INVESTING FOR IMPACT: HOW INSTITUTIONAL INVESTORS TACKLE THE BARRIERS

By Michael Lohmeier, Chief Investment Officer
IMPACT Community Capital

June 2021

Though interest in impact investing is greater than ever, institutional investors still face challenges when attempting to bring about positive social or environmental change with their investment capital. In our recent webinar, co-hosted with the American Council of Life Insurers, Violet Osterberg, managing director at Pacific Life, laid out some of the big hurdles to impact investing. Below are several ideas for institutional investors to consider in overcoming them.

Buy-in

The first challenge for any organization seeking to make an impact is to get internal support. "A lot of people hear the term 'impact investment' and anxiety sets in," Violet said. "You'll have to discuss the misconceptions and realities of impact investing with your colleagues." You have to demonstrate the characteristics and value of impact investments like you would with any new proposition, explaining the risks and conducting sound analysis to get buy-in from the rest of the institution, she said.

Here, Violet's work at Pacific Life, which is one of IMPACT's owners, is constructive. Any organization that is investing for impact needs to have a champion — someone who believes that investments can bring about social or environmental change without compromising on financial returns. It's that champion who can help push the institution forward and present the proposed strategy in terms that the investment committee can easily understand and compare to traditional investments. At IMPACT, we've been fortunate to work with Violet, who has been a great champion.

Process

In the early stages of implementation, "you might find a lot of confusion about who in your institution is going to analyze an investment proposal for an impact investment," Violet added. "Is it going to be your real estate group? Your fixed-income group? Private equity?"

What's important to understand about impact investing is that it's not a separate asset class. Impact investments do not present different legal rights or structures

Michael Lohmeier, Chief Investment Officer

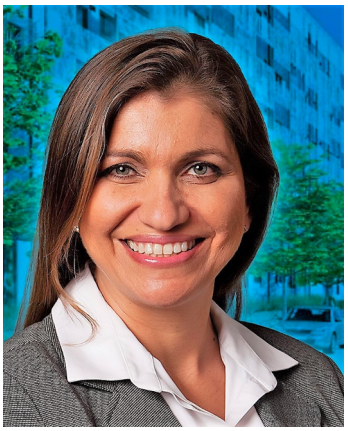
> ***What's important to understand about impact investing is that it's not a separate asset class.***

versus traditional bonds and equities. Traditional assets, such as bonds and equities, have distinct structures that allow for aggregation into these “classes” and play different roles in investor portfolios. Impact investments are opportunities within traditional bond and equity offerings, enabling them to provide similar benefits as they have the same legal and financial structures. Where impact investments differ are in their risk/return profiles, which can have a low correlation to traditional stocks and bonds and provide portfolio diversification. For example, an impact-oriented equity strategy will broadly have the same structure as an equity investment. However, the impact thesis will provide insight into how the risk and returns will compare to your traditional investments and how much diversification the impact investment can provide.

Institutional investors need to think about where it makes sense to seek impact within their portfolios.Then an investor needs to decide if it makes sense to source deals across their investment teams or with a team dedicated to impact.

No Compromises

Compromising returns is still one of the big misconceptions about impact investing: “You don't have to sacrifice your credit review analysis or credit quality or your returns in impact investing,” Violet pointed out. Indeed, impact investments should be viewed like any other investment that institutions might consider. An investor should decide on the role the investment is designed to have within the portfolio and determine if the risk/return characteristics meet the portfolio’s requirements.



Violet Osterberg, Pacific Life

Violet pointed out that in her role at Pacific Life, “all investments have to meet the criteria that is customary for an insurance company’s general account. They have to pass the credit review analysis. They have to present the appropriate risk-based capital charge. They're going on our balance sheet, so they have to be priced commensurate with market rates.”

Supply

“A significant challenge that impact investors still face today is supply,” warned Violet. “Have no illusions that you can deploy a lot of capital into impact investments at the same speed and rate at which you do in corporate bonds. You will find that there is not a lot of supply for the straight, down-the-middle impact investment opportunities. These investments are not coming to you from mainstream Wall Street firms that come to you with an offering memorandum,

> ***“You don't have to sacrifice your credit review analysis or credit quality or your returns in impact investing.”***

roadshow, and a firm bid due date, and the process just moves along. These are more bespoke investments, and so are the firms that are bringing them to you," she said.

This highlights what differentiates IMPACT Community Capital from other impact investors in the affordable housing space. IMPACT is not just an investment manager. IMPACT also works in the capital markets to create investments that we, in turn, manage on behalf of our investors. This is partly why IMPACT was founded in 1998 by our insurance company owners, which includes Pacific Life, Allstate, Farmers Insurance, Nationwide, and Nuveen. IMPACT was able to source investments for our insurer-owners that they could not find elsewhere. Through this work, IMPACT has developed a clear understanding of the needs of insurance companies and general account investing. We can manage investments for the long-term while meeting these unique needs.

To view the full webinar, please visit here.

Use of this document is subject to the terms and conditions set forth on Impact Community Capital LLC's website and can be accessed at http://impactcapital.net/about/terms-and-conditions/.

"IMPACT is not just an investment manager. IMPACT also works in the capital markets to create investments that we, in turn, manage on behalf of our investors."

Disclaimer: This article is not an offering document for any securities. It is also not an offer of, or an agreement to provide, advisory services directly to any recipient. The information presented in this article is intended to describe certain views of the author and Impact Community Capital LLC. The information presented in this article may contain statements of opinion, forward-looking statements and relies on certain assumptions. Any such opinions, forward-looking statements and assumptions may be inaccurate, and there can be no assurances that the examples included herein will reflect actual investment outcomes. Neither the author nor Impact Community Capital LLC intends or assumes any obligation to update or revise these opinions, forward-looking statements and assumptions in light of developments which differ from those anticipated. Past performance may not be indicative of future results and there can be no guarantee as to the return or volatility of any particular impact investment or set of impact investments. All investments carry a risk of loss that investors should be willing and able to bear.