Q&A-COP26 pact not aggressive enough to make timely climate change; Shareholder action to drive strategy shift in firms: Margret Trilli, ImpactAssets

The targets and commitments made at the U.N. COP26 conference in Glasgow were not aggressive enough to slow down and reverse climate change in the stipulated time, **Margret Trilli, CEO and CIO at ImpactAssets**, told the Reuters Global Markets Forum on Monday, November 15.

"This puts pressure on the capital markets, institutional investors and philanthropists to step up and do much, much more," she said.

Trilli believes shareholder engagement in the form of proxy sponsorship and voting will drive laggards in climate change policies to shift corporate strategy.

"This is one of the few truly meaningful ways to have impact … by sponsoring a meaningful proxy one company at a time.".

Following are edited excerpts from the conversation:

Q: The COP26 climate agreement targets fossil fuels as the key driver of global warming, even as coal-reliant countries lobbed last-minute objections. Where do you see that taking the world in terms of capping global warming at 1.5C?

A: Well, I agree with (the) assessment, but I do not think the targets and commitments were aggressive enough to take us where we need to go in time. This puts pressure on the capital markets, institutional investors and philanthropists to step up and do much, much more. Investing in alternate energy transition and CO2 (carbon dioxide) drawdown methods offer the largest opportunities for slowing and reversing climate change, followed by building efficiency, regenerative agriculture, food waste and industrial practices. We still need to be pulling all the levers.

Q: How do you see the climate agreement targets getting financed? Who will pay for the transitions?

A: We will all be paying in one way or another. Corporations, taxpayers, governments. But there is also a great opportunity to invest in this transition and that is a different kind of funding that unlocks trillions.

Q: How would the Glasgow Financial Alliance for Net Zero's (GFANZ) "Net Zero Standard for Oil and Gas" look like? How would these get tracked, given there still isn't a standardised way for companies to declare measurement of these goals?

A: We are at the beginning of setting that standard, but many of us have been tracking the impact of our work for a long time. It all boils down to greenhouse gas (GHG) abatement and drawdown, but there are many ways we can derive those metrics.

Q: How do you see corporate strategy and investor engagement with boards shifting post-Glasgow?

A: This is one of my favourite topics. Shareholder engagement in the form of proxy sponsorship and voting is what will drive the laggards to shift corporate strategy. This is one of the few truly meaningful ways to have impact with a public markets ESG (environmental, social and corporate governance) portfolio - by sponsoring a meaningful proxy one company at a time.

Take Amazon for example. In recent years there have been multiple measures, one step at a time, to reduce the company's impact on emissions. Lots more to do, but if measures are specific - like asking for carbon offsets - it is doable.

Q: What is the framework ImpactAssets uses for assessing placements and investments?

A: ImpactAssets focuses on our private markets' investments – we believe this is where we will have the most impact. Every investment we make requires a commitment to give us reporting on impact metrics in addition to financial reporting. What we track and measure is highly dependent on the investment and the stage of the companies. In general, the metrics drive toward outcomes for people and planet. At the highest level, we look at CO2 abatement, lives touched, etc. One of the newer things we are conscious of as impact investors is the velocity of capital – how much CO2 abated, or lives touched, per dollar, per unit of time. Given the

challenges we face – climate change, social division, racial and gender disparity - urgency has to become an important driver of what we measure.

In the context of microfinance, the metric is simply the number of borrowers. In emerging markets, we invest millions of dollars in $1,000 increments, so the impact in terms of lives touched is very significant over time. In the context of mitigation finance for an area like Flint, you would be looking at the population of the community who accesses that water.

Q: What sort of deal flow has your firm been seeing, and what are the notable trends/changes seen recently in these flows?

A: At the moment, we are particularly focused on climate solutions and we have seen some exciting advancements in energy and storage, and greenhouse gas drawdown technologies. The transition to clean energy and the drawdown of existing greenhouse gases will be the two most critical contributors to our ability to successfully reverse climate change. We are focused on project finance -- financing clean energy project, and mitigation finance -- restoring the natural environment, and many other sectors.

Q: Were you happy with the goals from India and China? And how do those balance out with watering down language?

A: In general, I do not think we got aggressive enough action from the collective at COP26. This puts pressure on other sources of capital, and we need to move with urgency on all of the levers we have. At ImpactAssets, we are focused on addressing the gaps between public and private sector responses, worthy solutions that are not getting enough attention for one reason or another.

We are refreshing our perspective on this now as (we) contemplate the shifts in government and COP26, but I can say that drawdown technologies have been woefully underfunded and overlooked because they are seen as being too far off. I think that is true, if you believe that we will cut emissions in time. We think the window for that is just about closed, so drawdown becomes much more important. Our investors have a different time horizon and can make these investments while, say a fund manager, has to worry about return of capital on a seven-to-10-year timeline.

Q: How does ImpactAssets track the sustainability of projects that you invest in?

A: ImpactAssets has developed a proprietary methodology that we use to rate and compare investment opportunities. It includes over 60 factors across the four dimensions of impact risk, impact return, financial risk and financial return. While we agree with conventional perspective that risk and return have predictable correlations, we observe that there are no correlations in the relationships between the other dimensions. In other words, it is possible to have high returns and high impact or low impact risk and high impact. All of this plays into how sustainable we view the solutions.

Q: To what extent has impact investing been rising in the priority list of institutional investors?

A: We have seen a steady wave of billionaires, corporations, endowments and foundations making public and private pledges of their assets at historical levels. These pledges are most recently aimed at racial and gender equity and climate solutions. This is all good news because we need to pull all the levers, we have to address climate change in time, and we are sorely overdue on rectifying social injustice. But commitments at these levels – billions at a time – will take time to deploy and the next challenge is activation. Helping to catalysing those pledges has become a priority for us at ImpactAssets.

Q: Vis-à-vis conventional investments, how would you rate your track record on investing performance?

A: This topic – comparing the returns of impact investing to conventional investing – has evolved so much over the years. It's not a debate anymore, now that there is more than a decade of data that shows that impact investing performance is comparable, and can even outperform in the long run. One of my favourite examples is Generate Capital, a specialty finance company that invests in energy transition projects and has yielded top tier returns for private equity, and has abated a significant amount of greenhouse gases in the last five years. Generate has exceeded expectations financial returns and impact returns.

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