Having a positive impact through public markets investments

The Investor's Perspective

IMPACT
MANAGEMENT
PROJECT

Contents

This paper - co-authored by the Impact Management Project and Neuberger Berman - uses the conceptual framework for measuring and managing impact of the Impact Management Project to illustrate what kind of impact listed corporates can have along the five dimensions, and in which impact classes these types of investments can be found.

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About the Impact Management Project

The Impact Management Project (IMP) is a forum for building global consensus on how to measure, manage and report impact. Since 2016, the IMP has brought together a Practitioner Community of over 2,000 organisations to establish norms and share best practices.

The IMP also facilitates the IMP Structured Network, an unprecedented collaboration of standard-setting organisations who are coordinating efforts to provide complete guidelines for impact measurement and management.

About Neuberger Berman

Neuberger Berman, founded in 1939, is a private, independent, employee-owned investment manager. The firm manages a range of strategies – including equity, fixed income, quantitative and multi-asset class, private equity and hedge funds – on behalf of institutions, advisors and individual investors globally. With offices in 22 countries, Neuberger Berman's team is more than 2,000 professionals. Tenured, stable and long-term in focus, the firm fosters an investment culture of fundamental research and independent thinking. It manages $304 billion in client assets as of December 31, 2018.

Introduction

As part of its day-to-day operations, a company interacts with a range of stakeholders as well as its shareholders. These include consumers, through the products or services produced and delivered, employees that are hired and managed, and the environment, through the waste or emissions generated by the company's operations, products and services.

Most public companies are not run with the primary intention of creating positive social or environmental impact. But, by virtue of their size and complex stakeholder relationships across supply chains, distribution networks, and communities where they operate, they can have significant impact on the lives of people and the planet.

"By virtue of their size and complex stakeholder relationships, public companies can create significant impact on people and the planet."

This means that if investors with sizeable public markets exposure do not measure the positive and negative impact of their public equities or fixed income investments, they could be unaware of what impact the majority of their capital is having on the world.

Investors who choose to manage the impact of their investments in listed companies will consider what stakeholders are experiencing, both when deciding whether or not to invest in a company, and at regular intervals once invested. In addition, many of these investors will directly engage with a company's management to influence decision-making on improving the positive impact and reducing the negative impact occurring for people and the planet.

Given that the impact potential of public markets investments has not been as widely discussed, this paper seeks to demonstrate that:

- Public companies are large and complex, and therefore have the potential to contribute to significant positive and/or negative impact (p. 2-3).
- Public markets investors can direct capital away from listed companies that harm people and the planet, and towards listed companies that not only mitigate or reduce that harm, but also contribute to solutions to social or environmental challenges (p. 4-7), resulting in positive change at scale.
- Fiduciary public markets investors can also contribute to the impact of these companies in different ways. This means that public markets investors have a variety of *impact classes* available to them (p. 8-12).

Understanding a company's impact

A collaboration of more than 2,000 practitioners through the Impact Management Project articulated that companies typically have multiple impacts, intended and unintended, positive and negative, on people and the planet. Collecting data for each impact across five dimensions – such as what outcome occurs, who experiences it and how much change results – helps companies, and their investors, to classify what type of impact it is and assess how that fits with their own intentions.

FIGURE 1 The 5 Dimensions of impact

What	What outcome(s) do business activities drive? Are the outcomes positive or negative? How important are the outcomes to the people (or planet) experiencing them?
Who	Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?
How Much	How Much of the outcome occurs in terms of scale, depth and duration?
Contribution	What is the Enterprise's Contribution to what would likely happen anyway?
Risk	What is the Risk to people and planet that impact does not occur as expected?

There are three common patterns of performance across the five dimensions of impact (see overleaf for a summary table):

1. Companies can **act to avoid harm (A)** for all of their stakeholders; for example, decreasing their carbon footprint and paying employees an appropriate wage. Such companies are a fit with asset owners who want to mitigate reputational or operational risk (often referred to as ESG risk management), as well as prevent conflict with personal values.

2. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders (B)**; for example, by significantly upskilling their employees, or selling products that support good health or educational outcomes. These 'sustainable' companies may not be tackling the most pressing social and environmental issues but can still have a positive impact, which investors may favour in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities).

3. Many enterprises can go further: they can also use their capabilities to **contribute to solutions (C)** to a pressing social or environmental problem for one or more stakeholders; for example, enabling an otherwise underserved population to achieve good health or educational outcomes, or hiring and upskilling formerly unemployed individuals. Often referred to as 'thematic' or 'positive impact' strategies by investors, companies that are contributing to solutions that not only mitigate or reduce their negative impacts, but also generate a *significant* change in important positive outcomes (linked to progress against global development objectives like the Sustainable Development Goals) for a specific *underserved* population or the planet. Alternatively, enterprises can also 'contribute to solutions' by selling products that enable *other* companies or individuals to act to avoid harm.

Assessing company impact data

By measuring and assessing performance data across the five dimensions of impact, investors can classify impacts as **A, B or C**, helping them to align their intentions with suitable companies, or portfolios of companies. Classifying investments according to their impact data, rather than labels that asset managers may use for specific strategies, also enables investors to take a consistent approach to impact across diverse portfolios (see page 12).

FIGURE 2 The impact of companies

What	Unknown	Important negative outcome(s)	Important negative outcome(s)	Important positive outcome(s)	Important positive outcome(s)
Who	Unknown	*Various*	Underserved (experiencing negative outcomes)	*Various*	Underserved
How Much					
- Depth	Unknown	*Various*	High degree of positive change	*Various*	High degree of positive change and/or
- Scale	Unknown	*Various*	*Various*	*Various*	For many and/or
- Duration	Unknown	*Various*	*Various*	*Various*	Long-term
Contribution	Unknown	*Various*	Likely same or better	Likely same or better	Likely better
Risk	Unknown	*Various*	*Various*	*Various*	*Various*
Classification of impact	**May cause harm**	**Does cause harm**	**Act to avoid harm**	**Benefit stakeholders**	**Contribute to solutions**
			Mitigate or significantly reduce important negative outcomes	Generate important positive outcomes for various people/ the planet	Generate important positive outcomes for otherwise underserved people/the planet

Large corporates often affect multiple different types of stakeholders in different ways, so they are likely to have impacts that fall in each of the categories shown in Figure 2 above. In order to manage their impact, it is important for investors to try to find out if an enterprise is causing harm, so that they can encourage the enterprise to mitigate or reduce those negative outcomes.

How far different companies - and their investors - go in their impact management practice then depends on their intentions, constraints and capabilities. When investors pursue any of these three types of impact, traditional portfolio construction norms still apply. For example, investors need to be mindful of potential sector concentration and clear on how the type of impact they are pursuing fits with their financial goals and constraints.

Many public markets investors will prioritise managing the impacts that are most likely to affect a company's financial performance. Today, many more things have the potential to affect financial value. For example, more than 87% of value can be ascribed to 'intangible' assets such as brand perception, versus just 17% 40 years ago[1]. Additionally, the risks of climate change, globalisation, and inequality - which were previously viewed as external factors beyond a company's control - are now issues that companies are under increasing pressure to incorporate into their long-term strategic planning to remain competitive in their respective industries. This shift has been driven to some degree by technology, which is driving increased transparency and helping to ensure companies are held accountable when they create significant negative externalities.

However, sometimes the impacts that matter most to people and the planet are not always those that are financially material for a company, especially in the short to medium-term. Indeed, some effects that require managing may have a short-term negative effect on financial performance, but ultimately contribute to increased long-term financial value. As such, investment time horizon is an important consideration.

[1] Wilson, John. Investing for Impact and Performance: The Essentials, Cornerstone Capital Group. April 2018. https://hbr.org/2018/02/more-and-more-ceos-are-taking-their-social-responsibility-seriously

The types of impact listed companies have

Investors seeking to support their investee companies to manage their impact will try to make sure that a company is considering all its impacts that matter to people and the planet, both intended and unintended. To support this assessment, investors can consider each company's stakeholders in two groups:

- stakeholders affected by the company's products or services
- stakeholders affected through the company's operations, distribution and supply chain

"This data-driven 'total impact' approach matters so that individual good intentions of a company do not mask a failure to reduce or prevent negative impacts."

The following case studies in this chapter seek to illustrate that regardless of the type of impact, or how it is created, the five dimensions of impact can provide a consistent checklist. This can be used for making sure that the data collected is sufficient to understand what impact is occurring and that an assessment can be made to classify each impact as A (acting to avoid harm), B (benefitting stakeholders) or C (contributing to solutions).

This impact assessment has a dual purpose: it not only helps companies and their investors assess performance in a consistent and transparent way, but it also enables them to assess whether their own fund goals are met from an impact perspective.

The examples in this section illustrate how an individual impact can be classified as either A, B or C (or don't know/care), using the five dimensions. To classify the total impact of a company, analysts would need to review data about all of its impacts, positive and negative. For more information on how to classify a whole company, and a portfolio of companies, read this Guide to Classifying the Impact of Investments. This data-driven 'total impact' approach matters so that individual good intentions of a company do not mask a failure to reduce or prevent negative impacts. It works best where the quality of relationships between an organisation and its constituents (e.g., clients, beneficiaries, users, etc.) matters for realising impact.

Assessing the impact of a company's products/services

Many large public companies have a significant impact on people and the planet through the products and/or services they offer. To understand what type of impact these products/services are having, companies, and their investors, can collect data about each affected stakeholder across the five dimensions of impact. Companies can then use this data to understand the relative significance of each impact from the perspective of people and the planet which, when balanced with resources and strategy, helps them to prioritise where to focus their impact management efforts.

Assessing the impact of a company's operations, distribution and supply chain

Almost all public companies have large-scale, complex operations and supply chains, and so often have significant effects on their employees, suppliers, local communities and the planet. These effects can be assessed in the same way as those made by a company's product or service to ensure, at a minimum, that any negative effects are being mitigated. Investors often rely on data about the policies or practices of a company to judge what impact is *likely* to occur for these stakeholders. Where data on the *actual resulting* impact isn't available, the investor will be taking higher impact risk.

A healthcare company

CASE STUDY 1

Assessing one impact of the company's service

The U.S. spends nearly 20% of GDP on healthcare and there is increasing need to drive better outcomes while curbing increased costs. In the U.S., managed care companies act as an intermediary providing coverage options for individuals on behalf of their employers or the government. Managed care companies are able to use scale to drive down costs, but are also increasingly focused on improving health outcomes to drive long-term healthcare savings.

In the U.S., 90% of the nation's $3.3 trillion in annual health care expenditures are for people with chronic but largely preventable conditions such as heart disease and stroke, diabetes and obesity among others, and almost 50% of adults have at least one chronic disease[2]. Neuberger Berman has invested in a managed care company that has sought to respond to this challenge by developing a model where incentives help to improve health engagements, which has resulted in improved patient biometrics. The company has found this effective at improving the health outcomes of thousands of adults living with chronic illness and has reduced healthcare costs at the same time. As illustrated below, the company prioritises assessing whether the biometric improvement is overall better than what would otherwise occur for an unincentivised comparable cohort. The company does not disclose the number of individuals whose biometrics exceeded the threshold as a result of the incentive program, so more data is needed to assess the impact perfomance.

Effect: Health outcomes of patients with chronic conditions are improved

Key
Enterprise data
Third-party data

FIGURE 3 Understanding a single impact generated by the company's service

Dimension	Data Category	Data	Assessment	Classification
What What outcome(s) do business activities drive? Are the outcomes positive or negative? How important are the outcomes to the people (or planet) experiencing them?	Outcome in period	BMI <30 Blood pressure <140/90	Negative outcome(s) — Positive outcome(s) ☐ ☐ ☐ ☐ ☑	
	Threshold for positive outcome	BMI <30 Blood pressure <140/90		
	Importance of outcome to stakeholder	Scientific evidence	Unimportant outcome(s) — Important outcome(s) ☐ ☐ ☐ ☐ ☑	
Who Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?	Stakeholder type	Customers	Well-served — Underserved ☐ ☐ ☐ ☐ ☑	
	Geographical boundary	U.S.		
	Baseline	BMI >30 Blood pressure >140/90		
	Stakeholder characteristics	Patients with chronic illnesses		
How Much How much of the outcome occurs in terms of scale, depth and duration?	**Scale:** Number of <stakeholder> experiencing <outcome>	*Unknown how many of the 200,000 people have achieved the outcomes*	Small scale — Large scale ☐ ☐ ☐ ☐ ☑	**Contribute to Solutions**
	Depth: Degree of change experienced by <stakeholder>	>36% improvement in BMI >47% improvement in blood pressure	Marginal effect — Deep effect ☐ ☐ ☐ ☑ ☐	
	Duration: Time period for which <stakeholder> experiences <outcome>	Various	Short-term — Long-term ☐ ☐ ☐ ☐ ☐	
Enterprise Contribution What is the enterprise's contribution to what would likely happen anyway?	**Depth:** Estimated degree of change that would occur otherwise for <stakeholder>	36% more improvement in BMI than in comparable cohort 47% more improvement in blood pressure than in comparable cohort	Much worse than what is likely to occur — Much better than what is likely to occur ☐ ☐ ☐ ☑ ☐	
	Duration: Estimated time period that <outcome> would last for otherwise	*Unknown*		
Risk What is the risk to people and planet that impact does not occur as expected?	**Material risk factor:** External factor risk	Some risk that effects do not endure based on individual, but assume as long as incentives exist and patient is committed, the positive outcomes endure	Low risk — High risk ☐ ☐ ☑ ☐ ☐	

[2] CDC: https://www.cdc.gov/chronicdisease/about/costs/index.htm

CASE STUDY 2

An e-commerce company

Assessing one impact of the company's service

Neuberger Berman has an e-commerce company in its Sustainable Equity portfolio. This company was an early player in driving circular commerce from its inception as it provides a platform to enable buyers and sellers to extend the useful life and value of products. Today, the company connects more than 171 million active users and approximately 20% of its revenue can be attributed to resale items from more than 1.1 billion listings, with electronics and apparel making up more than half of resold products on its website.

The case study below illustrates what data can be used to assess a single impact that the company has on the environment. The company tracks this data to manage performance year-on-year. Based on this same data, we can also conclude that the company is contributing to a solution to an environmental challenge by reducing the volume of harmful emissions produced by *other* organisations. In this example, items are being reused so less emissions will be used to manufacture new goods.

Effect: CO_2 emissions averted

Key
Enterprise data
Third-party data

FIGURE 4 Understanding a single impact generated by an e-commerce company's service

Dimension	Data Category	Data	Assessment	Classification
What What outcome(s) do business activities drive? Are the outcomes positive or negative? How important are the outcomes to the people (or planet) experiencing them?	Outcome in period	CO_2 emissions from manufacturing everyday products in current period = 10.368 Gt	Negative outcome(s) … Positive outcome(s) ☑ ☐ ☐ ☐ ☐	
	Threshold for positive outcome	0 tonnes CO_2		
	Importance of outcome to stakeholder	Scientific evidence	Unimportant outcome(s) … Important outcome(s) ☐ ☐ ☐ ☐ ☑	
Who Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?	Stakeholder type	Environment		
	Geographical boundary	n/a	Well-served … Underserved ☐ ☐ ☐ ☐ ☑	
	Baseline	CO_2 emissions from manufacturing everyday products in prior period = 10.37 Gt		
How Much How much of the outcome occurs in terms of scale, depth and duration?	**Scale:** Number of <stakeholder> experiencing <outcome>	n/a (one planet)	Small scale … Large scale ☐ ☐ ☐ ☐ ☐	**Contribute to Solutions**
	Depth: Degree of change experienced by <stakeholder>	1.2m tonnes CO_2 averted	Marginal effect … Deep effect ☐ ☐ ☐ ☑ ☐	
	Duration: Time period for which <stakeholder> experiences <outcome>	CO_2 displacement is enduring	Short-term … Long-term ☐ ☐ ☐ ☐ ☑	
Enterprise Contribution What is the enterprise's contribution to what would likely happen anyway?	**Depth:** Estimated degree of change that would occur otherwise for <stakeholder>	Leading marketplace for resale of goods; alternative would likely be to donate or discard items	Much worse than what is likely to occur … Much better than what is likely to occur ☐ ☐ ☐ ☑ ☐	
	Duration: Estimated time period that <outcome> would last for otherwise	The same		
Risk What is the risk to people and planet that impact does not occur as expected?	**Material risk factor:** External factor risk	Some risk that the effects do not endure due to limited product life post-resale	Low risk … High risk ☐ ☐ ☑ ☐ ☐	

An e-commerce company continued

Assessing one impact of the company's operations

The same e-commerce company also seeks to prevent negative effects on the planet through its operations. It has signed onto the RE100, a collaborative, global initiative uniting more than 100 influential businesses committed to 100% renewable electricity. The company has committed to a target of 100% renewable energy in its electricity supply by 2025 at its data centers and offices.

The case study below illustrates what data can be used to assess a single impact that the company's operations has on the environment. Based on the data available, we are able to conclude that the company is acting to avoid harm to the environment by reducing the volume of emissions it is emitting in the course of its operations. Looking at this data year on year helps a company track whether it is continuing to mitigate this negative impact.

Effect: CO_2 emissions averted

Key
Enterprise data
Third-party data

FIGURE 5 Understanding a single impact generated by the company's operations

Dimension	Data Category	Data	Assessment	Classification
What What outcome(s) do business activities drive? Are the outcomes positive or negative? How important are the outcomes to the people (or planet) experiencing them?	Outcome in period Threshold for positive outcome Importance of outcome to stakeholder	Net CO_2 emissions in current period = 318,218 tonnes[3] 0 tonnes CO_2 Scientific evidence	Negative outcome(s) … Positive outcome(s) ☑ ☐ ☐ ☐ ☐ Unimportant outcome(s) … Important outcome(s) ☐ ☐ ☐ ☐ ☑	
Who Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?	Stakeholder type Geographical boundary Baseline Stakeholder characteristics	Environment n/a Net CO_2 emissions in the prior period = 470,962 tonnes n/a	Well-served … Underserved ☐ ☐ ☐ ☐ ☑	
How Much How much of the outcome occurs in terms of scale, depth and duration?	**Scale:** Number of <stakeholder> experiencing <outcome> **Depth:** Degree of change experienced by <stakeholder> **Duration:** Time period for which <stakeholder> experiences <outcome>	n/a (one planet) Reduction of 152,744 tonnes CO_2[3] CO_2 displacement is enduring	Small scale … Large scale ☐ ☐ ☐ ☐ ☐ Marginal effect … Deep effect ☐ ☐ ☑ ☐ ☐ Short-term … Long-term ☐ ☐ ☐ ☐ ☑	**Act to Avoid Harm**
Enterprise Contribution What is the enterprise's contribution to what would likely happen anyway?	**Depth:** Estimated degree of change that would occur otherwise for <stakeholder> **Duration:** Estimated time period that <outcome> would last for otherwise	The alternative is fossil fuel or nuclear energy	Much worse than what is likely to occur … Much better than what is likely to occur ☐ ☐ ☐ ☑ ☐	
Risk What is the risk to people and planet that impact does not occur as expected?	**Material risk factor:** External factor risk	As long as renewable energy remains reliable and cost-effective, impact risk is low	Low risk … High risk ☐ ☑ ☐ ☐ ☐	

[3] Company emissions data recorded in Mwh, converted to CO_2 by Neuberger Berman

Impact of the public market investor

How public market investors contribute to a company's impact

Rigorously assessing the impact of a given company is only one part of the equation for investors. To assess the impact of an investment, the strategy that an investor uses to contribute to the impact of the company is considered alongside the impact of the company itself.

Investors often:

Public markets investors commonly use two strategies to contribute to a company's ability to generate impact (of the four identified by the Impact Management Project).

1. Signal that measurable impact matters.

Public markets investors can send a signal to the market that impact matters by choosing not to invest in or to favour certain investments - such that, if all investors did the same, it could ultimately lead to a 'pricing-in' of effects on people and planet by the capital markets. This effect could be most visible for new issuances in public securities investments because, at this point, investors are able to influence the cost at which a company needs to raise additional capital. If many investors are interested in a stock, this demand drives up the stock price and reduces the cost of capital for the company. If investors collectively reduce the capital available to companies that have a negative impact on people and the planet, shareholders can theoretically raise those companies' cost of capital, making it harder for them to compete.

Additionally, investors can send a signal to the market by launching new strategies and product lines that consider impact, illustrating that it is valuing impact by allocating increased management time and resources to impact management. There is, therefore, potentially tremendous power in capital allocation. If the majority of investors acted in this way, it would send strong signals to the market that a company's effects on people and the planet matter.

2. Engage actively:

Public markets investors can use expertise and networks to improve the environmental and societal performance of businesses. Engagement can cover a wide spectrum of approaches - from dialogue with companies to investors taking board seats and using their own team or consultants to provide hands-on management support. A significant dialogue with companies on environmental, social, and governance (ESG) factors is a normal part of the fund management process. However, the phrase 'engage actively' reflects a strategy that involves, at a minimum, significant proactive efforts to improve companies' effects on people and the planet.

To do this effectively, the whole investment team needs to have sufficient training and knowledge - alongside the required processes and materials - to be able to factor impact management into their decision-making and analysis throughout each stage of the investment process.

Pages 12-14 focus on how public markets investors engage actively, as this is where these investors have the greatest role to play.

Two other investor contribution strategies exist, but are less commonly employed by public markets investors:

3. Grow new or undersupplied capital markets:

Investors may choose to anchor or participate in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity or perceived disproportionate risk. In public equities, bonds, or infrastructure, an investor might move from holding mainly well-subscribed issuances (which is just a signaling strategy) to participating in a higher proportion of undersubscribed issuances. **Neuberger Berman generally chooses to participate in well-subscribed issuances, but if attractive from a financial perspective they may choose to invest in undersupplied or new market opportunities.**

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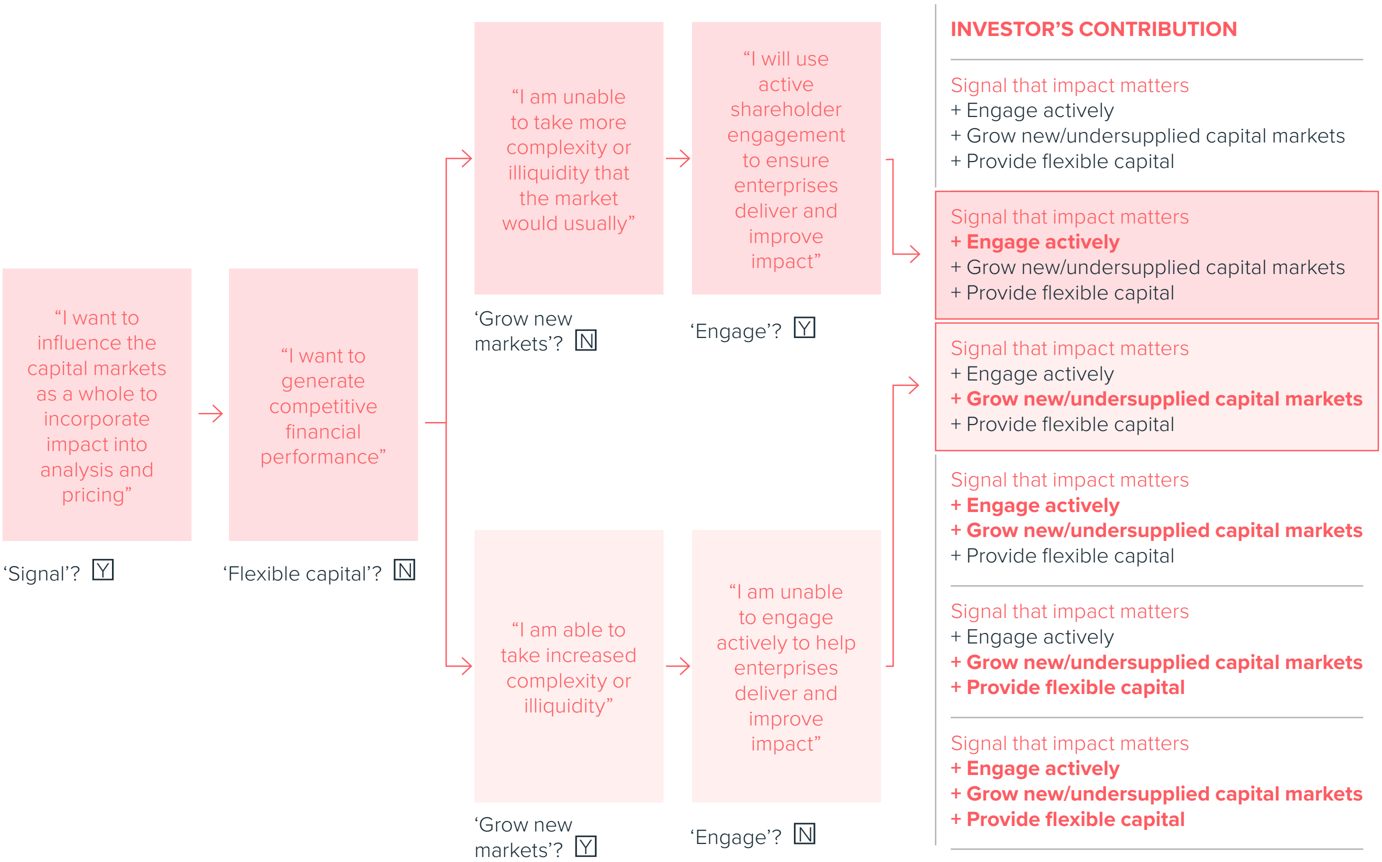
4. Provide flexible capital:

Some investors are able to accept below-market risk-adjusted financial return in order to finance a company that is generating certain kinds of impact. For example, creating a new market for previously marginalised populations might require very patient capital that cannot offer a commercial return. **This category does not apply to Neuberger Berman, as its investment strategies target market-rate risk-adjusted financial returns.**

Therefore, it is not only intentions that influence how investors contribute to impact, but investors' constraints also often come into play, as illustrated by Figure 6 below.

FIGURE 6 Public market investor contribution informed by investor's intentions and constraints



How public market investors engage to improve impact

Investors in the public markets can choose to engage with company management on a range of environmental, social, and governance (ESG) issues and encourage companies to change policies, practices, and/or products/services to increase or reduce certain effects on people and the planet.

Active investors, especially those with large asset bases and a long-term focus, can have direct conversations with management over many years to influence change, with the understanding that choosing not to invest (after diligence), or later divesting from the company, is a potential action.

Engagement initiatives can take place at the industry-, portfolio-, and enterprise-level:

1. At the industry level:

A number of collaborations have been set up to drive change. For example:

- Climate Action 100+ is a five-year initiative led by investors, collectively managing $28 trillion in assets, that aims to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.
- The Task Force on Climate-Related Financial Disclosure (TCFD), a coalition to develop voluntary, consistent climate-related financial risk disclosures to help companies consider the physical, liability and transition risks associated with climate change.
- Ceres is a nonprofit network of investors, collectively managing $24 trillion in assets, that works to advance how environmental, social, governance considerations are integrated into investment practices.

"Without compromising an investment's liquidity, risk, and return parameters, an investor can choose companies that have a positive impact, and then contribute to that impact through engagement."

2. At the portfolio level:

Investors can identify which common impacts on stakeholders are likely to be relevant upfront and engage with every company on that theme. For instance, ESG issues that are common to company practices, such as gender equality and climate change, in addition to governance issues, can apply across multiple industries and sectors. By engaging on those topics, investors signal that these topics are being monitored and are important, thereby influencing companies to improve their practices and management of these effects.

3. At the company level:

For more focused engagement, investors can engage via proxy voting and direct conversation with the management. In addition to thematic engagement on common issues, additional company-specific engagement may be required to focus on other significant effects occurring for a particular stakeholder group. By concentrating efforts on key areas that drive both financial and social or environmental value, impact management not only helps enterprises to improve the experience of their stakeholders, but also to manage their financial risks, growth opportunities, and company value.

The nature of the engagement and the scope of influence may differ by asset class, but the potential power of large, long-term investors to positively influence both financial performance and social and environmental outcomes should not be underestimated.

How public market investors engage to improve impact

Neuberger Berman is a large, multi-asset class institutional investment manager overseeing $304 billion in assets[4], all of which is actively managed, making engagement a key part of several investment strategies. This engagement takes many forms: Neuberger Berman's research analysts conduct deep company analysis, engage in regular dialogue with companies and conduct site visits.

"The team determined the company was not adequately addressing the risk that could affect the company's profitability... declined the opportunity to invest... and in doing so avoided backing a security that has since significantly underperformed."

For example, for over a decade the Sustainable Equities team has engaged with a company that manufactures semiconductor chips, which is a water intensive process. Over this period, the company has reduced water intensity and now manages this effect against water intensity targets, a move that has benefited both the natural environment and the company's cost-management. The team engaged with another top-ten holding company - a medical device business - to reduce the environmental risks in its supply chain. As a result, the company is using its scale and influence to work with suppliers to reduce and eliminate phthalates and additives by 2020, which will have a positive effect on the environment and human health. The company also advocates on these health issues through the Healthcare Plastics Recycling Council (HPRC).

Investor engagement can also play an important role in fixed income investing. Neuberger Berman's fixed income teams regularly engage with companies on material ESG issues (i.e. negative effects) with a focus on risk mitigation.

For example, as part of its decision to invest, Neuberger Berman assessed the exposure of a pharmaceutical company's drug portfolio to the risk of regulatory action stemming from public pressure on rising drug costs. Over several engagements, the team explored how the company's product pricing fit into a sustainable growth strategy in order to mitigate regulatory risk exposure. Ultimately, the team determined the company was not adequately addressing this risk that they believed could significantly affect the company's profitability. The team declined the opportunity to invest on this basis, and in doing so, avoided backing a security that has since significantly underperformed.

[4] As of December 31st, 2018.

Impact classes available to public markets investors

The examples in this paper have illustrated that investors can deliver a set of impact goals within their public markets allocations. Without compromising an investment's financial return parameters, an investor can choose companies that have a positive impact, and then contribute to that impact through active engagement.

To enable more accurate and efficient capital allocation for impact, investors need a systematic method for understanding and categorising the expected and actual impact of different investments.

Bringing together the enterprise impact (the 'ABC' classification) with the investor contribution creates a set of 18 impact classes that enable asset managers to classify and communicate the impact goals and subsequent performance of their investment products (see Figure 7).

This classification also helps asset owners navigate the universe of investment opportunities and make strategic portfolio allocations. Neuberger Berman has mapped some of its public securities strategies by impact class to illustrate this methodology in practice below.

Key
• = Neuberger Berman Investment Strategies

FIGURE 7 Examples of public securities strategies

		A. Act to avoid harm	**B.** Benefit stakeholders	**C.** Contribute to solutions
1	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		• Quantitative ESG Factor	
2	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		• Emerging Markets Equity Select • Emerging Markets Debt • Global Investment Grade Fixed Income • Global Non-Investment Grade Credit • Multi-Asset Class • Sustainable Equities	• Municipal Impact
3	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			
4	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		*Some investments from the above strategies may fall in this category, but not the majority.*	
	↓ Only relevant for investors whose intentions and constraints are such that they are willing and able to provide flexible capital. ↓			
5	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			
6	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			

Conclusion

As the examples in this paper have illustrated, public markets investments have inherent constraints, such as not being able to provide concessionary capital. But there is tremendous opportunity in the scale and influence of managing impact within such a mainstream asset class. This makes it all the more important for public markets investors to spot opportunities to engage actively on impact, as well as to signal publicly the importance of impact measurement as part of their portfolio management decisions. When public markets investors can do so, they have a real advantage in the ability to achieve positive impact at scale.

It is a big step forward that the five dimensions of impact performance - and related categories of data - are now commonly understood. When data is collected and organised across all five dimensions of impact more consistently, its practice can be more readily embraced in the public markets. Much of this impact data can be collected and disclosed by companies themselves (e.g. outcome and demographic data), while additional contextual data (e.g. local thresholds for positive outcomes) could be more systematically collected and organised by expert groups and/or large public institutions.

Through transparent and consistent disclosure of such data across all five dimensions of impact, the market could start to ascertain the real role of public markets investment in both progressing - and hindering progress - towards global goals like the SDGs. Over time, it may emerge that this asset class is driving progress on a greater scale than any other.

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We welcome feedback and questions about this work.

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