

Impact investing: a key role to play in reshaping the future



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Today, the world is confronting the global coronavirus pandemic, which has put a severe strain on health systems and economies worldwide. But amid this crisis, we have a chance to build a better future. For responsible investment strategies, Covid-19 has resulted in a paradigm shift: it has put a focus on the critical need to build resilience in healthcare, food and water security, and across supply chains. It has also put climate change and worker rights under the spotlight.

Impact investing is forward-looking: it aims to identify businesses and organisations pursuing purpose-led activities whose products and services tackle the pressing needs of the global economy and environment. Indeed, our thematic approach to impact investing seeks to identify opportunities created by megatrends – and as a result, we have been investing in pandemics long before the outbreak of Covid-19.

Here we dive into the details of two megatrends, exploring their sub trends and how they are shaping our investment thinking. We also identify companies that can tackle these challenges and opportunities.

Megatrend: climate change

Climate change is the defining issue of our time: it threatens the lives and livelihoods of billions of people. Since 1998, extreme weather events have resulted in 16,000 deaths and economic losses of \$142bn every year¹. To respond to a changing climate, we must build resilience to these threats.

Sustainable technologies can be particularly impactful when it comes to addressing the climate crisis. We see renewable energy, electric vehicles and energy efficient housing as some of the main pillars in the fight against climate change. For example, Kingspan helps create energy efficient housing. The company is a global leader in insulation and its products not only reduce carbon emissions, but some of them are made from recyclable materials. We believe products like these, which can help reduce emissions from buildings, are critical to tackling the climate emergency as buildings account for about 40% of all global carbon emissions².

We continue to see a huge opportunity in renewable energy across the globe. Production costs have fallen precipitously: renewable wind can now compete with fossil fuels on an un-subsidised basis. As such, we anticipate strong growth in the industry for many years to come.

Megatrend: water

For six consecutive years, water crises have been listed in the World Economic Forum's top five global risks³.

One of our impact themes is water and it is aligned to SDG 6 (clean water and sanitation) and SDG 13 (climate action). We believe that

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improving access to quality water supply and preservation of the resource are critical to the environment. After all, water is essential for agriculture and food security, and it is the lifeblood of our ecosystems. For example, Ecolab is a global leader in water and sanitation solutions across food service, food processing, hospitality, healthcare, industrial and oil and gas markets. Through its cleaning and sanitation products and analytics capabilities, it helps deliver clean water and safe food to its customers, while reducing their water use, carbon footprint and waste. This demonstrates how sustainable technologies can be used to produce a better long-term environment.

As one of our most precious natural resources, efficient and sustainable management of water is critical, particularly as climate change is expected to exacerbate water scarcity.

Investing in pandemics

There has been much debate about how the global coronavirus pandemic has changed the way people live around the world. For many, the lockdown has provided time for reflection – an opportunity to consider what is truly important.

For us, we believe the pandemic will serve as a catalyst to accelerate existing trends, thereby increasing the awareness of risks facing economies, the environment and society alike.

One of our theses is that we will increasingly see a transfer of funds from governments to the private sector to help address pressing environmental and societal challenges worldwide – issues which governments do not have the capacity or expertise to tackle or have failed in their attempts to do so previously. As governments worldwide look to fiscal stimulus to support the re-opening of economies, we believe that companies addressing the SDGs are best placed to benefit – and in doing so, they can help shape a sustainable future for all.

Read our full Federated Hermes Impact Opportunities Fund H1 2020 report, to find out more about our recent activity and performance, our engagement progress, and how we have been investing in pandemics through our impact themes.

www.hermes-investment.com/sg

FOOTNOTE

1 Q "Brown to green: The G20 transition towards a net-zero emissions economy, 2019," published by Climate Transparency in 2019.

2 Source: World Green Building Council, as at September 2019.

3 "The Global Risks Report," published by the World Economic Forum in January 2020.

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