Short vs long-term investment: What will capital markets deliver?

ECMI Conference

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Sustainable Investing Milestones

2006-2008

- 2006: UN Principles of Responsible Investment (UNPRI) launched with US\$4trn. AUM by its signatories.
- 2006: Stern Review on the Economics of Climate Change released.
- 2007: First Climate
 Awareness Bond launched
 by EIB.
- 2008: Santiago Principles for sovereign wealth funds governance are formed.

2009-2010

- 2009: The King Report on Governance (King III) calls for integration of sustainability and financial reporting.
- 2010: SEC issues interpretive guidance on need to disclose climate risk.
- 2010: U.K Stewardship Code released.
- 2010: US Dodd-Frank Act enacted.
- 2010: CERES and INCR launch Clean Trillion campaign to boost global investment in clean energy.
- 2010: The Asset Owners
 Disclosure Project is established.

2011-2014

- 2011: UN Guiding Principles on Business and Human Rights endorsed by HRC.
- 2011: Sustainability Accounting Standards Board (SASB) created.
- 2013: IIRC calls for adoption of multi-capital model.
- 2013: CPPIB's 'Focus Capital on the Long Term Initiative' launches.
- 2014: 'Montreal Carbon Pledge' launched at PRI in Person in Montreal.
- 2014: ICMA Green Bond Principles launched.
- 2014: EU Directive on 'Disclosure of Non-Financial Information and Diversity'.

2015-2017:

- 2015: The UN adopts Sustainable Development Goals (SDGs)
- 2015: COP21 in Paris sets global decarbonization targets led by 'The Portfolio Decarbonization Coalition'
- 2015: EU Shareholder Rights Directive.
- 2015: PBoC launches GB Directive.
- 2015: World Exchanges agree on material ESG metrics to include in sustainability disclosure guidance.
- 2015: FSB establishes disclosure task force. S&P joins as an expert member.
- 2015: CERES Green Bond Statement
 & The Paris Green Bond Statements
- **2016:** AUM by UNPRI signatories reaches US\$60trn -10Yr Anniversary
- 2016: ICMA GB Principles launches Social Metrics.
- 2016: SDG Coalition(s) launched
- 2017: Positive Impact Principles launched.
- **2017:** ISO Standard for Climate Disclosure.



Green Finance - Momentum 2016/17

2016 – The Year of Green Finance*:

- US\$90bn of new Green Bond issuance in 2016**
- Multiple Green Finance initiatives were launched crowned by the "Paris Agreement"

2017 – New Green Finance & Climate Finance Frameworks & Coalitions:

- 5th consecutive year of 'record' issuances: US\$101.4bn YTD / Nov. 2017**
- HLEG / EU Commission 'Green Bond Taxonomy' (proposed)
- Worldbank / IMF 'Green Tagging' (proposed)
- Sustainable Stock Exchanges Initiative 'Green Finance Guidance for Exchanges'
- Global Green Taskforce / CoL 'Green Momentum into Actions'
- TCFD Framework 'Strategic Disclosure Recommendations for Climate Risks'

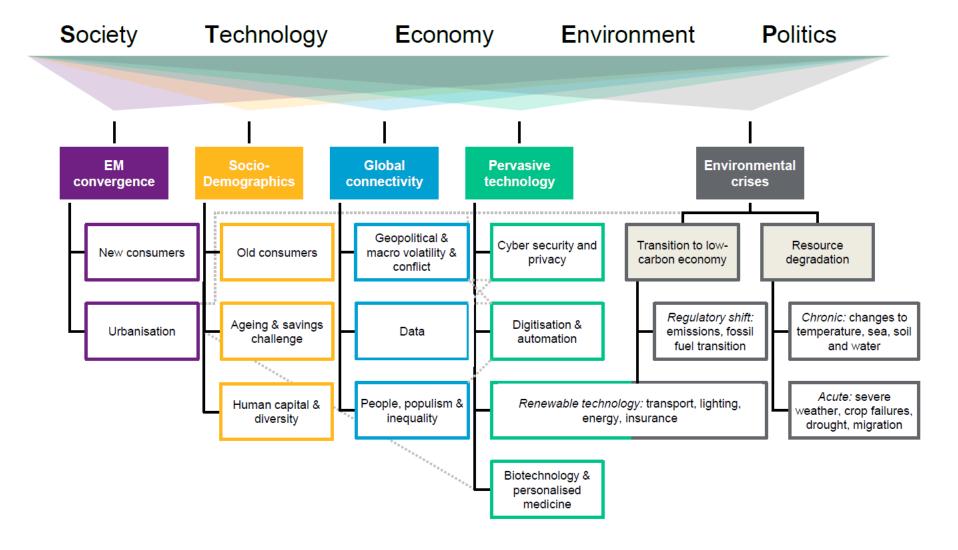
From Green Finance to Green Bonds:

- Mainstreaming of private sector capital for green finance
- The Paris Agreement targets the mobilization of US\$100 billion a year in Climate Change related support & investment by 2020 (both for mitigation and for adaptation) through to 2025, after which a more ambitious target will be set.
- The 'energy transition' has started as the economics and sophistication of new generation technologies improve and take a larger role in our energy markets.
- It is estimated that US\$80 \$90 trillion in **sustainable infrastructure** investments are required from 2015 to 2030, which works out at between US\$5.3 and US\$6 trillion per year.

Sources: *UNEP FI, 'Year of Green Finance – 2016', 17th Jan 2016; ** CBI, 2017.



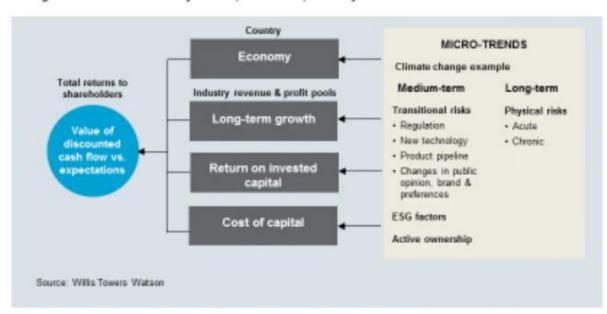
From Mega Trends to Scenario Analysis





Linking Sustainability to Returns

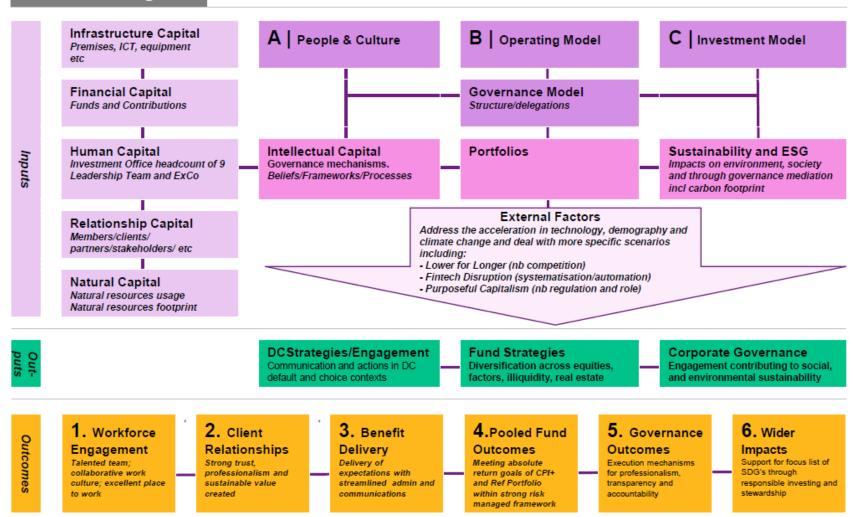
The linkages between sustainability trends, economies, industry economic value and total returns to shareholders



Source: Towers Watson, 2017



Mission and goals



Source: Towers Watson, 2017

Alignment of ESG Goals

Public Policy – Return to Long Term Policy Design & Focus on SDGs / Agenda 2030

Sustainable Development – e.g. Agenda 2030; Vision 2050: The New Agenda for Business (WBCSD); G20/OECD High-Level Principles of LT investing

Green Finance - Paris Agreement (UNFCCC); Roadmap to Moving to a Low Carbon Economy in 2050 (EC)

From Codes to Regulation – France (Article 173); EU (Directive 2014/95); IORP II (Directive 2016/2341);

Challenges: Alignment of a 'Global Vision', national Implementation targets, political Instability, geopolitics

Source: S&P Global / SI Partners, 2017

Corporates – Reporting in Line with Long Term Goals & SDG Alignment

Reporting - in line with new (SDG / Climate)
Guidelines and Frameworks e.g. TCFD,
SASB, ISO - and with Exchanges' Listing
Requirements

Industry Support - for Corporate/ Investor/NGO Coalitions & Collaborations, e.g. FCLT (2013,16);

Top-Down Alignment -

e.g. CEO Long Term Reporting Initiative (CECP, 2017); CEO / TCFD Actions Init (2017)

Challenges: Pluralism of reporting standards and valuation models, misalignment of corporate-Investor expectations etc.

Investors – Mandate for Long Term
Invest. Decision Making + SDG Metrics

Alignment with Policy Guidance and Regulation, e.g. Kay Review/ Law Commission (UK, 2012); IORP II (Directive 2016/2341)

Investor Coalitions, e.g. FCLT (2013); Montreal Carbon Pledge, 2014; SDG, (2016); Transition Pathway (2017); SDG Finance Lab; Fid. Duty in the 21st Century; Pensions for Purpose (2017)

Mandate for New Benchmarks and (Impact) Metrics (e.g. S&P LTVC Global, 2016, Positive Impact Principles, 2017)

Challenges: Fiduciary duty expectations, lack of investment vehicles & appropriate benchmarks

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Investment Instruments

S&P Long-Term Value Creation (LTVC) Global Index

An Integrated Approach to Financial and Extra-Financial Analysis

Investment Case



- . Context: Build an index to encourage corporations to focus on long-term value creation
- Approach: Partner with reference asset owner Canada Pension Plan Investment Board (CPPIB) to develop the methodology
- Output: Develop a transparent, rules-based family of listed equity indices which reflect key features of Focusing Capital on the Long Term's (FCLT) "Long-Term Portfolio Guide" (2015)
- Outcome: Equity indices with a unique "vintage year" approach to long-term holding combined with appropriate diversification and scalability; index constituents demonstrate and are weighted according to operational excellence and long-term business viability

Process

1. Constituent Selection:

Selects the top 50% of stocks based on a combined S&P Quality Score and RobecoSAM Economic Dimension Score.

1845

companies eligible

companies fit all companies selected

with combined scores criteria at launch for "2016 vintage"

Stocks remain in the index for 3 years.

Quantitative Metrics (A)

S&P Quality Score, designed to measure long-term operational excellence:

- · Profitability Generation: Captured by return-on-equity
- · Earnings Quality: Captured by accruals ratio
- Financial Robustness: Captured by financial leverage over an average time horizon of 3-5 years.

2. Constituent Weighting:

In each vintage, stocks are weighted by their combined score.



The index is reconstituted annually.

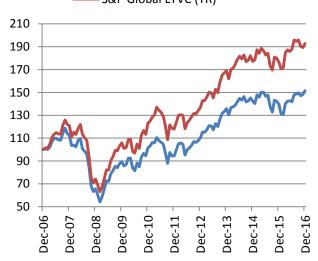
Qualitative Metrics (*)

RobecoSAM's Economic Dimension Score, designed to measure business viability:

- Corporate Governance
- Supply Chain Management
- Tax Strategy
- Risk & Crisis Management
- 3025 companies surveyed from 40 countries.

10-Year Back-tested Historical Performance as of Dec 31, 2016

—S&P Global LargeMidCap TR —S&P Global LTVC (TR)



Total Return	Net Total Return	Price Return
USD	USD	USD
SPLTVCUT	SPLTVCUN	SPLTVCUP

Source: S&P Dow Jones Indices. Data as of December 31, 2016. Charts are provided for illustrative purposes. Past performance is no guarantee of future results.



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Sustainable Investment Partners (SI Partners) is an independent business services agency.

We specialise in strategy consulting within the areas of ESG research, investments and corporate social responsibility. We work with a network of alliances and clients to promote a new approach for sustainable capital markets, identify tomorrow's companies and support transformational change. SI Partners represents oekom research, the leading ESG ratings agency, in the UK.

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