Money Management Institute

Key Report Findings

June 2015

Bringing Impact Investing Down to Earth: Insights for Making Sense, Managing Outcomes, and Meeting Client Demand

By William Burckart
Burckart Consulting

With an introduction by
Erika Karp and John Wilson

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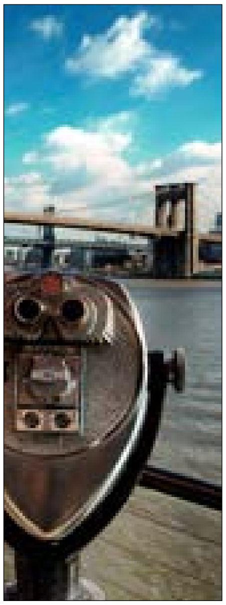
These Key Report Findings relate to the new report "Bringing Impact Investing Down to Earth: Insights for Making Sense, Managing Outcomes, and Meeting Client Demand." The report is authored by William Burckart, the Founder and CEO of Burckart Consulting, and includes an introduction by Erika Karp and John Wilson of Cornerstone Capital Group and essays by Jamie Butterworth of Circularity Capital, Mark Sloss of UBS, and Anna Snider of Merrill Lynch. This special report continues a multi-year discussion between the Money Management Institute (MMI) and Burckart about the emergence of impact investing and the particular challenges and opportunities it represents for the financial services industry. This collaboration began in October 2012 with a showcase Burckart conducted on impact investing for attendees at MMI's Fall Solutions Conference in New York. Subsequent activities included:

- **The launch of an ongoing Impact Investing Blog on MMI's website in July 2013;**
- **A panel at the MMI Annual Convention in April 2014 (New York, NY), during which Burckart was joined by Mark Sloss, the Senior Portfolio Manager and Head of Premier Portfolio Services for UBS Wealth Management Americas; Amy Bell, the Executive Director and Head of Principal Investments for JPMorgan's Social Finance unit; and Joel Hornstein, the Managing Director of DreamFund;**
- **MMI's publication of the special report "Serving Client Demand for Impact Investing: A Hands-on Guide for Financial Advisors and Senior Management" in May 2014;**
- **An MMI webinar in May 2014 that revisited the well-received impact investing panel discussion from MMI's Annual Convention; and**
- **A panel at the MMI Annual Convention in April 2015 (Charlotte, NC), during which Burckart was joined by Anna Snider, the Managing Director and Head of Global Equity Due Diligence for Merrill Lynch Wealth Management; John Streur, the President and Chief Executive Officer of Calvert Investments; and Gil Crawford, Chief Executive Officer of MicroVest.**

The report also draws from Burckart's advisory work and industry knowledge, reviews of client engagements, data analysis and desk research, and targeted interviews with leading financial institutions and advisors.



Introduction by Erika Karp and John Wilson

Today, the sophistication of the financial markets far exceeds what could have been imagined only a few decades ago, offering products and services tailored for every investor's needs. Yet, they may miss the real risks to investors' well-being, which are systemic and long-term: climate change, financial instability, and inequality are significant investment risks, not just societal risks.

By contrast, financial market incentives are primarily short-term, often punishing those who forgo immediate excess returns in favor of a long-term, sustainable approach. Long-term investors may unknowingly exacerbate this problem, and act against their own interests, when they abandon managers for one or a few quarters of underperformance. Investment managers, understandably, focus on "beating the market" even at the expense of rewarding companies for boosting immediate profits at the expense of the long-term health of the organization or of society at large.

For this reason, long-term investors need to think both in terms of financial results and systemic risk and opportunity. In the long term, growth of portfolios will not happen because of financial engineering but becomes possible only in the context of a real economy characterized by innovation and inclusion.

This shift in perspective cannot happen without contributions from all market players, but too often communication fails among these groups because they do not speak a common language. At Cornerstone Capital, we seek to provide these linkages: wealth management that truly integrates impact into investing practices; institutional research that uses impact to inform investment analysis; and consulting to corporations to help them articulate their sustainability case in a manner that is meaningful, consistent, and useful to investors.

It is against this backdrop that we welcome William Burckart's series of thoughtful and practical insights for translating the major trends reshaping our planet and converting the intentional pursuit of positive impact into an actual investment process. In bringing impact investing down to earth, Burckart and the outstanding team of colleagues he assembled from Merrill Lynch, UBS, and Circularity Capital have unpacked years of pioneering work and provided a powerful analysis of the opportunities, challenges, and breakthroughs emerging on the road towards meeting increasing client demand for impact investing.

"Sustainability," "ESG," "Social Responsibility." These terms have become buzzwords that may be inspiring to some and make others' eyes glaze over. Burckart's contribution is a needed resource for those who want to get beyond the hype to understand how their investments can have real, positive impact.

About the contributors: Erika Karp, Founder & Chief Executive Officer, Cornerstone Capital Group and John Wilson, Head of Corporate Governance, Engagement & Research, Cornerstone Capital Group

Overview

Client demand for impact investing—the practice of investing with the intention of generating measurable social and environmental impact alongside appropriate financial returns—is without question on the rise. As a result, a number of tools, indices, and other kinds of resources have emerged to help with the measurement, management, and marketing of the non-financial performance of investments and evaluating them by the social good they achieve. But obstacles to truly widespread adoption remain.

In its most rigorous form, impact investing involves specifying, measuring and reporting social and environmental impacts throughout the investment process, from fund design through sourcing, diligence, selection and monitoring of individual investments.

Client Interest in Doing Well and Doing Good Simultaneously Is Intensifying

Impact investing is different from grants or donations where dollars are simply given away to nonprofit organizations without the intention of a financial return. In its most rigorous form, impact investing involves specifying, measuring and reporting social and environmental impacts throughout the investment process, from fund design through sourcing, diligence, selection and monitoring of individual investments. Embedded within the concept of impact investing is the idea of "doing well and doing good" simultaneously. This is notably different from the old model of "making money and giving back," personified by Warren Buffett.[1] Impact investment dollars can capitalize a wide range of sectors from, for example, providers of affordable homes designed for low-income families in rural settings in Brazil to companies that set up water purification plants in villages throughout India.[2]

This concept is different from Socially Responsible Investment (SRI), which traditionally aims to avoid social or environmental harm while still pursuing a single bottom line of profit, or Program-Related Investing (PRI) and Mission-Related Investing (MRI) that share similar qualities to impact investing but are used almost exclusively to describe this approach in the context of endowment and foundation investing and have specific rules governing their use.[3] It is important to note the variation in terminology and how "impact" is often defined, and whether or not particular products are actually impact investments or if they are simply Environmental, Social and Governance (ESG)-aligned investments.

The Embrace of Impact Investing Reflects a Broader Reshaping of Global Priorities

The world's deepening embrace of impact investing reflects a broader reshaping of global macroeconomic priorities.[4] The urgency of climate change, rising inequalities in income within and among developed and developing countries, and the scarcity of water, energy and other resources are just some of the global problems weighing on investors' minds as they decide where to put their money. More than ever before, they are looking for ways to limit risk and make investments that can be part of the solutions to these problems. At the same time, investors and consumers are responding to several trends changing the economy. There is growing consumer demand in poor countries for fuel, cell phones, clothing and all kinds of goods as incomes rise. Wealthier nations are seeing the emergence of the "virtuous" consumer—people who only buy fair-trade coffee or sustainably sourced peanuts. A modernization of the welfare state is also underway in developed countries, which is driving belt-tightening measures in the USA, UK and Europe.[5] The need for efficiency in water and energy consumption, and minimizing the creation of waste by business is intensifying as well.[6]

Patagonia, BlackRock and other giant companies aren't doing these things out of the kindness of their corporate hearts. They are responding to the newest group of investors—including Generation X and the Millennial Generation—who …consistently rank "impact performance"… as more important than return.

The economy—from investors and businesses to NGOs and governments—is reacting to these developments. Examples are everywhere. D.Light Design, a for-profit business developing goods that fill social needs, is manufacturing inexpensive solar lamps and selling them at a cost competitive to lower quality candles in communities that do not have access to reliable, safe and renewable energy.[7] CO2Nexus, Inc., a company that has developed a sustainable method of processing (cleaning, disinfecting and coating) textiles and garments recently secured an investment from a venture fund called $20 Million & Change. $20 Million & Change is a venture fund launched in 2013 to help innovative startups that use business to develop solutions to the environmental crisis; this fund is operated by Patagonia, the privately held clothing company.[8] The financial services industry is settling into impact investing, too. Goldman Sachs, JPMorgan Chase, and BlackRock have all announced plans in the past few years to establish or augment their efforts around impact investing.

Patagonia, BlackRock and other giant companies aren't doing these things out of the kindness of their corporate hearts. They are responding to the newest group of investors—including Generation X and the Millennial Generation—who, according to a 2013 World Economic Forum study, consistently rank "impact performance" (the social good that may come from an investment) as more important than return.[9] A 2014 survey of high net worth individuals by RBC Wealth Management and Capgemini mirrored these findings and indicated that achieving social impact is important to 92 percent of respondents—with investment ranked as the leading mechanism for meeting these goals.[10]

Impact Investing Is Arriving During a Sea Change in Wealth Management

Impact investing is entering the arena at the same time when deeper upheavals are occurring within the broader financial services industry, particularly in wealth management. Len Reinhart, Jim Tracy and Chuck Widger—three former chairmen of the Money Management Institute—recently wrote in *InvestmentNews*, "A sea change is under way in the financial services sector, one with two dominant currents. The first swirls around demographics and the evolving needs of different generations of investors. The second is what we consider the inevitable movement toward a holistic, goals-based approach to wealth management that will meet those changing needs."[11]

Saving, investing and spending behaviors, risk capacity and risk tolerance, investment costs and taxes are all changing. There is a growing need to efficiently align all of these dimensions as investors increasingly look to advisors for help in achieving familiar commercial and personal objectives associated with wealth management and financial planning—from eliminating debt and preparing for a comfortable retirement, to saving for a child's college tuition and inheritance—while also attaining some social good with their investments along the way. Morgan Stanley, UBS and Merrill Lynch have seen this and have taken confident steps to introduce impact investing via their goals-based wealth management platforms by beginning to include concrete impact objectives and products.

But Accounting for Impact Still Relies Too Much on Simple Numbers, Devoid of Context

Helping qualify these impact objectives are new tools for linking impact to investing, notably including sustainability reporting guidelines like the Global Reporting Initiative (GRI), impact and sustainability metrics like the Impact Reporting and Investment Standards (IRIS) and Sustainability Accounting Standards Board (SASB), and ratings and analytical tools like Global Impact Investing Rating System (GIIRS), B Impact Assessments, B Analytics, and B Corporation certification.[12] These tools are helping investors measure the non-financial performance of their investments and even compare investments by the social good they achieve.[13] But investors still struggle to credibly and comparably evaluate the social and environmental consequences of their activities, and investors who are not yet engaged fail to act because the field of opportunity is obscured by a lack of clarity on how to actually do it. Transparency is key and impact investing needs more of it.

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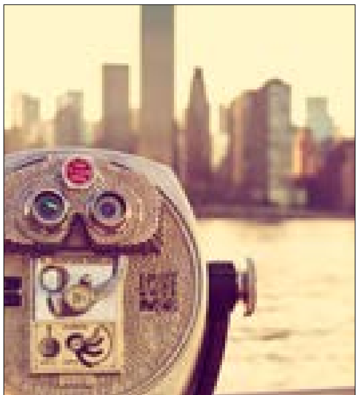
The leading systems don't take into account things like place (say, investing in Egypt pre-Arab Spring), organizational performance or type and timing of capital deployed (say, sub-prime mortgages in 2007). Instead, they still focus on numbers, devoid of context. This is true of the resources mentioned above, but also of mainstream financial data providers like MSCI, Thomson Reuters, and Bloomberg, which are increasingly offering environmental, social, and governance (ESG) data services.[14] A BSR report went so far as to comment that while the shift among leading data providers has made data on ESG performance more accessible to mainstream investors, companies are concerned that the data lacks the context necessary for accurate interpretation.[15] This overreliance on metrics also leaves the door open for fund managers and product developers to slap a few vague metrics on an investment fund to market it as an impact investment.[16]

Opportunity for Harnessing Impact Resides in Moving Beyond Just the Metrics

Many of the leading venture philanthropists who entered the nonprofit sector in the late 1990s and early 2000s understood the limitations of existing systems that only measure hard output data, like simple numbers of houses built, and instead focused on the real social outcome they were hoping for, like the ability of low-income people to stay long term in those houses and reach financial stability. Translating many of these impact measurement and management breakthroughs into an actual investment process could offer the opportunity to similarly advance the practice of impact investing—serving to better fortify investments with impact. And there are a number of concrete next steps that all investors, advisors, and firms can take now. These include:



Translating many of these impact measurement and management breakthroughs into an actual investment process could offer the opportunity to similarly advance the practice of impact investing—serving to better fortify investments with impact.

- Going beyond utilizing mainstream providers of ESG data (MSCI, Thomson Reuters, and Bloomberg) and adopting leading impact investing metrics and tools (the GRI, IRIS, GIIRS, and SASB) for accounting for ESG outputs, but also going further and engaging the leading providers of social outcome software and monitoring solutions such as Social Solutions and Community TechKnowledge (CTK), thereby enabling a specific portfolio *and* broader systems perspective on impact created;
- Partnering with firms that actually specialize in improving the quality, objectivity, and excellence of impact including Mathematica, MDRC, and Urban Institute to understand and improve impact performance across a range of sectors;
- Deepening proprietary ESG training programs for financial advisors and fund managers to include the new level of rigor associated with impact investing and making use of (and replicating) wholesale education programs that are becoming available by the Global Impact Investing Network (GIIN), the Aspen Institute, as well as Oxford University;
- Utilizing various indices and resources—such as ImpactAssets50 (IA50), ImpactBase, and the U.S. Social Investment Forum (USSIF)—that are demonstrating a wide range of impact investing activities across geographies, sectors and asset classes; and
- Intensifying engagements with firms like Morgan Stanley, UBS, Merrill Lynch, and Envestnet that are now drawing on separately managed accounts and mutual funds to build impact investing product offerings—helping to inform how these firms consider impact.

Investing that makes a difference sits on the cusp of mainstream wealth management and, much like solutions that came before, impact investing has an opportunity to shift the paradigm. It can become one of many answers to the problems posed by skyrocketing deficits, uncertain financial markets, and staggering need. But for us to realize this potential we need to translate impact measurement and management tools from public policy and philanthropy into an actual investment process, as well as embrace and replicate new indexes and resources for showcasing and attracting the pipeline of opportunities. Only then will investors, advisors, and firms be able to integrate information in a way that would be strategically material. And only then will the impact investing concept move from being a largely academic exercise to one that becomes deeply rooted into the systems of mainstream finance.

Author Information, Partner, and Disclaimer

Author Information

Mr. William "Bill" Burckart is the Founder and CEO of Burckart Consulting. He helps clients integrate social and environmental impact into investments and enterprises to better deploy and attract capital—fortifying assets across a range of sectors. Bill is the author of *Serving Client Demand for Impact Investing: A Hands-on Guide for Financial Advisors and Senior Management* (2014), managed the production of and is a contributing author to the *New Frontiers of Philanthropy: A Guide to the New Tools and Actors that Are Reshaping Global Philanthropy and Social Investing* (2014), and was involved in the writing of the *Status of the Social Impact Investing Market: A Primer* (2013) that was distributed to policymakers at the inaugural G8-level forum on impact investing. He also serves on the Global Advisory Council of Cornerstone Capital Group. For more about Burckart and his advisory services, please see his website: www.burckartconsulting.com

Money Management Institute

Since 1997 the Money Management Institute (MMI) has been the leading voice for the global financial services organizations that provide advice and professionally managed solutions to individual and institutional investors. Through industry advocacy, educational initiatives, regulatory affairs, data reporting and professional networking, MMI supports and advances the growth of advisory solutions. MMI members' advice-driven investment solutions serve an evolving worldwide financial landscape and their organizations are committed to the highest standards of fiduciary responsibility and ethical conduct and to creating the most successful outcomes for investors at every level of assets. For more information, visit www.MMInst.org

Disclaimer

Endnotes

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