RESPONSIBLE INVESTING

Impact investments to see a boost

BY **DATUK DR KIM TAN**

This year saw rapid growth in the social impact investment sector and this trend looks set to continue in 2018.

One estimate of the current impact investing assets is at US$77.4 billion. Other estimates are much higher. However, the bulk of this figure comprises microfinance, social housing and environmental investments. Direct social impact investments that provide capital for the growth of small and medium enterprises among the underprivileged communities are but a fraction of the amount.

For the coming year, I believe we will see more investments by governments, foundations, family offices, financial institutions and corporations. We also expect to see more impact bonds, public listings and impact fund managers.

GOVERNMENT INVESTMENTS

Through the Department for International Development, the British government committed £80 million to a new fund-of-funds impact investment managed by government-owned CDC Group about six years ago. This is set to increase to £350 million in the coming year. Likewise, the Norwegian Investment Fund for Developing Countries and the Netherlands Development Finance Co — both of which are government-led initiatives — have been trailblazers in this sector and are expected to increase their capital allocation to impact fund managers.

As these governments demonstrate successful financial and social returns through their outsourced fund managers, I expect other governments and sovereign wealth funds to follow in their footsteps.

FOUNDATIONS AND FAMILY OFFICES

Foundations, trusts and family offices have been pioneering venture philanthropy. The next logical step for many of them is social impact investing to build sustainable businesses that can directly tackle poverty and social issues. The likes of Switzerland's Argidius Foundation and the LGT Venture Philanthropy have been pioneers in directly supporting social enterprise development.

In our network, US-based Omidyar Foundation has been a leading investor, especially in the area of low-cost primary education for the poor. The Pearson Affordable Learning Fund has also been a key investor in this sector. But others, including leading foundations like the ELMA Group of Foundations, the Bill & Melinda Gates Foundation and the Chan Zuckerberg Initiative, are beginning to engage in it as well. Other foundations such as Rockefeller and Skoll have supported the development of the impact ecosystem.

In the US, foundations are beginning to use the project-related investment facility — investments that support charitable activities that have a potential return on capital within an established time frame — to make investments alongside their grants. The Asian family offices, especially in Singapore, are beginning to take an interest in this new way of applying their philanthropic funds.

FINANCIAL INSTITUTIONS

With more clients looking to use their philanthropic dollars to support sustainable enterprises for the poor, banks are creating specialist teams to help them deploy their funds in the sector. JP Morgan Social Finance was one of the earliest on the mark as a fund of funds, taking a number of limited partnerships in microfinance as well as social impact funds. Banks such as UBS and Credit Suisse, through their philanthropy wealth teams, are actively advising clients on social impact investing strategies.

IMPACT BONDS

Following the success of the US$1 billion International Financing Facility for Immunisation impact bond in 2006 to vaccinate 500 million children against diseases such as measles, tetanus and yellow fever, we have seen several other initiatives raising social impact bonds for social housing and recidivism.

Big Society Capital and Social Finance have been the active pioneers in the UK. Alongside these large issues, there has been a growing number of smaller-ticket impact bonds this year.

PUBLIC LISTING

To date, this fledging sector has been reserved for a small number of high-net-worth individuals, family offices, financial institutions and government institutions. In order for impact investing to become an asset class, we will need to see listed entities so that retail investors can also participate.

Inqo Investment was the first social impact investment holding company to be listed on the NEX Exchange in London last year. A number of banks, including the UK-based Hoare Bank, are looking at opportunities to launch impact investment trusts that will be listed on the London Stock Exchange. As some of the portfolio companies in the impact funds mature, we will see more of them move to the public market.

The ethical and social responsible funds market is huge. However, most are negatively screened do-no-harm funds. The availability of listed social impact stocks will allow these ethical funds to positively screen for shares of companies intentionally seeking to do good.

IMPACT FUND MANAGERS

With the availability of new capital for fund of funds like the development financial institutions and AXA Insurance for impact investing, we will see new fund managers emerging. These fund managers will come from existing venture capital, private equity and emerging market firms using their platforms and experience to do social investments.

Non-governmental organisations and charities wanting to do impact investing are looking at setting up their own fund management teams or partnering existing fund managers. The United Nations Development Programme has even created a social impact fund to promote social investing alongside its aid funding.

However, the most interesting group to watch are corporations. Many have been involved in corporate social responsibility (CSR) activities to demonstrate their corporate citizenship. Some are moving beyond CSR grant-making to social investing. Among the pioneers is the Johnson & Johnson Corporate Citizenship Trust, a bold move by the company to form a dedicated social impact investment team to make investments in health and well-being. Hopefully, other corporations will follow suit. E

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COVER STORY

Are alternative asset classes worth a look?

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gold prices. "I don't see gold as exciting. It tends to do well when there are economic crises and market uncertainties [but this is not the main case for next year]. Buying it is more to prepare for unexpected events."

Recently, new alternative asset classes, such as peer-to-peer (P2P) financing and cryptocurrency, have emerged. Should investors be looking at them?

Danny says he believes personally that P2P is definitely an asset class that will grow over the year based on the experience in developed countries. An example would be Lending Club, a company operating a P2P financing platform that is listed on the New York Stock Exchange. "I personally believe it will take off locally when the awareness is there. It is definitely an alternative investment that investors can look into."

However, he says investors should always adhere to the basic principle of diversification and be prepared for default. "To me, P2P financing is similar to high-yield bonds. The risk of default is higher and it will certainly happen sooner or later. Investors have to be aware of the risk they are taking and be prepared for it. Also, these are start-ups, and there is a possibility that one might not work out. This is why it is important for investors to diversify their investments not only into different notes but platforms as well."

On cryptocurrency, Danny says investors can view it as an alternative asset, like wine or watches, and take a calculated risk to invest a little money in it. "Being a value investor, I'm more comfortable investing in P2P than bitcoin. The real challenge the industry is facing now with cryptocurrencies is determining their intrinsic value." E

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