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Social Impact Investing

People Power: The post-COVID rise of social impact investing

As the global economy moves to a more sustainable model in the years ahead, attention often focuses on climate change as the standout challenge. The COVID-19 response has allowed us to envisage a world in which we travel less and pollute less as we seek to meet that challenge; it has also shown how intertwined our lives are and how far-reaching the impact of social issues can be. Pandemic-related disruptions have had a dramatic effect on human capital, supply chains, inequality and more, with many consequences yet to make themselves known. We now understand better how these social factors also pose a risk to stability, progress and profitability. We believe that businesses with the strongest social credentials – ready to mitigate against the risks and harness the opportunities – should attract greater investor attention in the future.

AXA IM has a long history in social impact investing. Our first responsible investment mandate came more than two decades ago and sought to create sustainable jobs in France. Now, we can see the theme taking root in the investment mainstream, with investors and managers seeking to convert the social themes in the United Nations Sustainable Development Goals (UN SDGs)[1] into investable targets.

Speaking at a recent social impact roundtable, AXA IM portfolio manager Anne Tolmunen told delegates: "Awareness of social considerations is rising up the agenda of governments, regulators and consumers. This shift in mindset is about ensuring social justice, but we also see structural factors underpinning and enabling this change."

Those factors include medical innovation, improved access to technology and the sustained rise of the middle classes in emerging markets. To tap into opportunities unearthed by such trends, Tolmunen thinks investors should look at social investing in terms of three clear areas of focus:

1. Access: Improving access and providing services to increase inclusion to help create economic moats in large addressable markets *eg affordable housing*
2. Protect: Getting the right protection *eg healthcare solutions* to enable people to focus on other material aspects of their lives
3. Progress: People want to aspire to improving their conditions and to thrive in their lives *eg education*

[1] *https://sdgs.un.org/goals*

The first of these focus points can be explored through various areas including financial products and tech, affordable housing and infrastructure. These bring allocation ideas in developed markets, but also provide interesting routes into emerging market investment, where there is often the greatest unmet need. The progress/empowerment theme looks for opportunities in such area as education – an important growth area as standards of living rise. Online and affordable education, as well as cost-effective methods to support students can be especially interesting areas, said Tolmunen, who manages AXA IM's Social Progress strategy. Outside of education, investors might look to software companies targeting small businesses or entrepreneurs, to help them thrive where the internet is lowering barriers to entry, for example in financial services.

In health, any innovations that promote prevention can be appealing, meaning that testing and diagnostics are key, as is personal safety. We also think companies who act to contain healthcare costs will thrive, which is why AXA IM has been a longstanding supporter of the Access to Medicine Foundation[2] initiative. During 2020, our role with the foundation meant we were in a position to drive investor pressure in the healthcare sector. We made sure companies knew we expected solidarity – including the sharing of manufacturing capacity and intellectual capital – in the fight against the virus.

This illustrates another crucial aspect of social impact investing: Driving positive change through company engagement and environmental, social and governance (ESG) research.

Engaging for impact

Marie Fromaget, ESG analyst at AXA IM, works with investment teams to drive tangible outcomes. "We help provide regulatory watches on social regulation, advice on key emerging social thematics, updates on social data improvement, and bring our involvement with market leading initiatives, as well as social impact research and engagement on names in a portfolio."

Our dialogue with companies is a key pillar in AXA IM's investment approach. In 2020, against the backdrop of the virus causing upheaval in every aspect of our lives, we increased the number of engagements to more than 300, a 47% increase on 2019. Some 30% of those engagements were targeted at social themes – and we have taken additional steps on diversity, creating a coalition of investors to encourage major French companies to increase gender equality in the board room[3].

One thing we have noted is that resolutions linked to social issues are appearing more frequently at company annual general meetings. Our experts analyse such resolutions carefully before deciding how to vote, and this can be part of escalating our engagement process when we feel there is a lack of progress.

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A new wave of bonds

The pandemic not only highlighted to investors which companies were best suited to face social challenges, it also drove growth in a relatively new asset class: Social bonds. This form of financing earmarks proceeds for social projects or seeks specific outcomes for a targeted population. The fallout from COVID-19 sparked a surge in social bonds, mainly financing healthcare-related projects and providing financial backing to smaller companies left struggling by national lockdowns.

In 2020, social bonds accounted for 30% of total sustainable debt issuance. That compares to just 5% in 2019. Further major issuance is due to come from the European Union under its SURE programme to support jobs post-pandemic. AXA IM has long advocated for the social bond market to grow in size, and we have argued for green bond issuers to consider social bonds too, or to enrich their green bond

[2] AXA IM is a member of the Expert Review Committee of the Access to Medicine Foundation, a not-for-profit organisation which conducts research into pharmaceutical companies' sustainability practices.

[3] The 30% Club France Investor Group, initiated by AXA IM, aims to increase the representation of women in the SBF 120's executive management teams to at least 30% by 2025.

standards by including social key performance indicators (KPIs).

Just as with green bonds, the social bond market does suffer from a lack of consistency in how issuance is structured and proceeds deployed. Fromaget noted that AXA IM was one of the first to publish detailed analysis on our expectations for companies issuing what came to be known as 'COVID bonds'[4]. Mirroring the trajectory of green bonds, future refinement of principles and broader industry adoption is anticipated in the social space.

Measurement challenge

There are similar challenges in assessing equities too, with no established market standards around impact investing, and as with social bonds, we have developed our own framework. The five pillars we focus on – intentionality, materiality, additionality, negative externalities and measurability – are designed to systematically and comparatively review companies according to their social credentials, and to unearth best-in-class performers.

Reporting on social factors is currently more difficult than on environmental factors. The issues are more fragmented and the data less consistent. However, we can map a portfolio against the relevant SDGs, focus our attention on select impact themes and aim for clear KPIs that can demonstrate where a company is able to prove a positive social impact, whilst continuing to work with companies on better social and climate disclosure

At AXA IM we have been honing our social investing credentials since 1998, but the dramatic events of 2020-2021 have highlighted for everyone how fundamental these issues are in the management of successful, sustainable businesses. As clients devote more energy to social factors, alongside their focus on climate, we understand the need for detailed research and frameworks that can guide investment, as well as active engagement that seeks to enhance the resilience of portfolio companies.

Risk considerations for the Framlington Social Progress strategy include geopolitical risk in that investments in securities issued or listed in different countries may imply the application of different standards and regulations. Investments may be affected by movements of foreign exchange rates, changes in laws or restrictions applicable to such investments, changes in exchange control regulations or price volatility.

[4] *COVID-19: How a new breed of bonds can help finance the fight*.