

Can ethics improve your investment performance?

Environmental, social and governance issues are increasingly prominent with regard to investment management in emerging markets. However, does taking a principled approach to portfolio construction offer the opportunity for greater returns, or leave investors with one hand tied behind their backs?

RK, IFC Emerging markets are increasingly important to investors looking for superior long-term returns, and in the emerging market context ESG issues are more relevant to financial performance. But there are still barriers, perceived and real, for investors to make this type of investment. How do we increase the environmental and social sustainability of capital invested in the emerging markets and help realize the related commercial opportunities for the investment industry?

MB, Innovest Environmental and social factors have always affected investment. But the markets haven't always had the skills, ability or desire to find out how those factors affect materiality. It's evolving. Our ability to track environmental and social issues and their impacts is relevant to how sophisticated the tools are for markets to analyse them. As they get more sophisticated, those factors will be considered more relevant in determining the best picks for long-term return.

MB, Asria At this stage of an ageing bull market investors are overvaluing growth and undervaluing risk. ESG has become more relevant to long-term returns. There are more tools available for looking at it. It's also defining the investment thesis. You can't have an informed view on the price of oil if you don't have a view on how China and India are going to organize around issues framed by climate change. For returns on energy efficiency investments, the long-term case in emerging markets is strong. However, it's also influenced by the price of electricity and whether there's a country-level consensus. Near term there is a better consensus in Germany than in China. Most Asian governments do not discuss the price of electricity with the public. Most European governments do. So the financial opportunity around certain investments on a three-year view is higher in some developed markets than in Asia.

RT, Axa IM Well-run corporations understand that if they do not manage material ESG or, as we call them at Axa IM, extra-financial factors, well, the company will be unable to deliver sustainable value. That doesn't mean that every ESG factor is important to every company. The skill for directors and investors is to know which are the most material drivers of long-term value and risk, and focus on these.

JW, HSBC Well-run companies manage ESG issues as an integral part of the business. Sustainability and profitability over the long run go hand in hand. But what weighting does the market give? I've yet to see evidence that ESG factors can be identified in asset valuations, particularly on equities.

Executive summary

- Environmental, social and governance issues have become more relevant to long-term returns for emerging market investors
- However, emerging market volatility needs to reduce before ESG will really start to get noticed
- Companies with good governance are more likely to catch the eye of international investors, but not in every case
- Mining companies are under the microscope, while in other sectors, family-run businesses still need persuading of the benefits of being more open to scrutiny
- Climate change can no longer be ignored, indeed it may even offer opportunities to investors

WVDB, Aavishkaar Goodwell That's because there isn't a track record yet. But risk is in the eye of the beholder. There are opportunities out there, and opportunities are the flip side of risk.

RT, Axa IM Our definitions and measures of risk may need to change! Is volatility a good measure of risk for a long-term investor who's trying to meet liabilities 20, 30, 50 years out? Clearly, no. Is it the most dominant risk metric? Yes. Management consultants have shown that corporate boards don't understand and manage well the material extra-financials that are important for their sector. For example, human capital management in the financial sector is critical, but how many firms actively manage and report on this factor? One sector where we see good progress is the mineral and mining sector, where we do now get reasonable data on health and safety performance. One of the encouraging projects linking better corporate reporting and better investment analysis is the Enhanced Analytics Initiative. Sell-side houses are incentivized by their buy-side clients to look at those issues. Goldman Sachs and Citigroup are starting to do comparative assessments, bring them into their valuation. Companies should report better, and buy-side analysts should pay sell-side colleagues to look at what's important.

PM, ICMM At national level, governance is key in determining foreign direct investment. The flows of investment into the world's 33 mineral-dependent economies have not been correlated with

Participants



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the availability of resources. That's a common feature, but in some countries, such as Indonesia, the Philippines, Papua New Guinea, which are all resource-dependent, investments have been declining. At the same time investments in better-governed countries have gone up astronomically. Governance is of fundamental importance in determining where investment is occurring. Indonesia has a wealth of resources but multinationals that have invested there historically are concerned about governance, and they've gone to other jurisdictions. Chile is an example of a jurisdiction where economic reform and governance improvements have stimulated significant foreign direct investment.

ESG is a mainstream issue in mineral resources because the value creation process in resource companies is about who gets access to world-class resources and the ability to operate those securely and fully. That is all about good performance and what companies can offer the host community and government. They need a track record of securely, safely and responsibly operating. It is those things that differentiate companies, and get them access to world-class resources. This is fundamentally important in emerging markets because the most significant component of FDI is their resources sector.

JW, HSBC Weak governance is keeping capital flows from international companies away from certain countries. But that creates an opportunity for capital flows from resource-dependent fast-growth economies to fill that gap. Absence of governance is not stopping huge capital flows into Africa. How do you take the good work that leaders have done and move it to the laggards? Relevant and transparent reporting is key.

NP, Rexiter I see general improvements in corporate governance and corporate competence in emerging markets, and with that ESG awareness. But annual reports often include a sustainability report that doesn't tell us anything of real investment use. There's little sell-side research attention paid.

PM, ICMM One reason there's been so much investment in the resource sector in certain countries in Africa is because it has been preceded by economic and legal reforms. There was previously no investment, even though resources were there. Botswana, Ghana and Tanzania have been through reform processes, whereas Zambia, for instance, is much less advanced with these processes.

NP, Rexiter ESG won't be a determinant of long-term equity performance until market volatility comes down. After five years of a strong bull market in emerging markets, investors care little for what they are paying for poor ESG in, say, Russia. Nickel is going up, mined in a part of Siberia where there are destructive ways of getting it out of

the ground and questionable employment conditions. They don't care. The prices of commodities have tripled. Emerging markets need to enter a period where outperformance slows down before investors really differentiate between good and bad ESG performance within companies.

RT, Axa IM There are two roads to delivering value for shareholders, the high road and the low road. Paul's members are taking the high road, delivering sustainable value through sustainable licences to operate. But some smaller companies in the same sector have a faster, dirtier strategy and they too can deliver shareholder value. The ex-World Bank environmental economist Herman Daly said we're treating the Earth as if it were a business in liquidation. Is it that analysts aren't taking this into account? Or are they taking into account that governments and asset owners are quite happy to ignore how investment returns are generated?

MB, Innovest There's a tension in the way markets look at value, particularly with respect to natural capital. Markets place an incredible discount rate on resources that should not have one at all, for example our climate system or the rainforest in Brazil. These are natural capital assets that we literally cannot exist without, yet we only look at them from the perspective of their short-term economic value. Markets cannot continue to operate under this current system, where we don't factor in the long-term costs of impacts regardless of how vital the systems are that are being damaged or used up. Eventually this becomes unsustainable and we've reached that point now. Some governments are beginning to recognize this, so for example, the Chinese government has acknowledged that their pollution problem is a barrier to development. ESG factors will become so important that either they will become a part of our evaluation system or the system won't work. It's a matter of timing, because this tension extends through the globalization of labour and of development capital. While that tension exists between the markets and a lack of valuation for essential natural capital, we're not incorporating the proper pricing, which reflects how we look at companies' performance. The system has to change, the question is when and how.

JW, HSBC At government level in emerging markets, there is a greater understanding of the economic costs of environmental damage than developed economies had at a similar stage in their evolution. What's more, that is being monetized into an economic value and then managed. Climate change is an issue in emerging markets because of concerns not just about CO₂ emissions but also about energy security, energy price and securing commodities to underpin the economic growth to get populations out of poverty. These are



different drivers from those in the developed world.

MB, Asria I am confident that ESG issues will become a key driver. As companies become acquirers of global and Asian assets, they will have to wrestle with new issues. The smart investors are putting time into new ideas and trying to decide what they want to own when the dust clears.

RT, Axa IM We don't need to just wait for the dust to clear or to limit ourselves to niche investment opportunities. While this might be OK for a retail investor, it would be a problem for a large diversified asset owner with universal exposure to emerging markets. Investment opportunities, not least by better avoiding risk, can also come from understanding the pain of the current system. There are some clear specific initiatives, which we as investors should look to encourage. When carbon has a more stable price, it will be easier for everyone to take it into account in investment decisions. And when it becomes clear that water's got a price, there will be a shift in what happens with even the smallest of Chinese companies shoving sewage into the Yangtze.

PM, ICMM There are reasons why certain companies get assets and are able to run them effectively and securely. The iron ore resources that BHP Billiton and Rio Tinto have in Western Australia are an example. Following dramatic increases in short-term demand for iron ore, principally from China, these companies have been able to respond to those unforeseen surges in demand by having access to the resources, but also by having the capacity and the goodwill with regulators and communities to be able to get approval, and workforce, community and political support for a doubling of output. We see these goodwill factors and capacities as being intangible, but without them they would miss out on opportunities for substantial value creation.

RT, Axa IM Human capital is another factor in value creation. There's a talent shortage in China and India and there are big movements of individuals, which is threatening the value provided by companies that have been selected for outsourcing contracts. There are already questions about whether outsourcing is a phantom part of the GDP. As those things coalesce, human capital is going to move quite quickly from being an "intangible" into being very important. The fact that all major consultancies are gearing up to offer human capital management services is a good indicator.

PM, ICMM We've suggested companies can get away with things in emerging markets. They can't. It's all over the internet so quickly.

JW, HSBC But if you are an international company with shareholders and customers elsewhere demanding good practice, you're under those constraints. You watch what the media's saying. But if you are

a large domestic, tightly held company without those constraints, you are less concerned, because you don't have to worry about your licence to operate and your brand. That second tier of players has an ability to undermine the progress of the top tier. So it's in all of our interests to expand membership of bodies like the ICMM.

RK, IFC There's particular attention paid to the mining industry because of its huge footprint, rising prices and the increase in resources. Consolidation means most exploration is done by the smaller players. In the Democratic Republic of the Congo some very small privately held mining companies are doing the dirty work. Then once the asset is there the big guy buys it up.

Leapfrogging

MB, Asria The traditional socially responsible investment community does a lot of the heavy lifting on defining issues, talking about standards and putting money behind it. However, they don't have the resources to evaluate mid-cap emerging market exposures where the cost of research is high. Many of the tools they use are not a great fit for the disclosure capacity of emerging markets. This isn't good research to do long-distance. Those companies don't respond well to a questionnaire. One leapfrogging opportunity would be to say: "Is there someone on the board of directors who is responsible for the following issues? If not, why not? What do you pay for electricity? What do you pay for water?" Shorten the list of questions and get focused. Let's ask asset managers and large pension funds: "Do you watch these issues?"

NP, Rexiter A majority of emerging market companies are still family-owned. The companies that are the biggest or best in their countries and then going international are anecdotally better at doing this. But if you talk to mid-cap-sized companies that are private, many don't get this yet. In Brazil, Bovespa introduced the Novo Mercado, which is for pure corporate, 100% voting shares listing. I have talked with company owners about the trade-off involved in surrendering dual-class shares in order to turn them all into voting shares – the theory being that thereby the overall wealth and value creation of the company will be higher, because the market will likely give you a higher multiple. They're not convinced, and that's analogous to their thinking about ESG. There's a perception that "this is expensive and time-consuming. None of my shareholders is asking me to do this" because they're not subject to that international discipline. But Companhia Vale do Rio Doce is now one of the world's biggest mining companies. Everyone watches every single project it does.

MB, Asria Korea is another interesting market. For family-held com-



panies, the ability to pass on your ownership stake to the next generation raises issues of governance. Korean regulators take a different view than 20 years ago, as do lenders. In emerging markets we have a higher mix of government-controlled companies that are listed entities, with the government often controlling 80% to 90% of the outstanding shares. This turns the shareholder engagement model on its head. A second factor is the dominance of family-controlled companies, many of which have had tight historical relationships with lenders. But when you see the issue of reputation emerge, they need to be seen as legitimate enterprises. Often when wealth is created in a prominent family-controlled company, the sensitive point comes when that company tries to transfer ownership to the next generation.

NP, REXITER I'm optimistic about Brazil. It's easier when you're listing a new company or you have a natural transition point. Changing the dyed-in-the-wool attitude is more difficult. Korea and Brazil are improving. The first thing I look at with new Brazilian listings is whether they are on Novo Mercado. If not, why not? I have these arguments with company heads, and they rightly say: "It's my family's company, and has been for 70 years. Why should I surrender control?"

MB, ASRIA Some Korean companies are reaching that point and moving on to form a holding company structure and clarifying cross-holdings. In Korea the important dynamic is almost entirely domestic. It's not being driven by foreigners.

RK, IFC There is a possibility for emerging markets to leap to value creation without going through this process of reputational risk, business risk. There may be opportunities for creative destruction or for leapfrogging in emerging markets that haven't been part of the story in the developed world. Providing financial and other services to the next billion or the bottom of the pyramid seems to be one of them. But what opportunities are there for asset managers, banks and other financial institutions to create value in the emerging markets, to create new products with an ESG slant?

MB, INNOVEST Emerging markets have problems because there is so much inherent risk. Solving those problems is where the opportunity lies. In analysing emerging market companies, we need to ask: "What do they do for a living? And is that sustainable? Will that fit in with what that country's trajectory will have to be if it's going to be a stable, sustainable, investment opportunity?" Solving these problems involves improving the resource base, improving the ability to value national capital, reducing pollution, solving climate change and increasing energy efficiency. There are plenty of opportunities there.

MB, ASRIA The opportunity side in Asia is very strong, and there will

be innovation. We don't have the regulatory or legal performance around environmental, social and governance issues that establishes a price against which markets work. There is also a structural under-insurance. Insurance helps set a price, but that's not a big driver in Asia as yet. However, a number of large Asian companies and some prominent mid-size companies are investing in the renewable sector and other solutions businesses, and that will create a constituency for economics. We're not yet seeing predictable economics for renewables, but people are saying: "This is going to happen. I want to be there. I can influence the regulatory and market structures that will make this a profitable activity."

That will catalyse the process. Asian companies are moving outside their home country or home region, and as they do they borrow best practice from other sectors. Some large companies are looking around for models of how to manage regulatory risk and how to get other constituencies on board so that they can leapfrog market structures.

PM, ICMM Relevant ESG factors vary substantially. Some 13% of the world's energy is provided by renewables. Some of that is cost-effective, and has been for a long time. Some emerging renewables are not cost-effective. The future cost of carbon depends on our knowledge of the climate system and on forecasting changes, but there are uncertainties in predicting both of these. We need regulatory frameworks that respond flexibly as knowledge emerges, because regulatory responses get to determine the price of carbon.

MB, ASRIA I am cautious about saying that we need or must have regulatory responses. The investment community is debating how these issues are going to emerge. Are we going to have a series of price-mediated changes? Will the regulatory response have greater clarity? Will we see more costs internalized? Will markets adjust and all economic players continue smoothly?

PM, ICMM Even though markets are not perfect, we need clear price signals to achieve change and sensible adaptation. We are going to make errors, but this is not surprising when information is uncertain and markets are imperfect.

RT, AXA IM In 2006, socially responsible investment money was estimated to be 0.1% of all money invested in emerging markets. Most of this is in Asia, some in South Africa, and little elsewhere. But when you look at global hedge funds, it's very different. Even if you take Asia alone, it makes up 9% of global hedge fund assets. Linking these investment vehicles or approaches – ie, socially responsible investment and hedge funds – might be a big step forward. Some hedge funds are very interested in the extra financials, particularly in corporate governance and eco-efficiency data.



JW, HSBC Climate change is going to be a global mega trend. Add to that water, waste and contamination, ecosystem resources and poverty alleviation. Focusing on climate change, in Europe we've got an emissions trading scheme. Regulation is increasing to force down carbon emissions over a 50-year view. The science is as close to certain as you'll get. A political consensus is growing around the need for regulation on climate change. Eventually the regulatory drivers will force a replacement of energy infrastructure that is much lower-carbon. That is a huge opportunity if you can pick the winners.

In a fast-growth emerging economy the shift is different. It's about energy security and energy price, particularly in those economies dependent on imported energy. If China meets a target of 15% by 2020 from renewables, that's 170,000 wind turbines. So I want to be in the wind turbine manufacturing business if I can. Another trend is poverty alleviation. Apart from the moral issue of dealing with 50% of the world's population that are poor, if you're going to maintain globalization and integration, you've got to share the economic benefits and give people access to capital and to asset ownership. Microfinance can play a key role, as can banks that are prepared to be involved in this sector. The potential market is huge – over 3 billion people – underserved and relatively low risk. So there are huge opportunities for those who can spot the trends and work out which countries are going to move quickly with which technologies.

WVDB, Aavishkaar Goodwell Although only about 10% of the potential market in microfinance is being served, there's massive competition on the funding side. Most financiers of microfinance are chasing the same deals. A huge supply of money goes into a pyramid-shaped market that has a huge base but only the top receives funding. That is one of the big challenges in capturing those opportunities. There is also a value chain issue for the finance sector. The people that provide the money with the mission are risk-averse. That used to be the case in renewable energy too, but we have resolved that bottleneck.

JW, HSBC The least profitable relationships for a bank are those where you lead on debt and that's all you do. Treating microfinance institutions like any other client, it's all about understanding their wider needs and trying to meet them. Foreign exchange, hedging, access to capital markets, basic banking technology and remittances. The risk profile of a microfinance borrower is typically good, so thinking about a risk-adjusted return, why shouldn't that be a single-A investment-grade basket of receivables? You need the metrics to get there and the rating agencies to rate it. If the development banks would move their money downstream to the risks that the private sector today won't take, the private

sector will come in and expand.

WVDB, Aavishkaar Goodwell That combination of public and private money is so important in capturing opportunities. A lot of private money wouldn't be there if public money wasn't. It's essential to look at it as a public/private partnership that finds solutions. We've created a system that looks at mega trends, climate change and poverty, but in India it's daily reality. The cost of energy to people there is significant, as is the cost of funding; while a subject like poverty alleviation is a concept that we've constructed ourselves. The challenge and opportunity is in finding those mechanisms that address multiple problems and have the largest impact on those single counts, and connect that to wherever the funding comes from.

JW, HSBC There's a tendency to think about mega trends in silos, whereas you can't deal with one without dealing with the other. Why shouldn't microfinance be a rational response to those who are vulnerable to climate change? If a climate event destroys assets where there's no insurance, access to capital helps people rebuild. The power of individuals rebuilding, because they've got an economic interest in doing so and some support, is far better than handing out aid and walking away. I don't decry aid. It has a valuable role, but you need to build on it.

RK, IFC An increasingly large amount of asset owners, public and private pension funds, have some sustainability value attached to them. In some cases, the statements of what constitutes fiduciary responsibility by these asset owners include sustainability of the world in which their beneficiaries will live and work. This is a global trend. More such capital captive in the developed world needs to be released in the emerging markets, but isn't finding where it needs to go. What other tools do we need to make the connection?

PM, ICMM Companies need to demonstrate diagnostic understanding and communicate to investors what that means and how it's being managed and monitored. Although there is no doubt about human-induced climate change, there is uncertainty about the specific climatic changes that will occur and the resulting environmental impacts. We've got to model the world's climate and then model the impact of changes, which humanity has never done before. Companies need to explain how they're responding to climate change and how they're monitoring key variables. What does it mean for energy security? That's the other side of the equation: what are the effects of climate change policies on energy security? We need to remember the 2 billion people who don't have energy. So the issue is energy efficiency in the short term, perhaps more than new energy sources, because this uses available technologies and saving energy is in everyone's interest.



JW, HSBC You could put climate change to one side. Why wouldn't you want the same economic growth for less energy. Why wouldn't a company, a country, a government, want the same GDP for fewer kilowatt hours, ie, spend less money generating that economic growth? Why wouldn't a country want a lower dependency on any one energy source? That's good risk management. But climate change is forcing companies to do what we should have done 30, 50 years ago.

MB, Innovest *The Economist* recently showed that it makes perfect economic sense to eliminate over five gigatonnes of carbon emissions, nearly two-thirds of what is needed to stabilize greenhouse gas emissions, through lighting efficiency and energy efficiency and insulation. We're making bad economic choices, and if climate change was not a problem we should do that anyway, because we're losing money through inefficiency. I've observed the science of climate change for 10 years and the picture gets worse every year. Climate change regulation is 10 years behind what it should be. As a result, we are seeing an accelerated pace in new climate-related regulations that are beginning to change the way markets view company prospects across the economic spectrum.

WVDB, Aavishkaar Goodwell The opportunity with climate change is that you can leapfrog a lot of developments in energy efficiency or in renewable energy. Lighting efficiency in India is an issue and they're ready to look at alternatives to their incandescent light bulbs. Compact fluorescent lights are commonplace in developed markets, but that will be a huge chemical problem in the future. India might leapfrog directly into LED lighting technology.

MB, Innovest We could stabilize CO₂ emissions from an economic standpoint without any cost. In fact it would be a benefit. We could put some of that savings into financing renewables and things that require still more investment.

NP, Rexiter If that is the case, why aren't we seeing it? Is the pricing signal of energy wrong?

PM, ICMM China is building two coal-fired power stations a week, and the International Energy Agency says coal is going to be the world's major energy source for the medium term at least. But the market is not responding well to the fact that there is likely to be a greater cost of carbon. The most important short-term response should be a focus on energy efficiency, particularly removing subsidies that encourage energy consumption. Effective price signals are the most effective means of bringing about these sorts of changes.

RT, Axia IM Perhaps we should be talking about carbon trading as the past and carbon taxes as the future? If we can't get the carbon trading mechanism to work, taxes will be needed. You see a significant

growth, albeit from a very low level, of Chinese investment in environmental protection, and it's affecting the price of utility companies. Perhaps we will make more money from shorting renewable companies that have bad business models and weak management than from shorting a dirty company. These are some of the ways these issues will enter the mainstream.

RK, IFC Over the next 10 years the decisions we make about power and infrastructure for the world and the built environment are going to lock us in for generations. Are we miraculously going to innovate ourselves out of this, and in time? We, the global development community, have been talking for 15 years about market-based solutions, ecosystems payment services and those still haven't come to fruition on a commercial scale. Are there any impulses in sustainable investing that will drive this, or is sustainable investing captive to bad regulation and bad governance and the failure of the G8?

JW, HSBC In Europe, the regulatory framework around water has been driving investment in upgrading water infrastructure. That could be extended into things like forestry. The procurement of illegal timber within the EU continues. There's no regulatory framework to stop it. When there's a regulatory framework that enables people to move with certainty on these issues, investment will flow into it.

MB, Asria In a number of these sectors, the traditional corporate players are themselves not long-term investors. Many companies in the Asian timber sector are privately held. The principals are in their 60s and 70s and are disinvesting. It can be difficult to differentiate between those companies making long-term investments with corporate assets and those that are not. Some best-practice leaders are moving into water and other newer sectors. Other significant Asian companies will move in because they're willing to take on the burden of medium-term to long-term investment. Indeed, some of them have had better success in encouraging regulatory performance than the incumbents. Conventional investors are likely to struggle, because it's paid well in Asia to just buy the traditional sector leaders. Some regulatory models may still be regulatory-light but the opportunity now is big for companies that have a different view of how the marketplace will work.

RK, IFC Every small-scale producer has the same problems. There are costs that come with verification, with auditors, and you don't get any of the upside. The opportunity for the financial sector is to understand that if the global supply chain puts a premium on a certain type of performance, that's a sustainable business and business model.

JW, HSBC But as well as a price premium, they look at more contractual certainty, so rather than looking at it as a commodity, thinking

about it as a long-term contract. A long-term contract with a known price lends itself to capital market securitization. It has worked in a range of sectors. Why couldn't it be applied to the long-term sustainable supply of clothing, timber or coffee?

WVDB, Aavishkaar Goodwell We build sustainable supply chains in India connecting small-scale producers to retail chains. The difficulty is that, even with a reputable bank, it's still difficult for those producers to get access to credit lines. So there is still a need to hedge risks. What we see as an opportunity and others see as a problem is that if you're coming with small-scale equity to hedge that risk for the banks, then you have a model that is scaleable.

JW, HSBC We have been doing vendor financing for over 10 years. It's one of the most secure types of trade finance you can do, if you recognize that at the top end there's an investment-grade buyer. Why wouldn't you let that capital flow down to the end of that value chain?

MB, Innovest Looking at the evolution of ESG analysis, the focus in the 1990s was eco-efficiency of production and those things led to life-cycle assessment, which now leads us to the supply chain. Everyone's looking at this enormous supply chain problem, and nobody knows how to deal with it. That's a huge opportunity for whoever can develop the business model without excessive operating costs. Emerging markets companies, if they're domestic, tend to be insular. They're not in the habit of developing external stakeholder relationships that allow new thinking to come in, because along with that comes criticism and other problems. The opportunity lies in finding companies that see this as a chance to use what they have locally, which is small, resource-based, in a growing economy, and see that if they validate what they do from an ESG standpoint, they can get access to capital and developed markets more successfully.

RK, IFC We at IFC see amazing companies every day building business models based on those opportunities, in tune with the future dynamic of the market. But they are unknown to the resources in the developed world that would love to invest in them. There's this dearth of research, presumably because nobody's shouting for it.

RT, Axa IM The SRI industry has been based on a business model that has tried to identify best-in-class companies, using as many criteria as possible, with indicators and processes that can be easily defended. That creates a structural bias towards European large-cap companies that do a lot of CSR reporting. You can't blame the research providers for producing what clients pay for. So we, the buy-side clients and the asset owners, need to shift what we look for and create new types of partnerships.

WVDB, Aavishkaar Goodwell Unlike investing in developed markets, the value chain is longer from the financial services perspective. The distance between your pension client and the small producer is not only geographically farther but also mentally longer, and that means you have to intermediate more. You can produce beautiful research about companies in India and Brazil but there are still obstacles to making an investment in those companies.

NP, Rexiter This wonderful little entrepreneurial company needs to get its bank finance to grow. Then it will need private equity injection, and then by the time it comes to the market in the form of an IPO we're four or five stages on. And it still might be too illiquid for portfolio investors like myself to initially buy. It takes longer to get brand-new entrepreneurial opportunities out onto the public market. But that is coming as the capital markets develop.

WVDB, Aavishkaar Goodwell It's not only a capital market issue.

You can't simply assume that if you make an investment that the ecosystem around that company is there. It's not just about providing a loan to a microfinance institution and feeling satisfied that that institution lends it to poor women and that you can produce beautiful pictures in your ESG report. It's also about making it possible for that microfinance institution to function properly, which is a concern when you make an investment.

JW, HSBC With globalization anything you buy has probably touched a dozen countries on its way to you, and the power of the supply chain is underleveraged. I'm cynical. I don't believe that consumers go into their DIY stores demanding sustainable wood. Companies set trends, not necessarily individuals. The more that large companies are underwriting the supply chains of much smaller companies, that can't necessarily manage these issues, the better.

Barriers

NP, Rexiter Everyone's getting excited about biofuel and ethanol, and you'd think this would be a fantastic opportunity for a country such as Brazil or Argentina, with large plantable land. Yet there's no global standard for ethanol, and the US has a 54-cent tariff on ethanol to protect its own market, even though you can manufacture it for half the cost at twice the productivity in Brazil. And Brazil's sugar cane is dying for a market that could be global. There are so many obstacles, and there's no infrastructure there yet to export it. Yet the capital is itching to get in. It needs these barriers to be dismantled. You'd have a whole industry that areas of South America or other developing countries with advantageous planting could take economic advantage of.

PM, ICMM There is a risk here because the problem is not insufficient energy resources, including oil. For instance, we could encourage greater production of biofuels but this market could quite easily be undercut by Opec countries producing more oil and there would be an incentive for them to do this as it would protect their markets. The message is that all energy sources should be properly priced, including a cost for carbon, but not subsidized.

MB, Asria The IFC acted as a private equity investor with an Asian listed company, Olam, which started providing a certified supply chain in primary foodstuffs to multinationals. I believe they are now Wal-Mart's largest supplier of certified organic cotton. We're seeing more of these global supply chain companies in Asia. The business models are beginning to thrive.

Many of the biggest pension funds globally are moving their asset allocation away from conventionally managed, long-oriented equity and towards private equity and alternatives. That is pushing them to look at carbon funds, renewable funds, property and a range of new asset types. People who have expertise in these areas can help them make better decisions. Some of the funds don't yet have the fund governance they need and that's why the principles of responsible investment are important. Large asset owners must understand that, while private equity is a great thing, you don't just want the person who is in there investing at the final stage pre-IPO. It's the long-term investment that's needed.

JW, HSBC But you also need a structure to aggregate some of these asset classes. If you can package up a whole series of sustainable commodity supply chains into an eco-securitization-type product, it then needs the asset owner to commit capital to that in preference to something else, and for the rating agencies to assure the fact that these ESG factors are being met, for the life of that bond.