



THE IMPACT OF INVESTING: IMPLICATIONS & OPPORTUNITIES

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For South African institutional investors, a struggling economy, governance crises and ruminations regarding prescribed assets have highlighted concerns surrounding the social and environmental impact of investments. Improved access to information, policy shifts regarding the sustainability of investments¹, the interests of the consumer² and the state present investors with both risks and opportunities. Investment managers who can demonstrate how their diligence and skill can measure and leverage the impact of investing are likely to derive a new advantage for their investors and the long-term sustainability of their portfolios.

The Impact of Investing and how it differs from 'Impact Investing'

While investment strategies have undoubtedly contributed to positive progress in society, business leaders also recognise the inadvertent role that finance may have played in the long-term degradation of our planet and negative impacts on people. Concurrently, institutional investors hold the key to mobilising capital toward sustainable solutions that address, indeed reverse some of the damage. It is no wonder that investing with the United Nations Sustainable Development Goals (SDGs) in mind is strongly supported by the work of the United Nations Principles of Responsible Investment (UNPRI) and the World Bank's International Finance Corporation (IFC).

In a first of its kind 2019 market sizing effort, the Global Impact Investing Network (GIIN) determined that impact investing is estimated to have grown to over USD500 billion in AuM in a decade³. Incorporating a wider range of strategies from Environmental, Social and Governance (ESG) screening, to shareholder engagement, to thematic and impact investing, the Global Sustainable Investment Alliance's biannual review asserts that sustainable investing AuM is USD30.7 trillion (as at early 2018)⁴. Bloomberg Intelligence demonstrates that half of

shareholder proposals are environmentally or socially driven and in 2019, ESG orientated Exchange Traded Funds had their biggest flows yet topping out at over USD8 billion⁵. Investing for impact appears to be coming of age, applicable across asset classes and building a compelling business case with regard to investment returns⁶ in conjunction with widening market acceptance⁷.

One of the challenges to be overcome has been reaching conceptual consensus between practitioners, policymakers and promoters around definition and metrics to ensure consistent application and in time, comparability. Although the term 'impact investing' was first coined in 2007 by a group of stakeholders including institutional investors convened by the Rockefeller Foundation, the now broadly accepted definition is:

"...investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return...and target a range of returns from below market to market rate, depending on investors' strategic goals..."⁸

In terms of its positive intentionality, impact investing aims to:

"... address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education."⁹

A fundamental requirement in the assessment of the intent however, is the application of the appropriate frameworks and metrics to measure the impact of an investment, whether positive or negative, intended or unintended.

1 FSCA. 2019. Guidance Note 1 of 2019 (PFA). 14 June 2019

2 FSCA. 2019. Treating Customers Fairly. <https://www.fsca.co.za/Regulatory%20Frameworks/Pages/Treating-customers-fairly.aspx>

3 Global Impact Investing Network. 2019. "Sizing the Impact Investment Market". <https://thegiin.org/research/publication/impinv-market-size>

4 Global Sustainable Investment Alliance. 2018. Global Sustainable Investment Review http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

5 Bloomberg. 2020 Good Business: The Year Ahead in Sustainable Finance. https://www.bloomberg.com/news/newsletters/2020-01-02/good-business-the-year-ahead-in-sustainable-finance?ref=M6TSeOal&utm_content=110904075&utm_medium=social&utm_source=twitter&hss_channel=tw-2473182703

6 Porter, Serafeim and Kramer. 2019. <https://www.institutionalinvestor.com/article/b1hm5ghqbx9s7/Where-ESG-Fails>

7 UNPRI. 2018. Impact Investing Market Map.

8 Global Impact Investing Network. 2019. <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

9 Global Impact Investing Network. 2019. <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>