On Impact Investments and Fiduciary Duty

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The most common narrative from pension fund trustees, when the phrase "impact investment" is mentioned, is that they cannot consider these because they have a fiduciary duty to deliver the best risk-adjusted returns. In this blog, I'd like to challenge that assertion and hopefully provide some evidence that impact investments can be extremely well-aligned with a pension fund's long-term goals.

Let's start with the assertion that **impact investments <u>can</u> deliver market rate, risk-adjusted returns.** To be fair not all of them do but the market is developing rapidly, with new and innovative financing solutions which mean the investor's financial goals are met. Bridges Fund Management have a helpful schematic explaining the spectrum of capital, which is worth reading in this context. This shows that there is a range from low impact to maximum impact and (in reverse) from market rate to below-market returns, but also that **there is a middle ground which achieves positive impact and delivers competitive returns**.

Evidence from the 2017 Global Impact Investor Network (GIIN) survey of investors also shows that **around 90% of impact investments met their financial expectations**. A quick sample of 32 purely financial investment mandates showed that around 80% are currently meeting their financial expectations, slightly <u>worse</u> than the impact investors' experience.

An increasing amount of research around Environmental and Social Governance (ESG) has been undertaken recently, and this provides hard evidence that **well governed, environmentally focused and socially responsible companies do better in the long term**. In a recent article by Gresham House, they quote data from Oxford University which states that "80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance." Many impact investments score extremely well on ESG criteria.

At a recent lunch on social impact investment, I was asked the question "Why should a pension fund want to hold impact investments?" I've reflected on this because it was a good question. In a nutshell, the answer I would like to give is this:

- They can compete with purely commercial investment strategies in terms of expected risk adjusted returns;
- They deliver to financial expectations (what you see is what you get);
- Many impact investments have attractive return profiles for a pension fund (long term sustainability, stable cashflows, genuinely diversified against equity risk);
- There is increasing member support for investing intentionally to achieve a positive societal or environmental impact, particularly amongst younger employees.