



How thematic investing can help clients invest sustainably

Investors do not have to sacrifice returns to make a positive impact on the planet.

Investors increasingly want their capital allocated in a way that helps promote sustainability or brings environmental and social benefits for people and our planet.

Broadly, there are two strategies that the wholesale market can tap into and deliver this to clients:

- **Impact investing** directly intends to generate measurable social or environmental benefits (impacts) alongside a financial return
- **Thematic investing** identifies macro-level trends, such as low carbon or climate change, then makes investments that will generate returns as those trends bear fruit.

In some ways they are similar. Both are about “intentionality”: that is they are a positive way of investing. Instead of screening out negatives, they screen in positive outcomes and effects.

And both aim to measure these positives. This could be in terms of:

- **Reduced carbon emissions**
- **Social benefits to target populations or communities**
- **Contribution to the UN Sustainable Development Goals.**

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How does thematic investing differ from impact investing?

But there are differences – or, at least, perceived differences. “Pure” or “deep” impact investors argue that impact investing goes beyond thematic investing by featuring **additionality**.

This means the positive impact would not have occurred without the investment. Additionality is usually associated with private market investments: it can be viewed either as **impact only** (if it puts producing the positive effect above all else) or **impact first** (if it produces market-rate returns at best).

Thematic investing usually involves public – and often secondary – markets. It uses themes to identify attractive mass investment opportunities. As the focus is on **finance first**, some claim that it can't also show additionality.

Thematic investing need not sacrifice impact

At BlueBay, however, we would dispute that investing in liquid public markets rules out additionality. It is expressed differently but this does not make it less valid.

The investment industry needs to change how it thinks about additionality, which currently has too narrow a definition. It must allow for strategies that target returns as well as impact.

Public markets are critical to growing the industries that we need for the low carbon transition. They help in three ways:

1. They provide access to the capital companies need to grow and help to lower its cost
2. The primary market exposure of public-market investors through primary issuance is increasing with the growth of ESG-labelled bonds
3. The engagement activities of public-market investors is important in driving better ESG practices.

Should investors adopt thematic or impact methods?

Either strategy can work for investors wanting positive capital allocation grounded in sustainability. But which they choose may depend on balancing the level of returns they seek against the positive impact they want to make.

One important factor that could potentially lead investors to choose between private or public markets – a more illiquid or liquid market route – is the nature of their impact objective. Which areas or populations are they targeting?

For example the investor firm could be a charity seeking a specific social or environmental outcome. This would give them more tolerance in terms of returns or how long they can leave their money locked up.

However, such circumstances are relatively rare, so impact strategies are often being considered as satellite, rather than core, allocations. By contrast thematic investing is potentially less of a niche allocation.

Increasingly pension funds, wealth advisers and consultants demand both positive investments *and* attractive returns, shifting this to a more core allocation. They can achieve this through liquid public-market strategies – debt or equities – that invest through the lens of sustainability.

The investment industry needs to change how it thinks about additionality, which currently has too narrow a definition. It must allow for strategies that target returns as well as impact.



How does this tie into ESG investing?

Both impact and thematic investing are proactively and explicitly about incorporating environmental, social and governance (ESG) factors into the investment process.

But the motive, and thus the role that ESG factors play in the investment decision, is different. ESG investing is the all-encompassing term. Within it are different approaches – two of which are thematic or impact investing, both focusing on positive investment selections.

Spectrum of Capital

	Financial-only	Responsible	Sustainable	Impact			Impact-only
	Delivering competitive financial returns						
		Mitigating Environmental, Social and Governance (ESG) risks					
			Pursuing Environmental, Social and Governance opportunities				
				Focusing on measurable high-impact solutions			
Focus:	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to enhance value	Adapt progressive ESG practices that may enhance value	Address societal challenges that generate competitive financial return for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below market financial return for investors	Address societal challenges that cannot generate a financial return for investors

Source: bridgesfundmanagement.com



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