HOW THE ASTUTE DRIVE CHANGE AND PROFIT FROM IT

THE term sustainability is on everyone's radar – and for good reason.

The effects of not having sustainability at the core of business strategy can be seen in once-proud companies, regions and even entire nations that are struggling more than ever.

A prime example is seen in the "Rust Belt" of America – a colloquial name for a region stretching through the Midwest.

It was once a solid and profitable centre of steel production and manufacturing surrounded and connected by the Great Lakes, canals and rivers – facilitating easy access to raw materials and ease of shipping out finished products.

This is the total opposite of the definition of sustainability.

Sustainability is hard to do. It requires leaders to peer into the future and see patterns that may not yet exist or be solidly recognised. Yvon Chouinard, founder of Patagonia and a well-known environmentalist once said: "The fear of the unknown is the greatest fear of all."

As investors and businesses, there is a need to overcome this fear. Understanding and acting upon this shift to sustainability is what can help us ride the waves of change towards progress and profit.

But still, there are many that dare to. And they are rewarded for it. In the past decade, global changes in market and policy innovations have resulted in the alignment of finance with national development priorities and sustainable development.

According to the UN Environment Inquiry, nearly 300 policy and regulatory measures targeting sustainability were implemented in over 60 countries by the end of 2017. Every year, these numbers keep growing.

This rise of sustainability has led to the reformation of entire industries – from fashion to finance. Encouragingly, a handful of green giants are emerging – brands like Tesla, Chipotle, Whole Foods and Unilever are, but a few examples. These corporations see sustainability as an ethic – not a trend – a guiding force in the pursuit of generating long-term value and optimised resource management.

By adopting sustainable strategies that are genuine and purpose-driven, they are able to capitalise on new opportunities which have led to unprecedented levels of success – shattering the perception that profitability and sustainability just don't belong together. In the world of finance, sustainable investing is also gaining traction.

In mainstream financial markets, sustainable investments grew by 25% over the last two years to US$23 trillion, making up around one quarter of all professionally-managed assets globally, according to the Global Sustainable Investment Alliance.

And, though Asia currently lags behind the rest of the world, the winds of change and progress have been sweeping through at a brisk pace – not surprising given our resourceful nature and experience with sustainable cultural practices (consider, as a basic example, our prevalent use of renewable resources – from intricate structures crafted from bamboo, to plates fashioned from humble banana leaves).

Across Asia, many government pension funds are beginning to integrate environmental, social and governance (ESG) principles in their investment processes.

Leading the way is Japan's Government Pension Investment Fund – the world's largest with currently US$1.3 trillion assets under management – which has made significant allocations to ESG strategies, while South Korea and Taiwan are also making strides in a similar direction.

This change can be attributed to various factors, which are led by environmental and climate risks. Mounting evidence warns that these risks compromise the soundness of firms and resilience of markets in 2017 alone, S&P identified over 700 cases in which these risks influenced issuer ratings.

In around 100 cases, potential credit downgrade actions or actual downgrades were linked to such risk factors.

The shift towards sustainability is inevitable. The astute are refocusing their efforts and adapting, bringing about entirely new mindsets and attitudes toward sustainable investing. The mantra "doing good is good business" is in serious play.

For green giants, sustainability is not about saving money. It's an opportunity to make it. The same is true for investors – many of whom are now beginning to recognise opportunities for exponential growth in green finance.

According to a survey by State Street Global Advisors, 68% of global asset owners found ESG integration to have significantly improved their portfolio returns.

A study from MSCI also indicated an improved annualised active return of 2.2% over the MSCI World benchmark through a seven-year period when employing an ESG momentum (improving ESG scores) strategy in portfolio construction.

All this has led to a greater demand by Next-Gen investors for transparency and compliance with sustainability reporting standards. This new generation of entrepreneurs invest in what they believe, creating influence and impact in local communities – more than generations of investors before them ever could.

As the world moves towards sustainability, investors have to choose. We can continue to invest heavily the way we always have. But that would be akin to investing in the past. Fundamentally, when it comes to investing in sustainability, we are investing in the future. And that is where the profits really are.

About Datuk Seri Tajuddin Atan

Datuk Seri Tajuddin Atan is the chief executive officer of Bursa Malaysia. A seasoned banker before taking on the exchange's leadership role, he believes that innovation and creativity can tackle the fundamental changes facing nations, businesses and the capital markets of today.