



INTEGER WEALTH GLOBAL

Impact Investing

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Impact investing is a type of investment strategy that aims to generate positive social or environmental effects along with financial gains. It is different from pure philanthropy, which does not expect any financial returns. Impact investors consider how a company or fund contributes to the well-being of society or the planet before they invest in it. They also measure the impact of their investments using various indicators and metrics.

Some examples of impact investing are:

- Investing in companies that provide affordable and clean energy, such as solar or wind power.
- Investing in funds that support microfinance loans for small businesses in developing countries, especially those owned by women.
- Investing in firms that develop innovative solutions for health, education, or agriculture challenges.
- Impact investing is a growing field that attracts both institutional and individual investors. According to the Global Impact Investing Network, there was an estimated \$1.16 trillion of impact investing assets worldwide in 2021. More than 88% of impact investors reported that their investments met or exceeded their expectations. Studies also show that the median impact fund realized a 6.4% return, compared to 7.4% from non-impact funds.

If you are interested in learning more about impact investing, you can visit the Impact Investing Institute's website in the United Kingdom at <https://www.impactinvest.org.uk/>, which provides various resources and publications on the topic. You can also explore some of the impact investing opportunities available on the web-based platforms or investor networks that offer this service.

Impact investing is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital for positive social results.

Key Takeaways

- Impact investing is a general investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.
- Investors who follow impact investing consider a company's commitment to corporate social responsibility or the duty to positively serve society as a whole.
- Socially responsible (SRI) and environmental, social, and governance (ESG) investing are two approaches to impact investing, although there is still some disagreement over terminology in the investing community.
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Understanding Impact Investing

The term impact investing was first coined in 2007, but the practice was developed years earlier. A basic goal of impact investing is to help reduce the negative effects of business activity on the social environment. That's why impact investing may sometimes be considered an extension of philanthropy.

Investors who use impact investing as a strategy consider a company's commitment to corporate social responsibility (CSR) or the sense of duty to positively serve society as a whole before they become involved with that company. The type of impact that can evolve from impact investing varies based on the industry and the specific company within that industry, but some common examples include giving back to the community by helping the less fortunate or investing in sustainable energy practices to help save our planet.

This strategy actively seeks to make a positive impact by investing, for example, in nonprofits that benefit the community or in clean-technology enterprises that benefit the environment.

The bulk of impact investing is done by institutional investors, including hedge funds, private foundations, banks, pension funds, and other fund managers.

However, a range of socially conscious financial service companies, web-based investment platforms, and investor networks now offer individuals an opportunity to participate, too. One major venue is microfinance loans, which provide small-business owners in emerging nations with startup or expansion capital. Women are often the beneficiaries of such loans.

Types of Impact Investments

Impact investments come in many different forms of capital and investment vehicles. Like any other type of investment class, impact investments provide investors with a range of possibilities when it comes to returns. But the most important thing is that these investments offer both a financial return and are in line with the investor's conscience.

According to a 2020 survey by the Global Impact Investing Network (GIIN), the majority of investors who choose impact investing look for market-rate returns.

The opportunity for impact investments varies and investors may choose to put their money into emerging markets (EM) or developed economies. Impact investments span several industries including:

- Healthcare
- Education
- Energy, especially clean and renewable energy
- Agriculture



Environmental, social, and governance (ESG)

Environmental, social, and governance (ESG) refers to the practices of an investment that may have a material impact on the performance of that investment. The integration of ESG factors is used to enhance traditional financial analysis by identifying potential risks and opportunities beyond technical valuations. While there is an overlay of social consciousness, the main objective of ESG valuation remains financial performance.

Socially responsible investing (SRI)

Socially responsible investing (SRI) goes a step further than ESG by actively eliminating or selecting investments according to specific ethical guidelines. The underlying motive could be religion, personal values, or political beliefs. Unlike ESG analysis which shapes valuations, SRI uses ESG factors to apply negative or positive screens on the investment universe.

Special Considerations

Socially and environmentally responsible practices tend to attract impact investors, meaning companies can benefit financially from committing to socially responsible practices. Impact investing appeals largely to younger generations, such as millennials, who want to give back to society, so this trend is likely to expand as these investors gain more influence in the market.

Investors also tend to profit. A 2020 survey by the Global Impact Investing Network found that more than 88% of impact investors reported that their investments were meeting or surpassing their financial expectations.

By engaging in impact investing, individuals or entities essentially state that they support the message and the mission of the company in which they're investing, and they have a stake in the company's welfare. As more people realize the social and financial benefits of impact investing, more companies will engage in social responsibility.

While money isn't everything, in a 2020 survey of impact investors, more than 88% of respondents said that their investments were meeting or exceeding financial expectations.

Impact Investing vs. Socially Responsible Investing (SRI)

SRI, which is sometimes referred to as sustainable or socially conscious investing or, when focused on environmental causes, green investing, is a form of impact investing. While the definition of SRI encompasses avoidance of harm, impact investing also suggests positive impact via its investments.

Investors who practice SRI tend to believe in and choose companies that subscribe to their views concerning human rights, environmental protection, and a sense of responsibility to consumers. For example, some investors may choose not to invest in companies that manufacture, distribute, or promote cigarettes because of their overall negative effect on people's health.

Many asset management companies, banks, and other investment houses now offer funds specifically tailored to socially responsible investors.



Examples of Impact Investing

The Gates Foundation

One of the most well-known impact investment funds is the Bill & Melinda Gates Foundation, launched by the celebrated Windows pioneer with a total endowment of nearly \$50 billion. While most of the Gates Foundation is engaged in philanthropy, it also has a strategic investment fund with \$2.5 billion under management, which is invested in ventures that align with the Foundation's goals of improving health, education, and gender equality. As explained on the fund's website, the strategic investment fund supports "organisations or projects that benefit the world's poorest and are often overlooked by traditional investors."

Soros Economic Development Fund

The Soros Economic Development Fund is part of the Open Society Foundations, launched by billionaire philanthropist George Soros. Soros has contributed about \$18 billion to the Open Society Foundations, \$90 million of which is actively invested in impact ventures. As the name implies, the Foundation seeks to support "open societies" by promoting democracy, legal reforms, higher education, and journalism, as well as other fields.

The Ford Foundation

The Ford Foundation was launched in 1936 by Edsel and Henry Ford, with an initial endowment of \$25,000. Today, it has one of the world's largest private endowments, with \$16 billion under management.¹⁰ Most of that money is given as grants to support causes aligned with the values of the foundation; however, in 2017 the Ford Foundation announced plans to invest \$1 billion in business ventures aligned with their mission.

What is impact-focused investing?

Impact-focused investing, or simply impact investing, is an investment strategy that seeks to achieve social or environmental goals, as well as generate profit. Unlike philanthropic endeavours, impact investors typically expect a return on their investment, although this may be a secondary consideration.

Does impact investing work?

Most impact investors seek returns that are comparable to market rates, and some impact funds can even outperform the market. Generally speaking, the returns from impact investing tend to be slightly lower than the market average. In a study by the University of California, the median impact fund had a median internal rate of return of 6.4%, compared to 7.4% from non-impact seeking funds.

What is the difference between ESG and impact investing?

Impact investing is often associated with environmental, social, and governance (ESG) as socially responsible business practices that are gaining increasing attention in the business world. While they have many features in common, they refer to distinct practices.



Environmental, social, and governance practices refer to business decisions that could affect the returns of that company. For example, a company that knowingly employs child labour or engages in discrimination could be at a competitive disadvantage, particularly when marketing to socially conscious consumers.

Impact investing, on the other hand, is the practice of seeking investments that specifically optimize a goal other than profits. This might include investments in clean energy, education, or microfinance.

What is an impact-investing firm.?

An impact-investing firm is an investment fund that specifically seeks to support beneficial social or environmental outcomes, in addition to generating financial returns. Some impact funds invest in causes that they believe will generate strong returns; others consider profits to be a secondary consideration.

What is an impact-investing strategy?

An impact-investing strategy is an investment strategy that targets companies or industries that produce social or environmental benefits. For example, some impact investors seek to support renewable energy, electric cars, microfinance, sustainable agriculture, or other causes which they believe to be worthwhile.

In Conclusion

Impact investing is part of a growing trend of socially responsible practices that seek to reduce some of the negative consequences of traditional business activities. By supporting companies and industries in worthwhile causes, impact investing can produce social or environmental benefits while also earning a profit.