IMPACT INVESTING
LIQUID ASSETS ARE HANDLING THE DIFFICULTIES

EXPERT'S VIEW

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A consensus is growing around the requirements that an impact investment must meet. There are three: intentionality, additionality and impact measurement.

Let's go back a few years. Impact investing was born about a generation ago in North America in real assets such as private equity, infrastructure and real estate. We understand that this genesis related to illiquid assets. The requirement for additionality, which is easier to demonstrate in real assets, is in fact a much more complicated exercise on the liquid assets side. Intentionality can be established for listed equities, corporate debt and sovereign debt. The integration of an ex ante social and/or environmental objective into a fund's investment process, which will apply to each investment, is becoming increasingly common, particularly in funds classified Article 9 according to the European SFDR regulation of March 2021. For a «green bond» equity or bond thematic fund, intentionality is even natural and easy to evaluate. The manager of a thematic equity fund focused on sustainability solutions can rely on one or more of the 17 UN Sustainable Development Goals (SDGs) by 2030. They may also commit to aligning their portfolio with the Paris Agreement on climate matters. The establishment of the European Union's green taxonomy from 2022 will facilitate this monitoring for environmental objectives. The social aspect is not forgotten with themes such as human capital, education and health.

UNEVEN ACCESS TO INFORMATION

The issue of impact measurement is more complicated to address in liquid assets compared to real assets because, for reasons of proximity, access to data is often more difficult. Let us take the example of monitoring net job creation. A private equity investor may call the boss of an SME in which they invest and obtain the information during the day. On the other hand, very few companies listed on the stock exchange or issuing bonds communicate this information. Investors will usually have to make their own estimates. Good news, despite everything, for investments in liquid assets: access to information related to relevant, consolidated and sustainable ESG criteria is growing year after year and is gradually facilitating measurement of the impact through various indicators such as greenhouse gas (GHG) emissions related to scopes 1,2,3 and avoided, the percentage of women on company executive committees and the effective tax rate. There are still many targets to be measured, such as biodiversity, but the progress of the past 10 years is considerable.

AVENUES TO PROVE ADDITIONALITY

The additionality wall remains. In this case, it is a question of answering the question: if the asset had not been financed by a given investor in particular, what would have happened, what would be the difference? Unlike illiquid fund managers, a liquid fund manager cannot by definition commit in advance to a specific period of ownership of a particular asset. Their fiduciary responsibility is also at stake. It is therefore difficult for them to prove the additionality of their investment. Unlike illiquid assets, they did not initiate the construction of a wind farm (green infrastructure) or a positive-energy building (green building). In the vast majority of cases, an investor will have held the asset before them and will hold it after them.

However, some approaches demonstrate a proactive approach. For example, by participating in an initial public offering or a primary debt issue and keeping their securities for several years (low turnover, «long only» management), the investor demonstrates in practice this spirit of additionality. Another interesting avenue is dialogue and engagement. Individual or group, they enable improved transparency of compliance with ESG criteria, operational performance and even the strategic transformations of an issuer, in the interests of all stakeholders.

Lastly, a final approach consists in sharing their progress with all stakeholders and contributing to public and private initiatives to promote progress at the local (France, Switzerland, etc.), regional (Europe) or global level. This is one of the six commitments made under the Principles for Responsible Investment (PRI), a network of investors supported by the United Nations. The results thus far exceed the original scope limited to the simple amount invested by a single investor.

While investors in liquid assets face more difficulties than in the real asset universe to measure and manage the financial risk/return ratio as well as the social and environmental footprint of their investments, their roadmap is clear: generate a tangible positive impact on the world in which we live.

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