Institutional investors poised to (finally) embrace impact investing

Communities and the environment are missing out on the benefits of impact investing because institutional investors are often not clear and united on the approach and therefore too tentative on driving their allocations, according to speakers at the Frontier annual conference.

Fiona Reynolds, Director, Frontier Advisors, and former CEO of the UK based PRI, also said the strict definition of impact investing (investments made with the intention of generating positive, measurable social and environmental impact alongside a financial return), was too narrow.

“Every investment that you make has an impact – that impact can be positive, it can be negative,” she said. “The whole idea about starting the responsible investment movement was to try to move more of the investments from the negative to the positive. So, the idea that you can remove impact from the rest of your investments doesn't make a lot of sense to me.”

She compared impact investing to thematic investing that could target specific areas such as the energy transition, climate tech, or gender.

“I see very, very large managers who have one little impact investing fund and they hang their ESG credentials on it, but they don't think about the impact that they have with the other 99.99 per cent of their investments.”

Kate Temby, Managing Director, Institutional Client Group and Deputy Co-Chair Sustainable Investment Council, MetLife Investment Management, said investors interested in investing for impact should start with their investment philosophy and the principles they follow.

“It's a different starting point and it gets you away from this ‘the investable universe is too small and I can't get the returns’,” she said. “We have run fixed income portfolios that have delivered return and impact.”

The energy transition to net zero will require trillions of dollars of funding, which governments will not be able to raise without significant private investment. The Australian Government is following Europe in lifting sustainability reporting which Temby said would be a “game changer” because it will allow for better impact measurement.

Uwe Fuehrer, Chief Executive Officer of impact investing platform Wealth of Nations, said its survey had shown a wide range of perceived challenges: a lack of suitable investment opportunities (23 per cent), difficulty measuring impact (23 per cent), concerns about financial performance (23 per cent) and regulatory issues (17 per cent).

Fuehrer said there are great investable opportunities in private markets, which offer the best potential impact investment opportunities and the sector had performed well through multiple economic downturns such as the GFC.

“You can choose to take your time to move toward impact or you become very progressive, but either way, regulation will drive you there. The intergenerational wealth transfer in the US alone is expected to be $US30 trillion in the next decade. Beneficiaries of that wealth transfer are wanting investments with impact but very few institutions have got products. You will face demand either from members, from your investors, or from the regulators.”

For those interested in impact investing, Frontier advocates for investors first being clear and united in their purpose for pursuing impact and assessing and addressing gaps within their portfolio and governance constructs. Frontier can support your activities with training, governance reviews and product selection.

Frontier will release a new impact investing paper in July 2024. For more information about how Frontier can support your specific impact efforts contact Marie Cardaci, Deputy Head of Responsible Investment, Frontier Advisors, at mcardaci@frontieradvisors.com.au.