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IMPACT

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Impact Investing: Performance, Purpose and Positioning

The phrase "impact investing" has become the lead moniker chosen to represent several purpose-driven or values-driven strategies that have evolved over the last two decades. Other names such as "sustainable investing", "socially responsible investing or sustainable, responsible and impact (SRI)", "corporate social responsibility (CSR)", "environmental, social and governance (ESG)", all seem to have been folded-up under the simple more widely accepted term impact investing. The ability to align ones wealth with their values and create a positive impact, in some form or fashion**, through the deployment of their investment dollars.**

Regardless of what one calls it, one criticism that these responsible investment strategies face is the perception of underperformance. The idea that an investor needs to sacrifice performance returns in order to achieve the goal of investing in companies or investment vehicles that "do good" or ones that are held to a higher standard in how they operate. Not only does empirical evidence show that these strategies live up to the performance of conventional fund benchmarks, but that they have the potential to outperform them.

There are a number of studies that have focused on the relationship between environmental, social and governance (ESG) factors and investment performance over several decades. One among them is a meta-study conducted in 2012[1]. It took into account more than 100 academic studies, 56 research papers, two literature reviews and four other meta-studies.

One-hundred percent of the academic studies analyzed showed that companies with higher ESG ratings have a lower cost of capital of both debt and equity. Of those companies, 89% exhibited a market-based outperformance and 85% accounting-based outperformance.

Sustainable investing strategies pay attention to a few specific areas as they incorporate ESG attributes into their selection process: Is the company a good corporate citizen (i.e., does it show a commitment to things like workplace diversity, environmentally friendly practices, and investing in the local economy)? Does it live up to the disclosure and governance guidelines set forth by shareholders?

In sustainable investing, the ideal business models would have to demonstrate measurable value to both the company and its stakeholders (customers, employees, government, and communities). Stakeholders can have a direct effect on a company's profits and progress, so how they are affected is a key component in the evaluation of a company's ESG impact.

"Keep in mind, impact investing is not an asset class, it is a lens through which one looks when constructing an investment portfolio…"

Many different outcomes may be measured to evaluate a company's progress with ESG: environmental performance, level of "carbon foot-print," senior management diversity, number of women in leadership roles, history of regulatory actions against the company, board independence, capital allocation decisions, relationships with communities and customers (stakeholders, as mentioned above), product safety, labor and employee development practices, relationships with vendors, workplace safety, regulatory compliance, operations in conflict regions, and corruption.

The use of these factors to enhance a portfolio with positive selection criteria should be an added layer of evaluation for all investments. Keep in mind, impact investing is not an asset class, it is a lens through which one looks when constructing an investment portfolio, and these added screens help to look for best practices, companies that just aren't focused on the 'bottom line' while putting other areas of the business at risk.

Finally, the sustainable investing approach is not about passing moral judgment on companies, but rather reaching for a better way to analyze and project long-term performance of their business models. Companies that incorporate ESG into their operations tend to be well positioned to outperform, as they can work more productively with their stakeholders, lower their operating costs over the long run, and facilitate better capital allocation, greater innovation, and enhanced reputations. With these goals, sustainable business models and practices are poised to generate profits over the long-term and, ultimately, higher share prices.

1 Fulton, Mark and Kahn, Bruce N. and Sharples, Camilla, "Sustainable Investing: Establishing Long-Term Value and Performance" (June 12, 2012)

4 Sustainable Investing Myths Debunked

This post was written by Elizabeth Lewis and Ariel C. Pinchot on behalf of GreenBiz

Enthusiasm for sustainable investing is surging. Already, more than $8.7 trillion of investment capital is managed using environmental, social and governance (ESG) factors in U.S. markets alone, according to the U.S. SIF Foundation. That's a 184 percent increase since 2010. This pot of money increasingly includes investments in green infrastructure, renewable energy, affordable housing and more, as well as investments that more holistically integrate broad ESG factors.

However, amid this hype, a certain amount of confusion, doubt and outright skepticism endures. WRI's new paper, "Navigating the Sustainable Investment Landscape," is based on interviews with 115 investment professionals — including asset owners with $1.26 trillion under management — and found that the prospects for sustainable investing are strong and overcoming key roadblocks will help the market reach a tipping point.
Here, four of the most common myths we encountered in the research are debunked.

Myth #1: Sustainable Investing Sacrifices Returns
One of the most frequent arguments against sustainable investing is that it won't yield as much money as investing in fossil fuel assets, high-carbon companies or weapons manufacturers. Critics say it limits the investment universe, curbing potential returns from the highest-performing assets.

But the data tells a different story. When evaluated across multiple funds and time periods, sustainable investing exhibits a largely neutral — and oftentimes positive — impact on financial performance. A recent Morgan Stanley study of more than 10,000 mutual funds found that sustainable equity funds usually had equal or higher median returns and equal or lower volatility than traditional funds. Oxford University and Arabesque Partners analyzed 41 studies and found a positive relationship between sustainability and financial performance of stock prices for 80 percent of studies reviewed.

Many asset managers already are achieving outsized returns through sustainable investments. These investors are integrating sustainability data —such as carbon emissions, energy efficiency, executive compensation and board diversity — into fundamental analyses as a means of revealing unseen risks and opportunities. Some managers even focus on placing capital with companies that are creating the technical and business solutions to environmental and social challenges. Investing in these solutions can be riskier over the short-term, but these managers have conviction they will achieve outsized returns over the long-term by bringing some of the early capital into companies creating the transition to a sustainable economy.

Additionally, impact companies are increasingly taking a place among the world's most iconic brands—driven by both their financial performance and social impact. Strong brands have been built in this space, including Patagonia, Warby Parker and SolarCity to name a few. These brands represent a new generation of consumer companies that are demonstrating mission-focused approaches that include care and concern for humanity and/or for the well-being of our planet, and in so doing, they are strongly attracting the next generation of consumers. Patagonia's strong consumer appeal and brand recognition has led to double-digit annual growth, while Warby Parker, an online consumer retailer, has emerged as a next generation company whose valuation is considered to top $1 billion—a significant feat ahead of an "exit" such as an IPO or acquisition.

Myth #2: Sustainable Investing Violates Fiduciary Duty

Skeptics of sustainable investing also commonly claim that it violates "fiduciary duty," or the investor's legal responsibility to make investment decisions in the best interest of the beneficiary. This duty is often interpreted as a requirement to maximize investment returns above all else.

In reality, identifying material ESG factors is important to fulfilling "fiduciary duty." For example, robust corporate sustainability practices — including those that improve energy use or reduce waste — are material because they can lower the cost of capital for companies and improve operational performance. Considering the sustainability performance of investment opportunities is often explicitly in the best interest of investors, and therefore fully in line with fiduciary duty.

The U.S. Department of Labor (DOL), the agency overseeing most U.S. pension funds, states this explicitly. In a 2015 bulletin, the DOL provided clarity for fiduciaries managing investments under the Employee Retirement Income Act, affirming that when ESG is core to value, sustainable investing does not breach fiduciary duty. Indeed, as the policy landscape continues to evolve, such as through new carbon pollution standards and minimum wage increases, many legal scholars contend that overlooking ESG risks actually may violate fiduciary duty.

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Myth #3: Sustainable Investing is Risky in Uncertain Markets

Some skeptics point to uncertainty in the markets as another reason to steer clear of sustainable investing. Some see the 2010-2011 collapse of the clean tech bubble as evidence that sustainable innovation is categorically risky. There's still doubt about whether policies will create the necessary incentives to ignite a transition to a low-carbon economy.

Certainly we've experienced short-term difficulties in clean tech markets. The bankruptcy of once-promising SunEdison is a prime example. But there are stark differences between today's markets and those during the clean tech bubble. Fundamentals have shifted. Consider the bankruptcy of Peabody, the largest private-sector coal company in the world, as well as dozens of other U.S. coal companies. It clearly doesn't pay to maintain investments in old industries as technologies shift.

In fact, the clean energy market as a whole is experiencing a surge. Installed capacity of wind and solar have grown annually by 23 percent and 50 percent respectively, over the last decade. At the same time, prices of lithium-ion batteries are dropping precipitously, greatly reducing cost barriers to an electric vehicle revolution. This is a clear indication of a market in transition.

Further, the continued rollout of supportive policies and structural changes to the economy is undeniable. Technology and economics are playing the biggest roles in transforming the marketplace. While the Trump administration seems likely to undo policies that promote sustainability, this will not stop the global momentum behind this movement.

As the Paris Agreement on climate change takes force, countries of the world are implementing their national climate plans and moving toward a low-carbon growth path. Canada just announced plans for a national tax on carbon pollution, beginning in 2018. Meanwhile, the private sector — driven as much by the business case as policy — is already taking steps to reduce its climate impact. As one indication, 200 companies have committed to set Science Based Targets for their carbon emissions in order to limit global warming to 2 degrees Celsus, and 640 companies and investors have committed to climate action through the We Mean Business coalition.

To ignore these signals of a changing economy is the real investment risk.

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Myth #4: Sustainable Investing is Unfeasible

Even among investors who recognize the value of sustainable investing, many falter when asked to act. The implementation process can be complex.

While sustainable investing does indeed requite some extra work, it is by no means out of reach for the average investor. Consultants, managers and associations are increasingly able to guide asset owners through the technical processes. A number of leading non-profit networks such as Ceres, the Forum for Sustainable and Responsible Investment and the U.N.-supported Principles for Responsible Investment provide a wealth of resources. WRI's Sustainable Investing Initiative offers fact-based research, guidance and educational forums.

Investors also can take several simple steps to set things in motion. A good starting point is establishing a board committee focused on education and strategic planning. This can help build common understanding so investors can come to a unified plan of action. At that point, they can turn to the growing set of investment opportunities available through various platforms, including from mainstream asset managers.

When making the initial capital move, investors may find it easier to start with a smaller, highly liquid investment in a sustainable fund. They can draw upon this learning experience to inform and refine the broader portfolio approach before moving into more illiquid asset classes such as hedge funds, real assets or private equity, which have the most restrictive rules for getting capital.

Towards a new reality

As the world faces unprecedented challenges, the investment ecosystem is swiftly adapting. We've seen a deluge of new data, reporting standards, investment services and products that enable investors to engage in practical strategies for sustainable investing. As more investors see past the lingering myths described here and begin to make sustainability a fundamental part of decision-making, they will reap the benefits from a transforming economy.

The truth about sustainable investing is that it's a step in the right direction for long-term profits — as well as for the planet and its people.

WRI is an independent research organization and does not endorse or recommend any specific investment funds

How Matt Damon Plans To Get 500 Million People Access To Water -- And Make A Buck For Investors

This post was written by Jennifer Wang on behalf of Forbes

Actor Matt Damon is passionate about getting clean water to millions around the world who don't have the luxury of getting potable water without walking miles to do so.

Speaking at the 2017 Forbes 400 Summit on Philanthropy in Manhattan on Tuesday, Damon pitched access to clean water and sanitation as the lynchpin to achieving all of United Nations' sustainable development goals. "If we solve this problem, think of what it means across the board -- for economic development, education, gender equality, global health," Damon said of his effort to tackle the water crisis. "This is the big bang."

While New York City has provided its residents access to tap water since 1901 -- when horse drawn carriages still ruled the road -- over 2 billion people today still lack access to a toilet, Damon said.

The Oscar-winning actor first got interested in water access over a decade ago, after a trip to rural Zambia with singer Bono's nonprofit ONE. Damon decided to accompany a young girl on her daily water collection trip. When he asked the shy teenager if she wanted to stay in the village when she grows up, the girl gave a resounding no. "I'm going to the big city, I'm going to Lusaka," she told him, "I'm going to be a nurse."

"I just felt this connection to her," recalled Damon. "Because when I was at that age, Ben Affleck and I, we were going to go to the big city of New York, we were going to be actors." The Boston native realized that had a well not been put within walking distance from this girl's house, she would be spending her days scavenging for water; instead, the youngster fetches water for her family after school.

Back in the U.S., Damon connected with Gary White, a 25-year veteran of development with a focus on water, and created Water.org, a nonprofit specializing in water and sanitation projects. While the scope of the problem is enormous -- Damon says a conservative estimate put the cost of solving the crisis at a trillion dollars -- White discovered in his research that the problem is a market failure that he believed could be fixed with business practices.

White recalls meeting a woman in India who was paying a vendor 20 rupees a day to buy water for her family, and 20 rupees a day to use the latrine, culminating in 1200 rupees (or roughly $19) a month in water costs. Yet for 1200 rupees, the woman could pay to get access to tap water and have a latrine built, giving her a permanent source of clean water (she would of course have to pay a water bill, but White implied that it would be far lower than her previous outlay). However, with no access to affordable capital -- another woman White met was paying a 125% interest rate to a loan shark to build a toilet -- people who can least afford it are stuck paying above market prices for water.

Damon and White decided to tackle the problem through microfinancing, lending to impoverished people in developing countries to pay for permanent water access. While most water nonprofits rely on a supply model (choosing where and how to build a water source), the duo wanted to follow a demand model, in which borrowers get to dictate how the money is spent.

In the eight years since the project has started, Water.org has helped eight million people access clean water, and Damon said the repayment rate on the loans exceeds 99%. To scale up their model, Damon and White have tapped the growing trend of social impact investing, raising investment funds to increase the capital available for micro lending. The first $11 million fund has already been put to work in India, and a second $50 million fund is currently being raised.

To decrease the risk for investors, Water.org's funds combine donations with for-profit investments, with the philanthropic dollars taking the first hit in the event of a loss. By partnering with financial institutions, the $20 million that the organization has raised in its lifetime has turned into nearly $500 million worth of loans. "If we had to raise [$500 million] as a charity, you wouldn't do it in a million years," said White. "But [you can] raise it as capital."

Damon and White said their business model can reach 500 million people, and they aim to help 60 million people in the next eight years. "We're so lucky to live in this moment. We're so lucky to have that chance and seize it," Damon gushed. "I'm not going to give up on this planet."

E3 = Epic Time, Talent & Treasure

Nearly one-half of the world's population – more than 3 billion people, 1 billion of which are children – live in poverty, and 1.3 billion live in extreme poverty earning less than $1.25 a day. Eight-hundred and five million people worldwide do not have enough food to eat, and more than 750 million people lack adequate access to clean drinking water. The poor are hungry and their hunger traps them in poverty.

Epic Capital is a mission-driven firm with a genuine passion for community, both locally and around the world, with a focus specifically on social outreach initiatives. We give our time, talent and treasure to organizations that support the working poor, homeless men women and children, or those families struggling to make ends meet. This is meaningful to us because we feel extraordinarily blessed for all of the things we have in our lives and the opportunities that we have been given to do work that we love. So we have made our passion for lifting others up a part of our corporate charter. We call it E3.

- We give **our time** through our quarterly *Epic Outreach* program, serving where the greatest needs are through local charities serving around the Charlotte area as well as internationally around the world.
- We give **our talent** through administering financial awareness workshops for organizations and churches that minister in low income neighborhoods, in addition to our partnership with Common Wealth Charlotte.
- And we give **our treasure** through our *Epic Impact Grant Program* to local community and global organizations that meet our social outreach criteria.

We believe that we are all called to serve. We also believe that the positive impact one can make by empowering the life of another can alter the direction of that individual's life forever.

We are pleased to announce that beginning in 2018 we will be opening up our quarterly Epic Outreach initiatives to include volunteer participation from clients of Epic Capital.

Second Harvest Food Bank – October 2017

Everyone at Epic Capital wanted to do something for the families suffering from the devastation that took place in Puerto Rico during the hurricanes. So we spent a morning sorting donated goods that will be shipped down and disseminated to those in need. It is extraordinary what the Second Harvest Food Bank of Metrolina does, serving over 725 non-profits in the Carolinas, and doing the work that needs doing to support those in the time of crisis. Bravo Mark and the entire SHFB team. Please consider making a donation, or reach out to them and serve as well!

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Questions, comments, and inquiries are welcome: info@EpicCapital.com

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