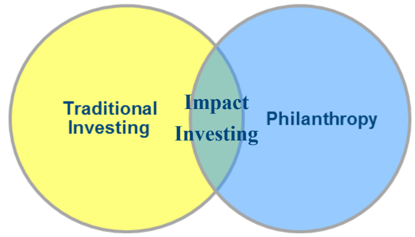
# Impact Investing

## ESTABLISHING A FRAMEWORK FROM IDEA TO IMPLEMENTATION

*"Many organizations are increasingly seeking ways to align their core values with their investment portfolio. Concord offers a full range of investment consulting services including the evaluation and implementation of impact investing strategies as part of a comprehensive investment program."*




Impact investing has the potential to fundamentally transform the way investment capital interacts with the world. Directing capital to solutions which aid the poor and the planet while earning a financial return is indeed an exciting proposition. Impact investing falls under the broad umbrella of socially responsible investing (SRI) which can take many forms and has many definitions. The distinguishing feature of impact investing is the **synergy** of **doing good** from a social and environmental perspective and **doing well** in terms of earning a financial return. Impact investing goes beyond the avoidance of harm through divestment and instead seeks to deploy capital with the intention of having a positive impact on society and the environment. This work used to be primarily the domain of philanthropic donations and charity-based work but that is changing. Impact investments can encompass a broad range of issues as outlined below.

**Impact Investing – Common Focus Areas**

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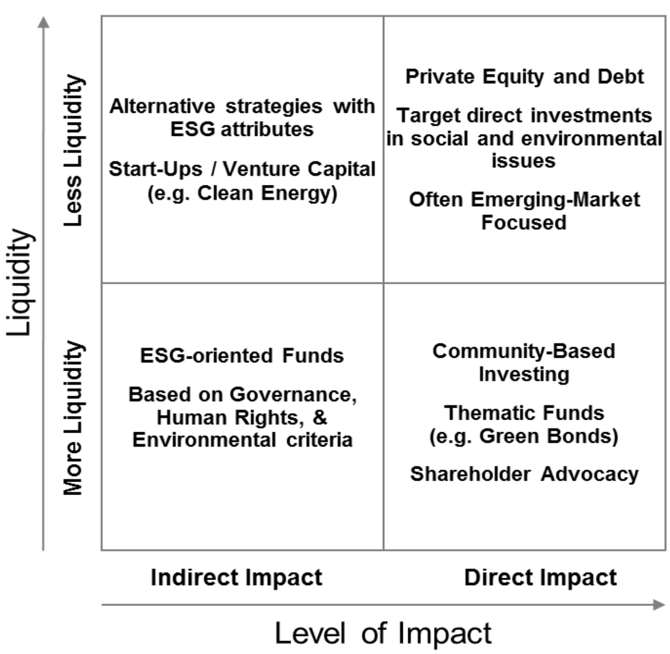
|---|---|---|---|---|---|---|
| Renewable Energy | Agriculture | Health Care | Affordable Housing | Education | Financial Access | Economic Opportunity |

Impact investing is just beginning to move into the mainstream and currently represents only a fraction of the market. Assets invested in the U.S. SRI space total $6.6 Trillion (Source: US SIF[1]) versus $77 Billion in impact assets (Source: GIIN[2]). Faith-based organizations have long played a role in this early adoption phase mainly through community-based and microfinance initiatives. Impact investing continues to gain traction in the form of investor interest and increasing product availability. According to the World Economic Forum, assets could top $500 billion by the year 2020.




While impact investing holds a lot of promise and potential benefits, it also presents unique considerations and challenges. An organization's approach to impact investing will largely depend on its mission, values, and investment objectives. A sound governance process should be in place to examine the full scope of the opportunity set and how best to integrate it as part of your investment portfolio. The first step should be a look inward to affirm your willingness as an organization to pursue impact investing and to articulate motivations and goals. What do you seek to achieve from impact investing and how will it align with your organization's values? Organizations should evaluate the practicality of putting these goals into action based on their operating needs, risk tolerance, and time horizon. Liquidity in particular is an issue that needs careful consideration.

Impact investing can encompass a broad range of investments depending on an organization's desire and ability to engage in the space. Strategies that hold companies based on positive Environmental, Social, and Governance (ESG) characteristics may serve as an alternate approach for organizations. These strategies seek to make a positive impact by allocating capital to companies on the basis of ESG-based criteria rather than through direct investments.

## Establishing a Framework for Implementation

**Establish Goals**
- Affirm willingness
- Examine motivations and values
- Commit to goals

**Analyze Needs**
- Operating Needs
- Liquidity
- Time Horizon
- Risk Tolerance

**Research**
- Evaluate the spectrum of investments
- Conduct due diligence
- Align investment and social goals
- Understand costs

**Monitor and Evaluate**
- Establish reporting procedures
- Measure social impact
- Measure financial impact

Proper due diligence of strategies is critical. While there is limited product availability at the current time, strategies continue to proliferate to meet growing demand. It is therefore important to discern institutional quality mandates from retail-based and start-up offerings. Strategies should be sound from both an investment and social perspective and align with an organization's values. Investment costs also should receive attention as impact-oriented strategies can at times have unfavorable cost structures that could erode return potential.

A process for ongoing monitoring and evaluation should be agreed upon prior to implementation. The ability to measure the social impact is a core feature of successful impact investing. Third party standards exist to measure a variety of social, environmental, and financial metrics and aid in data-driven evaluation. While these standards lend credibility to the impact movement, effective measurement remains a challenge. Among public companies, lack of disclosure and inconsistent standards for ESG metrics also remain a persistent issue. With continued investor pressure and leadership from larger companies, disclosure is expected to improve with time.

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While impact investments nobly aim to achieve both a positive social impact and a profitable return, it is important to keep in mind that just like any other investment, there are risks involved and a less than optimal financial result could be achieved even as worthwhile mission-based goals are being met.

Concord urges organizations to seek out advice if they are thinking about impact investing as the endeavor can be complex and time consuming as much as it is rewarding.

**Benefits**
- **Align mission and values with investments**
- **Use organization's dollars to promote positive social change**
- **Earn a financial return**

**Challenges**
- **Lack of liquidity and long time horizons in certain vehicles**
- **Limited opportunity set**
- **Potential for increased risks and higher costs**
- **Reporting and measurement**

[1] "Report on U.S. Sustainable, Responsible, & Impact Investing Trends 2014" *http://www.ussif.org/trends*
[2] "Global Impact Invest Investing Network: Annual Impact Investing Survey 2016" *https://thegiin.org/knowledge/publication/annualsurvey2016*





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