AN INTRODUCTION TO IMPACT: IMPACT INVESTING FOR FAMILY OFFICES

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About the Lee-Chin Institute

Founded in 2005 with a transformational gift from Michael Lee-Chin, the Lee-Chin Institute helps current and future business leaders integrate sustainability into business strategy and practices

Thematic focus areas:
• Corporate sustainability strategy, social enterprise and impact investing

Programs:
• Research and thought leadership on sustainability theories, models, strategies and practices
• Dissemination of research and leading thinking through events and the media
• Student engagement through curriculum development and support of student initiatives

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What is impact investing?

“Investments that are made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”

Global Impact Investment Network
How does impact investing relate to other responsible investments?

- **Ethical Investing** (1900s//)
  - Values-Driven (-) Screens

- **Socially Responsible Investing** (1960s-1980s)
  - Values-Driven (-) Screens, Shareholder Activism

- **Sustainable/Environmental, Social and Governance Investing** (1990s-2010s)
  - ESG Integration, Thematic Investing, (+) Screens
  - Best-in-Class Approach

- **Impact Investing** (2010s-2017)
  - Deliberate approach to generate both measurable impact + financial returns

**Examples**
- Faith or values-based investing (e.g., divestment from South Africa, tobacco)
- Screened pension funds, mutual funds products (e.g., Ethical Funds)
- Specialty investment firms, advisors and products (e.g., Mercer, KLD/MSCI, Generation, Sustainalytics)
- Advocates, advisors and new entrants, products (UK Social Impact Investment Taskforce, Bridges, Blackrock, green bonds and other new products across asset classes)

Source: Adapted from Deutsch Bank, *Sustainable Investing, Establishing Long-Term Value and Performance*, 2012
How big is the market for impact investing?

2015

C$9 billion

Global US$60 billion

Canada

2025

Global US$2 trillion

C$30 billion

Canada

Sources: Adapted from RBC Social Finance 2016, JP Morgan/GIIN 2015, Responsible Investment Association 2016, MaRS/Purpose Capital 2014
How are impact investing assets allocated?

Global Asset Allocation 2015: US$60 Billion AUM

- Private debt: 33%
- Private equity: 30%
- Equity-like debt: 8%
- Public debt: 6%
- Public equity: 5%
- Real assets: 3%
- Other: 2%
- Deposits and cash equivalents: 0.2%

Canadian Asset Allocation 2015: $C92.2 billion AUM

- Private debt: 30%
- Private equity/VC: 36%
- Public equity: 6%
- Public debt: 3%
- Term deposits: 1%
- Other: 1%
- Pay-for-performance instruments (e.g. social impact bonds): 1%

Sources: JP Morgan/GIIN 2015, Responsible Investment Association 2016
How are investments performing?

Return Expectations (Canada 2016)

- Below market rate: closer to capital preservation: 13%
- Below market rate: closer to market rate: 22%
- Competitive, market rate returns: 40%
- Competitive, above market rate returns: 25%

Performance Relative to Expectations (Canada 2016)

- Underperformed expectations: 10%
- Met expectations: 19%
- Outperformed expectations: 71%

Source: Responsible Investment Association 2016
Why family offices? Integrating wealth and legacy

- Particular opportunity for integration with family charitable foundation
Who cares? Increasing interest among HNWIs

Figure 3: Percent of HNW and UHNW Adults Who Agree Social or Environmental Impact is Important to Investment Decisions

Where to start: Learn
Where to start: Align

Reach Internal Alignment

Define Vision
- Clarify motivation and context
- Define impact goals and evaluation criteria

Determine Engagement Strategy
- Evaluate fit within existing portfolio
- Decide on impact portfolio construction approach

Develop Investment Guidelines
- Review existing or develop new investment guidelines, integrating impact goals

Execute Strategy
- Source investments
- Perform due diligence

Evaluate Portfolio and Adjust Strategy
- Monitor financial and impact results
- Evaluate outcomes and adjust your investment strategy

Implement and Evaluate

Deepen Knowledge, Update and Evolve Impact Investment Vision

Where to start: Explore products (in Canada)