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Sustainability: A North Star for Investors

There is an old hockey adage that says, “don’t skate to where the puck is, skate to where you think it’s going to be.” The same can be applied to investing. Successful investors make informed decisions based on things that have yet to happen. Past data can indicate things to come, but it’s never guaranteed.

Absent a crystal ball, how can investors predict how the world will look several years down the line? One way is to be guided by long-term, secular trends that are shaping our society. Today, the most important of these is the sustainable shift.

Sustainable development is popularly defined as “meeting our own needs without compromising the ability of future generations to meet their own needs”.

All UN member states have adopted the UN’s 2030 Agenda for Sustainable Development. At its heart are 17 Sustainable Development Goals (SDGs).

The goals are interdependent in nature, addressing global challenges which often overlap. Some of these goals, for example, are:

- Climate action – This involves urgent action to combat climate change and its impacts through education, innovation, adherence to climate commitments (i.e. the Paris Accord), modernizing infrastructure,…
- Life on land – Concerned with protecting, restoring and promoting the sustainable use of terrestrial ecosystems, sustainably managing forests, combating desertification, and halting and reversing land degradation and stopping biodiversity loss.
- Life below water – concerned with conserving and sustainably using the oceans, seas and marine resources for sustainable development.

If the SDGs provide a blueprint for achieving a better and more sustainable future for all, when it comes to investing, ESG ratings, which assess a company based on Environmental, Social and Governance factors, provide a yardstick with which we can measure sustainable progress. The objective of complementing traditional financial metrics with ESG considerations, is long-term value development for both business and society.

For regulators, greening and 'socializing' the economy are priority for stability and resilience. In Europe, the backbone of policy is the green taxonomy which tries to document which activities are green and which are not, in order to guide private capital into those that are environmentally-sustainable. One of the cornerstones of EU regulation related to sustainable finance is the principle of double materiality: it is not just sustainability-related impacts on the company that can be material, but also the impacts that a company has on people, society and the environment. Indeed, nearly all types of economic activity have the potential to impact the various principle adverse indicators.

Principal Adverse Impact (PAI) is generally understood to mean the negative impact caused by an investment decision or investment advice on sustainability factors (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters). There is a list of mandatory and voluntary indicators (covering, for example, greenhouse gas emissions, waste, biodiversity, human rights,..) that investment firms need to take into consideration in their investment policies, processes and decisions.

With regulators taking the lead, ESG considerations, once considered a nice-to-have in the corporate world, have become ingrained – a vein in the marble – affecting decision-making at every level of businesses.

Beyond that, the collective mindset is changing. For every citizen of the world, climate change adaptation and mitigation are becoming part of daily considerations.

Investors, in this sense, don't need a crystal ball. The world is skating on increasingly thin ice with regard to climate change. As circumstances force us to act more sustainably, the direction

in which we are headed is clear. Products, services and practices that respond to the global challenges we face are increasingly recognized as being a source of economic growth and for offering return on investment – a return that is more than just financial.

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