

# A dash of climate change, a pinch of human rights, and...

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The concepts of environmental, social and governance accountability and the Triple Bottom Line (people, planet, profits) have gained considerable momentum in the past decade within the financial community. Globally, Ethical Investment and Socially Responsible Investment (SRI) are growing at a rapid pace. The increase in awareness of the social and environmental impact of investments has created a tremendous demand for research on corporate performance in areas such as human rights, environment and corporate governance, as well as qualitative ratings that will capture and express this research.

SRI analysis is well-developed in Europe and North America, and has begun to spread in developing countries. SRI ratings and research, based on evaluation of so-called ESG criteria (environmental, social and corporate governance), provide essential information to investors who seek to distinguish among the social and environmental performances of companies in which they might invest.

This extra-financial information also enables institutional investors, such as pension funds, to engage in dialogue on issues of concern with corporations whose shares they own. In addition, academic researchers and practitioners use SRI data and analysis in their efforts to study the link between corporations' financial and ESG performance. Numerous studies have been carried out over the years to document and understand this link. While the type of ESG assessment considered, and the methodologies used, are almost as numerous as the studies themselves, a generally accepted conclusion is that in the short term a systematic link cannot be demonstrated, but, in certain cases, incorporating ESG factors has a positive influence on portfolio performance.

It is in these ways that ESG ratings and SRI research contribute to the larger responsible investment movement, whose goals include changing the behavior of investors, financial analysts and corporations in ways that favor sustainable development. The ability to measure and report on the extent to which these responsible investment

practices do actually contribute to sustainable development is an emerging challenge for the SRI community.

The role of ESG research agencies will be of utmost importance in exploring the links between investment decisions and sustainable development. As Sustainable Finance Geneva members are recognized professionals from both ESG research agencies and the investment sector, SFG will be well-placed to develop and promote investment approaches that explicitly integrate environmental and social factors.

