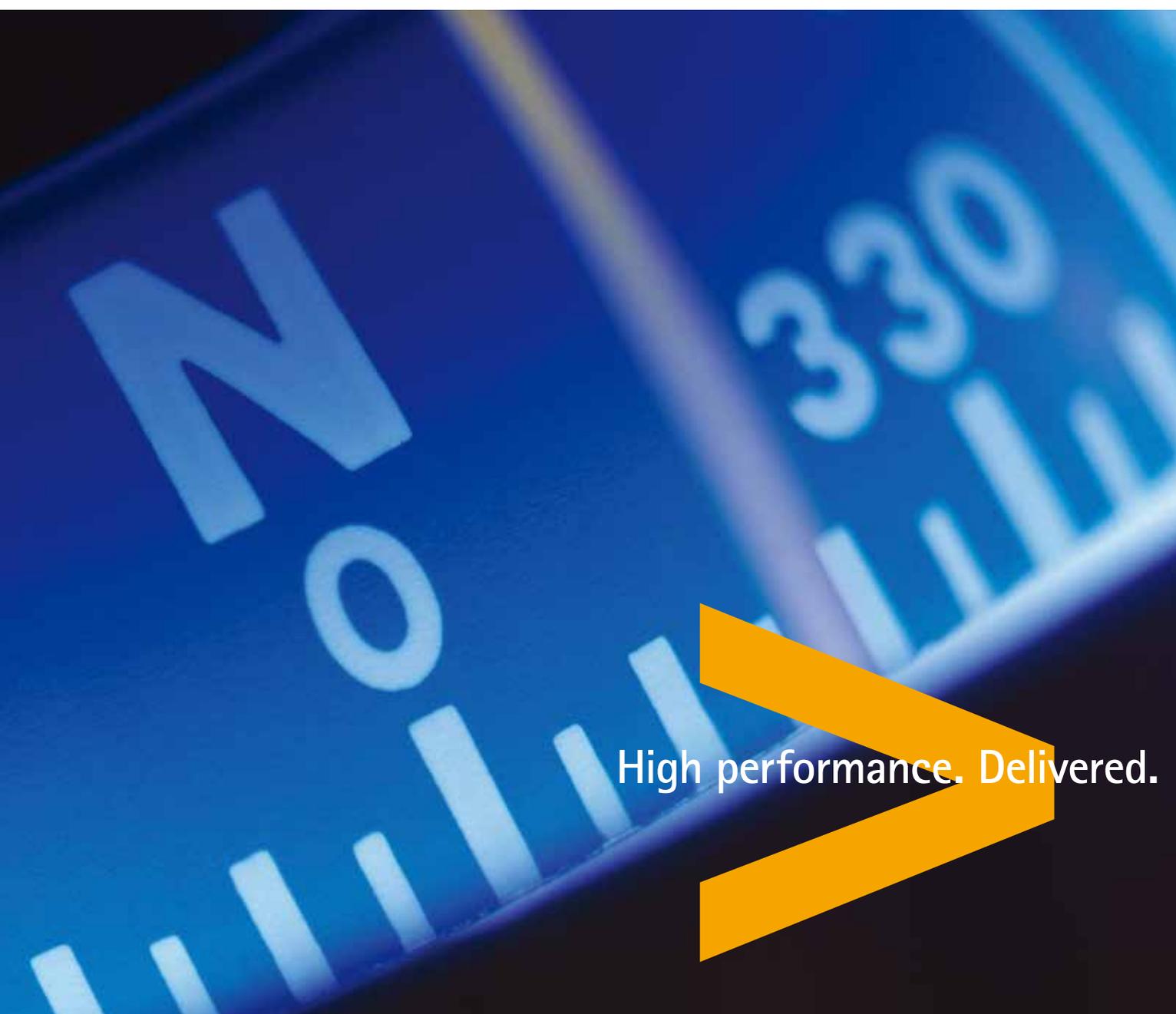


The Investor Study: Insights from PRI Signatories

The UN Global Compact-Accenture CEO Study on Sustainability

In collaboration with the Principles for Responsible Investment



High performance. Delivered.



Financial data table with columns for stock symbols, prices, and market indicators.

Symbol	Price	Change	Volume
VALE3	24.822	26.085	25.900
WEGE3	7.917	26.650	27.200

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In collaboration with the Principles for Responsible Investment

In a companion piece to the UN Global Compact–Accenture CEO Study on Sustainability, the world's largest CEO study on sustainability to date, Chief Executives and Chief Investment Officers of signatories to the Principles for Responsible Investment assess the development of dialogue and engagement on sustainability with the companies in which they invest; discuss the potential of a new approach, focussed on opportunity and business value; and reveal how companies and investors can better collaborate to unlock the potential of the private sector in tackling global sustainability challenges.

June 2014

Foreword



A handwritten signature in black ink, appearing to read 'Georg Kell'.

Georg Kell
Executive Director
UN Global Compact

The United Nations has worked since its founding to achieve a shared, secure and sustainable future for all of the world's people. The vision and aspirations of the first United Nations members in 1945, as they set out to be the "architects of a better world", remain a beacon today—not just for governments, but also for the thousands of companies and civil society organizations that have become key partners in tackling our world's most pressing challenges.

In recent years we have witnessed a remarkable broadening of the corporate sustainability movement, with growing commitment in every quarter of the world to achieving success while ensuring that business benefits economies and societies everywhere. As the world's largest corporate sustainability initiative, the Global Compact has a unique role to play in linking the enduring, universal values of the United Nations with a global architecture that can unlock the full potential of business in contributing to global priorities.¹

In collectively seeking to outline a pathway for business to contribute to global priorities, from environmental sustainability to labor standards, human rights and anti-corruption, we must extend our engagement beyond the four walls of the firm, to collaborate and partner with investors, governments and policymakers.

Since 2005, the United Nations-supported Principles for Responsible Investment has built an international network of investors working to understand the implications of sustainability for investors, and to incorporate these issues into their investment decision-making and ownership practices. With over 1,200 signatories representing nearly \$35 trillion in assets under management, the PRI Initiative is the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of sustainability issues, and to incorporate these factors into their investment decision making and ownership practices.²

With support from the PRI, many of the world's leading investors are now beginning to integrate sustainability issues into investment processes and dialogue with companies. But a disconnect remains. Companies still struggle to communicate to investors how sustainability initiatives are linked to their strategy, financial performance and valuation in meaningful ways. At the same time, investors say they need more and better information from companies about how they address material sustainability issues. Understanding the views of investors worldwide on sustainability can help both companies and their investors to make progress in valuing sustainability, and in integrating sustainability into the heart of global markets to enable business to have a greater impact on the world's most pressing challenges.

We hope that this rich, authentic, firsthand voice of business and investors can help to articulate a new set of global priorities, and engage companies and key stakeholders in an architecture that aligns business with sustainable development priorities leading up to 2015 and beyond.



A handwritten signature in black ink, appearing to read 'Martin Skancke'.

Martin Skancke
Chair
PRI Advisory Council



A handwritten signature in black ink, appearing to read 'Bruno Berthon'.

Bruno Berthon
Global Managing Director
Accenture Strategy and
Sustainability Services

Introduction



A handwritten signature in black ink that reads "Peter Lacy".

Peter Lacy
CEO Study Lead
Managing Director
Accenture Strategy & Sustainability
Asia Pacific



A handwritten signature in black ink that reads "Helene Winch".

Helene Winch
Director of Policy & Research
Principles for Responsible
Investment

This year marks the Global Compact's third CEO study, and the latest milestone in nearly a decade of research. Over the course of three studies, much has changed. There is reason to be optimistic: since the first CEO Study in 2007, the Global Compact has grown to include nearly 8,000 companies globally, demonstrating an unprecedented broadening of commitment among companies worldwide; sustainability has become firmly established on the leadership agenda of almost every leading business; and in the advances of the leaders we can see bright spots of real, transformational innovation that are allowing business to create value while having an ever-greater impact on global challenges.

But there is also reason for caution. Evidence suggests that the global economy is not on track to meet the needs of a growing population with planetary boundaries, and our interviews this year suggest that business may collectively have reached a plateau in the advancement of sustainability. Without radical, structural change to markets and systems, CEOs believe, business may be unable to lead the way toward the peak of a sustainable economy.

This year, for the first time, Accenture and the Principles for Responsible Investment have partnered with the UN Global Compact to extend the reach of the CEO Study to encompass the views of investors. In extending our research to include Chief Executives and Chief Investment Officers of PRI signatories, including asset owners, investment managers and service providers, we have conducted sixteen in-depth interviews with senior leaders, as well as gathering the views of a further sixty-seven through an online survey. In sum, this represents the largest study of CEOs and investors on sustainability to date, and while we must note that their views—from Global Compact participants and PRI signatories, who freely gave their time to participate—may not be representative of the majority of businesses and investors globally, our approach has assembled a rich and diverse set of insights, allowing us to explore, test and refine emerging themes and ideas.

We would also like to acknowledge the contributions of the Global Compact sponsors and project leads Georg Kell, Gavin Power, Carrie Hall, Sean Cruse and Kristen Coco, as well as the leadership of the PRI and Accenture teams, in particular lead author and project manager Rob Hayward, as well as Matthew McAdam, Indira Abraham, Jenna Trescott and Priyanka Abbi.

Last—and most importantly—on behalf of the PRI and Accenture, we would like to express our sincere thanks to the CEOs and CIOs, business leaders and other stakeholders who participated in the study. The project team has endeavored to understand and interpret their many ideas, reflections and case study examples in conducting the study and delivering this report. Any insights are theirs, while any errors are our own.

This year's study is a unique opportunity to take stock as we stand at a crossroads in the global economy. Business leaders and investors are committed to leading the way, but will require greater ambition and wider support as they work to align sustainability impact with value creation, and markets with sustainable development outcomes, such that these leaders can truly become the architects of a better world.

Study participants

We would like to thank the following PRI signatories for their insights in shaping this study. While the views expressed do not necessarily represent the totality of opinions received from all contributors, their participation and guidance have been critical.



David Atkin,
Chief Executive
Officer, Cbus



Else Bos,
CEO,
PGGM



Mark Fawcett,
Chief Investment
Officer, NEST



Brett Himbury,
Chief Executive,
IFM Investors



Barry Kenneth,
Chief Investment
Officer, Pension
Protection Fund



Mark Lazberger,
Chief Executive
Officer, Colonial
First State Global
Asset Management



Peter Murphy,
Chief Executive
Officer,
Christian Super



Cecilia Reyes,
Chief Investment
Officer,
Zurich Insurance
Group



Ian Silk,
Chief Executive,
AustralianSuper



Keith Skeoch,
CEO,
Standard Life
Investments



Anne Stausboll,
Chief Executive
Officer,
California Public
Employees'
Retirement
System
(CalPERS)



Andreas
Utermann,
Global Chief
Investment
Officer of Allianz
Global Investors
GmbH



Erik Jan van
Bergen,
Chief Investment
Officer,
SNS Asset
Management



Mark Walker,
Global Chief
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Officer,
Unilever Company
(Unilever)



Eric M. Wetlaufer,
Senior Vice
President
and Head of
Public Market
Investments,
Canada Pension
Plan Investment
Board



Jay Youngdahl,
Chairman,
Board of
Trustees,
Middletown
Works Hourly
and Salaried
Union Retirees
Health Care
Fund



Mark Zinkula,
Chief Executive
Officer,
Legal & General
Investment
Management

Further insights

This Investor Study has been conducted as a companion study to the UN Global Compact-Accenture CEO Study on Sustainability, and forms an important part of the PRI's ongoing work on policy and research.

- Project 1 – Operationalising long-term responsible investment mandates: This project will involve groups of PRI signatories implementing measures to build responsible, long-term investment approaches into manager appointment and reappointment processes. The project will attempt to assess the impacts of these measures on the signatories and their agents, and on ESG and investment performance. It will also explore the role of benchmarks and incentive structures.
- Project 2 – Policy frameworks for long-term responsible investment: This project will involve establishing a research

and collaboration platform for PRI signatories to engage with policy makers on the creation of enabling policy environments for long-term responsible investment. This project aims to include analysis of the various regulatory structures of retirement savings and pensions (e.g. defined benefit (DB), defined contribution (DC)) and their impact on long-term responsible investment approaches.

The PRI welcomes contributions and insights from signatories on this Investor Study, as well as on other policy and research workstreams: please see www.unpri.org/policy-and-research

Executive Summary

Framing sustainability: From frustration to opportunity

Investors & business leaders are aware and committed – but frustrated at the pace of change

- Investors and business leaders are united in a commitment to embedding sustainability.
- 88% of investors, and 79% of CEOs, see sustainability as a route to competitive advantage.
- 78% of investors see sustainability as a differentiator in determining industry leaders; 76% of CEOs believe that embedding sustainability will drive revenue growth and new opportunities.
- But business leaders express frustration at the pace of change, and believe that radical, systemic change will be required to incentivise and reward sustainability.

Investors are not growing in influence on companies' strategies for sustainability.

- In 2007, 19% of CEOs counted investors among their most influential stakeholders on sustainability; by 2013, despite a focus on sustainability as core business, that figure has risen to just 23%.
- Just 52% of CEOs – and 53% of investors – believe that investor interest is currently a motivation for companies to invest in sustainability initiatives.
- This lack of engagement between companies and investors on sustainability goes some way to explaining the 'frustrated ambition' of CEOs and the scepticism of many investors.

Companies are failing to communicate effectively on sustainability, say investors

- One of the clearest insights from investors is that CEOs may currently overestimate their success in communicating with investors on sustainability.
- 57% of CEOs say they are able to set out their strategy for seizing opportunities presented by sustainability; when asked the same question of the companies in which they invest, just 9% of investors believe this to be the case.
- 38% of CEOs believe they are able to accurately quantify the business value of their sustainability initiatives – but just 7% of investors agree.
- These striking gaps expose the shortcomings of many companies in communicating their approach to sustainability and its links to traditional measures of business value and success.
- Companies and investors may have radically different perspectives on what sustainability is, and what appropriate valuation might look like.
- 73% of investors believe that a lack of engagement and recognition from the investment community is currently a barrier to companies integrating sustainability into core business.

Embedding sustainability: From short-term returns to long-term prosperity

Investors admit shortcomings in their own approach to sustainability

- Investors identify challenges in moving from a risk-based approach to a broader understanding of the ways that sustainability can contribute to business success.
- Difficulties in embedding the right knowledge and skills, and challenges in identifying material issues, are preventing investors from taking full account of sustainability issues in company assessment and valuation.

Investors identify structural challenges in financial markets

- Investors believe that the structure of the investment industry is acting in opposition to a growing commitment to the long-term: 71% believe that short-term financial investments are making sustainability efforts more difficult for companies.
- Interviewees identify an inbuilt bias towards active investment focussed on short-term returns; outdated systems of incentive and reward; unintended consequences from regulatory frameworks; and short-term reporting as barriers to long-term thinking.
- Nearly half of the investors surveyed, 49%, identify quarterly reporting requirements as an important barrier to further progress, with nearly two-fifths saying that they would abolish quarterly reporting requirements if it were in their power.

Bridging the gap: From analysis to engagement

Investors identify five key pathways towards better integration of sustainability in global markets

- **Longer-term investment mandates:** Together with a more concentrated portfolio that allows for greater engagement, a commitment to the longer-term can help drive both superior returns and sustainability performance.
- **Focus on opportunity and value:** Moving the dialogue beyond risk and mitigation to a new approach focussed on opportunity and business value could allow a more sophisticated approach to sustainability in company assessment and valuation.
- **New knowledge and capabilities:** Investors see an urgent need to strengthen the knowledge and capabilities of their people and their agents, backed up with the right compensation, incentives and measures of success.
- **Common metrics and understanding:** Common metrics, shared throughout industry sectors and treated with similar rigour to financial measures, could enable more accurate identification and comparison of industry leaders.
- **Engagement with governments and policymakers:** Business leaders and investors alike believe that the private sector must work with policymakers to move beyond fragmented regulatory efforts to reshape markets that enable business to lead the way in tackling global challenges.

Framing sustainability

From frustration to opportunity

Business leaders recognise the importance of sustainability – but are frustrated at the pace of change

Sustainability is critical to companies' future success – but business is not doing enough, and CEOs are struggling to make the business case to go further, faster. That is the striking finding from the latest UN Global Compact-Accenture CEO Study, the largest CEO Study on sustainability ever conducted. Through understanding the views of more than 1,000 CEOs globally, the Study uncovers a sense of frustrated ambition among global business leaders convinced that the effective management of sustainability will be essential to their future prospects, but unable to make progress beyond incremental, pilot projects.

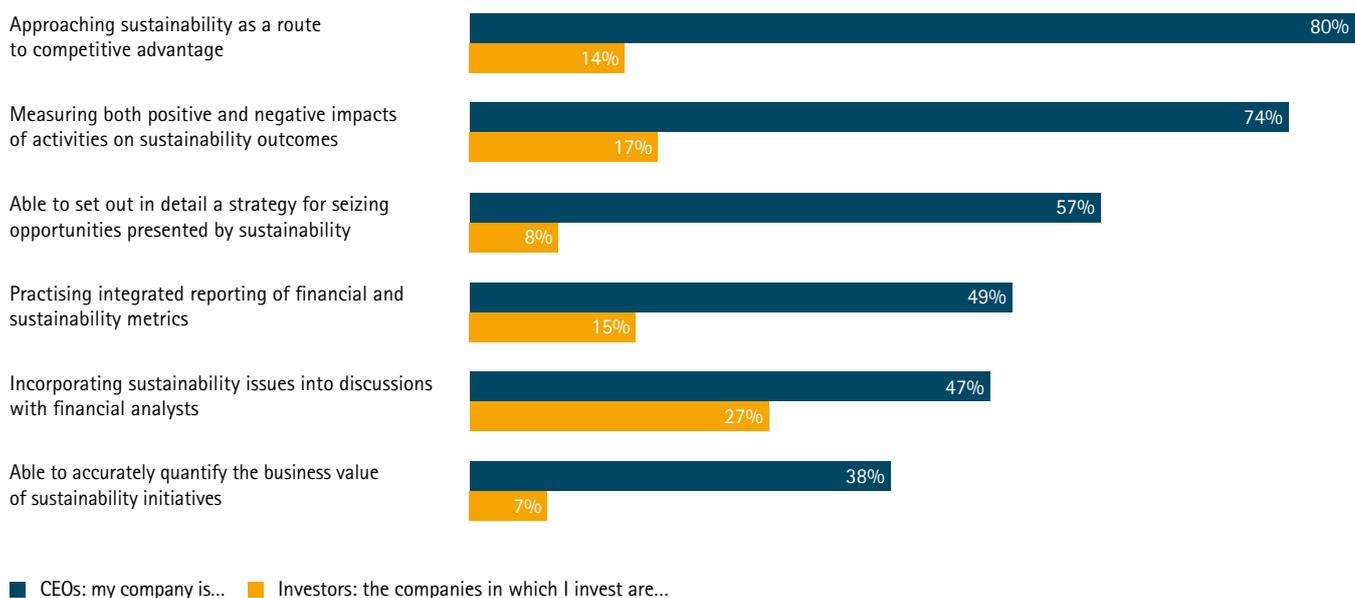
Fully 97% of CEOs surveyed report that sustainability will be 'important' or 'very important' to the future success of their business. Sixty-three percent believe that sustainability will transform their industries within five years, and 76% believe that embedding sustainability into core business will

drive revenue growth and new opportunities. In a distinct shift from an approach informed primarily by philanthropy and corporate social responsibility, 79% of CEOs believe that embedding sustainability will lead to competitive advantage in their industry. Through engaging consumers, opening up new markets, and innovating to address the challenges of energy production, urbanisation, climate change and human health, business leaders see a responsibility and an opportunity to lead the way towards a more sustainable economy.

Despite this strong belief in the importance of sustainability, CEOs are struggling to make substantive progress in embedding sustainability at scale through their organisations. A consistent theme throughout our conversations was a frustration at the challenges presented by the expectations of the market, and at the difficulties of uniting stakeholders behind the pursuit of superior performance on sustainability. Business leaders themselves recognise that the challenges spring in part from inadequacies within their own approach: just 38% believe that they can accurately quantify the business value of sustainability within their company.

Figure 1: Striking differences are apparent between CEOs' views of their companies' performance, and the views of their investors

To what extent do you agree with the following statements regarding the value of sustainability?



Note: Percentage represents the proportion of CEOs/CIOs selecting 'Strongly agree' and 'Agree'; investor data based on survey responses from fifty-nine CEOs and CIOs from PRI signatories; CEO data from the UNGC-Accenture CEO Study on Sustainability 2013.

Investors are not growing in influence on sustainability, say CEOs

Beyond the four walls of the firm, a recurring theme in our conversations throughout the lifetime of the CEO Study is companies' relationship with investors on sustainability. In 2010, at the time of the last study, 86% of CEOs told us that more accurate valuation of sustainability by investors would be critical in advancing sustainability. Since that time, CEOs have seen little progress: in this year's Study, just 12% report that pressure from investors and shareholders motivates them to act on sustainability, and only 23% see investors as an important stakeholder in guiding their approach. While 69% believe that investor interest will become an increasingly important factor in determining the role of sustainability in their organisation, CEOs now see improved dialogue and engagement with investors as essential: 67% see investors incorporating sustainability metrics and performance into valuations as an integral condition for progress.

In the context of a rising focus on sustainability as an essential part of core business, and a driver of future success, the continued absence of the investor as an influential stakeholder is a surprise: the lack of movement in the influence of investors could be best described as 'the dog that didn't bark'. As CEOs pay ever-greater attention to the role of sustainability, not only as social responsibility but as a route to competitive advantage, it must be a cause for concern that this has not yet reached the realms of analyst calls and investor engagement. While 69% of CEOs believe that investor interest will eventually become an important factor in determining the role of sustainability in their organisation, many now see an urgent improvement in dialogue and engagement with investors as essential to further progress: 67% see investors incorporating sustainability metrics and performance into valuations as an integral condition for progress.

Companies are failing to communicate on sustainability, say investors

In response to our conversations with CEOs, this year Accenture and the UN Global Compact partnered with the UN-supported Principles for Responsible Investment to examine the views of investors on sustainability. Through a series of in-depth interviews and survey contributions from almost 100 of PRI's largest institutional investors, we have gathered the perspectives of investors on their view of sustainability; on their dialogue with the companies in which they invest; on the structures and systems that govern the role of sustainability in the investment process; and on what they feel is necessary to integrate sustainability better into global markets.

One of the clearest insights from investors is that CEOs may currently overestimate their success in communicating with investors on sustainability. Despite the frustrations expressed by business leaders over their ability to effectively engage investors, 57% feel they are able to set out in detail their strategy for seizing opportunities presented by sustainability. When asked the same question of the companies in which they invest, just 8% of investors believe this to be the case – a startling gap which exposes the shortcomings of many companies in effectively communicating their approach to sustainability and its links to the traditional measures of business value and success. Similarly, while 38% of CEOs believe they are able to accurately quantify the business value of their sustainability initiatives, just 7% of investors agree: a strong signal that companies and investors may have radically different perspectives on what sustainability is, and what appropriate valuation might look like.

The Six Principles of the PRI

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Investors are approaching sustainability with the lens of risk management and mitigation

The gap between CEOs' perceptions of their own abilities, and the view of their investors, exposes a significant gap in engagement and dialogue on sustainability. Just as CEOs acknowledge that the problem starts at home, however, so investors recognise that the failure to engage on sustainability can in part be attributed to their own approach. While the PRI's signatory Reporting Framework requires signatories to publicly disclose whether they include responsible investment as a standard agenda item at performance review meetings with companies and investment managers; include responsible investment criteria as a formal component of overall manager performance evaluation; assess the manager's policies, processes and systems for identifying ESG-related value drivers and managing material ESG-related risks pre and post-investment; and request information on ESG incorporation by their managers in specific investment decisions, investors recognise that ESG – or sustainability – may not always be treated with the same rigour as other decision factors.

From our conversations with PRI signatories, there is a clear and growing belief that sustainability is important to investment management and the security of long-term returns. Spending

time and management attention on sustainability issues, investors believe, can benefit investment performance and provide a competitive advantage in the industry: in the words of Brett Himbury of IFM, "We have embraced sustainability because we believe it will add to the long-term returns for our investors." Additionally, 78% of investors regard sustainability as a differentiator in determining industry leaders: as Eric Wetlaufer of the CPP Investment Board told us, "Putting resources behind understanding sustainable performance factors and integrating them into our investment decisions could be a competitive edge versus others who are more short-term."

This integration of sustainability issues into the investment process, however, may be limited in its scope. From our conversations, it is clear that investors are primarily approaching sustainability with the lens of risk management and mitigation: as Ian Silk, Chief Executive of AustralianSuper, told us, "Investors may look at sustainability, but they think in terms of risk management and fundamentally around the investment merits of the transaction." Or in the words of Barry Kenneth, CIO of the Pension Protection Fund (PPF), "Sustainability is one of a number of risks that we think about from an investment perspective: if a company falls south on sustainability, there can be an impact on the value of our investment."

Figure 2: The majority of investors see sustainability as a differentiator in determining industry leaders

To what extent do you agree with the following statement:
As investors, I believe that we regard sustainability as a differentiator in determining industry leaders

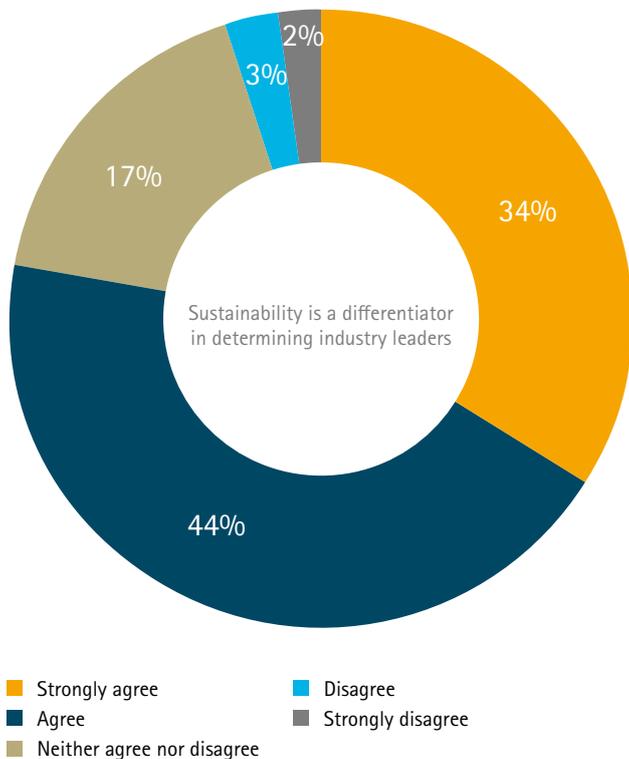
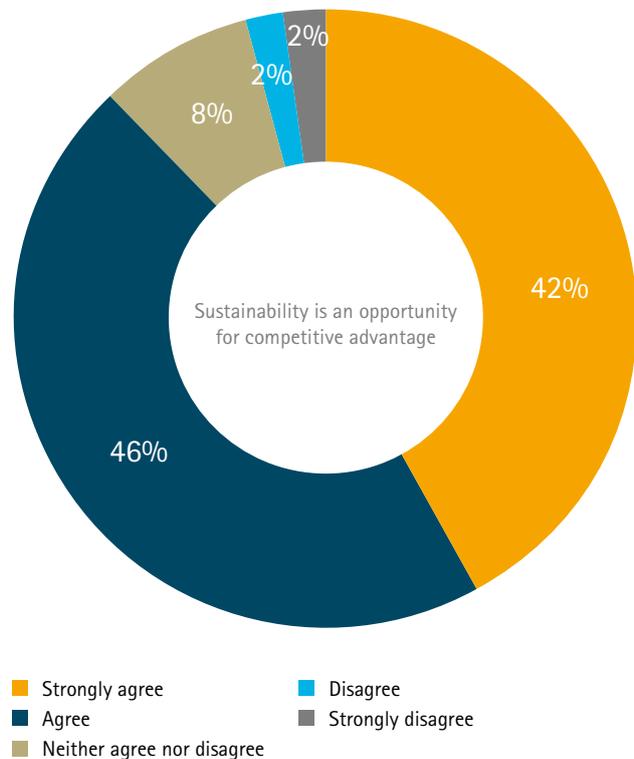


Figure 3: Investors regard sustainability as an opportunity for competitive advantage

To what extent do you agree with the following statement:
As investors, I believe that we regard sustainability as an opportunity for competitive advantage.



Investors are struggling to align stakeholders behind sustainability as an opportunity

Crucially, investors recognise that there is currently a lack of discussion on sustainability as an opportunity for growth, differentiation and competitive advantage for the companies in which they invest. While leading companies are beginning to shift their view of sustainability from the lens of mitigation and risk to one of opportunity and growth, potential opportunity has been largely absent from investor discussions. As Mark Walker, CIO of the Unilever UK Pension Fund, told us, "It is often easier to identify and track sustainability issues as risks, rather than opportunities; identifying a sustainability trend, such as the demand for renewable energy, doesn't necessarily translate into a concrete investment opportunity."

CIOs also identify a critical challenge in making the case for sustainability among their own stakeholders. Some investors and their clients and trustees are well-aligned in their approach to sustainability, with tacit or explicit agreement that the promotion of sustainability makes sound business sense. This consensus can enable asset owners to contribute to business efforts to address sustainability challenges: in the words of Peter Murphy, CEO of Christian Super, "There is a deep desire among our members to make a difference with our investments."

For every investor who shares a sustainability philosophy with its clients, however, others tread lightly in outlining and adhering to sustainability principles and commitments. As one European CIO told us, "If our clients hear that our investment philosophy is morally biased in the sense that 'we are here to create a better world' – they get very nervous." And in the words of Mark Lazberger, Chief Executive Officer of Colonial First State Global Asset Management, "We think about sustainability as being the right way to invest, but we are careful not to overstate this as there are clients out there who don't place the same emphasis on responsible investing or sustainability issues." In an effort to establish a broad church into which many individuals may invest with confidence, institutional investors are tempering their sustainability commitments to manage the receptions of clients and trustees: as one CIO told us, "Our job is to maximize wealth for our clients and we have many clients who take a very old fashioned, narrow view on their future responsibilities."

Even amongst those investors who have themselves embraced sustainability, many report challenges in making the case to trustees for a greater focus on sustainability, because it is often seen as too nebulous and long-term. One pension fund described a case in which their trustees requested their parent company to underwrite fund investments if they were to pursue a greater integration of sustainability into the investment process. This example underscores the scepticism that many trustees still have for the link between sustainability commitment and future financial performance, as well as the internal barriers

Figure 4: Significant differences are apparent between CEOs and investors on the importance of sustainability by industry

How important are sustainability issues to the future success of your business/to the future success of the companies in which you invest?



Note: Percentage represents the proportion of corporate CEOs in each sector selecting 'important' and 'very important' with regard to their own company; and the proportion of investors selecting 'important' and 'very important' with regard to the relevant industry.

for investors in shifting towards a more sustainability-informed mindset. In the words of Mark Walker of Unilever, "If I talk to a trustee group and say there is a risk from climate change, that resonates; but if I say there is an opportunity, that conversation is not as easy, partly because that opportunity might not play out for twenty years."

As investors struggle to align their organisations behind an approach to sustainability as an opportunity, companies pursuing competitive advantage through taking a leadership position express a frustration at the lack of reward in the market.

Although the majority of investors believe that investor interest is currently an incentive for companies to invest in sustainability, 60% acknowledge a lack of recognition from investors is a barrier to companies integrating sustainability into their core business. As Erik Jan van Bergen of SNS Asset Management told us, "Companies are on average a good five years ahead of the financial investor community in terms of willingness and ability to talk sensibly about sustainability."

Investors have mixed views on the link between sustainability and investment performance

Even for investors who have embraced the inclusion of sustainability factors in their investment decisions, the link between sustainability and investment performance remains an open question. Some start from the belief that sustainability performance reflects and correlates with the quality of management and corporate governance: "We believe the link between corporate governance and share price performance is well established," said one CIO, "and good corporate governance is a foundation for companies to perform strongly on sustainability."

Others seek to serve the two masters of financial return and sustainability impact, rejecting the traditional notion of a

trade-off between sustainability and financial performance. As Cecilia Reyes of Zurich Insurance told us, "Responsible investment is on the business side and it is not philanthropy. It is about financial goals relevant to our policyholders, employees and shareholders and about generating nonfinancial value for society and the environment – the two are not mutually exclusive." And in the words of Else Bos of PGGM, "We work from the belief that social impact and portfolio performance go together and that there should not be, and does not have to be, a trade-off between the two."

At its most sophisticated, the analysis of sustainability in the investment process seeks to establish a correlative or causative relationship between sustainability performance of companies and financial returns: as one CIO said, "There is compelling academic evidence that strong CSR and ESG factors are correlated with corporate financial performance."

It is clear from our conversations that the belief in sustainability as a determining factor in financial performance and investment returns is not universal. As Erik Jan van Bergen told us, "The question is whether you can improve financial alpha by really integrating sustainability: the jury is still out on the correlation between how sustainable a portfolio is and its financial performance." Others were stronger on the potential for screening or best-in-class approaches to sustainability to close off potentially profitable avenues: "If you reduce your investment universe, you will reduce the return profile of the outcome," said one CIO, "You might have a reduction in risk but you will also reduce the potential for return." Even those actively engaged in the search for links between sustainability and financial performance admit impediments: as one CIO told us, "There is growing evidence that those who do sustainability well are performing better than competitors, but it is often very hard to make a direct correlation." And as Barry Kenneth of PPF notes, "There is not sufficient data out there that says you need to invest in these types of companies because they've had better sustainability and you can see it through the results."

Sustainability and financial performance

There is a growing body of evidence that investors, through a combination of sustainability incorporation strategies and active ownership practices, can make a difference to investment performance, sustainability outcomes and reporting by investee companies.

A review of the academic literature suggests an unambiguous link between sustainability and financial performance: companies with better management of and performance on ESG issues are likely to provide better investments over the longer-term. In one of the most significant studies in this area, Eccles et al. (2011) conducted an empirical study of two matched sets of firms covering an 18-year period.³ They found that, over the long-term, corporations that voluntarily adopted environmental and social policies many years ago significantly outperformed those that had adopted almost none of these policies, both in terms of stock market and

accounting performance. Similarly, a review by Deutsche Bank Climate Change Advisors (2012) found that company performance on sustainability issues is positively correlated with superior risk-adjusted returns at a securities level.⁴

While the evidence base for the integration of sustainability issues into investment research and decision-making remains relatively underdeveloped, this is a major area of focus for the PRI's Academic Network. The Network is encouraging investors to make their internal data on sustainability-related analysis and investment performance available to researchers, to enable a fuller understanding of the relationship between sustainability issues, corporate financial performance and investment performance at the stock and portfolio levels.

Sustainability must be better integrated into discussions, investors believe

Enabling investors to better establish concrete and quantifiable links between sustainability and financial performance will require companies to improve the measurement and communication of sustainability-related benefits. Many of the investors we talked to complained of companies' tendency to treat sustainability as a separate issue, rather than one materially integrated into financial discussions: "One of the problems," said David Atkin of Cbus, "is that when companies deal with these issues they have them off to the side under the heading 'sustainability' and not integrated into their company and the material risks to their company." Despite the growth in the sophistication of sustainability measurement and reporting, many companies still choose to focus on philanthropy corporate responsibility programmes. As Atkin observes, "Many companies talk about internal sustainability programs rather than talking about the issues that are of interest to investors and have material effect on investment: we don't want to see this under a separate sustainability report heading or a special sustainability briefing, but as part of their day-to-day discussions and operations."

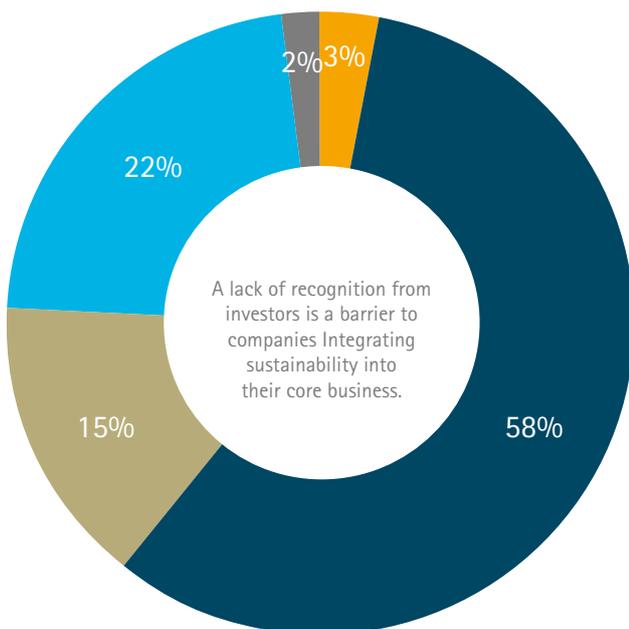
The siloing of sustainability metrics may also lead to a disconnect between the analysis of sustainability issues and the way that companies perceive and communicate future opportunities for growth. Just as investors admit shortcomings in their analysis of sustainability as an opportunity for advantage, they believe companies are missing opportunities to draw linkages between

sustainability and the fundamentals of business success: tellingly, while 88% of investors believe that sustainability can be a route to competitive advantage, just 14% believe that the companies in which they invest are realising this potential. In the context of this year's CEO Study, in which 80% of CEOs told us that they see sustainability as a route to competitive advantage in their sector, these findings illustrate an intriguing situation. Investors, it appears, are more confident than their corporate counterparts that sustainability can be turned to advantage, but are equally convinced that companies are failing to articulate their approach.

On the mechanics of performance and disclosure, investors have high expectations. 90% expect companies to include discussion of sustainability metrics into analyst presentations, and 83% expect companies to integrate sustainability metrics into financial reporting. While our conversations suggest that companies are increasing their efforts to disclose material information, investors see ongoing challenges with the consistency and comparability of sustainability metrics: "Data on sustainability is not disclosed by companies on an 'apples to apples' basis," observes Eric Wetlaufer of CPPIB, "and there is a lot of subjectivity that goes into our assessment of sustainability performance." In the words of Cecilia Reyes of Zurich, "If we say we need ESG information on a company, where does that information come from? There is no standard for disclosure of information like there is for disclosure of financials; there needs to be standardized disclosure of ESG factors which can then be incorporated by financial analysts into their valuations."

Figure 5: Investors believe that a lack of recognition from investors is a barrier to companies integrating sustainability into core business

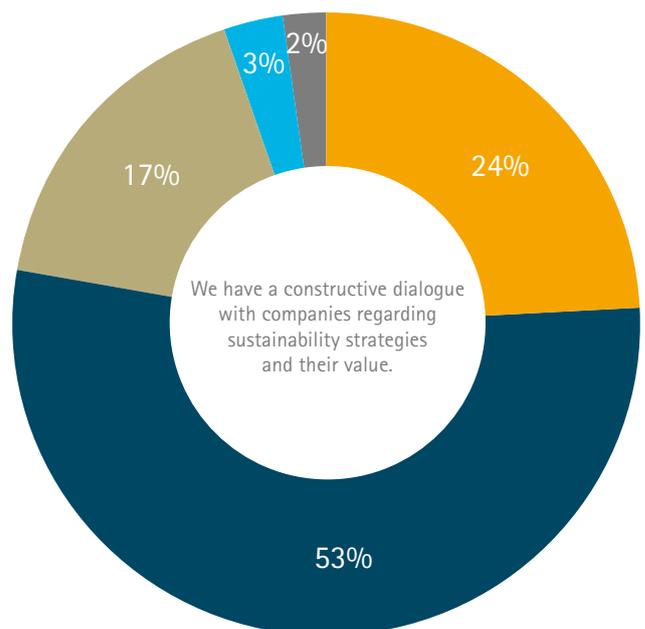
To what extent do you agree? A lack of recognition from investors is a barrier to companies integrating sustainability into their core business.



■ Strongly agree
■ Disagree
■ Agree
■ Strongly disagree
■ Neither agree nor disagree

Figure 6: Investors are broadly positive on their engagement and dialogue on sustainability with the companies in which they invest

To what extent do you agree? As an investor, I believe that we have a constructive dialogue with companies regarding sustainability strategies and their value.



■ Strongly agree
■ Disagree
■ Agree
■ Strongly disagree
■ Neither agree nor disagree

Figure 7: Investors believe that analysis of sustainability should be better embedded into discussions between companies and investors

To what extent do you agree? Analysis of sustainability should be better embedded into discussions between companies and investors.

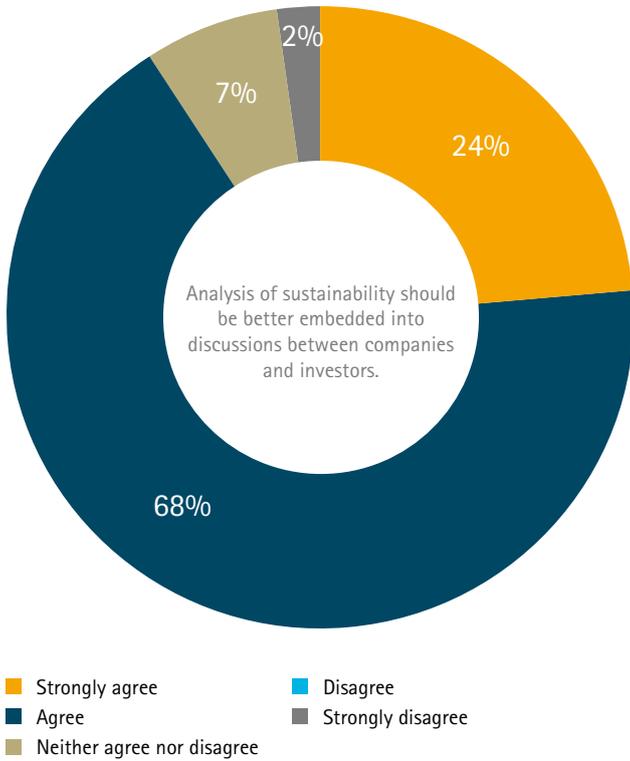
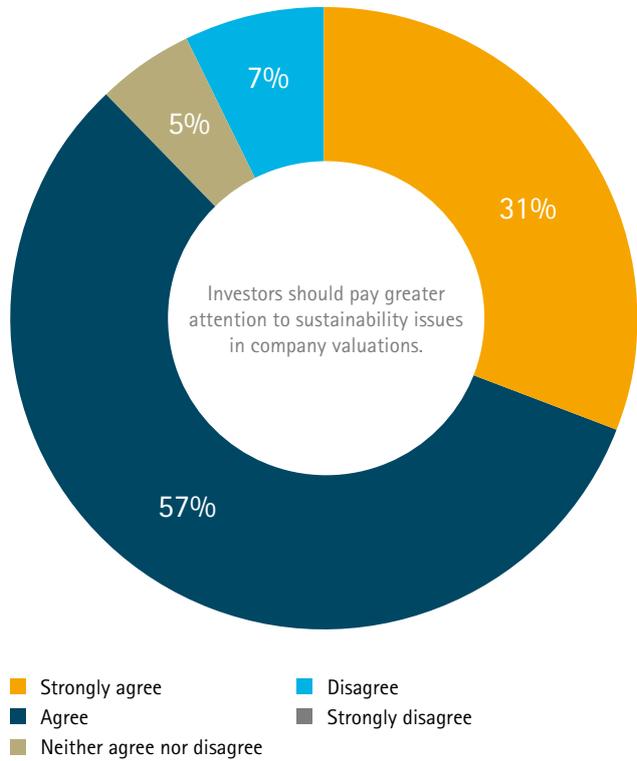


Figure 8: Investors believe that they should pay greater attention to sustainability issues in company valuations

To what extent do you agree? Investors should pay greater attention to sustainability issues in company valuations.



Integrated Analysis: addressing sustainability in equity valuation

Integrated Analysis, published by the Principles for Responsible Investment in 2013, showcases examples of how large institutional investors are integrating sustainability factors into their investment decisions in listed equity portfolios.³ The research covers five stages of analysis available to investors seeking to make integrated investment decisions, from an analysis of the economies in which a company operates, through the industries in which it operates, the way it conducts its operations, the financial impacts of those operations and finally the valuation tools used.

The review found advanced use of integrated analysis being used to determine the fair value of companies at each stage of fundamental analysis, with sustainability issues being integrated into analysis of the economic and industry context of a listed company; analysis of the quality of a company’s management and corporate strategy; adjustments to earnings forecasts to more accurately reflect future risks and opportunities; and adjustments to valuation discount rates to reflect industry or company-specific sustainability issues. These integrated

approaches to estimating fair value point towards significantly improved valuation models that account for scarcity of resources, future regulatory directions and timeframe tensions.

Nearly twenty case studies from brokers and research providers, including Cheuvreux, Citi, Société Générale and UBS, show how understanding the impact of sustainability on sales, costs and long-term return on capital can enhance investment decisions. It shows analysts adjusting earnings forecasts, growth estimates and discount rates to reflect environmental, social and governance (ESG) data about future demographic change, water scarcity in China, regulatory risks in the US energy sector, and changes in consumer preferences for sustainable packaging. Despite encouraging signs from the investors profiled in the report, challenges remain. Short-term valuation tools cannot always capture sustainability issues that will impact companies over longer timeframes, and acquiring consistent, comparable, audited information on sustainability factors remains a hurdle to integrated analysis.

Investors are seeking a common understanding of sustainability

Despite their compelling analysis of companies' shortcomings, investors recognise that their own house must be put in order to enable them to effectively analyse and assess sustainability performance. A more sophisticated approach, investors believe, must start from a clearer definition of sustainability: "What do we mean by sustainability?" asks Ian Silk of AustralianSuper, "If you ask ten people, you will get eleven views on what sustainability means, and yet we bemoan the fact that corporations aren't maximizing sustainability opportunities. If we don't even know what sustainability is, we can't really be critical of organizations for not doing what we can't define."

Even in those organisations where leadership are united behind a common understanding of sustainability, investors report challenges in embedding their philosophy throughout their investment approach. In the words of one CIO, "Our talk is ahead of our walk on this issue: portfolio managers are not really considering sustainability issues when making investment decisions, and investors are not effectively requiring investment managers to do so." Challenges are evident in the education and training of analysts and investment managers: in the words of Cecilia Reyes of Zurich, "Understanding what factors and risks to look for requires training, and we need to have solid education for financial analysts to learn and incorporate these factors into valuations. Analysts are trained to look at the financials and make conclusions about the value of a company: this education is very well established but does not work for sustainability, which you will often not see on the balance sheet." Personal sensitivities may also play a part: as one CIO observed, "We have placed our equity portfolio managers and ESG Research group in the same room, and they know each personally, but in the beginning both groups were somewhat hesitant to ask questions in group meetings; the last thing anyone wanted to do is to look dumb or ask a silly question."

Figure 9: Investors have high expectations of the companies in which they invest to discuss and disclose sustainability performance

As investors, I believe that we expect companies to...



Note: Percentage represents the proportion of CEOs/CIOs selecting 'Strongly agree' and 'Agree'

The structures and systems of the investment process are holding back progress

Given the knowledge and resources to analyse sustainability effectively, investors still identify challenges in the prevailing structures and incentives of the industry. With its inbuilt bias towards active investment focussed on short-term returns, and individual portfolio managers incentivised against short-term timeframes, the investment industry is acting against a belief in investing for the long-term. As Mark Walker of Unilever observes, "The structure of our industry means that there's a bias to being seen to make changes and to short-term measurement of active investments, which cuts against the knowledge that we need to invest for the long-term. We need to change the mindset of a vested-interest industry."

A recurring perspective throughout our conversations was a belief that investment consultants often encourage companies to turnover investment mandates quickly; and that the way asset managers are tracked, measured, and incentivised are all geared toward the short-term, with reporting by asset managers often occurring on a monthly basis. As one CIO told us, "Many drivers in the marketplace are focused on short-term misalignment around remuneration and that remains a significant problem when we have incentive schemes operating on short-term outcomes." Recognising the importance of consultants in contributing to the development of responsible investment, the PRI's Reporting Framework asks signatories to disclose whether their organisation includes responsible investment in the selection process for external consultants; whether consultants' responsibilities are assessed in relation to responsible investment in manager selection, appointment and monitoring; and whether responsible investment is considered when reviewing investment consultants' advice on management selection and performance monitoring.

In our survey, 71% of investors agreed that short-term financial investments make advancing sustainability difficult for companies: in the words of Brett Himbury of IFM, "We see fund managers measured on quarterly and annual returns, and there's a focus on who's on top of the short-term league tables – that will clearly impact the motivations of fund managers, and therefore the companies they're investing in." Several interviewees noted significant differences between private and public markets, particularly with regard to short-term and long-term investment approaches. As Himbury observes, "Public markets are culturally motivated by the shorter-term and shareholders do not have a great degree of influence. The level of short-termism is infecting both investors and companies; but there's a difference in private markets, where there is a much longer-term perspective."

Allied to this longer-term perspective is a greater ability for institutional investors to influence management: "A constructive dialogue is often more useful in the private space than the public markets," says one CIO, "but we're large investors, and when we take a public position we do so in a considered manner and then engage with those companies." And as Ian Silk told us, "In the private markets, we are closer to the transactions and are better able to apply our views on sustainability issues. In public markets, there are intermediaries, and the fact that there are third parties involved distances us and the primacy of our views."

Governments and policymakers can dramatically impact the ability of investors to engage on sustainability

The influence of government and regulatory policy on investors' ability to manage sustainability effectively was a recurring theme throughout our conversations. One interviewee expressed frustration at the imposition of regulatory requirements that demand a focus on the short-term: "Many governments are fiscally constrained," said Brett Himbury of IFM, "and therefore they are increasingly inclined to change regulatory settings to improve their short-term fiscal position, and in doing so negatively impact the returns of investors. In our positive cash-flow environment we should be able to focus on the long-term, but there is a very short-term focus in our system. Regulatory demands mean that trustees have to be more conservative and more focussed on the short-term liquidity than they otherwise might be."

While investors recognise the intentions of government to create a stronger and more resilient system, they see government rhetoric encouraging investment for the long-term while the mechanics of regulation push in the opposite direction. In the words of Andreas Utermann, Global Chief Investment Officer of Allianz Global Investors GmbH, "The biggest issue we have as investors is short-termism, and much that governments and regulators have done drives towards more short-termism." This sense of 'unintended consequence' in the actions of governments and policymakers is a common one. As Keith Skeoch of Standard Life told us, "Tighter regulation has actually led to a regulatory shortening rather than lengthening of investment horizons: we need to lengthen the investment horizon and improve the

behaviours of investing institutions." Investors see government regulation shortening investment horizons, and failing to enable access to long-term capital for those businesses seeking to turn sustainability to advantage; forty-nine percent of investors surveyed believe that quarterly reporting requirements, for example, act as a barrier to investing in sustainability.

Many investors see government and regulatory policy as critical to solving the dilemma that some express between a belief in the importance of sustainability and a responsibility to act in accordance with the demands of their fiduciary duty. Our interviewees differ on the degree to which a belief in sustainability and fiduciary duties may conflict. As Jay Youngdahl, Chairman of the Board of Trustees at the Middletown Works Hourly and Salaried Union Retirees Health Care Fund, told us, "Financial actions have an effect on our beneficiaries and on the society in which we all live. There is no conflict between promoting sustainability and our fiduciary duty, and those who say there is a conflict are mistaken: if we are truly doing the right thing, then we are doing the right thing for our beneficiaries and for the common good."

In the words of another CIO, however, "To the extent that investors are constrained to operate within their fiduciary responsibilities, policymakers are important in establishing market incentives which may create the investment case for sustainability." Put simply, many investors – like their corporate peers – see a trade-off between promoting sustainability in their investment process, and driving superior financial returns; only when the integration of sustainability is properly mandated and incentivised through policy, investors believe, will this gap begin to close.

Barriers to long-term investing: views from PRI signatories

In a PRI signatory survey last year, the majority of respondents identified investor short-termism as one of the most significant obstacles to a sustainable financial system. Short-termism affects virtually every actor in the investment chain, from pension funds and asset managers to beneficiaries, companies, advisers and research organisations. The short-term focus of each actor has knock-on consequences throughout the chain; pension funds' emphasis on quarterly performance, for example, requires investors to pay attention to quarterly returns, which in turn pressures companies to focus on the short-term. Investment timeframes are critical, as only with a long-term horizon can investors effectively consider sustainability factors as material value drivers and build long-term dialogues with the companies in which they invest to achieve the change they require.

Our research suggests that one solution to this problems lies in the structure of the investment mandate, yet existing guidance provides little detail on what a 'long-term mandate' should look like and how it could be operationalised. The PRI will be consulting with signatories in late 2014 on their current practices in order to determine which of the following factors should be explicitly included within the investment mandates of the future to better orient managers, companies and financial markets more broadly towards the longer term:

1. Statement of investment beliefs
2. Portfolio diversification
3. Portfolio benchmarks and performance
4. Portfolio turnover, costs and volatility
5. Manager compensation structures
6. Portfolio diversification/concentration
7. Impact on access and engagement
8. Manager reporting and trustee reviews
9. Stock valuation methodologies
10. Investment vehicles

Bridging the gap: From analysis to engagement

Investors see longer-term mandates as the foundation for progress on sustainability

To accelerate progress in building a productive dialogue on sustainability, and make further advances in embedding sustainability into global markets, investors see action required on the part of their own organisations and by the companies in which they invest, both alone and in concert. In the words of Mark Zinkula, CEO of Legal & General Investment Management, "There needs to be a focus on developing long-term themes, and continual challenge to existing schools of thought."

Central to our discussions was a widely-held belief that longer-term investment mandates must underpin efforts to embed sustainability into the investment process, both internally, between CIO and in-house investment managers, as well as between asset owners and investment managers. As Mark Fawcett, CIO of NEST Corporation, told us, "Most investors are long-term until performance pressure starts to impact them and then they often become short-term." A commitment to the longer-term, investors believe, begins with a clear statement on investment time horizon and objectives: in the words of Ian Silk of AustralianSuper, "As an active shareowner with companies, we can communicate that long-term value creation is important despite the short-term influences they see from financial markets."

This commitment to the long-term may help investors to better engage with and support the companies in which they invest. Together with a more concentrated portfolio that allows investment managers to understand the companies in which they invest 'beyond the green borders of Excel', greater engagement and long-term partnerships can improve the dialogue on sustainability. The California Public Employees' Retirement System (CalPERS), for example, long a leading activist in the modern corporate governance movement, demonstrates the value of committed engagement. In a phenomenon known as the 'CalPERS Effect', the agency has an extensive track-record of working in partnership with listed companies to improve corporate governance practices and financial performance.⁴ A 2013 review by Andrew Junkin of independent investment managers Wilshire Associates, updating his earlier study of 2009, found that companies targeted by CalPERS for engagement and performance improvement – both those on the public 'Focus List' and those identified for confidential engagement – delivered an excess cumulative return of 13.72% above the Russell 1000 Index, and 12.11% above their respective Russell 1000 sector indices.⁵ As Anne Stausboll, CEO of CalPERS, notes, "Our investment strategy isn't to go in and out of companies based on our most recent engagement: our focus is helping companies so they will thrive and prosper over the long term."

Investors advocate a new approach to sustainability, focussed on opportunity and value

Foremost in the minds of the investors we interviewed was the ability to move the dialogue on sustainability beyond risk management and mitigation to a new approach, with a focus on identifying and supporting those companies with the potential to grow new markets to tap opportunities presented by sustainability. Improving the dialogue on the business value of sustainability will require greater efforts to identify material sustainability-related value drivers for individual industries & asset classes, and to develop the appropriate metrics to measure, track and communicate sustainability performance, and to demonstrate meaningful and quantifiable links between sustainability and business value. A focus on these linkages, investors believe, would allow a better alignment of stakeholders behind a greater attention on sustainability issues in company assessment and valuation, and incentivise institutional investors to develop a more sophisticated approach to assess performance and potential.

The Value Driver Model, developed in partnership by the PRI and the UN Global Compact's LEAD platform for corporate sustainability leadership, offers a simple and direct approach that can be employed by companies to assess and communicate the financial impact of their sustainable business strategies, and by investors to effectively integrate sustainability data into their investment processes. The Model operates on key metrics that illustrate how a sustainable business strategy contributes to overall performance of a company. The Model can be applied to companies whose sustainable business strategies are already yielding tangible financial benefits and represent a good first step on the path toward deepening investor interest in sustainability as a source of business value. Similarly the Model is applicable for companies seeking to increase positive financial impact from their sustainable business strategies and can be a useful tool to align and motivate these organizations.

The Value Driver Model is supported by another joint initiative between the PRI and the UN Global Compact, the ESG Investor Briefing. The project sets out to test a basic model for enhancing companies' communication on how environmental, social and governance (ESG) strategies and performance translate into financial value; to overcome the silos that often exist regarding sustainability within companies and financial institutions, as well as between the various actors along the investment value chain; to offer a platform for innovation in terms of content, format, and technology used; and to provide a protected space for frank and transparent feedback between companies and investors.

New knowledge and capabilities will be required to embed sustainability into the investment process

To integrate sustainability into the investment process, investors see a need to strengthen the knowledge and capabilities of their people to ask the right questions on sustainability. As Keith Skeoch of Standard Life told us, "It is critical to look for strategies and investment management teams that promote best practice, dampen the volatility of returns and maintain a long-term strategy." While many investors report progress in the ability of their teams to assess sustainability factors in their examination of potential investments, some aspects may be better understood than others. In the words of Mark Zinkula of LGIM, "We are trying to measure the impact of sustainability – we believe there is a link with long-term returns but struggle to measure what impact it is having." Jay Youngdahl of Middletown offered an example: "When we look at sustainability, we can differentiate between 'grinding' and 'explosive' risk: the long-term, grinding risks of climate change are well-understood, but potentially explosive social issues, like inequality, have been relatively neglected." Building this understanding of sustainability, and broadening horizons beyond the immediate and obvious links between resource efficiency and cost reduction, for example, will be essential to better integrating sustainability.

In building these skills, asset owners hold a responsibility for instilling the values they espouse not only in their own people, but throughout the investment process: as one CIO acknowledges, "At the end of the day, we choose the investment managers and retain them or otherwise: it is a question of how seriously the funds themselves take the issue, because as an asset owner we could say to an investment manager, 'we want you to apply these principles, and we want evidence.'" Through translating a belief in the importance of sustainability into a

codified element of the investment mandate, asset owners can encourage and incentivise their agents to build their skills in understanding and assessing sustainability.

Building the knowledge and skills of investment managers, though, will be only one part of the solution; investment mandates must be backed up with the right compensation, incentives and measures of success. As Anne Stausboll of CalPERS told us, "Compensation and incentive schemes are in some cases a barrier to long-term investment: rethinking the whole structure is something we need to address." It is readily apparent from our conversations that education and training of investment and portfolio managers, supported by the right incentives, will be integral to closing the gap between ambition and achievement: in the words of Barry Kenneth of PPF, "Our greatest influence is in how we procure and monitor our investment managers. Currently the responsible investment rating of most investment managers out there would fall short in terms of the approach to responsible investment we would like them to adopt; amongst our own managers we have seen positive momentum from our engagement with them."

Building skills internally, and formulating the right incentive structures to reward a focus on sustainability, will create the foundations for investors to better engage and align trustees, industry peers and other stakeholders. Sharing approaches to integrating sustainability, screening companies and actively engaging with company management can help to extend best practice beyond a small group of leaders: as one CEO told us, "Our understanding of ESG issues has developed exponentially as we've become more attuned and understood their complexity, but in order to have any real influence we need to collaborate and to share efforts and costs with other funds." Sharing these efforts, and spreading the cost, can help to extend best and emerging practice, and equip investors to tackle the challenge of integrating sustainability.

Aligning Expectations: Incorporating sustainability into manager selection, appointment and monitoring

Today, a growing number of pension funds acknowledge the need to understand how an array of sustainability issues might materially affect the performance of their portfolios over the longer term. Sitting at the top of the investment chain, pension funds are exerting their influence to request their investment managers to embed the analysis of sustainability factors into their investment activities. By doing so, they are ensuring that they discharge fully their fiduciary duty to clients and beneficiaries.

Pension funds' beliefs and expectations about how sustainability issues should be managed and disclosed to best contribute to portfolio returns vary across asset classes and over time, and the incentives and behaviour of investment managers may not always be fully aligned with these broader principles. Ensuring these interests are better aligned is a fundamental requirement for the delivery of a sustainable financial system, and is central to the mission of the PRI. Funds that believe sustainability issues will impact the

financial performance of their portfolios will be concerned with how their managers identify and manage these factors, whether their voting and engagement are in line with their expectations, and whether they disclose these activities in a timely, robust, and meaningful way.

Published by the PRI in 2013, *Aligning Expectations* provides a framework for pension funds that appoint and monitor external managers to assess whether their managers' investment policies and processes are consistent with their expectations on sustainability.⁶ It aims to support them in their dialogue with managers so that they gain a clear understanding of the sustainability risks and opportunities affecting their portfolios and how their managers are addressing them. Case studies cover a wide variety of investment strategies and styles used by pension funds around the world, and the paper includes resources to enable signatories to better incorporate sustainability expectations in their requests for proposals, questionnaires, monitoring and discussions.

From analysis to engagement

To accelerate progress in building a productive dialogue on sustainability, and make further advances in embedding sustainability into global markets, investors see action required on the part of their own organisations and by the companies in which they invest, both alone and in concert.

Pathways to better integration of sustainability

Example actions

Longer-term investment mandates	<p>For investors</p> <ul style="list-style-type: none"> • Develop clear statements on investment time horizons and objectives • Codify longer-term mandates within organisations, and between asset owners and investment managers 	<p>For companies</p> <ul style="list-style-type: none"> • Build focussed and targeted engagement on sustainability issues with investors • Seek proactive engagement with investors sharing company's values and beliefs on sustainability
Focus on opportunity & value	<p>For investors</p> <ul style="list-style-type: none"> • Identify material sustainability-related value drivers for individual industries and asset classes • Integrate sustainability data in company assessment and valuation, e.g. through Value Driver model 	<p>For companies</p> <ul style="list-style-type: none"> • Demonstrate tangible financial benefits from sustainable business strategies • Set out detailed strategies for seizing opportunities presented by sustainability
New knowledge & capabilities	<p>For investors</p> <ul style="list-style-type: none"> • Encourage and incentivise employees and agents to build skills in understanding and assessing sustainability • Incorporate sustainability into manager selection, appointment and monitoring 	<p>For companies</p> <ul style="list-style-type: none"> • Communicate with investors 'in their language' • Present tangible links between sustainability strategies and business success
Common metrics & understanding	<p>For investors</p> <ul style="list-style-type: none"> • Seek common metrics to assess and compare industry peers • Identify specific issue areas of focus and engagement with portfolio companies 	<p>For companies</p> <ul style="list-style-type: none"> • Collaborate with industry peers to develop, track and communicate shared metrics • Share vision for sustainability impact informed by core capabilities
Engagement with governments & policymakers	<p>For investors</p> <ul style="list-style-type: none"> • Analyse and assess impact of existing regulation, legislation and policy instruments • Collaborate with peers to foster effective and constructive links between investors and policymakers 	<p>For companies</p> <ul style="list-style-type: none"> • Engage with governments and policymakers beyond issue- and industry-specific lobbying • Model and communicate potential impact of enabling regulation and policy frameworks

Assessing and rewarding sustainability leaders will depend on common metrics and understanding

Our conversations with corporate leaders and investors suggest a complex and rocky journey as companies seek to identify, quantify and communicate the business value of sustainability. Companies at the very beginning of the journey are finding it hard to make the link to value for their business, seeing sustainability instead as a primarily philanthropic or charitable enterprise. As companies mature, opportunities for value appear boundless: if they can engage consumers, communicate with investors and forge better relationships with governments, the reward for leadership on sustainability will be lucrative.

But as companies adopt a genuinely leading position on sustainability, going beyond the demands of external stakeholders to adopt sustainability as a core element in their strategies and positioning for advantage, they once again encounter significant challenges in forging links to quantifiable business value. The more adept companies become at measuring and tracking their own sustainability performance, the more their frustration grows at an apparent inability to tie performance improvements and industry leadership to the fundamentals of business value. To better engage investors, and to secure market reward for their performance on sustainability, leading companies need to work with industry peers to isolate and pursue common measures of success, framing sustainability achievement not in terms of incremental mitigation, but in terms of direct contributions to the bottom line.

A common understanding of the material contribution of sustainability issues to company success could prompt greater strides in investors' efforts to assess and reward companies appropriately. Common metrics, shared throughout industry sectors and treated with similar rigour to financial measures of success, would enable a more accurate comparison of performance and identification of industry leaders; this greater accuracy, in turn, could begin to address the frustration expressed by many CEOs who feel their companies are not being rewarded for their leadership on sustainability. Broadening investors' understanding has the potential to engage a broad, engaged coalition that can come together around prioritised objectives, and better engage with companies to interrogate, assess and reward sustainability performance.

Beyond individual discussions, investors believe that greater attention should be focussed on the role that investors can play in enabling business to have a greater impact on sustainability challenges. Just one-third of corporate CEOs – and only 7% of investors – believe that business is doing enough to address global challenges, and see business efforts fragmented across multiple priorities. "We should be looking for a smaller number of more substantial achievements rather than a massive number of incremental gains," says Ian Silk of AustralianSuper, "And with a greater number of global asset owners coming together to pursue focused objectives, we could have a significant impact." As Cecilia Reyes of Zurich observes, a common understanding of global priorities could build greater momentum: "There needs to be a holy grail that institutional investors, businesses and policy makers can reach out for together in the area of sustainability so we can make a material step forward. Everyone's goal is to bring key players together in terms of concrete and tangible actions to take. Momentum is building to bring that about."

Engaging with governments and policymakers can unlock the potential of the private sector

To build momentum in the pursuit of concrete, tangible goals, investors and corporate business leaders alike believe that action on the part of governments and policymakers will be essential in removing systemic barriers to greater integration of sustainability.

In our conversations with business leaders, we discussed the actions of governments and policymakers as both a barrier and an enabler to action on sustainability. In establishing a level playing field and creating an imperative to adapt to new circumstance, CEOs believe, government regulation can benefit those companies already leading their industries. But while the impact of government action can often bring benefits to those companies able to adapt, it is clear that lingering uncertainties over the direction of government policy are slowing the pace of change and deterring greater investment. A similar story is apparent in our discussions with investors: while the majority see government intervention as a potentially powerful route to move beyond isolated examples of best practice, and towards a more sophisticated, industry-wide approach to sustainability, many describe policymakers' efforts as disjointed and fragmented.

In response to similar concerns, the PRI has established an international research and collaboration platform for signatories to engage with policy makers around the world on the creation of policy environments for long-term responsible investment. A working group of signatories is currently analysing existing regulation, legislation and policy instruments within several retirement savings and pensions markets that encourage and support long-term responsible investment in Europe, Australia and Southern Africa, and will publish a series of case studies and policy maker engagement tools in late 2014. The project will foster links between PRI signatories and relevant national and international policy makers, develop the capacity of signatories and policy makers to understand the range of policy tools available, provide the evidence base to support signatories in their engagement with policy makers, and encourage policy makers to proactively engage with the institutional investment community in the design and implementation of policy.

As business leaders, investors, governments and civil society collaborate to establish a new global architecture for sustainability, CEOs and investors alike believe that with a commitment to action, the private sector can collaborate with policymakers to reshape markets and systems to reward sustainability leaders, and enable business to lead the way in tackling global challenges. "If we want to take the big swings," said one business leader interviewed in last year's CEO Study, "then we need clear policy, incentives, changes and signals."

If the business and investment communities can collaborate effectively, with each other and with policymakers, we begin to see a pathway for business to make rapid and meaningful progress on the journey from sustainability's plateau of good intentions toward a summit where global markets are aligned with sustainable development. This alignment has the potential to unlock the potential for the private sector in addressing the world's most pressing challenges and enable business leaders to become the architects of a better world.

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Acknowledgments

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About the PRI

The Principles for Responsible Investment (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework for all investors to incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

About the UN Global Compact

The UN Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues. By doing so, business can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

Endorsed by chief executives, the UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world—with over 12,000 signatories from business and key stakeholder groups in 145 countries, and more than 100 Local Networks. For more information, visit www.unglobalcompact.org.

About Accenture Sustainability Services

Accenture Sustainability Services helps organizations achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth, while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes.

Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights into sustainability issues based on our on-going investments in research, including recent studies on consumer expectations and global executive opinion on corporate sustainability and climate change. To find out more about how Accenture can help you meet your sustainability imperatives and chart a course toward high performance, visit www.accenture.com/sustainability. Please also join our on-going conversation about sustainability, business and policy by following us on Twitter @ActSustainably and on Facebook at www.facebook.com/accenturesustainabilityservices.

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