CAMRADATA

Impact Investing Whitepaper

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Welcome to CAMRADATA's Impact Investing Whitepaper

The status quo has been challenged, the future of the planet once again put under the spotlight. As we reach the halfway point of this turbulent year, fund managers are still coming to terms with where we are now, what tomorrow could bring, and how to thrive in these extraordinary times of uncertainty.

Looking beyond the Covid-19 crisis and all the heartache it has wrought, there may be an opportunity to implement positive change in society – in the economic, sustainable and social sense – and impact investments can play a part in this.

The growing impact investing market, although still faced with its own challenges, seeks to provide capital to address the world's most pressing issues in sectors such as conservation, healthcare, housing, education, and renewable energy.

As the world entered lockdown, pollution levels dropped to unprecedented low levels, with some of the world's most contaminated cities' skylines revealing themselves for the first time in years as the smog lifted. One study by the International Renewable Energy Agency says increasing investment in renewable energy could drive global GDP growth by almost $100 trillion between now and 2050, helping the way to economic recovery.

The crisis could also rebalance the focus towards social issues, and less so on environmental issues that have generally been receiving much more attention over the past couple of years. Technology and healthcare will remain key sectors for investment managers looking forward, especially in light of current circumstances.

European sustainable funds that implement ESG criteria as part of their core security selection process showed signs of resilience throughout the first quarter of this year despite the market sell-off sparked by the coronavirus, according to a recent report by Morningstar.

Looking forward, impact investors are still faced by a crucial question: how to strike the balance between making positive change in society whilst generating positive returns for their clients?

Impact Investing Roundtable

The latest CAMRADATA roundtable on Impact Investing took place virtually in London on 17 June 2020.

Between 2016 and 2018, the volume of assets invested responsibly grew by almost US$8trn. Impact Investing was one of the fastest growing categories, up almost 80%.

While the increase is remarkable in percentage terms, it nevertheless amounts to less than US$200m in real money. Impact remains firmly in the shadow of other forms of responsible investing such as ESG Integration and Screening (respectively, US$17.4trn and US$19.8trn assets under management).

And yet, for some, Impact Investing is where the world is headed. Marjoleine van der Peet, portfolio manager of Kempen's Global Impact Pool, told the CAMRADATA Impact Investing roundtable that impact investing is the future of how responsible investors will purposefully want to invest - to do good and be part of the solution.

Ben Constable-Maxwell, M&G Positive Impact Fund co-lead, said impact investing was part of a societal shift. "Investors want to know what effect their savings are having," he said.

Karen Shackleton, founder of the investment forum, Pensions for Purpose and adviser to pension funds for MJ Hudson Allenbridge, said that almost three-quarters of attendees at the PfP/DG Publishing "Investing with Impact Summit 2019" wanted to be investing impactfully within three years.

Enthusiasm is infectious. But serious questions then arise as to how capital gets deployed to both earn market-like returns (one precept of impact investing) while making a material, intentional and additional improvement to society (the second, equally important precept).

Other CAMRADATA panellists noted that there needs to be much more product out there, especially in fixed income, to meet demand. Anna Rudgard, fixed income researcher at pension fund consultancy, Aon, said that compared with public equity, impact bond investing has a lot of catching up to do.

Then there is the issue of measurement. There may be a lot of public equity impact funds – about a hundred, according to Nick Samuels, head of manager research at pension fund consultancy, Redington. But how can minority investors measure the additionality of projects within complicated multinational companies when there is currently no standard requirement on companies to report this?

Finally, there are conundrums for many kinds of asset owners in selecting impact investments. Ian Gamon, investment consultant at LCP, another pension fund advisory firm, said that UK pension fund trustees, for example, may invest with an impact objective so long as that is not expected to compromise financial returns.

This final comment was a reminder that impact investing began several decades ago with very different kinds of clientele: notably NGOs such as agencies of the United Nations. For them, the precept of achieving "market returns" was a signal to their funders of financial discipline in project management. It was not until 2007 that a leading philanthropic organisation, the Rockefeller Foundation coined the phrase "impact investing" and more than a decade later that BlackRock and Goldman Sachs attempted to mainstream impact investing as viable for all types of institutional investor.

Major transitions require terminology to be refined and reshaped, undoubtedly with some friction and question marks along the way. Perhaps the biggest talking-point for investors today is where ESG investing stops and impact investing starts. The CAMRADATA panel were asked if the two could be harmonised. The majority were sceptical.

Rudgard was clear in her view that she doesn't see them harmonising: "ESG analysis should form part of an impact investment manager's due diligence, but from the outset the concept of intentionality should distinguish an impact strategy from an ESG one."

" ESG is more about doing no harm while Impact is focused on doing good "

Samuels was adamant that they should remain separate. "I have to spend so much time differentiating the two because they get conflated," he said.

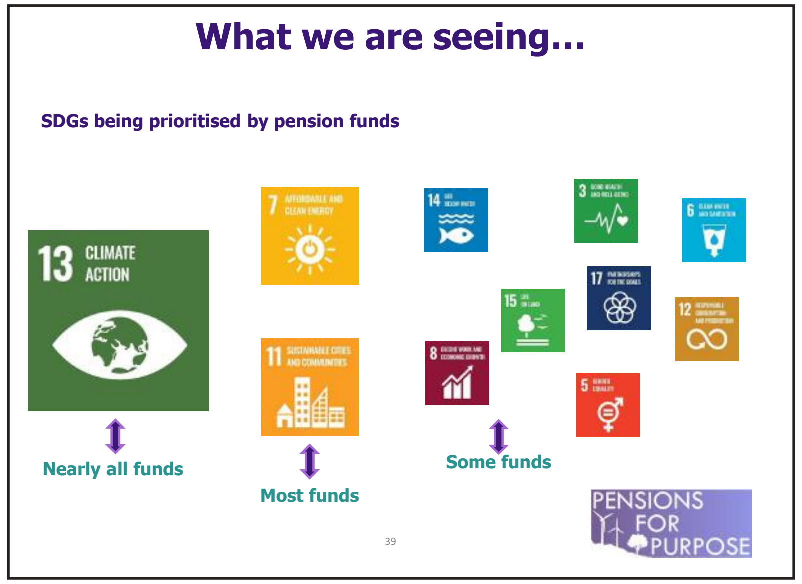
"ESG is something every asset manager should be using as a lens." He explained that outcomes for any company are expressed via operations, governance and policies on labour and other ESG factors. "So you can be a company in any sector – for example, Easyjet – and score well on many of these 'hygiene' factors. But airlines are never going to be impact investing," he said.

Van der Peet went further: "Impact investing firmly stands on the shoulders of ESG. Impact is the next step. Impact investing is being part of the solution for example defined by the Sustainable Development Goals. If you want it in black and white: ESG is more about doing no harm while Impact is focused on doing good." She added that in reality, however, definitions are fluid. Kempen's clients each decide upon their own journey, determined by the ethos of their organisations.

Gamon used a baseball analogy. "First base is ESG. Second base is positive screening and sustainability. Third base you add intentionality and measurability. This is as far as UK pension schemes can go, I think. The fourth base is where financial returns can be compromised."

"There is some harmonisation between ESG and impact," said Sarita Gosrani, head of ESG at XPS Consulting, a pension fund consultancy. She agreed that at the beginning comes consideration of ESG issues for the sake of risk mitigation. But at the other end she saw stewardship, where asset managers take a holistic view of investments and engage with companies to drive better practices. Investors could have some form of impact through good stewardship which ultimately leads to benefits to the environment and society. She referenced the UK's Stewardship Code here and said it was having an effect on manager behaviour and product.

Constable-Maxwell agreed. He saw ESG and Impact Investing as focusing on similar sustainability issues, but while ESG investing focuses on how these issues affect



the company, impact investing looks at things the other way around and measures how the company's activities address the sustainability challenge. He sees the two approaches as complementary across the spectrum of capital, noting that M&G runs both types of strategy.

Damian Payiatakis, head of Sustainable & Impact Investing at Barclays Private Bank, said that the industry should not rely on categorisations and definitions. He preferred to probe the approaches that organisations were taking, and then analyse the merits of each approach for what it was.

"Ultimately, impact is in the eye of the beholder," he said.

Payiatakis added that it was crucial in this discussion to distinguish between the role of asset owners – family offices, High Net-Worth Individuals, charities, pension funds – and those of asset managers in the progress of impact investing.

It is the former that create demand and they do so by establishing goals which the latter, asset managers, then seek to deliver with products and services. He gave the example of a second-generation, head of family with £100m in capital who had spent much of his life and philanthropic efforts protecting the natural environment. "Now aged 60, he was thinking about the next generation and whether the family's investments reflect their beliefs and interests, or, uncomfortably, were in opposition to them," said Payiatakis.

> *" Trustees were motivated by both the financial opportunity of impact private equity – in terms of diversification – and its alignment with the sponsor's mission "*

Gamon then gave a similar example of the Guy's and St Thomas' Trust endowment in London, which has hitherto realised impact as local philanthropy in its spending, but is now embarking on investing its capital for impact too – impact aligned in this case with the charity's mission.

Shackleton agreed that it is asset owners' goals which start the conversation: "Clients begin by mapping their portfolio against goals such as the UN's Sustainable Development Goals," she told the CAMRADATA panel (Pensions for Purpose has just completed a report on various organisations' capabilities in mapping assets to SDGs. Shackleton said that, generally, the best were the specialists with many years' experience in this field).
She then gave an example of the London Borough of Islington pension fund, which in tandem with its sponsor authority's beliefs, wants to lower carbon exposure in its equity portfolio by 75% within three years, measured from a starting point of 2016. The Islington fund first did this by switching some passive equities into two Low Carbon indices. It has since put £172m into two infrastructure mandates with ESG and low carbon criteria respectively. It is gradually increasing decarbonisation by looking at fossil fuel users (e.g. in shipping) rather than just fossil fuel producers, plus casting its analysis wider into fixed income.

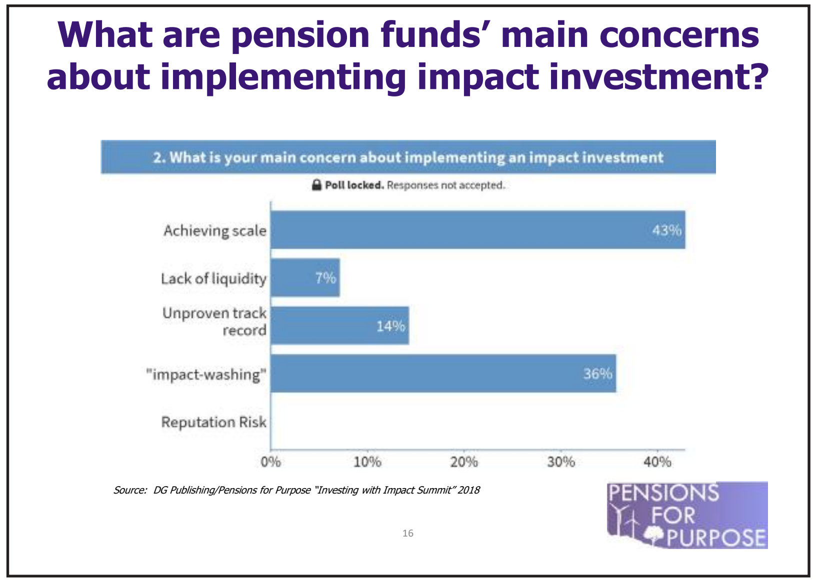
Finally, Shackleton relayed that the Islington fund is looking into impact investing in social and affordable housing.

LCP has done an impact private equity search on behalf of the £500m pension fund of a charity. Gamon said that in this search the trustees were motivated by both the financial opportunity of impact private equity – in terms of diversification – and its alignment with the sponsor's mission.

LCP has also advised on the selection of an impact global equity fund that sits on a self-select platform of a Defined Contribution pension plan. Here the trustees were keen to offer access to a fund which matched the desire by many DC members to invest with measurable positive social and environmental impacts.

All the above are examples of asset owners' beliefs creating demand. This is also the origin of Kempen's Global Impact Pool, which is a fund of funds launched to provide access to impact funds. It can allocate to impactful categories such as private equity, private debt and infrastructure. The launching client of the fund was a Dutch industrywide pension plan that already had a firm ESG-belief implemented across the portfolio and wanted to evolve towards doing good.

Van der Peet related that because of the state of the impact investing world, where funds are still small, and that private markets funds often require a high minimum investment and a higher level of due diligence, there is a barrier to entry (Guy's and St Thomas's© Trust are currently deploying just 5% of total assets in this way).



As for Europe's largest pension funds, because there aren't many impact funds that can absorb commitments of £50m or more, the Kempen Global Impact Pool attempts to mitigate these issues by offering a diversified basket of impact funds within a pooled format, enabling investors to make a larger impact together, and benefit from combined due diligence efforts. The Pool has a focus on developed market impact, though also invests in the developing markets as that is where some of the largest sustainable development gaps are.

Van der Peet said that Kempen is focused on local opportunities for Impact, although to date had not found enough funds that made the institutional quality hurdle or the strict impact test, to populate an entire fund. Samuels and Shackleton said that local authority funds in the UK were sometimes keen on localism. They said that while there were quite a few local social impact funds, renewables and public equities tended to be global. "But it can be done locally and private markets lend themselves more easily than public markets to this," said Shackleton.

> *" You don't have to carry the label to be impact, these funds' reports detail their positive contribution for interested parties to see "*

Multi-asset is the most popular type of Impact fund, accounting for almost half the universe according to the Global Impact Investing Network. But perhaps the real issue is the size of that universe: fewer than 450 funds. Whilst this universe might not be complete, the relatively small number helps explain why impact investing thus far has been peripheral to total ESG investing, let alone all securities markets.

Shackleton said that (lack of) scale was a concern for would-be impact asset owners.

Payiatakis chipped in that profit-maximisers were well-suited to playing a big role in this process. Gamon asked for clarification. Payiatakis explained that lots of Barclays' clients believe that major issues such as climate change represented opportunity – for those companies that can successfully solve those issues. These clients expect to profit from their investments doing good.

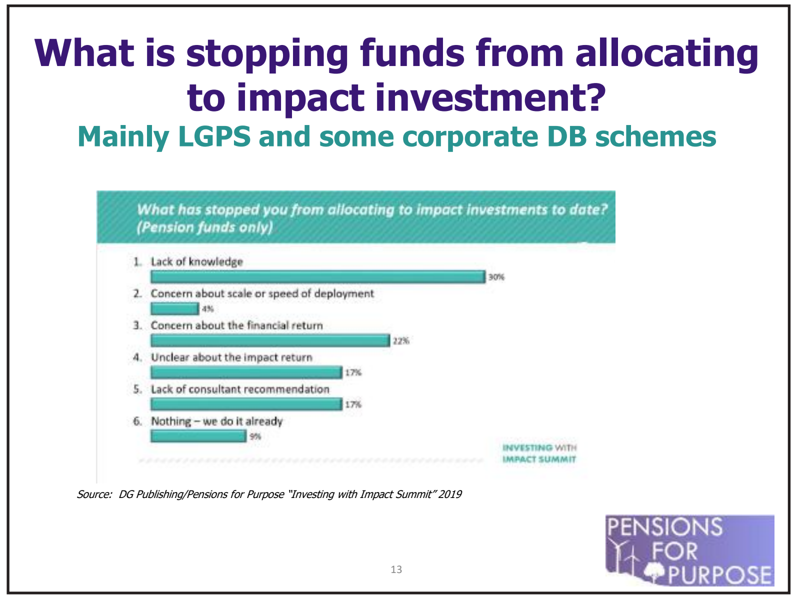
Perhaps the "profit-maximising" message needs to travel further because the investment consultants at the CAMRADATA roundtable reiterated Shackleton's point about scale. They said that there was not enough supply coming from asset managers thus far.

CHICKEN AND EGG

Rudgard said this was most true in fixed income, the asset class DB pension plans are increasingly looking to, citing a lack of fixed income products that adequately meet the needs of such plans. She said Aon has rated one provider with the ability to implement Buy & Maintain mandates specifically targeting positive contributions to the SDGs.

Aon has also buy-rated global credit and multi-asset credit SDG strategies available in both pooled and segregated formats. Similarly, she knew of US strategies billed as core credit that claimed Impact status because they predominantly bought municipal bonds, although she queried whether a predominantly municipal bond fund is the best way to achieve progress globally on a wide range of impact goals.

Gosrani said that she had come across a number of funds, especially in secure income, that were not labelled as impact but nevertheless did align themselves with some SDGs. "My point is that you don't have to carry the label



to be impact," she said. "These funds' reports detail their positive contribution for interested parties to see."

Continuing with fixed income, both Aon and Redington have concerns about green bonds, not as a suitable type of impact investment per se but because of some of the sophistry used by issuers to qualify. "There is greenwash in parts of this market," said Samuels.

Thus far, Redington has focused most efforts not in public but private markets, concentrating on the theme of climate change in infrastructure. "It's easier to get more bang for your buck here," claimed Samuels (although in public equity, Redington has persuaded a US$1bn Alternative Risk Premia strategy to introduce a carbon intensity measure in its process).

Gamon agreed that in public equity, additionality was more difficult to demonstrate as compared with, say, private debt where the provision of a loan can be directly attributed to spending on an impactful project. Unsurprisingly as co-lead for a public-equity strategy, Constable-Maxwell begged to differ. He noted that the M&G Positive Impact Fund doesn't hold more than 35 stocks, so it can take a highly selective approach to investing in impactful companies and then engage with them to add further impact.

" The big question for clients is "what next?" "How does this change the world and how you invest for me? "

The team's approach looks at how the company's products and services are addressing some of the world's major social and environmental challenges, relying mainly on data from the companies to evidence the positive impacts they are generating. Recently the team has been testing the 'purpose' of their holdings by how they have been using its skills and resources to support employees, customers and the wider community during the crisis. Companies including circular packaging manufacturer, DS Smith, have lived up to M&G's expectations, designing new packaging solutions to deliver necessities to vulnerable and isolated people during lockdown; while the fund's healthcare holdings have rapidly ramped up the production of diagnostics tests and therapies to directly address the pandemic.

Cynics might say that every company likes to burnish its credentials with good PR and narratives. Constable-Maxwell's response would be that is why data and measurability are so important and why the team pushes for improvements in impact data and KPIs over time. This engagement with management can lead to something more profound: the beginning of a dialogue, wherein a company opens itself up to scrutiny by committed investors on the journey to better standards of impact.

As an example, SolarEdge is a leader supplier of inverters for solar farms. Constable-Maxwell told the CAMRADATA panel that the company publishes number of units shipped but does not yet translate this figure into the additionality of carbon emissions saved. Of course, you can use assumptions or third parties to help with that calculation but M&G is hoping that it will come from SolarEdge itself. The point is that great enterprises can always improve.

This led the conversation to the auditing of impact figures, as a means to ensure robustness. Gamon pointed out that he has seen one fund taking steps in this direction but such a custom is currently some years off. Prerequisites are the standardisation of intentionality and additionality. The CAMRADATA panel broadly welcomed such future developments. But Payiatakis said that the investment industry can worry too much about measurement. "We have done behavioural finance studies with clients and the quality of impact measurement will not get them to invest more," he said. "Measuring impact is, if you like, the "what". But the big question for clients is "what next?" "How does this change the world and how you invest for me?" His conclusion was that from the perspective of asset owners, it is outcomes that they really care about. Shackleton added that education is the bridge to those outcomes.

Roundtable Sponsors

Marjoleine van der Peet
Senior Portfolio Manager

Personal Profile

Marjoleine joined KCM's Multi-Management team in July 2013 as a Senior Portfolio Manager. She has over ten years of experience in the investment management industry of which the most recent seven years she was a Senior Analyst and Portfolio Manager in the Fund of Hedge Fund team at GAM Plc in London.

The first three years she was an Investment Consultant at Watson Wyatt (Towers Watson). Marjoleine graduated from the University of Amsterdam with a Master's degree in Financial Economics and is a CFA Charter holder.

Kempen Capital Management

Company Profile

Kempen Capital Management is a specialist asset manager with a focused approach and a clear investment philosophy. We believe in long-term stewardship for our clients and other stakeholders. Kempen provides sustainable returns, fiduciary management services, manager selection, portfolio construction and monitoring, alongside a number of actively-managed investment strategies. As of 31 December 2019, Kempen Capital Management had a total of €76.2 billion in client assets under management.

Kempen Capital Management, part of Van Lanschot Kempen Wealth Management NV, is a specialist and independent wealth manager. Kempen Capital Management NV is licensed as a manager of various UCITS and AIFs and authorised to provide investment services and as such is subject to supervision by the Netherlands Authority for the Financial Markets.

Ben Constable-Maxwell, Head of Sustainable and Impact Investing

Personal Profile

Joined M&G in 2003 and is Head of Sustainable and Impact Investing. Ben leads on impact measurement and management for the M&G Positive Impact Fund alongside fund manager John William Olsen.

Ben has been central to the development of ESG integration within M&G's investment processes, with a particular focus on sustainability, and has supported the development of ESG solutions for clients across asset classes.

He is a founding member of M&G's Responsible Investment Advisory Forum, overseeing ESG-related activities at M&G, and is a member of the Investment Association's Sustainability & Responsible Investment Committee, as well as various sustainable & impact investing initiatives and working groups.

Previous to joining M&G, Ben spent four years with the Equities team at Invesco Perpetual. Ben graduated from the University of Newcastle-upon-Tyne with an Honours Degree in Classics.

M&G Investments

Company Profile

At M&G Investments we look for the best opportunities to invest, on behalf of people who care how their money is invested. As a long-term, active manager, we offer solutions across a broad range of capabilities that span both public and private markets including fixed income, equities, multi asset, real estate, infrastructure and private equity.

We manage more than £275bn* on behalf of individual and institutional investors globally including pension funds, endowments and foundations, insurers, sover¬eign wealth funds, banks and family offices.

M&G Investments is part of M&G plc, a leading savings and investments business with distribution offices in more than 20 locations across the UK, Europe, North America and Asia.

* As at 31 December 2019

Roundtable Participants

Anna Rudgard

Fixed Income Researcher

I'm a fixed income researcher in the Investment Manager Research team at Aon. I lead fixed income research on responsible investment strategies, including Green Bonds, SDG focused and impact funds. I also represent the asset class as a member of Aon's Responsible Investment team. In addition to responsible investment, I cover structured credit, including ABS and CLOs, private debt, and supply chain finance strategies. I started at Aon in the client consulting team as an Associate Consultant before joining the Investment Manager Research team. I'm a graduate from the University of Bristol, where I studied Ancient History, and a holder of the Investment Management Certificate.

Damian Payiatakis

Head of Sustainable & Impact Investing

Damian leads Barclays efforts to guide individuals, families, and charities on how to invest both to protect and grow their assets and to make a positive contribution to our world.

For families and family offices, this includes advising on how to start investing their portfolios sustainably; as well as facilitating the challenging conversations that address the family dynamics on legacy, values, and decision-making.

His team advises the firm's private and public market specialists on how to incorporate ethical, responsible and impact approaches into their products, portfolios, and services.

As well, they have published original thought leadership on scaling social businesses, investor motivations for impact, and impact reporting.

He leads Barclays sponsorship of the launch of Impact Agora, a new global institutional investing platform which enables deal sharing between accelerators, fund managers, investor networks, corporates, family offices, foundations and wealth managers.

His team's work has been recognised by the UK Cabinet Office and Investment Week's Sustainable Investment Awards, as well as the UK National Advisory Board on Impact Investing.

Damian was part of the UK Government's Taskforce on the topic and is a frequent commentator in publications such as Financial Times, CNN Money, Euromoney, Reuters, as well as a speaker & facilitator at impact investing conferences. His work as an intrapreneur has featured in Harvard Business Review.

Damian graduated from Brandeis University summa cum laude with Highest Honours. He also holds both a M.A. in International Economics & Finance from Brandeis International Business School and a M.Sc. in Organisational & Social Psychology from the London School of Economics.

Ian Gamon

Investment Partner

Head of Impact Investing at LCP and leading member of LCP's Responsible Investment team. In my day-to-day work, I advise trustees of pension schemes and charities on investment strategy and their implementation.

I believe responsible investment and good stewardship are valuable components of the trustee toolkit. Done well, responsible investment will increase long-term returns and enable trustees to meet their objectives more successfully.

A passionate believer in applying capital for both financial and societal benefit; I am actively involved in growing the knowledge and understanding of impact investing through industry round tables, blogs and webinars.

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LCP INSIGHT CLARITY ADVICE

Roundtable Participants

Karen Shackleton

Founder

Karen has worked in the finance sector for over 30 years. She provides independent investment advice, through MJ Hudson Allenbridge, to the London Boroughs of Islington, Camden and Hounslow, and Warwickshire County Council pension funds. In 2017, she set up Pensions for Purpose, a collaborative information-sharing platform which aims to raise awareness of responsible, sustainable and impact investment amongst pension funds. She is non-executive Chair of Resonance Ltd, an impact manager investing in real estate social impact opportunities, and Deputy Chair of the Strategic Investment Board for the Ministry of Justice. Karen also sits on the Advisory Council for the Impact Investing Institute, which aims to accelerate the growth and improve the effectiveness of the impact investing market.

Nick Samuels

Head of Manager Research

Nick joined Redington in September 2015 as a Director in the Manager Research team. Now Head of Manager Research, he leads a talented team who help institutional and wealth management clients around the world allocate to the funds that get them closer to their strategic goals. Nick is chair of Redington's Responsible Investment Committee and also a voting member of Redington's Investment Strategy Committee. He works directly with several of the firm's clients in the UK and Europe.

Nick began his investment career in 2000 at Schroders, where he worked on the Asia and Emerging Market equity teams, before moving into manager research roles at investment consultancy Stamford Associates, South African multi-manager Momentum Global Investment

Sarita Gosrani

Investment Consultant and Head of ESG Investing

I joined the XPS investment consulting practice in 2016 and lead the ESG research team which has developed XPS' approach and framework for Responsible, Sustainable and Impact investing. Pensions schemes are on a journey and I strongly believe that education is key in turning the dial to action in relation to ESG, climate change and impact. I am also an investment consultant responsible for a number of client relationships. This helps me bring relevance to the broader ESG agenda from the pension scheme perspective. Prior to joining XPS, I worked on the dealing desk at a stockbroker. I graduated from University of Toronto with a double major in Economics and Human Geography.

Moderator

Brendan Maton

Freelance Jounalist

A highly experienced financial journalist with an expansive network of contacts in the UK and across Europe. Brendan has written about pension schemes and national welfare systems from Finland to Greece for 18 years and understands the retirement savings industry in each European country.
Brendan has interviewed EU commissioners and national ministers; central bankers; pension scheme heads; insurance chief executives; chief investment officers; actuaries; union officials; professional and lay trustees.He worked at Financial Times Business for eight years, finally as editor-in-chief of all international pensions titles. Brendan has spent the last ten years as a freelancer for a number of publications, including Financial Times, Responsible Investor, Nordic region pensions news and IPE. He is also Chief webcast host for IPE.
Brendan has acted as conference chair for Financial News, the UK National Association of Pension Funds, Dutch Investment Professionals Association (VBA), Corestone, Insight Investment, Marcus Evans, Robeco Asset Management, Sustainable Asset Management (SAM), Towers Watson.

The Quest for Impact Investing

Could societies have been better prepared for a public health crisis? Are alarm bells ringing due to recent unusual weather patterns? Do we all have a responsibility to treat everyone equally and challenge when we witness disrespect?

In light of recent events, there is growing focus on how investors can contribute to resolving these challenges. Impact investments are those made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

As providers of capital, investors analyse companies on their prospects and apply their investment beliefs through the pre-investment screening, valuation process and engagement.

“ Green and social bonds are typically considered for impact investments however the palette of options is starting to include equity”

We observe four categories of investor intentions based on their focus on generating positive impacts: i) investors seeking to address global challenges and proactively contribute to solutions, ii) those assessing if their investments can benefit stakeholders, iii) investors simply aiming to do no harm through their investment decisions, and iv) investors focused solely on maximising returns.

How can investors best approach impact investing in non-listed (private) and listed (public) asset classes?

While there tends to be clearer additionality of the investor in non-listed asset classes, investing in listed asset classes for positive impact offers the opportunity to scale. Non-listed asset classes have been the typical route for impact-focused investment solutions, although this is shifting. Asset classes like real estate, infrastructure, private equity/debt often give the opportunity for the investor to define their intentionality and additionality.

That is, they define their intention to invest to achieve positive societal impact, minimise negative effects and remediate negative impact where it occurs. Additionality at the investor level means that if capital allocated to a particular business is not easily replaceable, it contributes to closing the gap on sustainable development.

Within listed, green and social bonds are typically considered for impact investments however the palette of options is starting to include equity. Asset managers are starting to define an intention for listed equity funds to address certain development themes, such as addressing climate change, sustainable food production, water or gender equality.
Additionality can be achieved through exposure to emerging markets, concentrated portfolios, investing in companies in their early stages and, through actively engaging with companies, increasing their focus on goods and services with a positive social and environmental impact.
Engaging for positive change is what we strive for among others through the Kempen Sustainable Equity strategy.

In addition to considering intentionality and additionality, we believe it is important to be able to measure and report impact.

How are investors reporting on impact for listed versus non-listed investments? What are the challenges?

While most businesses have their own approach to sustainability, there is growing convergence around the themes covered by the UN Sustainable Development Goals (SDGs) to generate positive social and environmental impact. Investors are increasingly using the SDGs as a common set of objectives to measure how much positive impact their investments generate.

“ They need reliable information about companies: their financial position, health and readiness for playing a transformational role for a sustainable future ”

The starting point is to make informed decisions as to what kind of companies they will invest in. For this, they need reliable information about companies: their financial position, health and readiness for playing a transformational role for a sustainable future. Investor reporting about impact is not merely quantitative, it is contextualised through a narrative on the impact the investment can achieve.

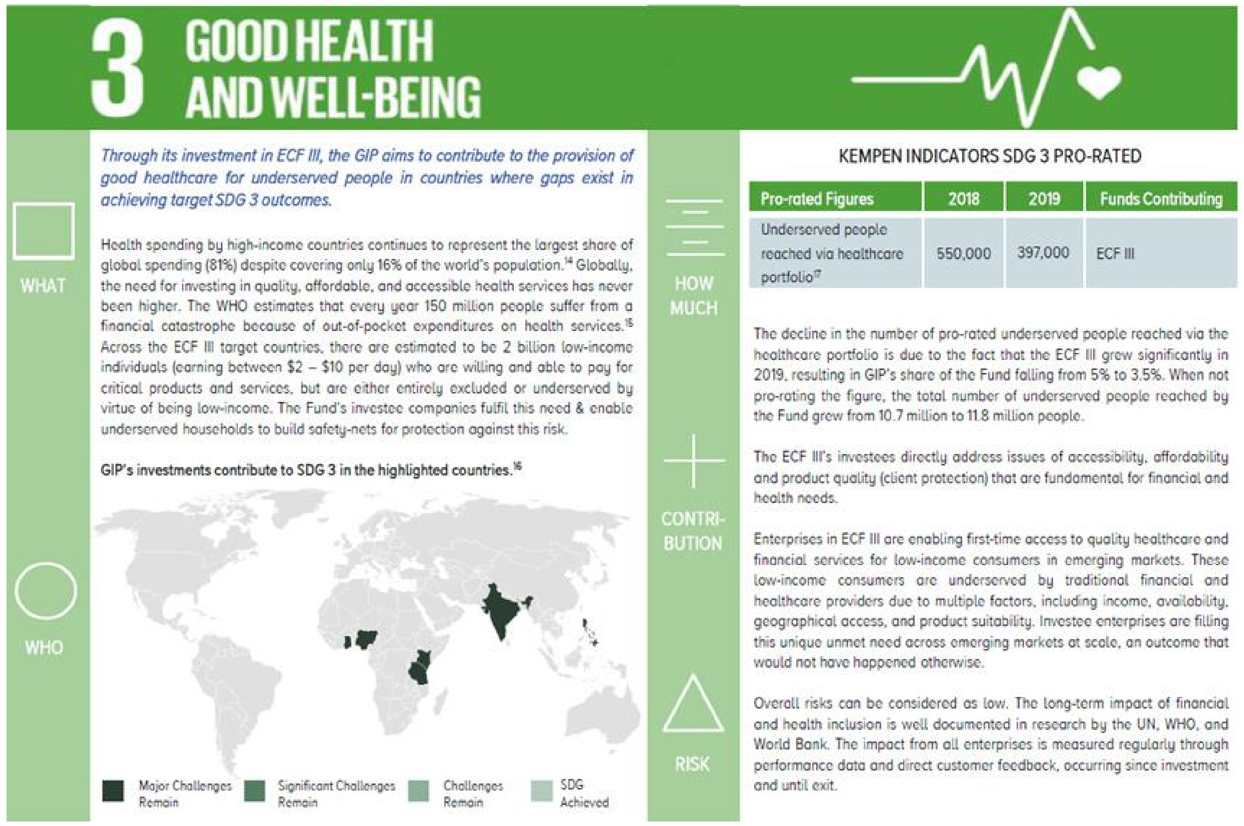
Consider affordable healthcare provision. A listed company can reach a greater number of people and commit to accessibility in terms of pricing, yet it focuses in terms of reporting how their output (product) has contributed to an outcome (product availability at a quantity/price); it therefore falls somewhat short of providing insight into the company’s impact.
A non-listed company could have a more specific positive impact intention formulated and be able to report more specifically on reaching people who are ‘underserved’ in geographies where the gap to meeting the SDGs is greater. In that sense, the report of the non-listed company focuses more on the impact achieved that can make a tangible difference in people’s lives.

Taking a step back from specific impact indicators, consider a framework that can help us think about different dimensions of impact: what are the criteria investors should be seeking?

The Impact Management Project builds consensus on how to measure, manage and report impact. Its five dimensions of impact have gained traction as they help frame some key characteristics: i) the what (outcomes), ii) the who (stakeholders), iii) how much (scale/depth), iv) the level of contribution, and v) the risk of the impact not occurring as intended.

Investors are applying this framework in both in listed and non-listed asset classes. At Kempen we have already piloted it for our Global Impact Pool’s Annual Report, which focuses primarily on non-listed asset classes:

Example of SDG 3 contribution



Source: Kempen Global Impact Pool 2020 Report

Applying this approach to listed equity poses challenges, but at the very least it provides a baseline than can be further developed.

Our experience has been that most listed companies do not have an explicit ambition to contribute to closing the gap of sustainable development issues. Even if they build a narrative around it, there are often significant data gaps to underpin the higher-level commitments.

This is where the data providers come in. They use their collective experience to assess how companies fare on sustainability and are increasingly assessing companies' revenues that contribute to sustainable development (e.g. clean energy), or obstruct progress (e.g. sale of tobacco).
The attributable share of corporate revenues (typically estimated) are often allocated to specific SDG goals. This is often complemented by an assessment of how a company is contributing to SDGs through their operations.

This is currently the most objective way for investors to assess contributions of listed companies towards sustainable development issues.

" There is no perfect data, there is still a long way to go to ensure the investment community can collectively close the gaps to meaningfully report on their and investee companies contribution to the SDGs "

Doing well by doing good

Investors are increasingly keen to see what good their money does. This remains work in progress as methodologies differ drastically: some providers assign a single company score netting positive and negative assessments of products/services/operations, while others report 'positive' and 'negative' elements, without drawing a conclusion.

As with most other issues in sustainability, there is no one-size-fits-all approach and we are on a journey: there is no perfect data, there is still a long way to go to ensure the investment community can collectively close the gaps to meaningfully report on their and investee companies contribution to the SDGs.

Crucially, it is important not to let perfect get in the way of good enough.

Investors play a key role by providing patient capital and engaging companies to encourage them to maximise their contribution to a society that will be ready to face a public health crisis, to reduce greenhouse gas emissions and where we will hold ourselves and others accountable for respectful and responsible conduct.

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Now is the time for impact

The world is facing a rising tide of societal challenges, from the potential chaos associated with the breakdown of our climate, to rising levels of waste and pollution, to intensifying social inequality. Governments around the world have a major role to play but lack the resources needed to deal with these challenges on their own, and hence responsibility is increasingly falling to the private sector, and investors, to help.

Impact investing, specifically, is helping to channel much-needed capital towards market-based solutions to the critical social and environmental challenges we are facing. As much of the world grapples with the human, social and economic fallout from Covid-19, many believe that impact investing has a pivotal role to play as nations look to rebuild their economies on a more sustainable and equitable footing.

Interest in impact investing has taken off

Impact investing has gained increasing traction over the years, particularly as some institutional investors – such as pension funds and insurance companies – have taken advantage of improved accessibility to positive impact assets by investing in dedicated strategies. In June 2020, the Global Impact Investing Network (GIIN) estimated the size of the impact investment market stood at US$715 billion at the end of 2019.

For pension schemes, actively allocating to impact is an opportunity to demonstrate to scheme members that they are doing the right thing, helping to increase members' engagement and satisfaction with their pensions. Crucially, it also allows schemes to invest their members' assets in often non-correlated investments that target positive social and environmental benefits and contribute to solutions that society wants, such as better access to education, improved health outcomes and cleaner energy, and businesses that deliver products and services that promote equality of opportunity.

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Impact investment already forms part of the investment strategy for many pension schemes globally, the extent of which depends on where they are in their ESG or sustainable investment journey. The size of portfolio allocations to impact therefore tend to vary depending on scheme-specific considerations and preferences. Large schemes may look to build dedicated exposures over time that span multiple asset classes and offer potential to diversify exposures, whereas considerations such as liquidity, fees and access may be greater for smaller schemes when thinking about their allocations.

Investing through an impact lens

It is important to clarify that impact investment goes beyond considering environmental, social and governance (ESG) factors when analysing investments. To distinguish impact investing from the wider universe of ESG investment approaches, there needs to be clear evidence of intentionality, additionality and measurability. Put another way, impact investors need to show how their investments are intentionally making a measurable positive contribution to addressing the societal challenge in question.

ESG investing tends to take a broader approach and incorporates environmental, social and governance considerations alongside – or within – financial analysis to understand a company's financially-material ESG risks. Impact investing strategies often build on that, but have the explicit aim to positively impact society beyond the risk mitigation or harm avoidance focus of many ESG strategies, while also delivering attractive financial returns to investors.

Impact investments can be made in both emerging and developed markets and target a wide range of impact areas, which can include climate solutions, accessible healthcare, quality education and the circular economy, among others. Impact investors often align their investment themes with the United Nations Sustainable Development Goals (SDGs), which can provide a useful framework against which impacts can be assessed and measured. But investors need to go further than 'SDG mapping' by demonstrating how their investments contribute directly to the Goals.

Using the SDGs as an impact framework

The SDGs were adopted by 193 UN member states in September 2015 as part of the UN's 2030 Agenda for Sustainable Development. These represent a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. There are now less than 10 years to go to fulfil the SDGs by 2030.

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The 17 SDGs (with 169 key performance indicators) provide a framework for global policymakers to deliver sustainable societal outcomes; but they are also increasingly being adopted by both investors and companies as a means of framing their sustainable, or impact, activities. Impact funds often create specific impact targets relevant to key investible impact areas, which can also be linked to the SDG KPIs or other metrics, such as the IRIS+ metrics compiled specifically for impact investors by the GIIN. This provides a robust investment and measurement framework, and helps impact investors to stay focused on the most pressing issues facing society and the planet.

To meet the Goals, it has been estimated that some $6 trillion a year will need to be spent, but governments alone cannot foot this bill – in fact, we are looking at an SDG funding gap assessed to be in the region of some $3 trillion. This is why investment capital is vital, and part of the reason why so much focus is being put on impact investment, given its crucial role in helping to channel private sector capital towards the most impactful companies and projects.

Providing access to opportunities

The opportunities available to investors to support real-world impact and earn attractive returns now span various asset classes, asset types and impact themes. At M&G, we apply an impact lens across asset classes, including private debt, listed (public) equities, infrastructure, property and multi-asset.

Impact funds in the listed equities space, which can be seen as an indicator of the impact investment market's maturing status, allow for the 'democratisation' of impact to a wider set of investors than ever before, by providing access to liquid, open-ended investment vehicles. According to GIIN, an increasing number of investors are looking to implement impact strategies via listed equities. Investing in impactful companies and businesses in the real economy that create actual value for society can lead to a virtuous circle of increasing, sustainable economic returns over the long term. We outline the key reasons why investors may look to make an allocation to impact through listed equities:

Why listed equities for impact investing?

Liquidity: Publicly-traded markets tend to be liquid, transparent and scalable. It is easy to trade in and out of underlying investments owing to high stock liquidity on exchanges. Investment usually takes place via structures that offer daily dealing and a high degree of liquidity risk management and oversight.

Immediate investment: There are no-ramp-up periods, so investors can be invested from day one. These impact strategies are available to a wider category of investors than private market institutional-focused impact funds as there are low minimum investment requirements.

Constructive engagement: Engagement is part of the responsibility of being a shareholder, since owning shares in a company typically grants voting rights. Impact investors also have the opportunity to have direct impact by engaging with companies to improve standards and practices that can drive positive impact and enhance the potential of the company to achieve its sustainability goals.

Higher governance requirements: There are typically higher expectations and regulatory oversight of governance standards for listed entities than unlisted entities.

" We need to invest now, more than ever before, to help protect the future of the planet and our place in it "

Given the scale of the challenges the world is facing today, we need to invest now, more than ever before, to help protect the future of the planet and our place in it. Impact investment can increasingly help drive solutions, and can do so while aiming to deliver consistent investment returns to institutional investors.

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For Investment Professionals only

A FINANCIAL FUTURE BUILT TO MAKE A POSITIVE IMPACT

Capital at Risk

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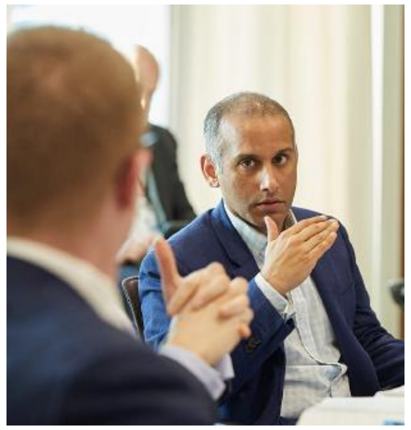
Upcoming Roundtable Discussions

2nd September 2020 - Mastertrusts
16th September 2020 - Emerging Markets
29th September 2020 - Insurance CIO
7th October 2020 - Global Equities
21st October 2020 - Cashflow Driven Investing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