



Impact Investing 101

Fort Collins
startupweek

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Public Market Trends

What is Impact Investing?



impact investments

im·pact in·vest·ments

NOUN: Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

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Impact Investing Characteristics

Global Investing Impact Network:

🎯 INTENTIONALITY An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.

📊 INVESTMENT WITH RETURN EXPECTATIONS Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.

🎯 RANGE OF RETURN EXPECTATIONS AND ASSET CLASSES Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.

✂️ IMPACT MEASUREMENT A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.



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Source: <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

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Environmental, Social, and Governance Criteria

- * Environmental criteria: performance as a steward of nature
- * Social criteria: relationships with employees, suppliers, customers, and the communities where co operates
- * Governance: leadership, executive pay, audits, internal controls, and shareholder rights

(investopedia.com)



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Public Market Trends

ESG Examples

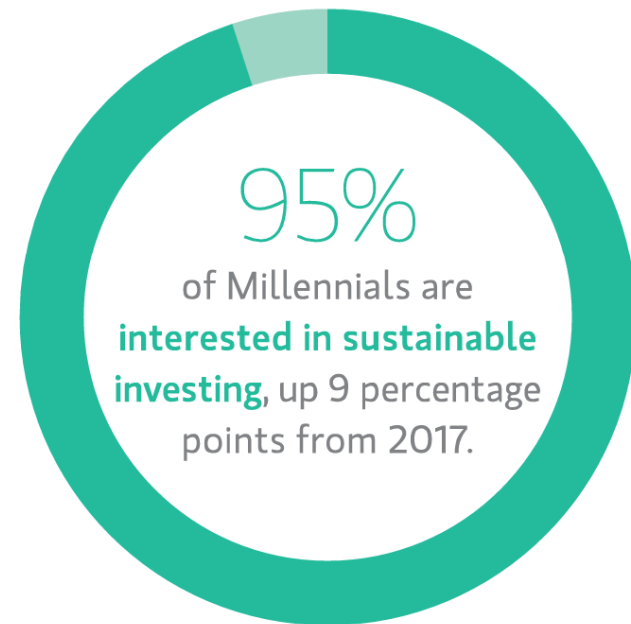
(investopedia.com)

Environmental	Social	Governance
Energy consumption	Human rights	Quality of management
Pollution	Child and forced labor	Board independence
Climate change	Community engagement	Conflicts of interest
Waste production	Health and safety	Executive compensation
Natural resource preservation	Stakeholder relations	Transparency & disclosure
Animal welfare	Employee relations	Shareholder rights

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Investor Interest

Among individual investors:



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BlackRock

- * World's largest money manager (almost \$7 trillion in managed assets as of third quarter of 2019)
- * January 2020—two letters:
 - * To company CEOs
 - * To BlackRock clients
- * “A Fundamental Reshaping of Finance”
- * “Climate Risk is Investment Risk”
- * “We believe that sustainability should be our new standard for investing.”



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Business Roundtable (Association of American CEOs)

- * “Statement on the Purpose of a Corporation”
- * Signed by 181 CEOs, including CEOs of Amazon, JPMorgan Chase & Co., The Coca-Cola Company, General Motors, and Raytheon
- * Commitment to lead companies for benefit of all stakeholders: customers, employees, suppliers, communities, and shareholders



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Sustainable (ESG) Funds (mutual funds and ETFs)

SUSTAINABILITY MATTERS

Sustainable Fund Flows in 2019 Smash Previous Records

This could be the leading edge of a huge wave of assets into sustainable funds.



Jon Hale, Ph.D., CFA

Jan 10, 2020

Sustainable funds in the United States attracted new assets at a record pace in 2019. Estimated net flows into open-end and exchange-traded sustainable funds that are available to U.S. investors totaled \$20.6 billion for the year. That's nearly 4 times the previous annual record for net flows set in 2018.



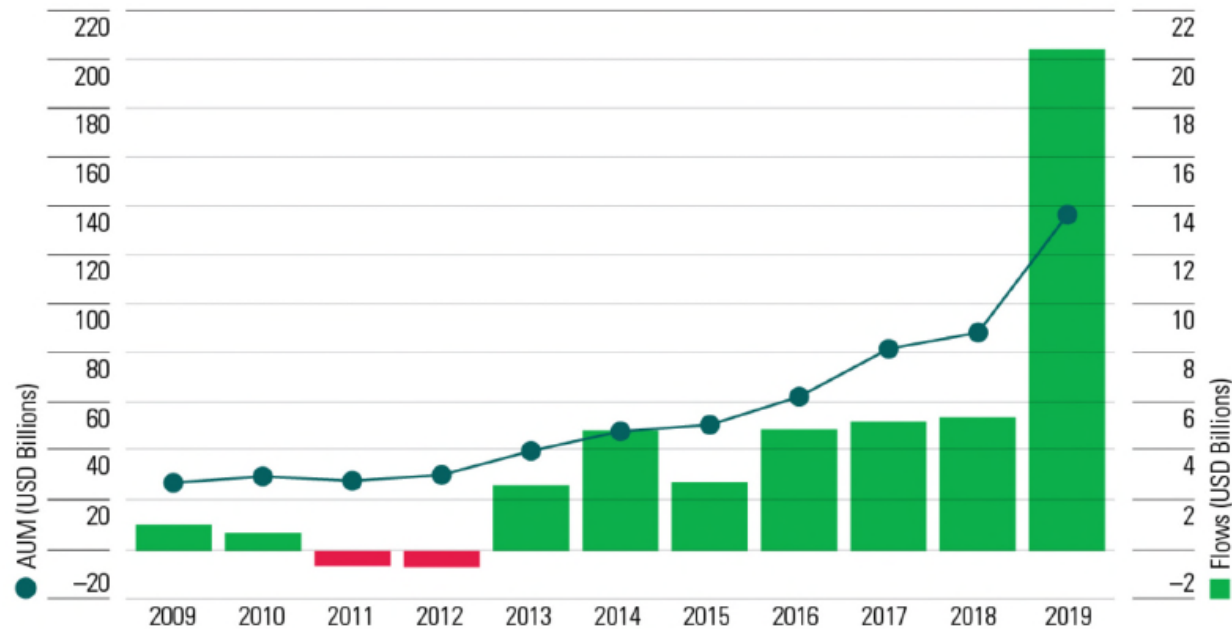
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Source: <https://www.morningstar.com/articles/961765/sustainable-fund-flows-in-2019-smash-previous-records>

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Sustainable (ESG) Funds

Sustainable Funds Estimated Annual Flows



Source: Morningstar Direct. Data as of 12/31/2019.



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Source: <https://www.morningstar.com/articles/961765/sustainable-fund-flows-in-2019-smash-previous-records>

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ESG/Sustainable Bonds

ESG & Credit Highlights

Sustainable Finance – Global: Green, social and sustainability bond issuance to hit record \$400 billion in 2020

We expect green, social and sustainability bond issuance will hit a combined record of \$400 billion in 2020, up 24% from the previous record of \$323 billion achieved in 2019. A heightened focus on climate action by governments and the financial sector will drive further growth and innovation.



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Source: <https://esg.moody's.io/>



HIGH IMPACT, HIGH RETURN INVESTMENTS

Venture Impact Fund Targeting Up to \$50m

(c)2019 Proprietary & Confidential, Rockies Impact Fund, L.P.

ESG - MANAGE RESPONSIBLY

Unlike SRI, ESG, Environmental and Social Governance focused more on the internal practices of a company rather than their ultimate product.

ESG companies focus on good business practices like diversity in hiring, pay equity, recycling and energy use.

This is great - but it allows for essentially BAD IMPACT companies to be categorized as Good.

Hence, the term “Green Washing” has been applied to these companies and to this method of categorizing impact.



SUSTAINABLE DEVELOPMENT GOALS (SDGS)

THE FOURTH CATEGORY OF THE IMPACT LANDSCAPE IS THE UN SDGS IN WHICH A FUND OR COMPANY PRIMARILY OPERATES. A FUND MAY BE IN ONE OR MORE OF THESE CATEGORIES, BUT IT IS IMPORTANT TO UNDERSTAND WHICH SDGS WORKS WITHIN.



(c)2019 Proprietary & Confidential, Rockies Impact Fund, L.P.



Direct Impact & Market(+) Returns

Fund primary impact companies

- * Accelerate select UN Sustainable Development Goals
- * Quantitative model to measure direct impact

People Impacted x Depth of Impact x Financial Returns

Deliver secondary impact

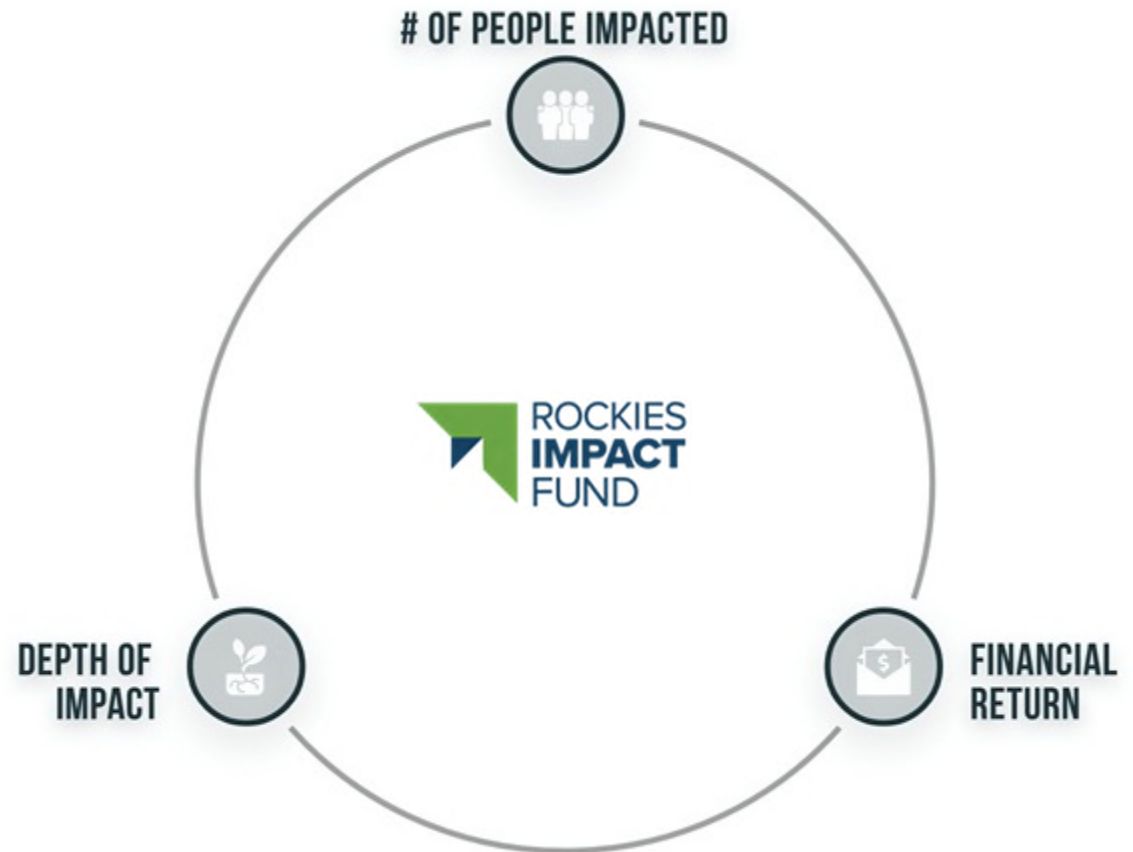
- * Diversity (gender, race); jobs

Deliver market or better returns



HOW DOES RIF MEASURE IMPACT?

RIF LOOKS AT THESE THREE THINGS BEFORE ANY INVESTMENT TO DETERMINE IF IT IS SUFFICIENTLY IMPACTFUL TO JUSTIFY OUR INVESTMENT



IMPACT ASSESSMENT SCALE			
	# of people	Depth of Impact	Financial Return (Multiple)
1	Unknown	Negative	None
2	Tens	None	0-1
3	Hundreds	Very Low	2-3
4	Thousands	Low	4-5
5	Tens of thousands	Low Medium	6-7
6	Hundreds of thousands	Medium	8-9
7	Millions	High Medium	10
8	Tens of Millions	High	20
9	Hundreds of Millions	Very High	30
10	Billions	Critical	50+

INBOUND METRICS - IS IT “IMPACT”?

We have developed a scale that helps us to be consistent in how we score companies before we invest. While there will always be some subjectivity in the scoring, we are consistent in our approach.



RESOURCES

Impact Investing/ESG Resources



<https://bluedotlaw.com/foco-imp-inv/>