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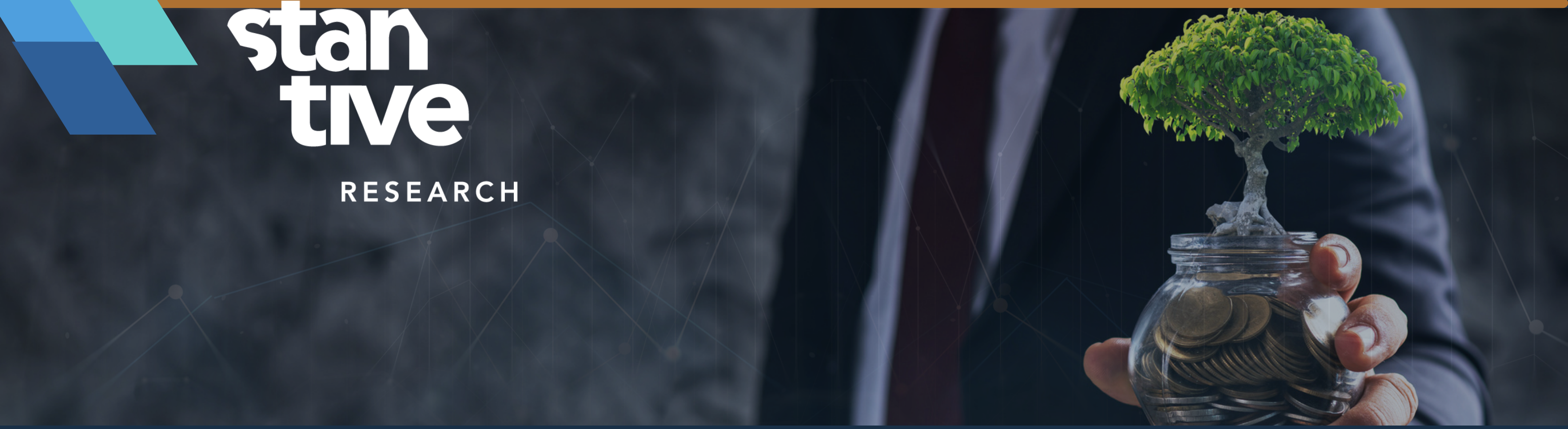
RESEARCH

BEYOND ESG: IMPACT INVESTING

What Are The Hurdles In Capturing Comparable Data?



IMPACT INVESTMENTS

$2 Trillion

is currently invested with a mandate to achieve positive impact

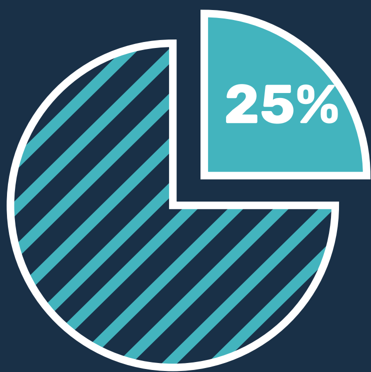
Source: International Finance Corporation, 2021

are defined by the Global Impact Investment Network (GIIN) as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. These investments currently make up 2% of the total global AUM. Yes, that is tiny, but the growth potential of the market is massive. In 2018, GIIN estimated that about $502 billion were invested in impact assets. In just 2 years, this increased to $715 billion, increasing by 42%.

As investor interest in the impact market grows, asset managers would now need to consider the obstacles they would face in creating their investment strategies. As with most ESG-related topics, the biggest problem is data.

First, everyone's values differ. This can make it difficult for asset managers to standardise portfolio investment strategies for investors. Second, there is no track record of performance to guarantee investors of positive returns. And lastly, there is no widely accepted impact reporting and measurement framework to standardise data collection.

In Substantive Research's database of more than 160+ providers, 25% of them have impact metrics to measure social and environmental data. But their methodologies are vastly different from each other. Most of them, measure impact against the UN's Sustainable Development Goals, which are not exactly designed for the financial sector. We will continue to watch this space for new market entrants.



of the provider list consider impact metrics

Contact the team to have the list of providers we are highlighting this month.

WHAT ABOUT RETURNS?

Impact investing is different from ESG investing. The SEC defines **ESG-focused Funds** as funds that significantly focus on ESG factors while **Impact Funds** are a subset of ESG-focused funds that pursue a specific impact.

A preliminary study by a University of Edinburgh Business School student compared the performances of ESG investing and impact investing from a risk-adjusted return perspective. ESG portfolios were constructed by selecting the top 20% FTSE companies based on ESG scores, while impact portfolios consisted of impact mutual funds that invested in listed equities over a period of 12 years. Results from the regression analysis suggested that ESG funds generated a 4% return, while impact funds resulted in a -3% return.

In contrast, according to Global Impact Investing Network's 2020 Annual Impact Investor Survey, 68% of the respondents reported that their investments met their financial expectations, 20% said that they outperformed. In addition, several empirical studies have also shown that sustainability practices have a positive correlation to corporate financial performance.

BOTTOMLINE

These studies only demonstrate that different definitions can highly affect results. The returns on investment of ESG investing or impact investing strategies would widely vary depending on the criteria used by portfolio managers in picking their stocks. However, taking into account definitions from the SEC and the SFDR, we can narrow down the definitions of the two investment strategies. ESG investing focuses on inputs - looking at companies' environmental, social, and governance practices while impact investing focuses on outputs - the effects of investments.

With these definitions, it becomes clear that these two investment strategies would yield different results. Asset managers would then need to inform their investors of such distinctions so they can properly decide on where to invest their money.

Regardless, improving the measurability and comparability of data is the most important step towards transparency of investment strategies.

Elements of Impact Investing according to the Global Impact Investing Network

1. Intentionality
2. Investment with return expectations
3. Range of return expectations & asset classes
4. Impact measurement

Principles of good impact reporting according to Habitat Point

1. Clarity
2. Accessibility
3. Transparency
4. Accountability
5. Verifiability
6. Proportionality

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WHO ARE WE?

Substantive Research was launched in 2015 and has grown rapidly to become a trusted partner to asset managers globally where we are best known for offering an independent and impartial discovery and comparison service across the entire external investment research and market data universe.

In the past year, we have expanded our coverage into the ESG space as a response to our clients' desire for us to map the ESG data / research marketplace, carry out due diligence and help in market discovery of this rapidly evolving space. We have developed an industry-first ESG Provider dashboard that provides a searchable database of 160+ ESG research and data providers with thematic and coverage filters to match client preferences. We have also incorporated ESG research into our research discovery product to help asset managers navigate through the oversaturated market.

PLEASE EMAIL THE TEAM FOR MORE INFORMATION

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