Impact Investing: Serving Client Demand in Financial Services

Wednesday, March 25th, 2015
2:00 PM - 3:00 PM EST

Program Participants

- *William Burckart,* Founder and CEO, Burckart Consulting
- *Anna Snider*, Global Head of Equity Manager Research, Merrill Lynch Global Wealth and Retirement Services
- *Mark Sloss,* Senior Portfolio Manager, UBS Wealth Management USA

Highlights

- Clients are increasingly demanding that impact investing be incorporated as an element in their portfolio investment selection criteria. Results of demand assessment and investor surveys show evidence that there is a paradigm shift towards impact investing.
- The different metrics relevant to investors has created dissonance when defining the impact criteria to select investments. With huge amounts of data becoming available via the providers, the challenge lies in clarifying what impact is truly material. Mark Sloss from UBS is spending time to identify the levers that can ensure that the intention is real and avoid it being a spurious correlation between outcome and social impact.
- Anna Snider from Merrill Lynch suggested that one solution is to develop an ability to merge data from different providers and align a rating system that can incorporate individual investor's criteria: a customizable solution. To help address some of the tension in screening investments and measuring impact performance, academia can bring in the 'what matters' part and investors can decide how to rate and calibrate them against each other based on different priorities.

Overview

Impact Investing - Definition and Trends

William Burckart, of Burckart Consulting, began the presentation with an overview of Impact Investing and its current landscape. Impact investing is the practice of investing in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. While it still remains a niche area, this is expected to change. As the global population and income grows, and the demand for energy and resources intensifies, investors are becoming increasingly aware of how they can generate a positive impact through their investment decisions. Evidence shows that Generation X and Millennial investors prioritize generating both a positive social impact alongside financial returns. As wealth begins to shift from Baby Boomers to their beneficiaries, demand for impact investing is expected to increase significantly, continuing to outstrip supply, and drive future mainstream investments.

As defined by the Global Impact Investing Network (GIIN), the intentional quality of impact investing makes it different from Socially Responsible Investing (SRI), which generally aims to avoid negative impact. Impact investing also differs from the traditional philanthropist approach as it refers to "making money while creating an impact" versus "making money and giving back." Furthermore, in recent years, there has been a convergence of philanthropy and impact investing where foundations are helping to fund the development of impact investing industry infrastructure to meet client demands.

Challenges to market adoption

Financial institutions are beginning to adopt impact investing, yet investors, funds and advisors are struggling with different components of impact investing strategies. These include sourcing investments and building fund portfolios, as well as obtaining adequate financial and impact related data.

Financial institutions can take a more systemic approach and leverage their resources, expertise, and infrastructure to match diverse client demand and build viable pipelines of investible deals. For investment advisors, key challenges include a lack of asset performance data to develop robust risk models, the increasing shortage of high quality investment opportunities, and lack of a common language to talk about impact investments.

Data transparency enabled by data providers, reporting and measurement tools

Creating transparency about what sets impact investments apart from traditional investments increases the attractiveness of impact investing for investors, but also increases the complexity of assessing and measuring impact.

- Data providers: MSCI, Bloomberg, and Thomson Reuters, have incorporated ESG factors in their data tools to measure risk, identify opportunities, and screen investments in the public markets.
- Tools to measure portfolio-level impact: A variety of tools and standards have been created such as Sustainability Accounting Standards Board (SASB), Reporting and Investment Standards (IRIS), and the Global Impact Investing Rating System (GIIRS).
- Providers, Indexes and Databases: The real change in the investment landscape will be when there is a shift from assessing investments to measuring their performance. Providers of outcomes and impact measurement (e.g. Social Solutions, Mathematica, CIK, and MDRC) as well as impact investing indexes and databases (e.g. Impact Assets and ImpactBase) are facilitating the process of measuring systems-level impact and performance.
- Training programs: Some are proprietary while others are wholesale education programs, such as GIIN, University of Oxford, ANDE, and The Aspen Institute. These platforms are helping to improve the management of integrating ESG factors into mainstream investments.

Panel Discussion

The panelists, Anna Snider from Merrill Lynch Global Wealth and Retirement Services and Mark Sloss from UBS Investment Management, discussed how in each of their organizations, clients are increasingly demanding impact investing to be incorporated as an element of their portfolio investment selection criteria. Results of demand assessment and investor surveys show evidence that there is a paradigm shift towards impact investing. However, there are many obstacles that the investment community is facing, from deciding upon what defines impact to finding the tools to measure it appropriately. The discussions pointed to opportunities for partnerships between different sectors that are needed to help overcome these issues.

What is impact investing's scale at UBS and Merrill Lynch?

From Merrill's $9 billion universe of ESG assets, Snider mentioned that impact related investments are a very small private equity and debt portion. At UBS, only one quarter of institutional assets are aligned with a sustainability purpose. Sloss explained that the investor universe is split: on one side there is a small and concentrated group of deeply passionate and educated investors who know exactly what alignment and impact they are looking for. On the other side is a greater community of potential clients who don't know yet how to engage and invest.

Furthermore, scaling impact investing to a global management business that is not built upon these nonfinancial outcomes has its own challenges. The structures of impact solutions are complex and diverse and there are different ways to define impact investing, which makes it difficult to translate to clients.

What are some of the recent obstacles faced in the impact investing area?

There are different metrics relevant to different investors and UBS notes an ongoing challenge to reduce dissonance amongst investors around the desired impact. With huge amounts of data becoming available via the providers, and impact increasingly getting measured, the challenge lies in clarifying what impact is truly material. UBS is spending time identifying the levers that can ensure that the intention is real and avoid it being a spurious correlation between outcome and social impact. Merrill Lynch is also focusing on building a strong reporting framework that can assess the impact across investments.

Additionally, there is a need for an objective framework for investors to measure differing impacts and how they relate to risk and return. An investment can have a positive impact in one space, but a negative one in another. An example is when growing a business has the positive impact of creating jobs, but in doing so causes negative environmental impacts. Sloss stressed the importance of investors examining the ecosystem of their investment and not being solely focused on a single outcome.

Are there opportunities to partner to overcome these challenges?

Snider thinks that one solution is to develop an ability to merge data from different providers and align a rating system that can incorporate individual investor's criteria: a customizable solution. To help address some of the tension in screening investments and measuring impact performance, academia can bring in the 'what matters' part and investors can decide how to rate and calibrate them against each other based on different priorities. UBS is looking for the 'five start solution' of integrating different numbers to define a stronger meritorious impact investment.

Are there opportunities to partner with NGOs?

Snider mentioned that social impact partnerships are a great, but also an incredibly complex model. Investors from the financial and philanthropic side often use a different language. Some are looking at traditional investment metrics, while others are mainly looking at it from a social perspective. However, there is an opportunity to partner with NGOs to build frameworks that can help combine and aggregate ideas into investible, high quality products. There is a strong need for quality investment management in this space. There are also several funds that are looking for capital, so a convergence between philanthropy and impact investing would be helpful in scaling capital coming from the institutional investment community.

A fluid and inclusive marketplace is needed

Sloss argued that there are already a lot of interesting products available. The problem is that there is no opportunity to scale, due to the lack of a fluid market for investments to flow appropriately to opportunities. Therefore, he sees a need for a fluid global marketplace that is inclusive of public and private investments and big and small investors. Furthermore, Snider mentioned that Merrill is focusing on democratizing impact investing to include not just high net worth individuals and the institutional community, but also smaller investors who want to be integrated in impact related investments.

Next Steps

- CGI invites participants to offer specific opportunities to develop commitments and partnerships that address some of the key challenges discussed on the call.

Participants

- Travis Hollingsworth, Big Society Capital
- Paula DiPerna, Carbon Disclosure Project
- Jeff Meyers, Citigroup Inc
- Sabine Toussaint, Clinton Foundation
- Maggie Kirby, Craft3
- Robert Haynie, FleishmanHillard
- Danielle Verbrigghe, FundFire
- Rebecca Ruf, Global Banking Alliance For Women
- Jennifer Schechter, Hope Through Health
- Juliet Macdowell, ICCO USA
- Clifford K. Chiu, Neuberger Berman Group
- Backal, Gerardo Portney Nexus Global Advisors
- Stephanie Turpin, Pact
- Kimberly Wolf, Partnership for Change
- Ira Hersh, Project Concern International (PCI)
- Nazanine Scheuer, Save The Children
- Erika Thrasher, Save The Children
- Leticia Emme, Social Performance Task Force
- Yulanda Chung, Standard Chartered Bank
- Samuel Hopkins, The David Nathan Meyerson Foundation
- Case Button, The Rock Creek Group
- John Amore, UBS Wealth Management USA
- Renana Shwartzvald, Vital Capital Fund
- Julie Koegel, Women's Fund Of Central Indiana
- Beris Gwynne, World Vision International, Inc.

Track Manager Contact Information for the Session

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