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A Special Report from

**SAVVY INVESTOR**

# Effective ESG: Strategies for doing well by doing good

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Discussing ESG strategies that lead to positive outcomes with leading industry professionals



Authored by Savvy Investor

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## Special Report

# Effective ESG: Strategies for doing well by doing good

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## Introduction

# Effective ESG: Strategies for doing well by doing good



**MATTHEW KIMBROUGH**  
HEAD OF RESEARCH  
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Matthew Kimbrough is a former Fixed Income Portfolio Manager and MBA graduate from HEC Paris, having previously worked for Argent Financial Group and JP Morgan in both the U.S. and UK.

**“THE PAST YEAR AND A HALF HAS SERVED TO HIGHLIGHT THIS FUNDING GAP, ESPECIALLY GIVEN THE STRAIN EXERTED BY COVID-19 ON GLOBAL HEALTHCARE SYSTEMS.”**

### Impactful ESG Investments and Optimal Portfolio Outcomes

The 2010s saw a notable decline of social infrastructure investments in many of the largest OECD countries. The past year and a half have served to highlight this funding gap, especially given the strain exerted by Covid-19 on global healthcare systems. In addition to healthcare, social infrastructure encompasses many other essential services provided to the community, including educational facilities, affordable housing, and other civic buildings. In their paper ‘Impact Investing in Real Estate: What Covid-19 revealed about social infrastructure’, Franklin Templeton informs about the present opportunity to drive impactful outcomes via these real estate investments.

But how can investment managers optimise the integration of ESG characteristics within their portfolios? One approach is bottom-up, examining only stock-specific ESG constraints versus a relevant benchmark. Another approach is top-down, placing a greater emphasis on portfolio-level exposures. In ‘How to Boost Your ESG Scores and Preserve Your Risk-Reward Outcomes’, Intech looks at four such methodologies (two bottom-up and two top-down), adjusting ESG constraints in an attempt to determine the optimal method with respect to both risk and reward.

Climate change also continues to be at the top of the agenda for investors and regulators alike. In the paper ‘The Going Gets Tough: Can heavy industry decarbonise?’, Aviva Investors outlines the issues that heavy industry and heavy transport are facing. They go on to underline the importance of companies, policymakers and investors collaborating to enable these companies to reach net-zero emissions by 2050.

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# Report Sponsors



## INTECH

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Intech continues to innovate today, embedding a long-term sustainability focus across our areas of influence: ESG Investments, Active Stewardship, Corporate Responsibility, and Global Cooperation. Intech believes our sustainability efforts reinforce our principal responsibility: representing our clients' objectives, preferences, and best interests.



## FRANKLIN TEMPLETON INVESTMENTS

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## Featured Paper from Intech:

# How to Boost Your ESG Scores and Preserve Your Risk-Reward Outcomes



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**“MANY INVESTORS CONTINUE TO RELY ON STOCK-DRIVEN ESG EXPOSURES WHEN INTEGRATING ESG CONSIDERATIONS INTO PORTFOLIO CONSTRUCTION; HOWEVER, FOCUSING ON PORTFOLIO-LEVEL EXPOSURES APPEARS TO BE A MORE EFFICIENT APPROACH.”**

## What’s the most effective ESG investment approach?

As more investors embrace the importance of incorporating environmental, social, and governance (ESG) considerations into their portfolios, there has been growing interest in managing the potential performance trade-offs that can often be associated with capturing enhanced ESG characteristics. Investors tend to favour one of two typical approaches to implementing ESG investment strategies: stock-driven and portfolio-driven. Many investors continue to rely on stock-driven ESG exposures when integrating ESG considerations into portfolio construction; however, focusing on portfolio-level exposures appears to be a more efficient approach.

## Stock-exclusions invite challenges

Focusing on stock-level ESG exposures may intuitively seem like the most straightforward way to improve a portfolio’s ESG scores. Yet, our research shows that a stock-driven approach alone can come with steep trade-offs that may significantly limit a portfolio in several ways – especially when the approach relies on excluding a material number of low-rated stocks.

First, excluding stocks reduces the investment universe, which tends to restrict overall return potential. Fewer names to choose from generally translates into fewer ways to add alpha. Similarly, working with fewer names reduces diversification potential, and increases overall risk relative to the portfolio’s benchmark. Third, and perhaps most importantly, stock-exclusion approaches may not consistently maintain a portfolio’s ESG profile. This potentially introduces a level of unintended exposure variability, the degree of which may grow as the number of exclusions increase.

For example, the consistency of an ESG boost resulting only from stock exclusions may be lower and less consistent than expected, as the improvement of the desired ESG metrics relative to the benchmark is unmanaged and can be quite uneven.

Instead, a more practical approach begins by defining the investor’s ESG investment goals and then focusing on how best to integrate the corresponding constraints based on the overall desired portfolio attributes. In other words, begin with the end in mind. We believe this method offers much greater portfolio control and helps better manage the trade-offs between ESG and risk-reward outcomes to pursue stronger outcomes for both.

## Test case: comparing implementation approaches

In this paper, we expand on our earlier research to explore how a more sophisticated application of portfolio-driven ESG integration might capture ESG

**“THE GOOD NEWS:  
THERE ARE MORE  
EFFICIENT WAYS  
TO IMPLEMENT ESG  
CONSIDERATIONS.”**

outcomes similar to those produced by a stock-driven exposure approach. Our goal is to understand how your ESG implementation choice – portfolio-driven exposures versus stock-driven exposures – could affect an active, non-ESG strategy with a history of generating alpha. We’ll examine the results across just two dimensions: ESG outcomes and risk-return outcomes.

**Conclusion**

It’s no surprise that incorporating ESG considerations into a portfolio usually comes with investment trade-offs. However, the types and magnitude of these potential concessions can often depend on how you integrate ESG into the portfolio-management process.

A conventional approach that focuses on stock-driven exposures, especially those that simply exclude stocks based on pre-determined ESG ratings, can be ham-fisted and quite disruptive to performance for many investment processes without necessarily guaranteeing a minimum level of ESG improvement. This can risk putting investors in the difficult position of trying to decide how much return they may be comfortable giving up in exchange for an enhanced ESG profile.

The good news: there are more efficient ways to implement ESG considerations. Our research shows that by focusing on managing overall portfolio characteristics and exposures rather than only restricting individual securities, it’s possible for broadly diversified strategies to pursue a desired minimum level of ESG improvement without materially damaging long-term return or tracking error. The result can be a powerful win-win for investors, delivering effective ESG investment strategies without overly restricting outperformance potential.

**[To download the paper in full click here.](#)**





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## Ask the Expert: Aviva Investors

# Disclosures, Trade-offs and Green Premia: The Future of Sustainability in Real Assets

**Laurence Monnier leads and coordinates quantitative research within the real asset research team, covering infrastructure, real estate and private debt investments. She joined Aviva in 2010 and has over 25 years' experience in real asset investing. Edward Dixon is Head of Environment, Social and Governance (ESG) for Aviva Investors' £52 billion Real Assets platform, encompassing Real Estate, Infrastructure and Private Debt.**



**Laurence Monnier**  
Head of Quantitative  
Research, Real Assets,  
Aviva Investors

Understanding the difference between what stakeholders say they are doing and what they are really doing is a complex business. This is particularly the case now, when governments and companies face mounting pressure to clean up their environmental act. Financiers, regulators, investors, lawyers, activists and pressure groups are all asking questions, wanting to know more about who is polluting, recycling, greenwashing and so on.

Investors in private markets, who are typically closer to the assets they hold than in public markets, have significant influence in shaping the sustainability agenda. However, this is not as straightforward as it might appear, with little standardisation on disclosures, challenges in turning brown assets green, and fierce competition causing risk-adjusted returns to dwindle in certain sectors.

To find out more, we talked to Laurence Monnier, head of quantitative research, and Ed Dixon, head of ESG, from Aviva Investors' Real Assets team.



**Ed Dixon**  
Head of ESG, Real Assets,  
Aviva Investors

**Sebastian Culpan-Scott: How should we define sustainability in real assets? Is it in the eye of the beholder?**

**Laurence Monnier:** For me, sustainability is a given. As a long-term investor, everything we do has to be sustainable. If we are looking to invest for the next 20 years or 30 years, if an asset is not sustainable, we should not be looking to participate. Quite separate to that is a debate about the environmental or social impact of one asset over another.

Ultimately, though, sustainability is about concentrating on assets aligned with the transition to the greener and fairer economy people want to see.

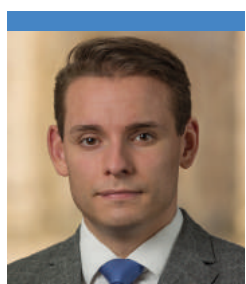
**Sebastian: Is addressing it simply part of your fiduciary duty to clients?**

**Ed Dixon:** It's unequivocal, and not only because it is included in the UK's Stewardship Code. We need an in-depth understanding of the risks and impacts of the assets we manage and ensure the long-term interests of clients and society are fairly represented in our investment process.

This is written into our responsible investment policy and strategy for real assets; we must understand the long-term impacts, and if the assets have impacts that undermine the stability of the industry, the economy and/or society, then they do not represent a good investment.

This runs from our investment policy and processes, to our real assets strategy, all the way to the Stewardship Code at the top of the tree.

**Laurence:** This has come to the forefront of many investors' minds in the last two years. Sustainability has always been there, but the intense focus on it is relatively recent, and there are more working groups than most people care to follow.



**Sebastian  
Culpan-Scott**  
Editorial Director, Savvy  
Investor

**“A DEGREE OF THOUGHT HAS GONE INTO REAL ESTATE EQUITY, BUT VIRTUALLY NONE FOR PRIVATE EQUITY, PRIVATE DEBT OR INFRASTRUCTURE.”**

There is a fair amount of standardisation of disclosures around climate, and alignment is very much on the agenda for discussion by the regulators; everybody is mindful about the importance of moving towards a common view. But it is difficult because there are so many different aspects of sustainability. Different issues keep coming to the fore: biodiversity, climate risk, gender, race and ethnicity, and so on. It would be valuable to standardise, but there are so many aspects that are difficult to capture, and the landscape is changing all the time.

I don't think you will ever develop a single, all-encompassing standard that neatly encapsulates what sustainable is.

**“Different issues keep coming to the fore: biodiversity, climate risk, gender, race and ethnicity, and so on. It would be valuable to standardise, but there are so many aspects that are difficult to capture, and the landscape is changing all the time.”**

**Sebastian:** How easy is this area to navigate in private markets, bearing in mind some of the frameworks around sustainability disclosures were crafted with public markets in mind?

**Ed:** Some pieces of legislation, like the Sustainable Finance Disclosure Regulation (SFDR), were written for liquid markets. A degree of thought has gone into real estate equity, but virtually none for private equity, private debt or infrastructure. The same could be said for the guidelines from the Task Force on Climate-Related Financial Disclosures (TCFD). The guidelines are adequate for real estate, but somewhat lacking for other (illiquid) asset classes.

As an asset manager working in private markets, you hope you can get some commonality with your peers, but there is no private markets body that ties everything together. The Association of Real Estate Funds has looked at this from a real estate equity perspective and made an effective response to SFDR. But, broadly, there is nothing equivalent for private debt or infrastructure, so a lot of the larger private market managers – including Aviva Investors – have come together to try to develop some sort of commonality.

Asset management is not just about liquids; we need the regulatory and industry bodies to think this through in a lot more detail.

**“As an industry, lenders have a lot of power. Lenders can also develop a sustainable loans strategy and influence borrowers, as we already do through real estate sustainable transition loans.”**

**Sebastian:** At an asset class level, are there areas where it is particularly hard to shape the sustainability of the asset in which you are investing?

**Laurence:** The degree of influence you can have clearly depends on your role. So, if we are lender in a syndicate refinancing bank loans, we may have limited influence, but even there the influence of lenders is growing. Lenders are promoting changes to loan documentation standards, to alter disclosures around ESG issues and what borrowers will have to disclose. As an industry, lenders have a lot of power. Lenders can also develop a sustainable loans strategy and influence borrowers, as we already do through real estate [sustainable transition loans](#).

**“IN REAL ESTATE, WE’RE STARTING TO WORK WITH PEERS TO COME UP WITH A BETTER SET OF MINIMUM STANDARDS ON GREEN LEASING.”**

It is true that if you are a major investor who brings the equity cheque you will have more power than if you are a small equity participant or a lender in a syndicate, but lenders do still have a big voice in the debate.

**Sebastian:** We are hearing about more industry-led sustainability initiatives. Is the finance industry finally stepping up?

**Ed:** People on the ground appreciate the change that needs to happen and want to push it forward, but in some cases, it is being held back by how quickly their employers or industries are able to go.

Take infrastructure debt, for example. A consortium of lenders, initially led by us, has got together to produce a set of minimum standards, which would mean borrowers have to come forward and disclose certain information at the point a deal is made. We are close to agreement, but to achieve industry-wide buy-in, at some point an industry body will need to adopt and push it forward.

In real estate, we’re starting to work with peers to come up with a better set of minimum standards on green leasing. Broadly, this involves a new concept where sustainability requirements are embedded into the lease to bring direct benefits to the occupier, so they are rewarded for reducing their environmental impact, but we face the same challenge regarding standardisation.

There has been progress in some areas. Take the Better Buildings Partnership (BBP), which established a climate change commitment we have signed up to alongside the majority of our peers. BBP said: ‘We know where the industry needs to be, and we are going to put you on the hook to do this,’ and it has really driven rapid change. It is also working on operational energy ratings and moving that agenda forward with the government. This is forward-thinking, but I am not sure we benefit from the same collectives or industry bodies driving change in private debt.

Overall, there is a groundswell of opinion among the larger players wanting to collaborate to raise standards, but I don’t know how soon the representative bodies will be able to drive the changes through. There is no single private markets organisation that exists to tie everyone together; that is needed to make the change.

**“There is no single private markets organisation that exists to tie everyone together; that is needed to make the change.”**

**Laurence:** I think the industry is stepping up, but maybe we should be asking if it is stepping up in the most effective way. That’s another question. There are the issues we have already touched on – about potentially having too many standards, too many views. The EU has its guidelines, then we have the sustainable and green loan framework, the guidelines for climate disclosures and so on. In addition to BBP, infrastructure investors and private lenders have their own forum to discuss issues, then we have companies and lawyers as well. We also have the Asset Owners Alliance, bringing together all the net-zero owners and the insurance industry, as well as the Net Zero Alliance for asset managers. How will they mesh to create the sustainability standard of tomorrow?

Will it mean aligning with the EU taxonomy, or any other standards? That taxonomy is fine, but how relevant is it for a road project in Benin? The level of interest has led to complications and some overlaps, but it does at least suggest we are going in the right direction. Ultimately, I suspect a smaller number of dominant standards will emerge.



**“THERE IS A MISUNDERSTANDING THAT PRIVATELY LISTED COMPANIES DO NOT HAVE ESG DISCLOSURE REQUIREMENTS. DISCLOSURE MAY BE LESS ADVANCED IN THE PRIVATE SPHERE, BUT THERE ARE REQUIREMENTS FOR INSTITUTIONS.”**

**Sebastian:** There have been suggestions recently that as disclosure requirements in the public space intensify, the temptation is to move dirtier assets off balance sheet. Is this any cause for concern?

**Laurence:** There is a misunderstanding that privately listed companies do not have ESG disclosure requirements. Disclosure may be less advanced in the private sphere, but there are requirements for institutions through the Asset Owners Alliance, through the guidelines set out by the TCFD and now the obligation for UK pension funds to disclose their net-zero alignment. This has been compulsory for insurers in France for a long time. The need to disclose is getting more attention, whether you are public or private, and therefore taking assets private is not necessarily the way to avoid this.

If you think about investors in real assets that manage assets day-to-day, we need to stay close to what is going on. It is not just about making a small disclosure in a footnote; it is about what we may or may not be embedding in a building or piece of infrastructure. It's real.

The other thing to consider is the implications of that choice between retaining an asset and improving it or selling it on to somebody else. This is a real question for us in infrastructure and real estate. If we sell an asset, it is off our balance sheet and improves our own carbon credentials, but it does nothing to improve the planet.

All things being equal, it may be better to keep some of the assets that are not aligned with the net-zero transition today but improve them, so they are much cleaner for everybody's benefit. But as an asset manager, we also have responsibilities to our investors. We manage assets; we are not there to lose money. We need to be mindful of this as we look at which assets to improve and how to do it. If we think the cost of improving the asset is uneconomical, we may be forced to sell on.

**“All things being equal, it may be better to keep some of the assets that are not aligned with the net-zero transition today but improve them, so they are much cleaner for everybody's benefit.”**

**Sebastian:** Can we return to questions of scale and the importance of disclosure thresholds? Is it not the case that some smaller bodies are exempt from some of the tougher requirements?

**Laurence:** Scale is an issue. For example, some smaller infrastructure projects may not have to disclose, but of course larger professional investors in those projects do. The fact the smaller body is exempt does not take away responsibilities from the larger bodies, which are not.

There are concerns that the disclosure requirements are too heavy for some of these smaller bodies. For example, if your asset turnover is less than £1 million a year, you may not be able to afford the consultants or staffing costs required to make your ESG disclosures.

**Sebastian:** What is your view on the idea expressed by Professor Richard Murphy that countries with net zero established in law have experienced a crystallising event, which should force companies to reveal the costs of transitioning on the balance sheet?

**Laurence:** It is a logical proposal, but if you drill into the detail, the question is hard to answer. Take a software company, for example. How will it disclose how much it will cost to be net zero? It depends how it intends to get there! How will it deliver goods? What vehicles will be used? Will they be electric? Will the power come from renewables?

**“IF WE WANT TO GET TO NET ZERO, THERE ARE STILL A LOT OF UNKNOWNNS, AND A LOT OF TECHNOLOGICAL CHANGE NEEDS TO HAPPEN.”**

If we want to get to net zero, there are still a lot of unknowns, and a lot of technological change needs to happen. We need to be able to reduce emissions drastically but also capture carbon dioxide from the air, and it is not clear how much that will cost. No-one really understands the cost side now: not the government, not big companies and certainly not small software companies concentrating on their own product lines.

Pushing for disclosure is helpful, but it sometimes distracts from the real issue, which is everyone thinking about what they have within their immediate control to help us achieve net zero. The more time we spend on disclosing things that we don't know very much about, the less time we are likely to spend on doing things that have an impact. That said, the move to make climate disclosure mandatory has contributed positively to the finance industry stepping up to the plate.

**Sebastian:** Have we got to the point where changing ‘brown’ assets to green ones makes sense, but clients may be concerned about the reputational risk of retaining these assets?

**Laurence:** Not in the assets we own personally. As we have been focused on sustainability for a long time, the sectors we invest in are generally green – renewables, full fibre broadband and so on. There are investors with blacklists that prohibit them from investing in certain kinds of assets, like roads, because of the pollution. Should we be doing it? That's a live debate.

In my view, it is disingenuous to say: ‘We won't invest in roads anymore’, and then expect an Amazon delivery to come to your door. If we choose not to invest in roads and do not maintain them, what happens then? I think the bigger question is: which roads do we wish to invest in, and what are the conditions that allow us to be comfortable with that? How will the trade-offs between environmental costs and social benefits be made?

Another example of trade-offs is in district heating. On the lending side, there are cases where we lend to district heating, but we have specified we do not wish to see energy inputs from non-clean solutions.

The danger of a pure exclusion approach is that it could create significant moral hazard by leaving assets in the hands of people who are less focused on environmental issues, and that may be detrimental for the clients we serve. Ultimately, we need to make sure our investment strategies are aligned with the transition and we are working to ensure all the assets are aligned, rather than restricting the types of assets in which to invest.

**“The danger of a pure exclusion approach is that it could create significant moral hazard by leaving assets in the hands of people who are less focused on environmental issues, and that may be detrimental for the clients we serve.”**

**“THE ESTABLISHED RENEWABLE SECTORS SUCH AS WIND AND SOLAR ARGUABLY LOOK EXPENSIVE TODAY FOR INVESTORS FOCUSED PRIMARILY ON FINANCIAL RETURNS.”**

**Sebastian:** You spoke about managers' responsibility to clients in terms of delivering returns. Where is the greatest evidence of green premia now?

**Laurence:** The established renewable sectors such as wind and solar arguably look expensive today for investors focused primarily on financial returns. There has been a real rush to buy and that has driven returns down at a point when investment risks have been increasing as subsidies are removed.

**“WHILE RENEWABLES HAVE A LOT OF BENEFITS, IF YOU OBTAIN YOUR ENERGY FROM 100% INTERMITTENT RENEWABLE SOURCES YOU ARE LIKELY TO HAVE BLACKOUTS IN JANUARY BECAUSE WE CURRENTLY HAVE NO WAY TO STORE VAST AMOUNTS OF ENERGY IN AN ECONOMIC AND ENVIRONMENTALLY FRIENDLY WAY.”**

While renewables have a lot of benefits, if you obtain your energy from 100% intermittent renewable sources you are likely to have blackouts in January because we currently have no way to store vast amounts of energy in an economic and environmentally friendly way. So, the more renewables you build out, the less each asset is likely to contribute. Take, for example, a solar asset in the UK; it only delivers power about 10% of the time to the grid, yet every time you build a new asset you use carbon building it, transporting it to the site, installing it and so on.

You must ask yourself if you can go beyond a sector view into an analysis of which assets are good or not good. It is not just a case of understanding if the sector is aligned with the transition, but also asking which specific assets are aligned within the broader asset class. This kind of analysis makes sense from both financial and transition standpoints. And if you own assets that are not aligned, what are you going to do about it?

These are much more nuanced questions than basic sector allocation decisions, but that is what truly sustainable investing is about.

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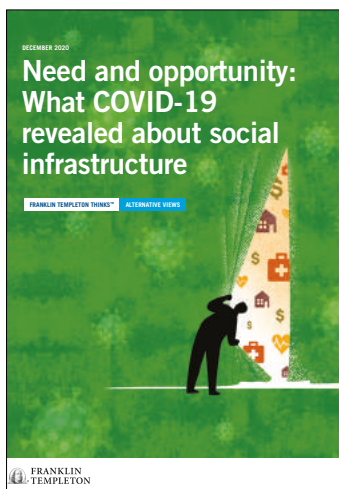
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## Featured Paper from Franklin Templeton:

# Impact Investing in Real Estate: What Covid-19 Revealed About Social Infrastructure



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**“THE PANDEMIC HIGHLIGHTED THAT MANY COMMUNITIES AROUND THE WORLD LACK THE NECESSARY FACILITIES; THINGS LIKE ACCESSIBLE HEALTH CARE FACILITIES AND AFFORDABLE HOUSING, TO COMBAT THREATS LIKE COVID-19 EFFECTIVELY.”**

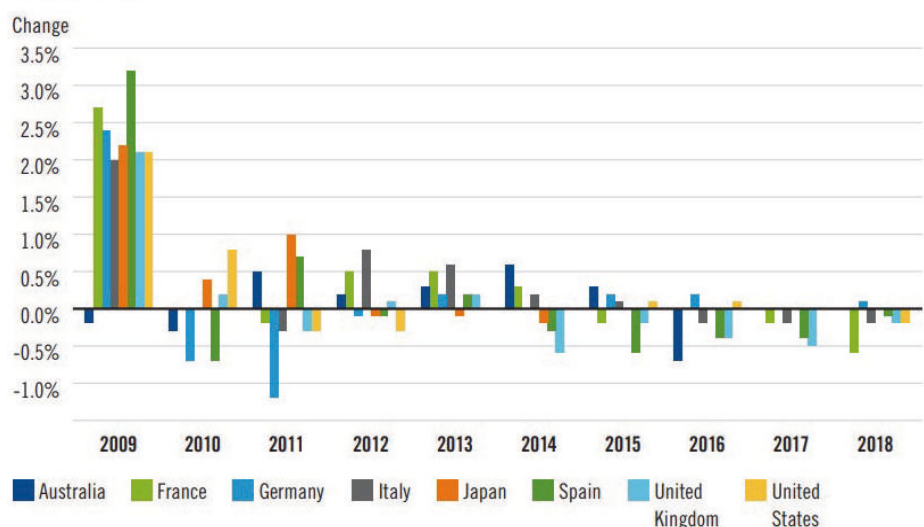
Covid-19 revealed a lot about the world. It drew the curtain back on our ability to deal with a significant global crisis, laying bare systemic weaknesses and exposing structural failures. One such failure pertains to social infrastructure. The pandemic highlighted that many communities around the world lack the necessary facilities; things like accessible health care facilities and affordable housing, to combat threats like Covid-19 effectively. These shortcomings likely contributed to the tragically high levels of sickness and death. While the lack of necessary real estate infrastructure certainly existed prior to Covid-19, the pandemic emphasized the need for increased investment. Looking ahead, we need to address this critical deficit head-on.

### A foundation for resilient communities

Social infrastructure, the buildings that house social services in a community, form the bedrock of healthy and resilient communities. They include health care and education facilities, social and affordable housing, and buildings related to justice, emergency and civic services. These social-purpose structures underpin our cities and neighbourhoods. They contribute to economic growth, employment and social cohesion, while also providing essential services that we all rely on at points during our lives.

### Austerity's global impact on public investments in social sectors

**Exhibit 1:** Social expenditure as percent of GDP in OECD countries, year-over-year change (USD)\*  
2009–2018



Sources: Franklin Templeton, OECD, Macrobond. As of November 2020. \*Note: Australia did not report numbers 2017–2018; Japan did not report numbers 2016–2018.

**“PUBLIC INVESTMENTS ARE NOT SUFFICIENT TO FILL THE SOCIAL INFRASTRUCTURE INVESTMENT GAP. THE SUPPORT OF THE PRIVATE SECTOR IS NEEDED NOW MORE THAN EVER.”**

### A funding shortfall

Over the last decade, beginning with the Great Financial Crisis, public investments in social infrastructure have fallen short. With governments being the traditional financing source in the space, austerity policies post-2008 naturally stifled capital flows. This, coupled with other regional constraints, led to a pronounced absence of social investments, notably in Europe, but in other regions as well, as seen in *Exhibit 1*.

### A need for private real estate capital flows

Clearly, given the dearth of public spending in the space, coupled with the magnified need post-Covid-19, the opportunity for private capital flows into social infrastructure is substantial. While governments have implemented a range of fiscal and quantitative measures to cope with many aspects of the pandemic, social infrastructure funding has not been a priority. Governments alone cannot respond effectively to the crisis on behalf of vulnerable communities; public investments are not sufficient to fill the social infrastructure investment gap. The support of the private sector is needed now more than ever.

### Impact Investing in Real Estate

Social infrastructure has emerged as an important, institutional-scale opportunity for private investors to align their portfolios with societal benefits and achieve competitive financial performance.

In our experience, social infrastructure investments in real estate typically offer predictable, steady returns, and tend to be less exposed to market and systemic risks. The investments may also be less correlated to broader market indexes and other commercial real estate investments. The lower correlation is driven by security on the income.

In addition, the services provided by social infrastructure tenants' businesses are often essential, making them less exposed to market volatility. Therefore, they are less dependent on day-to-day economic activities in their immediate vicinity.

### A bright future

We continue to view the outlook for the sector as bright. Investing in social infrastructure with a focus on impact can yield not only market rate returns, it can also create financial resiliency that improves financial results. Fluctuations in other sectors during the Covid-19 pandemic will likely increase investor interest in income-producing real estate sectors whose tenants' ability to pay rent is less correlated to economic activity. It is still too early to tell, but depending on the severity of the economic fallout, there may be increased sale and leaseback opportunities, as cash-strapped municipalities look to raise funds by selling real estate properties currently held on their balance sheets.

While the pandemic has put much of the world in a literal lockdown, it has also proven the importance of resilient health care and educational systems as well as of sustainable cities and communities. Social infrastructure is crucial to the health and vibrancy of communities, and these vital assets have become indispensable during the crisis. The pandemic has created more demand than ever for impact-focused capital. The lack of adequate funding in social infrastructure, especially in education, housing and health care, is not an isolated problem in a certain region of this world but a global one.

[To download the paper in full click here.](#)



# Boost Your ESG Scores *and* Preserve Your Risk-Reward Results?

Strengthening your sustainability and fiduciary objectives together may be a matter of *how* you implement ESG. Different approaches yield different results.

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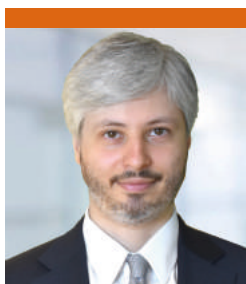


1. ESG portfolio-tilt assets under management as of 30 June 2021. The views presented are as of the date published. They are for information purposes only and should not be used or construed as investment, legal or tax advice or as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. Nothing in this material shall be deemed to be a direct or indirect provision of investment management services specific to any client requirements. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent, are subject to change and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use. Janus Henderson Investors/Intech is the source of data unless otherwise indicated, and has reasonable belief to rely on information and data sourced from third parties. **Past performance is no guarantee of future results. Investing involves risk, including the possible loss of principal and fluctuation of value.** Not all products or services are available in all jurisdictions. This material or information contained in it may be restricted by law, may not be reproduced or referred to without express written permission or used in any jurisdiction or circumstance in which its use would be unlawful. Janus Henderson is not responsible for any unlawful distribution of this material to any third parties, in whole or in part. The contents of this material have not been approved or endorsed by any regulatory agency. Janus Henderson Investors is the name under which investment products and services are provided by the entities identified in the following jurisdictions: (a) **Europe** by Janus Capital International Limited (reg. no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Equity Partners Limited (reg. no. 2606646), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Henderson Management S.A. (reg. no. B22848 at 2 Rue de Biltbourg, L-1273, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier); (b) the **U.S.** by SEC registered investment advisers that are subsidiaries of Janus Henderson Group plc; (c) **Canada** through Janus Capital Management LLC only to institutional investors in certain jurisdictions; (d) **Australia and New Zealand** by Janus Henderson Investors (Australia) Limited (ABN 47 124 279 518) and its related bodies corporate including Janus Henderson Investors (Australia) Institutional Funds Management Limited (ABN 16 165 119 531, AFSL 444266) and Janus Henderson Investors (Australia) Funds Management Limited (ABN 43 164 177 244, AFSL 444268) For use only by institutional, professional, qualified and sophisticated investors, qualified distributors, wholesale investors and wholesale clients as defined by the applicable jurisdiction. Not for public viewing or distribution. For promotional purposes. Janus Henderson, Janus, Henderson, Intech, Knowledge Shared and Knowledge Labs are trademarks of Janus Henderson Group plc or one of its subsidiaries. ©Janus Henderson Group plc.

## Ask the Expert: Intech

# How Can Investors Utilise ESG Scores to Achieve Better Returns?

Vassilios Papathanakos, PhD, is jointly responsible, with Dr. Adrian Banner, CEO and CIO, for day-to-day implementation of the investment process and trading operations at Intech. He holds a PhD, Physics, from Princeton University. Richard Yasenchak serves as proxy for the Portfolio Management Team, providing in-depth insights into Intech's strategies' performance attribution and trends.



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Investor

**Sebastian Culpan-Scott:** Do you believe ESG attributes are a source of excess return or risk?

**Vassilios Papathanakos:** It depends on the application and the investment process, but we feel that ESG attributes are more significant in the role they play as a risk factor that should be considered in portfolio construction. Still, integrating ESG into the investment process does not need to compromise the excess return, regardless of whether ESG is a compensated risk factor or not.

There is debate on defining ESG attributes, which translates to uncertainty on how to properly account for their contribution to portfolio risk. Still, ESG attributes constitute a risk factor that must be managed or controlled. We feel that a statistical approach to ESG that incorporates an assessment of ESG ratings in terms of non-ESG risk factors is the most promising approach.

**“Still, integrating ESG into the investment process does not need to compromise the excess return, regardless of whether ESG is a compensated risk factor or not.”**

**Sebastian:** How would you describe the differences between ESG integration of stock- vs portfolio-driven exposures?

**Richard Yasenchak:** There are two commonly used approaches in ESG integration: stock- and portfolio-driven. Many investors rely on a stock-driven approach to capturing ESG in portfolio construction, which generally relies on excluding companies with the least favourable ESG ratings or overweighting those with the most favourable ESG ratings to achieve a higher portfolio ESG profile. The stock-driven approach is often idiosyncratic and subjective, because which companies are at the bottom depends sensitively on the ratings methodology. Conversely, the portfolio-driven approach targets ESG outcomes at the portfolio level while allowing for the entire investable universe of stocks. This approach to ESG integration is more systematic and objective, because it focuses on more reliable ESG characteristics, which are more stable over time, and more consistent across ratings methodologies.

We believe the stock-exclusion approach generally incurs an unnecessary and steep trade-off between ESG and risk-reward outcomes, which grows as the number of exclusions increases. First, it introduces a greater

**“WE BELIEVE THE STOCK-EXCLUSION APPROACH GENERALLY INCURS AN UNNECESSARY AND STEEP TRADE-OFF BETWEEN ESG AND RISK-REWARD OUTCOMES...”**

potential of uncompensated risks during the short term, as the exclusion ignores the index weights and associated active risk. Second, it reduces the opportunity set available for finding alpha and the diversification required to manage risk. Third, and possibly worst, it may still not result in a consistent ESG profile over time, introducing a level of unintended ESG exposure variability, as shown in the paper. A more effective approach is to identify the ESG goals and then integrate ESG constraints into the portfolio construction without restricting the stock universe. This allows achieving the desired attributes and performance outcomes with greater flexibility and reliability.

**“A more effective approach is to identify the ESG goals and then integrate ESG constraints into the portfolio construction without restricting the stock universe.”**

**Sebastian:** Do ESG attributes impact the risk and return characteristics of the strategy?

**Vassilios:** Yes, we observe a material negative impact on performance when integrating ESG without proper treatment. This is because unmanaged ESG exposures introduce risks that may be uncompensated, i.e., they tend to increase the tracking error without also increasing the excess return. Additionally, unnecessarily heavy-handed implementation of ESG tilts may interfere with seeking alpha opportunities that are not inherently contradicting, i.e., decreasing the long-term excess return without also decreasing the tracking error.

**Sebastian:** How do ESG attributes frame the investment universe of the strategy?

**Richard:** For many investment approaches, ESG integration starts by excluding stocks with low ESG ratings. This stock-driven approach to integration materially restricts the investment universe because of the exclusion of ‘bad’ stocks. Instead, our preference is to preserve the entire investment universe, while also incorporating the additional context on the ESG attributes. This portfolio-driven approach reframes the entire investment universe, instead of restricting it, which helps avoid lopsided risk exposures and unnecessarily reduced alpha opportunities.

**“ESG data doesn’t have to be limited. In a quantitative investing setting, the available historical ESG data can be extrapolated to the beginning of the benchmark indices’ history.”**

**Sebastian:** How do you integrate ESG considerations effectively given historical limitations in the availability of ESG data?

**Vassilios:** ESG data doesn’t have to be limited. In a quantitative investing setting, the available historical ESG data can be extrapolated to the beginning of the benchmark indices’ history. This can be accomplished by relying on statistical analysis to identify the stable characteristics of ESG attributes; this is an essential advantage of quantitative managers.

This statistical analysis also facilitates the integration of ESG considerations by identifying the best approaches to complementing them with other risk constraints to balance the inherent exposures of ESG attributes. This preserves risk-managed diversification at the portfolio level and minimises the interference with the strategy’s performance characteristics.



**“EMPLOYING THE SYSTEMATIC CHARACTERISTICS OF ESG ATTRIBUTES FOR PORTFOLIO-DRIVEN APPROACHES RESULTS IN INCREASED STABILITY BY DESIGN.”**

**Sebastian:** How stable are a portfolio's ESG scores, given the subjective and changing nature of ESG ratings?

**Richard:** For stock-driven approaches, stability is low. Different ESG ratings systems generally have low correlation, and they disagree strongly on which companies have extreme ESG ratings. This means that a portfolio that excludes stocks using one particular ESG ratings system will have an unreliable ESG profile as measured by other approaches.

What's more, the ratings of the 'bad' ESG stocks are particularly sensitive to details of the methodology. They amplify subjective judgments, data errors, even minor changes in the methodology, and other sources of uncertainty. As the stock-driven approach primarily relies on achieving its ESG targets on exclusion, these effects are not balanced and generate a high degree of instability.

On the contrary, employing the systematic characteristics of ESG attributes for portfolio-driven approaches results in increased stability by design. By distilling the objective aspects of the ESG attributes, the portfolio-driven approach ensures that the resulting portfolio shows a clear improvement across multiple ESG ratings systems. Moreover, the focus on persistent characteristics provides stability over time, and robustness against changes in the methodology, data issues, and other sources of instability. Finally, the portfolio focus allows the investment process to accommodate abrupt changes in single-stock ESG ratings by spreading the effect across dozens of other stocks without significant disruption to the overall ESG level.

**“The portfolio focus allows the investment process to accommodate abrupt changes in single-stock ESG ratings by spreading the effect across dozens of other stocks without significant disruption to the overall ESG level.”**

**Sebastian:** Are there limits to boosting ESG scores?

**Vassilios:** Yes, and they depend on how concentrated the portfolio must be to achieve the target ESG boost and how this interferes with excess return and diversification. The more diverse the investable universe, the greater the boost without sacrificing excess return or overly restricting diversification.

'Diversity' here must be understood both in terms of traditional portfolio management (i.e., how many relatively uncorrelated sources of excess return and diversification there are) as well as in ESG terms (i.e., the spread of good-vs-bad ESG ratings available to choose from). For example, in an investable universe composed only of stocks with ratings in the 4-to-6 range, it will not be possible to boost the portfolio ESG rating above 6, no matter the available risk budget.

**“The more diverse the investable universe, the greater the boost without sacrificing excess return or overly restricting diversification.”**

In the paper 'How to Boost Your ESG Scores and Preserve Your Risk-Reward Outcomes', we discuss a case where the investable universe is quite diverse. This allows the portfolio-driven approach to achieve an average ESG boost equal to that achieved by excluding half of the investable universe. However, unlike the stock-driven approach, this ESG boost is reliable over time. It does not come at the cost of material degradation of either excess return or risk control.

“MARKETS RECOGNISE  
NEW GLOBAL ESG  
RISKS THAT IMPACT  
SECURITIES AND PRICE  
THEM ACCORDINGLY.”

“The complexity of regulatory changes in the environmental, social, and governance pillars affects the ratings of companies in the investment universe and the responsibilities of investors implementing ESG policies.”

**Sebastian:** Are the existing ESG approaches sufficient to handle future challenges in the evolving ESG landscape?

**Richard:** Yes, but only with ongoing research and development. The complexity of regulatory changes in the environmental, social, and governance pillars affects the ratings of companies in the investment universe and the responsibilities of investors implementing ESG policies. Furthermore, markets recognise new global ESG risks that impact securities and price them accordingly. This has potential implications for the risk exposures underlying ESG attributes, which are likely to shift materially but unpredictably. The approach employed to implement ESG objectives must be flexible enough to accommodate these shifts, and reliable enough to navigate them without compromising the performance characteristics of a strategy given a series of undesirable outcomes. In our view, the portfolio-driven approach is the only practical solution to these challenges.





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## Featured Paper from Aviva Investors: AIQ: Cleaning up Capitalism



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When the global pandemic took hold in early 2020, economists were quick to label it as an exogenous shock to the system. But this thinking was (and still is) wrong. Just as the global financial crisis did in 2007-09, the pandemic exposed serious flaws and limitations in standard economic modelling.

**“Larger lessons about internalising externalities (or ‘outside’ factors) and sustainability can and should be learned.”**

A more rounded, systems-thinking view of the world would better capture the interconnections between human activity and zoonotic diseases. Regardless of Covid-19’s actual origins, it should not come as a surprise that unbridled encroachment onto the habitats of wildlife would cause the chances of viruses jumping from one species to another to increase. Larger lessons about internalising externalities (or ‘outside’ factors) and sustainability can and should be learned.

ESG, ESG, ESG. It is all clients want to talk about right now. Understandably so. For if we are to deal with some of the world’s greatest challenges, capitalism needs a systems reboot. Many answers and solutions already exist, but with so much noise and complexity, the risk of confusion and unintended consequences looms large, as does the risk of greenwashing.

**“ESG, ESG, ESG. It is all clients want to talk about right now. Understandably so. For if we are to deal with some of the world’s greatest challenges, capitalism needs a systems reboot.”**

Part of the issue is that ESG investing means different things to different people. It ranges from negative and positive screening to integration and stewardship, through to impact investing and market reform initiatives. That is an extremely broad church. However, it is increasingly clear that piecemeal and uncoordinated efforts will not be enough to correct massive market failures like inequality, climate change and environmental degradation. Micro changes require macro changes to be layered on top.

As always, we do not pretend to have all the answers. Instead, we have tried to craft, create and curate the best ideas and opinions on how to best ‘clean up capitalism’. Fittingly, and to avoid the echo chamber issue, we blend both internal and external viewpoints to offer a more rounded view.

**“It is increasingly clear that piecemeal and uncoordinated efforts will not be enough to correct massive market failures like inequality, climate change and environmental degradation.”**

We look at how legal ([‘Law and climate disorder’](#)) and regulatory intervention ([‘Pricing carbon’](#)) are necessary. Beyond stick-based incentives, we explore how positive spillovers from key players can multiply through value chains ([‘Supply-chain ripples’](#)) and the challenges of decarbonising heavy industry ([‘The going gets tough’](#)). This is complemented by wide-ranging [interview](#) with John Elkington.

To download the papers in full please click on the links above.



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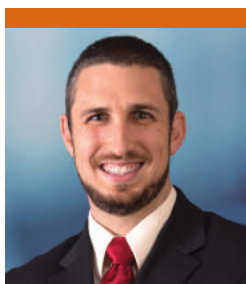
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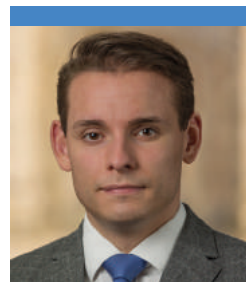
## Ask the Expert: Franklin Templeton Investments

# Creating Impact Through Social Infrastructure Investments

**John Levy is the Director of Impact for Franklin Real Asset Advisors. He is responsible for the thoughtful integration of impact management into the Real Asset team's investment processes. Mr. Levy manages a framework which covers impact goal-setting, measurement, evaluation and reporting. He is a Chartered Financial Analyst (CFA) charterholder and a Chartered Alternative Investment Analyst (CAIA) charterholder.**



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Sebastian  
Culpan-Scott  
Editorial Director, Savvy  
Investor

**Sebastian Culpan-Scott: What is impact investing and why is it important?**

**John Levy:** Impact investing at its core is the most effective way for invested capital to be part of the solution to some of the world's biggest problems. It is defined as intentionally investing for a dual return: financial return, as well as positive and measurable social and/or environmental results.

We don't just measure the impact we have achieved, we intentionally seek out investments that lead to better outcomes for people and for the planet. We manage to achieve this whilst also providing a market rate return.

Investing with purpose is incredibly important because governments and philanthropies do not have enough resources to adequately address the world's largest problems. Issues such as socio-economic inequality and climate change are getting worse, not better, so we need investment capital to do more.

**“Investing with purpose is incredibly important because governments and philanthropies do not have enough resources to adequately address the world's largest problems.”**

**Sebastian: What makes impact investing different from ESG investing?**

**John:** Impact investing aims to provide two types of returns, financial and social/environmental.

Sometimes it is referred to as 'double bottom line investing'. ESG is typically framed as using environmental, social or governance data and analysis to achieve better risk-adjusted financial returns. Impact investing often incorporates the best practices of ESG investing, but also targets specific and measurable outcomes linked to investment and active management.

**Sebastian: How has the pandemic affected impact investing?**

**John:** The pandemic has highlighted institutional failings across the globe. We witnessed healthcare systems being overwhelmed by the pandemic, but we also saw other effects, for instance on the education system. Schools were not ready to teach remotely, and educational outcomes were better for those students and families with more resources.



We know that the pandemic affected women more than men, and that it affected impoverished nations more than developed nations. It made many of our existing problems quite a bit worse.

On the other hand, everyone became even more aware of these issues. Many individuals and organisations that were originally hesitant about taking action are now ready to get involved. It has therefore given us a tailwind in terms of demand for truly impactful investments.

**“We know that the pandemic affected women more than men, and that it affected impoverished nations more than developed nations. It made many of our existing problems quite a bit worse.”**

**Sebastian:** What themes are emerging within impact investing at the moment?

**John:** One of the great things about impact investing is that we’re tackling different problems in different ways. It is typically driven by what asset owners are looking to do.

One of the biggest themes we’ve seen is that there continues to be more and more focus on climate change. This was already a large theme and it continues to gain momentum. For instance, our real estate strategy is Paris-aligned in terms of our goals to aggressively reduce carbon emissions and energy use across our buildings.

The social theme is also emerging. The provision of quality healthcare, quality education and affordable housing are themes that remain top of mind for our investors.

We believe that many of our most pressing challenges are socio-economic, and they are rooted in various forms of inequality. Some investors might think of inequality as just a social problem, not a financial or a capital problem, but we are seeing the inequality gap continue to grow and believe that it is a drag on sustainable long-term growth.

**“We believe that many of our most pressing challenges are socio-economic, and they are rooted in various forms of inequality.”**

**Sebastian:** How can real estate investors approach impact investing?

**John:** We think the best way to tackle environmental and social issues is by investing in social infrastructure assets. These are physical buildings where social services are being provided such as hospitals, health clinics, schools, universities, and affordable and social housing.

When owning these buildings, we look to preserve them through long-term leases, improve them through capital expenditure and tenant engagement, and expand the space for the provision of social services. In many instances, there is a natural alignment of impact return and financial return, as each can reinforce the other. For example, renovations that directly improve the utility of the space for tenants and visitors can both improve the quality of services being provided and increase the value of the physical asset. Another example of a win-win opportunity involves making energy efficiency upgrades. These improvements can reduce service costs while reducing greenhouse gas emissions.

Impact investing in social infrastructure does, however, require investors to be proactive.

**“IMPACT INVESTING  
IN SOCIAL  
INFRASTRUCTURE  
DOES REQUIRE  
INVESTORS TO BE  
PROACTIVE.”**

**“RECENTLY WE’VE SEEN A GROWING INTEREST IN SOCIAL INFRASTRUCTURE, ESPECIALLY IN EUROPE, AS WELL AS IN THE INVESTMENT VEHICLES AVAILABLE TO INVESTORS.”**

There’s a concept called ‘additionality’ where investors must prove that their capital and actions are leading to superior results for communities and the planet.

For instance, it’s not enough to just associate one’s investments with a hospital to claim impact. Instead, impact investors must show how their capital is linked to positive outcomes that were not likely to happen without the investment. We’re not the doctors and the nurses that are directly saving lives, but, as impact investors, we can be highly ‘additional’. Investors can improve the number and quality of the operating rooms, we can provide free travel service to and from the hospital, and we can even buy assets from quality operators and lease them back, thereby freeing up their capital so they may expand into new communities.

Understanding and reporting on our role in creating better outcomes helps investors know that their capital is directly contributing to better social and environmental outcomes.

**“It is important for investors to understand the impact management framework behind an impact strategy and understand how impact is quantified, measured and tracked.”**

**Sebastian:** What should investors consider when investing for impact in social infrastructure?

**John:** Our strategy was launched three years ago, and recently we’ve seen a growing interest in social infrastructure, especially in Europe, as well as in the investment vehicles available to investors. Within real estate, investors might be more familiar with specific sectors like social housing or healthcare. We believe approaching social infrastructure from a broader perspective – across all the subsectors – and with a regional strategy can bring additional diversification benefits.

From our point of view, it is important for investors to understand the impact management framework behind an impact strategy and understand how impact is quantified, measured and tracked. Transparency and authenticity are critical factors for our prospective investors when considering impact investments.

**Sebastian:** Which sectors of real estate are compelling from an impact point of view?

**John:** We’re seeing attractive investments across sectors and regions.

At the moment there are opportunities in social housing; these are stable assets that provide much needed housing at affordable rates. We’re seeing a good number of opportunities in healthcare as well. Italy, in particular, appears to have an abundance of attractive assets in this space.

Job centres have been another area where we have found an attractive intersection of financial value and impact potential. For instance, we own one job centre in Germany that is situated in an area with a very large and growing immigrant population, and a very high unemployment rate relative to the rest of the country. The job centre is therefore critical for providing needed job training, job placement and financial support.

By being selective and seeking opportunities across Europe in various social infrastructure sectors, we have built a strategy that provides three key benefits for our investors. First, we are investing in assets providing essential services to their communities, making them potentially more financially resilient and potentially less vulnerable to market swings. Second, we are providing a diversified portfolio where the drivers of

return for each asset are unique and typically driven by local-market dynamics unrelated to the dynamics in other countries or sectors. And finally, our social infrastructure focus is diversifying for investors that already have exposure to non-social infrastructure real estate such as office, retail, logistics or hospitality assets.

**Sebastian:** How were these assets affected by the pandemic?

**John:** Social infrastructure wasn't hit as badly as other real estate sectors due to demand for these assets being relatively inelastic. People still needed essential services – they needed to go to the hospital, to send their kids to school, and to go to job centres. Real estate sectors that provided less 'essential' services, such as office, retail and hospitality were more volatile.

**“Our strategy is to provide stable income for our investors that is as attractive, if not more so, than what they're getting from their non-impact strategies.”**

**Sebastian:** Within real estate impact investing, are the investment timelines different? Also, are the expected returns different?

**John:** The short answer is no.

We aim to achieve long-term impact and stable financial returns by signing long-term leases with our tenants. Our strategy is to provide stable income for our investors that is as attractive, if not more so, than what they're getting from their non-impact strategies.

From a return perspective, we are strong believers in a concept called 'impact alpha'. A deep focus on Impact can yield attractive returns for investors as many environmental improvements and enhanced social services create short-term and long-term value that is reflected in higher long-term asset values and lower operating expenses. Impact investing can unlock value, and we think that's a competitive advantage.

We care about offering scalable solutions that shift more investment capital towards intentional impact. By providing an attractive dual return, we can help catalyse a systemic shift in thinking about the role played by investors and real estate owners in addressing social and environmental issues.

**“Measuring is such an important part of impact investing because you can't manage and maximise impact if you cannot measure it.”**

**Sebastian:** How can investors measure and manage the impact of their investments?

**John:** Measuring is such an important part of impact investing because you can't manage and maximise impact if you cannot measure it.

Our first step is understanding the current state of each building from an environmental and social perspective, and then showing how we can improve it. We've created a scoring system to assess the current state of a building, and then over time we track how well we have done in improving it.

In reality, it's a bit of a mosaic theory. We aggregate the data when we can, but we also provide case studies and examples. The main way to report is holistically through an annual impact report. In these reports,

**“WE CARE ABOUT OFFERING SCALABLE SOLUTIONS THAT SHIFT MORE INVESTMENT CAPITAL TOWARDS INTENTIONAL IMPACT.”**

**“WE SPEND MUCH OF OUR EFFORTS ON TRACKING DOWN DATA AND THEN ATTRIBUTING IT TO OUR ENGAGEMENTS. IT’S ABOUT GETTING THOSE NUMBERS AND PUTTING THEM IN CONTEXT TO THE EXTENT POSSIBLE.”**

we set portfolio-level targets for items that we can quantify, like carbon, energy, and water. We also set qualitative goals for items like engagement and social value creation.

We spend much of our efforts on tracking down data and then attributing it to our engagements. It’s about getting those numbers and putting them in context to the extent possible.

The somewhat contradictory nature of impact measurement is that when done right, the numbers don’t always look as strong, but we think it’s important to be conservative in our estimates of our true impact. Even when being conservative, our results have been very strong.

**Sebastian:** Is there a universally agreed benchmark within impact investing? And if there isn’t, how can investors ensure their investments are aligning with the Sustainable Development Goals?

**John:** There is no benchmark because it is not an asset class. There are two ways in which investors can ensure that they are achieving their goals.

One of them is third-party verification, which is done by the Operating Principles for Impact Management. This is a leading organisation, where almost every major impact asset manager has signed on to these principles. To join, investors must disclose how they align with the principles, and even provide third-party verification.

This act of disclosure and verification is a welcomed development because there is so much greenwashing in our space, and it has been difficult for asset owners to differentiate the real from the fake.

The Sustainable Development Goals (SDGs) are another valuable tool when assessing impact managers. They help us provide specificity when communicating and reporting on our impact investments as they act as a common language for institutional investors and asset managers. Our strategy targets six of the 17 SDGs and we go beyond simple alignment and instead focus on real contributions. That starts with an understanding of which SDGs are being addressed, but then turns our attention to how we contribute to the achievement of the goals examining the specific targets and indicators beneath.

**“We believe impact investing is still in its infancy and will continue to grow exponentially across multiple asset classes.”**

**Sebastian:** What is your outlook for impact investing going forward?

**John:** We believe impact investing is still in its infancy and will continue to grow exponentially across multiple asset classes. We are showing that investors now have opportunities to align their capital with solutions to the world’s largest problems. This is a game changer that we believe will push investors towards a broader acceptance of stakeholder capitalism and an acknowledgment of the positive potential power of our investment capital.



# Savvy Investor's Top Recent ESG Papers



## TOP RECENT ESG PAPERS

The following table features 30 of the top ESG papers uploaded to the Savvy Investor site.

ESG data and ratings continue to grow in importance, and the topic itself is continuously gaining momentum within the investment industry. CFA Institute and IOSCO provide an overview of ESG ratings, and discuss why these ratings can be beneficial to not just companies, but to the entire planet! They also highlight areas within ESG ratings where improvements can be made.

Bridgewater Associates and S&P Dow Jones Indices share their assessments of companies' net-zero targets, and outline the challenges of reaching them. They also discuss how they use this data in order to make investment decisions.

A number of papers also discuss the challenges facing ESG investors, global water risks, and ESG investing with emerging market debt.

## SAVVY INVESTOR'S TOP RECENT ESG PAPERS (BY DATE)

PAPER TITLE	DATE
<a href="#">How to Boost ESG Scores &amp; Preserve Risk Reward Outcomes (Intech, 2021)</a>	27/09/21
<a href="#">What Covid-19 Revealed About Social Infrastructure (Franklin Templeton, 2021)</a>	27/09/21
<a href="#">Exploring the Links Between ESG Supervision and Performance (NN IP, 2021)</a>	07/09/21
<a href="#">FAQ: S&amp;P Paris-aligned &amp; climate transition indices (S&amp;P Dow Jones Indices, Sep 2021)</a>	07/09/21
<a href="#">Assessing the Viability and Value of ESG Investing in EM Debt (Invesco, Sep 2021)</a>	02/09/21
<a href="#">Net Zero and Broad ESG in One Index (S&amp;P Dow Jones Indices, Sep 2021)</a>	01/09/21
<a href="#">What Will the Global Push to Net Zero Mean for Oil? (Bridgewater Associates, 2021)</a>	31/08/21
<a href="#">How Asset Owners Can Go from Net Zero to Climate Leadership (BCG, 2021)</a>	31/08/21
<a href="#">ESG Ratings and Data Products Providers (IOSCO, 2021)</a>	31/08/21
<a href="#">ESG and Expected Returns on Equities: The case of environmental ratings (Wharton Pension Research Council)</a>	31/08/21
<a href="#">Pricing Carbon: Taxing polluters is the only way forward (Aviva Investors, Aug 2021)</a>	31/08/21
<a href="#">Deep Water Waves: Five long-term drivers that face investors (Franklin Templeton, Aug 2021)</a>	31/08/21
<a href="#">The Going Gets Tough: Can heavy industry decarbonise? (Aviva Investors, Aug 2021)</a>	26/08/21
<a href="#">Country Sustainability Visibly Harmed by Covid-19 (Robeco, 2021)</a>	25/08/21
<a href="#">Climate-related Risks and Opportunities: An asset manager perspective (Norges Bank, 2021)</a>	24/08/21
<a href="#">ESG Score Predictor: Applying a quantitative approach for expanding company coverage (Moody's, 2021)</a>	24/08/21
<a href="#">Net Zero: Managing the wider impact of economic and capital displacement (Franklin Templeton, Aug 2021)</a>	19/08/21
<a href="#">Webinar: Putting climate talk into action (PGIM &amp; MSCI, Jul 2021)</a>	18/08/21
<a href="#">Integrated ESG and the Role of Thematic Strategies in Asset-Owner Portfolios (Greenwich Associates, 2021)</a>	17/08/21
<a href="#">Video: Challenges Facing ESG Investors – The risk &amp; return challenge (QMA, Aug 2021)</a>	11/08/21
<a href="#">ESG Ratings: Navigating through the haze (Enterprising Investor blog, Aug 2021)</a>	10/08/21
<a href="#">Climate Change's Impact on Global Banks: A matter of degrees (Wells Fargo AM, Aug 2021)</a>	09/08/21
<a href="#">Cryptocurrencies and ESG: A contradiction in terms? (Candriam, Jul 2021)</a>	06/08/21
<a href="#">The Investment Case for Net Zero Buildings (LGIM, 2021)</a>	04/08/21
<a href="#">Water Risks in South Asia Impact on Emerging Market Sovereign Debt (Wells Fargo AM, 2021)</a>	04/08/21
<a href="#">ESG in Credit (Fitch Ratings, 2021)</a>	03/08/21
<a href="#">Valuing Biodiversity: The tools at our disposal (Manulife IM, Jul 2021)</a>	02/08/21
<a href="#">Sustainability in the UK (FTSE Russell, 2021)</a>	02/08/21
<a href="#">Introduction to Net Zero (Amundi, 2021)</a>	30/07/21
<a href="#">Emerging Markets and the Case for Sustainable Investing (Manulife IM, Jul 2021)</a>	30/07/21

## About Savvy Investor:

# The world's leading knowledge network for institutional investors



**OUR FOCUS IS ON ENABLING INSTITUTIONAL INVESTORS TO IMPROVE THEIR INVESTMENT PROCESSES AND TO WORK SMARTER.**

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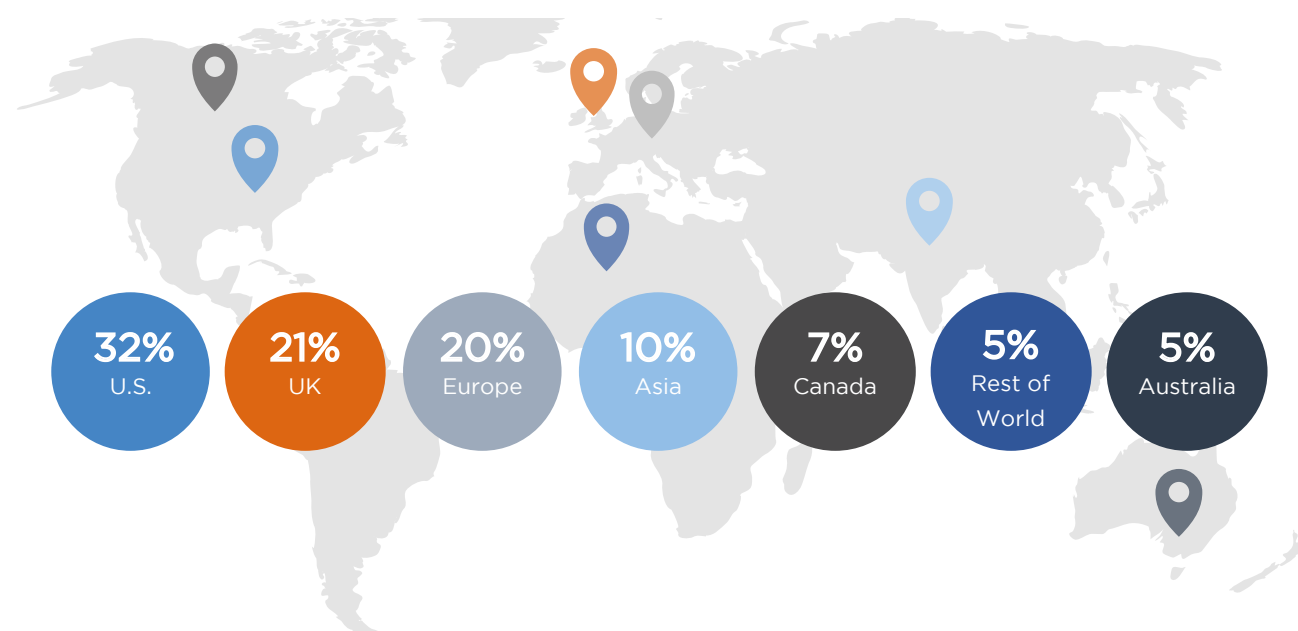
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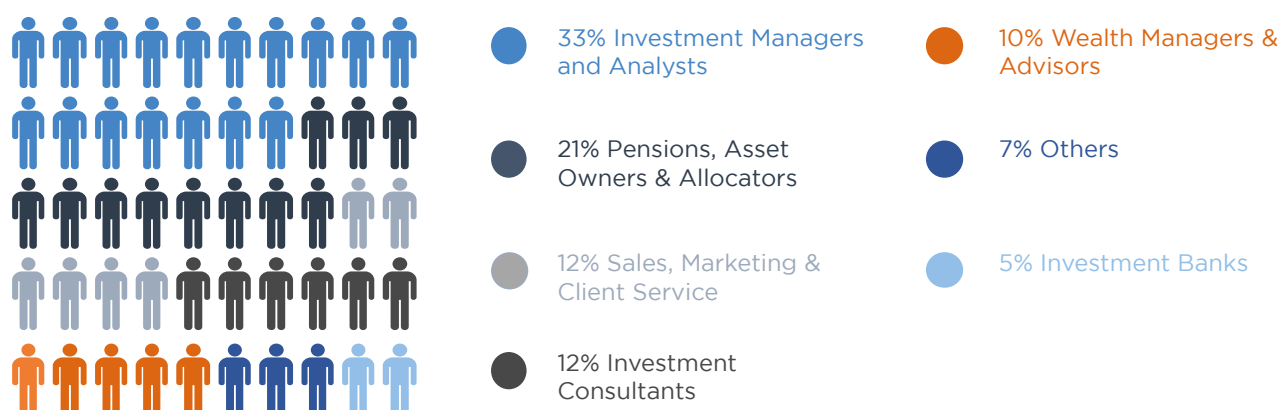
## About Our Membership:

# Breakdown of Savvy Investor Membership

### MEMBERS BY GEOGRAPHY

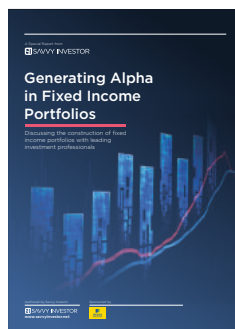


### MEMBERS BY JOB TITLE





# Editorial Schedule



## October 2021

Quant Investing  
Emerging Market Outlook



## November 2021

ESG Investing  
Equity outlook



## December 2021

Savvy Investor Awards

## January 2022

2022 Investment Outlook

## Subject to demand (at any time)

The Business of Asset Management  
Insurance Asset Management  
Asset Allocation Quarterly  
Fund Management Technology  
Quant Strategies

Other topics upon request...



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## Special Report

# Effective ESG: Strategies for doing well by doing good

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