Getting Pushback on Impact Investing?

Here are 6 Talking Points to Help You Make Your Case

You’ve broached the topic of impact investing with your advisor, your spouse, or other investment committee members, but they aren’t sure it’s a good idea. Arm yourself with these responses to six common myths about impact investing. You’ll be able to build your case about just how valuable it is to invest for better.

Myth #1: You will sacrifice return

Response: You don’t have to accept a lower return to make a positive impact. Meta-studies of financial performance of ESG and SRI portfolios, as well private asset classes show that such funds have equal or often superior returns. You may, however, want to deepen your social impact and intentionally take a lower return! This article by Omidyar Network frames out the many reasons why some impact investors decide to take a concessionary return and allows you to understand where you may fit across your own risk, return and impact expectations.

Myth #2: This is a fad and will go away

Response: If that’s true, then a lot of people are wrong. This “fad” has its origins in the sixties, when anti-apartheid activists first divested from South African stocks. The first socially responsible mutual fund started in 1971. Impact investing (a term coined in 2007) is growing rapidly in the U.S. and abroad. The global socially responsible investing (SRI) market is now worth almost $23 trillion and ESG assets in the US have grown over 200% in the past decade. The global impact investing market was estimated to be $228B in 2017, and respondents to The Global Impact Investing Network’s annual survey showed participants expected growth of 8-20% in 2018 for a full range of impact investments in such sectors as education, food and agriculture.

Myth #3: Sustainability and impact investing are too expensive

Response: In new, less developed markets, it is not unusual to find higher fees for execution. Moreover, part of the cost of active management includes shareholder advocacy work to vote proxies and engage companies toward better practices, which requires additional staff. On the other hand, leading investors such as Larry Fink of Blackrock have publicly stated a belief that these investments will return more to investors over the long term, as they reduce the risk of negative externalities. In the
public markets we are seeing more low cost index options and fees are trending downward for active management.

**Myth #4: There are not enough good impact investment products.**

*Response:* The number and variety of investment products is growing rapidly and today there are many managers and products that have strong track records. In 1995 there were 55 funds incorporating ESG factors; in 2016 there were 1002 funds. The number of private equity, venture capital, private debt and real assets products with an impact focus continues to grow. High net worth investors and institutions have a good choice of proven products, although the breadth will range across geographies and themes. New products for smaller size investors are somewhat limited, but quickly proliferating. For those who want to invest directly in individual for-profit or non-profit enterprises, the possibilities are endless, provided you develop a rigorous due diligence framework and process.

**Myth #5: Measurement of social and environmental impact is too hard to do.**

*Response:* It is hard to measure the complex outcomes that impact-oriented products and funds seek to accomplish. But there is a lot that can be done to better understand the impact of each investment, beginning with just asking questions of fund managers and enterprise leaders about expected results beyond financial profitability. The market responds to shareholders and if enough shareholders ask questions about environmental sustainability, human rights, and health impacts, corporations will manage to those queries. There are a number of efforts in place to build common frameworks and standards so that you can compare social and environmental impacts of enterprises, products and funds. The Impact Management Project is facilitating the coordination of the many standard-setting groups to develop a common framework.

**Myth #6: There is enough donative capital to solve our social needs. We don’t need to use our investments too.**

*Response:* According to Giving USA, Americans gave $410 billion in charitable contributions in 2017. 71% of that total ($290B) were contributions from individuals like you and me. Although donations are an incredibly powerful form of capital, are they enough to solve the entirety of our country’s social pressures? We believe that it would take over $3 trillion annually to aggregate sufficient capital to solve these needs. This Philanthropic Gap requires financial investors to dedicate a small portion of their investable assets in socially responsible investment opportunities. Imagine a world where social investments are as acceptable as financial ones!

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*Invest for Better is a project of The Philanthropic Initiative. For more information, visit us at [investforbetter.org](http://investforbetter.org).*