RESPONSIBLE INVESTMENT

AN INSIDER'S ACCOUNT OF WHAT'S WORKING, WHAT'S NOT AND WHERE NEXT

WILL MARTINDALE

Responsible Investment

"Will Martindale is perfectly placed to write an insider's account of sustainable finance. His perspective is both clear-eyed and compelling, charting a middle course between the self-justificatory wishful thinking of so many insiders and the abject disillusionment of the former insiders who have become out-and-out critics of the responsible investment industry. Essential reading for anyone who wants to understand finance's role in addressing the greatest challenges of our time."

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—Andrew Parry, *Head of Investments, J O Hambro Capital Management*

"This book rattles along. Will tells the complex story of the evolution of responsible investment and all its complexities in an engaging and personal way, always explaining, never lecturing and encouraging us to think and do more."

—Joanne Segars OBE, *Chair of the Board of Directors at LGPS Central and NOW: Pensions*

Will Martindale

Responsible Investment

An Insider's Account of What's Working, What's Not and Where Next

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Will Martindale is co-founder and managing director at Canbury. Using the latest technologies, Canbury provides investors, companies and NGOs with decision-useful sustainability data sets, experienced advice, research and stewardship.

Previously, Will was head of sustainability at Cardano and NOW: Pensions, responsible for specialist input on all aspects of Cardano's sustainability activities. Will also co-chaired IIGCC's policy advisory group and participated in PRI's legal framework for impact project and stewardship resourcing group.

From 2013 to 2020, Will was director of policy and research at PRI, leading PRI's global regulatory affairs and public policy activities. Will has a background in banking, joining JPMorgan's graduate programme in June 2004.

Will holds an M.Sc. in Comparative Politics from the London School of Economics and a B.Sc. in Maths from King's College London.

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The Start

Why RI

I studied maths. Like many other maths grads, I started my career in finance. "Only for a year or two," I told myself, "to pay off my student loan." I joined JPMorgan's graduate scheme in the summer of 2004. In 2006, my role moved to New York. A year later, it was the start of the global financial crisis.

JPMorgan announced its takeover of Bear Stearns on a Sunday in Spring 2008. I was at home when I heard the news.

This was pre-smartphone. I received a text telling me to come into the office, a 30-something story office block at 270 Park Avenue. I worked in credit derivatives. My specialism was managed synthetic CDOs. I'll explain what these are later.

My first job was to price the trades between JPMorgan and Bear Stearns. Of course, JPMorgan and Bear Stearns traded with many investment banks, but by starting with the trades between both banks we could test Bear Stearns' risk management systems. Theoretically, pricing should be equal and offsetting. If JPMorgan's up 5 million USDs, Bear Stearns should be down 5 million USDs. The derivative market is a zero sum game.

But of course they were anything but. I was 25 and this was my first job out of university. I trusted the models. They were complex enough. But over the next few days I realised they were finger in the air. The value of these multi-million dollar CDOs (and we're talking hundreds of millions of dollars) was anyone's guess.

I didn't understand the point of it all.

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And so, by Spring 2010 I'd left JPMorgan. Unsure where to take my career, I worked for the UK Labour Party in East London, a small charity on the Rwanda Congo border called Rwanda Aid, and the French bank BNP Paribas, before I ended up at the British charity Oxfam in their private sector team.

My finance colleagues were brilliant. The top of their class. I loved the job and worked with some great people.

During the financial crisis, I remember playing liars poker with dollar bills when the markets were quiet. I have a first-class honours degree in Maths. But not once did I outsmart my colleagues.

But I felt that my role lacked purpose. That I needed to do something more. I remember handing in my resignation at BNP Paribas. When I shared my news, first my manager, then a more senior manager and then an even more senior manager asked me why I was leaving. To my managers, it didn't make sense. But to me, it did.

I wanted to bring together my skill-set and social values, to work on projects that attempted to bring private capital to sustainability goals, and on issues such as climate change.

Oxfam wasn't quite as fun as I'd hoped. Many Oxfam colleagues viewed the private sector team with suspicion: public sector good, private sector bad. Engaging the private sector, and in my case, investors and banks, was to get Oxfam's hands dirty. I spent quite a bit of time justifying my role to colleagues.

I spent just over a year at Oxfam (Oxfam faced funding issues so my time there was short). But while at Oxfam, I discovered UN PRI, the United Nations-supported Principles for Responsible Investment.

At Oxfam, the private sector team was working on a project called Behind the Brands. We'd assessed six food and beverage companies, well-known brands such as Kellogg's, Mars and Unilever, on a series of sustainability themes. We met with PRI staff at a cafe in Shoreditch, East London, to discuss our findings.

The PRI was new to me, but it was exactly what I was looking for. The PRI offered a vision for how investors could steward private companies to achieve sustainability objectives. I was impressed with the approach and the calibre of the staff.

At the time I was also Labour's MP candidate for Battersea, South West London. This was unpaid and I'll talk a bit more about this later too. I applied for a role in public policy at the PRI and got it. I think my interest in politics helped.

After seven years at the PRI, the world's leading responsible investment group and at responsible investor Cardano, I've had a privileged front-row seat to the growth of an industry: Responsible investment.

And, oh my, what growth. When I joined the PRI in 2014, there were around 30 PRI employees. When a colleague had an afternoon off for a doctor's appointment, they'd email the whole staff. When I left PRI in 2020 there were over 200 employees. Revenue was £20 million or so a year. And there were 4,000 investors signed up to the PRI's six Principles.

PRI is part NGO, part service provider. In 2014, it was transitioning from former to latter under the leadership of Fiona Reynolds.

Reynolds took over from PRI's founder, James Gifford, who had interned with UN Environment Programme Finance Initiative, and went on to be PRI's managing director. Gifford had the charisma, determination, intelligence and passion to establish the Principles.

Gifford was liked and respected, but PRI was at an inflection point (twas ever thus?) and Reynolds was the experienced safe pair-of-hands that would help professionalise PRI.

As just one example of the changes underway, a colleague who joined a couple of years earlier described with wonder when Reynolds booked a three-star hotel for a business trip. Previously, PRI staffers would book a bunk in a youth hostel. Reynolds was at the helm for nine years of remarkable growth.

While a contributor to the growth in responsible investment, PRI was not solely responsible. Responsible investment was an idea very much of its time.

So much so, that in November 2021 I found myself walking the streets of Glasgow for the UK-hosted COP 26, the make-or-break climate conference. Nearly every suited and booted private sector delegate had ESG in their title. "ESG" was so mainstream it was borderline banal. Everyone works in ESG these days.

But for all the noise, as responsible investment has matured, both its potential and its limitations have become more apparent.

I have worked in responsible investment for over a decade, and I have seen and been part of its growth. I've also seen its limitations. My reflection is that responsible investment is profoundly important, but if you define responsible investment to include real-world sustainability impact, it remains unproven.

In other words, with few exceptions, responsible investment is not contributing to real-world sustainability impact at anything like the scale necessary to make a difference.

Part textbook, part briefing, part story-telling, this book is about the growth of an industry, what it's got right and what it's got wrong.

I set out how we got to where we are and—if responsible investment is to matter—where we go next.

Outline

The content of the book refers to notes I've taken throughout my career in responsible investment. I wouldn't call it a diary as such. But I am a note-taker, notes which I've saved and organised.

I've also interviewed a number of individuals in order to check my recollection of events, my interpretation of regulation or an initiative, and to test some of my ideas about what comes next.

The book is loosely structured in two ways. By chronology and by theme. But rather than be strict with my structure, I've done my best to favour readability.

My intention is to put forward a short, accessible and personal interpretation of what responsible investment is, what's working, what's not and where next. Perhaps at heart, I'm a campaigner. And I want responsible investment to be far more impactful than it currently is. That's my motivation for writing this book.

I expect the book to be of the most immediate value to responsible investment professionals or aspiring responsible investment professionals. I've done my best to explain the terminology. But it does assume some knowledge of the concepts and themes.

It is also about how new ideas can emerge, can gain traction and evolve to maturity, as well as the challenges and the barriers along the way.

Responsible investment is going through a period of rapid change. Responsible investment is evolving from being industry-led and voluntary to being mandatory. There's a growing demand for responsible investment from savers. Regulators are working to tackle greenwashing. There's a proliferation of new sustainability topics.

Responsible investment is also "growing up." And part of growing up is acknowledging limits, complexities and making difficult decisions.

Responsible investment has got this far often by trying to stick to the script, safety in numbers, and not talking about the awkward bits in public.

But this is no longer an option, and so it's not surprising, that it draws its critics.

Responsible investment needs to be clear about its capabilities, objectives and limitations. A challenge responsible investment professionals are rising to.

I've started the book with an overview of responsible investment's early history as well as prevailing definitions of responsible investment terminology.

This includes an overview of fiduciary duties, ESG integration, stewardship and financial materiality.

As responsible investment evolved, so too has responsible investment regulation and the many stakeholder groups working on responsible investment topics. I include a selection here.

I've set out the arguments put forward by those that criticise responsible investment, in particular, an increasingly vocal group of US Republicans.

Next, I've explored climate change in more detail, COPs 21 and 26 and climate change-related metrics, as well as a range of issues that come under the broad umbrella of responsible investment, including biodiversity, human rights and water.

I've provided an overview of European leadership on responsible investment, but also the challenges with its centrepiece regulatory intervention, the Sustainable Finance Disclosure Regulation (SFDR), as well as the UK's Sustainability Disclosure Requirements (SDR).

The final chapters look at corporate disclosure, impact investment, another look at stewardship, and I end with systems change.

But before we get to that, I'll start with the basics.

Terminology

Inevitably, we must start with terminology. ESG is more an adjective than a noun. ESG integration. ESG incorporation. ESG issues. ESG factors. At a push, ESG investment.

ESG, confusingly, is used to describe both investment products and investment processes. In my view, it should be reserved for the latter.

When used for investment processes, ESG tends to be a term associated with financially material risks. It represents a practice, whereby, investors consider (and the word "consider" is subjective; there exists a wide range of interpretation here) environmental, social and corporate governance issues in their investment decisions. Investors assess the ESG issues the company is exposed to, how it manages those ESG issues, and whether the exposure and management are incorporated in the price.

There are of course companies more exposed to some ESG risks than others: A mining company for example, aviation, cement or apparel. And different ESG risks vary in financial materiality.

As such, "ESG investing" is, well, investing. All investing should consider all material risks, regardless of their origin. Perhaps ESG investing means more regard than typical for ESG issues. But the motivation for considering ESG issues is the financial performance of the investment. Nowadays, integrating ESG issues is considered just part of an investor's job.

ESG is also used to describe investment products. ESG products are not adequately regulated (in other words, there is no such thing as an "ESG product"). If I had to generalise, an ESG product is one where the investor seeks to achieve some sort of "ESG outcome", that could, for example, be a portfolio that invests in higher performing ESG-rated companies or a portfolio that pursues an environmental target, such as net zero greenhouse gas (GHG) emissions. We'll look at ratings, net zero and sustainability themes later.

Responsible investment is the catch-all term that includes all of the above.

The terms responsible and sustainable tend to be used interchangeably. For some investors, sustainability may refer to a higher bar (in other words, sustainable investment is more sustainable than responsible investment). Sustainability is the term used by the UN (in the Sustainable Development Goals) and NGOs.

Sustainability is more widely understood than "ESG".

The UN Bruntland Commission defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987).

Or in other words, sustainability means lifting a billion people out of poverty and doing so within planetary boundaries. As such, the implication is that sustainable investment can contribute to this.

If I'm talking to clients I tend to use "sustainable", because it's a more intuitive term. Indeed "responsible" (and perhaps, sustainable too) is a normative term, even if it is bounded by certain assumptions. To some extent, advocates of responsible investment are working to shift the normative position on what constitutes "responsible".

But for the purposes of this book, I will use responsible.

Another term is SRI. SRI stands for socially responsible investment. Sometimes, SRI stands for sustainable and responsible investment, but the former is more common. SRI tends to be associated with exclusions, and includes an explicit "ethical" dimension, for example, excluding companies on religious or moral grounds, such as gambling and tobacco companies.

Another approach is what's called "best in class", where, rather than a negative screen, the investor applies a positive screen. The investor may still invest in tobacco companies but, for example, only invest in the companies that have strong policies in place to eradicate instances of child labour in supply chains.

Active ownership and stewardship (the terms are used interchangeably), which comprises of engagement and voting, are the ongoing management of an investor's assets. For equity (or stocks, or shares, also terms used interchangeably) it includes the right to attend, participate in and vote at company AGMs, as well as file (or, if in collaboration with others, co-file) resolutions to be discussed and voted on at company AGMs.

The word sustainable is also used to describe an investment where there is a specific sustainability objective. Green or environmental is a flavour of sustainability. Green bonds, for example, are similar to traditional bonds, in that they have a coupon or interest rate, a notional and a maturity, but the use of proceeds (what the bond is financing) must achieve an environmental objective. The Green Bond Principles help companies and investors establish what constitutes green (ICMA, 2021).

Blue bonds relate to water, both limiting the use of water in water scarce regions, addressing water pollution and the preservation of oceans from, for example, over-fishing. The word brown is sometimes used to describe a bond issued by a polluting company, although I prefer "grey" or "traditional".

TCFD stands for the Task Force on Climate-related Financial Disclosures and it is a framework for disclosing financially material climate change-related risks and opportunities.

Net zero greenhouse gas emissions means not adding to the amount of GHG emissions. GHGs include carbon dioxide, methane, nitrous oxide and flourinated gases, although we tend to just say "carbon", as in, "carbon footprint". For ease of measurement, we standardise all GHGs into a carbon dioxide equivalent, or CO2e.

In the world of responsible investment, typically "net zero" is short hand for "net zero greenhouse gas emissions by 2050", which is what's necessary if we're to achieve the objective of the Paris Climate Agreement, limiting global warming to 1.5 degrees Centigrade.

Still today, nearly every conference I attend includes a question on terminology. My stock answer is not to worry about it. In any nascent industry, and largely unregulated industry, terminology evolves.

If the SEC was to intervene with clear definitions of what we mean by each term that would, I think, be welcome. But in the meantime, it shouldn't stop responsible investment.

Intermediation Chain

It's also worth taking a moment to consider the investment or "intermediation" chain.

I find that responsible investment professionals tend to "stay in their lane", thinking about sustainability from the perspective of their employer, not how various parts of the intermediation chain interact, and how therefore we can be successful in achieving real-world sustainability impact by influencing and working with the intermediation chain around us.

While location-specific and evolving, the investment chain tends to be structured as follows.

At the top, are asset owners. Asset owners include pension funds ("schemes" or "plans"), insurers, endowments and foundations. The words "fund", "scheme" and "plan" tend to be used interchangeably.

Pension funds vary in size and structure. The Australian and Dutch pension fund markets are characterised as well-resourced, well-governed and well-funded. Funds such as ABP or PGGM in the Netherlands or HESTA or Cbus in Australia, are multi-tens, or in ABP's case, multi-hundreds, of billions of Euros or dollars of assets under management, where investment decision-making is often in-house. In other words, the pension funds themselves invest, or, in ABP's case, have their own dedicated asset manager. They may outsource investment to an asset manager for some asset classes (typically, more specialised investments, such as private equity, but the rest is done in-house).

The US, UK and Canadian pension markets have some well-resourced, well-governed and well-funded pension funds. In California, CalPERs, the public sector pension fund and CalSTRS, the pension fund for teachers, are two of the largest pension funds in the world.

The US, UK and Canadian pension markets also have a "long tail", thousands of smaller pension funds with a few billion, a few hundred million or even a few tens of million dollars or pounds in assets under management. For the smaller schemes, and even some of the bigger schemes, like USS, the UK's Universities Superannuation Scheme, with 400,000 members and around 90 billion pounds in assets under management, the pension fund will outsource some of its investment decisions to external asset managers.

Asset managers are intermediaries. Asset management is highly competitive, but can also be highly lucrative. Asset owners pay asset managers a fee to invest their assets. Fees vary considerably. I've seen some passive funds (a passive fund is a fund that tracks an index, like the S&P 500) with fees as low as 1 or 2 basis points, or 0.02% of assets under management, or in other words, 200 dollars per 1 million dollars invested.

But the more complex or successful investment strategies can charge as much as 1 or 2% of assets under management, as well as a performance fee of as much as 20% of positive performance. This can include hedge funds, private equity, infrastructure or property investments, as well as active funds (an active fund is a fund where the asset manager selects the companies based on their expertise and research).

Service providers support asset managers and asset owners by providing data, research and advice. For responsible investors, this includes ESG scores and research, provided by companies such as MSCI or Sustainalytics. There is an entire industry dedicated to ESG data, with providers competing on their ability to provide investors with high quality, timely data from a range of sources, in a format that investors can integrate into their investment processes.

A growing, but still niche area of service providers support asset managers and asset owners with engagement and voting. Companies such as Hermes EOS, Sustainalytics (again), ISS and Glass Lewis undertake engagement of companies or voting at companies' AGMs on behalf of asset owners and managers.

In common law countries, like the US or UK, asset owners tend to be governed by trustees with a fiduciary duty to their savers. In other words, the trustee must make investment decisions in the best interests of savers in the scheme. This isn't easy. Pension schemes may have millions of savers. "Best interests" tends to be interpreted as best financial interests.

In the US and UK pension fund trustees must seek independent advice, typically from an investment consultant (for example, Mercer or Willis Towers Watson). I would consider the investment consultant a service provider, however, consultants have evolved to provide fiduciary management.

In fiduciary management, trustees retain a fiduciary duty to pension savers, but delegate day-to-day investment decision-making across all the pension fund's assets to a fiduciary manager. In turn, the fiduciary manager may appoint external asset managers. In the US, this is called "outsourced CIO" (outsourced Chief Investment Officer).

We can think of the intermediation chain in five parts: savers, owners, managers, service providers and companies. Owners and managers do not achieve real-world sustainability impact in their own right, rather that's for the companies, supranationals or governments in which they invest. Owners and managers can however drive change within companies, supranationals or governments.

Each part of the investment chain is responsible for a different set of decisions and subject to a different set of regulations. It's no wonder terminology varies.

Materiality and Double Materiality

Another term that's important for responsible investment is "double materiality".

Before we understand double materiality, let's first turn to "materiality". An issue is financially material if it affects the value of the company, and therefore, the investment.

Take, for example, an apparel company reliant on cotton grown on land increasingly subject to drought due to climate change. Issues such as climate change, water use and water scarcity are financially material to the company. (So too, are many non-sustainability-related issues financially material.)

But as responsible investment has evolved so too has the approach. Investors have increasingly adopted double materiality as a feature of their investment strategy. The word double refers to the impacts of investments or company activities on the real world.

If we think about this in terms of objectives, the objectives are:

- Optimise risk-adjusted returns (which includes the integration of financially material ESG issues).
- Optimise real-world sustainability impact (or minimise negative real-world sustainability impact).

The term real-world is a bit clunky but basically we mean something that happens or changes in the real world (in our day-to-day lives) as a result of an investment decision.

All investments have real-world impact. For investors that adopt double materiality objectives, we're being clear on intentionality. Whether the investor is intentionally contributing to real-world impact and whether that impact is positive (or minimises negative) real-world sustainability impact (for example, reducing or even replenishing water use in the manufacturing of clothing).

Some investments may be attractive from a risk-adjusted return perspective, but cause too negative a real-world impact, and so be excluded. Other investments may be attractive from a real-world impact perspective, but not provide competitive financial returns.

There are various flavours here too. Some investors approach real-world impact from first principles, where the primary motivation is impact. UK law firm Freshfields labels this “ultimate ends” investing for sustainability impact. Others would call this concessionary.

Here, the investment product has a specific impact objective, set out in the terms of the investment, that may trump a financial objective.

While this may be desirable for some private investors, it is unlikely to become the prevailing approach.

Other investors approach real-world impact by considering risks (in a more expansive interpretation of risk where the risks are long term or systemic). Freshfields calls this “instrumental” investing for sustainability impact.

The lens remains financial performance, but for most types of investors, it’s not surprising that the investment must be justified based on financial performance.

Indeed, this still requires “will”. Investors may lack empirical evidence that proves financial materiality for a particular sustainability issue. We tend to assess future investment performance by considering historical returns, which are, by definition, backward-looking whereas many sustainability issues are inherently forward-looking.

Even if there is empirical evidence, it is rarely incontrovertible, and incentives in the market are not strong enough to overcome this inertia.

But for some investments, there may be a trade-off between issue and performance even over the long-term. In this case, I’m comfortable with responsible investors saying, “it’s not for us, we’re focusing where we can have impact, not where we can’t.”

There are also significant limiting factors on investors’ agency, beyond trade-offs. Often, investors are too remote from some issues to be effective agents to consistently address them.

Double materiality objectives should be defined in a way that allows for a clear objective, a stated theory of change and a set of processes that allow the investor to make progress towards the objective.

There are two other sets of terms that are important when we think about double materiality: SDGs and Taxonomies.

The Sustainable Development Goals (UN, 2015), or SDGs, are the UN’s framework for sustainable development, labelled a “shared blueprint for peace and prosperity for people and the planet, now and into the future.”

Taxonomies are classification tools to help investors determine whether an economic activity is consistent with a public policy goal. In the case of the EU Taxonomy, the public policy goal is the Paris Climate Agreement.

In 2021, the European Commission defined responsible investment as "a comprehensive approach which consists of the systematic integration of both financially material sustainability risks (outside in) and sustainability impacts (inside out) in financial decision-making processes. It is crucial that both angles of the materiality concept are duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal" (European Commission, 2021).

Here, the European Commission adds real-world sustainability impact ("inside out") to its definition of responsible investment.

To place materiality and double materiality, it is helpful to refer to a typography, developed by specialist sustainability investor, Bridges Ventures, and the impact coalition, the Impact Management Project (IMP).

It was first published in 2012 and updated in 2015 (by Bridges Ventures, the PRI, and the UK Impact Investing Institute among others), however its core is unchanged and it is often cited by investors and academics.

It sets out five approaches to investment:

1. Traditional: Limited or no consideration of ESG issues.
2. Screened: Negative or positive screened investments based on ESG criteria.
3. ESG integration: The consideration of ESG issues in investment decision-making.
4. Themed: The explicit consideration of ESG themes, such as climate change, clean energy, water use or biodiversity, in portfolio construction.
5. Impact: Investments with an explicit objective to achieve real-world impact. This category often divides into impact, with market returns, and impact, with some financial trade-off.

Today, ESG integration is a requirement of fiduciary duties, and so what was labelled "traditional" falls away and impact is typically at competitive risk-adjusted returns, again to be consistent with fiduciary duties. Sometimes, there is a sixth approach, philanthropy, but I would not consider philanthropy a form of responsible investment.

"Risk-adjusted" is important wording. Comparing just "returns" is somewhat subjective, as it is returns per unit of risk, and the investment's contribution to a portfolio's strategic asset allocation.

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2

Definitions of Responsible Investment

In Their Own Words

In research for this book, I asked a number of leading responsible investment professionals and commentators for their definitions of responsible investment. These are all individuals who I admire and who have had an effect on the way I think about responsible investment.

While there were a range of views across the interviews, my takeaways from the interviews were:

1. Responsible investment goes beyond ESG integration. This is now a well-trodden observation, but it's the almost casual acceptance that struck me as important from senior responsible investment professionals that for investment to be responsible, it must do something beyond integrate ESG issues.
2. Through investment decision-making and engagement with companies, regulators and stakeholders, responsible investment seeks to achieve some sort of positive real-world change or outcome.
3. The motivation for doing so may be financial, for example, issues that represent a systemic risk or issues that threaten a company or sector's social licence to operate. The motivation may also be intrinsic, based on values and ethics.

Here's what they said.

Bob Eccles, Professor of Management Practice at the Harvard Business School, said "I see responsible investment as grounded in the early days of

W. Martindale, *Responsible Investment*, https://doi.org/10.1007/978-3-031-44536-1_2

SRI which had a strong values-based approach. I go with the meaning that it once had, thinking about the values, rather than value."

> "There are critical differences between ESG integration and impact. This is one of the problems you get into with ESG funds. They said they were going to resolve climate change. That's ridiculous. ESG factors are like any other type of risks. That's operations and activities."
>
> "While there can be upside to ESG the real upside is in a company's products and services—their positive and negative externalities. Material risk factors and impact are analytically distinct. A company can be good or bad on one or the other or both."

For Jon Lukomnik, author, academic and managing director at Sinclair Capital, it's more about the distinction between responsible investment and impact investment.

> "All investments have impact. So perhaps we could say that responsible investment is an awareness of the impact that your investments have, seeking to mitigate negative impacts and accentuate positive impacts within your particular risk return profiles."
>
> "Impact investing is investing with the intentionality to have a specific impact. I don't think you have to go that far to be responsible."

For Stephanie Pfeifer, CEO at IIGCC, it's "around managing your risks and opportunities but in a way that does not create systemic risk or has a negative impact on society and the environment."

> "In terms of the contribution – there is huge potential – some of which we're already seeing."
>
> "I think it's about ensuring that there is real-economy impact and this is done by engaging with all stakeholders from policymakers, regulators, corporates, civil society and investors – to encourage them all to pull in the same direction."
>
> "Obviously, complete alignment between all these groups globally is challenging, if not impossible, but particularly on the policy front there is much more than can be done to help get more capital flowing towards investments that will better support climate change, whether that's mitigation, adaptation, resilience or nature."

Claudia Chapman, Head of Stewardship at the UK FRC, said "Integrating material ESG issues into investment decision-making is just taking a broader or modern set of financially material factors that happened to be categorised differently."

"When does investing become responsible? When either the allocation of capital or stewardship of that investment has the intention of having a positive influence or impact on the issuer, group of companies, sectors, environment, economy or society. It is when an investor uses their allocation decisions or influence to effect change, that as well as delivering financial return, improves the long-term prospects of that investment. I would include an investor actively exercising its voting rights in this too."

"Responsible investment also takes on issues of fairness and ethics that may not have a financial impact over the investment horizon. Addressing them may maintain that company's social licence to operate."

Nathan Fabian, Chief Responsible Investment Officer at PRI, said, "Responsible investment is knowing and doing something about the impact of your activities as an investor on your customers and stakeholders."

"By impact I mean, not just the legal constraints that are placed around the financial product or service, but the actual impacts observed and evidenced, and in today's world that means the impact of your investment activities on environmental sustainability goals that are taken up by governments and international rights frameworks."

When I asked about proportionality, Fabian added, "The framework I usually use is one of sustainability goal, alignment and performance. When you can understand material issues – such as a planetary boundaries framework or international agreements on rights – you have a point of calibration against which you can assess the performance of economic activities. As long as you are prepared to work with that, you can judge the proportionality of your responsibility."

Philippe Zaouati, Founder and CEO, of Mirova, said, "There are so many definitions of responsible investment. It's a lexicon jungle."

"The usual way to define responsible investment is to say that it's the integration of environmental and social impact in everything we do – it's a broad definition and it's a good definition."

"There are however a couple of very important differences between 'responsible investment' and 'investment'."

"The most important one is the different way you see the use of finance. Responsible investment is a proactive tool, whereas finance is usually seen as