

# MyFiduciary

Investing for Impact

APAFS Webinar

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Aaron Drew, February 2021



## The Potential

*Impact investment may better meet beneficiary or client expectations through delivering acceptable financial returns and non-commercial benefits.*

*Have your cake and eat it too!*

This webinar provides an overview of ‘impact investing’. We will discuss:

1. What is meant by impact investing?
2. Why impact investment taking-off and its relevance to the Pacific.
3. The steps fiduciaries can make to ensure that an impact investment strategy is well governed (formulated, implemented, and monitored).

**Impact investing has huge potential in the Pacific** where Sovereign funds are often established with commercial and economic and social development objectives.

As is the case with SRI now, **in time impact investment** will become a more “standardised” discipline that will likely be seen as an activity that is **necessary to best meet fiduciary obligations.**

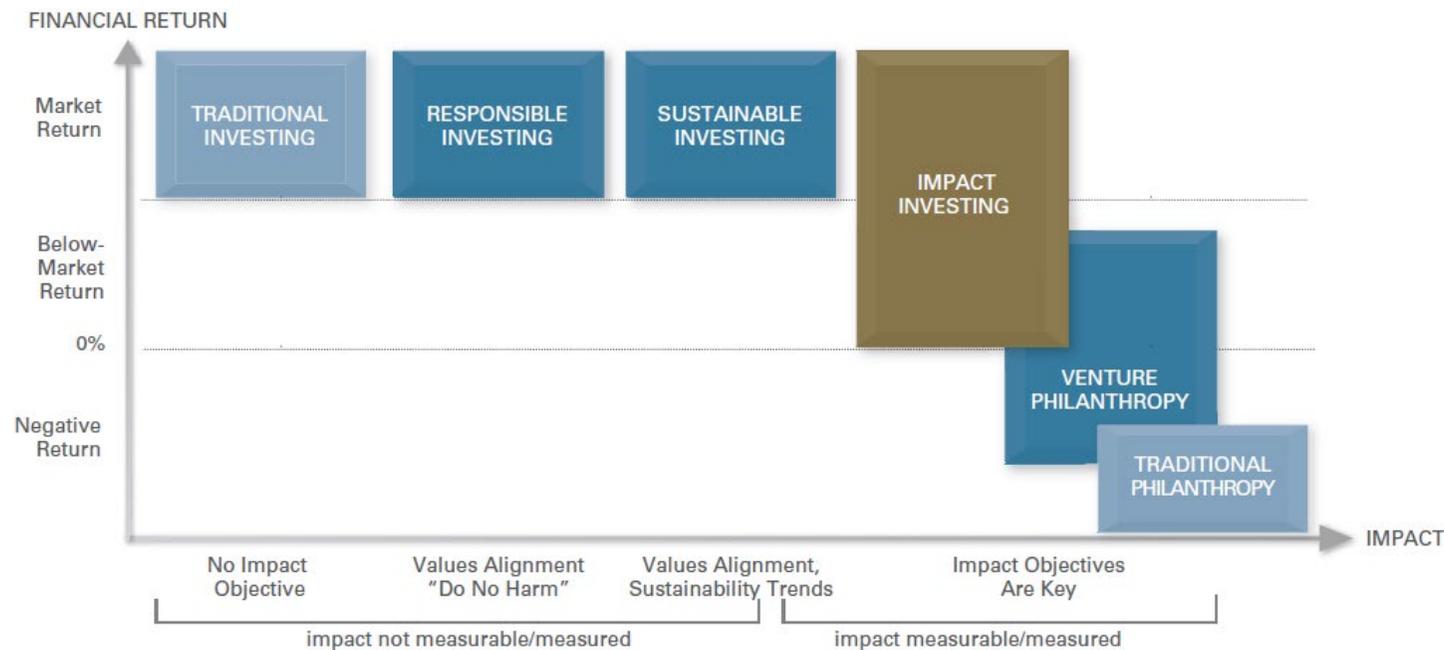
**But for now** impact investing is a “new” discipline that faces challenges, especially in the measurement and monitoring.

# What is impact investment?

Impact investments are investments made with the intention to generate positive, *measurable* social and environmental impact alongside a financial return. Global Impact Investor Network Definition

<https://thegiin.org/>

Impact investing straddles Responsible Investing and Traditional Philanthropy

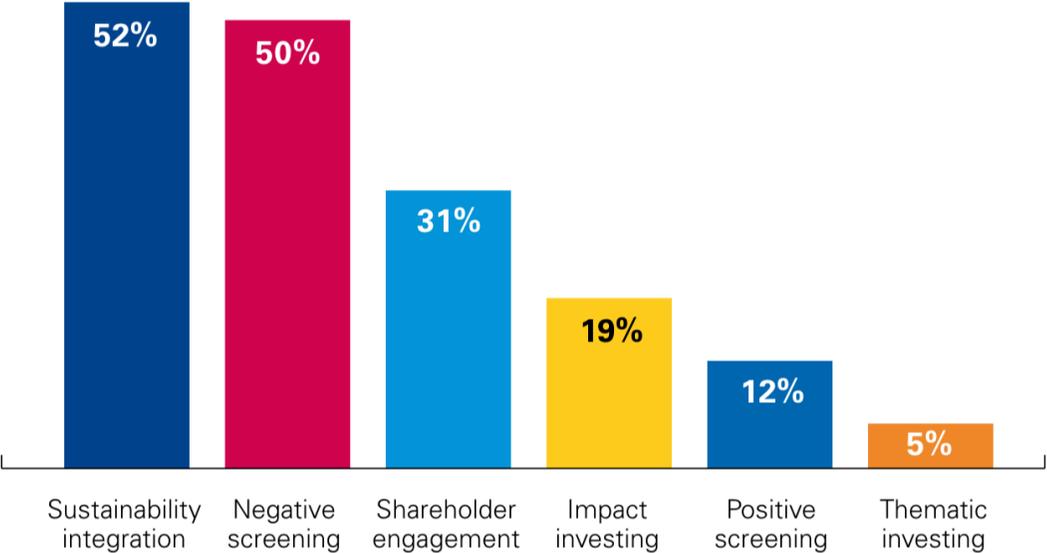


Source: Catalyzing Wealth for Change, Julia Balandina Jaquier, 2016.

# Impact investment in a global context

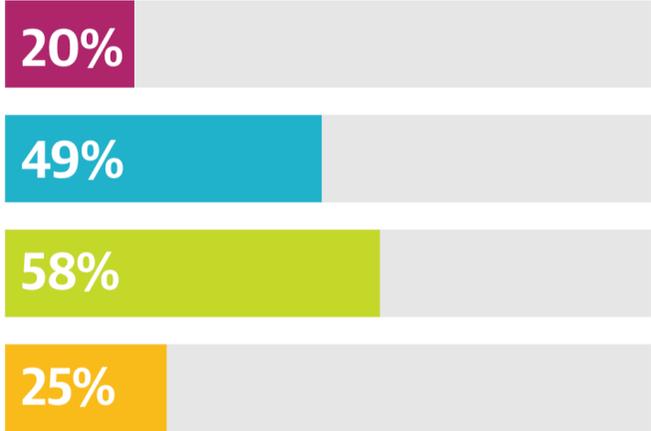
Impact investment still is small part of SRI but growing

**Figure 1.5** Which of the following best describes your organization’s strategy when it comes to ESG?



Source: KPMG–CAIA–AIMA–CREATE Survey 2020

**What are the key challenges to embedding ESG in the organisation?**



- Stakeholder engagement**
- Data quality**
- Accessing consistent standards and terminology**
- Insightful and transparent reporting**

## Impact investment is not new to the Pacific!

Many infrastructure investments may be considered a “form” of impact investing. Investors in such projects (e.g. multi-national agencies) typically model the spill-over benefits & accept a lower than commercial return.



But it may be new to Funds that don't have explicit development objectives

|  |      |  |   |
|--|------|--|---|
| Expected risk-adjusted investment return | high | <p><b>A – Most investors present portfolios?</b><br/>                 Seek first to understand impact investment alignment with present portfolio and <b>SRI strategy</b>, then move investments over time into “B” and possibly “D” .</p> | <p><b>B – Seek</b><br/>                 All else equal when comparing two investments the one with a better fit to your impact objectives should be preferred. Fiduciary duty to consider?<br/><br/>                 e.g. global equities with a low carbon tilt; direct investing in renewable energy; social housing; finance-first bonds, etc?</p> |
|  | low  | <p><b>C – avoid</b><br/>                 Should not be a focus for investment OR grant making.</p>   | <p><b>D – focus for grant making (for Charitable Trusts and Foundations)?</b><br/>                 Need to carefully consider fiduciary duties and trade-offs if they are considered for investment</p>   |
|  |      | low  | high  |
|  |      | <b>Community, Social and/or environmental benefit</b>  |   |

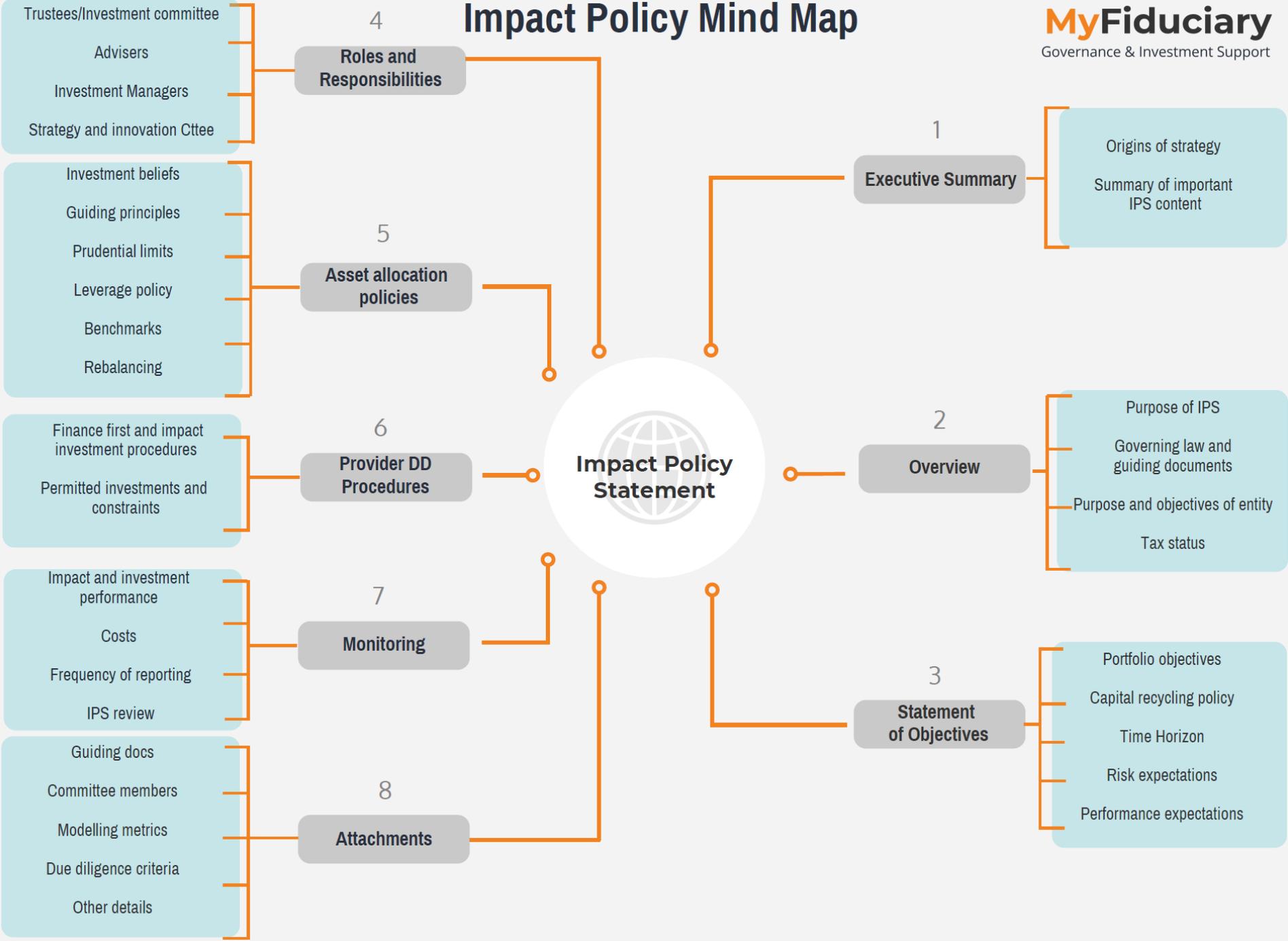
## Key questions that need to be addressed in deciding upon an Impact strategy

- Is impact investing aligned with establishment documentation and fiduciary duties? This may require legal opinion.
- Does establishment documentation have explicit or implicit impact objectives? If not, may be best to stop at the integration of ESG into investment activity in the “SRI Staircase”.
- If there is a case for impact investment, what are the impacts sought and where, e.g. local only, regional, or global?
- How developed is the local “eco-system” for impact investment?
- What is the scope to leverage and/or partner with Govt, multi-national organisations and other investors?
- How much should be allocated to impact investing?
- What is the acceptable rate of return from impact investing (e.g. return of capital only, return plus compensation for inflation, commercial return – x, full commercial return)?
- What types of access should be considered or are feasible given the eco-system (external funds, direct and co-investment, etc)?
- What are the organisational resource implications/business case?
- What are the grant making implications (for Charities and Foundations)?

## Some guidance....

- Start small and build upon existing activity, for example:
  - Include development of impact measurement tools and data as part of direct investment DD and monitoring.
  - As discussed in our SRI and Fund Manager due diligence presentation, seek managers that provide good information on their ESG screening.
- Be realistic about what you can achieve given the supporting eco-system and investment opportunity set.
- Ensure that the impact objectives are clear, not vague, as they need to be quantified and ideally measured on an ongoing basis.
- Think strategically about where you can have the greatest impact per dollar spent. E.g. in NZ social housing often scores very well given positive individual, family and community benefits with regards to health, education and crime/harm reduction. In (parts) of the Pacific infrastructure may be more compelling?
- Start at the more “commercial end” of the impact opportunity set, e.g. renewable energy infrastructure; social infrastructure (schools, hospitals, clinics), water infrastructure, low cost housing, etc.
- **Regard impact investment as an evolution rather than revolution in your approach!** The standard “good governance” policies, procedures and processes are still relevant.....

# Impact Policy Mind Map



## Sample roles and responsibilities

| Governance Component                | Activities   | Trustees       | IC <sup>1</sup> | Foundation staff <sup>3</sup> | External Parties |
|-------------------------------------|--|----------------|-----------------|-------------------------------|------------------|
| Strategic objectives                | Setting the Foundation's Strategic Priorities  | ✓              |                 |                               |                  |
| Appointment and delegations         | Appointment of Committee members   | ✓              |                 |                               |                  |
|                                     | Set and approve decision making delegations  | ✓              |                 |                               |                  |
| Investment policies                 | Approving Investment Policies  | ✓              |                 |                               |                  |
|                                     | Preparation and periodic review of the IPS   |                | ✓               |                               | ✓                |
|                                     | Preparation and periodic review of the Impact Investment Policy                          |                | ✓               | ✓                             | ✓                |
| Portfolio design                    | Establish key parameters of the impact investment portfolio, including prudential limits |                | ✓               | ✓                             | ✓                |
| Due diligence of external providers | Assess external consultants and other external providers                                 |                | ✓               | ✓                             |                  |
|                                     | Approval of external providers   | ✓ <sup>5</sup> |                 | ✓ <sup>5</sup>                |                  |

## Sample roles and responsibilities

| Governance Component                | Activities  | Trustees       | IC <sup>1</sup> | Foundation staff <sup>3</sup> | External Parties |
|-------------------------------------|---|----------------|-----------------|-------------------------------|------------------|
| Investment evaluation and execution | Develop and monitor impact investment pipeline                                  |                |                 | ✓                             | ✓                |
|                                     | Initial assessment of opportunities and approval for due diligence              |                |                 | ✓                             | ✓                |
|                                     | Due diligence of opportunities and preparation of committee papers              |                |                 | ✓                             | ✓                |
|                                     | Review and approval of impact investment opportunities                          | ✓ <sup>6</sup> | ✓               | ✓ <sup>6</sup>                |                  |
|                                     | Approval of investment contracts  | ✓ <sup>7</sup> |                 | ✓ <sup>7</sup>                |                  |
|                                     | Funding and cash-flow management of individual impact investments and portfolio |                |                 | ✓ <sup>8</sup>                | ✓                |

## Sample roles and responsibilities

| Governance Component  | Activities  | Trustees | IC <sup>1</sup> | Foundation staff <sup>3</sup> | External Parties |
|-----------------------|---|----------|-----------------|-------------------------------|------------------|
| Monitoring and review | Preparation of impact investment portfolio reporting                                  |          |                 | ✓                             | ✓                |
|                       | Review of portfolio reporting (performance, costs, progress against plans)            | ✓        | ✓               |                               |                  |
|                       | Monitoring and review of individual investments against expectations                  |          |                 | ✓                             | ✓                |
|                       | Monitoring and periodic review of external providers                                  |          | ✓               | ✓                             | ✓                |
|                       | Periodic review of costs of impact investment program                                 |          | ✓               | ✓                             |                  |
|                       | Periodic review of effectiveness of the impact investment strategy and its governance | ✓        | ✓               | ✓                             | ✓                |

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