



HOW INVESTORS CAN IDENTIFY THE BIG PICTURE ISSUES THAT INFLUENCE ABSOLUTE RETURNS

MARCH 22, 2017

WEBINAR LOGISTICS

- Attendees are in listen-only mode. If you are calling in, please do not unmute yourself.
- But, questions are definitely encouraged.
 - Use the green "?" at the top of your screens to submit a question. We will do our best to answer your questions, but given time constraints, we might be able to only take a few. If you submit a question but it goes unanswered, we will follow-up subsequently.
- Session recording will be posted at www.tiiproject.com later today. We will send a link.
- Please share our webinar info on social media:
 - @TIIP_Insights

SPEAKERS



William Burckart

President and COO

The Investment Integration Project (TIIP)



Steve Lydenberg

CEO

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Steven Godeke

Founder of Godeke Consulting

Board Vice Chair at Jessie Smith Noyes Foundation

AGENDA

- About TIIP
- Systems are Important
- Framing the Issue
- TIIP's Latest Report
- Discussion: The Investor's Perspective
 - Carole M. Laible and Steven Godeke
- Q&A
- How TIIP Helps Investors Take Action
- Final Thoughts & Wrap-up

ABOUT TIIP

- 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, insurance companies, 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.

SYSTEMS ARE IMPORTANT

- Stable systems promote healthy market returns just as surely as unstable systems can lead to reduced or negative market returns.
 - 2008 financial crisis, Greece's debt, Brexit
 - Societies in turmoil – unemployment among Millennials, refugees
 - Climate change – SASB: 73/79 industries
- In a world that's growing ever-more connected, long-term investors will increasingly have to contend with these issues.
 - **BUT WHICH ONES?**

HOW TIIP DEFINES “SYSTEMS”

- “Systems” refers to the vast set of what are essentially common-pooled resources upon which investors draw to create long-term wealth.



ENVIRONMENTAL

The ecosystems that make up the entirety of our natural world – for example, the oceans, the atmosphere, water, metals, minerals.



SOCIETAL

A series of societal constructs such as equality, well being, knowledge, theories of law and other abstract elements that serve as the foundation for society.



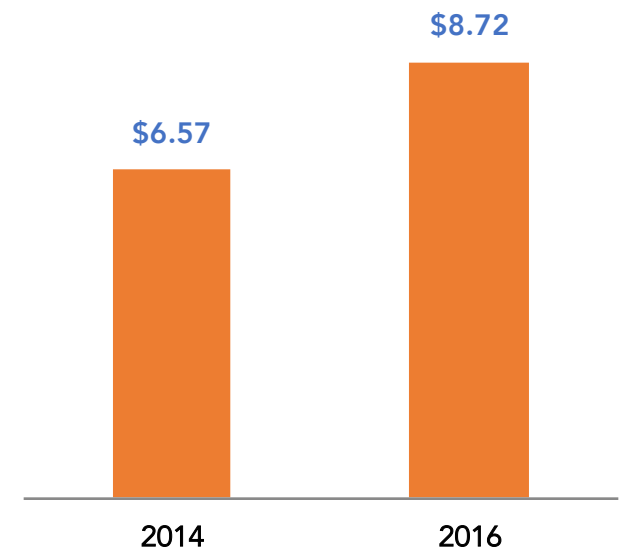
FINANCIAL

The laws, contracts, technology, as well as the theoretical and political ideas around which our complicated financial systems have been built.

FRAMING THE ISSUE

- ESG integration
 - GRI – disclosure of ESG data
 - SASB – industry-level sustainability KPIs
 - Asset managers
- Systems
 - ICGN – Global Stewardship Principles
 - PRI – *Sustainable Financial Systems: Nine Priority Conditions to Address*
 - UNEP FI – *The Financial System We Need & Towards a Performance Framework for a Sustainable Financial System*
 - Stanford Social Innovation Review (SSIR)
 - Center for Risk Studies at the Univ. of Cambridge
 - Cambridge Institute for Sustainability Leadership
- Systems considerations different from ESG considerations

Growth of Assets Under Management Engaged in Sustainable, Responsible, and Impact Investing in the United States (\$ in trillions)



Source: US SIF. *SRI Basics* 2016.

TIIP'S LATEST REPORT

- Systems-Level Considerations and the Long-Term Investor: Definitions, Examples, and Actions
 - Characteristics of systems-level issues that make them relevant to long-term investors for integration into investment processes
 - Examples that rise to the level of significance for such consideration and how in practice that level of significance can be determined.



GUIDELINES TO SELECT ISSUES OF FOCUS

	Consensus	Relevance	Effectiveness	Uncertainty
Definition	Debated globally and upon which agreement about the issue's overriding importance has been achieved	Substantial potential to impact the long-term financial performance portfolios across most asset classes	Substantial potential for investors to influence positively or negatively the functioning of a given system	Unpredictable and unquantifiable uncertainties if disrupted
Importance	Prevents narrowly conceived, idiosyncratic interests	Assures relevance to the investor's long-term financial interests	Assures that investors' decision-making can be effective in producing impact at a systems level	Assures consideration of issues with substantial potential to create uncertainties and to reduce the scope of these uncertainties

EXAMPLE: ENVIRONMENTAL SYSTEM ISSUE

	Consensus	Relevance	Effectiveness	Uncertainty
Definition	Debated globally and upon which agreement about the issue's overriding importance has been achieved	Substantial potential to impact the long-term financial performance portfolios across most asset classes	Substantial potential for investors to influence positively or negatively the functioning of a given system	Unpredictable and unquantifiable uncertainties if disrupted
Access to Water	UN: water as a human right	Water is necessary for economic development.	Infrastructure; pollution control; treatment chemicals; metering, irrigation; desalinization	Impact of glaciers retreating; one-third of aquifers being overdrawn

EXAMPLE: SOCIETAL SYSTEM ISSUE

	Consensus	Relevance	Effectiveness	Uncertainty
Definition	Debated globally and upon which agreement about the issue's overriding importance has been achieved	Substantial potential to impact the long-term financial performance portfolios across most asset classes	Substantial potential for investors to influence positively or negatively the functioning of a given system	Unpredictable and unquantifiable uncertainties if disrupted
Dignity: Labor and Human Rights	UN 1948 Universal Declaration of Human Rights International Labor Organization	Large groups of unemployed or abused persons put societies at risk. Good employee relations can help company performance.	Investors' voice can be heard through engagement and public communications	Unpredictable long-tail risks from labor and community discontent

EXAMPLE: FINANCIAL SYSTEM ISSUE

	Consensus	Relevance	Effectiveness	Uncertainty
Definition	Debated globally and upon which agreement about the issue's overriding importance has been achieved	Substantial potential to impact the long-term financial performance portfolios across most asset classes	Substantial potential for investors to influence positively or negatively the functioning of a given system	Unpredictable and unquantifiable uncertainties if disrupted
Transparency of Sustainability Data	Securities Act of 1933 endorses the principle of transparency SASB identifies material industry-specific sustainability data	World Federation of Exchanges' listing standards guidelines	The G-20's Financial Stability Board: connection between transparency, climate change, and market stability	Lack of sustainability data leads to uncertainty in crucial decision-making

IMPLICATIONS FOR FURTHER RESEARCH

- Risk and Reward Measurement
- Systems-Level Reporting
- Common-Pooled Resources and Collaborative Action

SUMMARY OF KEY POINTS

- Systems-level considerations are important for long-term investors.
- But, which issues to focus on? TIIP's proposed guidelines can help:
 - Consensus
 - Relevance
 - Effectiveness
 - Uncertainty
- More research needed in risk and reward measurement, systems-level reporting, and collaborative action.

DISCUSSION: THE INVESTOR'S PERSPECTIVE



Carole M. Laible
CEO



JESSIE SMITH NOYES
FOUNDATION

Steven Godeke
Board Vice Chair

Founder of
Godeke Consulting

Q&A

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HOW TIIP HELPS INVESTORS TAKE ACTION

A selection of TIIP's resources around systems-level investing



Ten Tools of Intentionality

TIIP identified ten methods by which investors are putting systems-level thinking into action.

A few examples of these methods include: place-based investment (locality), public policy reform (polity), and collaborative action (interconnectedness).



Key Investment Activities

How does system-level thinking manifest itself in the investment activities of investors?

TIIP looked at five key activities across 50 profiles, and has curated helpful resources from other organizations as well.



Portal and Database

Locate investors matching certain systems-level criteria. Or, compare asset owners and asset managers across various dimensions (such as the Ten Tools of Intentionality and Key Investment Activities).



Events

Investors currently have inadequate opportunities to meet collectively to discuss investment decision-making at systems levels.

TIIP's convenings aim to foster networks of experts and practitioners, advance understanding, share best practices, and develop collaboration activities.

FINAL THOUGHTS AND WRAP-UP

Thank you to our participants and attendees!

Continue the conversation!

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