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**JOHN KAY**

Why the era of shareholder value is coming to an end

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**ESG INTERVIEW**

Sarah Keohane Williamson, inaugural CEO of the Focusing Capital on the Long Term initiative

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**FRANCE'S ARTICLE 173**

What does the world's first ESG reporting law mean?

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**THE CHALLENGER**

Are we making wrong assumptions about climate and investment?

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# ESG

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# The value of long-term investing

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## ESG Magazine

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## Is impact investing still a niche or a necessary driver of the investment business today?

# Who cares wins

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IMPACT INVESTING has become big money. In September, TPG Growth, the equity and middle market investment arm of US private equity company TPG Capital, launched the Rise Fund. This \$1bn partnership with Elevar Equity, an early stage fund manager, focuses on generating competitive returns through investments in underserved, low-income communities.

This growth is coming at a time when impact investing is expanding beyond private markets, particularly as institutional investors announce large commitments. The impact of ESG products in the public markets is also being held up to deeper scrutiny by asset owners as well as fund platforms.

Despite this increase in product offerings and the healthy growth in ESG/impact assets worldwide, incumbent firms offering ESG and impact investments are facing pressure on their business models as new and often larger players enter the field. The proliferation of recent ESG fund ratings by providers such as Morningstar and Barron's is adding even more complexity and has resulted in high ESG rankings for funds that may not even self-identify as sustainable or ESG products. This is no longer a cottage industry.

These factors raise the uncomfortable question of whether the intentional integration of ESG and impact factors into investments has become a significant business driver for money managers and advisers, or simply a distraction. There is also uncertainty about what business model is optimal for funds and advisers to benefit from these changes.

CLIENTS WANT TO SEE impact on their investment statements but, the translation of these demands into specific financial products and strategies is still unclear, particularly as investors and advisers attempt to pursue these strategies in the public markets. Boutique ESG specialists such as Trillium Asset Management and Parnassus Investments – two leading investment managers focused on sustainable



## IMPACT INVESTING

“ESG/impact investing has moved beyond the stigma of underperformance and political correctness, but is still sorting out how to provide quality, competitively priced products that can create and report social and environmental impacts”

and responsible investing – have established high standards for screening in publicly traded asset classes and are increasingly applying deeper levels of impact measurement to their portfolio construction.

BlackRock, the world's largest asset manager with \$4.89trn in assets under management, has had an array of funds and tools for clients looking to invest in a socially responsible way for several years. But since the launch of BlackRock Impact US Equity Fund in 2015, it has combined its existing offerings to help clients invest in products with environmental and societal goals, as well as introducing some new products.

Incumbent ESG firms, such as Domini Social Investments, Trillium Asset Management and PAX World Management, are finding themselves competing with bigger players that have vastly more sales and marketing muscle, or, as in the recent case of Calvert Investment Management, have been acquired by larger firms. The incumbents may lose out on the growth if financial advisers reaching for impact product for the first time go to mainstream brands rather than the established ESG brands. Part of the challenge for the incumbents is to create brand awareness with mainstream non-ESG financial advisers.

The advisers grapple with similar positioning questions about how much to emphasise impact investing with their clients. Some see ESG/impact investing as an addi-

tional expertise (analogous to specialists in retirement, pension, taxes, or annuities), but still too narrow to build and brand an entire wealth advisory practice. In contrast, other financial advisers claim they are seeing increased client demand, specifically because they are self-identified ESG/impact investment advisers and have been able to convert clients who were not originally interested in impact products. Many family clients are using impact to engage the next generation, which may not have been interested in the investments to date.

ESG/IMPACT INVESTING is not immune from the broader trends in the investment management and advisory industry, but the sector has managed to grow assets in a period when most other strategies have struggled to tread water. ESG/impact investing has moved beyond the stigma of underperformance and political correctness, but the sector is still sorting out how to provide quality, competitively priced products that can create and report social and environmental impacts.

To realise the full potential of ESG and impact investments as a driver of business, product developers, investment managers and financial advisers need to seize on the client interest, innovations and competitive performance associated with these strategies despite the uncertainty. Not everyone will win, but there will be winners.