



Building Blocks of an Impact Investment Strategy

The role of impact investment strategies in the race to a net-zero world has increased in importance over the last decade as pension plans and asset owners look to make a difference. These strategies are providing them with the tools to attain long-term returns, while making a meaningful impact on the environment and society.

In a *Benefits and Pensions Monitor* Meetings & Events fireside chat, Tasos Dimitriou, Director of Institutional Sales, and Will Benton, Portfolio Manager and Vice-president of Manager Research and Oversight, at NEI Investments, along with Harry Shea, Portfolio Specialist at Impax Asset Management dive into impact investing.

Tasos Dimitriou: When it comes to transitioning to a sustainable economy, why did you select an impact strategy as opposed to a pure diversification play?

Will Benton: Our initial idea back in 2016 was not an impact investing product. We were looking for a product that was fossil fuel free, but we didn't want to find a manager and just strip out the energy sector. We wanted a manager who added value in the way they invested, without the need for fossil fuel exposure.

Initially, it wasn't an impact search, but we liked the idea of a mandate that was better able to capture some of those tailwinds that were coming from the adoption of RI or solving issues related to ESG. We therefore were able to select the investment outcome that added impact in addition to investment performance.

Dimitriou: What is the process for selecting a manager for this type of impact strategy?

Benton: When we think about what's required for an impact mandate, ESG becomes more important to our decision making because it's fundamental to what the impact investor is doing. In our assessment, we weigh how companies are looking at ESG considerations and integration and their processes for assessing impact.

We also need to understand the value add based on their investment processes and the tilts they have to achieve that impact.

For example, the NEI Environmental Leaders Fund (sub-advised by Impax) doesn't traditionally invest in the financial sector because the solutions they're looking for aren't found there. However, they don't exclude it. If there was a financial company

that met their criteria, they would be able to invest in it.

Dimitriou: How are you able to address the transition to a sustainable economy?

Harry Shea: The Environmental Leaders strategy is a global thematic portfolio, investing in companies that are providing solutions to a wide range of environmental and resource challenges. We have a 15-year track record for this portfolio.

Our approach is research intensive, bottom-up, high conviction, and patient. Importantly, rigorous ESG analysis is fully integrated throughout our entire investment framework.



WHEN WE THINK ABOUT WHAT'S REQUIRED FOR AN IMPACT MANDATE, ESG BECOMES MORE IMPORTANT TO OUR DECISION MAKING BECAUSE IT'S FUNDAMENTAL TO WHAT THE IMPACT INVESTOR IS DOING.

— WILL BENTON

The underlying investment thesis for this strategy is the transition to a more sustainable economy and our belief that capital markets will be shaped profoundly by a number of global sustainability challenges – things like climate change, environmental pollution, and the natural resource constraints from a rising global population with rising living standards.

This dynamic is creating secular growth opportunities for companies that are forward thinking and addressing these issues. One example of a secular trend is the shift to electric vehicles. In 2012, there were roughly 130,000 electric cars sold. Fast-forward to today, and that many are sold in a week.

Another example is the shift from traditional agriculture to precision agriculture. The agriculture industry is a prime candidate for technology disruption as we're facing a substantial food scarcity issue. By 2050, the global population is expected to

surpass 10 billion people. Food demand is expected to double.

However, the agriculture industry is a substantial carbon emitter. It accounts for over 11 per cent of greenhouse gas emissions. As well, there's a real need for farmers to become far more efficient with the remaining farmland we do have.

Dimitriou: What other sectors do you look for impact in?

Shea: For a name to be considered, it needs to derive at least 20 per cent of its revenue from key themes.

The first, energy, is not just about renewable companies, it's about energy efficiency – companies that are offering solutions to enhance energy efficiency.

Clean transportation is another theme. We own Shimano, the world's leading bicycle component manufacturer. From an environmental perspective, it's estimated that one kilogram of CO2 is saved for every seven kilometres traveled by bicycle. Shimano is providing clean and efficient transport.

With sustainable food, most of the names that we own are aimed at smart farming technology.

Water is a broad opportunity set. An alarming stat is that close to 10 per cent of the U.S. population is served by water systems that are too small and lack economies of scale and the technical ability to actually provide adequate, high quality water. Companies we consider provide infrastructure, transportation, and monitoring of water.

The circular economy is another theme worth mentioning. The mix of companies in this bucket is eclectic – waste management, recycling, and companies benefiting from the sharing economy.

Dimitriou: How have these types of strategies panned out in the Canadian market?

Benton: The Canadian pension space is still relatively low in terms of assets. A survey from the Responsible Investing Association found that impact investing was the least used RI strategy among Canadians, primarily because it's the newest strategy. Still, it's up almost 10 per cent from 2020 to 2022.

As well, from an availability standpoint, in Canada there have been many options, although that has already begun to change, making it an exciting time for the Canadian pension space.