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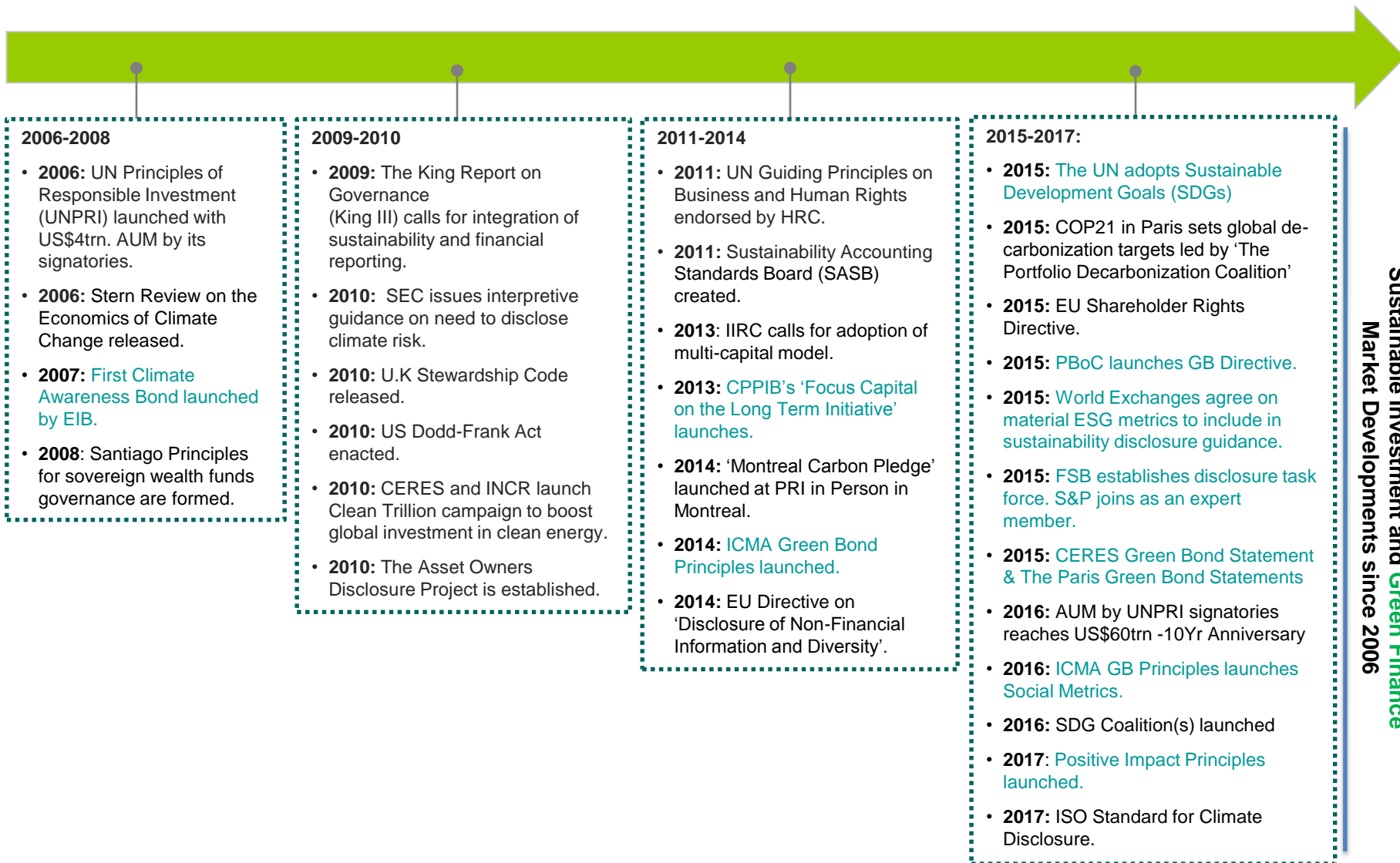
# **Short vs long-term investment: What will capital markets deliver?**

**ECMI Conference**

**23rd November 2017**

**Martina Macpherson, Managing Partner, SI Partners UK  
Chair, Network for Sustainable Financial Markets**

# Sustainable Investing Milestones



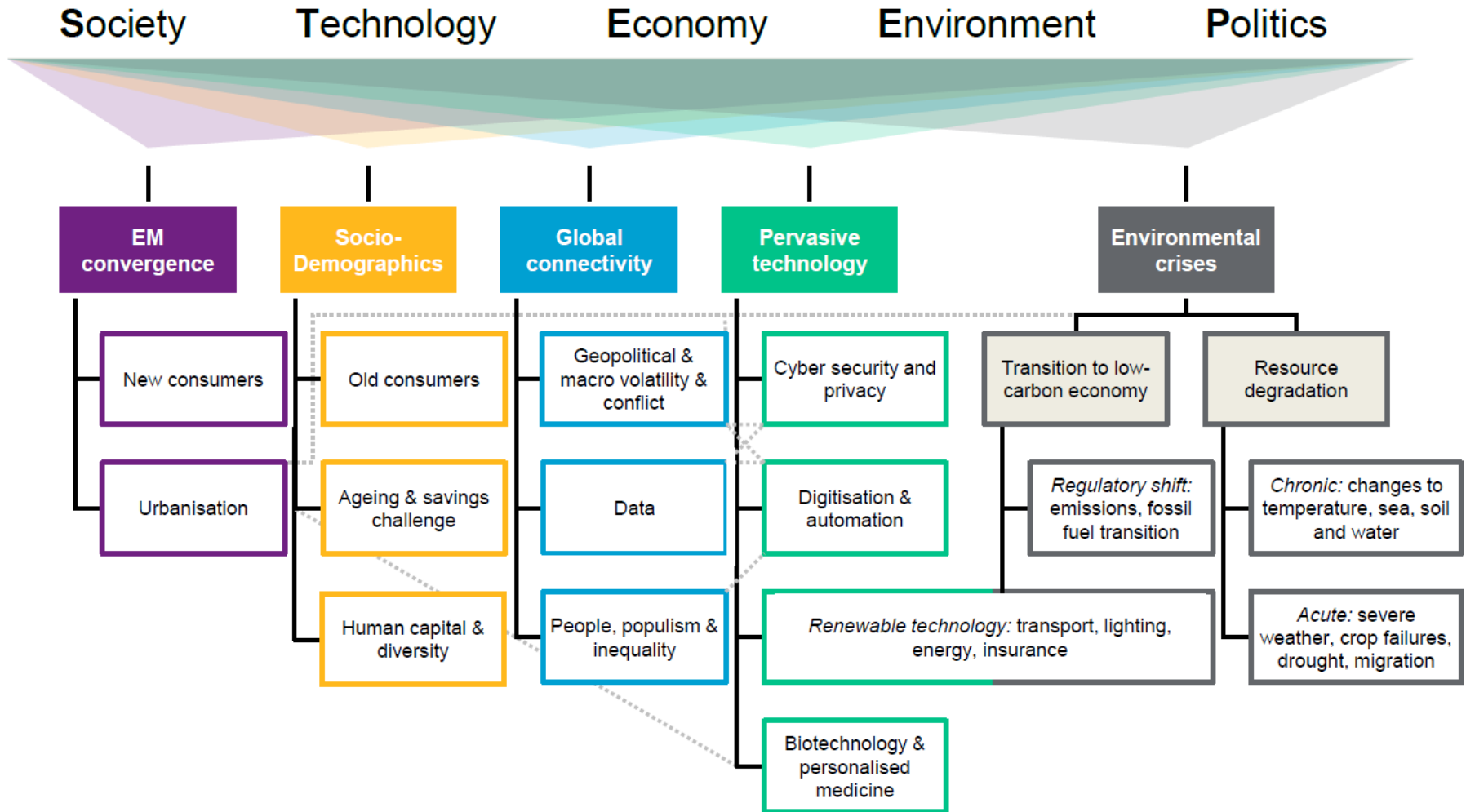
Source: SI Partners, 2017. For illustrative purposes only.

# 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:**
  - **5<sup>th</sup> 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.

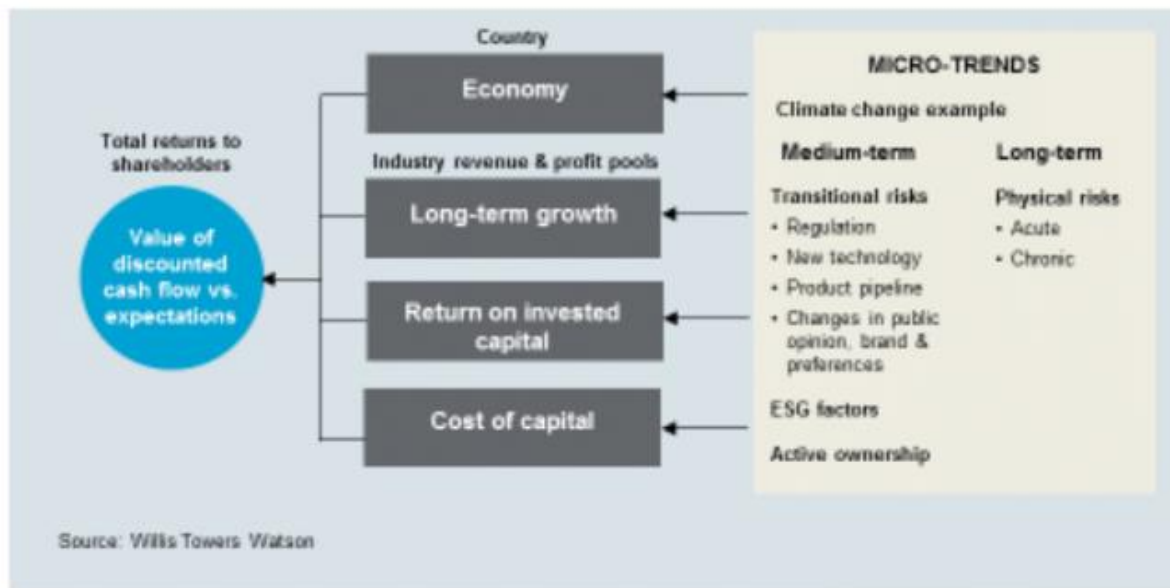
Sources: \*UNEP FI, ‘Year of Green Finance – 2016’, 17<sup>th</sup> Jan 2016; \*\* CBI, 2017.

# From Mega Trends to Scenario Analysis



# Linking Sustainability to Returns

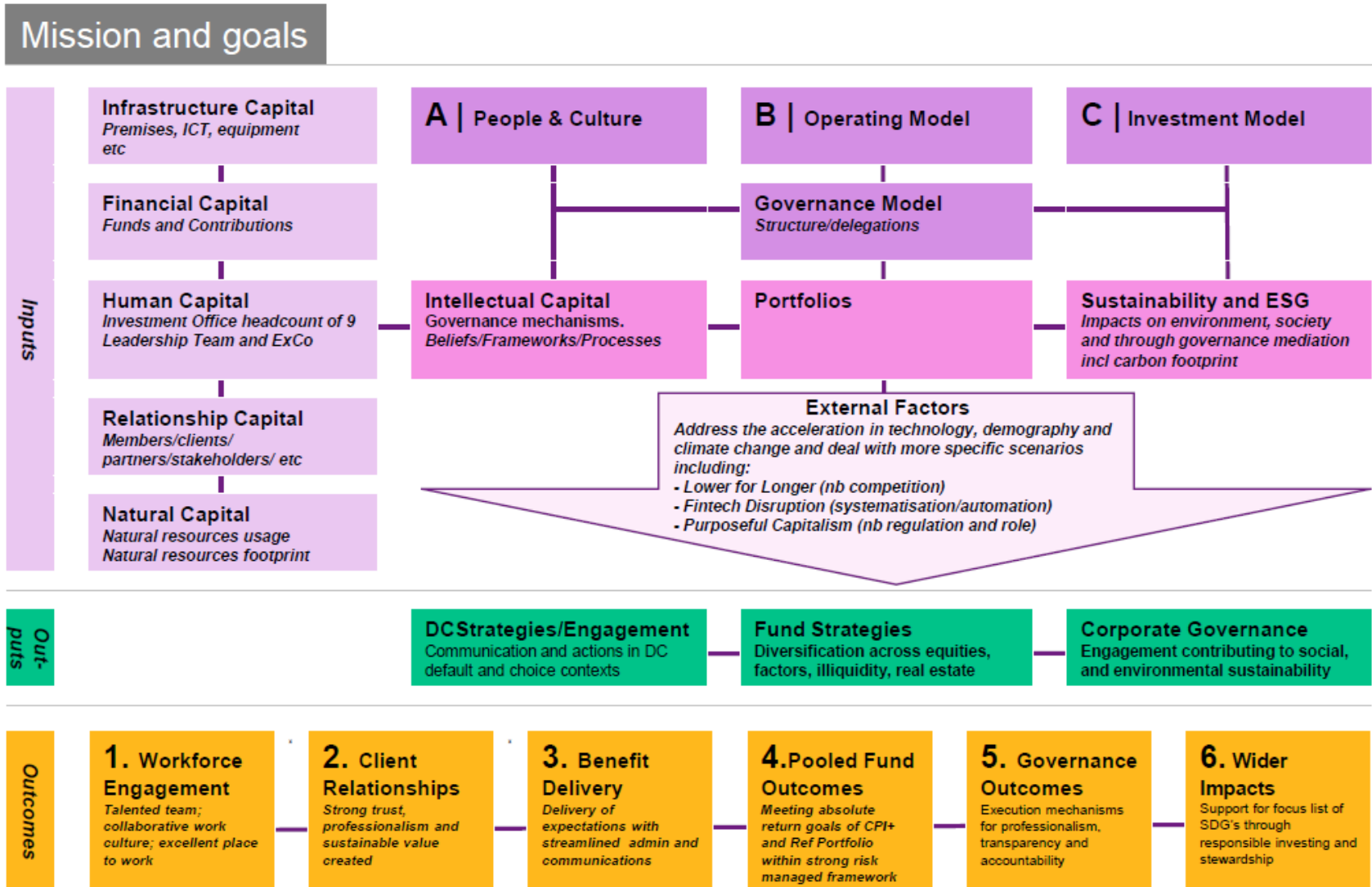
The linkages between sustainability trends, economies, industry economic value and total returns to shareholders



Source: Wills Towers Watson

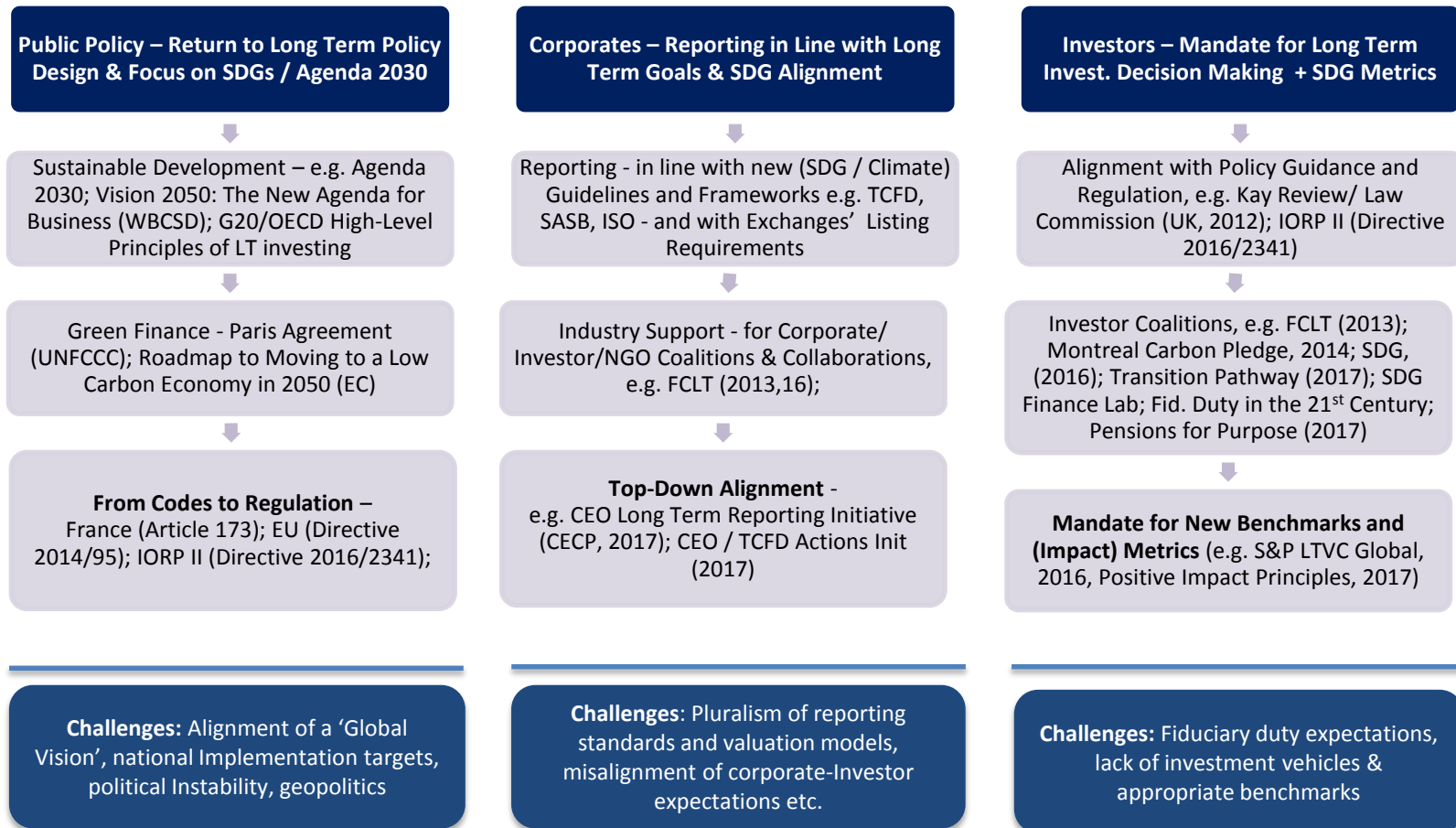
Source: Towers Watson, 2017

# Alignment of the Financial System



Source: Towers Watson, 2017

# Alignment of ESG Goals



Source: S&P Global / SI Partners, 2017

# 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 with combined scores  
**450** companies fit all criteria at launch  
**150** companies selected for "2016 vintage"

Stocks remain in the index for **3 years**.

#### 2. Constituent Weighting:

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

Year Prior (t-2) + Prior Year (t-1) + Current Year (t)  
 Vintage Vintage Vintage

Vintages weighted equally at reconstitution

The index is **reconstituted annually**.

#### Quantitative Metrics

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**.

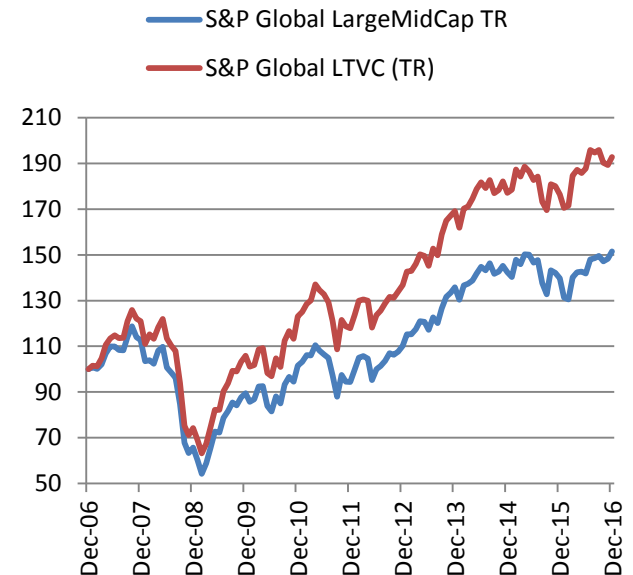
#### Qualitative Metrics

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

- **Corporate Governance**
- **Supply Chain Management**
- **Risk & Crisis Management**
- **Tax Strategy**

**3025 companies** surveyed from **40 countries**.

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



Total Return	Net Total Return	Price Return
USD	USD	USD
SPLTV CUT	SPLTV CUN	SPLTV CUP

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.



# Thank You & Contact

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