CFA AOS SDG-ESG Infrastructure Investment Framework - User Guide

Background

History

During its annual 2019 CFA Climate and ESG Asset Owner Summit, hosted in partnership with Principles for Responsible Investment (PRI), a resounding theme was the dearth of information available to assist asset owners measure the impact of their Real Asset portfolios on both ESG and delivery of the Sustainable Development Goals (SDG's). To address this challenge, the AOAC, approached GRESB, University of Cambridge Institute for Sustainability Leadership (CISL) and Africa investor (Ai) as technical partners to work with a high-level 'Brain Trust' to investigate the creation of a framework, narrative and benchmark for ASSET OWNERS to MEASURE IMPACT of infrastructure assets on delivery of the SDG's and ESG, and promote adoption amongst their respective asset owner networks.

This framework is the first output from this effort, representing a framework intended to assist in measuring the contribution to the SDG's for Infrastructure assets and projects.

Brains Trust Collaborators

- Africa investor (Ai)
- African Sovereign Wealth and Pension Fund Leaders Forum
- CFA Asset Owners Council
- Coalition for Inclusive Capitalism
- Council of Institutional Investors
- GIIN
- Global Infrastructure Investors Association (GIIA)
- Global Listed Infrastructure Organisation (GLIO)
- GRESB
- Long-term Infrastructure Investors Association (LTIA)
- Moodys
- Pensions for Purpose
- SASB
- The AUDA Continental Business Network (CBN)
- The Rockefeller Foundation

- UN Joint Staff Pension Fund
- UNPRI
- Whitehelm Capital
- World Pension Council

Need and Value Proposition

The onslaught of COVID-19 has shone a light on the need to rapidly scale long term investment into building resilient infrastructure to mitigate future pandemics. As a result, surging interest in ESG and the SDGs creates urgency for asset owners to define, measure and defend the value case for institutional investors to pursue ESG compliant investments and contribute to the SDGs. This has also been highlighted and established by PRI (https://www.unpri.org/download?ac=5909) and others.

We recognize that various tools, frameworks and interpretations have arisen to assist investors and companies in assessing the environmental or social impact of infrastructure assets, including from IFC, GRESB and GIB. However it is our understanding that to date none of these tools specifically address alignment with SDGs. Some tools do focus on the SDGs, including the SDG Action Manager, GIIN IRIS+, and ISAR UNCTAD, however:

1. None are specific or standardized for infrastructure, whether private or public.
2. Many focus on a 'pure' impact investing type of approach but arguably, infrastructure presents a special case of quasi-impact investment, requiring special consideration.

The UNPRI's guide "Bridging the Gap"– provides an Infrastructure investment approach to the SDGs. However, it works at the investor level, not at the asset level, thus this framework complements UNPRI's work. the table below shows how this framework compares to the main other tools and frameworks currently available).This framework is unique in that it is transparent and infrastructure specific allowing asset owners to identify how they can contribute to, and ultimately impact, the SDGs using ESG data at the SDG target and indicator level.

Existing Frameworks	Cover Infrastructure	SDG Target	SDG Indicator
GIIN (IRIS)	Partial	✓	
SDG Action Manager		✓	
ISAR UNCTAD		✓	
UNPRI	✓		
Infrastructure ESG- SDG Contribution Framework	✓	✓	✓

Where do the SDGs fit in?

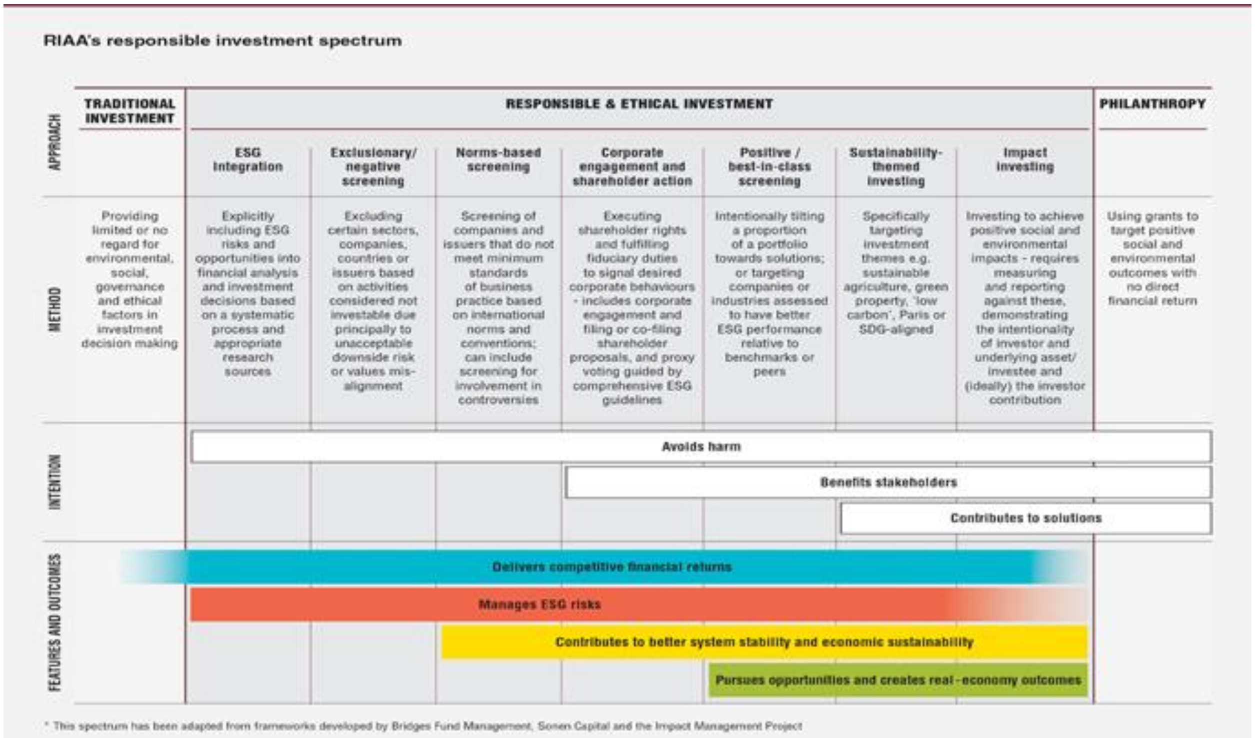
The UN Sustainable Development Goals (SDGs) "provide a shared blueprint for peace and prosperity for people and the planet, now and into the future" (https://sustainabledevelopment.un.org/sdgs). As such the SDGs encompass the global challenges that society is expecting businesses to contribute to, with the SDGs becoming the default framework that businesses reference when trying to measure impact. However, the SDGs were by their nature set at a global level and so the goals and targets are not always straightforward to translate to individual businesses or investors. Nevertheless, many tools aiming to translate the SDGs into measurable indicators for businesses have been developed.

Infrastructure and Impact

Infrastructure is a relatively new and specialized asset class for investors with particular characteristics that make it attractive within an investment portfolio. As well as being an investment asset class, infrastructure assets provide the fundamental facilities and systems and associated services necessary for society and economies to function. This aspect of infrastructure gives it a particular role in society that is not common with other investments. Arguably this means that most (perhaps all) infrastructure investments have real impacts on society and the expectations from society in regard to their management and operation are much higher than for other investment asset classes. This also links to the very real need to continuously demonstrate the 'social license' for private investment in infrastructure. We have seen in recent years a strong backlash in many countries to this concept, and even moves towards 're-nationalization' and the 'end of PPPs'. As a result, there is a significant need for infrastructure investors to understand and demonstrate that their investments are delivering positive impacts, in other words making a positive contribution to the SDGs. It could even be argued that infrastructure investing is, by definition, a quasi-impact investment (quasi perhaps because it may lack the intention for impact at the time of investment decision which is a key aspect of impact investing).

Why Measure Impact?

The need for, and benefits from, responsible investing (RI) are now well understood thanks to organizations like UNPRI (www.unpri.org). RI is "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership". RI is now mainstream, as shown by the vast number of investors that are PRI signatories. But there are a broad range of approaches to RI that can be described by a spectrum (RIAA).



Impact Measurement and Impact Investing

"Impact measurement and management includes identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals." (https://thegiin.org/imm/). Impact measurement has been around for a long time in various forms, in particular it has been long used in the social development arena to evaluate the success or otherwise of aid and other development programs. As investors have become more interested in understanding their impacts, they have also actively started to attempt to measure the impacts of their investments.

We have also seen the rise of impact investing which can be defined as “targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose.” (GSIA, 2018) or “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (GIIN). One of the key differences between impact measurement and impact investing is that the latter involves a specific intention to create a positive impact when the investment decision is made.

The Framework

This framework identifies the SDGs relevant to infrastructure assets and projects based on their sector, materiality, and lifecycle stage and defines cases, and associated conditions, for which an SDG contribution statement can be made. It is intended that a user could use this framework to develop an SDG Contribution Report for use in communication with stakeholders. See the framework spreadsheet file for more detailed instructions.

This framework is a first step in facilitating better reporting against the SDGs for infrastructure assets/projects. It is recognised that in its current form, there are gaps and opportunities for refinement and improvement. We are providing the framework as a public good, to facilitate feedback, and to provide the opportunity for the industry to identify and propose improvements, and to use it to build new tools. For example, GRESB intends to use the framework to offer SDG reporting for its members in the future.

Usage of the framework

Alignment with Trustee Fiduciary Responsibility

Institutional investors, and their trustees, have a fiduciary duty to the trust, and are required to manage the trust assets solely in the interest of the participants and beneficiaries. The traditional view of this fiduciary duty has been somewhat narrow, considering strictly financial matters. However, the changing tide of social and investor sentiment, and new laws, indicate that consideration of ESG factors is likely to become a must for all fiduciaries. “A growing number of institutional investors believe that integrating ESG factors is consistent with their responsibilities to their beneficiaries” because “evidence reviewed suggests that ESG factors may have a material financial impact and so are relevant to institutional investors” (OECD, 2017).

Trustees have a duty of care and a duty of loyalty on fiduciaries towards their beneficiaries. The duty of loyalty requires fiduciaries to manage funds in the beneficiaries’ interests, not their own, and with the sole purpose of providing them with benefits. It also requires fiduciaries to be impartial between the interests of multiple beneficiaries. It is this last requirement that is leading to an increased focus on the responsibility of fiduciaries to consider inter-generational equity and, by extension, the impact of ESG factors on not only the financial well-being of these future beneficiaries but also their broader quality of life.

In responding to these duties, Investment managers, in particular, “will need to evidence that consideration of ESG factors are embedded across their investment process. Traditional portfolio management theory is making way for the “universal ownership approach”, under which investors are viewed as holding a slice of the whole global economy and capital markets through their portfolios. They can therefore improve their long-term financial performance by acting in such a way as to encourage healthy and stable economies and markets. This model gives more weight to inter-generational concerns and the future sustainability of the economy as factors that will affect future risk-rated returns. It also brings in consideration of non-financial factors”. (KPMG, 2019).

While ESG data can be reported and used in various forms, presenting data in terms of SDG contribution, can be readily understood, because the SDGs are simple, clear and universally accepted.

To Generate an SDG Contribution Report

While there are several potential use cases for this framework, the most basic use case is as follows:

1. Identify SDGs that are potentially relevant to the asset or project.
2. Obtain the necessary ESG data to compare against the relevant conditions.
3. If all conditions are satisfied for a case, then record the relevant contribution statement.
4. Copy all relevant contribution statements to an SDG Contribution Report.
5. Add any important assumptions and details about the source data.
6. Use the report to communicate with stakeholders and as an input to decision making.

Investment Decision Making

There are several different investment strategies available to enable institutional investors to take account of ESG factors in their portfolio construction as outlined in the Responsible Investment Spectrum above. An SDG contribution report can be a valuable input to investment decision making regardless of the approach to responsible investment.

- The positive contribution statements might be most useful in best-in-class screening and sustainability themed investing. For example, investments might only be considered for inclusion if certain SDG contributions are made. It is not advised to use the report and statements to support impact investing because the framework does not specifically address intentionality (whether the contribution was an intentional aspect of the investment in the first place) or additionality (whether the impact would have happened anyway without the investment being made).

- The negative contribution statements might be most useful in negative and norms based screening. For example, investments might be considered for exclusion if certain negative SDG contributions are evident.
- All of the statements are considered useful for ESG integration and corporate engagement. For example, the set of contribution statements might be considered to highlight investment risks or opportunities that need to be addressed. They may also provide useful starting points for engagement with portfolio companies (assets).

Evaluating New Investments (Due Diligence)

For evaluating new investment opportunities, the SDG Contribution Report can be a valuable input to Due Diligence. In this case, the report should be provided alongside other information to the Investment Committee.

- The positive contribution statements provide information about the benefits of the project or asset.
- The negative contribution statements provide information about risks, described in terms of the potential impact to stakeholders. The due diligence process should aim to mitigate these risks where possible, and to flag the most significant risks (red flags) to decision makers.
- The opportunity statements provide information about potential project/asset opportunities. The due diligence process should identify the most valuable opportunities and actions needed to take advantage of them.

The Investment committee should consider the SDG Contribution Report alongside other information in coming to an appropriate investment decision.

Monitoring Current Investments

For monitoring (stewardship of) current investments, the SDG Contribution Report can be a valuable input to asset engagement. The report could be sent to the asset management board and investors, and then tabled in investor discussions.

- The positive contribution statements provide an opportunity to recognise the ongoing benefits provided by the asset. Are these improving year on year?
- The negative contribution statements provide information about risks, described in terms of the potential impact to stakeholders. Are these risks being managed and can they be eliminated?
- The opportunity statements provide information about potential project/asset opportunities. Are these opportunities being pursued? What progress is being made to turn them into positive contributions?

Training and Strategy Development

The framework may be useful for training and strategy development for investors, asset managers and infrastructure asset boards. Because the framework provides a mapping of all of the SDGs to the most significant contributions for infrastructure, it can help to better understand infrastructure as an investment asset class, and it can quickly identify potential positive and negative contributions (impacts) relevant to particular sectors.

- If considering impact investing, search through particular SDGs to identify where the best impact opportunities might reside.
- If considering ESG integration, filter for specific infrastructure sectors to identify the potential positive contributions (benefits) and negative contributions (risks).

Regular reporting

An SDG contribution Report may be useful for regular reporting to boards and stakeholders. For boards, it can be a tool for monitoring investments (see above). For other stakeholders, the report could be an input to annual reporting, including sustainability reports, on websites, in stakeholder engagement processes and media releases. Positive contribution statements may help to identify initiatives that could be developed into case studies.