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Impact Investing: "A Revival"

May 16, 2019 | Morielle I. Lotan

In my last piece, I shared how Oslo developed a climate budget to ensure environmental goals were met and desired changes toward decarbonization accomplished. Since then, I've been thinking a lot about change — how it happens, how it scales, and how it lasts. With the Paris Agreement putting a much-needed fire under our caboose, I wonder what other countries are doing to realize change and what, for the love of Mother Nature, we are doing in our own backyard.

Last month, I attended the Yale Second Annual Impact Investing Conference with those questions in mind.

As Director of innovation for USGRDCO, I acknowledge that partnering with clean-tech companies in the transformation of the energy sector means that we have a responsibility to learn more about an investment model that is inclusive of both social and financial interests. As I sat there among students, scholars, and members of the business community, I followed along with a sense of optimism and wondered if impact investing could be the protagonist that our climate crisis has long been waiting for.

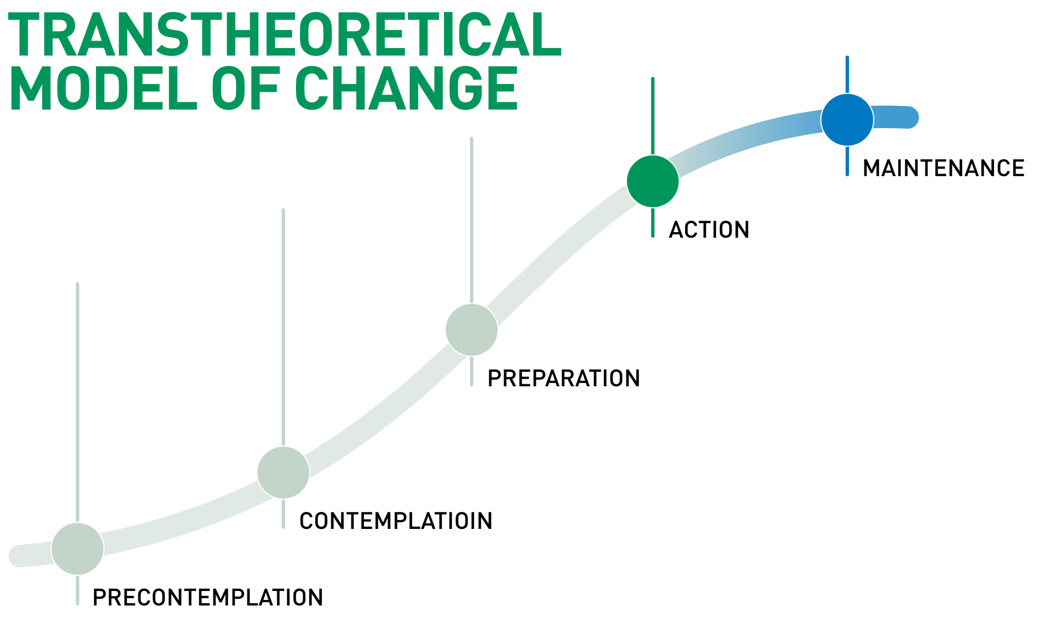
First Act: Evolution vs. Revolution

Impact investing — investments based on pillars of environmental, social, and governance (ESG) goals — seeks not only to avoid the potentially negative impacts a company may have on society the way Socially Responsible Investment (SRI) did, but also predetermine and actively define positive ones. The transformation we are witnessing is a transition from companies taking a reactive stance toward their role in society to a proactive, intention-filled, and thoughtfully executed one. But that's not all. There is currently an unyielding systematic reshifting of the *investosphere*, which is redefining the rules of the investment game.

Impact investing has been bumped up from understudy to lead actor and with that has introduced a more developed, hands-on approach toward comprehensive social responsibility. And while impact investing hasn't sparked a revolution per se, its evolution since being first introduced in 2007 and 2008 is having a transformative effect on the system nonetheless.

Investors are now walking into the board room of major investment banks, private funds, and other asset management firms, demanding that their portfolios be inclusive of companies that meet ESG goals while divesting from those whose only consideration is monetary profit. In turn, these organizations are forced to find ways to evaluate companies by coming up with new value-based metrics that address ESG such as accessibility, intentionality, and authenticity, to name a few. As a result, company ratings will inevitably include not only the prerequisite of monetary gain but also the added value of environmental and social gain.

Second Act: How change happens

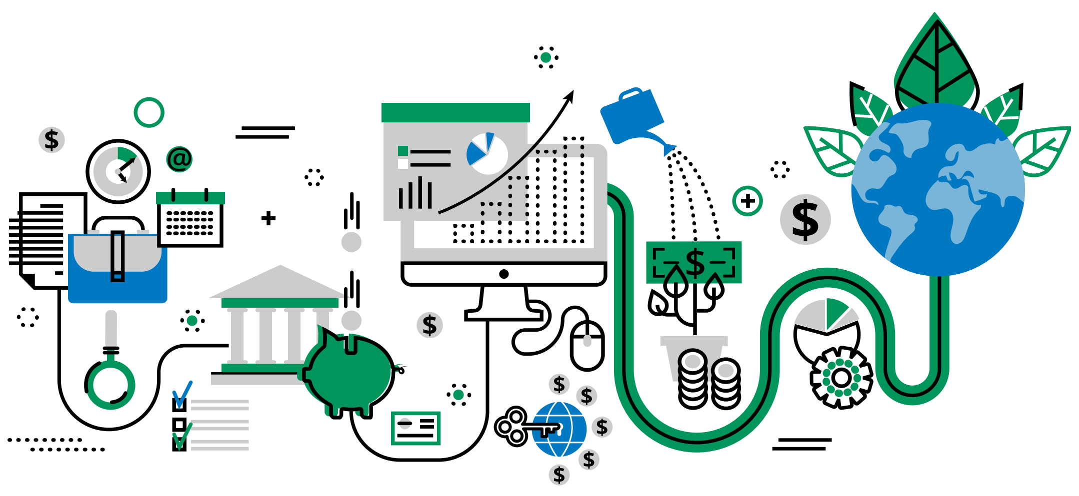


What my visit to Yale helped me do was take a deeper look into change as a process. This led me to view impact investing in a whole new light, as a window into a timely example of how change occurs. I left the conference asking myself if we might just be witnessing the evolution of modern-day economy as we know it.

If social change happens when enough individuals initiate change either independently or as a group, impact investing can be seen as a vehicle through which change is realized. According to the *Transtheoretical Model of Change*, a favorite of my undergraduate self who researched behavioral patterns of change in individuals, change occurs in five stages: precontemplation, contemplation, preparation, action, and maintenance.

Impact investing appears to be nestled somewhere between action and maintenance, stages four and five on the change barometer. This is when change is not only happening but finding its way into becoming more sustainable, scalable, and, perhaps, most encouraging for people in the "we-want-clean-air-to-breathe camp, permanent.

Final Act: The ripple effect



If the line between what is considered an investment and what is considered an impactful investment continues to fade, as suggested by Erika Karp's sentiment that impact investing is investing, the distinction between public and private financial gain could fade along with it. What we'll be left with, in that case, is an investing mindset that is as likely to be concerned with the betterment of the society within which it operates as it is with financial profit. And as the *Theoretical Model of Change* implies, if this socially centric frame of mind transitions from actionable to maintainable, impact investing could prove fundamental to our success, not only as individuals but as a human race.

After listening to the speakers at Yale, my impression is that the impact investing model is not only a way to determine which companies have an internal agenda that promotes positive impact externally but has the potential to impact large-scale change on its own. The more it transitions from trend to status quo whereby the ROI of an impact investment is comparable to an investment that is not, the vast majority of people could very well be inclined to put their money in companies that yield positive environmental outcomes as well as fiscal returns. Because frankly, why not? As a result, demand for more socially responsible companies would rise, leaving those who fail to get on board left behind. From this point, the scale could tip in favor of environmentally and socially conscious investment choices and in that way, impact investing will have played a major role in catalyzing change.