

## **BOOK REVIEW**

### **Sustainable Investing: Revolutions in Theory and Practice**

*edited by Cary Krosinsky and Sophie Purdom, by Sarah Cleveland*

#### **Sarah Cleveland**

Sarah Cleveland has been an independent investment consultant since 2011, working with organizations on addressing sustainability in the investment process. She works on research, strategy, and education projects. Previously Sarah advised institutional investors on investment strategy, implementation, and ongoing monitoring. As senior consultant working at Towers Watson Investment Services and Rogerscasey, Sarah consulted with a broad spectrum of asset owners such as endowments, foundations, as well as corporate and public retirement plans. She has been involved in economic research and financial services for over 20 years, and active in the sustainable investment field since 2003.

## **Introduction**

Editors Cary Krosinsky and Sophie Purdom published the book *Sustainable Investing: Revolutions in Theory and Practice* at a critical moment. We need the book's positive message and urgent call to action. We need its central emphasis on systemic and network solutions that move beyond "business as usual" in the financial world. While isolated approaches to systemic issues are necessary, they are not sufficient to address significant headwinds like climate change. With more than 30 short chapters authored by specialists covering a wide range of subjects, this book offers practitioners and students of sustainable investing a helpful new resource. (It's worth noting that climate change is a consistent theme throughout and the reader is presumed to be familiar with environmental, social, and governance (ESG) issues and investing.)

As Krosinsky says in the Introduction, he intends the book to "mark the turning" of sustainable investment. He believes we are in a moment when conversation and action around ESG issues is shifting from the negative to the positive – from a focus on the bad things that companies do to the successful and innovative solutions that companies are implementing. We are near a "sustainable investing tipping point," he says, which, if expanded and practiced at scale, has potential to provide systemic solutions to environmental and social issues. We now have case studies to demonstrate sustainable investment solutions that are outperforming benchmarks and traditional approaches. Why not leverage these positive solutions as a new target to which we direct capital?

Krosinsky has written extensively on sustainable investing and I applaud him for taking the opportunity to incorporate his experience as both a practitioner and a teacher. (He has lectured at Brown and Yale Universities.) Coeditor Sophie Purdom is a recent graduate of Brown who shares her experience advancing sustainable investing through the student-led Brown Investment Fund; it's inspiring to see the passion and beliefs of a new generation of sustainable investors.

## **Synopsis**

The editors set the stage in the book's first section, "How." They differentiate approaches to sustainable investing – among them values-focused, values-driven, community, impact, thematic, ESG integration, and engagement/advocacy – and they debunk the conviction that impact investing implies lower financial returns. I appreciate that they acknowledge the breadth of approaches and the variability of outcomes, including as they relate to performance. They also demonstrate the power of "the networked solution" through climate finance and the Paris Agreement, and attempt to add up global assets and account for the "value of everything."

In Part II, Krosinsky and Purdom shift to “systems and systemic solutions.” Krosinsky describes our fight against climate change as “the Manhattan project of our time” – an endeavor that requires collaboration between investors, policymakers, and companies. We cannot sustain infinite growth within a finite planet, but we lack a constraining loop to counterbalance pushes for unconstrained growth. This second section also includes a framework to help investors create a climate change strategy across asset classes while highlighting significant data challenges that hinder investors’ ability to make informed decisions. Three asset managers contribute unique perspectives on this issue by describing their own sustainable investment strategies: focusing on water as the primary consideration for investment; employing a multi-factor ESG model with Warren Buffet’s value approach; and using Carbon Impact Analytics to measure carbon at the portfolio level.

The second half of the book, Part III, is dedicated to “The Next Frontier.” This section begins with a look at how to address major areas of fossil fuel consumption that are ongoing sources of greenhouse gas emissions. Solutions involve renewable energy financing, disruptive technologies like driverless cars, sustainable real estate, infrastructure funding, and accounting for regional differences (e.g., China, India, Japan) and the primary owners of fossil fuel reserves (i.e., state-owned enterprises). Several countries have “soft regulation,” like stewardship codes, that requires investors to state their approach to sustainable investment. In the U.S., shareholder engagement and advocacy are often used to influence a company’s behavior. A few authors investigate new business models like “conscious capitalism,” value drivers (linking sustainability to product/service growth), and shared ownership (Sharia). Krosinsky coauthors a chapter on the future of innovation in which he looks at efficiencies gained by business structures such as closed loop processes, shared resources (e.g., cloud computing), and biomimicry, as well as financial innovation (e.g., infrastructure finance and Public-Private Partnerships). The final chapter presents an overview of the Principles for Responsible Investment, an initiative launched by the United Nations and now led by industry. Writing in the conclusion, Krosinsky and Purdom draw on insights from Krosinsky’s students to argue that climate change and workplace conditions are the two most urgent issues for sustainable investing.

### **A Few Observations**

In some ways, I found the book rich in content; in other ways, given the breadth of topics included, it only scratches the surface. For example, Chapter 7 proposes a thorough practical framework for developing an investor’s climate change strategy. In select other chapters, asset managers profile their strategies, and practitioners provide in-depth views into sustainable real estate and infrastructure. On the other hand, the book encompasses everything from the unknown of disruptive technologies to geographical influences and new business models. I appreciate the editors’ willingness to stake a claim for moving

forward without a perfect solution. They also do not dismiss the difficulties of implementing systemic solutions, which take a concerted effort by policymakers, investors, companies, countries – all of us.

At times, the book's flow was choppy – chapters tend to stand on their own – but this didn't detract from the overall message as long as I remembered to take a big-picture view. For example, an extensive discussion on data challenges follows a chapter on why divestment is a thoughtful outcome. The connection may seem elusive until you consider that greenhouse gas emissions data are *voluntarily* reported and investors are making portfolio allocation decisions, including divestment, based on these data.

## **Conclusion**

When I initially read the book's subtitle, *Revolutions in Theory and Practice*, I pushed back: is this really revolutionary? In short, yes. If you consider the current structure of our financial system, theories such as a circular economy are way out there. Are capital markets and sustainable investing going to “save” us from ourselves? Unlikely, but worth a try. As they say, the alternative – our current path – isn't so hopeful.

Many of us working in the sustainable investing community live in a bubble. We are too often the majority of attendees at our industry conferences. We know that “business as usual” is not going to change without ideas leaving the echo chamber. *Sustainable Investing: Revolutions in Theory and Practice* does a respectable job of trying to encourage just this flight, to push ideas beyond the bubble with a sense of urgency and possibility and help both mainstream and sustainable investors realize that they have the same objectives. After all, sustainability and finance are interdependent. To have both success and impact as investors requires a business case for sustainability and a sustainability lens for finance. Such convergence will help us avoid environmental and social crises. I long for the day when we are beyond terms like “sustainable investing” and when we are all considered smart investors for directing capital to systemic solutions. Hopefully this will be the focus of a sequel to *Sustainable Investing*.