IS IT TIME TO MAKE AN IMPACT?

A new breed of investor is ploughing money into companies that have a positive social impact, but can they still make good returns?

by Marie-Anne Hamilton

Making charitable donations is no longer enough for many affluent individuals. Increasing numbers are seeking to make a difference through their investments, hoping that they can promote a better society as well as making healthy financial returns. They might just be onto a good thing.

According to a World Economic Forum survey, there is around $46 billion globally in impact investments – defined as investments that have a measurable social impact. Interest in the sector is increasing, and the mood was reflected at Davos this year, where the growing problem of wealth inequality was much discussed.

"Impact investing is no longer a grass-roots movement – institutions, high net worth investors and retail clients alike are realizing that their money can do good for society and still generate a potential financial return," says Tomas Carruthers, Chief Executive of The Social Stock Exchange.

However, while investors are interested in impact investing, many are uncertain where to start. Some turn to private banks or wealth managers who offer a specialist service, such as EQ Investors or Addidi. Others are drawn to investor networks such as Toniic or Harvard Angels.

Clearly Social Angels is the UK's largest impact investment angel group, with individuals investing anything from £10,000 to £1 million. The group meets once a month to listen to pitches from entrepreneurs, which can lead to equity investment or debt deals. The group has funded 21 businesses in its first three years, investing £1.8 million last year.

Run by entrepreneur and philanthropist Suzanne Biegel, it is part of the social venture company Clearly So – which raised £16 million for businesses, charities and impact funds in 2014.

"I think we're the best kept secret in town," says Biegel. "A lot of people come into the group because we've created a community of smart, talented, successful people who have the capital to make things happen."

Third Space Learning, which works with primary schools to raise numeracy standards, is one company they are invested in. Another is Aduna, which imports superfood products from Africa.

Just three years after the group was founded, none of the angels have yet realized their investments – though many have clear exit strategies. But none of the businesses have folded and lots are growing. Meanwhile, investors often enjoy getting involved – some have board seats.

"For investors, this is a tremendous opportunity to take a piece of their portfolio and do something really good with it, have some fun, and get personally engaged if they have time," says Biegel.

Though risk and return is analysed in line with mainstream practice, impact is also assessed, and the motivation of investors varies greatly. Some only invest if the return is comparable to the mainstream, while others accept a lower projected return or higher risk, because they believe in the project.

"I think people are starting to understand the nuances on the spectrum of risk and return and impact," explains Biegel. "As a philanthropist and investor, I make choices about my investments. Sometimes I think this might actually make a tonne of money. Other times, I'm so excited about this happening in the world, that if I make three or five per cent, I'm going to feel great."

A report from the Charities Aid Foundation found that the under 40s are more likely to hold socially conscious investments – 79% of under 40s, compared to 57% of those over 40. Women also place greater importance on these kind of investments.

Social investment tax relief can

help make the figures add up, but there are drawbacks. Cynics point to the subjective nature of assessing positive impact. Liquidity can also be an.

"Don't put your kids' college money into this kind of stuff, or your deposit for buying a flat next year," warns Biegel. "You can never count on selling your shares just when you want, because there's no good secondary market, though people are working on that, and I think it will happen."

An alternative could be investing in funds or social bonds. Biegel is part of a group committed to putting 100 per cent of their personal assets into impact investments, seeing it as a smarter and more diversified long-term strategy. There are a growing number of structured products available.

"If you're interested in say sustainable agriculture in Africa, or in HIV, you can actually start to focus on that," says Biegel. "In the same way you can target your philanthropy, you're increasingly able to match that on the investing side."

UBS and Morgan Stanley are amongst the banks to have launched impact investment initiatives. Meanwhile, a 2014 survey by JP Morgan found that 89 per cent of impact investors were meeting return expectations. And 65 per cent were targeting market rate returns comparable with mainstream benchmarks.

In spite of the opportunities open to institutional investors, private wealth managers struggle to offer clients a foothold in this relatively new and untested sector. "They feel constrained by the legal and regulatory systems, and often send people our way," says Biegel.

High net worth individuals could invest through Bridges Ventures – the social investment equivalent of a private equity firm, which runs a number of funds that invest in sustainable businesses. Investing for Good offers opportunities to invest in charity bonds.

One organisation to have found a solution to fit a wider range of investors is EQ Investors, controlled by Bestinvest founder John Spiers. They offer their Positive Impact Portfolios alongside traditional wealth management services.

These portfolios are made up of 20-25 rigorously screened funds, handpicked from around 150 funds that are deemed appropriate, available for UK investors and generally considered part of the sustainable or socially responsible landscape.

"We spent nine months researching the project, meeting fund managers to try to understand how impactful they really were in their stock selection," explains Portfolio Manager Kasim Zafar. "We developed a process to compare funds, and identify the managers closest to being hard-hitting impact investors."

Instead of simply analysing risk and return over the previous years, they also added social and environmental impact into the equation, and found there was no correlation between selecting funds with an impact objective and the level of returns

"Looking at the returns, we find they're certainly keeping in line with broad based wealth management indices – if not beating them," says Zafar's colleague, Portfolio Manager Damien Lardoux.

Some £25 million is invested in the portfolios which have cautious, balanced and adventurous risk profiles. Clients receive information about some of the companies within the funds – one might help reduce water waste, another could be making a particular medicine more widely available in Africa.

"It brings the whole proposition to life," adds Zafar. "We find that though funds might be named to suggest they're ethical or sustainable, when you drill down, you find the likes of BP and Shell in a surprising number of cases. We double-check the underlying stocks in our portfolios. You won't find any of the companies which are deemed questionable in any sense." ●