Climate dominates current sustainability debate, steals spotlight

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In its annual spearhead letter, the umbrella organisation of institutional investors Eumedion is calling on Dutch listed companies to focus on the risks of climate change. An FD article published on 11 October stated that listed companies must analyse and outline the risks that climate change pose for their earnings model and strategy. This means that the Paris climate agreement will have an increasing impact on the real economy. Many companies – both listed and non-listed – are taking action to contribute to the climate targets agreed in the French capital in December 2015.

This agreement means the theme of climate change is no longer the sole domain of the green lobby and pioneers, but an issue that has sharply risen on the list of priorities in board rooms. The initiatives taken by investors and organisations such as Eumedion have certainly contributed to this. This is a positive development because climate matters cannot seem to get the attention they deserve.

Nevertheless, we must see to it that climate action does not completely dominate the theme of sustainability. Sustainability warrants much wider attention than just climate matters and it would be a pity if the focus on climate would come at the expense of other important themes including poverty, healthcare, biodiversity and the circular economy. After all, these themes also pose important opportunities and risks for companies.

The Sustainable Development Goals (SDGs) agreed as part of the United Nations (UN) 2030 Agenda for Sustainable Development can be a good starting point for a broad sustainability agenda. In September 2015 the UN adopted the 17 SDGs that form a new sustainable development agenda. These goals can be divided into three megatrends: climate, ecosystems and wellbeing. The list of

SDGs shows that while climate action may be one of the most important global goals, it is certainly not the only goal.

The dominance of climate matters in the sustainability debate has meant that the other SDGs have received much less attention. It would be good if companies were able to balance this dominance and integrate the full list of Sustainable Development Goals into their strategy. Companies could then select issues relevant to them and decide what areas they could contribute to. At the moment this is rarely the case.

A good example of a company that does this is SAP. The German software solutions company has defined where it can have a positive impact for each of the SDGs and where it can prevent a negative impact. The positive impact is largely created through the development of new products (e.g. software that contributes to solutions in the field of healthcare and education), whereas the negative

impact should mainly be avoided in its own household (e.g. with regard to waste and labour conditions). This is the reason why we have included SAP in our equity fund.

Investors must play a much more active role to integrate sustainability more widely throughout the composition of their portfolio. Many investors talk a lot about sustainability but do not put it into practice. Their stance on sustainability is mainly defensive. And when sustainability is taken seriously it often involves excluding the bad guys or applying a best-in-class approach that means selecting the most sustainable player in the sector (such as the most sustainable oil producer or airline).

This is a shame because investors have a lot to gain by integrating sustainability in the widest sense into the investment process. Under this philosophy sustainable and financial aspects are mutually reinforcing and therefore are part of one and the same analysis.

Companies that adopt a broad sustainability agenda are more focused on the long term, are more innovative, have a better business model and have a lower risk profile. Accordingly, sustainability is part of quality, and sustainability enables investors to have a positive impact on the risk/return profile of an investment portfolio.