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TH!NK Forum

Social Impact Investing

Impact investing is gaining a bigger place in the minds and portfolios of high net worth investors. To help individuals and financial professionals, Ballentine Partners focused its initial TH!NK Forum on the history, challenges, and future of impact investing. David Wood of the Hauser Center for Nonprofit Organizations at Harvard University's Kennedy School moderated a panel that included the following veterans of impact investing:

- Elyse Cherry, CEO, Boston Community Venture Fund
- Tim Ferguson, Founder, Chair, and Managing Partner, Next Street Financial, LLC
- Tim Smith, SVP and Director of ESG Engagement, Walden Asset Management

Definition and History of Impact Investing

Investors care about impact investing, alternatively called Sustainable Investing or ESG Investing, because it produces valuable social as well as financial results. Each of the speakers cited at least one example from their organization's experience.

The Boston Community Venture Fund, a community development financial institution, created a mortgage company that keeps low-income owners in their homes. This helps entire neighborhoods in a city like Boston, where foreclosures have an oversized impact on property values in the low-income neighborhoods where foreclosures are concentrated. Low-income neighborhoods account for 35% of the population and 83% of foreclosures. "Imagine you're there as a perfectly responsible homeowner, you're paying your mortgage, and you're watching your values plummet because all of the houses around you are in foreclosure," said Cherry. She added, "What we do is actually not even so much aimed at the individual families. It's really about stabilizing neighborhoods; about being certain that kids can stay in their homes and parents can continue to get to their jobs," The business consulting provided by merchant banker Next Street helped Roxbury Technology, an African-American-owned remanufacturer of print cartridges, grow from 20+ to 67 employees. Forty-three of the firm's employees live in the company's lower-to-moderate-income neighborhood and 15 have a criminal record, which makes it difficult for them to find jobs. "At the end of the day, we believe the best social program is a job," said Ferguson.

Citing examples from hundreds of instances when investors used their voice as shareholders to press for change with companies where they invest, Tim Smith cited a company with a board composed only of white men changing after investors such as Walden Asset Management pressed for board diversity arguing this is unacceptable in the twenty-first century. He has seen thousands of examples where shareholder pressure resulted in companies changing policies or practices. Smith has also observed enormous growth in companies reporting on their social responsibility and sustainability performance, stating outright it's "good for creating shareowner value."

As these diverse examples suggest, impact investing means different things to different people. However, it typically involves some combination of financial returns and social impact. Despite some investors' concerns, it's possible to make impact investments that are relatively safe, said Cherry. Moreover, in Smith's experience, screened investments don't necessarily underperform investment benchmarks. "You don't pay a conscience penalty," he said. Indeed, some investors believe that it is imprudent not to consider social impact because "These things impact the bottom line," added Smith.

What's now known as impact investing goes back as far as 40 years. It began with the screening of investments to avoid companies with undesirable policies. It has evolved into the more active approach illustrated by the examples above.

Today community development financial institutions, such as Cherry's organization, control more than $10 billion in assets. At a broader level, globally about $25 trillion in assets under management pursue ESG investing, which incorporates environmental, social, and governance factors.

Overcoming Challenges for Impact Investing

Impact investing doesn't fit into the models and processes used by foundations and other institutional investors. "The rules don't take social impact into account," said Ferguson. Potential investors sometimes tell him, "You don't fit into our traditional asset allocation models." It's always hard to create something new, he added. However, he is more optimistic about the prospects for impact investing making progress with high net worth investors.

For his part, Wood believes that high net worth investors and family offices hold tremendous potential for innovation and as a new source of capital for impact investing. He also finds that even foundations are becoming more open to impact investing. Boards used to go to investment consultants to ask, "Is it okay to do impact investing?" Now more of them demand impact investments.

Cherry echoed her fellow panelists' optimism, saying "People say 'I'm perfectly happy at a three or four percent return as long as I know my money is safe and it's out there doing good work.' " She also said she doesn't advise investors to put all of their money into any single impact investment. Creating a diversified asset allocation remains important.

The Future of Impact Investing

Smith listed three trends related to impact investing, starting with increased investor demand for ESG information from companies. This is also reflected in conventional requests-for-proposals to investment managers—commonly abbreviated RFPs—asking more specific questions about how they integrate ESG into their investing. This, in turn, spurs investment managers to ask corporations for expanded disclosure about ESG topics expanded disclosure often results in improved environmental or social performance.

For his part, Ferguson predicted a blurring of the lines between philanthropy and investment. Also, "There is a need to put money to work here in the United States" rather than assuming the needs lie overseas.

Lower levels of government spending will increase the need for impact investing, said Cherry. "It's a troubling time in terms of where income is going in this country," she added. When public and philanthropic funds are limited, impact investments are uniquely positioned to boost the results those funds achieve. This is an especially meaningful time for investors to consider impact investing.

Interested in learning more about impact investing? For more information, contact us at info@ballentinepartners.com or call us at 781-314-1300. You can also view the video of the TH!NK Forum at www.ballentinepartners.com.