

Investment View

One-fifth of listed companies globally make positive impact

25 March 2019

- **Analysis also shows that positive impact companies deliver higher growth rates and higher-quality returns and enjoy lower costs of capital**
- **Findings underscore NN IP's belief that financial and societal returns can go hand in hand**

New research¹ by NN Investment Partners (NN IP) reveals that a surprisingly high proportion of listed companies globally are making a positive impact, as defined by the United Nations' Sustainable Development Goals (SDGs). Researchers surveyed 15,000 companies and found that almost 3,000 (19%) met the criteria to be considered "positive impact companies". Within the positive impact universe, researchers found that more than 60% of firms either provide access to health solutions (45%) or contribute to the low-carbon transition and circular economy (18%). Overall, the results indicated roughly a 20-60-20 distribution of positive, neutral and negative impact companies. The research also highlights the importance of fundamental analysis in sustainability-focused investing. Researchers identified many companies that may be ready to take the next step in adopting a more sustainable business model, as their products are gradually improving or less damaging than those of peers.

There is a common perception that companies pursuing a positive social or environmental impact will have to sacrifice financial returns. However, NN IP's analysis shows that such companies outperform the overall listed company universe, delivering higher growth rates and higher-quality returns and enjoying a lower cost of capital. Positive impact companies deliver five-year sales growth of 12% on average, versus 7% for neutral/negative impact companies. Impact companies also enjoy average five-year costs of capital of 5% versus 6% for non-impact companies.

Initially, the research seems to show that positive impact companies underperform in the short term, with cash-flow return on investment (CFROI) just 2.7% above their cost of capital, versus 2.9% for neutral or negative companies. However, if companies with a market cap below USD 1 billion are excluded, positive impact companies deliver 7.3% above the cost of capital, versus 4.9% for non-impact stocks.

Willem Schramade, Senior Portfolio Manager, NN Investment Partners, comments: "Our findings underscore our belief that financial and societal returns can go hand in hand. Our research debunks common arguments and assumptions that support the myth that impact investing costs money or leads to worse risk-return metrics. The higher growth rates of positive impact companies make intuitive sense. They tend to be more innovative and benefit from SDG tailwinds, and they are not usually involved in sunset industries. These attributes also make companies more resilient and less cyclical, which explains the lower costs of capital for positive impact companies.

"The size factor is also worth noting. Before we started our analysis, we expected to find a higher prevalence of net positive impact small cap stocks than large caps. After all, smaller companies are more likely to be innovative pure plays, while larger companies are more often entrenched old-economy players with negative externalities, such as airlines, oil majors and tobacco companies. In reality, we found only a mildly negative relationship between positive impact and size."

The strong and growing interest in listed impact equity among investors started to gain traction in January 2016 when the UN's SDGs came into force. These goals are intended to mobilise efforts to end poverty, fight inequality

and tackle climate change. In the same year, NN IP became one of the first asset managers to launch a fund that explicitly aims to achieve positive impact in the context of the SDGs by investing in listed equities.

Willem Schramade adds: “Impact investing is a relatively young area. Data is limited and there is little empirical evidence. Many investors are still relatively unfamiliar with this type of strategy and many regard it as risky, expecting the positive impact to come at the expense of alpha and financial returns. However, our findings and database results suggest otherwise and prove that financial and societal returns are not mutually exclusive. As reporting on impact becomes more widespread, the available data will increase and improve. This will make it easier to track impact in a more tangible way, making the SDGs more investable and thus helping to accelerate their fulfilment.”

ENDS

¹Source: Based on analysis of 15,000 companies in the CS Holt database of listed stocks. Almost 3,000 stocks meet positive impact criteria.

Disclaimer

This communication is intended for press use only. This communication has been prepared solely for the purpose of information and does not constitute an offer, in particular a prospectus or any invitation to treat, buy or sell any security or to participate in any trading strategy or the provision of investment services or investment research. While particular attention has been paid to the contents of this communication, no guarantee, warranty or representation, express or implied, is given to the accuracy, correctness or completeness thereof. Any information given in this communication may be subject to change or update without notice. Neither NN Investment Partners B.V., NN Investment Partners Holdings N.V. nor any other company or unit belonging to the NN Group, nor any of its directors or employees can be held directly or indirectly liable or responsible with respect to this communication. Investment sustains risk. Please note that the value of any investment may rise or fall and that past performance is not indicative of future results and should in no event be deemed as such. This communication is not directed at and must not be acted upon by US Persons as defined in Rule 902 of Regulation S of the United States Securities Act of 1933 and is not intended and may not be used to solicit sales of investments or subscription of securities in countries where this is prohibited by the relevant authorities or legislation. Any claims arising out of or in connection with the terms and conditions of this disclaimer are governed by Dutch law.

Press contacts:

Marlie Zuidgeest

M +31 6 21 49 49 52

E marlie.zuidgeest@nnip.com

Sandra Brouwer

M +31 6 11 32 96 99

E sandra.brouwer@nnip.com

About NN Investment Partners

NN Investment Partners is the asset manager of NN Group N.V., a publicly traded company listed on Euronext Amsterdam. NN Investment Partners is headquartered in The Hague, the Netherlands. NN Investment Partners in aggregate manages approximately EUR 246 bln* (USD 281 bln*) in assets for institutions and individual investors worldwide. NN Investment Partners employs over 1,000 staff and is active in 15 countries across Europe, U.S., Latin America, Asia and Middle East.

NN Investment Partners is part of NN Group N.V., a publicly traded corporation.

* Figures as of 31 December 2018