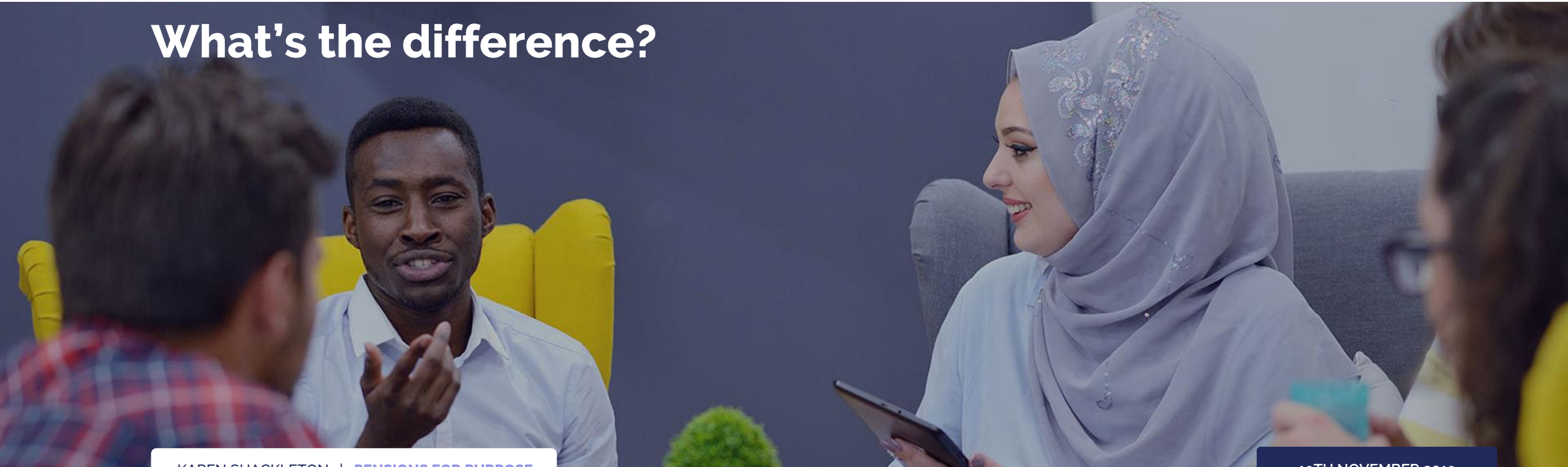




Responsible Investment,
Sustainable Investment and Impact Investment

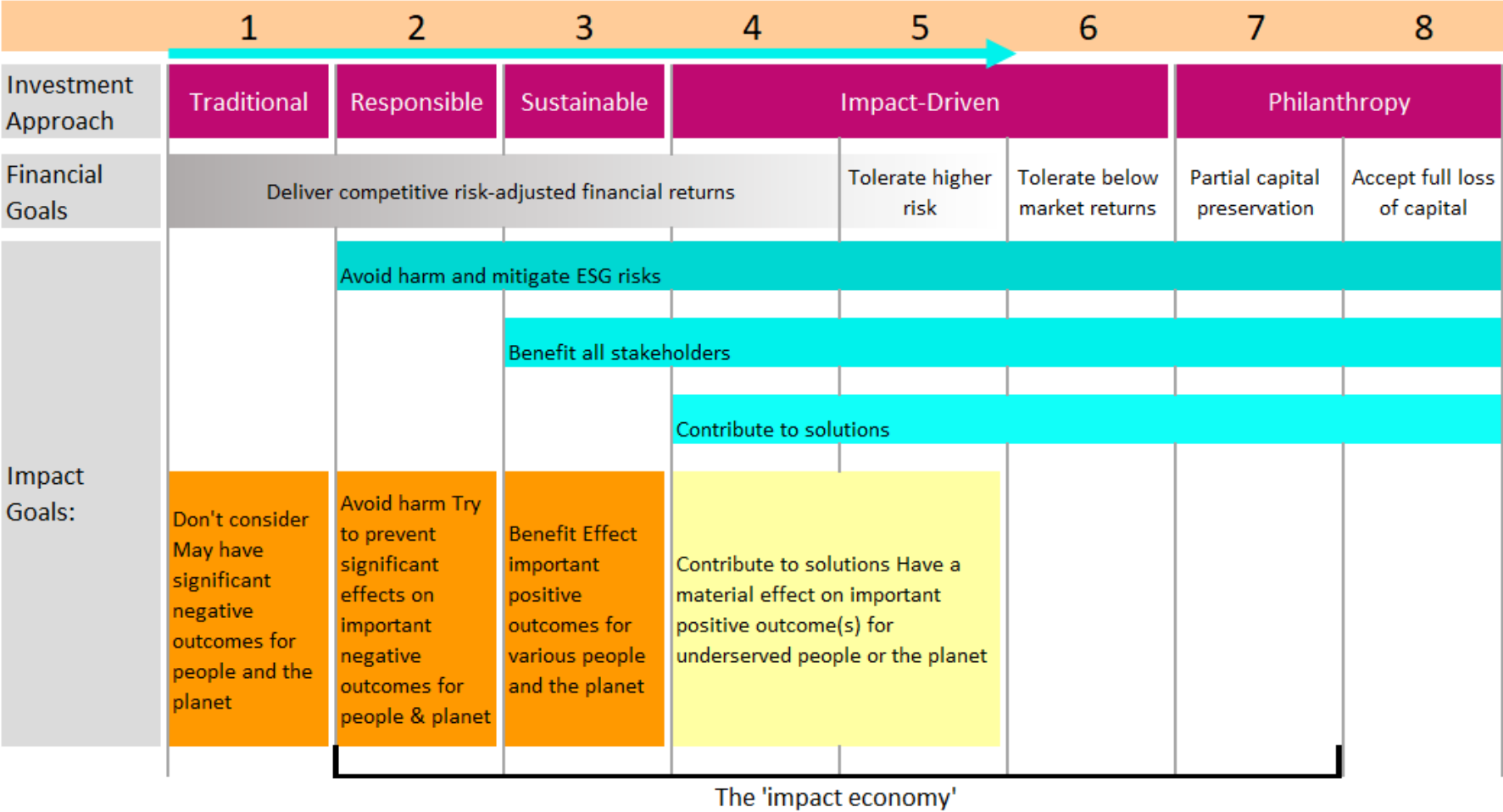
What's the difference?





A journey along the spectrum of capital

The Spectrum of Capital



Source: The rise of Impact: Five steps towards an inclusive and sustainable economy.
UK National Advisory Board on impact investing 2017 &
Impact Management Project 2017

Moving from traditional to responsible

(1 to 2 on the spectrum of capital)

Traditionally very little consideration of ESG factors (Environmental, Social, Governance)

Position 1 on the spectrum of capital

In the past 3-5 years, more and more managers are taking this into account

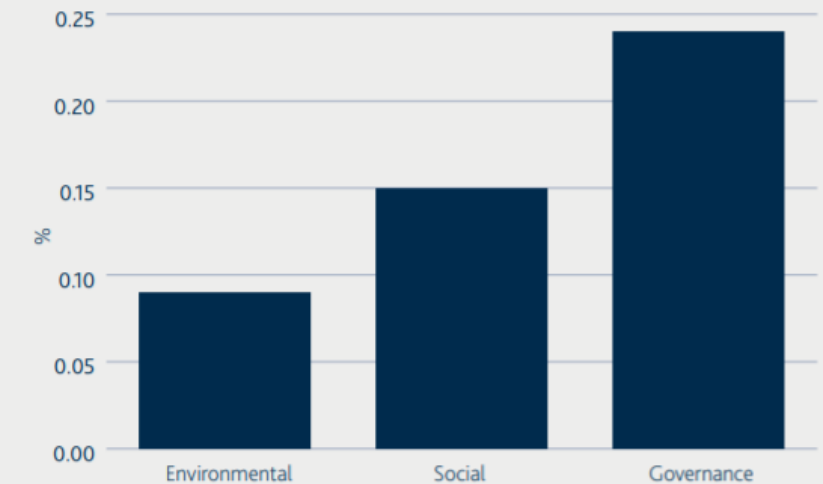
Position 2 on the spectrum of capital

There is evidence that this adds value.

See Hermes: ESG investing: a social uprising on Pensions for Purpose website (reproduced here with their permission)

Figure 2. ESG value is driven by corporate governance and social characteristics

Average monthly dispersion in total returns between companies in top decile and lowest decile on environmental, social and governance scores from 31 December 2008 to 30 June 2018.



Source: Hermes Investment Management as at 30 June 2018.

How is this **achieved?**



Analysis e.g.
carbon footprint,
gender diversity
statistics, living
wages



Engagement
with management
(also via LAPFF)



Voting
(PIRC)



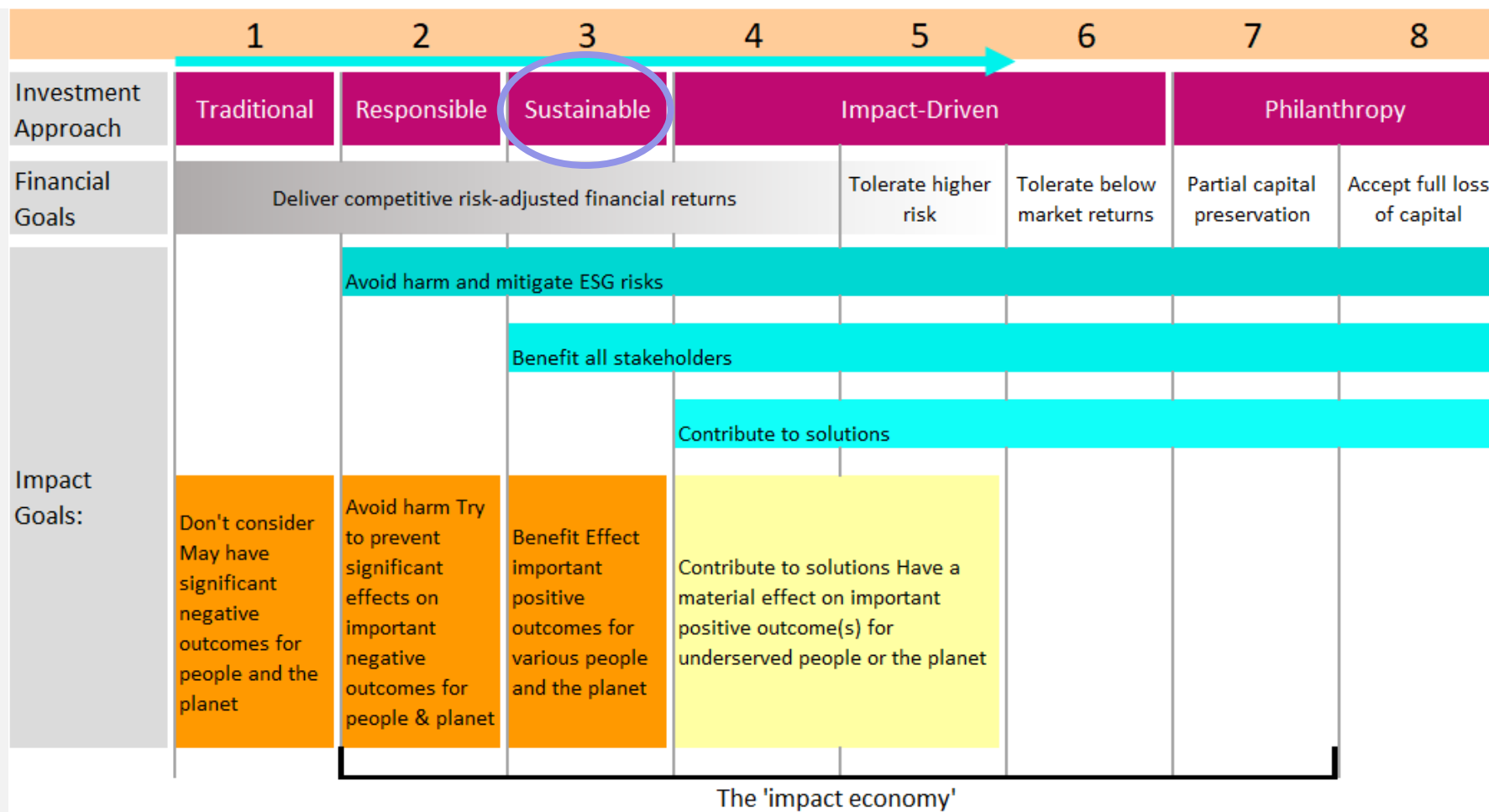
Purpose:
to get the
maximum risk
adjusted return on
the portfolio.



No values
expressed on
whether ESG
issues are morally
right or wrong.

Moving from value investing to values investing

(2 to 3 on the spectrum of capital)



Source: The rise of Impact: Five steps towards an inclusive and sustainable economy.
 UK National Advisory Board on impact investing 2017 &
 Impact Management Project 2017

Moving from responsible to sustainable

(2 to 3 on the spectrum of capital)

Some pension funds are now introducing a set of investor beliefs around sustainability.

This is values-based investing – **NB there may be a performance implication from doing this.**

This can be accompanied with setting goals for the pension fund to achieve.

Example - London Borough of Islington pension fund's goals:

- Reduce future CO2 emissions.
- Reduce exposure to carbon intensive companies across asset classes and industry sectors in the public equity allocation by 40% percent.
- Invest 15% per cent of the Fund in sustainability-themed investment.

What do sustainable portfolios look like?

Passive equities

- Low carbon index funds
- Still track the market index (expected return is the same)
- Aim to have a lower carbon footprint than the index
- The management fee will be higher

Active equities

- Sustainable active portfolios
- Aim to outperform the MSCI World Index by 2%
- Aim to have a lower carbon footprint than the index

Mercer's research suggests this might be financially beneficial to the pension fund.

They estimate a relative return advantage of nearly 38% in a 2° scenario to 2050 from sustainable investments compared to developed market equities ("Investing in a time of climate change").

Investing with impact

(3 to 4+ on the spectrum of capital)

	1	2	3	4	5	6	7	8
Investment Approach	Traditional	Responsible	Sustainable	Impact-Driven			Philanthropy	
Financial Goals	Deliver competitive risk-adjusted financial returns				Tolerate higher risk	Tolerate below market returns	Partial capital preservation	Accept full loss of capital
Impact Goals:	Avoid harm and mitigate ESG risks							
	Benefit all stakeholders							
	Contribute to solutions							
	Don't consider May have significant negative outcomes for people and the planet	Avoid harm Try to prevent significant effects on important negative outcomes for people & planet	Benefit Effect important positive outcomes for various people and the planet	Contribute to solutions Have a material effect on important positive outcome(s) for underserved people or the planet				
The 'impact economy'								

Source: The rise of Impact: Five steps towards an inclusive and sustainable economy.
UK National Advisory Board on impact investing 2017 &
Impact Management Project 2017

Impact Investing – What is it?

(1 to 2 on the spectrum of capital)

Offers a financial return

Intentionally generates a positive impact (social or environmental)

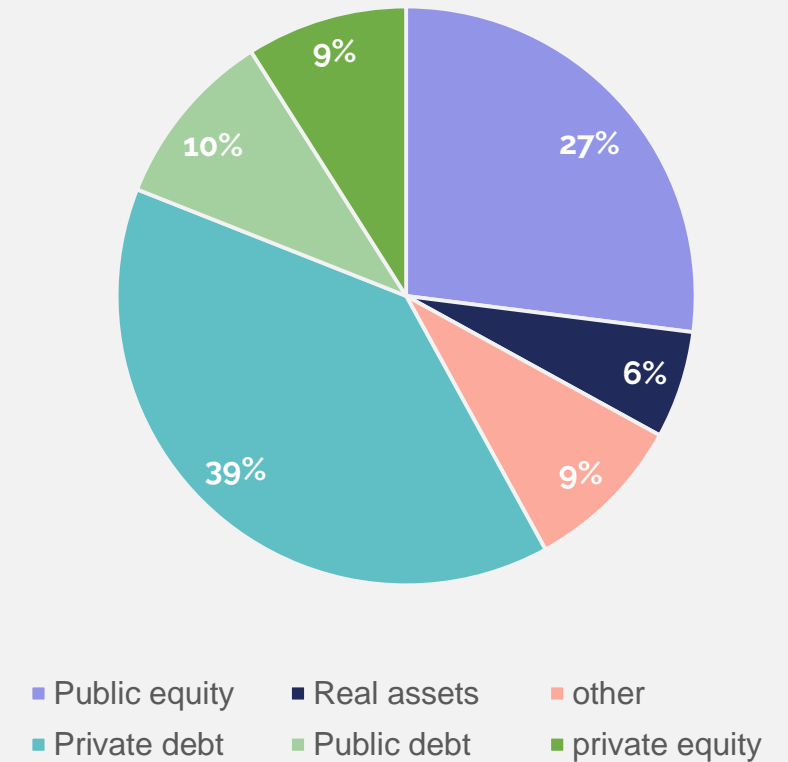
Measures both the financial return and the social/ environmental impact

Covers the full range of different asset classes

Already forms part of the investment strategy for many pension funds

Of an estimated £380 bn in impact investment funds 32% are investments made by pension funds and insurance companies (source: the GIIN)

Impact investment by asset class



Source: GIIN 2019 Annual Impact Investor Survey

The financials of impact investment

Performance relative to expectations



91% deliver to, or exceed, the financial expectations of the investment.

66% targeted market-rate risk adjusted returns

What do listed impact investments look like?

Listed equities – invest in companies that have a positive social or environmental impact, for example:

- A biotech company -> selling drugs that improve third world health
- An automobile company -> selling electric cars
- An elderly care home operator -> helping residents with mental health issues

Listed bonds:

- Green bonds that fund projects with positive environmental/climate benefits
- Social bonds where payments depend on specific social outcomes being achieved

Often target the
SDGs (Sustainable
Development
Goals)

Scalable and liquid
investments

Investing **WITH**
impact, not
investing **FOR**
impact (position 4
on the spectrum of
capital)



What do unlisted impact investments look like?

Property investments

- A social housing property fund
- A homelessness property fund
- A disabled living property fund

Infrastructure investments:

- A renewable energy fund
- A fund investing in deprived areas

Private Debt Investments:

- Macro finance to third world countries.
- Loans to small businesses.

Investing **FOR** impact, not
investing **WITH** impact – more
direct and measurable impact ...
“Additionality”...

BUT... less scalable and less
liquid (more likely to be
position 5 on the spectrum of
capital)



Impact measurement

Measuring impact remains a challenge for investors – lack of standardisation

UN Sustainable Development Goals allow some comparability

Easier for listed assets, harder for private impact investments

Managers should be able to map their investment themes onto the SDGs

Ask for impact measures e.g. tonnes of CO₂ avoided, litres of water cleaned, number of homeless people helped

Remains an evolving space



Implementing a sustainable investment approach

using the UNPRI's "seven steps" for asset owners



Defining investor beliefs

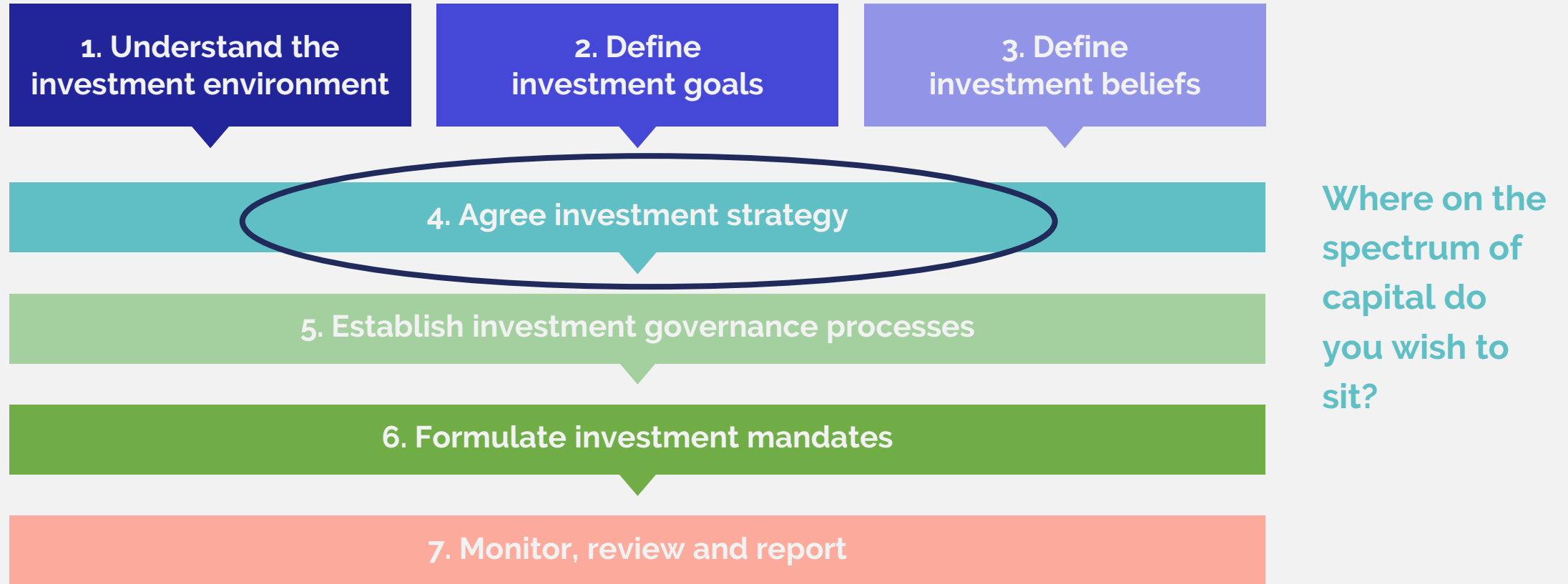
is an important next step



Agree an investment thesis for each SDG

Prioritise those you wish to target

Once investment beliefs are defined,
it is easier to agree a sustainable investment strategy to reflect these



Case study

London Borough of Islington Pension Fund

£1.4 billion -
over 20,000
members

2017 – began
to reduce
exposure to
carbon

Set goals to
reach by the
end of April
2022

Allocating
to impact
investments
in renewable
energy

Considering
allocations to
social housing

Seeking
market rate
risk-adjusted
returns

Annual
measurement
of carbon
footprint and
emissions

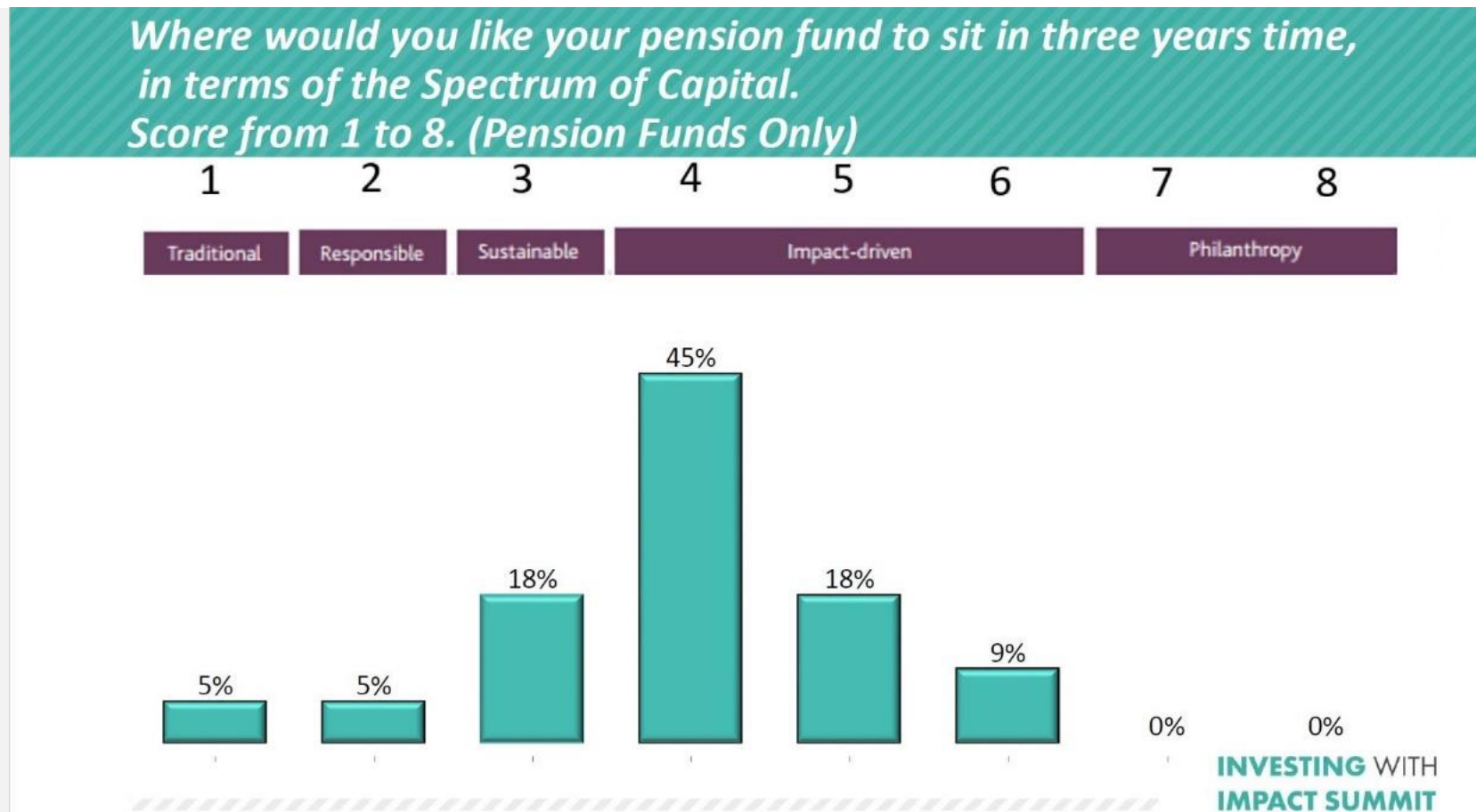


Industry Trends: the direction of travel for UK pension funds

A shift along the spectrum of capital

Voting by delegates at the DG Publishing/Pensions for Purpose "Investing with Impact" summit 2019

90% want to be investing sustainably and impactfully in 3 years' time.



For more information about ESG,
sustainable and impact investment...



A collaborative
not for profit
platform



Subject tags
on content



Anonymous
membership for
pension fund
representatives



A monthly email
with three pieces
of new content



Access to
confidential
thought
leadership

www.pensionsforpurpose.com

Risk

Warning

Pensions for Purpose

(www.pensionsforpurpose.com)

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