



Impact Reporting for Impact Investing: State of the Art Portfolio Analysis

July 25, 2017

San Diego Impact Investors Network (SDIIN) activates investment capital to drive community solutions with a goal \$100M of impact investment in San Diego County by 2025. Housed at San Diego Grantmakers, SDIIN connects philanthropic and investment professionals and enthusiasts through networking and educational gatherings; coordinates working groups to identify and fill gaps on the investor and investee sides of the ecosystem; and showcases current deal flow in San Diego County.

Bruno Bertocci brings 20 years experience to his work, which lies primarily in the equity space where he oversees UBS's team for sustainable and impact investing. Past experience includes positions with the Rockefeller family office and T Rowe Price. UBS manages \$6 billion in sustainable assets and about \$380 million of that comprises individual ("private") client funds. The rest is institutions, endowments, foundations, etc.

What appears below is a summary of what Bruno shared and the discussion that followed.

PROJECT OVERVIEW: The field of impact analysis has become sounder over time in its approach to encompassing intentionality, measurement, and engagement.

For a project undertaken on behalf of a large Dutch pension fund, UBS entered a multiyear research partnership with Harvard School Public Health and City University of New York to:

1. Build portfolio of marketable securities that could produce a competitive return
2. Select a universe of stocks based on companies that create measurable impact in: environment, health, water, food security (based on investors' interests and aligned with UN Sustainable Development Goals)
3. Measure the impact; impact is measured in the affect on human lives. It is not the "gigatons of CO2" (not interesting) and it is not the "financial value of a life" (fraught)

GOLD STANDARD MODEL for IMPACT MEASUREMENT: Wind energy example

Many metrics exist. For example, air pollution is statistically correlated to negative health impacts, so regulators use that information to define emission rules.

- Know how much power each turbine produces
- Geolocate every turbine made
- Use Harvard model that shows generating grid by country/region (e.g., x% by coal, hydro, gas)
- We know pollutants emitted by each element on the grid
- If you put a new wind turbine where it *displaces* dirty energy capacity, you create a positive impact; if you put it somewhere that energy already clean, no impact
- Determine how many people now have clean rather than dirty energy based on population in the location of the new turbine, you have a **measureable incremental positive impact** on human lives. As long as the turbine is connected to the (national) grid, it reduces pollution regardless of location.

CONSIDERATIONS FOR EACH IMPACT GOAL

Health

- FDA records list every company that addresses disease and the efficacy of the intervention
- Calculate impact based on the efficacy of the intervention
- Stack up all the pharmaceutical companies and assign impact based on their IP
- Excluded pricing because it can't be influenced, though clearly cost varies around the world

Water

- Includes cleanliness, availability, and delivery
- Wastewater recycling companies in the portfolio include filtration technology, metering, pumping
- Brazil example: 60 % of water disappears between plant and home due to leaky pipes
 - A metering company has positive impact by identifying where water exits the system; then infrastructure can be fixed to recapture that water, increasing delivery
- India example: the water table has fallen by >15 meters over 20 years, so all factors are at issue

Food Security – this one is tricky!

- Healthy food is problematic to measure
 - Availability not the metric; it's what people buy, what they eat, and why
 - Organic lettuce not the issue, it is people buying any lettuce and then eating it
- Conundrums of increased availability offset by negatives
 - Grow US crops and ship globally but destroy other place's local agriculture economy
 - Increase crop yield but negative impact of fertilizer, pesticide, GMO, etc.
- Locally (developed country): lack of fresh food or nearly expired food is problem but these might not warrant inclusion in a portfolio; one may still wish to invest if your goal is to have a local impact (vs. maximize impact in a global portfolio)

WHAT IMPACT MIGHT THIS HAVE ON SOCIETY

1. Activate capital

- a. Proven: can organize a liquid portfolio with market-rate returns for which can measure impact => energize bulk of pension fund (trillions rather than billions): evolution from the previous notion that a pension fund has no social purpose. World's 20 largest pension funds have expressed interest.

2. Achieve a social change

- a. *Corporate governance*: If capital moves to positive impact companies, cost of capital will go down for those that can demonstrate impact and up for those that cannot, so there will be an incentive for companies to seek positive impact
- b. *Political advocacy*: Politician says shutting down coal plants puts people out of work; calculate human lives cost of coal generation vs people mining the coal would lead you to see net gain if you shut the plant down (and even pay the coal miners to not work)

WHAT COMES NEXT

UBS can now measure the impact of all 50 stocks in the project portfolio. Next:

- Identify metrics for the entire universe of marketable securities (about 2,700 in US; 5,000 including emerging markets)
 - Goal 1: use as output: An impact report card can be created for any portfolio
 - Goal 2: use as input: A person can design a portfolio that has a certain impact
- Retail fund that uses this measurement technique (Fall 2017) and considering ETF
 - Automate more of the measurement
 - Simplify the reporting for a more digestible investor

This event was educational and conversational in nature and nothing recorded here should be taken as advice or recommendation, nor has it been vetted for accuracy.