



# INTEGRATING PORTFOLIO DECISIONS WITH ENVIRONMENTAL, SOCIETAL, AND FINANCIAL SYSTEMS

WILLIAM BURCKART  
PRESIDENT AND COO  
THE INVESTMENT INTEGRATION PROJECT (TIIP)

IEX  
4 WORLD TRADE CENTER  
NEW YORK, NY  
MARCH 29, 2017

# ROADMAP TO THE PRESENTATION

---

- ❑ What is systems-level investing?
- ❑ Why should investors care about systems-level investing?
- ❑ How is TIIP helping to advance systems-level investing?
  - Thought leadership
  - Research and analysis
  - Connecting investors to resources and each other
- ❑ Next steps for TIIP and systems-level investing
- ❑ 5 key takeaways

**WHAT  
IS SYSTEMS-LEVEL  
INVESTING?**

# SYSTEMS-LEVEL INVESTING IS...

---

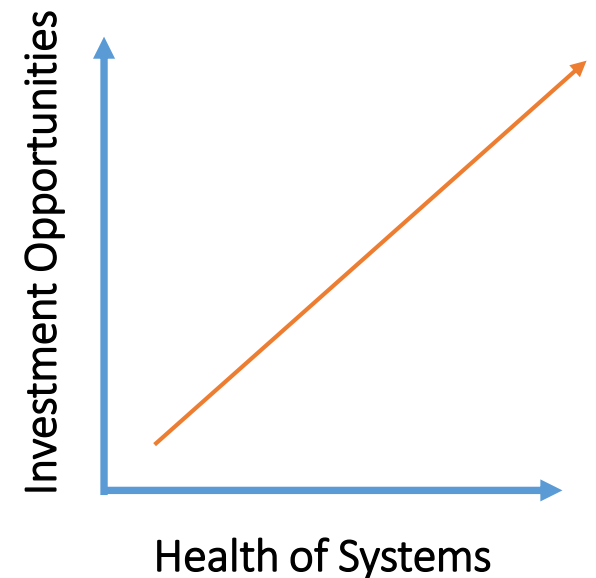
...the intentional and proactive consideration by investors of the world's overarching environmental, societal and financial systems within which they operate.

**WHY  
SHOULD INVESTORS CARE  
ABOUT SYSTEMS-LEVEL  
INVESTING?**

# INVESTORS SHOULD CARE BECAUSE...

...systems are important, *really* important.

- ❑ Finance and investment are built on the predictability and reliability of environmental, societal, and financial systems
- ❑ Stable systems promote healthy market returns; unstable systems lead to reduced or negative market returns



# SYSTEMS INSTABILITY = UNPREDICTABILITY OF PORTFOLIO RETURNS



# INVESTORS NEED TO MANAGE TO TWO GOALS SIMULTANEOUSLY

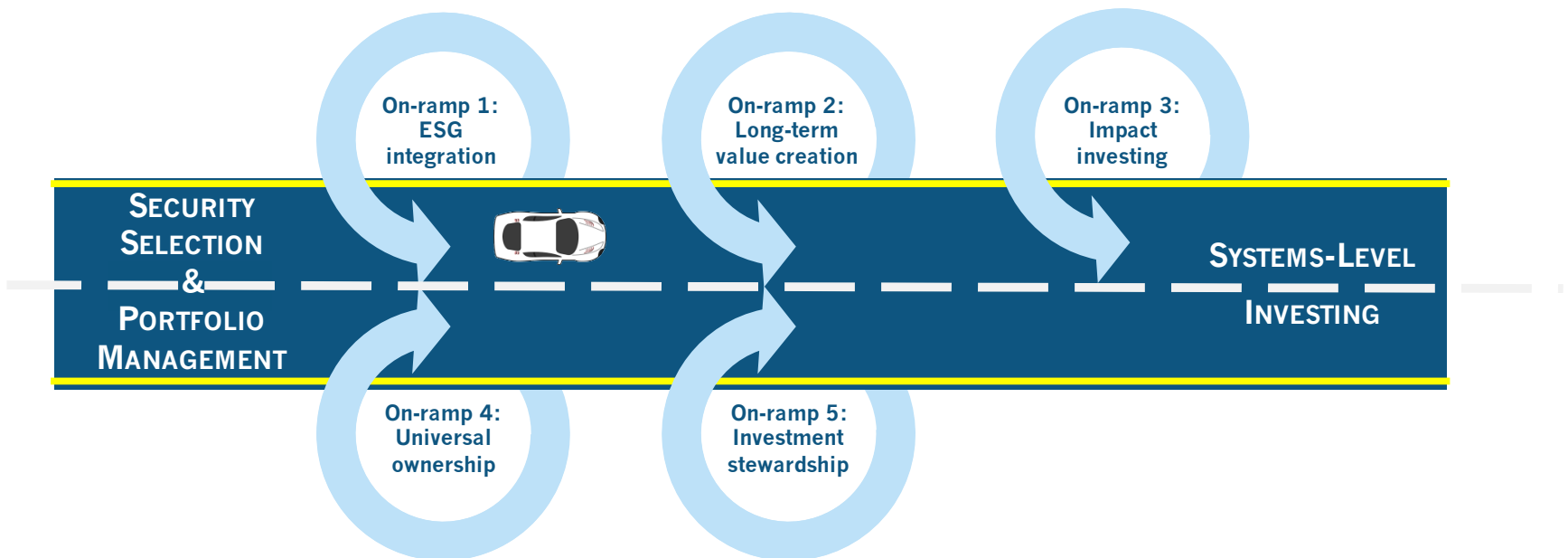
---

- ❑ The world is more interconnected than ever before and investors must look beyond portfolios to promote system health and improve the performance of long-term investments.
- ❑ On the one hand, investors—buying and selling in the marketplace **daily—manage their portfolios on the basis of price, seeking to maximize their returns while minimizing their risks.**
- ❑ At the same time, these investors—with an eye to the long-term preservation and enhancement of the frameworks within which they **operate—are seeking to manage their impacts at the environmental, societal and financial systems levels.**



# “ON-RAMPS” TO SYSTEMS-LEVEL INVESTING

- Some investors already utilize what TIIP calls “on-ramps” to systems-level investing that are:
  - Logical extensions of the concept that investment has an impact on the world at large
  - Approaches that aim to simultaneously improve efficiency and manage impact



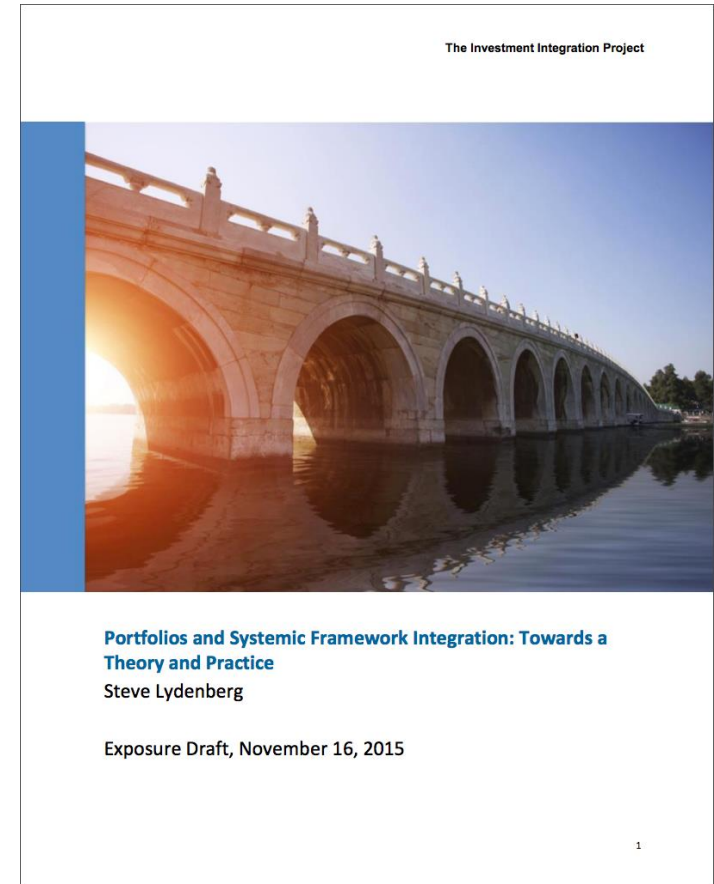
**HOW  
IS TIIP HELPING TO  
ADVANCE SYSTEMS-LEVEL  
INVESTING?**

**THOUGHT LEADERSHIP**

# LAYING THE THEORETICAL GROUNDWORK

TIIP's inaugural paper established that to bridge the gap between portfolios and systems, asset owners will need to take three concrete steps:

1. **Acknowledge** the connection between investment decision-making and systems-level risks and rewards
2. **Determine** which systemic frameworks they can most appropriately and usefully focus on
3. **Implement** investment practices that allow them to contribute to the preservation and enhancement of these systems while simultaneously achieving competitive financial returns for their portfolios



# DEFINING SYSTEMS

“Systems” refers to the vast set of 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.

# DEFINING SYSTEMS (CONTINUED)

- ❑ Characteristics of systems-level issues that make them relevant to long-term investors for integration into investment processes:
  - Consensus
  - Relevance
  - Effectiveness
  - Uncertainty
  
- ❑ Examples of issues that rise to the level of significance for such consideration and how in practice that level of significance can be determined:
  - Climate change and access to fresh water
  - Well-being (poverty alleviation and access to healthcare) and dignity (human and labor rights)
  - Stability and credibility, and transparency of sustainability data



# RESEARCH AND ANALYSIS

# PROFILING INVESTORS

- ❑ Each profile contains:
  - Organizational characteristics
  - Dimensions of systems and related approaches
  - Practical applications of approaches undertaken
  - Approach successes and challenges
- ❑ Provides insights into a wide range of approaches used to integrate systems factors into the investment process
- ❑ Identifies key investment activities and tools that expand the range of investors' vision beyond the portfolio to a broader understanding of systems

## The Bank of England (BoE)

Central bank • Headquarters: United Kingdom • AUM: US\$500 billion (2017)<sup>1</sup>

**AT A GLANCE**

**LESSONS FOR LONG-TERM INVESTORS**

BoE believes that systemic environmental and societal changes impact the financial system and that addressing such changes aligns with its mandate to maintain monetary and financial stability in the United Kingdom (U.K.). It provides a model for identifying climate change-related risks and opportunities, and for collaborating with peers to develop and disseminate commensurate solutions. Notable related activities include:

- ➔ **Leading international collaborations to address climate change-related risks and the financial system's response:** BoE co-chairs and otherwise leads international collaborations charged with convening stakeholders and recommending how the financial system and policymakers might confront climate change-related risks and capitalize on climate change-related opportunities (e.g. the Financial Sustainability Board Task Force on Climate-related Financial Disclosures and the G20 Green Finance Study Group).
- ➔ **Assessing and reporting on climate change-related risks facing the U.K.'s insurance industry and BoE:** As part of examinations conducted in 2015 and 2016, BoE determined that climate change poses physical and transitional risks to central banks and physical, transitional, and liability risks to the U.K.'s insurance industry. The assessments found that, while these entities might be reasonably well-equipped to address some of these risks and the magnitude of others is uncertain, these risks cannot be ignored and require financial system action.

**SYSTEMS & THEMES FOCUSED ON**

<input checked="" type="checkbox"/> Environmental
<input type="checkbox"/> Biodiversity
<input checked="" type="checkbox"/> Climate change
<input type="checkbox"/> Natural resources
<input type="checkbox"/> Oceans
<input type="checkbox"/> Renewable energy
<input type="checkbox"/> Sustainable land use
<input type="checkbox"/> Water
<input type="checkbox"/> Waste management & pollution
<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Societal
<input type="checkbox"/> Corporate governance
<input type="checkbox"/> Consumer health & safety
<input type="checkbox"/> Corruption
<input type="checkbox"/> Employment, labor rights & working conditions
<input checked="" type="checkbox"/> Equity & economic opportunity
<input type="checkbox"/> Food production & security
<input type="checkbox"/> Human rights
<input type="checkbox"/> Infrastructure
<input checked="" type="checkbox"/> Social equality & inclusion
<input checked="" type="checkbox"/> Other (demography, longevity)
<input checked="" type="checkbox"/> Financial
<input type="checkbox"/> Shareholder rights
<input checked="" type="checkbox"/> Stability
<input checked="" type="checkbox"/> Transparency
<input checked="" type="checkbox"/> Other (Digital currencies)

**TOOLS OF INTENTIONALITY**

<input type="checkbox"/> Additionality	<input checked="" type="checkbox"/> Polity
<input type="checkbox"/> Diversity of approach	<input checked="" type="checkbox"/> Self-organization
<input type="checkbox"/> Evaluation	<input type="checkbox"/> Solutions
<input checked="" type="checkbox"/> Interconnectedness	<input type="checkbox"/> Standards setting
<input type="checkbox"/> Locality	<input type="checkbox"/> Utility

**YEARS INTEGRATING**

The connection between climate change and BoE's mandate to maintain financial stability was first made **5 years** ago, in 2012, when its Prudential Regulation Authority (PRA) launched an analysis of the impact of climate change and the transition to a low-carbon economy on the U.K.'s insurance industry, according to researchers at the United Nations Environment Programme.



# PROFILING INVESTORS (CONTINUED)



# ESTABLISHING AN INVESTOR DATABASE

- ❑ Locate asset owners and managers matching certain criteria; compare investors across various dimensions

**TIIP** THE INVESTMENT INTEGRATION PROJECT

Database Version: Snapshot 2016/11/21 (Primary)

Characteristics

Name: Search by Investor Name...

Type

Headquarters: Select...

Nature of asset ownership services provided

Nature of asset management services provided

Asset classes invested in

Total assets under management (AUM)

Systems-Related Approach

Approach(es)

Systems focused on

Number of years integrating

Primary reasons for undertaking

**Investor Database**

Showing 1 to 20 of 50 results

Compare: Selected All

☐ **Aegon Asset Management (AAM)**

**Asset Owner**

Of particular interest from the point of view of systems-level considerations are the commitments of AAM to exploring policies and practices that intentionally addressing the diversity of clients' approaches to systems-level concerns. One of the challenges of managing the risks and rewards of the systems-level, as well as the portfolio-level, implications of systems-related investment decision-making is the disparity between consensus on...

[Download the full report](#)

Total Assets Under Management: US\$389.9 billion (2015)\*

Asset Classes: Public equities; Fixed income; Private equity; Real estate; Infrastructure and real assets

**Headquarters:**

**Systems Focused On:**

Environmental

Societal

☐ **Allianz Societas Europaea (Allianz SE)**

**Asset Owner**

Of particular interest from the point of view of systems-level considerations are the commitments of Allianz SE to exploring policies and practices that intentionally emphasize a diversity of approaches to addressing a single systems-level concern. With climate change directly impacting its core business line of property and casualty insurance, Allianz SE has taken a multiplicity of steps to promote actions that...

[Download the full report](#)

Total Assets Under Management: Approximately US\$2 trillion (2015)\*

Asset Classes: Public equities; Fixed income; Private equity; Real estate; Infrastructure and real assets; Other (multi-asset, alternatives)

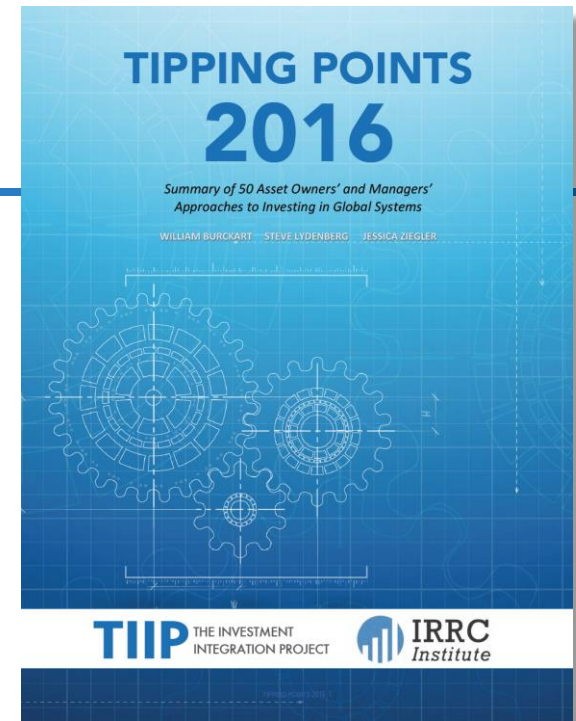
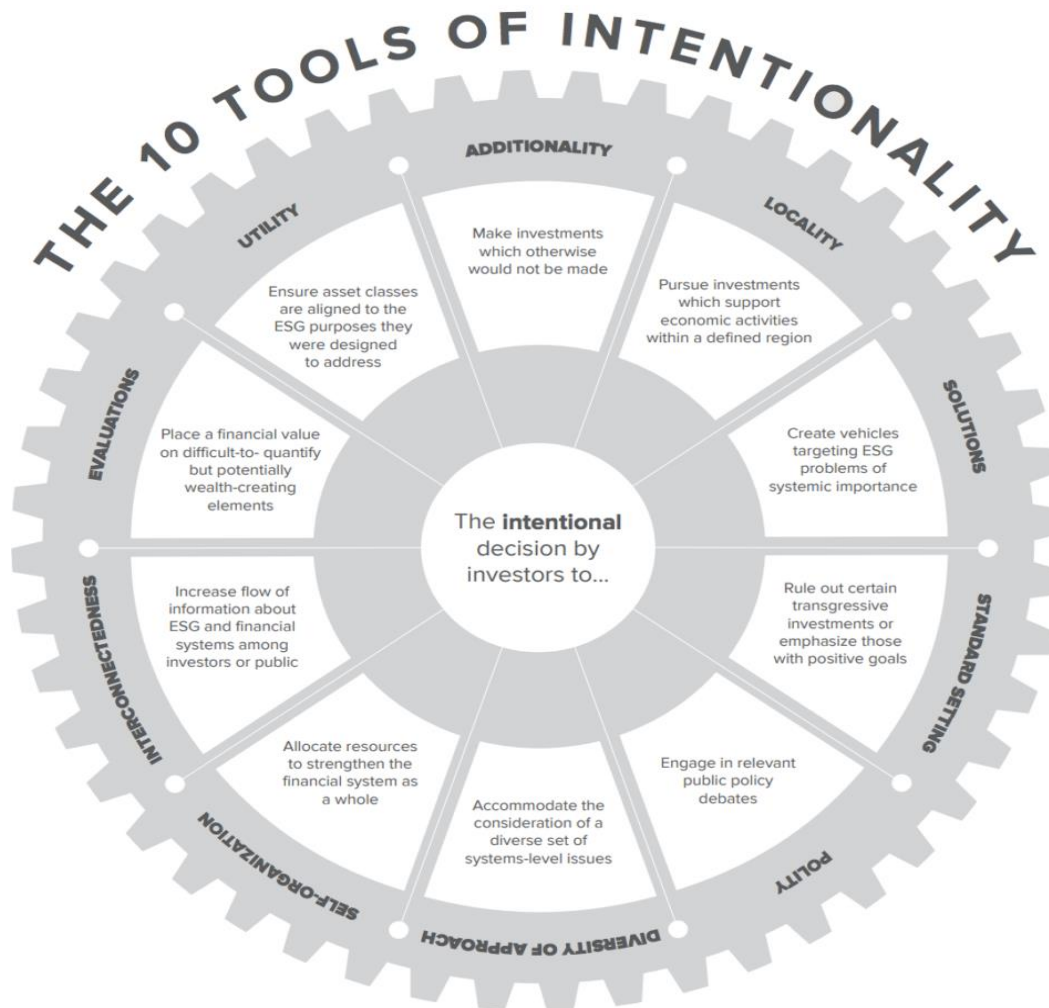
**Headquarters:**

**Systems Focused On:**

Environmental

- ❑ Utilize proprietary market analysis, tools, and frameworks to adopt a systems-oriented investment strategy
- ❑ Find succinct summaries about the activities investors are undertaking to implement their systems-level strategies

# DEVELOPING INVESTOR FRAMEWORKS



**TIPPING POINTS 2016:**  
*Summary of 50 Asset Owners' and Managers' Approaches to Integrating Global Systems*

Establishes the 10 Tools of Intentionality

**CONNECTING INVESTORS TO  
RESOURCES AND EACH OTHER**

# DISSEMINATING RESOURCES

resources.tiipproject.com

## Filters

ALL CATEGORIES

DATABASE

2017 PROJECTS

MARKET ANALYSIS

EVENTS

PRESENTATIONS

GUIDANCE - INTENTIONALITY STRATEGIES

GUIDANCE - INVESTMENT ACTIVITIES

GUIDANCE - OTHER TOOLS

## Sort Options

MOST RECENT

TITLE

## Subscriber Resources

### Database

#### TIIP's Searchable Database



TIIP's online, searchable database, which is updated on an ongoing basis, is meant to serve as a gateway into the world of systems-level investing for asset owners and managers, offering an easy way to identify experienced investors and explore the landscape of potential approaches. The database is intended

### Events

#### UPCOMING EVENT: March 2017 Convening with UNPRI



In conjunction with the United Nations Principles for Responsible Investment (UNPRI), TIIP will co-host a half-day convening for long-term asset owners and managers to assess the state-of-the-industry in relation to the incorporation of systems-level considerations into investment management practice and

### Market Analysis

#### State of the Industry Analysis: Tipping Points 2016



TIIP's inaugural, state of the industry report documents the scope and variety of systems-level and related approaches undertaken by 50 asset owners and managers. It describes the activities they have executed, the tools they have used, the progress they have made and what research and support is

### Presentations

#### TIPPING POINTS 2016 Webinar



View the webinar about our recent state-of-the-industry report, which finds that that investors are deliberately incorporating new investment approaches to help address systems-level risks and opportunities.

### 2017 Projects

#### Accelerating Intentionality Management (AIM) Project



The AIM project will document and discuss the various methods that asset owners and managers can use to incorporate systems-level thinking.

### 2017 Projects

#### Investors' Systems-Level Impact Measurement (ISIM) Project



Members of the impact investing community and others have developed measurement and assessment methods for measuring

### 2017 Projects

#### State of the Industry (SOI) Project



A growing number of asset owners and asset managers have taken initial steps to incorporate disparate aspects of systems-level

### 2017 Projects

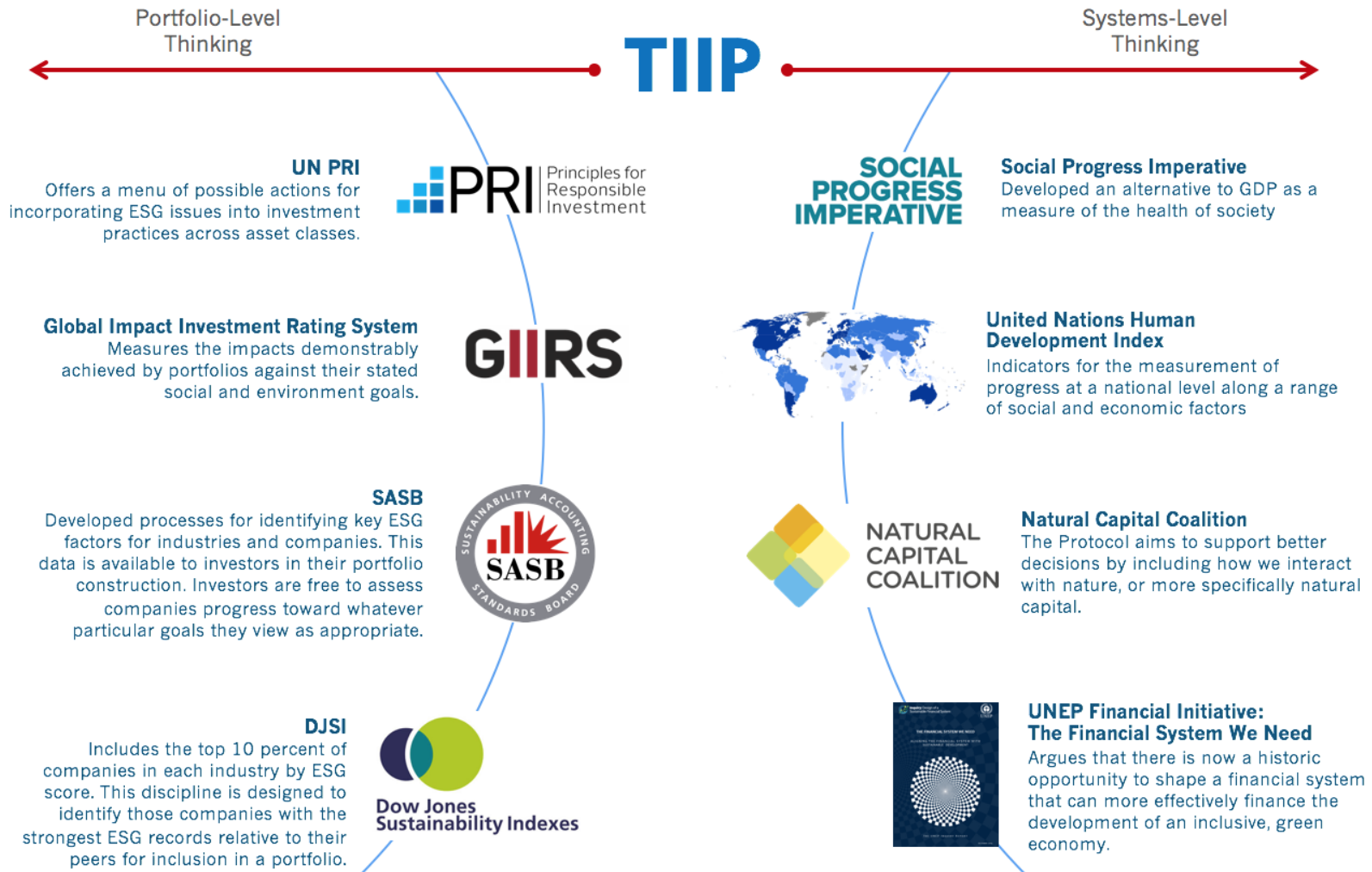
#### Best Practices/Scenarios (BPS) Project



It is clear that Asset Owners and Managers are increasingly aware of the need to act as long-term investors. Pursuing this goal, various



# CONNECTING PORTFOLIO-THINKERS AND SYSTEMS-THINKERS



# ENGAGING STAKEHOLDERS



**WHERE  
DO WE GO FROM  
HERE?**



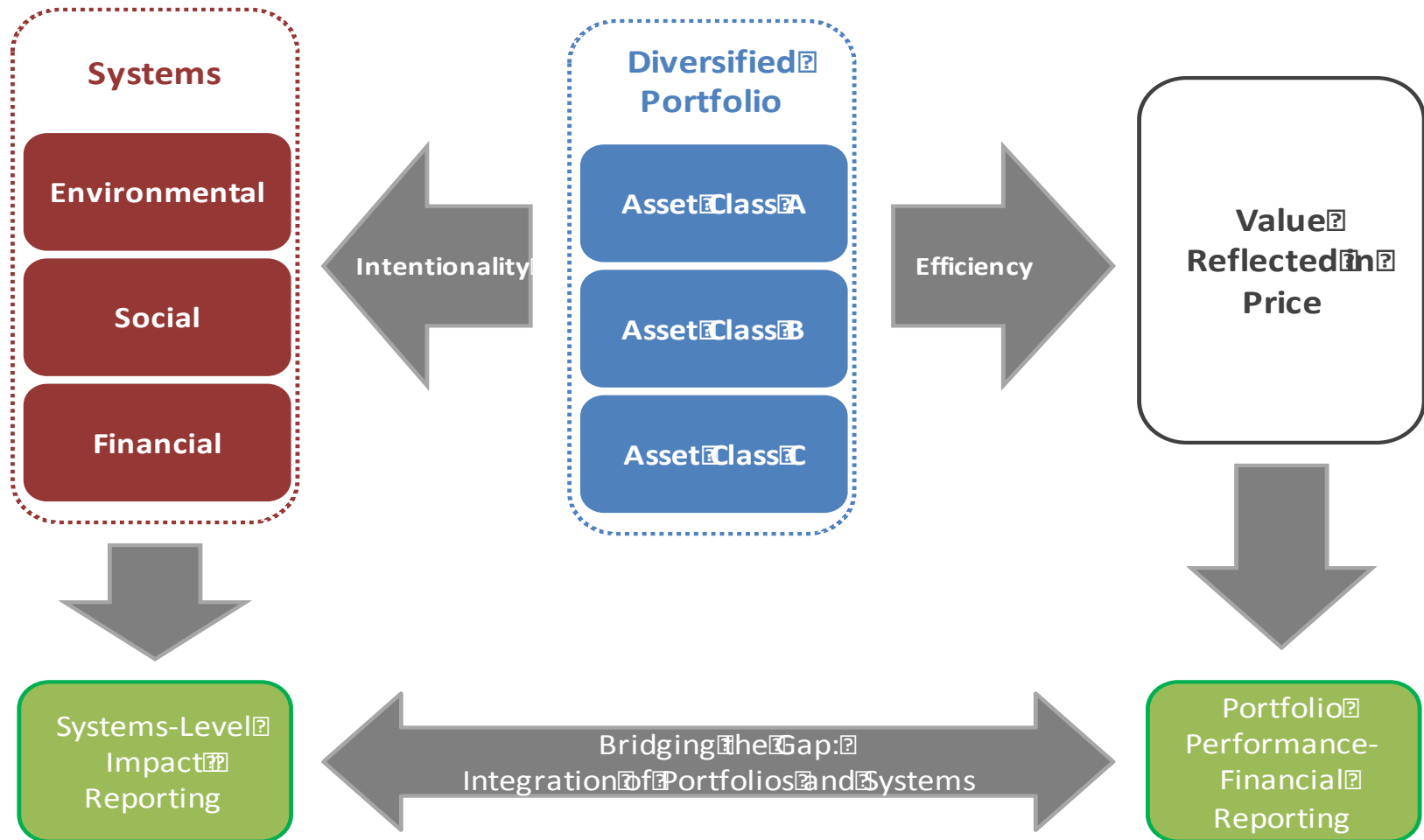
# PUT THEORY INTO PRACTICE

---

Refine the 10 Tools of Intentionality framework to:

- ☐ Further establish why we need to go beyond efficiency to fortify systems, and ultimately returns
- ☐ Clarify tool definitions, describe implementation approaches, explain advantages over efficiency
- ☐ Provide guidelines for how investors can use the framework to assess their approaches and those of prospective partners

# FOCUS ON MEASUREMENT



# EXPAND DATABASE AND RESEARCH PORTAL

---

- ❑ Publish extension to *Tipping Points 2016*, which examines the systems-level approaches of:
  - Central banks
  - Development finance institutions
- ❑ Expand database
  - Add profiles of central banks and development finance institutions
  - Add new profiles of a range of approximately 50 additional asset owners and managers
  - Update existing profiles
- ❑ Enhance resource portal
  - Add implementation guidance tools
  - Apply systems-level investing framework to curated reports
  - New functionality for facilitating communication between investors

# HOST CONVENINGS

## MARCH

### State of the Industry (SOI) Project Convening`

The purpose of this convening is to identify the key questions hampering investor awareness and action around consideration of systemic risks and systems-level frameworks, as well as identify some of the most useful needed research tools that PRI and TIIP can pursue that would facilitate the implementation of these theories.

*In partnership with:*



## JULY

### Accelerating Intentionality Management (AIM) Project Convening

This convening will focus on the release of the initial report of the AIM project, which is developing practical guidance resources and tools for asset owners and managers to use to integrate intentionality into their decision-making.

*In partnership with:*  
*tbd*

## DECEMBER

### Investors' Systems- Level Impact Measurement (ISIM) Project Convening

This convening will launch the first report of the ISIM project, which is assessing methods available to investors to manage risks and rewards at systems levels and metrics that can be developed to measure the effectiveness of their applications of these methods.

*In partnership with:*



# SUMMARY

# 5 KEY TAKEAWAYS

---

- ❑ **Systems-level investing** is the intentional and proactive consideration by investors of the world's overarching environmental, societal and financial systems within which they operate.
- ❑ Investors should care because **finance and investment are built on the predictability and reliability of environmental, societal, and financial systems.**
- ❑ TIIP is helping to lay the groundwork for more effective investor action by **designing, providing and maintaining data and analytics** that help long-term investors understand emerging big-picture, or “systems-level,” context in today's investment decision making.
- ❑ TIIP's database of institutional investor profiles, emerging market trends, and practical guidance **helps match asset owners and asset managers, identify market opportunities, benchmark peer-to-peer strategies, and identify best-practice in program development.**
- ❑ The field is moving: **don't get left behind!**