

THE IMPACTASSETS HANDBOOK FOR INVESTORS

GENERATING SOCIAL AND ENVIRONMENTAL
VALUE THROUGH CAPITAL INVESTING

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Concluding Thoughts on Mobilizing for Impact

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As we look back on the ground we have covered in this *The ImpactAssets Handbook for Investors*, it is clear that while impact investing has moved from the fringe toward the mainstream, the individual investor still has many moving parts and challenges to consider. Among the questions we've explored are:

- How should you define your approach?
- Where do you go for resources, support and information?
- How do you understand the nature of the impact you want to create?
- What types of returns should you expect and how do you assess the performance of your portfolio on both financial and impact terms?

All investors have before them opportunities to align capital with community and values with value creation. By thinking—and then acting!—within a Total Portfolio Management framework, you have the potential to achieve the greatest leverage and impact possible for the assets you have under management, regardless of whether you're an investor operating on your own at a retail level or a higher net worth asset owner with a team to assist you. If you're committed to impact as well as wanting to protect your financial future, you can attain various levels of financial return

together with the generation of social and environmental impacts. And you can direct your resources toward not only providing for your own future, but the future of your children and community.

As we look ahead to that future, what are final words one should keep in mind when moving along the path?

Fortune Favors the Prepared Mind

Good investing involves some level of luck—that the markets move up with you; that you select the right managers at the right time and so on—but the fact is good preparation can help you increase the odds you’ve made the right decisions at the right times for the right reasons. Rather than attempting to “time the market” looking to take advantage of short-term ups and downs, remember to stay focused on your long-term goals and plan for those goals through creating a sound strategy. Investors need to stay on top of the latest thinking, be clear on their objectives and work to understand the investments they are making—and that is not a question of luck! If you keep in mind the suggestions in this book, as well as other guidance you can find from any number of investment advisory sources, you’ll increase the odds of success and better understand the risks you may want to assume in order to create the financial and impact returns you’re looking to generate.

Impact Investing Is Additive—Not Restrictive

Impact investing is not about taking away traditional investment practice and replacing it with something “flashy,” new or different. Impact investing is about taking traditional, sober and conservative fundamental investing practice and augmenting it with considerations of social and environmental impact. At its best, it is taking what works about traditional investment practice and integrating it with considerations of “off balance sheet” risk and opportunity that may be identified by considering social and environmental factors that could affect your investment. And a good impact investing strategy may also include looking for opportunities to invest that optimize positive impacts for your community and our world. Ultimately, it is about *adding* considerations to an

investment approach, not taking away or watering down sound investment practice.

Impact Investing Is a Lens—Not an Asset Class

Impact investing is, simply put, a lens through which one approaches the full spectrum of options and asset classes in the market and for one's portfolio. Therefore, impact investing is not an asset class; mistaking it for one does a disservice to the investor who may then be forced to compartmentalize the application of best practice. Impact investing should not be siloed, so let's not stigmatize impact investing. Rather, we should seek to let its practices and our pursuit of it flourish across the full spectrum of portfolio opportunities before us.

Define Your Process and Commit to Your Plan

Impact investing is not about chasing the latest trend or fad that promises you incredible financial returns and the ability to sleep well at night, knowing you're making the Earth a better place. It is about definition of an approach you would like to take to explore your options, research where you think the best opportunities for *you* may be and then moving deliberately to invest in those opportunities. Building upon investment practices of the mainstream and adhering to your plan while executing it in a flexible manner as you proceed, you will be able to responsibly manage your investment process and improve the possibilities of success.

Understand What Risk Means for You—Not the Investor Next to You!

One must assume some level of risk in life if one is to live—you have to leave the house and be in the world if you are to see it! But at the same time, understanding what your level of risk comfort is and how it can inform your investment approach are key to successful investing. Remember: Being a good investor is not about achieving someone else's goals and objectives; it is about assuming a level of risk that makes sense for you and where you want to go.

You may want to live on the edge or you may want to stick closer to the wall, but either way you alone must decide what is reasonable and what is the best approach for you. Don't let a "great opportunity" steer you off course. It may simply be a great opportunity for *someone else* if it is not in alignment with what you are trying to do and where you want to go. Listen to what other impact investors are talking about, understand how others are approaching their investment process—but never forget your goals, your level of risk and that your strategy is about what you want to do, not what others are promoting.

Impact Investing Is an Evolving Field—Grow with It

Though there are aspects of the “nascent” and “evolving” in impact investing and its practice, that need not be an excuse to wait on the sidelines until these developing practices are all tied up with a bow. This is the brave new world, be part of it along the way. We can learn and contribute much as the evolution takes place. Activated investors approaching impact across the full spectrum of their portfolio, demanding excellence and sustained value from the funds and companies they invest in, are well positioned to benefit from and help in the creation of greater depth in the field of impact investing.

Start with What You Know—And Learn What You Need to Know

We have found that the “personal” translates well as an on ramp into impact investing. What do you care about? Why are you specifically motivated to approach impact investing? Is there a particular impact theme you have experienced or that has touched your life as an issue? Or is a family member pushing you to engage in exploring it? Use the answers to those questions to help focus your approach. We have to start somewhere, and starting with the need or core motivation (whether life experience, issue or relationship-based) can be a grounding element as you learn about and apply an impact lens to your portfolio.

If You Don't Understand What the Investment Strategy Is—Don't Invest!

Though it might go without saying, it is worth noting the wisdom of not getting caught up in what can sometimes be the hyperbole and cool factor of “impact,” any more than one should do so in the more conventional context of attempting to invest in a technology or business model one doesn't understand. Impact doesn't trump a good business model, just as a good business idea is often less important than a good management team. If you can't understand the fundamentals of why an investment is impactful, how it will make money and find its market, and which excellent people are going to be at the wheel ... you shouldn't invest!

Invest for Long Term—Not Short Term—Returns (Both Financial and Impact)

There are many reasons to take the long view. Value is well correlated to patience and the pursuit of long-term strategies. This applies to both impact and financial value creation for the investor and the world. Invest for the long term, but get going with a healthy dose of impatience in terms of putting the trains on the tracks of integrating impact as broadly as possible within your portfolio.

There is a term in finance, “Net Present Value,” where we discount the expected future cash flows to come up with today's value of them. The further we go out in time, the less the value of those expected flows due to the uncertainties of time and markets. A dollar far off in the future is much less certain or more risky, with its buying power eroded by accumulating inflation. We should approach the time value of impact from a similar perspective. Positive impact is far more valuable now than later. This value of more, better impact happening as soon as possible is the accounting that needs to be accessible to investors. And to properly value such impact, we must demand impact metrics and strategies that are clearly articulated, tracked and delivered upon. Not over engineered, abstract or academic change theories, but

instead, straightforward metrics that track impact that matters, and that is well integrated into the information systems and core value chains of business. The best fund managers and companies will increasingly deliver these to investors, if and as they understand them to be a “must have” requirement.

Don't Judge a Book by Its Cover

Over recent years, we've witnessed a number of new entries to the field of impact investing wherein traditional, lightly modified (sometimes preexisting!) strategies have been rebranded as “impact” and brought forward through a new marketing campaign to take advantage of the current interest in impact investing. Conversely, we've also seen some traditional, fundamental investing strategies that actually create what could be viewed as real impact overlooked by the market, simply because they were not being promoted as “impact investing.” As you explore the growing array of offerings before you, don't get too wrapped up in whether or not something is called “impact.” What matters is not what someone says, but rather how an investment strategy is managed, what types of companies they actually invest in, the degree of intentionality and depth to their approach and your ability to assess the types of extrafinancial, social and environmental value any given strategy advances. Remember: some folks who claim positive impact don't generate it and some who have never heard the word are actually creating real, sustainable value. Assess all those who claim to “do” impact investing and you be the judge of what they do—not what they say!

In Conclusion

In the preceding chapters, we have explored a realignment of value and values within the investment framework, to one that better reflects and reinforces our making investments in the creation of a sustainable world. We are seeing an emergent articulation of entrepreneur and company integration of values and purpose. The time when executives and companies can ignore the true costs of doing business is quickly coming to a close. Investors are coming into a clearer set of views around these same

true costs, and integrating them into their investment strategy. Conversely, despite some short-term setbacks, the time when we may allow externalization of social and environmental costs off corporations' financial statements onto the world's balance sheet is also coming to an end. When we invest, we participate in a complex system of value creation that generates multiple returns with financial, social and environmental implications. Investing is far from merely the act of putting one's dollars into a financial instrument. Investing is fundamentally based on the individual's pursuit of intensely personal goals and very basic human needs expressed in financial terms. We seek to create wealth in order to have choices regarding how we live our lives, provide for our families and pursue our dreams. We seek to create wealth to build thriving economic systems to ensure we live in safe and bountiful communities that allow us, and all others, to achieve our greatest potential. Truly, the goal of creating economic wealth is seldom pursued in the abstract. Instead it is a means to an end; and the end for impact investors is the creation of a more just, sustainable economic and human system across the world.

Though investment cannot be our only tool and must compliment effective philanthropy and sound public sector policies, through directing resources away from value extracting firms, flexing shareholder power and moving capital affirmatively toward positive enterprises, impact investing may play a significant role in increasing equitability and sustainability in our own communities and around the world. Let's take these strategies and apply them, intelligently, but with urgency. Time is money and, more importantly, time is missed impact opportunities. Over the years to come, we hope you will take up this opportunity to invest with meaning!