Impact investing:
Ethical to the core?

On 21st November, UK Sustainable Investment Finance Association (UKSIF) and the B Corp movement collaborated with Gong Communications to organise a breakfast event to discuss the rapid growth in impact investing and how B Corp certification addresses the integrity of the organisations behind the product marketing.

The panel comprised B Corp certified fund and wealth managers, Jeannie Boyle, Executive Director, EQ Investors, Ed Heaven, Sustainable & Impact Investing/ Deputy Chair of the Montanaro Asset Management, Amy Clarke, Co-founder & Chief Impact Officer, Tribe Impact Capital, Whitni Thomas, Senior Investor Relations, Triodos Bank and George Latham, Managing Partner, WHEB Asset Management, and was Chaired by Billy Nauman of the Financial Times' Moral Money team.

Key takeaways:

1. **Profitability is about understanding risk. It is a complete myth that firms investing through a lens of sustainability and impact are forced to compromise returns. Ignoring climate change, resource scarcity and societal inequality represents unsustainable short termism that even the Bank of England has cautioned against.**

2. **Passive funds and ETFs need to step up their active stewardship of companies and exercise more due diligence to exert influence and 'clean up' their portfolios. Clients must accept that active stewardship means a higher cost base.**

3. **Well intentioned regulatory requirements to report performance aren't helping the industry to shift focus to long term value. If the industry is serious about a shift, it has to change hard wired habits of trumpeting short term performance wins in its client communications.**

4. **Urgent need for more standardised reporting measures and greater clarity on the difference between outcomes and impacts, particularly in supply chains. Sustainability and investment professionals need to sit around the same table to pick up complexities in areas like scope 1, 2 & 3 emissions.**

5. **B Corp movement's visible leadership around issues like Climate Emergency and challenges to CEO Round Table to act are helping restore trust among younger generation to engage in finance as a purposeful career choice that can bring about rapid systemic change.**

The discussion focused on 6 key themes:

1. Mission, stewardship & the big picture

– Our panel of certified B Corps explained that their investment thesis is to seek profit through purpose, not profit for its own sake, but crucially with no compromise on performance.
– Panel posited the view that investing into companies that are working for positive environmental and societal outcomes is binary – you either put your capital to work for good or you don't – once you buy into the doctrine, you can't half commit.
– A slew of new 'actors' are coming into impact investing due to a better understanding of risk (resources scarcity, societal unrest, climate change etc.) and long-term value; and led by client demand for more products in the impact space.
– Glaring issue is with passive funds and ETFs where most money is invested globally which will contain some fossil fuels and other 'polluters'.
– Panel view is that passive fund managers need to step-up and lean in more in terms of their active stewardship.

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2. Can the financial services industry really do social equality?

– The Chair challenged the panel to reconcile levels of pay in financial services with social issues.
– Panel remarked that young talent has turned away from finance because of its reputation, but B Corp is helping turn that around. Panel gave example of not paying market rates, but offering mission, lifestyle and 'calling' instead which is in tune with many (young) people's values and priorities.
– Fees are open and transparent with a percentage of profits donated to charities.
– Staff welfare is important, emphasis is on preserving jobs through leaner years.
– There are bonuses in good years, but there is not the same culture of star performers being able to hold firms to ransom.
– On fees, the feeling is that clients get what they pay for. Active stewardship comes with a higher cost base.
– The panel remarked that many clients are attaching deeper significance to their investing choices and the opportunity to express themselves and their values. Hitting benchmarks are not as important as just being personally comfortable with the outcomes.

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3. Governance

– How important is ownership? Panel said 'very' to the point of wanting to rip up the rule book on governance.
– Locking in an overarching mission in the B Corp way guides governance - Not creating value for shareholders at the expense of customers or suppliers for example.
– Unintended consequences of well-intentioned regulatory frameworks such as need for frequent reporting - these can be unhelpful in encouraging short term thinking.
– Pressure from clients as well as from institutional shareholders – they are also being judged. It takes both sides to make a change.
– Communicate in a way that is consistent with how we want to be judged. Don't send out monthly fact sheets trumpeting short term results if you want to shift the focus.
– RFPs from big pension funds have changed. There is now a 'massive' focus on getting to grips with the values of the companies behind the returns. They are looking for detail on how people are hired and how they are paid before performance, which ranks 3rd.

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4. ESG is only one measure

- Panel keen to put to bed the myth that investing for impact involves a financial trade-off citing over 1000 studies to counter that idea. Panel clear that they see no compromise on performance.
- Standardised impact measurement however is a massive problem. As finance houses, the biggest footprint is indirect – need clarity about what is a true impact measure versus an output measure.
- Coalescing around the SDGs is helpful, but again, how much is output versus impact?
- Supply chain scrutiny is important when looking at companies in the portfolio.
- There is added complexity in impact investing of unintended consequences and impact trade-offs – panel said they look at the 'tapestry of impacts'.
- ESG is a blunt instrument – it fails to account for the complexities and nuances of impact investing.
- Investor base and wider community just starting to wake up to whole life cycles, deep within supply chains for 'beneficial' products. For example, what kind of energy is used to power electric cars? Is mining of lithium for their batteries sustainable and ethical?
- Due diligence process takes time and effort. The issue is scaling this approach into the mainstream.
- But there is a shift happening in finance. Companies that need Capex investment to become increasingly future fit are taking third party capital to do this – businesses can fund the reimagination and transition at a discount because of their perceived lower ESG risk profile.

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5. Bold leadership: Unintended consequences & known unknowns

- B Corp encourages courageous action: Climate emergency declarations are being sought from B Corps to be announced at COP in Madrid in December. 250+ companies already signed up.
- It was noted that former Unilever CEO Paul Polman said recently that 'As leaders, we should set targets that we don't know how we are going to achieve'.
- There is a big mountain to climb – panel cited new model of combining financiers and sustainability experts to guide impact investing.

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6. Change is challenging, but also infectious

- B Corp certification most often requires real change to achieve certification.
- Partnerships can embed it in a deed, companies change articles of association to commit principles/directors to balance interests of all stakeholders (panel remarked it took a year in one case to bring about all of the necessary changes to certify). It requires commitment from leadership and the grassroots.
- B Corp is a mark of authenticity, stewarding that change. It's a different mindset that looks at all the risks and starts to reimagine businesses from the inside out to make them more future fit. The reward for doing that is to be sustainable and more profitable in the long term.
- If you believe that the B Corp approach of balancing the interests of all stakeholders: workers, customers, governance, environment and society is a better way – should reflect those qualities in your whole business, not just in your products and services.
- There are 3000+ certified B Corps globally today but 80,000 organisations are engaged with the B Impact Assessment, a free online tool that measures and guides the necessary changes to certification.

uksif.org
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