# Impact Investment

An excerpt from

**Wealth with a Why**

Part 2: The Purposeful Investment Landscape

Presented by Stephanie & Stuart Mills and Partners

*"We offer you our story of how we reignited our love of land and sea*
*when we asked ourselves, 'Can we do better with our money?'*
*This question spearheaded our deep dive into the world of sustainable finance."*

**The Small Print**
The views represented here are those of Stuart and Stephanie Mills. The guide resonates with their practice, but they recognise that your needs may differ and that there will be other resources available to you, specific to your interests, location, or needs. It aims to help you identify the types of services and financial vehicles to seek in order to meet your financial needs and values whilst serving the planet.

# Impact Investment

“Impact investing” was a new term to us, and one we didn’t fully know how to approach when we first encountered the spectrum of capital. We soon learned that it’s a rapidly growing area of financial services where we can closely participate in our investments. It allows us to make deliberate choices to manage our wealth by investing in things – companies, projects, or funds – with the clear intention to generate positive, measurable returns, for both social and environmental impact, plus financial gains.

While there can be a lot to consider in impact investments, we now know it’s about us saying, “Right, my money can do more than just grow; it can actively help tackle some of the big challenges we face, like climate change or social inequality.” Unlike traditional investing, where the primary focus is often solely on financial returns, with impact investing, we’re deliberately seeking opportunities where our capital can create tangible good in the world while still aiming for some form of financial gain.

Our impact investments represent a small portion of our overall assets, but as we gain confidence in our strategy and choices available to us, we are able to invest more in these direct investments.

The degree of social or environmental impact can vary, of course. Investing in shares of a company on the stock exchange (even if it’s a sustainable company) might have a lower direct impact than directly funding a new community wind farm, for example. But both can play a role in a purposeful portfolio.

## Vehicles & Strategies in Impact Investment

While a large portion of UK impact investing is carried out by institutional investors (hedge funds, private foundations, banks, pension funds, and other fund managers), there are well-established web-based investment platforms that offer individuals an opportunity to invest directly in products that benefit organisations, creating positive impacts.

The main products offered by these platforms offer an alternative way to invest directly to align your money with your values, differing from that of traditional wealth management. Some typical vehicles in impact investment that you may come across include:

- Community Shares
- Ethical Bonds
- Innovative Finance ISAs (IF ISAs)
- Equity Investments in Impact-Focused Companies

Broadly speaking, common traits among impact investment vehicles are that they tend to have longer terms, higher risk, and variable liquidity. Whether you're funding a local community project, lending to ethical businesses, or investing in sustainability-focused companies, these options provide the opportunity to make a difference while potentially earning decent financial returns.

## Community Shares

Community shares are a way for impactful community organisations, businesses, and cooperatives to raise flexible and affordable finance from individual investors to help them develop and grow. They are also known as withdrawable shares in a cooperative or community benefit society (CBS). Community shares are a way to invest directly in local projects that matter and enable individuals to support enterprises that make a real difference within communities.

Unlike shares in a publicly-traded company, community shares are withdrawable shares that cannot be sold, traded, or transferred between members. With a community share offer, supporters such as local residents and stakeholders become members of the business or organisation they invest in.

## Ethical Bonds

Ethical bonds are a way to provide funding to organisations that are committed to making a positive social or environmental impact. Similar to other bond products, ethical bonds are issued by social enterprises or profit-for-purpose businesses to raise funds for fixed terms at a fixed interest rate, and the capital is repaid at the end of the term. These bonds are often used in large-scale sectors such as clean energy generation or sustainable transport. Unlike with community share offers, investors in bonds act as lenders and don't receive membership or voting rights.

**Innovative Finance ISA (IF ISA)**

An IF ISA is a tax-free investment alternative finance option, like peer-to-peer lending, often supporting businesses or **social enterprises** with an ethical mission. It lets you invest with the aim of growing your money tax-free while helping to make a positive impact on society and the environment. Returns depend on the success of the individual projects or businesses in the ISA, but your investment is directly tied to initiatives that are actively helping to combat climate change, reduce poverty, or build stronger communities.

**Equity Investments in Impact-Focused Companies**

Equity investments involve buying shares in businesses that have a mission to create a positive social or environmental impact. Investors then have an ownership stake in the business and the potential for financial growth. Some equity investments qualify for the **Enterprise Investment Scheme (EIS)** or **Seed Enterprise Investment Scheme (SEIS)** tax relief, which can provide significant tax advantages.

***Unlike their financial cousin, the cash ISA, IF ISAs don't have FSCS protection, meaning funds are at risk if the business or organisation fails. These IF ISAs therefore carry higher risks than traditional ISAs due to the potential for default.***

## Engaging with Impact Investing

Impact Investing is about moving beyond ethical and sustainable finance decisions towards those that intentionally embrace social and environmental transformation, actively making investments that contribute to solutions. The important thing about this approach is that a real-world positive impact that also delivers financial returns is very possible.

**WHAT IS DRIVING THE GROWTH OF IMPACT INVESTING?**

The first driver is simple in some ways. Climate change, social inequality, and biodiversity loss have created urgent needs that traditional funding sources can't address alone. This represents a huge opportunity, which leads to the second driver, **client**

**demand**: as the "Great Wealth Transfer" unfolds—with approximately £5.5 trillion transferring between generations in the UK over the next 30 years—younger investors are increasingly aligning their investments with their values, and firms are seeing this opportunity to tap into changing and growing client demand, offering products and services suitable for many different types of investors.

And thirdly is thanks to the government's response to these changes: Regulators and policymakers are looking to address the UK Financial Conduct Authority's Sustainability Disclosure Requirements regime, which includes impact-focused labels for retail investments, has brought greater clarity and credibility to the market. The new regime was set up to counteract some of the fears around *impact washing* and ***green washing***, or in simpler terms, ensuring that investment products actually do what they say on the tin.

**Check out the master list of resources by Aunnie Patton Power on impact investing (updated end of 2023)**.

**ROLE OF DIRECT IMPACT INVESTING IN BALANCED PORTFOLIO**

As the word 'direct' implies, direct impact investing cuts out the middleman. Direct impact investments can be considered part of a balanced, purposeful investment strategy, alongside investing in public equities or funds with an ethical or green focus, or working with a wealth manager or adviser, as discussed previously. It offers several benefits:

- **Tangible impact:** Direct investments allow you to see what your money is helping to achieve. You can often track the progress of the project you've supported, whether it's the number of homes powered by renewable energy or the number of jobs created in a disadvantaged community. This real-life connection gives these investments a stronger sense of purpose and reinforces the impact of your investment.
- **Diversification:** Direct impact investing can improve your investment portfolio diversification. It can give you the opportunity to invest in sectors and geographies that larger funds might overlook, potentially lowering overall risk and giving you exposure to innovative grassroots solutions.

- **Alignment with values:** You can choose projects that align with your personal values, whether it's taking positive climate action, promoting financial inclusion, or supporting local communities.
- **Investing small as part of something big:** Direct impact investing services can offer opportunities to invest relatively small amounts (some investments start at just £50), making it more accessible to a wider audience. This creates a sense of an investor community, where many people contribute to achieve a shared goal. Even small investments can collectively make a big difference, empowering individuals to become active participants in creating positive change. This "small as part of something big" mentality is at the heart of direct impact investing.

## Web-based Investment Platforms

Platforms aim to connect investors directly with enterprises working at a grassroots level to address some of our most pressing social and environmental challenges. They have seen firsthand how community-driven energy projects, social enterprises, and ethical businesses can thrive when backed by investors who refuse to accept that progress must slow down. The investment opportunities can range from community renewable energy projects and social enterprises to profit-for-purpose businesses and sustainable agriculture initiatives.

## Angel Investments

Another option to align your money with your values is to invest directly in impact startups as an **angel investor**. Angel investments make up 50% of visible funding for early-stage companies in Europe[1]. By putting even small amounts of money towards validating and scaling environmental and/or social solutions at the very early stages, angel investors have a significant say in which solutions get off the ground.

Traditionally, angel investing has been reserved for only the most affluent, but innovations and government support have now made direct early-stage investing more accessible and attractive for a much broader part of the population, including:

- The emergence of **crowdfunding** and direct investment platforms that allow investors to invest from as little as £10.

[1] European Business Angels Network, Angel Investment Market Highlights 2023. Retrieved from https://www.eban.org/eban-annual-statistics-compendium-for-2023/

- The emergence of **angel syndicates** accepting investment tickets from as low as £2,000, whilst also providing the opportunity to invest as part of a syndicate of investors and benefit from shared expertise during and after the investment.
- The introduction of **EIS and SEIS tax relief schemes** for the earliest investments, allowing investors to offset up to 50% of their investment amount, as well as any losses against their income tax or capital gains tax.

Direct impact investing can offer investors a powerful way to align their money with their values and play a vital part in building a more sustainable future. By connecting individuals directly with impactful projects, impact investment is helping to democratise finance and empowering everyone to use their money as a force for good, and innovative offerings for direct angel investments further expand possibilities for value-aligned direct investments.

It's important to remember that all investments carry risk, and you should always conduct your own research before making any investment decisions. However, direct impact investing gives you the potential for both financial returns and meaningful social and environmental impact, making it an important consideration within a balanced impact investing portfolio.

**Join the Club!**

Investor Clubs (often called Syndicates) are a great way to get started in impact investing because you can learn about issues and opportunities with other like-minded, interested individuals. Depending on the club, members can help be involved throughout the process from nomination, due diligence, selection, and then active participation in the company. Membership fees apply, and there may be a minimum investment, so look for clubs that are a good fit for your aims.

## Intentionality

Impact investing is rooted in the premise of creating positive change alongside returns, but good intentions alone aren't always enough. Intentionality goes further, providing a framework for ensuring impact is not only pursued but also measured and accountable.

Intentionality comes into play when impact investing is central to how you manage your wealth. The Impact Investing Institute defines intentionality for investors as "an impact investor's deliberate goal is to contribute to specific positive and measurable social or environmental outcomes."

Intentions alone may not be enough to ensure your goals are met. That's where intentionality can be a useful practice. It helps you move from passive impact investing to a more accountable process for you and your fund managers.

So, what are some ways for you to practice intentionality?

- Always lead with your **values** and ensure they are communicated and understood.
- Be clear about your impact **goals** before choosing investments - be ready to convey them confidently.
- Actively seek sector or domain **expertise** - over time, you may also develop some of your own.
- **Leverage** your own professional experience, especially if it aligns with your impact goals - use those transferable skills to enhance your investment strategy and to evaluate its outcomes.
- **Question** expertise by asking curious or discerning questions, and don't be afraid to ask questions like "is the impact verifiable?", and if so, "how is this impact being measured?"
- Be **receptive** to talking about and understanding any negative impacts or trade-offs. Factor those into your investments and look for/discuss ways to mitigate them or pivot away.
- Stay **engaged** after the investment. Think about other ways you can help, like sharing industry contacts or offering extra resources.
- Consider **externalities** (or any factors) that may affect your impact goals, not just negatively but also positively, and be ready to course correct.

Leading voices in impact investing emphasise that intentionality involves both clarity and commitment. Without this, impact investment can unwittingly become virtue-signalling (known as impact washing). The best way to avoid this is to approach your impact investments as a true partnership where you continuously shape and assess outcomes in order to refine and improve your approach. However, always remember that progress matters far more than perfection.

When considering impact investing, think about these three things first:

1. **Look Beyond Returns Trade-offs**: "There is a consensus amongst our interviewees and survey respondents that impact investing can achieve market-competitive returns without sacrificing impact goals, and vice-versa," notes the Impact Investing Institute report.
2. **Consider the Full Spectrum**: Explore multiple asset classes, from private equity to public markets, to diversify your impact portfolio.
3. **Embrace Measurement**: While comparing impact results remains challenging, the ability to verify impact outcomes is improving, with 55% of investors reporting significant progress in this area over the past five years.

There are also several impact investing "influencers" who are very active on LinkedIn. It may be worth following these individuals for their regular insights and updates on the market and trends: Jamie Broderick, Harry Davies, and Aunnie Patton Power.

### What is the Investment Risk Warning?

**Each investment type comes with unique risks and rewards, so it's important to consider your goals and risk tolerance before diving in. When entering an investment site, especially when looking at impact-driven opportunities, you are likely to see risk warnings such as the following:**

**'Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment, and you are unlikely to be protected if something goes wrong. Take 2 mins to learn more.**
**or**
**'This communication is only intended for Investment Professionals, Professional Investors, Certified High Net Worth and Self-Certified Sophisticated Investors.'**

**The warnings are mandated by the Financial Conduct Authority (FCA), an independent financial regulator under the purview of the Treasury and Parliament. Its aim is to ensure fair markets by protecting individual consumers, the financial markets, and competition in the markets.**

**So let's take a closer look at what the FCA tells consumers about high-risk investments. There are five key risks identified in a '2-min read' for consumers to acknowledge when investing (See Ethex's sample).**

1. **You could lose all the money you invest**
2. **You won't get your money back quickly**
3. **Don't put all your eggs in one basket**
4. **The value of your investment may reduce**
5. **You are unlikely to be protected if something goes wrong**

**With these in mind, ask yourself 5 Key Questions to see if you are ready and willing to invest in these types of investments.**
**The FCA provides good resources for evaluating your understanding of risk and preparedness for investments, especially new and different investment types.**

**We first found these warnings intimidating, making us stop our decision and question whether we could make the investment. But we now understand our own threshold for risk and reward, as well as the reason why the warning is in place.**