HAVING AN IMPACT

More investment managers want to ensure the companies in which they invest make a positive contribution to society.

By Alexandra Cain

Aside from infrastructure companies and some managed investment schemes, most ASX-listed businesses wouldn't be considered to be a pure impact investment. Nevertheless, impact investing is an emerging topic in investment markets.

As such, listed businesses should understand what constitutes an impact investment, to give suitable companies the best possible chance of attracting dollars from the cohort of fund managers that invest along these lines.

According to the Global Impact Investing Network (GIIN), impacting investments are, "made with the intention to generate positive, measurable social and environmental impacts alongside a financial return."

Its 2019 *Annual Impact Investing Survey* shows the majority of impact investors (56 per cent) target social and environmental impact objectives, 36 per cent target social objectives and seven per cent target environmental objectives.

Ian Woods, head of ESG investment research, AMP Capital, notes there are different approaches to impact investing.

"Some super and retail funds are not just concerned about avoiding the bad stuff, they also want to make sure their money is involved in the good stuff – because that's what their investors want too. But it's important to distinguish between these two different groups, that is, funds that want to avoid investing in businesses that are causing social or environmental harm and companies that are actively trying to have a positive impact," he explains.

Funds investing in firms in the latter category have the intention of making a genuinely positive impact with their activities and want to measure and report on that impact.

"These investors might have worked in private markets, in social housing or indigenous employment schemes for instance. Now, they're starting to look towards the public markets space as well. The key is intentionality and measuring impact. The benchmark for getting into those funds is quite high, because investors are looking for that positive impact at the core of what the company is doing. Very few ASX 200 companies are targets for pure impact funds," Woods says.

The GIIN's research shows 26 per cent of capital allocated by impact investors goes to private debt and 22 per cent is invested through private equity. Seventeen per cent of impact investment funds are invested in public equity markets and 14 per cent goes to public debt.

It's important for ASX companies to understand there is a group of traditional fund managers who, while not considered pure impact investors, want to invest in companies making a positive impact.

"Those investors might look at a bank, for example, and highlight the affordable financing it provides for low socio-economic groups. It might only represent a small part of its overall business, but it's still a meaningful contribution," Woods notes.

Peter Murphy is a partner with management consultants Robertson and Chang and provides strategic impact investing advice to fund managers including Prime Value Asset Management.

Murphy says it's important not to be too prescriptive about what constitutes an impact investment. "We're trying to get an impact investing market growing. If the business has a measurable impact, a return and a consummate risk, then let it be called impact."

As to who impact investors are, Murphy says they include family offices, people who invest from a philanthropic perspective, as well as high-net-worth and ultra-high-net-worth individuals. "More super funds are also becoming interested in this space," he says.

Taking action

There are various steps companies can take to appeal to impact investors, or funds with a bent in that direction.

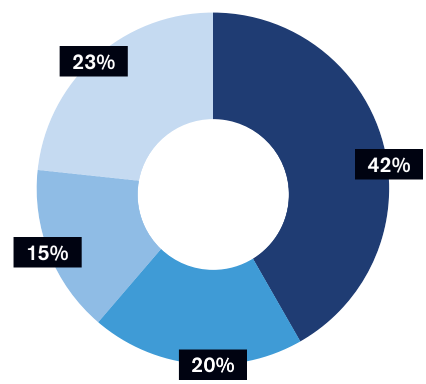
"They need to highlight the good things they are doing in their sustainability report. It's useful to report in line with a framework, such as the UN's Sustainable Development Goals," says Woods.

However, Woods warns companies against over-promoting a small aspect of the business that's doing good when its other areas are causing harm. "It's not a zero-sum game. You can't say this small part, which is good, outweighs the 90 per cent of the company working in the opposite direction."

A hypothetical example might be an engineering firm with exposure to renewable energy in a developing country, but whose other operations contribute to global warming. "The challenge is being balanced in what they're saying and not over-emphasising the positive impacts," Woods says.

Businesses operating in aged care are a good example of firms that may be listed on public markets, but also have the potential to have a positive impact. Says Murphy: "Aged care can have a wonderful impact on the lives of institutionalised people. So if you can demonstrate a measurable impact you're giving people quality of life and also provide an appropriate amount of profits for the appropriate amount of risk, that's a wonderful impact."

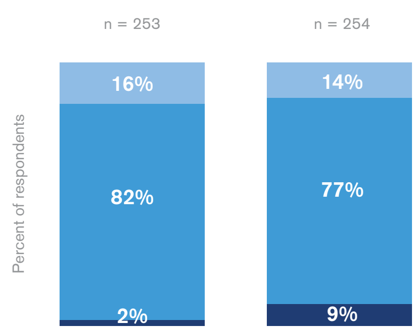
Tracking impact performance to the UN SDGs



n = 266

- 42% Yes, for all of our investments
- 20% Yes, for some of our investments
- 15% No, though we plan to do so in the near future
- 23% No, and we don't have any foreseeable plans to do so

Performance relative to expectations



- Outperforming
- In-line
- Underperforming

Number of respondents shown above each bar; some respondents chose 'not sure' and are not included.

Source: GINN 2019 Annual Impact Investor Survey

Balancing impact with returns

A common concern in this area is whether investors have to trade returns for positive impacts. Research shows the majority of funds target market returns. The GIIN's report shows about two-thirds of impact investors target market-rate returns, while other impact investors target returns close to market rate or they aim to preserve their capital.

According to Murphy, whether an investment has an impact or not, the risk/return relationship still has to stack up and the return has to be measurable. "You need to be able to measure what you treasure; there has to be some data behind it."

Woods agrees that by and large, investments still need to meet traditional risk/return criteria. "Some funds may be benchmark-unaware, but many are considered to be mainstream investments in terms of risk and return. There are others in which some investors would be happy not to receive a mainstream return. But the investment return will still need to stack up for most funds."

When they are looking for investors to target, he says impact investors should be in the purview of smaller companies with technology that has a positive impact. "Investors are looking for companies that can clearly demonstrate they are meeting the UN's Sustainable Development Goals goals."

Murphy acknowledges it is, however, difficult for ASX-listed businesses to show they're an impact investment.

"A decade ago it was hard work doing ESG reporting. This is the next generation in terms of being able to measure the impact that you're having. ESG reporting is sometimes about telling people what you don't do. In impact investing you're telling people what you do. So companies really need to be able to measure and show what they do."

Murphy says it's often easier for managed investment schemes to do this because they report on the assets they own. "But it's not impossible for listed companies to do this too."

As the impact investing sphere matures, more funds are likely to be allocated to investments that meet their criteria. So the onus is on companies that wish to target investors in this category to be able to demonstrate a measurable impact, and at the same time prove they can make a decent return for shareholders.