IMPACT MANAGEMENT PROJECT

THE INVESTOR'S PERSPECTIVE

How an asset manager can map its portfolio by the effects it has on people and planet – and what we can learn from this.

PGGM

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INTRODUCTION

Contents

The Impact Management Project is a collaborative effort by over 700 organizations, from across the impact value chain globally, to agree some shared fundamentals for how we talk about, measure and manage impact – and therefore our goals and performance.

If we can agree on these shared fundamentals for describing the effects that different underlying businesses – or portfolios of businesses – have on people and planet, it will be easier for investors to understand the different options available to them within each asset class. Investors can then build a portfolio that allows them to achieve their impact goals within the constraints of their financial goals.

PGGM has a total of €220 billion of assets under management, as the manager of the second biggest pension fund in the Netherlands, PFZW, as well as a few smaller pension funds. In working with the Impact Management Project, PGGM sought to more accurately understand and communicate what impact their investments are making, and precisely what their role has been in the process.

PGGM has mapped its portfolio in terms of effects on people and the planet. The results, along with insights we gained along the way, are showcased in this paper, in the hope that we can contribute to the ongoing discussion about how best to categorise investment products by their impact.

This report has been co-authored by PGGM and the Impact Management Project team. Please direct any feedback or further enquiries about this report to:

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CONTEXT SETTING

Shared fundamentals for understanding impact

In finance, we use shared fundamentals to describe our expected level of return, volatility and liquidity (etc.) and manage against our respective financial goals. We also use asset classes, which group investments with similar financial characteristics, to facilitate alignment with investor expectations. Financial capital flows and the investment management ecosystem have grown, not just because we have common accounting standards, but because we have developed these shared fundamentals for communicating and aligning our expectations. It would be impossible to uphold any notion of “fiduciary duty” without this shared understanding.

All businesses – and therefore all investments – have effects on people and planet, both positive and negative. Through the Impact Management Project we reached a consensus that our impact is the combination of our **material effects on people and planet.** To understand these effects we need to consider performance across **5 dimensions** and then set goals to manage material effects. Effects are material if they:

1. **Relate to important positive or negative outcomes (WHAT)**.

2. **Are significant (HOW MUCH)**, based on:
   - **how deep** the effect is, based on data about whether the effect is a deep or marginal driver of the outcome
   - **how many** people the effect occurs for,
   - **how long** the effect lasts for,
   - **how quickly** the effect occurs

3. **Occur for underserved people or the planet (WHO)**, where ‘underserved’ is defined as a population, species or the planet that does not currently experience the important positive outcome (WHAT) that the effect relates to. Where the effect is related to a negative outcome (WHAT), people or the planet are underserved insofar as they experience this effect. For example, the planet is always underserved in relation to important negative outcomes (e.g. resource scarcity or climate change).

When deciding if and how to manage the material effects we are having, we also consider:

4. **Whether our role makes the effect better or worse than what would likely occur anyway (CONTRIBUTION)**, by benchmarking whether the effect:
   - leads to more important positive or negative outcomes than are currently occuring for people or planet (WHAT), *and/or*
   - is more or less significant than the effect that people (or the planet) are currently experiencing, in terms of depth or the number of people it occurs for, or how long it lasts for, or how long it takes to occur (HOW MUCH), *and/or*
   - occurs for people (or the planet) who are more or less underserved than those currently experiencing it (WHO)

5. **The likelihood that the effect is different from our expectation (RISK).**

Figure 1: Five dimensions of impact

WHAT	HOW MUCH	WHO	CONTRIBUTION	RISK
What outcomes(s) does the effect relate to, and how important are they to the people (or planet) experiencing it?	How significant is the effect that occurs in the time period?	Who experiences the effect and how underserved are they in relation to the outcome(s)?	How does the effect compare and contribute to what is likely to occur anyway?	Which risk factors are material and how likely is the effect different from the expectation?
1	2	3	4	5

For examples on each dimension please follow this link.

CONTEXT SETTING cont'd

How can businesses describe their expected impact?

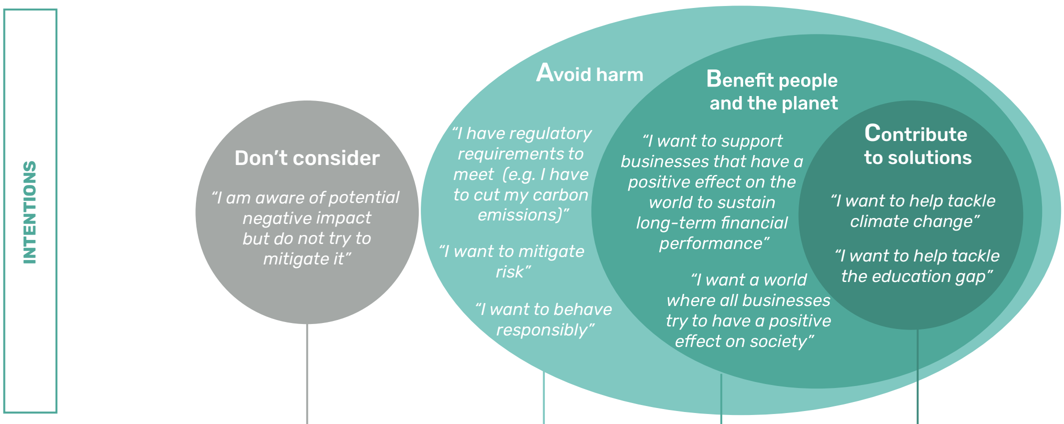
These five dimensions help us all to understand a business's material effects on people and planet - and therefore help investors to select investments that are most likely to meet their impact goals.

In practice, most business models generate a range of good and bad effects. For example, businesses with harmful products or sourcing practices might support high quality jobs in an economically distressed community. Conversely, business models that provide life-saving services might cause significant environmental emissions, nonbiodegradable waste, or require animal testing. Since positive and negative effects do not cancel each other out (except in cases such as carbon emissions), impact management can involve businesses and their investors having to decide that achieving a certain material positive effect is worth generating a possible negative effect. But impact management will also involve setting goals to try to mitigate that negative effect over time.

The extent to which businesses set goals to prevent negative impact and increase positive impact depends on their **intentions**. These typically fall into one of three broad categories:

- Those who try to avoid harm to their stakeholders, either because they care about being responsible citizens or because they want to mitigate risk, or both
- Those who do not just try to avoid harm but also want to generate benefits for their stakeholders, either because they believe businesses that have positive effects on the world will sustain long-term financial performance or because they believe that businesses should serve society, or both
- Those who try to avoid harm and generate benefits for their stakeholders but also want to contribute to solutions to specific social or environmental challenges for a particular stakeholder group.

Figure 2: Mapping intentions to high-level impact goals of businesses



BUSINESSES' GOALS ACROSS THE 5 DIMENSIONS OF IMPACT

WHAT	Important negative outcomes	Important negative outcomes	Important positive outcomes	Specific important positive outcome(s) AND
HOW MUCH	Various	Marginal and For few	Various	Deep, and/or for many and/or long-term AND
WHO	Underserved	Underserved	Various	Underserved
CONTRIBUTION	Likely same or worse	Likely same or better	Likely same or better	Likely better
RISK	Various	Various	Various	Various
	May have significant effects on important negative outcomes for underserved people and the planet	Try to prevent significant effects on important negative outcomes for underserved people and the planet	Have various effects on on important positive outcomes for various people and the planet	Have a significant effect on specific important positive outcome(s) for underserved people or the planet

How can investors describe their contribution to the impact of the business?

The impact goals of an investment are a function of the impact goals of the underlying business, or portfolio of businesses, that the investment supports (as shown on the previous page), plus the contribution that the investor makes to enable the business(es) to achieve those impact goals.

Investors use a variety of strategies to contribute to businesses' ability to generate impact. There was consensus from the Impact Management Project that it is helpful to indicate up-front which strategies an investor intends to employ. Investors can:

+ **Signal that impact matters**: choose not to invest in or to favour certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing-in' of effects on people and planet by the capital markets more broadly. Some people think of this as 'values alignment'.

+ **Engage actively**: use expertise and networks to improve the environmental/societal performance of businesses. Engagement can cover a wide spectrum of approaches - from dialogue with companies to investors taking board seats and using their own team or consultants to provide hands-on management support (as often seen in private equity). A significant dialogue with companies, including about environmental, social and governance factors, is a normal part of the fund management process. However, the phrase 'engage *actively*' reflects a strategy that involves, at a minimum, significant proactive efforts to improve businesses' effects on people and the planet.

+ **Grow new or undersupplied capital markets**: anchor or participate in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity or *perceived* disproportionate risk. In public equities, bonds or infrastructure, an investor might move from holding mainly well-subscribed issuances (which is just a signalling strategy) to participating in a higher proportion of undersubscribed issuances.

+ **Provide flexible capital**: recognise that certain types of businesses will require acceptance of lower risk-adjusted return in order to generate certain kinds of impact. For example, creating a new market for previously marginalised populations might require very patient capital that cannot offer a commercial return.

The types of contribution that we make are driven by our constraints as much as our intentions. For example, a retail investor, who does not have the expertise to engage directly with businesses and who needs a greater level of liquidity, may be satisfied with making a different type of contribution than that which a non-profit organisation or ultra-high net worth individual might want to make.

An investor's intentions inform the impact goals they set across the five dimensions, as shown in Figure 3 (p.6). Taken together, the five dimensions therefore provide a lens for an investor to understand the impact goals of different businesses and the extent to which investment in those businesses fits with the investor's own intentions.

The dimensions are equally useful for investors whose impact intention is driven by risk mitigation. For example, investors in large consumer goods corporations, who want to reduce the risk that their raw commodities are not sufficiently available, will want to know whether they are having a significant effect on important negative outcomes for farmers (WHAT and HOW MUCH), who their farmers are and how underserved they feel (WHO), whether the corporation is in a position to make the situation better than it would likely be otherwise (CONTRIBUTION) and how confident they are about these effects (RISK).

CONTEXT SETTING cont'd

Describing the impact goals of an investment based on the five dimensions

The table in Figure 3 (below) brings together the impact goals of the businesses being invested in and the strategies that investors use to contribute to impact. This allows us to plot the landscape of relevant investment options currently available to investors. An investor can plot their existing portfolio and then, over time, transition that portfolio to be impactful in the way that best suits their intentions and constraints.

Figure 3: The landscape of investment opportunities

IMPACT GOALS

	Avoid harm	Benefit stakeholders	Contribute to solutions
WHAT	Important negative outcomes	Important positive outcomes	Specific important positive outcome(s) *AND*
HOW MUCH	Marginal and for few	Various	Deep, and/or for many and/or long term *AND*
WHO	Underserved	Various	Underserved
CONTRIBUTION	Likely same or better	Likely same or better	Likely better
RISK	Various	Various	Various
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		E.g. Positively-screened private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people;
Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

+ INVESTOR'S CONTRIBUTION

Competitive risk-adjusted financial returns

FINANCIAL GOALS

PGGM

PGGM mapped their entire portfolio as best they could with the data that they receive from their investee intermediaries or organisations. The rest of this paper showcases PGGM's learnings and findings as a result of this process.

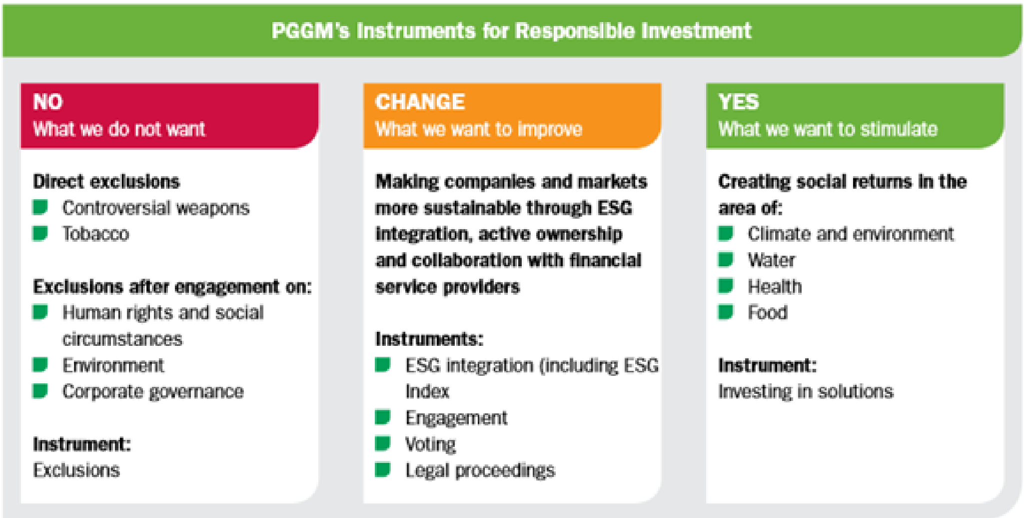
PGGM ILLUSTRATION

Context

PGGM's intentions have evolved over time. It began by excluding investments that do harm, through negative screening or accounting for 'ESG externalities'. Today, through its proprietary CO2 Index (based on Trucost emissions data), it also excludes from its portfolio persistent violators of the Global Compact Principles, as well as the least carbon-efficient companies. In addition, it tries to minimize negative impacts on people and planet through active ownership of its investments, engaging with its investees.

It also seeks to contribute to solutions for social and environmental challenges through its 'Investments in Solutions' programme.

Figure 4: PGGM's Instruments for Responsible Investment



The 'Investments in Solutions' programme (*BiO* in the Dutch abbreviation) covers four themes: climate change and pollution, food security, healthcare and water scarcity. PGGM's main client PFZW, the Dutch pension fund for the healthcare and well-being sector, has publicly committed to putting €20 billion towards these themes, which map to five Sustainable Development Goals (SDGs). To date PGGM has invested c.€12 billion towards the €20 billion target set for 2020.

Focus area	Climate change, pollution and emissions	Food security	Healthcare	Water scarcity
Related SDG	7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION

Defining 'Investments in Solutions' (BiO):

To encourage more capital towards SDG-related investments, PGGM - in conjunction with other Dutch and Swedish pension fund managers - proposed a definition for what constitutes a 'Sustainable Development Investment'. With the Dutch pension fund APG, this definition includes a set of 'taxonomies' - a list of investible solutions for the different SDGs, as well as a process to select or identify potential solution providers (companies).

The selection criteria PGGM use to select 'Sustainable Development Investments' consider four of the *five dimensions of impact* recognised to be fundamental to understanding impact.

PGGM ILLUSTRATION

Finding the dimensions in PGGM's SDI framework:

In collaboration with APG, PGGM has developed a series of criteria for assessing whether an investment can be categorised as a Sustainable Development Investment. The table below shows how these criteria align with the five dimensions of impact:

Dimension of impact	PGGM's SDI framework criteria
WHAT	**1. Is it a positive contribution to a Sustainable Development Goal?** Does the project or company contribute to an important outcome, as identified through the SDGs? PGGM targets zero hunger (SDG 2), good health and well-being (SDG 3), clean water and sanitation (SDG 6), affordable and clean energy (SDG 7), and responsible consumption and production (SDG 12).
HOW MUCH	**2. Is the contribution substantial, in terms of the significance of the effect?** How significant is the effect in terms of depth, scale, duration and rate? Given the lack of publicly available data, PGGM uses sales figures to ascertain the extent to which the desired impact is a core function of the business, or its market share. For its actively managed portfolio of listed equity investments in solutions, PGGM constructs and annually updates an assessment of the likely significance of the effect. Companies are categorised in three ways: • 'Majority plays' - more than 50 per cent of the company's turnover is derived from solutions as per those taxonomies. • 'Decisive plays' – the company has a large market share or offers a unique solution to a specific problem (such as a technological innovation or a certain medicinal product) • 'Acknowledged Transformational Leader' - if the company has a positive halo effect on its sector or value chain in other ways than through its products or services. Such an effect must be rooted in a sustained strategy to create positive effects on its stakeholders (such as clients, suppliers, peers or the wider market), in a way that shows leadership.
CONTRI-BUTION	**3. Is the contribution substantial, compared to what might have occurred anyway?** PGGM targets themes (that cover SDGs) that are under-invested, and assumes that provided the 'right' solutions are produced at large-enough scale (in terms of sales, market share or leadership), the business's contribution will be substantial. That assumption must be affirmed however, through impact measurement. PGGM allows each company to choose the appropriate benchmark, as long as their rationale is transparent and defensible. However, the absence of good data across the 'what', 'how much' and 'who', prevents PGGM being able to benchmark impact perfomance accurately (*see the section on 'who' below*).
IMPACT RISK	**4. Is there a serious known conflict with other SDGs or RI policy objectives?** What is the likelihood of unexpected impact occuring? To lower the unexpected impact risk, fund managers are required to provide an explicit qualitative consideration of whether the positive impact outweighs the negative impact. In going through this process, fund managers are being held to account for all material effects, positive and negative, reducing the likelihood of unmanaged material negative effects occurring for people and the planet. PGGM do not assess other impact risk factors (see appendix).
WHO	***PGGM does not explicitly consider how underserved the people or planet are, who will likely experience the outcome(s). See page 11 for the repercussions of this.*** *Besides using their taxonomies to target important outcomes that are widely needed, PGGM does not target populations or demographics with a specific level of need. PGGM finds it hard to obtain data to make a judgement about how underserved the people experiencing the outcome are. However, this judgement is easier where the planet is the beneficiary, as the planet is always underserved with regard to certain important positive outcomes.*

PGGM ILLUSTRATION

An example of using the SDI framework

When PGGM looks for investments that drive the theme 'healthcare' (SDG 3), it does not assume that any investment in healthcare is relevant - since the outcome area (SDG) only comprises one of the five dimensions of impact (the "What"). PGGM seeks to support businesses that not only set goals to prevent material negative effects, but also set goals to have a significant effect ("How Much") on the health of underserved people ("Who") - resulting in an improvement of the experience of people and the planet relative to what would otherwise happen ("Contribution").

For example: AstraZeneca, the British-Swedish pharmaceutical company, is an example of PGGM's "Investments in Solutions" (BiO):

1. **WHAT:** The company develops and produces medicines for gastrointestinal disorders, cardiovascular diseases, nerve and respiratory diseases, diabetes, cancer and infectious diseases. Cancer, cardiovascular diseases, infectious diseases and respiratory diseases and diabetes are included in the World Health Organisation's list of most life-threatening disorders. The company therefore contributes to good health and wellbeing (SDG3).

2. **HOW MUCH**: Over 60% of AstraZeneca's turnover comes from medicines to treat cancer, cardiovascular diseases, infectious diseases and respiratory diseases and diabetes. This makes the effect likely to be significant according to PGGM's methodology.

3. **CONTRIBUTION**: Practically, as an institutional investor with thousands of companies in its portfolio, PGGM does not have the resources to construct a baseline of comparable companies for each of its potential investments, nor is PGGM able to obtain sufficient data on 'who' is reached by AstraZeneca's products. Therefore, in this instance, PGGM considered quantity, quality and access and asked AstraZeneca to construct a defensible benchmark to understand perfomance on this basis.

4. **IMPACT RISK**: AstraZeneca ranks 7th on the access to medicine index; so PGGM has concluded that the impact opportunities of this investment outweigh the risk of negative effects, which PGGM will seek to mitigate through active engagement.

   WHO: *PGGM considers all patients suffering from life-threatening diseases underserved with regard to good health. In addition, together with 12 other companies, AstraZeneca has signed a treaty in which it has promised a coordinated action to combat NTDs (or Neglected Tropical Diseases), which is specifically aimed at underserved groups of people. However, PGGM has not yet been able to establish whether the most underserved people can access this medicine.*

Based on this assessment, PGGM classified this investment as 'Benefit Stakeholders'.

PGGM's reflections on its framework

In mapping its framework to the dimensions, PGGM realised that it does not set goals around the 'who' dimension when selecting investments, which also affects PGGM's ability to understand whether the business is contributing to impact that would likely not have occurred anyway ('contribution'). Therefore PGGM's 'Investments in Solutions' (BiO) are split across two high-level impact goal categories, as shown in the illustration on page 10. In order to communicate and manage its impact effectively PGGM is committed to encouraging investees to disclose more data on the five dimensions of impact so that it can understand its impact goals more clearly (see page 13).

PGGM ILLUSTRATION

PGGM's portfolio can be mapped by its impact goals

PGGM's constraints

Fiduciary obligations make PGGM a 'pensions first' asset manager. However, with a long-term investment horizon, it has some leeway to target specific SDGs (i.e. under-invested solutions for not-yet-financial megatrends). With AUM exceeding €200 billion and an ambitious goal of committing €20 billion to "Investments in Solutions" by 2020, PGGM relies on public markets (listed equities and bonds) and larger transactions in private markets (notably infrastructure, real estate and private equity). It cannot deploy flexible capital to small funds that may be dedicated to specific impacts at the potential expense of risk-adjusted returns.

PGGM's investor contribution

Based on these constraints, across PGGM's whole portfolio, it typically 'signals that impact matters' (50%) and 'engages actively' (28%) to contribute expertise and help companies measure their impact. It believes that 8% of its invested capital is growing new or undersupplied capital markets (with the remaining 12% possibly contributing to negative effects). When PGGM is investing through external managers (e.g. in Private Equity), it can't reach out directly to the businesses for impact information or to influence - so it must rely on the external manager. This means PGGM's scrutiny of the external manager's impact management process really matters.

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).

IMPACT GOALS

INVESTOR'S CONTRIBUTION	AVOID HARM	Allocation in € bln.	Allocation in %	BENEFIT STAKEHOLDERS	Allocation in € bln.	Allocation in %	CONTRIBUTE TO SOLUTIONS	Allocation in € bln.	Allocation in %
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	Listed Real Estate	12	5.6%	Mortgages*	1.7	0.8%	Private Real Estate - BiO Climate	0.3	0.1%
	Private Real Estate	12	5.8%	Private Real Estate - BiO	0.1	0.0%	Private Equity - BiO Climate	0.2	0.1%
	Private Equity	9.9	4.8%	Other Equities - BiO	0.5	0.2%	Other Equities - BiO Climate	0.3	0.1%
	Government Bonds	39	18.9%				Cash BiO**	0.1	0.0%
	Other Equities	4.2	2.0%						
	Alternative Equities Strategies	18	8.7%						
	High Yield Developed Markets	4.8	2.3%						
	Insurance Linked Investments	3.7	1.8%						
	Total	**103**	**50.0%**	**Total**	**2.3**	**1.1%**	**Total**	**0.9**	**0.4%**
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	Developed Market Equities	25	12.0%	Investing in Solutions Equities - BiO	6.4	3.1%	Investing in Solutions Equities - BiO Climate	1.5	0.7%
	Emerging Market Equities	8	3.9%						
	Developed Market Credits	6.7	3.2%						
	Emerging Market Credits	3.5	1.7%						
	Emerging Market Debt Local Currency	8.5	4.1%						
	Total	**51**	**24.9%**	**Total**	**6.4**	**3.1%**	**Total**	**1.5**	**0.7%**
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	Structured Credit	5.4	2.6%	Developed Market Credits - BiO	0.4	0.2%	Developed Market Credits - BiO Climate	0.1	0.0%
				Emerging Market Credits - BiO	0.1	0.0%	Emerging Market Credits - BiO Climate	0.1	0.0%
							Government Bonds - BiO Climate	0.7	0.3%
							Semi-sovereign, Sub-sovereign and Agency bonds - BiO Climate	0.1	0.0%
	Total	**5.4**	**2.6%**	**Total**	**0.5**	**0.2%**	**Total**	**1**	**0.5%**
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	Infrastructure	6.5	3.2%	Infrastructure - BiO	0.1	0.0%	Infrastructure - BiO Climate	1.1	0.5%
				Private Real Estate - Healthcare Mandate - BiO	0.1	0.0%	Private Equity - Microfinance	0	0.0%
				Private Equity - Healthcare - BiO	1	0.5%			
	Total	**6.5**	**3.2%**	**Total**	**1.2**	**0.6%**	**Total**	**1.1**	**0.5%**
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	**Total**	**0**	**0.0%**	**Total**	**0**	**0.0%**	**Total**	**0**	**0.0%**
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital	**Total**	**0**	**0.0%**	**Total**	**0**	**0.0%**	**Total**	**0**	**0.0%**

* 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)

PGGM ILLUSTRATION

Findings from the mapping exercise

Impact goals of businesses

'Don't know':

Impact – either positive or negative – of 12% of PGGM's portfolio cannot be established at all due to the very nature of the asset classes involved and/or the almost total absence of data.

May or does cause material negative effects for people and planet	Allocation in € bln.	Allocation in %
Commodities	7.4	3.6%
Interest Rate Hedge	13	6.1%
Cash	5.1	2.4%
Total	**25**	**12.1%**

'Avoid Harm':

Most businesses within the PGGM portfolio at least try to prevent negative effects ('Avoid harm'). However, as PGGM has no access to data on the impact on people and planet occuring through 'negatively-screened investments', these are mapped conservatively on their intention to 'avoid harm' rather than the actual impact. For more on this challenge see insight #2 on page 12.

'Benefit Stakeholders':

Through its Investing in Solutions (BiO) programme, approximately 4.5% of the PGGM portfolio is aimed at benefitting people and the planet.

'Contribute to Solutions':

Also through its BiO programme, about 2.5% of the PGGM portfolio is aimed at making a significant contribution to positive outcome(s) for underserved people or the planet. These are mainly BiO investments related to climate and pollution. Other investments might fit these criteria as well; but due to the lack of available data on how underserved the people are experiencing those outcomes ('who'), these investments are for now conservatively positioned with the goal of "benefit stakeholders" rather than 'contribute to solutions'.

Investor Contribution

- When it comes to assessing investor's contribution, we considered PGGM's own contribution to the intermediary or investment manager, even though intermediary investment managers have their own contribution to the underlying businesses. The consensus to emerge from the Impact Management Project was that all investors should consider their own contribution, regardless of where they sit in the capital chain. That said, investors should be encouraged to allocate more to intermediary investment managers who are making a significant contribution themselves.
- Alongside certain financial instruments, some sectors, such as private real estate projects for the elderly, were also deemed to qualify as investments that seek to "grow an undersupplied capital market" because there was a large unmet demand for such investments. This may no longer be the case for infrastructure investing in the Netherlands, where demand for suitable projects outstrips supply.
- There are many constraints influencing why PGGM finds it hard to invest more towards 'growing new or undersupplied capital markets' within 'contribute to solutions'. It has a cap on illiquid investments, a minimum investment size, and requirements on the size and track record of external managers, which is a considerable barrier in this nascent market. It also has an added constraint imposed by the regulator, which demands pension fund trustees demonstrate control. However, when it finds investable funds that meet these requirements (that are not yet over-subscribed), any downsides in terms of increased transaction costs for smaller deals are usually offset by gains in terms of reduced fees and a greater ability to influence strategy.
- The microfinance allocation is small because PGGM is divesting from microfinance - on the grounds that the asset class is no longer big enough in its own right (asset classes are supposed to be or have the potential to grow to €5 billion or more).

PGGM ILLUSTRATION

Insights from PGGM's mapping process:

#1 We have to set goals on our expected impact in the absence of data

For intermediated investors, like PGGM, who have to rely on the information passed up the value chain to make impact management decisions, it is especially important that consistent data are collected across the five dimensions of impact on the performance of businesses against their goals of 'Avoiding harm', 'Benefiting stakeholders' or 'Contributing to solutions'. Only then can investments be matched to intentions, and impact performance compared across diverse asset classes and portfolios.

#2 Negatively-screened portfolios may be contributing to positive effects, but it is hard to know

The biggest challenge occurs when trying to categorise traditional 'negatively screened investments', such as ethically-screened funds that remove businesses with harmful products or services from a portfolio. The effects on people and planet of the businesses that end up in these portfolios are rarely communicated to investors, so they could have any range of impact goals and be generating many types of effects along the 'x axis' – from contributing to negative effects to contributing to solutions. In the absence of sufficient data, PGGM has chosen to be conservative and place them in the 'Avoid harm' investment category, as it does not receive sufficient data to know whether any positive effects are occurring (which would move them to the 'Benefit people and planet' category).

#3 How far the people or planet is 'underserved' is an important differentiator, but the data can be challenging to obtain

Given all underlying businesses in the 'Benefit People and Planet' and 'Contribute to Solutions' categories are contributing to important positive outcomes ('what') that are commonly articulated using the SDGs, PGGM learned that it is important to distinguish between these two categories of potential SDG investments carefully, in order to plot its impact goals accurately. The differentiating factor between the two categories is *how significantly a company is driving the SDG or outcome* ('how much') and *the level of need* of the stakeholder experiencing it ('who'). Because the 'who' dimension is not an explicit criteria in the SDI framework, it was not easy for PGGM to assess which SDI investments were 'Benefiting Stakeholders' or 'Contributing to Solutions'.
Due to the lack of data available on how underserved the people served through those investments are, PGGM was only confident that those investments aimed at planetary needs combatting climate change and pollution were 'Contributing to Solutions' (as those experiencing negative outcomes are underserved by definition).

#4 Intentionality currently helps Asset Managers understand the impact goals of a business

In the absence of data, PGGM has had to estimate the impact goals of the intermediary investment manager based on its intentions (or by reviewing the business' strategic goals) to assess whether investments just 'benefit people and the planet' or actually 'contribute to solutions' according to the five dimensions of impact.
However, there is often a correlation between the businesses that measure their impact (one of the criteria for PGGM) and those that have explicit intention to create positive impact.

#5 Intentionality can help lower the impact risk

Deeper down in the supply chain where products and services are of a more generic nature, intentionality of the business becomes more important. For example, grid infrastructure is only considered where it intentionally contributes to to renewable energy and climate solutions.

PGGM's CALL TO ACTION

PGGM learned a lot by mapping its portfolio. But it also recognised the current limitations of impact management if organisations do not share their goals and perfomance data across each of the five dimensions.

In order to categorise the impact goals of a business (or a portfolio of businesses) on the x-axis accurately, data should be collected on the actual impact performance of a business (or portfolio of businesses).

Basing categorisation on performance data, rather than just intentions or other labels, helps ensure investors and other stakeholders can hold that intermediary investor or business to account on progress towards its impact goals, and share in the learnings when these goals have to be flexed or changed.

In order to enable more accurate classification of products by their impact goals, PGGM calls on the investment industry to raise its expectations for what impact information is communicated at investment, encouraging businesses (or portfolios of businesses) to both transparently plot themselves on the matrix, and share the data they have used to make this assessment.

If this is encouraged universally, it would enable investors to:

- more accurately match intentions of clients or their own products with investment opportunities (especially for those with passive strategies)
- collect more, and better, information about impact, enabling us to learn more about which asset classes and strategies are most effective in delivering which type(s) of impact.
- move more investment capital into the 'Benefit people and planet' category and then the 'Contribute to solutions' category over time – and thus fill gaps in the capital markets.

Acknowledgements

The Impact Management Project is deeply grateful to Piet Klop and Cedric Scholl of PGGM for carrying out this mapping to test the consensus of the Impact Management Project and help us learn more about the practical implications of applying the matrix to an existing portfolio.

We welcome feedback and questions about this work. Please get in touch with us:

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APPENDIX 1

Investments that have impact goals are not a separate asset class, but a strategy that can be applied across asset classes. The table below maps the kinds of investment shown in Figure 3 to the traditional asset class in which they might fall.

Asset class	Equivalent investment products with impact goals	Examples
High grade bonds Government bonds	Thematic* bonds issued by Multilateral Development Banks/Development Finance Institutions/Governments	DFI- and Supranational bonds to finance economic development that benefits underserved people; Sovereign-backed social bonds (e.g. those enabling vaccine delivery to underserved people); Green bonds issued by Multilateral Development Banks;
Corporate bonds	Ethically and/or negatively screened corporate bonds	Bonds issued by businesses avoiding products/practices that have a significant effect on important negative outcomes (e.g. gender inequality)
	Positively screened corporate bonds	Bonds issued by businesses that demonstrate positive effects on important outcomes for people and planet
	Thematic corporate bonds	Corporate green bonds issued by businesses where proceeds are earmarked for projects that have a significant effect on specific important positive outcomes for the planet; Development Finance Institution-Syndicated loans providing participation in DFI-originated loans to private sector borrowers who have a significant effect on specific important positive outcomes for underserved people/the planet
Global equities	Ethical and/or negative screening in public equities	A public equities fund selecting businesses that screen out or try to avoid/reduce products and practices that have a significant effect on important negative outcomes for people and planet
	Positively screened public equities	A public equities fund selecting businesses that have positive effects on important outcomes for people and planet (without engagement)
	Active engagement in negatively and/or positively screened public equities	A public equities fund actively engaging to prevent businesses having significant effects on important negative outcomes for people and planet and/or engaging with businesses that already demonstrate positive effects to improve performance further
	Thematic public equities	A public equities fund screening for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. businesses making a material contribution to one or more SDGs)
	Active engagement in thematic public equities	A public equities fund screening for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet and engaging with them to improve performance further
Other alternatives	Thematic structured debt product with medium liquidity	A structured debt fund for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. a microfinance fund)
Private market investments	Ethically and/or negatively screened private debt	A private debt fund that ethically and/or negatively screens businesses that have a significant effect on important negative outcomes (e.g. illness due to tobacco)
	Positively screened infrastructure	An infrastructure fund screening for investments with positive ESG performance
	Positively screened real estate	A real estate fund screening for investments with positive ESG performance
	Thematic private equity/ venture capital investments	A private equity fund for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. a PE fund growing new models that improve educational outcomes for underserved people).
	Thematic real estate	A real estate fund for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. an affordable housing fund)
	Thematic private debt	A private debt fund for businesses that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. an debt fund focused on improving income for smallholder farmers)
	Thematic infrastructure	An infrastructure fund for investments that have a significant effect on specific important positive outcomes for underserved people/the planet (e.g. a social infrastructure fund)

Bonds Equities Alternatives

* This category includes both general issuances by MDBs to finance a wide range of positive outcomes that these institutions consider important for achieving sustainable development that is inclusive of underserved people, as well as bonds that have a specific pre-determined use of proceeds (e.g. immunization for underserved children).

APPENDIX 2

There are a number of potential risk factors to consider when assessing how confident we are that the expected impact will be experienced.

Input	Activity	Output	Outcome	Impact

EVIDENCE RISK
The probability that the evidence on which the strategy is based is not good evidence that the expected impact will occur.

EXTERNAL RISK
The probability that external factors disrupt our ability to deliver the expected impact.

EXECUTION RISK
The probability that the activities are not delivered as planned and do not result in the desired outputs

STAKEHOLDER PARTICIPATION RISK
The probability that the expectations and/or the experiences of stakeholders are misunderstood or not taken into account

DROP-OFF RISK
The probability that the expected impact does not endure

UNEXPECTED IMPACT RISK
The probability that significant unexpected positive and negative impact is experienced by people and the planet

EFFICIENCY RISK
The probability that the expected impact could have been achieved with fewer resources or at a lower cost

CONTRIBUTION RISK
The risk that your contribution leads to a worse effect than would otherwise have occurred.

Legend:

- (dark grey) Risk that impact is different than expected, and that the difference will be material, from the perspective of people and planet who experience (or don't experience) impact
- (light grey) Risk that impact is different than expected, and that the difference will be material, from the perspective of society as a whole, resulting in an opportunity cost of resources which could have generated more impact

The Impact Management Project, September 2017

THE IMPACT MANAGEMENT PROJECT