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Sustainable Capitalism: Al Gore speaks at St Paul's Cathedral

On Friday 19th October St Paul's Cathedral hosted Al Gore, former US Vice President, environmental advocate, and co-founder and Chair of Generation Investment Management. He spoke at a special event aimed at energising investors and businesses to aid the transition to a more sustainable form of capitalism.



On Friday 19th October 2012, Al Gore came to St Paul's Cathedral in London to speak to an invited audience with a vision of how capitalism – 'the least worst economic system we have', as he put it – might be renewed in a sustainable and humane way, able to give the planet and ourselves a future. The audience comprised influential members from the Church, charity, asset owner and investment worlds.

St Paul's was a fitting venue for this discussion of how we can work towards Sustainable Capitalism. The protest camp of 2011-12 put the Cathedral in the firing line of the conflicts around the uses and abuses of banking and finance, and of popular discontent with a world financial system which is seen as too self-interested, short-term and unconcerned with the interests of all. Although the work of the Cathedral is much wider than the particular concerns of Occupy, we share the aspiration for a just and fair financial system which works for the common good – as do many who work in the City. This event is part of our strategy for working towards the vision of that mutuality of interest in the world, in the context of developing financially as well as environmentally sustainable ways of working.

The event was part of the fifth National Ethical

Investment Week, informing people about ethical and green possibilities for finance and investment. It was co-hosted by St Paul's Institute and the Church Investors Group and has been the highlight of a productive relationship between the two organizations over the past 18 months.

Since 2009 St Paul's Institute, one of the Cathedral's education and social engagement initiatives, has focused specifically on the relationship between finance, economics and social wellbeing. In the past year the Institute has hosted a dialogue with Michael Sandel to a full cathedral on 'What Money Can't Buy', and also held seminars and clergy learning days on topics such as the Welfare State, predatory lending practices, the new norms of capitalism, and an examination of models for direct democracy that included a facilitator of Occupy London general assemblies as well as the Chief Executive of Citizens UK.

Events of this nature aren't about press releases and newspaper columns, but are a genuine attempt to come together – in this instance as a sizeable investment community – and look towards how we can collectively act to bring about positive change, for the sake of the common good of all. We can no longer afford to

merely promote change in others. We must lead the way ourselves, and use our collective influence to encourage others to do the same, finding common areas where few are in disagreement and ensuring that they remain on the top of the agenda in what we do as well as what we say.

At the heart of Christian faith is the message that there is always hope: that we never have to give in to despair; however hard it may seem to make things change. Al Gore's message about sustainable capitalism offers an inspirational ray of hope for those who feel that nothing much can be done. He challenges the 'owners of capital' not only to believe that there can be a different future, but then to act in straightforward ways to help it happen. Getting that message out so that it transforms lives and structures is the task he left us with. Let's get to it!



The Very Reverend Dr David Ison
Dean of St Paul's Cathedral



**Published by St Paul's Institute
October 2012
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We were privileged to be able to co-host the inspirational address by Al Gore at St Paul's Cathedral during National Ethical Investment Week 2012. The Church Investors Group represents the largest institutional Church Investors in the UK and has a growing number of international members and stakeholders. As a group we exist for three reasons:

- to help our members develop, and implement, investment policies based upon Christian principles
- to encourage responsible business practices within the companies in which our members invest
- to share information and views on ethical matters related to investment

This event to an audience made up of CIG members, representatives of businesses, our fellow asset owners, and investment managers helped us to achieve all three.

Traditionally Church ethical investment has been characterised by avoiding things that our members see as contradictory to their mission. Our work historically has tended to focus on exclusions related to alcohol, tobacco, pornography, gambling, issues threatening the

sanctity of life and armaments amongst others. Whilst this remains a core part of our role our collective focus has broadened to look further at the positive impact we can achieve. A study we conducted in June 2011 showed that nearly half of the investment policies of CIG members, who participated in the initiative, explicitly made reference to the need to promote activities that would bring about a more sustainable version of capitalism. This was higher than the number who excluded investment in alcohol.

As Church investors, stewardship and investing for the long term forms part of our core beliefs. Our member meetings have recurring sessions on the importance of environmental, social and governance factors and we understand the importance of active dialogue with business. We are grateful to the high profile speakers who have addressed the group over recent years and we are delighted that many of them were able to join us last week. However, for us Stewardship means more than protecting the value of our assets; it means both protecting creation for the benefit of future generations and using the resources entrusted to us to the full. For this reason Al Gore's address on the potential for 'Sustainable Capitalism' resonated with us and we thank both him and Generation Investment

Management for their time. The CIG is about to embark upon the next phase of its development and the issues that were discussed at this event will continue to be at the forefront of our work; in particular we look forward to continuing this conversation at our future meetings and our first annual conference in 2013.

YouGov research commissioned for National Ethical Investment Week recently showed that 60% of UK investors want charities and churches to take a leadership role when it comes to investing their assets in a responsible way. We hope that we are playing our part.



Richard Nunn

Chair, Church Investors Group
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Dear Reader...

It was wonderful to be able to share my views with a likeminded and action-oriented group at a recent event at St Paul's Cathedral, and I'm glad that with this summary report others who were not in attendance are able to take part in what was a remarkable, energising and inspiring event.

As I mentioned in my remarks on the day, the challenges facing the planet today are unprecedented and extraordinary; climate change, water scarcity, poverty, disease, hyper-inequality of income and wealth, demographic shifts, trans-border and internal migration, urbanisation and a global economy in a state of constant dramatic volatility and flux, to name but a few.

My message at St Paul's was that financial markets are not contributing adequately to the solution of these challenges and that this needs to change. Financial markets are narrowly focused on companies' short-term financial results. Thanks to growing use of derivatives, short-term trading and high-frequency trading, markets are increasingly volatile and unstable.

While governments and civil society will need to be part of the solution to the challenges I outlined, ultimately it will be companies and investors that will mobilise the capital needed to overcome them and operate a financial system that supports sustainability. My call was for investors

to lift their heads from their Bloomberg screens, to consider where our financial and economic system is inevitably taking us, and to start to invest in a way that serves the needs of the planet and its people.

Sustainable Capitalism

Before the crisis and since, we at Generation, and others, have called for a more long-term and responsible form of capitalism, what we call Sustainable Capitalism. Sustainable Capitalism seeks to maximise long-term economic value creation. It explicitly integrates environmental, social, and governance (ESG) factors into strategy, the measurement of outputs and the assessment of both risks and opportunities. Sustainable Capitalism encourages us to generate financial returns in a long-term and responsible manner, and calls for internalising negative externalities through appropriate pricing.

Since its inception in 2004, Generation has been an advocate of the mainstreaming of sustainability in financial markets. Unfortunately however, we believe that global



progress towards this effort has reached a plateau. This is because of a number of factors, including a widely shared failure to rigorously make and reinforce the economic case for Sustainable Capitalism.

For that reason, the 'Sustainable Capitalism' white paper we, at Generation, published last February, seeks to re-energise the discourse around Sustainable Capitalism, refining our arguments and thus making a stronger and even more persuasive economic case.

In the paper we present, discuss, and prioritise five ideas set out below, which we believe have the potential to accelerate the transition to Sustainable Capitalism by 2020. This is why the five action items now serve as the agenda for the Generation Foundation, the philanthropic arm of Generation Investment Management, which is dedicated to promoting and strengthening the transition to Sustainable Capitalism. We do however recognise these ideas are not exhaustive and that they are necessary but not sufficient to achieving our goal.

companies and entire sectors (ranging from oil and gas to pharmaceuticals).

Until there are policies that establish a fair price for widely understood externalities, we believe that academics and financial professionals should strive to quantify the impact of stranded assets and analyse the subsequent implications for assessing investment opportunities. For our part, we are conducting in-house research on this topic, particularly as it relates to stranded carbon assets. Our goal is to contribute to the growing body of knowledge about this topic with a particular focus on building awareness in the investor community and constructing tools that facilitate the integration of pricing externalities into the asset valuation process.

Mandate integrated reporting

Despite an increase in the volume of information made available by companies and the frequency with which it is produced, access to more data for public equity investors has not necessarily translated into more comprehensive insight into companies. Integrated reporting addresses this trend by encouraging companies to integrate both their financial and ESG performance into one report that includes only the most salient or material metrics. We believe that integrated reporting will enable both companies and investors to make better resource allocation decisions about how ESG performance can contribute to sustainable, long-term value creation. While voluntary integrated reporting is gaining momentum, we



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Identify and incorporate risks from stranded assets

Stranded assets are those with a value that would change dramatically, either positively or negatively, under certain scenarios such as a reasonable pricing for carbon or water, or improved regulation of labour standards in emerging economies (what we would call the fair pricing of externalities). Stranded assets have the potential to result in significant reductions in the long-term value of particular

feel it must be mandated in order to ensure swift and broad adoption. This is why we have decided to support a new organization working towards mandated sustainability disclosure called SASB (the Sustainability Accounting Standards Board). Headquartered in San Francisco, California, SASB has emerged as a leader in the effort to identify key sustainability performance indicators on an industry-by-industry basis which they will then work to have incorporated in the SEC's existing mandatory filing documents.

End the default practice of issuing quarterly earnings guidance

Quarterly earnings guidance can create incentives for executives to manage for the short term and encourage some investors to overemphasise the significance of these measures at the expense of the longer-term, more meaningful measure of sustainable value creation. We believe that ending this default practice in favour of only issuing guidance as deemed appropriate by the company would encourage a long-term view of the business rather than the current focus on quarterly results. More thoughtful issuance of earnings guidance is compatible with enhanced standards of disclosure.

To promote this change, the Generation Foundation has partnered with the Aspen Institute to conduct a study on best practices related to corporate communication on this topic and how to align companies, investors, and analysts with long-term horizons.

Align compensation structures with long-term sustainable performance

Presently, most compensation schemes emphasise short-term actions disproportionately and fail to hold asset managers and corporate executives accountable for the ramifications of their decisions over the long term. Instead, we believe that financial rewards should be paid out over the period during which these results are realised, and compensation should be linked to fundamental drivers of long-term value, employing rolling multiyear milestones for performance evaluation.

We are in the midst of surveying the current state of play in the investment value chain, identifying barriers to change and methods for meaningfully embedding salient sustainability issues within compensation structures.

Encouraging long-term investing with loyalty driven securities

The dominance of short-termism in the market, often facilitated and exacerbated by algorithmic trading, is correlated with stock price volatility, fosters general market instability as opposed to useful liquidity, and undermines the efforts of executives seeking long-term value creation.

We believe that companies can take a proactive stance against this growing trend of short-termism by attracting long-term investors with patient capital through the issuance of loyalty-driven securities. Loyalty-driven securities offer investors financial rewards for holding a company's shares for a certain number of years.



Incremental change will prove insufficient to mainstream Sustainable Capitalism by 2020... We are calling for a fresh canvas on which, together, we can paint a new picture of our future.





This practice encourages long-term investment horizons among investors and facilitates stability in financial markets, therefore playing an important role in mainstreaming Sustainable Capitalism.

To further explore this innovative financial instrument, and other ways to incentivise patient capital, the Generation Foundation is collaborating with Mercer's Responsible Investment Business on a study to dive deeper into the implications and implementation of loyalty driven securities.

Call to action

The barriers to mainstreaming Sustainable Capitalism are formidable but not insurmountable. We believe that the actions for change we are recommending, taken together, will affect the entire business ecosystem and encourage reform by investors, companies, government and civil society alike.

Incremental change will prove insufficient to mainstream Sustainable Capitalism by 2020. So, like an artist at the easel, our goal is not to make superficial touch-ups that conceal deep structural flaws beneath. We are calling for a fresh canvas on which, together, we can paint a new picture of our future.

Owners of capital and those that they appoint to manage it can play a powerful role. Today the UN Principles for Responsible Investment has over 1,000 investment institutions as signatories, with assets under management of approximately \$30 trillion. Each signatory has committed to incorporate ESG factors into the way in which they manage assets. It is time to actualise that commitment.

I appreciate the work of St Paul's Institute and the Church Investors Group in hosting a discussion on such a timely and important topic, and look forward to continuing the dialogue.

To access the full version of Generation's White Paper on Sustainable Capitalism, please visit www.generationim.com.



Since its launch in 2008, National Ethical Investment Week has gone from strength to strength. Al Gore's speech marked the end of the most vibrant and successful Week in its five year history. After a year that has seen the 'shareholder spring' followed by a summer of banking scandals, it was fitting that the former Vice President delivered a stirring 'call to action' for sustainable capitalism.

St Paul's Cathedral was also a particularly appropriate setting as this year has seen a really significant increase in the involvement of church groups. With National Ethical Investment Week aiming to become as influential as Fairtrade Fortnight, we are very conscious of the pivotal importance of this support. Church groups reach out into their communities and are ideally placed to spread the word that we can all 'make money and make a difference' with our savings and investments.

National Ethical Investment Week activities have grown in scale as well as number this year. For example, the Financial Times ran a well-attended seminar for financial advisers and wealth managers in London while the Charity Finance Group hosted a breakfast seminar at CCLA, the church and charity fund manager, to consider the

role of charities as stewards of investments. Meanwhile, events outside the capital included a conference in Bristol on how to 'Make Your Money Count'.

A packed House of Commons reception heard from James Featherby, Chairman of the Church of England's Ethical Investment Advisory Group, and Laura Sandys MP, recently appointed as Parliamentary Private Secretary to Climate Change Minister Greg Barker. Laura reminded us that "environmental stewardship is crucial to the future of the economy" and "long-termism is integral to effective capitalism".

The National Ethical Investment Week web site now contains a wealth of worship material for use during the Week and throughout the year while three Action Guides for church groups, charities and financial advisers not only highlight how to get involved but also provide up-to-date summary information and resources to support investing responsibly.

Research by YouGov published during the Week reveals growing public interest not just in traditional ethical investments but also in green or ethical bank accounts, in good stewardship and in 'impact investments' which seek to produce

both financial and social or environmental benefits. For example, YouGov found that 42% of British investors think pension schemes which qualify for 'auto-enrolment' should sign up to the Government-backed 'Stewardship Code' on responsible ownership; and 55% of British adults want to know more about impact investments compared with 36% last year.

It is increasingly urgent that savings and investments are put to work in ways that support the long term health of society and the environment. Although the fifth National Ethical Investment Week is now behind us, we are already looking forward to 13th-19th October 2013. I hope that even more church groups and charities will get involved. As Al Gore so eloquently demonstrated, if we are to make money in the long term, we must also make a difference now. To find out more, visit: www.neiw.org



Penny Shepherd MBE

Chief Executive, UK Sustainable Investment and Finance Association (UKSIF)



Penny alongside Sir Peter Bottomley at the National Ethical Investment Week Parliamentary Reception

Published by St Paul's Institute
October 2012
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