WHAT IS IMPACT INVESTING AND HOW DO YOU DO IT

PERPETUAL
05/03/2020

Simply put, impact investing is a type of investment strategy that aims not only to generate financial returns but also creates constructive social outcomes, really a win-win if you ask me.

The Global Impact Investing Network (GIIN) defines impact investing as: "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." For example, you may go about impact investing by reshaping your financial investments, so they're aligned with your values while also aiming to make a return.

What's the difference between impact investing and charity?

When you donate to charity you're gifting your money so it will do some good, but you won't see your money again, although the benefits generally translate to a greater good (and good for you), whereas impact investing aims to grow your initial investment while also having a constructive impact on the world. Generally, impact investors also have specific objectives they are trying to achieve. For example, say you really care about the environment or you know someone affected by cancer, then you may set out to only invest in companies for example that create clean technologies that benefit the environment (such as a windfarm company) or invest in a company that funds cancer research, such as the Cancer Council.

Often, charitable giving can be tax deductible – this is unlikely to be the case for impact investing, so it's worth thinking about this aspect as well.

Why impact investing?

Impact investing challenges the long-held belief that social and environmental issues should be addressed only by the government or philanthropic donations and that market investments should *only* be concerned with generating financial returns.

In recent years, entrepreneurs and socially-minded investors have reached out to create new opportunities that have a positive impact on the world, be it environmental, social or educational.

So, how do you become an impact investor?

Before you dive into impact investing you should take some time to think about what you really care about and how you'd like to see your values translated into your investment strategy. Here are three main considerations:

1. What impact do you want to have?
   The best place to start is to consider what causes you care about. If this is part of your long-term family wealth plan, then it's a great idea to involve other members of your family at this stage. All of you could make a shortlist of the causes you care about and then compare them to find where the common ground is. For maximum impact you ideally want to support causes that you **all** care about, that way you'll be more motivated to make an impact, and likely to receive greater emotional benefit from your investments.
2. How does this fit into your overall financial plan?
   Do you want to make an impact AND get a financial return? Or is it more about making a difference? Some impact investors are happy to receive less money than they'd receive in a more traditional investment, because their investments are achieving the impact they're looking for - although it's also common for impact investors to want and expect financial returns at least in line with the market. There is certainly a range of investment and other risks to consider when surveying the impact investment environment.
3. Lastly, you should consider how much effort you want to put in along with your money.
   If you just want to invest, but not spend any time or effort, then you're better off choosing an investment fund which aligns with your interests. If you want to get more hands-on, in either choosing, or possibly also working to make an impact, then you might want to invest in an early stage company or work directly with a not-for-profit to fund a program.

Once you've thought about the three things above, then you're ready to start. It's a good idea now to talk to your financial adviser to see what sort of assistance they can provide.

If you want to do things yourself, you could start by researching not-for-profits that work in the area you're interested in or find an investment fund that aligns with your interests, risk appetite and expected returns.

Who ever said money is power was really onto something.