
  - Peak oil, peak fish, peak wildlife
  - Peak soil and peak biodiversity
  - Peak water, some day soon?
  - Peak Food? 1 bn hungry people in 2012 (Source: FAO 2012).
  - Good news: it is a hundred million less than in 2009.
  - Bad news: we, in so called “rich countries,” still waste 30% of our food.

## 2. Worldwide societal issues

### Is the proof in the pudding?

- Peak water, as an example: how many industries already are or will be impacted?
  - Mining and metals
  - Agriculture and Food (add peak soil, too)
  - Healthcare, etc.
- We should never forget that there is no such thing as "a single issue, a single impact"
- Threats and issues are intertwined and have cumulative disruptive impact
- We are dangerously close to some tipping points

## 2. Worldwide societal issues

### Is the proof in the pudding?

- ✓ In 2050, the Mediterranean area WILL NOT be able to support cereal production (Source: INRA 2012).
- ✓ However, we might be able to feed 9bn people in 2050... if, and only if, we carefully plan and prepare for it.
- ✓ What about Climate Change?

# CLIMATE CHANGE MODELS

There are tremendous long-term portfolio risk posed by the cumulative effects of climate change:

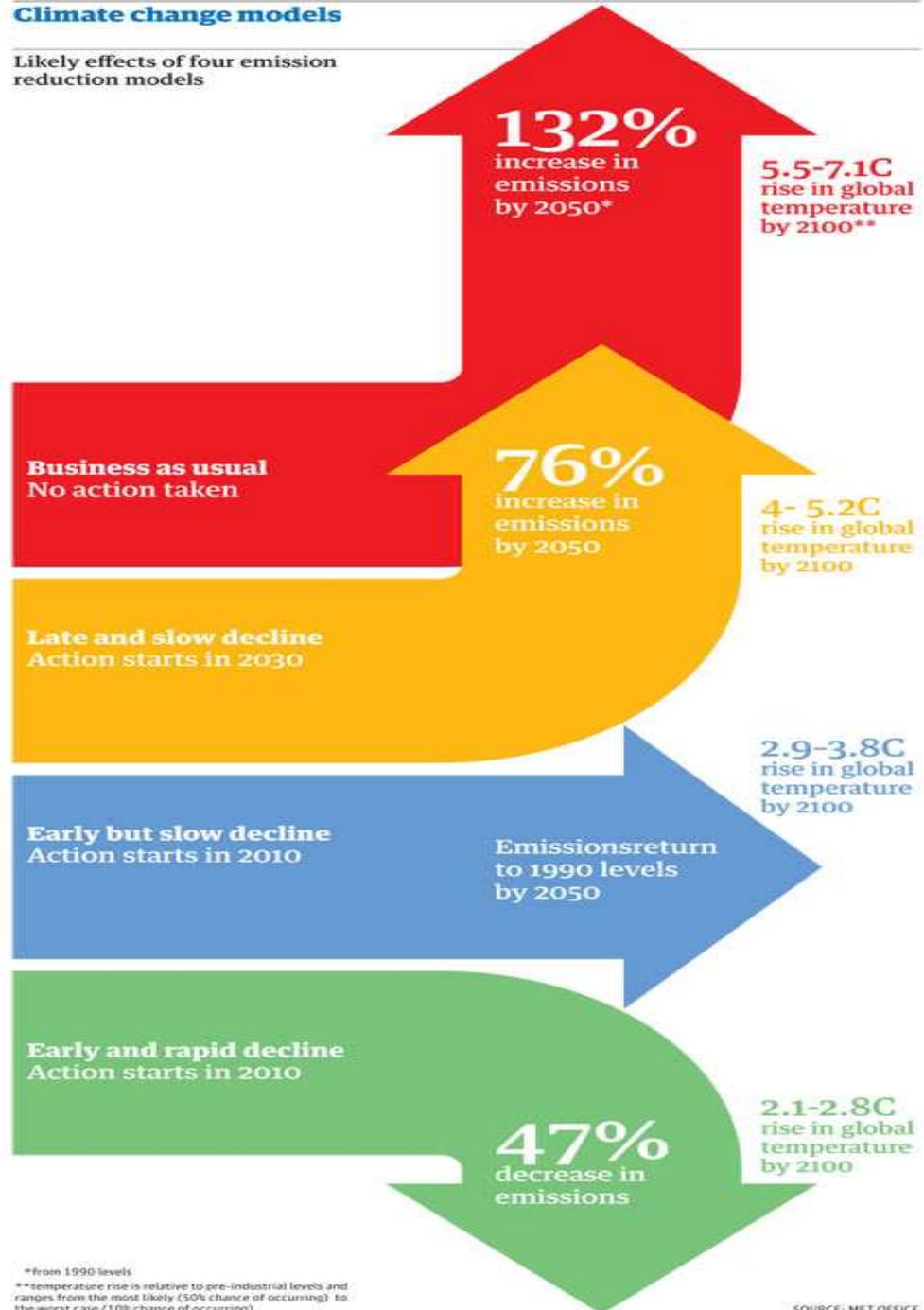
- ✓ Droughts and their impact on food security
- ✓ “Wild” weather
- ✓ Coastal zones erosion
- ✓ Species migration
- ✓ Food and energy supplies
- ✓ Public health problems, and so on.

Global CO2 emissions hit a record high of 34.8 billion tons in 2011, up 3.2 percent (Source: IEA, 2012)

Image Source: Met Office Hadley Center (UK 2011)

## Climate change models

Likely effects of four emission reduction models



## 2. Worldwide societal issues

### Is the proof in the pudding?

- ✓ Financial crises: freefall?

“Funnel capital where society needs it most and where it will be the most productive for households and businesses, in that order”.

Source: Freefall, Joseph E. Stiglitz (2009).

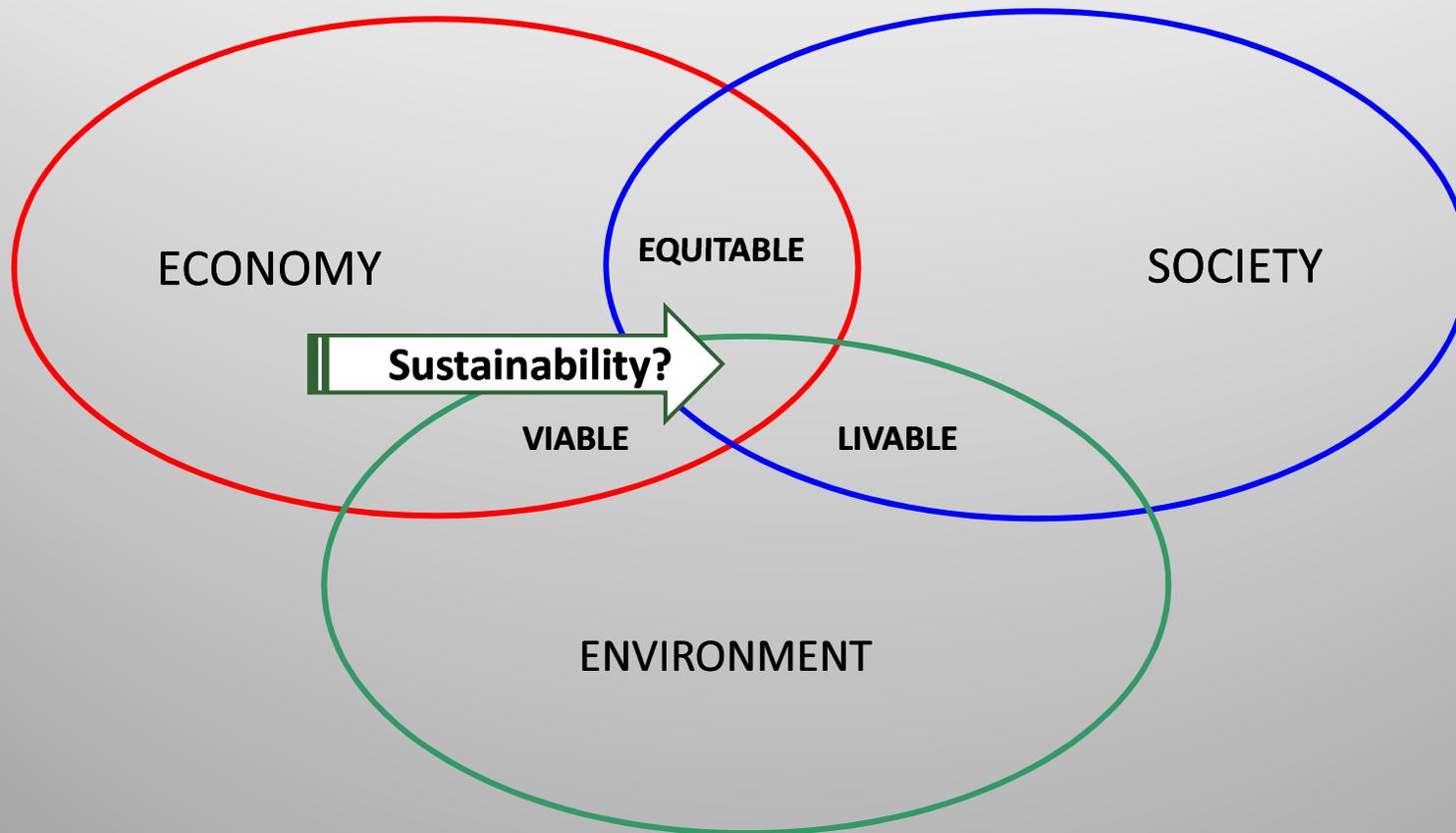
- ✓ And what about “Sustainable” Development?

First, the principle, second the reality...

## 2. Worldwide societal issues

### Is the proof in the pudding?

#### SUSTAINABLE DEVELOPMENT (1987)



# The 2012 pudding of an unsustainable reality



### 3. Do these issues arise from threats deeply rooted in manmade problems?

- ✓ MIGHT THE ANSWER BE A RESOUNDING YES?
- ✓ Is Business As Usual a solution?
- ✓ Houston, we have a problem! There is no “usual” anymore.

Still, “financial short-termism is the greatest barrier to business’ transition to sustainability” (say 88% of a worldwide panel of 642 sustainability experts in 2012).

And the BAU attitude sometimes leads to curious, contradictory and maybe a little dubious corporate behavior and messages.

See for yourself...

# CLIMATE CHANGE from both sides of the mouth

A 2002-2010 survey of large US companies (center column) membership or board seats in groups supporting Climate science or science-based policy (blue, left) and group that misrepresent or oppose them (brown, right).

Source: Union of Concerned Scientists  
A climate of corporate control (May 2012)

Company	CDP	US CAP	BELC	EPA	GRCC	WBCSD	Sol	Alcoa Inc.	NAM	BR	CEED	API	US CoC	ACCCE*
ConocoPhillips				CDP	US CAP*	Cal	WBCSD		NAM	BR	NPRA	API	US CoC	WSPA
Exxon Mobil Corporation							CDP		NAM	BR	NPRA	API	ACC	WSPA
DTE Energy Company						CDP	BELC		NAM	CEED	AEEG	ACCCE		
Occidental Petroleum Corp.						CDP	Cal		NPRA	API	ACC	WSPA		
Marathon Oil Corporation							CDP		NAM	NPRA	API	ACC		
Ameren Corporation							CDP		CEED	AEEG	ACCCE			
Murphy Oil Corporation									NAM	NPRA	API			
FMC Corporation									NAM	BR	ACC			
Chesapeake Energy Corp.									BR	API				
Tesoro Corporation							Cal		NPRA	WSPA				
Valero Energy Corporation							Cal		NPRA	WSPA				
Progress Energy, Inc.							CDP		AEEG	ACCCE*				
TECO Energy, Inc.							CDP		CEED	NMA				
Xcel Energy Inc.							CDP		CEED	US CoC				
NextEra Energy, Inc.							CDP		BR	AEEG				
Boeing Company							CDP	BELC	EPA	NAM	BR			
FirstEnergy Corporation								CDP	GRCC	NAM	ACCCE			
AES Corporation							CDP	US CAP	Wind	BR				
NIKE, Inc.								BICEP	CDP	US CoC*				
Waste Management, Inc.								CDP	Cal	NAM				
NRG Energy, Inc.								CDP	US CAP	BELC	Cal	GRCC	Wind	Applied

### Supporting Climate Science or Science-Based Policy

- CDP** Carbon Disclosure Project
- US CAP** United States Climate Action Partnership
- BELC** Business Environmental Leadership Council (Formerly Pew)
- Cal** California Climate Registry
- EPA** EPA Climate Leaders
- GRCC** Global Roundtable On Climate Change
- WBCSD** World Business Council for Sustainable Development
- Wind** American Wind Energy Association
- BICEP** Businesses for Innovative Climate & Energy Policy
- Sol** Solar Energy Industries Association

### Color Key by Stock Market Sector:

- Energy
- Utilities
- Industrials
- Materials
- Consumer Discretionary
- Information Technology

\* Company left this group during the study period of 2002-2010

### Opposing Climate Science or Science-Based Policy

- NAM** National Association of Manufacturers
- BR** Business Roundtable
- CEED** Center for Energy and Economic Development
- NPRA** National Petrochemical and Refiners Association
- API** American Petroleum Institute
- US CoC** United States Chamber of Commerce
- AEEG** Alliance for Energy and Economic Growth
- ACCCE** American Coalition for Clean Coal Electricity
- ACC** American Chemistry Council
- WSPA** Western States Petroleum Association
- NMA** National Mining Association

The numbers of affiliations (i.e., memberships or board seats) in groups that support climate science or science-based policy (blue) and those that misrepresent climate science or oppose science-based policy (brown) are shown for each company in the time period of 2002 to 2010. Companies are ranked from most to least number of memberships in brown groups. No relevant industry groups were found for Denbury Resources Inc. The methodology for designation of groups' climate stances is out-

## To sum up the 3d question on issues...

- ✓ They are caused by short-term and siloed views in finance, economics and public policy.

In short (again?), we are playing the sorcerer's apprentice with highly complex

- ✓ Environmental
- ✓ Economic
- ✓ Social
- ✓ And Governance systems.



## To sum up the 3d question on issues...

- Environment, Resources and CC: we are dangerously close to several tipping points  
(Source: GEO 5, UNEP)
- Global economy or “suicide economics”?
  - *“Anyone who believes that an infinite growth is possible in a finite world is either a fool, or an economist”* Kenneth Boulding (in 1950!).
  - *“The end result is that promoting further economic growth makes us poorer, not richer.”* Herman Daly

To sum up the issues...  
**HERE IS WHAT WE DO**



Gelück

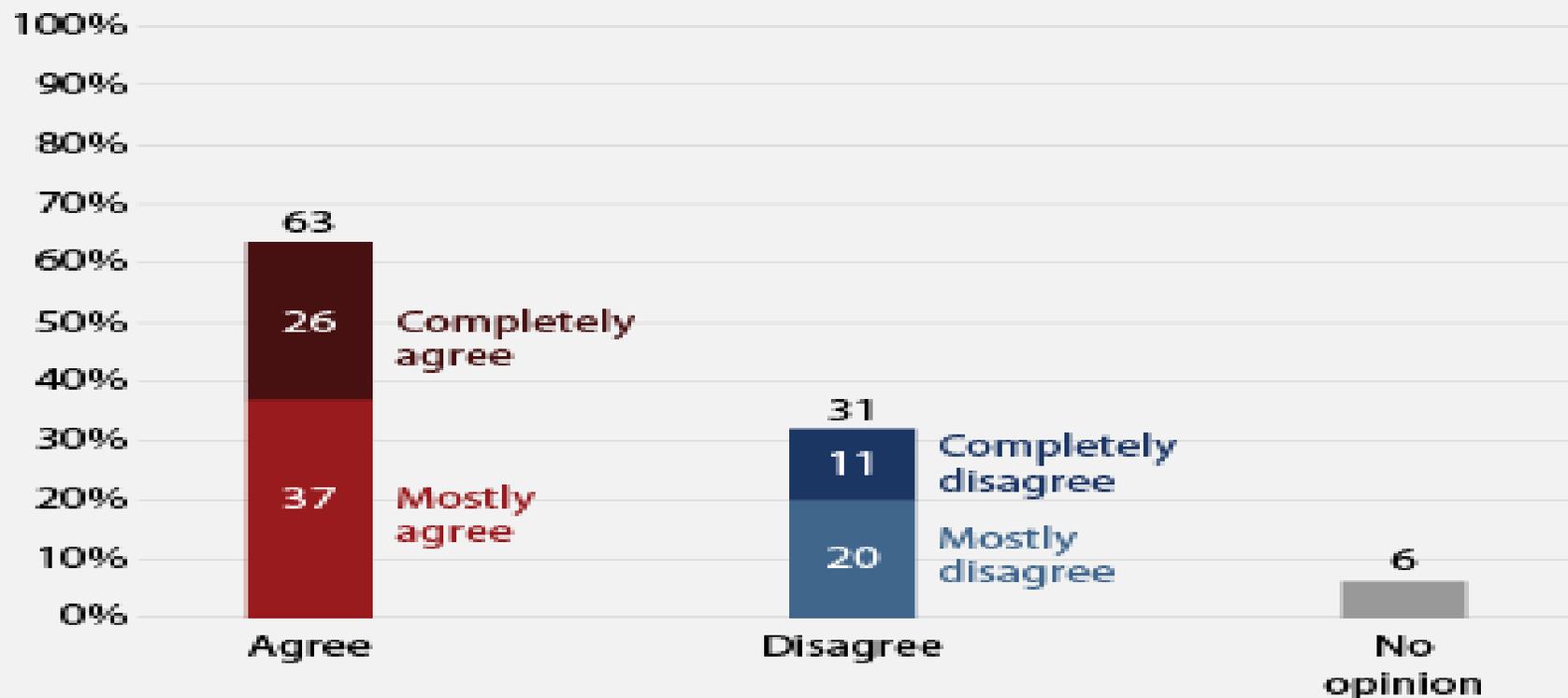
# To sum up issues..

## What about states and governments?

- Since the Westphalia Treaty in 1647, States (United or not) have a two-pronged role: territorial integrity and population protection.
- Major shift in the last 50 years ...
  - from regulated markets to deregulation for the sake of the so-called “free” market ;
  - and from sovereign state(s) to “sovereign” debt.
- *So, “Wespthalian” governments can no longer “govern”. They have become the caretakers of their own impotency.*
- *These are some of the major causes of a growing worldwide, social unrest...*

# And what does US mainstreet think?

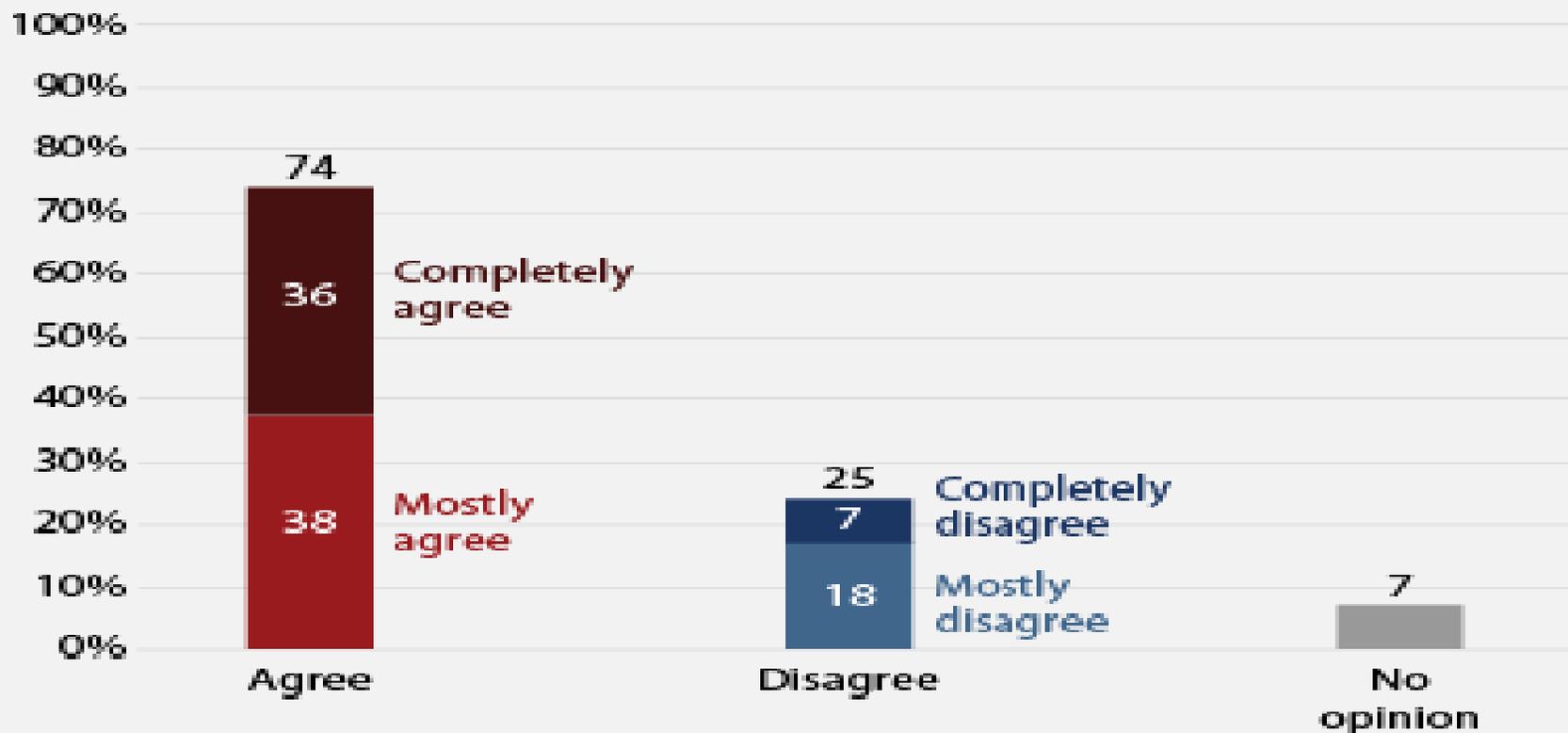
A free market economy needs government regulation in order to best serve the public interest.



Source: Pew Research Center for the People and the Press, 2012 Values Survey, April 4-15, 2012, N=3008.

# What does Mainstreet, USA think?

There needs to be stricter laws and regulations to protect the environment.



Source: Pew Research Center for the People and the Press, 2012 Values Survey, April 4-15, 2012, N=3008.

## 4. What will Rio+20 deliver?

And what will policy makers and business leaders do?

- a) A little more of the s(h)ame
- b) A little less of the s(h)ame
- c) Some leapfrogging over contentious issues
- d) A giant leap (forward would be better)

Your guess is as good as mine, BUT...

I would take leapfrogging for granted and rule any giant leap out.

**So, where do we go from here and will RI become mainstream?**

## 5. Will RI become mainstream?

- **The question is not when, but how fast RI should be mainstreamed to conventional investment.**
- *You cannot solve problems by using the same kind of thinking we used when we created them (Albert Einstein).*
- **Are there some influential factors? Indeed!**

## 6. What are the most influential factors?



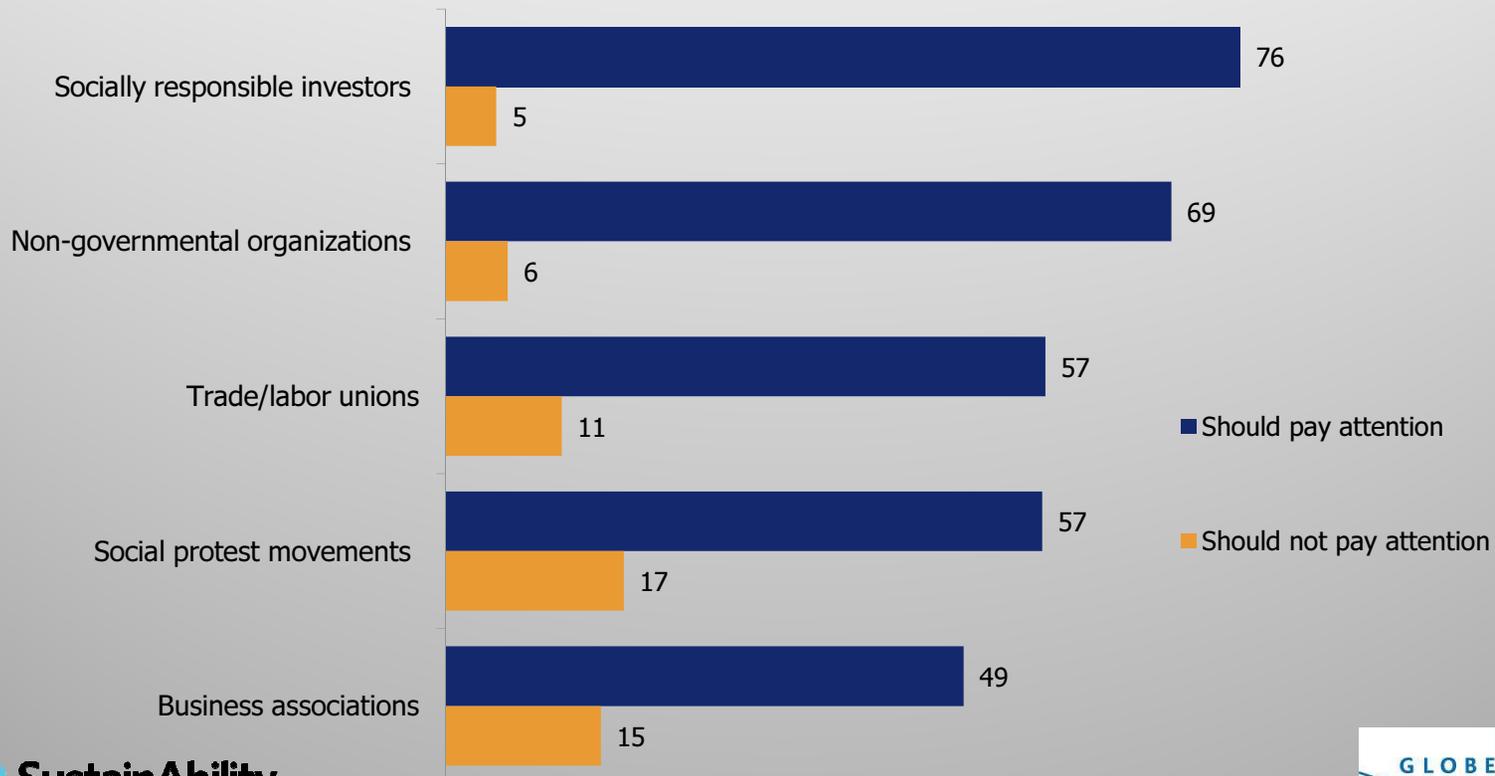
- ✓ *Activists will play a critical role on the sustainability agenda; four in five agree that society needs activists to achieve meaningful progress (76%).*
- ✓ **And there is some more...**

Source: 2012 Sustainability - Activism Survey



# 6. What are the most influential factors?

Despite recent social protest movements, socially responsible investors and NGOs are perceived as the most important influencers on business and government



# “Despite social protest movements”...

- This survey tell us that activism has never been more active.
- Beyond the survey:
  - ✓ DEMAND for change has never been so widespread
  - ✓ Mainstreet unrest is on the rise all around the world
- Again, RI is no panacea... But, from climate change to sweatshops, it helps cope with, adapt to and hopefully counter several threats, and the environmental, social and governance issues they raise. So...

## 7. What will you do tomorrow?

- If you are...
  - ✓ A leader of a conventional financial institution or business or professional association?
    - ✓ **The world is changing right in front of you, society too**
    - ✓ **Why don't you TRY BUSINESS As UNUSUAL?**
  - ✓ A leader in RI
    - ✓ Keep developing shareholder engagement
    - ✓ Give the strongest possible support to UNPRI and your RI association
    - ✓ Finance research... to improve ESG research (metrics and qualitative) and flawed conventional risk management models.

## 7. What will you do tomorrow?

- If you are...
  - ✓ A leader of a pension fund, foundation or endowment
    - ✓ Why wouldn't you seek to generate BOTH a financial return and positive environmental and social benefits?
    - ✓ It might bring better returns as well.
    - ✓ Please, no lame excuse for inaction.

# What will you do tomorrow? (about RI)

- If you are a financial advisor
  - ✓ You may believe that RI has “insufficient track record” (50%) and “weak financial performance” (47%).
  - ✓ You may perceive that “there is insufficient client demand” (45%).
  - ✓ Nevertheless, 69% of advisors see “sustainable investments” as an opportunity to grow their practice , better meet their clients’ needs and develop client base. Source: Gateways to impact report (USA), 2012
  - ✓ This survey shows a need for information, education, and guidance.

# IMAGINE...

- Imagine: *“To form a mental image of something that is not present”* (Webster’s)
- Imagine that the whole conventional investment community converts to RI in the next five years...
- Maybe, just maybe, our societies would be a little better off.

## Enjoy this event, and special thanks to...

- Desjardins
- Claude Villeneuve and Bob Walker
- Some anonymous friends
- And to my young sons, who made acute comments... and less cute comments as well!

# Questions?