# IMPACT EQUITIES

2024 Outlook

MARTIN CURRIE
A Franklin Templeton Company

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## Long term returns from real world change

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**Going into 2024, we are positive and open-minded about what is to come for impact equities. We are at a point of market reset and evolution as investors seek to leave behind recent negative sentiment about the impact space.**

Such negative sentiment is illustrated by the ongoing anti-ESG movement in the US. But these movements are driving the market to focus on sustainable investment products with measurable outcomes rather than vague claims on sustainability.


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Head of Impact Equities



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## Investors need authenticity

The market will continue to demand authenticity from the management of sustainable investment products for investors.

This reflects a desire for more specific products with a greater clarity on what they are trying to achieve – such as integration, exclusion, or impact. We observe a broader appreciation for products that use specific, measurable outcomes – we have seen a similar change in stewardship reporting. This comes at the expense of products with less outcome-focused investment processes or those that only invest in sustainability market leaders.

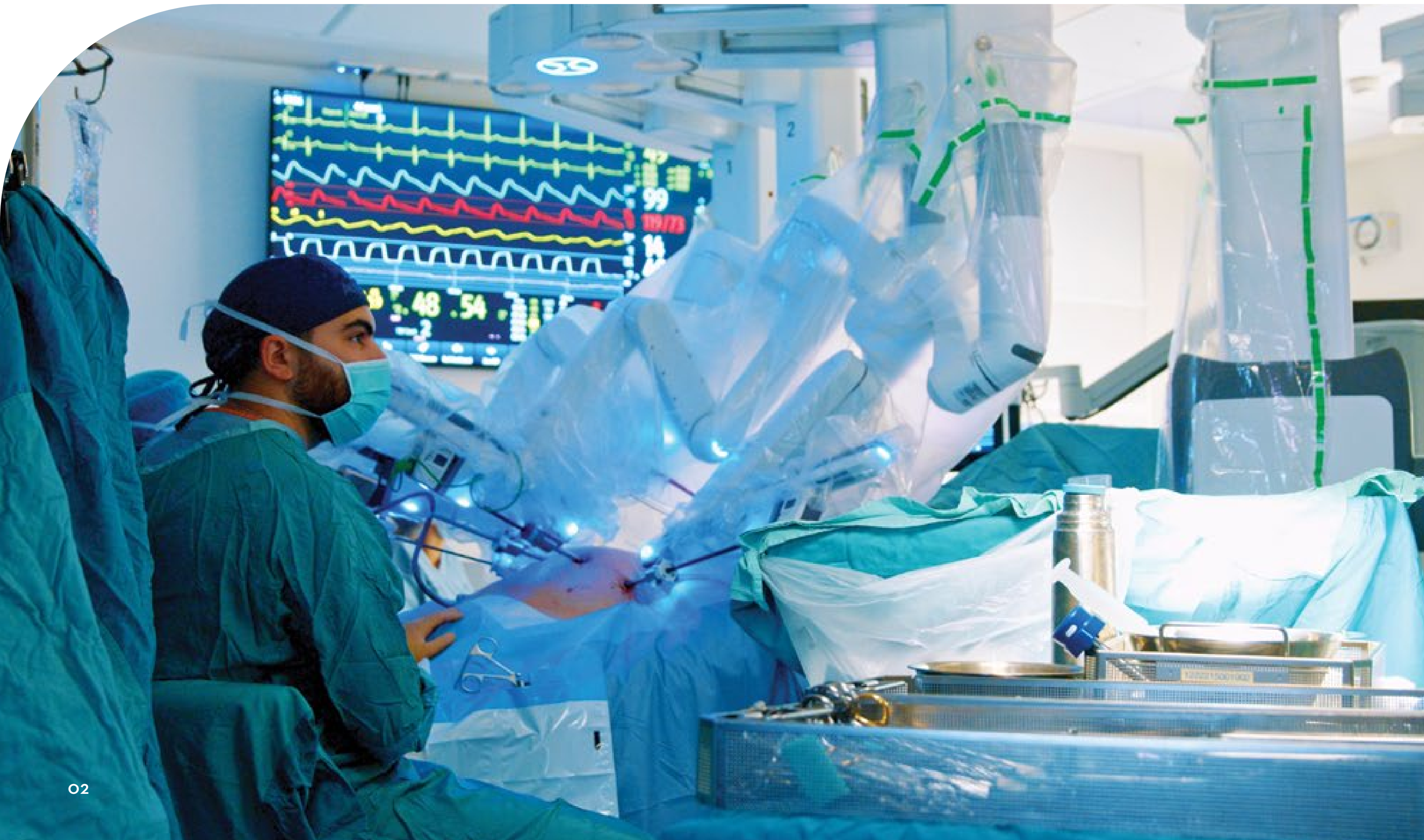
Investment processes and risk management will be scrutinised and new legislation in key global markets sets an extremely high bar for best practise. The goal posts are moving for the gold standard of measuring and reporting sustainability and stewardship activity. This will aid managers with authentic and robust products in differentiating themselves.

## Demand is growing for real positive change

We continue to believe that the demand for innovative products and services which generate real world positive change will result in attractive long-term returns for the portfolio over the coming years.

We have already seen this in the significant milestone that impact investing has reached – Global Impact Investing Network (GIIN) estimates that global AUM in impact investing has cleared the US$1trillion mark[1]. This is a significant in what is still a maturing asset class.  We expect further flows to materialise in this area as investors continue to seek products with the specific aim of generating change in the world while also generating returns.

[1]Source: GIINsight: Sizing the Impact Investing Market 2022. Global impact Investing Network (GIIN), October 12, 2022, Dean Hand, Ben Ringel and Alexander Danel.



## Find the impactful stocks in impactful sectors

In 2024 three sectors particularly stand out.

### Healthcare

We anticipate a more positive year. Negative factors such as customer destocking and post-COVID demand adjustments should roll off. Plus, the hype around the GLP-1[2] class of drugs used to treat diabetes and obesity should become better understood by the market.

### Industrials

We are closely watching stocks that improve the resilience of communities through safe, future proofed basic services and infrastructure, as well as improving resource efficiency. The outlook for this space has improved in the second half of 2023, following a tough 12 months. We are seeing demand recover at a decent rate, and these firms are no longer as dependent on raising prices to protect margins.

### Technology

This is an area to watch, especially with US Mega Cap names seeing strong returns recently. With a lack of clear, measurable, and intentional social impact on offer, the sector lags from an outcome perspective. The authenticity of our process is paramount and our portfolio is underweight to the sector, but we will keenly monitor the space for opportunities.

[2]Glucagon-like-peptide-1, this is a type of hormone that enhances the secretion of insulin from the digestive system.

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