

Highlights of ‘Impact Investment for Institutional Investors’

A seminar held on 6th November at Simmons & Simmons in London

Earlier this month, [Bridges Ventures](#) and [Cheyne Capital](#) hosted a packed room of institutional investors in London for a discussion about the challenges and opportunities of impact investment for institutional investors. Featuring contributions from [Sir Ronald Cohen](#) and [Nick Hurd MP](#) (the former Minister for Civil Society), the event gave investors a chance to hear from peers who are already active in the space, and from fund managers who are developing investment products to meet a range of different investor needs.

The following summary is for the benefit of the 65 investors who attended, and others who expressed an interest to attend but weren’t able to join us.

Key takeaways:

- There is increasing global momentum behind the impact investing movement
- More and more entrepreneurs are setting out to solve social and environmental problems
- There is a range of possible impact investing strategies – including private equity, property and fixed income – to suit a range of risk/reward profiles
- There is a growing body of evidence that investing for impact can create competitive advantage and deliver at- or even above-market returns
- Government has an important role to play as a facilitator (and buyer of social outcomes)

A few highlights of the discussion:

“The invisible heart of markets”

Sir Ronald Cohen described impact investing as the new venture capital. Just as venture had previously emerged in response to the needs of innovative tech entrepreneurs, so the rise of impact investing is a response to the needs of the growing number of social and environmental entrepreneurs – and just as ERISA legislation had made it easier for institutions to invest in venture capital, so legislative changes were making it easier for institutions to invest for impact, too. “This is already a global movement, demonstrated by the engagement of the G7 countries, the EU, Australia, Brazil, India, Israel, Mexico and Portugal in the work of the Global Social Impact Investment Steering Group.” And it brings a new dimension to investment decision making across asset classes, bringing “the invisible heart of markets to guide their invisible hand”. He pointed to the extraordinarily high calibre of people in the space, as well as to the potential for attractive uncorrelated returns from financial products like social impact bonds.

Next, a group of investors talked about their experiences of investing for impact, in a panel chaired by (outgoing) Big Society Capital CEO **Nick O’Donohoe**.

Matt Christensen from AXA IM said his organisation had originally started thinking about impact as the positive element of its responsible investment strategy, to complement its risk mitigation strategies (like divestment, integration of ESG factors, and so on). AXA IM has now looked at more than 300 fund opportunities across different asset classes, he said, of which 50 were “institutionally ready”. He discussed the importance of impact being “in the DNA of the fund” rather than “accidental”; he thinks linking fund manager incentives to impact might help in that respect. In light of its success to date, and the substantial interest this has generated internally, AXA IM is now seeking to increase its activity in this area: it plans to launch a second impact investment fund of funds. Matt believes we will increasingly see buyers pay a premium for impactful businesses.

Lisa Hall from Skopos Impact Fund said that, contrary to some investor concerns about a lack of institutional quality product, her team has been able to invest more than €70 million across two different portfolios in less than two years. She stressed the importance of recognising that there is a broad spectrum of possible impact investments (as per the [Bridges Spectrum of Capital](#)); Skopos only invests in funds seeking risk adjusted market-rate returns, and there is growing evidence that this is possible, she said (notably in the recent Wharton report '[Great Expectations](#)'). She also highlighted the importance of impact measurement, to ensure impact is “not just promised but real” – and also truly additional. Companies that follow sustainable business practices are more likely to be adhering to best practices throughout their organisations, she added.

Aled Jones from Mercer suggested his firm’s clients were only really interested in market-rate return products – and that there was a small but growing number of institutional-quality managers in that space. Mercer is very focused on the dependability of impact measurement processes, he said; but generally speaking, it assesses a potential impact investment opportunity in much the same way as it would assess any other potential investment.

Next up was **Nick Hurd MP**, the former UK Minister for Civil Society. He argued that as our social and environmental problems become ever larger and more complex, and with public spending shrinking across the developed world, Governments desperately need new and innovative solutions. So they have a huge role to play as a facilitator of the social investment market and as a buyer of social outcomes. He also believes that social businesses will become increasingly important in the creation of sustainable jobs, particularly for young people. There are cultural challenges to overcome, he admitted – but he believes this is one of the few issues on which there is cross-party consensus in the UK. Quoting Victor Hugo’s aphorism that “there is nothing more powerful than an idea whose time has come”, he urged those investors present to “take action” and commit the capital required.

Finally, a group of fund managers discussed their own impact investing strategies, in a panel chaired by **Emma Davies** of The Wellcome Trust.

Shamez Alibhai, partner and manager of the [Social Property Impact Fund](#) at Cheyne Capital, an alternative investment manager, said that his fund was helping to plug the gap as Government funding was withdrawn from the social housing market. Investors recognise that serving the socially-disadvantaged doesn’t have to mean sacrificing returns, he said: three-quarters of the fund’s investors do not even have a specific impact allocation. Cheyne had brought in an external expert (New Philanthropy Capital) to assess the social impact of all its investments, he added.

Michele Giddens, partner and co-founder at [Bridges Ventures](#), a specialist sustainable and impact investor, talked about how investing for impact could act as a competitive advantage – in terms of the quality and passion of the team it allows a manager to attract, and the alignment of interest it demonstrates to mission-driven entrepreneurs. By developing a platform of different funds (from growth capital for SMEs, to property investment, to social sector funding), Bridges now has a range of tools to tackle societal challenge – and a range of products to meet different investors’ requirements, she said.

Simon Bond, lead portfolio manager of the [Threadneedle UK Social Bond Fund](#) – a partnership between fund manager Columbia Threadneedle and social investor Big Issue Invest – talked about how the vehicle is giving a range of retail and institutional investors an opportunity to invest for impact via a daily liquid fund. Big Issue Invest designed the methodology used to assess the impact of the bond investments under consideration – and almost half of Threadneedle’s management fee goes towards Big Issue’s charitable efforts, Bond said.