



## **TIPPING POINTS 2016:**

Summary of 50 Asset Owners' and Managers'  
Approaches to Investing in Global Systems

Featuring:

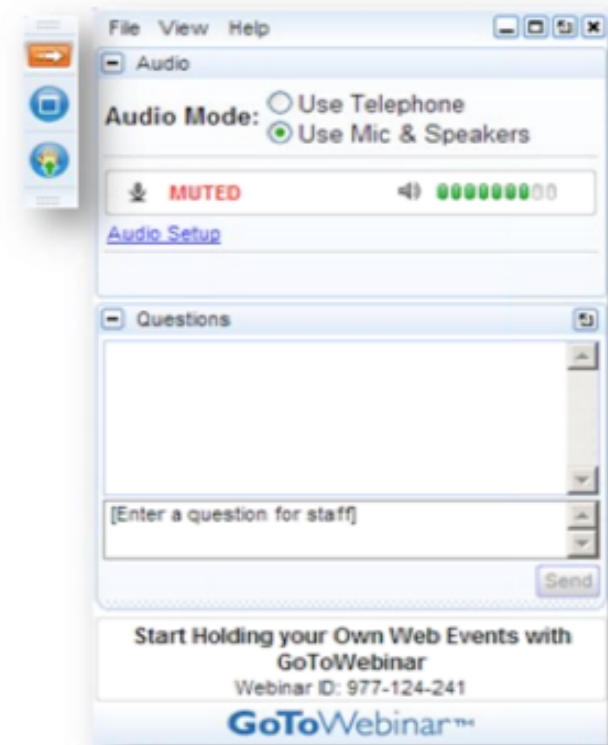
**Steve Lydenberg**  
Founder and CEO  
TIIP

**Jon Lukomnik**  
Executive Director  
IRRC Institute

**William Burckart**  
President and COO  
TIIP

# Webinar Logistics

- Attendees are in listen only mode.
- But, questions are definitely encouraged. Type using the “Question” function, and we will answer following report overview.
- Session recording, replay will be posted at [www.irrcinstitute.org](http://www.irrcinstitute.org).
- Share webinar info on social media:
  - @IRRCResearch, @TIIP\_Insights
- Audio issues during webinar, contact GoToWebinar @ 1-800-263-6317.



# Speakers



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# The IRRC Institute

- Not-for-profit established in 2005.
- Funds and disseminates objective, unbiased research on range of issues at intersection of corporate responsibility, investors informational needs.
- Funds academic and practitioner research.
- Offers two \$10K research awards annually.
- More than 40 research reports available at no charge.



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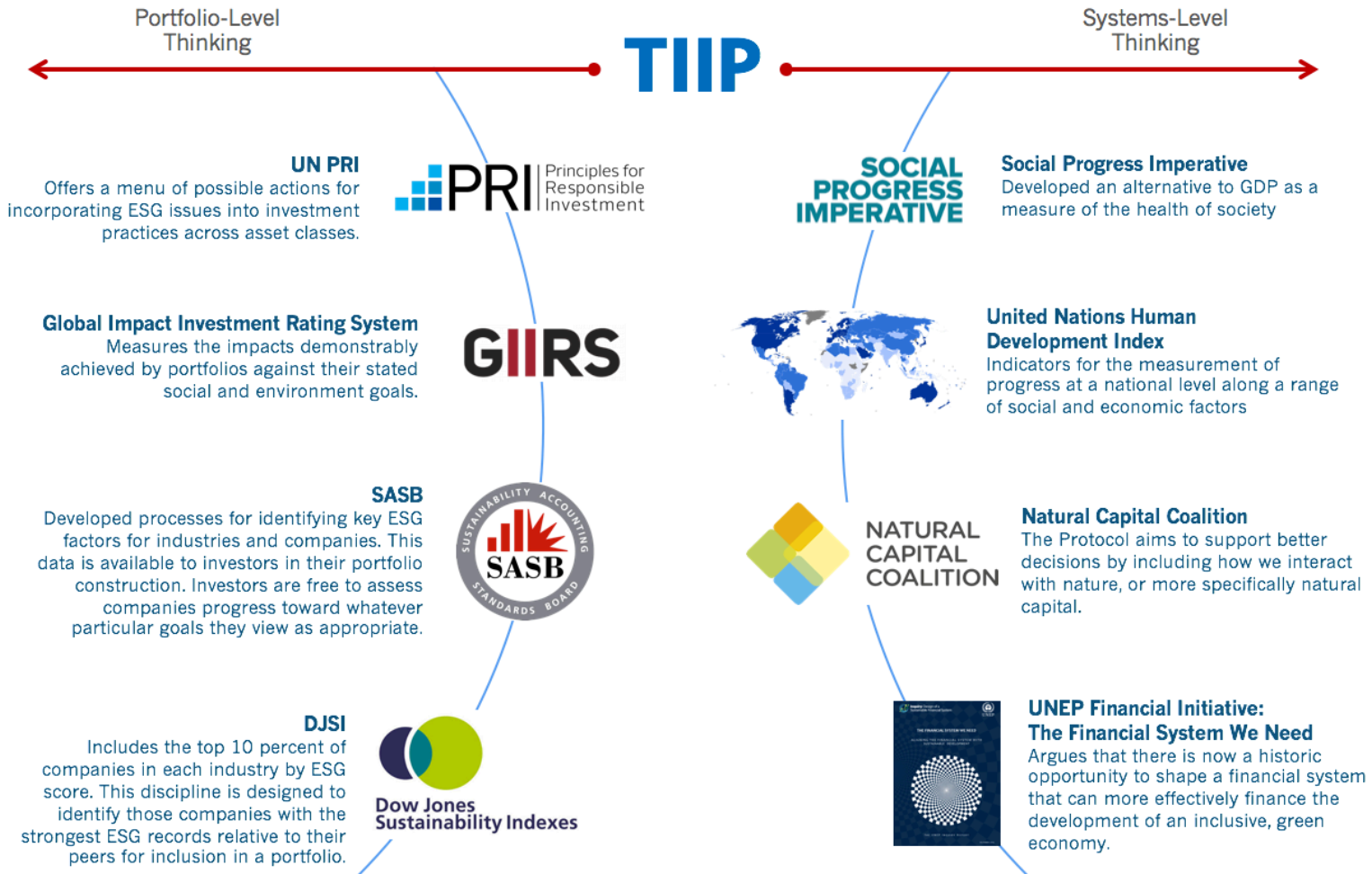
**TIIP** = Big Picture Context  
for Long-Term Investors

# The Investment Integration Project

- Established in 2015.
- Helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions.
- Focused on asset owners (pensions funds, sovereign wealth funds, endowments) and asset managers (mutual funds, bank trust departments, family offices).
- Provides market analysis, resources and tools, a database, measurement and reporting tools, working groups, and convenings.



# How does TIIP fit in?



# How exactly does TIIP help investors bridge the gap?



## Reports & White Papers

- Research Paper: “Systems-Level Considerations and the Long-Term Investor: Definitions, Examples, and Actions”
- Research Paper: “Portfolios and Systemic Framework Integration: Towards a Theory and Practice”
- Research Paper: “Tipping Points 2016: Summary of 50 Asset Owners’ and Asset Managers’ Approaches to Investing in Global Systems”



## Resources & Tools

- TIIP’s online, searchable database of investor profiles (e.g., compare investors)
- Similar, useful tools in development.
- Future webinars about use of these tools, plus closer looks at particular investors and their systems-level approach.



## Convenings

- Federal Reserve of Boston in late 2015
- Federal Reserve of San Francisco in July 2016
- At least two events planned for 2017, including one with the UN PRI



## 2017 Projects

- Investors’ Systems-Level Impact Measurement (ISIM) Project
- Accelerating Intentionality Management (AIM) Project
- Best Practices/Scenarios Project
- 2017 State of the Industry Project



# From the IRRCi Viewpoint

Systems-level thinking may be the next great evolution of investment theory about how to deal with risk.

- Pre-1952
  - How did investors deal with risk? Don't buy anything risky
  - Institutional investors, particularly those who were fiduciaries, bought "safe" assets.
    - Bonds, not stocks.
    - "Legal lists" for public pension funds
  - Dealt with risk on a security by security basis. Did not deal with portfolio risk.
    - Resulted in "under-risked" and low-returning portfolios

# From the IRRCi Viewpoint

- 1952: Markowitz introduces “Modern Portfolio Theory” (MPT)
- MPT encourages investors to buy riskier assets.
  - How did investors deal with risk: Diversification of idiosyncratic risk at a portfolio level
    - Okay to have riskier assets as long as some zig while the others zag
- Investors now could deal with risk at the security and portfolio levels.
- However, systemic risk (market beta) was viewed as exogenous to investing and beyond the ability of investors to affect
- Yet beta – which MPT thinks of exogenous – is the dominant driver of returns to an investor.
  - Brinson, Hood, Beebower: 90+% of variation in return is explained by asset allocation, not security selection.

# From the IRRCi Viewpoint

- 2016 TIIP Report : All portfolio investment affects, and is affected by, systemic risk
  - Environmental, social, financial
- Recognizes that institutional investors have long affected systemic risk
  - Risk on / Risk off; fund flows.
- Introduces the idea of “intentionality”
  - CalPERS and the Philippines
  - Beta activism around governance issues
    - Majority voting
    - Proxy access

# From the IRRCi Viewpoint

- Why TIIP recognizes what Markowitz missed: The gravity conundrum.
  - 1952: About 8% of US equity market held by institutions
  - 2016: About 70% of US equity market held by institutions
- Hard to tell if you are witnessing a historic paradigm shift in investing when you are contemporaneous with it...
- But systems-level thinking has the potential to be a fundamental change in how institutional investors conceptualize their investments.

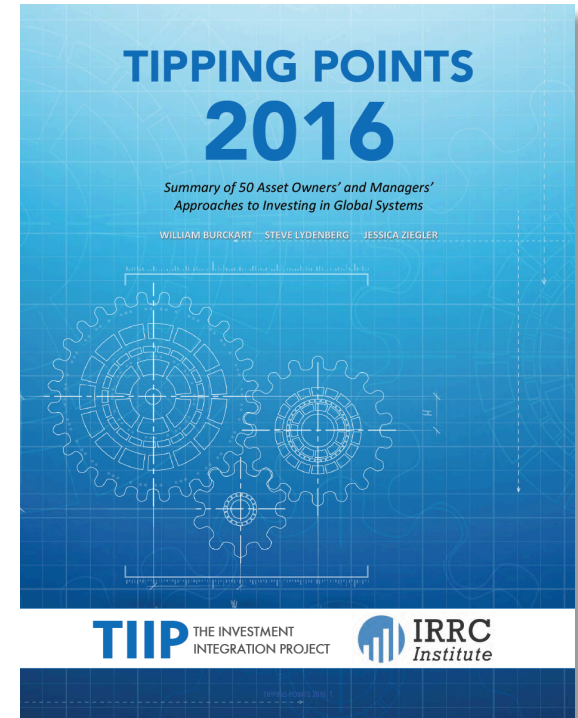
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# **TIPPING POINTS 2016:**

A State of the Industry Analysis of 50 Asset Owners'  
and Managers' Approaches to Investing in Global  
Systems

# Report Highlights

- The new study examines how 28 asset owners and 22 asset managers are beginning to think about the impact of their investments and, in turn, how those investments are affected by global environmental, social and financial systems. This new systems-level thinking is additive to traditional investment scrutiny at the security and portfolio levels.
- Institutional investors are increasingly entering a number of “on ramps” that lead them to systems-level considerations.
- One of the most important results of this profiling exercise has been TIIP’s identification of ten tools through which investors express this intentionality.



# Methodology

## Investor selection:

- A diverse group of 50 investors, with some \$17.3 trillion in aggregate assets, with known systems-related investment practices.
- Rough split between asset owners and managers
- Variation in: geography, nature of services provided, size, asset classes invested in, systems-level approach

## Data:

- Sources: publicly available information, web-based survey, discussions and fact-checking with investors.
- Collection: between April and October 2016 by TIIP staff

## Profile Development and Analysis:

- TIIP developed 50 profiles along standardized set of dimensions.
- TIIP then compared and contrasted investors across those dimensions – analysis is the state-of-the-industry report.

# Investors Included in the Report

ASSET OWNERS	ASSET MANAGERS
<p><b>Public pension plan</b></p> <ul style="list-style-type: none"> <li>British Columbia Investment Management Corporation<sup>+</sup></li> <li>Caisse de dépôt et placement de Québec<sup>+</sup></li> <li>California Public Employees' Retirement System<sup>+</sup></li> <li>California State Teachers' Retirement System<sup>+</sup></li> <li>Environment Agency Pension Fund*</li> <li>Établissement de retraite additionnelle de la fonction publique*</li> <li>Health Employees Superannuation Trust Australia<sup>^</sup></li> <li>New York State Common Retirement Fund<sup>+</sup></li> <li>Stichting Pensioenfonds ABP*</li> <li>The Church Commissioners for England*</li> <li>The Second Swedish National Pension Fund*</li> <li>VicSuper Pty. Ltd.<sup>^</sup></li> <li>Washington State Investment Board<sup>+</sup></li> </ul> <p><b>Sovereign wealth fund</b></p> <ul style="list-style-type: none"> <li>Ireland Strategic Investment Fund*</li> <li>New Zealand Superannuation<sup>^</sup></li> <li>Norges Bank Investment Management*</li> </ul> <p><b>Insurance company</b></p> <ul style="list-style-type: none"> <li>Aegon Asset Management*</li> <li>Allianz Societas Europaea*</li> <li>Aviva Investors*</li> <li>AXA Investment Managers<sup>+</sup></li> </ul> <p><b>Endowment</b></p> <ul style="list-style-type: none"> <li>Hampshire College<sup>+</sup></li> <li>Jessie Smith Noyes Foundation<sup>+</sup></li> <li>The F.B. Heron Foundation<sup>+</sup></li> </ul> <p><b>Development finance institution</b></p> <ul style="list-style-type: none"> <li>Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.*</li> <li>Overseas Private Investment Corporation<sup>+</sup></li> </ul> <p><b>Other (incl. other types of pension plans)</b></p> <ul style="list-style-type: none"> <li>Comité syndical national de retraite Bâtirente Inc.<sup>+</sup></li> <li>PFA Pension*</li> <li>Wespath Investment Management<sup>+</sup></li> </ul>	<p><b>Diversified/specialized financial services</b></p> <ul style="list-style-type: none"> <li>Amundi*</li> <li>Arabesque Asset Management Ltd*</li> <li>Bank of America Global Wealth and Investment Management<sup>+</sup></li> <li>BlackRock, Inc.<sup>+</sup></li> <li>Breckinridge Capital Advisors<sup>+</sup></li> <li>Morgan Stanley &amp; Co. LLC<sup>+</sup></li> <li>Nelson Capital (A division of Wells Fargo Private Bank)<sup>+</sup></li> <li>PGGM*</li> <li>The Abraaj Group<sup>^</sup></li> <li>Think Outside of the Box Asset Management*</li> <li>TIAA<sup>+</sup></li> <li>UBS*</li> </ul> <p><b>Responsible/impact investment services</b></p> <ul style="list-style-type: none"> <li>Arjuna Capital<sup>+</sup></li> <li>Bridges Ventures LLP*</li> <li>Calvert Investments, Inc.<sup>+</sup></li> <li>Circularity Capital, LLP*</li> <li>Domini Social Investments, LLC<sup>+</sup></li> <li>Northwest and Ethical Investments*</li> <li>Sonen Capital<sup>+</sup></li> <li>Threshold Group<sup>+</sup></li> <li>Trillium Asset Management<sup>+</sup></li> <li>Veris Wealth Partners, LLC.<sup>+</sup></li> </ul>
<p>Symbols indicate location of organization headquarters: <sup>^</sup>Asia &amp; the Pacific; *Europe; <sup>+</sup>North America. TIIP based its final ownership and management designations for investors on the <i>primary defining</i> nature of the services provided by each. Some investors might provide services that align with more than one of the categories listed in this table; such information is reflected in individual profiles.</p>	



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**Key Finding #1:**  
Current integration with  
traditional investment activities

# Current Integration: 5 Key Investment Activities

- Investment belief statements
- Securities selection
- Proxy voting and engagement
- Targeted investments
- Manager selection

# Current Integration: Investment Belief Statements

## Investment Activity

### ➤ Investment Belief Statements

Security Selection

Engagement

Targeted Investment

Manager Selection



- Investment beliefs call out Physical Capital (environment), Human Capital (social), Financial Capital (governance)

*"A long time investment horizon is a responsibility and an advantage."*

# Current Integration: Security Selection

## Investment Activity

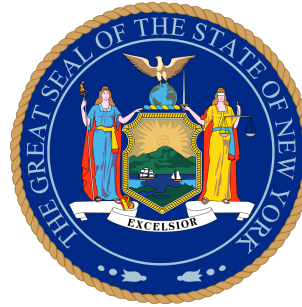
### Investment Belief Statements

### ➤ Security Selection

### Engagement

### Targeted Investment

### Manager Selection



## New York State Common Fund

- Low-carbon index (partnership with Goldman Sachs)

*"As a long-term investor we are very interested in strategies that manage risk, and there is no question that climate change is one of the biggest risks facing global investors across multiple sectors."*

*--Chief Investment Officer Vicki Fuller*

# Current Integration: Engagement

## Investment Activity

Investment  
Belief Statements

Security Selection

➤ Engagement

Targeted Investment

Manager Selection



**AVIVA  
INVESTORS**

- Advocates market reforms: A Roadmap to Sustainable Public Markets

*"As asset managers, I believe our industry has a fiduciary duty to ... put pressure on policymakers to address the key sustainability challenges within our capital markets and the broader economy."*

*--Chief Executive Officer Euan Munro*

# Current Integration: Targeted Investment

## Investment Activity

**Investment  
Belief Statements**

**Security Selection**

**Engagement**

➤ **Targeted Investment**

**Manager Selection**



**Caisse de dépôt et placement  
du Québec**

- Targets investments in Quebec businesses, infrastructure and public transportation

# Current Integration: Manager Selection

Investment Activity
Investment Belief Statements
Security Selection
Engagement
Targeted Investment

## Manager Selection



- External managers are required to comply with ERAFP's SRI policy; compliance is monitored by firm management.

# Current Integration: Summary

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## Takeaway:

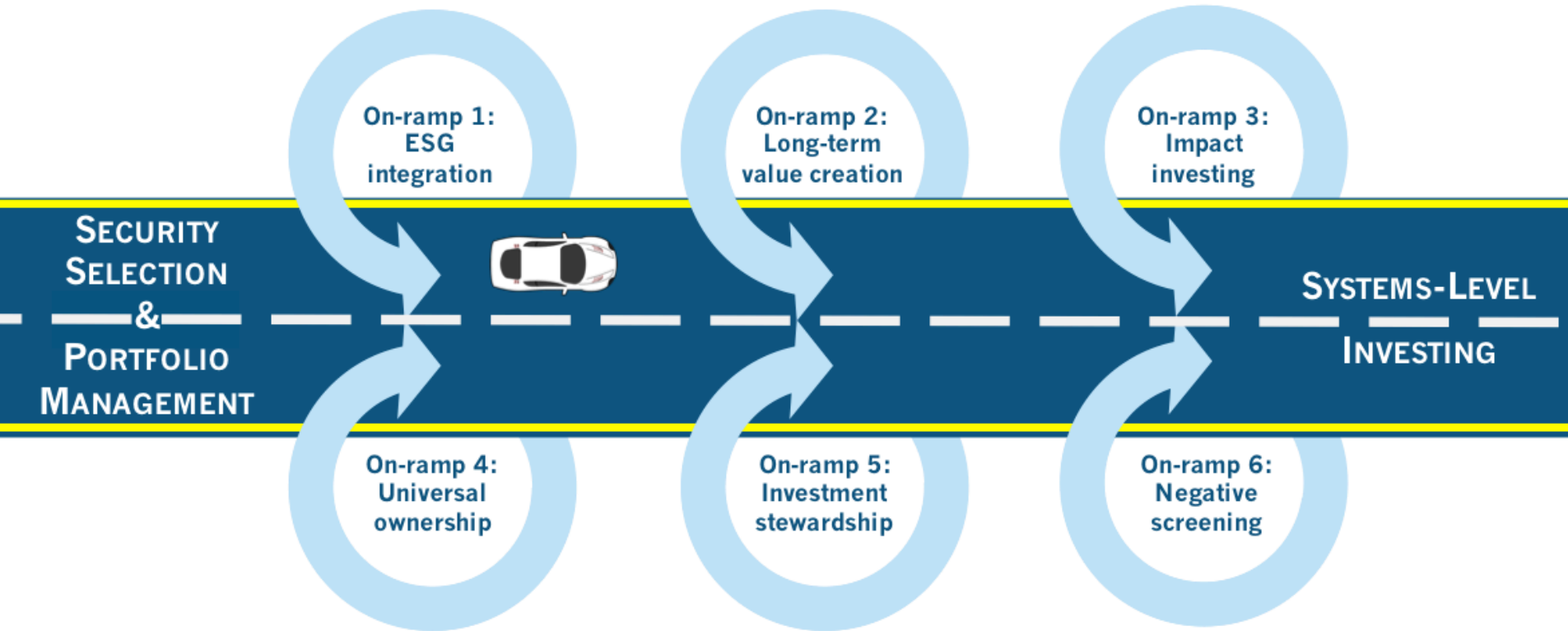
- Systems-level thinking is not occurring as a separate activity; it can be well-integrated into traditional investment policies and practices.



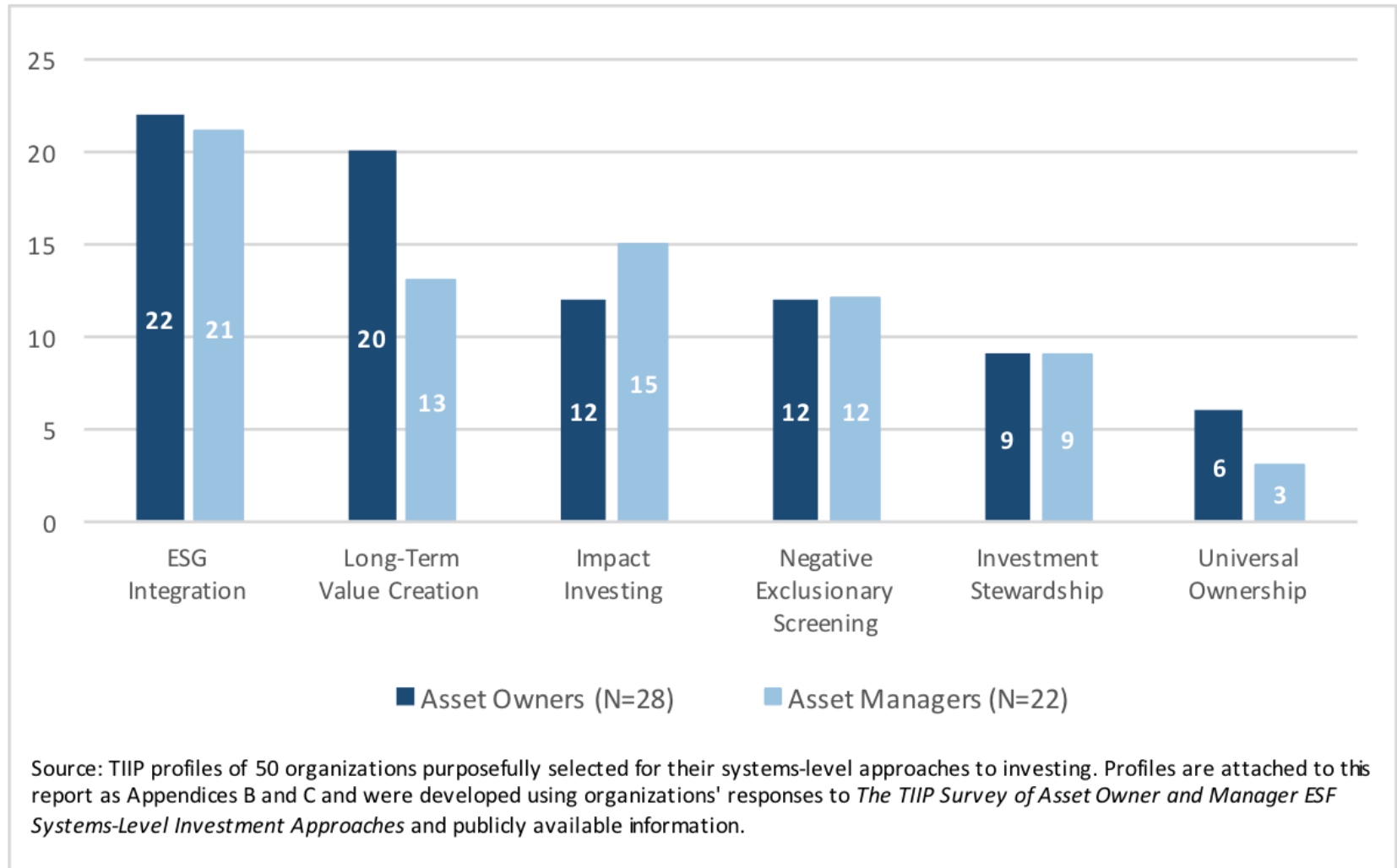
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**Key Finding #2:**  
Six “on-ramps” or approaches  
to systems-level investing

# The "On-ramps"



# On-ramps Used by Investors of Study



# On-ramps to Systems-Level Investing: Summary

## Takeaway:

- The on-ramps represent a logical extension of the concept that investment has impact on the world at large and that that impact can be managed for investment to fulfil its proper function in society, which should, in turn, improve efficiency and reduce risk as those systems affect investment in the future.

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# Key Finding #3:

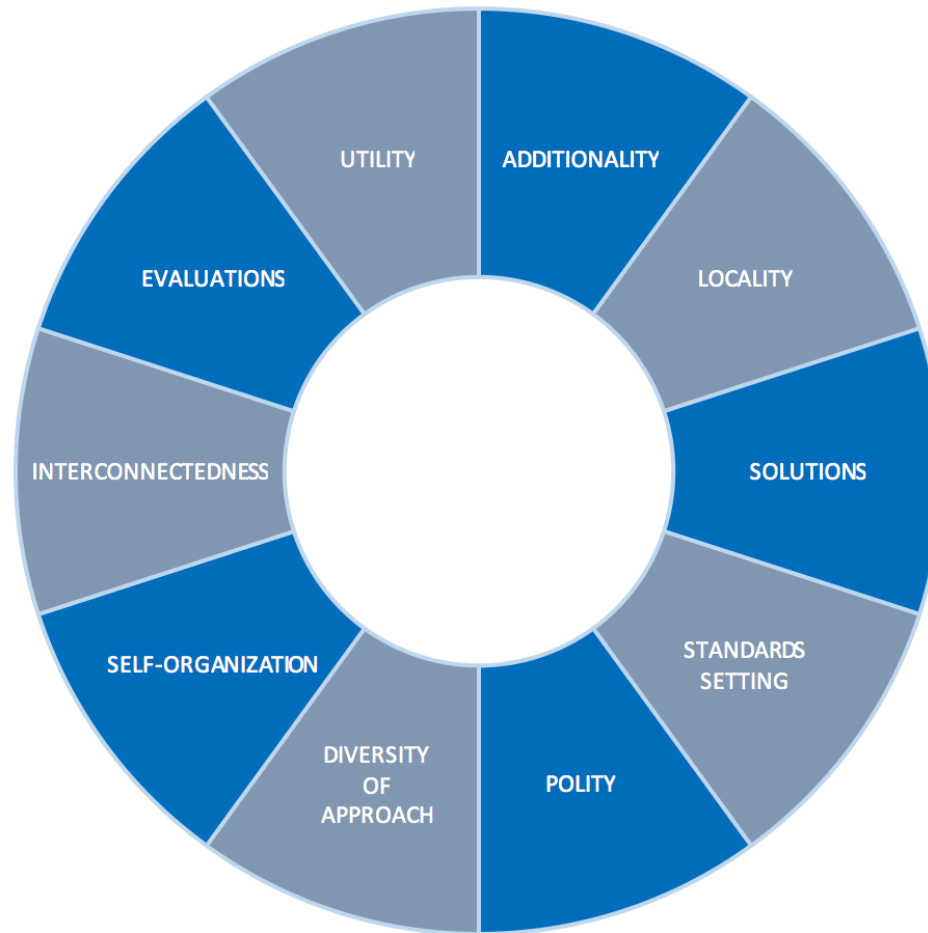
## The 10 Tools of Intentionality

# Role of Intentionality

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”

--Definition of impact investment from the Global Impact Investing Network (GIIN) website.

# 10 Tools of Intentionality



# 10 Tools of Intentionality: A Closer Look

## 10 Tools of Intentionality

### ➤ **Additionality**

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

Self-Organization

Interconnectedness

Evaluations

Utility

## + **Additionality**

- Intentionally strengthen often neglected elements of overarching systems.
  - 2 types: Neglected elements of overarching systems and investments that would otherwise not be made.
  
- Example 1: Irish Strategic Investment Fund
  - Makes “additionality” a criterion – investments in Irish economy that don’t create “displacement” or “deadweight”.
  
- Example 2: Bridges Ventures
  - Makes “additionality” a criterion — investments in underserved regions or undercapitalized services and products that would otherwise be disregarded by the market.



# 10 Tools of Intentionality: A Closer Look

## 10 Tools of Intentionality

Additionality

Locality

### ➤ **Solutions**

Standards Setting

Polity

Diversity of Approach

Self-Organization

Interconnectedness

Evaluations

Utility



## Solutions

- Intentionally seek to create investment vehicles that target particular social and environmental problems of substantial systemic importance.
- The Dutch pension fund manager PGGM, for example, has allocated a multi-billion dollar portion of its assets to what it describes as a solutions or impact portfolio that focuses on four issues where it believes it has particular expertise and can effectively address fundamental environmental and social systemic challenges. Those issues are climate change, food, health care and water.

# 10 Tools of Intentionality: A Closer Look

## 10 Tools of Intentionality

Additionality

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

➤ **Self-Organization**

Interconnectedness

Evaluations

Utility



## Self-Organization

- Intentionally allocate resources to the development and maintenance of tools that will facilitate impact on systems-level considerations.
- Examples:
  - Calvert and Domini have broken new ground in research methodologies and standards setting.
  - Norges Bank and Nelson Capital (a division of WellsFargo) in promoting academic research.
  - Jesse Smith Noyes and F. B. Heron in the investment role of foundations.
  - Hampshire College in the management of academic endowments.

# 10 Tools of Intentionality: A Closer Look

## 10 Tools of Intentionality

Additionality

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

Self-Organization

Interconnectedness

Evaluations

➤ **Utility**



## Utility

- Intentionally maximize the alignment of the asset classes and societal purposes.
- Of particular interest from the point of view of systems-level considerations are the commitments of Breckinridge to intentionally engaging with municipal governing bodies to maximize their utility in issuing fixed-income products that create impact on the environmental systems level.

# 10 Tools of Intentionality: Summary

## Takeaways:

- The 10 tools represent specific pathways through which investors can bridge the gap between daily portfolio management decision-making and systems-level investing.
- Investors use these tools *intentionally* because the portfolio-level discipline of efficiency alone does not naturally lead them to do so.

# Recap

## Overall Takeaways:

- Systems-level thinking is being integrated into traditional investment activities, including: investment belief statements, securities selection, proxy voting and engagement, targeted investments, and manager selection.
- Investors profiled in the the study are using six “on-ramps” to systems-level thinking, including: ESG integration, long-term value creation, impact investing, investment stewardship, universal ownership, and negative exclusionary screening (including re-weighting) .
- The 10 tools represent specific pathways through which investors can bridge the gap between daily portfolio management decision-making and systems-level investing. These include solutions, additionality, diversity of approach, evaluation, geographic locality, interconnectedness, polity, self-organization, standards setting, and utility.

# Implication

## Investment tenets are changing once again

