SPEAKER

DAVID WILTON

CEO
ZHENG PARTNERS

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AFIFORUM

Virtual Event
Connecting Investors and Investees

The Problem

A promising headline …

That delivers much less than it appears to

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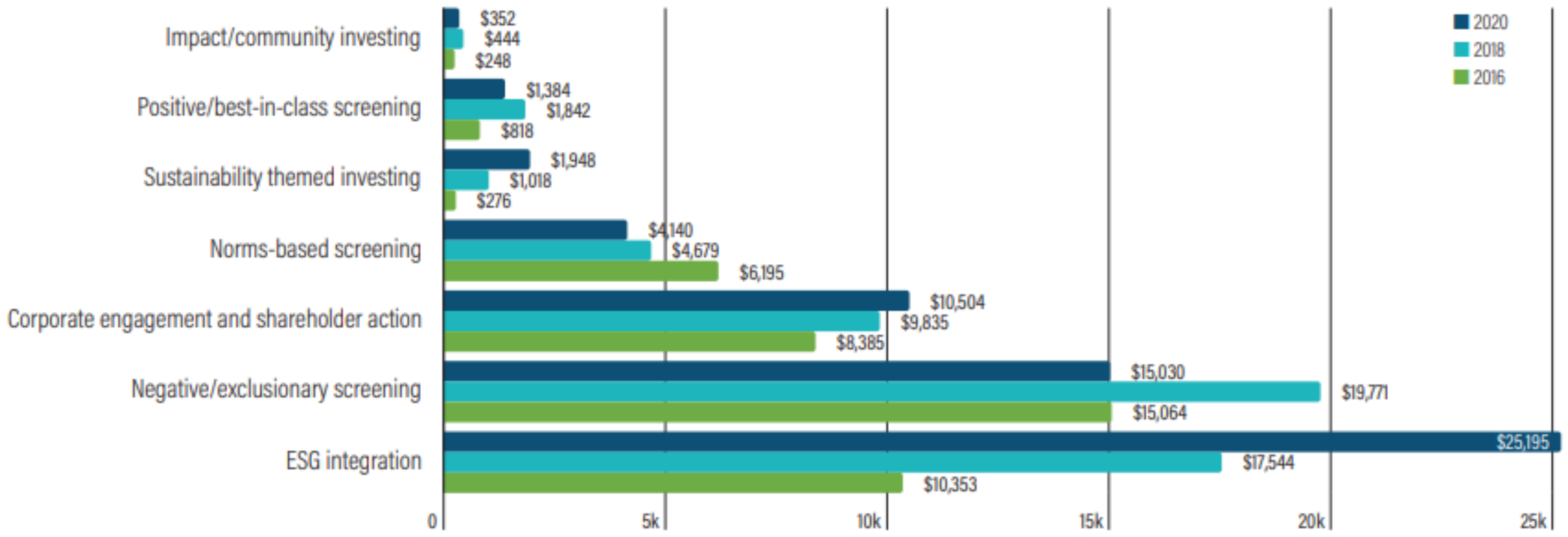
Strong Growth in Sustainable Investments.
What is the issue?

FIGURE 7 **Global growth of sustainable investing strategies 2016-2020**



Quantity vs Quality

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All Approaches to Sustainability Are Not Equal

Contribution to the SDGs

Results are at Different Levels of Intensity

Increasing Intensity

	Direct	Indirect
Exposures	None	Increased flow of capital away from assets with negative characteristics and to assets with positive characteristics. At sufficient scale, the cost of capital falls for positive assets and rises for negative assets. This results in: (i) Better pricing of externalities (ii) Reduction in funding gaps for assets which are environmentally or socially positive.
Risks	Reduction of size and frequency of negative events.	
Outputs	(i) Reduction in negative outputs from existing assets. e.g. reduced consumption of fossil fuels. (ii) Increase in positive outputs. e.g. additional access to education, additional clean energy.	
Outcomes	Greater certainty that the effect of our actions on populations and ecologies is experienced in the intended manner.	

Managing all these four levels of intensity needs to happen at greater scale, but particularly those that make a *direct contribution* to achieving the SDGs

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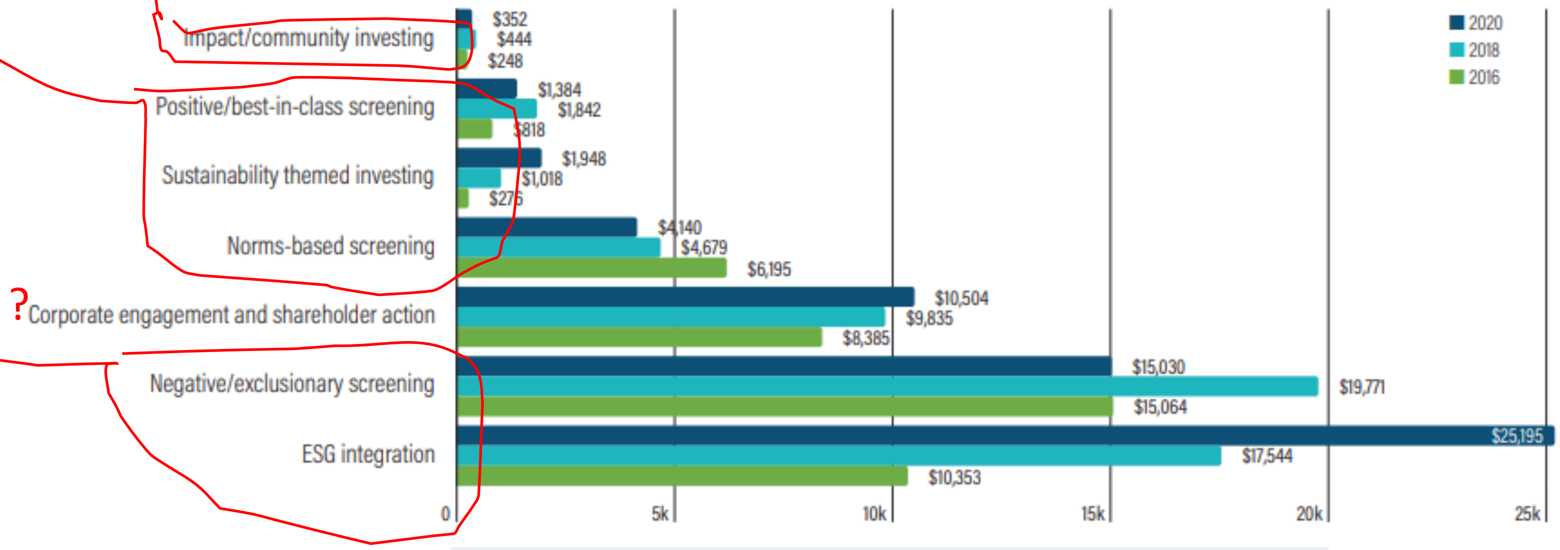
The Vast Majority of Capital is Concentrated in Managing *Exposures* Which Make no Direct Contribution to the SDGs

FIGURE 7 **Global growth of sustainable investing strategies 2016-2020**



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Exposures: Least Intense & Further Weakened by Definition and Data Issues

Bloomberg Green

U.S. Securities and Exchange Commission Chair Gary Gensler is making it clear he's skeptical the hundreds of investment funds that tout ESG credentials are as green or socially conscious as advertised.

On Tuesday, The Wall Street regulator posted a video on Twitter that highlights some of his top concerns. Gensler pointed out that there's no industry consensus on what environmental, social and governance investing means. He questioned whether firms are adhering to a 1940 law that requires fund names to match what they invest in. And he noted that unlike many high-yield bond funds, ESG offerings don't publish debt ratings that back up their labels.

Aggregate Confusion Project

We found the correlation among prominent agencies' ESG ratings was on average 0.61; by comparison, credit ratings from Moody's and Standard & Poor's are correlated at 0.92. This ambiguity around ESG ratings creates acute challenges for investors trying to achieve both financial and social return.

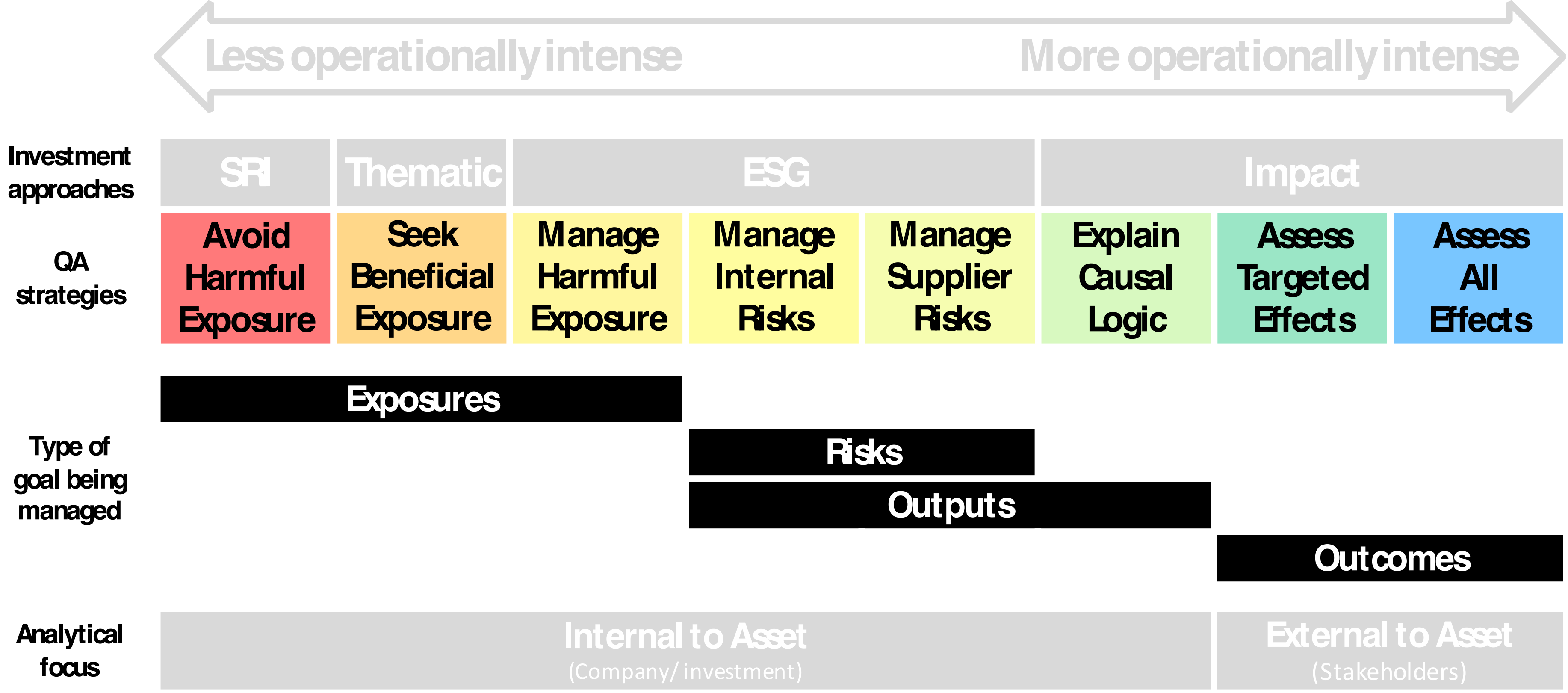
How To Improve on This Situation?
(1) Provide Greater Clarity on Exactly What is Being Managed

1. Increase focus on direct contributions to the SDGs by providing greater clarity on exactly what it is that is being managed:

Exposures, Risks, Outputs, Outcomes

Greater Clarity on What is Being Managed:
Analytical Framework Based on Contribution to Results

Quality Assurance (QA) Framework



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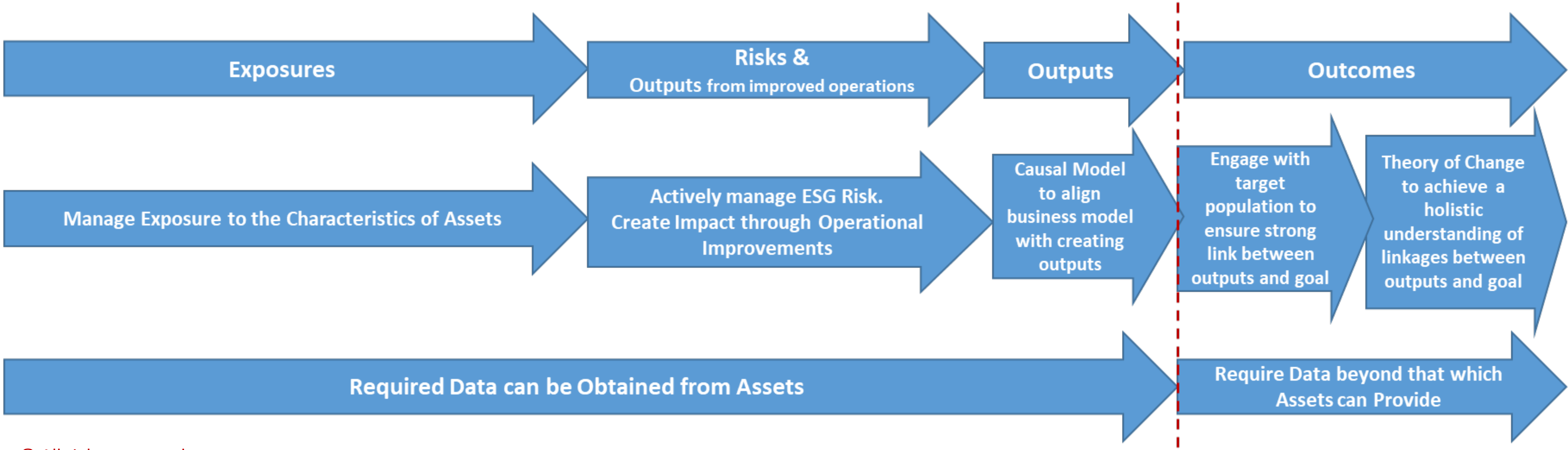
Greater Clarity on What is Being Managed:
Analytic Framework Based on Contribution to Results

No Approach Used	SRI	Thematic	ESG				Impact	
Agnostic	**Avoid Harmful Exposure**	**Seek Beneficial Exposure**	**Reduce Risk Exposure**	**Manage Internal Risks**	**Manage Supplier Risks**	**Explain Causal Logic**	**Assess Targetted Effects**	**Assess All Effects**
No focus on non-financial effects	Avoid exposure to very bad non-financial characteristics	Seek exposure at level of the asset to high level themes that have potential to achieve goals	Reduce and mitigate exposure to negative non-financial characteristics	Manage direct non-financial risks and seek opportunities for achieving positive outputs through improving operations	Manage non-financial risks, both direct and supply chain, and seek opportunities for achieving positive outputs through improving direct operation operations and across supply chain	Use causal models to explain how the activities undertaken are aligned with achieving outputs	Assess how positive non-financial effects are experienced as outcomes, short-term or long-term, by the people or ecologies that are the targetted beneficiaries	Undertake holistic assessment of how all non-financial effects are experienced by all stakeholders (people and planet) that are affected directly and indirectly, both positive and negative effects, both intended and unintended effects



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Greater Clarity on What is Being Managed:
Analytic Framework Based on Contribution to Results

The QA framework enables us to:

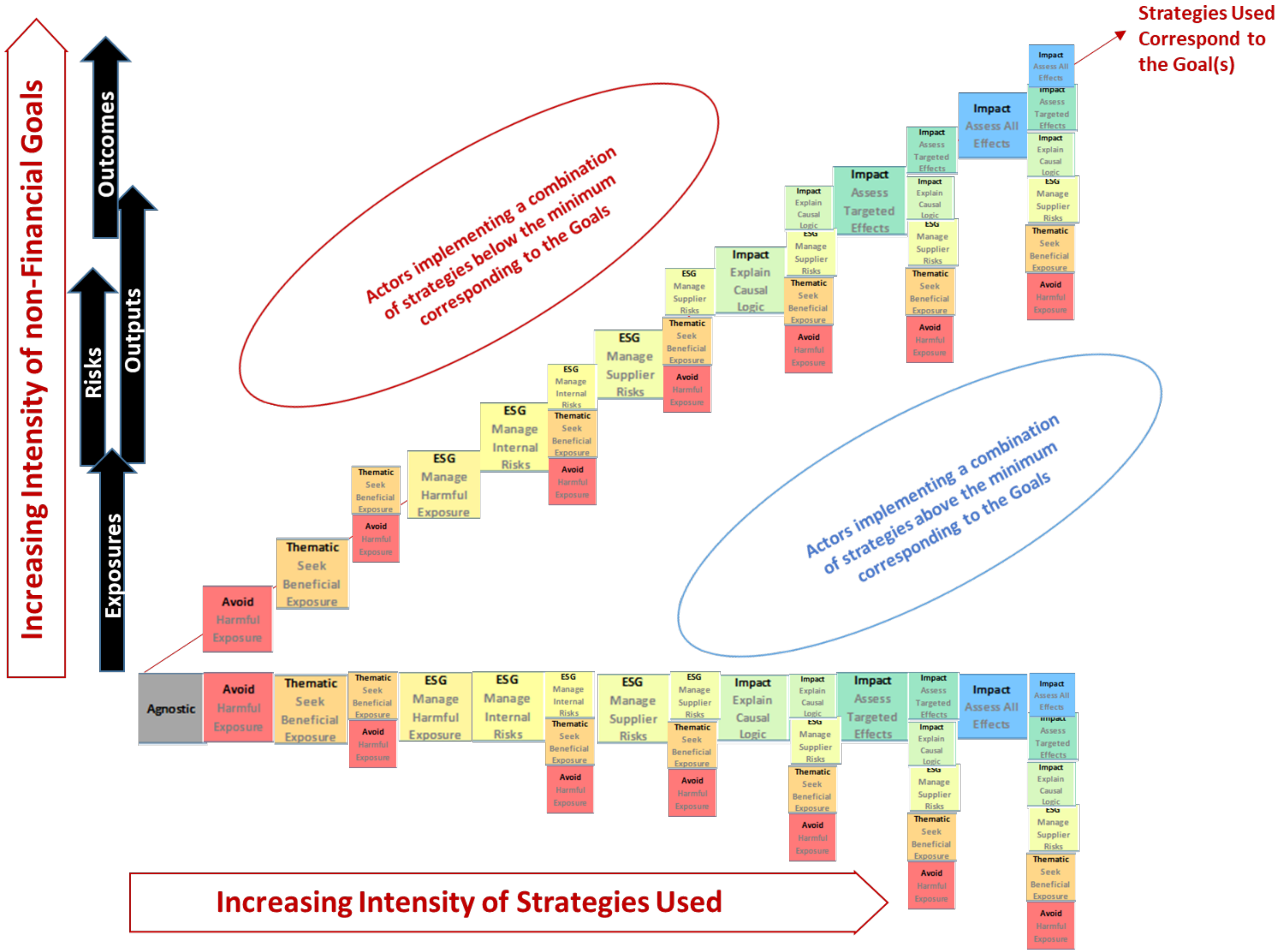
- Identify the combination of strategies we need to adopt to achieve our non-financial goals

- Identify the valid non-financial claims another person can make, by identifying the actions they are taking and so identifying the combination of strategies they are using.

- Identify greenwashing.

  Greenwashing is occurring if the non-financial claims being made are greater than the claims justified by the combination of strategies being used.

Greater Clarity on What is Being Managed:
Analytic Framework Based on Contribution to Results



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How To Improve on This Situation?
(2) Align Impact with Portfolio Management

2. To increase adoption, Impact needs to better-align with portfolio management.

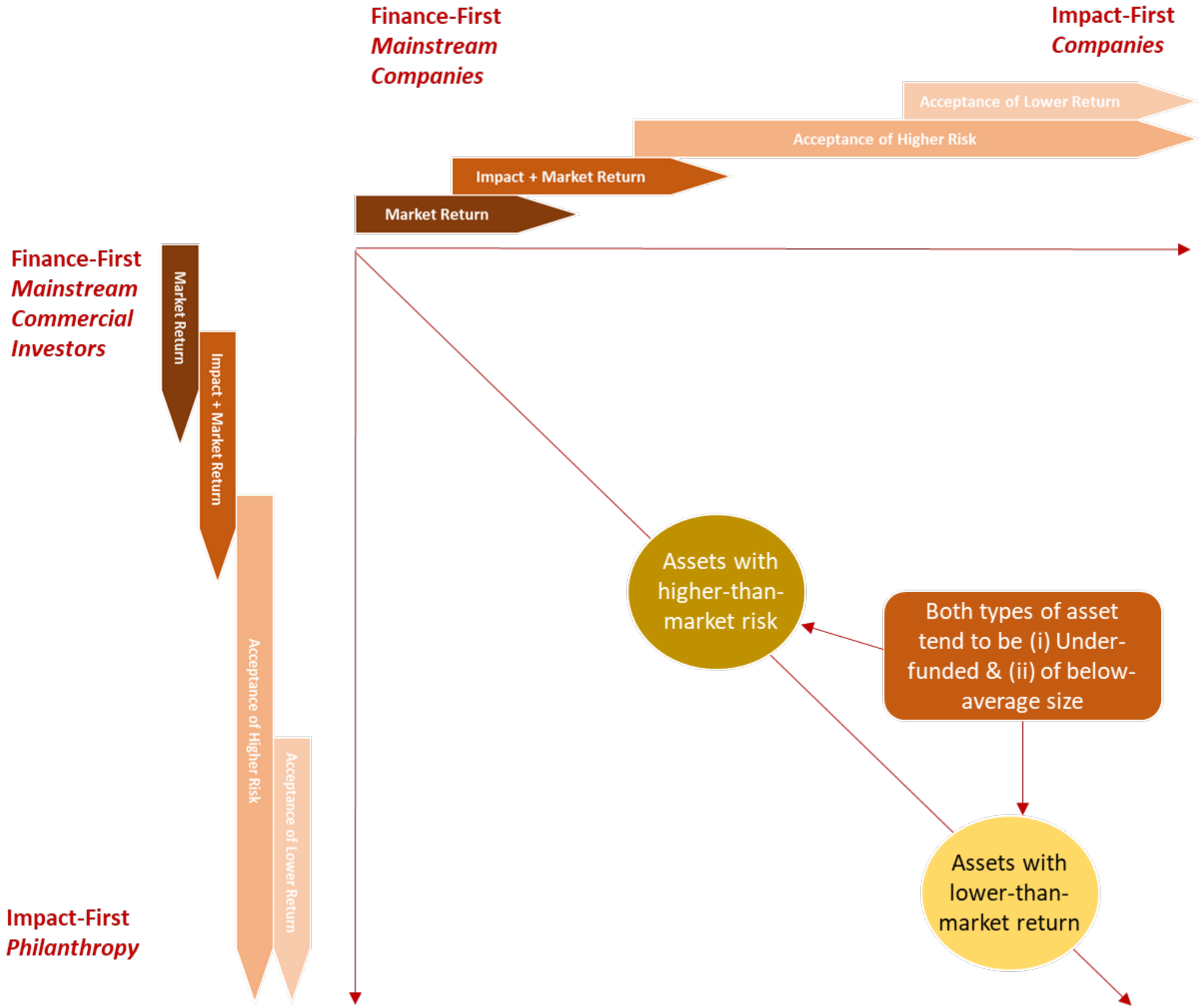
(i) The process for assessing and executing non-financial goals needs to correspond to the process for financial goals.

- The analytical framework needs to be specified in terms of the scale or intensity of results.
The impact framework is currently specified in terms of the intensity of the mandate, not the scale of the results.

- The analytical framework needs to contribute to the entire investment process.
Existing approaches concentrate on the mandate and have little to contribute to portfolio optimization.

(ii) The framework used to address non-financial goals needs to apply equally to all root causes of problems such as funding gaps, the mis-pricing of externalities or any other root cause.
Existing approaches to impact emphasize the closing of funding gaps.
However, the root cause of most consumption-related climate issues is the mis-pricing of externalities, not funding gaps.

Currently, Impact is Organized Around the Intensity of the Mandate, Not the Scale or Intensity of the Results



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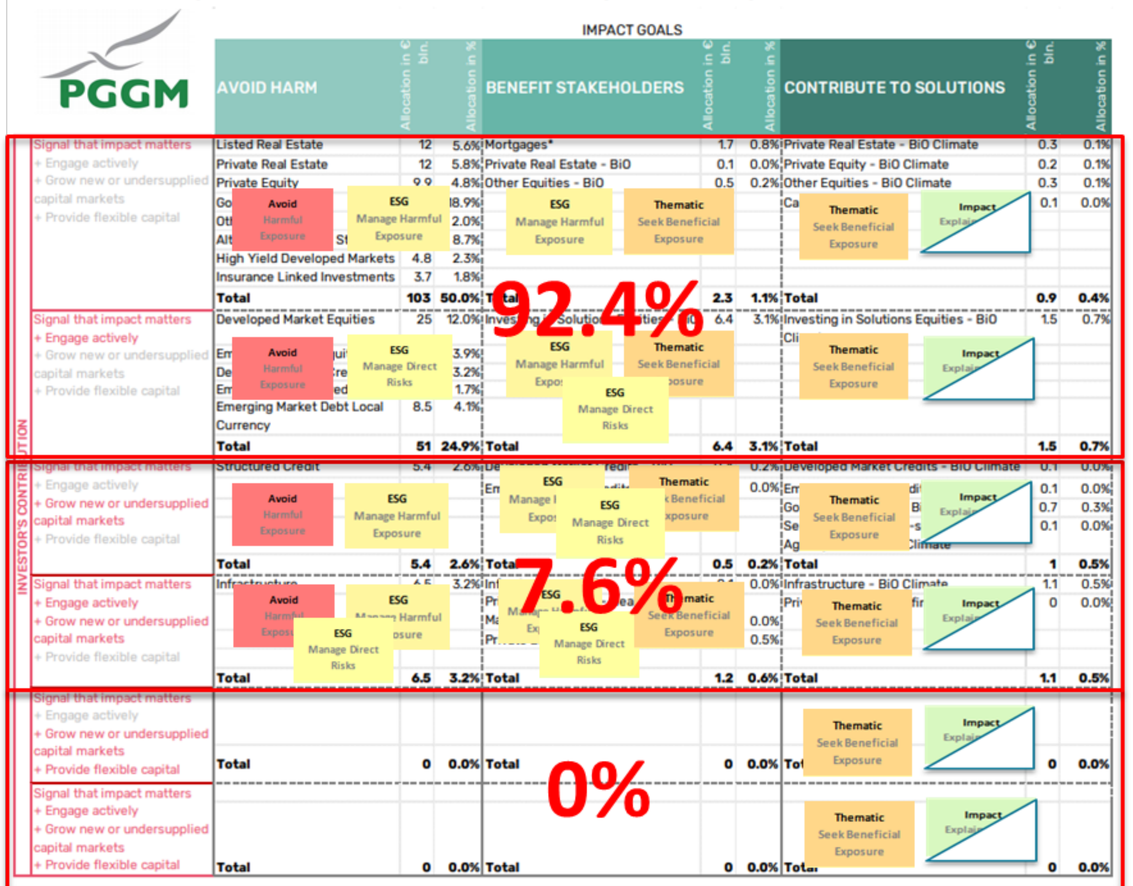
It is Not Surprising that, as Currently Specified, Impact is Not Applied Across Total AUM

Figure 5: PGGM has carried out a mapping of its own portfolio to the matrix
Note: the remaining 12.1% of PGGM's portfolio may be causing harm (see page 11).



* PGGM Mortgages portfolio qualifies as 'Benefit Stakeholders' because PGGM solely invests in specific mortgages aimed at providing healthcare workers with affordable housing
** A part of PGGM's Cash portfolio is invested in climate solutions by the cash provider (Rabobank Duurzaam Deposito)

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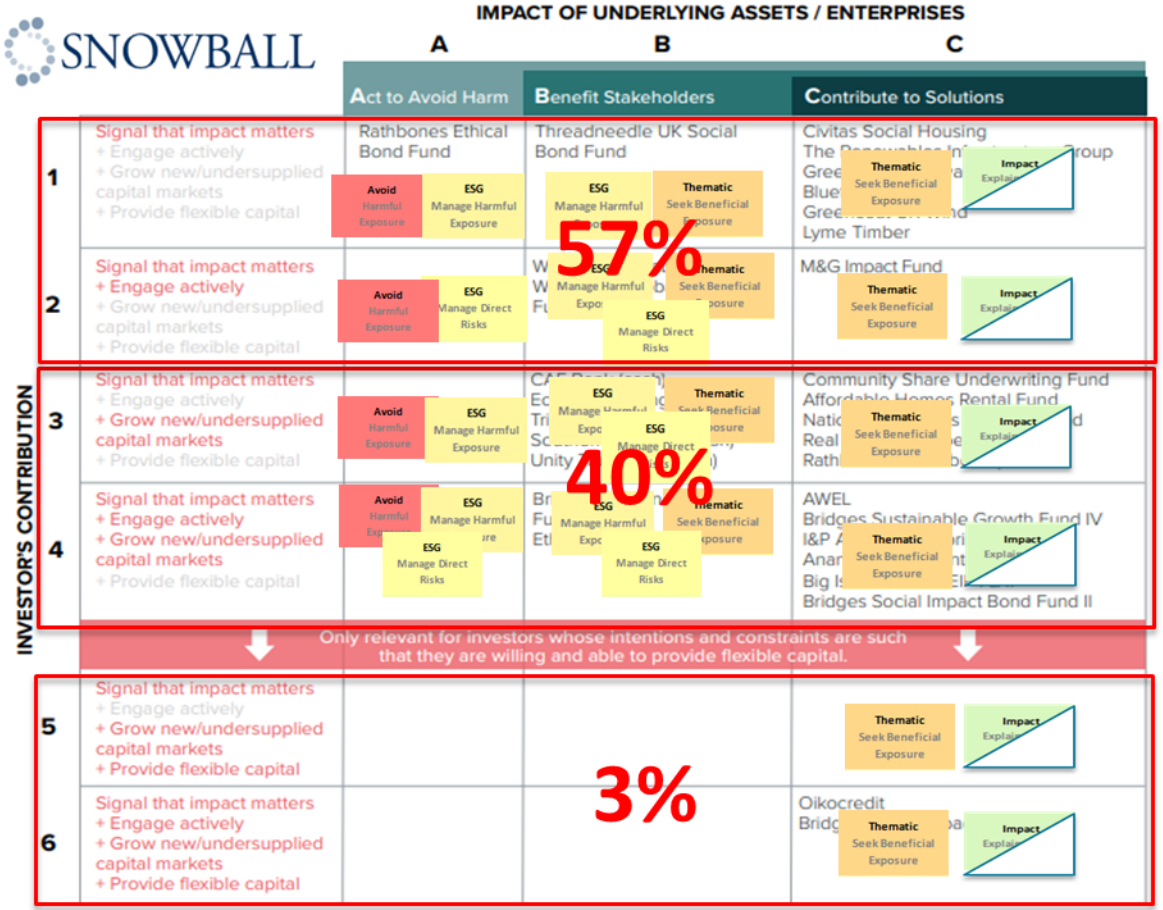
Figure 6 | Snowball's portfolio mapped by impact class

*The tables at the end of the page indicate the percentage allocation to a particular **investor strategy or type of impact.***



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If the Goal is to Maximize or Optimize the Size or Scale of the non-Financial Results, Framing Analysis of Impact in Terms of the Mandate Makes Many Current Approaches to Impact Unable to Contribute to Asset Selection & Portfolio Optimization

Investment Decision Process

QA Framework

Current Impact Frameworks

Mandate

Interpret Mandate to identify Goals

Financial Goals | Non-Financial Goals

QA: Recognizes all Goals come from the Mandate

QA: Views intent &additionality/contribution as part of the mandate and so relevant to some actors but not to all actors

IMP: Focuses solely on the Mandate

Specify Goals in terms of attributes that can be managed and measured

QA: Non-financial goals described in terms of exposures, risks, outputs and outcomes

Identify the strategies that will be used to achieve the Goals

Identify the relevant financial and non-financial characteristics of individual assets

QA: Identifies 8 strategies. AHE, SBE, MHE, MIR, MSR, ECL, ATE, AAE each of which produces specific results in terms of exposures, risks, outputs and outcomes.

QA: Explain Causal Logic strategy enables better identification of outputs.

Select assets most likely to achieve Goals using a decision filter that is relevant for the mandate, the context and the strategy being used

Absolute Standard (context projects & individual assets) | Relative Standard (context portfolio)

QA: Recognizes the effect of different contexts

Assets Selected

Report on Results

QA: Based on combination of strategies used there are:
- Defined valid claims
- Defined reporting requirements

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https://zhengpartners.co/

www.linkedin.com/in/david-wilton-impact-emerging