

# acuity

/ə'kjuəti/ *noun* sharpness of thought.

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AUSTRALIA + NEW ZEALAND

## IS IT GOOD FOR YOU?

The winners in free trade agreements  
(and who draws the short straw)



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Proven ways for entrepreneurs and SMEs to secure capital

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# Positive impact

A global movement is harnessing private capital and new solutions for the public good.

BY ROSEMARY ADDIS

## MOVEMENTS ARE BEING

building for a movement to transform the way we tackle some of the toughest challenges facing society, from homelessness to climate change.

Impact investment, sometimes called social impact investment, is a growing field of investment that intentionally creates positive social impact as well as financial return, and measures both. It is about solving social problems in sustainable ways and demonstrating we can do good and do well.

Impact investment is already making its mark on global markets. The latest annual survey by JP Morgan and the Global Impact Investment Network indicates the 125 participating fund managers have more than US\$46b in assets under management and the amount invested is forecasted to grow 20% this year.

Surveys such as this reinforce the effect impact investment is already having by catalysing new markets, encouraging entrepreneurship and innovation, resourcing communities, creating jobs, and financing initiatives across aged care, health, social housing, education, clean water and sanitation, financial inclusion, and sustainable agriculture and development.



PERSONALLY INVESTING IS ABOUT SECURING THE FUTURE FOR MYSELF AND MY FAMILY AND THAT FUTURE IS NOT JUST FINANCIAL.

CRAIG FISHER FCA :: LINKEDIN

This matters because governments and philanthropy cannot meet the bill for all of society's needs and because we need new solutions.

Accenture and Oxford Economics estimate that in Australia alone, with current expenditures, demand for services will outstrip what governments can provide by A\$54b by 2025.

It is clear that the solutions will not come from doing things the way we have done them before. Impact investment is beginning to engage people from government ministers to grass roots communities with the common aim of achieving meaningful progress on entrenched social and environmental issues.

Harnessing the positive potential of financial markets puts the focus back on the positive impacts finance can deliver. New products like social impact bonds link financial performance to the attainment of social objectives. New South Wales has led the way with two different issues, raising A\$17m in total to improve outcomes for children and their families.

Social impact bonds are on the drawing board in South Australia, New Zealand and other jurisdictions, while Queensland and ACT are also pursuing outcomes focused approaches. These initiatives are already delivering new collaborations and financial innovation.

Other leading examples include US\$4.5b raised through AA+/Aa1/AA-rated bonds issued by the International Finance Facility for Immunisation, which fund the delivery of vaccines to children in developing countries. The bonds are backed by long-term

government pledges and are estimated to have enabled nearly 300m more children to be immunised, saving more than 5.5 million lives.

Also, there are new investments in communities that are doing it tough, bringing new investment and creating jobs that help reverse cycle of economic decline. For example, the Living Cities initiative in the US has seen US\$16b invested into low-income cities. Bridges Community Ventures the UK has raised several successful impact funds investing in aspiration businesses, many in communities ranked in the lowest 25% by social and economic indicators.

These funds have attracted investment from the mainstream and yielded very competitive returns.

In Australia, Social Enterprise Finance Australia, Social Ventures Australia's Social Impact Fund and Foresters Community Finance Community Finance Fund – Social Enterprise were established with cornerstone funding from a government grant more than matched by private investment.

These funds are making finance available to enterprises so they can increase their impact in communities. These funds also illustrate the way in which impact investments can enable government and philanthropy to increase the impact from their funding by using it creatively to reduce risk, a new market and to attract private investment. In the case of these funds, government funding provided the buffer for other investors.

Recent reports in Australia and



"It is about solving social problems  
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internationally indicate that financial returns on impact investments can be competitive with other investments of similar types.

Over the past 12 months, developing the market for impact investment has taken a significant step forward. UK Prime Minister David Cameron announced a Social Impact Investment Taskforce under the UK Presidency of the G8 with a mandate to catalyse a global market for impact investments.

The Taskforce, chaired by Sir Ronald Cohen, an accomplished pioneer of the venture capital sector and impact investment, has been supported by more than 200 leaders globally.

I have been proud to represent Australia on the Taskforce and other Australian leaders from finance have contributed to working groups tackling key issues for market development globally.

National advisory boards in each of the participating countries, Australia included, have focused on what needs to be done in their local markets.

This September, the Taskforce launched its report *Impact Investing: The Invisible Heart of Markets*, reinforcing enormous potential for a global market in impact investing and setting a goal to unleash US\$1 trillion globally. Eight high level recommendations provide markers in the path to achieving that goal.

This culmination of a year's work across eight countries challenges the prevailing wisdom of capital markets, championing a paradigm shift in thinking and practice from two dimensions to three. The third is

impact. Adding impact to 20th century decision making of risk and return puts a focus on commitment to achieving positive social outcomes.

Measuring our achievement of that impact will be pivotal. Work is already underway to build and refine measurements and analytics for impact at transaction, portfolio and market level. Principles to guide that work have been set out in the report of the Taskforce Working Group on Measurement.

Developing this work will challenge us to reach metrics and standards that are as reliable and useful as those we have for measuring the financial and economic dimensions of investment. The more effectively we can do that the more achievable it will be to encourage capital to flow to impact investment and build a better society for all.

The Australian Advisory Board on Impact Investing launched its ambitious strategy alongside the Taskforce report, *Delivering on Impact: The Australian Advisory Board Breakthrough Strategy to Catalyse Impact Investment*.

As the title suggests, delivery is critical. Leadership, action and policy are the cornerstones of our strategy to establish impact investing as a force in local markets. Flagship initiatives, including a A\$350m social investment fund, underscore this focus on delivery.

Australia and New Zealand have a history of cooperatives and local enterprise as well as robust financial systems: a great base from which to build on. Both are relatively affluent nations in a region where many people still live in poverty, and where changing dynamics reflecting the power of the

people as consumers is increasingly evident.

Australia's LeapFrog Investments has been a leader in changing the way we view people, as capable consumers rather than recipients of aid and welfare; their latest fund raised A\$400m from mainstream and institutional investors.

A growing body of activity and interest in new forms of enterprise and activity for social benefit heralds change and choice in how we tackle societal issues. A developing social enterprise sector and broader funding options for community organisations can bring significant potential for innovation and enhance capacity of organisations to deliver impact.

It is not only those at the coalface seeking change. A recent Bank of America report indicates 50% of their high net worth clients want investment options that reflect their values, and the proportion is higher in lower age groups.

The available data on responsible investment in Australia echoes this trend. This is good news. If investors demonstrate demand for product it is a sure way to see the markets respond.

All of this is also good news for advisers. Increasingly there is a way for financial professionals to employ their core skills and make a difference at the same time. That's a goal worth working towards. ■

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