LAB: Sustainability, Prosperity, and Provision

Professorship for Sustainable Finance & Investments
Liechtenstein Business School
University of Liechtenstein
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Agenda

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01 Background & Objective

Investigating an impact component for a new provision product

Block 1

Define and measure "impact investments".

Block 2

Assess viability of including an "impact investment" component in a provision product.

Student Master Lab

Student project work on additional topics as part of the Master Program in Finance

The "LAB: Sustainability, Prosperity, and Provision" explores the **suitability** of impact investments for new provision solutions.

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02   What is Impact Investing?

Existing high-level definitions lack practical guidance

> " Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. "

Global Impact Investing Network (GIIN)

> " Impact investments are defined as investments made into companies, organizations, and funds with the intention to generate social or environmental impact alongside a financial return. "

Rockefeller Philanthropy Advisors

> " Impact investing refers to investments made with the specific intent of generating positive, measurable social and environmental impact alongside a financial return (which differentiates it from philanthropy). "

CFA Institute

> " Investing to achieve positive, social and environmental impacts – requires measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset, and demonstrating the investor contribution. "

Global Sustainable Investment Alliance

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Media attention with little clarity

ESG investors need a single standard to measure impact
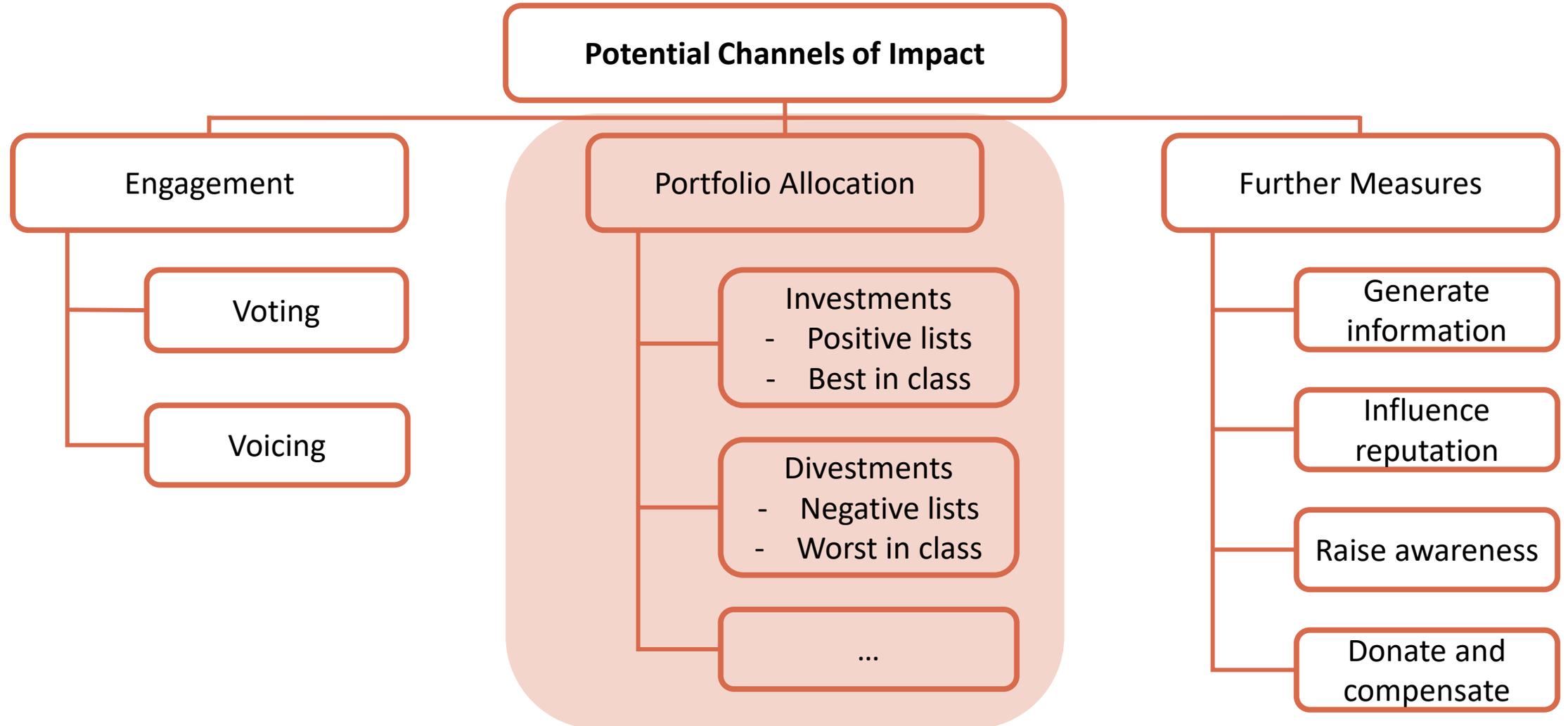
UNVEILS IMPACT INVESTING PRINCIPLES

COMMON STANDARD

new tool for measuring impact

Major funds launch toolkit to help investors measure SDG

A new global standard for

NEW STANDARDIZED FRAMEWORK FOR MEASURING IMPACT OF SOCIAL RESPONSIBILITY ACTIVITIES LAUNCED

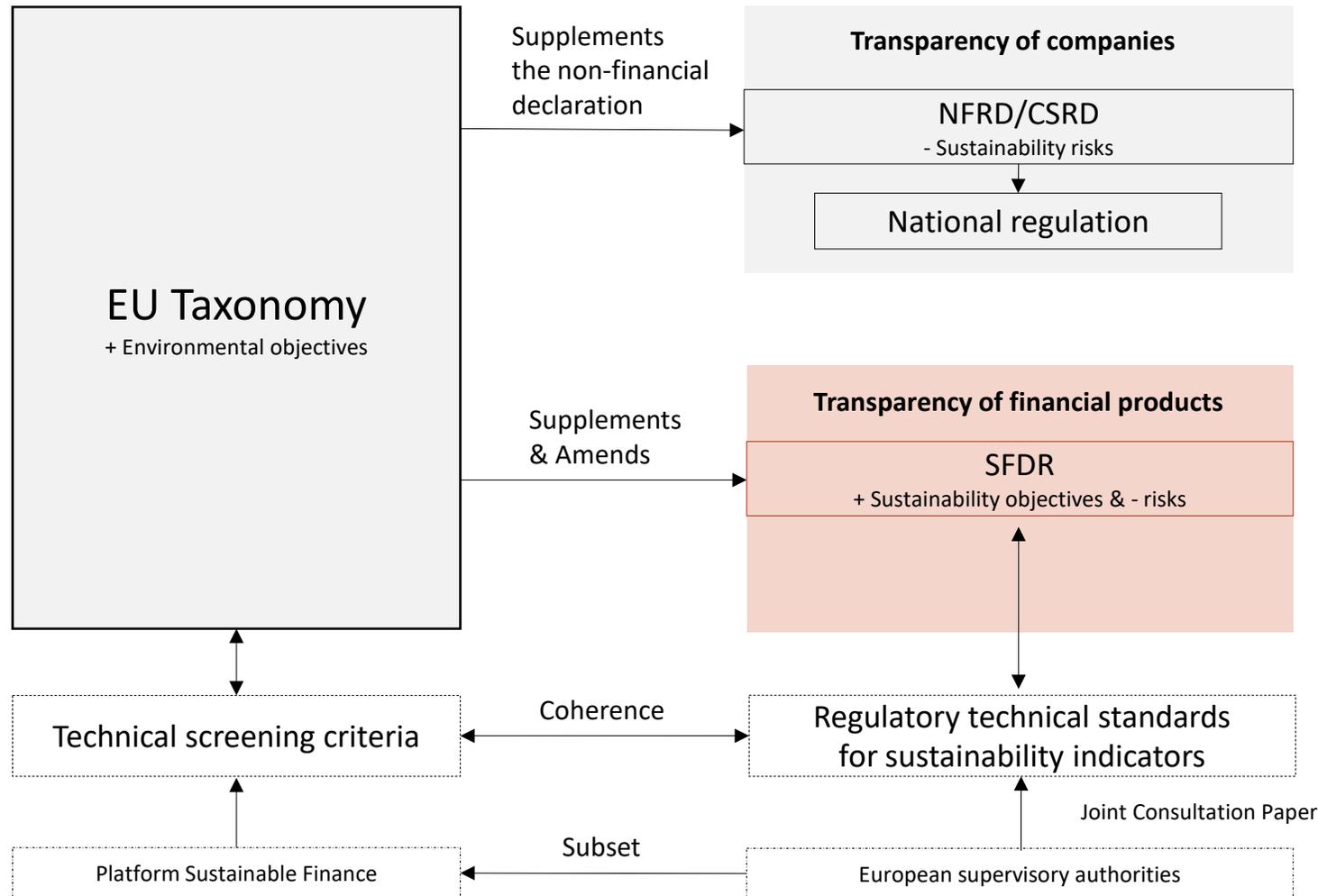# 02   What is Impact Investing (Cont.)

Channels of Impact

Potential Channels of Impact

- Engagement
  - Voting
  - Voicing
- Portfolio Allocation
  - Investments
    - Positive lists
    - Best in class
  - Divestments
    - Negative lists
    - Worst in class
  - …
- Further Measures
  - Generate information
  - Influence reputation
  - Raise awareness
  - Donate and compensate

03   Regulatory Framework

Regulatory uncertainty around impact investments remains high

EU Taxonomy
+ Environmental objectives

Supplements the non-financial declaration →

Transparency of companies

NFRD/CSRD
- Sustainability risks

↓

National regulation

Supplements & Amends →

Transparency of financial products

SFDR
+ Sustainability objectives & - risks

Technical screening criteria ←Coherence→ Regulatory technical standards for sustainability indicators

Joint Consultation Paper

Platform Sustainable Finance ←Subset— European supervisory authorities

SFDR Article 6: Funds without a sustainability scope

SFDR Article 8: Funds that promote environmental or social characteristics (light green)

SFDR Article 9: Funds that have sustainable investment as their objective (dark green)

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04   Categorizing an Impact Component in a Provision Product
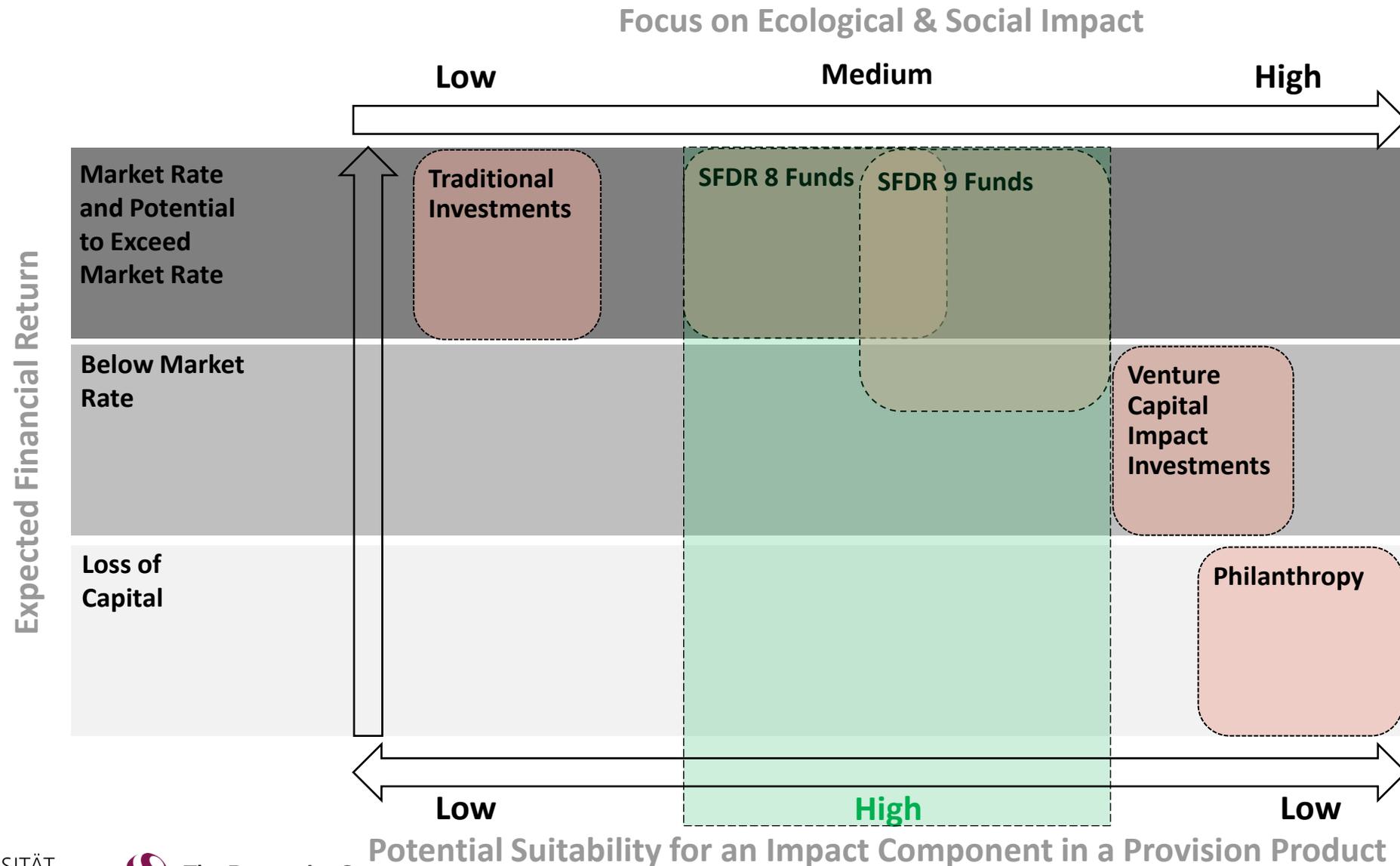
05 Selection Strategy

Balancing financial return with ecological and social impact

Suitability Requirements

Adhering to the suitability criteria ensures that selected funds allow for consistent, reliable performance evaluation. The filters enhance comparability, tradability, and overall market relevance.

Definition of the Impact Component

SFDR Article 8 and 9 classifications ensure that selected funds go beyond financial criteria by actively promoting or pursuing measurable sustainability goals, aligning with sustainable investing objectives.

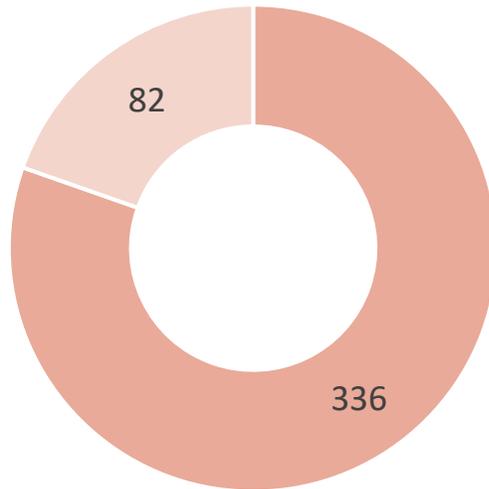| ✓	✓	✓	✓	✓
Asset Category: Equity	**Geographical Focus:** Global or European	**Currency:** US Dollar or Euro	**Assets under Management:** > 100 Million	**SFDR Classification:** Article 8 or 9

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06   Empirical Analysis: Fund Description

The Sample after Filtering

Global Funds (in USD)

■ SFDR 8   ■ SFDR 9

	SFDR 8	SFDR 9
ESG Score	70.52	70.78
TER	1.22%	1.51%

EU Funds (in EUR)

■ SFDR 8   ■ SFDR 9

	SFDR 8	SFDR 9
ESG Score	76.56	75.17
TER	1.46%	1.83%

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06   Empirical Analysis: Cost vs. Performance

Higher Costs lead to lower risk-adjusted Returns

TER vs. CAPM Alpha

- Clear negative relationship between TER and CAPM Alpha

- Higher TER → lower risk-adjusted performance

- Supports hypothesis: Cost efficiency is key to fund performance

- Lower-cost funds tend to offer better returns relative to risk

- Highlights importance of considering fees in sustainable fund selection

Panel A: Global Funds (in USD)

Panel B: European Funds (in EUR)
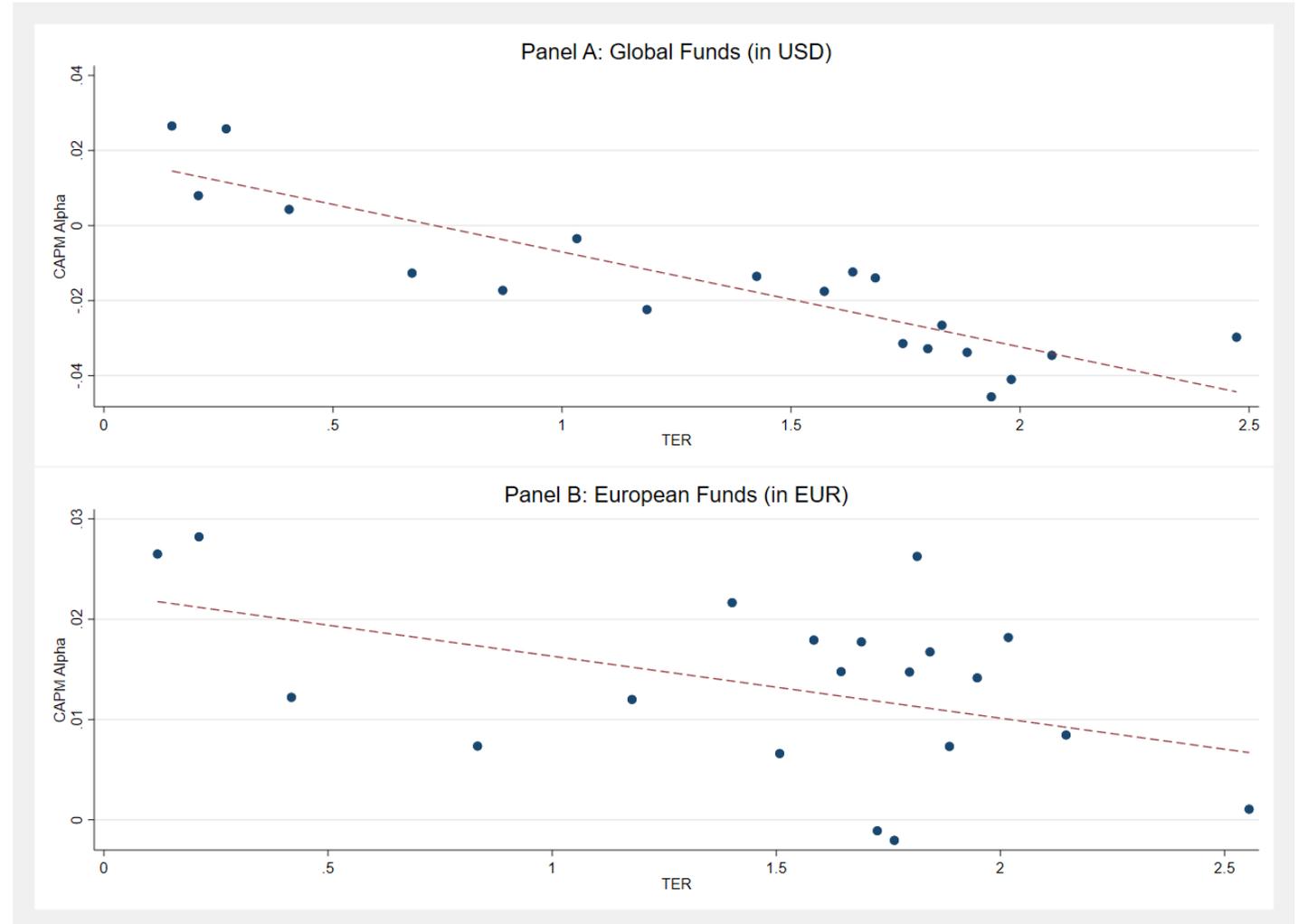
06   Empirical Analysis: Cumulative Performance Analysis

Low-cost Funds outperform the Benchmark

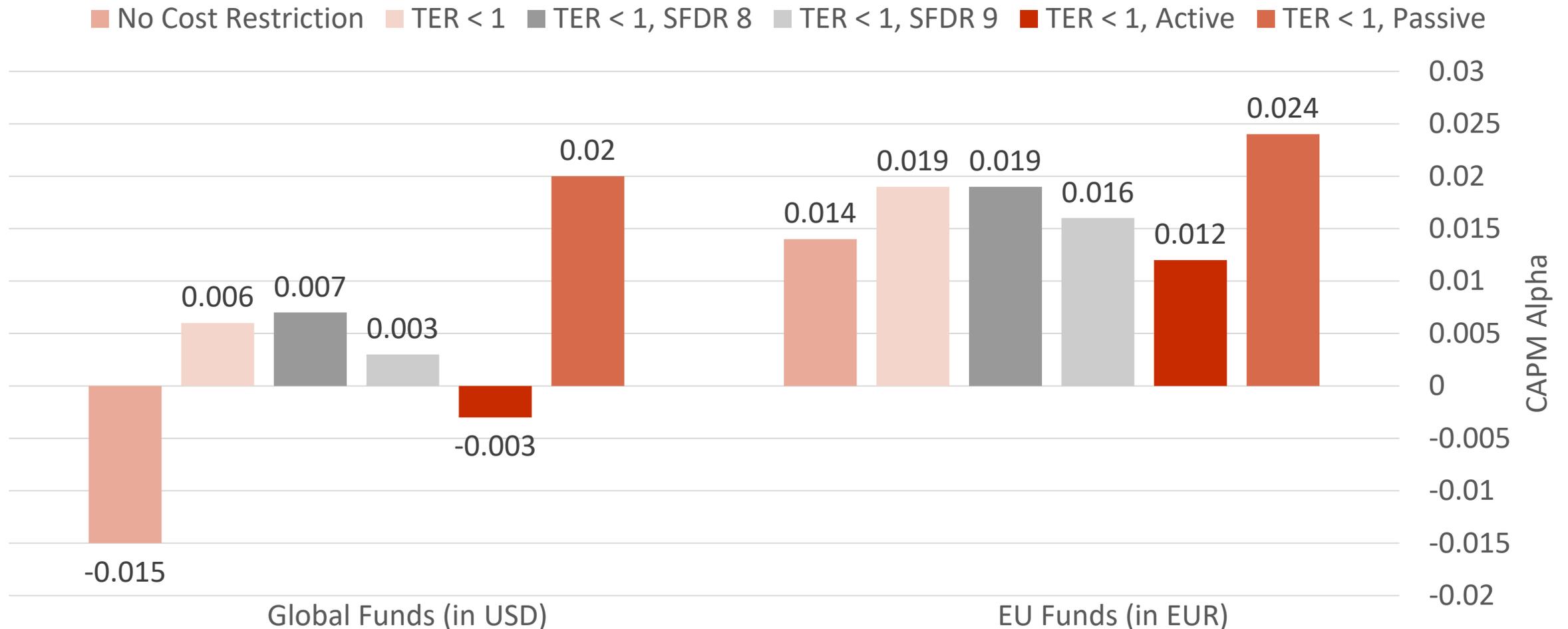Panel A: Global Funds (in USD)

Panel B: European Funds (in EUR)
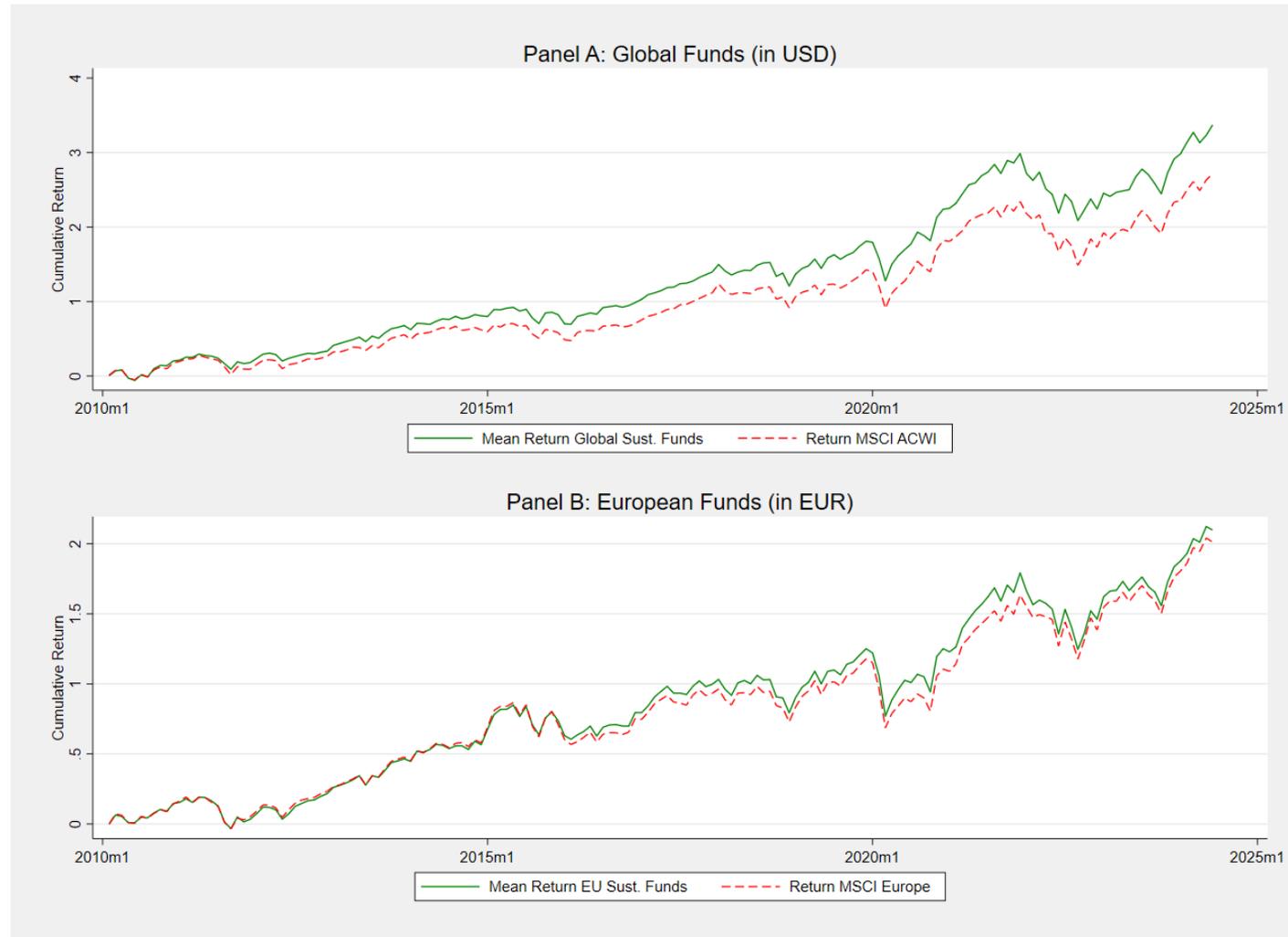
Cumulative Performance vs. Benchmark

- Higher mean cumulative return than the benchmark for the low-cost sustainable funds

- Cost-efficiency paired with a sustainable focus can yield favorable risk-adjusted returns

- The effect holds true for both Global and European funds

07   Hypothetical Client Portfolios

Simulation results underscore the effectiveness of the selection strategy

Portfolio Simulation

- Selection strategy results in a shortlist of **98 sustainable equity funds**

- Simulated portfolios consist of **10 randomly selected funds**

- Each fund is **equally weighted** within the portfolio

- Applied to **full universe** (All Funds) and **sub-universe of funds with ESG Rating >70** (High ESG-Funds)

	All Funds	High ESG-Funds
Average Total Return	10.50%	10.65%
Sharpe Ratio	0.58	0.60
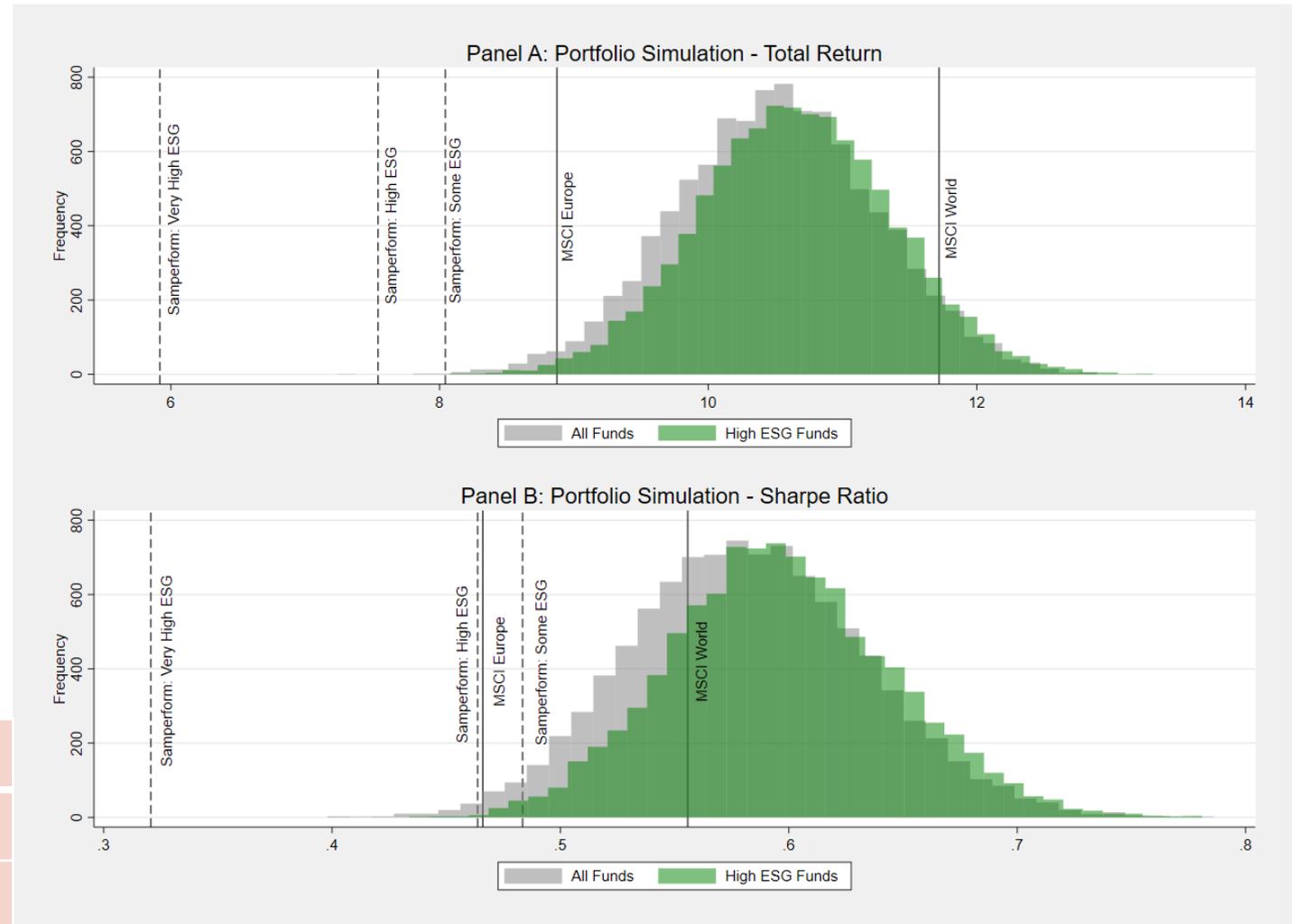
08 Limitations & Outlook

Fund selection criteria work historically but need to be monitored continuously

Challenges

I
Impact Measurement Limitations

- No direct assessment of real-world ecological/social outcomes
- Reliance on proxies (ESG scores, SFDR classification)
- Link to actual impact remains indirect

II
Scope Constraints

- Focused exclusively on equity funds
- Excludes other asset classes (e.g., fixed income, alternatives)
- Broader inclusion could improve diversification and strategy depth

III
Simulation vs. Reality

- Based on historical data and simulated portfolios
- No guarantee of out-of-sample performance
- Future real-world validation required

IV
Static Assumptions

- Current model does not reflect changing client preferences
- Market dynamics not actively integrated

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Source: The Prosperity Company

Many Thanks

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