THE BUSINESS CASE FOR SAVING THE PLANET

SUSTAINIA

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MONDAY MORNING
Global Institute

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INTRODUCTION AND SUMMARY

The business of business is doing sustainable business. This is the brief, ultimate conclusion on this document. We may not have full proof of the economic benefits of making sustainability a key criterion for long range planning and investment, but the results, so far, are promising. Ever more analysis confirms the potential of sustainability measurements, and an increasing number of investors are focusing on ESG results: the combination of environmental, social, and governance performance.

The following numbers look convincing:

- A study of 5000 international corporations concludes that over a two year period, the highest ESG-rated companies outperformed the lowest rated by a substantial margin, with 22.87 percent and 11.71 percent returns on equity, respectively.

- A recent investigation on the connection between climate change management and economic performance among companies listed on S&P 500 Index shows similarly strong evidence. Those with strong climate change management secure an 18.4 percent higher return on investment than their competitors. Furthermore, they have a 50 percent lower volatility of earnings over the past decades than their peers and 21 percent better dividends to shareholders.

- A comprehensive analysis of nearly 200 academic studies, industry reports, books, etc. strongly confirms the trend: Around 90 percent of the studies conclude that sound sustainability standards lower the cost of capital, and that solid ESG practices result in better operational performance.

The results are still new and somewhat scattered, but the trend seems clear: We may soon face a paradigm shift in the way business operates, as well as how it prioritizes and measures success – a new version of the value based market economy. The day investors and corporations realize that sustainability is not just a matter of saving the planet, but critical for saving their businesses, will be a game changing event – and forward-thinking companies will be a leading driver in transforming our economy green.

Simply put, this document makes it clear that the business case for sustainability is building up and that it's only growing stronger in the years to come.

WE MAY SOON FACE A PARADIGM SHIFT IN THE WAY BUSINESS OPERATES, AS WELL AS HOW IT PRIORITIZES AND MEASURES SUCCESS – A NEW VERSION OF THE VALUE BASED MARKET ECONOMY.

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CHAPTER 1

DOING GREAT BY DOING GOOD

Saving the planet from pollution, resource scarcity, and dangerous climate change is no longer an unbeatable economic burden for humanity nor is it incompatible with economic growth. In fact, evidence for the opposite is actually building up. New research reveals that companies and investors are already making a profit out of being more sustainable than their peers. They are doing great by doing good and the business case for sustainable investments will only grow stronger in the years to come.

Proving the business case for sustainable investing has been a thundering headache for sustainability thinkers for years. In theory, investing in social and environmental sustainability should be a sure bet, securing long-term economic growth. In practice, however, severe economic market failures, such as neglecting the costs of resource depletion and environmental deterioration, have ruined the business case. As a result, focusing on short-term investments and quarterly results are still the most common ways of measuring profits.

Fortunately, this misguided logic is beginning to break apart. More and more companies and investors are defying market failures and beginning to prioritize sustainable investment. Recent studies even suggest that by considering social and environmental issues, companies are actually growing their economic returns.

”THIS IS THE FIRST TIME WE HAVE SEEN SUCH A CLEAR CORRELATION BETWEEN ESG RATINGS AND RETURNS. COMPANIES WITH HIGHER ESG RATINGS HAVE SIMPLY CREATED MORE VALUE.”

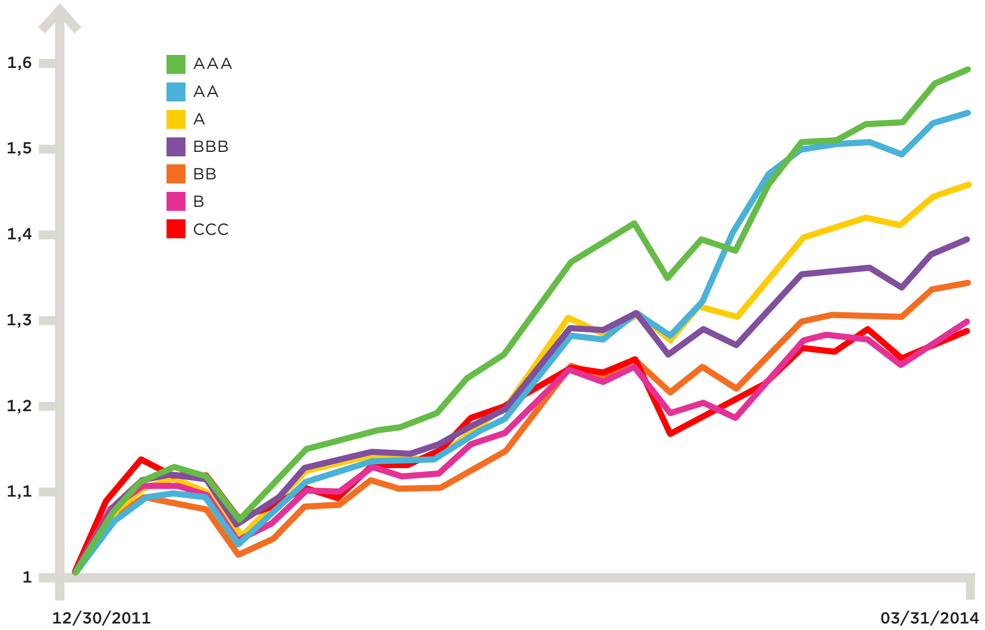
Søren Larsen, Head of Socially Responsible Investments (SRI) at NyKredit

Powerful evidence of this trend comes from the Danish investment manager, Nykredit. In a ground-breaking analysis, the company compared economic and sustainability performance data from 5000 globally listed firms. And it turns out there is a surprisingly clear correlation between the companies’ equity returns and their attitudes toward environmental, social, and governance issues – measured by a so called ESG-rating system. Simply put: The higher the ESG rating, the higher the average return. See figure 1.

FIGURE 1

WEALTH DEVELOPMENT FOR ESG PORTFOLIOS, 2012-13

For the past two years, the highest ESG rated companies have had the highest return on equity (ROE). The ROE measures how many cents of profit management can produce for every USD1 of shareholder's equity.



Source: ESG: A new equity factor, Nykredit, 2014

"This is the first time we have seen such a clear correlation between ESG ratings and returns. Companies with higher ESG ratings have simply created more value," says Head of Socially Responsible Investments (SRI) at Nykredit, Søren Larsen. The study shows that, for both companies and investors, it pays to prioritize environmental and social sustainability. In other words, they are doing great by doing good.

We dive further into Nykredit's study in the next chapter, but for now it is important to clarify that this report is not a stand-alone. Several other studies, analyses, and first hand experiences from global leaders in sustainable investments are hinting at a sustainable tipping point. They support the notion that sustainability has become a decisive parameter for consumers, investors, cities, governments, and companies aiming for economic growth.

Climate-consciousness pays off

Up until recently, climate-conscious investments were considered a necessary evil for most companies and investors, limiting corporate profits. The investments were often made as an insurance policy against climate damages and future legislation, and it was assumed that - in a best-case scenario - such investments would only barely break even over the long term.

This assumption, however, has been firmly disproven by a new report from the non-profit organization, CDP, entitled "Climate Action and Profitability". The report investigates, for the first time, the connection between climate change management and economic performance among companies listed on the S&P 500 index. And the results are as clear as in the Nykredit analysis: Corporations that actively manage and plan for climate change secure an 18 percent higher return on equity (ROE) than companies that don't – and a 67 percent higher ROE than companies who refuse to disclose their emissions data. See figure 2.

The CDP study also analyzes volatility of earnings and dividends to shareholders. Once again, climate-consciousness pays off. The highest rated companies exhibit 50 percent lower volatility of earnings over the past decade than their peers, and dividends to shareholders are 21 percent stronger than those of lower-ranked corporations.

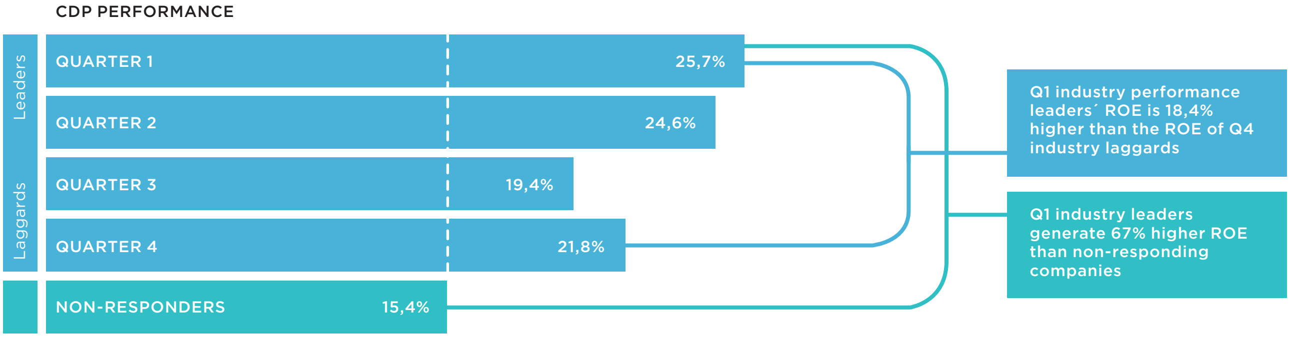
"With this comprehensive analysis of S&P 500 companies, the market has new, compelling evidence of the link between industry leadership on climate change and corporate profitability," states Paul Simpson, CEO of CDP.

Echoing Simpson's sentiments, the report concludes that "the market opportunity for investors who incorporate corporate

FIGURE 2

S&P 500 INDUSTRY LEADERS IN CLIMATE CHANGE MANAGEMENT GENERATE HIGHER RETURN ON EQUITY

The top performers on climate change management (Q1) outperform all competitors – including non-responders – in terms of economic ratios.



Source: Climate action and profitability, CDP, 2014

Note: The S&P 500 companies are divided into four groups based on their performance in regard to climate change management, depicted here as Q1 through Q4. Companies not disclosing data on their environmental impacts are set as non-responders.

climate change leadership into their evaluation of companies may be significant over time."

Investors as climate counselors
In the financial world, Norwegian investment company, Storebrand is a prime example of sustainability paying off. The company is listed on the exclusive Carbon Disclosure Leadership Index (CDLI) - a group of companies with the all-time highest sustainability rating from CDP. Storebrand is also one of only 16 companies worldwide that, since 1999, has been listed on the Dow Jones Sustainability Indices as among the top 10% most sustainable global firms. They were also appointed *Sustainable Asset Owner of the Year* by Financial Times and the World Bank.

To top it all off, since the financial crisis, the company has continually presented some of the most impressive profit and equity returns from the entire European financial sector. Simply put, Storebrand is a global front-runner in both sustainable business operations and sustainable investments.

Today, Storebrand's expertise in sustainable business is also held in high regard by the global business community. This reputation brought Christine Meisingset, Manager of Sustainable Investments at Storebrand, to the recent UN Climate Summit in New York. "My assignment is primarily to show how we as investors can contribute through identifying those companies that are best positioned for shifting business frameworks and sustainable development," says Meisingset.

She highlights that evidence continues to accumulate in support of sustainable investments as the wisest financial choice for Storebrand and its clients. "We are completely convinced that sustainable investing is a prerequisite for securing long term returns. We see more and more indications that this is in fact the case."

Sustainable investing is "Trippel Smart"
According to Storebrand, sustainability has nothing to do with philanthropy. It is merely common economic sense. "Our core business is pension and insurance, and our mandate is to secure long-term returns to clients. Taking into account all the risks and opportunities of sustainable economic growth, climate change is likely to be the most existential topic. It is necessary to minimize the risk as much as possible as well as building resilience," says Meisingset.
One concrete step Storebrand is taking to ensure this risk minimization is that every company in which they consider investing is thoroughly analyzed and assigned a sustainability rating. Those who don't make the minimum standard are cut from the portfolio. They also encourage companies in which they invest to improve their own sustainability rating and engage in active ownership.

FIGURE 3

FINANCIAL RETURN ON INVESTMENTS FROM STOREBRAND "TRIPPEL SMART" SHARES.

YEAR	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4	TOTAL
2012				1,9 %	1,9 %
2013	9,6 %	4,3 %	9,5 %	7,0 %	33,9 %
2014	1,1 %				1,1 %

Source: Storebrand Trippel Smart, Brochure by Storebrand, 2014

"IT CONFIRMS THAT SUSTAINABILITY TOPICS CAN BE RELEVANT, FINANCIAL SELECTION CRITERIA."

Christine Meisingset, Manager of Sustainable Investments at Storebrand

Recognizing environmental and social sustainability as growing factors that will ensure economic sustainability, Storebrand put their money where their mouth is and set up a separate investment fund in 2012 to identify and invest in the 100 most sustainable companies in the world.

The investment fund is called "Trippel Smart" because it is "Smart for you, for society and for the future," explains the fund's brochure. The 100 companies are selected through a detailed analysis of 2,500 firms from the MSCI All Country Index. The companies are evaluated on resource efficiency, health and security, anti-corruption, financial robustness, and strategic positioning in regards to global challenges such as resource depletion and environmental protection. The fund then invests in the companies with the highest score in every industry.

"Trippel Smart has provided returns well in line with the benchmarked MSCI index," says Meisingset. "A good start, given that the fund invests in only 100 of the 2500 companies. It confirms that sustainability topics can be relevant financial selection criteria." See figure 3

Meisingset is convinced the flagship fund's performance will strengthen with time, while the analysis is designed to address ever-more vital topics, such as resource efficiency, political instability, and corruption.

Three specific global trends have convinced Meisingset that sustainability will be increasingly important for value creation. These are population growth and its associated resource scarcity; economic growth in emerging markets where water stress, corruption, and climate change require demanding business environments; and the market growth for sustainable products and services.

FOLLOW THE SUSTAINIANS

Searching for high returns on investment and equity? Then invest in companies with a high profile in environmental and social sustainability. So concludes a new groundbreaking survey from Nykredit, a Danish Asset Management Fund, entitled "ESG: A New Factor for Stocks." The survey clearly indicates that companies with a strong Environmental, Social and Governance rating (ESG) outperform those with a lower rating. In other words: Follow the "Sustainians" to secure long-term returns.

Nykredit has discovered a valuable key to reducing risk and maximizing returns. Using ESG ratings as a prioritized equity factor, it is possible to create investment portfolios with greater likelihood of high returns. Nykredit's recent study clearly concludes that companies with the highest ESG ratings generate the highest returns.

The study provides possibly the most significant proof to date that sustainable investment is a better business case. The findings are derived from an analysis of sustainability and economic performance data from no less than 5000 globally listed firms. And they amazed Søren Larsen, head of Socially Responsible Investments at Nykredit: "This is the first time we have seen such a clear correlation between ESG ratings and returns," he concludes.

Nykredit has been looking for this evidence for a long time.

"SUSTAINABLE INVESTMENT HAS NOT ONLY BEEN 'FEEL-GOOD' BUT HAS REVEALED ITSELF IN THE RESULTS OF THE COMPANIES."

Peter Kjærgaard, CIO, Nykredit

Like many other companies, Nykredit aims to become more environmentally and socially sustainable, and has, for a long time, practiced sustainable investing on a limited scale. But, as with every other firm in their field, their main focus is on optimizing profits, and until now there has been no clear connection between sustainability efforts and return on equities. So far, most analyses agree that while sustainable investments do not lose money, neither do they enhance returns. In fact, that was also the initial conclusion of the Nykredit analysis.

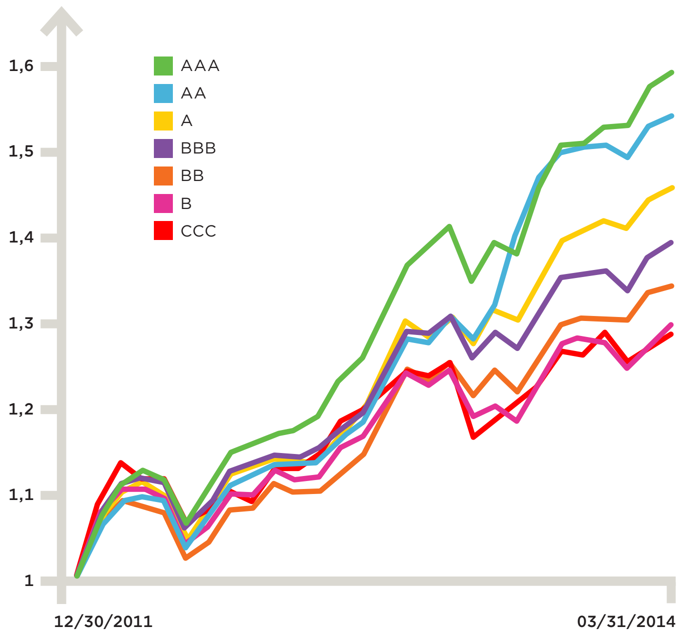
Using the well renowned MSCI index, Nykredit investigated correlations between sustainability and economic performance in more than 5000 globally listed firms in the period

FIGURE 1

RETURNS AND RISK FOR ESG PORTFOLIOS, 2012-13

In 2012 and 2013 the average return on equity was 22.87 percent for AAA rated companies compared to 11.71 percent for CCC rated companies. Furthermore better-rated companies experience less deviation per year, meaning they are less risky to invest in.

RATING	RETURN % P.A.	STANDARD DEVIATION % P.A.
AAA	22.87	8.62
AA	21.00	8.31
A	18,11	8.31
BBB	15.67	8.40
BB	13.85	8.34
B	12.05	8.83
CCC	11.71	10.09



Source: Source: ESG: A new equity factor, Nykredit, 2014

2007-2013. The companies' ESG practices were rated so the best performers were given a AAA rating, and the poorest a CCC rating. The initial long-term results appeared to indicate that investing in sustainability had no clear effect on returns.

However, a remarkably clear – and different – picture can be seen when focusing solely on the last two full years, from 2012 to 2013. The highest rated ESG companies, or the "Sustainians", clearly outperform their less sustainable counterparts during this time. The portfolio with AAA rated companies has better average returns than the AA portfolio, which outperforms the A portfolio, and so forth. See figure 2.

"This indicates that since 2012, ESG has been a systemic equity factor. Sustainable investment has not only been 'feel-good' but has revealed itself in the results of the companies," Nykredit´s CIO, Peter Kjærgaard concludes.

Selecting quality stocks

According to Nykredit, ESG has become a priced equity factor, and the company increasingly considers these ratings as a vital component of creating equity portfolios. A prime example is "Globale Fokusaktier" (global focus stocks), a Nykredit portfolio constructed by analyzing a universe of quality stocks and selecting about 35 equities deemed to be the top performers.

The criteria defining a quality stock are:

- Market capitalization, the total value of a company's available stock, must be large enough to allow trading to take place without price impact
- Companies must not be too indebted or leveraged
- Companies must have a high and stable return on invested capital (ROIC)

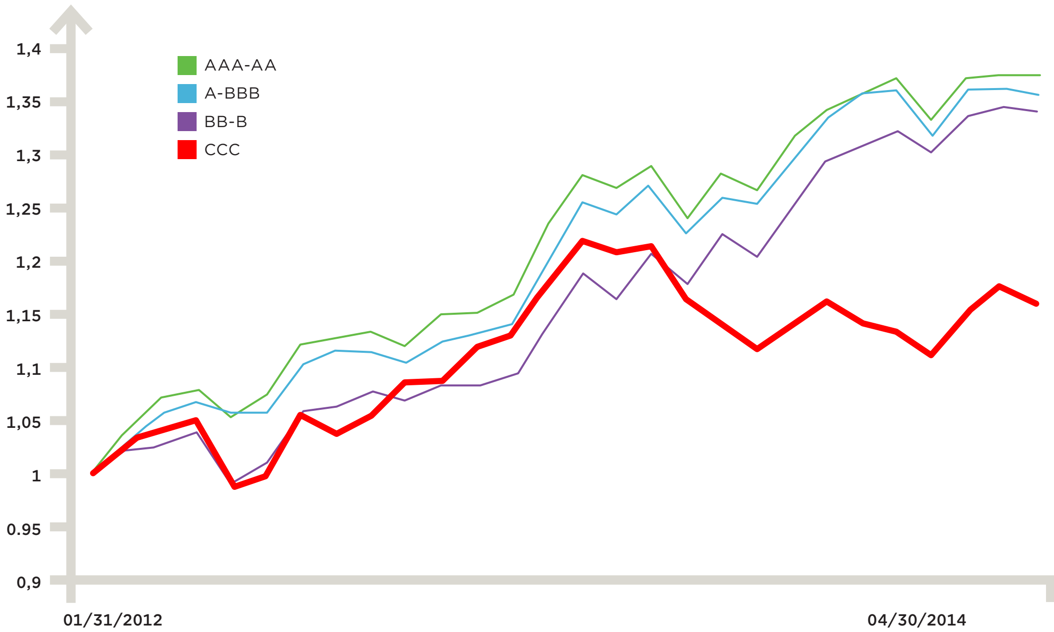
To test whether ESG ratings would help create better returns in focused portfolios of quality stocks, Nykredit created four model portfolios of stocks, rated AAA-AA, A-BBB, BB-B and CCC.

The same clear correlation between profitability and sus-

FIGURE 2

WEALTH DEVELOPMENT FOR ESG RATED PORTFOLIOS OF SCREENED QUALITY COMPANIES, 2012-2013

CCC rated companies clearly underperform compared to higher rated companies



Source: ESG: A new equity factor, Nykredit, 2014

tainability materializes for the last two years: The portfolio of companies rated AAA-AA clearly outperforms portfolios with lower rated companies. Notably, the portfolio with CCC-rated companies stands out as the least profitable. This data has persuaded Nykredit to now eliminate CCC rated companies from its group of "Globale Fokusaktier". See figure 2.

Will the trend continue?

Looking forward, the defining question for Nykredit and its peers is: Will the trend of the last two years continue? Will more sustainable business practices lead to better economic performance and higher equity returns?
For Nykredit the answer is loud and clear: "Yes."

Peter Kjærgaard has no doubt that ESG will become an increasingly important factor for companies developing their strategies and future investment processes: "More and more investors, including Nykredit, are working to apply ESG ratings not only in equity but also in other asset classes such as fixed income. This means that ESG ratings will have an impact on company funding costs, hence returns," Kjærgaard argues.

"WE EXPECT THAT SLOPPINESS OR DECIDEDLY NEGATIVE BEHAVIOR WILL BE PUNISHED BY THE MARKET TO THE EXTENT THAT THIS BEHAVIOR IS CAPTURED IN THE RATING SYSTEM."

Peter Kjærgaard, Chief Innovation Officer, Nykredit

Another argument for the further consideration of ESG ratings is that environmentally and socially risky behavior has negative consequences, not only in the form of bad press and PR, but also in terms of consumer reactions and share price drops. "We expect that sloppiness or decidedly negative behavior will be punished by the market to the extent that this behavior is captured in the rating system," Kjærgaard concludes.

CHAPTER 3

FOLLOW THE MONEY

The new studies from Nykredit and CPD are just two out of hundreds of their kind. A new meta-study identifies no less than 190 academic studies pointing to sustainability as one of the most significant trends in the financial market over the past few decades. Taken together, these studies support the hypothesis that tackling the immense challenges of resource depletion and climate change is a solid business case for both companies and investors.

Forget eco-friendliness. According to a new meta-study by the investment company, Arabseque Assent Management and Oxford University, companies ought to strive for environmental and social sustainability, if for no other reason than the pure financial benefits.

The study, *"From the Stockholder to the Stakeholder – How Sustainability Can Drive Financial Outperformance,"* represents the most comprehensive knowledge base on sustainability to date, analyzing nearly 200 academic studies, industry reports, newspaper articles, and books investigating economic perspectives on sustainable business operations and investments. And the conclusions are stunningly clear:

- 90 percent of the studies conclude that sound sustainability standards lower the cost of capital of companies.
- 88 percent of the research shows that solid ESG practices result in better operational performance of firms.
- 80 percent of the studies indicate that stock price performance of companies is positively influenced by good sustainability practices.

"This report ultimately demonstrates that responsibility and profitability are not incompatible, but in fact wholly complementary," says Omar Selim, Chief Executive of Arabesque

"THIS REPORT ULTIMATELY DEMONSTRATES THAT RESPONSIBILITY AND PROFITABILITY ARE NOT INCOMPATIBLE, BUT IN FACT WHOLLY COMPLEMENTARY."

Omar Selim, Chief Executive of Arabesque Asset Management

RESEARCH SUPPORTS THE BUSINESS CASE FOR SUSTAINABILITY

The meta-study concludes there is a strong business case for companies to implement sustainable management practices in regard to environmental, social, and governance issues (ESG):

- Companies with strong sustainability scores show better operational performance and are less risky.
- Investment strategies that incorporate ESG issues outperform comparable non-ESG strategies.
- Active ownership creates value for companies and investors.

FIGURE 1

SELECTION OF MATERIAL ESG FACTORS

Environmental, Social and Governance (ESG) divided into specific issues affecting the companies' sustainability performance.

ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
BIODIVERSITY/LAND USE	COMMUNITY RELATIONS	ACCOUNTABILITY
CARBON EMISSIONS	CONTROVERSIAL BUSINESS	ANTI-TAKEOVER MEASURES
CLIMATE CHANGE RISKS	CUSTOMER RELATIONS/ PRODUCT	BOARD STRUCTURE/SIZE
ENERGY USAGE	DIVERSITY ISSUES	BRIBERY AND CORRUPTION
RAW MATERIAL SOURCING	EMPLOYEE RELATIONS	CEO DUALITY
REGULATORY/LEGAL RISKS	HEALTH AND SAFETY	EXECUTIVE COMPENSATION SCHEMES
SUPPLY CHAIN MANAGEMENT	HUMAN CAPITAL MANAGEMENT	OWNERSHIP STRUCTURE
WASTE AND RECYCLING	HUMAN RIGHTS	SHAREHOLDER RIGHTS
WATER MANAGEMENT	RESPONSIBLE MARKETING AND R&D	TRANSPARENCY
WEATHER EVENTS	UNION RELATIONSHIPS	VOTING PROCEDURES

Source: From the Stockholder to the Stakeholder, SSEE & Arabesque Partners, 2014

Asset Management, who sponsored the research. "Based on our results, we conclude that it is in the best economic interest for corporate managers and investors to incorporate sustainability considerations into decision-making processes."

In other words: Follow the money – and become more competitive and sustainable at the same time.

Sustainable competitive advantages

The meta-study concludes that the integration of ESG issues can have a material effect on a company's risk profile, performance potential, and reputation. Unsurprisingly, this will, in turn, boost a firm's overall performance and provide a distinct competitive advantage.

The report identifies a selection of ESG issues that tend to have a material impact. See figure 1.

On the positive side, risk reduction is identified as a particularly significant benefit of implementing sustainability into a company's strategy and culture. On the other hand, neglecting sustainability issues can have a noticeably detrimental impact on a company's business operations – and can even jeopardize the survival of a firm altogether.

88 percent of the studies prove that solid ESG practices result in better performance. Specifically, corporate environmental management, pollution abatement, and resource efficiency are mentioned as the most relevant to operational performance.

The study also finds that by incorporating ESG issues, corporations will ultimately be able to realize cost savings and revenue enhancements through better resource efficiency and innovation of more sustainable products.

Out of the 190 studies analyzed, 29 investigated how sustainability effects cost of capital. Staggeringly, 90 percent of these studies conclude that sustainable practices can, in fact, reduce the cost of capital. The meta-study also concludes that superior sustainability performance "improves corporations' access to capital" and "leads to significantly lower cost of capital."
In general, strong, sustainably-focused policies lead to bet-

ter credit ratings and save on borrowing costs. Properly implemented sustainable policies will mitigate risks and negative effects and thereby result in a lower volatility of a company's cash flow.

Sustainability and financial performance
Solid sustainability practices are not only good for a company's operational performance but also good for its investors. 39 of the reviewed studies investigate the correlation between sustainable practices and financial market performance, and in 80 percent of them, the stock price performance of companies is positively correlated with sound sustainability practices. This research also documents that, on average, stocks from more sustainable companies outperform those of less ESG-minded firms. It also concludes that both environmental and social sustainability practices affect financial performance.

One of the reviewed studies – a recent report from Harvard Business School - suggests that long-term financial performance can be affected by sustainability practices. The study, *"The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance,"* investigated 180 US-based companies' sustainability practices and financial performance over an 18-year period. While the companies were relatively identical in terms of financial performance in the early 1990s, they were classified in two categories based on their adoption of ESG policies, 90 of which were classified as "high-sustainability" adopters and the other 90 as "low-sustainability" adopters.

Over the 18-year period, research indicates that the high-sustainability companies dramatically outperformed the low-sustainability companies in terms of both stock value and accounting measures. The average annual return was above-market for the high-sustainability companies and 4.8 percent higher than their counterparts. They also performed much better as measured by return on equity and return on assets.

IN A NOT-TO-DISTANT FUTURE IT WILL NO LONGER MAKE SENSE TO DISTINGUISH BETWEEN SUSTAINABLE INVESTMENTS AND ORDINARY INVESTMENTS.

Sustainability becomes mainstream
Based on the investigated trends and correlations between sustainability and financial performance, the authors behind the meta-study expect that the inclusion of sustainability parameters into the investment process will become the norm in the years to come.

In a not-to-distant future it will no longer make sense to distinguish between sustainable investments and ordinary investments. Even today, environmental concerns are no longer marginal issues for investors and business leaders, as they are becoming more aware of the benefits of managing environmental challenges. In other words, sustainability is already part of mainstream investment and will only continue to embed itself as a fundamental aspect of the global financial system in the years to come.

CONCLUSIONS

The predictions and conclusions of the meta-study, *"From the stockholder to the stakeholder – How Sustainability Can Drive Financial Outperformance"*:

- It is in the best long-term interest of corporate managers to include sustainability into strategic management decisions.
- It is in the best interest of investors and trustees to require the inclusion of sustainability parameters into the overall investment process in order to fulfill their fiduciary duties.
- It is in the best interest of asset management companies to integrate sustainability parameters to deliver a competitive risk analysis.
- Investors should be active owners and exert their influence on the management to improve the most relevant sustainability parameters.
- The future of active ownership will be one where multiple stakeholders are involved in setting the agenda for the active ownership strategy of institutional investors.

FOLLOW YOUR COMMON SENSE

→ **The business case for sustainable investments will only grow stronger in the years to come. The massive, unavoidable growth of the world's human population, in particular, will stress resource usage, drive the demand for tangible, sustainable solutions, and force sustainability to become a vital consideration for businesses. For investors, this means that transparency and disclosure of environmental, social and governance data will be the key to long-term economic growth.**

Still doubting that sustainability pays? Then just try to visualize these likely scenarios of the not-too-distant future and make your own calculations.

To begin with, let's actually start in the present. As highlighted in consecutive reports from the International Panel of Climate Change, IPCC, there is overwhelming scientific evidence that anthropogenic climate change is already taking place today.

Extreme weather events, such as storms, floods, and droughts, experienced in every corner of the world, are already forcing global businesses to take precautions or risk economic losses. And the risks will only grow more severe and dramatic over time with an expanding global population.

Simply put, climate change and resource scarcity are unavoidable!

Their effects will be compounded and accelerated by the almost unthinkable population explosion the world is likely to experience in just a few decades, jumping from 7.6 billion to 9 billion people.

Taking on so many new human beings will place an enormous stress on already depleted natural resources, ever-deteriorating ecosystems, and nervous and struggling financial markets. Making matters direr, by 2030, the global population will include 3 billion new, middle-class consumers, hungering for the lifestyle and consumption patterns that title brings.

The bad news for this growing middle-class: Natural resources are too scarce to let this happen. Resource depletion will force them – and the rest of the world population for that matter – to change their behavior.

According to WWF, it takes Earth a full year and a half to regenerate the resources we use in just a single year. This means that at our current pace, we would require an additional half of a planet to fully satiate our profound resource appetite. If current consumption trends continue, by 2030 we will need the equivalent of two entire planet Earths to support the human population. Such a dramatic yet fully realistic scenario will surely force resource prices to skyrocket, seriously constraining the business and consumer economy.

Price volatility has already become the new normal. More and more businesses today feel troubled by the rising and less predictable prices of resource markets. While resource prices have continually declined since 1900, that entire century-long drop has been negated in just under a decade. Since the turn of the millennium, resources have quickly and drastically become more expensive than ever, making it abundantly clear that humanity absolutely must change its resource consumption patterns in order to continue to function and survive, financially, socially, and environmentally. See figure 1.

Pressure's building up

Still not convinced? Take a look around you at the pressure building up from forward-thinking governments, investors and business leaders, urging their peers to help mitigate the aforementioned unavoidable future demographic and environmental changes.

In the public sphere, climate change has moved into a top spot on government agendas. This is reflected in policies and initiatives at every level of governance. And future legislation will likely make it extremely difficult – and expensive – for the business community to abscond their environmental and social responsibilities.

Investors are also pushing a sustainable agenda in an effort to secure long-term returns. Just days before the UN Climate Summit in New York this September, more than 350 global institutional investors, representing over $24 trillion in assets, called on government leaders to provide "stronger political leadership and more ambitious policies" to support sustainable investing. "We, the institutional investors that are signatories to this Statement, are acutely aware of the risks climate change presents to our investments," the investors announced. The statement is quite groundbreaking, as it marks the largest united call for climate change action by global investors.

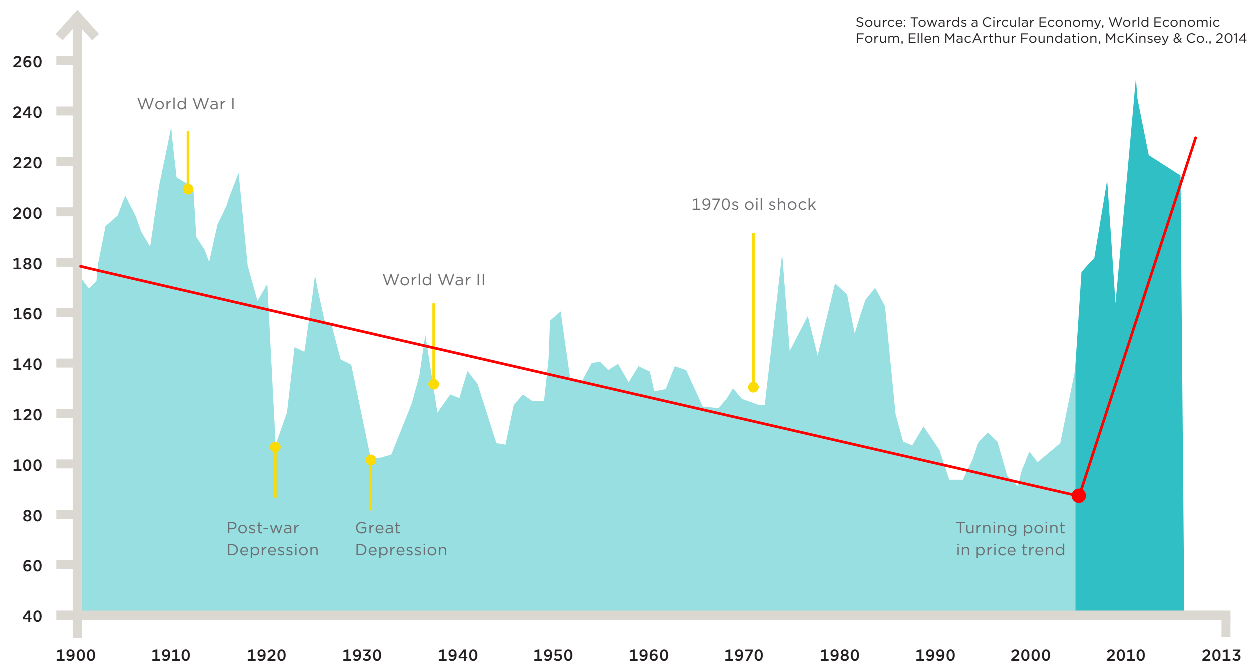
At the same time, investors are on track to file a record number of shareholder resolutions calling on companies to improve their environmental performance and disclose more ESG data. So far, the nonprofit investor network Ceres has registered nearly 150 shareholder resolutions focused on sustainability during the 2014 proxy season – more than ever before, and the year is not even over yet.

The $150 billion New York State Common Retirement Fund (CRF), which was recently ranked the leading U.S. fund for climate risk management, was a lead filer of the resolutions. "Ultimately our goal is simple: We want long-term, sustain-

FIGURE 1

MCKINSEY COMMODITY PRICE INDEX

Sharp price increases in commodities since 2000 have erased all the real price declines of the 20th century
Index: 100 = years 1999–20012



able economic growth," State Comptroller Thomas P. DiNapoli recently explained to attendees at an Investor Summit on Climate Change arranged by Ceres and the United Nations. "We have found that comprehensively integrating ESG considerations into investment processes is essential to achieving that goal," DiNapoli argued.

"ULTIMATELY OUR GOAL IS SIMPLE: WE WANT LONG-TERM, SUSTAINABLE ECONOMIC GROWTH."

Thomas P. DiNapoli, State Comptroller

These leading sectors of society are also putting the pressure on one another to act. Forward-thinking businesses, for instance, are urging governments to set higher goals. Just this month, leaders of several major corporations urged European policymakers to agree to set a target of 40% reduction in greenhouse gas emissions. Paul Polman, CEO of the multinational company, Unilever said: "We know that the economic cost of inaction is now greater than action."

Markets are building up

Embracing sustainability is not just about avoiding risks or being philanthropic. It's also about grabbing business opportunities. And the transition to a more sustainable economy indeed represents tremendous market opportunities.

Future policies and legislation will also likely reward businesses and corporations that play an active role in adapting to and mitigating the effects of climate change and promoting sustainable future development.

In Europe, for example, the European Union's 7th Environment Action Programme (7th EAP) aims to turn the EU into a "resource-efficient, green and competitive low-carbon economy". The objective is to make sustainability an economic driver and the vision is that in 2050 we will all "live well, within the planet's ecological limits".

Similar programs exist all over the world and they are spurring markets to build up around new sustainable products and services. Sustainable solutions are becoming more and more popular in governments budgets, in the B2B market and with consumers, particularly when the products can help us save money – like, for example, energy efficient technology.

Urban development, in particular, will be a strong driver for the future market for sustainable products and solutions. The world is urbanizing at an utterly alarming rate. And cities are under a tremendous pressure to invest in sustainable infrastructure, resource efficiency, and energy-savings in order to survive the coming decades and accommodate the people that will soon call them home.

As it currently stands, about 50 percent of the world's population lives in cities, yet urban areas are responsible for 70 percent of greenhouse gas emissions. By 2050, the urban population is expected to increase by 2.5 billion, by which point about 70 percent of the world population will live in cities. To prepare for such stunning growth, cities today must reconsider their development paths and invest in new solutions for housing, traffic, energy, waste handling and generally more efficient uses of resources.

Most major cities of the world have already launched goals and plans for becoming more sustainable and resource efficient. Copenhagen, Denmark, for instance, has quite ambitious goals of achieving carbon neutrality by 2025. Similarly, San Francisco, United States, plans to produce absolutely zero waste by 2020. Achieving such objectives will spur an unprecedented demand for sustainable solutions within all sectors, opening up tremendous business opportunities for companies geared toward sustainable future development.

Are you amongst tomorrow's winners?

Simply put, in every sector of society, all signs point toward the growing awareness of sustainability, and this should leave no doubt that the business case for saving the planet will only grow stronger in the coming years.

Businesses can either profit from adapting and contributing to the transition to a sustainable economy – or they can be left behind, struggling with increasingly strict environmental legislation and declining markets for obsolete, unsustainable products and services.

The question is, what destiny will your company face? Are you on the forefront of this sustainable revolution?
If the answer is no – or not yet – then we urge you to consider the ramifications of inaction. Most importantly, given the changing public perception of climate change and sustainability issues, how will your company compete for the most precious resource of all: human capital?

The next generation to enter the labor market will have the opportunity to fundamentally shift how business is done, and sustainable development is of the utmost importance to these young, talented leaders of tomorrow. Can your social and environmental responsibility measure up to that of your competitors? The brightest minds of the future will have their pick of the litter in terms of employment opportunities, and while you should certainly want them on your team, the question is, will they want you?

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Sustainia is a clear and achievable vision of a sustainable society. It is a demonstration of how we could live in the future, and a collaborative platform to make it happen. Sustainia is not a utopia or a distant dream. It is built on scenarios in which readily available solutions, innovations and technologies are implemented on a large scale. Demonstrating the sustainable and exciting societies in which we could live is at the heart of Sustainia's mission.

Citizens, organizations and companies from all over the world make up the Sustainia community. We believe that change is created bottom-up and are dedicated to listen, discuss and develop our work in an open dialogue.

Sustainia is a part of Monday Morning Global Institute; Scandinavia's leading think tank. Monday Morning Global Institute builds on a clear set of values and a deep understanding of the global drivers of change. For twenty-five years, the company has developed a wide range of activities and projects through cross-sector partnerships. A common denominator in our projects is the desire to build sustainable and resilient societies.