

Are you ready for the sustainability revolution?

By [Patrick Odier](#)

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While it is one of five megatrends that are set to have an undeniable effect on the world we live in, sustainability extends far beyond the single, albeit very important, issue of climate change. The world is at a tipping point; our population has grown 70% in the last 70 years and will grow by another one billion people over the next decade. Annually, we use resources 1.7x faster than the world can replace them and too many are still excluded from access to healthcare, basic goods, services, etc. Our current global model is unsustainable.



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Climate change is exacerbating all of the above, creating both physical and transition risks, aggravated by the extraordinary rate at which technology is changing our lives. The pace of the digital revolution is such that 65% of children will have jobs that don't yet exist. Our world is changing, and we have to change with it.

Thriving in a rapidly changing world

Transition comes with great risk, but it also presents substantial opportunities. Given the scale and pace of the sustainability revolution, companies will have to find new ways of doing things. Those that are prepared and well-positioned for a more sustainable world are likely to thrive and prosper. Many will have to change what they produce, find innovative solutions and adapt to rapidly changing demands from regulators and consumers. A new era has emerged – one that is already affecting every company and every sector in every corner of the globe.

In a complex, global economic ecosystem, companies will be responsible for ensuring that they adapt in a seamless and holistic manner to grow and attract capital. They will also be required to exercise more transparency and disclosure to allow investors to make more informed decisions.

Asset managers also have to adapt and innovate to find better ways of determining the strengths and weaknesses of sustainable companies and countries. For asset owners, demand is perhaps the strongest force for change; they need to ask the right questions of their managers and their companies. More capital will need to be directed towards sustainable businesses and their voices will quickly build into a roar - one that is very difficult, if not impossible, for companies to ignore. A focus on how money is made will be a vital ingredient for future sustainability.

From an investor's perspective, anticipated changes in how simple tasks are performed in future will change the way they look at companies, requiring a much broader perspective than before in order to locate sustainable returns over the long term.

All sectors of business are due to face similar challenges due to the scarcity of resources. Transport, for instance, will face a massive demographic change which will lead to higher mobility, migration, urbanisation and a huge increase in the number of people transport systems will have to carry. This will directly affect the cost efficiency of current transport models and carbon emissions will increasingly need to be reduced/avoided to aid the fight against climate change. This is highly likely to mean a significant increase in the cost of carbon in the coming years - a trend which is already becoming apparent. As a result, we need to rethink transportation. It needs to be more scalable, fast, efficient and emission free.

Change is on the horizon

Today, change is not just inevitable, it is highly likely to accelerate and the forces driving this change are increasingly formidable. Consequently, the political agenda is changing too. Countries will have to implement reform harder and faster than they currently are.

A critical policy milestone was recently reached when global governments came together to adopt the [17 Sustainable Development Goals](#) and to sign up to the [Paris Agreement](#) set to limit global warming to well below 2°C. These agreements put us irrevocably on the path towards a sustainability revolution. The [EU's new Action Plan for Financing Sustainable Development](#) is one example of how far and fast regulatory change is starting to happen and, of course, capital markets are not blind to this. There is already a significant shift underway in how money is being put to use in the economy.

Pillars of integrated sustainability

There are three interlinked and interdependent pillars to integrating sustainability into portfolios today. The first one assesses the sustainability of the financial model. It considers whether a company can continue to generate excess economic returns and whether it is likely to maintain its credit quality and solvency.

The second pillar looks at the sustainability of their business practices and considers how well the company is run in the context of its broader ecosystem of stakeholders. This is essentially where ESG criteria is employed. This pillar significantly relies on the quality of non-financial data - the more robust it is, the easier it becomes to root out system biases to determine whether companies are genuinely transitioning towards sustainable business practices.

That said, sustainability is about more than just ESG, which is why the third pillar looks at the sustainability of companies' business models. As our economies continue to transform, more considerations will be made about how sectors are likely to benefit and what change is necessary. For example, such considerations include whether coal can continue to compete in a world where the cost of renewables is rapidly decreasing, how that will affect the value of unburned fossil fuel assets - that are currently marked to market on the balance sheets of energy companies - and what the energy sources of the

future will be?

The sustainability revolution is the biggest driver of investment returns in modern history. It will require us to fundamentally rethink sustainability, rethink investment and, in fact, rethink everything.

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