## Sustainable and Impact Investing



View the Fire Capital <u>Sustainable and Impact Glossary</u> on our <u>website</u> to learn more about some of the common terms used in the sustainable and impact investing space.



### Sustainability & Impact Investment Spectrum

#### Sustainable Impact Financial Return Maximizing Financial & Social Return Seeking **Sustainable Sustainable Hybrid Impact Hybrid Impact ESG Risk ESG Portfolio ESG Focused Negative &** Values & **Investing Analysis Optimization Opportunity Positive Mission** for Impact Recognition Screening **Aligned**



Traditional investing seeks to place investor capital into investment opportunities where the expected returns compensate for the risk(s). Sustainable investing balances this along with environmental, social, and governance-related (ESG) insights to improve long-term financial return and/or reduce financial risk (i.e., maximize investor outcomes).

Click the image on the left to learn more about commitment to sustainable investing

### Younger generations are shaping the movement...

Percent of Millennials interested in sustainable investing, or investing in entities that aim to generate market-rate financial returns, while pursuing positive social and/or environmental impact





Anticipated Growth of Sustainable

Mutual Funds and ETFs



Millennials are twice as likely as the overall investor population to invest in companies targeting social or environmental goals

Sources: BlackRock, with data from Broadridge/Simfund, June 2018. Notes: The chart shows the total assets under management in ESG mutual funds (MFs) and ETFs globally.

2023

2018

View Morgan Stanley's "<u>How Younger Investors Could Shape the World</u>" and their <u>Institute for Sustainable</u>

<u>Investing</u> for more information on these trends.

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## Environmental, Social, and Governance (ESG)

In analyzing investment opportunities, investors are are increasingly applying ESG factors as part of a broader process to identify material financial risks and growth opportunities



#### Environmental

Conservation of the natural world



#### Social

Consideration of people & relationships



# Governance

Standards for running a company

Click on each icon above to view short videos on ESG and sustainable investing and view the CFA <u>Institute's ESG Investing and Analysis Hub</u> for a more detailed overview of these pillars.

### Top three specific issues for money managers and institutional investors:

- climate change/ carbon emissions
- sustainable natural resources/ agriculture
- board issues

Source: US SIF

### Sustainable Investing Styles

#### Avoid



Minimize or eliminate exposure to companies or sectors associated with negative ESG characteristics or those violate the investors values

#### Advance

Increase or target exposure to positive ESG characteristics (e.g., focusing on a specific social or environmental theme)



### U.S. Sustainable Funds (in billions \$)

Fund Assets Fund Flows 400 ESG funds have been gaining momentum, with U.S. sustainable asset fund assets growing to \$257 billion by December 2021, attracting \$70 billion in new assets. 300 Click the chart below to see more ESG statistics from Sustainfi. 200 100 0 2021 2013 2014 2015 2016 2017 2018 2019 2020



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### Impact Investing

Impact investing seeks to place investor capital in opportunities that consider not only expected financial returns, but also social and/or environmental factors. It is sometimes considered an extension of philanthropy. View the Global Impact Investing Network's "What is Impact Investing"

#### **Impact Investing Asset Class vs Return Rate Spectrum**

**Market-Rate Investments** 

Grant
Support

Equity Loans Cash Guarantees Cash
Fixed Public Private
Income Equity Equity

Below-Market Source: GIIN

Investments

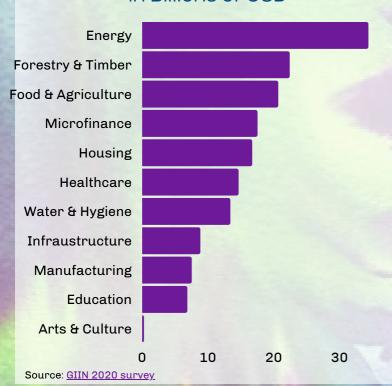


### Financial returns don't have to suffer

According to the <u>GIIN's 2020 Annual Impact Investor Survey</u> 67% of impact investors pursue risk-adjusted market-rate returns, with 88% reporting that actual performance is in-line or above expectations

### The Impact Market is Diverse

Impact Assets for Select Industries in Billions of USD



Top Four Expected Challenges for Impact Investing for Next Five Years

66% of surveyed investors expect impact washing to be the biggest challenge

35% of those surveyed identified the inability to demonstrate impact results

34% of those surveyed identified the inability to compare results to peers

33% of those surveyed identified the lack of common language to describe impact <sup>40</sup> performance

Source: GIIN 2020 survey

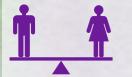
66%

35%

34%

33%

### Impact Case Studies







There isn't one single way to be an impact investor.

Click on each icon to view and read examples of various impact investments.



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