

THE VERIS
IMPACT
INTERVIEW

**David Blood on why
Sustainability Equals
Innovation and How
Innovation Drives
Success**

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David Blood

is co-founder and Senior Partner of Generation Investment Management. Previously, he spent 18 years at Goldman Sachs, including serving as co-CEO and CEO of Goldman Sachs Asset Management from 1999 - 2003. David received a B.A. from Hamilton College and an M.B.A. from the Harvard Graduate School of Business. He is on the board of Dialight, New Forests, On the Edge Productions, SHINE, Social Finance UK and WRI.

In this Q&A with Veris, David shares his views on the state of sustainable capitalism, and why impact investing will play an ever-important role in shaping our future.



Where is the world today in terms of sustainable investing?

The opportunity exists today to advance sustainability and sustainable capitalism to improve the standard of living for people around the world and to distribute resources more thoughtfully and efficiently. I believe this is critical to addressing the two key global challenges: Poverty (stalled lives and stagnant communities) and climate change, as the two are inextricably linked. Earlier forms of capitalism just didn't work for everyone. An appropriate step is to evolve capitalism to make it more long-term, more sustainable, for everyone. That means a fair, safe, healthy, inclusive, and low-carbon economy. This vision must also clearly help people who feel left behind. Sustainable capitalism cannot be an ivory tower discussion. We need to help those who haven't benefitted previously.

Why have companies generally been more forward-thinking than investors about sustainable and impact investing?

Companies have been way ahead of investors. The reason is business executives understand that to run great businesses, you have to be long-term in your orientation. You need to be inclusive and holistic in thinking about all of your stakeholders. In fact, you may not hear words like "sustainability" from the best CEOs or CFOs. Instead, you'll hear them articulate a clear, long-term strategy and an understanding of the importance of environmental, social and governance factors (ESG) in driving success. They are building products and services to address everything from climate change to inequality to healthy living. And these approaches are allowing companies to grow in a low-growth world. A major advantage for success.



Why is Generation so committed to ESG research in its investment decision-making?

We think sustainability analysis makes us better investors. We integrate ESG factors into each one of our investment strategies, and that discipline helps guide our decision-making. A focus on sustainability in our investment analysis provides us with differentiated insight into the quality of a business and the quality of management. Differentiated insight is really the holy grail of investing. If you can do that consistently, you will outperform. We never thought ESG or sustainability was about trading values for value. It's always been about making better long-term investment decisions.

Why is Europe ahead of America in embracing sustainable investing?

In America, historically, SRI or ethical investing was considered a political movement. This polarized how we viewed sustainable investing and there was a visceral rejection by the mainstream. The perception was: returns must not be as good. In Europe, it has been different. Europe embraced sustainability faster because there wasn't political controversy about the approach. I think that's changing now in the U.S. While we still have a very acrimonious political situation in the U.S., academic research is confirming again and again the real benefits of sustainable and impact investing.

Will the Trump administration and the rise of populism around the world reverse the progress in addressing climate change?

The answer is "no," but not for political reasons. No political organization has the power to turn back the clock because business and technology are driving change. It's unstoppable at this point. Sustainability today equals innovation, and innovation equals sustainability. Sustainable capitalism is increasingly based on our ability to use resources more efficiently and wisely. That's good for humanity and the entire planet. Innovation will continue to drive our economy for the foreseeable future.



Do you place too much faith in the ability of business to bring about positive change?

The good news about capitalism is that it tends to ultimately allocate capital to the best ideas. Business is very good at mobilizing capital. Sustainable capitalism and sustainable long-term business practices are just a smarter way of doing business. Increasingly, businesses are seeing opportunity in developing products and services that advance sustainability, whether that be in climate change, poverty, inequality, or water quality, among others.



How do you measure a sustainable investment?

It depends on what you're trying to measure. We can measure whether a company is using resources more efficiently than another company. We can measure whether a company has a higher or lower carbon footprint. We can measure whether a company is doing the right thing in the supply chain. And, we can measure how a company is treating its employees. The measurement may not have the scientific precision some may like, but there are many, many tools today that can evaluate an investment's impact.



How do you respond to critics who say you really can't measure a sustainable investment?

First, measuring impact is critical and particularly important where impact is the primary objective. There are a couple of important ongoing initiatives to improve and develop standards for measurement of both quantitative and qualitative factors. However, more work is required.



The UN Sustainable Development goals aim to help nations develop frameworks to end poverty, fight inequalities, and tackle climate change, while ensuring that no one is left behind.

What do we need to do to arrest climate change?

We must significantly accelerate the transition to a low-carbon economy in the next five to ten years. We must make more progress than we did in the past 10 years. The magnitude of the change we need to make is much greater than what is generally understood. I am confident we can do it because we possess the technology and knowledge. The question is whether we have the collective will. I believe we will do the right thing because the alternative is so stark and unacceptable.



How can sustainability and impact investing reduce inequality?

Poverty is real. It harms both individuals and economies. It is also a senseless waste of human life, and it threatens social cohesion. Ultimately, this is bad for business. It's in every company's interest to ensure the vitality of their communities and the workforce living in those communities. Just as business needs to be part of the solution regarding climate change, it needs to be part of the solution in addressing poverty.

What are some practical solutions that can address inequality?

There are a wide range of possibilities. In terms of employment, it could mean fair wages, equal pay, retirement pensions, family-friendly policies, training and development. It may also include creating products and services that specifically serve the needs of low-income consumers. Housing, education, access to finance – all of these are part of the solution. Reducing poverty and inequality is a growing commitment for me personally and also how I think about the work of Generation.

What's your view of B Corp?

Generation is a strong supporter of the B Corp movement and will continue to be. We became a B Corp because we'd been operating as one in many respects. We wanted to support the good work that B Corp does on an increasingly global scale. B Corp is inspiring and enables the kinds of business we invest in. That global public companies like Unilever and Danone are making some of their divisions "B Corp certified" is a very positive development.

How has B Corp status helped Generation?

When you go through the B Corp process, you learn things about your firm and team. Questions are asked and issues are raised that we didn't think about previously. Becoming a B Corp has been beneficial to Generation because ongoing self-examination always produces insight.



What makes you get up in the morning and go to work?

It's a blessing to be able to build a business that is mission-oriented and to work with talented and committed people. When I was at Goldman Sachs, I lived my life in silos. My family life, my business life, my philanthropic life, my advocacy life, they never crossed over. When we were founding Generation, we asked ourselves, "Is it possible to build a business where families, business excellence, philanthropy, and advocacy are combined? "Is it possible to do that all in one organization? And if it's possible, is it desirable?" We concluded, "Yes, it's possible and yes, it's desirable." For me, being able to practice finance in a rigorous, competitive way and do so without checking my values at the door is very exciting.

Are there key lessons you learned about the kind of people and talents you need for success at Generation?

Start by hiring great people who strongly believe in your value proposition. A key to our development as a firm was developing a team of people who truly understand sustainability and finance, and can integrate both of these skillsets into a single, disciplined process. Another lesson is that sustainability analysis is best done by one person with a dual perspective. You can't separate the investment team and the sustainability team. If you bifurcate that process, you lose the richness of insight that comes from sustainability.

Why are you confident business will rise to the occasion and drive sustainability?

Some folks might disagree with us and believe capitalism is fundamentally flawed and won't work. I don't feel that way. Business is just too good at allocating resources efficiently and effectively and driving innovation. Perhaps the core lesson we are all learning is that sustainability and innovation are the same thing. Innovation drives success. This is a really transformative insight. In practice, it is a key to changing our world for the better.