CASE STUDY

Schroders

Investing for impact in public equities

(SCHRODERS ASSET MANAGEMENT)

While the amount of public equities' capital labeled as "impact" continues to grow,[9] these impact funds still represent just a fraction of the $70 trillion globally held in public equity markets.[10] The question of how to unlock more public equity investments for impact has sparked considerable interest and debate from practitioners as to how impact management practices designed first and foremost for private markets can be effectively adapted for public markets. Recent market initiatives, such as the GIIN's Listed Equities Working Group and accompanying publication,[11] are helping to demystify investing for impact in public equities by providing practical guidance and frameworks. However, there is still a need for clarity on best practice and continued innovation by practitioners to ensure that impact investing in the asset class scales with integrity.

BlueMark's experience has found that many of the core tenets of good impact practice are extensible to public markets. Indeed, having conducted public equities verifications for investors representing a combined USD 11.9 billion[12] in AUM, we have been able to further define and adapt our verification methodology to account for nuances and best practices in a public equities context – particularly as it relates to assessing investor contribution and managing impact at exit, where precedents are less clear.

Our Verification Insights

One of the key impact management challenges cited for public markets investors is the ability to effectively attribute impact to an investor's financing or value-add activities given the diversity and scale of shareholders. Our experience has shown that, while the linkages to investee outcomes may be less direct, there is still a clear opportunity to articulate a public equity investor's non-financial contributions, through avenues such as active engagement. In fact, many of the public equities investors that BlueMark has verified have been able to create a framework for considering their expected contribution to impact for each investment—a core tenet of impact investing. That being said, there continues to be a need for more emphasis placed on validating investor contribution—

9 GIIN (2020): Annual Impact Investor Survey

10 Harvard Kennedy School (2021): Impact in Public Equities

11 GIIN (2023): Guidance for Pursuing Impact in Listed Equities

12 Proprietary BlueMark verification data

with our verification experience demonstrating that public equities clients often struggle to regularly track the results of their contribution activities.

Another related challenge in public markets IM is the ability and control to ensure the sustainability of impact after an investor has exited an investment. Given the limited control and/or influence that public equities investors are likely to have after their holding period, this practice requires a particularly strategic approach to embedding impact during the hold period. While challenging and still relatively rare for the asset class, our verification experience has demonstrated that strong practice is still achievable through a cohesive approach and leveraging active engagement related to impact-related reporting standards, governance practices, and negative impacts.

Client Spotlight: Schroders Asset Management

Schroders Asset Management (Schroders), a global diversified asset management firm headquartered in London, engaged BlueMark to do a diagnostic practice verification to assess their IM system's degree of alignment to the Impact Principles for their impact-driven fund range, including two public equities funds, one focused on emerging market impact, the second on impactful US small and mid-cap companies, as well as a third semi-liquid fund investing in companies that facilitate a circular economy.

As an active owner, engagement is core to Schroders' investor contribution strategy. The firm assesses its expected contribution to the achievement of impact through its degree of influence, which is based on their holding size and depth of relationship with the company and management teams. As part of the assessment, the firm outlines an engagement plan and specifies whether each engagement will be on operational or products and services-focused factors, leveraging thematic focus areas that are aligned to their engagement blueprint. During ownership, Schroders will then monitor progress across its engagements using a database to set engagement objectives and review progress towards engagement milestones on an annual basis. Even though investor influence on key outcomes may be less direct in public equities, Schroders is still able to clearly assess and provide evidence of its investor contribution by strategically engaging on impact activities and actively tracking engagement results – for example, Schroders engagement to improve the measurement and disclosure of recycling impacts at a Chinese electronics recycling company led to improved focus and understanding of the circular economy outcomes for the investee.

Through their investor contribution and engagement efforts, Schroders has also developed a strategic approach to embedding impact during their holding period to help ensure the sustainability of impact. To manage impact risk, Schroders will also reduce share position or potentially divest entirely when impact or sustainability performance is consistently below expectations and engagement is not deemed a viable solution. Upon divestment, Schroders then completes an exit questionnaire, which assesses their contribution to impact, whether they achieved the impact target, and whether outcomes sought will continue after exit. Despite the challenges of public markets impact investing, Schroders is still able to implement leading impact practices that enable the firm to have a clear view of their contribution to impact and encourage impact to remain a focus beyond their investment.

These best practices are critically important for the integrity of impact investing as more and more public capital flows to "impact." While the way to implement impact management activities may differ significantly across asset classes, BlueMark has found that public equities investors – particularly those with active engagement strategies and larger shareholdings – can and should still abide by the core principles of quality impact management.

"The diagnostic verification was a great opportunity to reflect on our impact management practices and identify new ways to innovate and improve, and having an independent perspective really facilitated that. The verification process gets to the core of the Impact Principles and the BlueMark team provided very helpful guidance and were able to draw upon their diverse experience of industry best practice. Our core ambition is to scale impact with integrity. We have been very deliberate in developing an IMM framework that is consistent across asset classes to ensure that we meet the highest bar for all our impact strategies. There's complexities and nuances associated with that, but also huge value in ensuring the widest reach and greatest impact."

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IMPACT INVESTMENT LEAD, SCHRODERS

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