

# Social impact and a resilient portfolio through Child-Lens Investing

Triodos Investment Management sets new standards in scalable, child well-being investments in small and midcap equities that enhance returns and portfolio resilience.

Social impact themes are often difficult to translate into a concrete small and midcap equities investment portfolio. Triodos Investment Management has succeeded in doing so with its Future Generation Strategy. "This scalable strategy that adds return and diversification," says Sjoerd Rozing, portfolio manager of the strategy.



Sjoerd Rozing

Institutional investors are increasingly looking for opportunities to achieve positive social impact in addition to financial returns. The UN's Sustainable Development Goals (SDGs) provide a widely used framework for this. However, translating SDGs into a concrete investment strategy with the right companies can be challenging, as Rozing knows. "SDGs offer a good start with useful guidelines, but as an investor you will have to make clear choices yourself about priorities and the ultimate application in an investment portfolio."

As portfolio manager, Rozing knows better than anyone that it takes time and research to make an investment theme concrete. Child well-being was no exception. "After more than three years, however, we are now able to show a convincing track record of our Future Generations strategy. The inception year 2022 was challenging, but since then we have outperformed the benchmark with this strategy."

## Impact and return

Rozing emphasises that the investment approach must offer solid financial returns in addition to social and societal results. "A good long-term return is ultimately important for investors and therefore for the growth of the fund. With more invested capital, we can achieve more social impact." With assets under management now approaching EUR 100 million, the Future Generations strategy is well on its way. "It is proving to be highly scalable and is by no means a niche," says Rozing. "If you do your research properly, you will find plenty of companies that can really make a difference to children's welfare. For children now, but also for future generations, hence the strategy's name."

## Finding the right companies

Since the strategy's inception, Triodos Investment Management has been working together with UNICEF\* to put child well-being on the agenda of investors and companies. The UN child rights organisation shares its extensive knowledge and experience in children's rights and well-being, while Triodos Investment Management contributes its experience in impact investing. For investors who want to improve the lives of children, UNICEF has developed the Child-Lens Investing framework, which includes five key areas where investors can make a tangible impact:

1. **Child health and survival:** addressing malnutrition and improving pediatric healthcare are essential for children's well-being.
2. **Access to education:** enhancing the accessibility and quality of

education supports social and economic development.

3. **Protection from violence and exploitation:** investing in online safety and cybersecurity helps protect children from digital threats.
4. **Safe and clean environment:** solutions like renewable energy, water infrastructure and recycling ensure a healthy planet for current and future generations.
5. **Equality and inclusion:** technology and digital access can bridge gaps in opportunity and promote social and economic inclusion.

In addition to UNICEF's Child-Lens Investing framework, Triodos Investment Management has incorporated the long-term sustainability goals as defined in the UN SDGs when structuring the Future Generations strategy (see image).

"Our Future Generations strategy is the first one to apply the Child-Lens Investing framework on a large scale", says Rozing. "Together with UNICEF, we are currently looking at methods to measure the extent to which companies contribute to, for example, the number of children who receive good education or have access to clean drinking water."

When selecting companies, Rozing bases his decisions on five themes related to child well-being: healthcare and nutrition, good education, protection and safety, a healthy living environment and social inclusion. To be included in the portfolio, a company must demonstrably contribute to at least one of these five themes. This goes beyond fine words in an annual report: there are strict requirements.

## Clear contribution to child well-being

Rozing: "At least 33% of the turnover of the companies in which we invest must contribute to one of the themes. For the entire portfolio, at least 50% of the turnover must contribute, based on a weighted average. In addition, all companies must first meet our strict sustainability criteria. So the bar is set quite high."

## UN SDGs mapping to the five themes

Inspired by UNICEF's Strategic Plan

### Child health and survival

### Access to education

### Protection from violence and exploitation

### Safe and clean environment

### Equality and inclusion



Source: Triodos Investment Management

Nevertheless, translating themes into investments results in a wide range of companies. For example, the strategy invests in childcare, which also demonstrably contributes to gender equality by enabling women to participate fully in the labour market and men to contribute to parenting. It also invests in companies active in water purification and clean air. Rozing: "You can't invest in child well-being without also thinking about the planet. Without clean air, clean water and a good living environment, a child cannot grow up properly."

Almost all SDGs directly or indirectly affect children and future generations, but SDG 4 – quality education – is explicitly dedicated to this. Education is therefore a key theme for the Future Generations strategy. Furthermore, the healthcare and consumer goods sectors are well represented in the portfolio.

Rozing is careful to ensure that the strategy does not become a copy of other impact funds. "We clearly stand out because child well-being is truly the common thread. We do not compromise on that unique character. This means that we can offer investors clear diversification benefits."

#### **A scalable strategy in small and mid-caps**

According to Rozing, the strategy is ideal for a pension portfolio, as it also focuses on future generations, with a timeline of 60, 70 or even 80 years. "This fits in well with the long-term horizon of pension investors. We also have a genuine buy-and-hold strategy."

Scalability is essential for institutional investors, who often invest large amounts. Rozing: "We are able to handle larger tickets. There are sufficient liquid investments in the portfolio and the universe is large. We have been able to put together a portfolio that has no pronounced sector tilts, performs well, has a low correlation with other investments and therefore also adds value from a diversification point of view. Their main risks of this fund are market risk and currency risk"

Also, companies that fit well with themes such as education, health and a safe living environment offer a stable investment portfolio with defensive qualities that is less dependent on cyclical sectors.

The strategy focuses on small and mid-cap companies. Rozing: "It is precisely this category that has lagged behind large caps in recent years and is historically undervalued. For investors, this offers an opportunity to invest relatively cheaply in companies that, due to their smaller size, can often respond more quickly to changing circumstances and make a clear contribution to sustainable transitions."

In addition, the trend towards lower interest rates will play into the hands of smaller companies. "For long-term investors, this is a natural moment to slightly increase their exposure to small and mid-caps."

## Portfolio holdings

### **ALK-Abello - Healthcare and nutrition**

Danish company ALK-Abello is a global leader in allergy immunotherapy. The company develops treatments that protect children from allergies, a problem that affects more than 100 million children worldwide.

### **Stride - Education**

The American company Stride offers virtual education as an alternative for pupils who do not fit into the regular school system. Thanks to technology, more children have access to education that meets their needs.

### **Millicom - Equal opportunities**

Millicom provides cable and mobile telecommunications services in Latin America. This infrastructure gives people access to education and financial services. This promotes equal opportunities for children in emerging markets.

### **SABESP - A healthy living environment**

The Brazilian company SABESP provides 372 municipalities with clean drinking water and wastewater treatment. In a country where only 52% of households are connected to the sewerage system, this is crucial.

### **Gen Digital - Security**

The American company Gen Digital protects against cyber threats and identity theft. Parental controls contribute to the safety of children on the internet.

Find out more about Child-Lens Investing.  
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