

# Information for the future

If we do not know how sustainable a business is, how can we invest in it for the long-term? asks Dr Steve Waygood of Aviva Investors

Clearly pension funds would prefer their own assets to be operating in capital markets which promote corporate integrity and deliver long-term shareholder value. Part of achieving that is to ensure that the businesses they invest in are sustainable and on a firm footing in the future. To ensure that a company delivers the most value to shareholders, its board should consider how sustainable the business is – for example, whether the raw materials they rely on are under threat, if the waste that they generate is disposed of appropriately, and what impacts their product or service has on society and the environment. Unfortunately, the sustainability reports issued by many companies are glossy brochures containing more photos than substantial information. The key questions that need answering are how sustainable their strategy is; how repeatable business models are and whether they create externalities that cause problems for the wider economy. Very few companies have genuinely thought through their business model in this sense, although there are some notable exceptions, such as BT, Unilever and Vodafone.

By way of some practical examples, security of access to raw materials can pose risks to companies. Some years ago Kingfisher, which owns DIY store B&Q, did a lot of work to ensure a renewable supply of timber. They recognised that they needed to have a significant proportion of their timber sourced sustainably. Similarly, Unilever used to be one of the biggest users of sea food products via its Birds Eye brand. Concerned about the implications of a decline in fish stocks, they worked with non governmental organisations like WWF to develop a certification system for sustainable fisheries. A business strategy that takes on issues such as these is impressive and affects our view on the long term valuation of a company.

These sustainability questions are becoming even more profound due to the social and economic impacts of issues such as access to fresh water, climate change and depletion of a range of natural resources. We have already seen

a significant number of EU directives focused on the environment, covering issues as broad as energy efficiency, producer responsibility and waste disposal and more are coming through. As an investor, having information about how companies are tackling these issues allows us to more accurately assess their prospects. However, gaining access to this information is far

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from straightforward.

We have been working with Bloomberg, the market information provider, which is attempting to establish a broad array of useful metrics assessing the sustainability of companies; for instance their greenhouse gas emissions. Bloomberg looked at 22,000 companies but only about 15% made public any relevant environmental, social and corporate governance information. This is an information gap that long-term investors need closing before they can assess the sustainability of long term returns to shareholders and reduce volatility in the market to make them more efficient. How can investors make long-term decisions if information provided by companies focuses excessively on quarterly or annual figures?

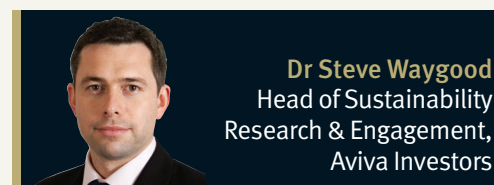
We believe that promoting sustainability reporting via listing rules, and giving shareholders a non-binding vote on sustainability issues at the annual general meeting, is an appropriate step as this will encourage board members to consider these issues and provide more robust information to the market.

This approach is endorsed by Aviva Investors’

CEO who has called for a debate on stock market listing authorities around the world to update their listing codes. We subsequently worked with the United Nations to set up a conference of leading organisations to debate these issues. This conference was attended by leading exchanges and regulatory bodies from around the world and delegates agreed to set up a sustainable stock exchange working group, which has been mandated to report back next year.

In terms of how this impacts the UK, we would like the combined code of corporate governance, which sets out principles for the good governance of listed companies, to make it clear that it is the role of the company chairman to steward the board’s thinking on sustainability issues. We would like to see the thinking behind how the company becomes sustainable, be given the opportunity to feed back to the company our views on the content.

It is true to say that the London stock exchange is in better shape than some of its peers – the biggest gap lies in emerging markets. This is where work is most urgently needed.



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