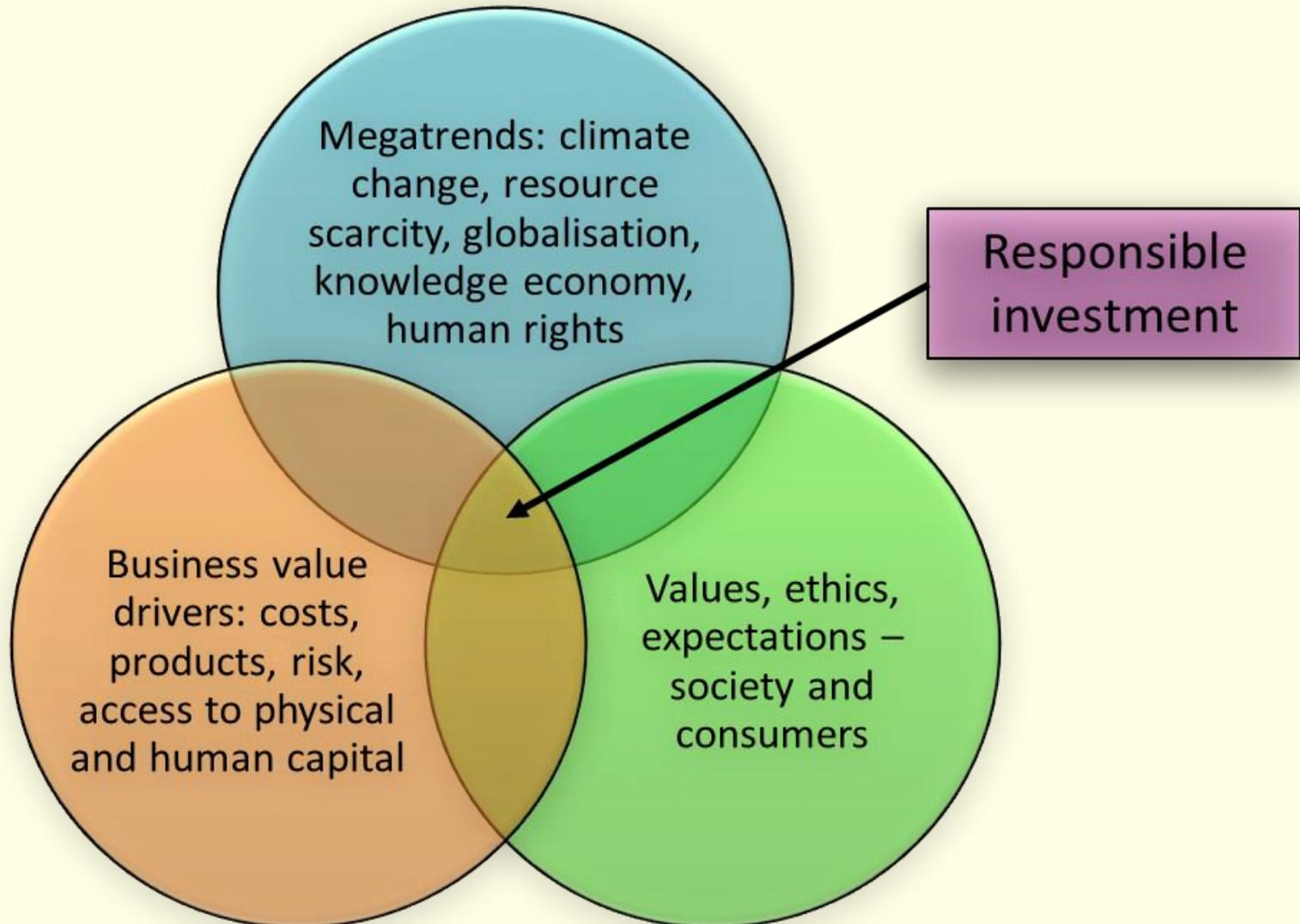


Recent developments in responsible investment – international perspectives

Rob Lake
Principal, Rob Lake Advisors Ltd.

*“Laudato sì” La sfida urgente di proteggere la nostra casa comune
– Trento, 26 settembre 2015*

Our territory today



The challenge

- What tools are available to align the Church's investments with its mission?
- 'First generation' socially responsible investment: (mainly) exclusion
- 'Second generation':
 - exclusion
 - integration of environmental social factors into financial valuation and decisions
 - dialogue with companies to exercise influence
 - investment in solutions to environmental and social problems

Are more responsible companies 'better' companies?



‘High Sustainability companies significantly outperform their counterparts over the long term, both in terms of stock market and accounting performance’

The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance - Eccles and Serafeim, Harvard Business School

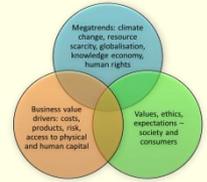
The UN Principles for Responsible Investment

- Integrate environment, social issues, into investment decisions
- Responsible ownership
- Promote disclosure
- Promote the Principles
- Work together
- Transparency



 **PRI** | Principles for
Responsible
Investment

The starting point – environmental sustainability



Challenge

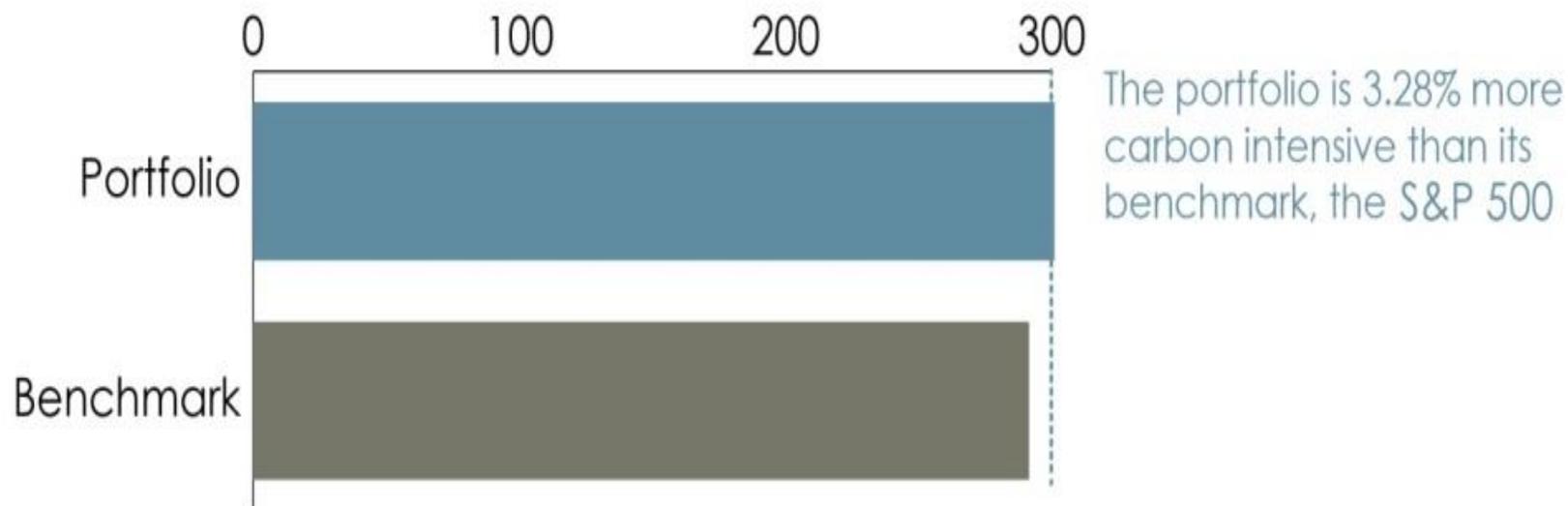
- ‘Warming of the climate system is unequivocal. ... Continued emissions of greenhouse gases will cause further warming and changes in all components of the climate system’, *IPCC*
- ‘Unburnable carbon?’ Value at risk could rise to 40-60% of oil and gas market cap, *HSBC*
- 3 billion more middle-class consumers by 2030, 80% rise in steel demand, pressure on resources, *McKinsey*

Opportunity

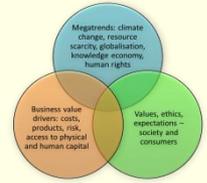
- US companies could save up to \$780 billion by 2020 through improved energy management, *CDP/WWF*
- \$2.9 trillion of potential savings from resource productivity by 2030, *McKinsey*

Analysing your portfolio – climate change

The carbon footprint of the portfolio is 301.07 compared to the benchmark, which is 291.50



The starting point - people



Challenges

- Poor labour conditions in supply chains can damage customer trust and companies' reputations
- Poor employee relations and unmotivated staff undermine productivity



Opportunities

- Companies with higher employee satisfaction have higher financial returns, *Edmans, 2011*
- Reduced reputational risk and more efficient supply chains if labor standards are good

Owners have rights – and responsibilities

- What does it mean to be a ‘responsible owner’ of companies?
- Vote at annual general meetings
- Issues:
 - Executive pay
 - Greenhouse gas reductions
 - Working conditions
- Collaborate with other investors

Practical investment consequences

- Do you 'know what you own'?
- Ask your investment managers about the 'environmental and social quality' of your existing portfolio(s)
- Discuss how to improve the quality
- Select funds that consciously invest in 'better' companies
- Ask your investment managers to exercise influence over 'your' companies

Invest directly in solutions

- Specialist funds – renewable energy
- Green bonds
- Green buildings
- Local economic development
- Question: are you willing to accept lower financial return from some investments in exchange for higher ‘social return’?

Critical issue – fossil fuels

Questions to ask

- Is it ethically unacceptable to profit from (all) fossil fuels?
- Does excluding fossil fuels help to address climate change? If so, how?
- In what other ways can the Church's investments help to reduce emissions?
- What opportunities exist to invest in solutions?

Process

- Develop a policy
 - What are the most important environmental and social issues – e.g. Encyclical
 - climate change, water, biodiversity, food, decent work, poverty
- ‘Test’ the current portfolio against the new policy
 - Discussions with investment managers
- Consider changes: new funds, new managers
- Implement changes carefully – consider financial implications (costs etc.)

Conclusion

- Many large international investors now take environmental and social issues very seriously
- Many tools are available to align the Church's investments with its mission
- These will not necessarily lead to reductions in financial returns