

# Why the smart money is green

With environmental and social issues ravaging some companies' profits, investing ethically is becoming a smart financial move, says Louise O'Halloran.

**A**nyone who has ever wondered about the connection between climate change and financial investment needs only to cast an eye over pictures of the Gulf of Mexico after the 2005 hurricane season. Some of the world's largest oil rigs took 18 months to recover.

The fact that carbon now has a price, plus increases in severe weather events, has changed the fundamentals for so many business sectors, including agriculture, energy, mining, construction and insurance, to name just a few.

A report released in 2006 by financial institution Citigroup shows that at a cost of \$20 per tonne for CO<sub>2</sub> (now a very conservative estimate), one of Australia's biggest steel manufacturers, OneSteel, will lose a full 18 per cent of its profits. In the US, a similar carbon analysis of two companies in the electricity sector shows that one company's profits will fall by just one per cent with the introduction of a cost on carbon, while its direct competitor will lose 19 per cent of its profits. The reason?

The less affected company has been building a strong renewables portfolio and has made great strides in energy efficiency and biofuels. On the other hand, the heavily affected company is almost completely reliant on coal, has a

tiny renewables portfolio and lags on efficiency. Which company would you rather have your superannuation invested in?

These examples provide us with a small glimpse of what's to come and it is good news for the environment.

Recent reports by AMP Capital Investors and investment bank Goldman Sachs tell us that anywhere between 77 and 85 per cent of the value of a company is tied up in environmental, social and ethical issues, which are largely invisible to the naked eye - and to the profit and loss sheet as well. These days, the real things that drive the company's value is not how many factories, machines and trucks you own, but how well you treat your staff, your customers and your suppliers; how well you maintain the ethical standards of your board; how well you understand your

exposure to environmental risks; and how you treat the workforce and build relationships in the communities in which you establish operations.

While these issues are often categorised as 'intangible' and unable to be measured, the fact remains that they're having an increasingly significant effect on company value. Which means that they are having a similar effect on our investments. As we are all aware, climate change is one outstanding example, but there are many others as well, such as water shortages, the end of cheap oil, widespread human rights abuses in emerging nations, weaknesses in the financial system which led to the American sub-prime collapse, soaring rates of obesity-related illnesses, the escalating battle between food and fuel, and finally, the scarcity of all of our natural resources in the face of a ballooning population.

With more than 40,000 properly recognised international non-government organisations in the world (then there are the local

organisations, including one to two million in India alone!), we are witnessing mounting pressure from civil society - and regulators - for companies to take responsibility for the negative, and often unintended side effects of their activities.

There's demand for them to factor in the *real* cost of water, pollution, landfill, toxicity and products which cause harm to communities and individuals.

And once those costs are brought back into the company, they will be calculated - not just by the companies, but also by those who invest in them.

Investing with environmental, social and ethical issues in mind is no longer the domain of hippies and radicals. In fact, it may well be some of the most prudent and conservative investing that we've seen in decades. ☐

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Louise O'Halloran  
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