The Rise of Impact Investing

Investors are increasingly spending more time thinking about what their investments will mean for the world instead of just their portfolio. While estimates in this space vary wildly, according to a JPMorgan report released last May, by 2020, the demand for impact investing projects could climb to as much as $1 trillion.

Yet for all the interest in impact investing, many are unsure of what it is and how to get involved, should they deem it is appropriate for their investment portfolio.

At its core, impact investing refers to investments made into public companies, funds and organizations with the intention of benefiting society and the environment while also generating a financial return. The expected returns, risks, and time horizons of the investment will depend on the nature and location of the investment. All of this should be discussed with a family's investment advisor.

There are many ways for families to get involved in impact investing should they decide that they want their financial portfolio to mirror other charitable investments they may make.

One of the easier ways is by investing in publicly-traded companies that meet certain environmental, social and governance screens. Alternatively, families can invest in public companies that are failing in one of those areas and use shareholder power to effect change. In addition, several large asset managers have expressed interest in creating funds that meet certain criteria so these can be options.

By employing this strategy, investors will have a more immediate gauge of their investment performance due to the nature and reporting of public markets. Investors will also typically maintain liquidity should the investment fail to perform as expected. Yet by working with already established companies -- especially those that are subject to the whims of the market -- investors may feel that they have a harder time having their voice heard.

Another more common form of impact investing is through private equity and venture capital-like investments or micro-lending to organizations located domestically or abroad. Investments under this strategy may carry more risks (and at times more rewards) for investors, as return information may not be as readily available and investors may find that they are more on their own than if they were investing in a more established endeavor. On the flip side, by targeting a start-up or smaller private company, investors may feel that they have more of a say in how the project is run.

When choosing this approach, investors will want to make sure they understand the financial and other risks unique to the endeavor. They will also want to establish clear guidelines for tracking their investment.

Determining the optimal strategies and plans for achieving charitable and impactful goals should be done in coordination with trusted investment and financial advisors. For further discussion of this topic, please contact your Anchin Relationship Partner or Jared Feldman, Co-Leader of Anchin Private Client, at 212.840.3456 or info@anchin.com.

Ehud "Udi" Sadan, CPA, CGMA
Leader
ehud.sadan@anchin.com

Jared Feldman, CPA
Leader
jared.feldman@anchin.com

1375 Broadway, New York, NY 10018 • 212.840.3456 • www.anchinprivateclient.com