Active is: Investing for impact

As investor interest in impact investing grows, beware "impact washing"

by Deborah Zurkow | 11/10/2019

Summary

Impact investing is becoming more popular, but investors keen to get involved should look out for traditional investments mislabelled as "impact".

Key takeaways

- Impact investing is one of the fastest growing sectors in the investment industry and is already worth USD 500 billion
- "Impact washing" occurs when a traditional investment is wrongly labelled as an impact strategy to benefit from the positive attributes connected with the trend
- The arrival of industry standard metrics will help identify impact strategies, and measure their performance

"Be the change that you wish to see in the world". Gandhi's philosophy could act as a guiding principle when investors define their approach to impact investing.

According to the latest figures, this rapidly expanding market is now worth over USD 500 billion, making it one of the fastest growing parts of the investment industry today. As more investors look to allocate capital with the intention of achieving a defined and measurable "impact", the sector looks set to experience continued growth. That's great news for social and environmental innovators, who stand to benefit from money flowing into new technologies, and it's great news for responsible businesses that should see their positive business practices in environmental, social and governance (ESG) terms rewarded.

But this rapid rise in demand is also threatened by a key risk – "impact washing". "Impact washing" - like its better-known cousin "green washing" - is when an impact fund labels "traditional investments" as "impact investments" in an attempt to benefit from the positive attributes linked to the trend. Ensuring we don't dilute or distort the definition of what constitutes impact investing before the market has really taken off is a key concern that needs to be actively addressed in order to safeguard sustained growth in investor appetite going forward.

True, impact investments must focus on transparency and accountability of the effects achieved by the investment. This makes an investor's commitment to continuously measure and document the social and environmental effects of investments one of the most important features of impact investing. While investors seem to agree on the process steps required to carry out private impact investments, the quantitative and qualitative measurement itself – and the techniques used – are currently anything but standardised. However, promising initiatives such as the IRIS+[1] from the Global Impact Investor Network, are looking to create such standards.

At Allianz Global Investors, we have developed a stringent methodology in line with current best practice that allows us to measure impact. This methodology grew out of our belief that impact investments can deliver significant benefits to institutional investors and that these benefits are most likely to materialise when impact investments pursue a holistic strategy.

For us, impact investments in private markets should be guided by three principles. First, the strategy must aim to have a positive effect in social and/or environmental terms and at the same time generate an attractive financial return. Second, there must be a causal link between the investment and the effect achieved. Finally, the effect must be identifiable and measurable. In addition, regular documentation must be provided to ensure the validity of the effect. Following these guidelines, we believe we can report the positive effects of our investments in a transparent and comprehensible way.

When it comes to impact investing, 'being the change' demands that, as fund managers and investors, we can identify and measure the changes we are financing.

This piece originally appeared in Private Debt Investor:
https://www.privatedebtinvestor.com/investor-interest-grows-will-dangers-impact-washing/

1) https://iris.thegiin.org/

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About the author/s

Deborah Zurkow

Global Head of Investments

Deborah Zurkow is Global Head of Investments at Allianz Global Investors, and a member of the Executive Committee.

In January 2020, Deborah took on responsibility for leading AllianzGI's investment platform, which comprises Alternatives, Equities, Fixed Income and Multi-Asset strategies. As Global Head of Alternatives since 2016, she has developed AllianzGI's offering in the asset class, which includes a diverse mix of both liquid and illiquid alternative investment solutions for clients, into a market leader in a number of categories.

Deborah joined AllianzGI in 2012 as CIO and Head of Infrastructure Debt, leading a team that pioneered infrastructure debt as an asset class for institutional investors. Since its inception, the team has made over EUR 10bn of debt investments in a variety of infrastructure sectors across the globe.

Before joining AllianzGI, Deborah was CEO of Trifinium Advisors Limited and head of Public Finance EMEA for MBIA UK Insurance Limited.

Deborah holds an MBA from Yale School of Management and a BA from Wellesley College. She is on the board of the ACC (Alternatives Credit Council) and the LTIIA (Long-term Infrastructure Investors Association). She has been included in Financial News' list of '100 Most Influential Women in European Finance' on multiple occasions.

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Summary

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