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THE PRICE OF OUR FUTURE

A YIELD THAT DOES GOOD, AND WITHOUT RISKS

It takes 180 billion a year to make the planet's economic growth sustainable. Financial investments for sustainable development are the deal of the century.

By MARCO BARBIERI

If you resist the temptation to speculate and pursue medium to long-term investments it's hard not to land up in the sustainable finance system. Sustainable investment refers to investment decisions focusing on companies that are environmentally friendly, produce a social impact that is favourable to stakeholders and their region, generate strong and positive relations within the organisation, and become a good place -- for employees and other suppliers -- in which to work. Who should investors -- institutional, private or retail -- opt for? Companies producing goods and services using methods that can be ensured over time. "After all, a company's goal isn't just profit, but its very existence", as Roberto Verganti, a lecturer in leadership and innovation at Politecnico di Milano, commented at a recent conference. Of course, successful companies are the ones that meet and anticipate their consumers' needs, the ones that generate profits that are clear to see in their financial statements. But they are, above all, companies that last over time, and equip themselves to do so. To measure this propensity for a long life, income statements and balance sheets are no longer enough. Other documents also need to be submitted to analysts, from the corporate social report to the environmental impact report to the sustainability report. From corporate social responsibility we've progressed rapidly to "impact finance" and the significance of non-financial information to evaluate companies.

To achieve the European Union's goals for 2030 -- in line with the 17 sustainability goals set by the United Nations, and in particular the 40% reduction in greenhouse gas emissions -- additional investment in the order of 180 billion euro a year is needed. The transition to a more sustainable economic model -- the "sustainability revolution", in the words of former US vice president Al Gore, one of the most influential prophets of sustainability -- is proving to be the "the single largest investment opportunity in history". This in itself is enough to understand what sustainable finance actually is: investing in all those things that can make the planet more sustainable. The profound changes accompanying the climate crisis pose specific financial risks for people holding potentially critical assets such as fossil fuels. France, for example, has declared it will ban any further exploration. India has stated that within 12 years 100% of all new cars will have to be electric, by law. Citing the advances in wind and solar energy, Gore also underscored some of the solutions that have been developed to move towards sustainability. Products and services that at present are improving our quality of life without exploiting the resources of the future have the greatest potential for growth.

THE ASSESSMENT

There's an initialism that we often see when we're speaking about sustainability: ESG, which stands for Environmental, Social and Governance. Respect for the environment, for society and for relations with stakeholders and for companies' organisational frameworks are the criteria now used to assess the planet's enterprises just as much as sales, equity and earnings before interest, taxes, depreciation and amortisation.

"Investments are starting to be valued using parameters that are no longer merely financial. ESG indicators are also being used, and have an increasingly important place in our analyses", explains Manuel Noia, country manager at Pictet Asset Management. Another incentive to use ESG criteria lies in consumers' power. They are becoming increasingly knowledgeable about companies' impact on society and on the environment. Neglecting them could cause irreparable damage on both the reputational and the financial fronts.

The problem today is to establish metrics and standards that enable us to recognise and measure ESG criteria. On this topic, the European Commission has drawn up an Action Plan which has a praiseworthy aim, even if it's sometimes viewed as too invasive by the market, which prefers to self-regulate through independent certifiers and analysts. Or supervisory authorities.

MAKING THE SELECTION

According to the European Asset Allocation Survey conducted by Mercer, 40% of investors include ESG factors in their investment selection process. And according to the latest report by Morgan Stanley on the subject, 84% of institutional investors are pursuing this goal. Institutional investors have certainly paved the way for greater awareness of economic and financial sustainability. They are by nature knowledgeable, with medium to long-term goals. Yet according to Diva Morani, vice president of Intek Group, a cross-cutting trend is also emerging with retail investors. "Capital is becoming more patient, more focused on a holistic view of the investment". And not because sustainable finance investments are less profitable. On the contrary! A recent study conducted by the

School of Management of Politecnico di Milano in collaboration with Banor SIM shows that companies employing good sustainability practices in all three ESG spheres are rewarded by the market. In particular, industrial companies in the index with a high ESG rating are the ones that have been most efficient in increasing sales volumes and improving operating margins and dividend yields.

This is the economy of the "common good", which is returning very much, and very reasonably, to the fore -- and is seeking new financial resources for that "common good".

12 years: according to the Indian government, by 2030 100% of cars will be electric.

Indian Government

84: the percentage of investors selecting companies with a focus on sustainability.

Morgan Stanley

ESG CRITERIA STAND FOR RESPECT FOR THE ENVIRONMENT, THE SOCIAL CONTEXT AND THE QUALITY OF WORK IN THE ENTERPRISE. COMPANIES ARE INCREASINGLY ASSESSED ON THE BASIS OF THESE PARAMETERS.