The myth of a trade-off between impact and returns

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“Impact Investing. Happy Returns” – this was the headline in the Economist way back in 2011, when few people were familiar with the term. The story drew people’s attention to the two key attributes of this approach to investment: doing good and earning money doing so. Impact investing has since shed its niche image and become an established investment strategy. Nevertheless, a stubborn myth persists that investors sacrifice competitive returns when they invest to achieve a social and/or environmental impact. In fact, impact investing is all about the efficient interplay between measurable social or environmental benefits and profitable financial returns. Impact and returns are equally important components of the investment strategy. The majority of impact investing managers focus on competitive, risk-adjusted market returns. Of course, as in conventional investments, these returns may vary considerably depending on the asset class, investment strategy and fund manager.

To take one example, private equity impact funds can generate average annual gains in excess of 20%, keeping pace with their conventional private equity counterparts. Stable and competitive returns are legitimate aims for impact investing managers, and as this example shows they can be achieved. The microfinance market, which is one of the oldest and largest areas in the impact investing space, makes this abundantly clear. Over the past 20 years, not only have microfinance funds generated an annual return in US dollars of more than 4%, they have also survived numerous global financial, economic and currency crises broadly unscathed and exhibit default rates averaging less than 1%.

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Some of these product solutions fund microfinance institutions in developing nations and emerging markets and have provided millions of people from many different countries with access to financial means over the years. The majority of these micro entrepreneurs are women, with around half living in rural areas. Microfinance funds are known for their stable returns as well as their low volatility and low correlation with conventional asset classes. They also benefit from heightened interest in investments with social and/or environmental benefits.

In light of the major social and environmental challenges facing us in the world today – two billion people have no access to formal financial services, more than 260 million children and young people have no access to education and around 800 million people live in extreme poverty – the growing fusion of returns and impact is very good news indeed. It means that even more private capital is being mobilized for social and environmental purposes and directed toward sectors and regions where it is urgently needed.

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Peter A. Fanconi is the Chairman and former CEO of Swiss based BlueOrchard Finance, one of the leading asset management companies in the field of impact investing. Peter demonstrated his entrepreneurial competencies in various positions, including CEO of private bank Vontobel, a Swiss listed bank, CEO of Harcourt Alternative Investments, a global leader in alternative investments, and managing partner at PwC.

Peter is also Chairman of Graubündner Kantonalbank (GKB), a Swiss listed bank, Vice-Chairman of Deutsche Bank (Switzerland), Vice President of the ROKPA International Foundation and a member of the Executive Leadership Committee of Brown University, Rhode Island.

Besides lecturing at various business schools, Peter is a frequent speaker at governmental and public events. As co-

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