OSLER

Social-impact investing: a viable asset class with an eye to the future

MARCH 12, 2019 4 MIN READ

Related Expertise

- Private Client

Author: Shahir Guindi, Ad. E.

When social impact investing first surfaced as a concept in the early to mid-2000s, the general impression was that it was about charitable giving and not investment fundamentals. But an array of new investment products is demonstrating there is a growing appetite by investors of all kinds – pension funds, governments and retail investors – to use their investment dollars to target critical societal needs.

There are many Canadian examples, ranging from the oversubscribed 2018 Canada Pension Plan Investment Board (CPPIB) green bonds to the MaRS Centre for Impact Investing Initiative (which for several years worked to facilitate the social impact-investing ecosystem in Canada), to the sustainable bond offering this February by Concordia University (the first of its kind by a Canadian university).

A new study by the Responsible Investment Association (RIA), released in February, underscores the breadth of investor engagement in alternatives that impact key social issues such as affordable housing, healthcare, education, renewable energy and infrastructure.

According to the RIA study, social impact investing (SII) has grown exponentially over the past several years – increasing from $4.13-billion in 2013 to $14.75-billion in 2017. It is a relatively recent wave among various types of responsible investing (RI) alternatives, some of which, such as integrating environment, social and governance (ESG) principles or negative screening, have been around for quite some time (SII blends ESG and financial data in investment evaluation while the latter explicitly excludes certain companies or sectors from investment).

The overall RI asset base in Canada exceeded $2-trillion in 2017 after doubling from 2013, as reported in another RIA study. SII is well positioned to benefit from this larger overall trend – but it is not for everyone. Social impact can be difficult to measure and the metrics for success will not have a short-term horizon. Interestingly, however, investors overwhelmingly report that globally, impact-investing performance meets or exceeds their expectations, both in terms of impact and financial measures – RIA reports that 98 per cent of respondents saw their investments meet or exceed performance expectations.

The groundswell of direct and indirect support for responsible investing is reaching critical mass and coming from many quarters. Notably, Larry Fink, chief executive of giant investment manager BlackRock Inc., wrote compellingly about this in his latest annual letter to CEOs of companies his firm invests in:

“Unnerved by fundamental economic changes and the failure of government to provide lasting solutions, society is increasingly looking to companies, both public and private, to address pressing social and economic issues.

He further states: “Purpose is not the sole pursuit of profits but the animating force for achieving them.”

And BlackRock is not alone; other large investment firms are also embracing more impactful attitudes. The private-equity behemoth TPG Capital raised US$2-billion for its first social-impact fund, the Rise Fund, in 2017. It is now raising its second fund of US$3.5-billion. It has invested globally in many sectors, including digital payments in Africa, microfinance in China and sustainable energy in India. Its mission: “The Rise Fund is committed to achieving social and environmental impact alongside competitive financial returns.”

Many countries have been innovating in financial products that offer solutions to critical social needs. On the “very large” end of the spectrum, Norway’s “oil fund” has long been a pioneer in ethical investing and has moved, over time, to tighten its approach to investing by accounting for environmental, governance and human-rights issues affecting assets it considers. For the time being, it stops short of true social-impact investing, but it appears to be migrating that way.

As a country, and indeed globally, we cannot expect governments to deliver the solutions to the complex social and environmental problems that our societies have visited upon themselves – and others. And in North America, with our relative wealth as a society, it is our collective responsibility to be pro-active and seriously invested in addressing these challenges for the sake of our younger and future generations. For these reasons alone, we hope to see SII emerge and survive as an acknowledged asset class and become a sustainable and important component of balanced portfolio investing.

While ESG, ethical investing and social-impact investing are all targeting similar end goals, they are quite different vectors to those goals. Whereas the first two are guardrails of a responsible investment philosophy, SII is in itself a distinct investment philosophy and one that progressively pushes the agenda of the first two. We enthusiastically applaud the leadership of those corporations, institutions and investors that are demonstrating the power of combining the pursuit of business and financial priorities with positive social-impact objectives.

This article was first published in The Globe and Mail.