Impact Investing – A return that's more than financial

It is a truth, universally acknowledged, by the tabloid media anyway, that private equity (PE) is black-hearted – the asset-stripping, cost-cutting, uncaring face of business investment. It's an industry I've formally been part of for over ten years as a fund administrator, previously to that as an auditor, and I've not seen the apparent unconditional attachment to those traits. The investment managers I speak with are more concerned with sustainable, consistent growth with a fit for purpose structure around that; not unreasonably so.

But there's an even more altruistic wave within the industry that we're starting to see real interest in, and from more diverse investor bases: the social impact fund.

A new dawn in investing

Sticking to the tabloid media example I started with, just a casual glance at the front pages of the daily newspapers give an indication of where United Kingdom residents' concerns are – suffice to say, at present, it's no longer the City of London. There's a general perception that additional funding is needed for social housing, education, the NHS and wider support areas in the country, and it is in these sectors that responsible investors are looking to use their reserves, and our clients are looking to find opportunities to use that money. If these commitments had the media following that the PE restructurings do, maybe the perception of the industry would shift somewhat.

Much as any pension scheme has its allocations to ready cash, stocks, bonds and alternatives, we're consistently seeing them responsibly use funds to invest in areas where there are the dual benefits of making a sensible return, as well as seeing real benefits within the scope of the social or environmental impact those commitments are making.

And the industry is adapting with it. Although such financial allocations can be simplified as part of an institutional investor's corporate and social responsibility ethos, and will obviously be crucial to any philanthropist's investment profile, there is real economic value in these funds; commitments are not being treated purely as a charitable donation, and are being managed by forward-looking, growing investment management business with a real skill set in the sector.

So, the social impact fund should be looked at as a bona fide investment opportunity for all professional investors and, therefore, should be run as such. As a result, investment advisory boards, corporate governance, administration, compliance and regulation have as much importance within that space as a PE fund, if not more so, given the potential level of external scrutiny.

Investment decisions then become more than focusing on potential bottom line and exit, and the governance documents around those board decisions need to formally address the reasons behind investment, and the success factors that the portfolio will be judged on, which may vary from project to project as diversification and modelling of the fund occurs. The cash within the fund will need experienced managing, and real transparency around decision-making may be more and more fixated upon by the investor base, as each project may have distinct success factors. Any monitoring of those factors will need expert attention.

It's a position that we have direct experience with through our involvement with SV Health Managers LLP's Dementia Discovery Fund, which was seed-funded through a cornerstone investor RFP process run by the Department for Health in the United Kingdom. Ultimately, SV Health were chosen to manage the fund based on their innate experience of running a successful venture capital investment firm, and that level of business acumen and intelligence was desired by the government in their ultimate intention to invigorate research into dementia cures.

Reporting that goes beyond numbers

Then, the social impact fund should run in much the same way as any fund in the PE space would be. However, I believe it is within investor reporting where extensive evolution will occur – designed to truly stretch the information provided to investor bases.

Again, the DDF has parallels here, as their investors range from big corporates, via the UK government, as I've mentioned, through to a well-publicised personal investment from Bill Gates, and their requirements for information will diverge significantly. Investor reporting provided to them quarterly will strengthen as time moves on, and data provided will shift from soft, discursive pages towards evidence of success or otherwise as clinical trials become more relevant.

This will have equivalents across all social impact funds, as the reasons for investment will become more relevant than a more standard, commercially-focused PE fund. For example, what does a corporate investor want discussed in regard to investment in education, compared to a university endowment fund? I'd expect to see investor reporting become much more focused on potentially 'unseen' benefits and value progression; the challenge being how this information is captured and presented by investment managers going forward.

It's also a crystallised chance for the wider industry to raise transparency in what it does. If investor reporting becomes potentially less focused on numbers, fair value and gain, and more on the wider social benefits, synergy and the professionalisation of areas of industry which apparently sorely need it, is there the opportunity for a sanitised version of the investor report to be used as a method of informing a public which still misconstrues the role private investment plays in the country?

Published information will always be a factor in any investor electing to place a commitment with a manager, but again, I can see the way in which investor conferences and annual general meetings are run for social impact funds will push boundaries in the industry, potentially with elements of it becoming more open forums for media and public attendance.

Making a difference

Suffice to say we are firstly, immensely proud to have our first administered social impact fund have completed its final close, over-subscribed and already making a difference to dementia research, and overall, excited about this new dawn in the wider industry, where socially responsible investment can be effectively married to the more traditional ethos of successful returns. We're thrilled to be part of the movement.