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United States



ESG is Inevitable

ESG issues are moving from the moral to the financially material. Some of the key themes emerging from sustainability analyses including water scarcity, food and agricultural trends, and energy considerations, are now irrefutable investment considerations. However, our ongoing research suggests that markets are inefficient and are not accurately pricing securities to reflect these macro trends.

ESG investing presents an opportunity because it takes into account additional risk factors that may have material financial consequences heretofore not explicitly reported or understood and therefore not priced efficiently. While this began as an approach to managing assets based on our ESG investment philosophy, it has quickly morphed into a hard-nosed investment process that has finally received the attention of mainstream institutional investors. For example, signatories to the United Nations Principles for Responsible Investment (PRI) and the Carbon Disclosure Project (CDP) have a 27%¹ and

¹ UNPRI.org. Retrieved on August 21, 2014. SICM Analysis.

32%² compound annual growth rate, respectively, over the last decade. As the ESG data universe continues to evolve and expand, managers, consultants, and investors will increasingly take environmental, social and governance factors into consideration to augment traditional financial analysis.

We see six emerging trends that make this inevitable. First, government action is driving corporate attention to these issues. Approximately 6,000 EU companies will be required to disclose non-financial information³ and there are now 160 signatories to Japan's Stewardship Code.⁴

Second, standards-setting is the hallmark of the institutionalization of management practices. Currently, US\$21 trillion assets under management and US\$9.5 trillion market capital have informed the development of SASB standards,⁵ while 73% of total market cap has been addressed by SASB standards.⁶ CDP represents \$92 trillion in AUM that supports disclosure of carbon risk.⁷

And note that high-profile leaders in financial markets, such as Michael Bloomberg, former mayor of New York City, and Mary Shapiro, the former chairperson of the SEC, have joined SASB as co-chairs. SICM is on the Advisory Council, the Standards Council subcommittee, and Kevin Parker was recently appointed to the board of directors in 2011, 2013, and 2014, respectively.

Third, additional listing requirements are raising the bar for public companies. Sixteen exchanges representing a market cap of over US\$35 trillion have become partner exchanges to the Sustainable Stock Exchanges Initiative.⁸

Fourth, shareholder activism continues to raise issues to corporate management. In 2013, just under 40% of shareholder proposals addressed environmental and social issues,⁹ 53% of all disclosed engagements resulted in companies taking action,¹⁰ and this year over

² Directly from CDP. Received on August 21, 2014. SICM Analysis.

³ http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm

⁴ <https://www.responsible-investor.com/article/nibs3/>

⁵ <http://www.prnewswire.com/news-releases/kevin-parker-appointed-to-sasbs-board-of-directors-275997971.html>

⁶ Directly from SASB, as of December 18, 2014

⁷ <https://www.cdp.net/en-US/Programmes/Pages/climate-change-programs.aspx>

⁸ <http://www.sseinitiative.org/>

Market capitalization as of December 31, 2013 unless otherwise noted. Can be accessed here:

<http://www.sseinitiative.org/fact-sheets-support/>

⁹ EY. (2013). *Taking Flight: Environmental sustainability proposals gain more attention*, page 3. Can be accessed here:

[http://www.ey.com/Publication/vwLUAssets/Environmental_sustainability_proposals_gain_more_attention/\\$FILE/EnvironmentalSustainabilityGainAttention.pdf](http://www.ey.com/Publication/vwLUAssets/Environmental_sustainability_proposals_gain_more_attention/$FILE/EnvironmentalSustainabilityGainAttention.pdf)

¹⁰ EY. (2014). *Let's talk governance: 2014 proxy season review*, page 4. Can be accessed here:

<http://www.ey.com/Publication/vwLUAssets/ey-proxy-season-review/%24FILE/ey-proxy-season-review.pdf>

US\$90 billion of capital at risk in high cost oil projects could be returned to shareholders (stranded costs?).¹¹

Fifth, asset owners, the ultimate fiduciaries, are taking action. For example, Norges (US\$860 billion¹²), GPIF (US\$1.7 trillion¹³), Amundi (US\$1.06 trillion¹⁴) all consider sustainability in their investments.¹⁵ Over two-thirds of institutional investors surveyed believe that “pension schemes will reject a growing number of investment opportunities over the next five years if they involved ESG risks.”¹⁶ AODP annually assesses the world’s 1,000 largest asset owners on management of climate change risks and opportunities.¹⁷

And finally, corporate actions¹⁸ on sustainability are sharing center stage with conventional financial issues. Corporate leaders estimate that the value at stake from sustainability issues can be as high as 25 to 70 percent of EBIDTA.¹⁹ Forty-six percent of CEOs agree resource scarcity and climate change will transform their businesses, and S&P 500 respondents to a CDP report committed investments of US\$50 billion on a range of emissions reduction activities and energy-savings processes.²⁰

We all understand that investment owners and managers, institutions, academics, and other sustainability professionals share a collective responsibility to advance a sustainable economy through sustainable investing. And we believe that today’s most forward-thinking companies are responding to the challenges and opportunities created by population growth, natural resource scarcity, climate change, urbanization, and globalization. Our research suggests that the leaders who respond to these trends and manage these sustainability risks have historically demonstrated superior performance, produced more stable cash flows, and delivered higher dividend growth over time.

¹¹ <http://www.carbontracker.org/report/oil-gas-majors-fact-sheets/>

¹² Norges: <http://www.ft.com/cms/s/0/52cc338e-633f-11e4-9a79-00144feabdc0.html?siteedition=intl#axzz3Ih4syjVv>

¹³ GPIF: <http://www.reuters.com/article/2014/05/19/us-japan-publicfund-reform-idUSBREA4I00S20140519>

http://www.gpif.go.jp/en/fund/pdf/e_ukeirehyoumei.pdf

¹⁴ Amundi: http://www.amundi.com/svn/home_prop_grou

<http://www.un.org/climatechange/summit/2014/09/investors-commit-decarbonize-100-billion-investments/>

¹⁶ <http://www.hermes-investment.com/News/DisplayFullPost/tabid/548/PostID/596/language/en-GB/Default.aspx>

¹⁷ <http://aodproject.net/about/about-us.html>

¹⁸ CDP (2013). *Investment, transformation and leadership: CDP S&P 500 Climate Change Report 2013*. Can be accessed here:

<https://www.cdp.net/CDPResults/CDP-SP500-climate-report-2013.pdf>

¹⁹ McKinsey (2014). *McKinsey on Sustainability & Resource Productivity*.

²⁰ PWC (2014). *17th Annual Global CEO Survey: Capitalising on Global Trends*. Can be accessed here: <http://read.pwc.com/i/243985>

BIOGRAPHY

Kevin Parker's business career has been marked by entrepreneurial value creation both inside and outside of large financial institutions. Mr. Parker has over 33 years of Wall Street experience and over 17 years of entrepreneurial ventures in impact investment, organic farming, and e-commerce.

Mr. Parker also has more than 33 years of experience in the financial industry—he is the chief executive officer of Sustainable Insight Capital Management (SICM), a New York-based, global asset-management firm that launched in 2013. SICM combines a disciplined alpha-generating process with sustainable environmental, social, and governance (ESG) principles. SICM is backed by Capricorn Investment Group and the Kresge Foundation.

Previous to SICM, Mr. Parker served as a member of the Group Executive Committee of Deutsche Bank since its inception in 2001. He also served as the Global Head of Asset Management from 2004 where he was responsible for managing a broad range of assets including Equities, Fixed Income, Real Estate, Infrastructure, Private Equity, Hedge Funds, Sustainable Investments, and other businesses. Deutsche Asset Management was successfully restructured under Mr. Parker's leadership, leading to dramatic improvements in profitability, market position, and client ratings and retention. In the year before Mr. Parker's departure, Deutsche Asset Management won more than 30 industry awards for service quality and investment performance.

Kingsbridge National Ice Center (KNIC)—Mr. Parker's entrepreneurial efforts are significant outside of the investment-banking world. In 2009, Mr. Parker founded KNIC LLC, the group developing Kingsbridge National Ice Center, a US\$350 million dollar redevelopment project that will become the largest ice sports center in the world. KNIC will house nine rinks in an iconic and awe inspiring national landmark in the Bronx, New York City. CEO Mark Messier, NHL Legend and 6-time Stanley Cup Champion, along with Sarah Hughes, 2002 Olympic Gold Medalist, will lead this project that will serve all ice sports and ice sports participants from New York City and around the world.

Chateau Maris—Mr. Parker is the owner and founder of Chateau Maris, an award winning winery in the Cru La Liviniere, France, which he converted to organic and biodynamic farming methods in 1997. The vineyards are certified by the leading organic and biodynamic organizations in both the US and Europe for nearly a decade. Chateau Maris has been a pioneer in developing and instituting biodynamic practices in viticulture and vinification. Chateau Maris recently opened the world's first sustainable carbon negative winery made entirely of hemp and lime. Chateau Maris has won numerous medals and critical acclaim, including Wine Spectator's Critics' Choice Award for one of the world's greatest wines.

Next Jump—Mr. Parker is also a founding investor and board member of Nextjump, the leading provider of internet-based next-generation Rewards and Loyalty programs to over 100,000 corporations and institutions worldwide including 70% of the Fortune 1000. Nextjump is located in New York City.

Outside of business activities, Kevin actively participates in various philanthropic activities around the city and sits on the board of notable organizations.

New York Police & Fire Widows' and Children's Benefit Fund—An honorary Fire Chief of the New York City Fire Department, Mr. Parker serves as President of Answer The Call, the New York Police & Fire Widows' and Children's Benefit Fund and he also serves on the charity's investment committee. Since its inception 30 years ago, the charity has distributed over US\$150 million dollars to families of first responders who were killed in the line of duty.

The Metropolitan Opera—Mr. Parker is a member of the Investment Committee of the Metropolitan Opera overseeing an endowment of over \$300 million.

Sustainable Accounting Standards Board (SASB) —In 2014, Mr. Parker was appointed as a board member of SASB, an independent 501(c) 3 organization that develops industry-specific standards for use in disclosing material sustainability information in mandatory filings to the Securities and Exchange Commission. Michael R. Bloomberg and Mary Schapiro, former SEC chairperson, serve as chair and vice chair of SASB's Board of Directors. More than 1,890 individuals representing US\$21 trillion assets under management and US\$9.5 trillion market capital have participated in multi-stakeholder industry working groups informing standards development to date.

Mr. Parker has also received numerous awards and accolades for his benevolent activities. In 2002, Mayor Michael Bloomberg presented him with the keys to the city for his contributions following the tragic events of 9/11. The Fulbright Foundation, in recognition of Mr. Parker's role in furthering international cooperation and investment across cultures, presented him with the Fulbright Award for Business Diplomacy. In 2011, the New York League of Conservation Voters honored him for his advocacy for action on climate change, and by the New York Hall of Science for supporting the launch of a groundbreaking climate-change education program reaching over 100 schools and 25,000 students in New York City.