Impact Investing - for investors who want to make a difference

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Navigating the climate crisis

As the scientific evidence of climate change is becoming increasingly indisputable, impact investing has become a prominent and necessary aspect of investing. It has experienced significant growth over the past few years. This trend has been further amplified recently together with the exponential rise of climate finance. According to the Global Impact Investing Network (GIIN), the impact investment market currently stands already at a substantial size of nearly USD 502 bn. The market is projected to maintain its focus on the global challenge of climate change, with mitigation and adaptation efforts remaining at the forefront of investment priorities.

The current global inflation environment is exacerbating inequalities, with scenarios such as the SSP3 or SSP4 centred on regional rivalries and inequalities becoming realistic. It is increasingly difficult to uphold the hypothesis of inter-generational equality, as the growth prospects for future generations may fall short.

The rise of impact investing is primarily driven by investors' scepticism towards ESG investing. While European investors have been at the forefront of ESG investing in the context of numerous ESG regulations in Europe, there has been growing defiance and controversy surrounding ESG investing elsewhere. The dispersion of ESG ratings between ESG rating agencies, in contrast to the convergence of financial opinions in credit ratings, has raised questions for investors. Consequently, the new "place to be" has become impact investing. Indeed, KPIs can be used to measure companies' actions and investments can be based on objective criteria.

The adaption needs bring innovation and business opportunities as the demand for products and services that build resilience grows. By 2030, between USD 155 and 330 bn per year will be needed to finance adaptation to climate change.

As a result, investors and asset owners are embracing the United Nations' Sustainable Development Goals (SDGs). Currently, only one-third of the SDGs are being financed by public policies, leaving a considerable gap of USD 2.5 trillion per year, which can be seen as an opportunity for investors. Asset owners are now participating in the UN-convened Net Zero Alliance, while asset managers have formed the Net Zero Asset Manager Initiative, emphasising the importance of achieving net-zero emissions as a key performance indicator.

Driving sustainable transformation

Impact investing aims to generate financial returns while also creating positive social and environmental outcomes. This is achieved through three key principles: the anticipation of receiving financial returns alongside social and/or environmental benefits; the intentional pursuit of desired social or environmental changes; and the measurement of impact through the integration of social and environmental performance together with financial and economic performance. The notion of double materiality, introduced by recent regulations, emphasises the integration of internal and external non-financial risks for companies, highlighting the need for a comprehensive approach to responsible finance. Impact investing is not concessionary but rather a driver of financial performance, by incorporating ESG-focused findings into future investments. The principle of collinearity recognises that financial and social/environmental performance are often interconnected and mutually reinforcing. Impact strategies represent the most advanced form of responsible finance, aiming for sustainable transformation and ensuring the avoidance of negative externalities that would reduce their positive impact. Ongoing monitoring is crucial to ensure that the implementation process remains aligned with the initial objective, and corrective action should be taken if any deviations are observed.

The next frontier for Impact Investing

The COP15 on Biodiversity held last December highlighted a new dimension in the challenge of a warmer world, with the adoption of the post-2020 Global Biodiversity Framework being hailed as the "Paris Agreement" moment for biodiversity.

At Swiss Life Asset Managers, we strongly believe that biodiversity preservation is a critical priority for sustainable investors. We recognise that biodiversity underpins the health and resilience of our natural systems and provides essential ecosystem services that support both human well-being and economic development. As such, we have acquired extensive expertise in environmental-related topics and were among the firsts to launch a fund focused on biodiversity conservation and restoration.

Through our dedicated fund, we aim to provide investors with a unique opportunity to generate both financial returns and positive impact by supporting innovative and scalable solutions that protect and restore biodiversity. This fund is part of a range of impact funds entirely dedicated to climate and the environment, alongside our Green Buildings and Infrastructure Impact and Climate Impact funds.

Sustainable investments are deeply embedded in our DNA. By engaging with stakeholders, investing in cutting-edge technologies and nature-based solutions, measuring and reporting on impact, we strive to be at the forefront of impact investing for a sustainable and resilient future.

Overall, impact investing can unlock new opportunities to drive positive impact towards a more sustainable and resilient future.

Read more about Swiss Life Asset Managers Responsible Investment approach at swisslife-am.com or scan the QR code to learn more.

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