

Four reasons why social investing will be a driver of long-term sustainability

October 2022



Anne Tolmunen
Portfolio Manager
AXA IM Core – Equities

Key points

- The ‘social’ constituent of ESG is attracting ever-greater levels of scrutiny as a result of climate change, rising political division and the wealth gap
- Governments, corporations, consumers and investors are taking action to level up society’s inequalities
- Numerous problems and themes are being addressed via social impact investment strategies – including education, housing and infrastructure, healthcare, and financial services.

When it comes to environmental, social and governance (ESG) investing, the spotlight has historically shone brightest on the ‘E’ – especially in recent years as attention has intensified on the climate emergency.

However, ‘social’ is attracting greater levels of scrutiny – and opportunity. Global transformations triggered by climate change, rising political division and the growing wealth gap

have accelerated this focus. Despite the strides humankind has made, social inequality is on the rise and so are the potential effects on economies, corporations and, ultimately, investment portfolios. The United Nations’ (UN) Human Development Index, which tracks factors including life expectancy, education, and per capita income, has found that over the past two years nine out of 10 countries have retreated.ⁱ

It concluded that the main causes of this have been the pandemic, the Ukraine crisis and climate change – and now with the world enduring runaway inflation, the inequality gap is widening further.

The UN said: “Together, they are fuelling a cost-of-living crisis felt around the world, painting a picture of uncertain times and unsettled lives.”ⁱⁱ We think this difficult context could constitute a material risk for investors, while a successful response may bring opportunities.

Social rising

Economic inequality has cut the income of 99% of the global population, and forced over 160 million more people into poverty, according to Oxfam International.ⁱⁱⁱ It is therefore no surprise that we have seen governments, companies, consumers and investment groups take action in a bid to level up society’s inequalities.

Government measures have ranged from increased health spending to greater support for workers – companies,

meanwhile, have improved the benefits offered to employees and introduced more flexible working policies. Consumers are increasingly paying greater attention to consumer brands and their social credentials, in the same way that they might consider a brand's carbon footprint.

We have seen a surge in new products which target social impact through best-in-class companies as well as the emergence of social bonds as a means to finance a wide variety of social projects. More and more, investors want to know how their money can be directed towards positive social outcomes and are looking to invest and engage with companies that will help drive human progress. For us, 'social' investing is about solving problems; it's about addressing unmet needs and in a way that can potentially deliver returns for responsible investors.

Below, we examine four key themes being addressed via social impact investment strategies – education, housing and infrastructure, healthcare, and financial services. Demand can be driven by several factors, such as rising middle classes across emerging markets, while the democratisation of technology has enabled access for previously underserved parts of the population.

Education

Education improves livelihoods – and even life expectancy. What's more, at country level, it contributes to social stability and stimulates long-term economic growth. However, some 57 million primary-school aged children remain out of school while 60% of children and adolescents are not even achieving a minimum level of proficiency in reading and mathematics.^{iv}

According to the Global Education Monitoring Report, to achieve the 2030 target of universal completion of secondary education, low and lower-middle-income countries need to raise their annual spend each year from \$149bn (in 2012) to \$340bn in 2030, or 6.3% of their gross domestic product (GDP).^v It noted that annually of the \$4.7trn spent on education globally, just 0.5% goes to low income countries, while 65% is spent on high-income nations, despite having a similar number of school-age children.^{vi}

The challenge in education is twofold – first to widen access and draw in everyone, young and old, in an equitable and continuous manner. Second, to develop quality and effective learning methods. As such, we believe that new players, particularly in education technologies, are emerging, offering students low-cost solutions for more effective and personalised learning.

Some businesses are trying to tap into this theme. Online student support platform Chegg, which aims to offer affordable services, has 5.3 million subscribers; another example is IDP Education – it has operations in more than 50 countries and helps students in emerging markets learn English and places them in universities around the world.^{vii viii}

Housing and infrastructure

Providing decent housing and infrastructure to all remains a significant challenge. Half the planet – some 3.5 billion people – live in cities today and five billion are expected to do so by 2030, and by 2070, 70% of people are expected to live in urban settlements.^{ix}

This backdrop of rapid urbanisation is putting ever greater pressure on fresh water supplies, sewage, the living environment and public health. Some 828 million people live in slums today, the majority of which are found in Eastern and South-Eastern Asia.^x

Estimates show the total global annual requirement for infrastructure investment is approximately \$3.9trn.^{xi}

The greatest challenges, and we believe opportunities, lie in emerging markets – the Asian Development Bank (ADB) estimates about \$1.7trn will have to be invested annually in infrastructure across Asia through 2030 if the region is to keep up its economic growth, eliminate poverty and successfully tackle climate change.^{xii}

Notably in 2022, G7 nations pledged to raise \$600bn to finance infrastructure in middle and low-income countries^{xiii} The Partnership for Global Infrastructure and Investment will draw from public and private funds over five years, and seek to tackle climate change, improve global health, build digital infrastructure and drive equality. But infrastructure and housing issues are not just found in developing markets. In the US the cost of a mobile home represents about two times the median annual salary, while a traditional house will cost about seven times as much.^{xiv}

Numerous firms are already operating and growing in the affordable housing space, such as US group Sun Communities, which aims to provide quality, low-cost housing in the southern and Midwest regions and German firm TAG Immobilien which operates in the low-rent segment.

Healthcare

A healthy population is essential for sustainable development. COVID-19 starkly illustrated that if we do not provide quality

healthcare and disease prevention to all, we risk our own health and future economic prosperity. According to the OECD, public health spending in developed countries is expected to reach nearly 9% of GDP by 2030 before rising to 14% by 2060.^{xv}

It is therefore unsurprising that one of the main priorities for governments – and individuals – worldwide is to get better access to quality medical cover, and to limit the cost to society, especially given the planet’s ageing population.

Thankfully, there are numerous firms which in our view are delivering ever-evolving solutions to the planet’s healthcare challenges. For example, biotechnology firm Regeneron creates and develops medicines for those with serious conditions such as degenerative eye disease leading to blindness as well as infectious and other rare diseases.

Elsewhere global life sciences and consumer care firm Croda, which has operations across 39 countries, is providing key solutions such as speciality chemicals and drug delivery systems for the healthcare industry.^{xvi}

In addition, the advances made in recent decades in terms of technological progress now make it possible to envisage medicine that is more accessible, more effective, and even more personalised.

This environment has helped drive the so-called telehealth phenomenon – where health-related services and information are distributed and managed electronically. We believe such virtual services can help relieve congested medical systems, reduce health costs and strengthen preventive medicine by lowering barriers to access. According to McKinsey, telehealth use is now 38 times higher than pre-pandemic levels.^{xvii}

Financial and digital inclusion

The digital divide remains a major obstacle. A 2022 UN report found a growing ‘connectivity canyon’ between what it termed the ‘hyperconnected’ and the ‘digitally destitute’ – with more than one-third of the world’s population still totally offline.^{xviii}

Not having access to the internet can have serious implications for education, finding a job, healthcare, entrepreneurship and

more – holding back economic growth and deepening social and global inequalities.

The UN’s Global Connectivity Report 2022 found that 2.9 billion people have no access to the internet, with hundreds of millions more only able to access expensive, poor quality internet service.

In addition, around 1.7 billion adults are without a bank account, which means they are unlikely to be able to save securely or to have access to emergency credit.^{xix}

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Ensuring the internet is accessible to the majority of people within the next five years needs \$2.1trn of investment, according to the World Economic Forum.^{xx}

At the heart of the issue is access to technology and the infrastructure needed to create connectivity. While the cost of smartphones and digital devices is becoming lower in real terms, getting online is still expensive in some developing economies. UK-based telecoms company Helios Towers is trying to address that by building and operating telecommunication towers in African countries, providing much-needed voice and data services to people and businesses in areas with little or no fixed line infrastructure.

Social sustainability

In our view, it is vital that we invest in companies that address the needs of underserved people; we see positive societal impact as a filter for identifying companies that can potentially generate superior long-term financial returns. There are many opportunities to invest in companies that we believe have high growth potential given they address significant unmet social needs around education, housing and infrastructure, healthcare and financial services.

We believe that social impact investing is not only an investment opportunity for sustainable and profitable growth, but also a real opportunity to invest in our society and for future generations.

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- ⁱ Human Development Report 2021-22 | Human Development Reports (undp.org)
- ⁱⁱ Human Development Report 2021-22 | Human Development Reports (undp.org)
- ⁱⁱⁱ This is the state of inequality in 2022, according to Oxfam | World Economic Forum (weforum.org)
- ^{iv} Sustainable Development Goals | United Nations Development Programme (undp.org)
- ^v Finance | GEM Report SCOPE (education-progress.org)
- ^{vi} Finance | GEM Report SCOPE (education-progress.org)
- ^{vii} Chegg, Inc. - Chegg Reports Second Quarter 2022 Financial Results
- ^{viii} Student Marketing and Recruitment | IDP Connect (idp-connect.com)
- ^{ix} Cities - United Nations Sustainable Development Action 2015
- ^x Cities - United Nations Sustainable Development Action 2015
- ^{xi} PwC / Global Infrastructure Outlook to 2040 | EIC Federation (eic-federation.eu)
- ^{xii} PwC / Asian development Bank www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf
- ^{xiii} President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment | The White House
- ^{xiv} Sun Communities, Investor Presentation, June 2021
- ^{xv} Healthcare costs unsustainable in advanced economies without reform - OECD
- ^{xvi} Croda at a glance | Croda
- ^{xvii} Telehealth: A post-COVID-19 reality? | McKinsey
- ^{xviii} Global Connectivity Report 2022 (itu.int)
- ^{xix} Principles for Responsible Banking build new pathway for banks to collectively accelerate action on universal financial inclusion and health (unep.org)
- ^{xx} This is how to finance digital inclusion | World Economic Forum (weforum.org)

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