Impact investing: measuring counts the most

Measuring a company’s social and/or environment impact has now become a key challenge for investors and requires a suitable methodology.

Impact investing is for investors wanting to take a responsible approach but who also want to go beyond mere exclusion of controversial sectors or a sector best-in-class approach. So, what exactly is impact investing? It involves investments made with the goal of generating both a positive social and/or environmental impact and a healthy financial return. The Forum for Responsible Investment (FIR) and France Invest recently narrowed down this definition for listed and non-listed companies in a study based on the findings of working groups in which OFI AM took part.

All companies produce positive or negative impacts. The first thing to consider is the ultimate purpose of the company’s products and services (i.e., its business impact). For example, a pharmaceutical company that enhances human health has a positive impact, as does a company that develops plastic-recycling technologies.

These are solution providers, but impact measurement also covers a company’s production methods (i.e., the impact from practices). For example, an industrial company that consumes water and energy and uses chemicals has a negative impact on its environment. The challenge will be to help that company control this negative impact.

OFI AM has developed its own impact chain

We have developed our own impact chain for European equities to measure positive impacts, based on three indicators: a product indicator (regardless of the products and services provided by the company that produces the positive impact?), a results indicator (what purpose do these products serve?), and an impact indicator (what final positive impact is generated by these products and services?). In analysing this impact chain, we pay special attention to measuring only the impact for which we are responsible as investors.

The idea is to precisely measure each company’s contribution in fields such as the energy transition (tonnes of CO2 avoided, renewable energy capacities installed, etc.), preservation of natural resources (tonnes of plastic recycled, volume of water cleaned or depolluted, etc.), healthcare, well-being and safety (patents filed in medical research, etc.) or social inclusion issues. One challenge is in conducting relevant comparisons that highlight the positive impact of the issuer targeted. For example, to measure tonnes of CO2 avoided by installing a wind-power park, what sources of energy should be used for the comparison?

In this case, the comparable base (nuclear? coal?) becomes a key issue in measuring a company’s actual impact on its environment in a way that makes sense.

Impact investing addresses investors’ new concerns

The study conducted by the Forum for Responsible Investment (FIR) and France Invest highlights the scaling up of impact investing on a global scale. On the French market, inflows into impact investing soared last year by 239% (to €13.3bn).

These figures come against an encouraging backdrop, as impact investing goes beyond mere screening of companies to reflect the investment’s intentionality, and the manager’s role consists in assessing this precisely.

Impact investing now addresses the concerns of a growing number of investors who prefer strategies that have meaning. Even so, this market is still in the initial phase of its development, and a methodology must still be established that is recognised on the European level.

The figures cited deal with past years. Past performances are not a reliable indicator of future performances.
The figures mentioned herein cover past years. The investments mentioned herein are one way to capture financial market returns in exchange for a certain amount of risk. Invested capital and performances are not guaranteed and there exists a risk of loss of capital. Source of indices cited: www.bloomberg.com

This promotional document is meant for professional and non-professional clients as defined by MiFID. It may not be used for any other purpose than that for which it was intended and may not be reproduced, disseminated or communicated to third parties in whole or in part without the express prior written consent of OFI Asset Management. This document has been produced for purely informational purposes. It is a presentation designed and produced by OFI Asset Management from sources deemed reliable. Links in this document to websites managed by third parties are provided for informational purposes only. OFI Asset Management offers no guarantee whatsoever as to the content, quality or completeness of such websites and accordingly may not be held liable for any use made of them. The presence of a link to a third-party website does not mean that OFI Asset Management has entered into any cooperative agreements with this third party or that OFI Asset Management approves the information published on such websites. The forward-looking projections mentioned herein are subject to change at any time and must not be construed as a commitment or guarantee. The fund(s) mentioned in the document has/have been certified by the French Financial Markets Authority (AMF) or the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) and is/are authorised for marketing in France and, where applicable, in other countries where authorised by law. Prior to any investment, assurance must be obtained that the investor is legally authorised to subscribe to the fund(s). The Key Investor Information Document (KIID) must be provided to fund subscribers prior to any subscription. The operating rules, risk profile, and risk-reward profile and fees for investing in a fund are described in its KIID. The KIID and latest periodic documents are available upon request from OFI Asset Management. The performances figures cited cover past years. Past performances are not a reliable indicator of future performances. OFI Asset Management reserves the right to modify the information in this document at any time and without prior notice. OFI Asset Management may not be held liable for any decision made or not made on the basis of information contained in this document, nor for any use that may be made of it by a third party. If a fund is subject to special tax treatment, such treatment depends on each client’s individual situation and is subject to change at any time.

Photos: Shutterstock.com/OFI AM

OFI ASSET MANAGEMENT • Portfolio management company • Paris Trade and Companies Register No. 384 940 342 • Approval No. GP 92-12
S.A. with a Board of Directors and share capital of EUR 42,000,000 • APE 6630Z • FR 51384940342

Follow us!