

Impact Investing

As part of our ongoing series, the Michael Lee-Chin Family Institute for Corporate Citizenship is proud to present a series of short papers making simple key concepts in corporate sustainability.

The paper below discusses the concept of “impact investing”.

More information about impact investing (and other sustainability related topics) can be found on the Lee-Chin Institute’s [website](#).

What Is Impact Investing?

Broadly speaking, the term “impact investing” refers to investments made into companies, funds or organizations with the intention of “creating positive impacts beyond financial returns”. What sets impact investing apart from other forms of investment is that impact investors seek out companies with strong environmental, social and governance (ESG) processes, or work to persuade companies to improve these processes.

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Impact Investing and “Responsible Investing”

While it is possible for individual investors and investment houses to use their own definitions of “impact investing”, the most widely cited definition comes the [Global Impact Investing Network \(GIIN\)](#), which first articulated the impact investing as having a “positive impact beyond financial returns”.

According to other organizations, such as the [Responsible Investment Association \(RIA\)](#), impact investing is usually considered to be part of a much broader group of investment approaches known as “social finance”. The chart below (reproduced [here](#) by the RIA) illustrates several of these approaches and where “impact investing” falls into the social finance continuum.

IMPACT INVESTMENT					
Traditional	Responsible Investing (RI)	Socially Responsible Investing (SRI)	Thematic	Impact-first	Venture Philanthropy
Competitive Returns					
ESG Risk Management					
High Impact Solutions					
Limited or no focus on ESG factors of underlying investment analysis and execution.	ESG risks integrated into analysis of all holdings, as a component of financial risk management. Shareholder engagement is used to influence behaviour of holdings.	Negative and positive screening of ESG risks is used to align a portfolio to specific values. Shareholder engagement is used to influence behaviour of holdings.	Focus on one or more issue areas where social or environmental need creates commercial growth opportunity for market-rate returns.	Focus on one or more issue areas where social or environmental need may require some financial trade-off.	Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/support is common.

Source: Purpose Capital adaptation of Bridges Venture Research (2012). The Power of Advice in the UK Sustainable Impact Investment Market. Available at: <http://www.bridgesventures.com/links-research>

Impact Investing and “Responsible Investing”

The Lee-Chin Institute helps business leaders integrate sustainability into business strategy and practices by actively developing and disseminating research, tools and curricula. Currently, our research focuses on three themes: sustainability strategy, social entrepreneurship, and responsible investment. For more information about the Institute and what we do, check out our [website](#) or follow us on [Twitter](#) and [LinkedIn](#)

So what is the key difference between impact investing and these other approaches?

“Traditional” investing has little to no interest in ESG factors and is more focused on returns. The only impact measured here would be on the account of the investor.

Impact investing is also not a form of charity or philanthropy. Impact investors have an expectation of financial returns on their investment. Impact investors may also be willing to tolerate a much longer time frame to see these returns, but, in general, they treat impact investments as any other investment.

In comparison to “Responsible Investing” and “Socially Responsible Investing”, impact investing has some overlap in that investors using these approaches generally conduct research to ensure they avoid making investments which may have negative impacts on the environment or society.

While impact investing includes this analysis, but also actively seeks out companies, funds or ventures which seek to generate positive [social and/or environmental impacts alongside financial return](#).

Resources

For more information on impact investing, check out the following organizations:

- [Responsible Investment Association](#)
- [Net Impact](#)
- [Global Impact Investing Network \(GIIN\)](#)
- [Impact and Reporting Investment Standards \(IRIS\)](#)
- [Rockefeller Foundation](#)
- [Purpose Capital](#)
- [Bridges Venture Research](#)

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