FASE Impact Fire Talks 2023 – article 1

"Do you want deep impact or just manage risk?"

Compared to the current heat wave and crusade against ESG investing in the US, the European climate appears to be a bit milder. In this year's Impact Fire Talks, a myth-busting series of online investor events created by impact corporate finance advisor FASE, the experts agreed that investing towards the SDGs can indeed be a pathway to impact. Yet as a top-down approach, it only serves to manage risk and convey an "idea of impact" but won't be able to do one important thing: drive systems change.

The latter is what keeps many impact actors awake these days as multi-crises and climate change reign. ESG or SDG investing, as it is sometimes called in the US context, thus needs some heavy myth debunking before it can truly help investors drive change. But how exactly? One path is to erase the "false dichotomy" of market-rate versus non-market rate returns, as expert Charly Kleissner called it in the first Impact Fire Talks session this year. Charly, an impact investing pioneer and former Silicon Valley executive, is known for being an outspoken advocate of deep impact. Twenty years ago, he and his wife Lisa steered KL Felicitas Foundation to a 100% impact allocation. He is very passionate about transforming the financial system by fully integrating the impact dimension.

In the first Impact Fire Talks titled "How much impact is in SDG investing?", he had plenty of opportunity to share his sharp views on the provocative question, together with co-expert Laurence Laplane-Rigal, head of impact investing at European leading asset management player Amundi, and moderator Nathalie Nebelius from Toniic, the prestigious impact asset owner network. One of the main points in the discussion was that modern portfolio theory, although still used by most investment professionals, doesn't help to drive change. Its sole focus is on financial risk and return, without any explicit consideration for positive and/or negative impact. Benchmarks in each asset class are based on the old extractive economy, not on a regenerative economy. Commodity benchmarks, for instance, "include gold and oil", as Kleissner expressed it. What the market would need instead, he argued, are benchmarks that "measure impact risk and return as naturally as they do measure financial risk and return".

Toniic's T100 project seeks to gather and analyse much-needed impact data. This is meant to help the financial industry to get to a point where an impact-inclusive benchmark won't be just a dream. "I wish that more people, especially not-for-profits and organisations in our space, would commit to sharing data, anonymised of course, but in a way that researchers could start looking at correlations and causality", he added. IMP+, an open-source initiative, which KL Felicitas Foundation and the Katapult Foundation co-founded about a year ago, is going a step further by addressing the question 'how can investors invest for system change?' IMP+ is currently focusing on crowd sourcing 100+ such efforts in order to establish a base line for measuring system change.

The path to full spectrum finance

Co-expert Laurence Laplane-Rigal struck the same tone regarding the limitations of current financial theory: "There are two other dimensions that need to be taken into account: time horizons and impact generation", she said. Her native country France is a frontrunner in some respect. With the "solidarity-based fund regulation", often dubbed the "90/10 funds", employee savings schemes are driven towards more impact by investing 90% in listed assets with a view to generating a high return, while dedicating the remaining 10% to social investments generating high social impact and financial return accordingly. Laplane praised it as a "very special and clever scheme" that should definitely be replicated in other countries to drive impact investing to become mainstream.

From the lively breakout discussions, Dr. Markus Freiburg, co-founder and managing partner of FASE, brought another aspect to the session: the concept of full-spectrum finance, originally introduced by Omidyar Networks with the influential "across the returns continuum" paper. "It is important that impact investing considers the full return spectrum", Markus summarized. "This includes market-rate, concessionary and even philanthropic capital. Grant funding has an important role to play, especially for system change. The positive correlation between impact and financial return should not be misperceived as all investors having to have market rate returns by default", he emphasized.

Impact regulations: rather friend or foe?

Recent regulations such as the European SFDR continue to be heavily debated in the impact and ESG sectors. Are they really helpful in creating more transparency and thus in achieving deeper impact? Or are they a foe that "makes things just more complex", as Kleissner expressed his concerns? Laplane-Rigal hopes that the various new government regulations and other frameworks for impact investing will lead to more transparency and help different actors to work together. But she admitted that the discrepancies between many of them make it "really difficult" for impact investors who try to align with all the frameworks and regulations. "More consistency between proposed regulations and standards would be very helpful", she added.

Last but not least, another myth got busted as the experts expressed their views on whether impact investing should move beyond the focus on just private equity and venture capital. Laplane was clear that while one could have an impact in all asset classes, measuring impact when investing in listed assets was harder to achieve. Kleissner made it very clear that he doesn't believe in public equities as a means to achieve additional impact: "How can you claim impact if you buy shares that somebody else by default has to sell to you?", he questioned. The only way for an investor in public assets to have a direct impact was to use their voting power as a shareholder, he believes. "Then you can influence the impact themes that are on the ballot with your vote."

Tech for impact as a future enabler?

As the ping pong of opinions moved on, the question of technology for impact popped up. Kleissner is known for betting on tech for impact to drive systems change. He is currently working on impact NFTs (non-fungible tokens) to enable securitization and trading of impact units: "If impact can be represented in digital format, then it could be a digital asset," he said. Some tokenisation of CO_2 offsets is already happening. Kleissner believes that impact NFTs have the potential to shift the focus onto stakeholders, improve liquidity and democratise access to impact investing, allowing the market to scale.

At the end of this myth-busting Impact Fire Talk, the sentiment in the room was clear: If we want deeper impact, then managing risk with SDG investing is just the entry point - at best.