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Wall Street Cares If Companies Are Sustainable

By Steve Wolk | August 13, 2012

As sustainability professionals, a significant part of our job is convincing upper management that embracing sustainability will create value that far exceeds its costs. Some one-off solutions show easy economic paybacks, such as switching incandescent and halogen lighting for more efficient LEDs. But proving a direct effect on stock price from weaving sustainability into a corporation's strategy and operations can be challenging.

Wall Street, however, is already buying it and increasingly reviewing sustainability measures to get an edge on valuing companies. A number of investment bank equity analysts and sophisticated investors review Environmental, Social, and Governance (ESG) characteristics of companies as part of their basic analysis, and attribute additional stock value to companies that are reporting and making headway in these areas.

Bulge Bracket Bank Analysts and Big Investors

Goldman Sachs Asset Management has recognized the value of analyzing ESG for years. They state, "We recognize that these environmental, social, and governance (ESG) factors can affect investment performance, expose potential investment risks, and provide an indication of management excellence and leadership."

Probably the single largest investor to embrace sustainability as a measure of a firm's value is CalPERS, the retirement fund with $235 billion under management. In their 2012 Sustainable Investing report, CalPERS says "In the longer term, we recognize that rising demand for food and resources globally, coupled with the likely effects of climate change, will have a potential impact on risk-adjusted returns." And "…companies need physical capital such as equipment, electricity, water, transport and buildings for example. This gives us an interest in the environment." When CalPERS invests, it can move markets, and when CalPERS talks, by virtue of their reputation for excellence and their size, people listen.

Making ESG Data Accessible and Digestible

With Wall Street increasingly turning to ESG, providers of analytical data and tools such as Bloomberg L.P. and MSCI are meeting the demand for ESG information. Bloomberg L.P., a leading provider of financial data and tools, now collects and disseminates ESG data on over 220 indicators, such as carbon emissions. According to Curtis Ravenal, Bloomberg's Global Head of Sustainability, both the supply and demand of data has increased since Bloomberg launched its product in 2009 when only about 1,000 companies reported ESG data. Now Bloomberg gathers information from 6,000 companies, and users have grown four-fold to 4,000 analysts and portfolio manager who regularly review ESG data.
ESG data "layered on top of" other financial data can be a source of competitive advantage for investors. Ravenal says "it's not just SRI funds doing negative screening. Now mainstream funds are using this data to find best-in-class companies."

In fact, throughout the financial ecosystem, ESG is seen as increasingly relevant. Companies including UBS, Blackrock, KKR, and CALSTRS are actively backing the newly formed Sustainability Accounting Standards Board (SASB). The SASB is engaging with investors, NGOs, and public companies to create standard methods of reporting ESG data. According to SASB CEO Jean Rogers, "we're working to make sure that [ESG] data is highly material and comparable to data from other companies in a sector."

At the CFA institute, which develops the curriculum studied by current and aspiring Chartered Financial Analysts (a title held by many investment professionals), ESG readings are now included. C-level executives should assume that newly minted CFAs will be considering ESG metrics in their analysis.

What does this mean to sustainability professionals? We already know that integrating sustainability into the strategy and operations of your company will have a profound and lasting impact on reducing costs and risk, and in some cases increasing revenue. Now we need to let senior management know that sustainable business practices will be felt in the company's stock price long before all the other benefits have fully made their impact.

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