Why impact investing needs the stock market

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Institutional investors primarily seek impact in private markets. But to truly scale up, the hundreds of trillions on the stock market are indispensable.

Impact investing is the 'next frontier' in sustainable investing among institutional parties. However, their capital flows almost exclusively to private markets. Pension funds and insurers largely ignore impact in listed investments. This limits the potential societal impact.

Institutional impact investors ignore the stock market because they often doubt additionality in the secondary market. The Global Impact Investing Network (GIIN) serves as the market standard for impact investing. Their guideline, 'Guidance for Pursuing Impact in Listed Equities', refutes this doubt. According to GIIN, impact on the stock market does not require new capital. To this end, GIIN formulates two core concepts: the 'Theory of Change' and the 'Investor Contribution'. The Theory of Change describes the causal link between an investment and societal impact, while Investor Contribution encompasses the added value and the role of the investor in that change.

Door **Jori Arts,** Senior Portfolio Manager at PGB Pensioendiensten, Chairman of the Asset Liability Management Committee, and member of the Advocacy Committee of the CFA Society Netherlands

There are clear reasons for the preference for private markets. Impact investors often choose specific themes, such as climate and biodiversity. This leads to more concentrated portfolios in specific market segments. In private markets, investors accept this concentration more easily, largely due to the lack of an investable benchmark index. Furthermore, investors in private markets more frequently hold a majority stake in companies. As a result, they force change more directly.

However, private markets fall short of financing the sustainability transition. After all, the financial challenge is enormous. UN Conference on Trade and Development estimates the annual investment deficit for the SDGs until 2030 at around seven trillion dollars[1] . Global private markets comprise 'only' 17 trillion dollars[2] . Private markets alone cannot close this financing gap.

Public equities and bonds (in size 127 and 145 trillion dollars respectively[3]) are therefore indispensable. Both regular sustainable investing with ESG integration and targeted impact investing contribute to this. In addition to their enormous scale, public markets offer unique benefits for the financial system. They guarantee daily liquidity and transparency. Higher liquidity can lower the cost of capital for sustainable enterprises. This makes large-scale social projects financially feasible more quickly.

To harness the systemic benefits, a Theory of Change is needed. In public markets, this works, among other things, by directing transition capital towards polluting industries. Investors demand concrete targets in advance, such as halving COÿ emissions by 2030 or reallocating capital expenditures to clean technology.

This gives capital allocation on the stock exchange a targeted and measurable societal impact. Active shareholding makes a significant contribution to the Investor Contribution. Engaging in dialogue with companies can stimulate societal change. However, this only works with sufficient leverage if change fails to materialize. Shareholders must possess voting weight and credible escalation strategies. Without the willingness to vote against the board or sell, the actual impact remains limited.

In addition, investors must be more focused on a measurable change model and have a credible action plan to prevent impact washing. ■

1 United Nations Conference on Trade and Development, The Costs of Achieving the SDGs
2 McKinsey, Global Private Markets Report 2026
3 Securities Industry and Financial Markets Association, Capital Markets Factbook 2025