BRAINVEST
WEALTH MANAGEMENT

IMPACT INVESTING

WHAT ARE IMPACT INVESTMENTS?

GIIN[1] defines impact investing as investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return, that can range from below market rate to risk-adjusted market rate.

MAIN CRITERIA

WHICH ASPECTS TO LOOK AT?

1. **INTENTIONALITY:** investors intentionally look for a social and/or an environmental issue to be solved through their investments. This includes setting transparent impact and financial goals, and articulating an investment thesis that is explicit about the strategies used to achieve those objectives.

2. **ADDITIONALITY:** the desired effect (i.e., the solution to the social and/or environmental issue) can only be achieved given the funding provided by investors is available.

3. **MEASUREMENT & REPORTING:** investors commit to measure and report the positive impacts generated by their investments. This includes establishing qualitative and quantitative indicators used to gauge performance against targets.

Impact measurement should not be confused with activity measurement. In the case of microfinance, the former would be the number of people who have become financially independent thanks to the microloans granted, and the latter would be the number of loans granted by the microfinance institution.

[1] Global Impact Investing Network

MAIN QUESTIONS TO BE ANSWERED

HOW TO ASSESS THOSE ASPECTS IN THE REAL-WORLD?

One of the most notable examples of a framework concerned with defining the quality of impact is the Impact Management Project ("IMP").

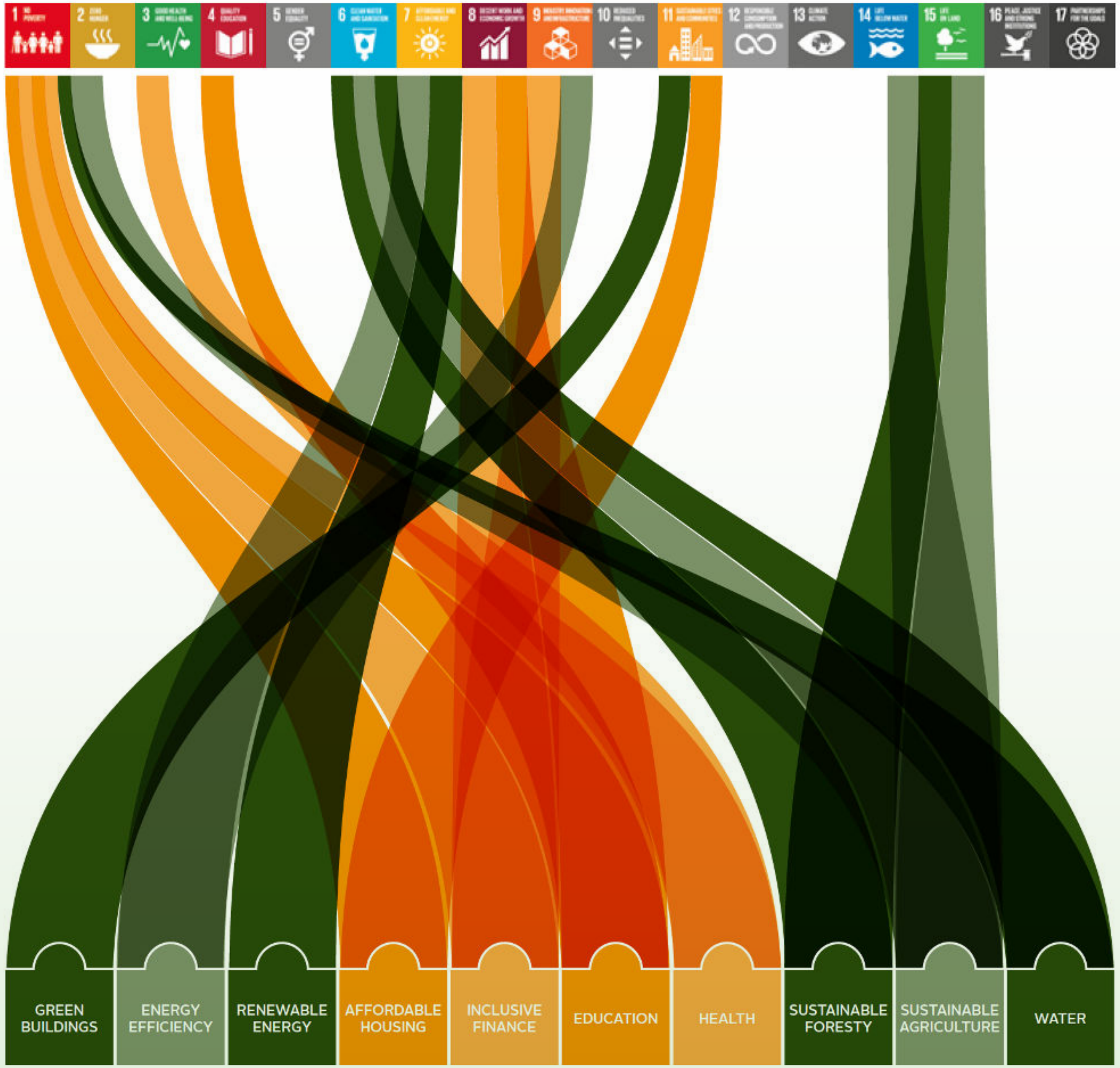
The five dimensions of impact identified by the IMP essentially help defining what it is to have an impact, assessing the extent to which an impact has taken place, and what steps are needed to secure it.

WHAT	HOW MUCH	WHO	CONTRIBUTION	RISK
What outcomes does the effect relate to, and how important are they to the people (or planet) experiencing it?	How much of the effect occurs in the time period?	Who experiences the effect and how underserved are they in relation to the outcome?	How does the effect compare and contribute to what is likely to occur anyway?	Which risk factors are significant and how likely is it that the outcome is different from the expectation?
Important neutral outcome (s) Important negative outcome (s) Important positive outcome (s)	Marginal effect ⟷ Deep effect For few ⟷ For many Short-term ⟷ Long-term Slowly ⟷ Quickly	Well-served ⟷ Under-served	Much worse than what is likely to occur ⟷ Much better than what is likely to occur	Low risk ⟷ High risk

WHAT ARE THE MOST COMMON THEMES?

PRI's Market Map Project categorizes mainstream impact investments into 10 main themes, which are:

- ENERGY EFFICIENCY
- GREEN BUILDINGS
- RENEWABLE ENERGY
- SUSTAINABLE AGRICULTURE
- SUSTAINABLE FORESTRY
- WATER
- AFORDABLE HOUSING
- EDUCATION
- HEALTH
- INCLUSIVE FINANCE



Impact investing is one of many approaches the private sector can use to promote and support the implementation of the SDGs[2]. A study by the UNCTAD[3] identified that achieving the SDGs will require between $5 to $7 trillion, with an investment gap in developing countries of about $2.5 trillion. In this scenario, the role of the private sector is critical as it brings agility in delivery and new approaches to financing the SDGs.

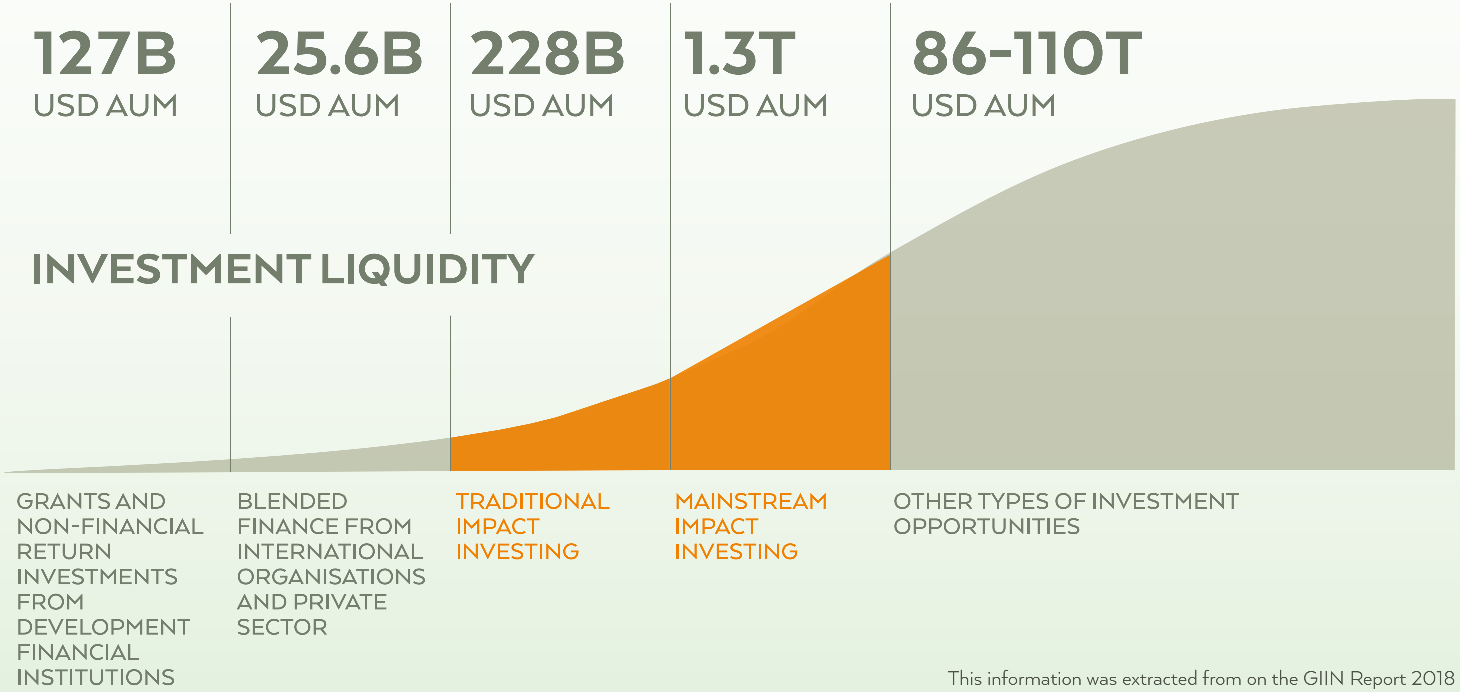
[2] Sustainable Development Goals
[3] United Nations Conference on Trade and Development

HISTORICAL CONTEXT AND EVOLUTION TO THE MAINSTREAM

According to PRI's Market Map Project, the term impact investing was coined by the Rockefeller Foundation 11 years ago and has expanded and become incredibly complex since then. Part of this ecosystem's evolution involves expanding the scope of impact investing's original definition to be more flexible and inclusive; in other words, to be more mainstream.

The traditional impact investing model is usually associated with the theory of change, the concept of additionality and purpose-driven companies. However, the mainstream impact approach focuses on liquid and mature businesses that deliver products or services to benefit society or the environment.

It is important to highlight that the traditional and the mainstream approaches exist in the same ecosystem but operate differently. While the former targets low and mid-liquidity and maturity as well as more innovative companies, the latter focuses on businesses such as listed equity firms and large privately-owned companies. These two types of impact investments are complementary and work symbiotically.



This information was extracted from on the GIIN Report 2018