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This month in the “Cornerstone Journal of Finance & Banking” (JSFB), global markets press forward through an earnings season characterized by pressure on US companies from dollar strength, commodities price weakness and slower emerging market growth. In news flows, this month saw the good, the bad, and the ugly ranging from powerful growth in Apple's global ecosystem of aspirational products, to the countdown to UK elections and Greek debt negotiations, to humanitarian tragedies in the Mediterranean and Nepal, and violence erupting across tension-filled cities stateside. One thing seems clear in this market as we navigate unprecedented times with tenuous US-Iran negotiations, a shifting environment for monetary policy, and negative yielding bonds joining the fastest-growing asset classes: the global growth trajectory is uncertain and characterized by increasing interconnectedness and complexity.

This uncertainty may be underlying the fact that the world’s corporations returned over $1T of cash to investors through dividends and buy backs. We wonder if there will be long-term damage to future prospects for value creation. That said, in considering complexity and interconnectedness, it seems that an area ripe for investment opportunity is the cities of the world. And so we turn to “Urban Innovation” as the theme for this month’s JSFB.

We look at existential threats (like the lack of natural water resources in Singapore), to tremendous opportunities (like the potential of “green” bonds in financing cleaner energy), and new tools available to more effectively measure the ability of the private sector to address societal need (like those of Impact Infrastructure Inc.).

We begin with a quote from Singapore's visionary founder Lee Kuan Yew, who died this past month. While his relentless pursuit of his vision may not be to the liking of many, his accomplishments were remarkable with worthwhile learnings from his benevolent dictatorship and pragmatism. “The task of the leaders must be to provide or create for them a strong framework within which they can learn, work hard, be productive and be rewarded accordingly,” Yew stated. So, speaking of leaders and frameworks this month, we turn to Cornerstone’s Global Markets Strategist Michael Geraghty who offers an update to our “Investment Clock.” In light of recent market action and bottom-up factors, we take this opportunity to highlight a somewhat more cautious stance in the near-term and tilt away from the more cyclical Sectors and Regions.

Will Sarni weighs in next with thoughts on innovation in water technology, asking “How does the public sector address the ‘new normal’ of increasing water scarcity?” He finds lessons in Singapore’s journey to become a global leader in self-sufficiency in an urban context. From there, Matias Echanove and Rahul Srivastava take us inside the slums of India and the challenge of reducing poverty through sustainable development as this month’s case study in “Open Source Excellence.” The Institute of Urbanology planners work to empower locals to create new neighborhoods that strive to meet demand for affordable housing in areas where quality of materials are often suspect and families with steady incomes still face obstacles in access to housing finance.

In the “Accelerating Impact” section, Maria Damanaki of The Nature Conservancy recalls the damages wrought by weather disasters and issues an “all hands on deck” call to engineers, community leaders, ecologists and investors to become champions of new “green infrastructure” so the protective
values of say, healthier coral reefs can be harnessed to stop deadly wave energy from hitting coastal zones. And what would our cities look like without trees, grass and proper green spaces? In the Sustainable Standout section, Deborah Marton of the New York Restoration Project shows the impact of a solid land-based approach to building stronger communities by reclaiming desolate spaces and turning them into **productive models for social interaction and landscape management.**

All that enterprise requires energy -- and cleaner energy at that. We tip our hats to Ken Locklin and Dave Posner and the Alliance to Save Energy for introducing CarbonCount™, a new tool to help “green” bond investors understand climate impacts of renewable energy projects. The system, which employs a quantitative metric to evaluate expected reductions in carbon dioxide emissions, was honored as among four top prizes in the Finance for Resilience (FiRe) challenge at the recent Bloomberg **New Energy Finance Future of Energy** conference. (NB: Cornerstone Capital Group Board Member Dr. Holmes Hummel garnered a separate honor for the PAYS system enabling businesses to finance their own efficiency upgrades). Further on the subject of evaluation tools, John Williams makes the case for more **sophisticated triple-bottom line valuation assessments** for sustainable design projects so fiduciaries can feel more confident in balancing the need for proper due diligence efforts with traditional benefit-cost and risk analysis models that might often prove too prohibitive. Carol Stimmel rounds out this fine issue with thoughts on **smart transportation** grids that use predictive analytics as a much-needed, sustainable “life force” to move us further down the road to economic prosperity.

My sincere regards,
Erika

Erika Karp
Chief Executive Officer
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UrbanInnovation.mobi

By Erika Karp, Founder & CEO and Michael Geraghty, Global Markets Strategist, Cornerstone Capital Group

Each month in the Cornerstone Journal of Sustainable Finance & Banking (JSFB), we will offer thoughts on a “Featured Domain,” which is selected from our proprietary “Sustainable Domain Bank.” The Cornerstone “Sustainable Domain Bank” contains 2,000+ addresses on the Internet, which are an articulation of business processes, business practices and aspirations for a more regenerative form of capitalism. Many of these domain names have the potential to be developed into business plans reflecting a robust interpretation of sustainable capitalism and finance. In particular, each “Sustainable Domain” captures a principle, or reflects a value inherent in the systematic understanding of the Environmental, Social and Governance (ESG) imperatives facing businesses and the economy today. Each Domain is intended to facilitate dialogue across functions and sectors of the capital markets; and each is available for collaborative partnership, purchase or transfer should it have particular appeal to Cornerstone clients and colleagues.

A new peak in urban mobility for New York City was achieved in 2014 with 1.7B people having ridden its sprawling subway system. More recently, we saw another notable milestone with the introduction of the “UberChopper,” which offers a $484 sightseeing helicopter ride above Shanghai so that Uber, the disruptive player in transport, can continue to gauge interest in airborne services. It has already experimented with similar operations in the United States, India, Brazil and South Africa. And to think, it was only back in 1801 that the Philadelphia Water Works opened for business, making Philly the first major US city to provide clean drinking water throughout its borders. While it is estimated that about 2.7 billion people in the developing world live in urban areas, we know that 100% of Singapore’s population actually does. So it would seem that some rather important lessons can be learned from that burgeoning city-state.

In fact, Singapore realizes that a lack of readily accessible water is an existential threat—and so is the necessity to innovate. For Singapore, “urban innovation” has resulted in no deterrent to rapid growth. Following this month’s death of Lee Kuan Yew, Singapore’s founding father, The Wall Street Journal published a lengthy essay discussing how a tiny, poor nation with “a total absence of natural resources (not even its own supply of drinking water)” had been transformed into “an astonishing economic success.” The Journal highlighted today’s “well-ordered cityscape of manicured parks, gleaming office towers, high-rise apartment blocks filled with middle-class families and glittering malls swarming with wealthy consumers.”

Lee Kuan Yew was nothing if not pragmatic. While his relentless pursuit of the vision may not be to the liking of many, his accomplishments were remarkable and there are worthwhile learnings from his benevolent dictatorship. He stated that “The task of the leaders must be to provide or create for them a strong framework within which they can learn, work hard, be productive and be rewarded accordingly.” Lee Kuan Yew knew what mattered most.

In speaking of frameworks, we take this opportunity to highlight one of our own framework reports which addresses the question of Environmental Issues & Country Valuations: What Matters? from Cornerstone
Capital’s Global Market Strategist, Michael Geraghty. Michael notes that in the past 30 years, the world’s star performers have been the resource-poor newly industrializing economies of East Asia—including Singapore—while many resource-rich economies, such as the oil-rich countries of Mexico and Venezuela, have gone bankrupt.

His conclusion: What matters most to wealth generation is how an economy uses flows of raw materials, rather than the country’s stocks of natural resources. Many resource-rich countries have lower levels of per capita GDP than resource-poor states that efficiently transform raw materials into wealth. The key point is that human capital, creativity and innovation are what drive prosperity. As the world continues to urbanize, with all that means for heightened interconnectedness and complexity, the need for Urban Innovation becomes more and more essential.

Erika Karp is the Founder & Chief Executive Officer of Cornerstone Capital Group.

Michael Geraghty is the Global Markets Strategist at Cornerstone Capital Group. He has over three decades of experience in the financial services industry including working as an investment strategist at UBS and Citi.
Today, half of the world’s people live in cities. By 2050, three out of four people will be urban citizens. This reality makes smart urban development one of our biggest opportunities for a more resilient, sustainable future — a future where people and nature are connected and thriving together.

To be successful, we have to do a significantly better job of investing in innovative solutions in our natural environment. This is an all-hands-on-deck moment for engineers, urban planners, community leaders, ecologists and investors.

Perhaps the biggest opportunity lies in our growing coastal cities. Consider that in 2011, of the 23 “megacities” worldwide (metropolitan areas with populations exceeding 10 million people), 16 were already in coastal areas. And, this trend is only increasing. Just this month, scientists from Texas A&M released a new study that estimates a more than 200 percent increase in the amount of urban land within coastal zones by 2030, and a doubling of urban exposure to coastal flooding.

So, what does this mean? It simply reinforces the fact that public and private sector leaders need to be able to make extremely wise development choices starting now, as hundreds of billions of dollars will be spent globally on coastal infrastructure. This challenge creates an opportunity to demonstrate the cost-effective and flexible role that nature can play alongside – or, in some cases as an alternative to – the menu of traditional infrastructure choices, such as breakwaters, seawalls, and levees.

Natural, or “green” infrastructure – such as coral and oyster reefs, mangroves, sand dunes and marshes – provides benefits that many engineered solutions can’t provide, including recreation, tourism, food, sustainable jobs and an improved quality of life for city residents. After all, no one snorkels at a seawall.

However, this is not to suggest that natural infrastructure could replace all engineered solutions. The key is that when we integrate these two approaches, we increase our resilience, reduce our risk and enjoy other important benefits.

An example: In the weeks after Hurricane Sandy hit in October of 2012, Governor Cuomo called on The Nature Conservancy to tap into our latest science and guidance on better ways to help protect New
York City and the Eastern seaboard from future storms. Just last year, Governor Cuomo and Vice President Joe Biden announced billions of dollars of funding for storm recovery projects, which will in part include investments in nature to strengthen overall infrastructure performance.

This breakthrough is still an outlier, but it offers a glimpse of the path. And, we are already on our way.

The Conservancy and our partners are conducting first-of-its-kind mapping of the ocean’s full value to people. We are taking a fresh look at mangroves, reefs, sea grasses, and salt marshes in terms of jobs, food security, risk reduction, recreational revenue and other quantifiable functions. We are examining these values at local levels and in key coastal population centers around the world, where this information is needed to inform development decisions.

But, once this information is shared, we still need investment solutions to make these opportunities viable. Some innovative approaches are already coming into focus.

We are working with insurers to incorporate the quantifiable protective values of natural infrastructure into their risk models. This could reduce premiums for assets protected by nature – for example, healthy coral reefs can stop 97 percent of a wave’s energy before it hits coasts – and incentivize better protection of these systems.

Offset payments, meanwhile, can mitigate a portion of the negative impact of increasing offshore development activities, such as drilling and mining. This approach could also leverage the high-value potential of “blue carbon” – such as the carbon stored in mangroves – as a powerful strategy to reduce climate impacts.

Blue bonds may offer another investable solution. These bonds are similar to a standard debt obligation, but the proceeds are invested in activities that support protection and restoration of natural and constructed infrastructure. They are modeled on the over $8 billion in “green bonds” that have financed World Bank projects since 2008. Blue bonds can be repaid to investors through contributions from national and bilateral climate adaptation funds, as well as revenue from tourism and fishery industries.

This is just a taste of the opportunity before us — the opportunity to transform how we protect, restore and invest in the ocean habitats that will sustain the vast majority of people and cities on Earth.

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*Maria Damanaki* is Global Managing Director for Oceans at The Nature Conservancy. She leads a global team focused on transforming how the world manages its oceans, including sustainable fisheries management, large-scale protection and restoration of coral reefs and other ecosystems, coastal resilience, and a first-of-its-kind mapping and quantification of the full value of the world’s oceans to people.
### Upcoming Events

#### Global ESG Calendar

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<td>6.1.15 – 6.4.15</td>
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