

# The necessary step: Public markets impact investing

Challenges have traditionally consigned impact investing to the realm of private markets, but private markets alone cannot provide the scale for impact investing to reach the heights required.

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It has never been more important to re-assess the role of capital markets in creating value for society. It's estimated that as much as \$ 50-60 trillion could be required in green infrastructure investments to attain global Net Zero by 2050<sup>1</sup>, and approximately \$ 5 to \$ 7 trillion in annual spending may be necessary to achieve the UN SDGs.<sup>2</sup> This means that private markets alone cannot provide the scale for impact investing to reach the heights required. The developing public markets impact investing landscape, however, provides the opportunity to allocate capital at incredible scale and democratize access to a previously unattainable asset class. This can potentially transform businesses harnessing technology to lead their industries and catalyze progress towards achieving global sustainability goals.

The Global Impact Investing Network (GIIN) defines impact investing as specific investments made with the intention of generating a positive, measurable social and environmental impact alongside a financial return<sup>3</sup>. At its core, there are four key industry-accepted principles that provide a benchmark for impact investing.

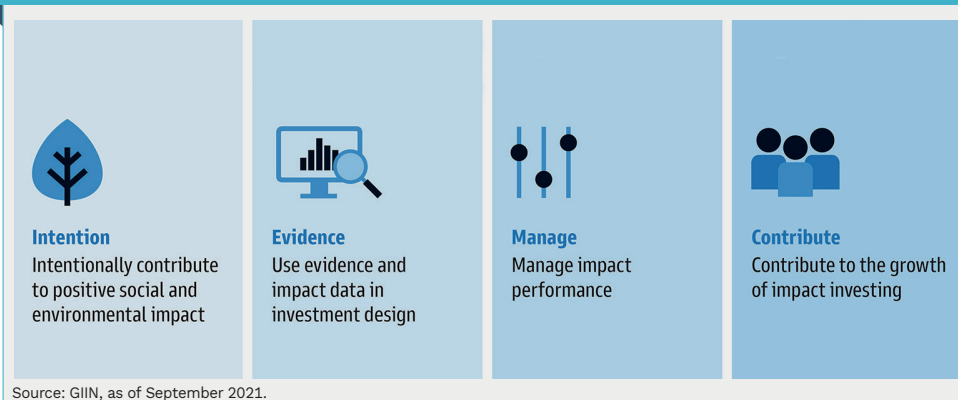
But challenges around measurability and the limited number of public impact-focused businesses have traditionally consigned impact investing to the realm of private markets. Traditional barriers to public markets impact investing largely stem from two factors within these four themes.

## Assessing intention

Whether or not a company investment is classified as 'impact' can depend upon the intentions of the business. The broader scope of operations for many publicly listed companies can lead to questions around the true intentionality of management teams when it comes to pursuing impact (for instance, when a large consumer goods company launches a small female health business on the side to appear impact-driven). Due to the current lack of universal governance, investors are largely on their own when it comes to classifying companies. They may classify investments as impact if a certain percentage of company revenues is derived from products or services that provide a unique solution to social and environmental challenges today. But quantifying this revenue threshold is a significant challenge.

The Dutch life science business Koninklijke DSM is a fitting example in this context. It developed a cow feed supplement which can reduce methane emissions from cattle by approximately 30%. In a world where today's food and agriculture industry makes up around 20% of global green-

**FIGURE 1: FOUR CORE CHARACTERISTICS OF IMPACT INVESTING**



house gas emissions, this innovation represents a much needed and potentially highly impactful solution.<sup>4</sup>

However, generated revenues (and impact) from this particular business segment run close to nil, as the company is currently in the late stages of receiving regulatory approval for commercialization in the EU. This is one of many case studies demonstrating that blindly following revenues or current industry norms can present significant challenges when identifying and optimizing public markets impact investment opportunities.

### The challenges with evidence

Another key factor when it comes to impact investing is evidence, meaning being able to accurately measure and report on the impact your capital investment has.

The ability to quantify impact has helped distinguish impact investing from more traditional thematic investing and has also been one of the reasons that it has, for many years, been focused primarily in private markets. On the private side, there can be more measurable outputs, generally with a clear and quantifiable goal that can be achieved by adjusting the investment size. Within public markets, however, the range of 'impact-aligned' investment opportunities has historically been more limited and, even where available, has additional complexity due to less transparency, which inhibits investors' ability to accurately measure outputs.

Within our company, we have taken the view that we can best manage these limitations by investing the time and resources to engage with companies to receive impact data directly from the source. It is important to acknowledge that companies simply

might not be able to report on impact metrics, but we have found results to be generally robust at the company level and believe continuous dialogue will further improve and align impact data.

### The path forward

It has been exciting to see the growth of the impact universe in public markets in recent years. More companies than ever before have a clearly articulated and intentional strategy focused on delivering change with a product or solution to help alleviate specific issues.

At the same time, retail investors demand for impact investing is rapidly growing. The public markets offer greater accessibility to the industry, providing entry into a space only previously accessible to high-net-worth and institutional investors. Similarly, as more capital flows towards impact-aligned public companies, they are recognizing that investors want better data and it is in their interest to provide reporting that allows for their impact to be quantitatively determined. In seeking to solve these potential issues of intention and evidence, we will be publishing our first annual impact report later this year, summarizing the key impact performance indicators (for instance, tons of CO<sub>2</sub> avoided/saved) across our strategy.

It may never be possible for public markets to offer the exact same level of transparency or breadth of opportunities as private markets. But the gap continues to narrow and impact investing in public markets is becoming more feasible and acceptable as a result. ■

## SUMMARY

Due to a lack of universal governance and data, retail investors were largely on their own when it came to classifying companies and measuring impact, making the space consigned to the realm of private markets.

Recently, we have seen a shift as public companies are starting to offer transparency around data and intentional strategy, democratizing access to a previously unattainable asset class.

With new capital flows coming into the space, impact and reach will inevitably expand.

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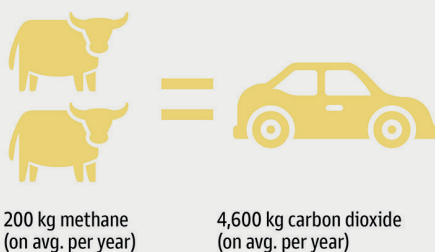
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**FIGURE 2: COWS AND CLIMATE CHANGE**

Each year, 2 cows produce as much heat trapping greenhouse gas as 1 car driven 15,000 miles



Koninklijke DSM have developed a cattle feed additive that reduces the methane created through the digestive process



Source: University of California (Davis) – Cows and Climate Change, Koninklijke DSM, as of September 2021.