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The growing role of public companies

Interview with Alex Rowe

Public companies have a significant role to play in achieving the UN Sustainable Development Goals (UN SDGs). There is a growing realisation that their enormous firepower and resources will be a critical driving force to reaching many of the goals, boosted by investment and engagement by asset management firms and large institutional investors.

The current situation has proven the impact public companies can have. After all, the way out of the pandemic has been set out by the public companies which developed the vaccines – this is evidence of the significant impact and influence these organisations have on society. "Governments of course have played a very important role but it was the research and development capabilities of firms like Pfizer and Moderna which are leading us out of the pandemic," notes Alex Rowe, manager of the Nomura Global Sustainable Equity Fund. He explains how the same is true of climate change and other similar goals: "To a great extent it is not about money or technology, what is needed is the willingness and impetus to work together to help reach these objectives."

Rowe says the role of large companies, particularly as standalone direct impact investments, has received relatively little attention, in part due to difficulties with impact measurement and attribution: "It is clear to us, however, that for certain SDG targets, large companies are one of, if not the most important enabling stakeholders for SDG outcomes particularly given the funding and resource gaps required to meet them. Large public companies are often the primary source of such resource."

"As institutional investors, we have the collective ability to direct companies to support SDG outcomes and even small changes can have a huge influence in both dollar and impact terms. As the asset managers who ultimately own these public companies on behalf of our clients, we have the responsibility to engage them directly on issues that matter." Rowe believes increasing awareness of the impact these companies have has been accelerated by the pandemic.

From his end as a fund manager, Rowe puts pressure on companies to produce meaningful impact data. Further, Nomura has developed a framework for reporting on impact which is completely transparent. "We expect the companies we invest in to be accountable and therefore, we ourselves have to be 100% accountable as well," Rowe highlights.

The team reports every single position it holds in the Global Sustainable Equity fund, the impact data that is being tracked by each holding and which SDG it's aligned with. One of the reasons Nomura chose to do this is to articulate clearly to clients the impact the fund's investments are having. Rowe summarises: "We spent a lot of time building a framework around this. Helping clients understand the impact of public companies is never going to be easy. It is very different to a direct loan to a small community in an emerging economy to help directly support infrastructure development for which one can more easily observe the direct impact and more easily measure it."

Building a framework

The Nomura framework consists of six impact goals, all based on the UN SDGs. "To set these out, we spent a lot of time reviewing the SDGs and outlined where we can have the greatest impact through investment and engagement. Two of these goals are mitigating climate change – aligned with SDG targets 7.2 and 7.3 – and eliminate communicable disease SDG target 3.3."

The process of setting this up begins by clearly defining impact goals which are aligned with SDG targets and establishing Key Performance Indicators (KPIs) for each goal. For example, the target of eliminating communicable disease is tracked by monitoring KPIs such as the global number of deaths from AIDS, Malaria and Tuberculosis.

Next, Rowe and his team identify investee companies to support these goals and establish Company Performance Indicators (CPIs). In the case of eliminating communicable diseases, this might include pharmaceutical companies which have a very strong presence in either vaccines or the treatment of diseases such as HIV. The team then identify and track metrics such as the number of low income patients that are being reached with treatment through 'Access' strategies, which might include for example donating patents to patent pools such that drugs can be manufactured in emerging economies by generic manufacturers at far lower prices.

Nomura then tracks both CPIs and KPIs, engages with companies to enhance the impact of specific companies and where necessary changes its investments to ensure maximum overall impact on SDG outcomes.

"Our engagement activity with the company is often focussed on ensuring accurate communication of the impact the company is having and ensuring that access strategies are prioritised. We engage both directly and collaboratively to maximise the impact of our activity," Rowe remarks.

The final step involves reporting all activity and outcomes to the Nomura stakeholders to ensure both the firm and the investee companies are held accountable.

Companies also need to support this process by prioritising and reporting impact data adequately. "These requests are more frequently becoming part of our discussions with target companies – it is vital to focus on having relevant impact reporting. Emissions data, is important to have but for certain businesses it should not necessarily be the priority with regards to seeking to articulate the main impacts the company is having as a result of its existence. For example, a small company operating a platform which enables millions of people to have access to basic financial services and have a better quality of life, that impact is far more significant than perhaps

very negligible emissions and the 'pressures' of vast data and policy requirements to perform well in external ESG ratings should not take prevent that," Rowe explains.

Nomura has successfully aligned its investments with the SDGs, despite the challenges inherent in the exercise. Rowe explains: "The SDGs were established primarily with governments in mind and need careful interpretation if they are to be adapted for use by investors. Many are clearly uninvestable, particularly within public equities. However, our responsible investment philosophy offers a new perspective on the practicalities of impact investing within public equity and why such investing can be aligned to many of the SDGs."

He emphasises the importance of keeping the overarching objective of the SDGs in mind when investing – which is to ultimately support those at the bottom of the pyramid in a sustainable manner. "Anyone investing in European or US infrastructure and claiming to be investing in the SDGs is missing the point. So, it's vital to keep a sharp focus on that when setting out investments," Rowe stresses. ■

Alex Rowe, CFA
Lead Portfolio Manager, Global Sustainable Equity Fund

Alex Rowe has been with Nomura Asset Management UK Ltd since 2014. He has over 8 years of experience as a professional equity investor and has specialised in sustainable and responsible investment since early 2016. He holds a Masters of Chemistry (University of Oxford, First Class), and is a CFA Charterholder. Alex is an alumni of the Oxford University Said Business School Impact Investing executive programme.