CAMRADATA

Impact Investing Whitepaper

In partnership with ARISAIG PARTNERS, M&G Investments, MACKENZIE Investments

Clear and Independent Institutional Investment Analysis

We provide institutional investors, including pension funds, insurance companies and consultants, with data and analysis to assess, research and report on their investments. We are committed to fostering and nurturing strong, productive relationships across the institutional investment sector and are continually innovating new solutions to meet the industry's complex needs.

We enable institutional investors, including pension funds, insurance companies and consultants, to conduct rigorous, evidence-based assessments of more than 5,000 investment products offered by over 700 asset managers.

Additionally, our software solutions enable insurance companies to produce consistent accounting, regulatory and audit-ready reports.

To discuss your requirements
+44 (0)20 3327 5600
info@camradata.com

Find us at camradata.com

Join us on LinkedIn

Follow us on Twitter @camradata

Contents

Welcome to CAMRADATA's Impact Investing Whitepaper

Climate change is increasingly at the forefront of the global agenda, with a key focus on a 'just' transition to a net zero economy. Impact investing is set to play a crucial role if targets are to be met.

Impact investors are vital in allocating capital in order to address the abundance of social and environmental issues facing the planet.

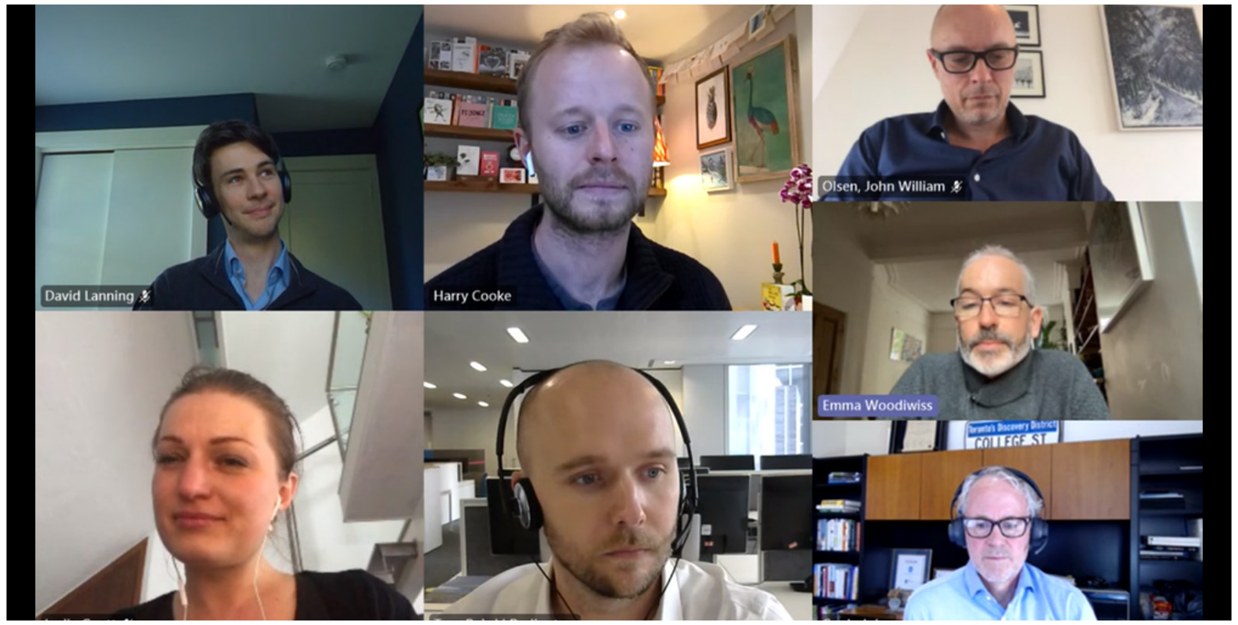
Even as governments and corporations alike are ramping up their climate commitments, there is much work to be done.

Time is running out for climate and social goals to be met. According to a recent study by the Rainforest Action Network, in the five years since the Paris Agreement, the world's biggest banks – including the likes of BNP Paribas, Goldman Sachs, and JP Morgan – have financed fossil fuels to the tune of $3.8 trillion (€3.2 trillion).

Climate rhetoric and reality are still far apart, but headway is being made. In this roundtable, we will discuss how impact investors are investing for a better world, what challenges they face, and where their capital is needed the most.

Impact Investing Roundtable

The CAMRADATA Redefining Impact Investing Roundtable took place virtually in London on 13 May 2021.



The CAMRADATA Impact Investing Roundtable 2021 began with the fundamental question of whether minority shareholders in major quoted companies can make an impact.

John William Olsen, manager of M&G's Positive Impact fund said he believed companies do prize the capital base and liquidity they get from minority investors. But Olsen reckoned the main impact is by choosing to invest in companies driving solutions for the world's biggest problems. His team at M&G follows the Impact Management Project's methodology for dividing the universe of public companies into three categories: A, B and C. These range from Avoiding harm (A) to Benefiting stakeholders (B) Contributing to world-changing positive solutions (C). Olsen said: "We aim to have a C impact element in our holdings."

What about turning the "Bs" or even the "As" into impactful? "That is tricky," admitted Olsen. "I wouldn't take that on myself."

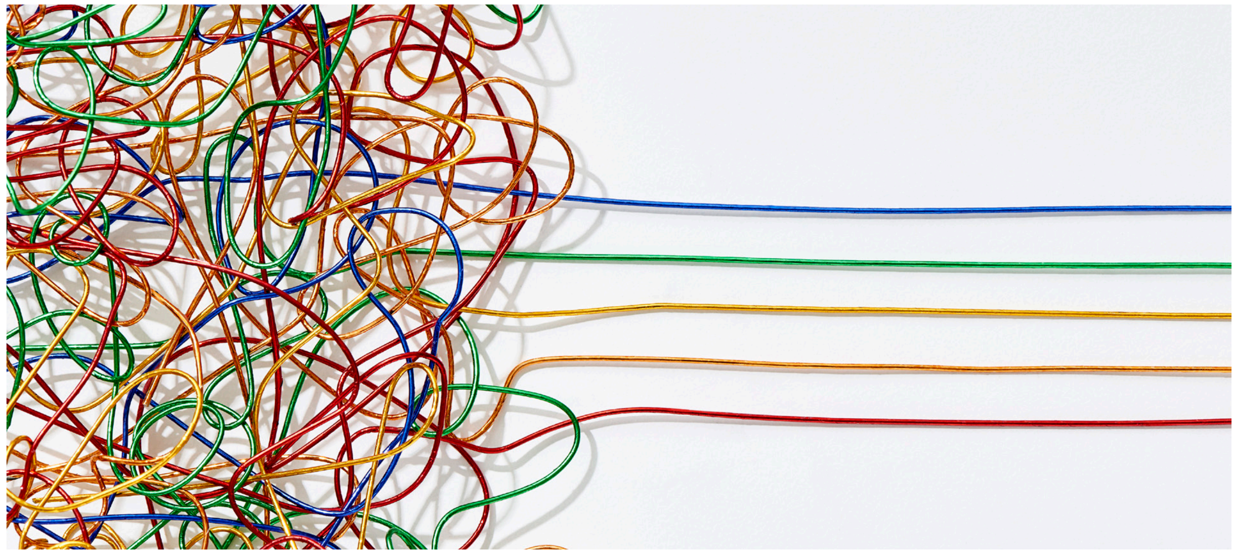
David Lanning, head of strategy for the Arisaig Next Generation fund, which concentrates on listed companies in developing markets, said the most compelling argument for his strategy is scale. "Our reach is much greater because the target population is much larger," he noted. He contrasted the undersupply of services such as education and water in developing countries with the kind of additionality stocks in developed markets offer. "The largest public companies equate with the richest markets," said Lanning. "On that metric, you could argue that Tesla is probably the biggest company tackling climate change. But buying Tesla is not the most direct way to address this issue."

"Until a few years ago, the biggest impact we had was helping major Canadian institutional investors change their perception of impact"

John Cook, co-manager of the Mackenzie Greenchip Global Equity strategy, said the firm began in Canada fifteen years ago. It was spun out of an environmental private equity firm. Cook told the CAMRADATA panel that it wanted to change the focus of larger listed companies because the firm's founders realised that smaller local firms did not have the reach and were less bankable to address the scale of climate challenges. "Until a few years ago, the biggest impact we had was helping major Canadian institutional investors change their perception of impact," he said. "The local private equity investors might have allocated 3% of their total assets to impact, but the world needed them to engage a larger portion of the other 97%."

Lydia Guett, an investment director with investment firm, Cambridge Associates, said that investing just to earn dividends was not impactful. But she said that activists such as certain large hedge funds can drive the agenda, even at the biggest corporations; and shareholder resolutions can put pressure on management.

For Stanhope Capital, a wealth management group, Harry Cooke noted that alliances such as CA100+ organised collaborative engagement effectively on Climate Change. "Engagement is key," he said. On behalf of clients, Stanhope analyses companies in both public and private markets in terms of the "purity" of their impact.



"Baird noted the difficulty of meaningful engagement with publicly-quoted companies as a secondary investor, where you have limited influence and recourse."

Tom Baird leads private and public equity manager research focusing on impact at Redington, a consultancy to institutional investors. He told the CAMRADATA panel that it was possible to do impact in public markets but the perception is that private markets are easier. "They are the first port of call because private markets resemble project finance [the original impact investment format]," he said. For its clients, Redington first started impact investing in private market sectors such as renewable energy. Baird noted the difficulty of meaningful engagement with publicly-quoted companies as a secondary investor, where you have limited influence and recourse.

Nevertheless, Baird recognised that more people are attempting impact in public equity while maintaining a broad opportunity set. He said it was a tough balance, estimating that filtering in "real impact" companies reduced the universe very quickly.

Olsen agreed. His final universe of world-changers is small, although it remains diverse and expanding, including the likes of DS Smith in packaging - "one of the largest paper recyclers in the world" - to Danish wind energy giant, Ørsted, to companies erecting mobile phone towers in Africa.

Lanning reckoned there were 28,000 companies in Emerging Markets; but after getting down to those potentially suitable in terms of high quality, low cyclicality and benefiting from sustainable domestic demand growth, less than one thousand were left. "That's a good enough starting-point," he declared, explaining that Arisaig saw three drivers for expansion in that number: growth in affordable healthcare provision, digitalisation and climate-change mitigation.

All three drivers disrupt the traditional composition of developing markets, especially in Frontier economies, where banks, extractives and state-owned enterprises tend to dominate.

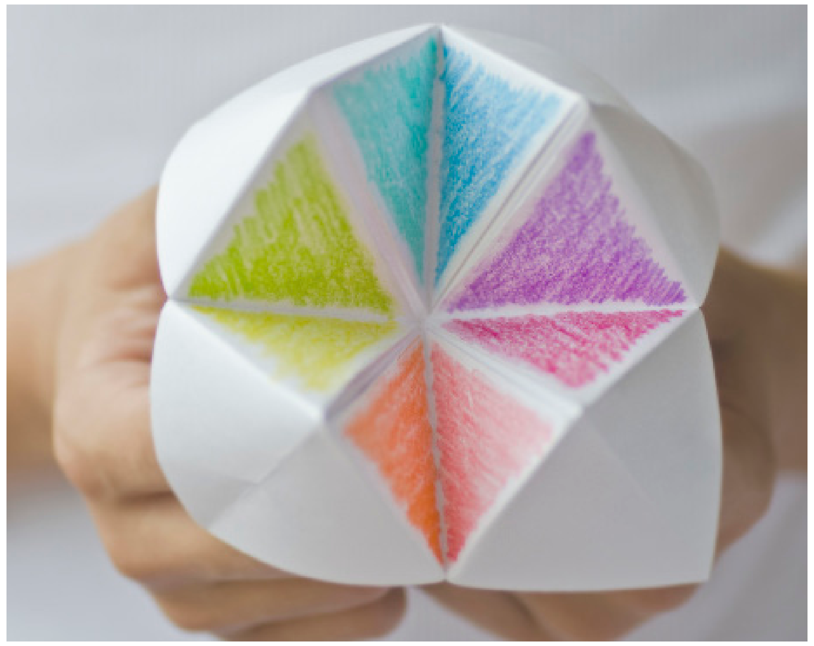
"Digitalisation is making financial services and education efficiently scaleable without compromise of quality," Lanning said. "Perhaps in-person education remains better than online but the gap is closing."

On climate mitigation, he picked out Argentine agritech firm, Bioceres, which develops soy beans that are drought-resistant.

For Mackenzie Greenchip, Cook reckoned its original universe had been 1,000 stocks, of which 100 had since been taken out and 100 had gone bankrupt. He noted that opportunities were not all cleantech 'glamour' stocks but some very old, traditional manufacturers. "We would have invertor companies like SolarEdge and Enphase telling us about their power electronic supply issues, which led us to look more closely at companies like Kamet based in Florida, or AVX, that had existed for decades manufacturing capacitors but were now finding new markets for their traditional power components." He told a similar story of the supply/demand imbalances in power management microchips. He mentioned packaging companies like Cascades, DS Smith and Mondi, that were all finding increased demand for their products based on the amount of recycled materials they were using.

Shape Changing

Olsen said that impact investing in public equities was still finding



its shape. The classic checklist of materiality, intentionality, additionality and measurability were still being worked through; not least in terms of an acceptable timeframe for the impact to manifest itself. Part of the contrast between public companies and classic impact projects is that the latter tend to be small and often in single locations; whereas the former may have hundreds of locations and tens of subsidiaries. Do all revenues from all sources have to be impactful to satisfy the fund manager's criteria? Olsen said no. He gave the example of banks in India, helping to lift people out of poverty with microloans by rolling out crucial banking services in villages in return for deposits. In an underserved market, he evaluated these kind of banks in terms of how many underserved people they reached with impactful services.

Cook said that Mackenzie Greenchip Global Equity did not even classify itself as impact. "It is a thematic strategy that starts with revenues from the environmental economy," he explained. For the largest companies, with over US$1bn in revenues, to be considered requires that 20% of their revenue comes from environmental products. For medium firms with more than $100m in revenue, that proportion rises to 50%.

" The direction of travel for many of Stanhope's impact orientated clients over the next few years is to increasingly invest their capital in funds accelerating the SDGs rather than those simply contributing to the SDGs."

Cook gave the example of Siemens, which generates up to 65% of revenue impactfully by Greenchip's measure. "The largest chunk of that emanates from digital industries; power infrastructure; and sustainable transportation," he said. But Siemens also services the oil industry.

For Cook, however, the German company is still much more worthwhile than some of the Quality "light footprint" giants such as Microsoft and Visa because financing Siemens directly improves decarbonisation.

"Last year the theme of impact investing exploded," said Cook. "The largest asset owners were virtue-signalling that they were going to make the change. The majority of capital, however, ended up back in the same names [Quality Growth tech] that do not need more capital."

His argument was that finance from pension funds, insurers and family offices should be going to the companies lessening humankind's carbon footprint, not those who per se have low emissions.

Cooke then was asked whether Stanhope liked thematic funds. They are traditionally more popular with private banks than pension plans or insurers. He responded that most Stanhope's responsibly minded clients are not yet fully invested in "pure" impact but tend to spread investments between those firms accelerating the UN Sustainable Development Goals (SDGs) and those merely contributing to the SDGs. The distinction is similar to the Impact Management Project's 'B' and 'C' categorisations for companies.

There are plenty of enterprises that score highly on ESG criteria, i.e. 'Bs' or contributors to SDGs. They are not, however, providing services or products tackling the world's biggest challenges.

The direction of travel for many of Stanhope's impact orientated clients over the next few years is to increasingly invest their capital in funds accelerating the SDGs rather than those simply contributing to the SDGs. For now, Cooke said he recognised that the breadth of public impact funds was not wide enough to build a truly diversified impact portfolio. For example, he pointed to an abundance of quality growth managers and a lack of compelling "value" managers, which can lead to unintended style biases at the portfolio level. Echoing Cook's point, he said: "We have seen a deluge of new public impact funds. A lot of capital is flowing to them but we have a rule of thumb that approved funds should have at least a three-year track record, which helps us assess the expertise of the manager and ensure that they are not simply greenwashing."

Baird said that Redington was perfectly willing to back funds with shorter track records. "We have no hard rules." He recognised, however, the difficulty raised by Cooke of evaluating public equity impact funds. He said that Redington has often had to look at portfolio managers' previous funds' transactions and simulate a track record.

Arisaig's Next Generation is one of those funds less than a year old. So how do prospective investors get comfortable with its proposition and pedigree? Lanning responded that Arisaig has a long history of investing in Emerging Markets, as well as ESG integration in its two older strategies. Underlying this integration was a meaningful network of contacts and familiarity with companies in Emerging Markets. Lanning noted that with fewer data publicly available in these markets – and hence greater complexity - Arisaig's longstanding presence was a greater advantage than it would be in Developed Markets.

"Because of our reputation for being long-term investors, we can have more influence in the early stages," he said. "Management will engage with us because of our history (he did acknowledge that engagement was harder in China)." There is more risk in Emerging Markets generally but Lanning reckoned this was the trade-off for greater potential impact. He noted that Arisaig was happy to go into Frontier Markets where there was a business case for growing undersupplied segments.

Guett wanted to know how the managers modelled and managed resilience to physical risks. "Traditional risk return portfolio or asset allocation is not enough," she said. "You need to look at location in Emerging Markets and understand that there is more risk than backward-looking models project. It is not enough just to expect a premium."

Lanning responded that these climate-related risks were acute for many of the countries in which his strategy is active and Arisaig planned accordingly.

"Transition and physical risk are mispriced around the world," added Cook, referencing the bankruptcy of PG&E, California's energy utility socked by wildfire litigation. "Assets everywhere are getting wiped out by climate events yet generally these risks have not been priced into companies." He added that the world is "going to have to get a bit dirty before we get clean."

That likely means more emissions from Emerging Markets. "The Western view that companies in places like China are really dirty is misplaced," said Cook. "We must acknowledge that we have merely offshored much of the dirty industrial production from Western economies, while doing little to curb our overall consumption. At the same time, China is leading production of many of the most sustainable alternatives."

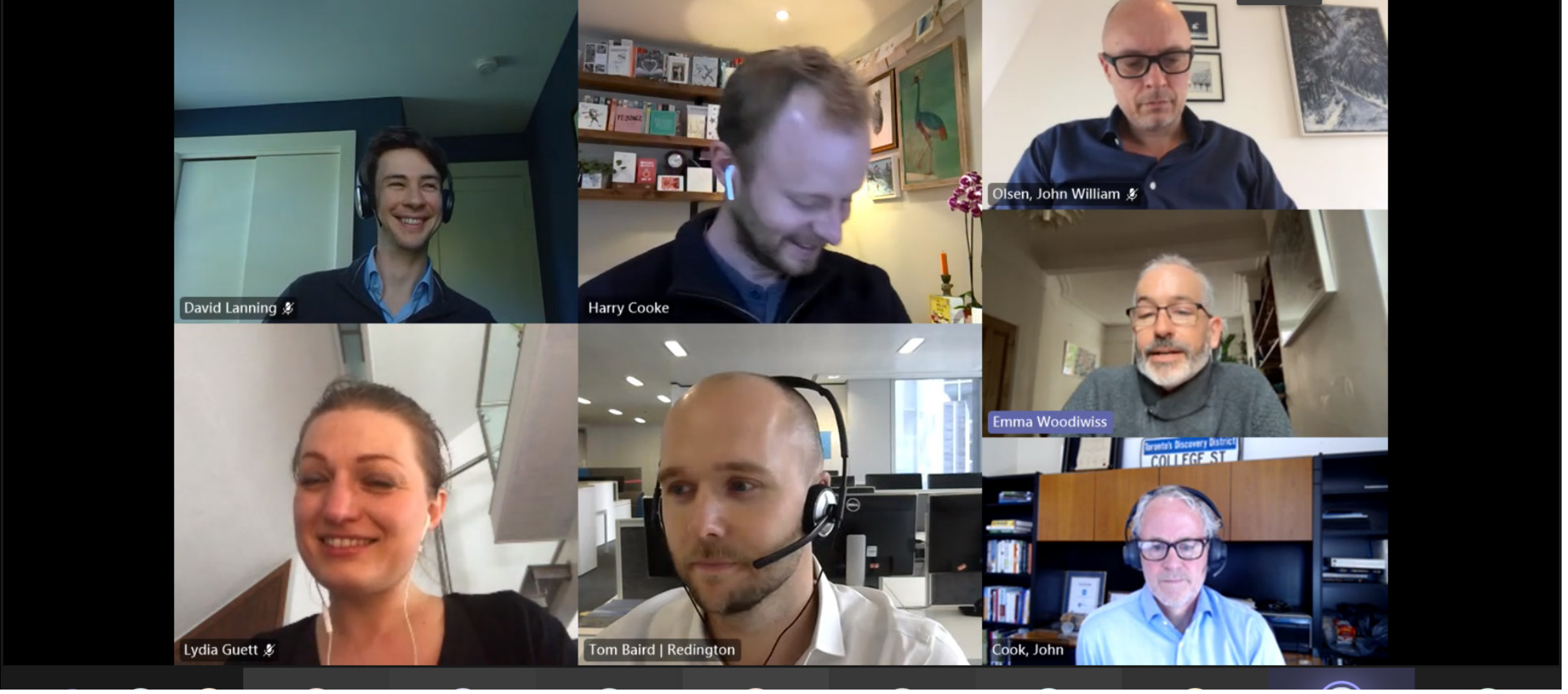
As an example of this dichotomy, Cook mentioned Mackenzie Greenchip's experience with Daqo, a manufacturer of polysilicon, which is vital for solar modules.

Cook recalled that Daqo had a special arrangement to get cheap electricity for its factory from a local coal generator. "It is ironic that a firm aiding the global transition to decarbonisation uses one of the dirtiest fuels to achieve that," he said. Mackenzie Greenchip had discussions with management that Western investors were watching and that Daqo might work to shift their power source to renewables in the future – "We shall see if they listened," said Cook.

" The world is going to have to get a bit dirty before we get clean."

Olsen had a slightly different take on Emerging Markets. "We are looking for underserved target groups," he said. One holding in M&G Positive Impact is a bank in Georgia which aids the financial inclusion of 2.5 million people from low-income groups or mass retail markets in a country slowing rebuilding after years of communism. "So you have to take a view on the political and currency risk there, you need to get paid for owning it," said Olsen. "There are larger margins and more growth potential. But then there are all the scenarios of what could go wrong."

When it comes to measuring that impact, Olsen explained that M&G has its Key Performance Indicators for every company it invests in. It also used external agencies where necessary to verify the results. But he dismissed as ridiculous some new angled impact calculators that aggregates investor impact based on the amount invested in the fund.



This brought the conversation back to the UN SDGs, which Cooke had mentioned as measures used by Stanhope. He explained that they were used to broadly categorise the impact universe but were not the be-all and end-all and certainly had to be supplemented by additional responsible investment due diligence.

On the SDGs, Olsen said organisations could have different objectives. He described them as a good common language, used by lots of companies and people in the industry, "we do map our holdings against them, but not our starting-point," he said.

The CAMRADATA panel was asked whether the SDGs were sustainable once achieved. This is a criticism raised in Professor Partha Dasgupta's recent report for the UK government on the economics of biodiversity. Lanning replied that in the part of the world Arisaig is looking at, "this issue is almost irrelevant. In terms of the scale of the challenge; the level of investment to adequately address them, we are not moving fast enough to meet basic provisions."

Cook said that Mackenzie Greenchip aligns the revenues from its holdings to five SDGs. For example, SDG 12, Responsible Consumption and Production, gets translated in the portfolio into sustainable agriculture stocks such as Norway Royal Salmon. Cook reckoned, nonetheless, that clients were generally not that interested in SDG alignment.

> ***"The CAMRADATA panel was asked whether the SDGs were sustainable once achieved."***

His final point was that the world had become wrongly obsessed with portfolio's carbon footprints. "First, the data are not very good. Second, it is much more important to focus on the impact of a company's products to help the economy reduce overall emissions than it is to focus on the operating footprint. Filling portfolios with low emitters like banks and consumer technology companies will not help us get to where we need to be."

Olsen agreed that carbon emissions should be viewed and analysed more holistically. Some industries that are large emitters today also play an important role as solution providers that can eventually help get the world to net-zero in 2050.

Roundtable Participants

ARISAIG PARTNERS

David Lanning, Partner and Head of Next Generation Strategy

Personal Profile

David has led the research for the Arisaig Next Generation Fund since 2018 having been at Arisaig for 11 years. He was originally based in our Singapore office prior to moving to our Rio de Janeiro office in 2011 as part of the Latam investment team.

David moved to London in 2015 to undertake the role of Head of Thematic Research where he led a research vertical identifying new disruptive business models in emerging markets.

He holds a Bachelor of Arts from Bristol University and a Master of Science from Oxford University.

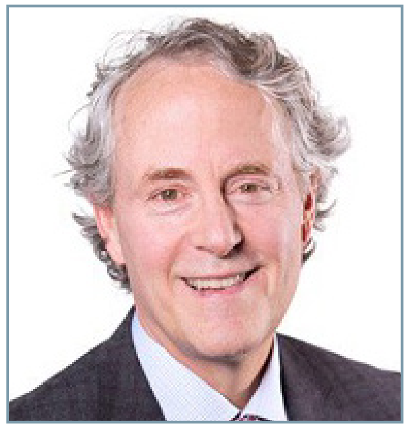
Arisaig Partners

Company Profile

Arisaig Partners have been investing in the emerging markets for more than 25 years and manage c. $5bn across three strategies (Asia, GEM and Next Gen (impact). Our Investment Philosophy is based around the core belief that the practice of 'Purposeful Growth' delivers superior operating performance for our holdings and supports their right to grow forever.

We believe that the long-duration compound earnings growth (our mean holding period of a stock is 10 years) that comes as a result is the primary driver of superior shareholder returns. We therefore invest in a small number of exceptional businesses which grow with purpose and take a multi-stakeholder view of the world, motivated not by short-term profitability but rather the value they create for customers, employees, communities and the environment. We seek this characteristic of Purposeful Growth in domestic-demand-driven emerging market businesses, these countries collectively encompassing 80% of the world's population as well as being the main engine of global economic growth over the coming decades.

Roundtable Participants



John Cook, Senior Vice President, Portfolio Manager and Investor Engagement, Team Co-Lead

Personal Profile

John Cook, Senior Vice President, is a Portfolio Manager, responsible for Investor Engagement and Team Co-Lead with the Mackenzie Greenchip Team.

John's career in the investment industry began in 1991. He was President of Greenchip Financial Corp. since it was founded in 2007 and became part of Mackenzie Investments in 2021. Prior to Greenchip, John led corporate development at one of Canada's largest innovation hubs. He has also held a number of executive positions at Canadian mutual fund companies.

John holds a BA from Queen's University and the Chartered Investment Manager (CIM) designation.

Mackenzie Investments

Company Profile

Mackenzie Investments, founded in 1967, is a leading Canadian global asset manager, headquartered in Toronto with international investment teams in Boston, Dublin and Hong Kong. As part of IGM Financial Inc., a subsidiary of Power Corporation with a history dating back to 1925, Mackenzie benefits from the financial stability of a deep corporate structure while maintaining a boutique investment management profile.

Our distinct and experienced investment teams offer both fundamental and quantitative approaches with expertise across traditional and non-traditional asset classes, including equities, alternatives, currency and multi-asset strategies.

We provide investment management services to pension plans, consultants, foundations and other institutions, building trusting relationships that seek to understand client perspectives. We are committed to delivering strong investment performance and offering innovative, relevant solutions to our clients by drawing on the experience gained through over 50 years in the investment management business.

John William Olsen, Fund Manager

Personal Profile

Joined M&G in April 2014, and was appointed fund manager of the M&G Global Select Fund and M&G Pan European Select Fund in July 2014.

In July 2016, was appointed deputy manager of the M&G European Smaller Companies Fund.

At launch in November 2018, became fund manager of M&G Positive Impact fund and in November 2020 deputy manager of M&G Climate solutions fund.

Formerly from Danske Capital, where from 2002 he managed non-domestic equity portfolios, including the Global Stock Picking and Global Select equity funds, and also the European Select strategy.

John joined Danske Capital in 1998 as a fund manager on the domestic Danish equities team, and in 2000 also became a global sector analyst focusing on technology and telecommunications stocks.

He gained a BA in business economics and then an MSc in finance and accounting from Copenhagen Business School.

M&G Investments

Company Profile

M&G Investments is a global asset manager with a long history investing and innovating across both public and private markets.

As an active manager we build solutions around what matters most to our clients whether it be investing for growth or income, to meet future liabilities, protect capital or invest responsibly.

We offer access to a broad range of capabilities that span both public and private assets including fixed income, equities, multi-asset, real estate, infrastructure and private equity.

Globally we manage over £284 billion (at December 2020) on behalf of individual and institutional investors including pension funds, endowments and foundations, insurers, sovereign wealth funds, banks and family offices.

Roundtable Participants

Lydia Guett

Investment Director

Lydia is an Investment Director in the Sustainable and Impact Investing Group at Cambridge Associates, working on the integration of ESG and Impact investment strategies into client portfolios, as well as ESG/Impact investment research. She works with Endowments & Foundations, Families and Pension Schemes across Europe to help align investment goals with the investor's values. As the co-founder of CA Women, a global company initiative, Lydia champions diversity across the firm and in the investment industry.

Lydia joined Cambridge Associates from ASrIA–Association for Sustainable and Responsible Investment in Asia, where she worked with asset owners, asset managers and policy makers across South-East Asia to create awareness about the risks and opportunities associated with climate change and low carbon investing.

CAMBRIDGE ASSOCIATES

Tom Baird

Senior Vice President

Tom works as a Senior Vice President in Redington's Manager Research Team. He specialises in equity investment across both public and private markets and has been heavily involved in the construction of preferred lists of impact and sustainable managers and advising clients on making investments in this space.

Tom joined Redington in December 2017 having previously spent 4 years at Willis Towers Watson, where he also focused on public and private equity manager research.

REDINGTON

Harry Cooke

Director

Graduated from the University of Leeds in 2012 with a first-class degree in History.

Joined Stanhope Consulting in 2014 to assist in the production of investment reports, performance analysis and manager research.

Transferred to Stanhope Capital's Equity Research Team in 2017 and is responsible for conducting equity and equity long-short manager research and analysis.

Member of the firm's Fund Selection Committee and Responsible Investment Oversight Committee.

Harry is CFA® charterholder and is also a holder of the Investment Management Certificate (IMC).

Stanhope Capital

Moderator

Brendan Maton

Freelance Jounalist

A highly experienced financial journalist with an expansive network of contacts in the UK and across Europe. Brendan has written about pension schemes and national welfare systems from Finland to Greece for 18 years and understands the retirement savings industry in each European country.
Brendan has interviewed EU commissioners and national ministers; central bankers; pension scheme heads; insurance chief executives; chief investment officers; actuaries; union officials; professional and lay trustees.He worked at Financial Times Business for eight years, finally as editor-in-chief of all international pensions titles. Brendan has spent the last ten years as a freelancer for a number of publications, including Financial Times, Responsible Investor, Nordic region pensions news and IPE. He is also Chief webcast host for IPE.
Brendan has acted as conference chair for Financial News, the UK National Association of Pension Funds, Dutch Investment Professionals Association (VBA), Corestone, Insight Investment, Marcus Evans, Robeco Asset Management, Sustainable Asset Management (SAM), Towers Watson.

Capturing The Rise Of Emerging Markets

At Arisaig Partners we believe that capturing the rise of emerging markets offers a near unparalleled investment opportunity over the long-term. Our company has always focused exclusively on long-only strategies in emerging market listed equities. We have, since inception in 1996, endeavoured to match our investment style to the nature of the opportunity – we focus on sustainable domestic demand growth, not companies closely tied to global supply chains or developed world economies. We conduct deep research in order to exploit the relative inefficiencies of developing world capital markets. We take a patient, low-turnover approach, in order to let the multi-year compounding of earnings growth of our concentrated selection of high-quality local businesses do the hard work of generating shareholder returns.

Clearly, however, any strategy positioning itself for long-term growth into the 21st century has to build in an acute understanding of sustainability if it is to endure. Our holdings will not deliver if they fail to operate within environmental and social constraints. In fact, those that get ahead of ESG issues are often those which find themselves most resilient to external shocks. And ESG outperformers tend to display high correlation with the sort of agile, forward-thinking and adaptable management teams which are most likely to succeed in these naturally dynamic markets.

Still, our two decades-plus of travelling to countries which are making rapid progress, but still face key developmental challenges, has increasingly made us question whether mere 'sustainability' is satisfactory. A confectionery company, for example, may well be a cracking business, with ample growth runway ahead, and even an enlightened sustainability strategy based around improving governance, environmental responsibility and boosting the nutritional profile of its products. Ultimately, however, this sort of business is barely scratching the surface in terms of making a direct contribution to improving lives for the 80% of the world's population living in developing countries.

" Still, our two decades-plus of travelling to countries which are making rapid progress, but still face key developmental challenges, has increasingly made us question whether mere 'sustainability' is satisfactory. "

For this reason, we felt motivated to take a step further a few years ago, and begin formulating a new strategy which would focus on companies already directly targeting some of the most important issues facing developing countries. We quickly found ourselves homing in on specific sectors, such as health, education and digital financial services, which we felt were most likely to allow privately run businesses (as opposed to the state) to deliver the most profound impact to their customers.

For the majority of the world's population, successful private companies are far more likely to address the shortfalls in essential products and services over the coming years than cumbersome, underfunded state entities. Furthermore, this is most true in the developing world, which also happens to be where the majority of the world's population resides, and where there is greatest need for investment in these businesses. Mobilising more capital towards high-impact, overlooked pockets of global markets was another source of motivation for us.

We also identified that a 'concessionary' approach, in other words one which de-prioritised financial returns, would make little sense along the sort of investment time horizons we operate. Companies which have proven business models which provide for constant reinvestment in growth, and for sharing technological gains and economies of scale with customers, are those which have the most potential to keep on expanding positive impact over time. In contrast, companies dependent on philanthropy will struggle to survive once the pipeline of funding inevitably dries up.

By demanding high quality, sustainable growth businesses with the potential to provide strong financial returns, we expect to have the best chance of delivering positive social outcomes into the long-term. And by being constructive, engaged shareholders pushing for a multi-stakeholder approach to company management and providing the semi-permanent capital base these companies need to pursue a purposeful growth strategy, we believe we can supplement this positive portfolio impact with some degree of investor contribution.

Impact measurement and management is a nascent discipline, still mostly rooted among pioneering private equity investors with near-unfettered access to company data. We are well used to addressing gaps in sustainability disclosure which inevitably arise in emerging markets. Nonetheless, a comprehensive PE-like approach to impact measurement is still unrealistic within the context of tightly controlled public equities disclosure. We were able to absorb some key metrics, therefore, from established PE toolkits like IRIS, but chose to design a framework which could be more easily adapted to the realities of EM listed equities.

In doing so we were influenced by the Impact Management Project's Five Dimensions of impact (What, Who, How Much, Contribution and Risk), and we still use these pillars in each of our individual company impact assessments. We also developed our own scoring system, however, in order to provide some kind of comparability between different businesses generating impact in different geographies and under distinct impact themes.

Using standardised thresholds, we assess the 'Reach' (number of customers), 'Criticality' (underserved nature of the customer base) and 'Effectiveness' (quality of product/directness of impact) for each potential investment. Our ultimate goal is to maximise both impact generation and financial returns – by picking the right business models under our chosen impact themes, we find there is rarely a trade-off between the two ambitions.

Over time, we hope to prove this by further developing our impact measurement practice such that results are as instantly verifiable as financial performance. For now, however, we believe our existing framework provides ample context within which to make decisions based on both of our investment goals. If our chosen companies continue to deliver, we will look back on our investments as having both achieved substantial returns and helped to rapidly accelerate the improvement of health, education and economic outcomes for hundreds of millions of emerging market citizens.

David Lanning
Partner and Head of Next Generation Strategy

ARISAIG PARTNERS

Investing in purposeful growth in emerging markets since 1996

SINGAPORE INDIA UNITED KINGDOM

investorrelations@arisaig.com
www.arisaig.com

To maximize your energy transition exposure, think thematic

Asset owners have for years known and understood the risks associated with climate change - the threat it poses to companies, countries and people. And they've taken action. We've seen the signing of the UN Principles for Responsible Investing by scores of asset owners and managers and large-scale divestment from fossil fuels by individuals and institutions representing over US$14 trillion.[1]

But while signatures and divestment can help, they won't power the future. Facing us on the road ahead is a giant economic and societal leap from old ways of producing and consuming energy to a new energy economy that is sustainable, effective and looks nothing like what's in place today.

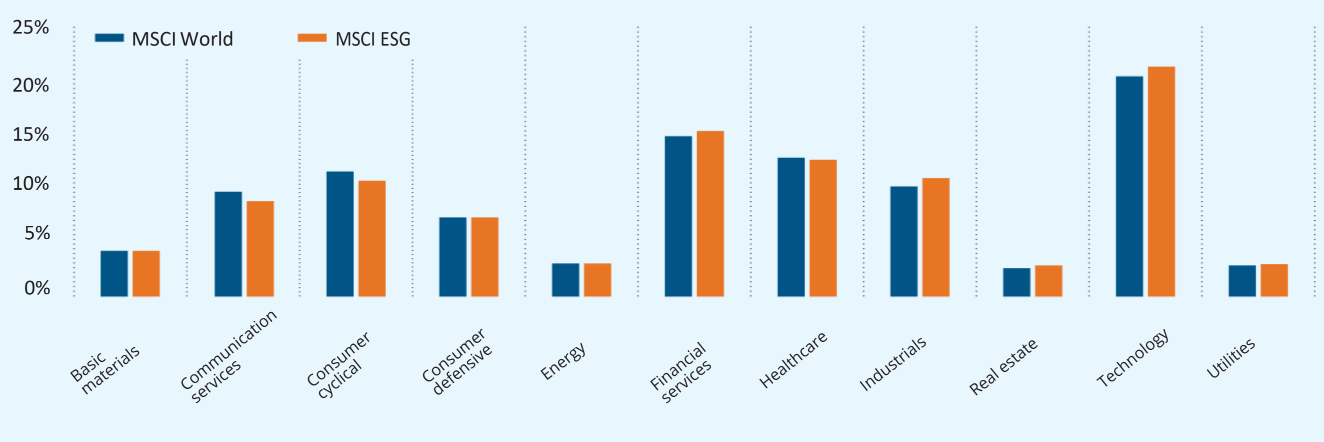
Dubbed the "Great Energy Transition", this jump from old to new is happening now and it's being driven by powerful themes that are fundamentally changing how we produce and consume energy.

Fueling this transition is a large and growing set of industries, sectors, and companies that are doing and making what's needed to support the transformation. We believe this represents an unprecedented opportunity for asset owners to invest early on and make a meaningful contribution to a sustainable future. But getting exposure to these opportunities can be a challenge - especially if asset owners take too narrow an investment approach.

Environmental, social and governance (ESG) managers saw tremendous inflows in 2020 even amid the COVID-19 pandemic. On the surface at least, an ESG integrated approach sounds like it's checking all the right boxes for asset owners when it comes to investing sustainably. Look under the hood, however, and some limits become evident.

A side by side comparison of sector exposure in the MSCI and MSCI ESG indices (focused primarily on companies with positive ESG behaviours) shows the two are barely distinguishable from one another (Figure 1)[2].

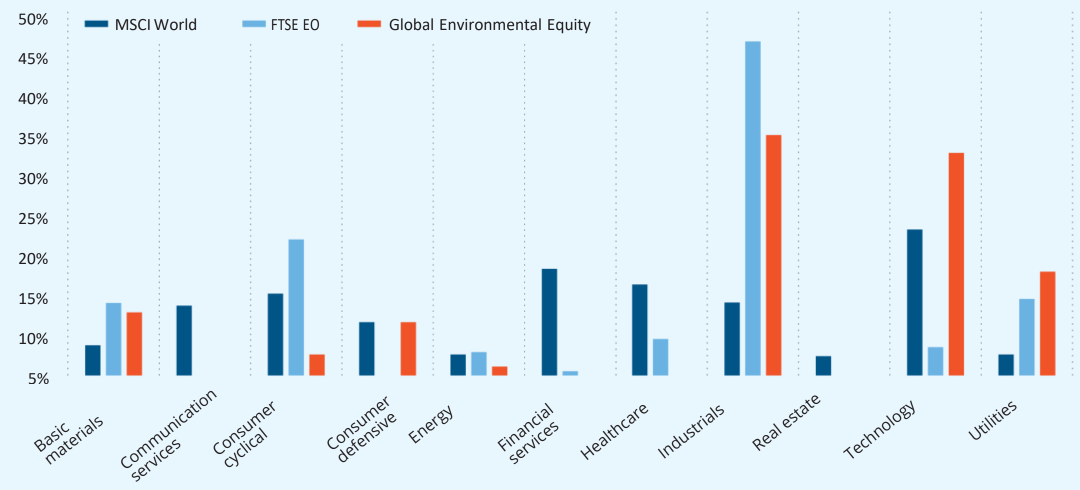
Figure 1 | Sector exposure – MSCI World vs MSCI World ESG[2]



1 Source: Go Fossil Free
2 Source: Morningstar Direct, Feb 2021

Contrast that to the sector exposure of our Global Environmental Equity Strategy and FTSE Environmental Opportunities – where industrials and utilities are leading the way, two sectors in which companies are actually doing the work needed to transition to new forms of energy (Figure 2)[1].

Figure 2 | Sector exposure – MSCI World vs FTSE EO vs Mackenzie Global Environmental Equity[2]



Focusing only on ESG integrated strategies can limit investors' potential to benefit from the growth that is going to come with the energy transition. On the other hand, we believe companies that make the "stuff" for the low carbon, sustainable economy represent a massive opportunity for investors, provided they start looking in the right place.

Environmental thematic strategies identify industries and companies based on themes driving climate change as well as the solutions to facilitate the leap from old to new forms of energy. Those opportunities revolve to a great extent around how we create and use energy – and they are vast.

" The impact of medium-term inflation depends on the inflation scenario that each investor thinks is the most plausible "

Today, the world consumes about 14 billion tons of oil equivalent energy (160,000TWh) each year to power our $88 trillion global economy.[2] A stunning 84% of this energy comes from fossil fuels[3]. At the same time, much of our current power infrastructure will exceed its operating lifespan and need to be replaced - that at a time when global electricity demand has been growing at 2.8% a year.[4]

The solutions to this problem are right in front of us. Since 2012, solar and wind power have been gaining market share. And, although solar is about two to three per cent and wind about five to six per cent of current global generation, the cost of building new plants is half that of building new gas or coal generating plants.[5] Last year alone, 90% of new electricity generating investment went to renewables.[6]

But it's still not enough. Back in 2009, the International Energy Agency (IEA) predicted the world would need $37 trillion in investment by the year 2030 to stabilize greenhouse gas emissions at sustainable levels and to avert the worst of

1 Source: Morningstar Direct, Feb 2021
2 BP Statistical Review of World Energy 2020 & Our World in Data 2019
3 BP Statistical Review of World Energy 2020 & IEA April 2020
4 Global Energy Statistical Yearbook 2020
5 Lazard Levelized Cost of Energy Analysis 2020
6 Tech Crunch November 2020 & Renewable energy defies Covid-19 to hit record growth in 2020 The Guardian November 2020

climate change.[7] According to the OECD and the Mackenzie Greenchip team's own analysis, $2.5 trillion in annual investment is required to deliver on its climate change goals. In each of the past four years, however, investment has only been about $800 billion leaving a $1.7 trillion gap.[8]

To understand where the Great Energy Transition is already having a profound impact, you need only look at how some major sectors are changing and the investment that will be needed in the coming years:

Transportation: Cars and buses increasingly will be powered by electricity.

Construction: LED lights are replacing incandescent and fluorescent bulbs while gas and oil furnaces are being replaced with electrified heat pumps optimized with computerized building energy management software systems.

Manufacturing: Specialized engineering firms are redesigning factories, replacing old blowers, stampers, conveyor belts with energy efficient ones driven by variable speed motors, power management semiconductors and computer systems.

Agriculture: New precision technologies will change how we fertilize and irrigate agriculture.

It's also worth noting that, while thematic strategies offer exposure to some big names like Tesla, 3M or Honeywell, the vast majority of holdings are companies that are probably unfamiliar to most people. Instead, thematic investors can tap into an opportunity that includes manufacturers of power infrastructure and companies that produce and sell the equipment needed to make the economy more resilient for the future. While they aren't big brand names, these companies have vitally needed products and services.

Given the spectrum of opportunities, we believe asset owners can't get enough exposure to this transition through typical ESG integrated strategies alone. They must also consider allocating to investments more directly involved in the Great Energy Transition and through an environmental thematic lens. ESG should be viewed as one tool in the kit - but it likely isn't the entire solution. A thematic approach can help investors to zero in on themes that matter.

John A. Cook, CIM
Senior Vice President, Portfolio Manager and Investor Engagement, Team Co-Lead Mackenzie Greenchip Team

7 "World needs $48 trillion in investment to meet its energy needs to 2035." International Energy Agency, 2014.
8 Private Finance for Sustainable Development. Remarks by Angela Gurria, OECD, January 29, 2020.

M&G Investments

Targeting solutions for the planet through impact investing

From toxins in the air we breathe to heavy metals in our rivers, there is no shortage of environmental challenges that need to be addressed.

Awareness of these issues is undoubtedly rising, as is interest in solving them. Investors are getting in on the action too, with many turning to impact investing as a way of seeking to fix some of the world's biggest problems.

Impact investing involves allocating capital to firms that seek to deliver positive environmental or social impact through their activities. We believe that impact investing offers institutional investors such as pension schemes and insurance companies a powerful way of helping to improve the planet at the same time as achieving positive financial returns.

For pension schemes in particular, it can enable them to demonstrate to scheme members that their assets are helping towards making a real difference and contributing to long-term solutions for the planet and societies.

Over the coming years, we think there could be an enormous number of investment opportunities for investors keen to tackle environmental issues. In our view, companies which can develop solutions that enable the modern economy, while at the same time lowering our environmental footprint, could be rewarding investments that also deliver a meaningful environmental outcome.

" In our view, companies which can develop solutions that enable the modern economy, while at the same time lowering our environmental footprint, could be rewarding investments that also deliver a meaningful environmental outcome ."

The urgency to find solutions

A growing population that consumes more is placing enormous strain on the planet's limited natural resources. This tension between economic development and environmental impact is at the heart of the United Nations Sustainable Development Goals (UN SDGs), which codify the world's most pressing sustainability issues.

While the Covid-19 pandemic has arguably hindered progress in meeting the SDG goals, they remain essential.

According to the World Health Organisation (WHO), air pollution accounts for an estimated seven million premature deaths every year[1], with more than 80% of the world's urban population living in places where air quality levels exceed WHO guideline limits.

Another threat to the health of people and the planet comes in the form of unsafe water. The UN has estimated that every day, two million tonnes of sewage and other effluents drain into the world's waters[2]. Contaminated water is estimated to kill more people each year than all forms of violence, including war[3].

Have we reached a turning point?

Encouragingly, the forthcoming UN Climate Change Conference of the Parties (COP26) demonstrates that efforts to tackle the climate crisis are a priority, even in the midst of a global health crisis.

In fact, while Covid-19 has dominated the world's attention for the past year and a half, awareness of environmental issues has also gained considerable momentum. Politicians and corporate executives are increasingly committing to moving to a more sustainable future, whether it be a shift to clean energy or a commitment to net zero carbon emissions or initiatives aimed at promoting circular economy models.

As economies start to recover from the pandemic, it is perhaps a unique opportunity to consider how we can recast the model for creating shared prosperity in a way that better harnesses the planet's resources over the long term.

1 World Health Organisation (WHO), Air pollution.
2 UN, "Water quality and sanitation – Media brief".
3 UN News, "Unsafe water kills more people than war, Ban says on World Day".

Targeting measurable impact

For investors looking to invest in a way that targets positive environmental or social benefits, we believe it is necessary to be able to assess the contribution that their investments make. One way of identifying impactful stocks is to gauge the extent to which companies explicitly aim to address under-served societal and environmental issues. As per the tenets of impact investing, to be a genuine impact investment, their positive contribution to the environmental challenge must be intentional, not accidental.

Impact investors can also look to measure the positive impact that a company delivers against the SDGs. In the case of those providing environmental solutions, these could be:

- Goal 6 – ensuring the availability and sustainable management of water and sanitation for all
- Goal 7 – ensuring access to affordable, reliable, sustainable and modern energy for all
- Goal 9 – building resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation
- Goal 11 – making cities and human settlements inclusive, safe, resilient and sustainable.

It is generally possible to align a company's activities to an SDG and quantify its contribution towards achieving it. There also are likely to be secondary SDGs that a company delivers impact against, perhaps as a corollary of its principal activity.

By establishing key performance indicators that are pertinent to a company and the SDG they are delivering an impact against – for instance, carbon emissions or water saved by using its products – investors can assess whether they are making a positive contribution through their investment.

In our view, the SDGs can provide investors with a useful framework for evaluating the impact their investments are having and how they are effecting change.

Investing in long-term solutions

In our view, there are several different ways in which companies can contribute to tackling the climate challenge and solve environmental issues. Some might produce clean energy, or electric vehicles. On the other hand, there are businesses that we call enablers, which provide the tools for others to deliver positive environmental impacts such as companies that manufacture energy-efficiency systems or make equipment that measures the quality of air or water.

As more and more companies recognise that they have a role to play in helping deliver progress against global sustainability challenges, we believe the range of opportunities for impact investors is only going to increase in the coming years.

In our view, sustainability and environmental issues are only going to become more prominent in future. For pension schemes, who are interested in combining positive social and environmental benefits with potentially positive financial returns, we believe that impact investing offers an attractive proposition.

Conceivably, there are multi-billion-dollar opportunities for innovative companies that can successfully deliver viable products and services that help solve some of the world's most pressing environmental challenges. Transitioning to a net zero economy creates significant investment opportunities given the massive reallocation of capital required to align with global net-zero emissions targets by 2050. According to estimates contained in the IEA's flagship report, reaching net zero in the energy sector alone "..expands annual investment in energy from just over US$2 trillion globally on average over the last five years to almost US$5 trillion by 2030 and US$4.5 trillion by 2050."[1]

Where active investors can successfully identify these companies, they can therefore not only target a demonstrably positive impact for the planet and its people, but sustainable long-term returns for their underlying investors.

Ben Constable-Maxwell
Head of Sustainable and Impact Investing

1 IEA, "Net Zero by 2050 – A Roadmap for the Global Energy Sector", page 81, May 2021.

Meet the Team!

Sean Thompson
Managing Director

Natasha Silva
Managing Director, Client Relations

Amy Richardson
Senior Director, Business Development

Natasha Fletcher
Senior Associate, Client Relations and Business Development

Sam Buttress
Associate, Business Development

Mithursha Kesavan
Database and Publication Support Associate

CAMRADATA
5th Floor, 11 Strand,
Charing Cross, WC2N 5HR

+44 (0)20 3327 5600
camradata.com

Join us on LinkedIn

Important Notice

This document is produced by CAMRADATA Analytical Services Ltd ('CAMRADATA'), a company registered in England & Wales with registration number 06651543. CAMRADATA is neither authorised nor regulated by the Financial Conduct Authority in the United Kingdom nor the Securities and Exchange Commission in the United States of America.

This document is not intended to constitute an invitation or an inducement to engage in any investment activity. It is not intended to constitute investment advice and should not be relied upon as such. It is not intended and none of CAMRADATA, its holding companies or any of its or their associates ('CAMRADATA Group') shall have any liability whatsoever for (a) investment advice; (b) a recommendation to enter into any transaction or strategy; (c) advice that a transaction or strategy is suitable or appropriate; (d) the primary basis for any investment decision; (e) a representation, warranty, guarantee with respect to the legal, accounting, tax or other implications of any transaction or strategy; or (f) to cause the CAMRADATA Group to be an advisor or fiduciary of any recipient of this report or other third party.

The content and graphical illustrations contained in this document are provided for information purposes and should not be relied upon to form any investment decisions or to predict future performance. CAMRADATA recommends that recipients seek appropriate professional advice before making any investment decision.

Although the information expressed is provided in good faith, the CAMRADATA Group does not represent, warrant or guarantee that such information is accurate, complete or appropriate for your purposes and none of them shall be responsible for or have any liability to you for losses or damages (whether consequential, incidental or otherwise) arising in any way for errors or omissions in, or the use of or reliance upon the information contained in this document. To the greatest extent permitted by law, we exclude all conditions and warranties that might otherwise be implied by law with respect to the document, whether by operation of law, statute or otherwise, including as to their accuracy, completeness or fitness for purpose.