Defining impact should not be an 'issue'

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Potential impact investors are being inundated with articles telling them how to define impact in their investment portfolios and philanthropic programmes. This is confusing at best and off-putting at worst. Many potential impact investors are reluctant to consider ways to increase the positive impact of their investment and philanthropic programmes because they don't think they 'fit' these definitions – and some advisers are agreeing with them to avoid getting 'too personal' with their clients or to avoid changing the way they have 'always done things'. For example, they may say that financial returns are all that matter or that measuring impact is too difficult.

Standardisation in the industry may indeed be needed but, until we have that, the lack of one agreed definition of 'impact' should not be used as an excuse for not exploring the many ways to seek more positive impact in our investments and our philanthropic programmes.

In fact, we are finding that investors can and should define 'impact' for themselves – just as philanthropists and donors have done for decades. It is a question of personal values and goals which lead them to their causes and their theories of change. Once they are personally engaged with the goals, they become more connected to their investments and philanthropic efforts.

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Defining impact in a personal way means that everyone, from ultra high net worth individuals (UHNW) to pension plan contributors and smaller donors, is more aware of the positive and negative impacts their money is having on society. This can reduce the negative impacts and increase the positive ones across the entire spectrum, which can range from responsible/ethical, sustainable/environment, social and governance (ESG) through to impact driven and philanthropy, to target intentional social and environmental impact.[1]

Why is this relevant?

The increasing interest in impact is now well-documented. Last year, Morgan Stanley surveyed 118 institutional investors (including philanthropic foundations) and concluded that 70% of investors have already implemented ESG strategies and that 84% of asset owners are either 'pursuing or actively considering ESG integration' in their investment decision-making processes.[2] Cambridge Associates reported that 'a recent survey of Cambridge's endowment & foundation clients shows that 61% of them plan to increase their impact-oriented allocation over the next five years.[3]

In the past, most clients would expect advisers to understand ethical screening; now, they expect them to understand the entire spectrum from traditional investments to all things impact. As wealth transfers to the next generation, the demands change. A 2017 BlackRock survey[4] showed that 67% of millennials expect that their investments should reflect their values and address social and environmental issues, and 76% of women, another large group of inheritors, are focusing on their values as well. Given the increased coverage of these trends in the media, I would wager that the percentages will be even higher in their next survey. Advisers need to get ahead of this curve to remain relevant to the clients (current and future) and to become true trusted advisers who maintain long-term relationships by knowing their clients.

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Still, what is impact?

There are several accepted definitions which the investment industry has been using for years.

Foremost is the original definition from the GIIN (Global Impact Investing Network): 'Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return' which has been supplemented by their 2019 Core Characteristics.[5]

The Advisory Group to the UK Government issued a report in November 2017 entitled *Growing a Culture of Social Impact Investing in the UK* which set out the definition of impact investing as: 'Investment in the shares or loan capital of companies and enterprises that not only measure and report their wider impact on society – but also hold themselves accountable for delivering and increasing positive impact'. The Implementation Taskforce report of 2019 states this is 'entirely compatible with the GIIN Core Characteristics'.

Yet, these and other definitions have not solved the issue of what is impact. A survey by Barclays showed that '56% of investors express interest in exploring impact investing' but only 15% had made an impact investment at the time of their survey. The report concludes that it is investor (and donor) motivations which are the key to defining and increasing impact.[6]

In other words, impact is personal. Understanding the motivations for this increasing interest is key to defining it. Advisers need to help potential impact investors and donors to explore their motivations for seeking greater positive impact in their investments and philanthropy.

Why?

Based on my personal experience of working with many types of investors and philanthropists, I can say that they can and do list numerous motivations which have brought them towards impact investing. These include:

- **Financial** – some investors are motivated by the financial rewards promised by new technologies which also may be life-changing, thereby 'doing well by doing good'.
- **Legacy** – some philanthropists seek to expand their toolkits with impact investments which can complement their existing philanthropic programmes, thereby increasing the effectiveness of their efforts to achieve positive change whilst solidifying a legacy.
- **Reputation** – some people want to understand impact in order to avoid a risk to their personal reputations. For example, it may prove embarrassing to be invested in certain sectors such as gambling or payday loans, etc.
- **Systemic change** – many others are looking for systemic change. For example, those who are demanding that their service providers publish data on the positive and negative impacts of the companies in which they invest their clients' monies often say they are trying to change behaviours in the financial services industry, thereby changing the world by increasing the overall positive impact – or even the purpose – of each company.
- **Risk management** – most investors are now expecting that ESG risks will be taken into account by asset managers during the investment decision-making process. This is certainly reflected in the exponential increase in funds labelled 'ESG' or 'sustainable' or 'impact' – though these products do need rigorous analysis to understand their true impact profiles. By specifically addressing ESG risks, investors are hoping to protect or enhance their investment returns as well as increase awareness of the impact of the investments.

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How can advisers do this?

More than 2,000 practitioners in the field (including the largest asset managers and philanthropic foundations in the world) are building a consensus around a definition of impact and its measurement and management. The Impact Management Project (IMP) defines impact as: 'Impact is a change in an important positive or negative outcome for people or the planet.'

Acknowledging that this is yet another 'definition of impact' with the potential to confuse (or be the proverbial straw breaking the camel's back), it is, nevertheless, a helpfully straightforward definition now being used by a huge number of premier impact investment practitioners and service providers. It therefore can stake a very strong claim to helping to standardise the terminology in the field.

More importantly, this definition also allows for personal interpretation to allow each of us to define impact according to our own criteria, thereby encouraging more people to become impact investors, no matter their resources or their goals.

In view of this, we can help our clients to set their criteria by asking the right questions. For example,

- Why are you interested in impact? (i.e. exploring motivations).
- What are the changes you wish to see? (i.e. exploring goals).
- Over what timeframe are you hoping to achieve these changes? (i.e. exploring the parameters of risk and return).

The answers can help advisers to respond with the appropriate products tailored to the client's motivations and goals whilst incorporating the appropriate risk and return parameters. The more specific you can help the client to be, the more connected to their investment and philanthropic portfolios they will be and the more prudently their financial and human resources can be managed.

The IMP sets out five dimensions of impact which help to clarify clients' answers and set the impact measurement criteria (which is an iterative process):

- *What* tells us what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders.
- *Who* tells us which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise's effect.

- *How much* tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.
- *Contribution* tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.
- *Risk* tells us the likelihood that impact will be different than expected[7].

Conclusion

The IMP consensus agreed by the foremost practitioners across the industry can help advisers to help their clients towards understanding and articulating their impact goals. Once they are reassured that their personal definitions and approaches are valid and can encompass a broad spectrum of definitions based on their personal values, motivations and goals for positive impact (including their financial drivers), advisers can then translate them into actionable strategies for increased positive impact in their clients' investment and philanthropic portfolios. Everyone can then define their impact.

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[1] *The Spectrum of Capital, page 9, Final Report of the Implementation Taskforce, "Growing a culture of social impact investing in the UK." (2019.)*

[2] *Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management (June 2018)*

[3] *Cambridge Associates press release. (May 2018).*

[4] https://www.blackrockblog.com/2017/04/17/millennials-save-world-retirement/

[5] https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

[6] *Barclays Bank UK PLC and its subsidiary Barclays Investment Solutions Limited."Investor motivations for impact: a behavioural examination!". (July 2018).*

[7] https://impactmanagementproject.com/impact-management/what-is-impact