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Socially

Responsible Investment - Issue 2013

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Energy

Renewable

Water

Green Building

Agriculture

Carbon

Responsible Investing Market Overview:
The sustainable investing market at year's end - volumes, strategies and investment topics.

ESG Integration across Asset Classes:
Integrating ESG into the investment process by selecting key factors.

European Education Initiative:
Supporting the next generation.

your SRI
Socially Responsible Investment

Creating Values for future generations «
Welcome to the leading database for responsible investing - welcome to yourSRI.com

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About yourSRI.com

yourSRI is the leading database on the subject of responsible investing and offers specific company and product information respectively access to specialized external services. It acts as a "one-stop-solution“ for various topics in the field of sustainability and responsibility.

It is designed for all kinds of SRI players and was created to access corresponding products and services in the fields of Asset Management & Investment, Rating, Consulting & Advisory, Research and Education. The unique integration of financial data with specific ESG information allows a thorough and fair comparison of funds, both from a financial and sustainability perspective. The resulting comprehensive and standardized yourSRI investment fact sheet is basis for clear investment decisions and is much valued by finance professionals, fund management companies and private investors who require a transparent and comparable approach.

The database offers access to more than 1200 companies, 1800 investment products and 1300 research documents. For further information on yourSRI and the database, please visit www.yourSRI.com

About CSSP

CSSP - Center for Social and Sustainable Products AG is an an independent & unique boutique consulting company with a focus on sustainable investments (SRI), impact investments and corporate social responsibility (CSR). CSSP is working with institutional clients in continental Europe, United Kingdom as well as Asia. The partnership is ready to help clients with SRI strategy and investment concept development, implementation and market assessments as well as knowledge transfer respectively employee training.

Furthermore, CSSP provides comprehensive monitoring and controlling of sustainable portfolios and represents the interests of pensions funds, foundations as well as other asset owners in investment committees and boards.

For further information on CSSP, please visit www.cssp-ag.com

Creating Values for future generations

Foreword

Topics like the overuse of resources, environmental pollution as well as climate change are megatrends shaping the future and will certainly change the way we're doing business and the way we invest. Additionally, the financial market crisis has shown that it is no longer enough to simply consider the three "traditional" dimensions risk, return and liquidity.

Over the past few years, sustainable or socially responsible investments (SRIs) have strongly gained momentum and become an integral part of the investment world. The number of dedicated SRI products has nearly doubled within the last 5 years. However, in the same time, there is still confusion in the market about defining an absolute term, concept and methodology for 'sustainability' - and some forms of 'sustainability' seem to be more sustainable than others.

Institutional and retail investors are becoming increasingly aware of the potential risk and value impact of environmental, social, and governance (ESG) factors, and their potential effect on an investment profile. A common motivation for integrating ESG into the investment process is to actively manage key factors that are believed to be important drivers of risk and returns. In this context, ESG factors are seen as both a risk and an opportunity to select better-managed companies.

So overall, the definition of best practice in ESG integration is evolving very quickly. A few years ago, being a UN PRI signatory was considered as advanced - it is now seen as a requirement for large institutional asset managers. Instead, the current focus is shifting to measuring ESG factors and the effectiveness of integration and there is a strong demand for rigorous ESG research, analysis and ratings products coming onto market.

For this purpose this year's World's Sustainable Finance Yearbook created by yourSRI and CSSP aims to give you a more detailed insight into the world of responsible investing and current best practice solutions.

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Sustainable Values – Impact & Diversity

Center for Social and Sustainable Products

www.cssp-ag.com

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Introduction

Especially in today's world, sustainability should be more than simply a slogan. Sustainability describes the general principle for a human development that is fit for the future. Today's understanding of sustainability is three-dimensional, referring to ecological, social, and economic concerns.

When investors are considering these sustainability criteria in their investment decisions, we are talking about Sustainable and Responsible Investing - short SRI. There are many different terms, approaches and strategies in the field of SRI but generally all of them mean to include environmental, social and governance factors to the investment decision.

The origins of SRI are dating back to the 18th century, when religious groups were excluding "sin stocks" such as liquor, tobacco, gambling or slave trade from their portfolio. During the 1970s, the quantity of Responsible Investment funds was growing continuously. These funds primarily focused on social aspects and excluded for example companies that were involved in the production of armaments for the Vietnam War or doing business with the Apartheid-based South Africa.

Under the impact of globally present disasters such as the explosion of the nuclear power station in Chernobyl or the 'Exxon Valdez' accident, the concept of Responsible Investments was expanded by the environmental dimension, which was constantly increasing in its importance due to the challenges linked to the global warming. Specialized 'thematic' or 'impact' funds are not only excluding "immoral" stocks, but they are intending to generate a measurable social and/or environmental impact additional to a financial return.

Everyone's vision of an improved world is not the same. Some are concerned about the production of certain products, such as alcohol, tobacco or military weapons. Others are more concerned about the effect corporations have on the environment, while still others want to ensure the protection of basic human rights or progressive employee relations. Nevertheless, certain distinctive SRI approaches can be identified. Thereby screening is a process whereby investments are selected based on certain criteria and requirements:

Negative Screening (Negative criteria/ Exclusion themes): The most prevalent form of screening is negative (or avoidance) screening. Negative criteria (also called exclusion criteria) serve to exclude companies or countries from the investment universe because they manufacture certain products, fail to meet certain environmental, social, and governance criteria or ethical demands of an investor, or violate international norms and standards.

A further distinction in this regard can be made between values-based and norms-based exclusion criteria. Values-based exclusion criteria in particular include criteria that cannot be reconciled with the personal values of the investor. Norms-based exclusion criteria are associated with violations of international norms and standards. Common exclusion themes are: Alcohol, Animal Testing, Armaments, Tobacco, etc.

Positive Screening (Positive criteria/ Impact themes): While the goal of the exclusion criteria is to prevent certain investments, the focus of positive criteria is on the deliberate selection and integration of companies or sectors. Positive screening is therefore a proactive process, selecting companies that show leadership in social, economic and/or environmental issues. For example, such as companies with exemplary employee

relations practices or companies those make a contribution to environmental sustainability. SRI fund companies that employ these positive screens will seek out such companies.

Therefore, positive (or affirmative) screening involves the application of social and environmental guidelines or "screens“ to the investment decision process. With positive screening, a distinction can be made between best-in-class and thematic approaches:

The best-in-class approach is used to evaluate companies or borrowers that are recognized leaders on environmental, social, and governance aspects. ESG criteria applied in this regard refer for instance to environmental and risk management systems, energy and resource consumption, training programs for employees, dialogue with stakeholder groups, board remuneration, and shareholder rights.

The focus of thematic approaches is on products and services of an organization. The goal is to invest in a sector whose products contribute solutions to ongoing challenges. In this regard, the immediate impact is becoming increasingly important. Common impact themes are: Agriculture, Energy, Health, Microfinance, Water, etc.

Today, the concept of SRI has become an integral part of the financial world and plays a major role for various groups of actors. It is a generic term, referring to the incorporation of Environmental, Social and Governance (ESG) issues into the investment process.

Why Invest Responsibly?

Performance: SRI can help to identify sustainable and profitable investment themes. If a company has a better ESG profile than its peer, it might be a positive indicator for its long-term potential for success. Recent literature shows that SRI portfolios can outperform benchmarks and conventional funds. However, specialized expertise is crucial for successful responsible investments.

Risk forecasting: The analysis of ESG factors is an opportunity for an active risk management. It can help to understand externalities and to predict whether a company is prepared for future risks and challenges. Especially the financial crisis and disasters such as the Deepwater Horizon oil spill have shown that a bad governance or high exposure to environmental risks can lead to significant losses for investors.

Risk diversification: Specialized impact investment themes might have a low correlation with the traditional financial market and can therefore help to diversify a portfolio.

Reputation: For some investors it might be a reputation risk if they are investing in controversial companies that have a negative social or environmental impact. Therefore, they have a strong interest to exclude such companies from their portfolio.

Linking Values to Value: Responsible Investments allow especially charitable investors such as foundations to achieve a "dual return". Specific impact investment strategies such as Microfinance or specialized renewable energy projects can generate a financial return as well as a direct, positive impact to the society in accordance with a foundation's mission.

Active Contribution to a Sustainable Development: Incorporating ESG issues in the investment decision allows to invest in line with personal values and supporting companies and technologies that have a positive impact to the society. This enables an investor to actively contribute to a sustainable development and to encourage companies to implement sustainable business practices.

Based on those reasons, there is an increasing amount of private and institutional investors, who are actively incorporating ESG-issues in their investment decisions. However, at the same time, the number and diversity of market participants offering a wide range of responsible investment products and services are steadily growing. Alongside with this growth and interest, SRI is evolving and is getting more and more complex.

So an orientation in the market of responsible investing is therefore often becoming time-consuming and difficult. For this purpose, sustainable information portals respectively specialized fund databases help in understanding the specificities of each responsible investing product and in line with this are useful tools for investors to take conscious investment decisions.

That's why the database yourSRI.com has been set up.

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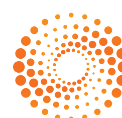

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1 Market Overview

Sustainability is about growing the future

Market Survey - Highlights

Methodology and Scope

For collecting and evaluating the sustainable and responsible investment funds for the Regions Europe, North America and Asia/Pacific, yourSRI.com, one of the worlds leading databases in this field, has been used.

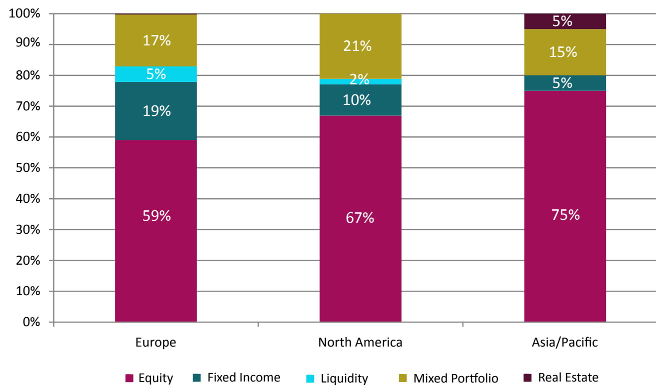
For comparison purposes, all data are used as of 31. December 2012 and are presented in Euro billions. It is important to note that the different strategies and categories used in this study are not mutually exclusive. Therefore, an investment fund can use one or several strategies for selecting its investments. Regardless of the fact that there is an increasing amount of investment funds, regarding themselves as socially or sustainable and responsible investments funds, this study exclusively focusing on investment funds that have been explicitly verified by the yourSRI.com Team as "sustainable".

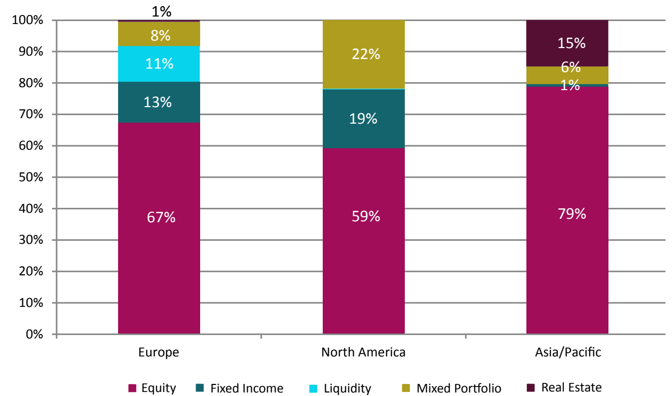
The sustainable investment market in Europe, Asia/Pacific, and the Americas

As of 31 December 2012, the sustainable investment market in the three regions Europe, Asia/Pacific, and the Americas covers a total of 810 verified SRI investment funds with fund assets under management of EUR 175.6 billion. Especially Europe with 661 funds and fund assets under management of EUR 111.7 billion is considered a cornerstone of the sustainable investment market. Within the Europe region, the most popular domicile countries include especially France, Luxembourg, and the United Kingdom with a cumulative volume of EUR 86.3 billion and 456 funds. In the Americas and Asia/Pacific regions, especially the United States with 80 funds and fund assets under management of EUR 39 billion as well as Japan with 6 funds and fund assets under management of EUR 14 billion are among the favoured domicile countries for SRI funds.

Focus on asset classes

A look at the individual asset classes shows that equity, with assets under management of EUR 117.5 billion and more than 50% of all examined funds, is one of the most popular asset classes, in addition to fixed income with 138 funds and EUR 22.5 billion in assets as well as mixed with 140 funds and EUR 18.7 billion in assets. It should be emphasized in this regard that equity is strongly represented across all regions, while in the case of fixed income and liquidity, countries in the Asia/Pacific region were chosen only rarely as a domicile. Overall, however, the market is mainly shaped by the Europe region with 64% of market volume in the equity asset class, 65% in fixed income, and 99% in liquidity, as well as the Americas region in the mixed portfolios asset class with a market share of 48%. This contrasts with real estate, where Australia is the domicile country for EUR 3.4 billion in assets under management, amounting to a total of 84% of the examined total volume in this segment. The special characteristic here is that the volume is overwhelmingly due to two major state real estate funds.
Also interesting is that the fixed income segment despite having 138 funds, which is nearly identical in number to the 140 mixed portfolio funds has a far higher volume of EUR 23 billion versus EUR 19 billion. This is mainly due to the higher fixed income volume of EUR 15 billion versus a mixed portfolio volume of EUR 8.5 billion in Europe. Also of note is the strong trend toward domiciling liquidity funds in France compared to other countries: With a volume of more than EUR 12 billion and more than 30 domiciled funds, France is the clear #1 among the examined countries in the liquidity segment. This strong trend is due especially to special regulatory characteristics such as the mandatory disclosure of assets invested according to ESG criteria for asset managers.





Investment strategies

The look at the various investment strategies shows that 13 products in the examined fund universe have decided in favour of a purely negative screening approach.

In contrast, 797 of 810 verified funds include environmental, social and governance (ESG) factors either individually or overall in their investment decisions, in addition to traditional factors. A closer look at the investment strategies also shows that more than half the examined funds, namely 485, incorporate exclusion criteria on a supplemental basis in their investment decisions, i.e. they take account of negative screening criteria in addition to ESG factors. Moreover, about 25% of the examined funds deliberately focus on sustainable topics such as renewable energies.

Negative screening

When selecting exclusion criteria, there are clear preferences. The most popular exclusion criteria for negative screening include manufacturing and trade of armaments with 407 of 485 funds, followed by tobacco with 321 funds and nuclear power with 225 funds. In terms of assets under management, gambling replaces nuclear energy as the third most popular exclusion criterion.

Positive screening

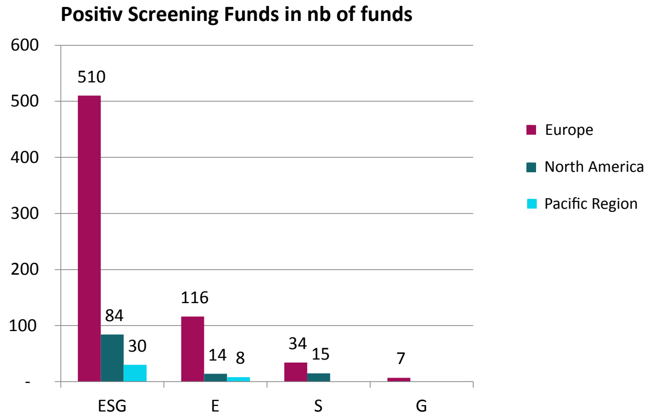
With more than 77% of all examined funds and assets under management of more than EUR 136 billion, the bulk of the funds remain very broad in terms of the potential investment universe, incorporating only a general ESG screening into their investment decisions. About 24% of all funds, however, also focus their investment priorities on individual sustainability categories, either on a supplemental basis or primarily.

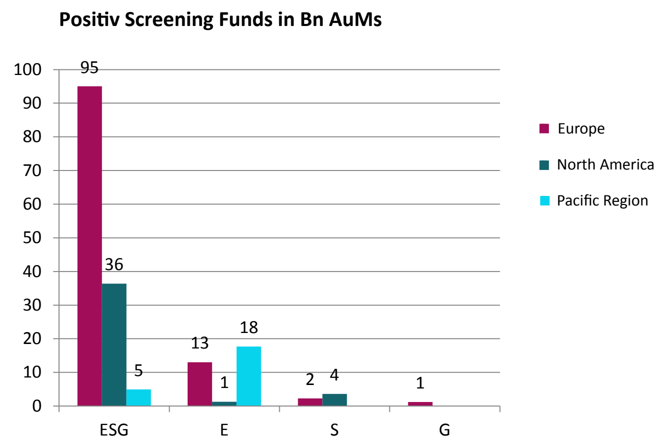
Environment: With 138 funds and assets under management of about EUR 32 billion, the environment whose topics include renewable energy, energy efficiency, but also water, waste, and CO_2 - is one of the strongest categories, covering about 18% of total assets under management. Especially renewable energies, energy efficiency, as well as water, waste, and carbon are among the most popular topics in terms of both the number of funds and the assets under management, within Europe and also in the other regions. Only Australia, with two major green building funds covering assets under management of EUR 3.4 billion, deviates from the overall picture. In light of the changing climate and the growing environmental problems, it is not at all surprising, however, that despite regulatory and structural problems, more and more investments are being made in companies offering innovative and practicable solutions to the environmental problems of our time. The preferred domicile countries for investments focusing on the environment include Luxembourg, the United States,

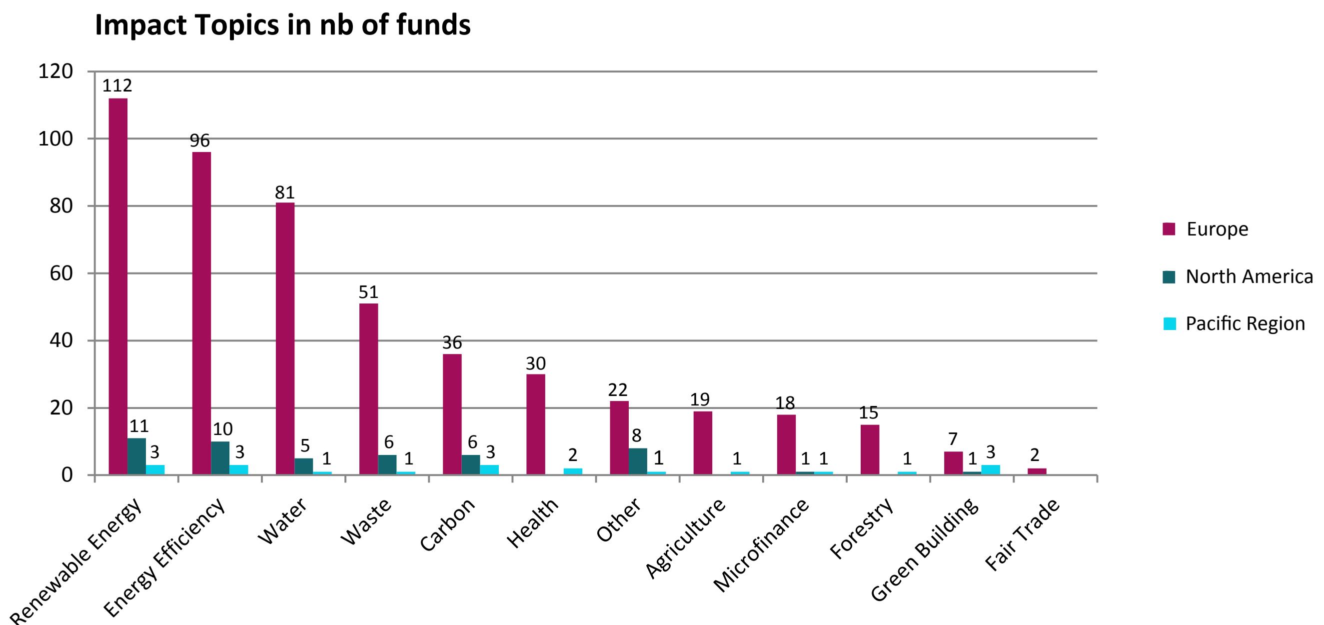
and the United Kingdom. Especially interesting in this regard, however, is that while Luxembourg has the largest number of environmental funds (58), Japan with only 3 funds has a far greater volume of assets under management than Luxembourg: EUR 14.3 billion compared with EUR 7.6 billion. Also interesting is that Swiss asset managers tend to chose Luxembourg as a domicile country for environmental funds.

Social: The social category, which is dominated especially by the topics of health and microfinance, is in second place with 49 funds and assets under management of EUR 5.9 billion, corresponding to about 3% of all assets under management. Especially the United States, Luxembourg, and France are preferred as a domicile country for this type of investment, with the United States and Luxembourg prominent in terms of volume. In France, especially employee savings plans make up the largest share, given that they have been legally required since 2008 to invest at least in one solidarity fund which in turn invests part of its assets in impact investments.

Governance: Governance is the smallest category, in terms of both assets under management and the number of funds. The 7 funds domiciled exclusively in France, Switzerland, and Luxembourg have a cumulative volume of EUR 1.2 billion, which makes up less than 1% of the entire managed fund volume.







Conclusion

This market study, created by CSSP and based on the yoursri.com database as of 31 December 2012, aims to give an insight into the world of responsible investing and to provide a clear picture of the socially responsible or sustainable and responsible investment fund market. Based on the results of the market survey, the following conclusions can be derived:

» As of 31 December 2012, the sustainable investment fund market in the three regions Europe, Asia/Pacific, and the Americas covers 810 verified SRI investment funds with fund assets under management of EUR 175.6 billion. While this may appear relatively small compared with the worldwide fund assets under management of EUR 22.17 trillion, they are certainly on the rise.

» A look at the individual asset classes shows that equity is one of the most popular asset classes, alongside fixed income and mixed.

» Within the Europe region, especially France, Luxembourg, and the United Kingdom are among the most popular domicile countries. In the Americas and the Asia/Pacific region, especially the United States and Japan are among the most favoured domicile countries for SRI funds.

» Looking at investment strategies, most fund managers do not filter the investment universe only on the basis of negative exclusion criteria, but rather combine them with environmental, social, and governance (ESG) factors and/or sustainable topics.

» The most popular exclusion criteria in terms of negative screening include armaments followed by tobacco and nuclear power. Looking at assets under management, gambling is ranked third as an exclusion criterion instead of nuclear power.

» Especially renewable energies, energy efficiency, as well as water, waste, and carbon are among the most popular topics in terms of both number of funds and assets under management, within Europe as well as in the other regions.

This market study should be seen as a starting point in an evolutionary process, which is going to be extended and enhanced in the future, providing further and comparative information about the responsible investing market. This should allow interested parties to follow the market evolution and upcoming market trends. Nonetheless, it will remain difficult to obtain comprehensive and comparable data as long as numerous terms and definitions are used in the market, making it difficult to draw a clear line between the different investment vehicles. However, in light of the ongoing efforts by different market players and industry associations like yourSRI trying to increase the market transparency and clarity, we are confident that the concept of socially responsible investing will gain further attention in the future. This in turn will increase the transparency and clarity in the responsible investing market.

2 Transparency Survey

The tomorrow needs care

Transparency Survey

The term "sustainability" carries special significance in today's society. In particular, the concepts of socially responsible or sustainable and responsible investments (SRI) and Philanthropy characterize the growing interest in the media, markets and companies.

Alongside with this growth and interest, SRI and Philanthropy are evolving and are getting more and more complex. In the meantime, numerous terms, approaches as well as continuous development are characteristic for these markets. For this purpose, this survey aims to give an overview on how the investigated institutes are using their websites[1] as an effective instrument to deal with these new topics and challenges.

Last year's transparency survey of CSSP Research carries out a qualitative and quantitative research of companies websites while focusing exclusively on the five largest banks from the United States of America and Europe (ranked by total assets per 12/31/2010) as well as ten selected banks from the German-speaking area (Germany, Switzerland, Austria, Liechtenstein). US: Bank of America Merrill Lynch, Citigroup, Goldman Sachs[2], JPMorgan Chase & Co, Wells Fargo. EU: Barclays, BNP Parisbas, Deutsche Bank, HSBC, RBS. Selected: Commerzbank (DE), Credit Suisse (CH), Erste Group (AT), J ulius Baer (CH), Kaiser Partner (LI), LGT (LI), RZB (AT), Sarasin (CH), UBS (CH), Vontobel (CH).

On the aggregated level, the banks were divided in four groups: (1) Group ALL: All banks together (2) Group US: Top 5 US banks (3) Group EU: Top 5 EU banks (4) Group Selected: All individually selected banks from the German-speaking area

Transparency Leaders

The evaluation of the questionnaire has shown that two institutes from the group EU with 19 out of 24 points respectively 15.5 out of 24 points as well as one of the Selected institutes with 17 out of 24 points rank among the top of the transparency survey. The best US institute ranks together with other institutes from the group Selected on the fifth rank.

SRI

Communication: The transparency survey has shown that 90% or 18 of all investigated institutes communicate Sustainability and in further consequence SRI on their website. Of this 90%, 39% do present the topic on their front-page, 33% on their sub-page and in case of 28% the topic has to be searched. Especially, the group EU and Selected are actively communicating and do present the topic on their front-page, while in case of the group US the topic has to be generally searched on a sub-page. In few cases, some of the most active institutes provide a specific portal or a blog dedicated to Sustainability and in further consequence SRI issues. In the meantime, 65% of all the investigated institutes are communicating an internal SRI structure, whereas only four of them are communicating who are the persons responsible for SRI. In 8 of 20 cases the institutes are promoting their SRI awards on their website, whereas 2 are from the group EU, 5 from the Selected and 1 from the group US.

Cooperation: 85% or 17 of all investigated institutes present any Sustainability or SRI seals of transparency or quality; it is especially worth noting that all institutes of the group EU as well as 9 of the group Selected do actively promote such seals to promote transpa-

1 The analysis is based on public available information on the specific company websites. Please note that no other pending documents or brochures like CSR Reports etc. were considered.

2 Instead of the 5th largest Bank HSBC North America Holdings, which is a part of the HSBC Holdings (EU), Goldman Sachs Group was analyzed.

rency. 30% or 6 institutes from which 4 are from the group Selected and 2 from the group EU are showing their membership in various international Sustainability or SRI associations. Having a look on the memberships in various national Sustainability and SRI associations the picture looks quite the same, from the 7 institutes, which are showing their memberships 1 institute is from the group EU and 6 are from the group Selected. Of the 75 % institutes communicating that they are cooperating with other SRI companies, 11 show with whom they cooperate. While having a look on the cooperation with NGOs and universities, 30% or 6 of the investigated institutes do cooperate from which 5 specifically state with whom.

Products: 65% of all investigated institutes show SRI mutual funds on their website, whereas especially the group Selected with 9 and the EU with 3 are active in promoting SRI mutual funds on their website.

Services: 60% of all the investigated institutes have a special SRI news portal, whereas especially the group Selected with 7 institutes and the group US with 3 are dominating. With respect to SRI publications available on the website, 65% of all investigated institutes provide any SRI publications; In particular, 4 of the top 5 US institutes, 7 from the group Selected a s well as 2 from the top 5 EU are providing publications, whereas 12 of them provide any of their publications free of charge. Furthermore, 25% of all the investigated institutes promote any conference related to Sustainability respectively SRI on their website.

Philanthropy

The transparency survey has shown that 90% or 18 of the investigated institutes communicate Philanthropy on their website, whereas 17% do present the topic on their front-page, 50% on their sub-page and in case of 33% the topic has to be searched. On the individual group level, it can be seen that except the group Selected, Philanthropy could be generally found on the front or a sub-page and in few cases they have their own Philanthropy portal. For 7 of the investigated institutes a direct link between SRI and Philanthropy could be identified.

3 Insights & Intelligence

It's Time
to think ahead

Protecting the climate

Fresh approaches from companies

Dr. Maximilian Horster
Managing Partner - South Pole Climate Neutral Investments
Zurich

Let me be frank: I am tired of all the bad news on our attempts to combat climate change. Is there nothing uplifting in between these constantly daunting headlines?

As the effects of climate change are becoming increasingly visible, the negative news keep coming in. You know what I mean. The International Panel on Climate Change (IPCC) is due to publish its next report soon and based on what has leaked in advance, it makes a disheartening reading yet again: We keep exploiting our world at a larger scale than the last IPCC report had outlined even in its worst case scenario. The irreversibility of our damaging lifestyle is becoming increasingly immanent. At the same time, climate-related natural catastrophes continue to grow and floods and droughts kill people in the world's poorest areas. While the calls for action are getting louder and more desperate, the likelihood for significant governmental intervention becomes less and less likely. While in economically good years, international agreements on reducing greenhouse gas emissions seemed hard already, in times of financial crisis they are virtually impossible.

So, don't expect help from politics: The constant combating of smaller bushfires such as Greece or Cypress keep the political fire fighters busy - and prevents them from recognizing the raging fire speeding towards us: the climate catastrophe.

Companies stepping up

With politics failing, other actors in society need to step up and take action. And they do! We are today seeing an increasing amount of actions from an unexpected side. Corporations, the single largest contributors to climate change, as well as financial institutions and their financing of climate damage worldwide, are slowly stepping up to their responsibilities. And they do so in surprising and creative ways, often with fresh and innovative approaches. From our work in Switzerland, I want to share some positive examples and trends from several areas that stand for many more initiatives around the globe.

Over the past 10 years, the world's largest companies have become accustomed to report their greenhouse gas emissions, either through their corporate reporting or information aggregators such as the NGO Carbon Disclosure Project. This reporting has the interesting effect that companies better understand their climate impact and identify where their real lever to make change happen is situated.

Innovative Products and Solutions

While for production oriented firms identifying potential improvements may be quite straight forward, such as improving the efficiency of processes, the lever might not be as easy to find for firms in other industries. Consider, for example, a bank. Financial institutions have become leading in reducing their own carbon footprint, for example by flying less and

using more video conferencing. However, it is obvious that their strongest impact on climate change is in their investments. While most banks in the western world now know the exact carbon footprint of their buildings, company cars and employee travel, they are often clueless regarding the emissions of the invested money of their own or on behalf of their clients. New, innovative tools such as the Investment Carbon Screener on Bloomberg terminals now allow for a quick upload of any investment portfolio and an easy download of an investment carbon footprinting report. These types of integrated and business oriented solutions are constantly emerging.

Leading banks and asset managers are not only disclosing the climate impact of investments, they also act upon the newly available information. By creating new climate friendlier investment products or shielding client portfolios against climate change related risk, they all of a sudden have a business case or rather a specific price on protecting the environment. Deutsche Bank's fund manager DWS runs a "Climate Change Fund" sine years, specialized asset managers such as GenerationIM in London focus exclusively in climate friendly investments. Also leading institutional investors, such as Dutch pension giant PGGM or the Norwegian governmental fund Norges already employs climate specialists for implementing a carbon strategy.

Identifying business cases always helps to get your climate impact into focus. Swiss telecommunication provider Swisscom, for example, has identified its own client base as the single biggest lever to combat climate change. Swisscom has therefore put a strong focus on improving products to be more energy efficient, and using their core business of Information and Communication Technology (ICT) to create new climate friendly products. Fabian Etter, who runs Swisscom's CSR agenda says that by using solutions for virtual conferencing, home office and efficient data centers there is a potential for Swiss companies to save annually 750'000 t CO2 and 7 billion Swiss francs. Considering a broader range of ICT services the ICT branch is able to reduce the global CO2-emissions by approx. 16% or 7 times more than the ICT branch is emitting. The key areas here are the optimisation of transport, electricity grids, buildings and processes.

Employee Engagement

Another lever, and an often untapped resource for great new initiatives and ideas, is of course employees. By getting them on board, corporate climate protection receives the necessary momentum. Climate awareness will inevitably lead to more climate friendly decisions in any professional's day to day work decisions. But more so, it will also impact the behaviour of employees at their homes with ripple effects on family and friends.

While raising awareness among employees is a necessary first step, taking action is what counts. The project "Off4Firms", funded by the European Union's change enabler Climate KIC, tries to achieve just that with the help of cutting edge university research on behaviour: Developing employee incentive schemes to change their climate-related behaviour at home. Reinsurance giant SwissRe has piloted such schemes a few years ago under the name COYou2. This project included schemes where employees where partially refunded if they purchased things like hybrid cars or energy-efficient refrigirators. Such initiatives are, however, not exclusive to large companies such as SwissRe. Smart and cheap engagement tools such as CO2-Monitor enable employees to measure their daily carbon

footprint and benchmark it against their colleagues. A further step of "gamifying" climate conscious behaviour in a fun and competitive way explored by the company WeAct that poses weekly climate challenges on teams of employees, students or friends to bring down their carbon footprint.

Another simple and effective tool to create engagement among employees is the Climate Credit Card. As corporate credit card, this tool automatically calculates the carbon footprint of every purchase made with the card. In addition to the credit card statements, an employee receives an individual carbon footprinting statement. Further, all these emissions are automatically neutralized with high quality emission reduction projects in developing countries. So at no extra cost, this credit card raises awareness among employees while simultaneously offsetting all emissions related to corporate expenses. Not surprisingly, this tool has been well received among SMEs with limited budget and of course NGOs such as Greenpeace. But also climate champions such as Basler insurance, or Freitag bags have adopted the card as a smart, inexpensive and effective Corporate Social Responsibility tool. As a result, the card was voted out of 500 competitors as one of Europe's most innovative credit cards in 2012.

Innovative Products and Solutions

Employee engagement is also a new trend when it comes to offsetting own company emissions. Many leading firms use emission reductions in developing countries to complement their climate strategies. In addition to measuring climate impact and reducing CO_2 emissions in their own business, companies increasingly focus on reducing emissions in developing countries as well often in those where their suppliers do business. The reasoning makes sense: while western companies manage to bring down emissions in the developed world, many achieve this by simply "exporting" the problem to other countries. We tend to increasingly produce technology or process materials such as steel in a developing country and simply import the finished goods. In recent years however, western companies have recognized that a holistic climate strategy therefore also means to reduce emissions in the developing world, where, for the same costs, often 10-15 times more greenhouse gas emissions can be avoided compared to the western world.
One interesting development has been the combination of such projects with employee engagement. More and more companies try to engage their employees in the selection process of the offsetting projects. Internal voting, competitions and involvement allow the possibility to participate in the decision of what emission reduction technology should be supported and where. There are also companies that involve their clients in this decision. Swisspost, for example, features once per year three different projects on their website and all clients can vote if the emissions from all letters delivered in that year should be offset with, for example, wind power from Turkey or efficient cooking stoves in Ghana.

This trend intensifies with companies reducing greenhouse gas emissions with projects in their own supply chain. Swiss supermarket Coop, for example, offsets the emissions from importing roses from Kenya to Switzerland with a project that reduces greenhouse gasses at that very rose farms in Kenya. Advised by WWF, this project distributes efficient cook stoves to local families that use less fire wood and create less smoke. The effect is not only CO_2 reduction: This also frees up time for children for going to school instead of collecting firewood and tremendously improves health by reducing smoke-related lounge and eye diseases.

All these are positive examples from companies that, like me, can't hear the constant negative news stream on climate change anymore. They don't sit and wait, but take action - and many think the same way. Climate change needs to leave the niche of sad despair. In order to be effective, climate protection has to reach the broad masses. It needs to be understandable, tangible and fun. Some companies are leading the way and I hope that it will generate enough momentum for politics and public to follow.

South Pole Carbon is the leading provider of climate action solutions. The Swiss company manages over 200 emission reduction projects with over 100 employees in 12 offices around the globe. South Pole Carbon was named "Best Project Developer" in 2011 and 2012, has been honoured "Swiss Social Entrepreneur of the Year" and was recently awarded the Sustainability Award of Switzerland's ZKB bank.

The challenge of Transparency & Comparability

Measurability in the SRI-fund-market

Eric Schirrmann
CEO, Care Group AG
Zurich

Due to the increasing willingness to incorporate additional aspects into investment decisions, sustainable or socially responsible investments (SRIs) have strongly gained in importance especially over the past few years. The concept of SRI has therefore become an integral part of the financial world and plays a major role for various groups of actors.

This trend is fuelling a need for a greater breadth and depth of information as for the investor with a focus on sustainability, there is a very large selection of mutual funds available worldwide. In the past few years alone, the number has nearly doubled. However, to borrow from George Orwell's quote, some sustainability funds are more sustainable than others. Furthermore, investors complain about the diverse use of the term sustainability and the complexity and heterogeneity of the concepts behind the word. As a consequence, the focus has increasingly changed to the central question of how to create transparency in this diverse environment and how to measure sustainability in a way that meets the diverse needs of investors. Further, a clear, high-quality overview that allows for a professional comparison of a fund's environmental, social and governance (ESG) sustainability should be provided.
One possible way to achieve this is by a central information platform that can provide information about the various options and strategies and serve as a guide to the decision process. This platform should offer all relevant information about socially responsible funds, aggregating scattered information and processing it for different target groups.
In order to increase the quality and credibility of sustainability investments, thereby promoting growth, the following goals should be pursued:

1. Transparency

It can be challenging to understand the key characteristics of different SRI products, be it because of the many different ways to describe them or due to the frequent lack of proper disclosure. The platform should provide greater insight in an easily understandable way to facilitate the choice of an appropriate product. And it is essential to understand what underlies an SRI product to establish trust.

2. Comparability

Socially Responsible Investing (SRI) is not a strict concept: Fund managers have developed different approaches that are incorporated into the investment process. To identify the product that best suits the investors' needs out of the huge number of available SRI funds, an efficient and sound comparison has to be enabled.

3. Measurability

How can the quality of a fund's sustainability strategy be quantified? This requires a methodology that allows a consistent translation of a large set of non-financial indicators into a final sustainability score. Such a methodology has to be transparent, complete and comprehensive.

A leading sustainability fund is characterized by, e.g., comprehensive social and environmental company research as evidence of its commitment to sustainability. This is reflected by the inclusion of companies with excellent stakeholder relationships and innovative products in the fund's portfolio. In addition, a fund should actively pursue engagement opportunities, e.g., through company dialogue, proxy voting or shareholder resolutions. It should also show a high level of transparency for investors, which becomes apparent by the fund management's readiness to provide information on specific questions, such as investment philosophy, transparency of selection criteria or disclosure of portfolio holdings.

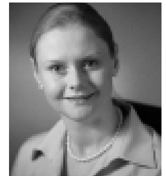
With SRIFundsAdvice.com, Care Group has developed an interactive platform for presenting and comparing the sustainability quality and performance of funds. SRIFundsAdvice.com also shows how this information can be employed profitably in the investment process.

Second, additional ways of helping investors to navigate the diversity of SRI-products are quality seals respectively labels. This also helps to overcome the second challenge for an investor navigating in the broad field of SRI-investments, the challenge of gaining a detailed picture of the SRI quality of a fund in a quick and timely way. So, in addition to the objective transparency and evaluation of sustainability, the intelligibility of the information provided is therefore becoming increasingly important as well.

A label can provide guidance to investors and the interested public, e.g. indicating that a neutral sustainability rating is available which is independent of product providers and compiled on the basis of strict and objective criteria.

ESG Integration across Asset Classes

A new approach for fixed income investments



Martina Macpherson
Vice President, MSCI ESG Research
London

The world of investment is changing: asset owners and managers are becoming increasingly aware of the potential risk and value impact of environmental, social, and governance (ESG) factors, and their potential effect on an investment profile.

ESG Integration into Investment Processes - A common motivation for integrating ESG into the investment process is to actively manage key factors that are believed to be important drivers of risk and returns. In this context, ESG factors can be used to select better managed companies that can mitigate risks and exploit opportunities stemming from key environmental and social issues.

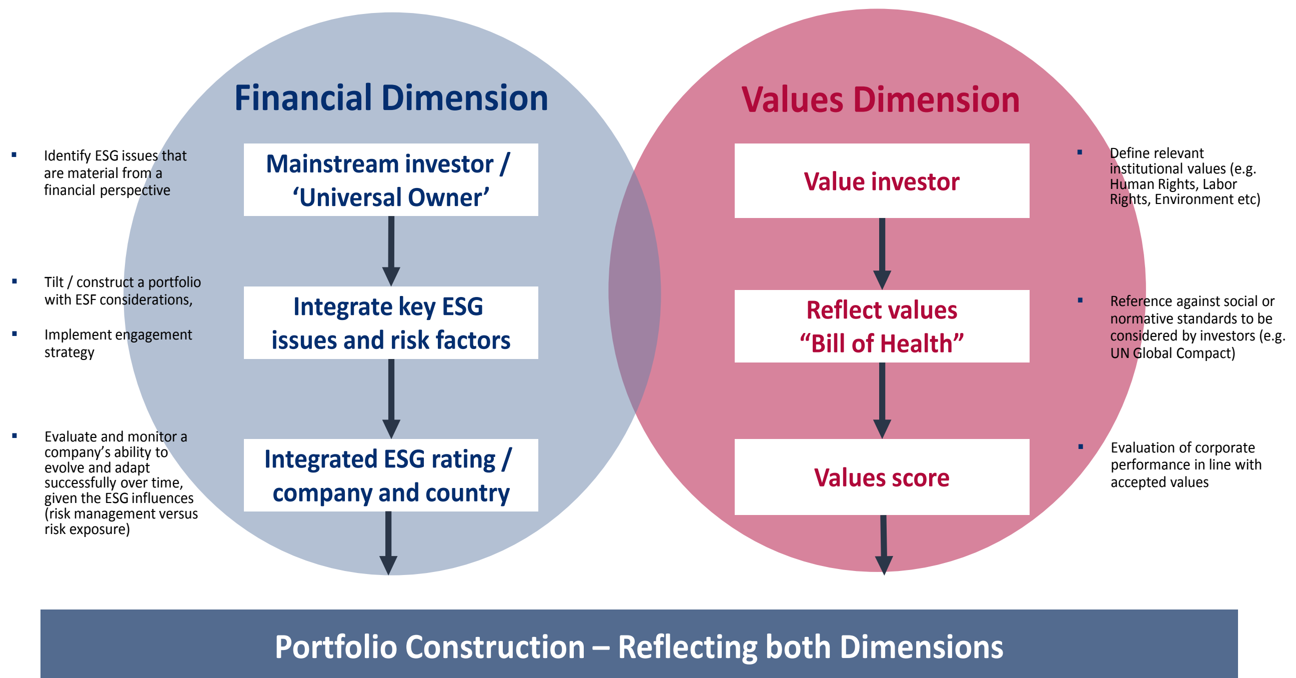
Today's financial markets have difficulty incorporating low frequency but high impact risks in financial valuations. Because traditional financial analysis tends to focus on short-term earnings and operates within shortterm benchmarks, it may be difficult to reconcile with key ESG issues that are aimed at uncovering risks in the medium to long term.

Some asset owners have started to embrace the concept of 'Universal Ownership'[1], where they see the long-term exposure to the whole economy through their portfolio as requiring specific investment actions. Mitigating risks due to exposure to ESG factors and dealing with externalities in order to produce higher sustainable long-term returns has become an integrated part of the portfolio management process for many investors/asset owners. In addition, many investors have a desire to reflect their values in their investment portfolios. These values could be based on religious views, international norms, institutional codes of conduct, legislative requirements, perception of controversial business activities and political pressure.

Another broadly accepted form of values investing concerns the management of reputational risk, for example, respect for human rights, international norms or conventions such as the UN Global Compact and the International Labor Organization Conventions, or avoidance of sin stocks.

Overall, the definition of best practice in ESG integration is evolving very quickly. A few years ago, being a UN PRI signatory was considered as advanced; it is now seen as a requirement for asset managers and, instead, the current focus is shifting to measuring better the effectiveness of ESG risk factors.
However, to ensure effective risk management, it is important that institutional investors understand the sources of ESG risks and have an overall appreciation of these risks at the portfolio level. A simple, yet effective, approach to ESG risk measurement can be built using the notion of risk exposure. For this, investors may require a portfolio analytic framework that could provide an overall attribution of the portfolio's ESG exposures and risk management performance on key ESG issues. In measuring and attributing ESG risk, it is also important to have relevant benchmarks as a reference.

1) Source: Integrating ESG into the Investment Process, Remy Briand, Roger Urwin and Chin Ping Chia, August 2011, p. 3 - Link



Two Dimensions of ESG Investing (Source: MSCI)

Fixed Income and ESG Ratings and Analysis

ESG integration in equity has led the way so far - but it is now crucial for investors to be able to incorporate environmental, social and governance signals into other asset classes - and foremost in fixed income investments. Fixed income is of major importance for most investors, especially long term investors like asset owners for which fixed income represents a large share of their portfolios.

However, assessing the relevance of ESG contribution to the default financial risk of an issuer is still a challenge. Despite a few ventures to cover parts of a fixed income portfolio from an ESG perspective, mainly by sovereigns and supranationals, reaching comprehensive coverage of that diversified universe has also been a challenge up to now, making it difficult for investors to expand into that asset class.

In Australia, Local Government Super and their asset manager Omega Global Investors are leading the way in integrating ESG into fixed income analysis. They have constructed a government bond portfolio based on MSCI ESG Sovereign Ratings with an emphasis on ESG 'mega or macro themes' such as climate change, resource scarcity, human capital, population demographics and financial market instability.

MSCI ESG Research's sovereign risk analysis, which identifies a country's exposure to and management of ESG risk factors, has helped LGS / Omega to identify countries with lower debt levels; better regulations; less corruption; better key environmental and social indicators and greater resilience and capacity to deal with current and future mega ESG challenges.
The integration of ESG factors into fixed income analysis has helped LGS / Omega to meet their risk/return expectations, outperforming the benchmark since inception (see table next page).[2)]

ESG Fixed Income Solutions

MSCI ESG Research has developed a full suite of ESG Fixed Income research and analysis solutions to identify ESG-driven investment risks that may not be captured by conventional analyses.
MSCI ESG Research is the first in the industry to provide a fully integrated set of ESG research and analysis tools covering the most common fixed income issuer types, including corporates, sovereigns, supranationals, agencies, and covered bonds. Coverage includes more than 9,000 issuers linked to 260,000 individual securities, and over 90% of the market value of the Barclays Global Aggregate Bond Index.

2) Source: Global Sustainable Government Bonds, Investment Paper by LGS, 31st of May 2012 - Link

	1 month %	3 month %	6 month %	1 Year	3 Years % pa	Inception % pa
Mandate	1.05					1.99
Benchmark	1.01					1.73

Investment Performance (March 19 - May 31, 2012) (Source: LGS/Omega, MSCI)

MSCI ESG Research's ESG fixed income solutions help investors in multiple ways:

» to identify 'long-tail' event risks, systemic risks, and potential liabilities by taking advantage of the built-in MSCI ESG Sovereign Ratings model and the MSCI ESG IVA corporate ratings model;

» to monitor investments for ESG controversies and violations of global norms and conventions by using MSCI ESG Impact Monitor product functionalities aimed at investors sensitive to reputational risks;

» to screen fixed income portfolios for religious, ethical, or environmental or social criteria by using MSCI ESG Business Involvement Screening Research; and

» to create ESG index-linked investment products and benchmark the financial ESG performance of fixed income portfolios.

MSCI ESG Research's new fixed income offering includes ratings, scores, profiles and reports, available via monthly data feed and BarraOne. MSCI ESG Research is also partnering with Barclays to create a family of ESG Fixed Income Indices.

"The investment world is changing - it's accepted nowadays that ESG factors do have a potential effect on investments'

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools. To the company's flagship products belong for example the MSCI indices with approximately USD 7 trillion estimated to be benchmarked to them on a worldwide basis. MSCI ESG Research is a leading source of environmental, social and governance (ESG) ratings, screening and compliance tools to advisers, managers and asset owners worldwide. Its products and services are used by investors to integrate ESG factors into their investment processes. MSCI is headquartered in New York, with research and commercial offices around the world.

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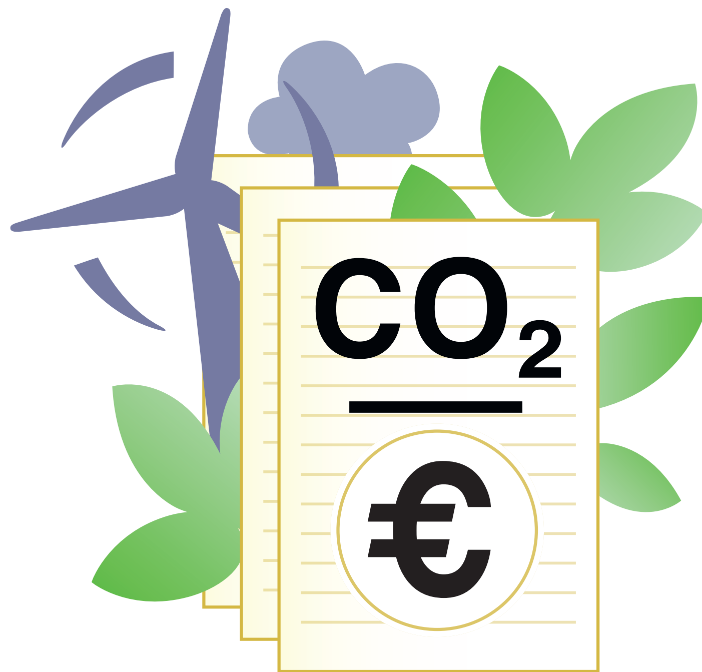

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Sustainability in Emerging Markets Equity

Approaching ESG issues in developing markets

Stephen Tong
Managing Director, Vontobel Asset Management
Zurich

Sustainability trends, and how managers incorporate sustainability into business strategy and practices, can have a significant effect on a company's operations and therefore its value in both the near and long term. Sustainability issues are global, and it is widely accepted that they have a differential influence across sectors, but are there differences in how we approach sustainability issues in emerging markets versus developed markets?
I outline three key issues that sustainable investors should consider in emerging markets:

- Impact and frequency of environmental, social, or corporate governance (ESG) related incidents
- Availability of information
- Framework in which ESG issues are evaluated

Impact & Frequency

The nature of developing economies provides a rich backdrop for ESG issues, with greater emphasis on environmentally sensitive sectors e.g. resource extraction and power generation; social issues e.g. pay and conditions in labour-intensive export industries or community impact; and governance issues, with governments or family-owners as majority shareholders. Global issues such as water availability and climate change often have a disproportionately greater impact on developing countries, and government policies add further complexity.
It might appear that ESG incidents are more frequent in emerging markets than in developed. However, the sector composition of emerging markets influences this perception, with high impact sectors such as resource extraction forming a larger part of the equity opportunity set. There have been newsworthy ESG breaches by companies in both emerging and developed markets, so we caution against broad generalisations and believe investors need to focus on how ESG issues affect individual companies, and on recognising the circumstances in which they are likely to arise.

Information Availability

Just as IFRS is being adopted in emerging markets, disclosure and reporting on ESG issues is also improving. Still, transparency varies significantly between companies and countries so investors must decide how to access information, e.g. through third party sources or by direct engagement with management, and whether the quantity and quality of ESG information available supports confidence in making an investment.

Evaluation Framework

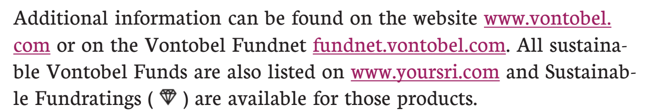
Should we evaluate emerging markets companies in the context of "Western standards", or against local cultural norms? How should this analysis be integrated into the investment decision? Some investors opt for a ‚best in class' approach, selecting companies from each sector or country that perform best on a set of ESG metrics, regardless of how sustainably each company is managed in absolute terms or the fundamental valuation of the company. Others may use ESG research as just one input into a better understanding of a company.
The purpose of ESG analysis needs to be clear - is it to better understand how the operating environment and management practices affects a company's prospects, or also to apply a minimum standard of sustainability to a portfolio?

Conclusion

At Vontobel our investment due diligence includes a formalised scoring system to assess ESG factors, requiring the same standards of ESG management from companies in both emerging and developed markets. This promotes a robust and repeatable process, and our clients, mainly based in developed markets, can better relate to the standards and have confidence that their assets are invested in businesses that take ESG risks and opportunities into account.
Whether ESG factors can drive investment returns is often debated and academic studies are inconclusive. In our view, investment opportunity is driven by whether a company's fundamental outlook is reflected in the share price, and it is unlikely that the output of a single piece of analysis in isolation would be a determinant of investment performance.

We believe that an analysis of ESG factors, in combination with fundamental research, delivers insight that enhances investment decisions. Investors have greater conviction in their valuation and risk-reward assessment and are better able to identify security mispricing. Sustainability, therefore, should be an integral part of a disciplined investment process for any region and, at Vontobel, we consider it strategic for both asset owners and investment managers.

'The perception that ESG incidents are more frequent in emerging markets compared to other countries is influenced by the sector composition'



Additional information can be found on the website www.vontobel.com or on the Vontobel Fundnet fundnet.vontobel.com. All sustainable Vontobel Funds are also listed on www.yoursri.com and Sustainable Fundratings ( ) are available for those products.

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"It's not charity.
It's Business that can earn Money
and also help lift the poor out of Penury."
Muhammad Yunus

Impact Investing. Made in Liechtenstein.

MIL Microfinance Initiative Liechtenstein

Impact Investing - Going beyond SRI

New Form of Sustainable Investing

Dr Rupert Evenett
Joint Founder and Chief Executive, Engaged Investment
London

Impact investing has begun to come of age over the last ten years. Maybe not full maturity but certainly it is now a robust and thrusting teenager in the investment space. And yes, like all teenagers, it is starting to test the boundaries and to want to change the world.

Impact investing is no longer just a coming idea but is a growing body of proven practice. Impact investing is acquiring an investment track record. Its underlying investments have a business track record of entrepreneurship. There is a growing volume of specialised practitioners developing a body of impact investing practices and skills. Above all, impact investing is a global market, it is a growing market and it is a market that invests in enterprise and in sectors with growing demand.

That makes it very interesting. I want to argue that it is now an investment market that some ethically and SRI minded investors should definitely look at particularly HNWIs and private wealth managers and also that in its longer term potential impact investing should be seen as an addition to and more than just a subset of ethical investing going beyond SRI.

What is Impact Investing?

Impact investing is investment which has the explicit expectation of achieving social and/or environmental gain as a "social return" alongside and in addition to an expected financial return. It is fundamental that the social return is not an incidental or even "nice-to-have" by-product of a financial investment but is a primary purpose and expectation of the investment.

In investment terms, and in capital market theory terms, this is therefore about incorporating social return (which includes environmental return) into the framework of investor expected returns and investor required returns. That in turn emphasises that the word "investing" is as important as the word "impact" in definitional terms. Impact investing is not only defined by the impact it seeks. Impact investing is investment.

This means that impact investing has two important boundaries. One boundary which distinguishes it from other investment which does not expect social return or looks at it as only a secondary goal (so defining impact investing by distinguishing it from most mainstream investment). And a second boundary which distinguishes impact investing from philanthropy, from charity, from grant giving, all of which are valuable activities but are just something quite different from impact investing.

Impact investing therefore occupies the space between philanthropic giving on the one hand and financial investment indifferent to impact on the other hand. Impact investing is an extension of investment and core to understanding impact investing is to see it as a set of "hard" investment processes and expectations which demands investment disciplines of both investors and investees (those who are invested in) and which sets clear social and financial return.

'It is important that the social return is a primary purpose and expectation of the investment.'

Impact investing comprises equity, debt and bond, and quasi-equity or mezzanine forms of investment and indeed in practice currently is often more a fixed income and hybrid capital market than an equity market (though that will change over time) which reflects not just the limitations of legal form of social organisations (which often find it hard to issue simple equity) but reflects also the needs of packaging up the investment risks involved.
Much of the innovation in impact investing currently is in bonds and in more equity-like hybrid capital forms, such as social impact bonds.

Case Study: Social Impact Bonds

A social impact bond is a contract with central or local government in which the government body commits to pay for improvement in specified social outcomes for a specified beneficiary group in a specified geographic area. Investment for a social organisation targeting the social outcomes is raised from investors and returns are paid to the investors based on the actual level of social outcomes achieved. (Typically the payment of returns depends on that level of actual outcomes exceeding an agreed benchmark level). It is an innovative investment product designed to provide both a revenue model and a funding model for social organisations.

Although called a "bond", it is more equity- or quasi-equity-like, as investors' capital is at risk and returns are variable and depend on operating performance. The Social Impact Bond product was developed by UK impact investing pioneer Social Finance and the first social impact bond was issued in March 2010 to raise £5million to fund rehabilitation for short-sentence prisoners in Peterborough, England. Since then, Social Finance has announced at least a further four social impact bond programmes in the UK, addressing vulnerable young people in the Thames Valley, rough sleeping in London, and outcomes for children and young people in Manchester and has received funding from the Omidyar Network for social impact bond development in the US and internationally.

What are the return characteristics of impact investing?

Impact investing incorporates a range of expectations of the contribution that financial return should make to the total expected return. These range from a fully risk-priced financial return making up the whole of the required total return with social return being an expected premium return on top, to a positive financial return as one element of the total return with expected social return making up the difference, and to at least a 0% return (return of capital without loss) with significant social return meeting investor total return requirements.

This can be described as a spread of investment styles from "financial first" to "social first". And one of the characteristics of impact investing is that both ends of that spread are legitimate forms of impact investing. That legitimate spread of impact investing is important for giving a range of options for developing marketable investment products for the wider groups of non-specialist investors that impact investing now needs to reach out to.

Much impact investing of course occupies the middle of that range of styles where both financial return and social return contribute to meeting the hurdle rate investor total required return. This is the area of "blended value" (a term devised by Jed Emerson, one of the leading analysts of impact investing) or "blended return". (Michael Porter in the Harvard Business Review talked about "shared value"). This might mean for example an impact investment that pays "only" an expected 2% financial yield with the expected social return required to achieve the necessary risk-reflective expected total return. Now of course in yield hungry markets currently, "only" a 2% yield, say, might start to look quite interesting anyway (allowing for risk of course but allowing also for the possibility of some real risk diversification).

Charity Bonds

Investing for Good, an innovative UK social finance adviser has developed Charity Bonds as a way of using recognised investment and financing products for social finance and meeting both the financial and ethical objectives of impact investing. Essentially, a Charity Bond is a medium term bond operating in the same way as similar corporate bond products. The first to be marketed was issued by UK disability charity Scope, which issued the first tranche of a £20 million bond programme in October 2011 backed by its income from charity shops and legacies/other donor income. The Scope bond is listed on the EuroMTF market in Luxembourg, has the same regulatory and prospectus requirements as any corporate bond and will issue sterling bond tranches in varying nominal amounts, maturity dates and coupon rates. Typically, the aim of a Charity Bond is to be priced at a yield below yields for existing bonds of equivalent risk with investors being asked to accept social return in part-replacement. It is aimed at trusts, foundations, HNWIs and wealth managers.

This area of blended return is a rich and promising area of investment precisely because it integrates social impact - social return - into expected returns. And much useful work is being done on evaluating and measuring social impact - developing methodologies that seek a monetisable expression of impact (like the SROI - Social Return on Investment - metric) and others which acknowledge that a single, one-size-fits-all measure might not be appropriate and which instead embrace the range of outcomes of different impact activities by developing rigorous approaches to the articulation of "theories of change" or "social prospectuses". (See also the IRIS metrics - the Impact Reporting and Investment Standards which are an initiative of GIIN - the Global Impact Investing Network in the US).

Who are impact investors?

Existing impact investors are already a diverse group. The ImpactBase database which is another initiative of GIIN (see above) has a non-exhaustive list of just over 200 impact investors around the world. Many are relatively small funds at the moment. Existing impact investors include: specialist funds; individuals' and charitable foundations (the latter taking part in "mission related investing" as distinct from their grant giving activities); HNWIs, their advisers, family offices and private wealth managers; government backed funds; microfinance funds; international aid funds taking an investment approach; "mainstream" investors seeing impact investing as a next step in "thematic" sustainable and responsible investing; and a new class of "wholesale" investors which currently includes the brilliantly experimental and innovative Big Society Capital in the UK but which will grow to include a range of fund-of-funds and similar investor approaches. Deutsche Bank for example is beginning a fund of funds approach to impact investing. The European Investment Fund made its first wholesale investment in an impact investing fund at the end of 2011.

'Impact Investing attracts a diverse group of investors, from foundations to specialist funds - but mainstream investors are pickung up the trend too.'

What is the size of impact investing

Size forecasts are exciting. Globally, J P Morgan has forecast that the impact investing universe could be $1 trillion in size by 2020. (See J P Morgan's seminal research paper "Impact Investments: An Emerging Asset Class".) Some domestic markets are also exciting. For example, Adrian Brown of Boston Consulting Group (another leading commentator) forecasts the UK impact investing market at £1 billion by 2016. In investment markets in search of new investment products and value-added advice to clients a piece of this new investing market is worth thinking about even before taking account of social and ethical motivations and the realignment of finance with social purpose.

Going Beyond SRI

SRI has been one of the successes of the finance sector and the investment world in recent years, experiencing growth in investment - including inward funds-flow after 2008 and the credit crunch - and retaining a popular legitimacy. Organisations like the Europe-wide Eurosif network and in the UK the authoritative UKSIF have been leaders in promoting not only SRI as a necessary piece of the overall investment landscape but increasingly impact investing too.

SRI is the sector of the investment space which impact investing most naturally fits in and it would be easy, as some have argued, to see impact investing as a sub-set of SRI. There are of course overlaps. No longer confined to its roots in negative screening, modern SRI now embraces positive "thematic" investment, encourages engagement of investors with the companies they invest in on SRI issues, and promotes the integration of ESG sustainable investing criteria into mainstream investment criteria.

As impact investing begins to mature, though, there is more to impact investing than being an SRI theme (not that there would be anything wrong with that). Whereas SRI, even in its positive investment activities, is an approach for dealing with and evaluating existing investment opportunities, impact investing is an ongoing project to create and build a new asset class of new investments, which though often individually small together are increasingly important (and which can also reach out to include some of the larger mutuals, cooperatives and housing associations in the business world - it is not a necessary claim for impact investing to be wholly new or "invented now").

By investing in social businesses and social enterprises, which use business models to address social and environmental needs, impact investing is seeing the development of a body of investment practices and skills (including asset class specific due diligence and analysis) that help to shape and define a new asset class, despite the fact that impact investing cuts across traditionally separate asset classes of equity, quasi-equity and fixed income (in the same way that hedge funds are regarded as an asset class because of a commonality of investment skills and absolute return objectives despite widely differing investment strategies).

This is an asset class, furthermore, which is about enterprise finance - investing in entrepreneurs and growth sectors (health and health care for example in many of the greying developed economies with unhealthy lifestyles) and growth enterprises. One of the exciting things about impact investing is the way it is responding to and encouraging a new wave of entrepreneurs who are unashamed about creating new businesses and new business sectors in the cause of social purpose, often in sectors either not historically exposed to enterprise or not used to combining enterprise with the values of social impact. Impact investing can give exposure to growth sectors that mainstream investment cannot get exposure to.

As a new asset class investing in new growth enterprises and sometimes new sectors, impact investing is properly best understood as an Emerging Market, in capital market terms. This helps in two ways. First, it helps set expectations of impact investing at the right level. This is an early stage emerging market with more to do in terms of infrastructure and the ability to market its investment case. Secondly, it also helps identify the conditions and evolutionary path for impact investing to continue to develop: other emerging markets, each with their own individual characteristics have emerged before and there is nothing too unusual about the developmental stages that impact investing has to go through in its turn.

All emerging markets have to be able to define their average risk and return characteristics for general (non-specialist) investors to see what their asset allocation role in portfolio construction might be. With its developing track record, impact investing will soon be able, like emerging markets before it, to define its risk levels and, I expect, to show that though still higher risk than mature markets, impact investing's risk is not as high as some might expect and is manageable. As for other emerging markets before it, clarity on risk and its manageability should be a tipping point in investibility for impact investing.

Impact Investing and Private Wealth Management

So, the future of impact investing offers something different from existing SRI, but which appeals to the same ethical investing motivations. With good momentum behind it, it is an asset class and an emerging market that justifies investors keeping a watching brief on it.

Now that means I don't want to claim that impact investing is a mature market that all investors should immediately plunge into. Rather it is a rapidly emerging market that should now be kept under review by professional investors who should consider dipping a toe into it to acquire some understanding of it - in view of its growth characteristics, its potential contribution to diversification and the underlying growth sectors it gives exposure to like health and healthcare - quite apart from the social benefits of investing finance in social purpose. Individual investment products like charity bonds are also being developed that mainstream investors can invest in as well as investing in diversified funds.

Just on size grounds, and in view of the tighter investment criteria set by investment mandates, institutional pension fund and insurance money is less likely to find much room for impact investing in the near term. And for risk reasons, impact investing is not yet suitable for mass retail investment products or probably even for the "mass affluent". Charitable foundations however (devoting a part of their investment portfolio to so-called "mission related investing" whereby a portion of their investment funds also look to achieve social outcomes in parallel with their grant activity - but with financial investment returns as well) are one source of institutional investment money that can more readily look at impact investing as an initially small part of their portfolio.

'Impact Investing can also be seen as bringing together investors' philan-thropic acitivities with their investments.'

And private wealth management - or rather the VHNWIs, HNWIs and family offices that are their clients - are another type of institutional capital which has the flexibility and innovation to see how to integrate impact investing into their portfolios. Like private equity or hedge funds, impact investing could over time be say 0.7%-1% of portfolios. Eurosif's 2012 "HNWI and Sustainable Investment Study" showed that wealthy Europeans are deepening and expanding their commitment to sustainable investment and impact investing. Sustainable investment by European HNWIs increased by nearly 60% over the past two years (compared with an 18% increase in overall HNWI wealth). One in two HNWIs is participating or interested in impact investing as an alternative to philanthropy as much as an extension of SRI. Europe will not be the only market where this is the case.

Impact investments of course need to be able to demonstrate that they are "suitable" investments for private investors. One way in for achieving this is at the "finance first" end of impact investing. In place of a mainstream financial investment offering a particular return at a given risk level, the finance-first impact investing offer is to propose an investment which carries the same risk-return characteristics and which then also provides a social return on top.

Another way is to see impact investing as a bringing together in part or overlapping of private investors' philanthropic activities with their portfolio investment activities. A "blended value" impact investment (see the Charity Bond case study above) might offer a less than fully risk priced financial yield - but it will offer a yield premium to 0% grant giving... and offers the potential for return of capital too, unlike grants. Viewed from the perspective of philanthropy, too, it offers the potential for recycling the same capital several times over, maximising the social gain compared with a one off capital grant. Viewed from the perspective of portfolio investment, blended value impact investing is at least setting out to maintain capital and pay some financial return... and keeps the capital concerned within the framework of the investment portfolio rather than giving it over to grants.

A preparatory step to either of these approaches is for private investors' attitudes and ambitions for their social giving (and appetite for translating some financial return into social return) to be part of the routine dialogue on target investment outcomes that already occur between clients and advisers and takes in their risk appetites and balance of capital growth and income. This does not seem too much of a stretch and incorporates an approach to impact investing into a disciplined framework of discussing and recording investment criteria that already exists.

Impact investing is still in its adolescence but has already come a long way. Like other emerging markets as they approach their tipping point of risk and return clarity and product availability, where they become genuinely investible if higher risk and alternative investments for a broader investor group, for mainstream investors impact investing is now worth putting on the watch list and beginning to experiment with.

'Impact investing is still in its adolescence but has already come a long way.'

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Exploring Alternative Investment Opportunities

Sustainability taking center stage

Ralph Kretschmer
Managing Partner, EBG Capital AG
Zurich

Investors are facing stiff headwinds and fundamental challenges to their investment strategies. Governments seeking to keep their economies going despite huge budget deficits, increasing national debt and economic inequality are flooding markets with massive amounts of money. At times they are changing laws in ways that essentially challenge the principle of guaranteed ownership. As a result many perceive the financial system, a human creation, to be out of control.

At the same time, the physical challenges facing the world are increasingly apparent. The importance of safeguarding vital resources - from water and food, to energy and minerals - is at the center of the global agenda. As climate change accelerates and biodiversity is reduced, our planet's ecological equilibrium appears to be at stake. Addressing these challenges will create new industries, dislocate others, and involve enormous amounts of capital. Has Sustainability ever been more crucial to investors both as a risk management tool and as an investment opportunity?

Alternative assets have a lot to offer, but there are investment barriers

Sustainability has clearly become a decisive value driver in certain investment areas, especially those related to resource scarcity. Attractive opportunities with a theme focus particularly exist outside listed securities. Examples include energy efficiency and clean energy in private equity and infrastructure, or green real estate. Investors in agriculture or timberland recognize that biological growth is a key value driver that contributes to wealth preservation, inflation protection and portfolio diversification objectives.

While the opportunities in Sustainability investment are clearly large, they are also complex to evaluate. Some large pension institutions, sovereign wealth funds, and insurance groups have built special in-house sector expertise and execution capability. They are motivated by the fundamental attractiveness of these investment themes and the benefits of diversification and lower correlation, real asset exposure and (partial) inflation protection. The presence and approach of these leading investors carry an important message, namely that Sustainability AI themes form part of the solution to address the investor challenges mentioned above.

Outside this small group of leaders, a large number of institutional investors are either unable to access this opportunity, or do not have the skills and resources to evaluate them. Some recognize they do not have the specific expertise, experience and access to deal flow. Building an in-house team is often not a solution because it takes time, and qualified talent may be scarce and expensive. In addition, their Consultant may not possess the specific sector knowledge and typically requests long-term historical data that do not exist. Consequently, these investors decide to forego this opportunity. Others receive investment propositions that are being aggressively marketed, but which may or may not be most attractive or suitable. They may decide to make an opportunistic investment without rigorous due diligence. Neither approach is optimal.

Implementation in practice

An investor is well advised to obtain a core understanding of the themes, their value chains, key value drivers and risks. In the absence of sufficient in-house capabilities or capacity, in-sourcing tailor-made servi-

ces from an expert advisor may be an effective and efficient alternative, even for sub-portfolios below CHF 50 million. The mandate can be structured so that the client is involved in the investment decision making process. The fee discussion should be transparent, take into consideration portfolio scope, and depth and quality of the services provided.

A tailored investment strategy should be developed by the advisor in consultation with the client. At EBG Capital, we then seek to find the most qualified investment partners globally that will meet the investor's strategy requirements. We frequently recommend a diversified approach that invests in a number of funds, before considering co-investments, or direct investments. A prudent investment requires a thorough and well documented due diligence process that fully reviews the investment, legal considerations and operations and that is executed by a team of qualified experts. We urge clients to approach opportunistic investments cautiously. Our recommendation is to engage in a systematic, disciplined and well documented process to identify opportunities that are most attractive and suitable to their investment strategy.

4

European Education Initiative

Looking after the next generation

European Education Initiative for Sustainable Finance

The European Education Initiative for Sustainable Finance (EEI) was initiated by CSSP to enable students and members of associations a better access to knowledge about sustainable finance. With the support of selected partners, the EEI is empowering Universities and Associations to strengthen their capacity in sustainable and responsible management and investing.

Overuse of resources, increasing shortages of food, climate change, environmental pollution as well as numerous high-profile corporate governance scandals are examples that unsustainable economic activities constitute a threat to the well-being of humanity. As a consequence, environmental, social and governance (ESG) issues attract wider attention and gain a credible place on the agenda of politicians, business leaders as well as investors.

However, in order to gain further attention and to become an integral part of the thinking, decision-making and actions taken by the next generation of business leaders, more efforts are needed. Schools and Universities have to intensify their efforts to convey sustainable and responsible values in research and education. However, many do not have the financial or human resources respectively knowledge to intensify their efforts and provide an appropriate offer to students, teachers and researches in order to engross the thoughts to sustainable business and investing. Therefore, EEI was initiated in 2012. Today EEI supports more than 13 European Universities and Associations to get a comprehensive access to the world of sustainable and responsible management and investing. EEI empowers universities to strengthen their capacity in those areas by providing access to specific information, lecture materials as well as helping supervising scientific papers, like Bachelor or Master Theses.

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