



BSR Conference 2010
Innovate. Integrate. Inspire.

The Road From Politics to Sustainability: In Conversation With Peter Knight and Kenneth B. Mehlman

Breakout Session Summary
Wednesday, November 3, 2010 | 2:45-3:45 p.m.

Speakers

- » **Peter Knight**, President, Generation Investment Management
- » **Kenneth B. Mehlman**, Partner and Head of Global Public Affairs, Kohlberg Kravis Roberts & Co., LLP
- » **Aron Cramer**, President and CEO, BSR (moderator)

Highlights

- » Both speakers ran presidential re-election campaigns and now head investment firms that integrate social and environmental factors into their investments. "This sends a very loud message on the importance of sustainability today," Cramer says.
- » The two speakers, representing both ends of the political spectrum, agree that long-term thinking should be applied to investment strategies and that sustainability innovation will be a major trend in the years to come.
- » Both men gave reasons to be optimistic about the future. Knight cited the international momentum around climate change, and Mehlman said there has been improvement on some issues, such as air, water, deforestation, and acid rain.

Memorable Quotes

"Social change often starts outside of politics. Politics is last." —Kenneth B. Mehlman, Kohlberg Kravis Roberts & Co., LLP

"The investment world is going to be dictated by sustainability in the next 50 years. This overall trend is unmistakable." —Peter Knight, Generation Investment Management

"We have two greens. One is in my wallet, the other one is outside." —Kenneth B. Mehlman, Kohlberg Kravis Roberts & Co., LLP

Overview

Cramer introduced the two speakers, highlighting their journeys from politics to sustainability. Mehlman and Knight have run re-election campaigns for U.S. presidents of different parties (George W. Bush and Bill Clinton, respectively) and now head investment firms that integrate sustainability issues into their thinking.

Mehlman said Kohlberg Kravis Roberts (KKR) integrates ESG factors into investment decisions. Mehlman joined KKR at the time of the buyout of Texas Electricity Utility TXU in 2007. He underlined how important it was to include social and environmental factors in this major investment, considering that TXU had plans to build 11 coal-fired plants at the time.



Mehlman described how KKR is being proactive and diligent about sustainability issues in the investments it makes and said the firm looks for opportunities. “In today’s world,” he said, “we are in a political bull market, which means there is more scrutiny than ever.” He emphasized that these concerns must be addressed, and fixing them with the lobbyists and the regulators is fixing it after the fact.

A huge way to save money, Mehlman noted, is by reducing pollution. KKR works to measure key environmental performance areas to find potential savings. This program yielded \$160 million in savings in one year.

Knight is a cofounder of Generation Investment Management, an investment management firm started by Al Gore that focuses on ESG factors.

Knight first illustrated how a business can fail if it does not adapt to a changing world. He started his career at the U.S. Justice Department during the antitrust suit against IBM. Even though the government lost the suit, IBM could not hold onto its market dominance, given the aggressive competitive landscape.

Knight recalled former U.S. President Clinton having dinner with CEOs in 1996. The executives asked Clinton how their jobs were similar to the President’s. Clinton asked them in return how often they had to make a “bet-the-company decision.” The CEOs answered that they made these decisions every three months; Clinton said he made such decisions four times a day. Knight suggested that CEOs should integrate social and environmental concerns into these decisions.

Cramer asked the speakers, “If you could wave a magic wand to change our markets, what would you change?” This led to a discussion of the importance of long-term thinking in investment. Mehlman said his investment firm operates on a seven-year investment window. Knight stressed the importance of shifting incentive schemes from short-term investments.

Mehlman said government sourcing policies are great drivers for sustainability issues. For example, the U.S. General Services Administration and government investments were important actors in the birth of the LEED system for buildings. You can also change behavior through managing assets. Proactively managing parking spaces (such as changing the pricing of parking and giving more information to commuters about parking) can change commuters’ behavior. Mehlman said he thinks privately managed assets can do this better than publicly managed assets.

During the Q&A session, a participant asked the speakers whether there was a fear that the economic crisis would negatively impact consumer demand for green products. The two speakers agreed that investments will unmistakably be dictated by sustainability in the medium and long terms. The simple economic facts in the next 10 years are going to demand sustainability innovation, whether consumers ask for it or not.

In closing, Knight underlined the high level of activity around climate change issues outside of the United States, from Germany to Ethiopia. Mehlman said there is lot of reason for hope. “Think back to the first Earth Day,” he said. “Few people would have imagined that the air and water would be cleaner today and that there would be less acid rain.” This, he remarked, is thanks to the power of the human mind and the power of innovation.

Notes Sponsor

VOLKSWAGEN
GROUP OF AMERICA

This summary was written by BSR staff and can be downloaded at www.bsr.org/session-summaries.