Impact Investment

Fact Sheet for Investors

Responsible Investment Association

What is impact investment?

The term 'impact investing' was coined in 2007, and has been used quite broadly to date. The most widely-cited definition comes from a 2010 report by J.P. Morgan, the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, who described impact investments as "investments intended to create positive impact beyond financial returns." Impact investors seek to move beyond risk management and ESG integration and towards intentionally deploying capital in ways that implement solutions to societal problems.

According to the Global Impact Investing Network, impact investments can be made in both emerging and developed markets, and can target a wide range of returns from below market to market rate, depending on investors' strategic goals. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, micro-finance, and affordable and accessible basic services including housing, healthcare, education, and other important services.

As shown in the diagram below, impact investing can be viewed on a continuum of approaches that are grouped under the umbrella of 'social finance', which broadly incorporate social and environmental considerations.

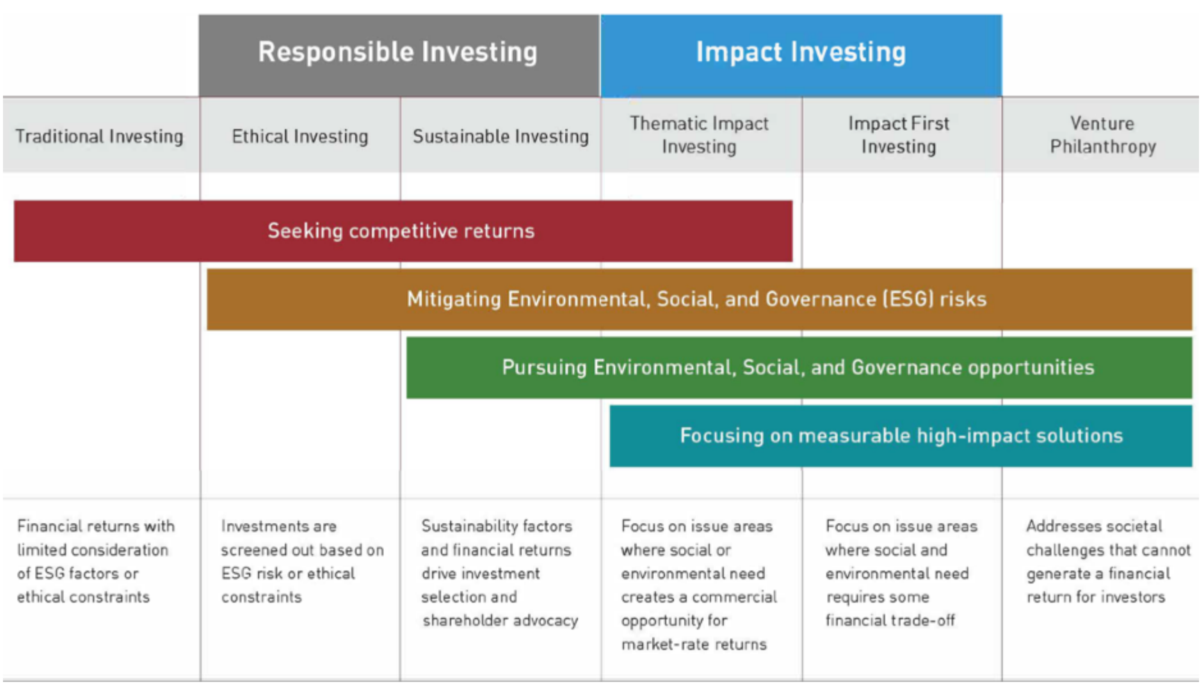

Diagram from Rally Assets, The Impact Investing Guidebook for Foundations

What are the characteristics?

Impact investment is differentiated from traditional investment by:

1) **Investor intention:** Investors intend to allocate capital (debt, equity, or hybrid forms) to investments where they expect both a financial return (ranging from return of principal to market-beating returns) and a defined societal impact.
2) **Investee intention:** Business models for investees (whether they are for profit or non-profit enterprises, funds, or other financial vehicles) are intentionally constructed to seek financial and social value.
3) **Impact measurement:** Investors and investees are able to demonstrate how these stated intentions translate into measureable social impact

Why impact investing?

According to the GIIN, impact investing challenges the long-held views that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns.The impact investing market offers diverse and viable opportunities for investors to advance social and environmental solutions through investments that also produce financial returns.

According to 2018 Impact Investment Trends Report, impact investing in Canada has grown significantly in the past five years. Total impact assets grew from $3.77 billion at the end of 2012 to $14.75 billion at the end of 2017. To put impact investing in context, responsible investments in Canada totalled $2.13 trillion at the end of 2017 (Source: 2018 RI Trends Report). Impact investing still remains a small but fast-growing component of the total in responsible investments in Canada.

The significant growth of impact investing is attributable to the increased demand for impact across asset classes among asset owners and individual investors. Organizations such as the Inspirit Foundation have made public commitments to invest for impact across their entire portfolio. Other organizations, including the J.W. McConnell Family Foundation and the Catherine Donnelly Foundation, are publicly seeking to make an impact with their endowment. These public statements and commitments are often driven by a growing interest in aligning portfolios with organizational values. For example, the Ivey Foundation has written about its intentions to “activate” its investment portfolio by using all of its assets as a tool for making progress toward its mission and goals.

In addition, a recent report from the MaRS Centre for Impact Investing found that approximately 90% of high net worth Canadians are interested in impact investing. The report found that demographics in the more experienced, younger, wealthier and female categories tended to show particularly significant interest in impact investing. Impact investing is likely to continue on its rapid growth trajectory as more millennials and women build wealth and influence household financial decisions.

Who are the investors?

According to the GIIN, impact investors include:

- Fund Managers
- Development finance institutions
- Diversified financial institutions/banks
- Private foundations
- Pension funds and insurance companies
- Family Offices
- Individual investors
- NGOs
- Religious institutions

Acknowledgement

Special thanks to Rally Assets for contributing content to this RIA fact sheet.

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For More Information

Follow these links to learn more about impact investment:

Annual Impact Investor Survey 2018 (GIIN)

Impact Investing Guidebook for Foundations (Rally Assets, 2017)

RIA
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About the RIA

The Responsible Investment Association (RIA) is Canada’s industry association for responsible investment. RIA members include fund companies, financial institutions, asset management firms, asset owners, advisors, research firms, consultants and others who practice and support the incorporation of environmental, social and governance (ESG) factors into investment decisions.

Learn more at www.riacanada.ca