



IMPACT INVESTING

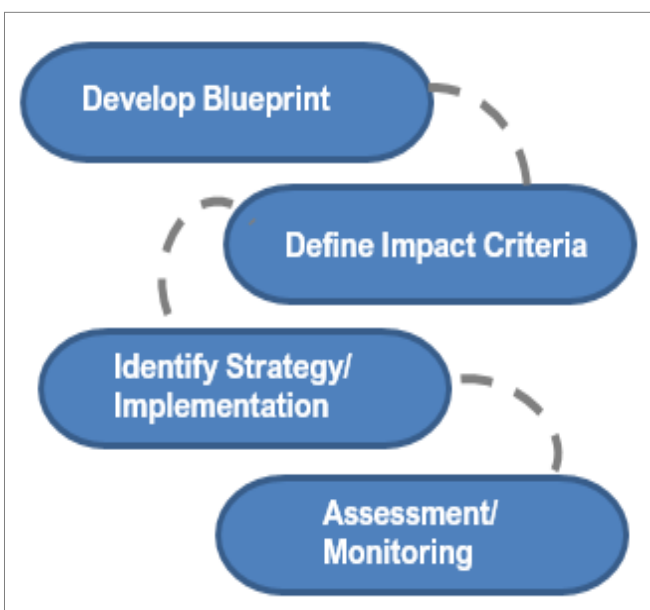
ESTABLISHING A FRAMEWORK FROM IDEA TO IMPLEMENTATION

Organizations are increasingly seeking ways to align their core values with their investment portfolio. Impact investing has the potential to fundamentally transform the way investment capital interacts with the world. Directing capital to solutions which aid the poor and the planet while earning a financial return is indeed an exciting proposition. Impact investing falls under a broad spectrum of responsible investing (RI) which can take many forms and has many definitions.

The distinguishing feature of impact investing is the **synergy** of **doing good** from a social and environmental perspective and **doing well** in terms of earning a financial return. Impact Investing goes beyond the *avoidance of harm* through divestment and instead seeks to deploy capital with the **intention** of having a direct **positive impact** on society and the environment. This work used to be primarily the domain of philanthropic donations and charity-based work but that is changing. Impact investments can encompass a broad range of issues, as outlined below by the United Nations Sustainable Development Goals, as a well-recognized of framework for investors.



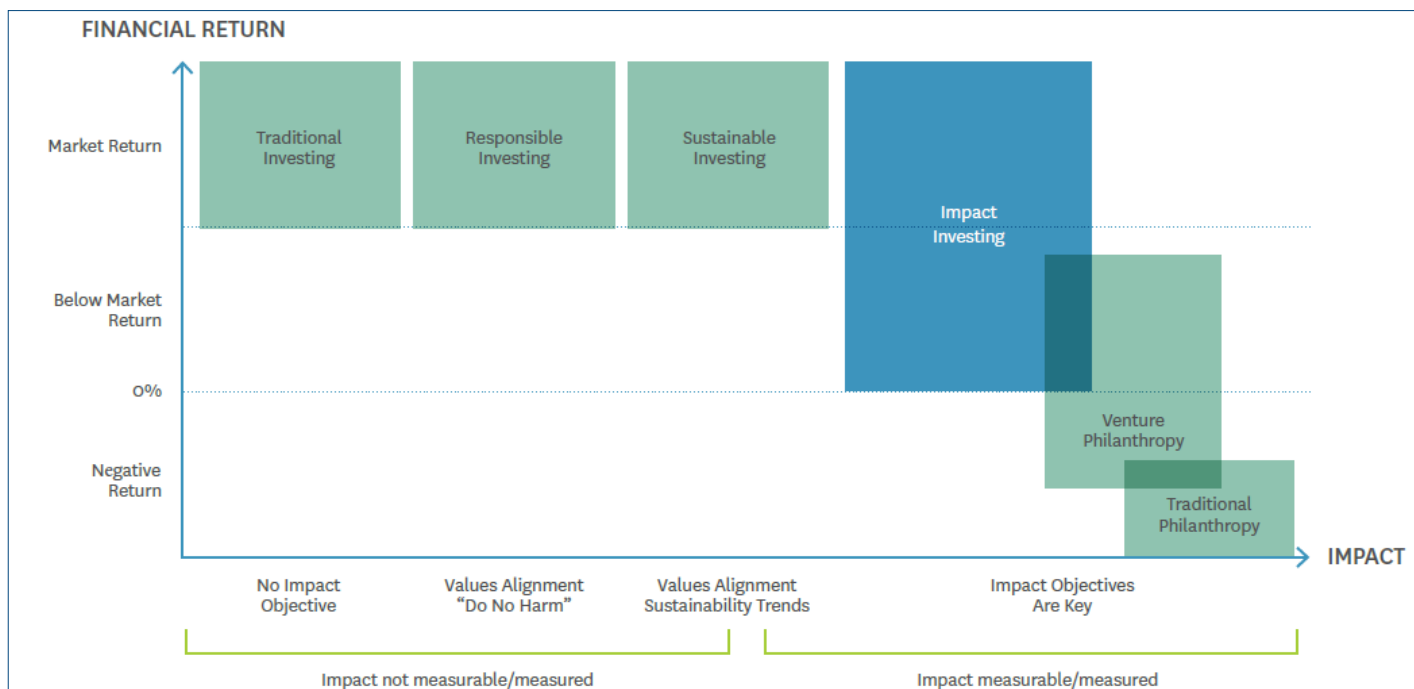
Although this type of investing has moved into the mainstream, it still represents only a fraction of the total global invested capital market. The GIIN estimates there are roughly \$1.2 Trillion in global impact assets (Source: GIIN¹) but with an expectation of double-digit compound growth, there is an immense opportunity set. According to the World Economic Forum, satisfying the targets of the U.N. Sustainable Development Goals by 2030, will require \$5 to \$7 Trillion in impact assets.



While impact investing holds a lot of promise and potential benefits, it also presents unique considerations and challenges. An organization's approach to impact investing will largely depend on its mission, values, and investment objectives. A sound governance process should be in place to examine the full scope of the opportunity set and how best to integrate it as part of your investment portfolio. The first step should be a look inward to affirm your willingness as an organization to pursue impact investing and to articulate motivations and goals. What do you seek to achieve from impact investing and how will it align with your organization's values? Organizations should evaluate the practicality of putting these goals into action based on their operating needs, risk tolerance, and time horizon. Liquidity in particular is an issue that needs careful consideration.

Another critical element in this approach is comprehensive due diligence of investment strategies. In spite of the recent growth of the impact investment market, strategies continue to proliferate to meet growing demand. It is therefore important to discern among philanthropic efforts, institutional quality mandates and/or retail-based and start-up offerings. Strategies should be intentional, from both an investment and social perspective, and align with an organization’s values. Investment costs also should receive attention as impact-oriented strategies can at times have unfavorable cost structures that could erode return potential.

Responsible Investment Spectrum²



The ability to measure impact is a core feature of successful impact investing. A process for ongoing monitoring and evaluation should be agreed upon prior to implementation. Third party standards exist to measure a variety of social, environmental, and financial metrics and aid in data-driven evaluation. While these frameworks lend credibility to the impact movement, effective measurement remains a challenge. Among public companies, a lack of standardized disclosure requirements for ESG metrics is an ongoing issue. However, with continued investor pressure and leadership from larger companies, disclosure is expected to improve with time.

While impact investments nobly aim to achieve both a positive social impact and a profitable return, it is important to keep in mind that just like any other investment, there are risks involved and a less than optimal financial result could be achieved even as worthwhile mission-based goals are being met.

Concord urges organizations to seek out advice if they are thinking about impact investing as the endeavor can be complex and time consuming as much as it is rewarding.

¹ “Global Impact Invest Investing Network: Sizing the Impact Investment Market” <https://thegiin.org/assets/2022-Market%20Sizing%20Report-Final.pdf>

² “Impact Investment Part One: An Introduction to Impact Investing” <https://www.foundationnorth.org.nz>

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