Sustainable Investing: The Art of the Long-Term Performance

March 5, 2009 at the United Nations Headquarters

On Thursday, March 5 a meeting entitled "Sustainable Investing: The Art of the Long-Term Performance" was hosted at United Nations Headquarters. Ms. Roma Stibravy introduced speaker Mr. Cary Krosinsky, co-editor of the recently published book *Sustainable Investing: The Art of the Long-Term Performance*, and Vice President of Trucost, Inc. ISES was established in 1954.

Mr. Krosinsky, a long-standing expert on the intersection of equity ownership and sustainable and responsible investing co-edited *Sustainable Investing: The Art of the Long-Term Performance* with Mr. Nick Robins, Head of the HSBC Climate Change Center of Excellence. The book, a collection of articles written by leading thinkers in the field of sustainable investment, was published in October of 2008. Examples of chapter authors include the head of carbon trading at Merill Lynch and an analyst at Société Genéralé.

Trucost, where Mr. Krosinsky is Vice President, is an independent environmental research organization that works with companies, investors and government agencies to help them understand the impact their business has on the environment. Trucost produces the world's largest environmental database of carbon emissions, and other pollutants, as generated by both the world's largest public and private companies. In producing this book, Mr. Krosinsky hopes to encourage and inform readers about ways to invest in order to avoid and ameliorate the environmental problems that we face.

Mr. Krosinsky discussed on socially responsible investing (SRI). He explained that there is not one single form of investing that encompasses SRI. Two of the eleven major strands of SRI are sustainable investing and negative screening. Although many people have come to view negative screening as synonymous with socially responsible investing, they are not identical strategies. Negative screening is done when investors opt not to invest in companies or industries that are deemed undesirable, such as tobacco and alcohol. According to Mr. Krosinsky, sustainable investing is an investment strategy that "looks to find the climate change related opportunities of tomorrow, while often at the same time, minimize the environmental, social and governance risk as much as possible." The major difference between these two strands is that negative screening is investing your values while sustainable investing is looking for value.

Although Mr. Krosinsky's statistics illustrate that sustainable investing yields higher returns, the large majority of the assets in SRI in the United Sates are still using the older strategies, such as negative screening. Mr. Krosinsky hopes that his book will encourage people to invest sustainably, that is look to the opportunities of tomorrow such as investing in alternative energy or companies that are trying to evolve, change with the times and anticipate the future. For the book, Mr. Krosinsky and Mr. Robins carried out a performance study which looked at all of the global SRI funds in the world. The funds were split into two groups, those which followed negative approaches (such as negative screening) and those that used sustainable investing strategies. The results show that the average five year annual return from sustainable investing is 18.7 percent, while those from negative screening are only 13.8 percent. The study was extended through 2008 and showed that for the year, sustainable investing did not do any worse than mainstream investment approaches. The message of the study is that in good economic times you have every chance of outperforming and in down times you do not do any worse.

Mr. Krosinsky explained that the majority of global equity is managed in the United States and the United Kingdom. He believes that if enough people invest in a sustainable manner, it will create a global dynamic that would encourage companies to invest sustainably because it would maximize efficiency. Mr. Krosinsky stressed the importance of countries such as China and India in embracing sustainable investment as a way to both reduce pollution and create jobs to reduce poverty. He also was hopeful that the United States, under the Obama administration, would embrace and promote sustainable investment strategies in ways we have not before seen in this country. Most importantly, Mr. Krosinsky believes that civil society must have a central role in changing what the capital markets look like.

An important question raised at the meeting concerned nuclear power and whether or not Mr. Krosinsky thinks it is a form of socially responsible or green investing. Mr. Krosinsky pointed out that the waste created by nuclear power is extremely problematic and complicated problem for which no one has come up with a good solution. Ms. Stibravy also noted that nuclear power is extremely expensive and that although many countries want the energy it provides, they are not eager to deal with the potentially dangerous consequences. A representative from the mission of Tanzania commented on energy created by solar panels; he said he believes more advanced solar technology is needed to improve the capacity of solar panels. Mr. Krosinsky explained that solar technology is improving; it is becoming more efficient and less expensive. Ms. Stibravy commented that although the cost of solar technology is decreasing, it is not being used because of political choices on development policies. A student in the MBA program at Baruch College observed that he sees many people investing abroad in green technologies and asked Mr. Krosinsky when he thinks this will catch on in the U.S. as well. Mr. Krosinsky explained that he is trying to change the current attitude in the U.S. that sustainable investing is not profitable, he hopes that over time investors will come to view the macro picture and realize that sustainable investing is not only profitable but also beneficial.

In conclusion, Mr. Krosinsky expressed hope that this new paradigm of investing will replace today's mainstream strategy. He explained that successful investment depends upon identifying targets which can provide a good return, which depends upon a vigorous population of enterprises, which depends upon a healthy macro-economy, which depends upon a healthy civil society, which lastly depends upon a sustainable planet. Sustainable investing will not only provide higher returns to investors but will also help make out planet healthier one.