

## Ethical can be profitable

As part of a long-term approach to investment, sustainable and responsible investment (SRI) is particularly focused on understanding and aligning investments with long-term social change. For example, regulatory initiatives that penalise the tobacco and alcohol industries while promoting 'greener' house-building and more efficient cars are important indicators of underlying social change and have helped kick-start interest in social and environmental investment themes.

Government support – or opposition – can have a very clear and direct impact on these investment themes, such as governments' price support for renewable energy firms.

But government regulation can also drive the development of key themes in less direct ways. Progressively higher standards, for example on health, safety and environmental issues have been instrumental in the development of new industries focused on making the workplace, roads and products safer. Companies such as **Halma**, a UK company that makes safety equipment, are expected to benefit from higher demand for their products as a result of legislation such as the UK's 2008 Corporate Manslaughter Act.

Equally ever stricter environmental standards aimed at further limiting pollution also drive growth in companies like **Johnson Matthey**, a UK company that manufactures catalysts which help reduce polluting emissions from road vehicles.

These trends also help to underpin a flourishing environmental consulting industry, including companies like **RPS** and **WSP**, which help to advise companies on how best to meet – or exceed – tightening environment, health and safety standards.

Such regulatory drivers are clearly welcome but governments are apt to change their minds, introducing risks for investors. In Germany for example, the Government supported the development of biofuels through tax exemptions, but these were removed in 2007, resulting in a dramatic slump in demand and stranding investments in new biofuel production capacity and refining.

However, for a growing set of renewable energy technologies these risks are receding as technologies become competitive without the assistance of direct government support. According to analysts, on-shore wind can now generate electricity at just over €60/MWh, a price which is comparable with traditional coal and gas power. Technologies that focus on increasing the efficient use of energy and other resources are perhaps even better placed to benefit from higher energy prices. Developers of everything from software that improves the energy efficiency of computers through to manufacturers of loft-insulation such as **Sheffield Insulation Group** are seeing real growth in demand for their products as a source of significant cost savings. We expect these trends to strengthen as the cost-benefit ratios of these technologies become more widely understood and appreciated.

Clearly regulatory initiatives will remain important drivers of growth in sustainable industries. More important though is the need for a predictable regulatory environment that enables businesses and investors to make long-term decisions. Ultimately what long-term investors really need is a long-term approach to regulation.

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