

News or Noise: Doing Well by Doing Good—A Primer on Impact Investing

By David Fisher, Chief Investment Officer

Philanthropy is important to many of our SignatureFD clients. But did you know that there may be a way to combine your investments with your philanthropic goals? Impact investing could offer just such an opportunity.

This week, we met a group that introduced us to the concept of impact investing. Though we had heard this phrase before, we had not yet taken a close look at this part of the market. We will talk more about the group we met with later in this commentary, but for now, let's start with some background information on impact investing.

What Is Impact Investing?

According to Wikipedia, "Impact investments are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return."¹ Jed Emerson, who is a pioneer in the field of impact investing, defines it this way: "Impact investing is the practice of structuring all of your capital to realize the full potential value you can create on social, environmental and economic levels."²

Many people are familiar with socially responsible investing, which is one type of impact investing. The concept of investing in a socially responsible manner was embraced in recent decades by social, environmental and religious organizations. These groups felt that to be true to their individual and group value systems they should exclude or avoid investing in certain industries or stocks. Investors started asking money managers to avoid these holdings. Over time, a sub-category of investment advisors who ran specialty products based on these principles emerged.

Over the last several years, a different type of impact investing has begun to arise. This new approach generally takes the form of venture capital or private equity investments. Rather than an avoidance strategy, it makes purposeful, targeted investments in companies or parts of the world that benefit greatly from the capital injection. Though this is often an area that is only open to high-net-worth or institutional investors, the advent of crowd-funding and micro-lending organizations has opened the field to most individual investors.

Organizations Focused on Impact Investing

Because impact investing is a growing field, relatively few organizations concentrate on this space. One is Global Impact Investing Network, which is focused on increasing the scale and effectiveness of impact investing. Many of the investment managers that focus on this form of impact investing are located outside of the United States, but with endowments and foundations eager to invest capital in these strategies it is likely that new domestic investment organizations will be created.

Impact Investing in Action is a convention and gathering for those in the impact investing space. This year's conference will take place from May 20 through May 23 in Washington D.C. This convention is in its third year and has a goal of "driv[ing] capital to early-stage companies and to build the ecosystem for impact investing in Latin America."

Social measurement is an area of particular interest to impact investors. The goal is to provide a "common set of tools on social measurement for investors."³ The Rockefeller Foundation, Acumen Fund and B Lab are coordinating the largest social measurement project. The project is called Impact Reporting & Investment Standards (IRIS) and is focused on "standardizing the way organizations communicate and report their social and environmental performance."⁴

The challenges with a project like IRIS are obvious. Many of those involved have different views of the goals and the value system to apply to the standards. Moreover, much of the output is qualitative, which makes quantifying the results difficult. As the industry matures over time, however, the use of common language and reporting will increase visibility and bring many new investment products to the market.

Philanthropy or Investing?

Impact investing has become the preferred method of philanthropy for many entrepreneurs who are taking an active role in "giving away their money." But is it possible to combine the goals of philanthropy and investing? Melissa Berman, the president and chief executive of Rockefeller Philanthropy Advisors, recently said that, "Impact investing need[s] to be seen in the right context ... It's still small compared to philanthropy in general and tiny compared to the overall capital markets."⁵ Investors who operate in the space have approaches that span the entire spectrum from complete philanthropy (making money is only a by-product, not the primary motive) to those who target venture-capital-type rates of return but focus on countries or industries that are starved for capital and thus fit under the impact investing banner.

So, there is not a clear line between philanthropy and impact investing. In doing this research, it became obvious to us that like most parts of the global economy, philanthropic organizations are undergoing major changes. The education level of the average donor is much higher than it was even a decade ago. The Internet has increased transparency into charitable organizations, which is changing the philanthropic landscape. Those organizations that can't adapt and prove the effectiveness of their mission are not likely to survive.

One Approach to Impact Investing: RENEW

Last week, we met with REWEW (www.renewstrategies.com) a firm located in Washington D.C., and Addis Ababa, Ethiopia. RENEW is in the early stages of creating an organization that is focused on "opportunities in developing nations rather than problems. [They] focus on investing rather than providing handouts ... [and] finding promising businesses, connecting them to investors around the world and growing them into world-class companies."⁶ RENEW would be the first to tell you that there is a place for outright philanthropy, but that is not the approach they take. They believe that the best way to help individuals is to provide capital in areas that are lacking it so that companies can grow and hire more people.

Please note that impact investing is a new area of investing and not one we are even close to being able to recommend clients. Thus, we can't endorse any specific group, including RENEW. Because of the newness of what they are doing, however, we thought our clients might be interested in at least seeing what a company that operates in this space looks like.

Looking Ahead

Impact investing is on the agenda for next month's G8 meeting in London and is rapidly gaining momentum in institutional investment circles. We believe that investors will hear more about impact investing in the years ahead. As Judith Rodin, the President of Rockefeller Foundation said recently, "Philanthropy is about making an impact and when I talk to financial-only investors they want to make an impact too. This is about doing well by doing good."⁷

Sources

1. Wikipedia. "Impact Investing." http://en.wikipedia.org/wiki/Impact_investing.
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3. E.T. Jackson and Associates, Ltd. *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. July 2012. Page 10.
4. Impact Reporting & Investment Standards. "About IRIS." <http://iris.thegiin.org/about-iris>.
5. Sullivan, Paul. "Philanthropists Weigh the Returns of Doing Good." *New York Times*. September 28, 2012.
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What Is News or Noise?

Like most of you, we are inundated with information on our phones, in our email inboxes and on the Internet. Clearly, the world doesn't need another investing blog to re-process stale information or reformat the day's useless headlines. Thus, in our investment blog, "News or Noise," we've taken up the challenge of sorting through the infinite bits of background noise and seeking the few truly newsworthy nuggets of information, so that we can focus on the stories today that are likely to be meaningful for investors in the future.