Does sustainable investing lack the membership credentials for the mainstream investment club? In a recent Fundweb article by ING’s Jeroen Bos, he correctly argued that there is an obvious overlap between identifying sustainable business models and companies which have a competitive edge, in turn implying superior price performance. So why is there a persistent reluctance to welcome responsible and sustainable investment processes into the mainstream?

One criticism is that the investment approach of the sustainable world has often appeared simplistic. The concept of a negative screen, which involves the removal of certain stocks and sectors from the investable universe, lacks the required sophistication of the investment mainstream.

However, a variety of sustainable approaches exist, including positive screening (a best-in-class approach) and thematic investing. Both of these investment processes persist in the mainstream channel, so this rebuke looks obsolete. Meanwhile, the exclusionary approach may well be ready for a comeback as the demand for a fossil fuel divestment campaign gathers pace. It is also noteworthy that a number of mainstream asset managers run funds with exclusionary characteristics, such as tobacco.

The moral overtone associated with sustainable investing has often given it a qualitative label rather than a quantitative one. In the financial world it is the discipline of the hard numbers that are seen as winning the day. But this criticism is unjustified as the number of major ESG information providers attests – Bloomberg, GMI, MSCI ESG, RepRisk and Sustainalytics. Significant data is now available with meaningful time series allowing for in-depth analysis. Big Data is available in the sustainable world.

Often whispered is the reproach that the sustainable ‘crowd’ may be environmental experts, but they are not experienced investment professionals. It is argued that the do-gooders are pushed aside by the ruthless investment majority in their pursuit of shareholder returns. Terms such as “non-financial” returns and “triple bottom line” (profit, people and planet) are seen as excuses for sub-standard performance. Again, this criticism looks out-of-date. A number of Wall Street veterans have embraced the sustainable message. Most of the major investment banks have developed ESG valuation criteria. Financial and sustainable experience is not a real problem.
However, our belief is that a convincing riposte to these criticisms will not be a game-changer, allowing for the mainstream launch of sustainable investing. We believe it hinges on the issue of materiality.

One of the basic notions of investment law is that material information should be released by companies in a timely fashion to the market, so that investors are able to make an informed judgement. Certainly there has been an explosion in ESG data provision, but what has been missing is the codification of that data. What if there were agreed standards for the presentation and release of sustainable statistics? Once this is in place, it is possible to require the disclosure of this data in mandatory filings.

This is exactly what the Sustainability Accounting Standards Board is undertaking. By the end of next year, most of the sector standards are likely to be in place. Others have also joined the hunt. Recently Carbon Tracker, an NGO, has requested of the Financial Accounting Standards Board that it require the disclosure of carbon content from fossil fuel companies.

So forget the emotional arguments about sustainable investing. It is the accountants and regulators who should herald its arrival in the investing mainstream.

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