

# Foreword

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Sustainable investing has come a long way. It was 25 years ago when we were calling public affairs departments of corporations to enquire about their corporate social responsibility initiatives, and most replied that they'd never heard of the concept. Some said they would ask around and get back to us, but rarely did. It was 15 years ago that it did not appear that the nascent socially responsible investment movement in the US would survive the end of the South Africa divestment campaign, only to see the growth of the sustainability movement around the world begin to take hold among forward-looking corporate managers and groundbreaking members of the financial community.

Today, the concept of sustainable investing is taking root, not only in corporations and the public equities market, but across asset classes as well – from clean technology venture capital, to sustainable fixed income, to green real estate development. It is creating financial markets that didn't exist before, including carbon markets to address climate change and microfinance to help alleviate poverty. It is changing the way responsible investors act. Farewell to the old 'Wall Street Walk' rule – if you don't like management, sell your stock. Engagement and dialogue with management on sustainability are becoming the word of the day. Changed, as well, are the expectations of how corporations report on their activities to society. Financial statements alone are no longer the whole story. One is tempted to congratulate those of us who have worked so long and hard to promote these moves towards sustainable finance. But at times you have to wonder how real these changes are, how deep their roots go, and whether we are occupying a niche market that deserves a nice pat on the back, but no more.

But I no longer ask myself whether sustainable investing will become mainstream. In many senses, it is already becoming so. The key question is, rather, will the mainstream become sustainable? That will require more fundamental and difficult change. Our financial markets and corporate managers will need to wean themselves off the kind of short-termism that has come to

dominate both worlds during the last decades of the 20th century and take a longer-term view of their fortunes.

There is an underlying tension between the fast-paced speculative nature of today's financial markets and the longer view of sustainability. To move from the former to the latter, we need to understand better the value of corporations, in the specific, and investments, in general, to society. We need to rein in our obsession with price-based returns and understand the long-term implications of today's financial decisions. We have become a world of short-term price-takers, rather than long-term value-makers. Sustainability requires reversing those roles.

By 'long-term', one does not mean simply buying long and holding long – although that is certainly one characteristic of sustainable finance – but also incorporating environmental, social and corporate governance (ESG) factors into investment considerations. This is not so simple a task. ESG factors are not always easily correlated with today's price because they often deal with the risks to society of externalized costs: ozone depletion, climate change, abusive labour practices, obesity. Conversely, they attempt to quantify positive intangibles: the promotion of new technologies; the benefits of energy and resource efficiency; the virtues of a highly trained workforce and balance between work and family; the underlying justice of access to capital; and diversity in the workplace. Clearly these avoided risks and these embedded values have a relationship to what investments return to society in the long run; but we are still feeling our way on how exactly to express that relationship.

Once we understand the evolving relationships between sustainability, ESG, price and value, we will be well on our way to creating a truly sustainable finance or, rather, finance will be well on its way to realizing the true value of sustainability.