

Today's goals. Tomorrow's **Impact.**

Ian Smith, Portfolio Manager
Investment Seminar, March 2018

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Driving positive change for society and the world in which we all live
Business has a crucial role to play

“

The role business has in creating real action on the ground and scaling up solutions to issues such as healthcare, water and energy is crucial.

”

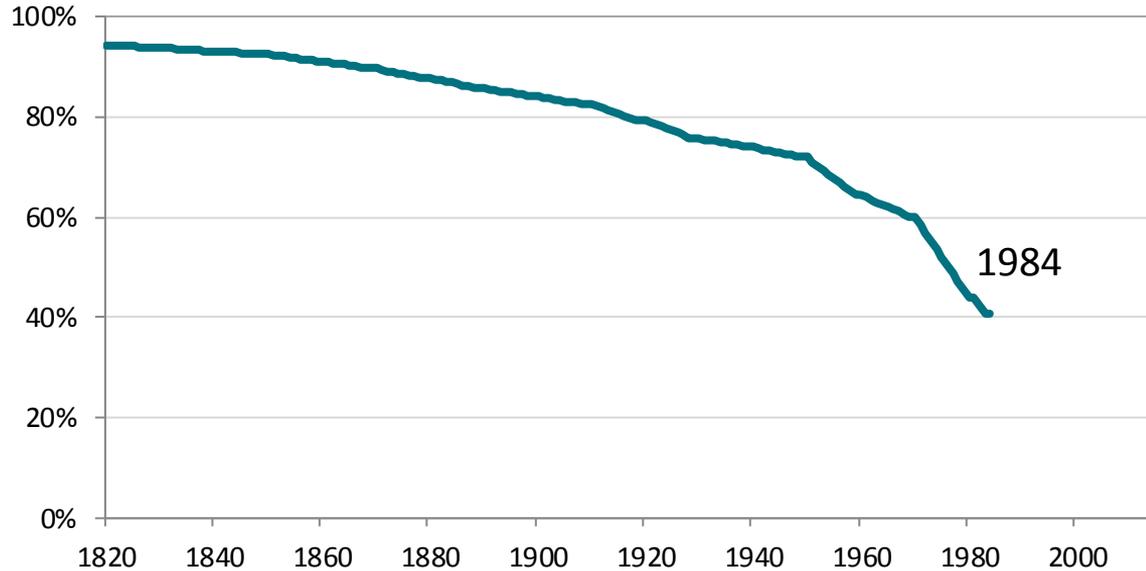
Lise Kingo

CEO and executive director of the United Nations Global Compact

Source: Meeting the SDGs: A global movement gains momentum. The Economist Intelligence Unit, 2017.

Question: What happened next?

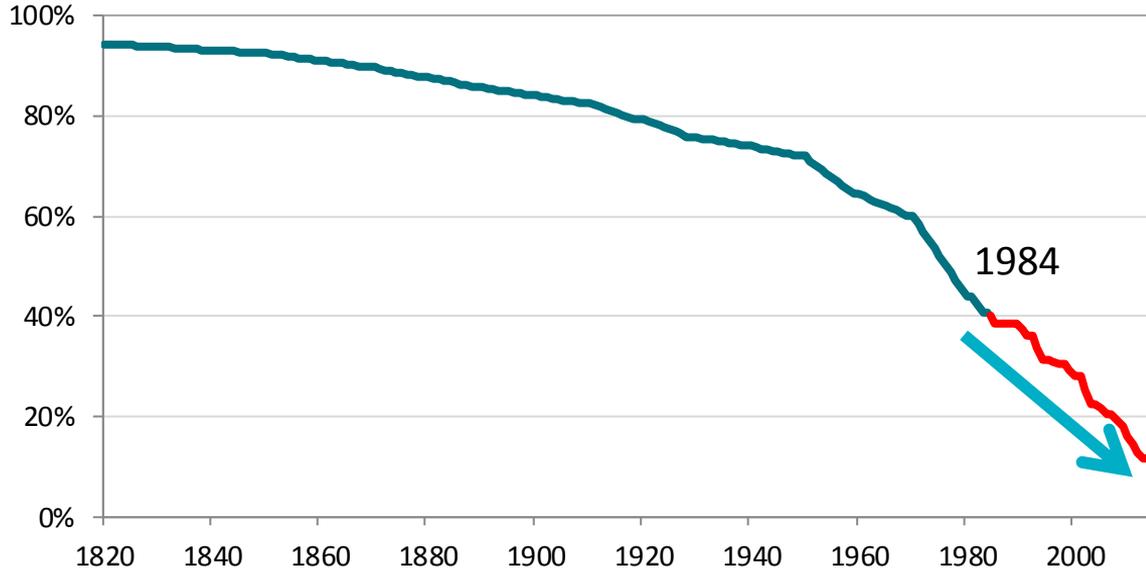
% people living in extreme poverty



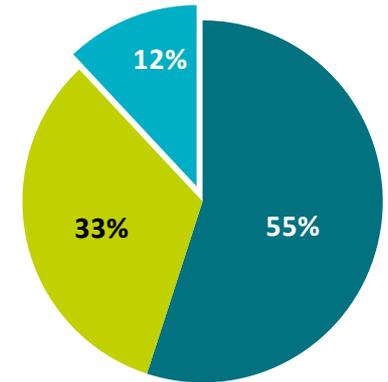
Sources: Max Rose based on World Bank (since 1980) and Bourguignon & Morrison (pre 1980); AXA IM; Image source – Wordpress.com.

Answer: Capitalism works just fine

% people living in extreme poverty



"In the last 30 years the proportion of the World population living in extreme poverty has ..."



- ...increased
- ...remained more or less the same
- ...decreased

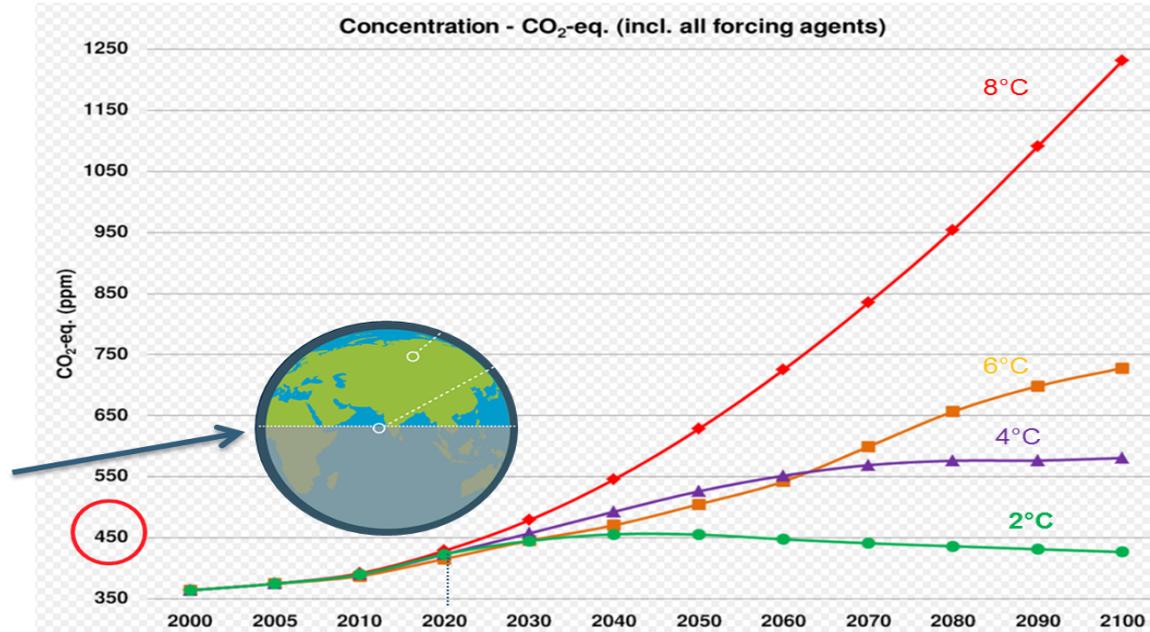
Sources: Max Rose based on World Bank (since 1980) and Bourguignon & Morrison (pre 1980); AXA IM

....but progress at a cost

2015 COP 21 Accord commits to 2 degrees with a more ambitious goal of 1.5 degrees

2011

We've already
burned **52%** of
the budget
since 1850



Sources: AXA IM, WRI, IEA 2014. For illustrative purposes only.

...and progress without inclusion

71% of the world's population still live on under \$10 a day

Developing World

 **2.3 billion**
people

840 million
people



260 million
children



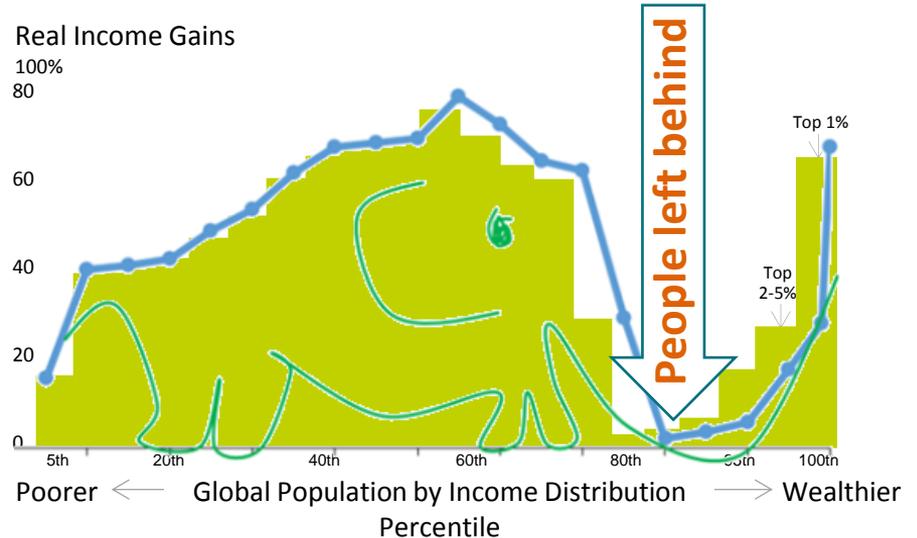
12 times



Developed World

Who has gained from globalisation (The Elephant Chart)

The global 1% and the Asian middle class



Sources: WHO – Global Database on Child Growth & Malnutrition; UN Inter-agency Group for Child Mortality Estimation; Water.org; UN Water; UNESCO Institute for Statistics (UIS); The World Bank, Development Research Group/Branko Milanovic – December 2013. RHS Chart: 1988 TO 2008 - Incomes are real, PPP-adjusted, in 2005 dollars. For illustrative purposes only.

What is impact investing?

Creating impact, alongside managing risk and seeking returns

“Impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return.”

Intentionality

Return

Range

Measure

Impact investing asset class / return rate spectrum



Below-market Investments

Source: <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

What is the impact?

Contribution

What would have happened if nothing had been done?

Investor contribution?



Enterprise contribution?



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Harnessing the UN's SDGs as a framework for investing

Turning today's goals into positive change

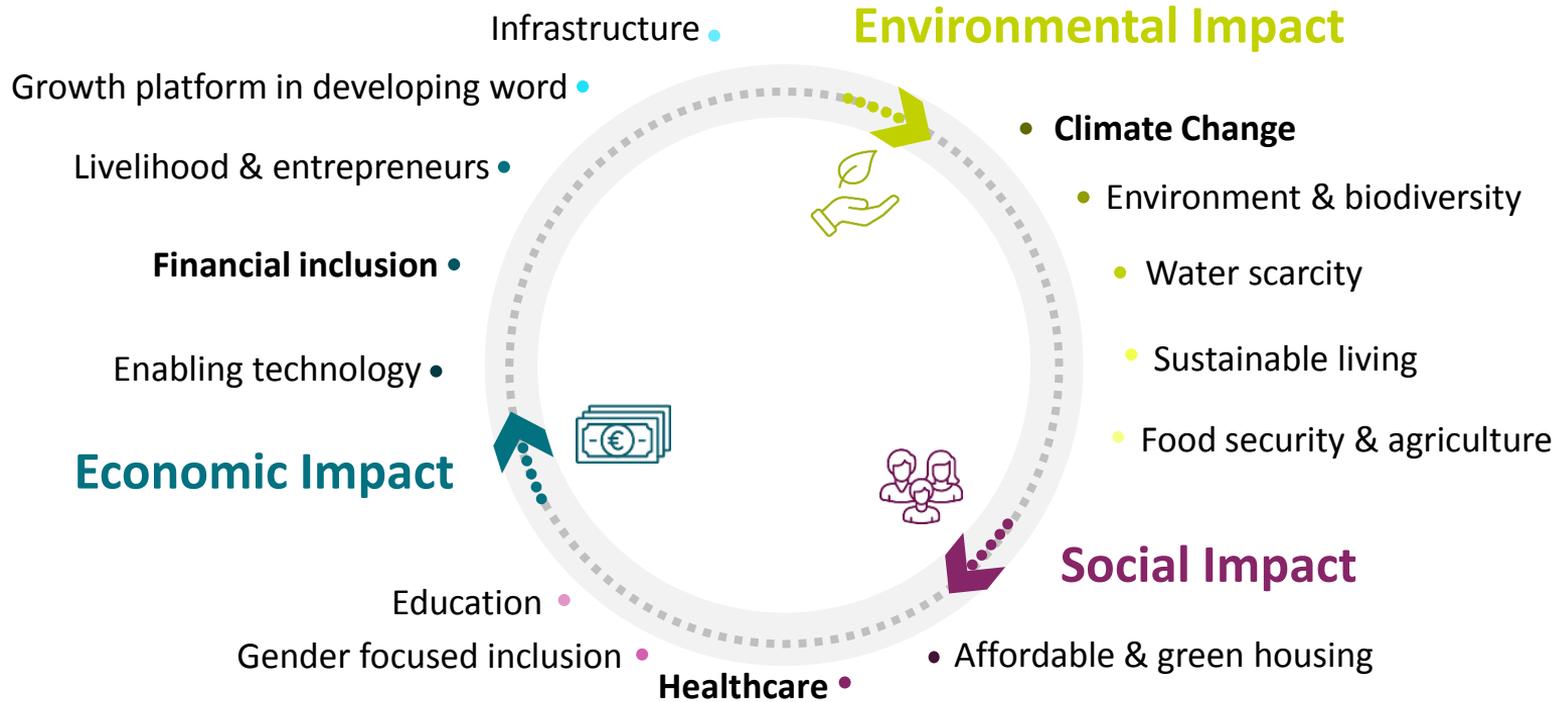
United Nations 17 Sustainable Development Goals (SDGs)



- **\$5-7 trillion** annual investment needs
- Two thirds of which in **developing world** (\$2.5 trillion deficit in 2014)

Source: UNCTAD 2014 World Investment Report

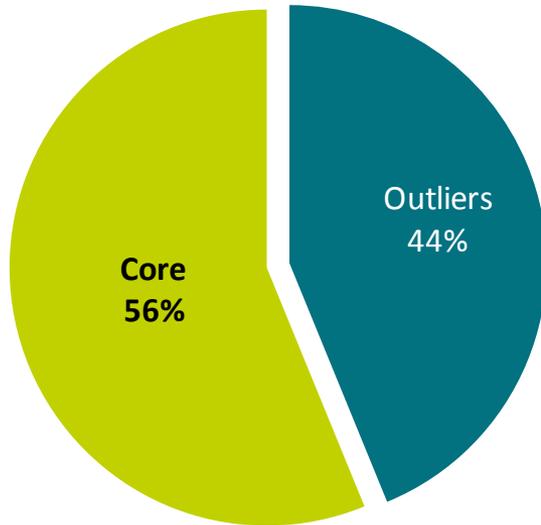
Today's goals translate into investable themes



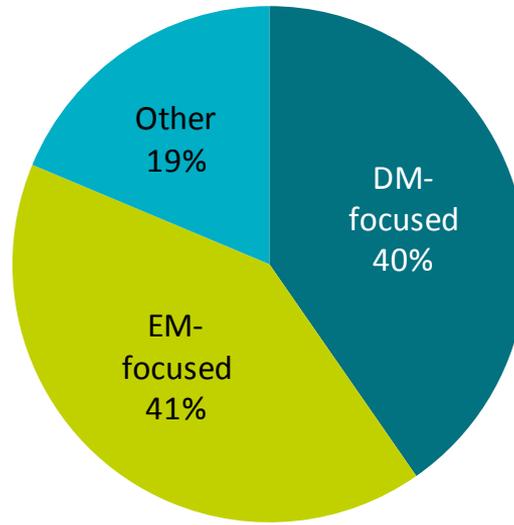
Impact investing overview

Current shape of the industry

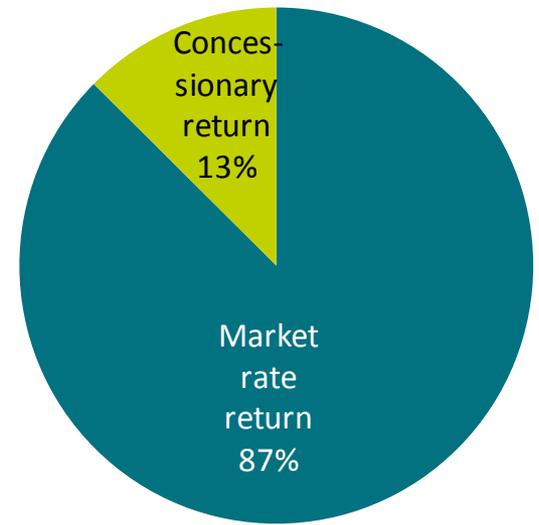
Investor type
(US\$ 113.7bn)



Investment destination
(US\$ 63.9bn)



Return target
(US\$ 63.9bn)

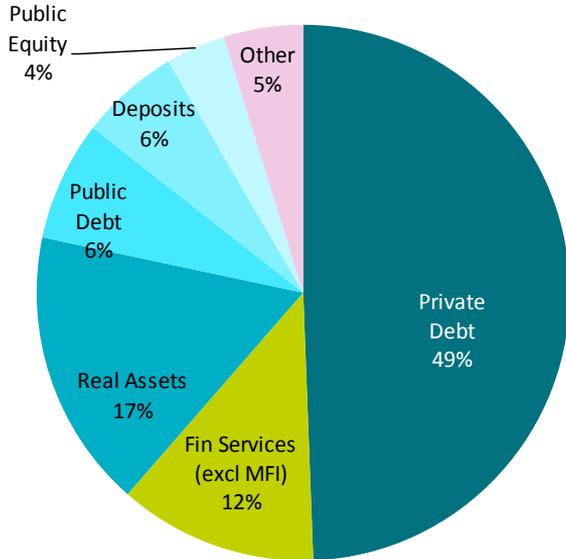


Source: GIIN, Annual Impact Investor Survey, May 2017 (as at December 2016). Full sample: n = 208; AUM = USD 113.7 bn (excluding outliers n=203; AUM=USD 63.9 bn).

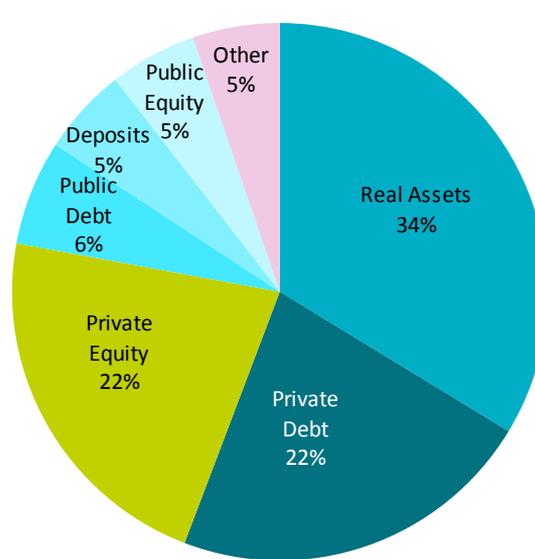
Impact investing: investment instruments

How is capital currently being deployed?

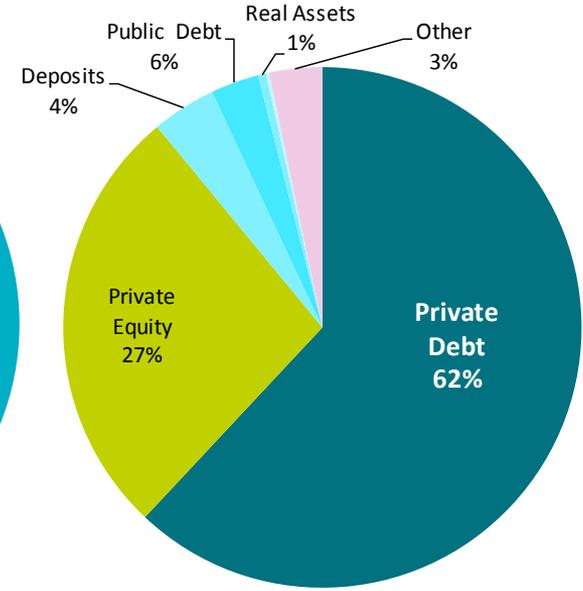
**Core Investors
(US\$ 63.9bn)**



**Developed Markets
(US\$ 25.8bn)**



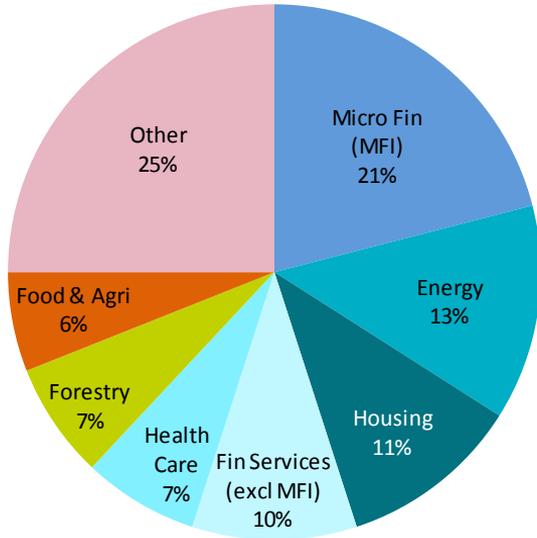
**Emerging Markets
(US\$ 26.2bn)**



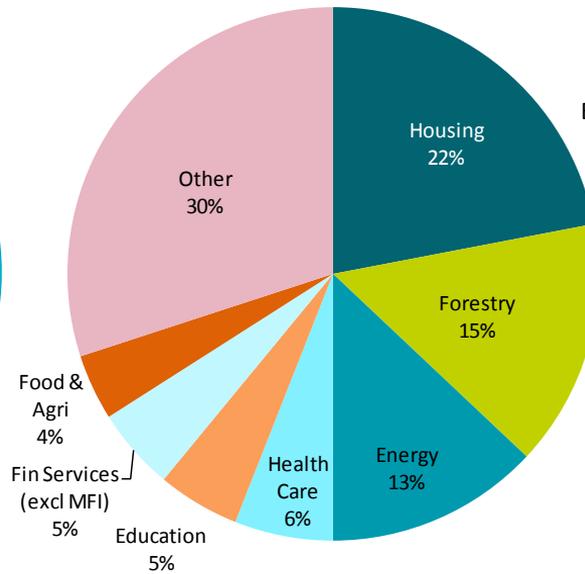
Source: GIIN, Annual Impact Investor Survey, May 2017 (as at December 2016). Full sample: n = 208; AUM = USD 113.7 bn (excluding outliers n=203; AUM=USD 63.9 bn).

Impact investing: investment themes

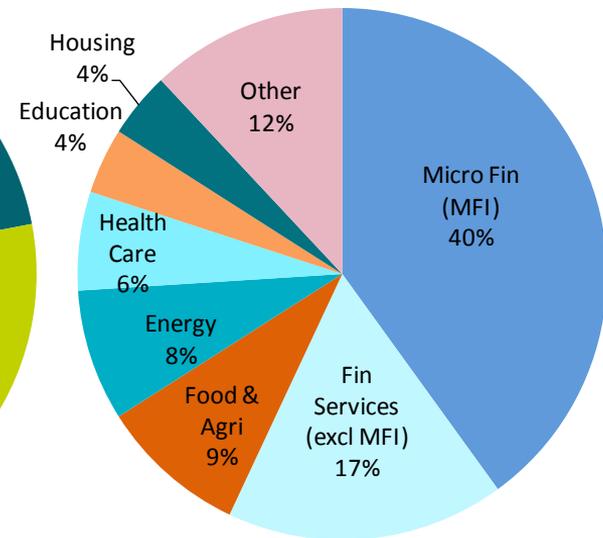
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Fiduciary duty

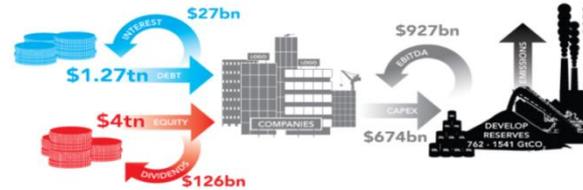
Four major considerations

HUGE ADDRESSABLE MARKETS



STRANDED ASSETS

Fossil fuel energy which, at some time prior to the end of their economic life, are no longer able to earn an economic return¹



RISK MANAGEMENT & STAKEHOLDERS

89% of Millennials are more likely to buy from those companies that support solutions to specific social issues ²



89%
of Millennials

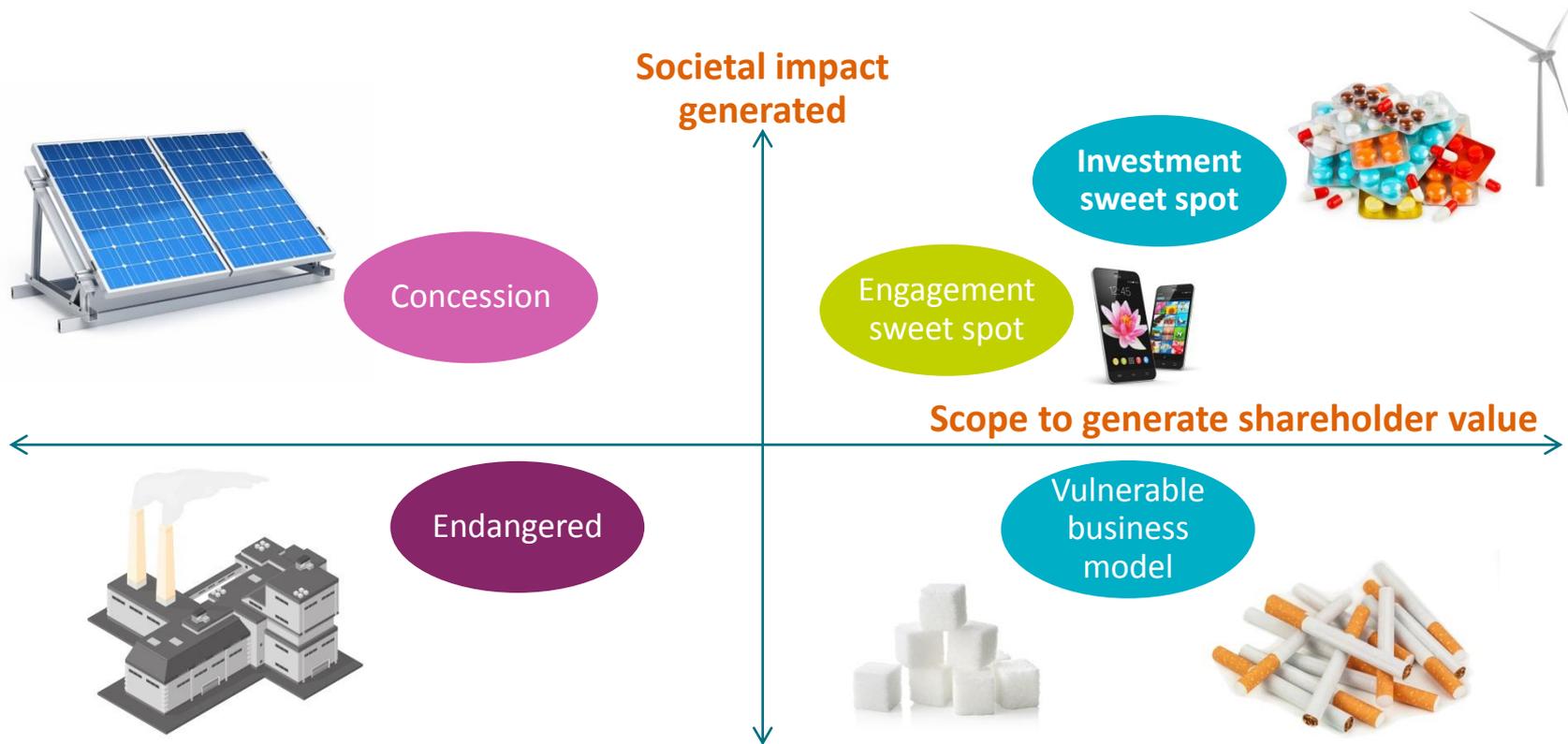
REGULATION

High-Level Expert Group (HLEG) on Sustainable Finance in Europe



For illustrative purposes only. Source: ¹Stranded assets illustration - Carbon Tracker Initiative. ²2013 Cone Communications Social Impact Study

Another way to look at it



For illustrative purposes only. Photo source: Getty Images.

Aligning investable themes with SDGs and measuring outcomes

How might you approach it?

THEME	SUB THEME	MAIN SDGs	OTHER SDGs	KEY KPIS
 <p>Climate Change</p>	<ul style="list-style-type: none"> * Renewable Energy * Energy Efficiency * Responsible Production & Consumption * Sustainable Cities & Transport * Waste Avoidance & Recycling * Climate Insurance & Protection 	  	  	<ul style="list-style-type: none"> * Renewable energy produced & installed (IRIS: PD1504) * Avoided greenhouse gas emissions (IRIS: PD5376) * Avoided resource waste * #people with access to renewable energy (IRIS: PI4060) * % input materials sourced sustainably * #people with access to sustainable transport

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Different types of impact companies

Company	Market	Impact	Theme	Mechanism	Main SDG	Metric/KPI	5YR annualised stock return
	DM	Environmental	Water scarcity	Products & Services		161bn gallons of water conserved	15%
	DM	Environmental	Climate change	Products & Services		85 GW of installed renewable capacity	67%
	DM	Social	Gender-focused inclusion	Operations		Target 40% women leadership by 2025	12%
	DM to EM	Environmental	Sustainable living	Operations		Target 100% sustainably sourced raw materials by 2020	11%
	DM to EM	Social	Healthcare	Products & Services		10mil antiretroviral therapy beneficiaries	16%
	EM	Social	Healthcare	Products & Services		Target 65mil diagnostic procedures by 2020	14%
	EM	Environmental	Food security & Agriculture	Products & Services		Touched 5.2mil small farmer lives	8%
	Frontier	Economic	Financial inclusion	Products & Services		Served ~350,000 SME borrowers in Bangladesh	45%
	Frontier	Social	Financial inclusion	Both		19mil money transfer customers	41%

* To 31/12/2017. DM = Developed Markets; EM = Emerging Markets; Frontier = Frontier Markets. For illustrative purposes only. This does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2004/39/CE), nor does it constitute on the part of AXA IM an offer to buy or sell any investments, products or services, and should not be considered as a recommendation for an investment strategy or a personalised recommendation to buy or sell securities.

Today's goals

- Investors' interests are aligning
 - fiduciary duty, regulation, financial goals, risk management, positive change
- Goals are aligning
 - increasingly investable common themes, opportunity set broadening
- Becoming a reality
 - chance to actively address the gaps

... Tomorrow's impact

“

There are only two days in the year that nothing can be done ... One is called Yesterday and the other is called Tomorrow.

”

Dalai Lama XIV

Appendix: Demonstrating and guiding RI best practice

Active and engaged investors

- A signatory to the Principle for Responsible Investment (PRI) since 2007
- 'A+' rating, the highest available, for overall Strategy and Governance in 2017



Source: For illustrative purposes only.

Appendix: Contribution - types of 'Additionality'

Additionality is at the heart of impact investing

Types of additionality	Examples
Financial	Offering better terms, longer maturities, countercyclical finance, lower price, subordination, holding riskier portfolios, providing smart subsidies, guarantees and other to enhance returns and reduce risks
Aggregation	Supporting projects at regional or global level for aggregation of opportunities, diversification of risk and cross boundary sharing of experience.
Signalling	Providing a stamp of approval, providing credibility, attracting other investors, acting as honest broker.
Knowledge	Strengthening the quality of the investment model and technology; sharing knowledge building capacity of local partners, facilitate technology transfer, publicly share experiences and learning (beyond project boundaries).
Demonstration	Support innovative pacesetter to de-risk new business models; attracting capital in lower income, fragile countries and frontier markets that are not (yet) able to attract significant levels of commercial capital.
Poverty	Influencing design to reach lower income market segments; reduce inequalities, improve local participation, generate employment at the Bottom of the Pyramid (BoP).
Standards	Promoting high environmental, social and governance standards in investee companies, financial institutions, funds and at industry level.
Market Building	Strengthening policy environment, build eco-systems and support market infrastructure, generate market data and support industry research.

Source: A. Koenig and E.T. Jackson. *Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance*, Danida Evaluation Department, Copenhagen, 2016. See especially chapter 3 and Annex F. http://web.archive.org/web/20160814170448/http://um.dk:80/en/danida-en/results/eval/Eval_reports/evaluation-studies/publicationdisplaypage/?publicationID=E15693B2-6449-4AB1-A33A-BC8BE0067D42

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