ACG TORONTO – IMPACT INVESTING PANEL

On November 9th, ACG's Toronto chapter hosted their 18th Annual Capital Connection Conference.

The Impact Investing breakout session was moderated by Dominique Barker, Head of Sustainability Advisory at CIBC Capital Markets, and featured an esteemed panel of Private Equity (PE) and Impact Investing professionals:

- Tanya Carmichael, Ontario Teachers' Pension Plan
- Steve Ellis, The Rise Fund (TPG)
- Tania Carnegie, Impact Ventures Practice, KPMG

Impact Investing is Nascent and Appetite is Rapidly Increasing

The impact investing market has grown tremendously with an estimated $502 billion in impact investing AUM worldwide, according to a recent study published by the Global Impact Investing Network. This growth has been spurred by shifting societal expectations about the roles and responsibilities of businesses and the growing importance of stakeholder capitalism, explained Tania Carnegie.

Impact investing is an investment approach that aims to direct the flow of capital to companies and assets that contribute to solutions to social and environmental problems, while delivering financial returns. According to panelist Steve Ellis, investment inflows are increasingly coming from sovereign wealth funds both in Asia and Europe who see the power of their global investing platform. Most of fund inflows continue to come from traditional institutional LPs (around 70%), with the balance coming from family offices.

Evolution of Impact investments: Do Good and Generate Attractive Returns

There is a misconception that impact investing is concessionary or generates lower returns compared to traditional investment strategies. We heard that this is a false assertion - The Rise Fund aims for attractive returns that are market or even above-market for their risk adjusted asset class. OTPP, for one, does not believe that impact is at the expense of returns and does not believe one must choose between the two, according to Tanya Carmichael.

Impact Measurement is a Work in Progress

Measurement is a work in progress and one of the most challenging and complex aspects of impact investing as the impact generated is not always clear or quantifiable. The focus has evolved from impact measurement to impact *management* through the entire lifecycle of an investment. This concept was echoed by all panelists.

The Rise Fund has developed an approach to evaluate potential investments through a quantitative measurement known as the Impact Multiple of Money (IMM). IMM puts impact underwriting on a similar field with financial underwriting by producing a single number to inform decision-making. Rise then manages the businesses to output key performance indicators (KPIs) that lead to impact – management is held accountable to those measures in addition to traditional financial metrics throughout the investment lifecycle.

As part of The Rise Fund's commitment to rigorous impact measurement, Y Analytics was created. Y Analytics is a public benefit corporation dedicated to helping capital allocators better understand, value and manage social and environmental outcomes. You can read more about this on its website, www.yanalytics.org.

Frameworks that are most popular for asset owners and managers, according to Ms. Carnegie, are the Sustainable Development Goals, and the Operating Principals for Impact Management. Other tools include the Impact Management Project, which help to set objectives and to help measure impact, as well as IRIS+ which provides a list of indicators. Ms. Carnegie adds that she believes investors care about the rigor, the purpose and efficiency of measurement.

Protecting Against Green-Washing and Impact-Washing

Due to the wide variety of standards and frameworks for impact measurement there is some risk of 'impact-washing' – selling the concept of impact investing without delivering on actual impact. Three pillars to guide genuine impact investing are authenticity, integrity and accountability. The 'Why' of the investment must be clear and communicated from the start.

To avoid green or impact washing, GPs must have processes in place to identify companies that are truly impactful; the same rigor must be applied to the impact assessment measurement process as you do to the financial and commercial due diligence, and manage those companies to those outcome over the lifecycle. When you do that, you can generate attractive returns at or above market returns for that asset class.

To address the anticipated skepticism, we heard from Mr. Ellis that it is a good idea to bring together philanthropists and dedicated senior leaders with years of impact expertise with constant communication to the LPs. Through heavy investment in measurement and assessment, GPs aim to stay true to the original mission and ensure the highest standards are upheld in their investment process. Mr. Ellis explained how they set up the Rise Council, which includes the 10 leading LPs; they meet annually and go through a detailed review and assessment of impact methodologies, including sharing learnings and testing thinking.

Conclusion

Finding companies that are *co-linear*, meaning they are producing attractive financial returns, but also provide a positive impact to society, can be very powerful. While impact investing has penetrated the private equity space, it is fair to assume that we will see a rising importance of impact funds on the public side as well – and that means corporations will have to express and disclose on impact metrics; it also means good exit potential for private equity.

A link to the webinar and additional information on the panelists, topics discussed, and the Capital Connection Conference hosted by the Association for Corporate Growth's Toronto chapter can be found here - https://www.acg.org/toronto/events/capital-connection-2020.