CLIMATE CHANGE:
price & policy

RESPONSIBLE INVESTMENT

POSITIVE FUTURES

PART 2

Jon Duncan, Old Mutual Investment Group, in conversation with Will Day, Cambridge Institute for Sustainability Leadership

Read Part 1 of this interview, Climate Change: the food-energy-water nexus, on www.oldmutualinvest.com

DO GREAT THINGS

OLDMUTUAL INVESTMENT GROUP

TOMORROW, *as invested as you are*

Old Mutual Investment Group is serious about responsible investment and green economic growth, and in June 2015 we held our first conference showcasing how we incorporate environmental, social and governance (ESG) factors into our investment processes, and our green growth investments that support the transition to a low-carbon, resource-efficient, socially equitable economy.

As a mark of our willingness to spark robust debate in this arena, we included external experts in the debate. Sustainability luminary Will Day was our keynote speaker, and the event publication, *Tomorrow, as invested as you are*, included a selection of external contributors who are well respected in their fields of endeavour: climate change, green economic development, corporate governance and integrated reporting. Following the conference, Jon Duncan spent some time in conversation with Will Day about climate change. This article is part two of their dialogue.

WILL DAY

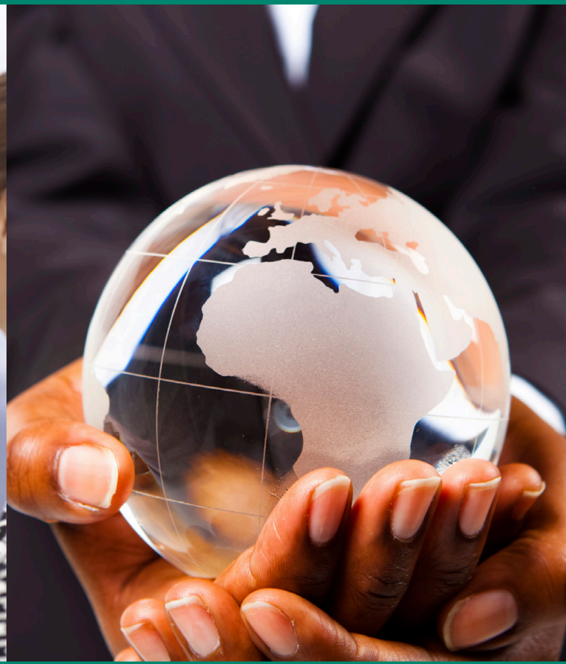
Will is a Sustainability Advisor to PwC. He brings a wide range of experience from 25 years of working with NGO relief and development organisations. As an independent consultant, and as Special Advisor to the United Nations Development Programme (UNDP), he has helped facilitate cross-sector engagement between governments, companies and civil society organisations in various parts of the world, with a strong focus on the role of the private sector in development. As a faculty member of the University of Cambridge Institute for Sustainability Leadership, he has focused on the identification, analysis and communication of global mega trends, and their potential social and economic impacts, to senior business and government clients. Will was Chair of the UK Sustainable Development Commission until March 2011 and was a board member of the Overseas Development Institute (ODI) until October 2012.

JON DUNCAN

Jon Duncan leads the Responsible Investment (RI) programme at Old Mutual Group. The RI programme is focused on driving the systematic integration of material environmental, social and corporate governance (ESG) issues across the Group's £319.4bn* of funds under management. Jon also heads up the Sustainability Research and Engagement function at the Group's South Africa-based asset manager, Old Mutual Investment Group, where he is involved in company and industry ESG research; the analysis of green growth opportunities; and engagement on regulatory issues and local industry initiatives, such as the Code for Responsible Investing South Africa (CRISA). Jon was involved in the drafting of CRISA and currently sits on the CRISA committee, which drives the application of the Code in South Africa.

An engineer by training, with a Master's degree in Environmental Science, he has over 20 years of professional experience in the field of sustainability research and engagement. He has worked extensively in Africa across a range of sectors, supporting organisations with strategic social, environmental and sustainability related issues.

* As at 31 December 2014



Climate Change: price & policy

Jon Duncan: What do you believe is the biggest obstacle globally, to finding solutions to climate change? You have spoken about a pervasive unwillingness to respond by business, government and individuals.

Will Day: While it is true that some of the organisations that are invested in and profiting from the current set-up are clearly disinclined to change, it is important to realise that we are all responsible. As individuals we are increasingly aware of the situation and the potential impact of a changing climate, and yet we rarely change the way we travel, the way we light and heat our buildings, or the way we live and eat. Importantly, we don't question how the managers of our assets invest our savings if they are making a healthy return.

> "… what a fantastic thing it will be to eat more fresh, locally produced, in-season food."

It doesn't have to be all gloom or doom though, and I think it can change for the better. We should get better at articulating what a fantastic thing it will be to eat more fresh, locally produced, in-season food.

For example, to send cashew nuts or prawns from Mozambique to Bangladesh for shelling, and then ship them back again to be packed and sold, does not make sense. Some of those long supply chains are nonsense – others are sensible, such as growing crops that need lots of water in places that have lots of water. This is not about giving up on a globalised economy, it's simply that we do plenty of things now that are illogical because they seem to make commercial sense – but only if you don't price them properly.

JD: In April 2015 the WWF priced the world's ocean at US$24 trillion, which critics called reductionist. What do you think?

WD: In a world where most decisions are made based on value and return, there is a real risk that if you don't give things a value, they will be taken for granted. For instance, you will ignore your impact on water availability and quality, you will ignore the impact of the greenhouse gases (GHGs) you emit in your production and distribution, and you will externalise those impacts by not accounting for the true cost of consumption.

In the existing system, unless it is priced in some way, a tree cut down is worth more than a tree standing. That is simply inescapable, and the eminent economist Nicolas Stern has recently said that in a straight fight between growth and climate change, growth will always win.

So, until we can find a pricing mechanism that helps us to understand the real costs of unchecked climate disruption, and then to understand ways of reducing that impact, we are heading for a really disrupted global system.

JD: How can policy help to create the change required?

WD: Governments on the whole don't like making unpopular policies and decisions. This is ironic because it is the role of leaders to lead and to help their populations understand and avoid risk, and also to help them realise opportunities. Globally, the rhetoric suggests that governments do understand the very real dangers of climate change. This should not be a surprise, because their scientific advisors have been telling them these things for several decades.

"In a straight fight between growth and climate change, growth will always win."

The problem is that in most democratic systems, the ruling party has a four- to five-year timeframe, which doesn't give them time to make the sorts of long-term visionary decisions that we are going to need to implement. Even in single-party systems, people change their leaders if they make unpopular decisions. So people and the political decision-making timeframe are a major reason for the lack of good policy in this area.

JD: Given the inertia of global governments when it comes to making tough, potentially unpopular policy decisions about issues such as climate change, is it business that must lead the way while government follows?

WD: Well it's hard to say, because policy and legislation provide the framework within which companies operate and, because businesses are competitive, they would not wish to put themselves at a disadvantage by being the first to move, unless they absolutely understand the commercial value of it.

It could be argued that businesses are not put on this planet to save the world – they are commercial, profitable entities. And, while they are not legally obliged to maximise returns to shareholders, they are definitely required to be diligent on behalf of their shareholders, and they are not allowed to put them at a disadvantage.

Having said that, because business success is so intimately linked with the health of the societies and economies in which they operate, it would be ridiculous to think that concerned businesses would not wish to be a part of the solution. To collectively bring their expertise and analysis to the attention of policymakers would certainly help to facilitate and encourage the development of the policies that we need to create positive change.

"… a business that does not have a social purpose will become irrelevant."

JD: But we have seen that things can go wrong when you get business leaders and policymakers in the same room.

WD: Indeed, history shows that when businesses get together and have a quiet word in the backroom with policymakers, it has not always been to the benefit of the wider society. The answer is greater transparency, because the world does not trust the business community, and, rightly or wrongly, there are plenty who think "greening" is a veneer.

In some cases it is exactly that, in other cases a business's commitment can go to the core of what it does. It is very clear that the companies that understand these issues and respond appropriately will thrive in a more sustainable world. By this I mean a world where our reliance on fossil fuel is reduced or removed, where the use of raw materials is reduced, where product may be turned into service, and ownership evolves into sharing.

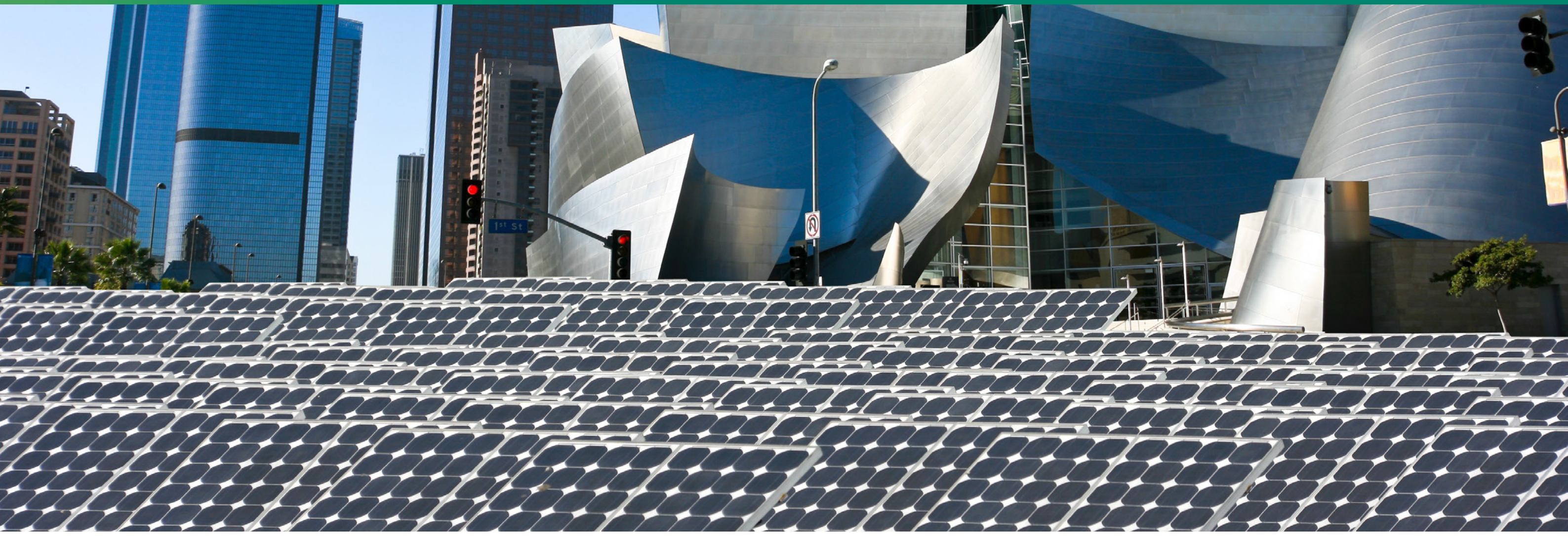
JD: How can asset owners and asset managers such as Old Mutual help investee companies make the necessary changes; how can we walk with them on a new journey?

WD: I think that these organisations may need help to broaden their understanding of value beyond narrow commercial definitions, so that they can include in their decision making and investments things that have not been adequately valued in the past. They need to be able to understand and then measure the social impact of building Road A versus Road B, and to consider the differing environmental impacts of boiler type A and boiler type B. They need to ask: Is a company I am invested in or analysing, part of the problem, and therefore at risk; or is it part of the solution, and therefore a lower risk or stronger proposition?

Companies that are simply interested in making double-digit returns without thinking about the environmental and social impacts of their activities or products, will not be tolerated, and will not be good medium- or long-term investments.

JD: Based on this, what common sense actions can listed entities, as corporate citizens, take? How do they need to re-imagine their function in society?

WD: Big organisations tend not to be very innovative, as they are locked into, and beneficiaries of, the current model. At the same time and for the same reasons, a lot of people are very comfortable with the status quo. But I take heart that an increasing number of business leaders that I meet have come to the conclusion that a business that does not have a social purpose will become irrelevant. It is not sustainable to simply extract as much money as possible from the economy without regard for the impact of that activity. So businesses have to better define their purpose. People and companies that understand this will exit riskier investments and look for more sustainable opportunities.



JD: So then, what does sustainable really mean and can growth be sustainable?

WD: The word "sustainable" and the phrase "sustainable development", which are about long-term viability, have become jargon and are widely misunderstood. I prefer the phrase "common sense" when trying to describe the sorts of issues that we should be aware of and basing our decisions on.

Is sustainability incompatible with growth? Well, it can't be because there are already billions of people and the population continues to grow, and each person has every right to realise their potential and to prosper, but we cannot achieve this at the expense of the wider enabling systems and finite resources.

So while we say "yes" to prosperity, the jury is out on the kind of growth that is sustainable. It is the quality of growth, not just the quantity of growth, that is going to be the deciding factor. I really think that we can grow without having to trash the place. But we need to rethink the relationship between growth and profit. One problem is that our obsession with growth tends to be narrowly defined, and at a national level it is determined by gross domestic product (GDP). As Robert Kennedy said, GDP doesn't measure or reflect the things that make us human – the health of our families or the happiness of our marriages, and yet we are locked into it as a metric – and it has limited value.

> "I really think that we can grow without having to trash the place."

JD: So what do we need to think about in trying to plot a new course?

WD: In many ways it really is just common sense. We need to answer the question: How can we be part of a thriving society and economy, and use no more than we need and waste no more than we should, so that we can ensure aspirational lives for all, without exceeding the carrying capacity of our planet?

The sorts of things that a thriving South Africa, or any economy, needs include jobs, housing, low-carbon energy, food and water. These are all areas where responsible, thoughtful finance and investment is going to play a critically important role, and where the corporate sector will be engaged in providing those services, building those houses and generating those jobs.

So I would argue that healthy, thoughtful businesses need to be intimately connected to and a part of any thriving society. If they cannot make that connection, you have to question what their social value is – and whether they have any real value or relevance at all.

For me, a business must ask if it is contributing towards that thriving society and if it is not yet, how it can reimagine itself going forward. This is a question that I hope investors, asset owners and managers are also asking themselves as they make their investment decisions.

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