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IMPACT INVESTING THROUGH PUBLIC MARKETS:

A PRIMER FOR CHANGE

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INTRODUCTION

Ensuring a sustainable environmental and social future is urgent. The COVID-19 pandemic accentuated the urgency. Financing Sustainable Development Goals (SDGs) to achieve this end requires investment to create impact, develop new products and services that transform how the world works, and lead to tangible, positive results. This commitment goes beyond investment using environmental, social, and governance (ESG) strategies, which are designed mainly to reduce risk.[1]

Most impact investing has been done in private markets and as a niche activity. Impact investing needs to become more mainstream and available through public capital markets to help mobilize private capital at scale for financing an annual SDG gap estimated today at $4.5 trillion, given additions caused by COVID. A rapidly growing number of mainstream investors worldwide want to invest for greater impact. They need public markets to execute such investments.

Financing the sustainability agenda is particularly critical for emerging market countries (EMCs), which are far more vulnerable to destructive climate and social challenges than developed markets. They need the bulk of SDG financing, with significant amounts in local currency from their local markets.

Challenges to being an impact investor in public markets are primarily related to questions of causality and evidence. But a consensus is growing on how to address these challenges. This report outlines core steps that key actors in EMCs can take to finance a more sustainable and secure future through their public capital markets.

SDG FINANCING: BEYOND ESG TO IMPACT

Investing based on ESG strategies, or ESG investing, is one of the most common approaches to sustainable investing today. However, financing the SDGs requires investing beyond ESG strategies and investing to develop transformative products and services that make the world more sustainable.[2]

ESG investing focuses on a corporation's performance and how well a company reduces its financial risk by following strong ESG practices. Independent entities such as MSCI Inc. rate companies according to their exposure to ESG risks and how well they manage those risks compared to their industry peers. A highly ESG-rated company that pollutes less and treats its workers well is certainly helping to create a more sustainable future. It will have a positive impact.

But reducing exposure to ESG risks—and managing those risks better than one's peers—does not go far enough to achieve the level of sustainable development envisaged by the SDGs. A company that makes sweetened soda or alcoholic beverages may have a strong ESG rating, but its core products do not help create a more sustainable world.

Impact investing focuses on investing in products and services that help solve real-world social and environmental challenges, with the intention of creating transformative change. The Global Impact Investing Network (GIIN) defines it as having the "intention to generate a positive, measurable social and environmental impact alongside a financial return."[3] It involves financing activities that increase renewable energy, produce electric vehicles, farm with reduced greenhouse gas (GHG) emissions, safeguard biodiversity, and educate underserved communities, along with other similarly impactful ends.

As Cohen and da Silva note, "All organizations that deploy resources for the SDGs need to go beyond risk mitigation and toward managing for development impact."[4] Similarly, a UN Development Programme blog says that financial risk reduction is no longer sufficient, and if ESG were enough, the SDGs would have been financed by now.[5] This is certainly not to say that ESG investing should be curtailed—just that impact investing needs to play a significantly larger, more central role in the investment landscape.

WHY ARE PUBLIC MARKETS NEEDED?

There are several benefits to having public markets in the impact investing space. Three key reasons can be highlighted.

First, the scale of financing needed for the SDGs cannot be achieved without public markets. As the GIIN says: "While listed equities are unlikely to be able to address each one of the targets that underlie the SDGs, investments into listed equities (and public markets more broadly) comprise the largest portion of institutional investment portfolios. If these [funds] can be harnessed to intentionally drive positive impacts through their investments, then they can potentially deliver a substantial boost to progress on the SDGs."[6]

Echoing this point, the International Finance Corporation (IFC) estimates that in 2020, impact investment assets were just over $2 trillion, including private funds ($415 billion) plus development finance institutions (DFIs). And that number could be multiples larger, mainly because of public markets. "As much as $269 trillion … is potentially available for investment. … Channeling just 10 percent of this amount into projects focused on improving social and environmental outcomes would go a long way toward providing the necessary funding for the world to achieve the Sustainable Development Goals and to shift to a lower-carbon future." The IFC estimates that in public markets involving stocks and bonds, investor appetite could be as high as $21 trillion.[7]

Second, public markets are needed to attract mainstream institutional investors looking to invest for impact, as well as retail investors. Increasingly, mainstream institutional investors see the value of investing to improve sustainability. According to the Global Sustainable Investment Alliance's (GSIA) 2020 review, "At the start of 2020, global sustainable investment reached USD35.3 trillion in the five major markets covered in [its 2020 review], a 15% increase in the past two years (2018–2020) and 55% increase in the past four years (2016–2020). This represents about 36% of total global assets under management [AUM], up from 28% in 2016. And while global AUM grew 20% from 2016 to 2020, global AUM in sustainable assets rose faster—by 36%."[8]

This money has been focused on ESG investing, but a growing amount is aimed at impact beyond ESG. Pension funds and insurance entities are realizing how climate change creates serious risks for their businesses. They want to invest in long-term activities to reduce catastrophic floods, droughts, and fires that destroy livelihoods, impair individual health, and trigger expensive insurance payouts. They want to create sustainable economic growth that can fund pension plans. In addition, fiduciary duty is evolving to require asset managers to measure and manage the impact of their investment on stakeholders, not just ESG.

Many mainstream institutional investors are pushing for more impact-investing opportunities in public markets. They need investments that are large, scalable, transparent, and offered through regulated markets. Many firms are required to hold a portion of their portfolio in listed, regulated instruments. ESG investing is primarily done through public markets. Impact investing will need to be as well.

Retail investors also have a large and evolving appetite, which Rosl Veltmeijer-Smits, portfolio manager at Triodos Investment Management, emphasized at the Milken Institute virtual forum. Investors in this class want to create a more sustainable future through their investments, as they have been doing with their consumption patterns.[9] Public markets can provide a needed outlet.

Similarly, Quyen Tran, director of impact investing at BlackRock, sees the need to democratize access to impact investing through public equities and draw on the large capital this cohort can contribute.[10] Private deals are not accessible to most retail investors because participating in such deals requires qualifying as a high-net-worth individual. Offering retail investment vehicles through public markets can provide the general public with greater opportunities to align their investments toward a more sustainable future.

Third, public capital markets involve exchanges, and exchanges have numerous mechanisms that can help accelerate impact investing. According to Evan Harvey, who was head of sustainability at Nasdaq at the time of the virtual forum, exchanges can help normalize investment strategies around sustainability topics and move such investments beyond the niche category, which is required to mobilize SDG finance at scale.[11] They can set standards and definitions and create targeted listing and disclosure requirements. They have links to governments, investors, and companies; the infrastructure to educate the public about impact investing; and the resources to raise visibility. Their interventions help build trust and confidence in processes and information, which is critical for increasing sustainable finance.

Exchanges have played similar roles that helped build ESG and green-bond investing. Their role reaches well beyond direct fundraising through actions including initial public offerings (IPOs) and rights offerings.

DO BOTH DEBT AND EQUITY WORK?

There has been skepticism about the ability to be an effective impact investor when investing through public capital markets, mainly around issues of causality and evidence. How can an investor influence a company's behavior and determine the extent of its influence, when it is just one of thousands of investors and may have hundreds, if not thousands, of investments in a single portfolio? Consensus is growing that this can be done, particularly for actively managed, more concentrated public equity portfolios.

Most of the skepticism is about whether investors can have an impact when investing in equity, mainly because most equity transactions do not involve directly financing a company, and trading is not seen as impactful. Only large, coordinated, simultaneous trading can change a company's share price enough to influence its behavior, and such large, coordinated actions are too difficult to arrange. Moreover, it is difficult for any one investor to register its own impact or additionality. This view about equity is changing.

Some think it is easier to achieve impact by investing in debt because debt transactions frequently involve raising new funds, thus creating a clear link between investor and borrower and investor and impact. Thematic bonds are growing, reflecting the development of industry definitions, standards, country taxonomies, and impact targets.

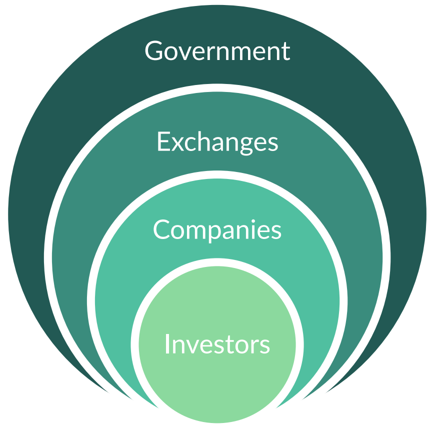
The green-bond market is soaring, and new commitments linked to net zero will propel it faster. According to the Climate Bonds Initiative (CBI), cumulative green bond issuance exceeded $2 trillion by end of September 2022 and for all sustainability bonds—green, social, sustainability, sustainability-linked, and transition bonds—exceeded $3.5 trillion.[12] Sustainability-linked bonds (SLB) link the level of returns to the level of impact achieved, mimicking a social impact bond (SIB) in a way that's potentially more scalable and doable in a public securities market.[13]

There are challenges to verifying the impact of bonds and equity, but this is due to deficiencies in disclosure, standardization, and data, which also affect private markets. As discussed below, these deficiencies are being addressed, which will reduce opportunities to green- and impact-wash and better equip investors to identify which investments have the greatest impact.

Overall, more clarity is emerging on how to invest with impact through listed equity and public markets more generally. Actions on how to do that are discussed below.

WHO NEEDS TO DO WHAT?

As with any market development, improving the ability to invest with impact through public markets involves an ecosystem of actors. No one actor or action can achieve this end independently. The starting point for all actors is to develop an impact-oriented mindset.



1 INVESTORS

Investors are the linchpin in this effort, and consensus is growing about how investors can become impact investors in public markets. More attention is given here to equity investments because they raise greater concerns about achieving impact. Several recent reports, including by the GIIN and BlackRock, address this topic.[14]

Essentially, investors in public markets need to act like impact investors to achieve the following:

- have a theory of change (what they want to happen),
- invest with the intention to create that change—in companies whose products and services align with and contribute to the investors' intended impact and that have an aligned theory of change and system for monitoring and measuring their impact,[15]
- engage actively to influence that change,
- set out metrics and impact targets (around strategy, portfolio selection, performance measurement and management, and engagement strategies) to determine if targets are being achieved and adjust portfolios as needed based on observations, and
- invest for the longer term.

As the GIIN has stated, no one of these changes will make the complete difference. "The transition from a sustainable investing strategy to one that intentionally seeks to generate positive impacts … depends on a number of coordinated changes across the investment process …"[16] Underlying it all is the intent to have an impact and to measure and manage that impact.[17]

It is important to highlight three points on that list as they pertain to impact investing in public markets:

First is the importance of investing in an impactful company's IPOs and other public market capital raisings. Investing directly in a company's fundraising is the strongest direct link an investor can have to a company and its impact. Assuring access to capital at attractive prices is the best way to reward a company with strong impact credentials.

Second is to invest for the long term in order to have time to build influential relationships with investees, determine if impacts are being achieved, and allow businesses time to transform into more sustainable entities. This strategy will be a switch for many investors, as public market investments are often short-term and traded actively, but nothing prevents an investor in a public market from choosing to invest for the long term.

Third, active engagement is a critical component but using a different type of engagement that involves actions such as assessing if a company has a theory of change and creates impact, working closely with a company to help it create greater impact, and relying less on third parties.[18] It is more intensive and requires investors to set aside more time for each investee.

Triodos has noted that it applies a buy-and-hold strategy to build influential, multiyear relationships and limit the number of companies it invests in. The investment manager puts considerable effort into explaining to a company the purpose of the engagement both for Triodos as an impact investor and for the company.[19] In the virtual forum for the Milken Institute, Rosl Veltmeijer-Smits shared the example (see Box 1) of how Triodos helped several portfolio companies in the food industry achieve greater impact.[20]

BOX 1. CREATING ADDITIONALITY THROUGH ENGAGEMENT: A TRIODOS EXPERIENCE

Animal welfare is a topic that receives limited attention. A few years ago, Triodos identified several companies in its portfolio that had a potentially high risk of violating animal welfare standards. These were mainly food producers and food retailers. Triodos reviewed what these companies had published about animal welfare and conducted interviews with them to obtain details on how each company approached animal welfare standards and the key challenges they faced.

From these interviews and other industry data gathered, Triodos distilled a set of best practices for meeting animal welfare standards—based on what it was seeing in the industry. It then provided each company with specific recommendations on how it could achieve the best practices. One year later, Triodos contacted each company to see what it had done with the recommendations and if progress had been made. They found that each company had used Triodos' recommendations to improve its standards and practices. This engagement process took more than two years to complete.

In addition to assuring that an investee's core products and services are aligned with impact goals, BlackRock applies an "additionality" requirement (see Box 2).[21] In one example, BlackRock brought two companies together to discuss collaborating on a new, high-impact educational training program that would otherwise not have been considered.

Finally, to help move the field forward, all investors should contribute to developing the impact-investing "industry" and ecosystem by sharing insights and experiences, participating in working groups that develop best practices and enhance the consistency of disclosures and impact measurement, and similar activities.[22]

BOX 2. BLACKROCK'S ADDITIONALITY REQUIREMENTS FOR COMPANIES

In addition to having core products and services aligned with impact goals, an investee company should also provide "additionality":

- develop a leading discovery that is pushing the industry forward, such as a scientific breakthrough or disruptive technology;
- adopt an innovative business model that allows the company to deliver goods and services to an underserved population; or
- contribute to collaborative efforts to help transform the industry.

2 COMPANIES

Many companies are sustainability-minded of their own volition, realizing that they cannot prosper in a society and an environment that are failing from unsustainable practices.

Others have made changes because of growing pressure from investors, consumers, and—increasingly—regulators, which include fiduciary duty regulations requiring consideration of sustainability in investments and emerging sustainability disclosure requirements.

Like investors, companies need to adopt and follow an impact mindset: to think in terms of how their businesses—their products, services, and overall operations—can contribute to sustainability and to clearly articulate this purpose. Frameworks like those from the International Capital Markets Association (ICMA) on green bonds, impact reporting standards from the Global Reporting Initiative and Sustainability Accounting Standards Board, initiatives such as the Task Force on Climate-Related Disclosures, and the EU regulations on sustainability disclosure offer insights into what it means to operate sustainably. They can help a company better understand its operations and relations with its shareholder community and encourage stronger sustainability contributions.

In addition, as noted earlier, investors will want to invest in companies that have a clear and actionable theory of change. This means companies will need to provide impact-focused disclosure, including high-quality, timely information that clearly articulates the following: their theory of change, impact objectives and metrics, impact measurement and monitoring systems, risks and how they are managed, and governance. Emerging disclosure requirements may give public companies an advantage over private companies, as their information may be higher quality and more consistent.

Companies will also need to be prepared to engage actively with investors in the more expansive way noted around impact. This engagement might include identifying and addressing environmental and social shortcomings in products, services, and supply chains. These engagements can provide beneficial insights into sustainability improvements. Increasingly, emerging market companies recognize the need to take these steps to attract needed foreign investors. As the World Economic Forum reported in a study on Kenya, private Kenyan companies are interacting with foreign investors and understanding what those investors want and require for sustainability.[23]

3 EXCHANGES

Exchanges around the world, including several in emerging markets, have adopted ESG practices, many with the help of the Sustainable Stock Exchange Initiative (SSE) and the World Federation of Exchanges (WFE).[24] This agenda needs to move into the impact space. A few exchanges lead the way on how to do that.

Echoing similar comments made about investors and companies, Shameela Soobramoney, chief sustainability officer at the Johannesburg Stock Exchange (JSE), emphasized during the virtual forum that exchanges need to revise their mindsets before implementing specific steps. They need to become aware of the sustainability issues facing their countries and become intentional about leveraging their capabilities to create products, services, platforms, and information to help drive investment flows into activities that produce the desired impacts. They can use their capabilities to influence a company's cost of capital along with changes in behavior. Exchanges need to recognize that they cannot move the needle independently. They need to operate within an ecosystem of actors, understand how to evolve with their ecosystem partners, and identify the pieces of the puzzle to which they can contribute.

Within that context, exchanges can take several actions to move the agenda forward. A starting point is to identify sustainability products and actions that will enable them, working together with securities commissions and private firms. Efforts should include:

- creating frameworks for thematic bonds such as green, social, sustainability, and sustainable-linked bonds, as well as transition bonds, which can help EMCs finance the transition from brown to green;
- setting impact requirements for listing and disclosure, based on frameworks by international groups such as the ICMA and CBI, but tailored to the local context and,

where applicable, tied to the country's relevant taxonomy. EMCs should strive to converge with international products, standards, and practices but allow sufficient flexibility for growth and innovation; and

- introducing sustainability segments to raise visibility and awareness about what is required to list as a sustainability-related instrument, highlight products that meet those requirements, and clarify how to invest in them. Exchanges without a separate segment can highlight their sustainable products and practices through other channels.[25]

Mapping companies for impact is an emerging activity that can make it easier to identify attractive companies and incentivize companies to disclose their sustainable practices. The London Stock Exchange's (LSE) Green Economy Mark, enabled through FTSE Russell research, certifies if a listed company generates at least 50 percent of its revenues from products and services that contribute to environmental objectives.[26] Other types of impacts might be mapped as well. The JSE has partnered with FTSE Russell for similar mapping that also allows an investor to see a company's trajectory on its green journey, which is important in EMCs where many companies are transitioning to greener operations.

Finally, exchanges play a central role in building new financial markets, perspectives, and ecosystems. They fulfill this role through training, knowledge, and awareness efforts about impact investing and platforms that enhance ease of engagement. Nasdaq has a sustainable bond platform that highlights which bonds support the SDGs, maintains a data portal where companies can upload their ESG data, and advises listed companies on how to build diversified boards. They can identify gaps in the ecosystem and help fill them.

The JSE noted that in South Africa, small companies that create impact are not well covered by sell-side analysts and have limited visibility with investors. The exchange, working with other ecosystem partners, can help identify actions to rectify that defect.

Overall, and as noted earlier, exchanges create norms and standardized approaches and can play a leadership role to increase investor trust, confidence, and investment. Nasdaq and the JSE stated that investors would have far greater confidence in a bond or company labeled by the exchange according to published listing requirements with ongoing regulated information than in a bond or entity that is "self-labeled" by the issuer. They can help promote impact investing through their markets—and beyond.

The WFE's five sustainability principles on how exchanges can promote sustainability could be adjusted to cover impact investing. They concern providing education, engaging with stakeholders, providing sustainability information, providing sustainability products, and having strong governance and processes around understanding and managing sustainability.

While many exchanges, such as the London Stock Exchange, the Luxembourg Green Exchange, the JSE, and Nasdaq, illustrate leading practices, the lack of standardized reporting and data discussed below is a major challenge that holds back impact investing. Exchanges rely on the standardization of information and reporting formats and for products such as indices. As Soobramoney noted during the virtual forum, in EMCs, the plethora of inconsistent information and reporting on impact makes it difficult to convince some investors, especially those less experienced and sometimes skeptical about sustainability, that impact investing is worth doing.[27]

BOX 3. SSE: FIVE ACTIONS SECURITIES AND EXCHANGE COMMISSIONS CAN TAKE TO SUPPORT SDG FINANCING

1. **Facilitate investment to support the delivery of the SDGs:** Aid investment flows towards achieving the SDGs via financial products.
2. **Strengthen corporate sustainability-related disclosures:** Improve the quality and quantity of disclosure on environmental and social data.
3. **Clarify investor duties on sustainability:** Guide investors on the integration of sustainability into their decisions.
4. **Strengthen corporate governance to support sustainability:** Introduce board responsibilities related to environmental and social factors.
5. **Build market capacity and expertise on sustainability:** Facilitate the training of market participants on sustainability topics.

Source: Sustainable Stock Exchange Initiative (2022)

4 GOVERNMENTS

As with any market development, different parts of the government are needed to move the agenda.

Most pressing is for securities commissions to require disclosure of sustainability-related information in a standardized way. Disclosure has been mostly voluntary because, until recently, securities regulators did not agree that sustainability issues had material impact on business performance and risk. As a result, inconsistent reporting formats developed, which complicated investment decision-making and made it easier for companies to "green/impact wash"—to report what they wanted and how they wanted to substantiate it.

Securities regulators now recognize that climate and other sustainable elements can seriously threaten business and financial performance. Material developments need to be disclosed, and data need to be more standardized.[28] Fully backed by the International Organization of Securities Commissions (IOSCO), the International Financial Reporting Standards Foundation created the International Sustainability Standards Board in late 2021 to develop a "global baseline of sustainability-related global disclosure standards," which countries can adopt with modifications to reflect local conditions. During the virtual forum, and in subsequent comments, Evan Harvey, then from Nasdaq, and others echoed the need to give more attention to reporting impact. Most of the focus is on reporting about risk and financial performance.

For investment regulators, two important areas are to incorporate sustainability into fiduciary duty and to ensure that investment regulations allow institutional investors, such as pension funds and insurance firms, to invest in areas that are critical for sustainability. Some countries still define fiduciary responsibility only as ensuring that investors obtain the highest return. The definition needs to enable asset managers to consider the influence of sustainability issues on their investment decisions, but this is becoming less of an issue. In part, this is because of a growing understanding of how climate and social challenges can turn a good investment today into a stranded, troubled asset tomorrow and because sustainable investments frequently offer equal or higher returns, eliminating any discussion about a tradeoff.

Government actions can go beyond legal and regulatory changes to facilitate impactful investment by outlining a vision for sustainable development, identifying target areas, creating a taxonomy that defines critical activities and key metrics, and developing data to monitor and measure impact. This will help investors feel more confident that their funds are being used for the most critical needs and that related policymaking will be supportive and credible.

To be most effective in taking these steps, governments should foster collaborative, cross-cutting engagements involving public- and private-sector stakeholders to bring needed perspectives and resources to the table. The SEC and other regulators can support and implement this vision. The EU provides a model of how steps can flow from the broader strategic vision down to micro regulation to drive and direct action to a more sustainable end.[29]

It is also important for the government to help ensure that securities markets are attractive to invest in from an economic perspective. Many capital markets in EMCs are underdeveloped, often not because of laws and regulations but because of macroeconomic policies or high government borrowing levels and rates that make markets unattractive for non-government borrowers. Equity markets often suffer from a lack of companies that want to issue, disclose, and share ownership.

Finally, governments can help build local debt markets by issuing green or other thematic bonds and on-lending the funds for sustainable purposes. Debt markets in EMCs often start with sovereign issues because governments are well known, have low credit risk, and can issue at scale. While green bonds are growing rapidly around the world, they are nascent outside of China and, perhaps, India. Sovereign green and sustainability bonds can help develop local markets. More are being issued in emerging market countries.

MOVING FORWARD

The world is moving with growing urgency to create a sustainable future, as people increasingly witness the risks of severe climate events and—particularly since COVID—social inequities. Having public capital markets play a larger role in mobilizing private finance will be a significantly greater task for EMCs that already face challenging and costly development priorities and often underdeveloped financial markets. EMCs can build on some groundwork, most notably:

- Governments can call on the EU and various international initiatives for insights into how to outline a national vision and commitment, publicize important SDGs, identify key development steps, and bring cross-cutting groups together to implement them.
- Investors can learn from global experience about sustainability practices and benefit from new regulatory actions that regulate and standardize sustainability-related disclosure.
- Companies can benefit from existing reporting approaches in developed markets to understand how to improve their sustainability credentials and more activist investor engagements.
- Exchanges can benefit from examples being set by exchanges, including the JSE, Nasdaq, and LSE; draw on global networks such as the SSE and WFE; and look to use listing rules and disclosure more extensively for creating new norms.
- All can take advantage of the growing number of resources available internationally to help EMCs understand and move to converge with global standards.

No one stakeholder can tackle this challenge independently. All will need to develop an impact-focused mindset and support the creation of more extensive information, stronger engagement, and other elements of the ecosystem.

Underlying market development challenges will need to be addressed, such as strengthening project pipelines, investment vehicles, institutional capacity, and the broader enabling environment.

The demands and urgency to act are great. EMCs are far more vulnerable to climate and social challenges than developed markets, and the bulk of financing for sustainable development is needed for their locales. Intentional, focused, and collaborative actions by a range of central stakeholders will create transformative change for a more secure future for all.

TABLE 1. KEY ACTIONS FOR MAIN ACTORS

Investors	Adopt an impact mindset/develop a theory of change Set impact goals and invest to achieve them Invest in IPOs and other capital raisings Engage actively with investees Measure and manage impact targets Invest for the long term Contribute to industry efforts to build the ecosystem
Companies	Adopt an impact mindset Create a theory of change Develop impactful products and services Disclose impact outcomes and information beyond ESG disclosures Engage actively with investors
Exchanges	Adopt an impact mindset Develop impact products Set impact-related listing and disclosure rules Map the impact of listed companies Create sustainability segments Provide training to increase knowledge and awareness Lead ecosystem efforts to build the market
Governments	Define targeted SDG areas Develop thematic frameworks, taxonomies, and data for targeted areas Coordinate collaborative/cross-cutting development efforts Adopt standardized impact disclosure regulations Create enabling investment vehicles, policies, and regulations Support capital market growth, including via sovereign sustainable bond issues

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ENDNOTES

1. This report was derived from and built on the virtual forum cohosted by the Milken Institute and the Johannesburg Stock Exchange (JSE), *Investing with Impact through Public Securities Markets to Finance the SDGs*, July 8, 2021, with panelists from the JSE, Nasdaq, BlackRock, and Triodos Asset Management: https://milkeninstitute.org/video/sdgs-public-securities-markets.
2. MSCI Inc., one of the largest producers of ESG ratings, states that an MSCI ESG rating "is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. We use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers."
3. See Sean Gilbert, Pete Murphy, and Katharine Zafiris, p. 2; see also Sean Gilbert.
4. See Ronald Cohen and Jorge Moreira da Silva.
5. See United Nations Development Programme, November 10, 2021.
6. See Sean Gilbert, Pete Murphy, and Katharine Zafiris, p. 3.
7. See Neil Gregory and Ariane Volk, p.vii.
8. See Global Sustainable Investment Alliance.
9. See Robert Eccles and Svetlana Klimenko.
10. See Evan Harvey, Shameela Soobramoney, Quyen Tran, and Rosl Veltmeijer-Smits (speakers).
11. Ibid.
12. See Caroline Harrison with Matthew MacGeoch, p1.
13. A sustainability-linked bond (SLB) can resemble a social impact bond (SIB) because the return can be linked to the level of impact achieved in the project. The higher the impact, the lower the interest payments, thus, the lower the cost to the issuer. The SLB is potentially more scalable than an SIB, mainly because it does not require a third-party payer such as a government.
14. See Sean Gilbert, Pete Murphy, and Katharine Zafiris (which summarizes discussions in its Listed Equities Working Group 2020); see Quyen Tran, Eric Rice, and Brian Deese.

15. The Impact Management Project (IMP) "Guide to Classifying the Impact of an Investment" can help investors categorize the type of contribution their investment is making and the type of impact (e.g., avoid harm, benefit stakeholders, contribute solutions) the contribution produces. See IMP's "The Impact Classes of Investment" and chart of how various investment funds are mapped: https://impactmanagementproject.com/investor-impact-matrix/ [link no longer active].
16. See Gilbert, Murphy, and Zafiris, p.2.
17. See Gilbert, Murphy, and Zafiris, p.4.
18. See Gilbert, Murphy, and Zafiris, p.8.
19. Triodos noted that it is too small to engage "on power," which requires sufficient shares or other levers to influence a company's actions. Triodos engages in content, aiming to influence company behavior through focused, intensive interaction, which costs time and effort.
20. Triodos has modeled an approach similar to that outlined by the Global Impact Investing Network (GIIN); see Triodos Investment Management.
21. See BlackRock, p. 16.
22. Quyen Tran, representing BlackRock in the virtual forum, noted that the company participates in several GIIN working groups, contributes to and uses practices set by the IMP, and is a signatory of the Operating Principles for Impact Management, a global initiative launched by the International Finance Corporation.
23. See World Economic Forum.
24. According to the Sustainable Stock Exchange Initiative, 34 stock exchanges require ESG reporting in their listing rules, 67 have written guidance on ESG reporting, 81 offer ESG training, and 46 have a sustainability bond listing segment. Emerging market countries account for over 50 percent of the exchanges in all categories except that of having a bond listing segment, which is just under 50 percent.
25. The JSE has a sustainability bond segment that lists green, social, and sustainable bonds and a transition segment for transition bonds, to make it easier for companies to list and trade these instruments and for investors to identify and invest in these products.
26. The London Stock Exchange Group was recognized as the 2020 Stock Exchange of the Year by Environmental Finance.
27. See Anthony Miller, Tiffany Grabski, and Rory Sullivan, p. 14.
28. See, for example, International Organization of Securities Commissions' *Report on Sustainability-Related Issuer Disclosures*, https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf.
29. See the EU's "Fact Sheet: Sustainability Finance Strategy" and "Strategy for Financing the Transition to a Sustainable Economy."

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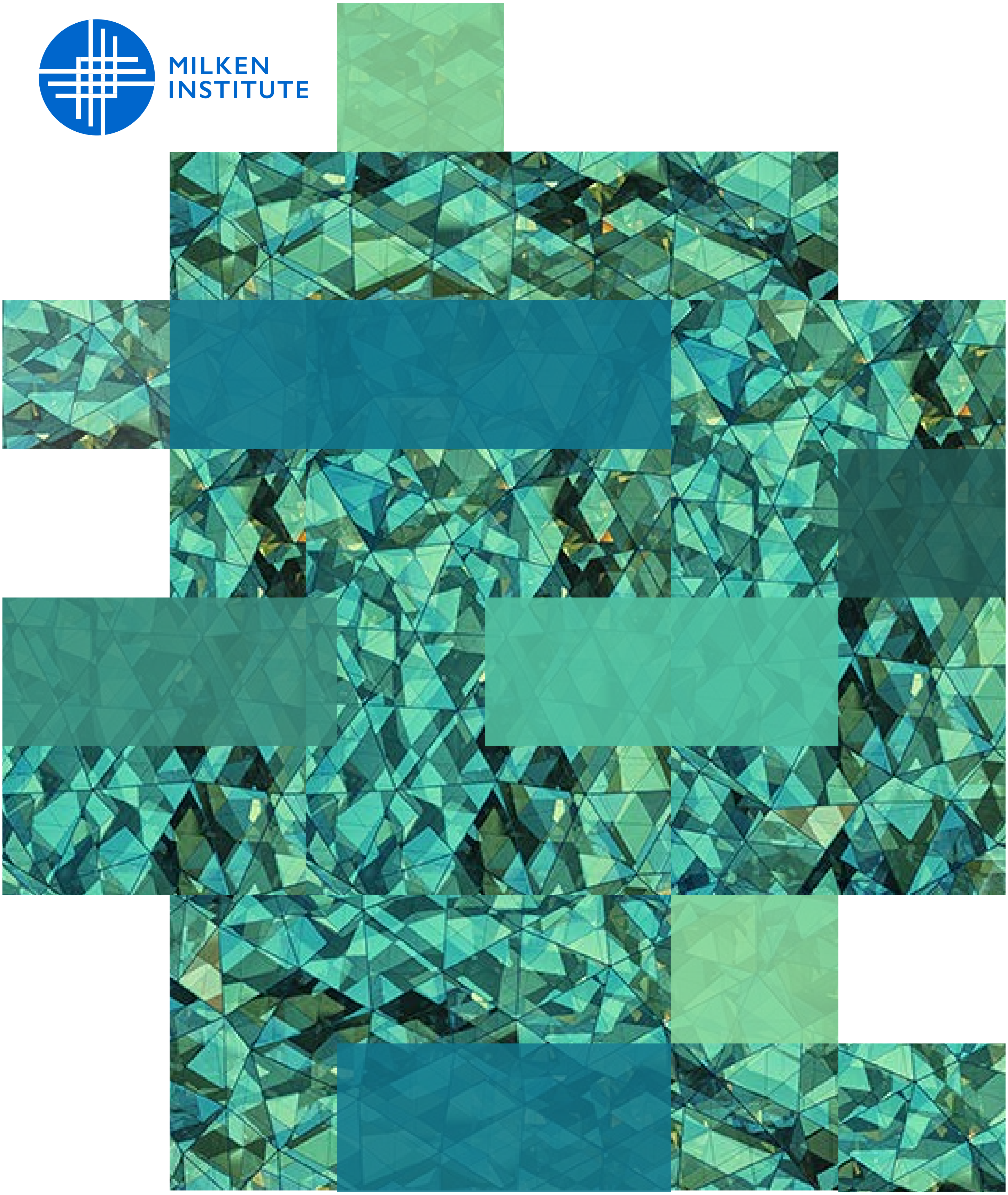

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