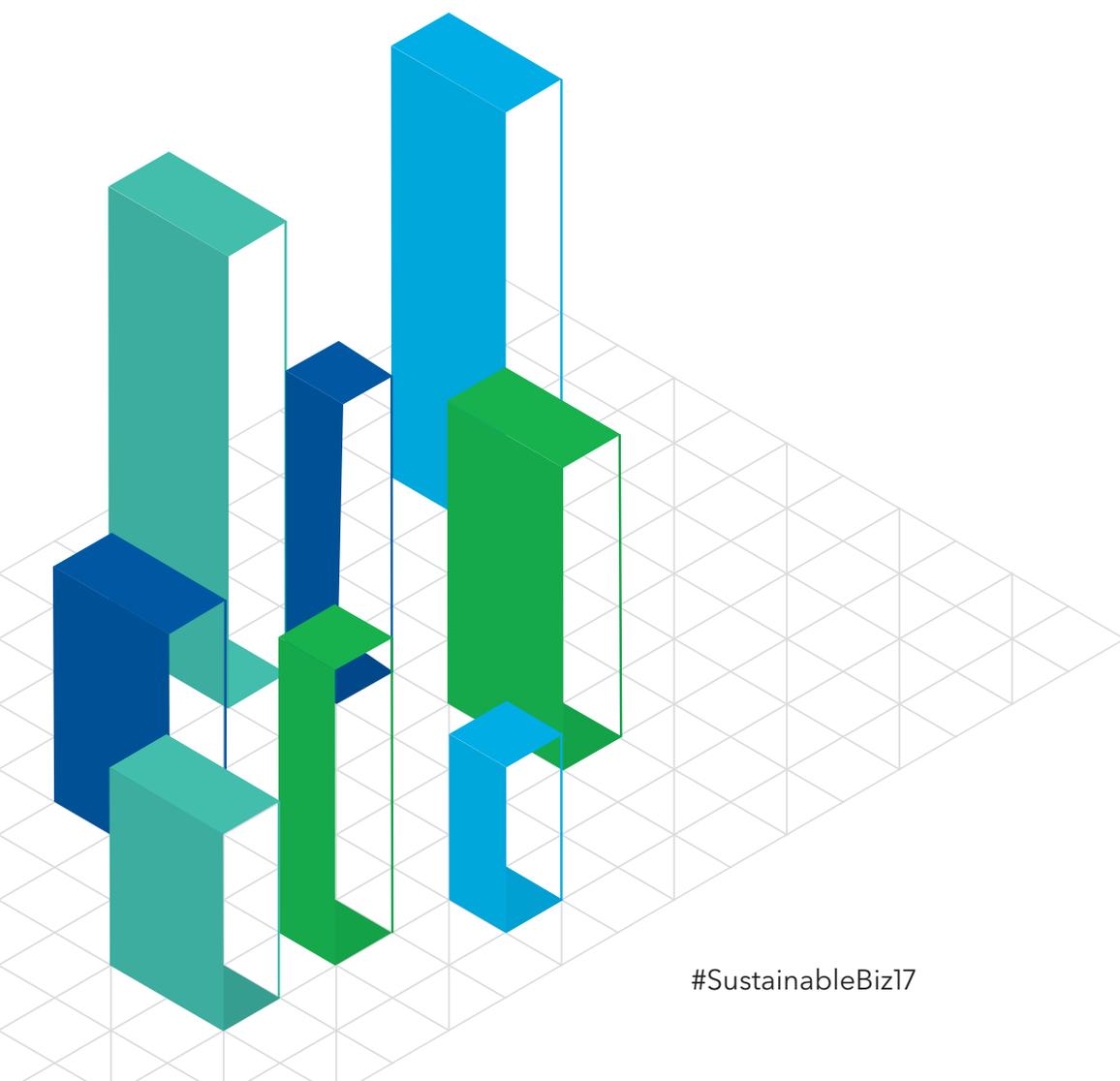


Bloomberg

Seizing the Opportunity

How Industry Can Lead a New Era
of Sustainable Development



#SustainableBiz17

A Surprising New Outlook on Sustainable Business

Just a few short years ago, if an investor had asked most any financial advisor if sustainable investments were a good idea, the latter would likely have answered, with no small measure of caution: They're nice in theory but typically generate a lower return on investment.

Those old assumptions are gradually changing. From mainstream industries like oil and gas to car manufacturers and multinational retail chain superstores, sustainability is steadily becoming good for business.

"Now consumers are demanding it—transparency, sustainability—and companies are competing in that space now," said Dave Stangis, chief sustainability officer with Campbell Soup Company.

"Investing sustainably is not at odds with sound investing."

—Audrey Choi, Morgan Stanley

Investors and asset managers, in turn, are steadily taking note. To date, leading global asset management firms, such as BlackRock and Vanguard, now offer investing that takes

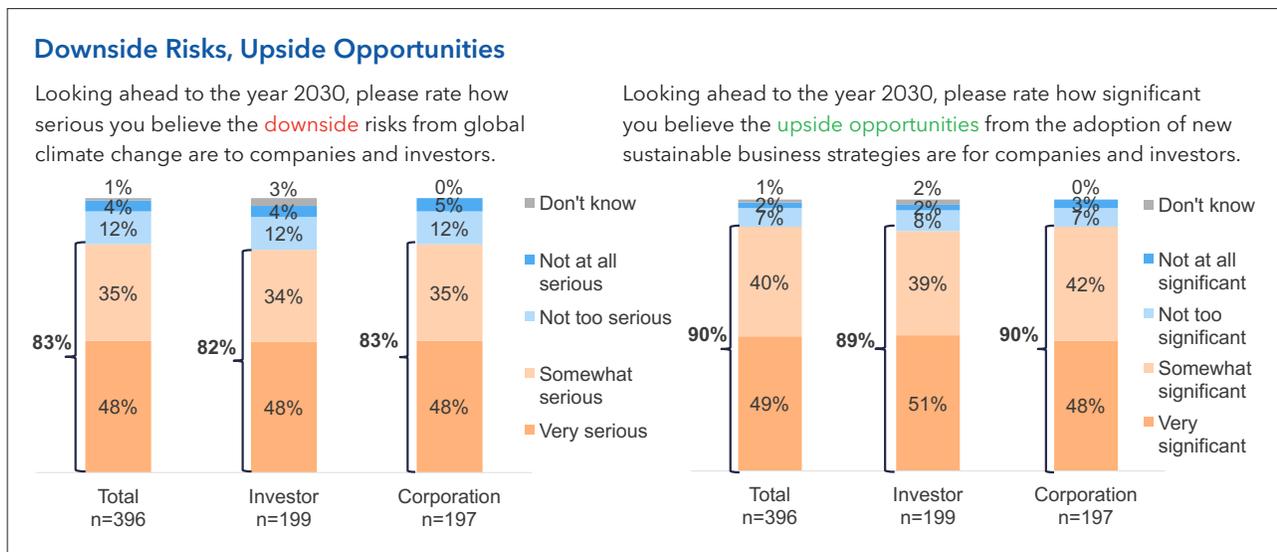
into account ESG (environmental, social, and governance) data, when building their portfolios. They're not alone.

"We're seeing more choices and research that [suggests] investing sustainably is not at odds with sound investing that comports with your desire for good returns," said Audrey Choi, chief marketing officer and chief sustainability officer at Morgan Stanley. That, Choi added, is a shift from even five or six years ago.

"The question [before] was, 'If I do this for my values, will I give up my full return? Today we're talking about fixed income, green bonds, ETFs—all sorts of assets [that factor in sustainability]," Choi said.

This view is echoed in *Bloomberg's 2017 Sustainable Business and Finance Survey*, which finds a majority of investors and corporations surveyed believe sustainability really can be lucrative.

Yet there's a hitch: While businesses and investors surveyed want to move forward on the sustainability front, roughly an equal majority believes government policy is likely to impede such efforts—suggesting that if sustainability



is to find a greater place in company and investment decision-making, industry will have to lead the way. But just how prepared is industry to seize the opportunity?

The Opportunity to Lead Is Now

Where there are opportunities, there are also risks.

“The risk of not taking sustainability seriously is equal to the opportunity you will miss out on by not embracing these issues into your company’s DNA and investment decision-making process,” said Lee Ballin, head of Sustainable Business Programs at Bloomberg. That view aligns with recent industry findings.

In a first-of-its-kind survey, which put investors and corporate decision-makers side by side in evaluating where they converge — or diverge — in their assessment of global climate change’s future impact, Bloomberg’s *2017 Sustainable Business and Finance Survey* found that a majority of respondents — nearly 400 educated consumers, spanning private and public corporations or consulting firms, as well as banks and institutional investors — largely concurred:

While the downside risks from global climate change are either “very” or “somewhat serious,” the future upside opportunities from the adoption of new sustainable strategies are equally significant, if not more so, than the challenges themselves.

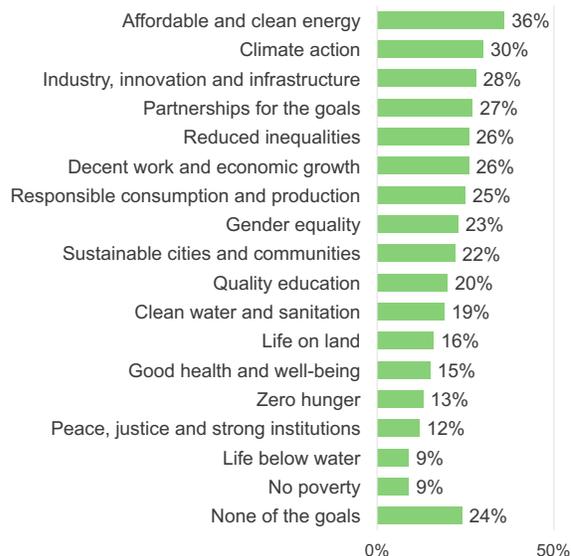
The impetus for such reflection is embodied in the United Nations’ Sustainable Development Goals. Increasing collaboration among business, government, and nonprofit partners has the potential to help reduce greenhouse gas emissions and drive innovation and economic growth in the coming decades.

Yet in assessing the probability that the international body will lead member states to achieving its 17 global targets, such as poverty elimination, sustainable cities, and climate action by 2030, a general pessimism pervades among industry about governments’ ability to make any real leeway: Almost one quarter of respondents

did not believe the international body will achieve any of the outlined goals for sustainability by its target date.

Forecast of UN’s 2030 Goals

Which of the following United Nations’ Sustainable Development Goals do you anticipate will be achieved by the year 2030? (Select all that apply)



Base: Total Respondents (n=396)

In a rare moment of consensus, 8 out of 10 respondents, spanning business and investor communities, anticipated climate change will trigger downside risks that are either “very serious” or “somewhat” serious. Yet the future upside opportunities from the adoption of new sustainable strategies are equally significant, if not more so, than the challenges themselves. Respondents saw significant opportunities ahead in promoting sustainable initiatives, citing realms such as big data and artificial intelligence — areas, which, in turn, can help foster “smart cities.”

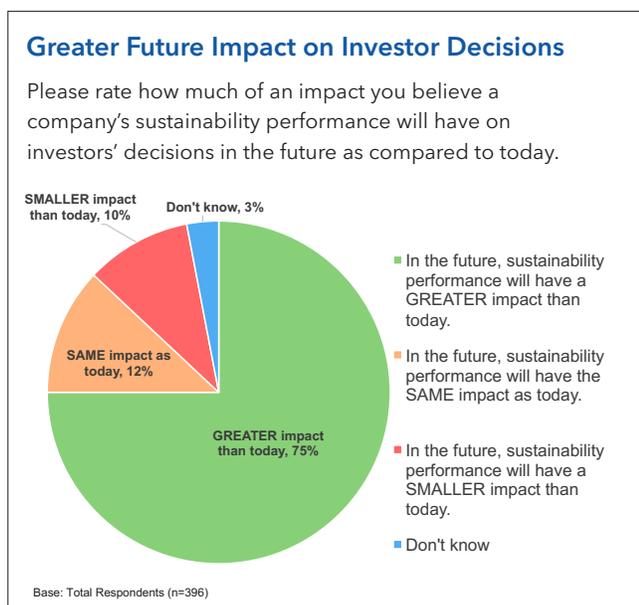
Innovations in materials and construction were also burgeoning growth areas, led by companies who saw carbon challenges in a new framework.

“Sustainability really drives innovation,” said Jay Gould, president and chief executive officer of Interface, an Atlanta-based billion-dollar company that manufactures modular carpet for commercial and residential entities worldwide. The old

industrial model, Gould noted, was “Take [precious resources], make [your product], and waste [once customers were done].”

“We believe the new industrial model is, ‘waste, make, retake,’” said Gould, whose company makes carpets from recycled fishing nets and, in its latest research-and-development effort, manufactures carpet backing from discarded cork from wine bottles. The premise, Gould noted, is equally transferable across industries.

“You have to think of carbon as a resource, not an enemy,” Gould said. “It’s our opportunity to take the lead.”



Corporate Standouts in a Lagging Field

Just how prepared is industry to answer this clarion call?

If Bloomberg’s recent survey is any indication, current corporate performance on the sustainability front leaves room for improvement. For instance, while many surveyed concede the consequences of climate change are high, respondents are also largely underwhelmed by industry’s current response to sustainability innovation — in some cases, suggesting sustainability runs the risk of being little more than a glossy annual report issued to investors.

“Yes, there has been a broad corporate learning [on sustainability] but unfortunately there’s still a lot of companies that speak a nice story but the data and their policy actions are completely inconsistent,” said Ingrid Dyott, managing director and portfolio manager for the investment management firm Neuberger Berman.

That trend is slowly changing, however, as sustainability issues trigger a “silent epidemic of interest,” said Choi of Morgan Stanley.

“We literally have hundreds of inbound requests from companies every year who want to have access to our environmental, social, and governance team,” said Amy Muska O’Brien, managing director and head of responsible investments for asset management firm TIAA Investments. “Companies are still more comfortable engaging with us on classic governance but they’ve seen what’s happened with majority votes.”

Corporations Thinking Sustainably

Walmart is waging its own ambitious campaign with Project Gigaton, with the goal of removing one gigaton (or one billion tons) of greenhouse gas emissions from its supply chain by 2030. A major focus of that effort is collaboration with suppliers.

“We are big proponents of shared value,” said Kathleen McLaughlin, senior vice president and chief sustainability officer for Walmart. “It’s totally integrated — you can’t separate economic, environmental, social issues; they’re intertwined.”

It’s a sentiment shared by other industry analysts.

“The data shows that about 80 percent of institutional investors are voting ESG proposals generally along the lines of the proposal against management but the retail base, which really hasn’t figured out how to vote these, isn’t pulling the lever in the right direction,” said John Streur, president and chief executive officer of the Bethesda, Md.-

based investment management company Calvert Investments. “The retail investor wants this [ESG] but they haven’t figured out how the system works.”

Starting the Conversation

The promise of sustainable investment is within reach, if the conversation begins now. Yet it’s not without challenges, note industry experts, especially at a time when the White House has expressed clear opposition to the Paris climate accord, while the Environmental Protection Agency has moved to rescind the Clean Power Act.

“The regulatory environment at times can be dispiriting; however, it is not the reason we were doing any of this,” said McLaughlin of Walmart, noting the retail giant began working on sustainability initiatives as far back as 2005. “There are clear, undeniable business benefits, that’s why we do it. I wish we had some tailwinds—that always helps—but we’re doing it anyway.”

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Paving the way, industry experts add, rests in equal part on conveying sustainable finance in a way that a multitude of stakeholders—classes of investors, companies, and NGOs—can all easily understand and glean relevancy from. The first step is demystifying sustainability as a seemingly novel concept.

“ESG is not a horse of another color that suddenly wandered onto the stage,” said Choi of Morgan Stanley, whose firm has found sustainable investment strategies fare roughly equal in performance to traditional approaches. “It’s [simply] more data to tell us about risk or growth opportunity.”

Conclusion

Sustainability is no longer relegated to the sidelines of corporate and investor discussion. Increasingly it’s regarded as a cornerstone of strong corporate governance—and long-term business viability.

“The opportunity that exists for the private sector is immense, and those who fail to identify how their company fits into the larger narrative will miss out on the greatest business opportunity of the 21st century,” said Ballin of Bloomberg.

That business opportunity rests on an enlarged understanding of sustainability: It’s no longer a one-note topic focused on environmental impact, said Keryn James, group chief executive for the sustainability consultancy ERM. Rather, it is now increasingly interwoven into the fabric of corporate decision-making and innovation. Yet while business has been the key driver for sustainable efforts to date, that progress is still in flux.

“I do believe the pendulum is swinging—we may even be at a tipping point—but there are still many challenges and risks to address,” said James. Future success, James said, will hinge on several factors, including corporate leadership and influencing the supply chain, along with implementation of accurate, data-driven decision-making, based on a common framework that all stakeholders can understand.

Regardless of such challenges, investor or corporate communities alike increasingly believe a day will come when sustainable and finance issues will be spoken of as one and the same—and be seen, in turn, as a collective driver for the kind of growth where profits and values need not be mutually exclusive. That day may yet come. Maybe even by 2030.

Content in this white paper was informed by expert panel discussions at Bloomberg’s 2017 Sustainable Business Summit. Learn more about the annual series at www.bna.com/SustainableBizSeries.

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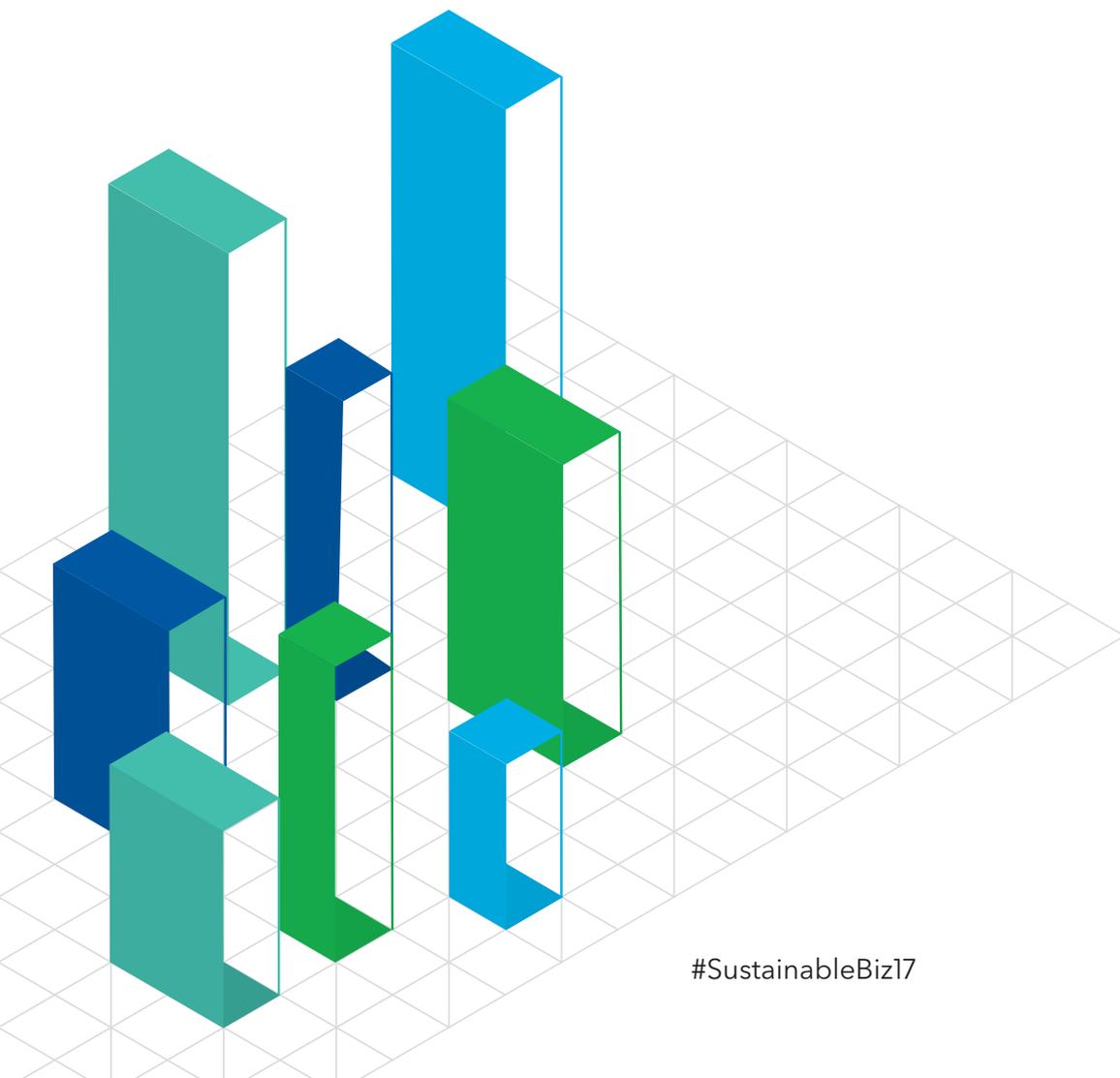
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