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BLOG

# Is the COVID-19 crisis increasing interest in impact investing?

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Impact investments are investments made with the intention of generating a positive, measurable social and environmental impact alongside a financial return (ww.thegiin.org)

Impact investing has been around for a while, but due to the COVID-19-induced lockdowns and with a number of industries struggling to survive, it has become even stronger.

- Environmental, social, and governance (ESG)-related funds have fallen by 12% so far in 2020, compared to a 23% drop in the S&P 500 Index, according to data published by Bloomberg
- A total of USD12.2bn was pumped into ESG funds as of April 2020 (a 100% increase over the same period last year), according to the Wall Street Journal

Amid all the chaos, we cannot ignore the fact that with reduced movement and economic activity, global pollution levels have also declined. IQair, a Switzerland-based air technology company, recently released data on reduced pollution levels so far in 2020 versus 2019: New Delhi, India: 60%, Seoul, South Korea: 54% and Wuhan, China: 44%.

The current crisis has undoubtedly created an imbalance in the economy that needs to be addressed. Considering the role of private equity (PE) firms in shaping the economy by means of creating thriving enterprises, it becomes imperative that they work towards restoring the lost economic and social balance (with jobs lost due to restrained economic activity) that not only puts the economy on the path to recovery, but also has a positive impact on the environment (hence "impact investing").

**Focus on impact investing:**

Impact investing had gained the attention of PE firms before the pandemic, but it is now entering mainstream business. For example, 77% of millennials surveyed believed that ESG factors are a priority when zeroing in on an investment opportunity, according to a January 2020 survey by deVere Group.

The coronavirus pandemic and its economic fallout will trigger a 'skyward surge' in sustainable, responsible and impactful investing over the next 12 months – Nigel Green (CEO, deVere Group)

The impact investing market reported assets under management (AuM) of USD502bn as of 2018, according to the Global Impact Investing Network (GIIN); asset managers accounted for nearly 50% of this, followed by development finance institutions (25%), banks (12%), and pension funds (6%).

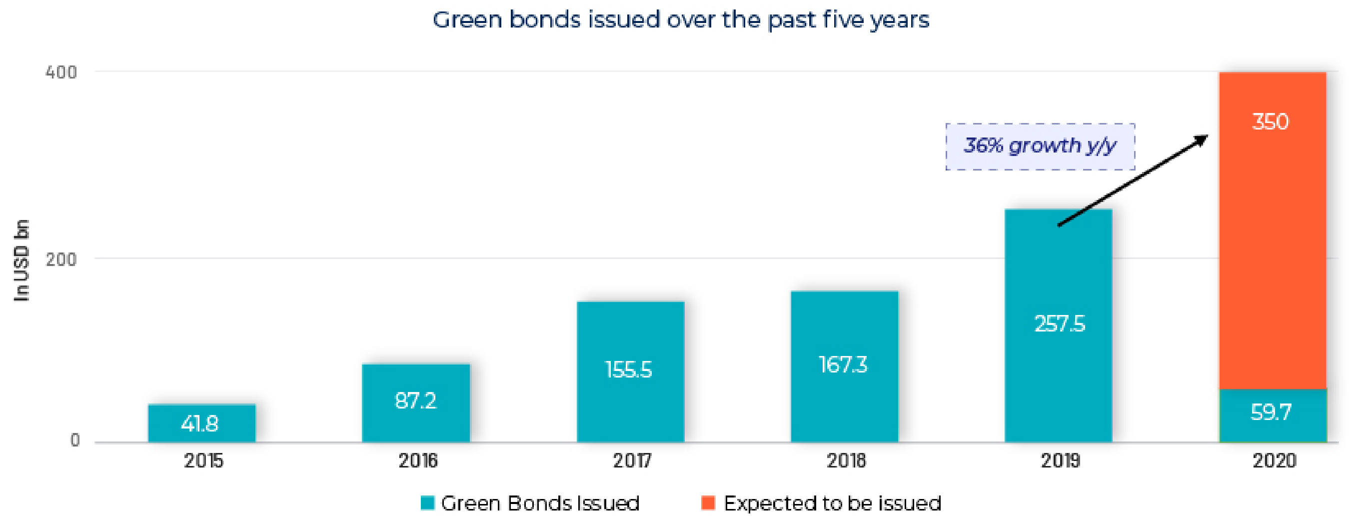
In 2019, almost 60 asset managers and institutional investors adopted the Operating Principles for Impact Management that set market standards on how to manage investments that not only have a positive impact on the environment but also ensure financial returns. The number has risen to 94 asset managers so far in 2020, with 16 new asset managers signing on to the Principles since the outbreak began. We consider below some recent initiatives undertaken by PE firms:

- BlackRock has committed to putting impact investing at the centre of its strategy and using ESG disclosures as a guide to making investments
    - In April 2020, it launched the BlackRock Global Impact Fund that focuses on companies contributing to the UN's Sustainable Development Goals (SDGs)
- In April 2020, APG Asset Management invested USD79m in bonds offered by the European Investment Bank (USD39m) and the Council of Europe Development Bank (USD34m) to combat the COVID-19 impact

Asset managers' increased interest in impact investing has also resulted in increased focus on green bonds – a fixed-income instrument where the pooled amount goes towards environment-centric projects such as renewable energy, clean transportation or waste management.

**Green bonds to get greener?**

The green bond segment kicked off in 2007 and has gained prominence recently, as green bonds aim to create a positive impact on the environment through investment in environment-focused projects. Green bond issuance increased 272% y/y in April 2020, according to research by Morgan Stanley, with the bulk of it focused on COVID-19 relief efforts. The following chart illustrates growth in green bonds issued:




Source: www.climatebonds.net

**A note of caution:**

The green bond segment is expected to reach USD350bn in 2020, the highest ever, and is now regarded as one of the fastest-growing segments of the market.

Increasing investor interest in green bonds is an untapped opportunity for PE firms, as the market for green bonds will likely grow further. However, it is still relatively unknown territory, and many PE firms are likely still struggling to make a foray into it.

There are challenges related to green bonds too. We discussed some of these in a previous blog – lack of regulation, the expectation vs reality gap between limited partners and general partners, and no standard definition of what constitutes a green bond. The main challenge facing PE firms, however, is "greenwashing". Greenwashing refers to a situation where a PE firm with no clear environment-centric strategy and policy tries to venture into unknown territory by issuing green bonds. The International Capital Market Association's (ICMA's) Green Bond Principles do not clearly define what constitutes a green bond either. Experts claim, therefore, that greenwashing is rampant among PE firms.

Investment of around USD36tn is required for the environment-focused projects currently in the pipeline, according to the International Energy Agency (IEA) – a significant opportunity for PE firms. Adequate research on ESG factors, impact investing and issuing green bonds could enable a PE firm to take well-informed decisions, strategise its policy and work on its implementation.

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We at Acuity Knowledge Partners pride ourselves in our experience in offering global PE clients secondary research, industry studies, and help with preparing marketing collateral and requests for proposal (RFPs; including ESG-focused RFPs).

To help our clients navigate both the people and business impact of COVID-19, we have created a dedicated hub of topics, including our latest insights, thought-leadership content and action-oriented guides and best practices.

**Sources:**

www.bbc.com

ww.thegiin.org

https://www.morningstar.ca/ca/news/201550/why-esg-matters-in-downturns.aspx