Impact Investments – a new philosophy of investing

by Martin Ewald | 28/08/2019

Summary

Investors are increasingly starting to realize that they have the power to make an impact by choosing where and how to invest their assets. Allocating capital with the intention to create impact allows investors to influence the way the economy works or how a company operates.

1 What are Impact Investments? A new philosophy of investing!

Impact investments have the explicit intention of achieving positive, measurable, social or environmental impact alongside an attractive financial return. They can be carried out in both emerging but also developed countries, depending on investors' strategic objectives. The impact investment market can provide capital to help address the world's most pressing challenges in sectors such as sustainable agriculture and food production, energy efficiency, affordable and accessible basic services including housing, healthcare, and education conservation or microfinance.

Against this background, impact investments constitute a new investment philosophy that is a logical extension of traditional investment approaches. Instead of solely focusing on return and shareholder value maximisation, impact investments target to maximize the total benefit to all stakeholders, without favouring one over the other. Impact investors follow the thought that such philosophy consequently leads to the potential for an increase in return whilst seeking to minimise risk.

2 Private impact investments

At AllianzGI we are convinced that impact investments can deliver significant benefits to an institutional portfolio. However, we believe that such benefit is most likely to materialize when the impact investment strategy is applied holistically. We have established three principles that define an impact investment in the private markets: First, the intention of the investment must be to generate a positive social and/or environmental impact and at the same time generate attractive financial returns. Secondly, there must be a causal connection between the investment and the impact generated. Finally, the impact needs to be identifiable and measureable and must be reported on a regular basis to ensure validation of such impact.

3 Measurement as key hallmark for private impact investments ensuring transparency and accountability

Given the continuous risk of "impact washing", transparency and accountability regarding the generated impact are of utmost importance when carrying out impact investments. Thus, the key feature of impact investments is an investor's obligation to continuously measure and review the social and environmental performance of the underlying assets to ensure transparency and accountability.

Investors' approaches to impact measurement can vary depending on their objectives. Whilst the market is clear about the process stages in which impact has to be measured, the detail of measurement and applied techniques are far from being standardized.

Those process stages are widely acknowledged to be the following:

1 Definition and presentation of social and/or environmental objectives for each investment to investors

2 Setting key performance indicators and goals related to these objectives, using standardized indicators wherever possible

3 Monitoring and managing the performance of investments against these objectives

4 Reporting on social and environmental performance to relevant stakeholders

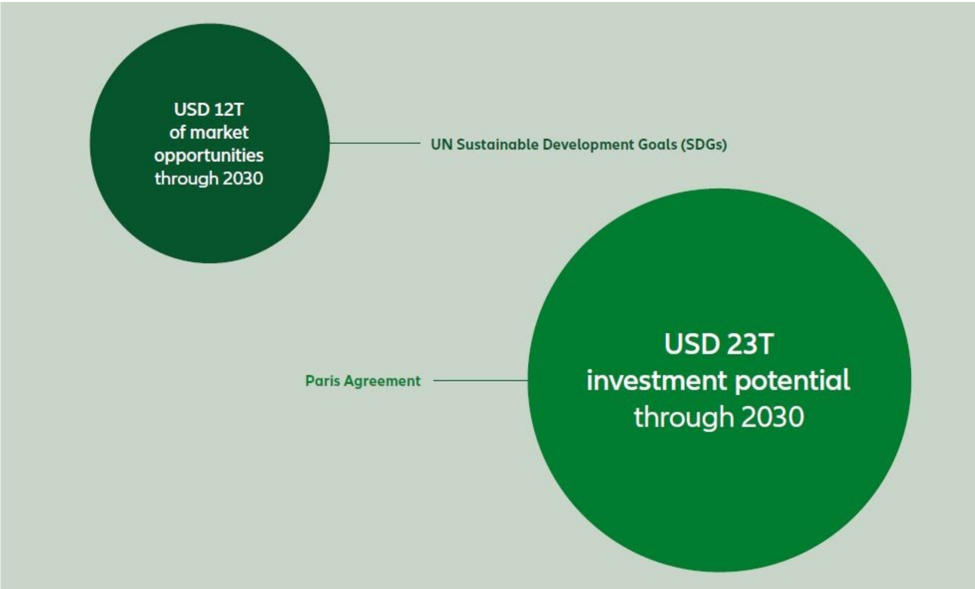
4 A fast growing market with significant potential

The impact investment market is a fast-growing space which is becoming increasingly popular in the illiquid alternative market. According to the Global Impact Investor Network (GIIN) reported impact AuM rose from USD 120bn in 2016 to 500bn in 2018 (+400%). Accumulative investment gap in order to reach the United Nations Sustainable Development Goals(UNSDGs)until 2030 are assumed to be around 12 trillion, representing a significant investment opportunity.[1] (see**Chart** A/).

This growth outlook is attributable to two main drivers, both evolving bottom-up and top-down processes: First, a general change in how private businesses operate. 87% of international CEOs[2] are, for example, rethinking the strategy of their businesses in light of the UNSDGs. Creating sustainable business models that address important clients' and environmental needs is nowadays paramount for being "truly client centric" and hence essential for long term success of a business. These developments will consequently create additional bottom-up investment opportunities for impact investors.

Secondly, international agreements such as the UNSDGs or the resolutions of the Conference of the Parties in Paris in 2015 (COP 21) can be seen as a top-down growth driver. These agreements are expected to transform into a new or at least stricter regulatory framework that should facilitate the development towards more sustainability. The associated actions following the Paris Agreement, for example, are expected to result in a potential for investment of around 23 trillion US dollars by 2030. [3]

A/Estimated market potential of impact investing



Source: UN Principles of Responsible Investing, UN Development Programs, Weltwirtschaftsforum

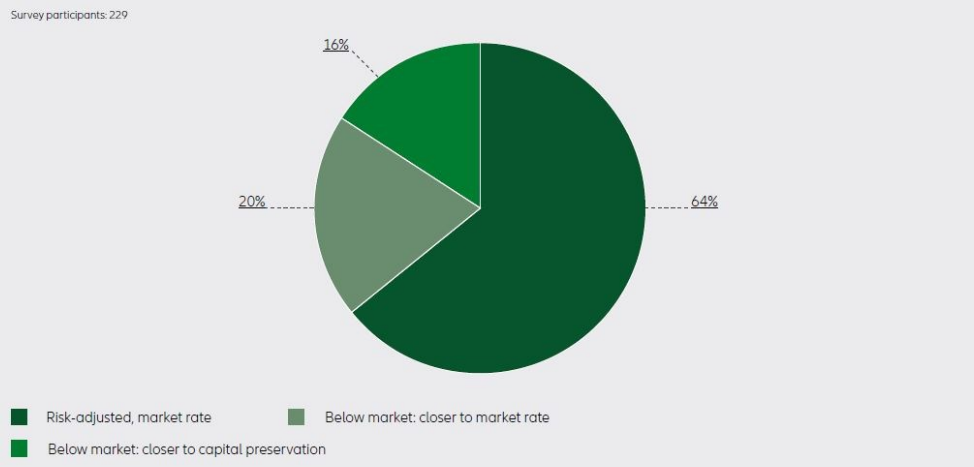
5 Busting the low return myth

Historically, impact investments were driven by philanthropic capital and as a result impact investing can be confused with donating capital. Now is the time to bust the myth.

According to the GIIN 2018 Annual Impact Investor Survey, 64% of the 229 Survey participants who primarily focus on impact investments target competitive, risk-adjusted market returns and hence speak in favour of the proclaimed shift (see **Chart** B/). Moreover, 91% of investors confirm that their investments have outperformed or were in line with their return expectations confirming the proposition that impact investments can deliver both financial return and impact (see **Chart** C/). [4]

We believe that investors need to understand impact investments as an important part of their asset allocation. As private market strategy , impact investments have the potential to deliver the potential benefits of non listed alternative investments such as stable returns, low correlation, and inflation-linked revenue that would offer investors an attractive risk-return ratio. However, in addition to that, impact investments also deliver a positive contribution, as investments contribute to the society and the environment and address global challenges

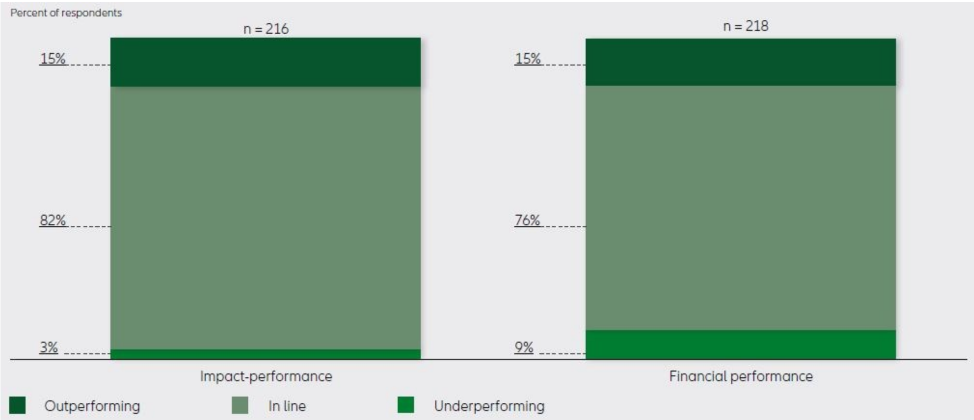
B/ Target financial returns principally sought



Source: GIIN (Global Impact Investing Network, 2018): Annual Investor Survey
This s for guidance only and not an indication of future results.

C/ Performance relative to expectations

Number of respondents shown above each bar: some respondents chose "not sure" and are not included.



Source: GIIN (Global Impact Investing Network, 2018): Annual Investor Survey
This s for guidance only and not an indication of future results.

1) United Nations Principles for Responsible Investment, United Nations Global Compact (2017): The SDG Investment Case, https://www.unpri.org/download?ac=5909.
2) Based on a survey of more than 1,000 CEOs across more than 100 countries and 25 industries, also see: UN Global Compact-Accenture Strategy CEO Study (2016): Agenda 2030: A Window of Opportunities, https://www.unglobalcompact.org/library/4331.
3) UN Global Compact-Accenture Strategy CEO Study (2018): Special Edition: Transforming Partnerships for the SDGs, https://www.accenture.com/_acnmedia/PDF-74/Accenture-Transforming-Partnerships- for-the-SDGs-UNGC-Accenture-Strategy.pdf.
4) Global Impact Investing Network (GIIN): What You Need to Know about Impact Investing, https://thegiin. org/impact-investing/need-to-know/#what-is-impact-investing, accessed 21.05.2019.
5) A performance of the strategy is not guaranteed and losses remain possible.

936854

Want to view more?

Investment themes & strategy

A shared vision is vital for a sustainable recovery

→ DISCOVER MORE

by Deborah Zurkow | 27/08/2020

Investment themes & strategy

How will private debt be changed by Covid-19?

→ DISCOVER MORE

by Deborah Zurkow | 11/08/2020

Investment themes & strategy

Are we running out of policy options for the next crisis?

→ DISCOVER MORE

by Stefan Hofrichter | 22/08/2019

DISC

About the author

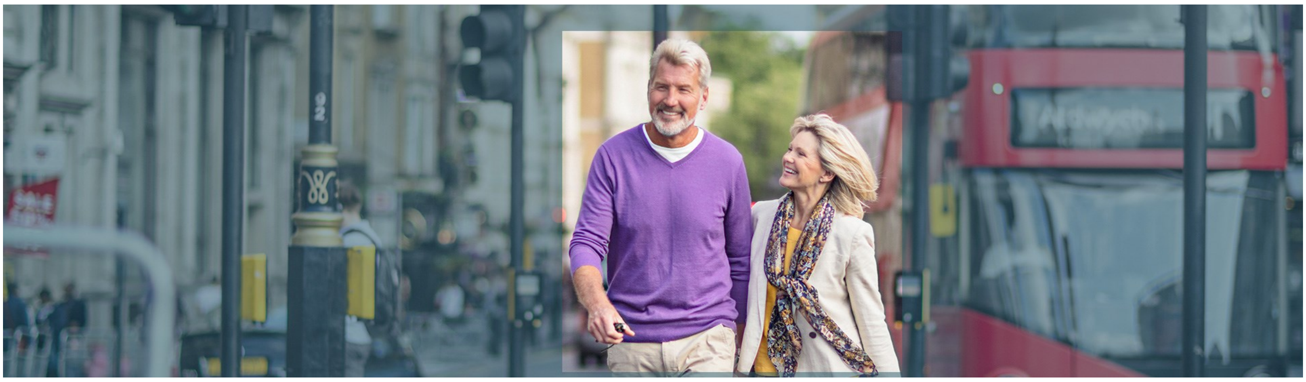
Martin Ewald
Lead Portfolio Manager

Martin Ewald is a Managing Director in the London office of Allianz Global Investors and leads the Impact Investment team of AllianzGI as Lead Portfolio Manager.

Active is: Conducting proprietary research

Brexit isn't significantly impacting Europeans' travel plans

30/08/2019



Summary

Travel agents surveyed in Germany, Italy and Spain said the looming Brexit has not impacted their clients' travel plans thus far, while sources in the UK said the impact they have seen has mainly been related to concerns about passports, visas and exchange rates.

LOAD MORE

Disclaimer

Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.

[*Subject to change – depends on the content of the material which may mention certain investment instruments that involve particular risk]