

# Responsible investment for Sustainable outcomes

Kris Douma, Director Strategic Projects



*This presentation is being provided to you by PRI Association ("the PRI") and its subsidiaries for information purposes only. The presentation is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by the PRI. No reliance may be placed on its accuracy or completeness. Neither the presentation, nor any of its contents, may be reproduced, or used for any other purpose, without the prior written consent of the PRI. PRI Association is incorporated in England & Wales, registered number 7207947 and registered at 25 Camperdown Street, London E1 8DZ.*

# The UN Principles for Responsible Investment (PRI)

Investor-led, supported by the United Nations since 2006

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole."

- |          |   |          |  |
|----------|---|----------|--|
| <b>1</b> | <b>We will incorporate ESG issues into investment analysis and decision-making processes.</b>         | <b>4</b> | <b>We will promote acceptance and implementation of the Principles within the investment industry.</b> |
| <b>2</b> | <b>We will be active owners and incorporate ESG issues into our ownership policies and practices.</b> | <b>5</b> | <b>We will work together to enhance our effectiveness in implementing the Principles.</b>              |
| <b>3</b> | <b>We will seek appropriate disclosure on ESG issues by the entities in which we invest.</b>          | <b>6</b> | <b>We will each report on our activities and progress towards implementing the Principles.</b>         |



**2**

**UN PARTNERS:**  
UNEP FINANCE INITIATIVE  
UN GLOBAL COMPACT



**2400+**

**SIGNATORIES:**  
ASSET OWNERS  
INVESTMENT MANAGERS  
SERVICE PROVIDERS



**86+**

**US\$ trn**  
**ASSETS UNDER  
MANAGEMENT**



# Enabling Real-World Impact aligned with the SDGs: The SDG Investment Case (PRI/PWC 2017)

Why should investors consider SDGs as 'investment relevant'?

SDGs and Fiduciary Duty: asset owners acting in the ultimate interest of beneficiaries

	Macro	Micro
Risks	Failing to achieve the SDGs will create macro financial risks for large institutional investors, considered to be 'universal owners'.	SDGs provide a future looking risk framework for specific industries, companies, geographies and countries
Opportunities	Achieving the SDG's will be a key driver of global GDP growth over the next 15 years (towards 2030).	Companies globally moving towards more sustainable business practices, products and services, provide clear investment opportunities. Investors will have an interest to position themselves 'ahead of the curve'.

# The PRI journey to “real-world impact aligned with the SDGs”

From 2-dimensional ‘outside-in’ with **ESG** .. to ... 3-dimensional ‘inside-out’ with **SDGs**

<u>Rationale for RI</u>	<u>ESG: outside – in (risk-return)</u>	<u>ESG Methodologies</u>	<u>SDG: inside – out (risk-return and real-world impact)</u>	<u>SDG Methodologies</u>
<u>Values</u>	Avoid exposure, do no harm	<ul style="list-style-type: none"> <li>* norms based screening</li> <li>* negative screening</li> <li>* engagement led divestment</li> </ul>	Contribute to real-world impact aligned with SDGs	<ul style="list-style-type: none"> <li>* adapt (strategic) asset allocation process to sustainability objectives</li> <li>* restructure portfolios to improve SDG contribution</li> <li>* active ownership for SDGs</li> <li>* direct investment (thematic, impact, SDGs etc.)</li> </ul>
<u>Improve Risk Return Profile</u>	Financial materiality	<ul style="list-style-type: none"> <li>* integration</li> <li>* ESG tilts</li> <li>* alternative beta/factor investing</li> <li>* engagement</li> </ul>	Outcomes to society are unintended	* sustainability (the SDG agenda) provides investment opportunities
<u>Outcome to society</u>	Unintended: assumption RI aligns investors with broader objectives of society	<ul style="list-style-type: none"> <li>* best in class</li> <li>* thematic investing</li> <li>* engagement</li> </ul>	Intentional contribution to real-world impact aligned with SDGs	<ul style="list-style-type: none"> <li>* adapt (strategic) asset allocation process to sustainability objectives</li> <li>* restructure portfolios to improve SDG contribution</li> <li>* active ownership for SDGs</li> <li>* direct investment (thematic, impact, SDGs etc.)</li> </ul>

## From 'process based' reporting to 'outcome based' reporting (with SDGs)

For both enterprises and investors!

Increasingly investors will

- (1) make investment decisions based on the contribution enterprises are making to society and
- (2) report to their clients/beneficiaries, about their own contribution to society (sustainability, SDGs).

To be able to do that, enterprises will have to report on their outcome to society (impact).

Impact Management Project (UNDP, UNGC, UNEP-FI, WBSCD, IFC, GRI, SASB, GIIN, PRI a.o.) identify 5 dimensions of impact:

- [What](#) tells us what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders.
- [Who](#) tells us which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise's effect.
- [How Much](#) tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.
- [Contribution](#) tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.
- [Risk](#) tells us the likelihood that impact will be different than expected (note: also in other areas).

Step 1: 'outcome based' thinking needs to be 'part of the process', the 'management system' (statement of purpose, strategy, policies, implementation, measurement, monitoring, feedback): reporting on processes

Step 2: transparency about contribution to society: IMP = work in progress, to facilitate reporting on outcomes