

 **M&G** wealth

The Impact Investment spectrum

Host

John Allen, M&G Wealth

Speakers

Julia Dreblow, SRI Services

Randeep Somel, M&G Investments

26 April 2022

Agenda and learning objectives

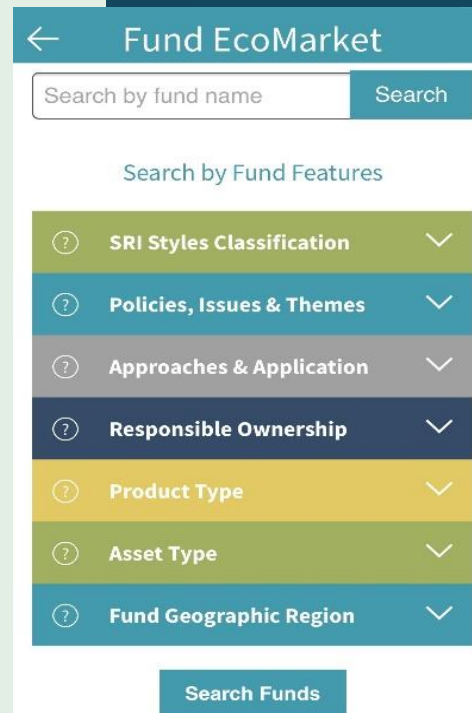
- Agenda
 - Welcome and introduction
 - An introduction to the impact spectrum - the similarities and differences other investments
 - Global events – how are they changing how we think about sustainability and impact investments
 - Exploring client needs in the context of current events
 - Q&A
- Learning objectives
 - Understand the fundamentals of impact investing
 - Understand the evolving nature of this area
 - Understand how different options meet different client needs

Introduction to SRI Services for clients of M&G Wealth platform



Introduction

- Who?
 - Retail SRI specialist of 25+ years
- Founder SRI Services & Fund EcoMarket
 - Fund EcoMarket – est 2011
 - Designed for IFAs, free & open to all
 - 19,000 unique users 2021
 - Compliments other tools
 - Consultancy / support /data
 - PIMFA ESG Academy, platforms, advisers
 - Drum banging eg policy, UKSIF, TISA, BSI
 - FCA DLAG member
- Why?
 - Because it matters where we invest
 - Because client opinions matter
 - Because it makes good financial sense
- Where?
 - SRI Services 2010 – now, UKSIF board 2002-09 & 2019 -?
 - Friends Provident 1996-08, NPI 1989-94



This presentation is for use by UK financial services professionals only. Its content is for information only and is not to be viewed as advice, recommendation or endorsement of any kind. SRI Services is not regulated or authorised to offer advice. Information correct at time of publication.

Registered company: SRI Consultants Ltd, 03904843

Associated Partners

This site is available for free thanks to support from the following companies.



'ESG & SUSTAINABILITY' ... BOTH USED AS INDUSTRY LABELS – BUT ALSO HAVE SPECIFIC MEANINGS



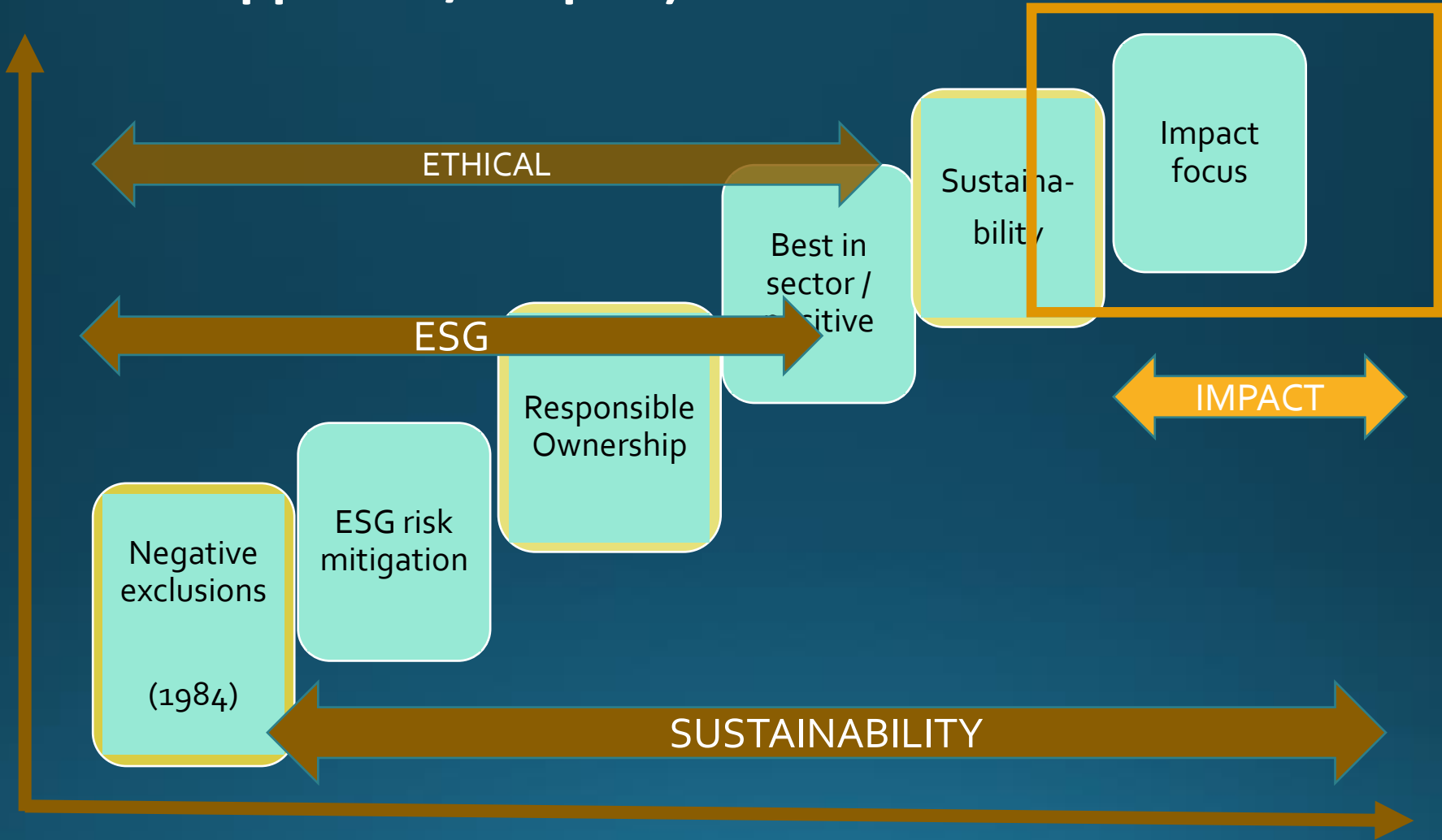
Evolving over time
Complimenting not competing

Commonly used labels today (point to issues and approach/ 'depth')

Often used in combination



Deviation from 'conventional' benchmarks and indices



Focus on 'real world' issues, implications, impacts and outcomes

Sustainable & ESG fund variations ...

Issues

- **Environmental**
 - pollution, deforestation, climate change
- **Social**
 - human rights, labour standards, equality
- **Governance**
 - diversity, bribery, management
- **Ethical**
 - tobacco, armaments, animal welfare

Approaches

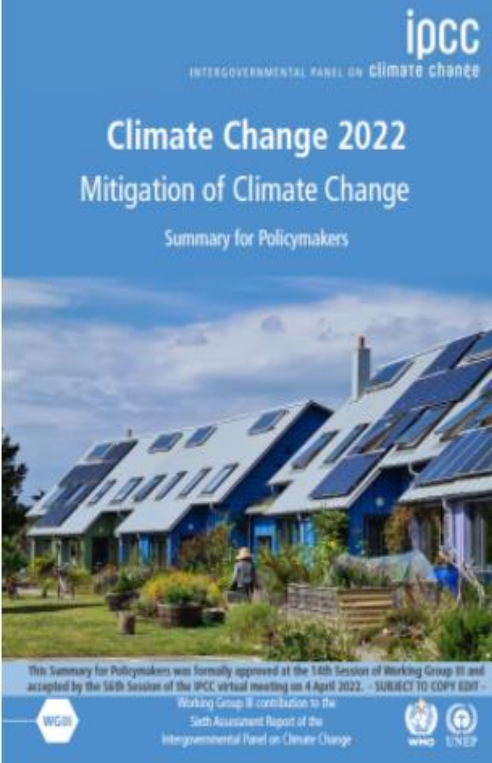
- **Avoid**
 - screen out, exclude, do not hold
- **Support**
 - positive / themed / impact
- **Influence**
 - engage/ stewardship/ responsible ownership

Impact investments: key features

Strategies vary, but all aim to deliver 'real world' benefits

- Core mindset: 'investors can help improve things'
- Positive focus – hold 'solutions companies' &/or companies 'enabling' change
- Environmental &/or social focus
- Likely to reference SDGs
- Investment not philanthropy
- Key words:
 - **Intentionality** (want to make change happen)
 - **Measurement** – quantify positive outcomes
 - **Additionality** (financing things that may not otherwise attract investment)





IPCC Climate Change report 2000,
COP 26 November 2021,
Covid (20)19 highlighting social challenges,
Dasgupta Review Feb 2021 – biodiversity / nature,
Uyghur 'tainted' cotton BBC Mar 2021,
George Floyd death / BLM May 2020 – diversity & inclusion,
Russia / Ukraine war 2022,
Innovation & energy security,
growth areas



Impact investments: Energy & Ukraine war deep-dive

World events show importance of sustainability focus

- 31 of 36 retail ESG / sustainable ranges did NOT invest in Russian listed entities.
- 5 of the 36 fund had one or more holdings in a Russian listed entity.
- One fund manager had a (single) direct holding in Belarus.
- Limited size / value of holdings.
- Strategies had not changed during previous 21 months

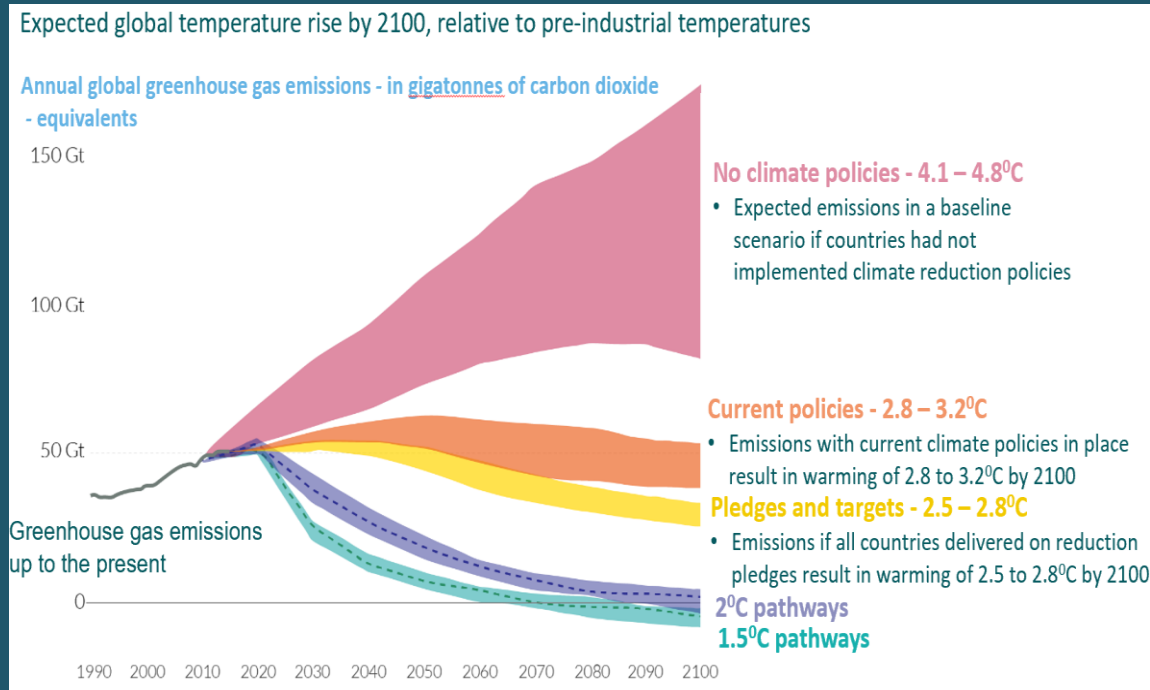
Reasons for low exposure to Russia

- Coal, oil and gas (prevalence of)
- Armaments (“)
- Oppressive regimes
- Human rights concerns
- Governance concerns
- Reasons for inclusion
- Emerging market focus
- Index
- Positive impact aims



The 1.5 Degree Pathway...

Net Zero Ambitions



1.9°C: New COP26 pledges bring projected warming to below 2°C for the first time in history.

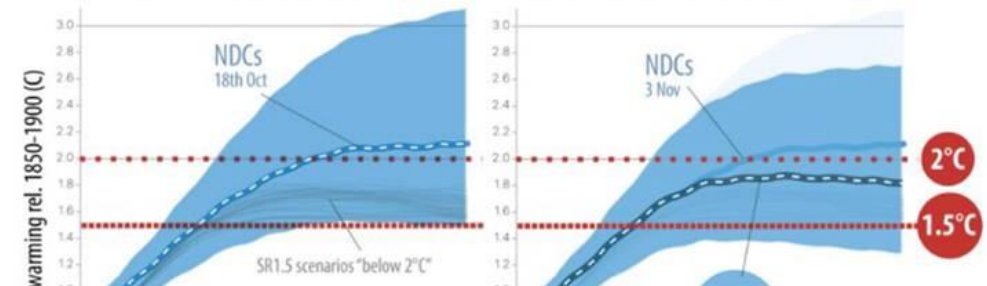
Malte Meinshausen, Jared Lewis, Zebedee Nicholls, Rebecca Burdon, 3 Nov 2021

Summary:

If all NDC and long-term pledges are fulfilled and adequately supported, the best-estimate peak warming this century is 1.9 C. This is still a far stretch from halting warming around 1.5K, but substantially improved over projections from just a few weeks ago¹.

How it started:

Pre-COP26: conditional NDCs + long-term targets, no hot air, 18th Oct 2021



Sizing the Commercial Opportunity

Potential €10 Trillion for Europe and up to \$173tn for the World over the next 30 Years

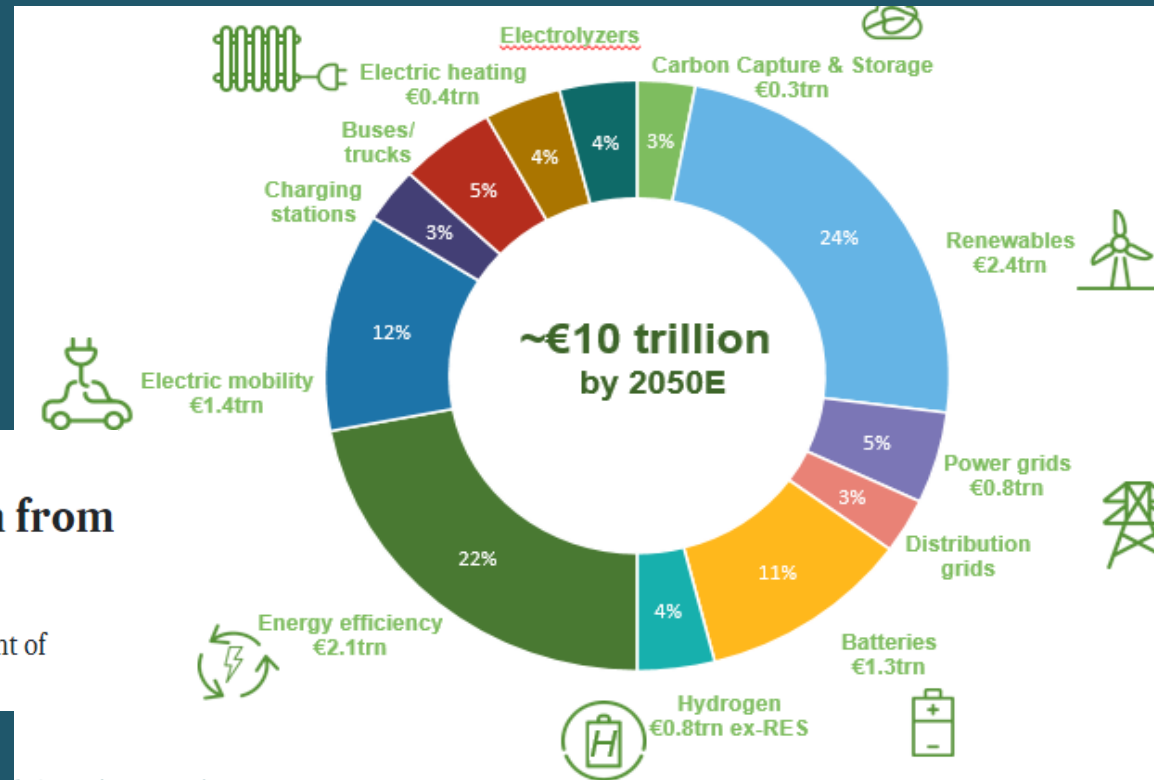
The EU plan to drastically ramp renewables to replace Russian gas

The European Commission yesterday announced its intent to remove demand for two-thirds of its Russian gas supply in less than nine months and hugely accelerating the rate of solar deployment is a central part of its radically raised clean energy ambition.

'Bloody hard – but possible': EU plots renewables and green hydrogen dash from Russian gas

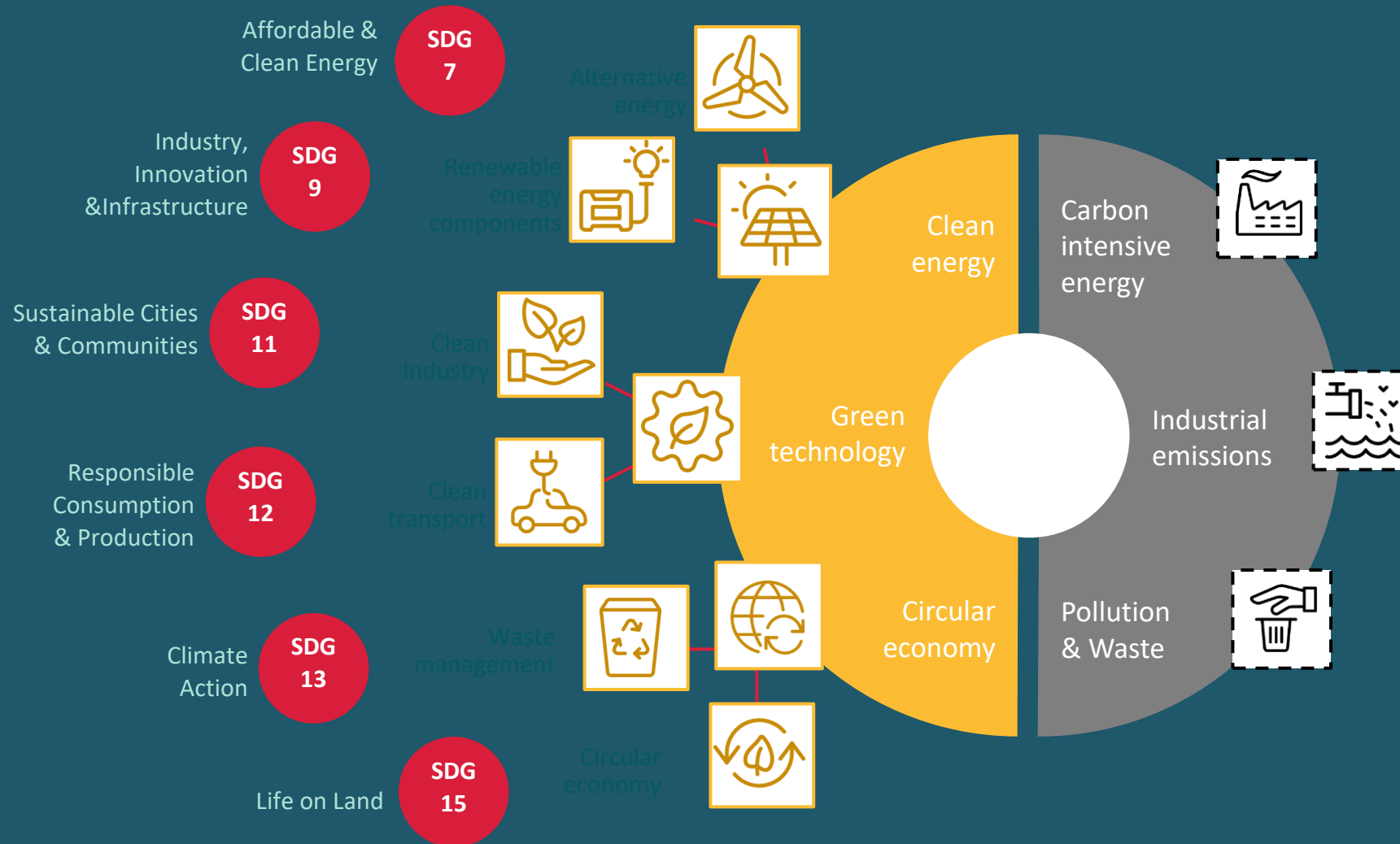
Commission claims REPowerEU plan can make bloc independent of Russian supplies 'well before 2030'

In reaction to the Russian invasion of Ukraine, there is growing support across the European Parliament to increase the EU's 2030 renewable energy target and break away from Russian fossil fuels, lawmakers from across the political spectrum told EURACTIV.

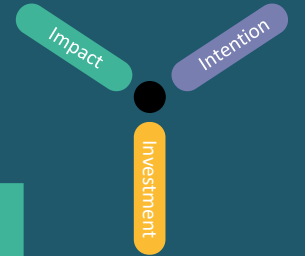


BloombergNEF estimates Required investment in energy supply and infrastructure of between \$92trn and \$173trn over the next 3 decades to reach net zero

Investing in the SOLUTIONS to the climate challenge



The III Impact Process



investment


- Business model
- Competitive position
- Capital allocation
- Business risk
- ESG risk
- Liquidity



0-10

intention

- Mission statement and purpose
- Strategic alignment and culture
- Implementation



0-10

impact

- Impact balance
- Measurability
- Materiality/revenues to SDGs
- Additionality
- Risk



0-10

We are looking for above average quality and intentionality, alongside a meaningful measurable positive environmental impact

'The icing on the cake' ...

- **Key features**
- The label 'Impact' is relatively new (evolved from other areas)
- Focus on 'positive stock selection strategies'
- Similar to leading sustainable/ social/ environmental funds
 - But very different from 'Sustainability Tilt' or ESG' options (which focus more on benchmarks &/or stewardship)



- **Staying 'grounded'**
- Similar to some stronger sustainable funds
- Most invest in secondary markets
- Label is not 'issue specific'
 - Look under the bonnet
- Companies may be less mature from ESG perspective
- Part of 'just transition' solution
- True investments (financial objectives still matter)

Diving deeper...

Primary fund features (source: Fund EcoMarket 10/21)

Aim to deliver positive impacts: **151**

Measure positive impacts: **115**

Positive social impact theme: **114**

Positive environmental impact theme: **129**

Invests > 25% in social/environmental solutions companies: **72**

UN SDG focus: **80**

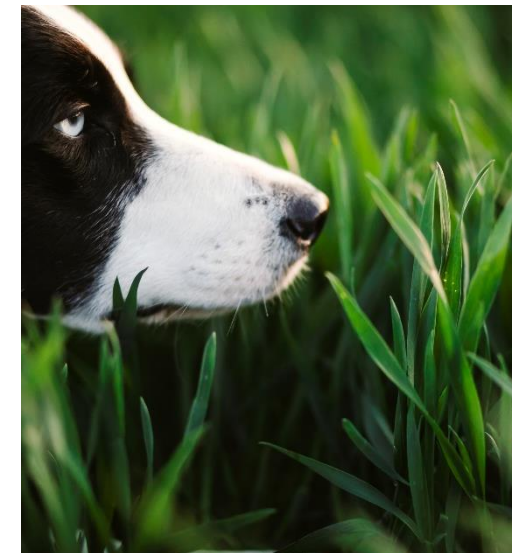
All of the above: 31

Described as 'an impact fund': 22

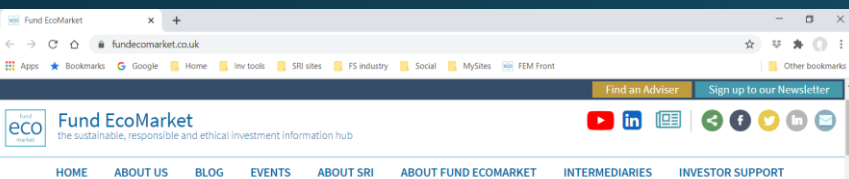


Sniff testing...

- Check you understand who and what the fund is for?
- Can you identify its intended positive aims and impacts?
- Is it transparent – can you see all or some holdings?
- Is the manager genuinely trying to measure impacts?
- Is voting aligned to strategy?
- **Red flags:**
 - Are the impact aims and claims realistic – or hard to find?
 - Does the manager know their holdings / are they ultra collaborative helping drive improvements?
 - Does it 'sound / smell' right?



SRI Services fund tool: Fund EcoMarket.co.uk



The fund tool that helps you meet the needs of clients who want to be part of the solution!

What's new?

- Download our new Fund EcoMarket App
- Just updated: StyleFinder tool updated to include new 'Sustainability classification'.
- Event videos now on our YouTube channel

How it Works

Fact-finding SRI Aims

Search by Fund Name

Filter options grid:

- Policies, Issues & Themes** (select options)
- SRI Styles Classification** (select options)
- Aims & Approaches** (select options)
- Responsible Ownership** (select options)
- Product Type** (select options)
- Asset Type** (select options)
- Geographic Region** (select options)

@JuliaDreblow
 Climate change: IPCC report is 'code red for humanity' <https://t.co/5knb1h7kx>
 Climate change: Five things we have learned from the IPCC report <https://t.co/yf10k476A>
 FCA launches new ESG and Sustainable Investment Principles - <https://t.co/TwlyX0y5B>



- ✓ Designed for professional intermediaries / advisers / IFAs
- ✓ Whole of market, open to all, info direct from fund managers
- ✓ 'match client aims to ESG / SRI fund options'
- ✓ Helps you 'look under the bonnet', fact find, info & links
- ✓ Independent, 700+ funds
- ✓ Free thanks to partners

Associated Partners

This site is available for free thanks to support from the following companies.



Q&A

Thank you for joining us. We'll email you shortly with a link to claim your CPD confirmation

Contact:

John Allen

John.allen@mandg.com

Julia Dreblow

Julia@sriservices.co.uk

Randeep Somel

Randeep.somel@mandg.co.uk

The M&G Wealth Platform is provided by Investment Funds Direct Limited, registered in England and Wales No.1610781. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Authorised and regulated by the Financial Conduct Authority No. 114432.

Investment Funds Direct Limited is a subsidiary of M&G plc, incorporated and registered in England and Wales. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Registered number 11444019. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.