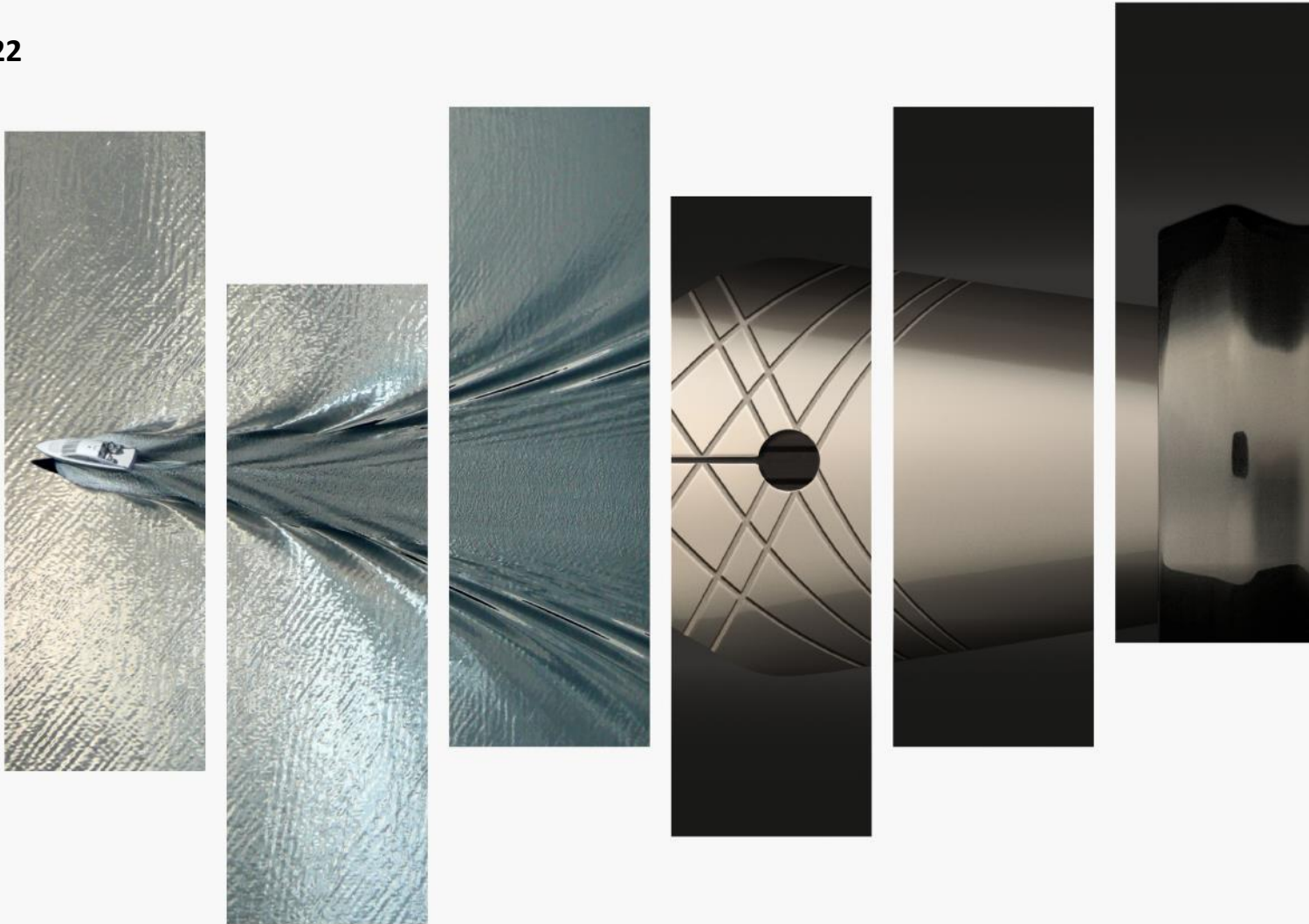


Pensions for Purpose – Impact Investing Adopters Forum

Fulcrum Asset Management – Introduction to ESG For Investors

16th February 2022





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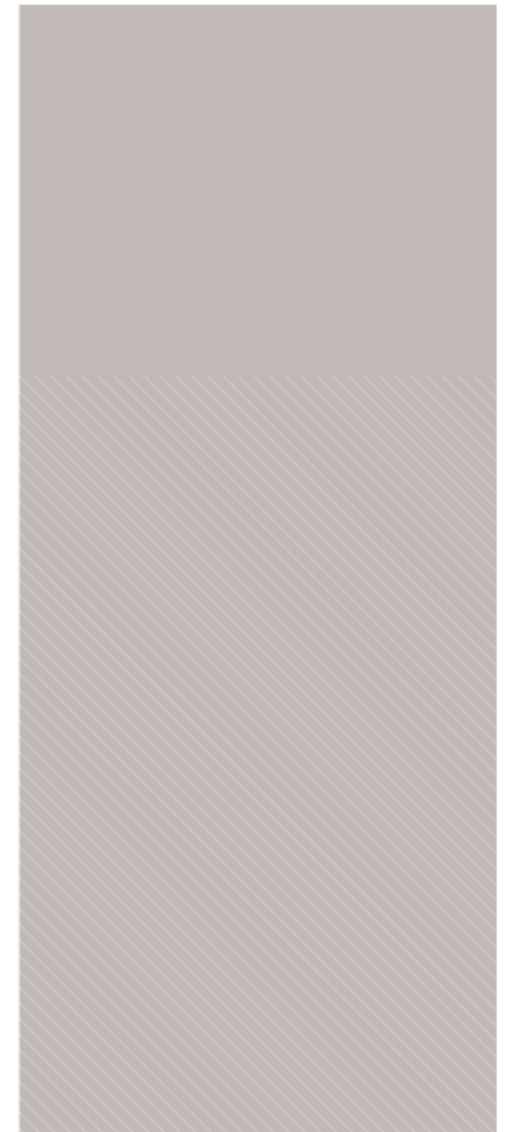
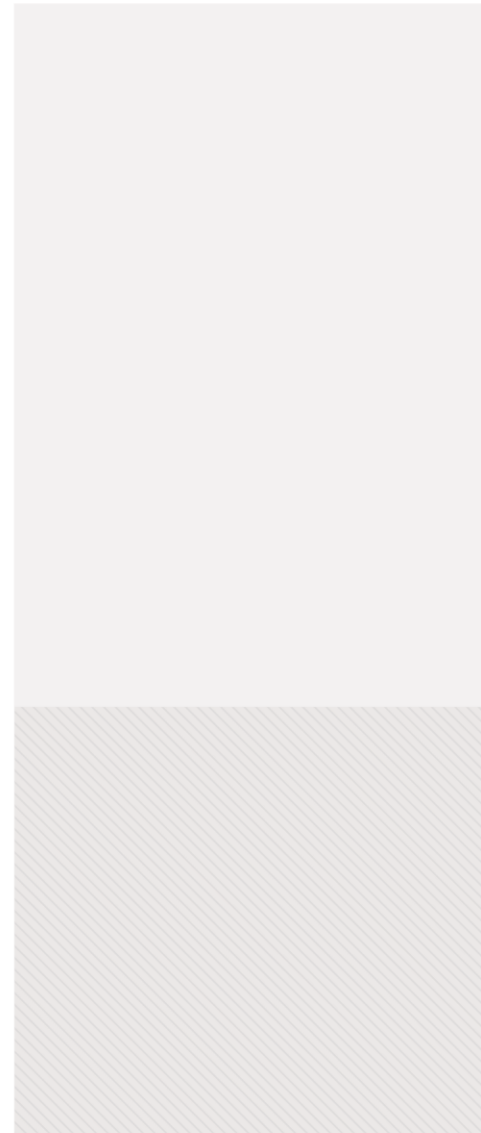
The challenge: tracking a misaligned market

Risk, return and impact: trade-offs and synergies

ESG for Investors platform

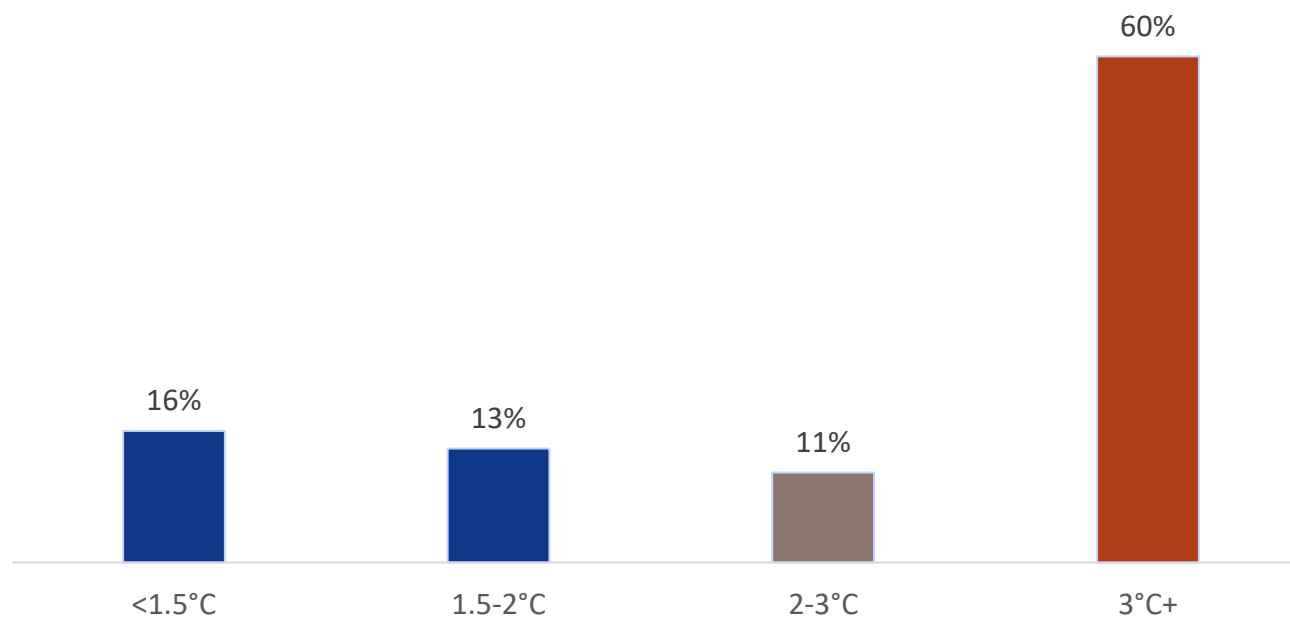
Portfolio Optimisers

Engagement Maximiser



The majority of the world's companies are not aligned with global climate goals...

Percent of listed companies
aligned with specific temperature outcome



...and neither are major global indices

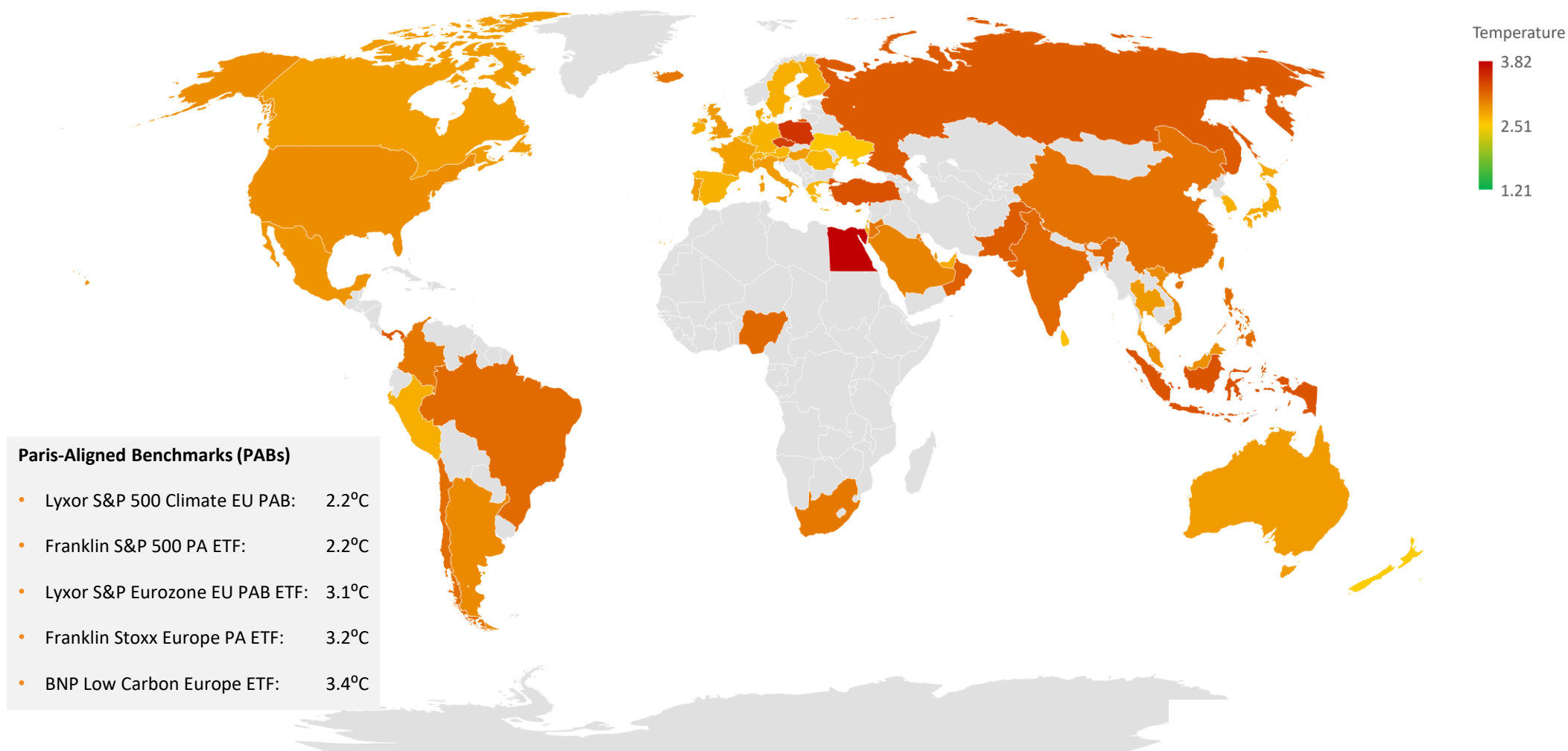
Even “Paris-Aligned Benchmarks” (PABs) are not on track

MSCI World: 3.0°C

MSCI ACWI: 3.1°C

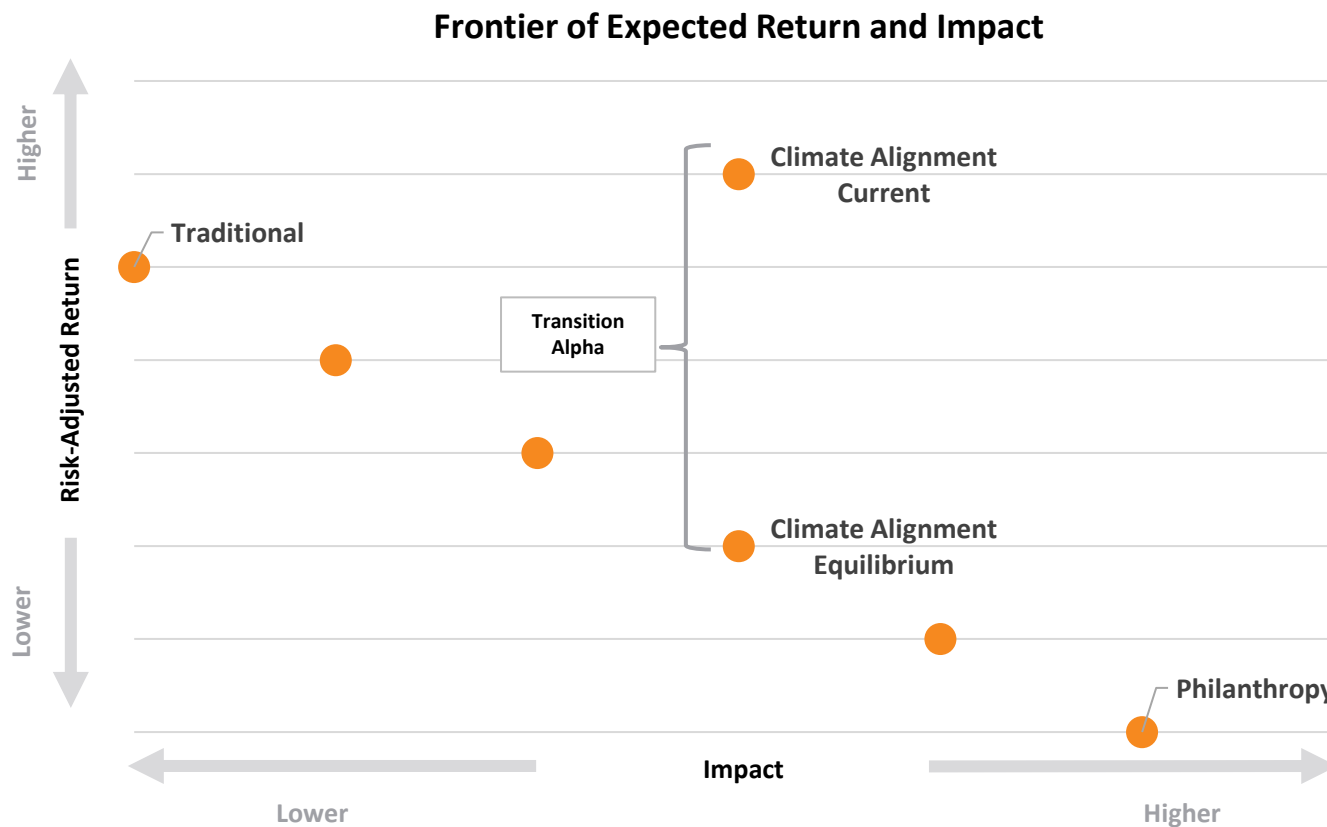
S&P 500: 2.8°C

STOXX Europe: 3.3°C



The investment opportunity

Over the medium term, climate alignment may offer excess returns

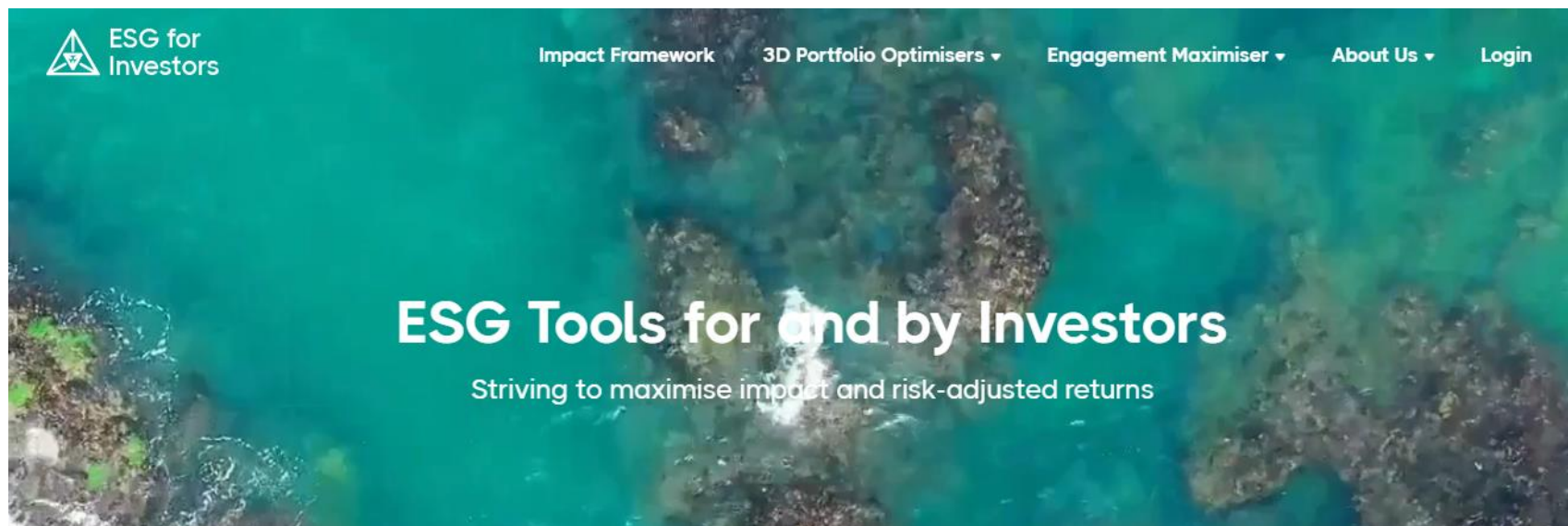


So how can investors use rigorous tools to navigate risk, return and impact?

The investment challenge

Investors lack rigorous tools to navigate impact, return and diversification.

So, we are creating them:



The ESG For Investors (ESGFI) platform

Investors and scholars applying ESG information in academic theory and investment practice

Our research team



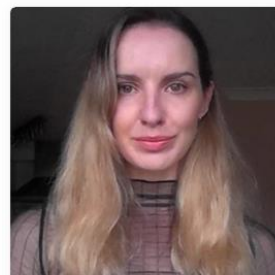
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CIO, Arvella Investments



Lionel Melin, PhD
Scientific Adviser, MacroLucid Research



Donough Kilmurray, PhD
CIO, Davy



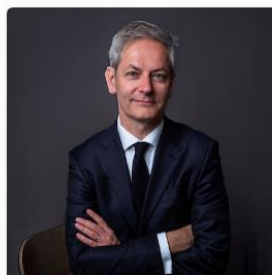
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CEO, Pensions for Purpose



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Deputy CIO, Fulcrum Asset Management



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Sustainable Investor, Arvella Investments



Bruno De Kegel
COO, Arvella Investments



Emilie Fleury
Deputy COO, Arvella Investments



Iancu Daramus
Responsible Investment Analyst, Fulcrum



Rahul Ram, FIA
Director, Fulcrum Asset Management



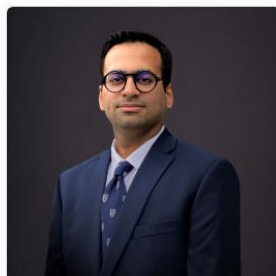
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Research Director, Fulcrum AM



Ahyan Panjwani, PhD Candidate
Economics Department, Yale University

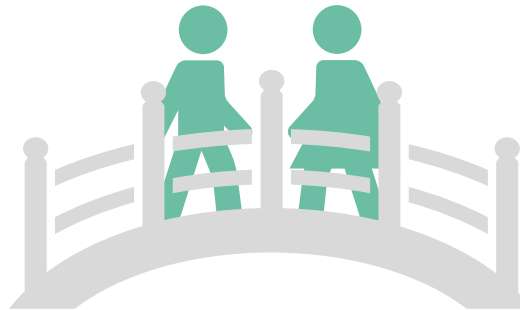


Tianhao Yao, PhD Candidate
Finance Department, HEC Paris

Our engagement team

As investors, we lacked robust tools for ESG integration into our portfolios.
So, we created our own

Investors look to
generate financial returns

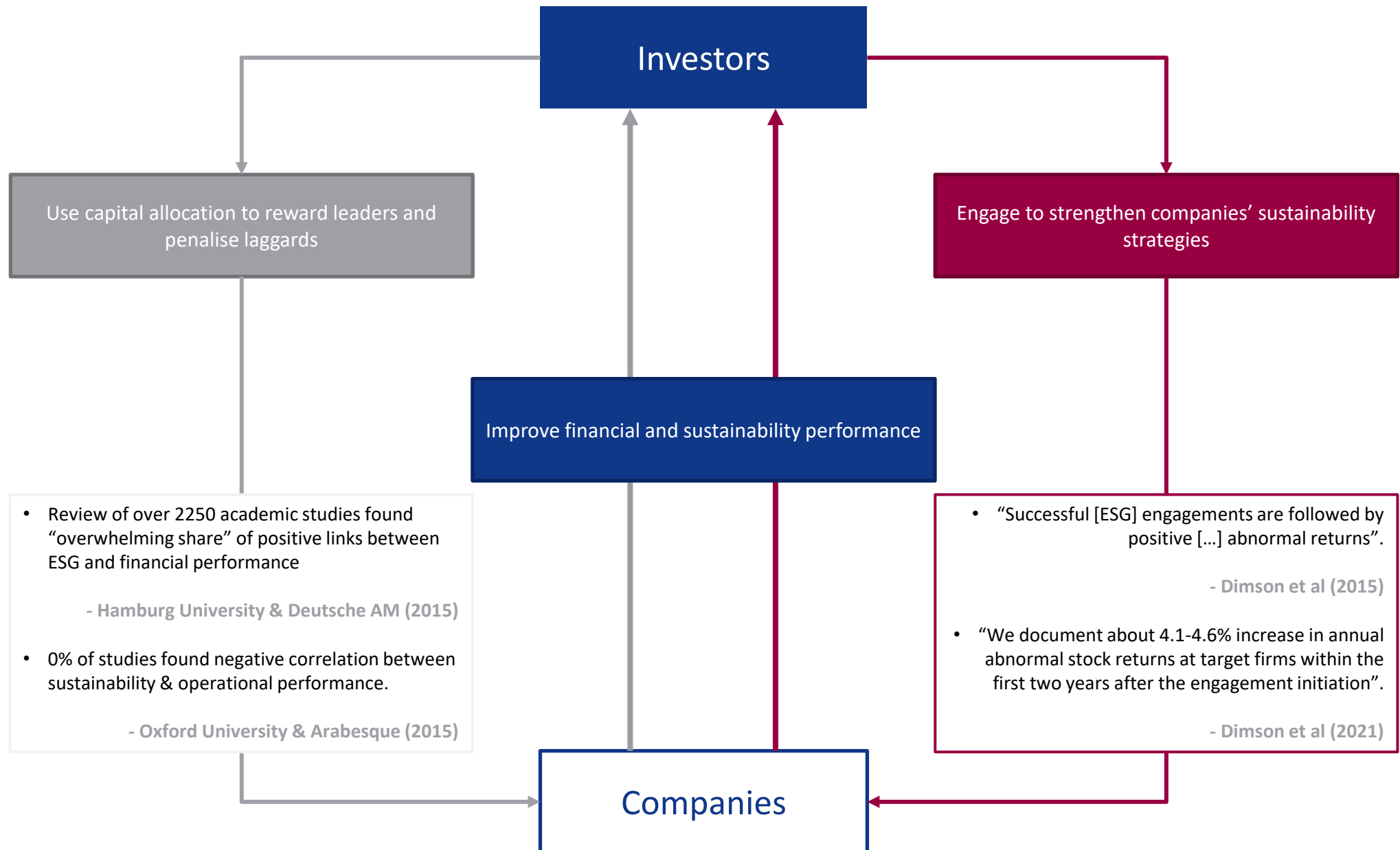


ESG & impact experts
aim to have an impact

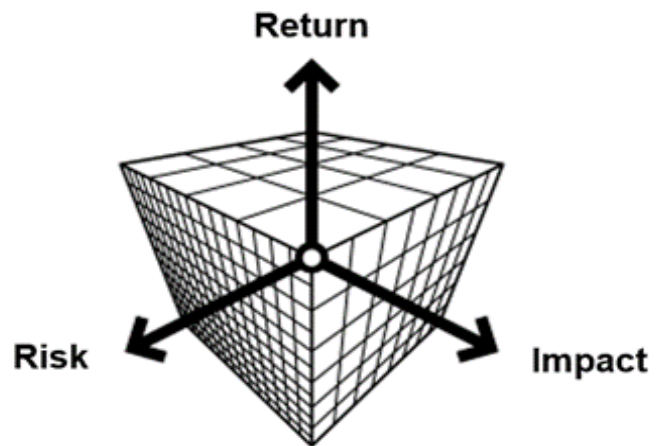


ESG for Investors helps maximise risk-adjusted returns and impact.

Two channels for impact: funding and engagement



ESGFI platform addresses both channels



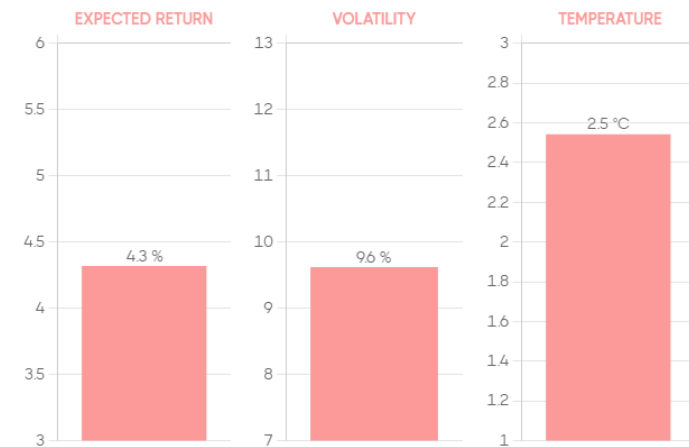
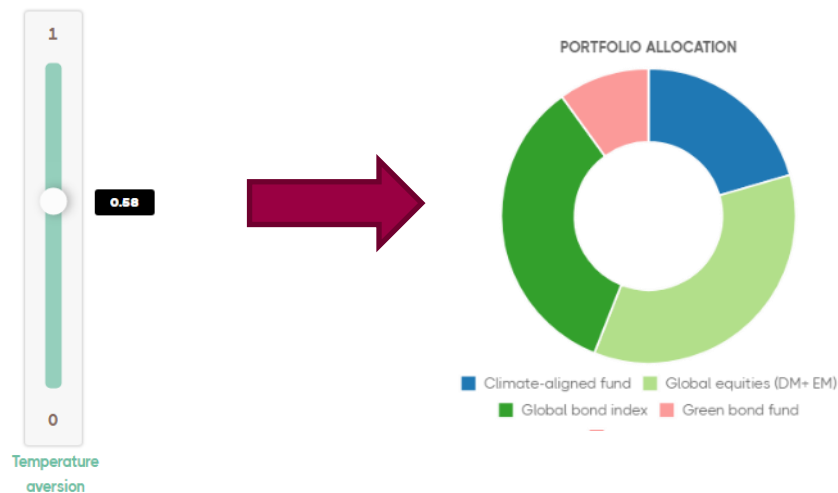
Optimisation in practice

Helping to translate climate investment beliefs into asset allocation

Portfolio optimisers

Temperature aversion

- Climate outcome **not pre-determined**
- *How much do you care about lowering the temperature?*



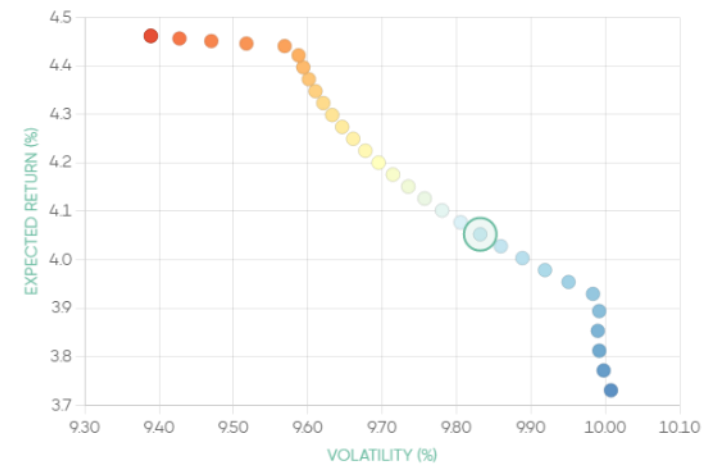
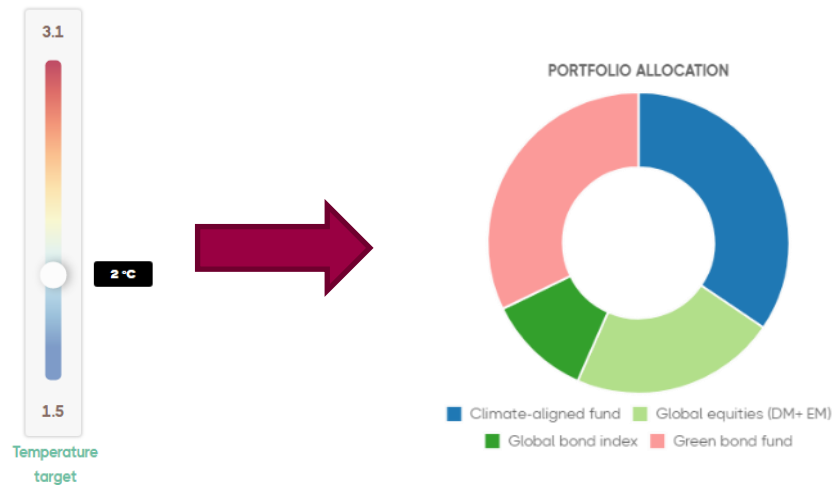
Optimisation in practice

Helping to translate climate investment beliefs into asset allocation

Portfolio optimisers

Temperature targets

- Climate outcome **pre-determined**
- *Given your climate preferences, what levels or risk and return are you willing to accept?*

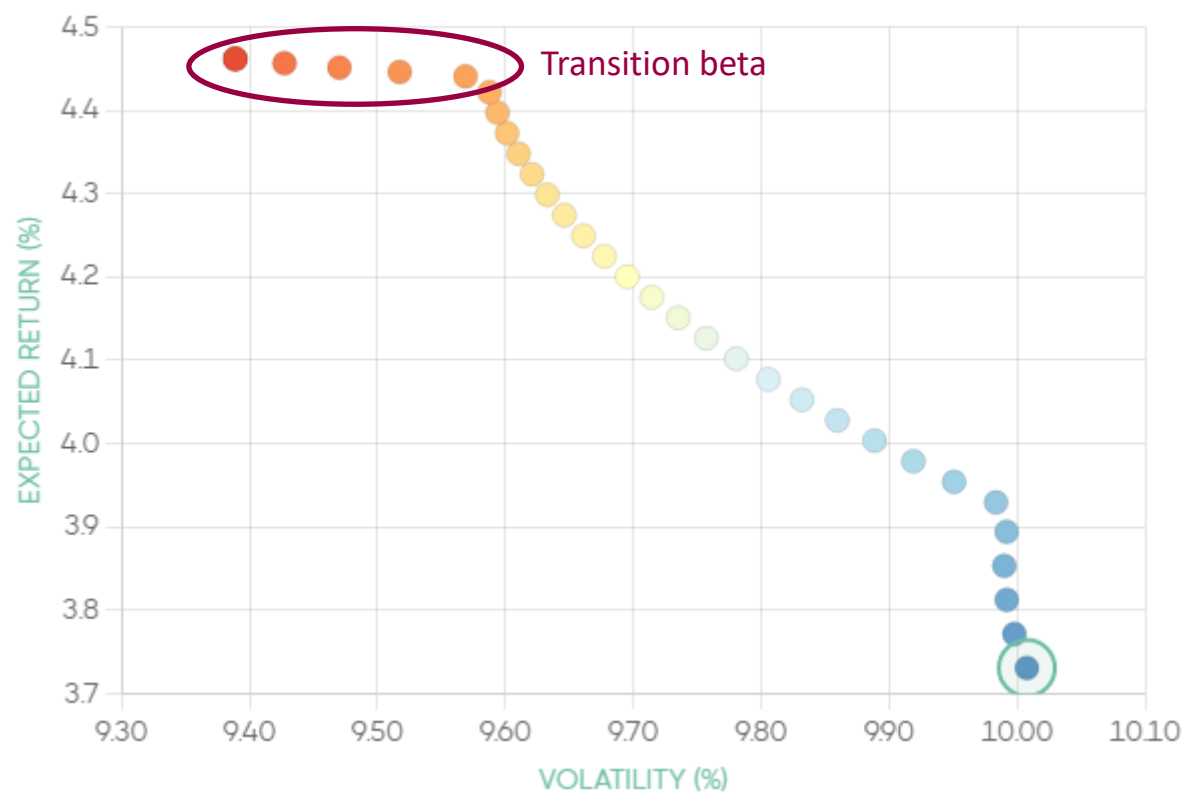


Climate optimiser

The temperature target trade-offs

- Under conservative assumptions (* in the table below), how much can I “turn down the heat” without there being a significant impact on return or volatility?

	Temperature	Expected Return	Volatility
Climate-aligned fund	1.5°C	*6%	*16%
Global equity fund	3°C	6.5%	15%

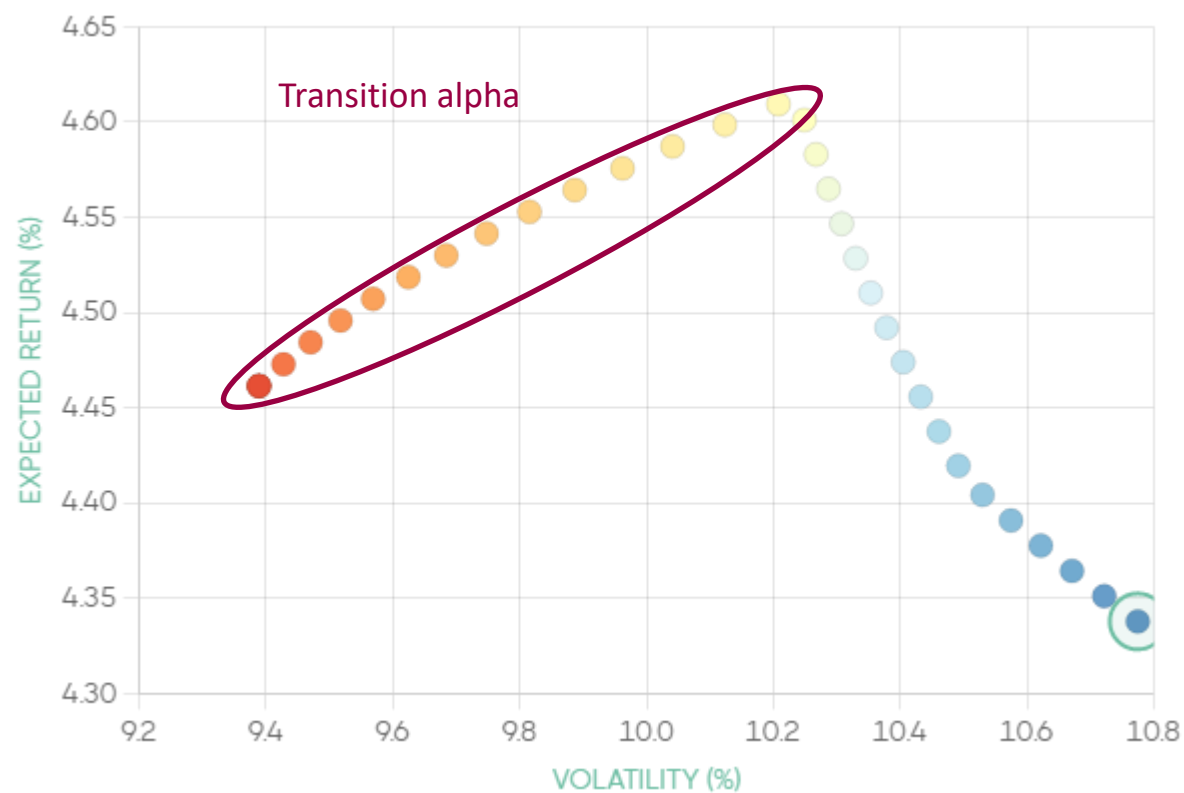


Climate optimiser

Towards transition alpha

- Are there areas where lowering the temperature can go hand-in-hand with increasing expected returns?

	Temperature	Expected Return	Volatility
Climate-aligned fund	1.5°C	6.5%	16%
Global equity fund	3°C	6.5%	15%



Summing up – portfolio optimisers

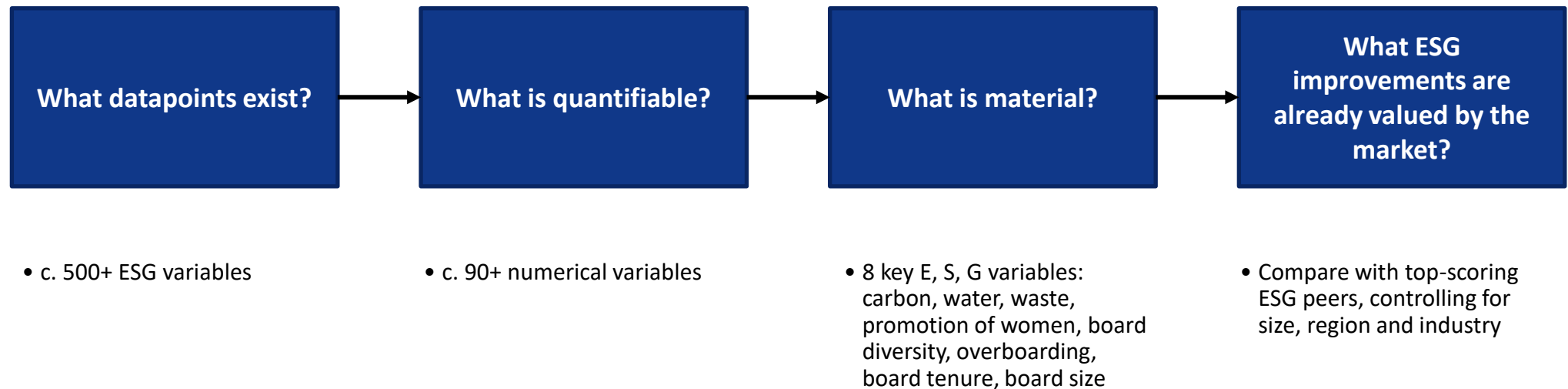
- Portfolio optimisers can help find the **efficient frontier** between risk, return and impact
- Temperature goals can be an input or an output into the **Climate Optimiser** for Mainstream Funds
- Modelling can illustrate ‘**low regret**’ areas, where climate impact does not involve sacrifices in return, and to help **stress-test investment beliefs** (e.g. around ‘transition alpha’)

Approach can be extended to broader impact metrics (see the 3D Optimiser for Dedicated Impact Funds)

Achieving impact through engagement

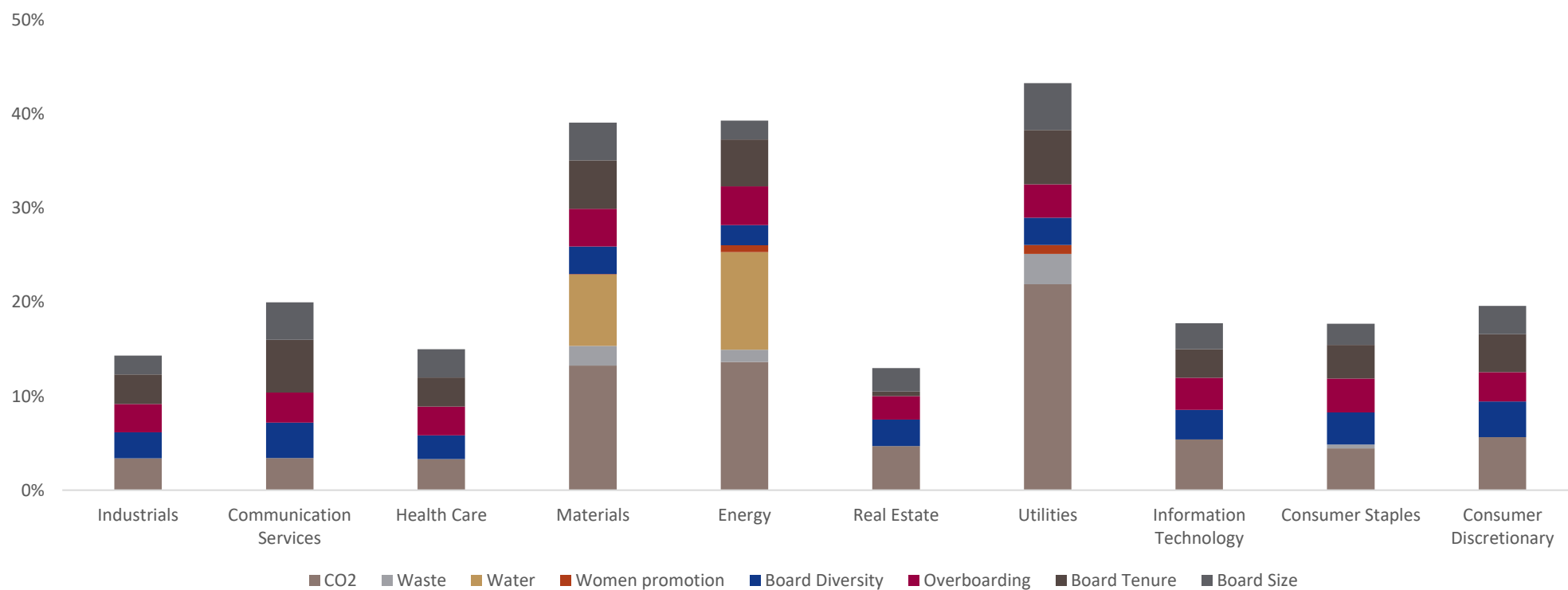
Investors and companies face a common challenge: what to prioritise?

The engagement maximiser



All sectors stand to benefit from improving emissions

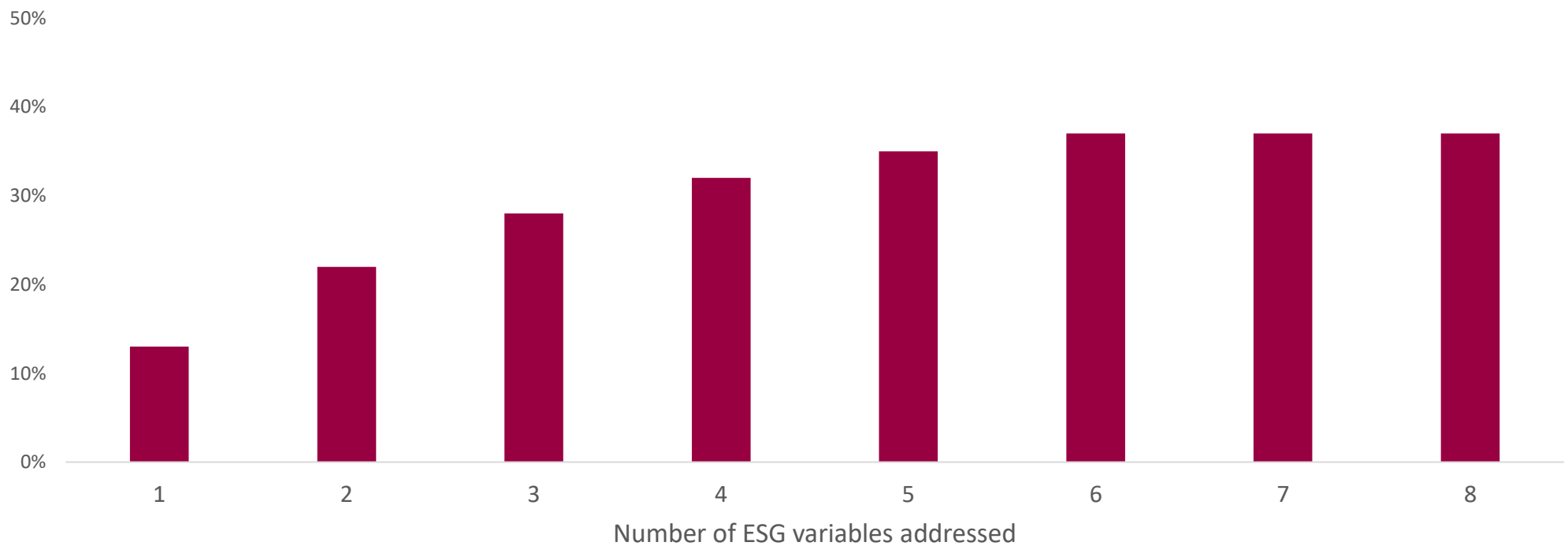
Median potential share price gain by sector



ESG materiality varies

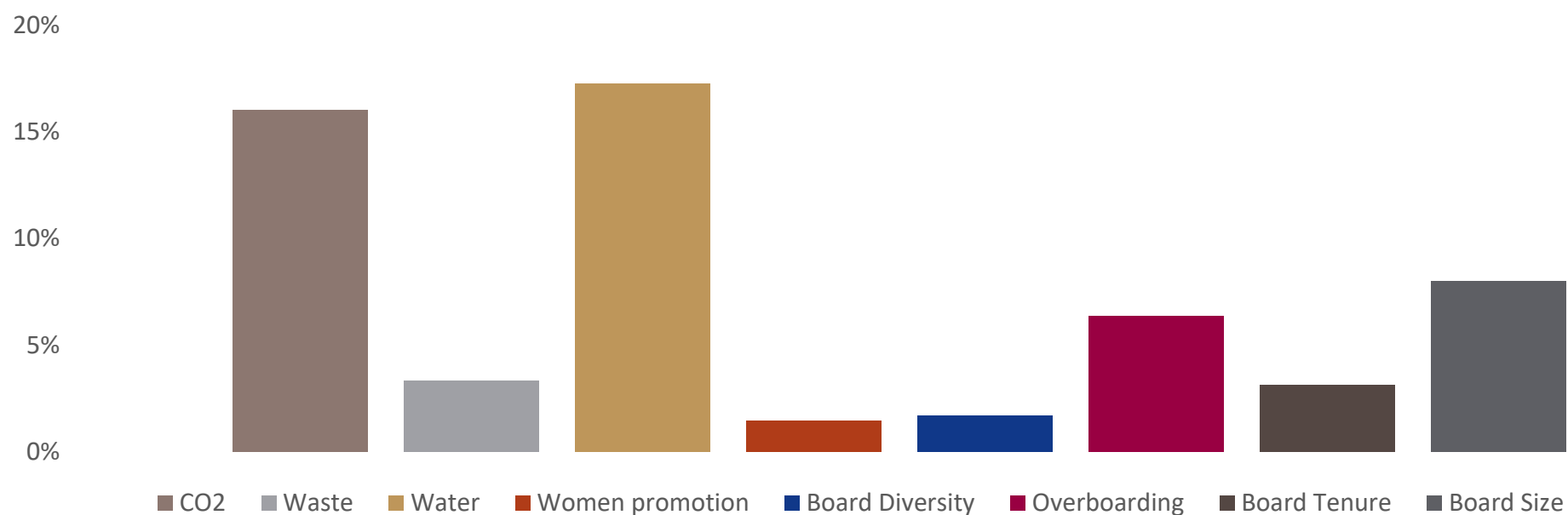
Investors should focus on where they can add the most value

Average potential gain from improving most impactful ESG variables first



Case study: BASF

Potential share price appreciation from adopting peers' best practices



To sum up

- The *ESG for Investors* platform leverages academic research to illuminate **ESG opportunity**, rather than risk
- It is **free to use** and publicly available.
- The platform can help:
 - **Asset owners:**
 - To define and implement an ESG policy
 - To bring impact considerations into strategic asset allocation
 - To elevate the conversations with consultants and managers
 - **Asset owners and managers**
 - To select and prioritise engagement targets and topics
 - E.g. 25% average share price upside for focus companies in the Climate Action 100+ initiative*
 - **Companies:**
 - To benchmark their own strategies against best practice
 - **All stakeholders**
 - To collaborate on raising ESG standards across markets and sectors.

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