

## The timing for creating a new firm – *and* a new model of corporate sustainability

**The market meltdown of 2008/9 will, we believe, ultimately prove to be a watershed point in the growth of “sustainability” factors’ (including environmental, social, and governance factors) integration in the investment process, and a stimulus for the rapid growth of “sustainable investment” throughout the mainstream. Indeed, a recent study by respected management consultancy Booz Allen Hamilton predicted that by 2015, fully 20% of all managed assets – roughly \$25 trillion – will be managed using “sustainability” approaches.<sup>1</sup>**

It is true that the crisis has driven many institutional investors into an even more cautious, risk-averse mode, and has also stifled innovation and creativity in both asset allocation and management to some extent. However, the crisis has *also* provided a strong stimulus for investors to re-examine precisely what the phrase “risky assets” really means. Clearly, assets which have traditionally been regarded as “low risk” (eg. money market funds) have turned out to be anything but. This realization has enabled and even stimulated a profound re-definition and broadening of the entire concept of risk itself. And that in turn has opened the door to a growing recognition and acceptance of ESG – *and other* – sustainability factors as not only a legitimate but often a *necessary* component of a new, “post-modern” definition of total investment risk.

Like most newly-created firms, Inflection Point Capital Management was born out of a certain level of dissatisfaction with previous and contemporary approaches. In our case, we were somewhat frustrated by the limitations of *both* traditional and “sustainability” approaches. In the case of the former, it was the paucity of products and strategies which genuinely integrated both sustainability and more conventional financial factors from the outset, in those relatively rare cases where they were even integrated at all. In the case of “sustainability” investors, we were concerned by what we felt was an unduly narrow definition of corporate sustainability – generally equating it with “ESG” factors. In our view, while it is of fundamental importance to address them, it is not sufficient. Companies’ sustainability is also critically dependant on other hard-to-measure “intangibles”, such as innovation capacity, adaptability, and responsiveness. It is for that reason that Inflection Point Capital has developed and applied its proprietary 5-factor model, which seeks to identify and assess all of these factors systematically.

.../...

<sup>1</sup> Booz Allen, Hamilton & Robeco (2008) *Responsible Investment: A Paradigm Shift*

We at Inflection Point Capital see the recent market meltdown as a multi-trillion dollar “advertorial” for sustainability-enhanced approaches, for at least four reasons:

- The crisis has clearly exposed the inadequacies and limitations of traditional financial analysis, and created in many a new-found receptivity to innovative new approaches. In particular, there is a growing recognition of the need for *forward*-looking indicators of companies’ risks and value potential, and the dangers of an excessive reliance on past correlations and historical performance. The world around us is changing rapidly, profoundly and unpredictably; past approaches simply cannot be assumed to be successful going forward.
- There is a growing appreciation that ESG-enhanced investment is *not* the same thing as traditional, ethically based SRI (socially responsible investing). While the SRI market itself continues to be vibrant, this realization has allowed the saliency of ESG factors to be recognized as well by a growing number of *mainstream* investors, well beyond the confines of the traditional SRI community. The “mainstreaming of ESG” is one of the most powerful investment trends in the world today.<sup>2</sup>
- There is growing public, business, and governmental concern over the financial and competitive impacts of such major sustainability issues as climate change.
- There is a growing body of concrete evidence that ESG considerations can indeed add value to the investment process in particular cases.<sup>3</sup> In the early stages of the recent financial crisis, for example, it was precisely the superimposition of the 360° risk radar enabled by ESG analysis that allowed our financial sector research team from Innovest Strategic Value Advisors to detect and warn clients about sub-prime mortgage risk at an exceptionally early stage, in the fall of 2006.<sup>4</sup>

Contact: Dr Matthew J. Kiernan, Inflection Point Capital Management  
100 King Street West, Suite 5700, Toronto ON M5X 1C7, Canada  
Telephone +1 416 399 2861 Email [mjk@inflectionpointcm.com](mailto:mjk@inflectionpointcm.com)

<sup>2</sup> Booz, Allen & Hamilton, Robeco, *op. cit.*

<sup>3</sup> See, for example, Matthew Kiernan (2008) *Investing in a Sustainable World*. New York: American Management Association; UNEP Finance Initiative and Mercer Investment Consulting (2007) *Demystifying Responsible Investment Performance*.

<sup>4</sup> Innovest Strategic Value Advisors (2006) *Global Banking Report: Retail Lending*.