

NAME/TITLE

Generation: Sustainable Capitalism

<http://www.generationim.com/sustainability/report/>

Date commenced: Feb 2012

Contributors, funders, political or ideological position

Generation is an independent, private, owner-managed partnership with offices in London and New York. The firm was co-founded in 2004 by Al Gore and David Blood.

Generation's investment approach is based on the idea that sustainability factors—economic, environmental, social and governance criteria—will drive a company's returns over the long term. By integrating sustainability issues with traditional analysis, we seek to provide superior investment returns.

ABOUT/KEY MESSAGES (in its own terms)

The challenges facing the planet today are unprecedented and extraordinary; climate change, water scarcity, poverty, disease, growing inequality of income and wealth, demographic shifts, trans-border and internal migration, urbanisation and a global economy in a state of constant dramatic volatility and flux, to name but a few. While governments and civil society will need to be part of the solution to these massive challenges, ultimately it will be companies and investors that will mobilise the capital needed to overcome them.

To address these sustainability challenges, we advocate for a paradigm shift to Sustainable Capitalism; a framework that seeks to maximise long-term economic value creation by reforming markets to address real needs while considering *all* costs and stakeholders.

Does this initiative offer any compelling narrative for business leaders in particular, i.e. about the purpose and role of business and financial institutions, about values and ethics, about the relationship between business and society?

.. we make the economic case for mainstreaming Sustainable Capitalism by highlighting the fact that it *does not represent* a trade-off with profit maximisation but instead actually fosters superior long-term value creation.

WHAT QUESTIONS IS THIS INITIATIVE TRYING TO ANSWER?

WHAT PROBLEMS IS THIS INITIATIVE ADDRESSING/ATTEMPTING TO SOLVE?

We have often said the market is long on short and short on long. Yet, remarkably, even after enduring the global financial crisis – caused in significant part by short-term, unsustainable strategies and actions by both companies and investors – many of us are still content to embrace short-termism in nearly all aspects of our lives. From investing, to living beyond our means, to relying on instant opinion polls and tolerating a political discourse based upon sound bites, tweets, and 30-second TV commercials, we focus far too frequently on instant gratification and immediate results. As a result of this short-term perspective, we are – in economist Herman Daly's prescient phrase – driving our economies and our planet into liquidation.

HOW DOES THIS INITIATIVE IMAGINE CAPITALISM WILL BE DIFFERENT IN THE FUTURE?

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

WHAT RECOMMENDATIONS DOES THIS INITIATIVE MAKE FOR THE VARIOUS ACTORS

... we recommend five key actions for immediate adoption that will accelerate the mainstreaming of Sustainable Capitalism by 2020:

1. Identify and incorporate risks from stranded assets;
2. Mandate integrated reporting;
3. End the default practice of issuing quarterly earnings guidance;
4. Align compensation structures with long-term sustainable performance; and
5. Encourage long-term investing with loyalty-driven securities.

In addition, we also believe that there are five broader ideas that merit ongoing support and attention. Specifically, we think there is a need to:

- i. Reinforce sustainability as a fiduciary issue;
- ii. Create advisory services for sustainable asset management;
- iii. Expand the range and depth of sustainable investment products;
- iv. Reconsider the appropriate definition for growth beyond GDP; and
- v. Integrate sustainability into business education at all levels.

National governments/regulators

Trading corporations/business leaders/collective business institutions

Investors: individuals and institutional

Financial institutions

International institutions

Does this initiative have anything to say about major medium to long term economic and social issues

- Supplies of the essentials of life: Food, Water, Housing, Energy and Transport
- Climate change, resource depletion, loss of biodiversity
- Population growth and demographic change
- Economic growth, innovation, employment, the distribution of income and wealth
- The governance of business and the financial system; public trust
- The respective roles of government and business
- The respective values of economic, social and environmental capital