



Impactful investing

Introducing the BW Impact Investing Score





What is impact investing?

Most investors look to maximise their investment return for a given level of risk.

However, some investors also look to deliver impact through their investment portfolio or take a more conscious view of the impact their portfolio creates, with impact defined as:

.....
"...the intention to generate positive, measurable social and environmental impact alongside a financial return"

SOURCE: Impact Investing Institute

The concept of avoiding negative impacts through investing dates back to the 18th Century when methodists in the US sought to restrict investments in companies manufacturing liquor or tobacco products or promoting gambling.

Historically, there has been a view that impact investing is philanthropic, with some impact motivated investors willing to accept below market rates of return to deliver the impact desired.

More recently however, the market has recognised that there are opportunities to deliver impact while also generating at or above market rates of return.

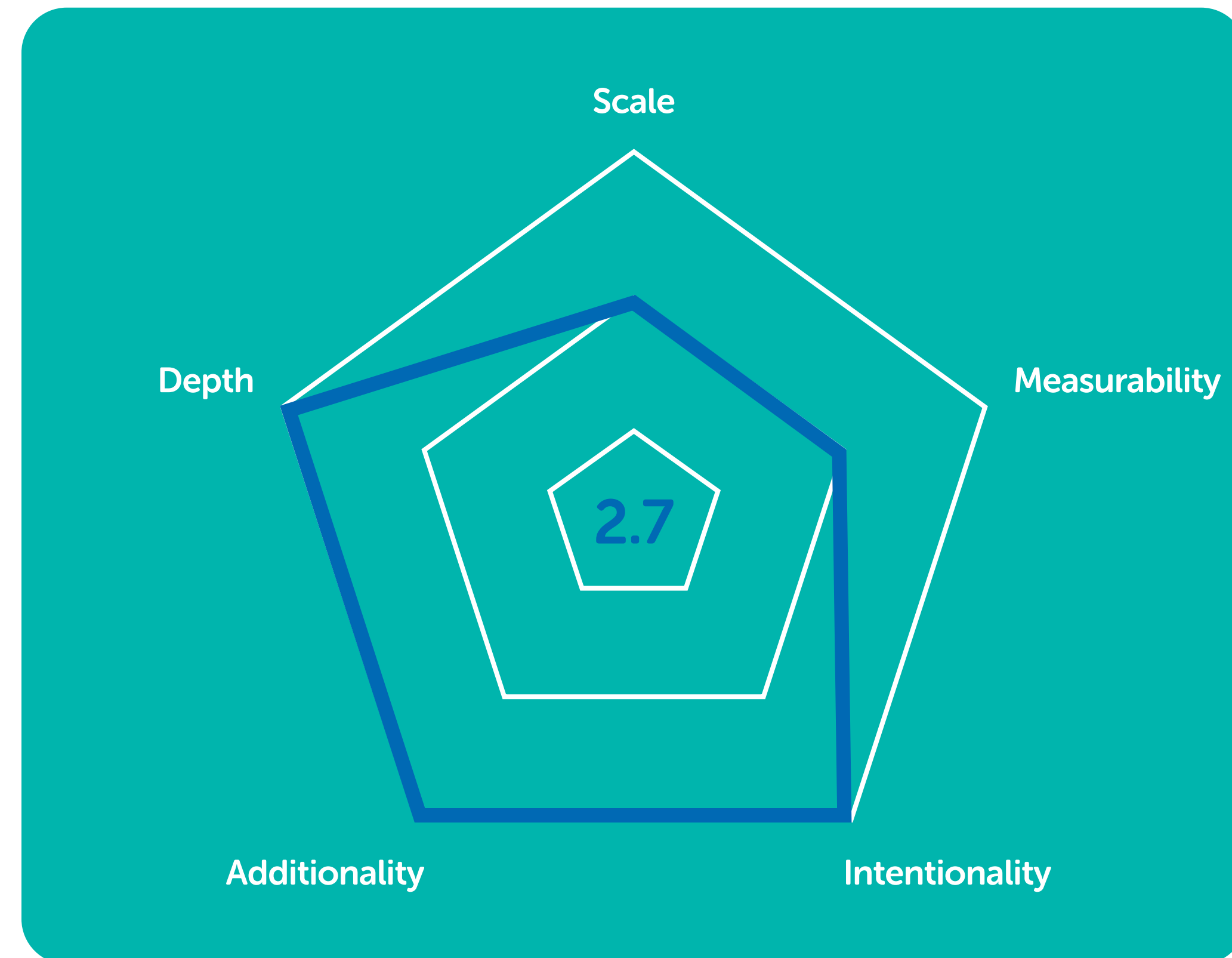
Impact Investing Score

The challenge for investors however has been how to assess impact?

A lot of time has been spent on qualitative approaches to assessing impact, but that can be problematic if you are looking to compare opportunities.

For this reason, BW has created an **Impact Investing Score**, an approach which uses a mixture of quantitative and qualitative analysis, which helps investors assess impact opportunities.

Read on to learn more about the components of the Impact Investing Score.





Scoring impact

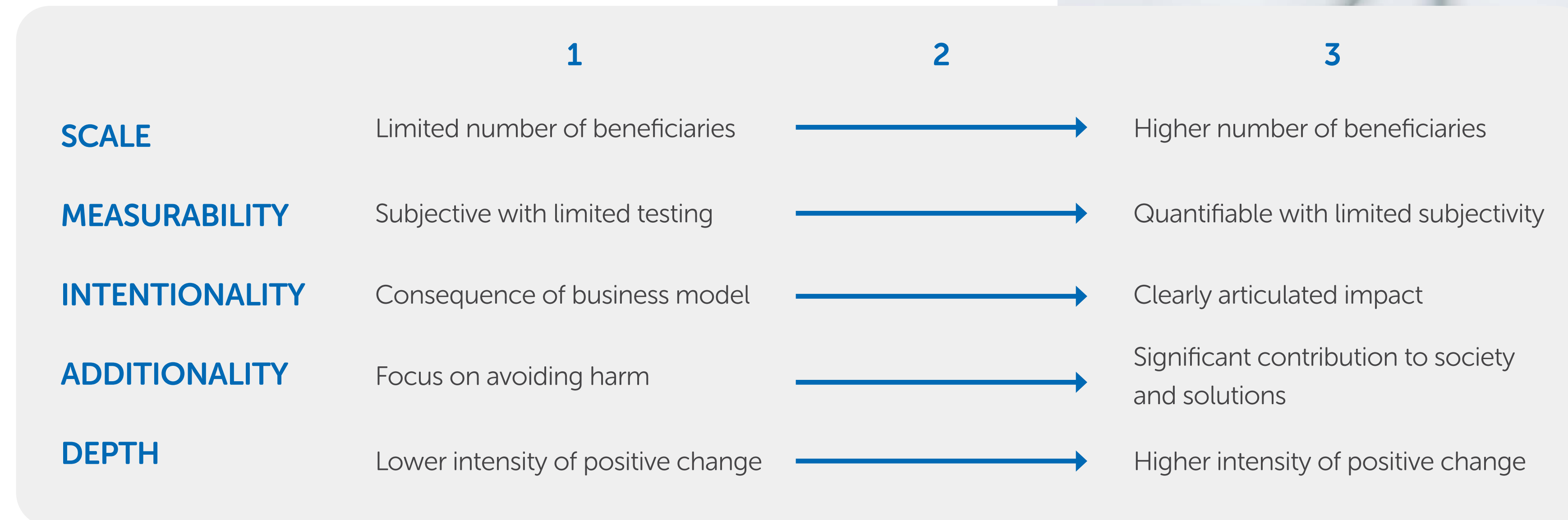
Our Impact Investing Score can help you compare your impact across different strategies and ultimately quantify your overall impact.

The score assesses the level of impact a fund has over five key components:



The dimensions of impact

Each impact-aligned fund is given a score across all five components. The scoring is from 1 to 3, with 1 representing limited impact and 3 being most impactful.

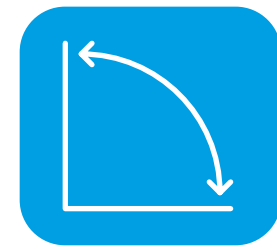
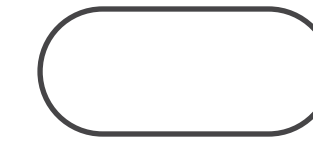


We have been rating managers on their sustainability credentials for a number of years. We have used this experience to develop our Impact Investing Score in a way we believe is objectively measurable. The output will assist our clients with their decision-making on impact-aligned investments. Read on to see an example of the scoring in practice.



Scoring impact - component examples

Let's take two examples to demonstrate how the scoring would work in practice - below we have assessed both an impact focused private equity fund and an impact focused public equity fund.



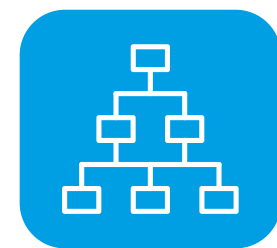
Scale



Measurability



Intentionality



Additionality

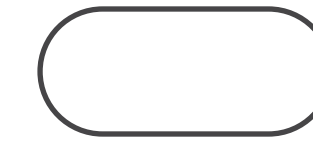


Depth

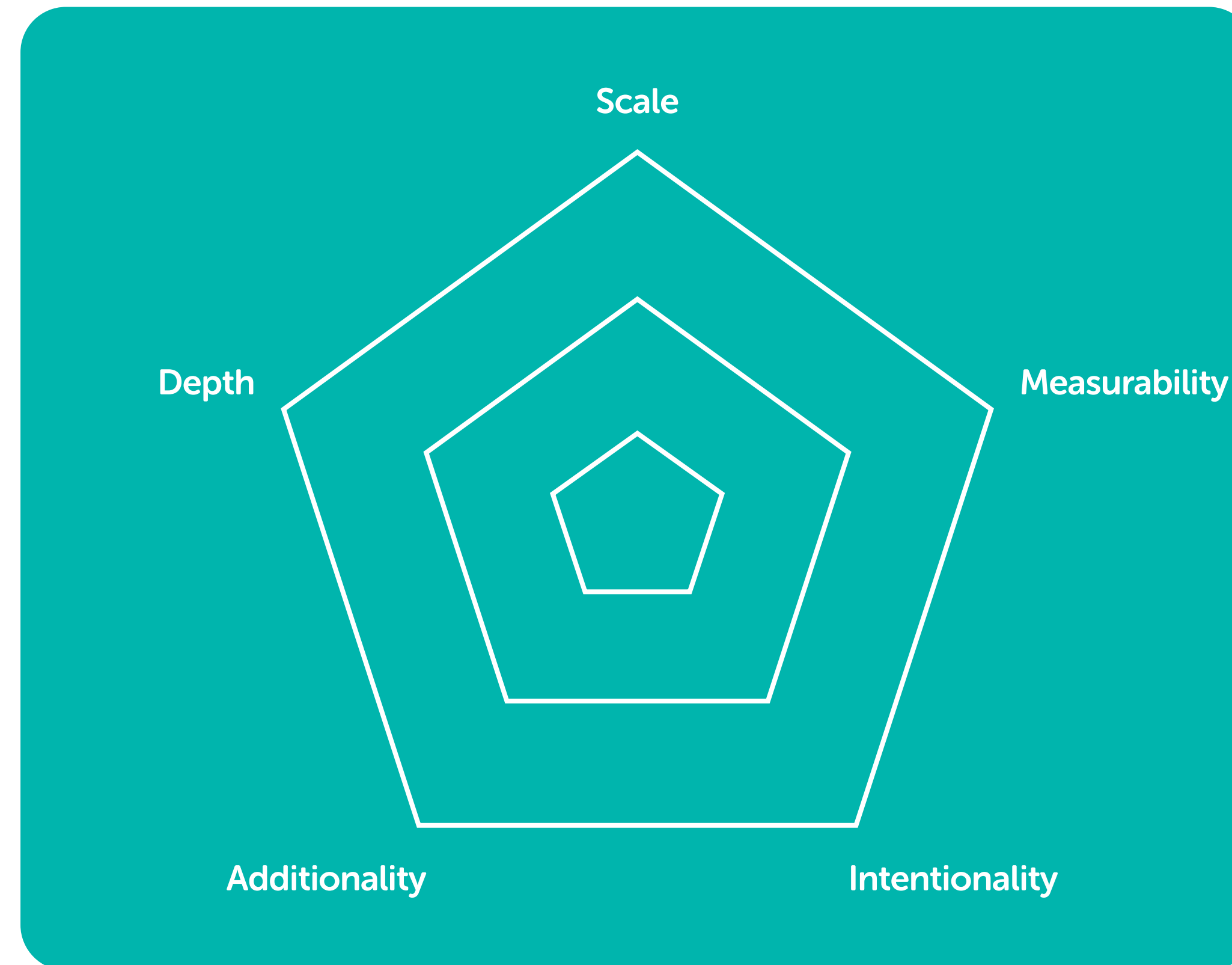
Impact Investing Score - across strategies

The scores are then averaged across each component to give an overarching score. The weight placed on each of the components can be altered to reflect client views and objectives.

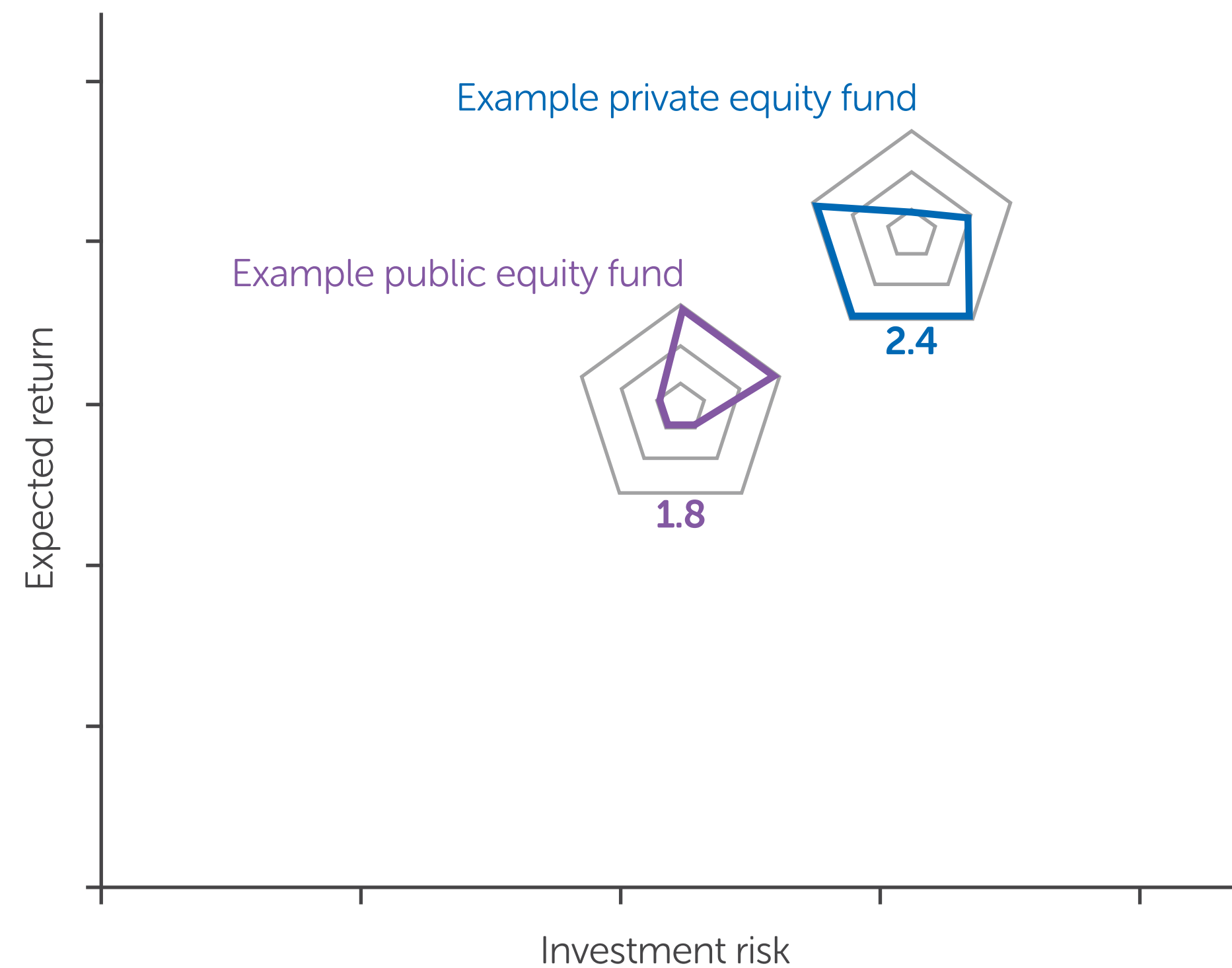
We set out examples below of the same impact-focused private equity and public equity funds explored previously. This analysis can be done across funds of varying asset classes.



Not only does our scoring system show you which fund has a higher degree of impact, but also the specific areas of impact that are contributing to the overall score. For example, while the public equity fund has superior measurability (owing partly to better data availability), the private equity fund scores favourably across intentionality, additionality and depth.



Allowing for impact in asset allocation decisions



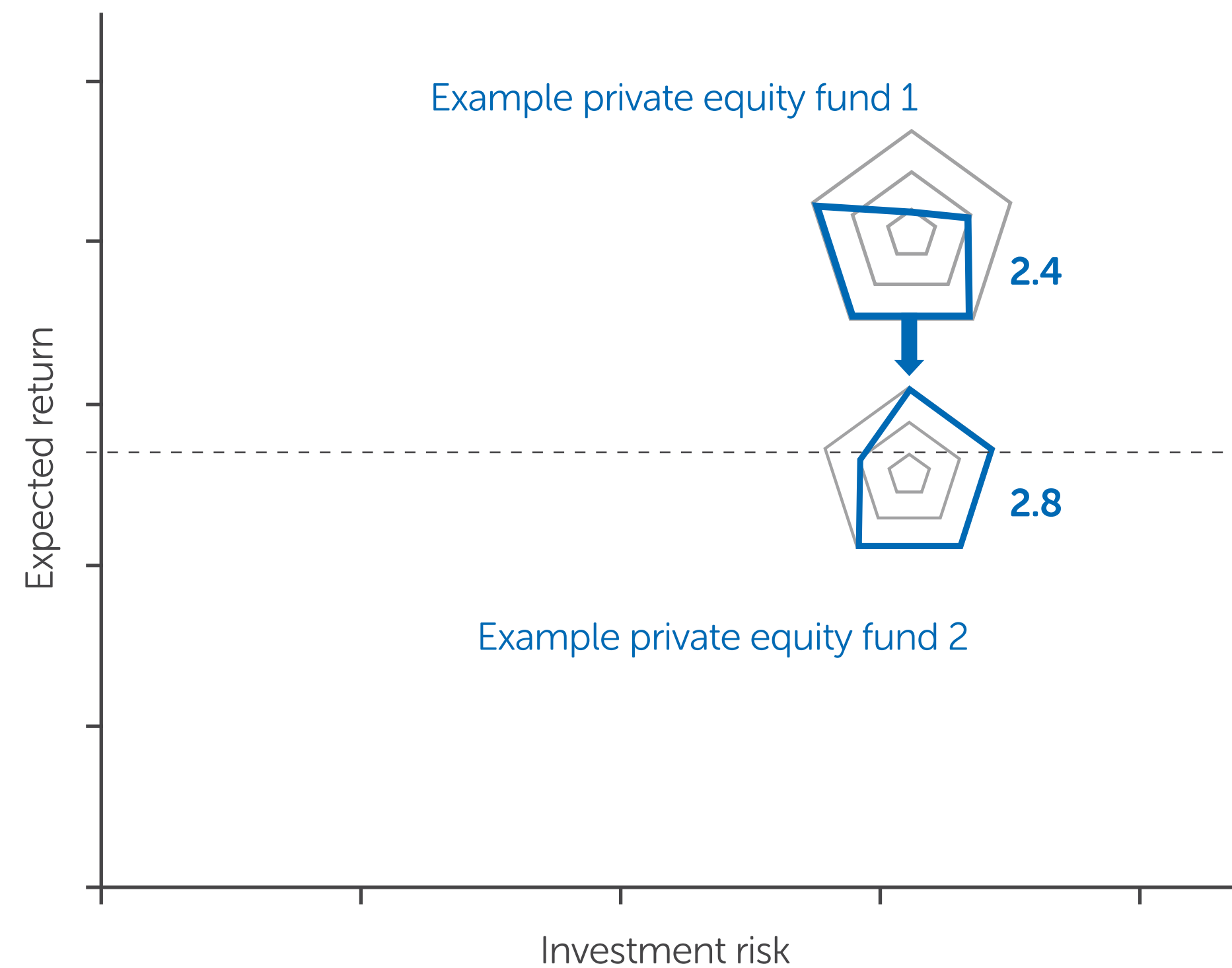
We then use the Impact Investing Score to help investors consider impact as part of the investment decision making process, alongside traditional metrics like risk and return.

To the left we have plotted the two funds shown on the previous pages; an impact focused private equity fund and an impact focused public equity fund.

Without an impact objective, investors would traditionally look to minimise risk for a given return target (or vice versa). How far investors are willing to move into the top right hand of the graph reflects the investor's risk appetite.

With impact as an equally important third element, the consideration becomes 3D. We use the Impact Investing Score to build that 3D element. Plotting the impact score along with the expected return and risk allows our clients to consider the impact they require alongside their return target and risk appetite.

No sacrifice on return?



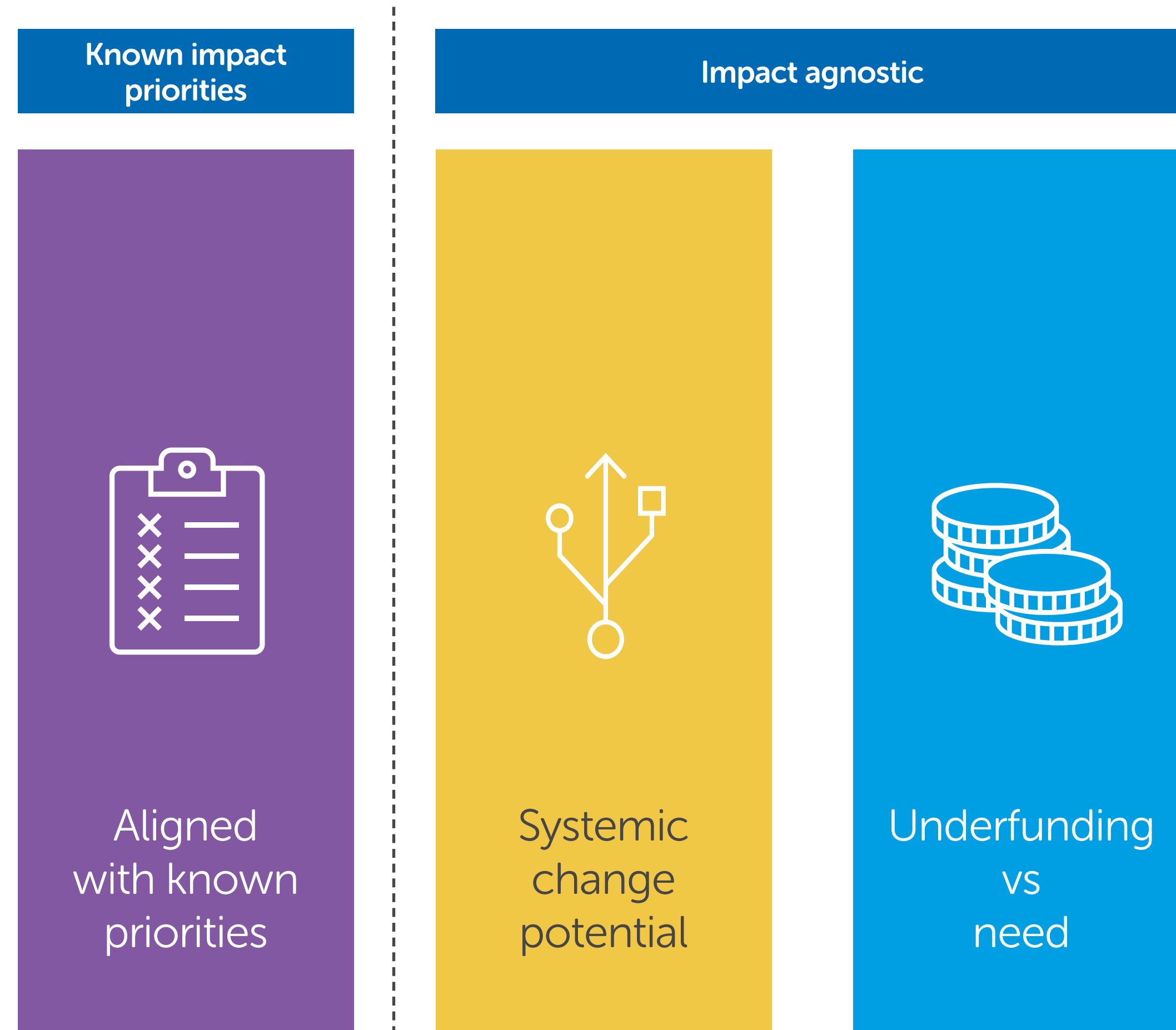
We include another example of two private equity funds to the left.

All else being equal, an investor would pick private equity fund 1, sitting above fund 2, as fund 1 is expected to deliver a higher level of return for a similar level of risk.

However, an investor who has a specific impact objective (e.g. a desire for enhanced impact scale), may be willing to sacrifice some risk adjusted return. These considerations form part of our discussion with clients.

While some investors may have specific objectives that are 'impact-first', overall, we do not believe that you need to sacrifice return in the long term to generate impact from your portfolio. We monitor and rate a wide range of funds across various asset classes and impact themes that both generate a high degree of impact, while providing competitive risk adjusted returns.

How to prioritise your impact



Finally, a key part of our discussion at outset is on the impact investors wish to achieve.

- Some investors may wish to align with specific impactful goals. For example, we can help you to consider alignment against global standards such as the Sustainable Development Goals (SDGs).
- In other instances, investors may be agnostic to the manner of impact so long as it is as 'impactful' as it can be. In this case we can help investors to understand what areas of impact they are most interested in.
- Our recent research on the [Planetary Boundaries](#) can help to identify environmental and societal needs that are likely to have the biggest impact on our planet.

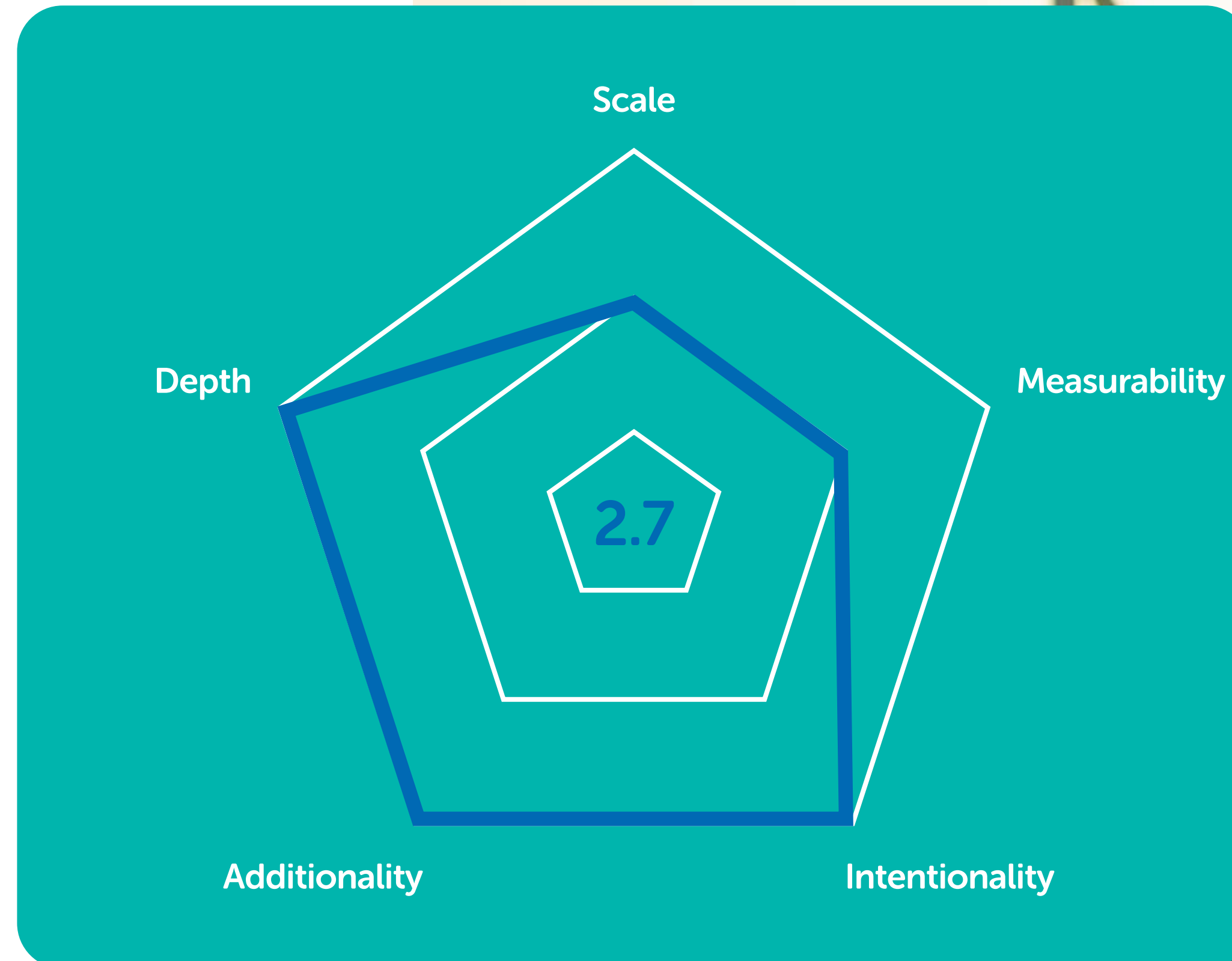


Impact Investing Score - the benefit to you

Our Impact Investing Score has been designed specifically to help investors that wish to allocate to impact investments.

We recognise that impact can be difficult to assess. Our scoring approach helps to distil core impact themes into a single score.

Our single score approach is decision useful and allows direct comparison between investment opportunities.





Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail.

www.barnett-waddingham.co.uk

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The information in this document is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.

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