

INSIGHTS & IDEAS

Centennial Conversations

San Francisco

Investing for Positive Impact

1917 – 2017
A Century of Service
and Benefits for
the Episcopal Church



Sustainable Finance & Impact Investing Discussion with CPG

FEBRUARY 2018





What Is Impact Investing, Sustainable Investing, Responsible Investing?



- Many terms:
 - SRI
 - MRI/mission investing
 - Responsible investing
 - Triple bottom line, Double Bottom Line, Profit with purpose
 - ESG
 - CSR
 - Impact Investing
 - Sustainable finance
- What's the difference between a donor & an investor?
- What are examples of Impact Investing strategies?
- What isn't Impact Investing? How is impact investing different from "normal investing"?



Why is Intentionality so Critical?

- What is the difference between a sub-prime mortgage and a micro-finance loan?
- Long history of public policy objectives creating financial markets
 - Home mortgage
 - SOX & NOX trading → Carbon trading
 - Economic development zones & special tax programs
 - Renewable energy: tax credits and feed-in tariffs



Impact Investing, a 40 Year Evolution



1970's – 1990's: SRI, faith-based innovator, Vietnam, apartheid, environment

- **The era of “NO”**
- Labeled with underperformance
- **But significant innovation**
 - SRI funds & shareholder activism
 - Microfinance
 - CRA
 - Community banking & CDFIs
 - Clean Air Act
 - Clean Water Act
 - SOX & NOX, the origins of cap & trade

The 2000's

- Debating “**IMPACT AND/OR RETURNS**”
- Experimented with “convergence model” of donor and investor
- Awareness, debate, and education
- Europe implements Kyoto carbon markets
- 2007+: GiiN, More than Mission, B Corp's
- 2008 JPM report
- Metrics: IRIS/GiiRs 2011
- Yunus Nobel Prize & MFI IPOs
- **Social enterprise & VC models dominate impact investing**

Today

- “**RETURNS FROM IMPACT**”
- Transition from “ideal” and “ideas”
- Evolves to an economic argument
- New “terms”:
 - Impact investing
 - Investing with Impact
 - Sustainable finance
- Recognize the breadth of “impact-full” strategies and asset classes
- Scale and institutions enter the conversation
- Institutionalization & professionalization



Mainstreaming of Sustainable Finance



BlackRock CEO: “Society is demanding that companies, both public and private, **serve a social purpose**...to prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”

<https://www.nytimes.com/2018/01/15/business/dealbook/blackrock-laurence-fink-letter.html>

Putnam’s Sustainable Investing, headed by **Katherine Collins**... has been increasingly embedding ESG analysis across its broader investment platforms...announces creation of a \$4.5B fund.

<https://www.businesswire.com/news/home/20180117006051/en/Putnam-Investments-Form-Funds-Pursue-Environmental-Social>

- Government and policy
 - 2015: IRS and PRI
 - 2015: ERISA
 - COP21 and UN SDGs
 - Benefit Corporation laws in 30+ states
 - China integrates climate & carbon in the 13th 5 year plan
- Investment firm and institutions signaling
 - Bank of England
 - Nearly every major investment platform: BlackRock, State Street Global, TIAA, Goldman Sachs, Morgan Stanley, BAML, AXA...
 - The State Street Global statue and “the letter”
 - PGM, APG, CALPERS, NY Common, Norges Bank...
 - GPIF
- Institutional research on sustainability & returns
 - ESG & sustainability portfolio and corporate performance: Wharton, GiiN/Cambridge, Kellogg, Stanford, Harvard...
 - Databases of ESG research: Deutsche Bank & CALPERS
 - Accounting for externalities: PWC TIMMS



Impact, Sustainable & Responsible

3 SEPARATE BUT RELATED CONVERSATION AND MARKET SEGMENTS

1. Impact Investing

- Foundations & High Net Worth investors
- “Your capital can do more than generate returns”

2. Sustainable Investing

- Institutions (pensions, SWF's, endowments)
- Portfolio risk and value in sustainability

3. ESG and responsibility

- Corporations & public equities
- Benefit Corporations
- CSR evolving into strategy, products, risk/oppty, and “the right to operate” (the company & community)

THE IMPACT INVESTOR

MISSION FOCUSED
86% of investors rated the mission and their beneficiaries' impact expectations very important, a critical factor in their investment decisions.

TOP INVESTMENT TARGETS
Investors target specific programs and sectors including:

- 1. **WATER & ENVIRONMENT**: More than \$100 billion invested in the USA and international markets.
- 2. **RENEWABLE ENERGY**: 2,400 investment projects totaling a value of more than \$8.4 billion in the USA and international markets.
- 3. **EDUCATION IN THE USA**: Investors have a total of \$11.3 billion invested in higher education projects in the USA.
- 4. **TECHNOLOGY IN THE USA**: Investors have \$8.4 billion invested in projects and initiatives that focus on technology in the USA.

TOP INTERESTS

- 61% of investors are interested in environmental issues.
- 59% of investors are interested in social issues.

PRI



WHAT WE DO

TO PROVIDE INVESTMENT SOLUTIONS THAT CONTRIBUTE TO A MORE RESPONSIBLE ECONOMY

- Applying ESG criteria to all our investment processes
- Exercising our shareholder voting rights
- Developing and promoting SRI products



Defining Impact Investing

Impact Product Segments

Returns	Market Rate	“Financial returns, first”	“Impact alpha” Investing with Impact
	Below Market		“Impact First”
		Low	High

Impact

Impact Across All Asset Classes



- ***Using market and investment tools to drive positive impact on environment and community, and deliver a return to the investor.***
- 3 defining components to Impact:
 - Intentionality
 - Additionality
 - Permanence
- Impact can be applied across the spectrum of returns & impact
- Impact can be applied across to all asset classes



Applying Markets to “Market Failures*”

Social

- Bottom of pyramid
- Food & hunger
- Financial inclusion
- Health
- Affordable housing
- Education
- Energy gap
- Clean water access

Environment

- Climate change
- Global demographics
- Resource constraint & productivity
- Agriculture and food
- Environmental services
- Water
- Energy

* But not all problems can be solved with markets



What Do You Want In Your Portfolio?

- Coal or renewables based utility?
- Would you rather be on the electric or the gas engine price/performance cost curve?
- What is the risk in forestlands or farm lands in drought prone geographies?
- Do you want an energy and water efficient, community oriented building or...the alternative?
- How can a portfolio of workforce housing address housing and income in-equality
- What's the climate exposure in your portfolio?
- How can financial innovation be applied to create markets from “market failures”?





About Equilibrium: Sustainable Investing

- Started 2008
- \$1.9+ billion assets on our platform
 - Finding the alpha opportunities in sustainability
 - Focusing on Real Assets
 - Serving Institutional Investors, globally
- Strategies built on research
- Portfolios:
 - Green Real Estate
 - Sustainable Agriculture and Foods
 - Renewable Resources
- Building of sustainability sector thru work in policy, law, capacity building in sustainability investing sector, and developing the next generation of investment professionals



Our Values And Sustainability Principles

Equilibrium builds and operates portfolios of sustainability-driven real assets

Our mission: Transform our planet into sustainable prosperity through markets

Our Values

- 1 “We”
- 2 Community
- 3 Do the Right Thing
- 4 Sustainability at our Core
- 5 Innovation

Our Sustainability Principles

- 1 Long Term
- 2 Resilience
- 3 Integration
- 4 Scale
- 5 People
- 6 Humility

Equilibrium

The Sustainability Challenge: Building Archimedes' Lever



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