Praise for *Sustainable Investing*:

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Andrew Simms, Policy Director, New Economics Foundation

'If you want to understand how finance can offer practical solutions for sustainable development – rather than being criticized for being an obstacle – read this very clear, comprehensive and persuasive book.'
Antoine de Salins, Fonds de Réserve pour les Retraites

'Krosinsky and Robins have assembled authors expert in their disciplines who collectively describe a dynamic force which is both effecting change and being affected by it. A generation of investors will look first to Robins and Krosinsky for answers about sustainable investing.'
Peter D. Kinder, President and Founder, KLD Research & Analytics, Inc.

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Akitsugu Era, Corporate Governance Manager, Equity Fund Management Dept, leading Japanese financial institution

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Raj Thamotheram, Director, Responsible Investment, Axa Investment Management

'This timely and thought-provoking collection of essays, written by some of the industry's leading experts, is essential reading for all those who want to understand how sustainability has influenced investment practice. It clearly demonstrates the potential for sustainable investment to become the new "mainstream".'
Emma Howard Boyd, Head of SRI, Jupiter Asset Management

'The thought leaders in this global framework on sustainable investment provide readers with a high-quality, topical mosaic of how to find capital appreciation in a sustainable manner.'
Mary Jane McQuillen, Director, Socially Aware Investment, ClearBridge Advisors, a unit of Legg Mason

'An excellent volume that puts sustainable investing front and centre in the debates about building a more equitable global economy and providing retirement security for working people.'
Michael Musuraca, Designated Trustee, NY City Employees Retirement System

'Krosinsky and Robins have captured an inflection point in the history of investment. We have truly moved from the socially responsible investment movement of the '60s to issues of sustainability. This is good for both society and the investor. Krosinsky and Robins have assembled a tremendous cast of authors to discuss the forefront of this movement. The result is a great book on the current and future state of sustainable investing.'
Donald H. Schepers, Associate Director, Robert Zicklin Center for Corporate Integrity, Baruch College, Zicklin School of Business

'*Sustainable Investing* succeeds in its goal of portraying the current generational shift in what has been a long-term effort to recast global capital markets and to achieve reliable risk-adjusted financial returns in the 21st century through the incorporation of environmental, social and corporate governance factors. The sweep of its view is comprehensive, from the effort of critical self-knowledge in Part I, through the well-reasoned advocacy and predictions in Part IV and the editors' concluding thoughts.

This is the book I now will recommend to quench the increasing thirst of my mainstream colleagues for an understanding of this important phenomenon. I will recommend it as well to the younger generation as a source providing both historical context and the emerging requirements for the practice of the subtle art and science of securities and investment analysis.'
Anthony Ginsberg, Ginsberg Consulting and Chair of Socially Responsible Investing Committee, NY Society of Security Analysts

'An extremely useful collection … on various aspects of this important subject. A collective thanks should go to all the contributors, many of whom are practitioners from the investment community. This volume goes a long way to sorting out the confusion among terms such as socially responsible investing (SRI), ethical investing, responsible investing and sustainable investing. Contributions run the gamut from background and contextual information regarding sustainable investing, to arguments as to why sustainable investing has to date performed better than the market as a whole, as well as better than SRI investing.

The interested reader would be well advised to read this collection, which provides an excellent summary of the state of the art thinking on these topics.'
James P. Hawley, Professor and Co-director, Elfenworks Center for the Study of Fiduciary Capitalism, Saint Mary's College of California

'From sin stocks to cleantech, ESG to GHGs, portfolio tilt to the prudent man rule, Krosinsky and Robins guide the reader through a rapidly shifting landscape of risk and opportunity. Essential reading, whether you are an investor, a CEO or simply someone wanting to enjoy both a pension and a world fit for future life.'
John Elkington, co-founder of ENDS, SustainAbility and Volans, and co-author of *The Power of Unreasonable People*.

'A significant contribution to a rapidly growing field; the editors have brought to the public important themes and thought-provoking arguments on topics that will dominate the 21st century. This is a must-read book for practitioners and investment analysts alike.'
Gordon L. Clark, Oxford University

'As the roles of business and the capital markets shift to directly address global challenges, practitioners can no longer ignore the growing momentum in sustainable investing. This book fills an important gap, pulling together the best thinking from contemporary experts. An excellent overview of past notions, current best practice and future trends.'
Cheryl Hicks, World Business Council for Sustainable Development

'Krosinsky and Robins have managed to assemble a unified publication that brings to light the financial innovation occurring on a massive scale. This book puts forth an image of the world where capital markets have the potential to provide solutions to our most pressing environmental problems.'
Bryan Garcia, Yale University

'Sustainable investing is vital for the future of our planet. This book richly deserves to be read by everyone in the investment community – and many beyond.'
Rob Lake, APG Investments, The Netherlands

Sustainable Investing

The Art of Long-Term Performance

Edited by Cary Krosinsky and Nick Robins

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2

Sustainable Equity Investing: The Market-Beating Strategy

Cary Krosinsky

Perhaps the most important battleground for advocates and opponents of social, ethical and sustainable investment strategies has been financial performance. Although scepticism remains, this chapter will show that sustainable investing funds have already outperformed consistently over the short, medium and long term, by disaggregating the returns of different strategies – distinguishing between mainstream, ethical and sustainable styles. The analysis will also highlight the fact that long-termism – another essential element of the sustainable investing philosophy – is also positively correlated with financial return.

Confronting the performance challenge

To date, conventional wisdom in investing circles has held that strategies that incorporate environmental or social factors must, by definition, underperform. This assumption is derived from traditional beliefs about the inapplicability of personal values and morals in a financial context. It is also based on experience with the first generation of ethical or socially responsible investment funds. Such funds typically invest against a mainstream index and screen out perceived worst actors in certain categories, or remove entire industries such as alcohol, tobacco and firearms. They also give preference to companies apparently displaying socially responsible business practices. These ethically screened funds continue to represent a majority of SRI assets to this day and typically do not outperform the mainstream. As a result, many investors with an overriding mandate of outperformance firmly believe that taking non-financial factors into account will cause them to fail, and so avoid the entire concept.

But what this obscures is that sustainable investing – a key, separate and distinct subcategory of SRI – has outperformed not only ethical funds, but mainstream indices as well over a one-, three- and five-year period. This outperformance has far-reaching implications for the investment profession, suggesting that the early incorporation of factors such as climate change has already been paying off. With prospects suggesting that environmental and social threats may well intensify in the years ahead, this evidence suggests that sustainable investing arguably represents the best way forward to position one's equity for any investor.

What makes sustainable investing distinct is a dual approach, simultaneously pursuing the best opportunities that arise from the threats of climate change, water shortages and other factors, while at the same time seeking to avoid the risk in securities and industries that will most likely be affected negatively by environmental, social and governance (ESG) issues. There are numerous examples of this dual strategy having been deployed successfully over time, which we will highlight shortly. These sustainable investors stand in direct contrast to traditional ethical funds that do not look to highlight specific opportunities, and the relative performance over time between these subcategories is quite dramatic.

Articles and papers continue to be published expressing scepticism as to whether one can invest according to one's personal convictions and not leave something on the table in the process. Just one such recent example would be Pepperdine University Business School's paper entitled *The Moral and Financial Conflict of Socially Responsible Investing* (Graziadio Business Report, 2007), and there are many other such examples. These deeply entrenched beliefs are held not only within the mainstream investor communities, but by many otherwise ethically minded individual investors as well.

Many other studies have been made attempting to discern whether and how socially responsible funds perform, and the results, to date, have been conflicting and confusing. For example, there are fully 17 studies listed at the Center for Responsible Business of the University of California at Berkeley's website (see www.sristudies.org, accessed 12 May 2008). The first one referenced, entitled *Doing Well While Doing Good? The Investment Performance of Socially Responsible Mutual Funds* (Hamilton et al, 1993), shows no statistical difference when investing in a socially responsible manner. Furthermore, the study listed by Hong and Kacperczyk (2006), entitled *The Price of Sin: The Effects on Social Norms on Markets*, suggests that investors pay a price for not investing in so-called 'sin stocks'.

More recently, the United Nations Environment Programme's Finance Initiative (UNEP FI) published a study in October 2007 called *Demystifying Responsible Investment Performance*. Again, the report lists 20 separate studies, with results showing positive, neutral and negative returns. Other studies draw similarly inconclusive findings.

Table 2.1 *The 11 styles of SRI*

	Style	*Description*
1	Ethical 'negative' screening	Avoiding companies on ethical, moral or religious grounds (e.g. alcohol, gambling and tobacco).
2	Environmental/ social 'negative' screening	Avoiding companies for involvement in environmentally or socially damaging sectors or practices (e.g. fossil fuels).
3	'Positive' screening	Active inclusion of companies because of environmental or social benefits.
4	Community and social investing	Allocation of capital directly to enterprises that explicitly provide social returns.
5	Extra-financial 'best in class'	Active inclusion of companies that lead their sectors in environmental or social performance.
6	Financially weighted 'best in class'	Active inclusion of companies that outperform sector peers on financially material environmental or social criteria.
7	Sustainability themes	Active selection of companies on the basis of investment opportunities driven by sustainability factors, such as renewable energy.
8	Constructive engagement	Dialogue between investors and company management to encourage improved management of ESG issues.
9	Shareholder activism	Use of shareholder rights to pressure companies to change environmental, social or governance practices.
10	Integrated analysis	Active inclusion of environmental and social factors within conventional fund management.
11	Norms-based screening	Avoiding companies for non-compliance with international standards such as those issued by the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO).

Source: Eurosif (2006); Tyrrell and Brown (2007); US SIF (2008)

The consistent theme among these studies is that they analyse SRI funds as a whole as if they only undertake one approach to investment. But the fact of the matter is that SRI is a catch-all phrase, which represents numerous subcategories, each of which need to be considered separately and carefully in order to truly examine past and potential future performance. As we will demonstrate, there has been a great difference in performance between the more granular classifications.

Looking across the investment landscape, as many as 11 distinct styles within SRI emerge (see Table 2.1).

Often these styles are deployed in different blends by managers seeking to achieve different outcomes. In broad terms:

- Ethical and classical socially responsible strategies encompass styles 1, 2, 3, 4 and 11, as listed in Table 2.1.

- Sustainable investing generally involves styles 5, 6, 7 and 10, as listed in Table 2.1.

Styles 8 and 9 in Table 2.1 are not typically specific investment strategies. Rather, they are overlays, often deployed on top of either ethical or sustainability focused funds. Such overlay strategies have also been utilized against mainstream index-based portfolios without screening, such as has been the case with US state pension funds (e.g. CalPERS), and there are many similar such cases globally. Styles 8 and 9 are often a large part of what is meant by the term responsible investing.

For the purposes of comparing the performance of these very different styles, we have allocated public mutual funds across the world into the two groups: ethical funds and sustainable funds. Responsible investment, as mentioned above, is an overlay that can be performed on top of ethical, sustainable or mainstream investment deployment strategies. In addition, this overlay is often practised by pension funds and similar funds whose investments and performance are not often publicly available (as a result, they will not be considered in this chapter). We also further subdivided the sustainable fund class into 'clean growth' funds: those running sustainability themes focused on clean tech, climate change and other cross-cutting factors. Lastly, we also split out funds that deviated from their stated goals and call them 'style drift SRI' due to factors such as being significantly overweight in the oil and gas sector.

The study we performed, then, isolated all global publicly facing SRI portfolios, of which we found there to be 850 at present. We further isolated those with US$100 million or more in equity under management that have existed for five years or more as of the end of 2007 and assigned them one of these subcategories as appropriate to their specific approach. There are 135 such funds that met these criteria, and the relative subcategory return results seen in Table 2.2 are quite revealing indeed.

From this, we can see that ethical funds perform in line or underperform, suffering very poor returns over one year, slight underperformance over three years and minor outperformance against their benchmark indices apart from MSCI World over five years. Over longer time periods, other studies have shown that ethical investment broadly performs in line with the mainstream – this is certainly the experience of the KLD Social Index. Over a ten-year timeframe, a recent analysis of 90 ethical funds in the UK concluded that the annual return was just 0.1 per cent less than the FTSE All Share Index (Jewson, 2008).

More significant, however, is that sustainable investing funds have significantly outperformed their ethical peers and, even more so, their style drift compatriots. Even more impressive is that sustainable investing funds have significantly outperformed mainstream indices, returning +18.7 per cent, on average, over the last five years, versus the MSCI World, S&P 500 and FTSE 100's returns of +17.0 per cent, +13.2 per cent and +13.0 per cent, respectively.

Table 2.2 *Relative returns by SRI subcategory versus mainstream indices*

	One-year average percentage return (2007)	*Three-year average percentage return (31 December 2004–31 December 2007)*	*Five-year average percentage return (31 December 2002–31 December 2007)*
SRI subcategory			
Sustainable investing	14.0	19.3	18.7
Ethical	3.6	12.3	13.8
Style drift SRI	0.3	9.6	11.6
Mainstream Index			
MSCI World	9.0	12.7	17.0
S&P 500	5.5	8.7	13.2
FTSE 100	5.9	12.9	13.0

Source: Cary Krosinsky, using Yahoo! Finance and Bloomberg to verify mainstream Index returns, and Ivor Butcher's double-checking study as well, on the fund return portion, in combination with fund company websites and public disclosure websites such as www.sec.gov – compiled April and May 2008. See also Appendix B.

In effect, sustainable investing funds have already been providing the *alpha* that so many asset managers have been striving for. Similar outperformance was seen over one- and three-year periods, as well. (Note that the results of the returns in this study were independently and fully verified by investment banker Ivor Butcher. For more details on this returns study, see the Appendices at the end of this volume.)

Overall, the 135 SRI funds studied produced an average five-year return of +15.2 per cent. Compared with benchmark indices such as the S&P 500 and FTSE 100, this was quite competitive and arguably came with a much lower risk profile as these portfolios, unlike many mainstream ones, are more prepared for the potential of an environmentally changed future. Those funds that invest in a dual manner, both mitigating risk and seeking opportunity at the same time, have been outperforming most significantly of all.

A prime example of a successful fund that has been driving ahead on a sustainable investing approach for an extended period of time is the Winslow Green Growth Fund. The fund:

> … *seeks to invest in small growth companies that have a positive or neutral impact on the environment. Portfolio companies are subjected to both financial and environmental analysis as part of the investment decision-making process. Many portfolio companies are in the business of developing environmental solutions; examples include companies in the organic food industry, or companies within the renewable energy sector.* (Winslow Management, www.winslowgreen.com/fund/default.aspx)

Managed out of Boston since 1994 primarily by Jack Robinson, the fund has maintained a consistent management style, and Winslow Green has frequently outperformed its industry peers and benchmarks. In 2007, Jack was voted second among all aggressive growth managers regardless of whether they invest in a sustainable manner or not by Barron's/Value Line. The fund recently had a five-star Morningstar rating and fully delivered 27.4 per cent average returns from 2003 to 2007. If US$10,000 had been invested at inception in 1994, it would have been worth almost US$100,000 at the end of 2007.

A similar European story to Winslow Green is the Jupiter Ecology Fund, which TrustNet recently found to be the top UK 'ethical' performer over the last three years. However, Jupiter Ecology was, in fact, established 20 years ago as the first UK SRI fund that went beyond ethical factors to invest with sustainability goals at its core. These investment objectives, combined with a stable approach, have paid off well. Initiated by Derek Childs and Tessa Tennant, whose thoughts are featured later in the book, and managed by Charlie Thomas since 2003, the fund's investments must meet both financial minimum thresholds, as well as fit six environmental themes. Jupiter Ecology has outperformed consistently over the course of the last five years to the end of 2007 to the benefit of both its retail and institutional clientele alike.

There are quite a few other examples of this successful dual approach globally, including those promoted and managed by Sarasin, the Orange SeNSe Fund and many others, and it cannot be argued that these results were unanticipated. In his industry standard *Socially Responsible Investment: A Global Revolution*, published right at the start of our study, Russell Sparkes contended that:

> *Traditionally, people working within financial markets have tended to be sceptical about the need to move towards sustainability. However, such people, even if they are personally dubious about the threat from global warning, should note that the combination of consumer pressure and government action implies major consequences for the operation of financial markets. There may be significant downside risks in some areas, but there are also likely to be great opportunities for financial practitioners who are able to exploit emerging new financial markets. Examples of potentially attractive new businesses include renewable energy, emissions trading, corporate environmental evaluation and pollution liability risk assessment.* (Sparkes, 2002)

Sparkes further went on to cite examples of leading public funds involved in renewable energy investing, including Merrill Lynch IIF New Energy and Impax Environmental Markets funds, launched earlier this decade. Over the last five years, these have been among the very strongest performers of all. Our study found that funds which focus solely on such 'clean growth' opportunities returned an average 22.9 per cent over the five-year period we studied.

Table 2.3 *The companies most owned by sustainable investing practitioners*

Company	*Country*	*Sector*	*Description*
Abengoa	Spain	Industrial	Abengoa applies innovative solutions for sustainable development in the infrastructure, environment and bioenergy sectors.
Aviva	UK	Insurance	Aviva is the world's fifth-largest insurance group, with a leading position in SRI funds and a group-wide corporate social responsibility (CSR) policy.
British Telecom (BT)	UK	Telecom services	BT is one of the world's leading providers of communications services, operating in 170 countries with long-standing commitment to sustainability.
Canadian Hydro	Canada	Energy	Canadian Hydro is Canada's premier independent developer of EcoLogo® certified low-impact renewable energy.
Canon	Japan	Electronics	Canon is a major producer of electronic equipment and is driven by its kyosei philosophy: 'all people harmoniously living and working together into the future'.
Conergy	Germany	Energy	Conergy is a leading European solar enterprise.
Gamesa	Spain	Energy	Gamesa specializes in sustainable energy technologies, mainly wind power, with 15% of the global market in 2007.
Geberit	Switzerland	Sanitation technology	Geberit is the European market leader in sanitation technology with a focus on water conservation.
ING	The Netherlands	Insurance	ING is a global financial services group, with a focus on the development of sustainable products and services.
Itron	US	Utilities technology	Itron is a leading provider of metering technology that improves the efficiency of energy and water use.
Nokia	Finland	Telecoms equipment	Nokia is the world's leading mobile communications group, with a commitment to environmental leadership.
Novozymes	Denmark	Biotech	Novozymes is the world leader in bio-innovation, and its products contribute to saving considerable amounts of raw materials, energy, water and/or chemicals.
SolarWorld	Germany	Energy	SolarWorld is an integrated solar technology company that takes economic, ecological and social factors into consideration on an equal footing.
Veolia Environnement	France	Environmental services	Veolia Environnement is the world leader in environmental services, with interests in water, waste, energy services and public transport.
Vestas	Denmark	Energy	Vestas is the world's leading producer of wind turbines with a 23% market share in 2007.

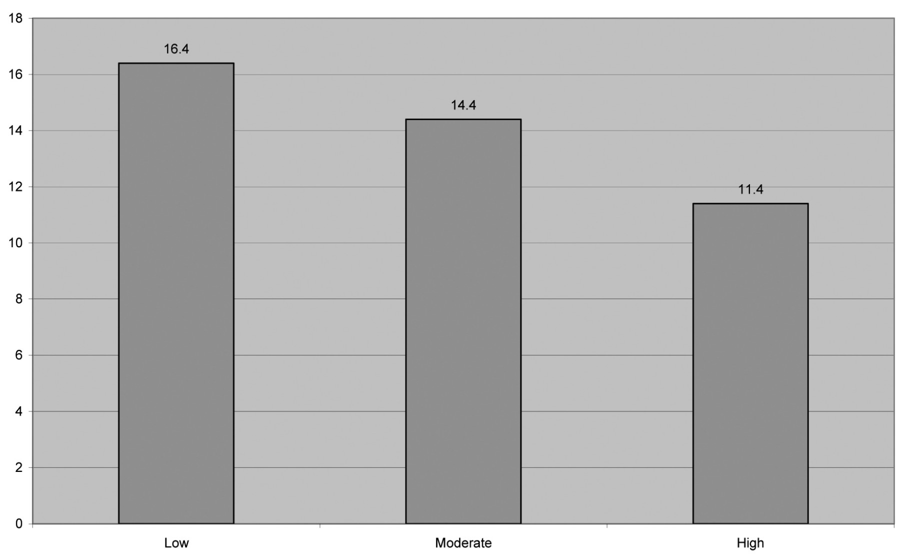
Source: Cary Krosinsky, using fund company websites and public disclosures websites such as www.sec.gov, compiled April and May 2008.

Looking a bit more closely at funds with a sustainable investing approach over the last five years, it is interesting to examine what companies these funds own in common in order to get a gauge of what a 'most sustainable' company looks like. In Table 2.3, these companies represent the most commonly held companies from an independent review of the ownership of these funds, and represent an equal weighted consensus view of these sustainability-minded managers.

All of the above have been cited either for their advanced technologies, which aim to capitalize on the apparently changing world before us, or for their efforts at building maximum efficiencies in traditional sectors. Slightly further down the list are other companies that many will recognize, such as Allianz, BG Group and Philips Electronics – companies in traditional industries being recognized for positioning themselves competitively for the future.

The importance of time horizons

Another critical dimension to sustainable investing is time horizon. Looking at the funds analysed in the study, those with the lowest turnover performed best (see Figure 2.1). Turnover is the average period of time in which a fund completely changes its holdings. For example, a high turnover would mean that the fund in question changed its entire portfolio at least once over the course of a year. 'Low' indicates a portfolio that makes infrequent changes within the



Note: Average five-year return of studied funds by turnover range.
Source: Cary Krosinsky, using fund company websites and public disclosures websites such as www.sec.gov, compiled April and May 2008.

Figure 2.1 *Average five-year return (per cent) of studied funds by turnover range*

Source: Yahoo! Finance

Figure 2.2 *Winslow versus Warren Buffett*

course of a year, and that such portfolios might take three to five years to completely 'turn over'. Performance drops unambiguously as turnover increases on a directly sliding scale.

Interestingly, a higher percentage of sustainable investing funds had a low turnover (76 per cent of such funds), as opposed to their purely ethical peers (only 49 per cent). The combination of the potential *alpha* gained from a sustainability tilt along with a long-term time horizon serves to create the potential for a Warren Buffett of Sustainable Investing, and the more skilled and experienced sustainable investors have already been outperforming as demonstrated.

Looking back at the Winslow Green Growth Fund once more, it has significantly outperformed even the Oracle of Omaha himself (see Figure 2.2). Over the five years to the end of 2007, Berkshire Hathaway has increased by a nice 100 per cent, while the Winslow Green Growth Fund has seen over 200 per cent growth, over double the performance of Buffett's holding company.

WHAT'S HOLDING BACK THE MAINSTREAM?

These results are reflected in the investment marketplace, where a clear shift is under way from ethical and socially responsible approaches towards sustainable investing. For example, in 2005, Henderson Global Investors in the UK relaunched its ten-year-old ethical fund as the Industries of the Future Fund, a multi-thematic sustainability growth fund. And in 2006, Pax World in the US moved away from its long-standing zero-tolerance approach to ethical investment, heralding the adoption of a sustainable investing strategy. In

Chapter 3, Julie Fox Gorte outlines the rationale for Pax World's move. Many more classic SRI funds are likely to follow a similar path. But a much wider question is whether or when the investment mainstream will be drawn to this potential for superior returns, while keeping risk at bay.

It is time for strategic reflection on the state of the investment management industry. The total value of global equity continues to soar and the trend is clear – more potential influence is held by institutional investors owning the world's largest companies, and there is also more of a stake in this for the ultimate beneficial owners of this equity. Overall, in 2005, institutional ownership accounted for 67.9 per cent of the largest 1000 global companies, up from 61.4 per cent in 2000 (Conference Board, 2007). All of these investors, in theory, should share in the desire to outperform while mitigating as much risk as possible. Given the success of sustainable investing practices, and the predominance of institutional investors today owning global public companies, it is perhaps surprising that the largest global investors continue to pay little heed to sustainable investing. Why have so many mainstream investors and asset owners failed to factor this more fully into their allocations? Old, staid ways of thinking? Perhaps they simply aren't aware that there is money to be made. Perhaps they are unwilling to invest in the necessary skills. Sustainable investing can outperform, but it needs to be achieved through diligent, extensive research and careful consideration, and it requires breaking down old patterns of behaviour.

Some of the largest investment institutions, such as Barclays and State Street, have started to build expertise and offer relatively small but growing SRI portfolio options. However, the majority of their equity is invested directly against mainstream indices such as the S&P 500 and FTSE 100, which, by definition, are neutral to sustainability measures. The rest of the top global institutions include the likes of Fidelity Investments and the Vanguard Group, where the vast bulk of investment is housed in mutual funds that have never taken any approach towards sustainability factors.

Most individual investors engage in equity investment via their retirement accounts – 401(k) plans in the US, individual savings accounts (ISAs) and pension funds in the UK, and similar structures globally. Of the US$4.1 trillion in mutual fund retirement assets held in individual retirement accounts (IRAs), 401(k) plans and other retirement accounts at year end 2006, US$2.8 trillion, or 70 per cent, were invested in domestic or foreign equity (ICI Investment, 2007). And there are growing incentives to leave such retirement funds static. Investors in the US are usually penalized for short-term selling of fund shares recently purchased. For this and other reasons, retirement investments have, on average, a lower turnover. Sustainable strategies are infrequently available to such plan members, meaning that much US equity investment is locked into programmes without any sustainability-minded option whatsoever. For example, at the time of this writing, Fidelity does not manage any SRI funds whatsoever, let alone one with a sustainable focus. Vanguard themselves oversee only one SRI portfolio, the Vanguard FTSE Social Index Fund, which invests in US stocks only. At present, among this fund's top ten holdings are McDonald's and Disney. Given that European companies (see Table 2.3) have often been leaders in sustainability, limiting 401(k) participants to a US-only option is questionable.

Currently, just under 20 per cent of defined contribution (DC) pension plans in the US include an SRI option (generally of the ethical variety). However, a Mercer survey from 2007 suggests that a further 41 per cent of all DC plan sponsors expect to be offering a SRI option within the next three years. This would translate to 60 per cent market penetration for SRI options in DC retirement plans by 2010 (Mercer and Social Investment Forum, 2007). If this welcome advance is to benefit both plan beneficiaries and the planet, then careful scrutiny will be required to ensure that integrated sustainable investing strategies are selected.

It is now imperative that interested retirement participants insist on more sustainability-minded options. If a large enough percentage of US investors demanded such choices, a dynamic could be generated that would encourage companies to improve their management of sustainability risks and opportunities, or risk being dropped by such funds. Without this demand for sustainable investing, there exists, in effect, a large, unwittingly passive block of equity ownership, preventing progress towards what could be the most efficient possible corporate behaviour. In the UK, pension funds are the largest similar actors, but in many cases are managed by trustees not focused on sustainability. One notable and positive exception would be the responsibility overlay strategy deployed by the UK Environment Agency, who actively encourages its appointed fund managers to behave in a sustainable manner (Krosinsky, 2007).

Conclusion

Of course, no two sustainable portfolios or approaches will give identical results, nor should they. As with any portfolio or allocation decision, there will be differences of opinion, and quality managers are paid to provide the best advice they can give. No matter the strategy, no matter the past performance, there can be no guarantee of future success, whether via mainstream strategies, hedge fund investing or attempting to invest in the most sustainable manner possible. The question is how to best position yourself for the changed future that now seems inevitable. Many long-term investors have obtained a false sense of security about equity markets and investing, in general, based on a combination of myth, perceived past performance and a desire for a sense of comfort. As mentioned, many global mutual funds, large governmental and corporate pension funds and insurance portfolios are often positioned in a passive fashion against benchmark mainstream indices, such as the S&P 500, FTSE 100 and the MSCI World. These have been reasonably safe and effective ways of deploying equity strategies in the past. Looking forward, though, it is less clear that flat index investing will be successful in the coming decades. The world is changing rapidly, and long-term investors now need to at least start to consider many new and potentially hard-to-quantify dynamics. Given the outperformance of sustainable investing that we have demonstrated, that time is not only now, but was apparently already the case years ago.

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