
Why Impact Now?

COVID-19 and the Accelerating Shift Towards a More Sustainable Future

The advent and impressive growth of impact investing is redefining the role of capital in our society. The current COVID-19 crisis is creating a watershed moment where consumers, governments, companies, entrepreneurs and investors are more focused than ever on steering capital towards endeavors that benefit society and the planet. This new focus on sustainable capital is catalyzing opportunity for impact investors to deliver profit with purpose.

The novel coronavirus (“COVID-19”) pandemic has disrupted all facets of modern life and has disproportionately affected at-risk populations and low-income communities. What started as a health crisis has quickly morphed into an economic and social crisis with severe and potentially long-lasting effects. According to *The Economist*, “The combination of COVID-19 and lockdowns could drive up to 420 million people into absolute poverty... That would increase the total by two-thirds and set back progress against penury by a decade.”¹

The virus is a major global threat, but it will not be the last such threat that we face in the coming years. Climate change, unsustainable urban growth, air, water and land pollution, and growing social and economic inequality, among other issues, all have the power to massively disrupt our way of life. But from these threats comes greater awareness of the need for reinvention,² and with reinvention comes great opportunity to align and contribute towards our modern, more sustainable future.

Catalysts for Impact Opportunities

We will emerge from the COVID-19 crisis to a changed world. Increasingly, all actors and stakeholders, be it governments, companies, and populations both rich and poor, realize our future must work for all to ensure it is sustainable. We have identified five key sustainability catalysts which, together,

comprise a promising ecosystem for meaningful progress in addressing society’s greatest challenges. We believe these five catalysts together can create a powerful virtuous cycle allowing new competitive business models that reward market participants, including impact investors, and accelerate the transition to a more sustainable and inclusive future.

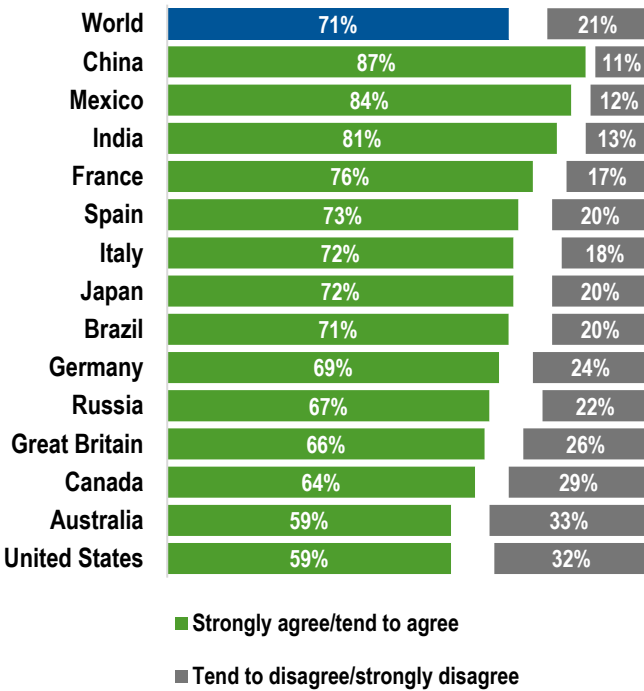
Catalyst #1 – Consumer Awareness and Demand

We believe a silver lining of the COVID-19 crisis is an increased awareness among the public of exogenous and endogenous risks to humanity, be it health (e.g. viral), humanitarian (e.g. inequality, poverty, hunger), or environmental (e.g. climate change).

Many consumers want to better understand how their purchasing habits are impacting the world and are therefore demanding greater transparency around carbon footprint, factory working conditions, material supply chains, product ingredients and corporate citizenship. Some also want to “socially signal” and send a message to those around them that they are doing the right thing for the environment and society. With more transparency, consumers are now more than ever able to align their purchases with their values, spurring greater demand for products and services directly addressing society’s largest issues.

Consumers are not just worried about COVID-19...

Seriousness of climate change in comparison to COVID-19



Q: To what extent to you agree or disagree with the following:
 In the long term, climate change is as serious a crisis as COVID-19 is.
 Base = 28,029 online adults aged 16-74. Conducted 16-19 April 2020.
 Source: Ipsos

Catalyst #2 – Modern Business Models

New businesses are being purpose-built for our rapidly evolving world, giving them an advantage over older businesses that may struggle to pivot and maintain market share. Profit and purpose are both key defining attributes of many successful businesses as witnessed by the impressive growth of the Certified B Corporation standard (3,346 companies in 71 countries)³ which requires companies to consider the impact of their decisions on workers, customers, suppliers, community and the environment. Many of these new businesses are ripe for impact investment as their missions are not only to seek financial success, but also to directly contribute to the United Nations' Sustainable Development Goals. Companies directly addressing key global issues have large addressable markets, as the world's problems are significant and are not adequately addressed by existing market-based solutions. In other words, financial opportunity lies within businesses that intentionally address the most critical issues facing society and the planet. As the multi-faceted fallout from the COVID-19 pandemic continues to compound, the opportunity for impactful investments grows.

Importantly, talent is flowing into and driving these purpose-built new business models. Many of the brightest minds across the globe are thinking about market-based solutions to our problems. Stakeholder-aware business models are also attracting the best talent, as young workers, in particular, are seeking to work at organizations that “matter.” We are seeing the benefits of increasing gender and racial equity across industries as well, increasing the talent pool with more women and people of color leading or having senior positions in businesses.

Catalyst #3 – Technology

Even before COVID-19, the world was making constant technological advancements. We are currently experiencing the Fourth Industrial Revolution, Industry 4.0, which is characterized by the implementation of digital technology, artificial intelligence (“AI”), the internet-of-things (“IOT”), and 5G telecommunications to drive industrial efficiency. COVID-19 has brought these technologies to the forefront of conversation as they have direct applications in creating safer working environments, improved healthcare systems, and more connected communities. For example, we are seeing a shift to online “visits” to physicians and other medical professionals to minimize in-person contact. 5G may open the doors for more and better remote access to financial, healthcare and education services in rural and underserved communities. Additionally, blockchain is being used to prevent child labour and protect factory workers in global supply chains,⁴ and we believe this trend will accelerate post COVID-19.

On the environmental side, thanks to technological advancements, the cost of renewables is dipping below that of fossil-fuel plants in much of the world. After years of development, electric vehicles are at last poised for the mass market. Viable, cost-effective alternatives to single-use plastics are also increasingly being produced at scale and demanded by consumers, firms, investors and governments. COVID-19 will likely spur these stakeholders' decisions and hasten shifts to more sustainable products and services.

“ As the multi-faceted fallout from the COVID-19 pandemic continues to compound, the opportunity for impactful investments grows. ”

Catalyst #4 – Government Policies

Years of government legislation addressing key long-term risks and sustainability is now being accelerated, with the renewed focus brought by COVID-19. Elected officials across the globe are actively discussing “green” recoveries as their citizens are demanding change. In an Ipsos poll issued across 14 countries in April, 65% of respondents said in the economic recovery after COVID-19 it is important that government actions prioritize action on climate change. The figure was as high as 81% in India and 80% in China and Mexico.⁵ We believe legislation will shift the playing field in favor of businesses that help solve rather than add to the existing social and environmental problems which are increasingly costly to countries.

Additionally, national and local governments alike are having to spend aggressively while receiving less tax revenue in order to prevent even worse outcomes for their citizens. These efforts are necessary but will leave many governments cash-strapped and in need of mission-aligned private capital to support critical social and environmental initiatives. Mission-aligned businesses and investors may find opportunities to fill the void left by retreating government support.

Catalyst #5 – Investor Demand

We are not alone in identifying the significant opportunity in Impact Investing. Private market impact strategies are seeing growing demand from investors across the globe.

In Europe, Cerulli Associates research shows a “surge in demand from fiduciaries” and the need for more investment products that can provide impact returns.⁶

In the United States, investor demand for impact strategies has accelerated since the onset of COVID-19 as seen by rising demand for responsible investment options and impact investments in donor-advised funds⁷ and in pension plans.⁸

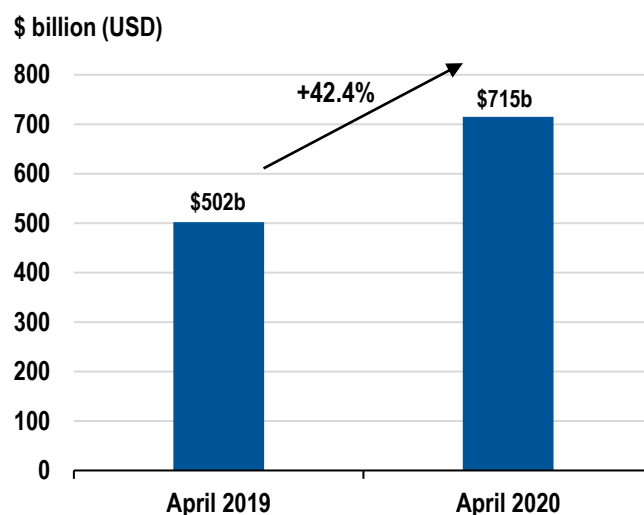
“...our industry can chip away at the massive funding gap for women and minority-owned private companies, uncovering untapped potential through a more inclusive and diverse search for profitable solutions.”

In Australasia, the Responsible Investment Association Australasia reports that Impact Investing assets have tripled in the past two years and survey respondents, representing close to \$1.2 trillion USD, “would ideally like to increase their proportional allocation towards impact investments more than fivefold to \$100 billion over the next five years.”⁹

Broadly speaking, demand for responsible investments has rapidly accelerated since the outbreak of COVID-19. According to Morningstar, investors poured \$45.6 billion USD into funds focused on ESG in Q1 2020, versus aggregate outflows of \$384.7 billion USD for funds globally.¹⁰

Demand for impact investments rising rapidly

Global impact investing assets under management (AUM)



Source: Global Impact Investing Network (June 2020)

We feel that with greater demand comes greater opportunity for investors. For instance, as more money seeks impactful investments, our industry can chip away at the massive funding gap for women and minority-owned private companies, uncovering untapped potential through a more inclusive and diverse search for profitable solutions.

Impact Opportunities

The aforementioned catalysts are in place, accelerating the shift towards companies with positive impact and a sustainability focus. Here we highlight a few areas of opportunity we believe will uncover investment value for impact investors.

Pandemic-Related Healthcare

Companies around the globe are looking for ways to directly address COVID-19 and future pandemics, and impact investors can help. Private companies are tackling issues around better protecting our healthcare workers, reducing disease transmission rates, reducing infections associated with ventilators, and even curing or reducing the virus titer in infected patients. Many of these innovations are not specific to COVID-19 and will be essential in fighting future pandemics and other healthcare-related challenges.

Remote Access

We believe the preventative measures to COVID-19 have brought a structural shift toward remote access in areas such as work, schooling, healthcare and others. Companies, individuals and governments have found that we are more able to adjust our behaviour and interact more effectively than previously thought. This could mark a permanent shift in our behaviour; in other words, a structural shift could be underway. Growing demand for remote access may be a boon for many sectors and companies. Of particular interest are companies focusing on digital health and education technology which can bring high-quality, essential services to underserved communities.

Financial Inclusion

Technological advancements in IOT, 5G and mobile phone penetration have brought not only access to financial transactions for small and medium-size enterprises (SMEs) and previously unbanked communities, but also enabled them to participate in a decentralized business ecosystem. For instance, rural farmers' products gain value through IOT-powered logistics SaaS platforms. These new enabling logistics platforms help food move more efficiently and reliably to consumers and at optimal price points. SME pharmacies as well are seeing improved efficiencies by joining tech-enabled software service providers.

Climate Change

New businesses harnessing technological advancements in AI and IOT are driving energy efficiency. For instance, offices and hotels incorporating "intelligent" systems to optimize internal energy consumption. Other new companies are tackling energy efficiency from the outside, helping builders use energy saving materials, e.g. films for glass, in production. Many exciting investment opportunities exist around the future of energy as emerging technologies and AI software are improving and more closely linking energy generation, energy storage and energy usage.

Sustainable Production and Consumption

Consumers have become more discerning about the sustainability (both environmental and social) of the products they purchase. When faced with a choice between similar items either produced sustainably or "the old-fashioned way", there is a rapidly growing proportion of consumers who will choose the sustainable option. This behavioural shift is pressuring existing producers to evolve their practices, but also encouraging new entrants to meet the growing demand—hence an opportunity for impact investors.

Advances in materials, along with an increasing consumer awareness of the circular economy, have also created attractive investment opportunities in areas such as biodegradable alternatives to plastics and bamboo building materials. We believe the impact and business opportunities will be large as consumers and mainstream businesses embrace (and in some cases demand) more environmentally friendly materials.

Conclusion

The opportunities are boundless for impact investors as new technologies combine with talent, consumer demand and supporting government regulations. And now, this positive ecosystem is propelled forward more rapidly by our shared experience with COVID-19. We are truly on a new and exciting frontier reshaping industries for decades to come. We believe those businesses building our more sustainable and inclusive future stand to benefit greatly, and impact investors may be rewarded financially, socially and environmentally.

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Endnotes

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