

# Investing in a better future for people and planet

**AXA Investment Managers global head of pensions, Rachel Basarab-Horwath, looks at how pension trustees can deliver real, positive impacts for society and the environment while meeting their scheme's strategic financial objectives**

Investors of all types are increasingly looking to how they can deliver on their strategic and financial goals while helping to address the environmental and social challenges that we all face. For pension trustees, this has an added sense of urgency. As well as focusing on positive pension outcomes, they must also consider how they can invest to help make a better world for their members to thrive in.

These are not competing goals. In fact, we believe there is a virtuous circle where a desire for change can lead to innovation and development that can benefit investors with a long-term outlook.

Building resilient economies and infrastructure for a future that may look very different from today will require investment on a huge scale. Remaining ahead of the curve on policy, regulation and consumer behaviour creates a clear opportunity for both smaller companies and the largest corporations on earth, and therefore for investors looking for long-term returns from enterprises that drive positive change.

The demand for sustainable investments is high: 70 per cent of the UK public want their money to go towards making a positive difference. Members – particularly younger members – are more likely to engage with and contribute to their schemes if they believe they are helping to make things better. And with

over £4 trillion of assets in UK pensions, we as an industry have a massive opportunity to encourage positive outcomes for people and our planet.

## Investing in companies that make a better world

This is where impact investing comes in. Impact investors seek to invest in companies or projects that actively address social and environmental challenges without giving up returns for the investors they represent.

The sector has been built on strong private market foundations, but a rapidly growing roster of listed companies now provides products and services that meet the criteria for impact investors. This scaling up, through the development of innovative equity and bond strategies, is offering trustees greater choices in the ways they seek to deliver positive outcomes for their members and the world at large.

## A disciplined focus on prosperity for people and the planet

The 17 UN Sustainable Development Goals (SDGs) – aimed at mobilising efforts to end poverty, fight inequality and protect and preserve the natural environment – provide a good starting point to identify long-term secular growth opportunities.

When looking at investment areas that can support the SDGs, AXA IM

considers the long-term, structural trends that are transforming global economies, driving innovation and redefining business models. In recent years, we've seen increasing emphasis on environmental and social concerns, and we think this will continue due to global policy and regulation, and corporate and consumer demand.

**“We are beginning to see trustees look beyond climate change to address the impact of human activity on biodiversity loss”**

While mitigating carbon emissions is a top priority, we are beginning to see trustees look beyond climate change to reduce the impact of human activity on biodiversity loss. To this end, addressing some of the big social issues – such as food and energy security, and shelter – will be imperative to help people support the climate and biodiversity impact mitigation goals.

We've distilled these long-term opportunities into a set of overarching themes. These focus our attention on where we can have the greatest impact as investors while maintaining our commitment to client outcomes.

## Translating impact themes into investment outcomes

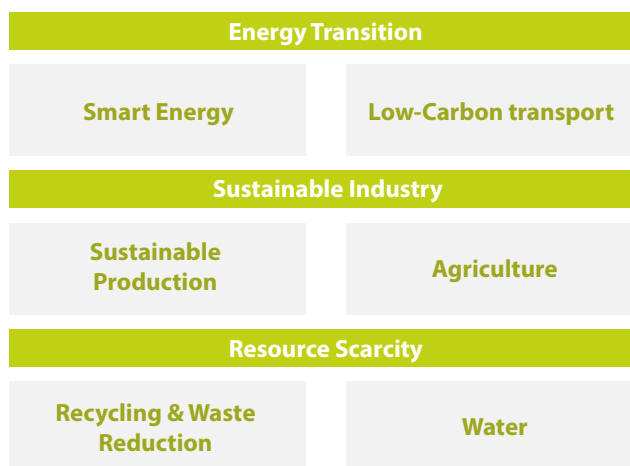
While the impact of a company's operations is important, we believe that the most positive impact comes from products and services that make a long-term contribution to a sustainable economy – for example, companies that

## Listed impact investing themes

## Prosperity for people



## Prosperity for the planet



Source: AXA IM. For illustrative purposes only.

research and develop technologies to reduce single use plastic consumption or create alternatives to plastics, such as biodegradable packaging. These types of company have a clear, tangible impact objective to help protect ecosystems and biodiversity.

We believe that a rigorous and consistent impact framework is vital to understanding and quantifying the impact outcomes of listed investments, and of being able to communicate them back to investors. An impact framework not only provides a rigorous analysis of a company's impact credentials, but also provides a measure to hold companies accountable on environmental, social and governance (ESG) performance and the positive impact of their products and services.

There are five main areas we consider when we analyse what companies do: intentionality, materiality, additionality, negative externalities and measurability. Of these, we pay particular attention to:

**Materiality** – Are the impactful products

or solutions they are providing significant to the business? Does it make a real difference to beneficiaries of the product or service? Does it materially improve the outlook for that industry?

**Additionality** – Is the company's product or service better than would otherwise be available? Does it have longevity and a sustainable competitive positioning over the long term?

**Measurability** – Do we really understand what a company is doing? Can we track their progress with measurable key performance indicators that are specific to their company?

**Active engagement with companies to drive real change**

One of the most powerful ways to bring about real change is by engaging with the companies in which we invest on our clients' behalf. Engagement is also vital to protecting shareholder value, and so it's important to exercise voting rights and to influence corporate behaviour.

As a large investor, we can have a lot of influence when we engage with companies, either directly or in cooperation with other investors. We can encourage the companies we invest in to focus on UN SDG-aligned corporate behaviour to enhance the impact they make, while protecting long-term returns by engaging with companies on their weakest areas.

While it's important to maintain a disciplined separation between financial outcomes and our non-financial goals, we believe that the two are ultimately intertwined. We can help people and our planet by providing capital to companies that seek to improve the world, while helping members access over-arching trends that will drive returns in the future.

Written by AXA Investment Managers global head of pensions, Rachel Basarab-Horwath

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