

Would you like some impact with that?

Impact investing refers to investments made into companies, organisations or funds with the intention to generate a measurable social or environmental impact alongside a financial return.

With the increased focus on environmental, social and governance issues, impact investing has attracted increased attention amongst Australian superannuation funds. For example, in 2016 Richard Brandweiner stepped down as CIO of First State Super, to join the global impact investment firm Leapfrog.

Traditionally impact investing has focused on equity style investing – for example, Leapfrog’s focus is on private equity investments in Asia and Africa. They aim to identify investee companies that both benefit local communities and have the potential to deliver extremely strong growth and financial returns. Many companies are in the healthcare and insurance sectors– where business models suitable for emerging markets have the potential to be scaled up, and can deliver substantial social and financial benefits.

Without wanting to take anything away from Leapfrog and others tremendous work (and track record of success), we would encourage investors to think more broadly about the potential for impact investing beyond equities. In particular, we believe there is strong impact potential in the fixed income space.

Investors can use their capacity to lend to projects that have positive social and environmental impacts to drive change. Examples include:

- National Disability Insurance Scheme specialist disability accommodation (see last quarters newsletter for more details);
- social housing; or
- support for renewable energy or energy storage projects.

One advantage of impact investing via debt, is that it is often possible to support projects that are new or innovative and, hence, would actually be quite risky equity investments. However, by making a debt investment, when correctly structured, it is possible to manage exposures to some of these uncertainties. This allows a balance between supporting impact and innovation while at the same time maintain an appropriate investment risk profile.

