

## Institutional investors favor sustainable investments

Over the past decade, sustainability themes have moved right to the top of the agenda for institutional investors such as pension funds. The reasons are partly to be found in various megatrends which clearly signal the need for greater emphasis to be placed on companies committed to sustainable business practices when selecting stocks for portfolios. We discussed this with Daniel Wild, PhD, Head of Research and a member of the Executive Committee of SAM Sustainable Asset Management AG, Zurich, and Erik Breen, Head of Responsible Investing with Robeco Group, Rotterdam. SAM and the Responsible Investing Team at Robeco are investment specialists for all aspects of sustainable investing, an area where they have many years of experience.

**Dr. Wild, what are the most important global trends for institutional investors from a sustainability perspective?**

*Daniel Wild:* Investment decisions are founded on an information base that is available at a specific point in time. However, the global flow and exchange of information is now changing at a breathtaking pace. Firstly, the speed of data transmission is continuously increasing, and secondly the volume of available information is constantly rising as well. The situation is made even more complex by the growing interdependence of the various influential factors. In such an environment, institutional investors in particular, face enormous challenges in trying to filter out and interpret the relevant information for their investment decisions, especially since the importance of their mandate and the sheer volume of the assets they manage represent an enormous responsibility.

**Mr. Breen, what other developments affect the investment decisions of institutional investors?**

*Erik Breen:* Global networking is another trend. Globalization is shifting the balance of power between companies, nations and consumer groups, making our world more interconnected than ever before. At the same time it has shrunk and reshaped the world. Newly emerged players such as consumer groups, NGOs and large global companies are having a strong influence on the competitive landscape, opinion-building, at-

titudes and patterns of behavior. This is clearly illustrated by the Facebook community with over a billion users, half of whom log in on a daily basis. In the resulting discourse, sustainability aspects have moved more and more to the fore.

*Daniel Wild:* Another development concerns environmental aspects. The fact that the Earth's resources are being massively overstretched is without doubt just as relevant to companies as it is to nations, investors and consumers. Here there is a direct link with climate change, pollution and scarcity of resources. According to a joint study by McKinsey and International Finance Corporation (IFC, a subsidiary of the World Bank) investigating the global water availability and catchment level, a supply gap of 40% is predicted by 2030. But where supply is unable to keep up with demand, the result will be extreme volatility and a sustained increase in the price of energy, food, water and commodities.

*Erik Breen:* Ultimately we are facing a demographic shift that will result in changing consumer patterns. Changing consumer demographics impact spending patterns, as more mature customers tend to have more disposable income. At the same time, consumer expectations are increasing while their tastes and preferences are changing at a dizzying pace. In China, for example, the middle classes have expanded rapidly,

**Five megatrends**

- Ever faster data transmission
- Steadily growing volume of information and greater complexity in interpreting data
- Continuous global networking and interconnectivity
- Increasing importance of environmental issues
- Demographic shifts are changing consumer spending patterns

leading to annual growth rates of around 30 % for sales of baby food and an increase of almost 4 % every year in per-capita meat consumption.

**How are these trends reflected in sustainable development initiatives?**

*Daniel Wild:* Many leading global companies have recognized the importance of sustainability as a strategic and reputational success factor. From what we have seen, the interest in promoting sustainable business practices has risen sharply, partly because companies realize that this can provide competitive advantages and improve longterm shareholder value. This sustainability signal is particularly strong during phases of market volatility. According to the Sloan Management Review published by the Massachusetts Institute of Technology (MIT) in Winter 2012, 70 % of firms now have sustainability on their top management agenda, compared to 20 % a decade earlier according to a poll among 3000 top managers. This trend is echoed by the steady increase in the participation rate for our SAM Corporate Sustainability Assessment since 1999.

**So, from an investor’s viewpoint, it is particularly interesting to know whether companies committed to sustainability achieve a superior performance.**

*Daniel Wild:* That is indeed the case. The majority of academic studies in recent years have identified a positive or at least neutral correlation between financial performance (and consequently added shareholder value) on the one hand and sustainability credentials on the other. SAM’s study “Alpha from sustainability” (2011) confirmed that a portfolio of sustainability leaders tend to outperform a portfolio of laggards. This

is particularly clear in times of high market volatility such as 2008.

*Erik Breen:* Institutional investors are in a unique position due to their enormous investment volumes. Through their investment policy, they can make a significant contribution to sustainable development, which improves living standards. This makes the world less prone to the sort of financial bubbles and crises we have experienced over the last decade. In addition, the investment activity of institutional investors helps to raise public awareness of sustainability issues. Pension funds especially can play an important role here.



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