Aligning Assets to Mission
Backgrounder on Social Investing

incourage

OVERVIEW. *From their origins in the 1960s, impact investing and the broader practice of social investing have together continued to gain acceptance as a prudent investment discipline. Wisconsin investors have always taken a lead in these practices and continue to blaze trails today.*

Definitions. Impact investing is defined as the practice of investing in companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.[1] It is part of the broader practice known as *social* or *ESG* investing through which investors incorporate *Environmental, Social and Governance* factors into investment decisionmaking. Foundations may refer to these techniques as *mission investing*, and many investors who apply them in regions and neighborhoods refer to them as *community* or *place-based* investing. For grantmakers, impact investing can enhance results; it is not meant to substitute for still critically needed grant support.

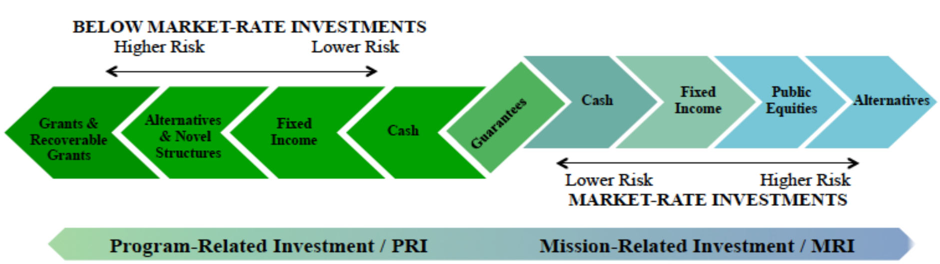
Approaches. There are many approaches to social investing, with investors such as Incourage often applying more than one approach over time (Figure 1):

- **Negative/Exclusionary**: Exclusion from a portfolio of certain sectors or companies based on specific ESG criteria
- **Positive/Best-in-class/Inclusionary**: Investment in sectors, companies or projects for positive ESG performance relative to industry peers
- **ESG Integration**: Systematic and explicit inclusion of ESG risks and opportunities into traditional financial analysis, often for an investor's entire portfolio or holdings
- **Sustainability Themed Investing**: Selection of assets related to sustainability in single- or multi-themed funds or portfolios (such as low carbon investing or health and environmental sustainability investing)
- **Proactive/Impact Investing**: Investment aimed at solving social or environmental problems and/or unlocking opportunity, which can include community investing strategies that address multiple issues within a region
- **Shareholder Activism**: Voting proxies and engaging management to influence corporate products and processes (generally targeted at publicly-traded corporations)

Figure 1. Approaches to Social Investing

Structure & Risk-Return Expectations. Impact investments can be made across a range of risk-adjusted expected financial returns and in any asset class (investment structure) across the spectrum of risk including private equity, public equity, fixed income, loans, cash and guarantees (Figure 2).

Figure 2: Continuum of Impact Investing Asset Classes[2]



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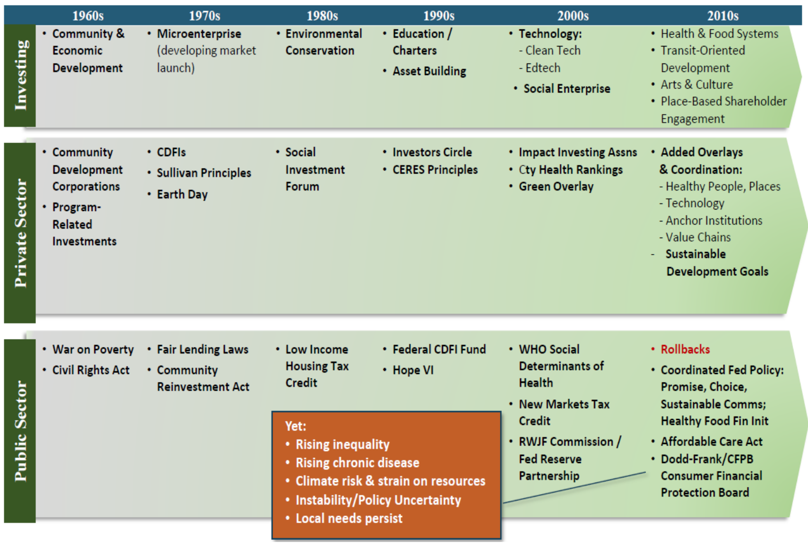
[1] www.thegiin.org.

[2] Adapted from the F.B. Heron Foundation.

HISTORY & TRENDS. The history of social investing in the U.S. demonstrates that the investment sector has worked together with philanthropy, civic organizations and policymakers to expand the benefits of targeting values-driven capital to additional sectors over time (Figure 3). Experience has also taught that the investment of capital is necessary but not sufficient to create inclusive and sustainable economies. In regions and among populations that have long lacked access to capital, grant-funded capacity building activities are needed to establish the trust and networks--including value chains that connect entrepreneurs and business activities to drive wealth creation within sustainable regional economies.

Figure 3. Transformation versus Transaction via Inclusive Capital Markets



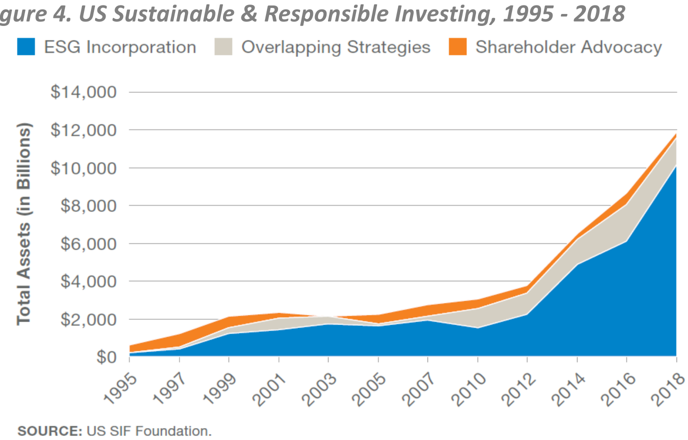
Over the now more than five decades of US social investing, the practice has been established as rigorous, prudent and capable of generating reliable investment as well as social returns.

J.P. Morgan and the Global Impact Investing Network (GIIN)'s 2018 annual survey found that 226 major fund managers, foundations, banks, pension funds, family offices and development finance institutions reported $228.1 billion in impact investments under management. They invested $35.5 billion in new impact investments in 2017 and planned to increase that amount 8% in the coming year. Among these investors, a vast majority report that their impact investments met or exceed their expectations for both impact (97%) and financial performance (91%). Two-thirds of respondents target risk-adjusted, market rates of return, while noting the important role played by below-market-rate-seeking capital in the market.[3]

The broader practice of social investing also continues to gain traction (Figure 4). Sustainable, responsible and impact investing (SRI) assets have expanded to $12.0 trillion in the United States, up 38% from $8.7 trillion in 2016. Much of this growth is driven by asset managers, who now consider ESG criteria across $11.6 trillion in assets, up 44% from $8.1 trillion in 2016.[4]

While challenges remain, including ensuring that all communities and populations have equitable access to capital and capacity building services, the growing interest in social investing bodes well for continued progress.

Figure 4. US Sustainable & Responsible Investing, 1995 - 2018



IMPACT INVESTING IN WISCONSIN. Incourage is one of a number of Wisconsin foundations, faith-based investors and socially-motivated funds and individuals that have been among the nation's leaders in impact investing. Incourage has joined with these investors to create the ***Wisconsin Impact Investing Collaborative***, which seeks to share learning, support services and co-investment opportunities with like-minded institutional and individual investors statewide. Further information and is available at [www.wi3c.org,](http://www.wi3c.org) including the opportunity to join a contact list for updates on Wisconsin impact investing news and events. The Collaborative is partnering with Wisconsin Philanthropy Network and Avivar Capital to advance its work. *For further information, please contact Tony Shields, Wisconsin Philanthropy Network, tshields@wiphilanthropy.org, or Lisa Richter, Avivar Capital, lrichter@avivarcapital.com*.

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[3] https://thegiin.org/research/publication/annualsurvey2018.
[4] www.ussif.org.