KEYNOTE INTERVIEW

Why impact metrics matter

Fund managers need a more standardized approach to measuring the social and environmental benefits of impact strategies, says Wouter Plantenga of JTC

As governments look to stimulate recovery, impact investing has growth potential as managers seek to do good while generating returns. Wouter Plantenga, ICS head of group client services at JTC, explains that a consistent set of impact measurements, combined with best-in-class technology will give funds an edge.

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Q How have you seen the impact industry evolve?

Impact investing is becoming a more mainstream dialogue in the alternatives space. From its origins among foundations, philanthropists and then endowments, the more traditional financial services stakeholder set has now become much more aligned with impact investment. And we see alternative investment managers in particular thinking about impact in their own strategies. Whether or not it is driven by investors, impact investment is becoming a meaningful topic on their agendas and this mission-driven pivot is leading to fund managers – particularly bigger managers – setting up separate vehicles for impact investing.

Q What strategies are being developed?

We observe many new entrants – including spinouts from large managers – who are much more impact-focused. They have to differentiate themselves through their investment strategies. Given their position as emerging managers, they are much more inclined to think of impact as a real differentiator.

Impact investing is really part of the specialty financial administration sector and there are a broad range of strategies you can deploy. We have seen funds focused on affordable or workforce housing, as well as education. What everyone is getting to grips with is the concept of impact investing around the strategy. There are general principles, but the managers still tailor them to their own specific strategies. So, everybody is interpreting and specializing impact their own way.

Q How has covid-19 affected impact investing?

In the short term there are a couple of factors that may be having an impact. First, it can be more difficult for managers to carry out proper due diligence, which by extension would have an effect on capital flow. Second, the economic set-back caused by the pandemic combined with uncertain political climate in an election year has caused some investors to be more cautious. I think that these factors are affecting the capital directed to impact investing – as it is across the alternatives space.

But from a longer-term perspective, impact investing, which really takes into account job creation and affordable housing concerns, can become a catalyst for driving the recovery from the pandemic. Managers have significant dry powder available that can contribute meaningfully to the recovery. They are conscious that undoubted opportunities are an available route to take, but they are also considering how they can make positive social and environment outcomes.

Q How important is stimulus to impact investing?

Government stimulus is one tool available to help, but it shouldn't be the only tool. Instead, creating additional incentives that encourage the private sector is a more scalable use of government capabilities and much less costly for US taxpayers.

In the US, there are a few great examples of strategies that are proving to be very effective conduits for stimulating impact investment. Opportunity Zones are a very distinct investment set, which drive capital into underdeveloped areas in the US, effectively enabling investors to have meaningful impact on those communities.

Similarly, the foreign investment program known as EB-5, was designed to stimulate US economic activity and job growth in targeted employment areas. These initiatives are responsible for over $100 billion in investment, and hundreds of thousands of jobs being created.

Q How do these incentive systems work?

It is worth noting that investments with government initiatives require additional tracking, so in addition to performing the standard fund administration, there is a need to track compliance with government requirements. For example, there are EB-5 immigration milestones that need to be met, including the creation of 10 jobs. For Opportunity Zones, there are certain compliance requirements that stakeholders must maintain, and we can also help track if the fund is meeting its impact goals.

Q Why is measuring impact so challenging?

The challenge is the lack of a unified approach. There are a lot of big picture principles, but it is harder for the industry to come up with a definition of impact and know how to measure the impact outcome. There is also a lack of clear data. That's why we see managers defining their own strategies for measuring impact data themselves. There is no consistency, and everybody is trying to reinvent the wheel somewhat. It's a great opportunity for us to assist with that convergence between regulation and data.

Q What solutions have you developed?

In April, we acquired NES Financial, a Silicon Valley-based fintech company, and market leader in fund administration for both the Opportunity Zones initiative and EB-5 program. Together, we help the two impact-focused initiatives do the good they are intended to do. As a result, having purpose-built technology really allows impact measurement to be a meaningful part of what managers can regularly monitor and report for its investors. For example, NES Financial includes economic and social impact reporting as part of its Opportunity Zone Administration Solution.

> *"Impact investing is becoming a more mainstream dialogue in the alternatives space"*

Fund managers and their investors can establish a community baseline on key metrics prior to investment, project the economic and social impact on the community based on the specific attributes of the investment, and track the progress towards those projections as the project develops.

NES Financial is continuing to work in collaboration with Howard W Buffett and his advisory firm, Global Impact LLC, by incorporating Impact Rate of Return®, or iRR®. iRR® serves as a key performance indicator enabling organizations to consistently calculate and report how efficiently their investments deliver social and environmental impact. The impact investment report is still usually separate from the financial report. At some point in the future, we will have impact-weighted accounting measurements built into the financial reports, so managers and investors are able to translate impact investing data into measurable monetized figures that can be added to financial statements.

Q How engaged are investors in impact?

We do see dialogue and investors are beginning to push that. For example, many family offices are transitioning to a younger generation, and they will be more involved with the drive into impact investing. For managers, being able to show a clear impact strategy and to be able to demonstrate the portal whilst they are out fundraising will be competitive advantages.

For us as the administrator, there is a big value-add in using technology and managing the data to help managers and investors. We have a purpose-built platform that we can adapt and change in response to new rules and regulations. It's dependent upon the industry to really drive this specialization and come up with impactful solutions. ■