

On Impact Investments and Fiduciary Duty

May 2018

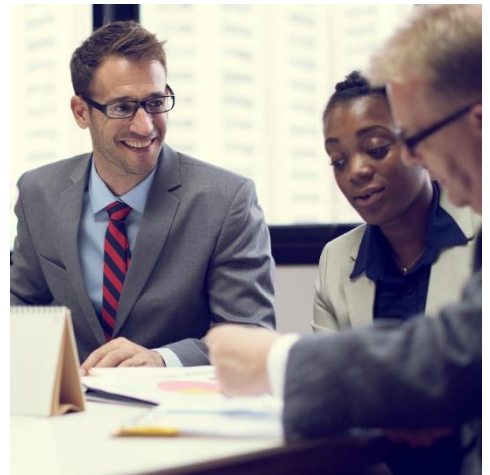


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The most common narrative from pension fund trustees, when the phrase "impact investment" is mentioned, is that they cannot consider these because they have a fiduciary duty to deliver the best risk-adjusted returns. In this blog, I'd like to challenge 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 can 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 worse 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.