



MEASURING EFFECTIVENESS:

Roadmap to Assessing System-level and SDG Investing

Featuring:

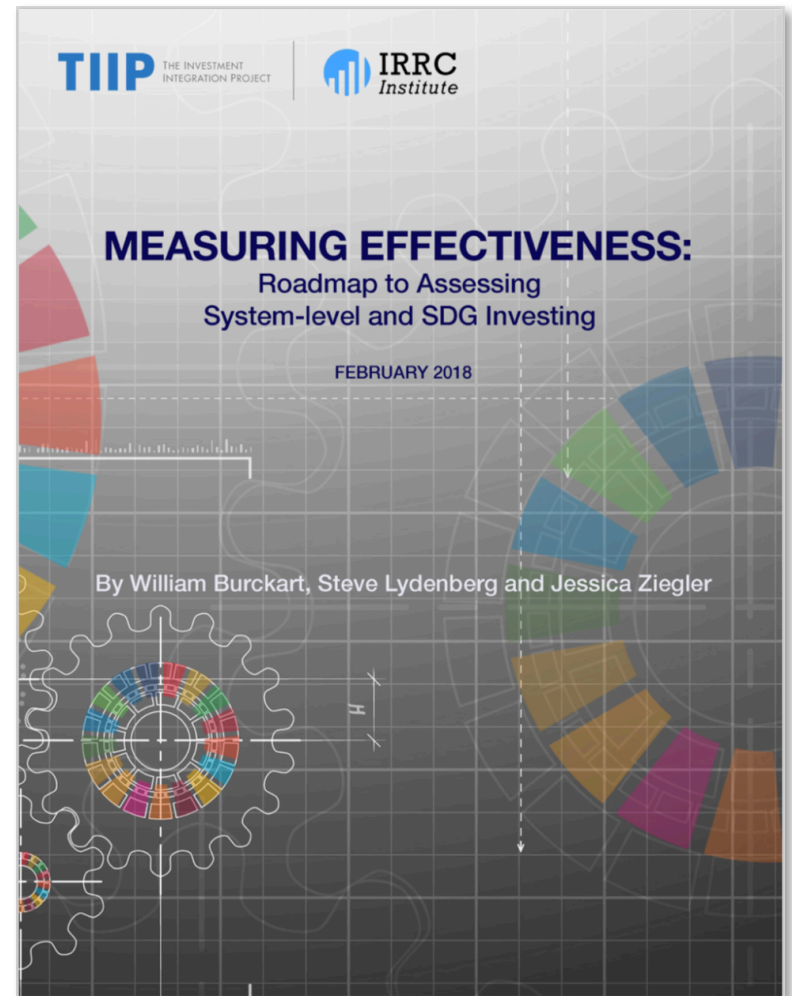
Steve Lydenberg
Founder and CEO
TIIP

Jon Lukomnik
Executive Director
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William Burckart
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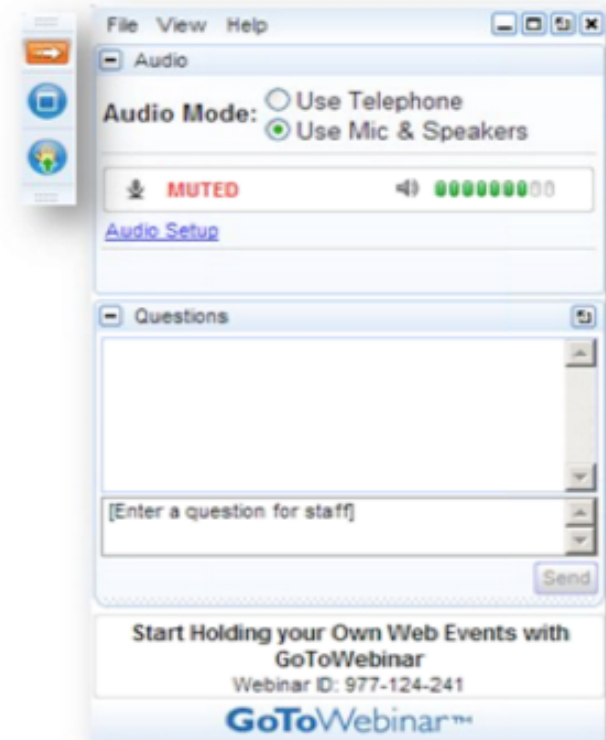
Agenda

- Logistics and Introductions
- Research Review
- IRRC Institute Perspective
- Q&A



Webinar Logistics

- Attendees are in listen only mode.
- But, questions are encouraged; enter your questions using "Question" function.
- Session recording, replay will be posted at www.irrcinstitute.org.
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Speakers



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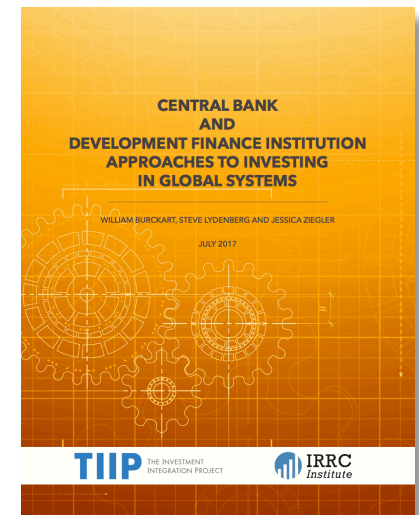
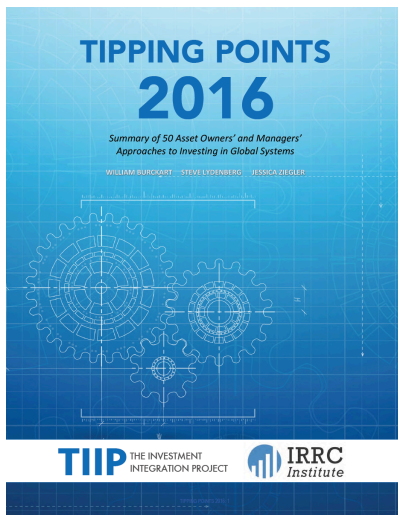
The IRRC Institute

- Not-for-profit established in 2005.
- Funds and disseminates objective, unbiased research on a range of issues at the intersection of corporate responsibility and investors informational needs.
- Funds academic and practitioner research.
- Offers two \$10K research awards annually.
- Some 70 research reports available at no charge.



TIIP - The Investment Integration Project

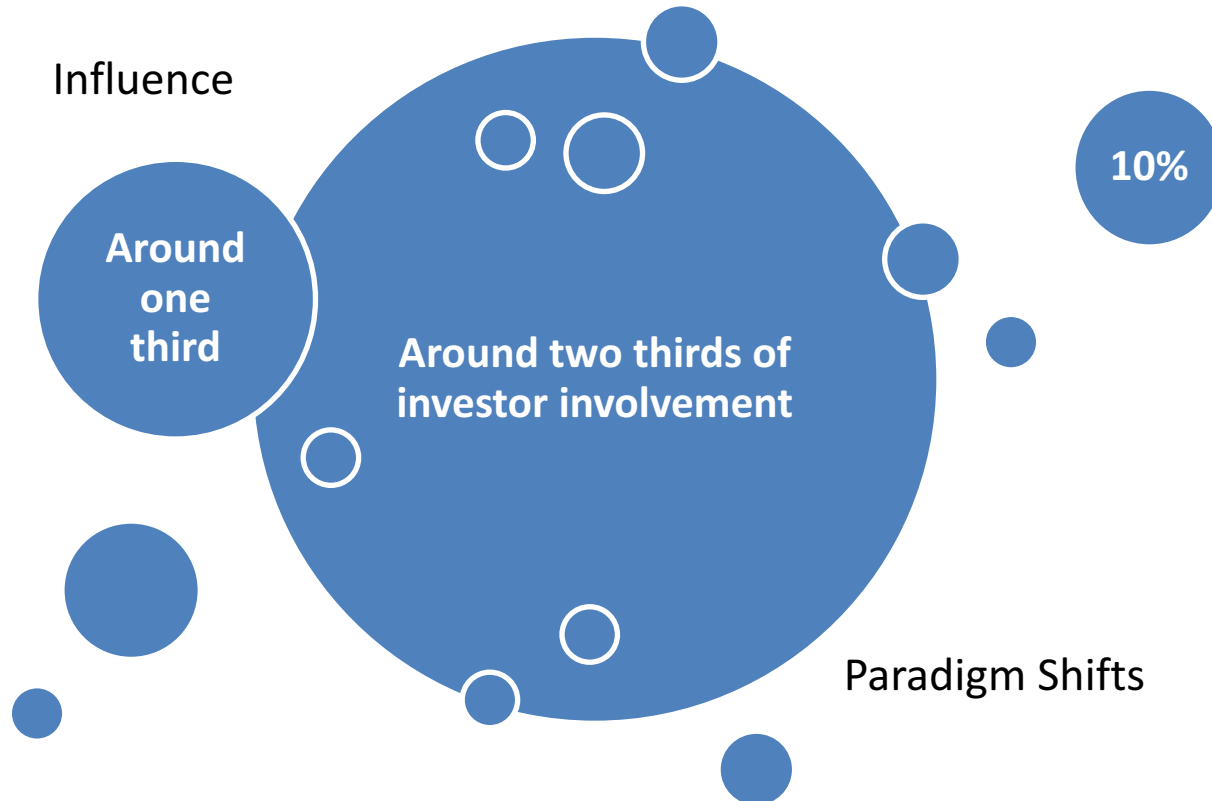
- Established in 2015.
- TIIP's research portal and database of investor profiles, market analysis, practical guidance, and customized solutions **provides a way to better match investors, benchmark system-level strategies, and optimize program development.**
- TIIP's **growing body of research reports covers the basics of systems-level investing** but also provides more advanced guidance about, for example, adopting systems-level approaches and reporting on progress achieved.



MEASURING EFFECTIVENESS:

Roadmap to Assessing System-level and SDG Investing

The big idea: system-level influence and paradigm shifts

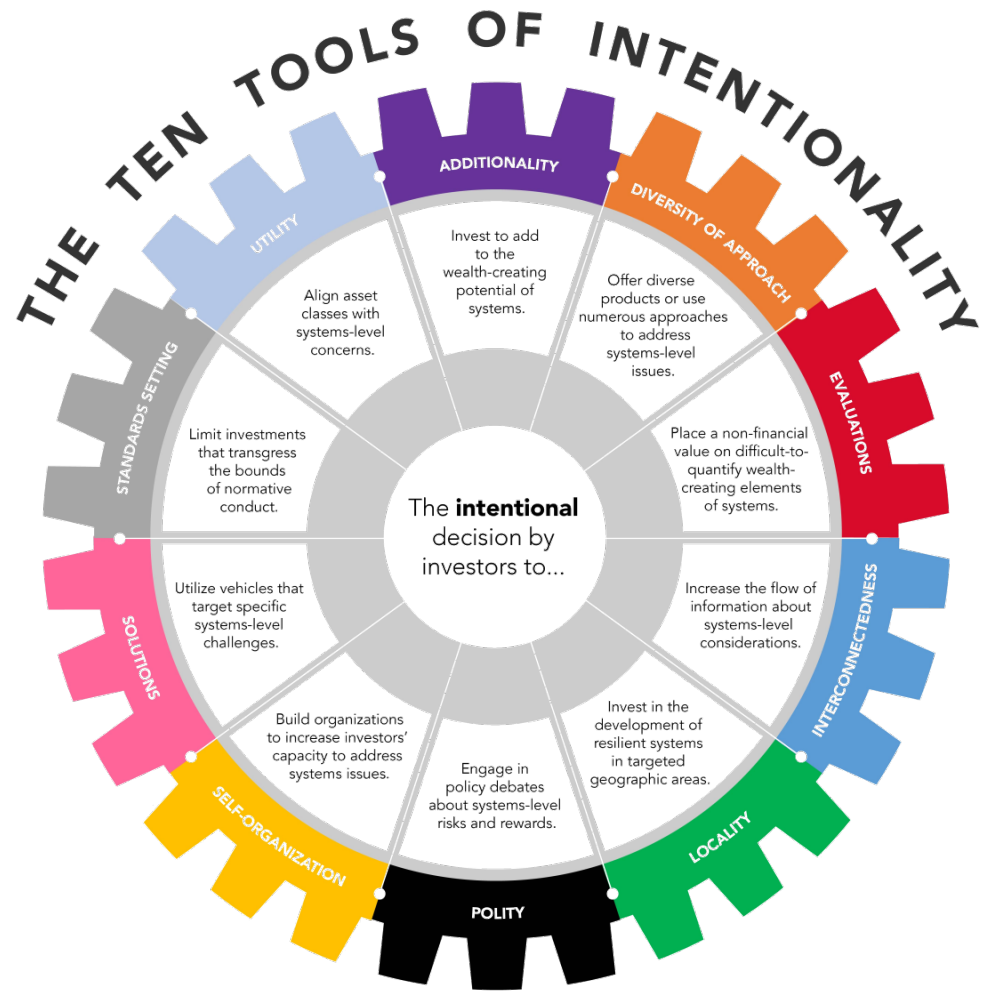


Highlights from *Measuring Effectiveness*

- *Long-Term Wealth Creation.* Investors can **measure their contribution** to promoting the long-term wealth-creating potential of the environment, society, and financial system.
- *Influence.* In doing so, they **assess the potential usefulness and effectiveness of the tools** available to them and **their influence in determining changes at the system-level.**
- *Paradigm Shifts.* This influence can lead to **paradigm shifts** in the systems themselves—shifts in the systems' adaptability, clarity, connectivity, and directionality that **ensure the systems' long-term health and resilience** and ability to contend with future system-level challenges.

Builds on the Ten Tools of Intentionality

- ✓ 10 strategies used by long-term institutional investors to **manage environmental, societal, and financial system risks and rewards**
- ✓ Specific pathways for investors to **bridge gap** between daily portfolio management and integration of systems-level considerations
- ✓ Focus on **intentionally**; efficiency alone does not naturally lead investors to use these strategies



Key Finding #1

The roadmap recommends how long-term investors might assess their system-level investing approaches and measure their effectiveness and influence on system characteristics in three ways:

- ✓ **Assess system-level issues appropriate for their consideration and establish influence goals against which to measure progress;**
- ✓ Assess potential usefulness of the tools available to investors for creating system-level influence; assess whether implementation of selected tools is effective; and
- ✓ Measure influence on system characteristics; that is, measure whether system-level change is taking place.

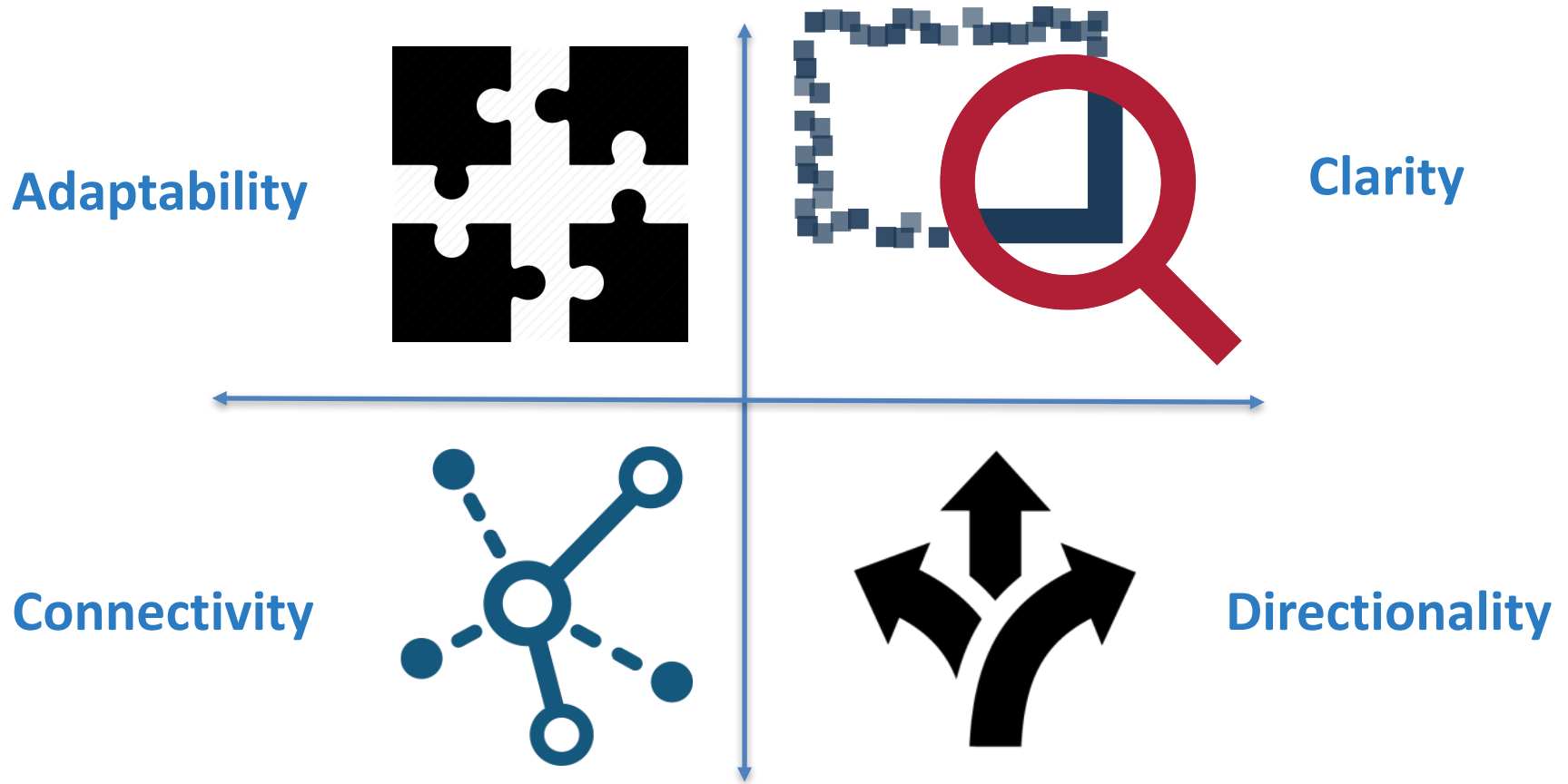
Assessment Criteria

Assess system-level issues appropriate for effective integration into investment strategies. Criteria for assessment: consensus, relevance, effectiveness, and uncertainty

Example: *Consensus*

The issue...	Ensures consideration of issues that are...	Example	Assessment
<ul style="list-style-type: none">• Is debated globally and stakeholders agree on its importance	<ul style="list-style-type: none">• That are widely debated, versus those that are narrowly conceived or idiosyncratic	<ul style="list-style-type: none">• <i>Access to fresh water</i>: Broadly recognized as a crucial issue within environmental and societal systems – life is not possible without it	<ul style="list-style-type: none">• Consideration has become enshrined in global treaties or conventions or otherwise finds consensus among globally recognized authorities

Establish Influence Goals



Key Finding #2

The roadmap recommends how long-term investors might assess their system-level investing approaches and measure their effectiveness and influence on system characteristics in three ways:

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Assess Usefulness of Tool

Assess potential usefulness of the tools available to investors for creating system-level influence

- ✓ Field building
- ✓ Investment enhancement
- ✓ Opportunity generation

Example: *Additionality*



Assess Effectiveness of Implementation

Assess whether implementation of selected tools is effective in leading to collaborative action

- ✓ Individual investors can, under the right circumstances, have influence at system levels.
- ✓ More typically, though, it is through the collective actions of a diverse set of members of the investment community using a variety of tools in differing ways that sufficient leverage can be achieved to exercise influence within today's complex, global, interconnected systems.

Example: **Polity**



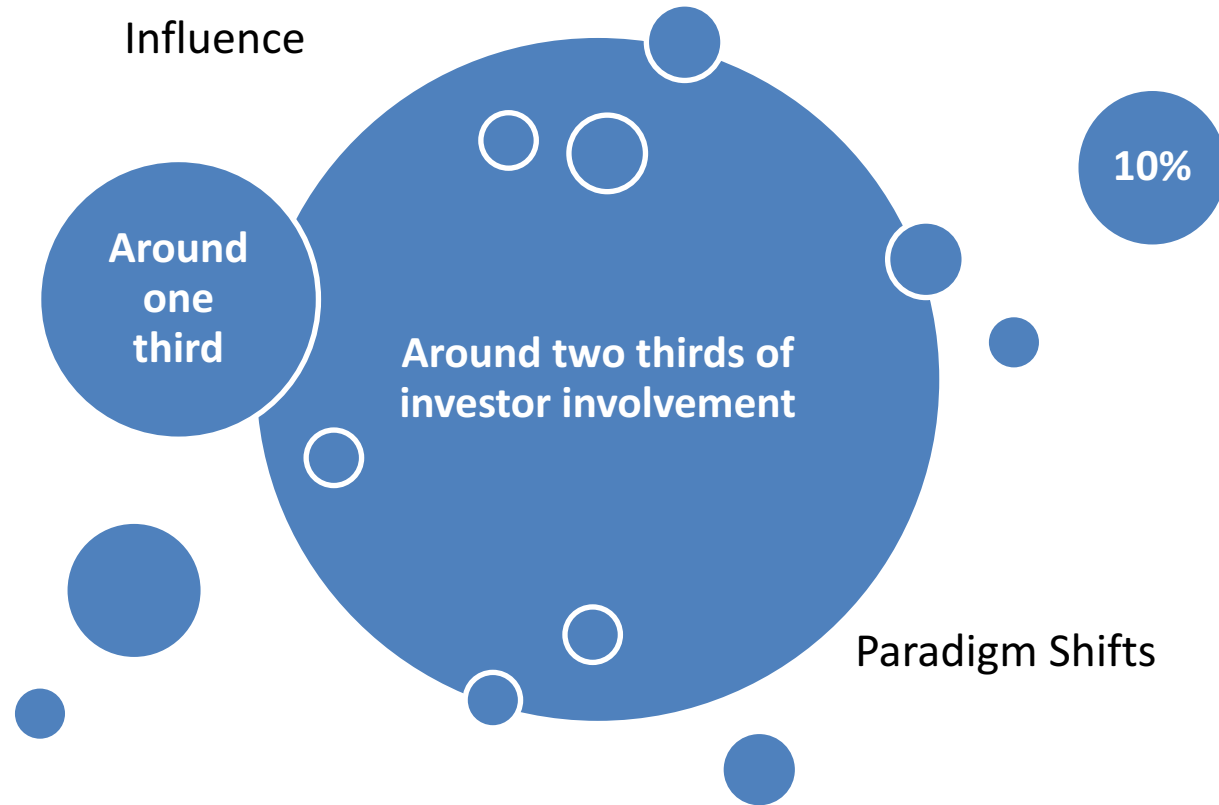
Key Finding #3

The roadmap recommends how long-term investors might assess their system-level investing approaches and measure their effectiveness and influence on system characteristics in three ways:

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Measure Influence – Paradigm Shifts

Shifts in system characteristics (i.e., changing paradigms) comes about primarily through the activities of a wide variety of stakeholders and, in the case of investors, primarily through their collective efforts. One key to measurement is **determining what thresholds of collaboration will be necessary** to achieve inputs sufficiently strong to bring about change.




Measure Influence – Progress Indicators

Targets	Indicators
Goal 1. End Poverty In All Its Forms Everywhere	
1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day	1.1.1. Proportion of population below the international poverty line, by sex, age, employment status and geographical location (urban/rural)
Goal 2. End Hunger, Achieve Food Security And Improved Nutrition And Promote Sustainable Agriculture	
2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round	2.1.1. Prevalence of undernourishment
2.1.2 Prevalence of moderate or severe food insecurity in the population, based on the Food Insecurity Experience Scale (FIES)	

Source: United Nations General Assembly Resolution 71/313. “Work of the Statistical Commission pertaining to the 2030 Agenda for Sustainable Development” (New York: United Nations) July 6, 2017:4-8.

Influence Builds on Measuring Alignment

Determine whether the impact that they generate through daily investment and portfolio management aligns with, or occurs in the context of, broader environmental, societal, or financial system goals (Alignment).

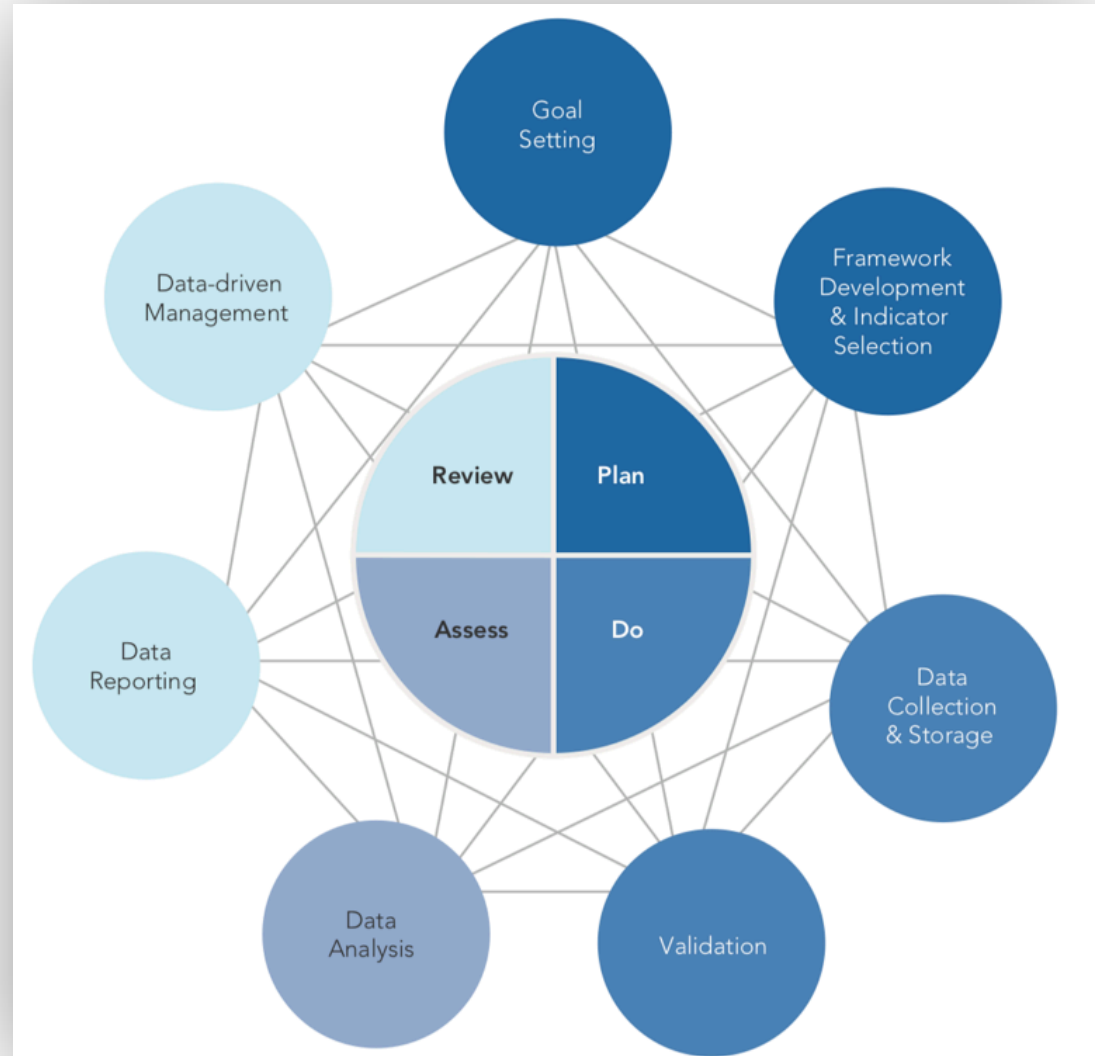
	Product (or service) Impact indicator (PI) or Operational Impact indicator (OI, in italics)
 <p>1 NO POVERTY</p> <p>Icon showing a family of six people (two adults and four children) in white on a red background.</p>	<p>1.1 % of revenue from products serving low income groups</p> <p>1.2 Number of people provided with access to financial services, incl. microfinance</p>

Source: SDG impact indicators: a guide for investors and companies. Pg. 8.

Influence also Builds on Measuring Impact

Determine the impacts of their daily portfolio management to indicate the direct incremental change that they effect en route to achieving a larger system-level goal and that provides a snapshot in time that change is occurring within a system (Impact).

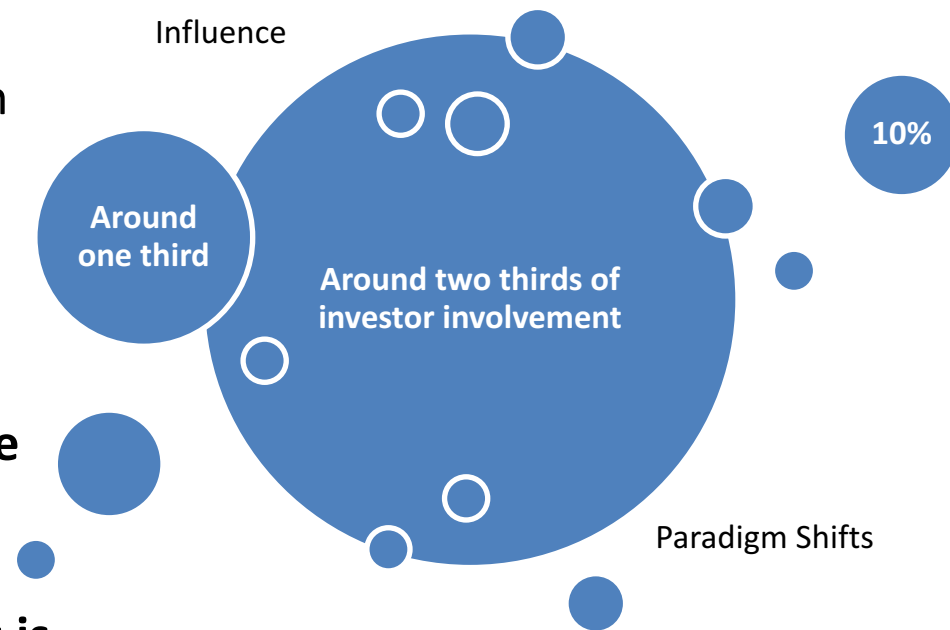
Source: Impact Measurement Working Group. *Measuring Impact*. Social Impact Investment Taskforce. September 2014. Pg. 8.



Recap: Key Findings

Roadmap recommends how long-term investors might assess their system-level investing approaches and measure their effectiveness and influence on system characteristics in three ways:

- ✓ **Assess system-level issues and establish influence goals** against which to measure progress;
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From the IRRCi Perspective

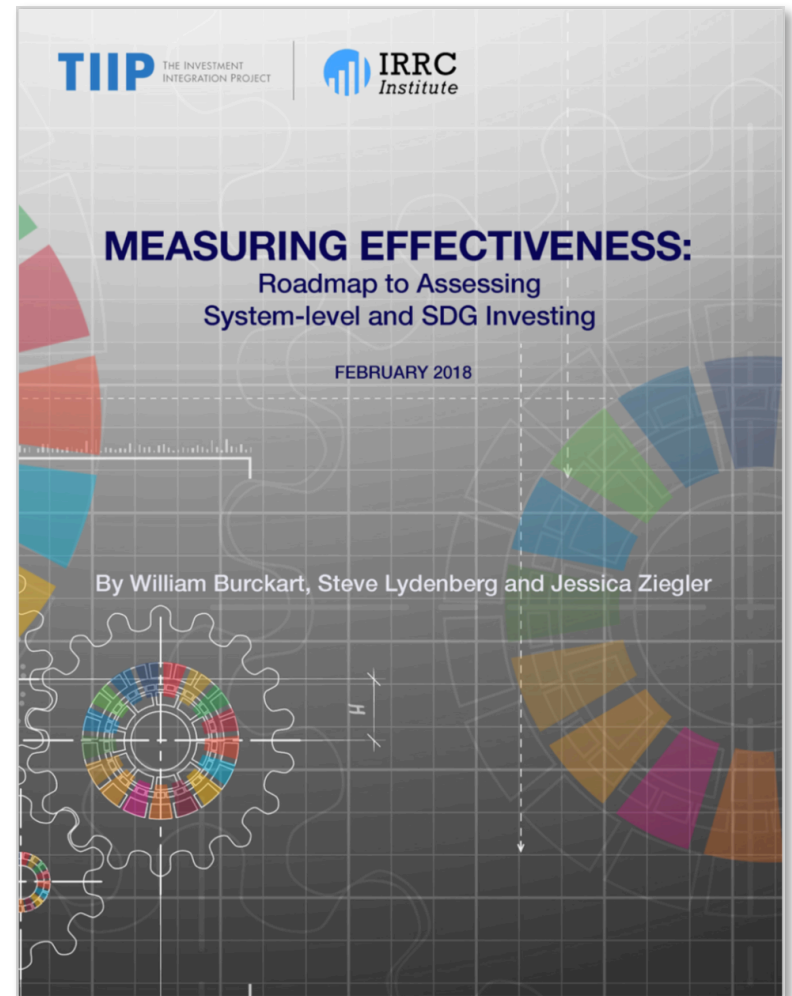
Why Systems-level investing is important

- **Beta vs. Alpha**
 - Current state: Alpha-seeking or beta-matching or smart-beta seeking
 - All accept beta as given and exogenous
 - Ironic since beta swamps alpha on impact to investors
- **Building a better beta**
 - Has been done
 - CalPERS/Philippines (political risk)
 - Majority voting and proxy access (governance)
 - Paris accord (environmental)
 - But seen as “one-offs”
- **Systems-level investing has huge potential to improve risk/returns**
 - Environmental, social, financial systems
 - Adds third level to MPT:
 - Security selection, portfolio management, systems level risk mitigation

From the IRRCi Perspective

This study

- **What**
 - Assess systems-level issues for appropriateness.
- **How**
 - Which tools to use
- **How much**
 - Influence
 - Tipping points



From the IRRCi Perspective

- System impact
 - **Has there been systemic change?**
 - System change generally can be measured
 - **Determination of investor contribution to change**
 - Measure investment outputs (influence on systems)
 - Measure system changes/outcomes
 - Analyze influence
 - Lack of precise quantitative calibration does not negate logical inferences of causation and impact
 - » Eg Paris Climate Accords



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