

Impact investing is now



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Sustainable investment has become a significant trend in financial markets as science and society address a growing range of issues that pose both risks and opportunities: biodiversity protection, water management, extreme weather events, diversity, equity, and inclusion, are just some of the topics on investors' minds.

Increasingly, investors are asking themselves some fundamental questions: what sort of society do we want to create; what is our purpose; and are we living it? The manifestation of this emerging worldview is the rise of impact investing as investors increasingly embrace an investment style that offers diversification of choice through a fresh and more unconventional approach.

The worldwide impact investing market has now broken the USD1 trillion¹ barrier and continues to grow. It reflects the demand pressure for the investment industry to be part of the solution. Many investors are considering their purpose and reflecting on the type of society they want to live in, and the state of the planet they want to leave for future generations.

Impact investing focusses on identifying companies whose products and services are providing real world solutions to the biggest issues we face globally. Investing specifically in publicly listed companies allows impact to be made at scale as opposed to piece meal finance available from private investment or debt issuance. Identifying impactful companies must focus on intentionality and measurability to ensure legitimacy – is the company actively embracing and driving its potential impact forward and are there metrics

by which this impact can be measured currently and in the future? For example, is the delivery of affordable housing central to the business model of a homebuilder, or is it simply an add-on to meet obligations or improve corporate reputation? Does the homebuilder disclose the number of affordable units it delivers and the revenue these generate? What would happen if this homebuilder no longer built affordable units? These are the types of questions that impact investors must ask to determine authenticity and magnitude of impact generated by potential investments.

By investing impactfully, we can utilise savings and investments as a potentially huge force for good in the world – and in doing so, gain the emotional reward experienced from helping others. Research by Harvard Business School confirms this.² Investing our money for social or environmental good, is consistently associated with greater feelings of happiness and wellbeing. Furthermore, a recent survey indicated that more than two-thirds of UK citizens are concerned about issues like social inequalities and climate change.³

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There is however a widespread misconception that impact investing means lower returns. The good news is that no sacrifice is necessary. There is no need to choose between doing good socially and doing well financially. Generating long-term returns and supporting a healthy society are entirely compatible aims. In a recent GIIN report⁴ Research from Morgan Stanley concluded that sustainable funds combine competitive financial performance

and reduced risk. Not only did it reveal that there was no financial trade-off in the returns of sustainable funds and traditional funds, but it also found that sustainable funds experienced a 20% lower market risk than their traditional counterparts, 79% of investors reported that their impact investments performed in line with, or better than their expectations, in financial terms.⁵

Raising public consciousness, followed by action, is a key to positive change in society. Growing public opinion has played a major role in improving social health, wellbeing, and inclusion. Huge progress has been made socially in terms of diversity, inclusion and equity as evidenced by improvements in disability rights, gender and racial equality, as well as greater awareness of equality in pay and opportunities.

People prefer living in societies that are inclusive, promote health, wellbeing, fairness, and opportunity. When the public are given the means, the motive, and the potential to improve society, they step up. It is possible to invest in companies that are making a positive change to society in the longer term while also generating alpha. So, while more considered and thoughtful investments can satisfy a desire for positive societal difference, investors can also reap a financial reward.

Investors are shifting their focus from shareholder value in a purely financial sense, to stakeholder benefit in its widest sense. Intentional investing is set to become a more significant part portfolio allocations, playing an important role in driving corporate behaviour.

FOOTNOTE

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

2 Prosocial Spending and Wellbeing: Cross-cultural Evidence for a Psychological Universal. Harvard Business School, 2010.

3 Financial Wellbeing Survey. Findings based on a sample of over 10,000 UK residents. Aegon, August 2021.

4 Global Impact Investing Network (GIIN), 2023 GIINSight: Impact Investing Allocations, Activity & Performance

5 Sustainable Reality: Analyzing Risks and Returns of Sustainable Funds. Findings based on analysis of 10,723 funds between 2004 and 2018, using Morningstar data. Morgan Stanley, August 2019.